

Report by the
Auditor General

Public Accounts 2011





Annual Audit Report

Public Accounts 2011

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List of Abbreviations

AAR	Annual Audit Report(s)
AFM	Armed Forces of Malta
AG	Attorney General
AVS	Attendance Verification Systems
ARR	Arrears of Revenue Return(s)
BCU	Beach Cleaning Unit
BL	Below-the-Line
CBE	Capacity Building Exercise
CBM	Central Bank of Malta
CC	Cost Centre
CCF	Corradino Correctional Facility
CD	Customs Department
CEO	Chief Executive Officer
CEPU	Customs Economic & Procedures Unit
CES	Customs Electronic System
CIR	Commissioner for Inland Revenue
CMO	Chief Medical Officer
COJ	Courts of Justice
COMNET-IT	Commonwealth Network of Information Technology for Development
CP42	Customs Procedure 42
CSD	Cleansing Services Directorate
CPSU	Centralised Procurement and Suppliers Unit
CTD	Capital Transfer Duty
DAS	Departmental Accounting System
DC	Department of Contracts
DCS	Director Corporate Services
DES	Directorate for Educational Services
DG	Director General
DLG	Department for Local Government
DO	Direct Order(s)
DSS	Department of Social Security
EDA	Extra Duty Allowance
EDP	Extra Duty Pay
EFSF	European Financial Stability Fund
ELC	Environmental Landscapes Consortium Limited
EMS	Engineering and Maintenance Stores
ERDF	European Regional Development Fund
ESF	European Social Fund
EU	European Union
FAAA	Financial Administration & Audit Act
FAB	Functional Airspace Block
FAR	Fixed Asset Register
FC	Financial Controller
FfMS	Foundation for Medical Services
FMS	Fleet Management System

FR	Financial Report
FSI	Financial Situation Indicator
FSS	Final Settlement System
FSWS	Foundation for Social Welfare Services
GAPSE	General Accounting Principles for Smaller Entities
GF	Garden Fund
GFR	General Financial Regulation(s)
GGH	Gozo General Hospital
GHPS	Government Health Procurement Services
GHRC	Grand Harbour Regeneration Corporation
GP	General Practitioner(s)
GPD	Government Property Division
GRN	Goods Received Note
GSPO	Goods and Services Purchase Order
HC	Health Centre
HD	Health Division
IAS	International Accounting Standards
ICT	Information and Communications Technology
IFRS	International Financial Reporting Standards
IPSL	Industrial Projects and Services Limited
IRD	Inland Revenue Department
IT	Information Technology
ITS	Institute of Tourism Studies
KM	Kilometer(s)
LA	Letter of Acceptance
LCA	Local Councils Association
LES	Local Enforcement System
LGA	Local Government Auditor
LN	Legal Notice
LOGA	Lotteries and Other Games Act
LPO	Local Purchase Order(s)
LPR	Land and Public Registry
LRSUA	Land Registry Searches Unit Application
MA	Medicines Authority
MAM	Medical Association of Malta
MARSEC-XL	Marine Software Engineering Cluster of Excellence
MCA	Malta Communications Authority
MCAST	Malta College of Arts, Science and Technology
MCC	Ministry for Competitiveness and Communications
MCCA	Malta Council for Culture and the Arts
MCCF	Malta Community Chest Fund
MCH	Mount Carmel Hospital
M/D/EBU	Ministries, Departments, Extra-Budgetary Units
MDH	Mater Dei Hospital
MEEF	Ministry of Education, Employment and the Family
MELP	Malta Embellishment and Landscaping Project
MEPA	Malta Environment and Planning Authority
MESA	Malta Employees Sports Association
MFEI	Ministry of Finance, the Economy and Investment
MGI	Malta Government Investment
MGOZ	Ministry for Gozo

MHEC	Ministry for Health, the Elderly and Community Care
MITA	Malta Information Technology Agency
MITC	Ministry for Infrastructure, Transport and Communications
MMA	Malta Maritime Authority
MMDNA	Malta Memorial District Nursing Association
MMOS	Malta Motorways of the Sea Limited
MPF	Malta Police Force
MRRA	Ministry for Resources and Rural Affairs
MTA	Malta Tourism Authority
NAO	National Audit Office
NBV	Net Book Value
NGO	Non-Governmental Organisation
N/L	Nominal Ledger
NLGCF	National Lotteries Good Causes Fund
OPM	Office of the Prime Minister
OSR	Onward Supply Relief
PAHRO	Public Administration Human Resources Office
PCRB	Public Contracts Review Board
PFI	Pro-forma Invoice
PHR	Public Health Regulations
PI	Performance Indicator(s)
PMSSD	People Management and Support Services Directorate
PPE	Property, Plant and Equipment
PPP	Public Private Partnership
PPR	Public Procurement Regulations
PTA	Public Transport Authority
PS	Permanent Secretary
PSMC	Public Service Management Code
PV	Payment Voucher
RECAP	Recapitulative Statement
SL	Sick Leave
SSC	Social Security Contribution
TM	Transport Malta
TOIL	Time Off In Lieu
TVLU	Television Licensing Unit
UIF	Urban Improvement Fund
URLS	Urban and Rural Landscaping Section
VAT	Value Added Tax
VIES	VAT Information Exchange System
VL	Vacation Leave
VRD	Vehicle Registration Document
WSC	Water Services Corporation
WSM	WasteServ Malta Ltd

Guide to using this Report

This Report summarises the conclusions reached following our Financial and Compliance audits. We sought to spread our reviews across Government Ministries and Departments or across Government-wide activities in accordance with the NAO Annual Audit Programme drawn up from year to year. We have attempted to make this Report as user friendly as possible and have tried to adopt common language, although this was not always possible due to the technicality of some of the issues raised.

This Report is presented by ministerial portfolios as featuring in the Government of Malta Financial Estimates 2011, each containing either the Ministry itself, or one or more Departments or Entities which were the subject of our review. Most audit reports under the ministerial portfolios have the following structure:

Background

Includes a brief description of the relevant activities, roles and operations of the respective Ministry, Department or Entity under review. Where applicable, it may also include new legislation governing such Entity.

Key Issues

Highlights any material findings or outcomes of our audit and any major developments impacting on the respective Ministry, Department or Entity.

Control Issues

Outline any shortcomings that came to our attention relating to the Ministry's or Department's internal control and internal checking mechanisms. These controls should exist so as to serve as an effective safeguard of public assets and resources.

Compliance Issues

Summarise instances whereby the relative Ministry, Department or Entity lacked compliance with effective legislation, standing General Financial Regulations and/or Circulars issued from time to time.

Recommendations

Outline our suggestions to the respective Ministries and Departments so as to encourage them to address any weaknesses that came to our attention as well as to consolidate and improve upon the management and proper discharge of public funds. In general, our recommendations are aimed at improving the internal control systems, addressing areas where there is lack of compliance with pertinent rules and regulations, and promoting good practice in the best interest of the taxpayer.

Management Comments

Seek to include the Management's reaction to NAO's comments and action taken, or planned to be taken, so as to address in a timely manner the issues and any shortcomings identified.

Executive Summary

The **Financial Report**, incorporating Financial Statements and Accounts for the year 2011, was submitted by the Accountant General in terms of the Financial Administration and Audit Act, 1962. Following examination, in terms of the Auditor General and National Audit Office Act, 1997, NAO noted that:

- Letters of Comfort and Bank Guarantees reached €1,142 million (against €1,037 in 2010). These constitute Contingent Liabilities for Government;
- substantial excess of actual over the budgeted figures of various items of Expenditure was once again reported; in some instances identical to last year;
- a statement portraying Bank accounts operated by Ministries and Departments being reported for the first time this year, is subject to further clarifications; and
- notwithstanding the closure of a number of unutilised ‘Court and Other Deposits’, many other Below-the-Line accounts, amounting to €1,129,392, experienced no movement for three consecutive years. (page 14)

From the verification of **Arrears of Revenue Returns** forwarded to NAO, it transpired that most entities failed to reach Government’s budgetary target of reducing arrears in 2011 by 10%. Furthermore, the improvement noted last year regarding the annual submission of returns was not maintained, since a total of 14 Departments defaulted from complying with Treasury Circular No. 3/2012. (page 50)

Although this year the audited **Financial Statements** of all 68 **Local Councils** were submitted to NAO, only 55 were sent by the stipulated deadline of 2 May 2012. On the other hand, out of the five Regional Committees replacing the Joint Committees in the management of the Local Enforcement System, only two were submitted by the deadline. By the time of concluding this report, audited Financial Statements of the Central Regional Committee were still not forwarded to NAO.

Audit Reports and Management Letters prepared by Local Government Auditors revealed that a number of weaknesses and concerns reported in previous years still prevail, and have been included again in this Report. The following concerns were also noted:

- For the second consecutive year, no audit opinion was expressed on the Financial Statements of one Council, due to the various material shortcomings encountered.
- Another 61 Councils were qualified with an ‘except for’ audit opinion.
- Seventeen Local Councils and two Regional Committees recorded a negative Working Capital in the Statement of Financial Position.
- Twenty-three Local Councils registered a Financial Situation Indicator below the 10% benchmark.
- Twenty-three Local Councils and two Regional Committees registered a deficit in the Statement of Comprehensive Income. (page 92)

From a review on Personal Emoluments at the **Gozo General Hospital**, it transpired that the related payments are not always backed-up with proper records to substantiate the expenditure, especially in the case of Consultants

where no records are kept to indicate the number of sessions performed. The audit also revealed that internal controls in various areas relating to salaries are weak or entirely lacking. This indicated that little or no monitoring is in place to ensure efficient administration of public funds. Weak budgetary control on overtime was also noted. (page 248)

Following an exercise performed on revenue from **Searches Fees** falling in arrears, NAO could not ascertain the completeness and accuracy of reported figures in the Arrears of Revenue Return for 2011, pertaining to the **Land and Public Registry Department**. The audit identified poor debtors' management, leading to the decreased likelihood of dues eventually being settled. Amongst others, another concern was the limited reporting facilities of the computerised system in place, as well as the incorrect portrayal and treatment of the standard deposit requested upon application. (page 264)

An audit was carried out at the **Ministry of Infrastructure, Transport and Communications**, concerning **Contractual Services** falling under selected Programmes and Initiatives, Contributions to Government Entities and Capital Votes. In certain instances, this Office could not verify sampled transactions in the absence of any formal agreements between the Ministry and Entities concerned. (page 271)

Additional **Overtime** hours had to be worked by the **Cleansing Services Directorate** personnel within the **Ministry for Resources and Rural Affairs** to carry out beach cleaning duties, which task was being ignored by private operators obliged to do such job. (page 282)

The initial five-year agreement entered into in October 2002, for **Environment Landscaping Maintenance and Project Work** in Malta, was procured through an Expression of Interest. The original contract with the Consortium was extended for a further five years and two months. Following the audit, Management within the **Ministry for Resources and Rural Affairs** also confirmed that a decision was taken to extend the present contract for a further seven years, without the possibility of another renewal. (page 289)

An audit of capital and recurrent expenditure incurred by **Wasteserv Malta Ltd.** revealed long delays and substantial cost variations on capital projects. Lack of transparency and non-compliance with procurement regulations were also noted, especially regarding sub-contracted labour. The inadequacy of the overall internal controls is a major concern. (page 296)

From verifications of procurement and contracting activities carried out at the then **Ministry of Education, Employment and the Family**, it was noted that internal controls are not sufficient to ensure efficient administration of public funds in line with standing laws, regulations, policies and procedures. Various control weaknesses were identified, including inadequate verifications resulting in incorrect payments, lack of proper stock records and in the procurement process for Professional, Medical as well as Cleaning Services. (page 310)

Shortcomings in various areas, including management of fixed assets and payroll was noted following a review at *Aġenzija Sapport*, within the **Foundation for Social Welfare Services**. Inadequate control on fuel consumption was also evident in the use of general-use cars, while in a number of instances, the procurement regulations were not followed. (page 324)

Action taken by the **VAT Department** in relation to **Fiscal Receipt Defaulters** reported by Government Departments during 2011 was rather limited. The audit, which also examined complaints from the general public, revealed other shortcomings, such as long outstanding complaints not being acted upon, as well as minimal follow-up on missing quarterly submissions by Government entities in line with the applicable directives. (page 336)

The **Inland Revenue Department** lacked segregation of duties in the procurement process. Fiscal receipt defaulters were not being reported to the VAT authorities. Log books controlling the use of Government-owned vehicles were not properly maintained. Additionally, the database comprising all inventory items was still incomplete by the end of the audit. (page 343)

Insufficient supporting documentation, evidencing the utilisation of funds granted to beneficiaries, was encountered during a review of the **National Lotteries Good Causes Fund** administered by the **Ministry of Finance, the Economy and Investment**, for the years 2006 to 2010. Other shortcomings included funds distributed before completion of projects, receipt of funds not always backed-up by a signed declaration from the respective beneficiaries, and incomplete application forms, if at all. (page 346)

An analysis of **Direct Order** approvals, granted by the **Ministry of Finance, the Economy and Investment** during 2011, highlighted a number of concerns. These included the incidence of retroactive approvals, as well as failure by entities to take the necessary actions to comply with Procurement Regulations, thus resorting to purchasing from the open market. Testing also revealed that at times such procurement was carried out without obtaining any quotations to justify the selection of the service provider. (page 354)

Lack of communication between Customs and VAT Departments on the importation of goods using the **Onward Supply Relief** procedure, also known as Customs Procedure 42, hindered the latter from ensuring that these transactions were adequately monitored and declared through the VAT Information Exchange System. Related Recapitulative statements were not always submitted to the VAT Department. Certain control weaknesses of the Customs verification process were also identified. (page 361)

Although around November 2010 a report was submitted to the respective superiors, highlighting a suspected leakage of unleaded petrol from the Gozo fuel pump under the responsibility of the **Malta Police Force**, no formal inspections were carried out. This was revealed following an audit on the related expenditure on **Transport**. Inadequate control over Government-owned vehicles was also noted. (page 368)

An audit of **Personal Emoluments** was conducted on a sample of different classes of employees working within **Mater Dei Hospital**. Testing revealed that salary payments of Consultants were not substantiated with records of attendance. Substantial amounts are expensed on staff allowances, with the highest allowance paid to a Consultant in 2011 exceeding €80,000. However, insufficient controls were observed in this area as well as on the overall salary payments. Various other shortcomings as well as significant overpayments were revealed during the audit. (page 376)

In view of the claimed urgency to acquire **Medicines and Surgical Materials, the Government Health Procurement Services** within the **Ministry for Health, the Elderly and Community Care** disregarded financial limits approved for direct orders. The excessive and expired stock of medicinal items that the entity is many times ending up with, was also a matter of concern during the audit. (page 389)

Lack of compliance with procurement regulations, expired contracts, as well as inadequate controls over expenditure incurred for specific services rendered to **Mater Dei Hospital**, were the main findings emerging from an audit on **Non-medical Equipment Facilities Management**. (page 396)

Procurement regulations were not always followed by **Mount Carmel Hospital**, particularly in the provision of nursing services. Furthermore, certain services were not covered by a formal agreement and/or Bank Guarantee. Various other shortcomings were noted, amongst which at times payments were not adequately substantiated. (page 407)



Audit Opinion

Audit Report to the House of Representatives

Audit Mandate

In terms of Article 108(5) of the Constitution of Malta and para. 7 of the First Schedule of the Auditor General and National Audit Office Act, 1997, I am hereby reporting on the statements and accounts prepared by the Accountant General in terms of Article 67 of the Financial Administration and Audit Act, 1962, for the Financial Year under review.

Respective Responsibilities of the Accountant General and Accounting Officers

As determined by the Financial Administration and Audit Act, 1962, the onus for the proper discharge of financial administration and the preparation of statements and accounts rests with the Accountant General and the Accounting Officers.

Basis of Opinion

The Opinion only draws on conclusions upon areas that have been examined.

International Standards on Auditing (ISAs) and International Standards of Supreme Audit Institutions (ISSAIs) were followed in the conduct of the audits. These Standards require that audits are planned and performed to obtain reasonable assurance whether statements and accounts of Government Ministries and Departments, as well as of other entities which were subject to NAO audits, are free from material error.

An audit involves performing procedures to obtain relevant, reasonable and reliable audit evidence about the statements and accounts under review. The procedures selected depend on the auditors' judgement, including risk assessment, as well as an evaluation of internal controls.

Opinion

In my opinion, except for the comments contained in this Annual Audit Report, the statements and accounts subjected to our audit were fairly presented and in accordance with the stated accounting policies of the Government of Malta.

In terms of para. 5(ii) of the First Schedule of the Act, I am to report that, subject to instances referred to in the findings of the Report, I received all the information and explanations required for the carrying out of my duties.



Anthony C. Mifsud
Auditor General
3rd December 2012



Financial Report

Analysis of the Financial Report 2011

Introduction

Statements of the Consolidated Fund Account, showing the comparative positions in 2010 and 2011, and the receipts and payments of funds created by law, were laid on the Table of the House of Representatives during Sitting No. 461 on 27 March 2012, after being reconciled with Treasury Books by the Auditor General in accordance with Sub-para. 1(c) of the First Schedule of the Auditor General and National Audit Office (NAO) Act, 1997.

The Financial Report (FR) statements and accounts for year 2011 were submitted by the Accountant General in terms of Article 67 of the Financial Administration and Audit Act, 1962, and were examined in terms of Sub-para. 1(e) of the First Schedule of the Auditor General and NAO Act, 1997. The Report was laid on the Table of the House of Representatives during Sitting No. 495 on 27 June 2012.

A comprehensive review of Government financial operations can be made by reference to both the Annual Financial Statements and the FR for 2011.

Consolidated Fund Statement – 2011

As detailed in Article 102 (1) of the Constitution of Malta, the Consolidated Fund incorporates all moneys raised or received by the Government of Malta, not being revenues or other moneys payable into some other fund, being a fund established by or under any law for the time being in force in Malta for a specific purpose. All disbursements out of the Consolidated Fund are authorised by means of Appropriation Acts of Parliament, which include the Supplementary Estimates.

After the House of Representatives approved the year 2011 Budget (Estimates) for an expenditure of €3,212,862,000 as authorised by Warrant No. 1 issued on 30 November 2010, and a further €149,183,000 approved by Supplementary Estimates Warrant No. 3¹ dated 13 September 2012, it was estimated that revenue was to exceed expenditure by €9,215,000. Following the closure of the 2011 Accounts, it resulted that in actual fact revenue had exceeded expenditure by €128,028,000 as detailed in Table 1, leading to an end of year consolidated balance of €2,797,000. (*Table 1 refers*)

¹ This warrant superseded Warrant No. 2 of 16 December 2011.

Table 1 – Consolidated Fund 2011

		Estimated (Original & Supplementary)		Actual	
Opening Consolidated Balance as on 01/01/11	€ 000's				(125,231)
<i>Revenue</i>					
Ordinary (incl. Grants)	€ 000's	2,791,700		2,643,831	
Extraordinary	€ 000's	579,560	3,371,260	577,420	3,221,251
<i>Expenditure</i>					
Recurrent	€ 000's	2,499,055		2,444,126	
Public Debt Servicing ^a	€ 000's	404,012		354,402	
Capital	€ 000's	458,978	3,362,045	294,695	3,093,223
Net Cash Flow	€ 000's		9,215		128,028
Closing Consolidated Balance as on 31/12/11	€ 000's				2,797

(Source: FR 2011, pg xxv)

^a These exclude €602,000 (Estimates)/€598,401 (Actual) relating to charges on property transferred from the Church and contribution to Sinking Fund in connection with ex-Church property loan. This amount was paid out of Recurrent Vote 35 – Government Property Division.

Revenue

Details of Revenue collected during 2011, classified by heads and subheads, as compared with the Estimates, are shown in the FR. Explanatory comments regarding variations between actual and budgeted revenue, as forwarded by the Ministry of Finance, the Economy and Investment (MFEI) are provided in Part 1 of the FR 2011.

NAO noted that the improvement registered in the previous financial year with respect to explanations given for variations in Revenue, was maintained for Financial Year 2011. Notwithstanding this, explanations were missing in the areas as indicated in Table 2.

Table 2 – Variances in Revenue for Financial Year 2011

Revenue		Budget Estimates	Actual	Variation
<i>Tax Revenue</i>				
Social Security	€ 000's	586,175	585,591	(584)
Excise Duties of which: Petroleum	€ 000's	106,200	106,973	773
<i>Non Tax Revenue</i>				
Reimbursements of which: Infrastructure Fees	€ 000's	4,200	2,963	(1,237)
Repayment of, and interest on, Loans made by Government	€ 000's	1,757	1,708	(49)
Extraordinary Receipts	€ 000's	9,560	9,622	62

(Source: FR 2011, pgs xvii-xix)

Expenditure

The appropriations for expenditure during 2011, authorised by the issue of Warrant Nos. 1 and 3 by MFEI, were appropriated under the following Statutes:

	€
i) Appropriation Act (Voted Services)	2,128,894,940
ii) In terms of Special Laws	1,231,049,000
iii) In terms of the Constitution	2,101,060

Analysis of Appropriations

i) Appropriation Act (Voted Services)

	€
Appropriated by Act XV of 2010	1,980,611,940
Appropriated by Act XXVI of 2011 (Second Appropriation Act)	148,283,000

ii) Special Laws

The following amounts were permanently appropriated in terms of the various laws as indicated:

	€
Expenses of the Electoral Commission – General Elections Act (Cap. 354)	450,000
Expenses of the Broadcasting Authority – Broadcasting Act, 1992 (Act XII of 1991 – Cap. 350)	650,000
Expenses under Re-letting of Urban Property Ordinance (Cap. 69) and Agriculture Leases (Re-letting) (Cap. 199)	37,000
Land Acquisition (Public Purposes) Ordinance (Cap. 88)	110,000
Social Security Act, 1987 (Act X of 1987 – Cap. 318)	733,770,000
Pensions Ordinance (Cap. 93)	85,200,000
Expenses of the Office of the Ombudsman (Cap. 385)	500,000
Expenses of the Permanent Commission Against Corruption (Act XXII of 1988 – Cap. 326)	58,000
Interest plus contribution to the Sinking Funds i.r.o. Local Government Stock – Registered Stock and Security Ordinance 1959 (Cap. 161)	386,942,000
Interest plus contribution to the Sinking Funds i.r.o. Foreign Loans (Cap. 213)	10,672,000
Malta Arbitration Centre (Act II of 1996 – Cap. 387)	70,000
Expenses of the National Audit Office (Act XVII of 1997 – Cap. 396)	2,200,000
Refunds under VAT/CET Acts	1,400,000
Widows' and Orphans' Pensions Act (Cap. 58)	503,000
Personal Injuries (Emergency Provisions) Ordinance (Cap. 111)	55,000
Members of Parliament (Retiring Allowances) (Act XVII of 1966), Members of Parliament Pensions Act (Act XXVI of 1979) as amended by Act VII of 1989 and Act XIII of 1981(Cap. 280)	1,432,000
Short Term Borrowing – Treasury Bills Act (Cap. 133)	7,000,000
TOTAL	1,231,049,000

iii) In terms of the Constitution

In terms of Article 107 (2) of the Constitution, the following amounts were appropriated in respect of:

	€
The President of Malta	69,606
The Attorney General	47,476
Judges and Magistrates	1,914,733
The Public Service Commission	69,245
	<u>2,101,060</u>

Excess of Expenditure over Estimates

Excess expenditure over original budgeted figures exceeding €500,000 occurred in the instances shown in Table 3.

Table 3 – Excess of Expenditure over Original Budget/Revised Estimates

Vote, Item		Original Budget 2011	Revised Estimates 2011 ²	Actual 2011	Variation Actual 2011/ Revised Estimates 2011	Variation Actual 2011/ Original Budget 2011	Variation Actual 2010/ Original Budget 2010
Vote 5: Office of the Prime Minister							
Item 6554: Malta Environmental and Planning Authority	€	-	7,000,000	7,000,000	-	7,000,000	6,999,999
Item 6778: Industrial Projects and Services Ltd.	€	7,000,000	8,200,000	8,210,616	10,616	1,210,616	1,250,999
Vote 14: Electoral Office							
Item 5219: Electoral Commission Activities	€	400,000	3,250,000	2,876,608	(373,392)	2,476,608	165,178
Vote 16: Ministry for Gozo							
Item 21: Utilities	€	1,265,000	2,265,000	2,189,728	(75,272)	924,728	41,138
Vote 17: Ministry for Infrastructure, Transport and Communications							
Item 5586: Public Service Obligation – Public Transport	€	7,000,000	10,500,000	10,471,440	(28,560)	3,471,440	8,262,761 ³
Item 5587: Public Service Obligation – Inter-island Transportation	€	4,000,000	6,720,000	6,720,970	970	2,720,970	(1,976,703) ⁴
Item 6790: Grand Harbour Regeneration Corporation plc	€	516,000	1,071,000	1,112,724	41,724	596,724	138,058

² Revised estimates are made up of the Original Budget 2011 and the Supplementary Estimates for the same item.

³ Shown in the 2010 FR as Guaranteed Earnings Agreement with the Public Transport Association (Item 5236).

⁴ Shown in the 2010 FR as Public Service Obligation – Gozo Channel Co. Ltd.

Vote, Item		Original Budget 2011	Revised Estimates 2011 ²	Actual 2011	Variation Actual 2011/ Revised Estimates 2011	Variation Actual 2011/ Original Budget 2011	Variation Actual 2010/ Original Budget 2010
Vote 19: Ministry for Resources and Rural Affairs							
Item 17: Overtime	€	420,000	1,120,000	1,128,596	8,596	708,596	526,155
Item 5426: Solid Waste Management Strategy	€	7,000,000	8,000,000	8,380,000	380,000	1,380,000	(510,965)
Item 5502: Renewable Energy Initiatives	€	250,000	750,000	822,691	72,691	572,691	13,558
Vote 20: Ministry of Education, Employment and the Family							
Item 12: Salaries and Wages	€	4,042,772	5,942,772	5,772,280	(170,492)	1,729,508	531,787
Item 5024: Church Schools	€	43,200,000	46,200,000	46,200,000	-	3,000,000	(1)
Item 5463: Energy Support Measures	€	4,200,000	8,200,000	8,362,683	162,683	4,162,683	-
Item 6163: Employment and Training Corporation	€	3,250,000	3,250,000	4,000,000	750,000	750,000	-
Item 6701: University of Malta	€	44,500,000	51,810,000	51,802,000	(8,000)	7,302,000	(1)
Vote 21: Education							
Item 12: Salaries and Wages	€	109,500,000	112,750,000	112,592,116	(157,884)	3,092,116	6,969,504
Item 15: Social Security Contributions	€	9,910,000	10,560,000	10,447,660	(112,340)	537,660	507,721
Item 16: Allowances	€	6,800,000	7,870,000	7,793,234	(76,766)	993,234	582,507

Vote, Item		Original Budget 2011	Revised Estimates 2011 ²	Actual 2011	Variation Actual 2011/ Revised Estimates 2011	Variation Actual 2011/ Original Budget 2011	Variation Actual 2010/ Original Budget 2010
Vote 24: Social Security Benefits							
Item 5143: Bonus	€	44,000,000	44,000,000	48,694,470	4,694,470	4,694,470	9,839,614
Item 5151: Bonus	€	9,100,000	9,100,000	9,794,721	694,721	694,721	853,592
Vote 26: Ministry of Finance, the Economy and Investment							
Item 5401: Street Lighting and Other Services	€	5,500,000	5,500,000	6,315,043	815,043	815,043	(30,330)
Item 5415: Interest Payable on ex-MDD/ MSCL Loans	€	1,000	2,080,999	1,497,105	(583,894)	1,496,105	(851,282)
Item 5437: MGI/ MIMCOL Debt Servicing	€	100,000	100,000	1,060,727	960,727	960,727	-
Vote 27: Treasury							
Item 5111: Refunds of Revenue overcollected or collected in error	€	3,000	3,000	1,059,564	1,056,564	1,056,564	(1,392)
Item 5572: Loan Facility Agreement with the Hellenic Republic	€	24,000,000	33,500,000	30,841,872	(2,658,128)	6,841,872	19,769,652
Item 5613: Loan Facility Agreement with Air Malta plc	€	-	52,000,000	52,000,000	-	52,000,000	-
Vote 29: Public Debt Servicing							
Item 3647: New Stock Issues Interest	€	10,331,410	10,331,410	16,638,734	6,307,324	6,307,324	5,260,463

Vote, Item		Original Budget 2011	Revised Estimates 2011 ²	Actual 2011	Variation Actual 2011/ Revised Estimates 2011	Variation Actual 2011/ Original Budget 2011	Variation Actual 2010/ Original Budget 2010
Vote 37: Ministry for Justice and Home Affairs							
Item 5380: Third Country Nationals	€	8,160,000	8,460,000	8,738,130	278,130	578,130	(76,265)
Vote 42: Ministry for Health, the Elderly and Community Care							
Item 12: Salaries and Wages	€	86,799,772	89,899,772	90,167,271	267,499	3,367,499	1,461,287
Item 16: Allowances	€	35,200,000	37,000,000	36,973,718	(26,282)	1,773,718	6,002,726
Item 30: Contractual Services	€	16,000,000	17,200,000	17,434,398	234,398	1,434,398	203,539
Item 6029: Mount Carmel Hospital	€	21,000,000	22,000,000	22,000,000	-	1,000,000	(5,318)
Vote 43: Elderly and Community Care							
Item 12: Salaries and Wages	€	16,800,000	19,000,000	18,783,018	(216,982)	1,983,018	(912,507)
Item 16: Allowances	€	6,000,000	7,000,000	6,961,293	(38,707)	961,293	368,633
Item 5064: Home Care/Help Services Scheme	€	5,300,000	6,000,000	5,878,605	(121,395)	578,605	645,775
Capital Vote III: Ministry for Gozo							
Item 7096: Investment Incentives (Subvention)	€	-	960,000	959,977	(23)	957,977	-
Capital Vote IV: Ministry for Infrastructure, Transport and Communications							
Item 7223: National Identity Management Systems	€	1,000,000	1,000,000	2,793,876	1,793,876	1,793,876	(2,667)

Vote, Item		Original Budget 2011	Revised Estimates 2011 ²	Actual 2011	Variation Actual 2011/ Revised Estimates 2011	Variation Actual 2011/ Original Budget 2011	Variation Actual 2010/ Original Budget 2010
Capital Vote V: Ministry for Resources and Rural Affairs							
Item 7174: EU Cohesion Fund 2004 - 2006	€	355,000	355,000	2,026,512	1,671,512	1,671,512	(319,721)
Item 7218: EU Agricultural Fund for Rural Development	€	8,000,000	8,000,000	13,711,177	5,711,177	5,711,177	(8,348)
Capital Vote VI: Ministry of Education, Employment and the Family							
Item 7021: Construction/ adaptation/ refurbishment works and equipment	€	1,100,000	1,100,000	2,051,606	951,606	951,606	(501,253)
Item 7162: Construction/ adaptation/ refurbishment/ maintenance works and equipment	€	6,000,000	6,000,000	6,599,999	599,999	599,999	-
Capital Vote VII: Ministry of Finance, the Economy and Investment							
Item 7212: EU Cohesion Fund 2007 – 2013	€	1,700,000	4,400,000	4,019,041	(380,959)	2,319,041	-
Item 7256: Film Industry Incentives (Subvention)	€	2,000,000	2,000,000	3,005,955	1,005,955	1,005,955	(29,181)

Vote, Item		Original Budget 2011	Revised Estimates 2011 ²	Actual 2011	Variation Actual 2011/ Revised Estimates 2011	Variation Actual 2011/ Original Budget 2011	Variation Actual 2010/ Original Budget 2010
Capital Vote VIII: Ministry for Justice and Home Affairs							
Item 7142: Works at Office of the Attorney General	€	700,000	2,922,000	2,220,000	(702,000)	1,520,000	(300,000)
Item 7257: External Borders Fund	€	6,375,000	8,875,000	10,175,377	1,300,377	3,800,377	(4,840,984)
Capital Vote IX: Ministry for Health, the Elderly and Community Care							
Item 7291: Sir Paul Boffa Hospital – Improvement to Buildings	€	98,000	98,000	1,268,156	1,170,156	1,170,156	-

The figures outlined in Table 3 highlight the importance of having in place a formal, structured and effective variance analysis system.

Although NAO acknowledges the fact that cases of unforeseen expenditure cannot be totally eliminated, hence the need of supplementary estimates, it is recommended that the adoption of such a variance analysis exercise is given the necessary importance. This would enable adequate and timely management follow-up of the resulting variances and their cause.

Assets and Liabilities

Article 67 (j) of the Financial Administration and Audit Act, 1962 states that the Accountant General “*shall prepare a statement of assets and liabilities of the Government at the end of the financial year*”.

This Statement may be looked upon as a statement of end-of-year balances in the Treasury books which result from cash transactions in the Public Account during the year. Not all Government’s assets and liabilities are included in this statement as would be under an accruals-based accounting system.

Assets

Table 4 represents the Statement of Assets. (FR 2011 – Appendix I - refers).

Table 4 – Statement of Assets

	2011	2010
	€ 000's	€ 000's
Public Credit		
Share Holding	348,299	369,027
Other Investments	296,346	292,996
Loans	<u>107,953</u>	<u>24,861</u>
	<u>752,597</u>	<u>686,884</u>
Investments held on behalf of		
Sinking Funds (Local)	117,290	119,072
Sinking Funds (Foreign)	39,848	45,852
Trust Funds	1,399	1,272
Court & Other Deposits	-	37
	<u>158,537</u>	<u>166,232</u>
Advances		
Advances	158,064	186,867
Loans	-	-
	<u>158,064</u>	<u>186,867</u>
Bank and Cash		
Banks	2,564	2,385
Cash at Treasury	-	-
Central Bank of Malta – Public Account	<u>205,847</u>	<u>130,699</u>
	<u>208,411</u>	<u>133,084</u>
TOTAL ASSETS	<u>1,277,609</u>	<u>1,173,068</u>

Figures in Statement may not add up due to rounding up.

Ministerial/Departmental Bank Accounts

Treasury Circular No. 1/2012 was issued on 9 January 2012 requesting Heads of Departments and other Accounting Officers to submit a soft copy of the cash and bank balances as at 31 December 2011. These balances reflect the cash balance and the position of each bank account held both at local commercial banks and the Central Bank of Malta (CBM), which information is automatically captured within a Bank Accounts Database developed by Treasury during 2009. In addition, officers are to submit a hard copy of these balances to Treasury, and clearly indicate those bank accounts against which a liability exists, as well as identify bank accounts in respect of Trust Funds.

A statement showing balances of bank accounts held at commercial banks and CBM operated by various Ministries and Departments, was published in the FR 2011 (pgs i to iii refer). Correspondence from Treasury confirmed, that whilst the credit balance as per Bank Statement consists of the 'liability', 'trust' and 'resulting balances', the debit balance on the other hand, should portray only credit card accounts. The only exception noted in respect of the latter was reported in the FR, and related to the Education Department which had overdrawn some of its accounts. NAO was informed that this department was made aware that it is in breach of Articles 13 and 21 of the Financial and Administration Audit Act (Cap 174).

A report was issued from the Bank Accounts Database held by Treasury and compared to the published data in the FR 2011.

An amount of €55,331,835 was shown as a 'Liability' with respect to the CBM Public Account featuring under the Public Debt Servicing Department. This amount consists of Court Deposits credited at the CBM Public Account (note 1a, FR 2011, pg iii refers), which tallies with Court Deposits for Vote 38: Judicial, as shown in the Statement of Court and Other Deposits as at 31 December 2011, Appendix K3.

However, NAO noted that Court Deposits for Vote 16: Ministry for Gozo, for the amount of €1,503,812 were not included in the said 'Liability' balance. Upon further enquiry with Treasury, reference was made to the fact that bank balances held at local commercial banks are being reported for the first time, and that information submitted by the respective Ministries/Departments may be subject to future clarifications. NAO was informed that this observation will be verified in due course.

In an email to this Office dated 25 July 2012, Treasury further confirmed, that the resulting balance of €326,800,096 corresponds to "*the actual net bank balances belonging to government.*" This amount, however, does not distinguish between national funds and European Union funds.

Treasury also stated that it has taken the necessary action as published in the NAO Annual Audit Report (AAR) for 2010 and that "*For the future, Treasury will maintain its efforts to report a comprehensive list of bank accounts operated by M/D, carrying out appropriate checks to ensure completeness and faithful representation as much as possible.*" In addition, Treasury plans "*...to discuss our data with NSO within the context of the System of National Accounts (SNA) and the Financial Accounts that they produce on a quarterly basis.*"

Investments

The market value of direct investments as shown in the FR as at 31 December 2011 stood at €348,298,679. The nominal value of shares denominated in US Dollars remained unchanged (US\$11,147,455) from 2010.

The following were the major changes in Treasury Clearance Fund/Consolidated Fund investments during the year as noted through comparison between data as per FR 2011 and the preceding year:

New Investment

- Malita Investments plc was registered on 3 June 2011 as an investment company with an authorised share

capital of €150 million and issued share capital of 15 million shares of €1 each.

The value of Government's investment in this company as at 31 December 2011 stood at €14,999,999, consisting of 14,999,999 shares of €1 each.

Increase in Investments

- Following a resolution by the Governing Board of the Council of Europe Development Bank, the Bank's subscribed capital was increased by €2,200 million. The increase was to be effective on 31 December 2011, on condition that by this date, 67% of the shares offered were subscribed by the Member States. Malta was invited to subscribe in participating certificates for an amount of €4,055,000, of which €454,000 were to be transferred from the general reserve into called-up capital.

By 31 December 2011, an overall capital subscription rate of 75% had been registered by Member States and the capital increase took effect. As a result, Malta's share increased by €454,000. The increase was implemented without any payment of funds by the Member States.

- At a meeting of the Board of Directors of the European Financial Stability Facility (EFSF), held on 5 May 2011, the Board decided to invite the shareholders to increase the issued share capital of EFSF by €10,000,000. Of this, Malta was allotted 905,554 shares of €0.01 each. This resulted in an increase in the value of Malta's investment of €9,056, which resulted in a balance of €25,754 as at 31 December 2011.

On 11 March 2011, through an Amendment to the EFSF Framework Agreement, the Euro Area Member States decided unanimously that EFSF may also provide stability support to Euro Area Member States by arranging for the purchase of bonds of such Euro Area States on the primary market as financial assistance.

As a result of this decision, total Guarantee Commitments of Euro Area Member States as per the Amendment to the EFSF Framework Agreement signed on 6 September 2011, amounted to €779,783.14 million. According to this Amendment, Malta's share of this guaranteed amount reached €704.33 million, an increase of €305.89 million over and above the €398.44 million as per December 2010.

- An extraordinary resolution passed by the shareholders of Malta Industrial Parks Ltd. on 30 December 2011 resolved to organise the share capital of the company into different classes of shares. As a result, shares which were already issued and subscribed for were identified as Class A Ordinary shares.

In addition, it was resolved that the company's authorised share capital was to be increased by 6,000,000 Ordinary B shares of €1 each, all of which were to be immediately issued and subscribed for by MFEI, on behalf of the Government of Malta. As a result, the Government's shareholding in the company as at 31 December 2011 stood at €6,046,583, an increase of €6,000,000 over the balance as at 31 December 2010.

- Through a Board resolution dated 19 January 2011, Bank of Valletta plc capitalised €40,000,000 of its reserves for the purpose of a bonus issue of 40 million fully paid ordinary shares of a nominal value of €1 per share. The Government was allotted a further 10,092,047 shares, representing one bonus share for every five held. As a result, the total nominal value of the investment as at 31 December 2011 amounted to €60,552,281.

Movements in Values of Existing Investments

- During 2011, the cost of investments shown hereunder increased due to changes in the US Dollar exchange rate.
 - Council of Europe Resettlement Fund
 - International Bank for Reconstruction and Development

- Malta Freeport Corporation Ltd
- Mediterranean Offshore Bunkering Co. Ltd
- Multilateral Investment Guarantee Agency

Investments held on behalf of Sinking Funds

The following (Table 5) is a breakdown of Investments held on behalf of Sinking Funds:

Table 5 – Sinking Funds Investments

Investment	Sinking Funds – Local	Sinking Funds – Foreign
	€	€
Central Bank of Malta Deposit Accounts	112,948,690	39,848,326
Malta Government Stocks	4,341,022	-
TOTAL	117,289,712	39,848,326

(Source: FR 2011, pg 170)

Other Investments

Investment in Industry

A return submitted by Malta Government Investments (MGI) Ltd. to the Accountant General showed that the total cost of investment in 38 companies amounted to €19,067,023 as at 31 December 2011.

MGI Ltd. estimated that the net book value of these investments amounted to €17,400,652 after an accumulated provisional loss of €1,666,371. Further details are provided in Table 6.

Table 6 – Investments through Malta Government Investments Ltd.

Investment Type	No. of Companies	Cost	Provisional Loss	Net Book Value
		€	€	€
Subsidiary Companies	20	17,610,146	559,917	17,050,229
Associated Companies	2	1,455,858	1,106,454	349,404
Other Companies	16	1,019	-	1,019

The return also pointed out that six of these companies were undergoing liquidation procedures and two never commenced operations.

At the end of 2011, the total of investment in industry, as reported by Treasury, amounted to €19,089,400 as against €21,784,370 on 31 December 2010, a decrease of €2,694,970 over the previous year.

This increase works out as follows:

- The striking off of Libma International Construction Ltd. from the Treasury Books, which reduced the total investment in industry amount by €645,425.
- The reduction of share capital of Malta Venture Capital plc, further to which MGI's shareholding was reduced from 899,999 ordinary shares to 19,999 ordinary shares of €2.329373 each, resulting in a reduction of €2,049,848 in the investment in industry balance.
- An increase of €1 in the value of the shareholding in Mediterranean Offshore Bunkering Ltd. which resulted from exchange rate movements and rounding.

- New investments in Malta Export Credit Insurance Ltd. and Malta Development Fund Ltd.'s, special and ordinary shares, amounting to €93, €116 and €93 respectively.

It is to be noted that indirect investments at year end, as reported by Treasury amounting to €19,089,400, do not tally with MGI Ltd. aggregate balances reported standing at €19,067,023.

Although Treasury's and MGI's records do not tally, NAO satisfactorily noted that information regarding indirect investments from MGI Ltd. was received in time by Treasury, enabling the latter to affect the necessary transactions in the Government Accounting System, where applicable.

The difference of €22,377 between Treasury's and MGI's records is explained hereunder:

- An investment of €22,362 in Topwear Ltd. is not reported on MGI Ltd. records since this was an investment made from Government funds by the former Malta Development Corporation.
- The Government of Malta has one share of €2.33 in MGI Ltd. which has never been reported by the latter.

(Source: Treasury)

Addition in 'Other Investments'

Euro Coins

In December 2011, CBM made a Euro Coin issue on behalf of Treasury amounting to €4,879,490.

Malta Financial Services Authority – Capital Fund

The balance of €1,164,687 was shown as at 31 December 2011. This represents the initial and only contribution made by Government in accordance with Section 13 (1) of the Malta Financial Services Centre Act, which has now been repealed.

NAO noted that the Malta Financial Services Authority – Capital Fund did not feature in the Statement of Other Investments as at 31 December 2010, even though a dividend of €5,000,000 was received from this Authority in 2010.

Treasury confirmed that this investment was reported for the first time in the FR 2011.

Dividends/Interests Received

Malta Financial Services Authority – Capital Fund

A dividend of €7,000,000 was received in three tranches from the Malta Financial Services Authority during 2011.

Investment in Industry

A total of €2,000,000 was reported as dividend for 2011 from MGI Ltd. However, NAO confirmed that out of this total, €1,500,000 was received from Malta Investments Management Co. Ltd. in which Government has a direct investment, hence it should not have featured as dividend from Investment in Industry in Appendix H1.

Loans made by Government and Repayments thereof

Balances and other details of all loans issued by Government as on 31 December 2011 as reported in Appendix E of the FR 2011, are summarised as follows:

	€
I. Loans under Act II of 1956	23,099
II. Other Loans	107,929,883

Other Loans at II consist of the following:

	€
Aids to Industries Scheme	3,718
Agriculture – Assistance to Co-Operatives	96,902
Water Services Corporation	4,967,885
Loan Facility Agreement with the Hellenic Republic	50,611,524
Loan Facility Agreement with Air Malta plc	52,000,000
Loan – Mariam Al Batool School	249,854

Increase in Loans

Loan Facility Agreement with the Hellenic Republic

The balance of the loan facility agreement with the Hellenic Republic as at 31 December 2011 amounted to €50,611,524.

The loan to the Hellenic Republic originated from an €80 billion Loan Facility Agreement signed between the Member States whose currency is the Euro, and the Hellenic Republic, dated 8 May 2010. The maximum amount that each lender shall contribute under the Facility was also established in this Agreement, which in Malta's case, stood at €74,543,026. Disbursements in accordance with this Agreement should be made after a request by the Hellenic Republic, following consultation with the Commission.

The increase of €30,841,872 over the 2010 balance of this loan facility, was made up of four disbursements by the Government of Malta during 2011.

New Loans

Loan Facility Agreement with Air Malta plc

A loan facility of €52,000,000 was granted to Air Malta plc by Government, in accordance with the Loan Facility Agreement entered into between the two, on 15 November 2010. Air Malta plc requires these funds to meet its short term liquidity requirements and to enable it to continue with its operations until the Restructuring Plan has been put into place.

The Loan was to be made available by the Government of Malta in four advances following requests by Air Malta plc, whilst each request could not exceed €20 million. The first drawdown of €15 million was made on 15 November 2010, through an Advance Warrant which featured in Appendix L, Statement of Advances as at 31 December 2010. Additional drawdowns totalling €37 million were made during 2011, resulting in the final balance of €52 million by the end of the year.

Loan – Mariam Al Batool

The Government agreed to lend the sum of €250,000 to the Mariam Al Batool school, in the light of the suspension of the financial subsidy which the school used to receive from Libya, as per agreements dated 28 April 2011 and 14 December 2011.

A total drawdown of €249,854 was made during 2011 as shown in the Statement of Loans made by Government as at 31 December 2011.

Loan Repayments

The loan to the Water Services Corporation which as at 31 December 2011 amounted to €4,967,885 is interest free and repayable either through any surpluses generated by the Water Services Corporation or through a Transfer Voucher in the event that the Government subvention is still required. The initial amount of the loan was of €10,482,180. No loan repayments were made during 2011.

Court and Other Deposits

These Deposits form part of the Treasury Clearance Fund, which in terms of Section 32 of the Financial Administration and Audit Act, contains all those Funds and Accounts, the expenses of which are initially defrayable out of public funds and repayable, gradually or otherwise, out of the Consolidated Fund or from other sources. As at end 2011, Court Deposits amounted to €56,835,647, while Other Deposits, spread across the thirty-five Ministry/Departmental Votes, totalled €49,459,194.

Nil Variances

Following an examination of the Statements of Court and Other Deposits for the year 2011, it was observed that a total of 17 accounts were wound up during the year. Of these, two accounts, amounting collectively to €17,955 were reported upon in last year's AAR. In fact, of the nine Ministry/Departmental Votes that reported no movement in 16 accounts for five consecutive years, totalling €483,754, in 11 instances, a reply justifying why the account is to remain open, was received from the respective Ministries/Departments. However, whilst five Ministry/Departmental Votes reported no movement in seven Other Deposit accounts for four consecutive years, another seven Ministry/Departmental Votes portrayed no movement at all in 11 of their accounts for three consecutive years, totalling €1,129,392, a breakdown of which is shown in Table 7.

Table 7 – Court and Other Deposits

Vote number	Ministry/Department	Description of Account	2009 - 2011 €
Other Deposits:			
16	Ministry for Gozo	8285 Procurement of Hospital Equipment	1,098
20	Ministry of Education, Employment and the Family	8402 EU Malta Agreement 2004	77
		8823 M.C.A.S.T. 2006 (L.N. 254/98)	343
27	Treasury	8435 Malta Government Trust – Joseph Camilleri	1,079
39	Police	8289 Sequestration of Monies	14,241
		8598 Retention of Monies	20,921
41	Civil Protection	8305 Euromed Conference 2000	1,061
42	Ministry for Health, the Elderly and Community Care	8357 Deposits re Sale of Graves	415,456
		8401 Dafne V Project 2004	1,527
		8841 National Blood Transfusion Centre 2006 (L.N. 254/98)	663,371
43	Elderly and Community Care	8370 Cospicua Home – Contributions by Residents	10,218
			<u>1,129,392</u>

Recommendation

NAO satisfactorily noted that action has been taken by Treasury to require Ministries/Departments to review the utility of previously reported Other Deposit Accounts. These efforts are to continue, in order to ascertain that whenever such accounts are no longer in use, they are immediately wound up, with their funds being transferred to the Consolidated Fund.

Advances**Accounting for Advances**

Article 89 of the General Financial Regulations, 1966 stipulates that “it shall be the duty of the Accounting Officers to see that such accounts are repaid as early as possible in the manner specified in the warrant”.

Appendix L of the FR incorporates a detailed statement of balances remaining outstanding as on 31 December 2011, in respect of advances made to various Government Departments, Agencies and Organisations.

Pending advances were reported as amounting to €158,063,739 as on 31 December 2011, as against €186,867,082 outstanding on 31 December 2010.

New Advances

According to the FR 2011, Appendix L, three new Advance Warrants were issued during 2011. Two of these warrants were issued in favour of the Mariam Al Batool school for the purpose of extending loan facilities. The remaining warrant was issued in favour of Malita Investments plc for the purpose of share capital acquisition in said company. This warrant also stipulated that the amount advanced should be accounted for and repaid by not later than end of 2011.

Outstanding Advances

Outstanding advances as at 31 December 2011, apart from advances forwarded to Malta Drydocks Corporation and Malta Shipbuilding Co. Ltd., were the following (Table 8 refers):

Table 8 – Outstanding Advances

Description	€
Malta Development Corporation on 24 July, 1984 for the purchase of Verdala Hotel	1,724,785
Ministry of Finance to the Bank of Valletta Employees Foundation, for the purchase by the Foundation of 1,385,406 ordinary shares in Bank of Valletta Ltd. in 1995	2,198,249
Two advances made to Permanent Secretary, Ministry of Finance and Commerce, to enable him to support the operational cost of Enemalta Corporation during 1997	6,034,197
Commissioner of Inland Revenue, to meet loans in terms of Article 4 of the Monte Di Pieta' Act (No. XXXIX) of 1976	395,087
Accountant General, for the purchase of shares held by Sea Malta Co. Ltd. in Mediterranean Offshore Bunkering Co. Ltd. The amount so advanced should be accounted for and repaid, in the first instance, out of proceeds forthcoming from the eventual privatisation of Mediterranean Offshore Bunkering Co. Ltd., immediately such proceeds become available to Government. In the second instance, in the event that such funds are not sufficiently available, out of funds made available from the Consolidated Fund upon the privatisation of Mediterranean Offshore Bunkering Co. Ltd.	1,109,173
Permanent Secretary, Ministry of Finance and Commerce, to be utilised as a loan facility by the Maltacom Employees Foundation to purchase ordinary shares in Maltacom plc in 1998	4,907,504
Permanent Secretary, Ministry for Economic Services, for the purpose of settling during 1999 and further servicing costs of Malta Freeport loans	14,977,644
Accountant General, for the purchase of Medigrain shares from Mid-Med Bank plc in 1999	2,014,927
Permanent Secretary, Ministry of Finance, for the purchase of shares held by Enemalta Corporation in Mediterranean Offshore Bunkering Co. Ltd.	9,317,494
Permanent Secretary, Ministry for Economic Services, to meet expenditure in connection with the privatisation process of the Malta Freeport operations	2,118,836
Permanent Secretary, Ministry for Economic Services, for the purpose of settling Malta Freeport equipment claims	10,482,180
Permanent Secretary, Ministry of Finance, advanced to Mid-Med Employees Foundation, for the purpose of investment, pursuant to the agreement dated 3 December 2002 and entered into between Malta Government and the Foundation in the interest of the members of the said Foundation	6,988,120
Permanent Secretary, Ministry for Information Technology and Investment, to enable Gozo Channel Co. Ltd. to settle urgent debts, including social security contributions and income tax (FSS) payments	291,172
Permanent Secretary, Ministry of Finance, the Economy and Investment for the purpose of extending loan Facilities to Mariam Al Batool School	249,854

Observations

Purchase of Verdala Hotel – €1,724,785

This advance was made to Malta Development Corporation on 24 July 1984 for the purchase of Verdala Hotel and is still showing in the books of Malta Enterprise Corporation Ltd. as due to Government.

Malta Drydocks Corporation and Malta Shipbuilding Co. Ltd.

Following the issue of Act XV of 2003, advances to Malta Drydocks Corporation and Malta Shipbuilding Co. Ltd., must be borne by Government. As a result, these advances are to be gradually repaid from the Consolidated Fund.

During 2011, an adjustment of €10,366,022 was made out of the advance of Malta Drydocks Corporation 1999 to fully repay the Malta Drydocks advance of 1998. Furthermore, €11,000,000 repayments were effected in respect of the former.

Pending advances to the above mentioned companies to be repaid out of the Consolidated Fund are listed in Table 9.

Table 9 – Pending Advances to Malta Shipbuilding Co. Ltd. and Malta Drydocks Corporation

	€
Construction of ships at Malta Shipbuilding Co. Ltd.	21,643,890
Malta Drydocks Corporation – 1999	18,000,185
Malta Drydocks Corporation – 2000	25,623,107
Malta Drydocks Corporation – 2001	29,987,336
TOTAL	95,254,518

It is to be noted that the budgeted amount of €17,084,000 for the year under review, under the Ministry responsible for Finance's Capital Vote VII (Item 7189) to be utilised towards paying Treasury Clearance Fund Advances, was not fully utilised, leaving a positive variance of €3,755,000.

Gozo Channel Co. Ltd. – €291,172

Originally, the Advance Warrant had to be repaid by 31 March 2005 as stipulated by the same Warrant.

In July 2004, the Ministry of Finance, in agreement with Gozo Channel Co. Ltd., compiled a new schedule of interest and capital repayments. The original advance amount of €1,164,687 should be completely repaid by 2013.

In 2011, interest amounting to €17,470 and capital repayment of €145,586 were received from the company, as detailed in the schedule of payments.

Advances Repaid

The following advances were fully repaid during the year totalling €40,366,022:

Malta Drydocks – 1998
Loan Facility Agreement with Air Malta plc
Malita Investment

Inspection of Securities/Investments

Government Securities Board

The purpose of the Board is to verify and certify the list of securities held by the Government as at 31 December 2011 with the relative Stock Certificates held by Treasury. Representatives from NAO attended the meeting in an observer capacity.

The Board is made up of three members, namely the Chairperson, this being the MFEI Permanent Secretary, a Malta Investments Management Co. Ltd. representative and the Accountant General. All members were present for the meeting held on 10 May 2012 to inspect the investments held at the Treasury Department.

The Board verified the correctness of security details against documents including, where available, official Stock Certificates issued by the company concerned, Malta Stock Exchange Statements and other related documents maintained by Treasury.

Boards of Survey

Boards of Survey were appointed in terms of Section 98 of the General Financial Regulations, 1966, in order to take account of moneys, deposits and other values as at 31 December 2011.

NAO noted a considerable time lag between the closure of the books and the submission of the reports by the Boards of Survey, albeit a small improvement over last year. In fact, the reports by the Boards of Survey relating to moneys, deposits and other values at the Ministry for Gozo and Treasury, were received by NAO on 31 January 2012 and 31 May 2012 respectively.

The Board responsible for taking account of monies, deposits, investments and other values at the Ministry for Gozo found that the receipts and deposits tallied with the Cash Book and that there was no cash balance as at 31 December 2011.

The Board responsible for taking account of monies, deposits, investments and other values at the Treasury certified the correctness of the instruments and documents provided and had no adverse remarks to make with regard to the validity, authenticity and legality of the said documents. In this regard, the Board also took cognisance of the Certification Reports issued by various Bodies entrusted with the custody of such values.

However, similar to last year, the Board was unable to reconcile the balance shown in the Cash Book with the CBM statement. The Board was again informed that new Bank Reconciliation Statements had been developed and the Treasury was awaiting the submission of such statements from Malta Information Technology Agency (MITA), following which it would undertake appropriate testing and implementation. Notwithstanding this, the Board noted that the automated process of reconciliation is up to date.

Bank – Central Bank of Malta Public Account

As per established procedure, Treasury has continued with the practice of submitting to NAO, a monthly reconciliation statement for the Public Account.

With regards the Reconciliation for the period June 1992 to December 2001, Treasury's position remained the same as reported in last year's AAR.

Developments on the “new” Bank Reconciliation Statement

As at beginning of September 2012, the Cash Office within Treasury, completed the automated reconciliation for December 2011. During this year, MITA and Treasury initiated an exercise to identify the unreconciled items, consisting of cashed cheques still marked as 'Open', 'Close offs' effected in different periods, and review of cheques that fall stale after the automated process for a particular month is completed. The related fixes have been successfully tested and later uploaded onto the Live system.

Treasury confirmed that it is currently also performing a manual matching process for December 2011. Payments made via the Single Euro Payments Area are being reconciled manually, since each CBM transaction has to be reconciled against a number of vouchers.

MITA are currently undergoing system testing of a new version of the Bank Reconciliation Statement application, which process is quite substantial and is expected to take a few months to complete. This covers all application functionality and includes the multiple matching facility, which when introduced, will further reduce the possibility of human error during the manual reconciliation.

NAO has satisfactorily noted that the situation reported upon in previous AARs, with respect to discrepancies between the balances reported in Part I of the FR and those in the Bank Reconciliation Statement, has been rectified.

Liabilities

Table 10 features the Statement of Liabilities (FR 2011 – Appendix I – refers).

Table 10 – Statement of Liabilities

	2011	2010
	€ 000's	€ 000's
Public Debt	4,185,131	3,755,532
Euro Coins issued o.b.o Treasury	45,836	40,957
Treasury Bills	256,103	375,662
Deposits		
Court and Other Deposits	106,295	68,221
Other	23	23
	106,318	68,244
Funds		
Sinking Funds	157,138	164,924
Contingencies Fund	1,165	1,165
Trust Funds	1,491	1,420
	159,794	167,508
Accumulated Fund		
Consolidated Fund at year end	2,797	(125,231)
Net Public Debt /Public Credit ⁵	<u>(3,478,370)</u>	<u>(3,109,604)</u>
	(3,475,573)	(3,234,836)
TOTAL LIABILITIES	<u>1,277,609</u>	<u>1,173,068</u>

Figures in Statement may not add up due to rounding up.

NAO observed that the current format of the Statement of Assets and Liabilities in Appendix I of the FR, could give the impression that 'Total Assets' amounting to €1,277,609,000 agrees to 'Total Liabilities', although it is apparent that this is not the case.

Upon enquiry, Treasury confirmed that the Consolidated Fund balance, be it of a positive or negative nature, forms part of the Accumulated Fund, and for consistency in reporting, this is either added or deducted from the Net Public Debt/Public Credit figure. The latter is effectively the balancing figure for this Statement.

To this effect, Treasury has proposed a revision of said Statement as from Financial Year 2012.

The revised Statement of Assets and Liabilities for the 2011 and 2010 data, is available in Table 11.

⁵ The Public Debt/Public Credit figure is made up by subtracting the sum of the Public Debt and Euro Coins balances from the figure of Public Credit.

Table 11 – Revised Statement of Assets and Liabilities

	2011	2010
	€ 000's	€ 000's
ASSETS		
Public Credit		
Share Holding	348,299	369,027
Other Investments	296,346	292,996
Loans	<u>107,953</u>	<u>24,861</u>
	752,597	686,884
Investment held on behalf of		
Sinking Funds (Local)	117,290	119,072
Sinking Funds (Foreign)	39,848	45,852
Trust Funds	1,399	1,272
Court and other deposits	<u>—</u>	<u>37</u>
	158,537	166,232
Advances		
Advances	158,064	186,867
Loans	<u>—</u>	<u>—</u>
	158,064	186,867
Bank and Cash		
Banks	2,564	2,385
Cash at Treasury	-	-
Central Bank of Malta - Public Account	<u>205,847</u>	<u>130,699</u>
	208,411	133,084
TOTAL ASSETS	<u>1,277,609</u>	<u>1,173,068</u>

	2011	2010
	€ 000's	€ 000's
LIABILITIES		
Public Debt	4,185,131	3,755,532
Euro Coins issued o.b.o Treasury	45,836	40,957
Treasury Bills	256,103	375,662
Deposits		
Court and other deposits	106,295	68,221
Other	<u>23</u>	<u>23</u>
	106,318	68,244
Funds		
Sinking Funds	157,138	164,924
Contingencies Fund	1,165	1,165
Trust Funds	<u>1,491</u>	<u>1,420</u>
	159,794	167,508
TOTAL LIABILITIES	<u>4,753,182</u>	<u>4,407,903</u>
EXCESS OF TOTAL LIABILITIES OVER TOTAL ASSETS	<u>(3,475,573)</u>	<u>(3,234,836)</u>
Accumulated Fund		
Consolidated Fund at year end	2,797	(125,231)
Net Public Debt/Public Credit	<u>(3,478,370)</u>	<u>(3,109,604)</u>
	<u>(3,475,573)</u>	<u>(3,234,836)</u>

In the revised statement, a Net Asset/Liability balance would be tallied to the Accumulated Fund balance. Therefore, whereas the current statement shows 'Total Assets' and 'Total Liabilities' balances of €1,277,609,000 for 2011, the revised statement would feature 'Net Liability' and 'Accumulated Fund' balances of (€3,475,573,000) for 2011, thus giving a fairer view of Government's state of affairs.

On the other hand, the Accumulated Fund balance would be shown as a stand-alone figure rather than as part of Liabilities.

Public Debt

Local Loans

On 31 December 2011, the local Public Debt as reported in Appendix F of the FR amounted to €4,412,488,930, representing an increase of €368,996,048 over the corresponding reported figure for 2010. This increase includes

an amount of €40,957,000 for euro coins, which featured for the first time in the opening balance as at 1 January 2011. The closing Public Debt balance is inclusive of Treasury Bills outstanding at year end, Euro Coins and ex Malta Drydocks Loan with a local commercial bank, amounting to €256,102,750, €45,836,490, and €56,378,732 respectively.

This increase works out as follows:

	€
Total New Loans	1,508,096,758
Currency Issue	4,879,490
Total Repayments	<u>(1,184,937,200)</u>
Net Increase in Public Debt	<u>328,039,048</u>

Foreign Loans

Following a review of foreign loans as at December 2011, it was observed that the practices reported upon in previous years' AARs concerning amendments to the original Payment by Draft, as well as the inability to confirm selling rates of exchange used by the CBM Investments Section, still prevail.

As already recommended in previous years, NAO reiterates that the Departmental Accounting System should allow users to opt for the Amendment function, instead of permitting changes to the original Payment by Draft, followed by a 'Reprint' of the latter.

Debt Composition

In general, Government's borrowing programme includes Malta Government Stocks, Treasury Bills, and Foreign Loans.

The Government sets the long-term Public Debt Management goal, and its preference in respect of debt and maturity profile, helps provide the market with long term confidence about the nature of future Government borrowing.

Debt Composition as at 31 December 2011 stood as follows (Tables 12 and 13 refer):

Table 12 – Debt Composition

Domestic Debt	External Debt
%	%
98.34	1.66

Table 13 – Domestic and External Debt Composition

Type of Debt	€	% of Total Debt
Malta Government Stocks	4,054,170,958	90.35
Ex Malta Drydocks	56,378,732	1.26
Treasury Bills	256,102,750	5.71
Euro Coins	45,836,490	1.02
Foreign Loans	74,581,069	1.66
Total Debt	4,487,069,999	100

(Source: FR 2011, pgs 158-159)

Public Debt Percentages

Table 14 portrays debt as a percentage of Gross Domestic Product.

Table 14 – Debt as a Percentage of Gross Domestic Product

Public Debt 31 December 2011	Gross Domestic Product 2011	Ratio Public Debt to Gross Domestic Product
€	€	%
4,487,069,999 ^{*1}	6,426,284,000 ^{*2}	69.82

^{*1} (Source: FR 2011, pgs 158-159)

^{*2} (Source: Gross Domestic Product Q1/2012 – National Statistics Office News Release No. 111/2012)

Creditors' Analysis

Forty-seven Ministries/Departments submitted to Treasury an 'Analysis of Creditors' as at 31 December 2011, in the required accruals' template. Total creditors reported as at 31 December 2011 in these analysis amounted to €170,650,762, which excluded an additional credit balance of €4,487,069,985 relating to the Public Debt Servicing Directorate, whose balance was extracted from the Departmental Accounting System. Once again, the Directorate did not submit the Analysis of Creditors template following a decision taken during 2010, as reported in last year's AAR.

Total creditors as at 31 December 2011 represented 48 Ministries/Departments and amounted to €4,657,720,747. The same balance as at 31 December 2010, which was made up of balances submitted by 49 Ministries/Departments, totalled €4,332,592,738.

According to data submitted by Ministries/Departments, out of the total creditors balance as at 31 December 2011, €4,494,859,098 was still within the credit period, representing 96.50% of total creditors.

€564,160 of total creditors (0.01%) related to contested amounts. The following (Table 15) is an ageing analysis of the remaining creditors' balances as at 31 December 2011:

Table 15 – Ageing of Remaining Creditors

Days Overdue	2011		2010	
	Amount Due €	%	Amount Due €	%
01-30	80,307,931	49.48	81,636,288	51.07
31-60	8,197,698	5.05	8,011,135	5.01
61-90	7,615,353	4.69	3,743,499	2.34
91-180	9,496,629	5.85	2,461,050	1.54
181-360	3,575,343	2.20	1,748,799	1.09
Over 360	53,104,535	32.73	62,262,903	38.95
TOTAL	162,297,489	100	159,863,674	100

As at 31 December 2011, 12 Ministries/Departments reported a ‘Nil’ creditors balance in their Returns.

Statement of Abandoned Claims, Cash Losses and Stores Written Off

In terms of the General Financial Regulations, 1966 and Treasury Circular No. 2/2012, Departments were to submit to the Accountant General an annual Return of stores written off, abandoned claims and cash losses by not later than 30 March 2012. Nil Returns were also required. The Circular stressed the importance that statements reflect comprehensive and accurate data and that proper identification of endorsing officers is to be provided.

Whilst examining Appendix M, including relevant annual Returns submitted by Ministries/Departments, the following shortcomings were noted:

Authority for writing off of Abandoned Claims

- a) A write-off approval for abandoned claims amounting to €139,762 with respect to the Malta Communications Authority was not available.
- b) Out of abandoned claims of €403,279 pertaining to Social Security Benefits, a write-off approval was only traced for the amount of €359,616. No approval was available for the remaining balance of €43,663.
- c) No write-off approval was traced with respect to €251,756 abandoned claims reported by the Inland Revenue Department.
- d) Write-off approvals for abandoned claims of €197,175 with respect to the Value Added Tax Department were not available.
- e) Abandoned claims amounting to €163 and €156 were not included in the Customs’ annual Return and Statement M, even though write-off approvals were granted.

In most of the above-mentioned cases, NAO satisfactorily noted that Treasury has followed-up with the respective Ministry/Department.

Returns not Submitted

Treasury reported a list of defaulting departments outlining those Ministries/Departments that failed to comply with Treasury Circular No. 2/2012.

Recommendation

It is recommended that Treasury implements stricter measures to ensure compliance with requirements specified in the Treasury Circular, with particular attention to those Ministries/Departments which fail to submit the relative authority for write-off.

Letters of Comfort/Bank Guarantees

The position of Contingent Liabilities as at 31 December 2011, as reported upon in Part I of the FR 2011 is reproduced in Table 16, a breakdown of which can be found in Table 17.

Table 16 – Contingent Liabilities – 2011

	€
Government Guarantees:	
Local	576,242,536
Foreign	<u>486,504,838</u>
	1,062,747,374
Letters of Comfort	<u>79,827,777</u>
TOTAL	1,142,575,151

Table 17 – Letters of Comfort/Bank Guarantees

Beneficiary		31 Dec 10	31 Dec 11	Remarks
Enemalta Corporation	€	110,000,000	75,000,000	This loan was taken up by Enemalta Corporation to repay all its existing government secured facilities with local banks and foreign financial institutions.
	€	100,000,000	100,000,000	A Letter of Guarantee was issued for this amount to secure loan facility.
	€	17,678,576	17,678,576	This Letter of Guarantee, originally amounting to €30,000,000, was issued to secure temporary short-term overdraft facility.
	€	36,250,000	31,250,000	This Guarantee secures loan taken on 13 December 2007 to finance part of its capital expenditure programme for the period 2007 to 2013.
	€	10,000,000	10,000,000	A Letter of Guarantee was issued for this amount to secure overdraft facility.

Beneficiary		31 Dec 10	31 Dec 11	Remarks
	€	5,893,003	5,893,003	This Letter of Guarantee, originally amounting to €10,000,000, was issued to secure overdraft facility.
	€	10,000,000	10,000,000	A Letter of Guarantee was issued for this amount to secure overdraft facility.
	€	20,000,000	20,000,000	A Letter of Guarantee was issued for this amount to secure temporary short term overdraft facility.
	€	16,000,000	16,000,000	A Letter of Guarantee was issued for this amount to cover General Banking Facility, which will cover the issuance of a stand-by Letter of Credit.
	€	24,742,530	25,701,954	This Letter of Guarantee, originally amounting to €27,000,000, was issued to cover loan facility.
	€	75,000,000	75,000,000	A Letter of Guarantee was issued for this amount to secure loan facility.
	€	105,000,000	150,000,000	This Guarantee secures loan taken to part finance the Corporation's investments in the national electricity supply system and distribution network.
	€	49,267,979	50,000,000	This Letter of Guarantee, originally amounting to €50,000,000, was issued to secure loan facility in connection with the construction of interconnector between Malta and Sicily.
	€	-	35,000,000	This Guarantee was issued to secure loan facility of €35,000,000.
	€	<u>579,832,088</u>	<u>621,523,533</u>	
Housing Authority	€	126,028	-	A Letter of Guarantee, originally amounting to €4,658,747, was issued to secure overdraft facilities in replacement of a Letter of Guarantee issued by another commercial bank for the same purpose. There has been no exposure in 2011.
Malta Enterprise Corporation (ex Malta Development Corporation)	€	712,533	1,559,563	The Letters of Comfort issued to cover the Loan Guarantee Scheme taken over from IPSE Ltd., and the New Enterprise Loan Guarantee Scheme, were replaced by Letter of Guarantee for €2,911,717 dated 19 May 2009, and by a Letter of Guarantee dated 3 March 2010.
	€	2,867,013	608,778	Letter of Guarantee to secure loan/credit facilities made available to the Corporation.

Beneficiary		31 Dec 10	31 Dec 11	Remarks
	€	-	2,364,581	On 21 October 1991 and 21 October 1993, Letters of Guarantee were issued for a total of €9,317,494.
	€	<u>3,579,546</u>	<u>4,532,922</u>	
Water Services Corporation	€	59,421,265	62,092,715	Four Letters of Guarantee issued on 30 April 2007 in connection with Loan 1 and Loan 2 Facility, loan and overdraft facilities and general banking facility.
	€	29,500,000	29,500,000	On 30 November 2007, Water Services Corporation entered into a Guarantee agreement with a foreign bank to undertake a project concerning investments in the sector of water supply and wastewater collection and treatment.
	€	<u>88,921,265</u>	<u>91,592,715</u>	
Malta Freeport Corporation Ltd.	€	10,188,470	3,911,401	a) €962,505 taken over from Malta Freeport Terminals Ltd. as a result of the privatisation process. Commercial bank requested a Letter of Comfort to cover this facility.
				b) €1,263,046 taken over from Malta Freeport Terminals Ltd. as a result of the privatisation process. Malta Freeport Corporation Ltd. has converted the overdraft facility into a loan facility repayable over a ten year period.
				c) €55,727 Letter of Guarantee was issued in substitution of the Letter of Guarantee covering the balance on the loans of €18,052,644.
				d) The remaining consisted of Letters of Guarantee to secure loan facilities.
				e) On 20 January 2004, Malta Freeport Corporation Ltd. entered into a Currency SWAP agreement with a private company over the 2028 bonds (original denomination US\$ 250m). This SWAP agreement is guaranteed by the Government of Malta, but does not increase the overall exposure of the Government of Malta, since the same treatment applicable for the Gozo Ferries Co. Ltd. Sovereign Guarantee was applied. As a result, the currency denomination has been changed to Euro.
	€	201,832,708	200,754,838	
	€	<u>212,021,178</u>	<u>204,666,239</u>	
Malta Industrial Parks Ltd.	€	19,367,264	17,863,524	On 3 December 2008, Letter of Guarantee was issued to secure loan facility in replacement of Letter of Comfort for €25,623,107 dated 28 April 2005.
	€	6,988,120	6,988,120	Letter of Comfort issued on 5 March 2007 in connection with the expropriation of Land at Ricasoli.

Beneficiary		31 Dec 10	31 Dec 11	Remarks
	€	27,135,187	24,944,955	Letter of Comfort issued on 31 January 2007 in connection with the development of a specialised facility at Luqa Airport leased land. This Letter of Comfort was replaced by a new one dated 10 March 2011 for €27,000,000.
	€	5,957,832	5,136,146	Letter of Comfort dated 10 March 2011 for €6,000,000 replaced a former Letter of Comfort issued on 4 February 2008 to secure loan facility in connection with capital projects.
	€	12,429,748	11,985,846	A Letter of Guarantee, originally amounting to €13,000,000, was issued to secure loan facility.
	€	3,750,000	3,750,000	A Letter of Guarantee, originally amounting to €7,500,000, was issued with a commercial bank in connection with the Medavia Project, to replace a Guarantee dated 4 March 2010 in favour of Malta Enterprise
	€	-	595,000	A Letter of Guarantee was issued on 12 June 2009 with a local bank to cover a Bank Guarantee facility.
	€	-	284,010	On 8 April 2011, a Letter of Guarantee for €284,010 was issued to secure Bank Guarantee Facility in connection with capital expenditure for the development of the specialised facility within the Malta International Airport.
	€	<u>75,628,151</u>	<u>71,547,601</u>	
Malta Government Technology and Investment	€	818,900	718,417	A Letter of Comfort was issued for €1,000,000 on 12 February 2009 to secure loan facility. This was replaced by a Letter of Guarantee dated 12 March 2009 for the same amount.
Malta Government Investments Ltd.	€	6,042,941	6,209,534	Two Letters of Guarantee issued on 23 December 2005 to cover working capital and other financing requirements.
Malta Tourism Authority	€	291,172	-	This letter of Guarantee, originally issued on 9 April 2003 for a value of €2,329,373, was cancelled during 2011.
Foundation for Tomorrow's Schools	€	50,080,619	53,999,913	The two Letters of Guarantee issued on 1 December 2008 to secure general banking facility were replaced by a Letter of Guarantee on 19 September 2011 for €73,200,000.
Property Management Services Ltd.	€	7,000,000	6,000,000	This Letter of Guarantee, originally amounting to €9,000,000, was issued to secure loan facility.

Beneficiary		31 Dec 10	31 Dec 11	Remarks
Malta Transport Authority	€	4,663,170	9,341,730	A Letter of Guarantee was issued for €11,086,270 on 11 August 2011 to replace the former Letter of Guarantee amounting to €13,976,240 which was issued on 29 March 2010.
	€	-	41,796,051	A Letter of Comfort was issued on 9 February 2011 for €56,000,000 to secure loan facility to finance its capital expenditure and to pay for the licences and buses from present bus owners.
	€	<u>4,663,170</u>	<u>51,137,781</u>	
Grand Harbour Regeneration Corporation	€	7,940,191	13,293,362	A letter of Guarantee for €14,500,000 was issued on 10 January 2011 to replace a Letter of Comfort dated 9 December 2010 to secure loan facility in connection with the City Gate project.
	€	-	13,827,598	On 29 August 2011, a Letter of Guarantee for €20,000,000 was issued to secure loan facility in connection with City Gate project.
	€	<u>7,940,191</u>	<u>27,120,960</u>	
Malta Air Traffic Services	€	-	3,525,536	A Letter of Guarantee was issued on 11 August 2011 for €14,631,000 to secure loan facility to finance shortfall in liquidity and capital expenditure to upgrade the air traffic management system and surveillance capacity.
TOTAL	€	<u>1,036,945,249</u>	<u>1,142,575,151</u>	

The above €1,142,575,151 Letters of Comfort and Bank Guarantees may translate into dues by Government should the companies call upon the Government to make good for their debts.

School Councils Fund

NAO noted that whilst the School Councils Fund features in the FR, it was not reported in the 2011 Financial Statements in accordance with Section 65(1)(b) of the Financial Administration and Audit Act, 1962.

Upon NAO enquiry, Treasury confirmed that over the past years, the Education Division did not provide the necessary details concerning the School Councils Funds on time, to allow its publication in the Financial Statements. With agreement with the said Ministry, with effect from Financial Year 2012, the necessary information will be provided to Treasury to allow its publication in the Financial Statements.

Concluding Remarks

In general, NAO is satisfied that documentation relative to the Statements were available upon request at Treasury. In addition, Treasury and MFEI staff were cooperative at all times during the conduct of the audit. Furthermore, NAO satisfactorily noted that most recommendations were acted upon, with corrective action being taken immediately, where possible.

Management Comments

The Treasury Department submitted the following comments:

Ministerial/Departmental Bank Accounts

With regards to the classification of resulting bank balances between National and European Union Funds, Treasury reiterated that as previously indicated in an email to NAO dated 15 June 2012, although the source of funding is a requirement that Ministries/Departments are obliged to indicate, there was never any agreement or discussion that Treasury would be publishing this information.

Addition in Other Investments

According to Treasury, the identification of Government's investment in the Malta Financial Services Authority in the FR, resulted from a thorough analysis of investments that was carried out during 2011. It was also confirmed that such process will be on an ongoing basis, with the possibility of other existing investments being included for the first time in the future.

Foreign Loans

In reply to NAO's comments concerning amendments to the original Payment by Draft, Management replied that this procedure exists across all Government Departments, and that NAO's recommendation cannot be implemented for the following reasons:

- i) The ultimate aim of adjusting the amounts is solely to tally cash book transactions with those effected at the bank, such that an adjustment of the difference would not add any value.
- ii) In the case of a negative difference, it would not be possible for officers to enter it in a separate line item.

As to the selling rates of exchange applied by the CBM Investments Section, Treasury verified with the latter that the rate quoted on the Debit Advice is the official rate assigned to effect the payment. This rate should be taken as correct since the Debit Advice on which the rate is quoted and applied, is in itself an official document by the bank.

Statement of Abandoned Claims, Cash Losses and Stores Written Off

Treasury stated that there is a point at which it exhausts all avenues in terms of applying pressure on Departments to comply with the relative Treasury Circular. Apart from action already taken by Treasury in cases of default, and the reporting of non-compliant Departments in the FR, no further stricter measures can be taken.

In reply to this last comment, NAO wishes to highlight the fact that none of the defaulting Departments featuring in this Report were reported upon in the FR.

The comments below were submitted by the Budget Affairs Division:

Excess of Expenditure over Estimates

The Ministry stated that on the strength of MFEI Circular No.2/2011, it has continued to impress upon line Ministries, the need for compilation of the Revised Estimates Statements, as based on the highlighted areas emerging through the variance analysis carried out by them. In some cases, the detection of variances assist line Ministries in identifying budgetary shortfalls, thus facilitating discussion, where necessary, and addressing overall budgetary performance with a view towards containment by year end.

Management also commented that, in other instances, favourable variances may be utilised to offset justified unfavourable variances occurring under other items within the relevant line Ministry's Vote. This practice would safeguard Government's overall fiscal position.

The Budget Affairs Division within MFEI shall continue to ensure that line Ministries comply with the Revised Estimates Statements reporting structure, as well as the adoption of variance analysis frameworks.



Corporate Issues

Arrears of Revenue 2011

Background

In terms of Article 49 (i) of the General Financial Regulations 1966, all officers charged with the supervision of the collection or other moneys due to the Government are required to submit an annual Arrears of Revenue Return (ARR), in duplicate, to the Accountant General, for transmission to the Auditor General. Treasury Circular No. 3/2012 also required officers to forward Returns, including 'Nil' Returns, " ... to their respective Director, Corporate Services/Director, Financial Management, who is to submit to the Treasury, Government Accounts Directorate, a consolidated statement showing the aggregate amounts of Arrears of Revenue pertaining to the departments and entities falling under the Ministry's portfolio, together with two copies of the individual departments' submissions."

All Returns were to reach Treasury by not later than 6 April 2012. As per the foregoing Circular, officers had to forward a copy of the Statement of Arrears to the Budget Affairs Division, Ministry of Finance, the Economy and Investment (MFEI).

Ministries and Departments are obliged to submit the position of Debtors on a quarterly basis, on specified templates, to be uploaded on the Accrual Accounting Financial Reporting System. In this regard, the same Circular also states that "Heads of Department are requested to **note the link** between this return and the end of year Debtors template sent to Treasury as part of the Accrual Accounting data transmission programme."

Submission of Returns

Details of Arrears of Revenue included in the Table on page 88 have been compiled only from Returns forwarded to the National Audit Office (NAO) by Treasury. The following Departments submitted 'Nil' Returns:

- House of Representatives

- Office of the Prime Minister (OPM)
 - o Public Service Commission
 - o Local Government
 - o Consumer and Competition
 - o Electoral Office

- Ministry for Gozo (MGOZ)
 - o Department Corporate Services

- Ministry for Infrastructure, Transport and Communications (MITC)
 - o Civil Registry
 - o Public Registry
- Ministry of Education, Employment and the Family
 - o Libraries
- Ministry of Finance, the Economy and Investment
 - o Public Lotto Department
 - o Economic Policy

Treasury published a list of defaulting Ministries/Departments in Part I of the Financial Report 2011. These entities failed to comply with the Circular in force. Defaulters are listed below:

- Office of the President
- Ministry of Foreign Affairs
- Ministry for Resources and Rural Affairs (MRRA)
- Ministry of Education, Employment and the Family
 - o Ministry
 - o Education
 - o Libraries
 - o Social Welfare Standards
- Ministry for Justice and Home Affairs
 - o Ministry
 - o Police
 - o Correctional Services
- Ministry for Health, the Elderly and Community Care (MHEC)
 - o Ministry
 - o Sir Paul Boffa Hospital
 - o Government Pharmaceuticals Services
 - o Elderly and Community Care

Notes and Comments on Arrears of Revenue

Office of the Prime Minister

The outstanding balance of €19,594 as at year-end is due from two individuals, one for breaching a Contract of Undertaking in 2007, thus owing the amount of €6,942, and a salary overpayment of €3,503 in 2010. In both cases, the amounts due are being gradually repaid. The remaining balance relates to the newly accrued arrears, made up as follows:

- €6,317, from an individual who failed to work the binding period stipulated in the study leave undertaking;
- €2,238 is to be reimbursed from an employee after failing to resume her duties to work the stipulated uninterrupted period of 6 months after availing herself of Maternity Leave; and
- €594 from an employee who did not fulfil her obligations related to the sponsorship of a Diploma in Public Administration, by the Centre for Development, Research and Training.

Armed Forces of Malta

The gross closing balance as at 31 December 2011, disclosed by the Armed Forces of Malta (AFM) can be analysed as follows:

	€
a) Patrol Craft Conveyance/Hire of Vehicles and Machinery	7,029
b) Explosive Ordnance Depot Charges	3,081
c) Security Duties	2,951,158
d) Helicopter and other Services rendered by the AFM	80,724
e) Refund of Wages	<u>4,149</u>
Total	3,046,141

Out of the €3,046,141 gross closing balance, the amount of €115,511 relates to dues that are considered as not possible to be recouped leaving a net collectable balance of €2,930,630. The net collectable amount is due as follows: €74,228 due from Government Departments, €229,458 from Government Entities, whilst the remaining balance of €2,626,944 is expected to be collected from individuals and/or private companies.

Ageing of Net Debtors

	€
Arrears outstanding equal to or less than one year (2011)	2,904,635
Arrears outstanding over one year but less than two years (2010)	19,631
Arrears outstanding over two years but less than five years (2007-2009)	6,265
Arrears outstanding over five years but less than ten years (2006)	<u>99</u>
Total	2,930,630

The amount of €17,057 has been declared as not due. Three claims amounting to €2,252 were cancelled and re-issued, whilst the remaining balance of €14,805 pertains to two claims, due from a foreign company, which were actually defrayed in 2010, by a set-off of payments.

Out of the €115,511 considered as provision for bad debts, the amount of €13,929 is under contestation. Part of this amount relates to two claims, amounting to €9,780, for security duties rendered at Posta Ltd. and the Malta Maritime Authority during 1997 and 2002 respectively. Posta Ltd. has been liquidated whilst the Malta Maritime Authority are stating that they did not request the service given by AFM. The remaining balance of €4,149 relating to overpaid wages have been contested by three ex-staff since 1994/1995.

Tourism

The gross closing balance of €1,567,225 due to the Department of Tourism and Culture is due as follows:

	€
Malta Tourism Authority – Ex-Hotels and Catering Establishment Board and Police Licence	1,286,180
Dues to Ex-White Rocks Complex	78,457
Dues Local Councils in respect of beach cleaning services	<u>202,588</u>
Total	1,567,225

From the gross outstanding amount at year-end, the total amount of €281,045 is being estimated as not collectable, leaving a net closing balance of €1,286,180, which relates to unpaid licences due from individuals to the Malta Tourism Authority, as analysed below.

Ageing Analysis

	€
Arrears outstanding equal to or less than one year (2011)	555,188
Arrears outstanding over one year but less than two years (2010)	267,398
Arrears outstanding over two years (2009 and prior)	<u>463,594</u>
Total	1,286,180

Malta Tourism Authority – Ex-Hotels and Catering Establishment Board and Police Licence

Out of the €1,282,157 due at the beginning of the year, the Malta Tourism Authority recouped the total sum of €439,080. An amount of €112,086, represents credit notes issued by the Authority, and hence they are being declared as not due.

Dues to Ex-White Rocks Complex

White Rocks Holiday Complex at *Baħar iċ-Ċagħaq*, have not operated for years. The amount of €78,457 has been due since pre-1995, and therefore they are being considered as non-recoverable. The writing-off approval to a number of debtors was obtained in 2012.

Dues from Local Councils for Beach Cleaning Services

The amount of €202,588, considered as not recoverable, is due from various Local Councils for Beach Cleaning Services carried out between 1995 and 1997. Although the respective invoices were raised and sent to Local Councils, these were never honoured. Writing-off approval was requested and obtained in 2012.

Tourism Department - Refund of Salaries

The amount of €7,144 owing from an ex-employee is being declared as not due after the Department of Corporate Services within the OPM has requested legal advice on the matter from the Attorney General's (AG) Office.

Department of Industrial and Employment Relations

The outstanding gross closing balance of €319,073 is all due from individuals in respect of outstanding repayment of loans under the 'Self Employed Loan Incentive Scheme', which was introduced in the 1989 Budget and was terminated at the end of 1992. The aim was to assist individuals to start up a business enterprise.

The amount of €72,505 is estimated as not collectable since according to the Department, the amounts are considered time-barred.

The net closing balance of €246,568 can be analysed as follows:

	€
Arrears outstanding over fifteen years but less than twenty years (1993-1996)	223,927
Arrears outstanding over ten years but less than fifteen years (1997-2001)	18,506
Arrears outstanding over five years but less than ten years (2002)	<u>4,135</u>
Total	246,568

Department of Information

The amount of net collectable arrears as at 31 December 2011, reported by the Information Department, is all due from Government Departments/Entities, €43,169 of which is in respect of Government Gazette Adverts.

The ageing of these debtors can be categorised as follows:

	€
Arrears outstanding equal to or less than one year (2011)	43,190
Arrears outstanding over one year but less than two years (2010)	4,788
Arrears outstanding over two years but less than five years (2007-2009)	<u>2,326</u>
Total	50,304

Government Printing Press

The net closing balance as at 31 December 2011, disclosed by the Government Printing Press is made up of:

	€
Revenue from Jobbing	263,658
Revolving Fund	<u>247,483</u>
Total	511,141

The amount of €469,826 from the net collectable balance is due from Government Departments, €40,815 from Government Entities, whilst the remaining balance of €500 is collectable from private entities.

This year, due to problems encountered with the Management Information System, the Government Printing Press were not in a position to furnish comprehensive details for the past arrears collected and the newly accrued amounts. Consequently, this Office could not carry out the necessary verifications on the net closing balance. A detailed report will be sent to NAO if the matter is rectified.

Ministry for Gozo

From the closing balance brought forward from previous year, the amount of €39,463, was collected from Local Councils for public cleansing in the locality. The remaining balance was collected from the Works and Agriculture Sections respectively as indicated further down.

For the second consecutive year, no revenue falling in arrears was collected by the Public Cleansing Section in respect of Waste Disposal. The outstanding balance with respect to this service stands at €149,030, of which €104,666 are due from individuals and private companies. It was stated that the matter is being discussed with the Arrears of Revenue Board and the Projects and Development Department, the latter being the entity previously in charge of Public Cleansing.

As at December 2011, the gross outstanding balance stood at €252,898. The Ministry's performance in debt collection can be analysed as follows:

Department	Opening Balance	Amount Collected	Percentage Collected	Outstanding Net Balance
	€	€	%	€
Public Cleansing – Local Councils	58,097	39,463	68	32,299
Public Cleansing – Waste Disposal	149,030	-	0	149,030
Works	49,426	6,695	13.5	42,731
Agriculture	28,355	1,304	4.6	28,838
Total	284,908	47,462	16.7	252,898

Ageing of the net collectable arrears:

	€
Amounts outstanding for over ten years but less than twenty years	95,677
Amounts outstanding for over five years but less than ten years	125,690
Amounts outstanding for over two years but less than five years	16,080
Amounts outstanding for over one year but less than two years	-
Amounts outstanding for less than one year	<u>15,451</u>
Total	252,898

Gozo General Hospital

Due to the shortcomings highlighted in last year's Annual Report, accuracy of the opening balance for 2011, which stands at €95,796 could not be ascertained since the necessary corrections, to address the shortcomings reported upon, were not reflected. Consequently, accuracy of the closing balance as at end 2011 could likewise not be ensured.

Although the closing outstanding arrears reported in this year's Return were substantiated by a report, showing all amounts due, this report does not include any reference to the actual invoice.

Past arrears collected during the year under review, as reported in the Return submitted, amounted to €6,643. However, following verifications it resulted that the actual amount collected amounts to €3,304. The difference of €3,339 relates to amounts due from foreigners covered by the European Health Entitlement Card, Certificate of Entitlement or Maltese Passport. Thus, such amounts should have been reported as not due.

Arrears newly accrued amount to €20,627, giving a gross amount of €109,780 as at end 2011, out of which only €54,483, *i.e.* 50%, is estimated to be collectable. The ageing of this gross balance is as follows:

Ageing of Debtors

	€
Arrears outstanding over ten years to fifteen years (1996-2001)	20,020
Arrears outstanding over five years but less than ten years (2002-2006)	28,786
Arrears outstanding over two years but less than five years (2007-2009)	29,163
Arrears outstanding over one year but less than two years (2010)	11,184
Arrears outstanding equal to or less than 1 year (2011)	<u>20,627</u>
Total	109,780

The following shortcomings, highlighted in last year's Audit Report still prevail:

- Patients can settle bills directly with the Health Division (HD) by paying at the Central Bank or through internet banking. In such cases, Gozo General Hospital (GGH) is not always informed by the Maltese authorities about these payments, resulting in GGH reporting overstated outstanding arrears when these have already been settled.
- Arrears outstanding may include amounts due from European Union (EU) residents who are entitled to free healthcare, but who have not yet presented the respective documentation. In some cases the forms submitted by the Health Centres, Emergency *etc.*, indicate only the E21 card number, without a photocopy of the actual card. In such cases, these amounts which are included, are not actually due.

Thus outstanding arrears are being overstated.

Further Issues arising from Verifications of Arrears of Revenue

Arrears of Revenue currently fall under the responsibility of the Almoner and Revenue Section within GGH. At present, a single officer is manning this Section. Besides the responsibility for the upkeep of records relating to bills and collection of revenue in arrears, this officer is also in charge of the following:

- Payments and money refunds related to Medical Aids.
- Deposits of patients' (residents) monies and distribution of cheques.
- Upkeep of records of belongings pertaining to newly admitted patients.
- Payments for medicine.
- Bank deposits.
- Providing monies at the request of patients (residents).
- Other administrative duties, including answering telephones and emails.

Consequently, there is no segregation of duties in the collection of revenue process, since the same officer is responsible for the issuing of bills, the upkeep of related records and the preparation of the return of arrears of revenue. This also involves many distractions during the day and may lead to unintentional errors remaining undetected.

It was also noted that there is no Electronic Point of Sale system at GGH, enabling people to settle outstanding dues instantly prior to leaving the hospital. This is triggering an administration fee chargeable by the bank to GGH every time a payment is effected by cheque.

Given the shortcomings indicated in this write-up, accuracy of the figures featuring in the return of arrears of revenue could not be ascertained.

Ministry for Infrastructure, Transport and Communications

The difference of €2,029,987 between the gross closing balance for the year 2009 and the 2010 opening balance represents Infrastructure Fees, which as from 2011 fell under the responsibility of the OPM.

The remaining gross closing balance of €425,178 as provided by the MITC is analysed as follows:

Operating Licences Fees	€ 248,078
Fees Rights of Use	<u>177,100</u>
Total	425,178

Upon NAO enquiry, MITC confirmed that the above-mentioned fees were settled in full during January 2012.

Land Transport Directorate

The gross/net closing balance of arrears amounting to €18,186,211, as reported in the 2011 ARR submitted by the Land Transport Directorate, consists of dues in respect of motor vehicle road and driving licences, as follows:

	€
Vehicle Licences	17,922,349
Driving Licences	<u>263,862</u>
Total	18,186,211

Both of these outstanding balances are due from individuals and private companies. It is to be noted that a 'Nil' balance was reported for both 'Past Arrears Written-Off' and 'Estimated Amount considered as not collectable.'

Vehicle licences can be further analysed as follows:

	€
Amounts outstanding for over five years (before 2007)	13,701,039
Amounts outstanding for over two years but less than five years (2009 - 2007)	2,703,403
Amounts outstanding for over one year but less than two years (2010)	705,529
Amounts outstanding for less than one year (2011)	<u>812,378</u>
Total	17,922,349

The Directorate did not provide the ageing analysis of the closing balance of €263,862 pertaining to driving licences, since the computerised live system in use does not allow the issue of a back-dated ageing report as at end of year 2011.

Collection efforts

Following a Cabinet Memo submitted by Transport Malta (TM), during last year's budget, a new Scheme entitled 'Arrears of Motor Vehicle Licence Fees (Regularisation)' was announced through Legal Notice 22/2012. Registered owners of motor vehicles, which have accumulated unpaid licences, may benefit from this Scheme until the end of year 2012. To this effect, TM has introduced a search facility on its website, whereby an individual may check whether there are any vehicles registered in his or her name, with unpaid licences for more than three months, by simply entering the Identity Card number.

The total amount of net collectable arrears relating to vehicle licences as at 31 December 2011, amounting to €17,922,349, related to 24,365 total unlicensed vehicles as at same date. In relation to the Regularisation Scheme, during the period from January to October 2012, TM sent 19,489 renewal letters to the owners of the unlicensed vehicles as at end 2011. Furthermore, TM officials stated that during the remaining two months of 2012, the Authority plans to send another 4,876 letters to the remaining owners. According to TM, 15% of vehicle owners notified so far, have regularised their position in line with the Scheme.

The balance of arrears relating to vehicle licences is increasing year after year. Even though, the number of vehicles on which arrears are due decreased (approximately 5% over year end 2010), the monetary value of such arrears has still increased. This was partly a consequence of the 2008 new rules, in which licence fees increase on a yearly basis, and partly because of individuals not willing or able to settle pending contraventions linked with their licence, thus prohibiting themselves from licensing their vehicle. TM is discussing any possible solutions with MFEI and the Department of Local Government.

In fact, out of the total balance of €18,186,211 of net collectable arrears as at 31 December 2011, an amount of €8,110,798, representing 45% of the total net collectable arrears as at the same date, is related to unlicensed vehicles with contraventions or 'Controlled Vehicular Access' charges. This implies that such vehicles are, or were being, used on the road. TM explained that to date, the majority of the owners of unlicensed vehicles with contraventions

did not participate in the Regularisation Scheme for the reasons explained above.

Recoverability of Driving Licences

With respect to driving licences due (amounting to €263,862 as at 31 December 2011), every year, TM sends a Renewal Form to each driver who has not paid his driving licence.

TM is currently reviewing the collectability of these arrears, since there exists the possibility that these are not recoverable or that they are being reported incorrectly. This matter is being discussed with their legal advisors, after which they will confer with MFEI.

Civil Aviation Directorate

The opening gross balance as reported in the ARR as at 1 January 2011 amounted to €576,940, of which a total of €111,965 was collected during the year. All newly accrued arrears for 2011, amounting to €39,119, relate to Miscellaneous Licences due from various companies and individuals.

The gross closing balance of €504,094 as reported by the Directorate is made up of:

Miscellaneous Licences	€ 78,651
Airport Tax	<u>425,443</u>
Total	504,094

Of this total amount, balances of €39,552 and €334,443 relating to Miscellaneous Licences and Airport Tax respectively, and totalling €373,995 are considered as not collectible. The net closing balance of Airport Tax amounting to €91,000 is to be continued to be collected by means of monthly instalments.

When requested to provide an ageing list of net arrears, the Directorate replied that since it forms part of TM, it is no longer compiling and forwarding to Treasury the Debtors Ageing List, on the basis that its systems have been integrated with the accounting system used by TM.

Television Licences Unit

The gross closing balance of €11,227,980 as at 31 December 2011 as provided by the Television Licensing Unit (TVLU), consists of outstanding television licences.

The initial ARR submitted was revised since NAO noted that the amount reported as opening gross arrears as at 1 January 2011, did not tally with the 2010 closing gross arrears balance submitted by TVLU in last year's Return.

As reported last year, TVLU did not provide 'Past Arrears Collected' and 'Newly Accrued Arrears' balances in the ARR. As a result, NAO was unable to cross-examine the balances of the 'Estimated Amount considered as not collectable' and 'Net collectable arrears' in the same Return. TVLU informed NAO that this omission was due to the fact, that such balances were not made available by the present accounting software, which does not reflect the changing requirements of the Treasury Department. In this regard, TVLU confirmed that they are still discussing the possibility of upgrading their system with the software developer so that the required reports could be generated.

Collection efforts

The last years have seen an overall dramatic increase of 81% in arrears, that have increased from €6.21 million in 2007 to €11.23 million in 2011. The Unit stated that they “...regularly sent out bills and reminders to licencees till the 31 December 2011. Since the beginning of 2012, following Government’s decision to abolish the TV licence, this unit has mailed a total of 46,362 reminders to defaulters of TV licences and called households regularly to encourage payment. Further action to cut down on arrears is currently being considered at Ministerial level.”

Net collectable arrears as at year end 2011

As at 31 December 2011, TVLU reported the amount of €6,736,788 as net collectable arrears, an ageing analysis of which could not be provided, since the computerised Television System does not generate this analysis.

Malta Communications Authority

The gross closing balance as at 31 December 2011 reported by the Malta Communications Authority (MCA) amounted to €5,291, consisting entirely of Numbering Fees pertaining to two operators. Whilst one operator, with a pending balance of €4,857, is settling such dues by means of monthly payments, MCA filed a judicial letter on 25 November 2011 to recover the balance due of €434 from the second operator.

This outstanding balance can be analysed as follows:

	€
Amounts outstanding for less than one year (2011)	1,395
Amounts outstanding for over one year but less than two years (2010)	<u>3,896</u>
Total	5,291

Arrears Written-Off

On 29 August 2011, MCA’s Board of Directors decided to write off the pending balance of €139,762, relating to Broadband Wireless Access Network dues owed by a private company for the period of October 2008 to October 2011. Following the liquidation of this company, the Authority was legally advised not to proceed against the company, since it was unlikely that these dues would be recovered.

Although MCA provided NAO with documentary evidence portraying that MFEI was informed of all proceedings relating to this case, it transpired that the necessary approval for write-off was not obtained from the latter in accordance with Article 80 of the General Financial Regulations.

Recommendation

It is recommended that the Authority adopts stricter measures to ensure compliance with requirements specified in the General Financial Regulations, with regards to write-offs.

Land Registry

The state of arrears of the Land Registry, currently falling under the Ministry for Home and Parliamentary Affairs, is being reported upon separately on page 264 of this Report.

Ministry for Resources and Rural Affairs

MRRA failed to meet the submission deadline of 6 April 2012 as per Treasury Circular No. 3/2012 since, the Return was submitted on 30 May 2012.

The 2011 Statement of Arrears of Revenue submitted by MRRA incorporates the following Revenue Categories and the net closing balance of €1,311,078 comprises:

	€
• Dues from Local Councils issued by Central District Department	81,705
• Dues from Local Councils issued by Cleansing Services Directorate	187,406
• Dues to Manufacturing and Services Department	36,090
• Dues to Aquaculture	232,048
• Dues for Plant Quarantine	1,989
• Dues for Fish Marketing Scheme	454,193
• Dues from Breach of Contracts, Damages, Maintenance and others	81,915
• Dues from Sundry Revenue, Director Corporate Services Salary, Loans Co-Operatives, Fisheries Loans (Prior amalgamation with MRRA)	1,681
• Dues to Salaries Section	18,143
• Dues to Veterinary Services	201,833
• Dues to the Paying Agency	<u>14,075</u>
Total	1,311,078

Ageing of Net Collectable Arrears at end of year, can be analysed as follows:

	€
Amounts outstanding equal or less than one year	759,494
Amounts outstanding over one year but less than two years	175,442
Amounts outstanding over two years but less than five years	259,953
Amounts outstanding over five years but less than ten years	95,665
Amounts outstanding over ten years but less than fifteen years	<u>20,524</u>
Total	1,311,078

2011 Testing

Past Arrears Written-Off

Dues to the Paying Agency

A total of €197,640 reported as 'Past Arrears Written-Off' were duly authorised, of which:

- Arrears collectively amounting to €196,249 resulted from past administrative errors within the Paying Agency whereby overpayments were made to beneficiaries. These errors were identified during financial year 2009/2010, following an EU Commission audit.
- The balance consisted of 379 individual cases all under €10 in aggregate amounting to €1,391 and deemed unfeasible to collect.

Amounts Not Due

Dues from Deposits of Waste and Rubble - Cleansing Services Directorate

Three amounts €958, €112 and €262, which were appropriately authorised to be written off, were erroneously reported as not due.

Dues to Salaries Section

No approval was provided to substantiate a salary overpayment of €5,122 reported as not due.

Collectable Arrears

Dues from Local Councils - Central Districts Office

Net collectable arrears totalled €81,705 of which arrears due by a particular Council collectively amounting to €81,378 (99.6%) have in their majority, been outstanding from the years 1996 to 1999. As at date of testing, court proceedings were still in progress.

Dues by Local Councils - Cleansing Services Directorate

Net collectable arrears reported amounted to €187,406 of which €46,968 (25%) relates to the years 2007 to 2010. From the latter amount, arrears amounting to €7,877 (17%) was collected during 2012 whilst, the outstanding balance consists of:

- €16,718 (36%) that is being recommended for write-off;
- €3,909 (8%) in respect of which discussions are being held to try and collect the amounts; and
- €18,464 (39%) for which, as at date of testing, no sentence has been made against an appeal that was lodged during 2010.

Dues to Manufacturing Services Department

Confirmation whether legal action was taken to recoup ten outstanding claims, collectively amounting to €6,603 (18%) from a total of €36,090 reported as collectable, was requested. However, as at date of testing no reply was submitted.

Estimated Not Collectable

Dues from Deposits of Waste and Rubble – Cleansing Services Directorate

The provision for bad debts amounting to €210,675 consists of arrears ranging between the years 1999 to 2004. A substantial amount of €187,273 (89%) is due by a cooperative, which is in the process of being liquidated.

Dues to Salaries Section

The amount of €13,745 was reported underestimated as not collectable; however, an amount of €4,747 (35%) was erroneously included, since the overpayment is being refunded by means of monthly salary deductions. With regard to another amount of €6,999, legal action is to be taken.

Dues to Manufacturing Services Department

Write-off approval is to be sought for four claims, collectively amounting to €6,810 (60%) out of a total of €11,311, included in the provision for bad debts.

Dues from Breach of Contracts, Damages, Maintenance and Others

Another amount of €22,437 has also been reported under estimated as not collectable. This consists of 10 claims ranging between €349 to €16,675. The arrears date back to the years 2003, 2004 and 2007 and the total for each year is €1,912, €16,674 and €3,851 respectively. Write-off approval is to be obtained since attempts to recover the arrears were unsuccessful.

Dues from Sundry Revenue, DCS Salary, Loans Co-Operatives, Fisheries Loans

Outstanding claims due to the Agriculture Department prior to the amalgamation of the two Ministries¹ amounted to €58,852. Since all past attempts to collect these amounts proved futile, write-off approval is to be sought by MRRA.

Dues to Pitkali Markets

The amount of €19,029 reported as not collectable consists of four claims ranging from €431 to €17,261. As at date of testing, court proceedings were still in progress.

2010 Follow-Up

Dues to Aquaculture

Notwithstanding that past arrears amounted to €146,919, none of which was collected during 2011, newly accrued arrears of €85,129 were reported. Therefore, total arrears as at 31 December 2011 due by the same Company, accumulated to €232,048.

This Office was informed that, arrears were not recovered "... due to the bad financial situation ..." but a schedule of payments would be provided.

Dues to Veterinary Services

An Agreement was signed on 4 February 2009, in respect of arrears amounting to €187,573, which were previously written off. The Agreement outlines repayment terms over a ten year period and during 2009, 2010 and 2011 the amounts collected were €7,000, €8,400 and €6,300 respectively.

Arrears as at 31 December 2011 and as at date of testing amounted to €165,874 and no further payments were made by the Company. It was confirmed that legal proceedings are to be initiated since various legal notifications were sent however to no avail.

Conclusion and Recommendations

It is of concern that in the case of 'Aquaculture' newly accrued arrears were reported whilst past arrears remained uncollected. This situation will have a snowball effect creating difficulty to recoup the outstanding amounts. In fact, a Statement provided indicated a balance due of €401,139 as at 23 July 2012. It is advisable to address this situation immediately.

¹ Ministry for Rural Affairs and the Environment and Ministry for Resources and Infrastructure.

With regard to the Paying Agency the amount written off had to be entirely borne from public funds since the amounts were repaid to the EU Commission by the "... *application of a financial correction* ...". Therefore, it is to be ensured that preventative measures are in place to avoid similar errors re-occurring in the future.

Attention is drawn to the aged debtors analysis and to the prevailing prescription legislation. In this respect, the Ministry is encouraged to conduct a comprehensive exercise in order to assess all outstanding dues and establish a realistic amount of net receivable debtors.

The amounts reported in ARR are to be thoroughly checked and any amendments carried out prior to submission. Furthermore, ARR must invariably be timely submitted, as per Treasury Circular deadline.

ARR for the year 2011 was not amended to reflect any of the above-mentioned audit issues.

Ministry of Education, Culture, Youth and Sport

Below is a sub-classification of the gross closing balance of arrears as reported by the Ministry of Education and Employment in its ARR as at 31 December 2011:

		€
Directorate for Educational Services	<i>Breach of Contract</i>	124,741
	<i>Overpayment in Salaries</i>	79,076
	<i>Running of Tuck-shops</i>	7,851
Ministry – Administration	<i>Salary Overpayment</i>	233
Examinations Department	<i>External Examinations</i>	4,765
Institute of Tourism Studies (ITS)	<i>B/L Running of ITS</i>	261,580
Maintenance Grants Section		
- Malta College of Arts, Science and Technology	<i>Stipends Overpayments</i>	40,003
- Junior College		7,115
- University		<u>124,185</u>
Total		649,549

Out of the €649,549 gross closing balance, only the amount of €2,729 is indicated as not collectable in the Return submitted by the Ministry. However, the ageing of debtors, as shown below, reveals that the amount of €113,902 has been due for over 10 years, while an additional €102,869 relates to dues outstanding between five and 10 years. Thus, as also indicated by the observations under this write-up, one can conclude that the provision for uncollectable amounts is highly understated.

	€
Arrears outstanding equal to or less than one year (2011)	196,782
Arrears outstanding over one year but less than two years (2010)	98,562
Arrears outstanding over two years but less than five years (2007-2009)	134,704
Arrears outstanding over five years but less than ten years (2002-2006)	102,869
Arrears outstanding over ten years but less than fifteen years (1997-2001)	42,832
Arrears outstanding over fifteen years but less than twenty years (1991-1996)	57,532
Arrears outstanding over twenty years (1972 -1990)	<u>13,538</u>
Total	646,819

Directorate for Educational Services

Arrears due to Government falling under the responsibility of the Directorate for Educational Services (DES) mainly arose from breach of contracts, overpaid salaries and revenue generated from the rent of Tuck-shops, the amount of which is still pending.

The €211,059 net closing balance, which is all due from individuals, is made up of:

- €124,740 relating to dues from six debtors in respect of breach of contract of employment;
- €78,468 overpaid salaries to a total of 61 individuals; and
- the amount of €7,851 due from two debtors for the rent of Tuck-shops.

Out of the net closing balance of €211,059, at the end of year, as presented by DES, the amount of €93,730, *i.e.* 44%, pertains to claims due for over five years. Out of this amount, €62,988 has been due for over 15 years.

Breach of Contract

Out of the amount of €124,740 due for breaching the Contract of Employment by six employees, only one is gradually paying the outstanding amount.

This Office noted that no progress was registered for several years for the amounts outstanding from the other five defaulters. Hence, the respective departmental files were requested for audit review, to follow what action and effort is being taken by DES to recoup the amounts due to Government.

One of the departmental files pertaining to a case of an individual, owing DES the amount of €11,941 together with €388 legal fees, since 1972, could not be traced and therefore it could not be reviewed for audit purposes.

An evaluation of the documentation held in the respective departmental files related to the amount due by each of the other four debtors revealed the following:

- Up until 19 June 2012, DES submitted continuous email communications to a debtor owing the sum of €36,599 since 2007, reminding the latter of her dues. Legal action was also to be instituted against her since she failed to reach an agreement on how she intended to refund the amount outstanding. However, to date no legal action has been taken against this defaulter and the amount in question can be classified as being statute-barred.
- The last communication sent by the Directorate to a debtor, owing the amount of €33,573, dates back to 6 November 2006. No further reminders were submitted by DES to this defaulter, making the respective amount very unlikely to be recouped as a judicial letter was never sent.
- The case of another defaulter, owing the amount of €29,264 since 1995, was referred to the AG in June 1997. The last official judicial letter was filed at the First Hall of the Law Courts, on 2 February 1999. No further documentation could be traced in the relevant file. In the circumstances, the amount may also be considered as statute-barred.
- Through minutes filed, it was observed that a debtor owed the amount of €6,488 since 1993. However, no action whatsoever has ever been taken for the recoupment of the amount due. During the period 1995 until 1998, NAO enquired on several occasions, for any updates and progress on the matter which queries remained unanswered. Furthermore, in an undated office note (presumably between April 2004 and February 2005, the latter being the date of the last minute recorded in file), the Directorate's legal officer stated that "... *it was very interesting how this case managed to be kept in abeyance for such a long time*".

The latter three individuals had hypothecated all their property, up to the owed sum in warranty, to follow a period of paid study leave, under the condition that they shall serve the Government of Malta a stipulated number of years. Legal advice was sought from a senior lawyer at AG's office in August 2008, and subsequent reminders were submitted up until April 2009. However no official replies could be traced in the respective files.

Following NAO queries, in a correspondence dated 23 August 2012, DES informed the NAO that these five debtors owing the total sum of €118,253 left this country and never returned.

Management stated that in all the above cases, the Customs officers were informed to signal their presence on arrival to Malta. However, the latter never informed DES whether any of the debtors have ever returned to Malta.

The Directorate also stated that the AG's Office was approached for legal advice with regards to the general hypothec, signed by all the above on entering the Agreement, but the latter informed them that "*... a general hypothec cannot be called in such cases*".

Salary Overpayments

During 2011, DES collected the total sum of €20,728, out of the amount of €80,026 due at the beginning of the year.

The amount of €1,190 (which according to the Gozo Salaries' Section and also the Treasury Department was slightly overstated), owed by a debtor since 2001, has been declared as not due. The latter had instructed the Salaries' Section to deduct the amount due from the salary of the foregoing officer by means of 15 monthly instalments way back during 2001/2002.

Two other amounts of €304 each, due since 2006, by two individuals, are being featured under the column 'Estimated as not Collectable'. The respective department files, were not traced and it was also claimed that "*... the two persons were never employed by the Education Division.*"

At year-end, the total number of net outstanding debtors stood at 66 with an aggregate amount of €78,468. However, only 13 cases were referred to AG's office for legal action to be taken against these defaulters. DES is only sending letters as a reminder to all the outstanding debtors, risking the amounts to become statute-barred.

Rent of School Tuck-shops

The amount of €7,851 is due from two debtors with respect to rent of Tuck-shops.

Following a Court decision, handed on 23 January 2008 by the Court of Magistrates, one of the debtors was ordered to pay the Directorate the amount of €2,168. However, up to the time of audit, over four years later, the Directorate did not take further action to recoup the money due from this individual.

Following NAO enquiries, DES took immediate action by seeking legal advice from the Directorate's legal officer. Correspondence dated 22 August 2012 from the latter stated that "*... a Court judgment constitutes an executive title and the creditor has the right to enforce this judgment through appropriate warrants. The creditor has 10 years to enforce this executive title therefore in the case in hand, the Ministry is still on time to recoup the money owed*".

The legal officer advised, that in this case, the Directorate is to send a final legal letter to the defaulter asking her to pay the sum due and if no payment is received within a week, it was recommended to proceed immediately with an executive Garnishee Order.

With respect to the second defaulter who dishonoured a contract to operate a school tuck-shop, this Office noted that the relevant departmental file has been at AG's Office since April 2009. Proceedings were initiated by the latter on behalf of the Education, by means of a Judicial Letter filed on 22 May 1996 against the debtor, claiming the amount

of €5,640. This amount represents the payment of rent for the scholastic year 1990/1991. The judicial letter was not contested and thus it became an executive title, permitting the AG to file a Warrant of Seizure to claim the amount due.

The debtor subsequently challenged the Warrant in Court but the latter confirmed the executive title and AG proceeded to further legal action, by filing an application for a Judicial Sales by auction to take place. However, the Judicial Sales did not materialise since the Department failed to provide transport on the two occasions when the Sales had to take place.

Furthermore, complete documentation on the case could not be traced by the legal officer in charge, to establish the outcome from the auction sale by the Court.

Meanwhile, the ten-year period provided by law for an executive title to be materialised, elapsed. Hence, DES authorised the AG's Office to issue a fresh application requesting the Court to reactivate the executive title. Once this application is decreed in Court, AG's office can then proceed to file a Garnishee Order against the defaulter.

Examinations Department

The amount of €5,130, reported as outstanding at the end of year 2010, was settled during 2011. The gross closing balance for 2011 of €4,764 relates to newly accrued arrears outstanding from overseas educational establishments.

Institute of Tourism Studies

During 2011, out of the €304,108 due at the beginning of the year, the amount of €185,190 was collected. The Value Added Tax (VAT) Department, being the major debtor for several years, refunded ITS an aggregate amount of €174,649.

The total amount of €143,133 out of €261,580, pending at year-end, *i.e.* 55%, relates to arrears newly accrued in 2011. From the closing balance, the amount of €224,114 is due from Government Departments, €37,230 is due from individuals and the remaining from a Government-owned entity.

Amounts due from individuals can be classified as follows:

- €29,681 relates to stipends due by students who resigned from their studies way back between 1995 and 2007.
- ITS indicated that a writing off approval for these amounts will be requested by year ending 2012 since it is not feasible to chase these defaulters due to the amounts now becoming statute-barred.
- €2,715 is still due from various suppliers and emails are being sent to remind them of their outstanding amounts.
- €1,050 is owed from a private company, against which ITS initiated a Court case to try and recoup the amount due.
- The remaining balance of €3,784 has been recouped by ITS, up till August 2012.

Maintenance Grant Section

Junior College and Higher Secondary

The original return, relating to Maintenance Grants overpaid to Junior College and Higher Secondary students, was not accurate. It transpired that the opening balance for 2011 was understated when compared to the closing balance for the previous year. This was mainly due to the inadvertent omission of several debtors who in fact settled their dues in 2011. An amended Statement of Arrears of Revenue for 2011 was requested and re-submitted.

During 2011, out of the 19 students owing an aggregate amount of €6,296 at the beginning of the year, only five students refunded the total amount of €697 between them.

Malta College of Arts, Science and Technology

The Return initially submitted by MCAST was not correct. The opening balance for year 2011 was overstated by €29,320 when compared with the closing balance of the prior year. In the opening balance, MCAST erroneously also included all the refunds that were due from the students for year 2011, comprising both uncollected as well as paid amounts by year-end. A new Return was requested and re-submitted to this Office with the necessary adjustments.

University

Once again, various shortcomings similar to previous year were noted in the Return of arrears presented by the University's Stipends Office. Since the same errors prevailed, the balances disclosed in the report, and which are being published as submitted by the latter, are not considered reliable. These anomalies have been consistently reported upon in previous Annual Audit Reports of the Auditor General.

Some of the discrepancies noted include:

- a) Statement of Arrears of Revenue submitted is not as per template referred to in Treasury Circular No. 3/2012. The Return submitted does not include the column indicating the 'Amounts under contestation'.
- b) The opening balance for the year is understated by €3,498 when compared to the closing balance illustrated in the Return for the previous year. The difference is made up of various unexplained errors.
- c) Under the newly accrued column, amounts already collected during the year are also included, instead of being netted off against the respective payments.
- d) Most of the balances, shown under newly accrued during 2011, are already considered as not due. It was claimed that this is a result of a number of students following a new alternative course at the University of Malta.

Social Security Benefits

Breakdown of the closing balance

The closing balance of €13,903,453 is made up of the following:

	€
a) Social Assistance/Unemployment Assistance	7,748,870
b) Non-Contributory Pension/Handicapped Pension/Age Allowance	1,175,764
c) Sickness Assistance	724,541
d) Unemployment Benefit/Marriage Grant/Injury Benefit	170,825
e) Children Allowance/Maternity Benefit	1,318,995
f) Supplementary Assistance	274,715
g) Pensions	2,485,879
h) Miscellaneous	3,864
Total	13,903,453

An ageing analysis of the closing balance, amounting to €13,903,453, revealed that:

- €3,516,896 (25%) reflects newly accrued arrears;
- €5,142,846 (37%) represents balances due for more than one year but less than two years;
- €3,016,510 (22%) are amounts from three to five years old; and
- the remaining balance of €2,227,201 (16%) reflects balances due for more than five and up to 37 years.

Past Arrears Collected

Past Arrears Collected were made up of 7,463 claimants from whom an amount of €2,105,039 was collected during 2011. Fifteen claimants who refunded the most material amounts during 2011 were selected for testing. The collective amounts paid by the sampled claimants amounted to €103,656 which is equivalent to 5% of the total amount collected included in the Return.

The amount collected according to Social Assistance and Benefits System differed from the amounts included in the Return of arrears for seven claimants out of 15. These discrepancies, which varied from -€140 to €2,781, amounted in total to €4,351.

Testing of amounts collected also revealed that a claimant who was awarded social benefits under '*Pensjoni tal-Wens*' for taking care of a wheelchair-bound father, continued to receive the pension until 2010, even though the patient had passed away in 2007. This created an overpayment of €14,929 which was partly set-off when the same person was awarded backdated assistance, as in the meantime, the latter was taking care of her mother.

Amounts Written Off

All amounts over €1,000 under Past Arrears Written-off during 2011 were tested. These consisted of 47 entries, which collectively amounted to €66,027, out of total write-offs of €396,810 included in the Return.

The following weaknesses were noted with respect to these write-offs:

- No approval for write-off was made available in seven instances, in aggregate amounting to €16,134 and making up 24% of the amount tested.
- In two instances, the approved write-off was less than the pending overpayment in the personal file. During testing, it also transpired that in one of these instances, although an amount of €1,187 was written off on the

basis that the person was deceased, the same claimant was still in receipt of benefits as the date of death was not recorded. NAO is informed that Department of Social Security (DSS) has taken corrective action to reverse this write-off.

- An overpayment erroneously recorded as €1,054, instead of €975, was written off. This amount was actually collected way back in the year 2000 from the spouse's pension and thus should have not been included with the list of write-offs.
- Amounts written off relating to 30 from the sample of 47 claimants, and amounting in total to €39,696, could not be confirmed to personal files as these were destroyed.
- No evidence of any overpayment was traced in claimant's personal file in one instance involving a write-off of €1,091. As a result, the validity of such write-off could not be confirmed.

Newly Accrued

An amount of €3,516,897 which was due from 9,409 claimants was recorded as newly accrued arrears in the Return. Fifteen claimants, making up a total of €184,501 were selected for testing to determine whether the amounts can be confirmed to evidence in personal files and on the Social Assistance and Benefits System.

The attention of NAO was particularly drawn to two cases listed below whose recoverability was deemed remote:

- An overpayment of €39,780 was being repaid at the rate of 5% of DSS payments receivable, even though it resulted from non-disclosure or misrepresentation of a material fact by the claimant. Article 102 (1)(i) of the Social Security Act stipulates that in this case, the rate of recovery should not be less than 10%. When NAO remarked that it will take 139 years to recoup the full amount from this individual, DSS noted that the repayment rate is to be increased up to 10%, as a higher repayment rate was not warranted due to hardship.
- In another case, NAO noted that it will take DSS 61 years to recoup an overpayment of €14,507 from a claimant who was already 68 years old. The overpayment was created when information submitted by the claimant was overlooked by DSS during the assessment. The Department quoted Article 102 (1)(ii) of the Social Security Act which stipulates a repayment rate of 5% in similar circumstances.

Aged Debtors

Debtors which have been due for more than one year amounted to €10,386,557. A sample of 15 overpayments collectively amounting to €161,040 was selected in order to assess the recoverability of amounts due. The following shortcomings resulted from audit testing:

- Failure by a claimant to declare the receipt of a service pension in 1978, resulted in an overpayment amounting to €11,488, when this matter was brought to DSS attention in 1997. Repayments stopped when the claimant passed away, *i.e.*, in the year 2000, resulting in a pending balance of €9,519. Upon NAO's enquiry, DSS confirmed that the amount is prescribed and that it will be eventually referred for write-off.
- Pension payments in respect of a claimant who passed away in 1999 continued until February 2002. This overpayment remained pending even though DSS requested the bank to withhold the resulting overpayment of €10,660 prior to liquidation of assets of this individual. DSS also confirmed that this amount is prescribed.
- No repayments were being made with respect to an overpayment amounting to €39,566. The Department claimed that although there were various communications with the claimant, the latter declared that she cannot effect any repayments due to financial problems.

- An overpayment of €37,638 which was being repaid at 5%, would have taken 140 years to be recouped. Upon enquiry, DSS noted that due to the limited financial assistance given to the claimant, the repayment rate can only be increased to 10%.
- 25% of the value to the sample tested, equivalent to an amount of €40,905, is considered as prescribed by the Department. However, such amount is still included in the ARR as recoverable.

Estimated Amount considered not collectable

DSS reported a 'Nil' balance in the Return of arrears for 'Estimated Amount considered as not collectable' despite clear indication from audit testing that there are unrecoverable amounts.

Amounts under Contestation

Treasury Circular No. 3/2012 requires the separate identification and reporting of arrears under contestation. However, the ARR contains a 'Nil' balance in the respective column as these amounts could not be quantified by the Department.

Discrepancy between the Return of Arrears and Debtors' Template

A difference of €485 resulted between the outstanding amount as per Debtors' Template and outstanding arrears included in the Return. The Department attributed this discrepancy to the fact that the Return includes entries, both with respect to amounts still due and write-offs, which were excluded from the Debtors' Template. Remedial action was being taken by DSS to prevent discrepancies in next year's submission of the ARR.

Adherence with MFEI Circular No. 8/2010

In view of MFEI Circular No. 8/2010, DSS prepared a strategic plan specifying the action which would lead to an anticipated 10% reduction of the 2011 opening balance. However, this target was not achieved, as the arrears of revenue closing balance increased by 5% during 2011 instead.

Notification Letter

During an audit carried out on the preceding financial year, NAO reported that claimants who were overpaid, were informed by DSS of such overpayments through notifications sent by post. This document notified the claimant that the amount in question will be deducted from current and future DSS payments, but did not specifically request a refund for the amount overpaid. In view of this, the Department was recommended to re-draft the overpayment notification to include a specific request for the claimant to visit the respective area office and effect the necessary arrangements for the repayment of the amount due. Although this recommendation was accepted by DSS, the notification letter was still in the process of being amended as at end of June 2012. The reluctance to take timely corrective action confirms the leniency on DSS' part to recoup overpaid amounts.

Conclusion and Recommendations

Overpayments mainly arise from incorrect or inaccurate declarations made by claimants, failure to report changes in circumstances by beneficiaries, or errors made during the assessment. The newly accrued amount (including adjustments upwards) of €3,516,897, which represents 25.3% of the net collectable arrears as at 31 December 2011, is a cause for concern.

Particular attention is necessary during the assessment and review of each application received. It is to be ensured that all sources of information available to DSS are checked thoroughly to corroborate information provided by the claimant prior to the award of any benefit, assistance or pension. Although this will not completely eliminate the

incidence of inaccuracies and the eventual creation of new overpayments, it will improve the level of control.

NAO reiterates the need for the notification letters to include a specific request for the refund of overpayments. Whilst this will not necessarily result in claimants paying instantly, it will at least make them aware that overpaid amounts are expected to be repaid within an agreed period of time.

DSS may consider new methods to enforce its debt collection. Files relating to overpayments should be followed-up periodically and timely action taken to avoid amounts due from becoming irrecoverable.

The incidence of prescribed overpaid amounts included in the ARR as still due merits particular attention. Additionally, although other amounts were not prescribed in terms of standing regulations, their recoverability is remote. In view of these facts, DSS is recommended to conduct a comprehensive exercise to assess all overpayments and to determine a realistic amount of net receivable debtors.

The Department is to ensure that the Return of arrears is compiled in accordance with the prevailing Circular, thus including information with respect to amounts considered as not collectable and also those under contestation. It is to be further ascertained that there are no discrepancies between the Return and the Debtor's Template.

The Return of arrears for the year 2011 was not amended to reflect any of the above mentioned audit issues.

Ministry of Finance, the Economy and Investment

The gross closing balance as at 31 December 2011, as provided by MFEL, consists of:

	€
Quality Assurance Unit	3,831
Miscellaneous Reimbursements	967
Salaries	<u>7,540</u>
Total	12,338

With no provision for bad debts being reported, an analysis of the net collectable arrears is as follows:

	€
Amounts outstanding for less than one year	9,268
Amounts outstanding for over one year but less than two years	<u>3,070</u>
Total	12,338

Lotteries and Gaming Authority

The gross closing balance of €868,104 as at 31 December 2011, as provided by the Lotteries and Gaming Authority, consists of outstanding taxes and licences.

From the newly accrued amount of €668,056, a balance of €190,978 was reported as being not collectable. The total 'Estimated amount considered as not collectable' of €346,769 is being followed-up by the Tax Defaulters Committee, which has established procedures on how to address licencees with pending dues with the Authority.

In the event that arrears are not settled, the matter is referred to the Enforcement Management Directorate. Following the issue of an enforcement letter, the Directorate will issue a fine with compound interest on all dues, and if necessary, suspend or cancel the licence in question. The Lotteries and Gaming Authority also stated that such defaulters are being acted upon by the Legal Affairs Directorate, in collaboration with the Police. In fact, according to the Authority, as at 24 September 2012, the Net collectable Arrears figure of €521,335 had been reduced to €155,769.

An amount of €69,881 was written off during the year. Upon enquiry, the Authority provided an extract of minutes from the Board Meeting approving such write-off. However, no Ministerial approval of this write-off was provided to NAO.

Treasury Department, Salaries and Pensions Section

An initial comparison between the gross closing balance as declared in the 2011 ARR submitted by Treasury, as against figures reported by same in the Debtors' List, resulted in an overall discrepancy of over €3 million. The Department later confirmed that the majority of this difference was due to the inclusion of accruals that had not yet been invoiced to Entities. In view of this, an amended ARR was forwarded to NAO on 9 October 2012.

The gross closing balance as at 31 December 2011, as provided by the Treasury Department, Salaries and Pensions Section, in its revised 2011 ARR, consists of:

	€
a) Pension Claims from Public Entities	21,613,527
b) Overpayment to Pensioners	23,817
c) Refunds of Deceased Pensioners	<u>4,248</u>
Total	21,641,592

The Department was not in a position to provide a detailed ageing analysis of the outstanding arrears. In addition, no estimation of arrears considered as not collectable was reported in the Return.

It is to be noted that during the year, a balance of €8,525,633 was collected, representing 30% of the opening balance of arrears as at 1 January 2011. Notwithstanding this, Management commented that although few Entities settle in time, others are reluctant to pay their dues, leading to pending amounts accumulating over each period.

Inland Revenue Department

The gross closing balance as reported, by the Inland Revenue Department (IRD) in its ARR ending 31 December 2011 consisting of income tax arrears totalling €546,925,699, is classified as follows:

	€
Pre '99 System (Up to Year of Assessment 1998)	185,277,617
Self-Assessment System (Post Year of Assessment 1998)	<u>361,648,082</u>
Total	546,925,699

Out of this total, the amount of €446,804,440, *i.e.* nearly 82%, was considered as not collectable, thus resulting in net collectable arrears pertaining to Pre '99 and Self-Assessment System of €27,791,643 and €72,329,616 respectively. IRD confirmed that these figures were arrived at by multiplying aged closing balances with an arbitrary percentage. In the case of Pre '99 balances, an overall collectability of 15% was taken, in view of the difficult task of preparing an ageing analysis of the final balance.

Arrears Written-off

Although an amount of €261,105 was declared as written off in the Return, the Department later stated that the relative write-off of amounts totalling €114,717 "*...was reversed a few days after it was posted.*" On the other hand, the necessary approval from the Permanent Secretary, authorising the write-off of balances amounting to €115,428, was dated 26 October 2012. The remaining balance of €30,960 was correctly traced to the respective approvals.

Ageing Analysis

IRD provided an ageing analysis of net collectable arrears reported as at December 2011 relating to the Self-Assessment System. However, this analysis did not tally with the amount reported in the ARR submitted by IRD, by €75,759. As a result, this Office was unable to include in this Report, an appropriate ageing list of the net closing balance of arrears reported in the respective Return. As already stated above, the Department was not in a position to provide an ageing list of the net collectable arrears of revenue pertaining to the Pre '99 System.

Debtors' Template

The amount of €726,573,853 recorded on the Debtors' Template for the year ending 31 December 2011 as submitted by IRD, could not be tallied with the gross arrears' figures reported by the latter, due to undeclared amounts pertaining to Social Security Contributions. As reported in previous Annual Audit Reports of the Auditor General, the situation of IRD's failure to report its arrears of Social Security Contributions still prevails, although these are accounted for in the Department's Debtors' List. This template also includes debtors reported by the Capital Transfer Duty (CTD) Department.

Capital Transfer Duty Department

The gross closing balance as reported by CTD in its ARR ending 31 December 2011 consists of:

	€
Duty on Documents	28,114,882
Death and Donation	<u>4,795,464</u>
Total	32,910,346

As reported in previous Annual Audit Reports, differences were noted between Duty on Documents figures quoted in the CTD's Return of arrears, vis-à-vis figures as per breakdowns of arrears submitted by same. These mostly consisted of differences in opening balances, collected arrears and amounts not due, which however resulted into an immaterial discrepancy in the gross and net balances, since such differences were compensating in amount.

Out of the €32,910,346 gross closing balance, the amount of €21,629,438 was considered as not collectable, thus resulting in net collectable arrears pertaining to Duty on Documents and Death and Donation of €8,467,962 and €2,812,946 respectively.

These outstanding balances, being due from individuals and private companies, can be analysed as follows:

Duty on Documents

	€
Amounts outstanding for over twenty years (before 1992)	4,115
Amounts outstanding for over ten years but less than twenty years (2001 - 1992)	3,274,670
Amounts outstanding for over five years but less than ten years (2006 - 2002)	1,954,591
Amounts outstanding for over two years but less than five years (2009 - 2007)	1,008,856
Amounts outstanding for over one year but less than two years (2010)	457,629
Amounts outstanding for less than one year (2011)	<u>1,768,101</u>
Total	8,467,962

Death and Donation Duties

	€
Amounts outstanding for over twenty years (before 1992)	269,910
Amounts outstanding for over ten years but less than twenty years (2001 - 1992)	1,974,043
Amounts outstanding for over five years but less than ten years (2006 - 2002)	541,188
Amounts outstanding for over two years but less than five years (2009 - 2007)	7,539
Amounts outstanding for over one year but less than two years (2010)	653
Amounts outstanding for less than one year (2011)	<u>19,613</u>
Total	2,812,946

Customs Department

The net closing balance of arrears, amounting to €10,050,431, as provided by the Customs Department, is analysed as follows:

	€
a) Import and Export Duties	9,438,977
b) Licences, Taxes and Fines	65,727
c) Fees of Office	2,407
d) Reimbursements	<u>543,320</u>
Total	10,050,431

The above closing balance of Import and Export Duties, excludes the figure of €12,406,292 which was not yet due as at 31 December 2011. On the other hand, the reported amount of €65,727 due from Licences, Taxes and Fines are collectable by the Department following a Court sentence in favour of the latter.

According to Customs, amounts of €7,094,477 and €31,630 relating to Duties and Reimbursements respectively, were declared as being contested in the Courts. Notwithstanding this, the Department was again this year, unable to carry out an assessment of the collectability of such Duties/Reimbursements, thereby leading to a 'Nil' balance being reported as estimated not collectable.

Further enquiry revealed that during 2011, a total amount of €247,576, pertaining to services rendered by Customs officials, was settled by three companies under protest. This amount will have to be reimbursed by the Department if the Courts rule in favour of the companies concerned.

Finally, it is to be noted that the Customs Department was unable to provide an ageing list of the net collectable arrears of revenue reported as at December 2011.

Value Added Tax Department

The following is a sub-classification of the gross closing balance of arrears as reported by the VAT Department in its ARR for the year ending 2011:

	€
a) VAT (1998)	537,412,238
b) VAT (1995)	15,839,668
c) Customs and Excise Tax	7,360,427
d) ECO Contribution	6,210,428
e) Refund to Govt. on stocks – 1997	<u>620,381</u>
Total	567,443,142

Breakdowns of the reported figures in the 2011 ARR, as submitted by the VAT Department, were checked and tallied against the amounts recorded in the Return, except for an immaterial difference of €1,000 in the VAT 99 'Newly Accrued Arrears' figure.

Past Arrears Written-Off

Following an examination of declared write-offs amounting to €197,175, it resulted that the majority of these consisted of four MFEI approvals amounting to €189,417.

It transpired that one of these approvals, pertaining to a particular taxpayer, for a total of €144,537, was not entirely written off, since according to the Department, *'...the taxpayer in question had effected payments and submitted returns in a credit position between the date of request for write-off and the date of the write-off itself. Had the Department written-off the requested figure (EUR 144,537), the taxpayer would have ended up in a credit position – it is the Department's policy to avoid such circumstances.'*

On the other hand, the VAT Department wrote off a balance of €48,342, even though only an amount of €39,863 was covered by MFEI approval. To this effect, the Department stated that *'... the request regarded the waive-off of interest accrued after the demise of the taxpayer. The request was made on 22/12/2010 and the write-offs were made in December 2011 and therefore interest kept on accruing and therefore in principle this should have been waived-off.'*

After considering the above cases, write-offs approved by the Director General (VAT), in accordance with Financial Regulations, totalled €8,497.

Analysis of Net Collectable Arrears

When requested an analysis of outstanding balances, the VAT Department confirmed that notwithstanding attempts to obtain an ageing analysis through its Analysis and Control Unit and Information Technology Section, no solution could be provided.

Recommendation

During the compilation of future ARRs, it is important that accrued interest on balances that are later provided with a write-off approval by MFEI, should be classified as 'not due' in the relative Return.

Department of Contracts

The original ARR submitted by the Department of Contracts as at 31 December 2011, showed an outstanding gross closing balance of €376,069, pertaining to outstanding penalties and damages by contractors, which are being acted upon by the AG.

Following NAO queries, the ARR was revised and eventually re-submitted to NAO on 3 October 2012. The revised gross closing balance as at 31 December 2011 amounted to €346,417. The major difference between the closing balance for the year 2010 and the opening balance for 2011, represents an amount of €2,950 which was erroneously omitted from the revised 2011 ARR. Notwithstanding this, by means of an official letter by the AG, this balance was revised by means of additional legal expenses and interest, as reported under 'Newly Accrued Arrears', leading to a correct closing balance of all dues by the related contractor. In fact, the reported figure of €39,218 as newly accrued for 2011, consists of similar revisions to outstanding balances of three contractors.

The total amount of €65,925 collected during the year under review, was recouped from a contractor following a garnishee order onto local banks, leading to two deposits totalling €1,867 being made, as well as a performance guarantee of €64,058 in favour of the Department.

Whilst efforts are still underway to collect dues from a Court case decided in favour of the Department for the amount of €11,236, a balance of €105,865 due from another contractor, was reported as being under contestation in the ARR, since the case is still under appeal. On the other hand, no information could be provided by the Department regarding a contested balance in the ARR, amounting to €20,510.

An amount of €59,748 was again considered as not collectable, leading to a net closing balance of €286,669, which is analysed as follows:

	€
Amounts outstanding for less than one year	125,196
Amounts outstanding for over two years but less than five years	13,922
Amounts outstanding for over five years but less than ten years	11,236
Amounts outstanding for over ten years but less than twenty years	<u>9,940</u>
Total	160,294

The Department could not provide the ageing of an amount of €126,375 pertaining to two separate contractors, both of which were reported as being under contestation as at 31 December 2011.

Government Property Department

The gross/net closing balance as at 31 December 2011, as provided by the Government Property Department (GPD), amounted to €25,696,353, resulting in a considerable increase over last year's figures of approximately €9.5 million. The 2011 ARR was generated from the Department's new Tenants' Ledger, following a data migration from previous electronic records. GPD stated that previous ARRs were compiled using balances from different sources selectively.

Difference between the 2010 Gross Closing Balance and the 2011 Opening Balance of Arrears

The opening balance as disclosed in the 2011 ARR, did not reconcile with the closing balance in the ARR for the year ended 31 December 2010, by an amount of €12,602,936. According to GPD, this difference consisted of '*... adjustments and inclusions of previously unreported balances arising from the migration to the new LEMIS computer system.*'

Details of the Revenue Heads that were excluded from previous years' ARRs, amounting to €11,704,386, consisted of the following:

- a) *Government Departments*: €11,174,747 – Rent of Government property held by various Government Departments.
- b) *Ex-Church Property*: €154,294 – Rent of Ex-Church properties which were transferred to Government in terms of the 1992 Church State Agreement and administered by Joint Office.
- c) *Miscellaneous Below the Line Accounts*: €266,038 – Various below the line accounts representing income collected by GPD on behalf of other entities, such as the Housing Authority, *Kunsill Malti għall-Ispirt, Fondazzjoni San Ġwann* and Trust Funds.
- d) *Others*: €109,307 - Debtor balances in the Tenants Ledger associated with other Revenue Heads.

The remaining balance of €898,550 pertained to other adjustments to already existing Revenue Heads between closing balances of 2010 and 2011 opening balances.

Newly Accrued Arrears

A negative balance of €2,630,469 was noted in the 'Newly Accrued Arrears plus Adjustments' column in the ARR.

This was substantially made up of two incorrect credit balances in the Tenants' Ledger as at 31 December 2010, which the Department will be clearing in 2012.

Difference between the Arrears of Revenue Return and the Debtors' Template

A difference of €6,894,787 was noted between the closing balance as reported in the 2011 ARR (€25,696,353) and the Debtors' Template report (€18,801,566). After requesting further clarification, GPD explained that according to their re-workings, the net collectable arrears as reported in the 2011 ARR, should be increased by €3,690,871, to a new balance of €29,387,224. This adjustment was mainly effected to exclude credit closing balances in the Debtors' ledger amounting to €3,338,447. The Department further stated that, *"These arise from payments by tenants in advance, although there are some creditor balances inherited from LMS (old software) historic dataset that need to be investigated and may be written off."*

The Department also confirmed that the balance of €18,801,566 in the Debtors' Template ought to be revised upwards by €10,555,021, consisting mostly of revenue due from Government Departments amounting to €10,143,689, previously omitted from the original Debtor's Template. Notwithstanding the increase in the Debtors' list to €29,356,587, this balance is still €30,637 less than the adjusted balance of Net Collectible Arrears as reported in the ARR of €29,387,224. To this effect, GPD explained that, *"Separate LEMIS routines are used to produce the two reports in question, output may differ because of the different reporting bias. We are, however, seeking a detailed analysis of the difference between the two reports from the software developers."*

The Department also confirmed that it is in the process of carrying out an extensive exercise to review the debtor accounts, to eliminate certain balances that are no longer due, and to update data relating to property, tenants and lease. This exercise is not expected to be finalised prior to the end of 2013.

Conclusion

After having examined the explanations and reconciliations provided by the Department, no ageing analysis could be derived for the net outstanding balances as reported in the ARR to Treasury as stated figures have been confirmed as incorrect. Up to the writing of this Report, both the ARR and Debtors' List have not been amended in accordance with re-workings submitted to NAO.

Commerce Department

The following is a sub-classification of the gross closing balance of arrears as reported by the Commerce Department in the 2011 ARR.

	€
a) Trading Licences	4,445,835
b) Miscellaneous Receipts	7,343
c) Penalties paid by Students	<u>7,549</u>
Total	4,460,727

A difference of €340 was noted between the gross closing balance as at 31 December 2010 and the opening balance as at 1 January 2011, this being an amount considered as not collectable in the 2010 ARR, erroneously deducted from this year's opening balance.

An amount of €323,125 reported under 'Amounts not due and/or adjustments,' consists of €290,433 being waived off due to tariff reductions, with the remaining balance of €32,693, also being deducted due to cancellations, transfers or a change in business activity.

The Department's net closing balance of arrears, following an amount of €5,000 estimated as not collectable, stood at €4,455,727, compared with €4,966,440 reported last year.

Ageing Analysis

When requested by the NAO to provide a detailed analysis of the outstanding balance, the Department replied that *'The Licensing Management System does not have the possibility of producing such a report. And the MITA contractor is currently occupied with upgrading the LMS as a result of substantial amendments to the Trading Licences Regulations to come into force on 1st November. The Contractor will be commissioned to provide this report after this assignment is finished'*.

Debtors' List

When reconciling the ARR figures with those declared to Treasury in the Debtors' list, showing debtors' position as at end 2011, a discrepancy of €1,454,347 was noted. On further enquiry, the Department explained that the related Licensing Management System report used to compile the Debtors' template, did not give a true picture, and that the correct balance is that stated in the ARR. Instructions were given to the officer compiling the Debtors' list, as well as to the Malta Information Technology Agency (MITA), to remedy the situation.

Ministry for Justice and Home Affairs

Attorney General

The gross closing balance of arrears of revenue, reported as at end December 2010, by the Office of the AG in last year's Return, amounted to €2,751. However, the opening balance for 2011 was amended by the latter to read €14,053. This was due to the fact that several cases, dating back to 2004, which were still outstanding, were inadvertently omitted.

The net collectable balance of €14,207 as at end December 2011 relates to 34 court cases and has been analysed hereunder.

Ageing of Debtors

	€
Arrears outstanding over five years but less than ten years (2004-2006)	4,272
Arrears outstanding over two years but less than five years (2007-2009)	8,727
Arrears outstanding over one year but less than two years (2010)	485
Arrears outstanding equal to or less than one year (2011)	<u>723</u>
Total	14,207

Courts of Justice Division – Malta

The gross closing balance as at 31 December 2011, disclosed by the Courts of Justice (COJ) can be analysed as follows:

	€
Court Fines – Judges	5,576,587
Court Fines – Magistrates	4,859,718
Court Fees	<u>2,200,988</u>
Total	12,637,293

From the gross closing balance of €12,637,293, the amount of €5,051,361 relates to dues that are considered as not possible to be recouped, leaving a net collectable balance of €7,585,932.

Ageing of Net Debtors

	€
Arrears outstanding equal to or less than one year (2011)	1,684,556
Arrears outstanding over one year but less than two years (2010)	1,260,937
Arrears outstanding over two years but less than five years (2007-2009)	2,145,699
Arrears outstanding over five years but less than ten years (2002-2006)	1,159,356
Arrears outstanding over ten years but less than fifteen years (1997-2001)	1,050,972
Arrears outstanding over fifteen years but less than twenty years (1991-1996)	97,761
Arrears outstanding over twenty years (1972 -1990)	<u>186,651</u>
Total	7,585,932

Court Fines

Judges Court Fines

The gross closing balance of arrears of revenue, reported as at end December 2010 by COJ last year, amounted to €5,833,153. However, the opening balance for 2011 was revised to €5,835,618, by the latter. The difference of €2,465 emanates from the fact that in last year's ARR, an equivalent amount was erroneously recorded as 'Past Arrears Collected', under a fine inflicted in 2008.

The amount of €383,132 is being disclosed as not due. This comprised 37 fines, with a total amount of €380,503, that were converted into imprisonment, and two revoked fines, amounting to €2,629.

Out of the €5,576,587 gross closing balance, the amount of €4,986,066 (*i.e.* 89%) relates to dues that are considered as not possible to be recouped (as explained hereafter), leaving a net collectable balance of €590,521.

The sum of €4,012,922 out of the €4,986,066, regarded as difficult to collect, is under contestation and relates to four fines in aggregate amounting to €3,960,507, which are being contested in the Constitutional Court, and 29 fines, amounting to €52,415, for which a Petition has been submitted to the President of Malta.

The remaining balance of €973,144, being estimated as not collectable, is made up of:

- a) 22 fines amounting to €969,909 due from debtors who passed away;
- b) 4 fines with an aggregate amount of €2,992 due from untraceable debtors; and
- c) a fine of €243 owed by an individual, who was deported from Malta.

Magistrate Court Fines

In 2010, COJ attempted for the first time, to submit the arrears of revenue due from Magistrate's Court Fines. Testing carried out by NAO, revealed a number of adjustments that were required due to various shortcomings noted in the respective report extracted from the LECAM computerised system. A revised Return, indicating a closing balance of €5,062,323, was submitted. However, this year, COJ reported an opening balance of €5,002,779, *i.e.* a net discrepancy of €59,544.

Following audit testing it transpired that the major variance was due to the omission of several fines, pertaining to deceased defaulters, from the opening balance.

A meeting was held with COJ, where it was agreed that the arrears of revenue report that is produced from the LECAM system, in respect of Criminal Magistrates, requires enhancements. MITA were contacted to try and resolve the problem.

Court Fees

The situation as reported upon in previous Annual Audit Reports, still prevails. The Arrears of Revenue in respect of Court Fees are currently extracted from the old computerised system, namely CORTEX. Testing by COJ has revealed that there are various deficiencies in the reporting system, thus figures submitted are not considered reliable.

COJ, with the assistance of MITA, has plans to implement a project (CAPEX project), comprising the amalgamation of the CORTEX into the LECAM system. This project is expected to tackle flaws in the system, thus hopefully enabling accurate reporting of the arrears of revenue.

Conclusion

NAO was not in a position to verify the 2011 ARR submitted by COJ since no progress on the present computerised system has been made yet.

Courts of Justice Division – Gozo

The closing balance in the Return of Arrears submitted by the Gozo Law Courts for year ending 31 December 2010 stood at €510,612, comprising €224,889 in Fines and €285,723 in Fees.

On the other hand, the opening balances reported in the ARR showing the position as at 1 January 2011 stood at €223,144 for Fines and €263,612 for Fees, a total discrepancy of €23,856. The net collectable amount as at 31 December 2011 totalled €556,504, being due in respect of Fees amounting to €274,724 and Fines €281,780.

Fees

The arrears of revenue report in respect of Court Fees is still being extracted from the old computerised system, namely CORTEX. This reporting system, which is the same system being used by the Law Courts in Malta, has various deficiencies, contributing to a divergence between the closing and opening balances as reported below.

A number of shortcomings were identified in the first Return submitted to this Office for year ending 2011. As a result, a comprehensive exercise was undertaken by the Officer-in-charge at the Gozo Law Courts; each fee was reviewed, and the report, where possible, was amended accordingly. However, unless the system is enhanced, certain shortcomings, as highlighted below, will prevail.

The difference of €22,111 between the closing balance of 2010 and 2011 relates to the following:

- Nine fees, amounting to €4,427, were paid before or during 2010, but were still disclosed as outstanding in CORTEX report for 2010.
- One fee which was showing an outstanding amount of €18,893 in 2010, had been re-taxed and the actual amount due should have read €1,313.
- Another fee, amounting to €104, was reported as outstanding in 2010's CORTEX report, while the same fine was disclosed as arrears newly accrued in the report of the subsequent year, rather than reported with the opening balance.

The aforementioned issues resulted in an amended opening balance of €263,612, out of which €40,223 were collected. Arrears newly accrued amounted to €51,335, giving a net collectable balance of €274,724 as at 31 December 2011.

The Law Courts in Gozo, together with the COJ in Malta and the assistance of MITA are planning to implement a new system, namely CAPEX, which system consists of the amalgamation of the two computer systems currently in place, *i.e.* CORTEX and LECAM. This new project is expected to tackle the flaws in the present systems, including the Arrears of Revenue report.

Fines

The discrepancy of €1,745 in the opening balance is mainly due to the amendment of two fines totalling €1,349, which were reported as outstanding in the previous year's Return, but were actually paid in 2010. The remaining difference of €396 relates to the omission of three fines, pertaining to deceased defaulters, from 2011's opening balance in the LECAM system. This last shortcoming was also encountered at the Law Courts in Malta, and following a meeting on the matter, it was concluded that the report produced from the system requires enhancements.

Out of an opening balance of €223,144, the amount of €117,104, *i.e.* almost 50%, have been collected, while €983 were written off. Arrears newly accrued totalled €176,724, resulting in a net collectable balance of €281,780 as at 31 December 2011.

The arrears that have been written off, include six fines, totalling €699, three of which, amounting to €524, pertained to debtors who have passed away, while the other three, totalling €175 were due from debtors who could not be traced. The balance of €284 relates to fines which have been revoked or appealed, which fines are automatically disclosed by the system as write-offs.

Following further investigation of the amounts reported in the Return, it was noted that shortcomings still prevail, and thus the quoted figures could not be considered reliable.

Identified shortcomings include the following:

- Fines which have been paid, but the amount is still being shown as outstanding and due at year end (reported also in previous year).
- Fines issued to individuals who have served a prison term *in lieu* of the payment of the fine, still being reported as outstanding and due (reported also in previous year).
- Incorrect posting of paid fines to a different individual, resulting in fines with a negative balance, while others which have been paid showing as outstanding.

The Director intends to carry out an exercise, similar to the one carried out with respect to fees, in order to resolve such shortcomings.

The outstanding amount with respect to Fines was not included in the Debtors Template on the basis that this amount is deemed as Revenue for the COJ Division in Malta.

The ageing of the net collectable arrears can be analysed as follows:

	€
Amounts outstanding for less than one year	228,058
Amounts outstanding for over one year but less than two years	57,170
Amounts outstanding for over two years but less than five years	145,458
Amounts outstanding for over five years but less than ten years	60,330
Amounts outstanding for over ten years but less than fifteen years	39,549
Arrears outstanding over fifteen years but less than twenty years	11,472
Amounts outstanding for over twenty years	<u>14,467</u>
Total	556,504

Police Department

Background

Arrears pertaining to the Police Department are made up of Miscellaneous Fines (Fines to Airline Companies), Services to Third Parties (Extra Duty) and Sporting Licences (Weapons Licences).

Strategic Plan for Reduction of 10% in Government Arrears

MFEI Circular No. 8/2010 states that all Government Departments and Entities are to “*Work towards the reduction of 10 percent by the end of November. ... The required strategic plans are to be submitted to this Ministry by the 30th November, 2010.*” The Police Department informed NAO that a copy of the submissions to MFEI could not be traced. “*However, this Department has taken all the necessary action to collect arrears due, particularly that in respect of Sporting Licences which form the bulk of arrears due.*”

From an analysis of balances reported, an increase of 48% and 7% in arrears due for Miscellaneous Fines and Services to Third Parties respectively, was noted. On the other hand, a reduction of 20% was noted in arrears for Sporting Licences, which make up *circa* 70% of total arrears. Overall, a reduction of 10% from previous year’s arrears was recorded. Therefore, even though it cannot be ascertained whether a strategic plan was prepared and submitted to MFEI, an overall reduction of 10% was still obtained, mainly through the collection of debtors.

Ageing of Debtors

Testing focused on the ageing of debtors and their collectability.

Miscellaneous Fines

Gross arrears outstanding for Miscellaneous Fines stood at €96,786 as at 31 December 2011. During the year, debtors amounting to €22,595 were written off.

An analysis of the outstanding debtors, which as at date of fieldwork amounted to €86,303², revealed that 83% are dated 2004, 2007 and 2011, at 27%, 24% and 32% of the total respectively. Concern is mostly raised on 2004 and 2007 debtors since these have been long outstanding, with the risk of being time-barred.

Out of debtors amounting to €22,944 dating back to 2004, 72% have no airline representative in Malta. These have been considered as time-barred and the majority are in the process of being written off. The Police Department declared that the remaining 28% are probably also time-barred. However, efforts are being undertaken through AG’s Office to recover such dues.

Debtors dating back to 2007 amount to €21,080, 77% of which are being handled by AG’s Office whilst the remaining 33% also have no airline representative in Malta. Again, Police stated that most of the amounts are in the process of being written off.

Services to Third Parties

Ageing of debtors for Services to Third Parties was not considered to be of concern since from year to year, the majority of arrears due are collected.

² Difference between the two figures stated for Miscellaneous Fines relates to movements in invoices and payments following the year ended 31 December 2011 up to date of audit fieldwork and enquiry on 19 October 2012.

Sporting Licences

An aged debtors list for Sporting Licences due, amounting to €339,401, could not be provided since the Weapons System was not designed to provide such information. Since no ageing was provided, it could not be established to which period these debtors relate and the possibility of collection.

Police stated that a scope study for a new system is being planned and it is envisaged that such a system would cost *circa* €800,000. However, this is subject to availability of funds.

Other Matters Noted

Other matters, mainly inaccuracies in formulas, summations and disclosure were noted when comparing the Returns submitted to the supporting breakdowns. Most of these matters were rectified and a new Return re-submitted. Other matters which amount to less than €100, considered as not being material for reporting purposes, were brought to the attention of Police to be rectified in next year's Return.

Debtors' Template

A difference of €24,148 was noted between the gross arrears reported and the Debtors' Template. The Police Department stated that when the latter was compiled, correct figures could not be provided and thus an estimate figure was submitted to Treasury.

Civil Protection

The Civil Protection Department reported a gross closing balance of €39,544. The gross opening balance of €41,127, differed to the reported gross closing balance of €41,154 as at 31 December 2010, due to the following adjustment:

- €27 was deducted from the opening balance as a claim had been erroneously issued with this additional charge.

Collectable Arrears

Arrears dated prior to 2011 consist of 15 claims amounting to €6,702 of which €2,424 relates to 2008, €2,389 to 2009 and €1,889 to 2010. The entire arrears are to be referred to the AG for further action.

A provision has been made for arrears relating to 2008 as collectability is questionable since the claims may now be time-barred.

Conclusion and Recommendations

Net collectable arrears as at 31 December 2011 amounted to €37,120, which is €4,007 (9.74%) less than the previous year's adjusted closing balance of €41,127.

In accordance with MFEI Circular No. 8/2010 the Director, Civil Protection Department, confirmed that a strategic plan specifying how arrears would be reduced by 10% was submitted to MFEI. A provision included in this plan and put into force by the Department was to collect payments prior to providing the service.

Ministry for Health, the Elderly and Community Care

Health Division

The net closing balance of €3,216,045 is made up of the following:

	€
a) Licences	21,479
b) Ship Sanitation	5,696
c) Pharmacy Bills (Mater Dei Hospital)	18,404
d) Hospital Tests	3,703
e) Hospital Fees (St. Luke's Hospital)	253,424
f) Hospital Fees (Mater Dei Hospital)	1,170,996
g) Hospital Fees Boffa	68,839
h) Sundry Bills (Mater Dei Hospital)	50,185
i) Resignations	174,389
j) Overpayments	84,946
k) Overpayments Salaries (Mater Dei Hospital)	15,306
l) EU Countries E125	1,277,817
m) EU Countries E127	<u>70,861</u>
Total	3,216,045

Submission of Return and Documents

HD failed to submit the Return by 6 April 2012 as per Treasury Circular No. 3/2012. Moreover, the Return dated 27 June 2012 was not conclusive, as E125 and E127 figures were not included in the total of the columns, resulting in a negative material difference of €286,820 in net collectable arrears. Following NAO's remarks, a revised version was received on 16 August 2012.

Furthermore, a negative difference of €257,350 resulted from the gross outstanding as per Debtors' Template and gross outstanding as per Return. An explanation for this divergence was not provided up to date of writing this Report.

Some documents were not provided in order for NAO to verify amounts recorded in the Return and following audit enquiries it was stated that these figures emanated from a comparison of the respective lists at the end of 2010 and end 2011.

Although various queries and requests for documents were made to the officer in charge of E125 and E127 claims, the incumbent had been appointed during February 2012 and claimed that he cannot answer for any reports with regard to the year 2011. Furthermore, validation exercises started as from February 2012. As a result, the foregoing queries/requests remained pending and the audit sample selected for the year 2011 did not cover E125 and E127 claims.

HD stated that it was not aware of MFEI Circular No. 8/2010. In fact, although required by the foregoing, a strategic plan was not provided and a reduction of 10% in arrears was not achieved.

Matters Arising

Although NAO requested the sample on 10 August 2012 and first deadline was set to 31 August 2012, various files were provided subsequent to this deadline. Consequently, a second deadline was set to 28 September 2012, but documents supporting an amount of €130,824 were still not provided, namely €80,709 net collectable arrears, €38,285 not due and/or adjustments and €11,830 collected. Furthermore, in email dated 27 September 2012, the Financial Controller claimed that although the relevant files could not be traced, information and explanations could

still be obtained. However, NAO did not consider the foregoing as sufficient evidence for audit purposes.

The amount estimated as not collectable was recorded as 'Nil' for the year 2011, in contrast to the amount of €239,444 as at end 31 December 2010. However, during audit testing it was evident that amounts recorded as estimated as not collectable during 2010, still featured in the 2011 Return as net collectable arrears. In fact, 11 cases amounting to €194,138 were either dated way back from 2011, or in the process of write-off, or not followed up, or collectability is remote. Furthermore, officer in charge of Sir Paul Boffa Hospital confirmed that since no documentation is available, no collection efforts are being made in order to collect an amount outstanding of €68,839.

An amount of €3,815 was incorrectly recorded in the Return as write-off, even though it was a reversal of a bill as evidenced in the file reviewed and as confirmed by the Financial Controller.

Whilst comparing the breakdowns provided with the Return, it was noted that three outstanding refunds of €86, €39,102 and €28,884 respectively, were incorrectly recorded in the latter as year 1995, 2008 and 2009, rather than 1993, 2007 and 2006. Furthermore, during audit testing, it was noted that two outstanding refunds of €16,585 and €5,138 respectively, were incorrectly recorded as year 2003 and 1995, rather than 1998 and 1984.

The net collectible arrears of €253,424 recorded in the Return for hospital bills of St. Luke's Hospital, are €1,218 greater than the total amount of €252,206 recorded in the breakdown. This is due to an amount of €1,218 included both in the 2004 outstanding amount of €37,317 and recorded as newly accrued plus revision.

In three cases tested amounting collectively to €42,520, the amounts recorded in the Return were €12,897 greater than the actual outstanding balances as per documents reviewed in the respective file. On the other hand, since three cases totalling €37,924 did not include legal expenses and/or interests, the amounts recorded in the Return were €11,876 less than the actual amounts due.

The amount of €16,700 recorded as arrears in respect of Sundry Bills Mater Dei Hospital in 2010, include transactions dating way back between 2002 and 2009 as per lists provided. As a result the ageing of debtors may be misleading and following audit enquiries, it was stated that these had not been previously reported and assimilated into the debtors list during 2011. Furthermore, three amounts totalling €8,801 were included as newly accrued in the 2011 Return, even though these referred to balances due from previous years.

Two balances amounting to €6,625 and €70 were still recorded in the 2011 Return as newly accrued and collected respectively, whereas in actual fact these had already been settled in 2010 and 2007 respectively.

In a particular case amounting to €1,123, it could not be ascertained whether the correct amount was recorded in the Return, given that the amount due as per document provided was €1,601 and no further documents/file were available.

It was verified that the amount of €15,306 recorded in the Return for overpayments in salaries at Mater Dei Hospital, tallied with the breakdown provided. However, due to various errors highlighted in NAO's Report of 'Mater Dei Hospital - Personal Emoluments', this amount may not be accurate.

Recommendations

HD is to ensure that officers who are entrusted with the preparation of the ARR, are fully aware of any relevant Circulars to ensure adherence to at all times. Furthermore, appropriate breakdowns and/or lists are to be provided, in order to verify amounts recorded in the Return.

All requested information is to be submitted in a timely manner, thus enabling audit conclusions to be reached on the whole sample. The Department may consider undertaking an exercise to assess the possibility of recouping the relative amounts due from each individual debtor. This will enable the Department to establish cases that may be deemed as not collectable.

In addition, issues identified above are to be reviewed and amended accordingly. Furthermore, overall co-ordination over the preparation of the ARR is to be strengthened, in order to avoid similar instances in the future.

Mount Carmel Hospital

The majority of the outstanding balances pertain to hospitalisation fees due from foreign patients, reimbursements of salaries or issues from the provision stores to the Koperattiva Linen Services, and claims for using the forensic unit due from Corradino Correctional Facilities (CCF). The remaining balances are a variety of reimbursements for emoluments and other expenses such as catering services; mostly from other health entities.

The gross opening balance reported for 2011 amounted to €558,663, a decrease of €13,048 over the closing amount reported in 2010. The Financial Controller (FC) explained that this results from an error in amounts due from foreign patients in the prior year submission, which balance was in fact reversed in the same period. From this balance, an amount of €102,426 was collected (18.3%), and a balance of €32,226 were marked as not due (5.8%). No balances were written off.

Meanwhile, newly accrued arrears recorded were €503,301, of which €327,034 (65.0%) are due from foreign patients. The above results in a gross closing balance of €927,311 (an increase of 66.0%), of which €738,762 (79.7%) are considered as not collectible. The majority of these, €669,870 (90.7%) are again due from foreign patients, whilst the remaining balance is due from CCF. Finally, from the €188,549 net collectible arrears at year end, €125,508 (66.6%) are due from Koperattiva Linen Services.

Foreign Patients

As per Healthcare (Fees) Regulations (SL 35.28) foreign patients are charged at the rate of €256.23/night (rate for General Ward bed). However, it was yet again stated that *“...most patients are admitted...involuntarily and are vulnerable both physically and economically”* and *“... without providing us with any details and without money to pay the bills”*. Moreover, it was also stated that *“... very often they cannot even be traced...we have even tried to take legal action against them...but the advice was purely that it is not worth given that there are no valid contact details and, where there is, in 95% of the cases the patient is still unable to pay.”*

Invoices are only reversed upon presentation of documentation exempting them from payment, namely; Maltese citizenship or payment of National Insurance contributions in Malta; or a British passport; or a valid E111 insurance card. In fact, €29,722 were reversed and noted as not due as a result of foreign patients presenting valid documents exempting them from payment, following receipt of the Mount Carmel Hospital (MCH) invoice.

Additionally, FC also stated that amounts reversed (not due) emanating from presentation of E111 insurance are reported to MHEC for follow up. However, this could not be confirmed during this review.

As at year end, the full closing balance, an amount of €669,870, is estimated as not collectible. An ageing analysis of this figure reveals that this can be broken down as follows; €33,561 (5.0%) due from 2004; €1,281 (0.2%) due from 2006; €227,788 (34.0%) due from 2009; €64,320 (9.6%) due from 2010; and €342,920 (51.2%) newly accrued during 2011. This would indicate that the majority of these amounts are not older than 3 years. Nevertheless, care must be taken to ensure that these do not become time-barred.

NAO queried about action being taken to recoup balances due, with particular reference to the estimated amounts considered as not collectible. It was observed that in two out of a sample of four cases, FC stated that reminders were sent to which no replies/feedback was received. Nevertheless, weak controls were evident when FC added that *“Unfortunately we did not keep a copy of the reminder sent.”* In another case (from same four), FC remarked that the patient had provided the wrong address and consequently the invoice was returned back. The other case was reversed as the patient provided the necessary documents exempting her from payment.

NAO also noted that in two (of these four cases) action was also solicited through the MHEC's Legal Office. Correspondence was also available evidencing action taken by the Legal Office. Three other random patients (selected/provided by FC) where legal action was taken during June 2011, were also presented. Referring to all of these preceding cases, FC remarked that "... *there was no positive reply*", whilst adding "... *we have been verbally informed from the legal office that there is not much hope that such action can prove to be helpful to recoup the funds*".

Koperattiva Linen Services

Evidence was provided by FC of €51,163 collected, adding that the remaining balance of €6,509 "... *were not collected because there is a dispute between MCH and MHECC about them. This is being discussed and tackled in the due course.*"

As at year-end, a balance of €125,508 was still due. This amount can be broken down as follows: €5,196 (4.1%) due since 2009, €1,313 (1.0%) due since 2010 and €118,999 (94.8%) due since 2011.

It was stated that "... *continuous follow up is being made and statements are sent on a regular basis.*" Moreover, a substantial part of this amount was recovered in 2012.

Corradino Correctional Facilities

An amount €68,891 due from CCF is estimated as not collectible as at year end. FC had stated that this amount has been in dispute between MHEC and the Ministry for Justice and Home Affairs since 2008, with the claim never being accepted by CCF. When NAO queried this matter, it was stated that no further action is being taken to recoup this amount, "... *several attempts were made and the end result was always unsuccessful.*"

Finally, when MCH was queried if any action is being taken towards the targets in reduction of arrears, FC again noted the difficulties encountered in recouping amounts due from foreign patients, adding that "...*this cannot be forecasted because it depends on the foreign patients' admissions*" and that the only available action "...*is to write them off as bad debts.*" With regards to other balances, it was stated that "... *slowly slowly they are being recovered...*".

Conclusion

Reference is again being made to MFEI Circular No. 8/2010 dated 1 November 2010 entitled, 'Ministry of Finance, the Economy and Investment – Arrears of Revenue Plans – Budget Speech 2011', which requested Government Departments and Public Entities to submit a strategic plan to MFEI by end November 2010, with the aim of reducing arrears of revenue by 10% during the course of 2011.

Total arrears' figures as detailed in the Table on page 88, reveals an overall gross closing balance as at year-end 2011 of €1,280,789,822, following a variation of €9,081,794 over 2010 outstanding arrears. However, due to a substantial reduction in newly accrued arrears, together with a considerable increase in write-offs during the year, an overall negative net variation of €16,893,835 resulted between 2010 and 2011 net collectable arrears.

Notwithstanding the resulting decrease of approximately 6% in net arrears as at end 2011, the target of 10% mentioned in the Circular cited above has clearly not been achieved.

Ministries/Departments Arrears of Revenue 2011

Ministry/Department		Gross Outstanding on 31/12/2010	Collected during 2011	Written off 2011	Not due 2011	Arrears 2011
Office of the Ombudsman ^b	€	13,743	b	b	b	b
Office of the Prime Minister	€	13,588	3,143	0	0	9,149
Armed Forces of Malta	€	2,086,408	1,927,845	0	17,057	2,904,635
Tourism	€	1,587,444	456,177	0	119,230	555,188
Industrial and Employment Relations	€	323,297	4,224	0	0	0
Information Department	€	31,690	24,551	0	25	43,190
Government Printing Press	€	409,578	186,032	0	0	287,595
Ministry for Gozo	€	284,908	47,461	0	0	15,451
Gozo General Hospital	€	95,796	6,643	0	0	20,627
Ministry for Infrastructure, Transport and Communications ^d	€	1,308,229	1,308,229	0	0	425,178
Land Transport Directorate	€	15,587,729	30,825	0	0	2,629,307
Civil Aviation	€	576,940	111,965	0	0	39,119
Television Licencing Unit ^c	€	9,720,666	c	24,792	128,554	c
Malta Communications Authority	€	146,042	3,589	139,762	0	2,600
Land Registry	€	95,804	9,187	0	0	27,986
Ministry for Resources and Rural Affairs	€	1,840,964	738,712	198,938	12,318	759,911
Ministry of Education, Employment and the Family ^d	€	686,422	231,336	470	23,908	218,841
Social Security Benefits	€	13,238,305	2,105,039	396,810	349,900	3,516,897
Social Welfare Standards ^b	€	9,991	b	b	b	b
Ministry of Finance, the Economy and Investment	€	499,484	496,414	0	0	9,268
Lotteries and Gaming Authority ^c	€	303,760	33,831	69,881	0	668,056
Notary to Government	€	665	665	0	0	911
Treasury (Pensions Section)	€	28,389,597	8,525,633	0	0	1,777,628
Inland Revenue (including Tax Compliance Unit): Income Tax ^c	€	652,870,101	692,105,136	261,105	440,704,918	1,027,126,757
Social Security Contributions Pre 1998 and Post 1998 ^b	€	a	b	b	b	b
Capital Transfer Duty: Duty on Documents	€	33,016,534	2,826,707	0	15,864,384	13,789,439
Death and Donation Duty (including Penalties)	€	5,140,398	5,128	0	373,242	33,436
Customs	€	7,596,274	584,626	4,775	1,316	3,044,874
V.A.T. ^c	€	443,970,696	95,155,691	197,175	97,134,933	315,960,245
Contracts ^d	€	373,124	65,925	0	0	39,218
Economic Policy	€	1,007	1,007	0	0	0
Government Property Department ^d	€	28,832,990	8,285,679	2,200	0	5,151,242
Commerce ^d	€	4,966,440	1,008,808	0	323,125	826,220
Ministry for Justice and Home Affairs						
Attorney General ^d	€	14,053	0	0	0	723
Judicial: Malta ^d	€	13,273,901	1,693,429	24,118	636,091	1,717,031
Gozo ^d	€	486,756	157,327	983	0	228,058
Police ^d	€	536,328	189,102	21,323	12,778	171,466
Civil Protection ^d	€	41,127	33,657	0	0	32,074
Ministry for Health, the Elderly and Community Care Health	€	2,801,798	822,454	3,830	75,301	1,315,832
Mount Carmel Hospital ^d	€	558,663	102,426	0	32,226	503,300
Rehabilitation Karin Grech Hospital ^b	€	945,187	b	b	b	b
Occupational Health and Safety Authority	€	1,529	290	0	0	13,036
Elderly and Community Care (including Welfare Committee) ^b	€	198,756	b	b	b	b
TOTAL^e	€	1,272,876,712	819,288,893	1,346,162	555,809,306	1,383,864,488

a) Did not send Return of Arrears 2010.

b) Return of Arrears 2011 not submitted.

c) Information not available or incomplete.

d) Opening Balance 2011 does not tally with Closing Balance 2010 (vide comments).

e) Totals are incomplete in view of a) to d) above.

Gross Outstanding on 31/12/2011	Gross Variation	Amounts Est. as not Collectable	Net collectable arrears as at 31/12/2011	Net collectable arrears as at 31/12/2010	Net Variation	Due from Govt. Dept. & Para. Bodies	Individual & Private Companies
b	b	b	b	13,743	b	b	b
19,594	6,006	0	19,594	13,588	6,006	0	19,594
3,046,141	959,733	115,511	2,930,630	1,970,898	959,732	303,686	2,626,944
1,567,225	-20,219	281,045	1,286,180	1,299,255	-13,075	0	1,286,180
319,073	-4,224	72,505	246,568	81,739	164,829	0	246,568
50,304	18,614	0	50,304	31,690	18,614	50,304	0
511,141	101,563	0	511,141	409,578	101,563	510,640	500
252,898	-32,010	27,920	224,978	257,858	-32,880	75,948	149,030
109,780	13,984	55,296	54,484	40,500	13,984	0	54,484
425,178	-883,051	0	425,178	3,338,216	-2,913,038	425,178	0
18,186,211	2,598,482	0	18,186,211	15,587,728	2,598,483	0	18,186,211
504,094	-72,846	373,965	130,129	202,975	-72,846	2,970	127,159
11,227,980	1,507,314	4,491,192	6,736,788	5,832,400	904,388	140,000	6,596,788
5,291	-140,751	0	5,291	146,042	-140,751	0	5,291
114,603	18,799	43,324	71,279	75,034	-3,755	0	71,279
1,650,907	-190,057	339,829	1,311,078	1,484,887	-173,809	573,308	737,770
649,549	-36,873	2,729	646,820	688,258	-41,438	224,350	422,469
13,903,453	665,148	0	13,903,453	13,238,305	665,148	0	13,903,453
b	b	b	b	9,991	b	b	b
12,338	-487,146	0	12,338	499,484	-487,146	7,540	4,798
868,104	564,344	346,769	521,335	17,194	504,141	c	c
911	246	0	911	665	246	911	0
21,641,592	-6,748,005	0	21,641,592	28,389,597	-6,748,005	21,613,527	28,065
546,925,699	-105,944,402	446,804,440	100,121,259	120,899,717	-20,778,458	c	c
b	b	b	b	a	a	b	b
28,114,882	-4,901,652	19,646,920	8,467,962	9,654,719	-1,186,757	0	8,467,962
4,795,464	-344,934	1,982,518	2,812,946	2,966,702	-153,756	0	2,812,946
10,050,431	2,454,157	0	10,050,431	7,596,274	2,454,157	677,227	9,373,204
567,443,142	123,472,446	531,424,759	36,018,383	37,469,555	-1,451,172	c	c
346,417	-26,707	59,748	286,669	316,321	-29,652	0	286,669
0	0	0	0	1,007	-1,007	0	0
25,696,353	-3,136,637	0	25,696,353	16,230,055	9,466,298	13,758,521	11,937,832
4,460,727	-505,713	5,000	4,455,727	4,966,440	-510,713	0	4,455,727
14,776	723	569	14,207	2,182	12,025	0	14,207
12,637,294	-636,607	5,051,361	7,585,933	8,329,157	-743,224	0	7,585,932
556,504	69,748	0	556,504	510,612	45,892	0	556,504
484,591	-51,737	610	483,981	532,532	-48,551	37,876	446,105
39,544	-1,583	2,424	37,120	41,154	-4,034	2,607	34,513
3,216,045	414,247	0	3,216,045	2,562,354	653,691	1,352,380	1,863,664
927,311	368,648	738,762	188,549	130,260	58,289	184,644	3,905
b	b	b	b	101,058	b	b	b
14,275	12,746	0	14,275	1,529	12,746	7,268	7,007
b	b	b	b	198,756	b	b	b
1,280,789,822	9,081,794	1,011,867,196	268,922,626	286,140,009	-16,893,835	39,948,885	92,312,760



Office of the Prime Minister

Local Councils

Background

The responsibility to draw up the Councils' Financial Statements, which fairly present the latter's financial situation as at year-end, rests with the Executive Secretary. Once approved by the Council, and co-signed by the Mayor and the Executive Secretary, a copy of such accounts is then submitted to the Auditor General, so that these will be audited in line with the Local Councils (Audit) Procedures and Regulations.

In accordance with pertinent legislation, the audits of the Local Councils' Financial Statements, as well as those of the Local Councils' Association (LCA), are carried out by three private audit firms, on behalf of the Auditor General, awarded by tender.

The Financial Statements being reported upon cover calendar year 2011, during which, in line with the previous year, the Government allocated €30.01 million¹ to Local Councils. **Appendix A – Table 1** refers. In addition, for the year under review, the Government allocated €102,772 (2010: €109,999) to LCA.

Following the Local Councils' Reform undertaken in 2009, the nine established Joint Committees are being phased out, but have not yet been wound up. The 68 Local Councils are now classified under five Regional Committees, as laid down in the revised Local Councils Act, namely, the Northern Region, the Central Region, the South Eastern Region, the Southern Region, and the Gozo Region. Despite that these Committees have

been provided with funds, approximately a year prior to their official inception, these were only officially set up on 20 April 2011, by means of Legal Notice (LN) 207 of 2011. They actually became operational on 1 September 2011, when they were also entrusted with the management of the Local Enforcement System (LES). Thus, income receivable from contraventions as from the aforementioned date, is no longer due to the particular Local Council or Joint Committee as applicable, but is to be received and kept by the respective Regional Committee. Yet, contraventions can still be paid at the Local Councils. As an initiative for providing such service and accepting such payments, Councils are allowed an administration fee of 10% (flat rate) of all contraventions paid at their premises.

As laid down in article 32 of LN 320 of 2011, at the end of each financial period, the Regional Committee's Executive Secretary shall also prepare a set of Financial Statements, a copy of which is to be submitted to the Auditor General. The same three audit firms carrying out the audits of the Local Councils, falling within the respective Region/s, reviewed these Financial Statements. For their first financial period, Regional Committees were provided with an aggregate allocation of €176,620. **Appendix A – Table 2** refers.

Audit Scope and Methodology

The scope of the reviews carried out by the National Audit Office (NAO) was to ascertain whether the annual Financial Statements, prepared by the respective Executive Secretaries, and also approved by

¹ As per information provided by the Department for Local Government

the Mayors and Councillors, were in accordance with the applicable accounting policies and that they give a true and fair view. These objectives were achieved by analysing the audit opinion given by the contracted Local Government Auditors (LGAs) on the Financial Statements, as well as by examining the weaknesses and inefficiencies highlighted in the Management Letters drawn up thereon. Furthermore, response to the Management Letter submitted by each Local Council was also scrutinised.

Key Issues

Information Technology System not subject to Systems Audit

The main source of revenue for Regional Committees is the income generated from LES. Amounts recorded in the Financial Statements in this respect are primarily extracted from reports generated from an Information Technology (IT) system, which is operated by an external service provider. However, this has not been subject to a systems audit, in order to ensure that it is operating properly as intended, and that the reports generated are correct and reliable. The lack of such certification implies that, although through the audit procedures carried out, LGAs verified that figures disclosed in the books of accounts tally with the reports generated, it is difficult to obtain reasonable assurance on the completeness and accuracy of the information reported by the IT system in question.

Income from the Local Enforcement System not substantiated

The audit of the Joint Committee's Financial Statements is carried out by private audit firms, which were directly appointed by each respective Joint Committee. Consistently with previous years, LGAs were unable to determine the amount of income that a total of 27 Local Councils were entitled to receive from LES following a pooling agreement, since the majority of the audited Financial Statements of the Joint Committees, for the year-ended 31 December 2011, were not yet available. Furthermore, no alternative acceptable audit procedures could be performed in such instances to obtain reasonable assurance on the completeness of the share of income or expenses recorded in the Financial Statements of the respective Local Councils. **Appendix B** refers.

In the case of Sliema and Swieqi, forming part of Lvant Joint Committee, the audit report attached to the audited Financial Statements, for the year-ended 31 December 2011, of the latter, was not signed and it did not contain the expected analysis of the amount payable to each specific Local Council. This still limited these Councils from confirming the actual amount due to them by the Joint Committee.

By the time of audit, the Gozo Joint Committee did not provide any information as to whether there was going to be any distribution of profits from LES. This posed a high level of uncertainty on the amount of income that Councils might possibly receive. With the exception of Rabat, all Gozitan Local Councils form part of a pooling system. Consequently, such Councils could not account for any income from contraventions, from January 2011 up to August 2011, being the last day before the Regional Committees took over the LES. Councils' efforts to obtain such information were rendered futile.

Mosta Local Council - No Audit Opinion expressed

In line with the prior year, LGA could not express an opinion on the Financial Statements as presented by the Mosta Local Council for the reasons highlighted hereunder.

Fixed Assets

The Council does not maintain a Fixed Asset Register (FAR) to record its acquisitions of Property, Plant and Equipment (PPE). As a result, LGA could not perform practical satisfactory audit procedures to obtain reasonable assurance on the existence and completeness of the opening balance of Fixed Assets recorded in the Financial Statements, having a Net Book Value (NBV) of €940,578, as well as on the completeness of the Depreciation charged thereon.

Inventories

The valuation method of Inventories held by the Council is not in line with International Accounting Standard (IAS) 2 – Inventories. The stock of books and maps as recognised in the Financial Statements, amounting to €16,831, was valued at selling price rather than at the lower of cost or Net Realisable Value. Although the stock amount as at year-end increased by

€6,489 when compared with the previous year, LGA was informed that there were neither purchases nor sales during the year. While some of the stock items on paper have increased, so-called 'Other Stock Items' as at 31 December 2011 decreased from previous year, however there was no income recognised in the Financial Statements from these sales. In addition, the Council does not hold an insurance policy in respect of such inventories.

Receivables

Included in 'Other Debtors' is the amount of €160,330, representing claims receivable under the European Union (EU) Funded Exchange Programmes. Official documentation shows that the claims actually receivable by the Council only amount to €129,440. Consequently, Receivables, Surplus for the year, and Retained Funds, are all overstated by €30,890. Furthermore, no adequate supporting documentation was provided to substantiate an additional amount of €18,768, which is made up of various receivables.

As at 31 December 2011, the Council recognised an amount of €62,117 as Accrued Income, receivable on account of reimbursements from Water Services Corporation (WSC). Out of the aforementioned amount, the balance of €60,046 relating to works carried out during the period January 2008 to December 2009 could not be confirmed, since no official documentation was forthcoming from WSC in this regard. The Council also did not accrue for the amount due to it for the period January to July 2010, which in line with documentation received from WSC, amounted to €4,800. However, erroneously a related amount of €4,050 received, was still netted off against Accrued Income. In addition, the Accrued Income portion received from WSC for 2007 was accounted for twice. Furthermore, the amount recognised in respect of 2007 had been overstated by €13,978, considering that only €3,050 was received during the year, while the amount of €17,027 was recognised in the Financial Statements. Notwithstanding this, no further explanations were provided by the Council.

It was also concluded that Accrued Income was not properly accounted for. Whilst the amount of €242,243 was recognised as Accrued Income in the Financial Statements, the relevant supporting list, provided by the Council in this respect, only covered €62,117, which amount is totally attributable to reimbursements from WSC in respect of trenching works. The Council was

not in a position to explain the substantial difference of €180,126.

Public Private Partnership Scheme

Transactions in relation to the Public Private Partnership (PPP) Scheme are being accounted for in one Nominal Account. The three debit balances disclosed in this account, amounting to €335,458, represent expenditure incurred with respect to works carried out on certain roads, while the credit balance of €43,050 is equal to the amount received from the Department for Local Government (DLG) upon signing of the contract.

It was also noted that expenditure of €385,003, incurred on roads, which were finished by the end of the reporting period, was not capitalised. Likewise, the value of the percentage completion of 'Assets under Construction' as at year-end, which amount could be established from the Bill of Quantities, was not accounted for. On the other hand, this Nominal Account included the cost of two roads, which are not part of the scheme. Moreover, amounts still receivable from DLG, in respect of works that were finalised by year-end, were not accrued for. Additionally, the proportion of the allocation received, attributable to the roads that were completed, was not released to the Statement of Comprehensive Income in line with the Depreciation charged thereon. All the aforementioned shortcomings imply that funds received under the PPP Scheme were not accounted for in line with the applicable IASs, mainly IAS 16 – Property, Plant and Equipment, which requires that a project is only capitalised when it is completed. Furthermore, the amortisation of grants received was not in line with the income approach as outlined in IAS 20 – Accounting for Grants and Disclosure of Government Assistance, as required by Memo 150 of 2010.

Payables

The Statement of Financial Position of the Council shows the amount of €1,050,301 as Trade and Other Payables. LGA was unable to obtain reasonable assurance as to whether this figure is misstated in the Financial Statements since amounts recorded could not be confirmed due to lack of supporting documentation. From an analysis of Trade Payables, it also transpired that the Council is not carrying out regular reconciliations with suppliers' statements. In fact, from the confirmation letters sent by LGA to a number of suppliers, it resulted that 50% of the

Council's Creditors did not agree to the balances being indicated by the Council. Furthermore, no confirmation was forthcoming in relation to Creditors' balances, amounting to €261,123, which is equivalent to 86% of the value of Payables selected for testing. From post year-end payments, it was also established that Payables were understated by €30,738, which amount relates to unpaid invoices issued in 2011 and which were not included in the List of Creditors as at year-end. Moreover, a number of Creditors, amounting to €22,000, which were mainly brought forward from the preceding years, had a debit balance. In addition, Other Creditors amounting to €13,370, in respect of Rents due to Land Department, were not substantiated. Additionally, a variance of €41,930 was noted between the list of deposits withheld upon application for permits for construction works and the respective amount recognised in the books of accounts. Likewise, it was noted that accounting for Accruals was also incomplete.

The presentation as well as the preparation of the Council's Financial Statements, for the period under review, were not in accordance with International Financial Reporting Standards (IFRSs) applicable to the various recognition, measurement and disclosure requirements. This contravenes the requirements of the Local Councils (Audit) Procedures.

'Except for' Audit Opinion

Apart from Mosta Local Council, another 61² Audit Reports, out of the 68, were qualified with an 'except for' audit opinion, for one or more of the defaults mentioned hereunder. This same qualified audit opinion was given to the four Regional Committees that have provided their Financial Statements.

1. Forty-nine Local Councils' and three Regional Committees' Financial Statements for the year under review, were not prepared in their entirety in accordance with IFRSs, since they lack appropriate disclosures, mainly in respect of IAS 1 – Presentation of Financial Statements, IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors, IAS 20 – Accounting for Government Grants and Disclosure of Government Assistance, IAS 24 – Related Party Disclosures, and IFRS 7 – Financial Instruments.

2. Other specific issues for the Local Councils and Regional Committees on an individual basis.
3. The 'Going Concern' assumption used in the preparation of seven Local Councils' and two Regional Committees' Financial Statements is dependent on further sources of funds other than the Annual Financial Allocation received from Central Government, the collection of debts due to the Local Councils, and on the continued support of the Council's Payables. Any adverse change in either of these assumptions would not enable the respective Council to meet its financial obligations as they fall due without curtailing its future commitments.

It is pertinent to note, that the financial liquidity concern was also evident in another 12 Local Councils. However, in such instances, the respective issue was highlighted through an 'Emphasis of Matter'.

In addition to the above, as already referred to under 'Key Issues', a number of audit reports were also qualified on the basis that amounts due from LES could not be determined.

The related qualifications and the applicable Local Councils and Regional Committees are listed in **Appendix B**.

A significant number of Audit Reports have also been qualified because, besides the shortcomings mentioned above, the Financial Statements did not include the budgeted figures. However, since Local Councils are now accounting on an Accruals basis, such a requirement is no longer applicable. Consequently, these Councils/Regional Committees were not included in the list of qualified Audit Reports in **Appendix B**, as it was deemed unfair to report them merely because an amendment to the Local Councils Financial Procedures has not yet been effected by DLG.

Negative Working Capital

Seventeen Local Councils (2010:7) registered a negative Working Capital³ during the year under review. This could imply that they may encounter difficulties in meeting their obligations when due.

² Sixty-one Audit Reports represent 90% (31 December 2010: 67.19%) of all the submitted Financial Statements.

³ Working Capital is defined as Current Assets less Current Liabilities.

Table 1 lists these Councils, the Working Capital for the year and the corresponding figures for the previous two years.

As evidenced in **Table 4**, further on in this report, most of these Councils also experienced a deficit in the Statement of Comprehensive Income for 2011.

Attard

The increase of €23,917 in Receivables was not enough to sustain a substantial decrease of €33,649 in Cash and Cash Equivalents, coupled up by a considerable increase, amounting to €109,658, in Current Liabilities. This rise in liabilities was brought by a significant increase of €70,645 reported under Accruals and Deferred Income, together with an increase of €39,030 over Payables reported in previous year.

Birgu

The Council's financial situation in 2011 continued to deteriorate when compared to that of the prior period. This was due to the fact, that the minimal increase of €4,820 in Current Assets was fully outweighed by the considerable increase of €69,173 in Current Liabilities.

Birkirkara

From one financial year to another, the liquidity of the Council is worsening even further. The negative Working Capital reported during the period under review was brought by a substantial decrease of €78,076 in overall Current Assets, coupled by a significant increase of €159,379 in total Current Liabilities. The movement in Current Assets was mainly brought by a

Table 1 – Negative Working Capital

Local Council	31 December 2011	31 December 2010	31 December 2009
	€	€	€
Attard	(59,435)	59,969*	16,842
Birgu	(214,589)	(150,236)*	(154,163)
Birkirkara	(786,717)	(549,262)	(433,015)
Birżebbuġa	(168,425)	235,792	65,070
Bormla	(61,783)	(72,684)	37,123
Dingli	(61,982)	230,720	53,013
Kalkara	(241)	19,425	3,402
Lija	(40,854)	(8,509)	40,074
Mdina	(83,557)	8,059*	214,877
Nadur	(118,259)	168,486	30,585
Paola	(15,870)	104,892*	171,361
Qormi	(29,075)	68,458	(26,258)
Rabat (Malta)	(154,737)	(134,444)	(124,887)
Rabat (Gozo)	(39,258)	(138,169)*	(73,041)
San Ġwann	(50,569)	(38,266)	(85,590)
Valletta	(51,197)	219,636	197,692
Żebbuġ (Malta)	(271,298)	203,919	(117,154)
Regional Committees			
Northern	(76,104)	n/a	n/a
South Eastern	(80,081)	n/a	n/a

* Comparative figures have been re-stated to reflect prior year adjustments passed during the current financial period.

decrease of €97,135 in Receivables, which was partly outweighed by an increase of €19,250 in Cash and Cash Equivalents. On the other hand, whilst a rise of €251,269 was registered in Payables, both current Deferred Income and Accrued Expenditure diminished by €58,755 and €35,435 respectively. This negative situation resulted also from the fact that during the current year, the budget set for actual Capital Expenditure as well as Administration, Operations and Maintenance was exceeded by €830,054 and €459,479 respectively. Thus, the Council had to finance additional expenses, which it was not planning for in the first place.

Birżebbuġa

Notwithstanding that during the year under review, the provision for LES Debtors increased by €36,827, whilst Cash and Cash Equivalents decreased by €52,027, an overall increase of €13,016 was still registered in the Current Assets held by the Council at period-end. However, such increase was not enough to sustain the additional increases reported in Payables, which closing balance at year-end was €155,337 higher when compared to that reported in the preceding year. Furthermore, during the current year, the Council entered into a PPP Scheme to carry out road resurfacing works. Since such amounts are to be paid over a period of years, this contributed to additional increases in Current Liabilities. However, this was not the only reason why the Council was moved to a negative liquidity position. Another contributing factor is the fact that budgeted costs in respect of Personal Emoluments (€2,031), Operations and Administrative Expenses (€202,414) as well as Capital Expenditure (€326,082) were exceeded by €530,527 in total, by the end of the reporting period. This explains further, why Cash and Cash Equivalents have decreased, while Payables have increased substantially.

Bormla

Whilst the financial situation of the Council slightly improved from the prior year due to an overall decrease of 5.86% over the Current Liabilities of the preceding period, the latter still closed the financial year with a negative Working Capital of €61,783. On the other hand, the marginal increase in Receivables was not enough to make up for the substantial decrease registered in Cash and Cash Equivalents, which by the end of the year was almost 50% of that reported in the preceding period.

Dingli

From a positive Working Capital of €230,720 recorded at the end of the previous period, the Council closed the current financial year with a negative Working Capital of €61,982. While an increase of €93,479 was experienced in Receivables, this was outweighed by the significant decrease of €151,900 in Cash and Cash Equivalents, ending with an overall decrease of €58,594 in Current Assets. On the other hand, Current Liabilities increased substantially during the year under review, when compared to the preceding year. This was mainly due to an increase of €183,255 in Accruals, coupled with an increase of €34,308 in Payables, as well as an increase of €21,667 in current Deferred Income.

Kalkara

The negative closing Working Capital registered by the Council was the result of a decrease of €21,549 in overall Current Assets, representing a decrease in Cash and Cash Equivalents of €12,886, whilst Receivables declined by €8,663. In view of these circumstances, it is pertinent to point out that LES Receivables, as recognised in the Financial Statements, are overstated by €3,008. Included under Other LES Debtors is the amount of €10,174, for which no supporting documentation was provided. Should the Council adjust for such shortcomings, which are highlighted further down in the report, the reported financial situation would worsen further.

Lija

The financial position of the Council worsened, with a negative Working Capital of €40,854 at the end of the year. This was mainly due to an increase of €38,147 in General Payables, which was partly outweighed by a decrease of €13,791 in the overdrawn Bank Balance. A decrease of €14,190 in Cash and Cash Equivalents was also registered.

Mdina

The Council's financial situation deteriorated further during the current period. Whilst Receivables remained fairly stable when compared to the prior year, a significant decrease of €54,899 was reported in Cash and Cash Equivalents, coupled with a substantial increase of €52,606 in Payables. This resulted from the fact that funds expended on certain items, such as

Administration Expenses, Waste Management, as well as Park and Gardens *etc.*, was far higher from that allocated to the Council for such purposes.

Nadur

The Council ended the year under review with a negative Working Capital of €118,259. This was the result of a decrease in Current Assets of €49,232, coupled with an increase in Current Liabilities of €237,513, which was mainly due to an increase of €192,184 in Accrued Expenditure. This situation was brought by the fact that the Council has entered into a PPP Scheme and, by the end of the year under review, all the eight roads were resurfaced, bearing a total cost of €524,031. It is pertinent to note that actual costs incurred were €117,478 higher than the original amount agreed upon, which stood at €406,553. As per agreement, upon completion, the Council was bound to pay the Contractor 40% of the final bill, with another 20% payable at the end of the first year after completion.

Paola

At period-end, the Council registered a net Current Liability position of €15,870. This was brought by a decrease of €116,215 in Current Assets over the previous year. Furthermore, amounts receivable from WSC, in view of reinstatement works carried out by the Council, as disclosed in the Financial Statements, are understated by €7,354. Meanwhile, non-current Deferred Income of €106,953 is incorrectly disclosed with Payables, thus overstating Current Liabilities by the same amount. Consequently, the aforementioned errors are impinging on the actual Financial Situation of the Council.

Qormi

From a positive financial situation during the previous year, the Council moved to a negative position. During the current financial year, the Provision for LES Doubtful Debts increased by €89,078. However, net Receivables were still €129,637 more than those recorded in the prior period, but such increase did not outweigh the substantial rise of €214,308 in Trade and Other Payables. Furthermore, an increase of €9,336 in Short-term Borrowings was also noted.

Rabat (Malta)

The Council's financial situation in 2011 continued to deteriorate when compared to that of the prior periods. This was due to the fact that an increase of €78,755 in Current Assets, of which €74,454 represent an increase in Prepayments and Accrued Income, was totally outweighed by the considerable rise of €99,048 in Current Liabilities. Whilst Payables decreased by €84,336 over the preceding year, Accruals and Deferred Income increased by €177,171.

Rabat (Gozo)

Though the Council's negative Working Capital situation has still not been cleared, the financial situation has improved when compared to the prior year given that the negative Working Capital balance has decreased by €98,911. This was mainly brought by a reduction in Payables and Accruals of €62,783. At the same time, the Council managed to increase both Cash and Cash Equivalents as well as Receivables by €41,474 and €6,571 respectively. On the other hand, a rise of €11,917 was also noted in the overdrawn Bank Balance.

San Ġwann

The Council's Current Liabilities exceeded Current Assets by €50,569, further weakening the financial situation of the Local Council. Accrued Expenses and Other Payables increased by €15,144 and €4,637 respectively, while Payables decreased only by €6,823. On the other hand, the increase of Cash and Cash Equivalents of €11,640 was almost outweighed by the decrease in Receivables amounting to €9,893.

Valletta

The Council closed the financial year with a negative liquidity position. The overall increase of €38,603, registered in Current Assets, was not enough to sustain the substantial increase of €309,436 in Current Liabilities. This was brought by the fact that Deferred Income, which at period-end stood at €283,091 (2010: €30,413), was not apportioned between short-term and long-term, with the consequence that this was fully disclosed as falling due within one year, thus effecting the Working Capital.

Żebbuġ (Malta)

The negative Working Capital was brought by a decrease of €144,968 in Current Assets, coupled by a considerable increase of €330,249 in Current Liabilities. Whilst Receivables decreased by €4,822, Cash and Cash Equivalents diminished by €139,670. On the other hand, Payables and Accrued Expenditure increased by €263,062 and €92,565 respectively over the preceding year.

Regional Committees

Northern Regional Committee

Current Liabilities at year-end, in this first reporting financial period, exceeded Current Assets by €76,104. Amounts of €20,428 reported as receivable together with a Bank balance of €50,031 were not enough to cover amounts payable of €146,563, out of which the balance of €130,030 relates to LES Payables.

South Eastern Regional Committee

The South Eastern Regional Committee has also registered a negative Working Capital of €80,081 as at period-end. Amounts receivable of €36,115 and Cash at Bank of €46,956 were not enough to sustain the significant amounts payable, totalling €131,665, as well as Accrued Expenditure amounting to €31,487.

Improvement in Working Capital

As indicated in **Table 2**, only one Local Council has improved its financial position, from a negative to a positive Working Capital by the end of this year. This represents a decrease of four Local Councils when compared to the improvement registered during the previous year.

Financial Situation Indicator

The Local Councils (Financial) Regulations, 1993 Article 4(1) compel the Executive Secretary to maintain a positive balance between Income and Expenditure, and Accrued Income and Accrued Expenditure of not less than 10% of the allocation approved in terms of Article 55 of the Act.

Twenty-three Local Councils (2010: 17) registered a Financial Situation Indicator (FSI) below the 10% benchmark as required by law. These are shown in **Table 3**.

It is pertinent to note that way back in 2002, 37 Local Councils were exempted from maintaining a positive FSI of 10%. Throughout the years, this decision, which was taken by DLG, was not revised with the consequence that 10 years later, these Councils are still stating that this exemption prevails. Considering that now the Councils' financial scenario could be substantially different from that of 2002, the Department is expected to identify if such exemption is still applicable or not, on a case-by-case basis.

Table 2 – Improvement to Working Capital

Local Council	31 December 2011	31 December 2010	31 December 2009
	€	€	€
Mġarr	69,952	(60,943)	(148,579)

Table 3 – Financial Situation Indicator

Local Council	Government Allocation 1 January – 31 December 2011 ⁴	Current Assets less Liabilities 1 January – 31 December 2011	FSI 1 January – 31 December 2011 [^]	FSI 1 April – 31 December 2010 [^]
	€	€	%	%
Attard	529,821	(51,887)	(9.79)	5.99
Birgu	253,698	(167,665)	(66.08)	(62.35)
Birkirkara	1,089,450	(728,695)	(66.89)	(59.86)
Birżebbuġa	613,163	(138,808)	(22.64)	25.53
Bormla	406,207	(61,783)	(15.21)	(19.48)
Dingli	293,987	(18,888)	(6.42)	86.49
Gżira	463,130	3,523	0.76	11.56
Kalkara	227,794	3,208	1.41	8.51
Kerċem	231,857	6,822	2.94	3.57
Kirkop	180,863	(106,909)	(59.11)	114.69
Lija	226,313	(40,854)	(18.05)	(3.74)
Mdina	178,355	(80,693)	(45.24)	7.79
Msida	439,177	15,641	3.56	18.29
Nadur	396,679	(103,649)	(26.13)	31.20
Naxxar	803,388	76,259	9.49	19.15
Qormi	976,375	7,962	0.82	7.71
Rabat (Malta)	930,583	(102,908)	(11.06)	(14.38)
Rabat (Gozo)	477,779	(84,045)	(17.59)	(38.06)
San Ġwann	640,931	(46,951)	(7.33)	(8.69)
San Lawrenz	141,622	(16,337)	(11.54)	(13.55)
Santa Luċija	285,553	21,352	7.48	16.72
Valletta	664,863	(9,875)	(1.49)	33.82
Żebbuġ (Malta)	699,788	(421,680)	(60.26)	4.87

[^]Workings as provided by Local Government Auditors.

Statement of Comprehensive Income⁵

Twenty-two Councils (2010: 16) and two Regional Committees registered a deficit in the Statement of Comprehensive Income for the year. For a number of Councils as well as the Regional Committees this

also triggered a liquidity problem, as indicated under ‘Negative Working Capital’ earlier on. **Table 4** presents the locality, the deficit for the period under review and the corresponding figures for the previous two financial periods.

⁴ Government Allocation in terms of Section 55 of the Local Councils Act as provided by DLG.

⁵ A deficit in the Statement of Comprehensive Income results when the cost of expenditure is greater than revenue.

Table 4 – Statement of Comprehensive Income for 2011

Local Council	1 January – 31 December 2011	1 January – 31 December 2010	1 April 2009 – 31 December 2009
	€	€	€
Attard	(69,049)	(38,898)	23,114
Birgu	(1,066)	(13,903)	(70,424)
Birkirkara	(50,689)	(16,586)	124,540
Birżebbuġa	(16,154)	111,081	68,288
Bormla	(14,086)	(122,481)	(50,120)
Dingli	(6,198)	11,332	42,876
Fgura	(18,950)	215,389*	8,939
Floriana	(108,328)	61,580	19,577
Gżira	(20,411)	2,366	2,042
Għarghur	(11,557)	11,905	4,941
Għasri	(904)	6,844	13,738
Kalkara	(24,822)	39,269	(17,164)
Kirkop	(63,718)	(14,433)	(5,133)
Lija	(17,934)	(20,308)	(7,883)
Marsascalea	(25,304)	132,024*	90,466
Marsaxlokk	(4,341)	40,630	(8,299)
Mdina	(97,470)	(135,110)*	(26,528)
Qrendi	(30,139)	(9,394)	34,675
Rabat (Gozo)	(23,601)	(168,453)*	7,920
San Ġwann	(38,358)	29,836	25,420
Sannat	(8,908)	16,250	(7,372)
Żebbuġ (Malta)	(254,080)	93,271	(155,658)
Żebbuġ (Gozo)	(35,814)	90,252	(25,297)

Regional Committee	Covering Period	Reported Deficit
		€
Northern	1 April 2010 – 31 December 2011	(76,104)
South Eastern	1 August 2010 – 31 December 2011	(78,117)

* Comparative figures have been re-stated to reflect prior year adjustments passed during the current financial period.

The following were reasons attributed to the deficits, which have been reported by the respective Local Councils and Regional Committees at the end of the current year, when compared to the prior period.

Attard

By the end of the current year, the deterioration of the Council's financial situation was due to the overall decrease in revenue by 3.02%, coupled with an overall

increase of 1.53% in expenditure. The increase of €74,856 in income from LES was not enough to sustain the total decrease of €94,512 in other sources of revenue, mainly Other Supplementary Income received from Central Government and General Income. In addition, expenditure relating to Repairs and Upkeep of road and street pavements, Cleaning and Maintenance of parks and gardens, Street Lightning, Experts, IT Development services, as well as Penalties inflicted by DLG, in aggregate increased by €58,696.

Birgu

Though the position from the previous year improved slightly, the Council still registered a marginal deficit at period-end. While income generated from EU Funds increased by €68,334, it was not enough to make up for a general decrease in the other sources of revenue, with the consequence that overall income earned by the Council decreased by €25,739, when compared to the prior year. On the other hand, the Council managed to decrease the expenses incurred for its operation. However, it is pertinent to note that Penalties of €4,592 imposed by DLG due to the late submission of the previous year's Financial Statements, and Interest as well as other Court expenses on a lost Court Case, amounting to €16,856, were expensed during the year under review.

Birkirkara

The general increase of 5.03% in overall income received by the Council was not sufficient to cover an increase of more than 7% in the total expenditure incurred. Whilst a slight decrease was registered in Operational and Maintenance expenditure, an increase of 8.85% was reported on Personal Emoluments. A substantial increase of €94,319 (14.61%) over the previous year was also noted in Administrative expenses. This was mainly the result of increases in Depreciation charge (€82,380), Provision for Doubtful Debts (€33,869), Penalties (€24,839) imposed due to the late submission of Financial Statements, Youth Empowerment Services (€15,610), Training (€14,093), and Health Inspector Services (€11,210).

Birżebbuġa

From a quite positive financial situation registered by the end of the previous year, the Council was driven to a negative financial position during the current period. This was mainly the result of a decrease in overall income of 10.18%, coupled up with an increase of 5.36% in expenditure incurred during the year. The main decrease in income was brought by a substantial decrease from €56,800 (2010) to €10,750 (2011) in Contributions earned by the Council as well as a decrease of €27,055 in income generated from LES. On the other hand, significant increases in costs incurred were noted for Cleaning and Maintenance of Non-Urban Areas, Other Contractual Services, provision for LES receivables and Depreciation charges.

Bormla

Notwithstanding that, the deficit is not as high as that registered in the prior year, the Council still ended the year with an excess of expenditure over income of €14,086. This improvement was mainly due to a decrease of almost 18.26% in Operations and Maintenance as well as Administration expenses incurred, in aggregate totalling €92,523 coupled by an overall increase of 3.41% in the income. In addition, no Finance Costs were recorded during the current year, as opposed to the preceding year, whereby the Council has incorrectly accounted for effective interest of €7,291 on a loan provided by the Ministry to finance an EU project.

Dingli

The overall increase of €47,974 in the Council's expenditure totally outweighed the increase of €30,444 over the previous year's income. The main contributors to this difference were an increase of €38,845 in General Income and a decrease of €7,930 in 'Other Government Income'. Substantial increases were also noted in expenditure relating to Road and Street Cleaning (€14,194) as well as Community and Hospitality (€44,278).

Fgura

The deficit reported at year-end was the result of a decrease of more than 7.47% in income received by the Council, coupled by an increase of almost 37.12% in expenditure incurred. The decrease in income, to the value of €52,661, was mainly from Investment Income, income from Contraventions, Supplementary Income received from Government, as well as Deferred Income released with respect to Government Grants. On the other hand, reported increase in expenditure, in aggregate amounting to €72,330, was noted for Salaries paid to employees, expenses with respect to Waste Disposal, Accountancy Services, and Penalties inflicted for non-abidance to stipulated deadlines. Another contributing factor to the substantial variance in expenditure incurred during the current period when compared to the prior year is the fact that, during 2010, provision for WSC pending amounts and LES Doubtful Debts, amounting to €110,591, have been reversed as a prior year adjustment. Thus, having a direct impact on the revised figure of expenditure reported in the preceding year.

Floriana

Whilst General Income and Income generated from the LES increased by €12,354 and €54,838 respectively, funds received from Central Government under Other Income decreased by €49,050, when compared to the prior year. These variances resulted in an overall increase of 2.59%, in the income earned by the Council during the year under review. However, such increase was not enough to sustain a substantial increase of almost 29.86% in the expenditure incurred. Main movements, totalling a net amount of €159,264, were reported for expenditure in respect of Repairs and Upkeep of public property, Refuse Collection, expenses related to LES, Professional Services, Community and Hospitality Services, Depreciation charges and increase in Provision for Doubtful Debts. Furthermore, the amount of €10,609 was expensed on 'Gardmed Project'. No such expenses were incurred during the preceding year.

Gzira

Whilst, total expenses increased by €65,272 over the preceding year, revenue earned increased only by €42,495, mainly income received from contraventions amounting to €31,310. On the other hand, whilst amounts incurred for Refuse Collection and Repairs and Upkeep of road and street pavements decreased by €25,361 and €13,289 respectively, significant increase in expenditure was noted for Tipping Fees (€57,956), Professional Fees (€20,465) Repairs and Upkeep of Road Marking (€11,405), Administrative Expenses (€11,164) and Utilities (€9,893), when compared to the previous year.

Gharghur

Overall expenditure incurred under Operations and Maintenance, as well as Personal Emoluments, slightly decreased, when compared to the prior period. However, Administration and Other Expenditure increased by €29,313. The main variance was encountered in the Depreciation charge expensed, which increased by €26,828 in the current year. This was due to the substantial investment undertaken by the Council during the year in PPE, which totalled €291,435.

Ghasri

Income generated during the year under review remained fairly stable when compared to that reported

in the preceding year. However, an overall increase of 5.10% was registered in expenditure incurred. This resulted mainly due to an increase in amounts expended under Operations and Maintenance, emanating from a number of invoices, amounting to €11,204, relating to road maintenance works which were carried out in previous years, and were only accounted for during the year under review.

Kalkara

The deficit of €24,822 reported at period-end, was mainly brought by a substantial increase of €67,663 in Administration and Other Expenditure. Included under such category, is the cost of €20,000 expended on the 'Sustainable Development Action Plan' project. In addition, during the year under review, penalties of €5,364 were imposed on the Council, for the first time, in view of the late submission of the prior year's Financial Statements. Other variances were also noted for expenses incurred in respect of Materials and Supplies, Hospitality, as well as Professional Services. It is also pertinent to note that whilst during the preceding year, Provision for Doubtful Debts decreased by €18,671, during the current year, this was increased by €29,961. Furthermore, it transpired that the deficit reported by the Council at period-end is overstated by €1,854, due to a re-classification adjustment, which was incorrectly passed by the Council. This resulted in revenue being understated by €3,411 while reported expenditure was overstated by €1,557.

Kirkop

From year to year, the financial position of the Council is deteriorating. The €63,718 deficit reported during the year under review is more than four times as much as that reported in the preceding year. This was due to the significant increases of 27.64% and 21.29% registered in expenditure relating to Operations and Maintenance, as well as Administration respectively, in aggregate amounting to €60,044. The Council also encountered an overall decrease of more than 34.39% in General Income generated.

Lija

The Council this year still ended with a deficit, marginally lower than the preceding period. While Income during 2011 increased by €17,869 over the previous year, an increase of €15,495 was also registered in Expenditure. This was mainly brought by increases in Salaries paid to Council's employees and

expenses incurred on Repairs and Upkeep of Public Property.

Marsascala

A substantial negative impact was noted in the financial situation of the Council at period-end, with the consequence that a deficit of €25,304 was reported when compared with the surplus of €132,024 for the prior year. This was brought by a decrease of more than 6.15% in overall income received during the year, coupled by an increase of almost 10.89% in expenditure incurred. The main variance in income was the result of a decrease of €69,800 in funds earned from WSC in relation to reinstatement contributions. On the other hand, a substantial increase in expenditure was noted for Personal Emoluments, Repairs and Upkeep of roads, as well as street pavements, Other Repairs and Upkeep, Social Events, Penalties inflicted by DLG for the late filing of Financial Statements, and Provision for Doubtful LES Debtors totalling €110,856. Furthermore, during the current year, the Council incurred a loss on disposal of assets of €10,504.

Marsaxlokk

From a surplus of €40,630 registered at the end of the previous period, the Council closed the current financial year with a deficit of €4,341. This resulted mainly from increases in Repairs and Upkeep of road and street pavements, Road and Street Cleaning, Penalties imposed due to the late submission of 2010 Financial Statements, as well as expenditure incurred on Community Services and Events, amounting in total to €33,208. A substantial decrease of €28,929 was also encountered in income earned from Contributions.

Mdina

Though the position from the prior period slightly improved, the Council still ended the year with a substantial deficit, due to the fact, that in certain categories, actual expenditure incurred exceeded the amount budgeted by the Council for the year under review. This was mainly evident for Office Hospitality (€30,350), Professional Fees (€13,186), Cleaning and Maintenance for Non-Urban Areas (€6,315), Travel (€5,797), Street Lightning (€5,095) as well as Cleaning of parks and gardens (€4,281), amongst others.

Qrendi

The €30,139 deficit reported during the year under review is three times more than that reported in the preceding period. This was brought by a substantial increase of 17.21% in Personal Emoluments amounting to €10,878, mainly due to an increase in employees' salaries, together with an upward movement of 4.35% in Administration and Other Expenses. Furthermore, a decrease of 1.33% was registered in total revenue earned.

Rabat (Gozo)

Although not as high, compared to the preceding year, the Council still registered a deficit of €23,601 during 2011. Substantial increases over the budgeted amounts were noted in expenditure under certain categories, such as Road Markings, Refuse Collection, Hospitality Costs, and Cultural Events. However, an overall decrease of €158,532 was registered in expenditure incurred for the running of the Council, during the period under review, when compared to that reported in the prior year. Income received throughout the year also decreased by €13,870.

San Ġwann

Whilst income raised from LES during 2011 almost doubled when compared to the preceding year, a decrease of more than 3.29% was reported in overall income earned from other sources. Meanwhile, except for Personal Emoluments, which have decreased by €12,429, expenditure incurred increased by more than 16.18% over the previous year. Substantial increases were reported for Repairs and Upkeep of walkways (€17,799) and Road Markings (€7,301), Other Repairs and Upkeep (€12,848), Other Contractual Services (€6,673), Professional Services (€30,585) and Cultural Events (€6,468). Expenses incurred with Refuse Collection also increased by €13,071. However, it was noted that Tipping Fee charged for the month of September 2011 amounting to €7,347, was accounted for twice.

Sannat

The deficit reported at year-end was the result of a decrease in overall income generated by the Council, coupled by an increase in the costs incurred.

Expenditure on Repairs and Upkeep of Road and Street Pavements, Street Lighting, Professional Fees and Fines and Penalties were amongst the main increases in expenditure when compared to the prior year.

Żebbuġ (Malta)

Income generated by the Council during the year under review, decreased by almost 6% when compared to that received during the preceding year, whilst expenditure increased by 35.7%. The main decrease in income was brought by a drop of €56,666 in amounts raised under the LES, whilst expenditure increased throughout. Personal Emoluments increased by €26,696. Operations and Maintenance expenses increased by €84,933 over the preceding year, whilst a rise of €181,295 was noted in Administration and Other Expenses. The major contributors to this latter increase are Advertising (€36,328), Architect Fees (€29,146), Nightfest Activity (€24,885), and a total of €67,080 covering increases in Fines and Penalties, Support Services and Provision for Bad Debts.

Żebbuġ (Gozo)

Income generated by the Council during the current year remained fairly stable when compared to that reported in the prior year. An increase of €130,331 was noted in overall expenditure incurred during the current period, mainly relating to Depreciation charge for the year (€53,005), Repairs and Upkeep of roads and street pavements (€50,505), Professional Services (€19,378), Social Events (€15,747) and Salaries paid to employees (€11,764).

Regional Committees

Northern Regional Committee

Expenditure incurred during the period, amounting to €201,085, exceeded the amount of income received of €124,981, during the same period. The main item of expenditure was on the administration of the LES, totalling €167,318, comprising €146,008 in Warden Services and €21,310 for LES services. Income of €100,607 was recognised against this expenditure.

South Eastern Regional Committee

The deficit of €78,117 reported by the South Eastern Regional Committee at period-end was mainly brought by the substantial expenditure incurred in respect of the Warden Services and LES Services, whereby the amounts of €180,859 and €27,530 were expended. Such expenditure was even higher than the overall income of €185,696 earned by the Committee during the same period, out of which the amount of €148,680 was generated from the LES.

Rectified Positive balance between Income and Expenditure

The eight Local Councils listed in Table 5 rectified their position to a surplus by the end of the year under review.

During the previous year, 14 Local Councils had rectified their position of a surplus by year-end reviewed.

Table 5 – Rectified Positive balance between Income and Expenditure

Local Council	31 December 2011	31 December 2010	31 December 2009
	€	€	€
Isla	21,181	(17,503)	(21,628)
Mtarfa	15,887	(74,430)	(4,321)
Munxar	12,918	(34,302)	1,346
Paola	36,315	(5,520)	(17,987)
Pembroke	36,569	(19,464)*	(21,861)
San Lawrenz	25,315	(7,847)	36,799
Sliema	90,531	(95,275)	99,284
Żabbar	100,830	(159,114)*	(23,302)

* Comparative of the preceding period has been restated to reflect prior year adjustments passed during the current financial year.

Control Issues

A number of control issues necessitating improvement were identified:

- a. Budgeted expenditure for certain expenses exceeded.
- b. Established limit for petty cash expenditure exceeded.
- c. Cash from custodial receipts and from other general income not deposited on a twice-weekly basis, as required by the regulations.
- d. Reimbursement to Councillors and Local Council employees not fully supported by the appropriate documentation.
- e. The Council did not prepare and issue signed Purchase Orders and/or Purchase Request Forms to suppliers, in order to officially confirm its approval for purchases of less than €1,165.
- f. The Council did not prepare a Payment Voucher covering each purchase undertaken by the Council and paid accordingly. Moreover, the Payment Vouchers are not being signed by both the Mayor and the Executive Secretary. At times, these are not even signed by anyone. Instances of manual adjustments were also noted.
- g. Local Council not making use of the reporting tools in hand such as the twelve-month Budget, the three-year Business Plans, the Quarterly Reports, and the yearly Administrative Reports.
- h. Approval for vacation leave is given verbally and nothing is documented.
- i. No proper receipts were issued by the Council in respect of income received and/or activities organised, especially when the source was from a Government Entity, Department or another Local Council. Thus, the income-recording system in use did not entail proper audit trail.

Compliance Issues

Finalisation of Annual Financial Statements

In accordance with the Local Councils (Audit) Procedures 2006 (P2.05) and instructions issued to Local Councils through memos by DLG, the Executive Secretary is to draw up and submit to the Auditor General, the Financial Statements signed by the Mayor and the Secretary himself by not later than 21 February following the end of the financial year.

Financial Statements are to consist of the:

- a. Statement of the Local Council Members' and Executive Secretary's responsibilities;
- b. Statement of Comprehensive Income;
- c. Statement of Financial Position;
- d. Statement of Changes in Equity;
- e. Statement of Cash Flows;
- f. Notes to the Financial Statements.

The stricter stance adopted by DLG during the preceding year, whereby penalties were imposed on those Local Council that did not adhere to the respective deadlines, was fruitful. In fact, with the exception of Żebbuġ (Malta), all Local Councils (2010: 42) managed to submit the respective unaudited Financial Statements by the required deadline of 21 February 2012. On the other hand, in the case of Regional Committees, only two, namely the South Eastern Region and the Gozo Region, have filed the unaudited Financial Statements on time. Meanwhile, submission by the Northern and Southern Regions was effected on 9 May 2012 and 19 June 2012 respectively, while the Central Regional Committee kept delaying its submission up to 3 October 2012.

Despite that NAO acknowledges this positive development, it was noted that in certain instances, the Financial Statements presented for audit purposes were of poor quality, besides that they contained a number of errors. This is evident from the various shortcomings highlighted in the respective Management Letters. Another cause of concern was the significant audit adjustments passed to correct the material misstatements encountered. In certain cases, though the unaudited Financial Statements disclosed a substantial surplus for the year, following the incorporation of the proposed audit adjustments, the Council ended up with a minimal surplus or, even worse, registered a deficit.

This implies that the unaudited Financial Statements approved by the Council did not present fairly the results and Statement of Financial Position as at year-end. It is pertinent that both the Department and the Councils realise that it is useless to submit the required documentation by the stipulated deadlines, if such data is not properly compiled and reflects a true and fair view of the actual financial situation.

It is also worth mentioning that Councils are expending substantial amounts of money on the procurement of Accountancy Services. However, as explained above, such services are not always yielding the desired results. Thus, also to be cost-effective, DLG has been encouraged to consider the recruitment of a number of qualified Accountants by the Department instead of outsourcing this service. This would bring about harmonisation in the preparation of accounts and it would be easier to monitor and control the work, besides enhancing communication with the same Accountants.

Audit Report and Financial Statements

Only 55 Local Councils and two Regional Committees strived to deliver the audited Financial Statements and Management Letters (2010: 19) by the stipulated deadline of 2 May 2012, in accordance with the Local Councils (Audit) Procedures 2006 and relevant instructions issued by DLG. Another 11 audited Financial Statements reached NAO by 14 May 2012, while the other two Councils and two Regional Committees kept delaying their submission. Meanwhile, the Financial Statements of the Central Regional Committee were not submitted at all by mid-October 2012, being the ultimate deadline set by NAO for analysing the audited Financial Statements. **Appendix C** refers. Both Local Councils, as well as Regional Committees are expected to take all necessary action to ensure the submission of proper and accurate Financial Statements on time.

Concerns encountered in a large number of Local Councils

Liquidity Position

As can be evidenced from Tables portrayed in this report, quite a number of Local Councils ended the financial year in a deficit position, whilst others are on the verge of facing liquidity problems if they do not curtail their expenditure. This was mainly brought

about by the fact that contracts, entered into by the Council under the PPP Scheme, add up to millions of Euro. Under such Scheme, Councils are to re-surface those roads falling under their responsibility. The normal procedure is that a fixed percentage (30% in the case of Maltese Councils and 50% in respect of Gozitan Councils, however this might differ depending on the individual circumstances) of the cost value as per tender, is financed by Government, with the resulting balance being paid by the Council over a period of eight years, in varying percentages. Since the inception of this Scheme in 2010, until the date this information was provided, *i.e.* 3 September 2012, 42 localities received in aggregate a total of €2,658,371 from Government in this respect, whilst the amount of €3,659,151 is still to be received. Consequently, these Councils shall have to fork out in aggregate at least €11,329,676 for such projects. **Appendix D** refers. In a number of instances, these projects are a financial burden on those Councils facing liquidity problems.

In addition, funds receivable by the Council from a private company in respect of recycled waste and from WSC for trenching works carried out on behalf of the latter, amongst others, are taking long to be settled and are creating cash flow problems to the respective Councils.

Despite their precarious financial position, certain Councils have still approved and contracted for additional Capital Commitments, reaching up to hundreds of thousands of Euro, which expenditure is also expected to be met during the coming financial year, *i.e.* 2012.

Tipping Fees payable to WasteServ Malta Limited in dispute

To date, no decisive action has been taken to resolve the dispute that has been in existence since the end of 2009 between Councils and WasteServ Malta Limited. For the second consecutive year, Local Councils failed to account for waste tipping services, which expenditure exceeded the amount allocated by Government to the respective Council for this purpose. Such action was taken on the directions given by LCA on 26 July 2010, whereby Councils were instructed not to pay beyond what has been allocated in this respect. It is relevant to note, however, that no instructions were ever issued not to accrue for the pending amounts. Following adjustments proposed by LGAs, a number of Local Councils subsequently accepted to reflect these amounts in the books of accounts, while others simply disclosed

this issue as a Contingent Liability note in the Financial Statements. Moreover, there were still a few Councils that ignored LGA's recommendation and totally failed to account for such amounts. A qualified audit opinion was then issued to the concerned Councils.

Unless this issue is settled in the near future, the disputed amounts will soon be significantly high, and if eventually a decision is taken in favour of the supplier, the Council will be faced with a substantial bill to pay. Amounts in dispute as at end of 2011 are shown in **Appendix E**.

During a meeting held at NAO on 7 May 2012, Director DLG, claimed that the subject matter was being discussed with the Ministry of Finance, the Economy and Investment (MFEI), with the intention of increasing allocation provided for this purpose, so that Councils would be in a position to pay the amounts in question. However, developments, if any, on the matter and on the proposed way forward, were still not communicated to NAO up to the publication of this report.

Membership Fees paid to Gal Xlokk and Majjistral Action Group

From the testing carried out, it transpired that a number of Local Councils have effected payments in respect of membership fees payable to 'Gal Xlokk' and 'Majjistral Action Groups'. **Appendix F** refers. These Local Action Groups were set up with the aim of improving the development potential of rural areas, by bringing together the different public and private local actors. In fact, these are formed by representatives of the public sector, such as Local Councils and other Government Entities, as well as representatives of social economic partners and other civil society organisations. The main responsibility of such groups is to co-ordinate the design of the local development strategy as well as its implementation. From the Rural Development Programme 2007–2013, Malta was granted the financial allocation of about €3.8 million.

However, in order to become a member of these Local Action Groups, Councils are obliged to pay a membership fee. Such fee is used to cover costs, such as bank interest and charges, insurance, as well as legal and other professional fees, which are not refunded under the said programme. The accounting treatment adopted by certain Councils to record such payments in the book of accounts was incorrect, as they failed to defer amounts paid in advance for future

periods. Consequently, the full amount advanced was recognised as a current year's expense. However, such errors were rectified through the audit adjustments proposed by LGAs.

It is a concern that to-date, little if any information was provided in respect of the benefits derived by each particular Council from such Schemes. From time to time Councils engaged in such groups are expected to carry out a cost-benefit analysis, so as to ensure that the return yielded is substantially higher than the amounts forked out.

Assets falling under the Councils' responsibility not properly Insured

The Local Councils (Financial) Procedures, vests the Executive Secretary with the responsibility to safeguard the Council's assets, property, interests and activities against any loss or damage, by having a proper insurance cover in place. However, year after year, it is being reported that different categories of PPE held by the Council are not properly insured, resulting in assets being either under-insured or even not insured at all. **Appendix G** refers. Furthermore, in certain instances the details provided are so limited, that it is difficult to clearly identify what the insurance in place actually covers.

On the other hand, due to their nature, certain assets such as Urban Improvements and street furniture impose a high level of risk. Consequently, the Councils are finding it difficult to insure these types of assets, since insurers are hesitant to issue such type of insurance cover. In addition, the premia charged in respect of resurfacing and construction works are so high, that these are not afforded by the Councils, and thus such assets are not being insured.

In view of this, the Department is encouraged to issue clear and specific guidance, on the nature of insurance cover that every Council is expected to have in place. Whilst eliminating any anomalies that may arise from time to time, this also ensures that Councils are adequately insured so that in case of any accident, losses or damages, the cost of the assets will be recovered and subsequently replaced.

Guidance provided by the Department not in line with the Procurement Regulations

The street lighting function of the localities was one of the main responsibilities of the Joint Committees. Thus, upon the cessation of such Committees, the

contracts in place for the maintenance of street lighting automatically became void. Since at the time discussions to delegate such operations to the respective five Regional Committees were still underway, the Department advised Councils that the current contracts were not only to remain valid, but these were also to be extended on a monthly basis, as the need arises. This course of action was to continue until the delegation process was finalised. However, such guidance is not in line with the procurement regulations, three Local Councils in Malta, namely Gudja, Luqa and Santa Venera have extended such contract indefinitely. On the other hand, another seven Councils continued to procure such service from the same service provider, under the same conditions through direct orders, without issuing a new call for tenders.

In the case of Gozo, the lighting contract used by the Local Councils was entered into by the Joint Committee. It originally expired on 3 April 2008 but was then extended for another year until 3 April 2009. However, no proof of further extensions was ever traced. To date, the Local Councils are still using the services of the same supplier with the same terms and conditions set out in the original contract.

Non-submission of Fiscal Receipts

Activities carried out by Local Councils, whilst exercising the functions assigned to them by law, fall outside the scope of the Value Added Tax (VAT) Regulations, thus implying that such bodies are not registered for VAT purposes. In view of this, supplies provided to the former by VAT registered suppliers are to be covered by a fiscal receipt in line with 13th Schedule of the VAT Act.

However, instances were noted whereby substantial amount of expenditure incurred for the Council's operations was not supported by a valid fiscal receipt, even though the respective service provider did not qualify for the exemption under the pertinent Legal Notice. **Appendix H** refers.

At times even the invoice submitted by the supplier lacked necessary details such as details of the latter, and identification of the client, not to mention that in certain cases such procurement was only supported by a piece of paper. In one particular case, the official details on the VAT receipt were written in pen's ink rather than through the official printing from the VAT Department, while in another case the receipt amount was different from that of the invoice and the corresponding payment.

Local Councils are to ensure that a fiscal receipt, as requested by pertinent regulations, is obtained for all the expenditure incurred by the Council. In cases where the supplier lacks adherence to VAT regulations the Council is to discontinue to procure from such defaulter until the situation is rectified.

Personnel Emoluments and Allowances

Unreconciled Payroll

Testing carried out revealed that reconciliation of the books of accounts with the FSS forms submitted to IRD is either not taken seriously by the Councils or is not being performed at all. This is evident from the differences encountered, upon reconciling emoluments as disclosed in the Financial Statements, with the monthly and annual documentation filed with IRD. Such variances are illustrated in **Appendix I**.

Incorrect Personal Tax Deductions

Memo 26/2010 issued by DLG and MFEI Circular No. 2/2009 state that both Mayors' honorarium and Councillors' allowances are to be taxed under the 'Other Emoluments Method'. In accordance with the said Memo, the Council should deduct tax at a standard rate of 20% from the honorarium or allowance, and if the individual's annual income falls to be charged at a lower tax rate, then a refund will be claimed in the individual tax return. Yet, instances were still noted whereby such Honoraria and allowances were either being taxed at a different rate or were not taxed at all. At times, this was due to the fact that the Payee Status Declaration forms (FS4) were not filed. Additionally, in certain instances the remuneration, paid to the Regional Committee's President and Members of the Board, as well as salaries paid to the Executive Secretary, were considered as 'Part-time' emolument when declared in the Final Settlement System (FSS) documentation, thus taxed at 15%.

Inconsistencies were also noted in view of the tax deducted on personal emoluments earned by certain full-time employees. In such cases, FSS deductions were incorrectly calculated, with the result that these did not correspond to the relevant tax bracket as stipulated by the Income Tax Act. Thus, over/under-payments were encountered. Similar shortcomings were also noted in the calculation of Social Security Contributions.

Refund of Mayors' Honoraria

With effect from 1 January 2010, following amendments to Article 32 of the Local Councils Act, Honoraria paid to Mayors was to be calculated proportionately to that paid to Members of Parliament, which at the time stood at €19,092 per annum. These instructions, together with the related proportions, were communicated to Councils through Memo 3/2010 titled '*Tibdil fl-Onararju tas-Sindki*', issued by DLG on 4 January 2010. In contrast, LN 278 of 2009 specified that such regulations were applicable as from 1 November 2009. This anomaly in the effective date was never rectified.

Upon an upward revision of €7,680 in the Honoraria paid to Members of Parliament in 2010, a further Memo on the subject matter was circulated to Councils on 16 December 2010, notifying them that the new basis for the calculation for the Mayor's Honoraria was revised to €26,772. Since, the Memo further specified that such revision was effective as from 1 January 2010, Honoraria paid during the respective year had to be re-calculated retrospectively, so that Mayors could be paid the additional amounts in arrears.

On 20 January 2011, Councils were informed that the aforementioned revision was suspended and thus, amounts paid to Mayors during 2010 were to be based on the original rates, *i.e.* €19,092 per annum. This implied that Mayors had to refund the difference, being the additional amounts that they were paid few weeks before.

However, due to the lack of clear and specific guidance on how these overpayments were to be refunded, a number of Councils had still not recouped such balances by the end of the period under review. The outstanding amount in question as at end 2011, totalled €112,816.

Remedial action by the Department was only taken in August 2012, after such concern was raised by this Office during a meeting with DLG on 7 May 2012. In a letter sent to each Council concerned, the Department explicitly specified that the respective Mayor is to enter into an agreement to start setting off the due balances through monthly instalments. Furthermore, it was pronounced that by the end of December 2013 all pending amounts have to be recovered.

Councillors still paid their Full Share of Allowance despite that they failed to attend Council Meetings

As part of the Local Council's reform, with effect from 1 January 2010, all Councillors were entitled for an annual allowance of €1,200. In accordance to Article 32(2) of the Local Councils Act, such allowance is to be paid proportionate to the number of meetings a Councillor has attended in any calendar year. However, instances have been encountered, whereby Councillors, who failed to attend Council meetings, were still paid the full yearly allowance, even though a letter of excuse justifying the reasons for absenteeism was not provided.

In addition, in breach of Article 18 of the Local Councils Act, the Minister was not notified accordingly, of those cases whereby Councillors were absent for four meetings, or in aggregate more than one-third of the meetings, organised within a period of six months.

Financial Statements not compliant with International Financial Reporting Standards

During meetings held by NAO with the relevant stakeholders, the issue of Councils' Financial Statements not fully compliant with the requirements of the IFRSs, thus necessitating an 'except for' qualified audit opinion, was repetitively raised by the respective LGAs. This also resulted in the Financial Statements being returned to the Councils by the Auditors for the necessary amendments, aiming to bring them in line with the applicable standards.

In view of the fact that so far Local Councils are required to prepare their Financial Statements in accordance with IFRSs, the respective specimen included in the Local Councils (Audit) Procedures can be considered outdated *vis-à-vis* accounting standards. As reiterated in previous years, NAO recommends that DLG embarks on an extensive exercise to update the current template, which will then need to be revised yearly so as to ensure that the latest amendments in the accounting standards are incorporated. This will assist Local Councils in the preparation of their Financial Statements, whilst also ensuring uniformity amongst them.

Incorrect treatment of Government Grants

Way back in 2008, following a consultation exercise held by NAO with LGAs in office at that time, Local Councils were informed that for consistency purposes, the Income Approach as outlined in IAS 20 – Accounting for Government Grants and Disclosures of Government Assistance, was to be applied when accounting for such funds. Hence, grants received to acquire items of PPE should initially be treated as Deferred Income. The income is to be subsequently recognised on a systematic and rational basis in accordance with the useful life of the asset, *i.e.* a portion of the income is to be transferred every year to account for the Depreciation charge.

Such accounting treatment is also reiterated year after year, in the year-end Memo issued by DLG, whereby the latter provides guidelines to be followed by Local Councils in the preparation of Financial Statements for the upcoming year-end audit. Yet, from concerns raised in the Management Letters prepared by LGAs, it transpired that a number of Local Councils are still adopting an incorrect treatment for the recording of such grants. The main concerns are highlighted hereunder.

- Certain Councils are still adopting the Capital Approach for the treatment of such grants.
- Funds received at times accounted for on cash basis, implying that at year-end no provision is made in respect of amounts, which have not yet been received.
- Deferred Income not always amortised in line with the Depreciation charge. Very often, these are adjusted following the attention drawn by LGAs.
- Amounts fully recognised as income in the year these are received, irrespective of whether the project was completed or not.
- Deferred Income released to the Statement of Comprehensive Income is higher than the amount actually spent. There is the possibility that such income will have to be refunded.
- Deferred Income not apportioned properly between short-term and long-term components.

Water Services Corporation

During the preceding years, it was reported that WSC failed to settle amounts due to Councils in respect of trenching works carried out by the latter on behalf of the former. However, in view of the new agreement that was negotiated between LCA and the Corporation in March 2010, this issue has been partly resolved. The latter agreed to pay all arrears to the Councils from the year 2007 to 2009. In fact, a list of works carried out was sent by the Corporation to the respective Councils, requesting confirmation of the actual amount payable, which amounts were eventually received by a number of Councils in 2011. However, certain Councils are still owed amounts in respect of works performed during 2007 and 2009. Other Councils have not yet recovered any amounts, despite that the related invoices were raised and submitted to WSC. Since, such amounts are still being recognised as receivables, it is important that these Councils bring up this matter with the Corporation, so as to establish whether the latter has the intention to settle such balances or not.

Local Councils' response following Management Letters

As at 13 June 2011, or six weeks after the Audit Report, 47 out of 68 Local Councils sent their response to the Management Letter as required by Article 8, sub-article (2) of the Local Councils (Audit) Regulations, 1993. Seventeen other Councils exceeded the stipulated deadline to submit their reply. On the other hand, a copy of the reply of another four Councils and the Local Councils Association was only made available either by DLG or the respective LGA, as these failed to submit a copy of their feedback to NAO.

The South Eastern, the Southern, and Gozo Regional Committees managed to submit a reply to the Management Letter in time. By the finalisation of this report, no reply was provided by the Northern Regional Committee.

At times, the respective replies were only signed either by the Executive Secretary or the Mayor, when in line with the relevant regulations, these should have been signed by both.

Repetitive weaknesses reported in the Management Letter

During various meetings held between NAO and DLG, in the presence of LGAs, the latter pointed out that, very often, the same irregularities are being, year after year, highlighted in the Management Letter, without any apparent remedial action being taken. As also reported upon in the preceding year, this is not acceptable.

A number of the shortcomings were just answered by a simple statement, indicating that the particular point was noted, not even bothering to indicate the concrete actions taken, or intended to be taken, to implement the proposed recommendation. This indicates a lack of accountability on the part of the respective Councils. As also hinted in previous years, most Local Councils have common problems, mainly relating to the proper upkeep of the FAR, unrecorded liabilities at year-end and non-abidance by the procurement procedures, apart from the proper accounting treatment of grants. Since as also indicated earlier on, a number of Financial Statements presented for auditing were not up to standard, at times LGAs had to carry out accounting tasks where the accounts did not meet the required standard.

Towards the end of each financial year, DLG issues a Memo, titled '*Għeluq tas-Sena Finanzjarja*' whereby it provides guidelines on the process to be followed in the preparation of the Councils' Financial Statements. However, certain Local Councils registered very little improvement, if any.

Areas of Concern

The following were the areas of concern, which were commonly encountered in the Management Letters:

1. Property, Plant and Equipment
2. Accounting
3. Local Enforcement System
4. Procurement
5. Salaries
6. Receivables
7. Payables
8. Cash and Cash Equivalents
9. Invoices
10. Provisions outlined in the Subsidiary Legislation

Appendix J lists the Councils where the above-mentioned weaknesses were encountered and the

frequency of their occurrence. An indication of the most material weaknesses is also listed hereunder:

Property, Plant and Equipment

- a) FAR either not maintained or not provided to LGA due to the fact that it is not updated and is not reconciled to the accounting records.
- b) FAR lacks a number of descriptive details, which limits its purpose.
- c) Discrepancies between the cost, accumulated Depreciation and the resulting NBV, as disclosed in the Nominal Ledger, FAR and Financial Statements respectively.
- d) Assets are not tagged and consequently could not be physically identified.
- e) Depreciation charge is not calculated by the software but is being calculated manually. This is giving rise to discrepancies between Depreciation as reported in the books of accounts and that calculated by LGA.
- f) Depreciation is calculated on a yearly basis instead of monthly, and the rates used are not in line with the respective policy.
- g) Assets still under construction, or not yet certified, were capitalised and Depreciation charged over the years in which they were not in use.
- h) Assets sold, disposed of or no longer in use by the Council, not written off in FAR and/or in Nominal Ledger, with the consequence that Depreciation was still charged on such assets.
- i) Fixed Assets additions are recorded by the invoice year rather than by the invoice date. Thus, a full year's Depreciation was taken in view of assets purchased during various months of the year.
- j) Assets not classified in their proper plant category and thus the wrong Depreciation rate has been charged.
- k) Despite that the total NBV as per FAR/Nominal Ledger agreed to the amount featuring in the

Financial Statements, totals of individual categories did not reconcile.

- l) Differences between the asset categories in the Financial Statements and those of the Trial Balance were also noted.
- m) Instances were encountered, whereby the Council has over 20 nominal accounts, opened and used in its Nominal Ledger to record various cost items for PPE. This makes it difficult to reconcile such nominal accounts with FAR and immediately detect any discrepancies.
- n) Council's approval in respect of asset acquisition/disposal was not traced.

Accounting

- a) Opening balances in Nominal Ledger brought forward from prior period not in agreement with the closing balances of the preceding year's audited Financial Statements.
- b) Discrepancies between the Council's Trial Balance and the unaudited Financial Statements.
- c) The system being used in respect of income recording does not entail a proper audit trail.
- d) Income and expenses accounted for on cash basis rather than on an accrual basis.
- e) Incorrect cut-off procedures resulting in over/understated prepayments and Accruals. Additionally, opening prepayments/Accruals were either not reversed or were reversed against the wrong account.
- f) Prepayments' list did not agree to the accounts since instead of reversing the opening balance, the Council debited the prepayment account.
- g) Items in the Financial Statements were classified under the wrong/or different line items for each of the reporting periods presented. In addition, adequate documentation was not provided to support amounts disclosed in the books of accounts.
- h) Expenses incurred were netted off against the income received.

- i) Posting of transactions in the accounting software lacks proper referencing and documentation, which makes tracing and reviewing very difficult.
- j) Double accounting of Income received.
- k) Variances between amounts recognised in the accounting records and the respective invoice.
- l) The Council capitalised a Bank Guarantee that it issued in favour of third parties.
- m) Inventory held by the Council comprised items, which were not held for sale, such as stamps and stationery, as well as books held for free distribution. On the other hand, amounts paid in respect of goods held for re-sale were expensed in the Statement of Comprehensive Income.
- n) Disputed amounts are not disclosed under Contingent Liabilities in the Financial Statements.
- o) Expenditure of a Capital nature recorded as Expenditure of a Revenue nature and *vice-versa*.

Local Enforcement System

Outstanding fines should not take longer than one year to be settled, as these are usually payable upon the renewal of the respective motor vehicle license. However, for an unknown reason, this is not materialising, with the consequence that it has a negative impact on all Local Councils, since amounts due are still being recorded as outstanding. Guided by the principle of the Prudence Concept, a full provision is expected to be taken at least for Receivables older than two years. Notwithstanding this, in line with previous years, LGAs still encountered outstanding LES Receivables due to the Councils, which were older than two years but which were not provided for by certain Councils. The respective amounts are likely to become statute-barred and will never be recouped.

A number of Councils have already adequately reduced, by way of a provision, those outstanding receivables where recoverability is deemed remote. However, others failed to reflect this fact in their accounts, thus failing to show a true and fair view of the Financial Statements. Nevertheless, in several cases the situation was still rectified through the adjustments proposed by

LGAs, which were taken on board by the respective Local Councils.

Other common issues relating to such income, encountered during the audits, included the following:

- a) The annual audited Financial Statements of the Joint Committees for the period-ended 31 August 2011 were not submitted to the respective Local Councils. Consequently, LGAs could not rely on independent audited information to provide reasonable assurance on such income being recorded by Local Councils in their Financial Statements.
- b) Receipts of contraventions paid during the year at the Local Councils were neither traced in the books of accounts nor in the bank statement.
- c) Discrepancies between amounts receivable as reported in the Financial Statements, and that recorded in LES reports made available to LGAs. The amount of Provision for Doubtful Debts accounted for might also not be accurate.
- d) Long outstanding amounts due, from the Licensing and Testing Department and the LCA, were not followed up. In certain instances, such dues were not accounted for at all.
- e) Discrepancies were noted between income receivable from Regional Committees, for contraventions collected by the Councils, as disclosed in their accounting records, and that illustrated in LOQUS reports generated from the system. This might be due to the fact that invoices issued by the Council to the respective Regional Committee are over/understated.
- f) Administration fee, receivable from the respective Regional Committee, was not recorded in the books of accounts.
- g) Invoices issued to Regional Committees were not being raised on time. A copy of such invoices was not always kept with the result that there was no evidence that the invoice was actually issued.
- h) Amounts due from Regional Committee at year-end not accrued for.
- i) LES income earned from Joint Committees

and Regional Committee classified under the incorrect heading.

- j) Despite that, the Council maintains its receivables for LES administrative fees and General Income in the form of a Debtors' List and corresponding Control Account in its accounting software, invoices and statements raised in this respect are being issued manually through Word processing software, whereby invoicing audit trail is not maintained.
- k) LES income reconciliation was at times not prepared. Thus, it could not be ascertained whether the amount recognised as Accrued Income receivable from the LCA for online payments were actually due to the Council, or to the Regional Committees, since no distinction was made between pre and post 1 September 2011, being the official start of operations of the latter.

Procurement

Non-abidance with the Tendering Procedures

The Local Councils (Tendering) Regulations, 1993 and the Local Councils (Tendering) Procedures, 1996 provide guidance on how purchasing of works, goods and services by Local Councils is to be conducted. Besides other conditions, Purchase Orders, agreements and contracts may be approved by the Council provided that:

- for purchases of value not greater than €1,165, items of the same nature are not purchased within a consecutive four-month period;
- the procurement of goods whose value falls between €1,165 and €4,659 is supported by at least three official signed quotations together with a written justification for the selected quotation or offer, as approved by the Council; and
- a public tender is issued according with the Local Councils (Tendering) Regulations, 1993 and the Local Councils (Tendering) Procedures, 1996 with respect to purchases exceeding the cost of €4,659.

However, in their Management Letters, LGAs highlighted a number of weaknesses, indicating that

the majority of Local Councils are not always adhering to the rules cited above. The main areas of non-compliance include:

- a) Procurement exceeding €1,165 not covered by a public call for quotation, thus procured through a direct order. **Appendix K – Table 1** refers.
- b) Number of payments forwarded to the same service provider within a period of four months, for the provision of similar service, so as to bypass the requirement of a public call for tenders/quotations. **Appendix K – Table 2** refers.
- c) Expired contracts still in use without being renewed.
- d) Contract agreements not in place, either due to the fact that no agreement was drawn up in the first place or it got lost. In this case, the invoice is the sole supporting documentation for the effected payment.
- e) Contracts entered into by the Council, either not signed by the Mayor, and/or by the Executive Secretary, or not signed by the Contractor. At times, the signatures were not clearly identifiable.
- f) Contracts failed to indicate the date when the agreement was actually entered into and the respective duration. Consequently, it was difficult to ascertain whether an agreement had expired or not.
- g) Contracts entered into exceeded a three-year period, which is the maximum allowed by the pertinent regulations.
- h) Instances were noted whereby contracts were either signed before the Letter of Acceptance was issued or months after the respective service started to be provided.
- i) Purchase Orders adjusted manually.
- j) The period between the date of publication of the tender and the closing date for the submission of tenders was less than the established period of one month.
- k) Schedule of offers neither dated nor underlined, thus it was impossible to determine the date when the call for offers ended and to indicate cut-off after the last bidder.
- l) In the event that only one applicant submitted its offer, a further call for tenders was not issued.
- m) Tender documents, such as Performance Guarantee and Performance Bond, either not provided within seven days from when the contract was awarded or not provided at all. However, the Council still continued with the execution of the contract.
- n) One Performance Bond provided in respect of two separate contracts.
- o) Performance Guarantee provided by the Contractor expired before the prescribed time period. At times, this even expired prior to the commencement of work and the Council did not request an extension.
- p) Obligatory tender documents not duly filled in by the Contractor.
- q) No valid reason was provided as justification for not choosing the cheapest offer.
- r) The Council did not maintain a copy of the third party liability insurance provided by Contractors.

SALARIES

- a) Income Tax and National Insurance contributions were not being remitted to the Inland Revenue Department (IRD) on a timely basis.
- b) Besides not always submitted on time, declarations sent to IRD were incorrect, for example, amounts paid were understated, or declared twice, incorrect details were given regarding dates of employment and part-time emoluments recognised as fringe benefits.
- c) The Payee Status declaration forms (FS4) not submitted to IRD.
- d) At times, no payslips were issued to Council's employees or these lacked necessary details.
- e) The Council was applying different tax rates to different type of income.

- f) The Performance Bonus paid to the Executive Secretary was approved and paid immediately, without drawing up appraisal reports and obtaining approval from Director (DLG) as required by the pertinent regulations.
- g) Mayor's honorarium paid for 2011 was slightly higher/lower than the statutory limit. In one particular case a full year Honoraria was paid, despite that appointment was effected during the year.
- h) Performance Bonus pertaining to the Executive Secretary, who resigned in May 2010, was still unpaid by 31 December 2011.
- i) Performance Bonuses incorrectly calculated. These were worked and paid out based on wages payable during 2012, rather than on those applicable during 2011. At times, these were not accrued for as necessary.
- j) Whilst certain instances were noted whereby salaries paid were still being accrued for, other cases were encountered whereby wages paid were not accounted for.
- k) The increase in salary that was due to one of the employees as from 1 December 2011 was not reflected in her December salary of 2011.
- l) Salaries and allowances paid, as well as the applicable Income Tax and National Insurance contribution, were not being posted in the correct Nominal Account.
- e) Negative balances in the Receivables Control Account.
- f) Amounts received during the year, in relation to Receivables' balances brought forward, were treated as income instead of being accounted for as settlement of the receivables brought forward.
- g) Income still receivable at year-end neither recognised as Accrued Income nor as a Contingent Asset.
- h) Accrued Income receivable for reinstatement works carried out on behalf of WSC, was based on an estimate of the Council, and was not supported by a list of actual works performed. Thus, LGA could not confirm the amount recognised in the Financial Statements.
- i) Grant receivable, on an activity carried out during 2010, was still pending since the Council did not provide DLG with proper tax invoices to cover expenses incurred in connection with this event.
- j) Receipts received in 2011 were accounted for in subsequent year.

Receivables

- a) Councils' receivables still included amounts which have been pending for several years, and which at times are no longer recoverable.
- b) Balances as per Debtors' List do not reconcile to Debtors' Control Account.
- c) No explanation was forthcoming from the Council in view of the amounts disclosed under Other Receivables.
- d) Amounts due from debtor was over/understated due to invoices/receipts posted twice or not posted at all.
- Payables**
- a) Included with Payables are overdue balances as well as accrued costs, which have been brought forward from previous year and were never followed up.
- b) Creditors' List as at 31 December 2011 did not agree to Creditors' Control Account and the respective amount recognised in the Financial Statements.
- c) Regular reconciliations with suppliers' statements were not being carried out with the consequence that amounts included in the Financial Statements were not accurate. Thus, discrepancies were not investigated.
- d) Invoices received during the year under review, and/or payments effected, either were not posted in the books of accounts, thus resulting in unrecorded liabilities, or posted twice.
- e) Included in the List of Creditors there were debit balances, which in certain instances

have been brought forward from previous years, representing either overpaid amounts to suppliers or payments against which an invoice was not accounted for.

- f) Overpayments made in prior period were still not recouped up to end 2011.
- g) Amounts due to a particular supplier booked in an incorrect supplier's account.
- h) Liabilities written-off were not backed up by written consent from the concerned supplier, confirming that the respective amounts are no longer due.
- i) Differences between Creditors' balances brought forward from previous years.
- j) Council is still unable to distinguish between Creditors and Accruals.
- k) Payables not paid within the maximum time credit period.
- l) Amounts in dispute with service providers are not disclosed as Contingent Liabilities in the Financial Statements.
- m) Contractors' Guarantees as disclosed in the Financial Statements are overstated.
- n) Short-term payables disclosed as long-term, thus effecting the Working Capital.

Cash and Cash Equivalents

- a) Bank reconciliations are not always carried out. When these are performed, they are either done manually or through Microsoft Excel rather than in Sage.
- b) Unreconciled discrepancies between Bank reconciliation prepared by the Council and the actual Bank balance.
- c) Bank accounts in the name of a third party, thus not legally falling under the responsibility of the Council are included in the General Ledger and *vice-versa i.e.*, bank accounts held by the Councils not recognised in the books of accounts.
- d) As per bank confirmation letter, a particular bank account has been closed down. However, as per accounting records such bank account is still active and has a balance at year-end.
- e) Entries in the nominal ledger bank accounts are posted in batches, thus making it difficult for LGA to trace particular bank transactions.
- f) Bank deposit sheet not prepared, consequently it cannot be ascertained that all receipts have been deposited.
- g) Cheques issued on 30 December 2011, erroneously posted in the accounting system dated 30 January 2012, resulting in the expenses paid being accounted for as Accruals.
- h) Cheque payment included in the list of unrepresented cheques could not be traced to the respective Payment Voucher.
- i) Stale and/or cancelled cheques not written off and reversed accordingly from the accounting system.
- j) Cheque stubs are undated and do not contain payee details.
- k) Bank interest received/receivable not accounted for.
- l) Despite that, the Council is a non-taxable entity, a final withholding tax was charged on interest received on the savings deposit account.
- m) The bank was not notified with the change in the Executive Secretary. Consequently, it is still showing the outgoing Secretary as the main signatory.
- n) Bank Guarantees included in the Financial Statements could not be traced to bank letters.
- o) Current portion of bank loan, as disclosed in the Financial Statements, is incorrectly calculated.
- p) Cash held at Council premises higher than the maximum threshold stipulated by the pertinent regulations.
- q) Differences identified between amounts as per physical cash count and amounts as per accounting records.
- r) Cash balance at year-end does not reflect the actual cash in hand, but simply a balance created

- in the Nominal Ledger, which is being left there from year to year.
- s) The Council is not maintaining an Imprest System for Petty Cash.
 - t) When the Council runs out of Petty Cash, this is topped up personally by either the Executive Secretary or one of the Clerks, who are then reimbursed.
 - u) Cash received at the Council's reception desk was not being passed on a timely basis to the employee in charge of cash.
 - v) Petty Cash expenditure not approved in Councils' meetings.
 - w) Petty Cash Sheet either not prepared at all or does not include a detailed analysis of the expenditure.
 - x) Petty Cash payments not accounted for, or accounted for twice.
- c) Official documentation, including Quarterly Reports, the approved Financial Statements, the Budget, and the reply to the Management Letter, not prepared and approved on time, at times not filed at all.
 - d) Payments made before being approved in the Local Council's meeting.
 - e) Internet Banking Facility not limited for 'viewing' purposes only.
 - f) The Council has not approved all minutes due to disagreement on their correctness and consequently are not available for public scrutiny.
 - g) Councils' minutes and Schedule of Payments were not always uploaded on the respective Councils' website on time. Furthermore, Schedule of Payments uploaded on the website were not signed accordingly, and had missing important information, such as Purchase Order number and Cheque number.
 - h) Council's minutes are not bound on an annual basis and it was also noted that not all minutes follow sequential numbering.

Invoices and Receipts

- a) Invoices certified correct after effecting payment.
- b) Receipt books not issued in sequential order.
- c) Amounts receivable are not always covered by a proper serial enumerated invoice. Where an invoice is issued, this is not raised through the Sage accounting system, but is issued manually using Word application.
- d) Receipts, with respect to income received from the use of heavy vehicles, were not provided for audit purposes, despite that these were requested on several occasions.
- i) Council meetings commenced before the established time without obtaining the respective Councillors' approval. These lasted for more than the three-hour maximum duration. Furthermore, the minutes failed to indicate the time of the meeting's adjournment.
- j) Inconsistencies were noted between attendance sheets of Council's meetings provided by the Council and members present recorded in the respective minutes.
- k) Council meeting not held within five weeks from the immediately preceding meeting.

Non-compliance with certain Provisions outlined in the Subsidiary Legislation

- a) Lack of organisation in the upkeep of documentation and updating of the Council's accounting records.
- b) LGA was not provided with all official documentation requested.
- l) Procurement of litterbins and street signs not accounted for on replacement value, as specified in Memo 121/2011.
- m) A list of Grants Receivables, as required by the above-mentioned Memo, was not prepared.
- n) Insurance Health Policy still includes individuals who are no longer Council members.

- o) The Council is not maintaining an electronic logbook, in terms of rule 18(5)(c) of the Fringe Benefit Regulations, in view of fuel reimbursement.
- p) Capital commitments were not always disclosed in the Financial Statements. The business plan at times was also not finalised by the time of audit, thus LGA was not in a position to verify the Capital Commitments entered into by the Council.

Other Particular Concerns

As part of the audit methodology, LGAs went through the prior year Management Letter points to identify whether the shortcomings highlighted in the preceding period were addressed or not. It resulted that a number of the mentioned weaknesses were not addressed and/or the respective recommendations were not taken on board by certain Local Councils.

A number of other concerns warranting separate mention, occurring at a number of Local Councils and Regional Committees, are highlighted hereafter together with the Council's comments, if any, relative to each.

Attard

The selection process, as dictated by the Local Councils (Tendering) Procedures, was not adhered to, for the purchasing of services for construction works, since no public call for tenders was issued. The total paid in this respect amounted to €9,289.

The Council will try to follow all procurement procedures and tendering regulations.

Whilst the annual budget for 2012 indicates a Capital Expenditure of €178,000, Capital Commitments as disclosed in the Financial Statements was nil.

The Council noted such issue and it will abide by all regulations. Financial Statements will be prepared in accordance with IFRSs.

Depreciation charge for the year, as disclosed in the accounting records, was understated by €9,916 when compared to that calculated by the Plant Register Software. An audit adjustment was passed to this effect. However, the Depreciation charge accounted for in the final Financial Statements was still €3,000 higher than that computed by LGA.

Assets under construction, costing €66,311, were included in FAR and Depreciation was erroneously charged thereon. The necessary adjustments were approved by the Council and reflected in the Financial Statements accordingly.

Our new Accountants are monitoring all assets, and recommendations given in respect of PPE will be taken on board.

Grants receivable and approved, for a project that had not yet commenced, were accounted for in full as Deferred Income. Since this project will be delayed until sufficient funds are available and until all other projects will be completed, following recommendations made by LGA, the Council approved to remove this Deferred Income amounting to €43,867, from the Council's records.

Such issues are being analysed by the new Accountants.

A Bank Guarantee amounting to €16,400, which was issued by the Council in favour of MEPA, was not disclosed as a Contingent Liability.

On the other hand, included with Contingent Liabilities are two amounts, totalling €10,885, due to two service providers. Such balances, which have been outstanding for several years, were expected to be included with Payables. The Council confirmed that no legal action was taken by the service providers.

Contingent Liabilities payable to these two service providers will be written off. As regards MEPA's guarantees, all amounts have now been returned to the Council, in line with MEPA new regulations, and thus these will no longer be disclosed as a Contingent Liability.

Grants receivable include a total amount of €110,184 due from MEPA for the construction of a playing field in 'Hal-Warda' Street. Despite that as per respective contract, this project was to be completed by November 2010, this was still ongoing at year-end 2011. However, the Council did not obtain an Addendum to extend the contract. Furthermore, another payment of €37,628 was received on 17 January 2012. This was also not covered by an extension of the contract to ensure compliance with all contractual conditions, and provide for amounts not receivable in the event of non-compliance.

Issue not addressed.

At year-end, the Council erroneously accrued for income receivable from WSC, amounting to €10,800, in respect of works, which were not actually carried out by the former. Subsequently the Council agreed to reverse this transaction.

The Council decided that these funds will not be requested. Thus, only the amount for 2010 will be passed on to the Local Council in respect of trenching works.

Upon verification of Accrued Income, it was noted that the amount of €7,349 receivable from WSC was erroneously reversed to LES income. The necessary audit adjustments were passed to rectify this error in the Financial Statements.

Journal entries were passed to relocate amounts erroneously transferred to LES income.

During the Christmas season, Councillors were provided with hampers, which in total cost the Council the amount of €246, in addition to the amount of €429 expended on the Christmas staff meal, organised for 26 persons, out of which 11 persons were Council's guests.

The Council will strive to abide with all standing regulations.

Balzan

The Council has long overdue balances of €21,543 payable to suppliers, which have been carried forward from preceding accounting periods. Of the aforementioned figure, the amount of €1,402 is owed to Public Cleansing Department, while the aggregate balance of €11,057 is due to three different private companies. Notwithstanding that all of these amounts are in dispute, the Council has not made any progress in resolving this matter. Included in the Creditors' List is also an amount of €5,590, which is owed to another private company. The amount is subject to a warrant of seizure by the Court, and therefore cannot be written off. Another balance of €2,329 is payable to a creditor in the name of 'Court Fees'.

This issue will be assessed and addressed by the Council. Furthermore, the amount of €5,590 owed to a limited liability company is subject to a warrant of seizure dated 7 December 2007, in favour of a construction company. Thus, this amount cannot be written off.

Included in the Financial Statements is an amount of €8,619 in respect of crane deposits that have not been claimed by the applicants, out of which €5,404 relates to permits issued between 2004 and 2010. In view of these long outstanding Payables, the Council is expected to evaluate whether these deposits will be actually refunded. If such probability is remote, the amounts in question are to be reversed, subject to Council's approval in meeting.

This issue will be assessed and addressed by the Council.

The Council's health insurance policy was noted to cover personal accident insurance on a worldwide basis, with a consequential higher premium.

Point noted.

From a review of the Council's minutes, it transpired that on three occasions the Council made donations either in cash or in books to schools. In total, the amount incurred by the Council in this regard amounted to €450.

In collaboration with the Primary Schools of Lija and Balzan, the Council has given books for their new library.

Birgu

The Council is still taking long to settle its amounts due, in view of the bad financial situation that it is in. In fact, Payables have slightly increased from €212,602 to €219,948, a rise of 3.5%.

Unfortunately, the Council has no other option other than taking long to settle its amounts due, as it is currently facing a cash flow problem. The Council in the beginning of its financial year envisaged to decrease its Creditors, but unfortunately it lost its litigation with one of its Contractors and had to pay the amount at the earliest to avoid unnecessary interest on the amount due. Moreover, the Council is still waiting to receive funds from the European projects that it is currently participating in.

A FAR to record Fixed Assets acquired, is being maintained by the Council. However, a number of items have been incorrectly categorised, with the consequence that an incorrect depreciation rate was applied and recognised in the Financial Statements. LGA is also of the opinion that there are material misstatements in the Depreciation provision and charge

for the year. However, there were no practicable procedures to quantify the amount with accuracy.

Comments were duly noted. The Council will try to effect the necessary adjustments. Furthermore, it will make a thorough review of its FAR, so as to be 'cleaned' up from assets with zero carrying value which were scrapped or do not exist anymore.

By the end of the year under review, works totalling €50,224 were undertaken at Auberge de France. Despite that this project was to be completed in 2012, the Council had already capitalised the cost of this project with Urban Improvements in the Financial Statements for 2011, rather than disclosing them separately.

Despite that 'Asset not yet capitalised' account was not created as a Nominal Account, the item was correctly treated in the Financial Statements and the Council is keeping a separate record in an Excel file as per LGA's recommendation. The Council will however address the situation by creating the relevant account in the Nominal Ledger.

Other instances were encountered whereby Recurrent Expenditure, amounting to €12,045, in relation to website maintenance, restoration of a niche, as well as upkeep costs on Urban Improvements, was treated as a Capital Expense and depreciated accordingly. In line with LGA's recommendation, the Council approved the necessary audit adjustments.

The treatment of capitalisation of restoration of the niche was based on a previous situation whereby the Auditors treated refurbishment of a public convenience as a Capital Expenditure, whereas in our draft accounts it was treated as Revenue Expenditure. The Auditors recommended that this should not be disclosed as Revenue Expenditure and consequently an adjustment in the accounts was posted. Furthermore, we are not aware that IAS 16 makes any distinction between refurbishment and restoration and so we feel that there was some inconsistency in the treatment of this item. Regarding website maintenance we acknowledge the error and the correct posting was effected in the accounts as per LGA's recommendations.

As at period-end, the Council provided for the amount of €114,429 as income accruing from LES. However, it transpired that such amount is overstated by €6,723 when reconciled to reports generated from the System. In addition, LES online Debtors due as at year-end were also overstated by €1,444. Following LGA's

recommendation, the Financial Statements were adjusted accordingly.

The Council would like to point out that there may have existed a possibility that the Datatrak system produces different amounts on two different occasions. The first when documentation is provided to the Accountant for posting in the Nominal Ledger and the second when the same reports are issued to the Auditor during the audit (a time frame of three months or more). The Council would also like to point out that it imposes strict control on LES reporting and it fails to understand the reason for such discrepancies.

It is understood that the Council is experiencing difficulties with the collection of fines, adjudicated in its favour by the Local Enforcement Tribunal. A Provision for Doubtful Debts amounting to €73,994 was recognized, covering part of the outstanding fines pending from the period 1 January 2000 to 31 December 2010.

All recommendations for the management of the contravention system were fully noted. In the year 2010, an exercise done together with the Fgura Joint Committee helped to collect a considerable amount of the outstanding fines, which in turn worked out to collect as many as possible of the outstanding payments. However, for the Council to do this exercise on its own will result in an increase of expenses. The LES has now changed, where the responsibility falls directly under the Regional Committee and no longer under the responsibility of the Fgura Joint Committee.

The penalty of €4,592, which was imposed on the Council for the late filing of Financial Statements, was erroneously accounted for as a Prepayment rather than an Expense. Furthermore, whilst Prepayments brought forward from previous year were not reversed, Prepayments and Accrued Income at year-end, totalling €8,504, had been omitted from the Financial Statements. Additionally, a deposit of €1,185 received by the Council was used to reverse Prepayments rather than accounting for it against Other Creditors.

Similar errors were also noted with respect to Accruals, whereby expenses accrued at previous year-end, amounting to €3,877, were not reversed, while Accruals for the year were understated by €4,354. Furthermore, accrual of €3,335, related to invoices due in the preceding years, was accounted for during the year under review. The necessary audit adjustments were approved by the Council.

All comments were duly noted. Regarding the penalty for late filing of the Financial Statements, it is to be noted that on receipt of this deduction the Council issued a formal protest to DLG on the way the fines were imposed. The Council was of the impression that since a protest was lodged it was best to treat the amount as a Prepayment rather than expensing it.

Notwithstanding that the Council is carrying out regular reconciliations with all suppliers' statements, certain instances were still encountered, whereby invoices were either not being accounted for properly, or else have been accounted for twice. These misstatements amounted to an understatement of €6,822 in Trade Payables. However, following LGA's recommendation, the necessary audit adjustments were approved.

The Council is carrying out regular reconciliations and the Executive Secretary will make sure to continue undertaking the exercise to review all Creditors and ensuring that all balances are correct.

Testing carried out revealed that not all bank accounts are properly reconciled, in fact variances amounting to €1,064 were identified.

All comments were duly noted and the Executive Secretary will make sure that bank reconciliations will be done and statements obtained in time.

A Bank Guarantee of €4,150, issued in favour of MEPA, was not disclosed in the Financial Statements. Furthermore, despite that the Council included a note that it has a pending litigation with one of its Contractors, it failed to disclose the actual balance in dispute, which amounts to €2,861.

All comments were duly noted and recommendations adhered to.

Birkirkara

From the testing carried out it transpired that the Council was not always adhering to pertinent procurement regulations. Instances were encountered whereby payments for the procurement of goods and services were made without a call for tenders. For example, the acquisition of poles as well as consultancy services, costing €15,694 and €5,664 respectively, were procured following the acquisition of three quotations, when in line with the Local Councils (Financial) Regulations the amounts involved merited a call for tenders.

In general, tendering regulations are abided with. This shows from the high number of tenders issued during the year under review. In both cases, the Council had projected that the cost would not exceed the tendering thresholds. In view of this, a call for quotation had been made. Furthermore, there was an extension to the project, and even though the procedures call for the issue of a tender when a variation exceeding 20% takes place, the services providers could not be altered from those originally submitted as both services were related to EU and Urban Improvement Fund (UIF) applications. While any inconvenience is regretted, the Council will make sure that in such cases, it seeks the guidance of the legal section of DLG. Surely, though, one cannot say that the Council is not abiding with tendering procedures.

Budgeted amounts for Capital Expenditure, as well as for Administration and Operations and Maintenance expenses, were exceeded by €830,054 and €459,479 respectively. This again confirms that, either the annual budget has not been accurately prepared or the Council is not monitoring its Expenditure against the Budget.

It should be assured that the Annual Budget is prepared with due diligence and care. However, the Council experiences certain costs and obligations, which unfortunately are not covered by the annual financial allocation. In addition to that, there is no suitable comparison between the annual budget and the actual Financial Statements, since the former is prepared on a cash basis while the latter is prepared on an Accruals basis. So until this problem is addressed, this kind of analysis could not be made appropriately and reasonably.

Instances were encountered, whereby projects, which have been completed and also in use, were not capitalised and input in FAR, on the grounds that their total cost is not finalised and still in dispute with the Contractor. As a result, depreciation was not charged on these assets. Upon LGA's request, the Council determined that the total value of assets to be capitalised was €777,074 and the depreciation thereon should be €76,879. The Council approved to reclassify these assets from 'Assets under Construction' to 'Urban Improvements' (€87,463) and 'Special Programmes' (€689,611) and to increase depreciation charge on these assets by €76,879.

Despite the various efforts from the Council's end, the Contractor's main interest was solely to prolong the process to the detriment of appropriate record keeping

by the Council. Otherwise, the Council feels that its capitalisation process is correct.

The year-end of the Plant Register Software has remained at 31 March. Despite that, this did not affect the NBV of assets reported in the Plant Register Software, the report did not provide the Depreciation charge for the current year. Furthermore, Depreciation charge is calculated on an annual basis, as opposed to a monthly basis as disclosed in the Financial Statements. This resulted in a discrepancy of €14,000 between the Depreciation charge calculated from the accounting records and the Depreciation charge reported in the Financial Statements.

The respective suppliers have failed to adjust the year-end when they were asked to do so upon data conversion process when the accounting date was changed from 31 March to 31 December. For the umpteenth time, the Council shall ask the supplier to get this matter sorted once and for all. However, it is incorrect to state that Depreciation is being calculated on an annual basis. Depreciation is being actually calculated on a monthly basis and agrees with the aggregate Depreciation total in the Plant Register. The Council would like to know how the Auditors derived a discrepancy of €14,000 which, if found to be justified, implies that Local Councils are using a software which is working incorrectly. The Council is using Sage Pastel Evolution, which software was commissioned by DLG.

The Council occupies a building spread on three floors, which it intends to refurbish into a Child Care Centre. This property is surrounded and adjoined with other property held by a developer. For safety and functional reasons, both parties agreed that this Child Care Centre is developed on one floor, accessible from the adjoining public garden (ex. Railway Station). In view of this, on 18 March 2007, the Council and the developer entered into an agreement, whereby it was planned that this project ends up with the same area of circa 280 square metres. Work on the premises up to finishing stage was to be provided by the developer while in return the Council agreed to transfer to the former both the underlying and overlying floor without any consideration. Furthermore, upon the upgrade of the public garden, the developer will be authorised to finish his property with a new façade overlooking the public garden with terraces rather than back yards, as approved by the Council. For this servitude, the developer is to pay to the Council a consideration. At the end of the reporting period, although the project

had not yet commenced, the Council still disclosed the amount of €130,445 as Receivable from this developer, which amount has been brought forward since 2007. Moreover, third party documentation was not provided to support the fact that the Contractor still intends to pursue the project. A qualified audit opinion was issued in this respect.

Developments on the said project and ancillary agreement are monitored. The Council has been repeatedly told that the Lands Department are making their final preparations to devolve the gardens in question to the former; at which point the mentioned sum of €130,445 is expected to flow into the coffers of the Council. Unfortunately, this process is proving to be a lengthy one but finally the Council should be reaping the fruits of waiting. Upon recent check of the progress on this matter, the Council was now told that the application for devolution was forwarded to Parliament for final approval.

Up to audit date, the Council did not obtain a supplier statement from a particular Contractor and consequently reconciliation of the respective nominal ledger account (disclosing a Net Receivable balance of €3,760), was not performed. Furthermore, no supporting documentation was provided during the audit for the credit entries (€129,778) posted in the supplier's account. The Council claimed that the amounts posted in the books of accounts are based on estimates and not on certified valuations. Moreover, during the year under review, the amount in dispute with this Contractor increased to €129,670 (2010: €102,178). However, this balance is still not accounted for in the books of account and is only disclosed as a Contingent Liability in the Financial Statements.

The reconciliatory meeting between the Contractor and the Council has finally neared conclusion. All differences against the Council will be recorded as liability accordingly.

A difference of €10,116 (2010: €10,013) was also encountered between the balance payable, recorded in the Council's account to Environmental Landscapes Consortium (ELC) Limited and the supplier's statement. This balance relates to an amount in dispute that the Council still claims is due by the Ministry of Resources and Rural Affairs (MRRA). However, as at date of audit, a formal agreement had not been reached, confirming which party will have to settle the liability.

The Council has a confirmation in writing by MRRA that it will settle the amount outstanding. Despite

various exchange of communication, both with the supplier and the respective Ministry, the amount being shown as due by the Council was not shifted on to the Ministry. The Council will continue to put pressure in this respect.

When testing the Prepayments' List provided by the Council, it was noted that a prepayment for insurance coverage, amounting to €5,279, was not accounted for, while Accrued Income for Administrative Fees was overstated by €1,097. The necessary audit adjustments were incorporated in the final Financial Statements.

The omissions found in insurance coverage prepayment and overstatement in Administrative Fees Accrued Income is regretted. In fact, the Council has immediately taken action and approved the audit adjustments recommended by the Auditors. One has to note that these two minor shortcomings from a long list of Accruals and Prepayments were the pure fruit of a genuine oversight.

In its reply to the prior year's Management Letter, the Council confirmed that mobile phones are being used by IPSL workers employed by the Council in the performance of their duties and no bills are being paid, since calls to the Council were negotiated free of charge. However, from a review of the minutes of Council meetings, it transpired that the Mayor had confirmed that payments were in fact made for mobile calls to persons working outside the Council. Enquiries to the Executive Secretary also revealed that the Mayor is using a mobile phone at the expense of the Council.

This subject was brought up on several occasions during Council meetings and is mentioned in various minutes during the year 2011. The Mayor is stressing that Memo 109/2010 states that no private mobile bills are to be paid by the Council. This does not mean that the Council is not allowed to have any mobile phones registered in its name. In the past, the Council tried to make use of radios, however, being close to Mater Dei Hospital, due to interference emitted from Police and Ambulance radios, it was found to be impossible to convey a message. This resulted many times in workmen returning to our offices to check whether something urgent cropped up, leading to unnecessary loss of time and productivity. The Council feels that the intention of the aforementioned Memo was not to abolish this means of communication completely, but to implement control and curb down abuse. Not even the man in the street can do away without mobile phones in this day and age, let alone a Local Council.

As per bank confirmation letter obtained by LGA, the Council had issued a Bank Guarantee of €3,800 in favour of third parties. However, the former failed to disclose this Guarantee in the notes to the Financial Statements.

Furthermore, the Council received grants for the funding of road resurfacing for eight roads. However, only five roads were completed and the Council does not intend to resurface the remaining roads. From information provided by the Council, it was understood that the Department has the right to reclaim funds transferred if the contract is not honoured in full. However, such issue was not disclosed in the notes to the Financial Statements.

All valuable comments made by the Auditors are noted and will be addressed accordingly for the forthcoming year-ending 31 December 2012.

Out of its funds, the Council financed trophies costing €260, which were purchased for 'Infetti League', a payment of €106 to Civil Protection for St.Helen's Feast and the payment of €28 for the purchase of a fruit basket for the Horticultural Society. Furthermore, the Council approved to sponsor a theology course, costing €2,000, for a Council employee. Notwithstanding that, the Council stated that authorisation for the latter sponsorship was obtained from the Department, no supporting documentation was provided.

The first two instances mentioned by the Auditors related to an activity organised in collaboration with the Council and to support the locality's security during a fireworks display. The Council does not see the nature of these expenses as a donation. The purchase of a fruit basket relates to the Council's participation in a cultural event organised by the Malta Horticultural Society on a nation-wide level, surely not a donation. With respect to the sponsorship of degree course to one of its employee, the Council had been informed by the same employee that she was given clearance by DLG. As recommended by the Auditors, the Council shall seek to obtain this clearance in writing. In the absence thereof, the employee will have to refund back the money sponsored.

Birżebbuġa

In the previous year's Management Letter, it was noted that a difference of €449,461 existed between FAR, as maintained on Microsoft Excel, and the aggregate cost in the Nominal Ledger. This variance was still not

resolved by the time of the current year's audit, and a qualified audit opinion was issued in this respect.

As stated in the previous Management Letter, the Council has issued a call for quotations to reconcile the FAR with the Nominal Ledger. Such call for quotation was issued twice, since 2010. However, despite that, a competent Contractor was chosen and the exercise was performed, there are still differences in the FAR. It is important to note that in both instances, the Council did not pay the respective Contractor, since the job was not finished to specifications.

A prior year adjustment was passed to account for trenching works carried out in 2010. During the preceding year, the Council received from WSC lists of works carried out between 2007 and 2010, amounting to €69,400. However, only €58,650 was recognised in the Council's books of accounts. Furthermore, up to the date of audit, WSC has not yet instructed the Council to issue an invoice of €17,150 in relation to works performed during 2009.

Adjustments recommended by LGA were approved and were correctly reflected in the final set of the Financial Statements.

Costs incurred in respect of Capital Expenditure, Operations and Administrative Expenses as well as Personal Emoluments, exceeded the estimated budget by €326,082, €202,414 and €2,031, respectively.

The Council already follows the recommended procedure.

Included with Payables, the Council has long overdue balances of €4,824, which have been carried forward from preceding accounting periods. Out of this amount, the balance of €3,727 is due to WSC.

The Council will investigate these amounts and take the necessary action.

Bormla

It is understood that the Council is experiencing certain difficulties with the collection of fines adjudicated in its favour by the Local Enforcement Tribunal. As at period-end, outstanding balances amounted to €336,113, out of which the amount of €257,917 relates to the period 1 January 2000 to 31 December 2009. In addition to this, one fourth of the Trade Receivables

(€6,276), recognised in the Financial Statements, have also been due for more than one year. Adequate provision of €264,193 has been taken in view of the aforementioned debts, however the Council should ensure that its debt collection procedures are strong enough to shorten this collection period, given that, the Council's financial situation is already in a difficult position.

The issue with respect to LES Debtors will be raised at the Regional Committee Meeting. On the other hand, as correctly stated by the Auditors, the amount of €6,276 has been due for more than one year. However, during the period under review, the Council increased the provision against these Debtors. The Auditor's recommendations will be implemented during 2012.

In accordance with an agreement signed by the Council some years ago, EU had to refund 75% of the expenditure incurred by the former in respect of a project titled 'E-MED IT'. Based on the final certificates and claims issued, the total refund that is still due to the Council amounts to €107,990, which amount is included under Receivables. At the same time, included under Payables, there is an advance of €122,516 that was provided by the Ministry for Justice and Home Affairs to the Council in order to finance the said project. On the ground that no confirmation was provided, as to whether the amounts in question, as recognised in the Financial Statements are still recoverable and due by the Council, a qualified audit opinion was issued in this respect.

Further to the above, in 2010, the Council recognised the loan provided in line with the provisions of IAS 20 – Accounting for Government Grants and Disclosure of Government Assistance, and has accounted for effective interest on the loan, which interest amounted to €7,290. However, although no change in accounting policy has been made in this regard by the Council, no interest was charged in 2011.

The Council is chasing DLG with a view to get this matter over and done with.

Included in the unaudited Financial Statements was an amount of €10,900 receivable from WSC for road reinstatement works carried out between 2009 and 2010. However, according to the documentation provided for audit purposes, only an amount of €2,900 has been confirmed by WSC to-date. Following LGA's recommendation, the Council has approved the necessary audit adjustments.

The Council amended the Financial Statements, following an audit adjustment. It is important to point out that Accrued Income as calculated by the Council amounted to €6,950 in view of works carried out during 2009, and €3,950 in respect of works carried out between January and July 2010. These amounts were based on official documentation compiled by the Council's administration. In fact, the Council has just received the amount of €3,950 for the period January – July 2010, which implies that the calculations made by the Council were correct.

The Council has incorrectly categorised a number of assets, with the consequence that these are being depreciated at a different rate.

The Council should proceed with these adjustments in FAR. The Depreciation will be revised in the following year, whilst the necessary adjustments will be made to correct the wrong postings.

Grants received in the past years, amounting to €113,906, were written off against the cost of Fixed Assets, thus understating the value of such assets. An audit adjustment was passed to reverse this entry, as well as adjusting the Depreciation and disposal entries arising thereupon. However, the adjustment passed to re-instate back Depreciation written off was not correctly accounted for.

Point noted. The related adjustments were passed in the Financial Statements.

The Council paid the amount of €701 for an annual Christmas dinner organised for its staff. The amount spent on this activity is higher than that permitted by Memo 8/2011.

Point not properly addressed, since Memo referred to by the Council has been superseded.

The cost of €480, incurred for installing an air-conditioner at the local Police Station was financed from the Council's funds.

The Council sought the permission of the Commissioner of Police for the installation of an air conditioning unit in the Police Station. In this case, the Council would like to point out that all policemen stationed in Bormla appreciated this donation and are now cooperating with the Bormla Local Council even more for the benefit of the locality and its community.

Dingli

Throughout the year under review, accountancy services amounting to €1,453 were procured through a direct order, when the amount incurred required a call for quotations. Furthermore, the respective payments were not supported by a fiscal receipt.

LGA's observation was noted. The Council has always asked for proper fiscal receipts from all its suppliers.

Several unpaid expenditure was not accrued for at year-end. For example, no accrual was provided for road resurfacing expenses relating to PPP project, amounting to €192,676, resulting also in an understatement of 'Assets not yet Capitalised'.

Unpaid Performance Bonuses, Transport Expenses as well as Refuse Collection and Waste Disposal Expenses were also overlooked. However, through the audit adjustments proposed by LGA, the final set of Financial Statements was amended accordingly.

Books of accounts are kept in line with the Accruals Concept. The Council shall ensure that all accrued expenditure is included in its books properly.

The Council capitalised the amounts of €104,813, covering PPP road-resurfacing projects, which were still incomplete as at, end of the year 2011, and subsequently started depreciating these assets during the same year. Several audit adjustments were proposed and approved by the Council to address incorrect accounting treatment undertaken by the Council.

The accounting rules with respect to assets under construction shall be applied in the future. In the meantime, the adjustments recommended by the Auditor have been effected.

The bank reconciliations were only provided for two out of four bank accounts held by the Council. The Nominal Ledger balance of the other two bank accounts, relating to two EU funded projects, did not agree with the balances as per bank statements, since several transactions were completely omitted from the accounts. Discrepancies between the bank statements and nominal Bank balances amounted to €3,483 and €29,491 respectively. Such omissions also triggered misstatements in 'Assets not yet Capitalised', amounting to €142,230, Deferred Income totalling €108,887 and Interest Receivable of €369. The

necessary adjustments were then approved by the Council and were correctly reflected in the final set of Financial Statements.

The Executive Secretary was asked to co-ordinate with the Accountant to ensure that bank reconciliations are carried out regularly.

The Local Council has also provided for Accrued Income incorrectly. Road resurfacing grants receivable under PPP Scheme, as well as UIF receivable, were both under-accrued by €28,450 and €8,490 respectively. Correct amounts for income charged in respect of recycled waste. Dues from WSC, and income from LES contraventions, were only properly accounted for following LGA's recommendation to carry out the necessary audit adjustments.

The Council noted the Auditor's recommendation and asked the Executive Secretary to ensure that all Prepayments and Accrued Income is accounted for properly.

The FAR provided by the Council is not appropriately maintained. Consequently, the Auditor was limited in testing carried out to verify the physical existence of the Fixed Assets held by the Council. Furthermore, Depreciation is not being calculated and posted through the FAR in Sage Pastel Evolution, as required by the Financial Procedures, but it is being calculated on a spreadsheet, resulting in an overstated figure of €8,433. Additionally, certain assets capitalised during the period under review were not included in the correct category. In view of the fact that there were no other practical ways of obtaining reasonable assurance on the completeness of the Fixed Assets, and the Depreciation calculated thereupon recorded in the Financial Statements, a qualified audit opinion was issued.

The Council did maintain a FAR. However, due to computer failure, the respective data was lost. An attempt is being made to compile a new FAR from data available on old back-ups of Sage Line 50. Once all data is recovered, the Auditor's recommendations will be implemented and the Depreciation charge will be calculated using the month-end routine as required by the Financial Regulations.

A total of €5,953 was paid by the Council in relation to the organisation of 'Jum Had-Dingli', thus exceeding the maximum allowable limit stipulated in Memo 122/2010, stating that such expenditure should not

exceed €3,500 or 0.5% of the Annual Government Allocation (which in this case amounted to €1,456), whichever is the highest.

The Council shall ensure that expenditure for 'Jum Had-Dingli' shall in future be in line with the established limits.

The Council failed to disclose guarantees amounting to €10,000, which were issued in favour of MEPA.

The Council shall ensure that all Contingent Liabilities are properly disclosed in its Financial Statements.

Fgura

Capital Commitments as disclosed in the Financial Statements are overstated by €490,832, when compared to those included in the Budget for 2012.

The Council finds this remark as acceptable. It shall be taking the recommended action.

One may conclude that the Council is experiencing certain difficulties with the collection of fines, adjudicated in its favour by the Local Enforcement Tribunal, since fines amounting to €350,904 are still pending from the period 1 January 2000 to 31 December 2009, in respect of which the Council has taken a full Provision for Doubtful Debts.

This is an issue, which is affecting all Local Councils. This matter should be tackled through the Licensing and Testing Department, DLG and LCA. LGA acknowledges the fact that the Council has taken prudent steps in this context, and has recognised a provision to cover the long outstanding debts that the Licensing and Testing Department should have collected.

During the year under review, sales invoices totalling €48,550 were issued to WSC in respect of reinstatement works carried out by the Council during 2008 and 2009. The full amount was accounted for as receivables in 2011, notwithstanding that in previous years the Council had already recognised the total amount of €28,756. Consequently, at period-end both Trade Debtors and Income were overstated by the aforementioned amount. The Council approved the relevant adjustments and the Financial Statements were revised accordingly.

The necessary adjustments were undertaken.

The Council is not carrying out regular reconciliations of its Creditors. For example, despite that the Council declared that a particular supplier was paid a full and final settlement in February 2011, an outstanding balance of €7,354 is still recognised in favour of this service provider for invoices raised prior to 2011. In another instance, the balance due to a creditor as reported by the Council is overstated by €1,423 when compared to the balance confirmed by the same creditor. On the other hand, the amount disclosed by the Council as due to WasteServ Malta Ltd is understated by €18,356 when tallied to the respective supplier's statement. Furthermore, an invoice of €472 received in respect of software upgrade was omitted from the books of accounts, resulting in a negative balance in the Creditor's Control Account. Following LGA's recommendation, the Council included this invoice in its books.

Additionally, the Payables balance includes amounts, totalling €56,253, which are long overdue, with some balances outstanding for over five years. The Council has sought legal advice concerning some of these amounts.

The Council is reviewing all its Payables' balances with a view to reconcile to the suppliers' statement, write off any old balances that are now beyond the five-year prescription period, and trace reasons behind any resulting debit balances.

In last year's report, it was highlighted that no internal call for applications was issued prior to the appointment of a Council employee to the maximum of Salary Scale 11. The employee did not satisfy the basis on which the promotion was awarded, mainly because the required time-period from the last promotion had not yet elapsed, and the employee did not hold the required stipulated minimum qualifications for the post. In addition, the promotion to the maximum of Scale 11 was awarded in breach of Article 9 of the Collective Agreement, stipulating that any promoted employee is placed at two notches below the maximum of the new scale.

The Council has sought guidance from DLG on the matter through a correspondence dated 23 March 2010, however, no feedback was given by the latter. A year later, it was noted that the Council had stopped chasing the Department for such reply, notwithstanding the shortcomings mentioned.

The Council cannot understand why the Auditors are recommending that the Council should ask for guidance in this regard. While such guidance has been sought already, the Council adopted a motion with an unanimous vote. The motion clearly states that the employee should in no way be penalised in view of the considerations made in the same motion.

During the year under review, the amount of €3,740 was expensed in respect of 'Jum il-Fgura'. However, from documentation provided by the Council, it resulted that the cost for this event was understated by €1,904, being expenses accounted for in the wrong account. Following LGA's recommendation, the Council approved the necessary audit adjustments.

However, given the revised actual cost of €5,704, it is pertinent to note that expenditure incurred for the organisation of the aforementioned activity, exceeded the maximum threshold specified in Memo 122/2010 by €2,204.

The total amount of expenses quoted by LGA also included expenses made during other activities held by the Council and other items, which were kept in stock following this event. While the Council does not agree with the Auditors' observation, it shall be abiding with its recommendation.

The Financial Statements failed to disclose Contingent Liabilities of approximately €3,800, in relation to claims made by residents who suffered damages caused from the demolition of the Council's building to construct the new premises.

The Council has taken note of the matters raised and will be checking the Financial Statements so that the errors will not be repeated.

Floriana

A proper FAR is not being maintained in line with best practice and in terms of the Local Councils (Financial) Procedures. The Council has so far prepared a form of a FAR, on an Excel Spreadsheet up to 31 December 2010, and it has exported to Excel the Nominal Account for the 2011 additions. However, this approach is limited since it does not provide the necessary details, and the Depreciation workings vary from that calculated by SAGE's integrated FAR.

Furthermore, a lift which was installed during the year under review, and which payment was made by two different cheques, was allocated to two different categories. Whilst the amount of €5,569 was recognised under 'Construction', with a Depreciation rate of 10%, the balance of €14,334 was accounted for under 'Office Furniture' at a 7.5% Depreciation rate. The Council approved the reversal of such entries and recognised the new asset addition under Plant and Machinery, and a 20% Depreciation charge was calculated thereon.

As witnessed by the same LGA, the Council has already prepared the FAR, which only needs some minor updates in order to import it to the appropriate software. LGA's recommendation will also be taken into consideration.

Capital Commitments of €69,500 in respect of 'Urban Improvements', and €3,000 in relation to 'Street Furniture' were completely omitted from the books of accounts. Following LGA's recommendation, the Council incorporated such commitments in the Financial Statements.

It was noted that LGA listed the capital plans mentioned in the annual estimates for 2012. These do not reflect the Capital Commitments authorised or contracted but not yet incurred during the year under review. It simply reflects the Council's plans for the following year. A project to be authorised or contracted must have a Council's decision to issue a call for tenders, which is consequently awarded.

No proper stock control system and accounting is in force in respect of inventories, comprising books and CDs held by the Council. In fact, no stock movement was recognised in the books of accounts, despite the fact that during the year there were sales as well as purchases. Thus, the stock figure of €13,397, as disclosed in the Financial Statements, remained unchanged. As per information provided by the same Council, this should have amounted to €25,723, being the Net Realisable Value, since no information of the cost is available. Furthermore, purchases of books, amounting to €885, and DVDs totalling €1,115 have been expensed rather than accounted for as inventories in the Statement of Financial Position. Additionally, this stock is not insured. Thus, in case of theft, fire or any other accident, the Council will not be in a position to recover any losses incurred. LGA's audit opinion was qualified in this respect.

The Council will be effecting a year-end stock take and then on monthly basis spot checks will be performed

randomly on items listed in the stock list. Moreover, the stock list is now being compiled on an Excel sheet, whereby movements in stocks are being recorded on a daily basis.

Fines generated within the LES proved to be one of the relevant sources of income for the Council. A variance of €8,924 was noted between the amount of tickets issued in Floriana from January to August 2011, and the amount disclosed in the Financial Statements. Following an audit adjustment, this discrepancy was reduced to €3,766. Since reasonable assurance on the accounting methodology used by the Council to record income from contraventions generated by the LES was not obtained, a qualified audit opinion was issued in this respect.

Point not addressed.

LES tribunal pending payments (€208,219), as well as the related Provision for Doubtful Debts (€122,943), as recognised in the unaudited Financial Statements, were both understated by €5,001 and €30,747 respectively, when compared to amounts as per reports extracted from the system. Following LGA's recommendation, the Financial Statements were amended accordingly.

It was also noted that amounts receivable (€19,140) from contraventions issued at Floriana, but which were paid at another Local Council, were accounted for as cash in transit, rather than as Debtors.

Audit adjustments, as proposed by LGA, were accepted by the Council and in fact the Financial Statements were adjusted accordingly. This issue will be minimised in future audits, due to the fact that as from 1 September 2011, Councils started forming part of Regional Committees.

Pre-paid expenses, as recognised in the books of accounts, were understated by €1,397. On the other hand, income of €9,050, which was accrued for in the preceding year, was not reversed accordingly, despite that the amount of €5,650 was received by the Council during the year under review. Following LGA's recommendation, the Financial Statements were adjusted accordingly.

The Council took note and made the necessary adjustments, and for future audits, expenses will be matched with the respective years.

Errors were also noted in accounting for Accrued Expenditure, whereby Opening Accruals of €17,774

were not duly reversed. In addition, Accruals were overstated by €4,200 since an accrued amount of €436 was erroneously posted as €4,636. Furthermore, €48,183 was disclosed as Accruals when the amount should have been posted as Payables, while Accrued Expenses of €6,670 were completely omitted from the books of accounts. The Council approved the audit adjustments proposed by LGA, in this respect.

The Council has taken note accordingly, and made the necessary adjustments indicated by LGA.

The Council is not accounting for invoices received from its suppliers on a regular basis. Moreover, no reconciliations with suppliers' statements are being undertaken as evidenced hereafter. For example, on two separate instances, payment made to a particular supplier was erroneously entered into the account of a different service provider. Furthermore, the Council has no information on a negative balance of €7,529 in respect of another supplier included in the Creditors' List. In another case, the balance due to the supplier as disclosed in the books of accounts is understated by €289 when compared to that in the supplier's statement. On the other hand, whilst the Council recognised the amount of €4,253 payable to a particular service provider, LGAs were made to understand that there is no balance due. In another instance, a difference of €17,317 was noted between the balance disclosed in the books of accounts and that recorded in the supplier statements. Such difference resulted from the fact that three invoices, issued by the respective service provider during the year under review, were not accounted for. Moreover, from the post year-end Schedule of Payments, it transpired that the amount of €77,138, for which an invoice was issued during 2011, was not accounted for in its entirety but only €48,183 of the said amount was accrued for. In addition to the above shortcomings, a Suspense Account with a balance of €1,284 was included with Payables. According to the Council, this amount is a balancing figure.

In 2012, the Council has adopted a new policy, whereby any invoice received and certified by the Executive Secretary will be updated in the Nominal Ledger accounts, therefore the issue of not recording creditors in the respective period should be eliminated.

Supporting documentation requested by LGA, to cover accrued expenses of €47,294 in respect of the New Year's Eve activity, advance payments amounting to €7,242 and an amount payable of €2,029, which was

brought forward from previous year, was not provided by the Council. As a result, it could not be ensured that the amounts are appropriately accounted for in the Financial Statements. Thus, a qualified audit opinion was issued in this respect.

With regards to the accrued amount of €47,294, the Local Council had calculated for expenses that had been incurred during the New Year's Eve activity, but in respect of which no invoices were yet received.

The balance of a bank current account as per Nominal Ledger did not agree to the bank statement by €868. Additional variances were also noted in the reconciliation of another two bank accounts.

The Council shall make its best endeavours so that after inputting all the transactions related to purchases made and income received by the Council, bank reconciliations will be effected immediately.

Expenses incurred in relation to activities carried out as part of the twinning project with 'Comune di Macerata', in Italy, substantially exceeded the maximum limit that could be expended in this respect, as laid down in pertinent regulations. Whilst LN 144 of 2009 specifies that the budget in this respect should not exceed the maximum of €3,500 or 0.5% of the Government Allocation, in which case amounts to €1,570, the actual amount incurred by the Council totalled €7,655, out of which the amount of €2,348 was funded through a European programme titled 'Europe for Citizens'.

One has to consider that this was a one-time activity, under a European Programme – 'Europe for Citizens'. Band clubs of the twinned towns were each invited on this cross border programme.

The Council can be considered to have provided donations in kind, such as the amount of €1,400 given to each fireworks factory that participated in the Fireworks Festival. An additional amount of €7,408 was paid to a band club for services carried out in the locality, which payments were not covered by a fiscal receipt.

A number of different fireworks factories, each with specific conditions, at a price, which varied between one factory and another, were engaged by the Council. Only one factory exceeded the €1,165 threshold, due to the fact that it included the winning prize, on which the Council had no control. Thus, no donations in kind

were provided. On the other hand, following a call for quotations, the Vilhena Band Club was contracted to manufacture new Christmas street lighting amounting to €3,106.50. The remaining €4,301.20 was paid for band service activities held by the Council throughout the year.

A Bank Guarantee of €1,000, issued in favour of MEPA, was not duly disclosed in the Financial Statements. Eventually, this Guarantee was expensed rather than recognised as a Receivable. The Council approved the necessary audit adjustments.

The Council adjusted the Financial Statements to include the respective Contingent Liability.

Fontana

The cost of assets in FAR is lower than that recorded in the Nominal Ledger by €37,741, which difference hints that additions acquired during the preceding year were not included in the former. Furthermore, total accumulated Depreciation in FAR, which stood at €128,099, remained unchanged from the prior year, with the consequence that this did not tally with the total Depreciation plus Grants in the Nominal Ledger, which amounted to €269,942. Thus, NBV as reported in FAR was higher than that disclosed in the Nominal Ledger by €104,102.

The FAR does not agree with the Nominal Ledger since in previous years LGA has adjusted the latter. When such adjustments are made, the FAR needs to be reconstructed completely in order to agree with the adjustments made to the Depreciation, and consequently the NBV of Assets. A reconciliation exercise will need to be carried out whereby the FAR will need to be reconstructed and brought in line with the Nominal Ledger.

It also transpired that the Depreciation charge for the year, as calculated by the Council, was incorrect. Following a re-calculation of the Depreciation expense by LGA, audit adjustments amounting to €3,649 were passed.

The adjustments recommended by LGA were accounted for in the Financial Statements submitted to NAO.

Decorative luminaries purchased during the year under review, for the total amount of €20,105, were not being depreciated in accordance with the Local Councils' accounting policies, which state that lights are to be

fully depreciated in the year of purchase. Instead, a Depreciation rate of 10% per annum, calculated on the reducing monthly basis method, has been applied.

Point not addressed.

The Council failed to recognise amount still receivable at year-end, under the Eco-Gozo Scheme, in respect of projects that were fully completed and capitalised during the year. This implies that both Accrued Income and Deferred Income at year-end were understated by €14,066.

Inconsistencies were noted in the amortisation of Deferred Income, resulting in incorrect amounts being released to the Statement of Comprehensive Income. Consequently, income for the year was understated by €11,063, whilst Payables were overstated by the same amount. Following LGA's recommendation, the Financial Statements were adjusted accordingly.

The adjustments recommended by LGA were accounted for in the Financial Statements, submitted to NAO.

At year-end, the Council was accounting for certain amounts as receivables when these were already received during the year. The amounts received were instead erroneously posted as income for the year under review. This income related to Government grants, which were accrued for during previous years. An audit adjustment amounting to €6,000 was passed in this respect to reclassify the income received against the Accrued Income.

The recommendations made by the Auditor have been noted, and the necessary adjustments have been carried out in the Financial Statements.

Gudja

No progress was registered by the Council, in resolving a dispute with a private limited company, which has been pending for a number of years. The balance, which is currently being disputed before Law Courts, amounts to €24,100.

The court case is being delayed as the creditor does not always appear for Court sittings and fails to present documents requested by the Court. However, the Council is still following this court case closely. The latter agrees with LGA's recommendation to await the outcome of the Court proceedings and to update the books of account accordingly with the outcome.

The Council's Assets as well as Accident Insurance Policies were not renewed in February 2011. LGAs were informed that the Council has weighed the cost of insurance with the benefits and concluded that the current terms and exclusions of the policies do not provide satisfactory coverage for the premium paid. Meanwhile, the Minutes of the Council do not indicate that the latter discussed or approved the termination of the insurance policies.

In order to secure the ongoing operations of the Council and to promote the well-being of the locality, the Council requested to look into the hazards and perils being faced by the Council. The Council also considered the value at risk and the cover of the current insurance policy. In view of the prevailing position, the current policy left the Council in the position of being insured but not covered, as the exclusions were much higher than the inclusions. The Council is now engaging the service of an insurance broker to seek and obtain a comprehensive insurance policy, to obtain the maximum cover possible and the best value for money.

Included with 'Assets under Construction' are resurfacing works that were completed in 2011, but which were not certified for payment by the Contract Manager before year-end. Notwithstanding this, the Schedules of Payment indicate that the Council has already paid more than half of these works during the year under review.

Payment has been effected as approved by the Contract Manager. The latter and the Council approved that these works were satisfactorily carried out and payment authorised by the Council as appropriate.

An interim payment of €9,903 for the construction of a footpath was erroneously classified with trees in the Accounts. However, this was correctly classified with Urban Improvements in FAR. An audit adjustment was passed to reclassify the amount to Urban Improvement.

This matter has been resolved. The Council agrees that additions to Fixed Assets are properly allocated to the correct account.

During 2011, the amount of €9,600 was received from WSC in respect of trenching works carried out in 2008 and 2010. The Council erroneously passed a prior year adjustment in the unaudited Financial Statements to restate the income in the comparative period, rather than charging the amount received against the debtor account of WSC. An audit adjustment to reverse the

Council's prior year adjustment has been approved by the Council and is incorporated in the final set of Financial Statements.

This matter has been resolved. The Council concurs to adopt and follow up the Auditor's recommendation.

The two local band clubs were each paid the amount of €1,000 out of the Council's funds. Both payments were not covered by a fiscal receipt and thus it cannot be ensured whether these were paid as donations. An additional amount of €129 was also provided to a local youth group.

The payments indicated by the Auditors are for valid services as clearly specified on the respective invoices. The Council is fully conscious of the stipulation that any form of donation whether in cash or in kind is prohibited.

A bank account, with a period-end balance of €620, held for the purpose of running the library, was not included in the Council's Trial Balance.

The Council agrees to close this account and that the running of the library will be dealt with under the normal administration and operation of the Council. In future, this will form part of the Gudja Local Council accounts.

Gżira

Five contracts, whose contract period expired in 1997, 2005, 2007 and 2010 (two contracts) respectively, are still in force. Notwithstanding that the said contracts were already mentioned in a previous Management Letter, the Council is still making use of the Contractors' services, instead of issuing a fresh call for tenders.

In 2010, the Council issued a call for tenders for the collection of mixed household waste, following the expiry of the said contract in 2009. However, although the Council adjudicated the tender on 24 November 2010, an appeal with the Board of Public Contracts was filed, claiming that the contract was not reasonably adjudicated. Thus, since the appeal is still pending, the contract that expired on 3 March 2009 is still in force.

As demonstrated during the course of audit, the Council is to amend expired tenders by issuing new calls in compliance with LN 296/2010. As this process is complex, the drafted tenders are sent to the Department of Contracts for review and guidance. Once these are

approved by the latter, the Council will present these documents during its executive meeting for the final approval of its members and subsequently publish the respective calls.

Whilst, as per budget for 2012, the Council anticipated Capital Expenditure of €127,230, only €92,145 was disclosed under Capital Commitments in the Financial Statements.

The disclosure of Capital Commitments will be revised accordingly.

An agreement, regarding UIF Scheme for pavement works, was entered into with MEPA on 13 February 2009. Given that the relevant work had not yet started, and the Council did not receive any funds, the amount receivable was not recognised in the books of accounts. Thus, LGA proposed an adjustment to recognise Accrued Income of €139,217. However, this adjustment was not approved by the Council because it is uncertain whether the project will be carried out. However, although the project was 'on hold', during 2011 a call for tenders for work to be carried out was issued, and was awarded to the Contractor. Meanwhile, the project is also shown as a Capital Commitment of €60,733.

Since the UIF project has not yet commenced, the Council feels that it is safer not to account for such as yet. However, the same procedure applied over the PPP Scheme will be adopted once this project is completed.

During the year under review, the Council embarked on a project under the PPP Scheme to carry out resurfacing works, amongst other, in 'Triq Fredrick Ponsomby', costing €62,058, as per tender document. However, a summary of the bills relating to the resurfacing works on this road, submitted by the Contractor on 1 September 2011, amounted to €97,667. It transpired that works certified by the Council's Contracts Manager on 1 December 2011 only totalled €62,058, thus the Contractor billed the Council €35,609 more than that stipulated in the tender document. Up to time of audit, this additional amount was still in dispute. DLG informed the Council that no additional funds will be made available in this respect, and that no payments are to be made by the latter unless adequately supported by a tender. Such matter was not disclosed under Contingent Liabilities in the Financial Statements.

Prudence and normal practices adopted by the Council request that all contracted invoices are certified by the relevant Contract Managers, which then after are double-checked against the rates issued within the signed Letter of Acceptance. During the course of the audit, the Council provided LGA with detailed documentation pertaining on how the claim was brought to the Council's attention following the completion of works, how the Council addressed the issue, and its abidance with the Financial Regulations as well as guidance sought from DLG. Taken into consideration what the Financial Regulations stipulate and the direction provided by DLG, the Council is of the opinion that the amount in question should not be accounted for. However, the Council will abide by LGA recommendation as regards Contingencies.

Notwithstanding the agreed amount of €37,647, payable to the Council by DLG, in respect of the PPP Scheme, only €12,549, representing the actual amount received, was accounted for by the Council. The balance of € 25,098 was incorporated in the books of accounts through an audit adjustment, as proposed by LGA.

An additional adjustment of €11,614 was passed to recognise income derived from the UIF Scheme on the embellishment of 'Council of Europe Gardens' (completed in 2010) and the PPP Scheme, in view of resurfacing works carried on 'Triq Fredrick Ponsomby' (completed during December 2011), on a systematic and rational basis over the useful lives of the assets.

The Council has always adopted the Prudence Concept within its bookkeeping that pervades it from falling into deficit. Due to this safeguard, it is the norm within this Council, to record the actual grants received, however the Government Grants in respect of PPP Scheme will be accounted for in full since the project has been completed in March 2012. Moreover, with respect to the amortisation of UIF Scheme, these will be accounted for as recommended by LGA.

During the year under review, the Council paid the amount of €24,851 for pavement works, which were covered by a contract agreement entered into on 26 April 2011. Whilst payment was correctly posted in the Creditor's Account, the related invoices were not booked, even though these were received during the same year. Thus, an audit adjustment was passed to amend the Creditors and Assets balances accordingly.

Since it is within the Council's mode of operation that invoices received are verified, in this case it resulted that the presented invoices by the Contractor had to be revised and reissued. Unfortunately, due to latency beyond Council's competence, the revised invoices were not presented in time by the Contractor prior to the preparation of the Financial Statements. The Council will make the necessary adjustment to amend such.

The cost of Urban Improvements recorded in the Plant Register is understated by €6,260 when compared to that registered in the Nominal Ledger.

The discrepancy shown in Asset category – Urban Improvements resulted due to a summation error. This will be adjusted accordingly.

Ghajnsielem

Contrary to the provisions of IAS 16 – Property, Plant and Equipment, the Council has charged Depreciation on capitalised costs relating to the new premises, which project is not yet complete. Thus, Depreciation that has been charged to the Statement of Comprehensive Income is overstated by €4,773. Additionally, the amount of €18,593, incurred in respect of the lift installed in the same premises, has been accounted for twice. However, the necessary audit adjustments were passed.

With respect to the capitalised costs relating to the new Council's premises, LGA's comment has been noted. With the reconstruction of the FAR, all assets will be identified when they are ready for use and Depreciation will be recalculated accordingly. In view of the invoice for the installation of a lift, the supplier has issued an invoice on 16 September 2011, amounting to €24,858, for the cost of the lift. However, upon installation, an invoice of €18,593, representing 75% of the cost of the lift, was re-issued. A request for payment should have been raised.

The Council failed to account for amounts due by other Local Councils, relating to tours in 'Betlehem f'Ghajnsielem'. The total invoices issued in 2012 for these tours amounted to €5,140, all of which were omitted from the books of accounts. The related audit adjustments were approved and the final set of Financial Statements was adjusted accordingly.

LGA's comments relating to income from Bethlehem tours were noted and the Council is reviewing whether

the system could be improved further in line with proposed recommendations. A measure which has been implemented since 1 January 2012 relates to sales invoicing issued from the Sage Line 50 accounting software, where an invoice is raised as soon as income is confirmed as receivable by the Council.

A number of invoices dated in 2011, but which were actually received by the Council in 2012, were not included in the Purchase Ledger as at year-end. The invoices in question, amounting to €10,063, related mainly to the Bethlehem Activity cleaning services, and to the acquisition of PPE. Likewise, invoices amounting approximately to €6,966, which related mostly to the 2011 Christmas Activities, and which were dated and received after year-end, have not been accrued for. Following LGA's recommendation, the aforementioned invoices were accounted for.

The Council acknowledges that its Payables amounts are one of the most sensitive areas of the Financial Statements. Since the Bethlehem Activity is carried out during the two-month period December and January, most of the invoices are not being provided in a timely manner due to the suppliers' disorganised accounting system. Where possible, the Council has accrued for some of these invoices, however note is being taken of LGA's recommendations and will insist with suppliers to provide the invoices in the month to which these relate. Furthermore, with the implementation of a Purchase Order System, the Council would be in a position to identify those expenses, which have not been recorded in the year to which they relate and provide for Accruals in the Financial Statements accordingly.

The Council was accounting for income without having sufficient documentation and confirmation about the recoverability of such funds. Consequently, audit adjustments were passed to reverse income relating to two particular projects, namely, 'Betlehem f' Ghajnsielem' and a Twinning Project, amounting to €1,000 and €3,000 respectively. An additional audit adjustment of €6,550 was passed to reverse income charged by the Council to WSC in respect of reinstatement works, which works were not actually carried out by the former.

Despite that the receivable amount of €1,000 may have been doubtful, this was actually received in May 2012. As for the amount of €3,000 due for the refund of the Palestine tickets in relation to twinning, the then Parliamentary Secretary confirmed by an e-mail that the amount due is going to be received in 2012.

Furthermore, the Council took note of LGA's comments with respect to amounts due from WSC. An agreement has been signed by both parties, whereby it is stated that, as from January 2012, reinstatement works are to be solely carried out by WSC.

Total expenditure within the Professional Services, Community and Hospitality as well as Rent categories exceeded the budgeted amounts by €6,663, €3,933 and €1,500 respectively.

A balance budget was forecasted. Notwithstanding this, it must be admitted that in certain areas of expenditure, the budget was exceeded. However, this was complemented with an excess in actual income compared to the budgeted income. The Council would have actually earned more income than it expected to receive and correspondingly it increased its expenditure. Nonetheless, LGA's comments will be taken on board.

Gharb

Waste Collection Services were still being procured under a contract that has expired during 2009. The amount of €14,128 (out of which €7,868 related to invoices issued during 2011) was paid in this respect.

The Council is in preparation to issue a new tender during the current year in conjunction with neighbouring Councils.

Depreciation was being charged on a fixed asset addition amounting to €70,000, notwithstanding that such asset was not complete and thus, not yet available for use. As a result of this approach, the Fixed Assets were understated due to the Depreciation charged during the year. An audit adjustment was reflected in the Financial Statements in this respect, whilst assets were reclassified accordingly

Audit adjustment recommended by LGA for the reversal of Depreciation was accounted for, and the necessary adjustment made to FAR.

The Council failed to account for Accrued Income of €4,000 receivable in relation to Sports Activities held during 2011. Moreover, Accrued Expenditure relating to this income, amounting to €5,862, was also not recognised in the books of accounts. Following LGA's recommendation, the necessary audit adjustments were passed.

The point made by the Auditor has been noted. The Council strongly respects the concept of recording both Accrued Income and expenditure.

Revenue derived from the Malta Tourism Authority, totalling €1,156, was also not reflected in the Financial Statements, although the related expenditure was accounted for. Consequently, there was no matching of the income with the respective expenditure in line with the Matching Concept. The Financial Statements were adjusted accordingly.

Auditor's recommendation has been positively noted.

Budgeted expenditure for Repairs and Upkeep, Community and Hospitality as well as Information Services was exceeded by €29,801, €13,560 and €835 respectively.

The difference in the Repair and Upkeep section was due to expenditure being voted under Contractual Services in the Budget and then accounted for under Repair and Upkeep. As regards Community and Hospitality, income from sponsorships related to the activities also exceeded the budget by €10,000. The Council will commit itself to implement periodical budget revisions as suggested by the Auditor.

Gharghur

Capital Commitments disclosed in the Financial Statements, amounting to €238,417, relate entirely to road resurfacing works under the PPP Scheme. However, the Budget Document for 2012 shows a commitment of €115,300 on road resurfacing, €7,000 for photovoltaic panels and €20,000 on new crash barriers. Furthermore, the amounts of €50,285 and €7,000 voted for road resurfacing (PPP agreement) and for photovoltaic panels respectively in the Budget, relate to expenditure that have already been expended and recognised in the Financial Statements for the year under review. Therefore, out of the total budgeted Capital Expenditure, only €85,015 represents new Capital Commitments. Additionally, the Capital Commitments note in the Financial Statements, does not distinguish between commitments approved but not contracted and commitments contracted but not provided in the Financial Statements in terms of IAS 16 – Property, Plant and Equipment.

We agree with the Auditor's recommendation regarding Capital Commitments and in particular their presentation in the final accounts.

Shortcomings relating to the accounting treatment of grants resulted in a number of misstatements, distorting the Financial Statements. The most material misstatement was the amount of €54,297, representing grants received on account under the PPP (road resurfacing) Scheme, which was directly recognised in the Statement of Comprehensive Income rather than posted to the long-term Deferred Grants Nominal account. The Council has rectified the matter in the Financial Statements, following audit adjustments proposed by LGA. On the other hand, the amount of €8,005, still to be received by the Council was not accrued for.

The Council has taken note of the Auditor's recommendation regarding this matter and it confirms that the necessary audit adjustments/action points highlighted by the Auditor will be implemented.

Road resurfacing expenditure, relating to the PPP scheme and amounting to €123,440, was completely omitted from the Financial Statements. The situation was rectified through an audit adjustment proposed by LGA and approved by the Council.

Point not properly addressed.

Variances were noted between the balances recorded in FAR and those in the Nominal Ledger. While cost of assets in FAR is understated by €42,670 when compared to the Nominal Ledger, accumulated Depreciation and grants are overstated by €510, resulting in an understated NBV of €43,180. Furthermore, the FAR does not reconcile on a category basis. With the information available in hand, LGA proposed a reclassification audit adjustment with an attempt to rectify the situation.

The Council has taken note of the Auditor's recommendations and confirms that the necessary audit adjustments/action points highlighted by the Auditor will be implemented.

Certain Fixed Assets in FAR were being assigned the wrong Depreciation rate. Thus, Depreciation expense charged to the Statement of Comprehensive Income was incorrect. An audit adjustment of €6,173 was approved by the Council to align Depreciation in accordance with the respective accounting policy.

The Council would like to note that such shortcomings were due to inputting errors. An audit adjustment has already been effected, however the Council will

implement the Auditor's recommendation in applying the correct Depreciation rates and effect a prior year adjustment in next year's Financial Statements.

The Council holds an insurance policy on part of its assets, however, this policy has not been reviewed on an annual basis with the consequence of under insurance in different categories of PPE rendering the same policy inadequate. Furthermore, Urban Improvements amounting to €108,791 were not insured.

Auditor's recommendations have been noted and the Council has already taken measures to update the insured values of assets with the insurers.

The Council is not adhering to the fundamentals of Accrual Accounting and Matching Concepts. During 2011, the Council entered into a PPP agreement with the Gharghur Football Club. The agreement entitles the Council to a number of hours in usage of the football pitch in the locality, spread over a ten-year period. Despite this kind of forward contract, the amount of €12,000 paid by the Council was recognised in full in the Statement of Comprehensive Income, without factoring any prepaid expenditure adjustment.

Late in 2011, the Council has applied for the second phase of the PPP scheme on road resurfacing. The grant committed by the Scheme, according to entries in the general ledger, amounts to €16,763. However, by 31 December 2011, neither was the project commenced nor was the grant actually received by the Council. Yet, the latter still recognised this grant as Accrued Income with a contra entry against long-term deferred grants. Additionally, this same amount of €16,763 was accounted for twice in the General Ledger.

LGA's recommendation has been noted and already implemented through an audit adjustment.

Ghasri

Though the Council has updated the FAR during the year, it still does not tally with the Nominal Ledger. The cost of assets and accumulated Depreciation, as recorded in FAR, are both understated by €2,472 and €96,280 respectively, when compared to the cost and accumulated Depreciation as disclosed in the Nominal Ledger, before taking into consideration the Government grants and audit adjustments.

The FAR is being kept updated and the Depreciation is calculated through the accounting program – Sage Line

50. All assets acquired by the Council are included in FAR, against which monthly Depreciation is being charged. LGA's recommendation is taken on board so that any discrepancies could be adjusted.

Expenditure incurred for Repair and Upkeep, Community and Hospitality, Contractual Services as well as Professional Services, exceeded the stipulated budget by €10,572, €8,255, €6,133 and €2,585 respectively.

The Council will do its utmost so that this situation will not repeat itself. However, it is important to point out that the Council has registered a surplus at the end of the year and thus, this means that it had not exceeded the overall total budget.

Invoices amounting to €11,204, relating to road maintenance works, which took place in previous years, were received from the Department of Projects and Development within the Ministry for Gozo. These invoices were treated as expenses in the year under review, but since the total cost does not exceed the materiality level, no prior year adjustment was deemed necessary.

It is agreed that pending amounts are to be immediately paid. In fact during 2011, these were all settled.

Għaxaq

Accrued Capital Expenditure of €96,258, arising from three projects undertaken by the Council, has not been accounted for, resulting in unrecorded assets. Audit adjustments to record such additions to Fixed Assets, and charge Depreciation thereon, were approved by the Council and reflected in the final set of Financial Statements.

The Capital Expenditure, which was unrecorded, related to different phases of the PPP project. It was not clear up to which extent the project values are to be accrued. The Council shall ensure that all Capital Expenditure is recorded in its books at the appropriate time.

Further to Memo 45/2010 – 'Kuntratti godda dwar resurfacing ta' toroq b'sistema ta' Private Partnership', the Council qualified for grants of €135,974. In line with a letter received from DLG dated 9 July 2010, the Council was to receive €90,649 for this purpose during 2010. However, out of the aforementioned amount,

the Council only received €60,418 by the end of the financial year. Since the latter failed to provide an explanation for the difference, no audit adjustments were proposed to accrue for the remaining part of the grant, amounting to €30,231. The Council has been recommended to raise this issue with DLG and to reflect the outcome in the books of accounts.

The Council was informed that the remaining grant of €30,231 shall be paid on completion of works. Whilst LGA's recommendation was noted, the Council instructed its Accountant to ensure that in the future, grants are accounted for according to IFRSs.

The Council's Financial Statements indicate that anticipated Capital Commitments over the next financial period amount to €121,863. This contradicts the Council's financial budget, which estimates a Capital Expenditure of €193,775.

The discrepancy between the Capital Commitments shown in the Financial Statements and the annual budget was the result of uncertainty about the budgeting of the PPP project. The correct amount is that shown in the Financial Statements.

As reported in a previous Management Letter, the Council's inventory, whose cost amounted to €3,785 at year-end, comprises books held for free distribution. This is not in line with Generally Accepted Accounting Principles, since the books have no sales value and thus should be expensed.

The Council shall take up LGA's recommendation and shall write off the inventory value during 2012.

A cheque dated 19 December 2011, which amounted to €4,989, was issued to a Contractor before Council's approval was obtained on 10 January 2012.

The Contractor is paid according to the contract, which was accepted and agreed upon by the Council.

Included in the Council's Financial Statements is a bank account, which is administered by the LES Joint Committee. The Council does not receive bank statements in respect of such account and consequently no bank reconciliations are prepared. It transpired that whilst the Council's book balance at year-end is of €11.65, the bank reply shows a balance of €602.48. Another bank account, the signatories of which are the Mayor and the Executive Secretary, is not included in the Council's books of accounts. This account is

administered by WSC, and had an overdrawn balance of €620 at period-end.

The Joint Committee will be asked to remove the Council from the administration and representation of the bank account in question. The other account is being used to deposit money for the payment of utilities bills, until these are forwarded to WSC. The overdraft was brought about due to the fact that a cheque issued by the Council to WSC was cashed before the cheques deposited were honoured. Furthermore, amendment to the signatories of this account will be effected accordingly.

A Grant of €4,281 received during the year, in relation to an accessibility ramp near the Ghaxaq football ground, was recognised by the Council as income in full, rather than treated as Deferred Income. The audit adjustment proposed by LGA was approved by the Council.

The Council recognised as income the grant received for the football ground since the works carried out were not of a capital nature but more of a maintenance nature.

A disputed tipping invoice amounting to €9,973, which had been accrued for in 2010, was reversed against the Expense Account. An audit adjustment was proposed to reverse this entry, which was eventually correctly reflected in the Financial Statements.

The reversal of the Accrued Expense is related to the pending issue with WasteServ Malta Ltd.

Hamrun

LES Debtors (€93,090) and LES Income (€81,475), as per unaudited Financial Statements, were not reconciled to the relevant reports from the computer system. The Council failed to accrue for Debtors outstanding at year-end and neither did it prepare reconciliation as at end 2011 to ensure that all income was accounted for. Upon request, the Council provided LGA with adjustments to increase LES Debtors to €190,602 and the Revenue by €178,987. However, subsequent to these revisions it was noted that figures for Revenue and the Provision for Doubtful LES Debtors still did not agree to the relevant software reports provided by the Council. Consequently, relevant audit procedures to verify existence and completeness of LES income, as well as LES Debtors and Creditors, could not be performed.

The reconciliation of the LES Debtors has always been a challenge to the Council due to the lack of clear and exact information within the system and the lack of resources of such exercise. Furthermore, whilst it is agreed that the Council should persist with such reconciliation, nevertheless the system itself is flawed as it has allowed a substantial number of citations to remain unsettled whilst the vehicle registrations kept being renewed. The Council does not have any control on the enforcement of such collections. The Council has put forward adjustments to reconcile any variations between the LES Debtors and LES Income, which were not to the satisfaction of the Auditors.

Notwithstanding that the value of contraventions outstanding for more than two years amounted to €635,056, the existing provision that was brought forward from the prior year totals €556,998 only. This resulted in an understatement of €78,058 in the Provision for Doubtful Debts. A qualified audit opinion was issued in this respect.

Point not addressed.

The Council has erroneously accrued for the full value (€161,419) of works contracted, despite that at year-end the project was still in progress, and works certification indicated that the value of works carried out in 2011 was only €127,485. This was also confirmed by the supplier. Thus, balance disclosed in the supplier's account did not reconcile to that in the supplier's statement. Hence, an audit adjustment was approved by the Council to decrease the cost of Fixed Assets, and the amount payable to the supplier by €34,000, in the final Financial Statements. Furthermore, the amount disclosed in the supplier's account was accounted for by way of Accruals rather than against invoices.

Assets under construction were included in FAR and depreciated over years in which these were not in use. The Council's offices and the car park were completed and ready for use at the beginning of 2011 and 2012 respectively. However, the start date for Depreciation charge on construction works for the car park was set at 26 October 2006, implying that by year-end total extra Depreciation charged amounted to €30,067.

The Council has taken note of the suggestion of the Auditors and has passed the audit adjustment in the Financial Statements.

A difference of €37,194 was noted between the opening balance for the cost of Council Premises and Car Park

for the year 2011 and the closing cost for the prior year. This was brought about by the fact that an audit adjustment for 2010, relating to the capitalisation of loan interest, was reflected in the final financial reports but was not adjusted for in the underlying books of account. Furthermore, the Council erroneously also increased the opening balance of Grants and Other Reimbursements by €20,645. In both cases, relevant audit adjustments were passed to rectify the situation.

The adjustment, which is referred to, was not included in the list of audit adjustments of 2010. Thus, it was not accounted for in the opening balances of 2011. The audit adjustment proposed this year was passed as suggested by the Auditors.

Depreciation charge for the year, as disclosed in the Financial Statements, differs from the independent working calculated by LGA, by €3,586. Moreover, notwithstanding that the lease of land, over which the Council premises were built, is for a period of 30 years, the said premises were only depreciated at a rate of 1%.

The rate for Depreciation used by the Council was done on 1% according to the Local Council directives. The Council agrees with the suggestion of the Auditors and will amend the Depreciation rates to reflect the 30-year period lease agreement.

An amount of €50,000, covering the refurbishment cost of a public garden, was accrued for, notwithstanding that the value of works certified was only €35,000. This resulted in an over accrual of €15,000, but the Council approved to reduce the accrued expenditure by this amount.

The proposed adjustments were passed in the Council's books of accounts.

A grant received in the prior year was erroneously deducted in the current period from the cost of Fixed Assets, resulting in a decrease of the carrying amount of the respective asset by €20,645. This grant was received in prior years for a project for 'Sustainable Localities Scheme', and not for Capital Expenditure as initially accounted for by the Local Council. An audit adjustment was approved to add back the amount to the cost of Fixed Assets and to Deferred Income. A further adjustment of €824 was passed to transfer Deferred Income to the Income Statement, in line with the Depreciation charge made for Council Premises, for the current year.

The release of Deferred Income, relating to a Grant received for the construction of the Council premises, was not recorded in the current year. Hence, an audit adjustment of €3,276 was passed to rectify this error.

The proposed adjustments were passed in the Council's books of accounts.

Bank interest amounting to €24,542 paid on a loan, obtained to finance the construction of the Council premises and car park, was recognized immediately as an expense, instead of capitalised and added to the cost of the qualifying asset, in line with IAS 23 - Borrowing Costs. An audit adjustment was then approved. An additional amount of €37,194 was passed as a prior year adjustment, to re-classify bank interest charged on qualifying assets in prior years to Capital Expenditure.

The Council has approved the proposed adjustment put forward by the Auditors, and has capitalised the loan charged in respect of the Car Park Project, which was previously expensed.

A cheque payment of €4,292 issued by the Council on 2 September 2011 was not accounted for, and thus was one of the reconciling items included in the bank reconciliation of a current account. An audit adjustment was passed in this respect.

Point not addressed.

The Council's budget for 2012 shows future Capital Expenditure of €629,519, while the Financial Statements show anticipated Capital Expenditure of just €42,000 for the underground car park.

The recommendations put forward by the Auditors have been noted and the Council will do its utmost to disclose its future commitments in the Financial Statements and to minimise any discrepancies in the reported figures.

Notwithstanding that any form of donations, whether in money or in kind is prohibited, the Council has approved a contribution of €300 for 'Tony Bajjada Football Tournament'.

Since the Council, in collaboration with the local football nursery, is one of the main organisers of such activity, it does not consider the financial assistance as a donation.

The possible outcome and liability that could result from a court case, that the Council was drawn into by a private limited liability company were not disclosed in the notes to the Financial Statements. Likewise, additional amounts claimed by the CIR for FSS payments were not disclosed.

The Council will do its utmost to ensure that its Financial Statements will be in full compliance with the IFRSs.

Iklin

The Council failed to record Accrued Income of €167,603 related to three different grants. Despite that, the amount receivable was approved and agreed upon, only the amount actually received was recorded in the books of accounts. An audit adjustment was then passed to rectify the error.

Grants were not accounted for using the Income Approach. However, this treatment was given to grants received during 2011 and before. There was doubt as to what extent the project costs are to be accounted for during the financial year 2011 and consequently the accrued grants were left out. The effect on the financial position of the Council remained unaltered since the accrued grants were balanced by a corresponding entry under Deferred Income. The Accountant was instructed to follow all accounting rules in the treatment of grants and Accrued Income.

Four projects bearing a total cost of €102,250, which were not complete by year-end and which had not yet been brought into use, were capitalised, and Depreciation of €2,629 was charged on three of the said projects. Furthermore, Deferred Income in respect of two of the projects totalling €882 was recognised as income. Adjustments proposed in this respect were correctly reflected in the final set of Financial Statements.

Following LGA's recommendation, the Council has now included in its books of account the 'Assets not yet Capitalised' category which shall be used for all capital projects that are still work in progress. The adjustments to the related Depreciation charge proposed by LGA have been posted and the Council's Accountant has been asked to ensure that all accounting rules are followed at all times.

The Council failed to carry out bank reconciliation in respect of an account titled Rubble Walls.

Consequently, a discrepancy of €72,676 was noted by LGA between the books of account and balance as per bank statements. This discrepancy arose due to the fact that the Council did not account for payments made to a Contractor, amounting to €72,859, Bank Charges of €34 and Interest Received of €217. Due to this error, the amount paid to the Contractor was still being recognised as a liability. An audit adjustment was passed to reconcile the bank account to the bank statements and to reverse the Creditors' balance.

The rubble walls expenditure referred to by the Auditor has been accounted for as accrual rather than a payment, as the bank statement showing that the payments were effected in December 2011 was not available at the time the Financial Statements were prepared. The adjustments recommended by the Auditor, affecting the creditor and Bank Balances, have been duly posted. The interest earned on this account does not belong to the Council and has therefore not been included in its income for the year. The Council would like to point out that contrary to the impression given by the Auditor, bank reconciliation statements are prepared on a monthly basis, and the instance mentioned above was an isolated one.

A discrepancy of €36,123 was noted between NBV as disclosed in FAR and that reported in the unaudited Financial Statements. Whilst NBV for Special Programmes and Urban Improvement in FAR is understated by €151,171 and €840 respectively, that for Construction is overstated by €115,888, when compared to the books of accounts.

Along the years, the distinction between construction and special programmes was not clear as both asset classifications were used interchangeably. The difference mentioned by the Auditor between the FAR and the Nominal Ledger was the result of audit adjustments effected during the years that were reflected in the latter but not in the FAR. The discrepancy shall be rectified during this financial year.

A payment of €350 (€50 per person) relating to a Christmas dinner was traced. It is pertinent to note that in line with Memo 8/2011, the Council can only spend up to €30 per person on such hospitality.

The Council shall in future ensure that the €30 per person allowance for the dinner is not exceeded.

A Bank Guarantee of €326 issued in favour of the Joint Committee was not disclosed in the Financial

Statements. Likewise, no note was disclosed in the Financial Statements regarding restrictions on Bank Balance of €20,702, in connection with two EU funded projects. Such bank account can only be used for the aforementioned projects.

The Council shall disclose the Bank Guarantee relating to the Joint Committee in its books of accounts in line with disclosure requirements of IFRSs and the Local Council (Financial) Procedures.

Isla

Capital Commitments disclosed in the Financial Statements are overstated by €25,858, when compared to those reported in the 2012 Budget document approved by the Council.

Action will be taken to implement the Auditor's recommendation.

Maintenance expenses of €23,959, incurred in relation to a scheme issued by the Housing Authority, were erroneously accounted for as Capital Expenditure and recognised as 'Assets not yet Capitalised', with a corresponding entry under Deferred Income. Additionally, a grant receivable from the same Authority was under-accrued by €1,288, whilst the expenditure was over-accrued by €531. The Council approved the necessary audit adjustments.

Action will be taken to implement the Auditor's recommendation.

LES receivables disclosed in the Financial Statements, totalling €129,470, exceed the amounts recorded in documentation extracted from the LES computerised system by €6,438. Due to the fact that the Council refused to pass an audit adjustment for the above, and in view of the materiality of the amount, a qualified audit opinion was issued in this respect.

As from 1 September 2011, the Council forms part of Southern Region. As per LES reporting v2 issued on 31 December 2011, the Debtors outstanding as at 31 August 2011 are reflected in the accounts as Council's Debtors. Debtors from 1 September to 31 December 2011 are Region's Debtors. Provision for Bad Debts in the Financial Statements has been provided for all outstanding Debtors until 31 December 2009.

Notwithstanding that, the Council does not have ample evidence in hand that the amount of €6,850, being WSC

reinstatement fees for the period January to December 2011, is due and will be settled, the said amount was still recognised by the Council as a Receivable in the books of accounts.

Furthermore, the Council failed to recognise a Provision for Doubtful Debts in respect of unconfirmed Receivables, totalling €2,580. Given that the Council did not approve the necessary audit adjustments, LGA issued a qualified audit opinion on these matters.

Such receivable reflects reinstatement jobs done by WSC in Isla during 2011. Thus, this covers invoice from Local Council as per agreement with WSC. The Council will take the necessary action to collect such dues.

Income of €354, from the hire and use of a 5-a-side synthetic football ground was recognised in the books of accounts. However, the Council is not receiving an audited financial report of the administration and management of this ground, as required in terms of the agreement signed between the two parties.

The Council is continuously monitoring the control of the operations and financial aspect of the football ground. As regards operation, an executive board made up of three Council members and two members from Senglea nursery is formed up with the aim of controlling such operation. As regards finances, weekly reconciliations are carried out between the Council and the Ground Manager. In addition, the Council prepares monthly accounts, which are then approved by both the Council and the Executive Board. Finally, yearly audited financial statements are prepared for Council and Board approval. The audited financial report for the year-ending 31 December 2011 is currently being carried out.

Bank Guarantee of €739 issued in favour of MEPA is not disclosed in the Financial Statements.

LGA's recommendation noted.

Kalkara

The FAR maintained by the Council is not up-to-date and not reconciled with the Nominal Ledger. As a result, cost of assets in FAR is understated by €75,494 when compared to the cost disclosed in the Nominal Ledger. Likewise, Depreciation is also understated by €298,023, thus resulting in an overstated NBV of €222,530. Furthermore, none of the categories listed in FAR is in agreement with the respective Nominal

Ledger account. On the other hand, Depreciation calculation and its posting are not being effected in line with the Financial Procedures. Since there were no practical ways of obtaining reasonable assurance on the completeness of the Fixed Assets recorded, and the Depreciation calculated and disclosed in the Financial Statements, LGAs have qualified their report on this basis.

Whilst noting proposed recommendations, the Council will seek to identify the variances and effect the necessary adjustments.

In several instances, income was netted off against payments rather than recognised gross, with the payments recorded in the corresponding expense account. Receipts of an income nature, amounting to €11,787, were disclosed as a credit entry in expenditure accounts, in the Nominal Ledger. Though the Council reclassified this income, proposed audit adjustments were not performed correctly. This resulted in an understatement of €3,411 in Income, while expenditure is overstated by €1,557. Thus, the reported loss for the year is also overstated by €1,854, while in the Statement of Financial Position, PPE are understated by the same amount.

Accountant has been notified and will see that this year, these will be classified as per LGA recommendation.

In 2010, the Council accounted for Income, amounting to €20,000, in respect of the Sustainable Development Action Plan. On the other hand, the related expenditure was recognised in the books of accounts during 2011, and the project was completed in March 2011. In view of the Matching Concept, a prior year adjustment was proposed, and the Financial Statements were adjusted accordingly.

Point not addressed.

Income from contraventions amounting to €17,192, as disclosed in the Financial Statements, is overstated by €3,008, when compared to income recorded in the report generated by LES. Furthermore, provision provided in respect of outstanding LES debts, for the period 1 January 2000 to 31 December 2009, is overstated by €1,438. In addition, no information was provided to LGA with respect to Other LES Debtors amounting to €10,174, featuring in the Financial Statements under LES Debtors. As a result, no reasonable assurance on the completeness of this receivable, being 39% of net LES Debtors (€26,224) could be obtained, and thus, a

qualified audit opinion was issued in this respect.

The amount of €10,174 in account Other LES Debtors should have been included in account LES Debtors. This will be reclassified in year 2012. Furthermore, the Accountant has been notified so as to adhere to LGA's recommendations.

Accruals accounted for by the Council are not complete. Instances were noted where no Accruals have been undertaken or where the actual accrual as accounted for, was substantially different from the amount paid or invoiced. Due to these shortcomings, Accruals were understated by €3,383. Additional variances of €1,488 were noticed in the Creditors' Balances, being invoices issued during 2011, but which have been omitted from the books of accounts. Following LGA's recommendation, the Financial Statements were adjusted accordingly.

The proposed action will be taken.

Whilst budgeted expenditure for Professional Fees amounted to €5,000, the actual amount spent in this respect totalled €34,316. Furthermore, budgeted expenditure for Utilities, Repairs and Upkeep, Transport, Information Services, as well as Community and Hospitality, have been exceeded by an aggregate amount of €10,736.

Although the Council will try to do its best to keep expenditure in line with the Council's resources, it is not always possible due to the limited financial and human resources provided. The Council will adjust the budget to reflect any increase in expenditure where deemed necessary.

Capital Commitments of €20,000, as disclosed in the Financial Statements, do not agree with the Capital Expenditure reported in the Annual Budget for 2012, amounting to €17,000.

The Council will adhere to LGA's recommendation if the matter arises.

The Council paid €370 for a Christmas staff party organized for Councillors and staff, amounting to eight in total, thus exceeding the maximum threshold of €30 per person that can be spent on such activities.

The Council did not exceed the amount stated in Memos 122/2010 and 8/2011. Furthermore, it will continue to be in line with the mentioned circulars in the future.

Tokens for Father's Day, as well as trophies for a football activity, bearing a total cost of €240, were financed out of the Council's funds.

Both activities were co-organised between the Council and the respective organisations. Furthermore, the Council will take note of LGA's recommendation.

Expenditure incurred during the year under review, with respect to the Twinning Agreement the Council has with 'Crespellano' in Italy, exceeded the maximum threshold of €3,500, laid down in LN 144 of 2009, by €350. Furthermore, the Council failed to submit the respective Financial Report to DLG.

Whilst noting your recommendations, the Council will see to the preparation of the mentioned report so as to abide with the Local Councils (Twinning) Regulations 2009.

Kerċem

The FAR is not being updated at all. Fixed Assets additions, totalling €261,848, were not included. As a result, cost of PPE, as well as total accumulated Depreciation disclosed in FAR, are understated by €309,785 and €76,855 respectively, when compared to the amounts reported in the Financial Statements.

In addition to the above, the FAR still contains a number of audit adjustments without reference to any particular asset. It was concluded that the Council does not know what assets the adjustments refer to, but knows only that these relate to prior years' audit adjustments. This issue was already highlighted to the Council in the previous year, but is still persisting. The way the entries were made is defeating the whole objective of maintaining a FAR, as these 'Adjustments' are just a balancing figure.

Due to the above-mentioned shortcomings, Depreciation is being calculated manually rather than through the FAR. Furthermore, due to a discrepancy between the opening NBV as per Financial Statements, and the opening NBV used in the calculation of Depreciation, the Depreciation charge for Urban Improvements was overstated by €2,181, while that for Special Programmes was overstated by €2,401.

Furthermore, certain Fixed Assets additions were being depreciated despite the fact that the respective project was not completed by the end of the year. For example,

Depreciation of €2,896 was charged on the 'Family Park' project, bearing a cost of €56,949 and which was still in progress.

Following LGA's recommendations, the necessary audit adjustments were approved by the Council, and correctly reflected in the final set of Financial Statements.

The Council has recently appointed a new qualified Accountant who has been entrusted with amongst others, to compile, reconcile, and update the FAR. As discussed also in the Management Letter itself, this is not an easy and straight forward task but the process has already began to analyse the present FAR, reconcile it to the Financial Statements and keep it updated.

A project, which was partly of a capital and partly of a revenue nature, was being amortised incorrectly. The release of Deferred Income, in relation to the revenue part of the project, was not taken into consideration, with the consequence that Deferred Income was overstated by €21,087. An audit adjustment was passed in this respect.

In 2011, the Council received €4,000 from Central Government in relation to restoration works on Historical Places. These funds were correctly recognised as Deferred Income, however, expenditure of €3,926, incurred during the year in relation with this project, was capitalised with Fixed Assets rather than recognised immediately in the Statement of Comprehensive Income. Thus, an audit adjustment was proposed to rectify these errors.

Any requirements, mainly in relation to Amortisation of Government Grants emanating from IAS 20, will be adhered to.

Budgeted expenditure with respect to Repairs and Upkeep, Professional Services as well as Hospitality and Community Services was exceeded by €26,199, €10,935, and €390 respectively.

Point not addressed.

The Council failed to account for Accrued Income, totalling €7,163, receivable from Central Government and the Gozo Regional Committee, in view of three different activities which have been completed by the end of the financial period. These transactions were then recorded through audit adjustments.

Adjustments relating to Accrued Income were posted in the accounts. For the future, any revenue not yet received by year-end, will be accounted for in line with the Accruals concept.

Two cheques, amounting to €2,180 and €4,174 respectively, were not recognised in the books of accounts, with the result that both the Bank Balance and Payables were overstated at year-end. Following LGA's recommendation, the Financial Statements were amended accordingly.

It was decided that the Council will be reconciling the Bank and Cash Accounts regularly to avoid any mistakes in the recording of the bank and cash transactions. Bank reconciliations will be prepared directly through Sage Line 50 to avoid the possibility of double inputting errors. Any audit adjustments referring to Bank and Cash were posted in Sage to reflect correct opening balances.

General Income includes an amount of €14,900, representing invoices issued to WSC for road reinstatement works. However, this income should not have been recognised in the books of accounts, since such works were not yet carried out by the Council. Consequently, the income for the year, total Comprehensive Income, Receivables, and Retained Earnings, are all overstated by this amount. A qualified audit opinion was issued in this respect.

Kirkop

During the year under review, the Council paid the amount of €5,579 in respect of light fittings for the new Council premises. Despite the fact that the said amount exceeded the set procurement threshold, such goods were still acquired through a call for quotations, rather than a call for tenders.

The Council issued a call for quotations according to regulations for the ground floor, and the respective supplier was chosen in a Council meeting on the basis of the most economical and advantageous offer. Then after one month, another call for quotations for the first floor lighting was issued.

During the year under review, the Council qualified for grants amounting to €776,852, receivable under different projects and schemes. Only €380,561 of the said amount was received during the same year. However, the outstanding balance of €396,291, which

was still to be received, was not reflected as Accrued Income. An additional amount of €12,358, receivable in view of an agreement, which the Council signed with MEPA, was also not accounted for. Following LGA's recommendation, the Financial Statements were adjusted accordingly, to reflect both the Accrued Income and the corresponding credit entry in Deferred Income.

Adjustments proposed by LGA will be addressed accordingly.

Capital Expenditure amounting to €31,281, which was certified by the Council's Architect, was omitted from the books of accounts. Consequently, the respective Depreciation was also not accounted for. The Council approved the necessary adjustments, and these were included in the Financial Statements. On the other hand, works totalling €40,582 were recorded as Capital Expenditure, notwithstanding that by the end of 2011 such works were not yet certified by the Council's Architect. No audit adjustments were proposed in this respect.

The Council will address the adjustments.

During the year under review, the Council capitalised the amount of €18,698, being Fixed Asset additions in connection with the Housing Estate Project. In the same year, the Council entered into an agreement with the Housing Authority, titled '*Nsaħħu l-Komunitá - Riġenerazzjoni f'Oqsma tal-Binjiet tal-Gvern*', whereby it was agreed that once provided with the respective invoices, the Authority will reimburse the Council for the costs incurred. Thus, given that such property does not belong to the Council, an adjustment was passed to reverse the cost and Depreciation charge from the Fixed Asset additions, and recognise such amount as Accrued Income receivable from the Authority.

Likewise, the amount of €10,300 incurred for the restoration of niches in Kirkop was erroneously capitalised under Urban Improvements. However, since the niches do not form part of the Council's property, an adjustment was approved by the Council to reverse costs incurred from capital assets, whilst expensing such expenditure in line with the amount shown as income.

LGA proposed adjustments and the Council will address them immediately.

Income amounting to €33,497, received in respect of revenue grants during the year under review, was netted off against the respective expense categories. An adjustment, to disclose such income separately, was incorporated in the final set of Financial Statements.

In the future this will be shown as proposed.

In two instances, differences were noted between the Creditors' Balances, as disclosed in the books of accounts, and amounts payable as per suppliers' statements. In one case, the amount disclosed in the Creditor's Control Account was overstated by €9,015. It transpired that payment of invoices, which related to 2009, was not deducted from the Creditors' Control Account but posted to expenses under Management and Operating Services. In the other case, the amount payable as per supplier's statement was €3,426 more than that disclosed in the books of accounts. This resulted from the fact that a cheque, issued on 13 October 2011 by the Council, was accounted for despite the fact that this was only sent to the supplier after year-end.

Further to the above, the Council does not record invoices as received and according to date. On the basis that creditors are paid within a very short period of time after receipt of invoice, the Council only records the invoices once paid. At year-end, pending invoices are recorded in the Creditors' Control Account.

An amount of €8,651, brought forward from previous years, is included in the Accrued Expense Account. However, the Council failed to provide any information regarding the nature of the balance. Thus, a qualified audit opinion was issued in this respect.

The accounting procedures recommended by LGA, in view of the above, are being forwarded to the Council's Accountant to address them immediately.

Included with receivables is an amount of €7,779, brought forward from prior years, reported as due by a Contractor. However, it could not be determined what this amount relates to.

This amount has been brought forward for several years, and will be written-off in a Council meeting.

A total amount of €4,146 was passed to reverse debit balances in the Creditors' Account, implying that the Council has made payments without matching them

with a corresponding invoice. On the other hand, the amount of €2,157, payable to a number of creditors, was written-off against the respective expenditure, *i.e.* the expense against which such Payables were originally recorded. Notwithstanding these entries, no minutes were traced in the files, justifying the need for such reversals and write-offs. This implies that these entries were not approved in the Council's meetings.

The Council will address the writing-off of any payment during Council meeting as it was done previously.

Income amounting to €5,400, received during the year for jobs executed by WSC during preceding periods, was mistakenly posted to General Income, despite that these amounts had already been accrued for. The respective audit adjustments were incorporated in the final set of Financial Statements.

The Accountant is being instructed to address the adjustments.

Trophies amounting to €100, which were provided to the local football club, have been financed out of the Council's funds.

These trophies were never donated to the local football club, but were presented in an activity of the promotion of the same team.

The Council did not provide a detailed breakdown, to be discussed and minuted during the Council's meetings, of the income and expenditure incurred in relation to two projects in which the Council is taking part, namely 'Cohesion Policy 2007-2013, Operational Programme II Opportunities Close to Home' and 'Lifelong Learning Programme'.

These projects came to an end but for future reference payments for such projects will be approved in Council meetings.

Lija

An amount of €9,715 is being incurred for the cleaning and maintenance of parks and gardens. The Council stated that the original contract was entered into by MRRA, and was later assigned to the individual Councils. Notwithstanding that such contract has expired, a new call for tenders for the provision of such services was still not issued during the year under review, despite prior recommendations.

Amount paid to ELC is only supported by a renewal agreement whereby the Council has the benefit of a full-time gardener. Notwithstanding such benefit, tender will again be issued in the near future.

Notwithstanding that the Local Councils (Tendering) Procedures stipulate that a contract must be entered into for a maximum period of three years, the Council is still procuring refuse collection services under a contract, which was entered into way back in 2003. The total amount paid during the current year in this respect, totalled €25,160.

New tender is presently in the process of adjudication.

Additions to construction works amounting to €34,651, carried out during the year under review and certified by the Council's Architect, were not accounted for. The amount paid was originally accounted for as payment on account, resulting in a debit balance in the Contractor's account. An adjustment was approved by the Council to increase Fixed Assets by this amount.

Point noted.

The Council did not obtain a works' certificate for the additional works mentioned above, and for which no invoice was yet received from the Contractor. Works were still in progress at year-end, and the Council was unable to provide LGA with satisfactory supporting documentation so as to determine the value of works carried out during the year, but not yet invoiced.

The Architect could not provide the Council with a fair estimate of the works. However, the Contractor did not perform much work between the first certification until the end of the Financial Year.

Grants of €4,500, received to cover expenses incurred, were erroneously posted under Accrued Income, notwithstanding that these were not previously accrued for. Following LGA's recommendation, the Council approved to record this amount in the Statement of Comprehensive Income of the period under review, since this matched the expenditure incurred.

Since the 2010 accounts were closed, the Council deemed it fit not to adjust this and apply the Income Approach policy from 2011 onwards. However, had this been highlighted during the audit, and the Auditors were not happy with the treatment, the necessary adjustments would have been carried out.

The Council recorded the amount of €6,000 as Rent Receivable. However, the Executive Secretary stated that the former does not receive any rent, and thus, this journal entry had to be reversed. No other explanations were forthcoming. An audit adjustment was passed accordingly.

The Rent Receivable was included because the Council was trying to negotiate with the Works Department to charge rent for its use of the Council's property.

The Creditors' List still includes long overdue balances, amounting to €6,793, payable to three different service providers.

Point noted.

Once again, cheques that were cancelled and replaced by new ones in the following year, were not properly reversed in the accounting records, and therefore, cancelled cheques and cheques not mailed at year-end were still shown as unrepresented in the bank reconciliations. During the year under review, cheques totalling €7,675 were cancelled but not reversed. Such payments were recorded as bank payments and posted in the Creditor's Account. Included in the bank reconciliation were also stale cheques amounting to €1,787. However, following adjustments proposed by LGA, the Council approved to reverse these unrepresented and stale cheques, thus increases the Bank Balance and Creditors' List by €9,462.

It has to be noted that the Council does prepare bank reconciliations on a regular basis and although some stale cheques are not reversed, it is done to ensure that the Bank Balances really reflect what cash the Council has, because such obligations are still going to be paid. With respect to stale cheques, the issue has been noted and corrective action was taken.

A mechanical sweeper with a cost of €1,696 and a NBV of €32 could not be physically traced.

The Council will be taking the necessary actions to write-off assets that are no longer in use.

Ten whiskey bottles were purchased by the Council as Christmas gifts.

Point not addressed.

A Guarantee of €4,600, issued in favour of MEPA, was not disclosed as a Contingent Liability in the Financial Statements.

Point noted, however this deficiency was not communicated to the Council until this Management Letter was presented to the Council.

Upon notification of the fact that erroneous minutes were uploaded on the Government website, the Executive Secretary took the steps to attach the correct minutes of the respective meeting. The ability to change minutes after being uploaded, without approval from the Council, is a serious weakness in the system.

Bound minutes are kept as the only permanent record of Council meetings.

Luqa

Refuse collection, street sweeping, and bulk refuse services have been provided by the same Contractors for several years. Furthermore, the respective contracts, which were not provided to LGA for audit purposes, have been extended and were still in operation as at audit date. LGA was however informed that new calls for tenders are in process, and will be issued in 2012.

There was an appeal on the tender from one of the bidders so the tenders could not be issued. When the appeal was withdrawn, the Council decided to issue the tenders. However, as explained to LGA, since this was close to the Council's election, it was decided that the new tender for the services that had expired would be issued by the newly elected Council. This is also mentioned in one of the Council's meetings.

A cheque payment of €31,876 was issued to a Contractor, before this was approved in the Council meeting.

The Council was informed that the Contractor will be paid as soon as the Architect's certification was received. This was in fact approved by the Council during the meeting following the receipt of the certification.

A Contractor was overpaid a net amount of €20,686. While the amount of works certified stood at €188,114, payments forwarded to the Contractor in this respect, totalled €208,800. Furthermore, in breach of the Local Councils (Tendering) Procedures, the majority of payments, related to one of the projects, were effected before the certification of the Architect. In addition to the above, the Council made a payment on account, without clarifying an extra charge demanded by the Contractor for fuel surcharge.

The overpayment mentioned by LGA relates to works that were approved by the Council's Architect during 2010. The amount that is being said to be overpaid is in fact a payment for works that had already been carried out by the Contractor prior to 2011, for which the Council had not yet been invoiced. Considering that the tender was issued during 2010, the Council was not expecting variances in the fuel surcharge. Payment was made following certification by the Council's Architect.

The Council did not request monthly statements from all suppliers. Furthermore, no monthly reconciliations are carried out between amounts due as per creditors' balances recorded in the books of account, and those as per suppliers' statements. As a result, variances of €19,618, €18,380, €1,326 and €1,194 were noted in the period-end balances due to four service providers respectively. No explanations were provided by the Executive Secretary with respect to the first three variances, while in the case of the latter amount, the Executive Secretary stated this was settled in December 2011, and therefore the balance is no longer due.

The Council agrees with LGA's recommendation, to reconcile amounts payable to the respective supplier statements. In fact, the Council has been making an effort to do so as it feels that it is essential, considering the value of the contracted works.

Depreciation was calculated on an annual basis, with a full year's charge being taken, instead of pro-rata, according to the actual date of capitalisation. Consequently, Depreciation charge was overstated. An adjustment of €16,249 was proposed to correct this discrepancy, which adjustment was approved by the Council, and was correctly incorporated in the final set of Financial Statements.

The adjustment proposed by LGA was accounted for:

The Council erroneously expensed the cost relating to the certification of works carried out at 'St. Andrija Street', costing €3,770. An adjustment was proposed to capitalise these expenditures, since they form part of the cost of road resurfacing. The Council has incorporated this in its books of account.

The adjustment proposed by LGA has been accounted for:

LES Debtors should include contraventions issued up to 31 August 2011, and paid at other Local Councils, or by the LES online payments system, or at the Licensing

and Testing Department, and which were not remitted to the Council. These were also expected to include tribunal-pending payments, less any unidentified deposits. However, the Council's LES Debtors at period-end, include only tribunal-pending payments, which payments were also understated by €11,711. An audit adjustment was approved by the Council to adjust for the difference.

LES Debtors and receipts from other Local Councils are reconciled on a monthly basis. The LES amount, taken in the Financial Statements was the amount as per report at the end of December, including all tribunal settled cases. The adjustment recommended by LGA was accounted for in the books of accounts.

The provision for LES Debtors at the end of the reporting period was also understated by €47,618. An audit adjustment was passed accordingly.

The LES provision was increased according to the recommendation made by LGA.

Notwithstanding prior year's recommendations, the Council once again failed to prepare reconciliations with respect to LES Income due from the Joint Committee. Furthermore, a reconciliation performed by LGA revealed a difference of €9,886. The Council was unable to provide an explanation for this difference, and consequently, a qualified audit opinion was issued in this respect.

The lack of reconciliation as at the end of year was due to the change in the system of LES to a Regional one. The system was problematic in terms of its operating procedures and issuing of reports.

In the prior year, it was reported that due to the fact that the Executive Secretary's signature differed from the sample signature filed by the bank, the latter was not in a position to provide the necessary confirmations requested by LGA through the Council. Notwithstanding that the Council affirmed that the necessary action will be taken to rectify the situation with the bank, this issue was not yet resolved. As a result, for the second consecutive year, the balances held by the Council in two of its bank accounts, which as per Council's accounting records amounted to €2,150 and €877 respectively, could not be verified. Furthermore, the Council did not have any bank statements confirming the said balances.

The Council will be looking into the accounts held with HSBC and the necessary action will be taken.

In breach of section 63A of the Local Councils Act, which prohibits any kind of donation, the amount of €75 was donated by the Council to a voluntary organisation.

The donation for Puttinu Cares by the Council was of €50; the amount of €75 mentioned in the Management Letter is the amount that was collected by the participants of the fund raising marathon activity that was organised.

Marsa

Capital Commitments of €443,436, related to the construction of the new Council's offices, were included in the Budget for 2012. However, only €105,836 was recognised in this respect, in the unaudited Financial Statements. Following LGA's recommendation, the final set of Financial Statements was adjusted accordingly.

Point not addressed.

The FAR maintained by the Council, which so far has been prepared on an Excel spreadsheet, is not in line with best practice and with the Local Councils Procedures. In addition to the limitations arising from this adopted approach, including the measurement of Depreciation, a number of assets have been incorrectly categorised, with the result that an incorrect depreciation rate has been applied and recognised in the Financial Statements. Whilst LGA is of the opinion that there are material misstatements in the Depreciation provision and charge for the year, the exact amount of misstatement could not be determined. Thus, a qualified audit opinion was issued in this respect.

The comments raised by LGA contradicts, in part that stated during the prior year, whereby the Auditor stated that an appropriate FAR was being maintained by the Council. Nonetheless, LGA's recommendations were taken up and implemented. In fact to date the Council has in place a Sage FAR integrated module.

Provision for Doubtful Debts as recognised by the Council, in respect of amounts receivable from WSC, was overstated by €2,050. Whilst, no provision was recognised in view of amounts due for works carried out between August 2010 and July 2011, totalling

€6,000, against which no confirmation of payment was sought from WSC, a provision of €8,050 was taken on reinstatement fees for the periods 2009 and 2010, even though these balances were confirmed by the latter. The Council approved the necessary audit adjustments.

The Council is of the opinion that this income would be paid in due course, and thus the advice given by the Council's Financial Advisor still holds.

Cash takings were not being deposited on a regular basis. The first bank deposit for 2011, amounting to €1,638, was only effected on 2 May 2011.

Recommendation has been noted, however, it is highly inappropriate to deposit minimal amounts of cash daily, and be exposed to unnecessary risks. It is for this reason that the Council's administration decided to deposit at random intervals.

Marsascala

Included in the unaudited Financial Statements is the amount of €104,271, representing Receivables from LES, and another €101,278 under Other Receivables, out of which the amounts of €83,990 and €13,891 respectively could not be verified, as no supporting documentation was provided by the Council. In addition, while the Council recognised the amount of €482 as receivable from Regional Committees, such balance was not included with income.

The Council will be looking into the issues raised and will try to trace them to the Financial Statements, with the view to analyse the Debtors balances brought forward for 2012.

The Council is not carrying out regular reconciliations with suppliers' statements. As a result, significant misstatements in the Creditors' List, arising due to the lack of proper recording of transactions, remained undetected by the Council. Such misstatements included invoices, totalling €6,292, omitted from the financial records, while €5,196 was posted twice, negative balances resulting from missing invoices, balance due to a Creditor overstated by €22,885, and the amount of €5,545 posted twice in two different supplier's accounts. In addition, the Council failed to account for invoices amounting to €2,715, issued in 2011 but paid in 2012, while €3,983 were included with Payables when they should have been recorded as Receivables. These variances distort the total amount due by the Council to its Creditors. Part of these errors

were corrected through audit adjustments proposed by LGA.

Not all suppliers send in statements, however, when these are received, they are usually reconciled to the Suppliers' Ledger. With respect to Accruals, a number of invoices and other information, giving more weight to the actual cost of items booked in the Financial Statements, flowed to the Council following the submission of the unaudited Financial Statements.

In addition to the above, the Creditors' List provided by the Council, and the Nominal Ledger in the Trial Balance, differed from the amount of Trade Payables recognised in the Financial Statements, by €58,814. This variance has been included in the Nominal Ledger as a balancing figure. This means that the Council does not have complete information of the amount it owes and to whom. In view of the materiality of the amount, a qualified audit opinion was issued in this respect.

The variance will be investigated during the financial year 2012.

The Council released the amount of €38,452, related to UIF Grants, to the Statement of Comprehensive Income. An additional amount of €182,875 was disclosed in the Financial Statements as long-term Deferred Income, in respect of UIF Grants provided to finance Capital Expenditure undertaken by the Council. However, appropriate workings and supporting documentation backing up these amounts, as well as the basis and judgements undertaken by the Council to arrive at these balances, were not provided to LGA. Due to the above, and the materiality of the amounts, a qualified audit opinion in this respect was also issued.

Schedule showing releases from 2007 up to 2011, the assets in question, dates of purchase, as well as grants released on each asset in line with the depreciation charge of the same asset, was provided to LGA. The Council expected more information on this matter from the respective Auditor.

While the Budget for 2012 shows Capital Commitments of €419,125, the respective amount disclosed in the Notes to the Financial Statements was understated by €88,125.

At the point of drawing up the Financial Statements, the Capital Commitments were effectively €331,000. Following the submission of the Financial Statements, further funds were awarded to the Council on Capital

projects and consequently the Capital Expenditure was revised upwards.

No supporting documentation was provided to LGA with respect to an expenditure of €21,815, in connection with Repairs and Upkeep of roads, and income of €8,000, both included in the Statement of Comprehensive Income. As a result, the amounts in question could not be verified, and it could not be confirmed with reasonable assurance that the said amounts, as reported in the Financial Statements, are correctly accounted for. Thus, a qualified audit opinion was issued in this respect.

With regards to the €8,000, the Council had applied for funds under Memo 15 of 2010, and managed to obtain this amount. However, the Council raised a concern with DLG, that it did not agree to the amount advanced. In view of this, a further €8,000 was provided during 2011. The Council has a file with all the necessary documentation on all the funds received. On the other hand, the amount of €21,815, referred to by LGA, was erroneously reported, and an adjustment was also prepared and submitted to the latter. However, this was not accepted.

During the year under review, three invoices totalling €44,550 were raised by the Council, in respect of road reinstatement works carried out during the years 2009 to 2011 on behalf of WSC. The full amount of €44,550 was disclosed as Income in the books of accounts, irrespective of the fact that €41,100 of the said amount due, in view of works carried out during 2009 and 2010, had already been accrued for during the preceding year. Furthermore, no income should have been accrued for with regards to 2011, since no works were actually carried out during the said year. The above resulted in Income being overstated by €44,550. Following LGA's recommendation, the Council reversed these accounting entries and adjusted the Financial Statements accordingly.

The income from WSC for road reinstatement for 2011 was €3,450, and the income from this source, as reported in the Financial Statements, was showing €38,200. This contained an error, and this was explained to the LGA. An audit adjustment was also prepared and together with the relevant documentation was submitted to the latter; however this was not accepted. Furthermore, the Council was to be paid only for all the reinstatements accomplished by WSC until July 2010. After this date, the Council had to carry out the necessary reinstatement works with hot asphalt within

45 days from the temporary reinstatement carried out by WSC. However, the Council did not carry out such work, because apart from the fact that it does not have the right Contractor, there are also technical and logistic problems. Besides that, the rate of €50 per trench is totally unacceptable.

It transpired that at period-end, at least €77,592 should have been recognised as Prepayments and Accrued Income. However, only €15,771 are disclosed in the Financial Statements, which amount is also not supported by any evidence. As a result, both Receivables, as well as the Surplus for the year are understated by €61,821. A qualified audit opinion was issued in this respect. On the other hand, Accrued Expenditure, as disclosed in the books of accounts, was understated by €15,982. Whilst an audit adjustment of €7,326 in relation to Personal Emoluments was passed, no adjustments could be proposed regarding the balance of €8,656, since the Council failed to provide an Accruals' List agreeing to the amount in the Financial Statements.

Point not properly addressed.

Variances were traced between FAR and the Fixed Assets in the Nominal Ledger. In an attempt to reconcile both records, a number of adjustments were made to the Nominal Accounts, which difference was accounted for as Incidental Expenses in the Statement of Comprehensive Income. Furthermore, Depreciation and Grants in FAR are overstated by €7,109 and €716 respectively, when compared to the books of accounts, thus resulting in an understatement of €7,825 in the NBV. Moreover, due to the fact that a number of assets have been incorrectly categorised, such assets are being depreciated by an incorrect depreciation rate. LGA is of the opinion that there are material misstatements in the Depreciation Provision and charge for the year. In view of the above, a qualified audit opinion was issued.

These variances will be looked into during the current year. However, with respect to the Depreciation issue, it would make more sense and be more helpful to the Council if LGA were to indicate exactly which items in FAR they were referring to.

The list of asset disposals provided by the Council for audit purposes revealed that during the current year, the Council disposed off assets having a NBV of €10,505. However, it failed to pass the necessary adjustments in the Financial Statements to write off the disposed assets from PPE.

During the year under review, the Council wrote off €73,290 and reported the same amount in the Financial Statements. The Council cannot understand the source of the amount of €10,505, quoted by Auditors.

While ‘Assets under Construction’ as reported in the Financial Statements stand at €17,766, the same assets included in the detailed list provided to LGA amount to €23,404. No adequate explanation was provided by the Council, in view of this discrepancy.

The Financial Statements are reporting the amount of €22,036. This includes the amount quoted by the Auditors of €17,766 and the amount of €4,270 for European Regional Development Fund (ERDF) projects.

No note was included in the Financial Statements, and no proper explanations were given with respect to a prior year adjustment, resulting in a net correction of €43,265 in Retained Earnings prior 2010. Another adjustment of €5,546 in the Retained Earnings of 2010 was also not explained. As a result, it could not be confirmed with reasonable assurance that the adjustment was correctly recognised and disclosed in the Financial Statements. A qualified audit opinion was issued in this respect.

Points noted for future reference.

The Contingent Liability note disclosed in the Financial Statements was not accurate. Notwithstanding that a Guarantee of €1,165 has been extinguished, it was still included as a Contingent Liability. On the other hand, two bank guarantees of €4,099 each and another of €3,900, in favour of MEPA, were not originally disclosed in the note. Following LGA’s recommendation, the Council partially adjusted the aforementioned note, with one of the Bank Guarantees still being omitted from the Financial Statements.

Comments were noted for future reference.

Marsaxlokk

Services provided for the organisation of cultural activity ‘Raha! is-Sajjieda’, amounting to €8,960, were not covered by a call for tenders.

During 2012, measures have been taken so that such situations will not repeat themselves.

Capital Commitments, as reported in the Financial Statements, exceeded those disclosed in the Budget document for 2012, as approved by the Council, by €46,358. Furthermore, the Capital Commitments note in the Financial Statement does not include a proper analysis between Expenditure approved but not yet contracted, and Expenditure contracted but not provided for in the Financial Statements.

The Capital Commitments disclosed in the Financial Statements were calculated prior to the finalisation of the budget. Auditor’s recommendation has been noted.

During the year under review, the Council obtained a new Grant amounting to €59,995, for works on a water fountain. While the said works were completed by the end of 2011, the granted funds were not received, and the Grant was completely omitted from the Council’s books of accounts. Following LGA’s recommendation, Financial Statements were adjusted accordingly.

The amounts due from MEPA as UIF for 2011 have been accounted for, as recommended by the Auditors.

The Council capitalised the amount of €58,515 relating to the Water Feature project before the said project was certified. This implies that the provisions of IAS 16, stating that a project is only capitalised when it is completed, quantified, certified and at the point when its economic useful life begins, are not being followed. The necessary audit adjustment was reflected in the Council’s final set of Financial Statements.

The necessary adjustment recommended by the Auditor was carried out and the Financial Statements reflect this.

The Council has not applied proper controls to ensure correct cut-off recognition for its income. Furthermore, the Council is not accruing for its Income on an Accrual basis. Instances have also been encountered whereby funds for income accrued in 2010 were deposited in the bank accounts in 2011, but the Accrued Income that was already recognised in 2010 was not reversed accordingly. In this case, the Council recognised an amount of €12,813 in the ‘Statement of Comprehensive Income’ of both 2010 and 2011. An audit adjustment was passed to rectify the situation.

The necessary adjustments recommended by the Auditors have been accounted for and are reflected in the Financial Statements submitted to the NAO.

As already reported in prior years, an agreement was entered into in October 2009 between the Council and the local football club, for the renting of the football ground for a total charge of €16,400, covering seven years. Notwithstanding that rent cannot be prepaid for more than one year, and that the agreement should not have been longer than three years, the Council paid this one lump sum in advance. In addition, as also expressed in the prior year, LGA is sceptical of the value being derived from such a long-term agreement, as well as from the nature of the service being provided. The substance of such an agreement is considered as a donation in kind provided by the Council to the football club. This has also to be seen in the light that in the year in which the Council entered into this agreement, it incurred a deficit of more than €8,000. The incurrence of further expenses related to this agreement, including insurance as well as repairs and maintenance costs, cannot be overlooked.

This issue was already tackled during the audit of 2009 which is the year when the agreement with the local football club was signed. As stated in the Management Letter of 2009, the main reason for the agreement with the club was to promote sport in the locality, especially for the under 18's. A tender could not be issued since there is only one football club in the locality. The advance payment was made in order to achieve the best price for this facility. The Auditor's recommendation was noted and no other such long-term agreements have been entered into during 2011.

In line with the preceding period, two amounts of €12,854 and €932, owed to two Contractors, are long overdue and have been in the Council's books of accounts since prior years. The Council has no recent evidence to show that these amounts are in fact payable, and the suppliers in question have not contacted the Council to recover the said amounts. Notwithstanding LGA's recommendation in the previous year's report, to seek legal advice on the matter in order to determine whether the suppliers involved have a legal right to the said amounts, no such action was taken by the Council.

The Auditor's recommendations have been noted; this will be discussed further with the Council, and if necessary legal advice will be taken on this matter.

While the Council's amount receivable from LES Tribunal pending tickets (pre-pooling period) stood at €57,483, as at the end of the financial year, documentation provided by the Żejtun Joint Committee

shows that the actual amount due is €54,014. The necessary adjustments were carried out by the Council to record the appropriate amounts.

The adjustments recommended by the Auditors were accounted for and are reflected in the Financial Statements.

During the year under review, the Council recognised the amount of €3,100 as Accrued Income from WSC, in connection with reinstatement fees for the period August to December 2010. No confirmation on the accuracy and recoverability of the said amount was sought by the Council before including it in the Financial Statements. The Council also recognised an amount of €2,808 as Other Receivables, in respect of which no explanations were provided on the nature of these balances, which have been brought forward from previous periods.

The Council will establish whether the amounts recognised as 'Other Receivables' are still recoverable and the necessary action will be taken accordingly.

A garnishee order, amounting to €1,394, was not disclosed as Contingent Liability of the Council. Despite the Auditor's recommendation, the Council has still not amended the Financial Statements.

Point not properly addressed.

Mdina

Four acquisitions, all of which exceeding the set threshold of €1,165, were procured by the Council through Direct Orders. Included in the said purchases, were wrought iron works and lamps amounting to €5,107.

Pertinent regulations are abided with, however in certain cases, due to urgency and the nature of goods required, a Direct Order is issued.

Notwithstanding that the Council has been renting its offices since 1994, no rental agreement has ever been in place. In addition, this rental expense has never been paid by the Council, and the latter has been accruing for this since 1994. As at year-end, accumulated Accrual stood at €39,566.

LGA's comment about the absence of a proper rental agreement is an issue to which the Council had already

replied in previous Management Letters. The Council has brought up the issue with DLG and the Lands Department. To date, no feedback has been received and the Council is still waiting for a reply. Until further clarification, for the sake of prudence, the Council is accruing for such expense.

The accounting of the cost of construction of the Mdina car park was not correct. The car park was finished and put to use in October 2010, and thus all the costs relating to its construction should have been recognised in the same period. However, only €35,000 relating to this expense were included in the PPE of that same year, with the balance of €30,690, which should have been accrued for in 2010, being included in the year under review.

Furthermore, the increase of €23,066 in Deferred Income relating to this project should have also been reflected in the prior year accounts since related work was completed in 2010. Following LGA's recommendation, the Council approved the necessary adjustments and agreed to include a prior-year adjustment in the Financial Statements to this effect.

Further to the Auditor's comment, the Council would like to highlight the fact that the Architect's certificate of completion was actually signed on 18 February 2011, and thus, it should have been recognised in 2011.

A receipt amounting to €3,494, in relation to 2010, was also recorded in 2011. Following LGA's recommendation, the Council adjusted the Financial Statements accordingly, and recognised such amount as a prior-year adjustment.

The amount in question was not accrued for during 2010, and consequently resulted as income during 2011.

In five areas, namely Parks, Gardens and Soft Areas, Road Maintenance, Waste Management, Tipping Fees and Administration Fund, the total expenditure undertaken by the Council differed considerably from the funds allocated by Government and disclosed in the Financial Allocation 2011. In four out of the five areas, the actual expenditure exceeded the allocation, with the greatest disparity arising in the Administration Fund, where the allocation was exceeded by €83,016, thus more than twice the allocated amount of €78,857. On the other hand, the allocation for Road Maintenance was €23,466 more than the actual amount disbursed. This resulted in a net amount of €81,386 being overspent.

Whilst the Council is aware of its obligation to adhere with the Financial Allocation, and every effort is done to keep within the budget, one should appreciate that certain amounts which involve a contract are fixed. Before a tender is awarded, emphasis is made on the fact that these do not exceed the amount in the Financial Allocation. A case in point is the recently awarded contract for the cleaning and maintenance of Howard Garden, which is now within the limits set out in the Financial Allocation.

In other categories, expenditure incurred exceeded the budgeted figures for 2011 prepared by the Council. The main instances encountered related to excesses in Office Hospitality (€30,350), Professional Fees (€13,186), Cleaning and Maintenance of Non-Urban Areas (€6,315), Travel (€5,797), Street Lighting (€5,095), Cleaning of Parks and Gardens (€4,281), Road and Street Cleaning (€1,408) and Insurance (€950).

The Council is committed to reduce the costs. The difference between the budgeted 2012 figures and 2011 actual results are due to cost savings that the Council plans to achieve.

A substantial portion of the revenue generated by the Council, consists of income from bye-laws. However, there is no bye-law in place regulating income arising from the rental of Mdina Square for public activities, notwithstanding that the Council collected the amount of €6,350 in this respect, during the year under review.

With respect to the rental of such places, the Council only charges an Administration Fee to cover the expenses, namely Cleaning and Warden Services. Notwithstanding this, the Council has approached a lawyer to draft a bye-law regulating this source of income.

Items amounting to €3,555, which should have been accrued for, were completely omitted from the books of accounts. However, following LGA's recommendation, the Council approved the necessary audit adjustments and amended the Financial Statements accordingly.

The under-accrual is due to the fact that a fine of €1,500, charged for a missing meter, is still being contested. On the other hand, another bill which was charged to a third party, was passed to the Council during 2012. The Council will ensure that it correctly accrues for all expenditure in line with the concept of Accrual Accounting.

During the year under review, the Executive Secretary was paid the amount of €205, in relation to a personal vehicle allowance. In breach of the provisions of Memo 109/2010, the Council paid the said amount without having been provided with a claim form, clearly reflecting the mileage being claimed, among other details.

The Council has noted the comment made by LGA and will ensure that it abides with Memo 109/2010.

Expenditure incurred by the Council during the year under review, in respect of its twinning with 'Zaragoza and Cellere' in Italy, exceeded the stipulated threshold laid down in LN 144 of 2009. The amount expended by the Council in this respect, totalled €5,972, which is higher than the limit of €3,500, or 0.5% of the Annual Government Allocation (€892), stipulated in the cited subsidiary legislation.

This expenditure includes the Council's members' visit to Cellere, which was within the allowed limits, and the visit in Malta of two delegations, who were invited on the instruction of DLG, to participate in a conference on twinning. Due to the last minute cancellation of this conference (when all the arrangements had been done by the foreign delegations and the Local Council had already made the commitment), the Council had to unexpectedly use its funds to support the visit of these delegations. The extra expenses incurred, which had to be borne by the Council, resulted in the excess of the allowed limit. The Council had sought reimbursement of these extra expenses from DLG, but never received any reply.

Although donations are prohibited, the Council can be considered to have provided donations in kind, being €136 in respect of funeral wreaths, €20 tips to a nurse, €10 tips to waiters, silverware gifts of €320 and gifts of €177 given out by the Mayor. Furthermore, an expense of €1,260, referring to excess luggage - 'San Marino Group', was also noted.

The Council is aware that it cannot give donations, and in fact, it did not give any donations during the year under review. The items listed by the Auditors are the result of its social and cultural obligations.

Capital Commitments for the forthcoming year, amounting to €82,150, were not disclosed in the Financial Statements.

Issue not addressed.

Mellieha

The amount of €4,130 and €2,800, expensed from the Council's funds covering services provided by the Beatles Tribute Band and Pink Floyd performance respectively, were not approved by DLG.

Comments highlighted by LGA are being noted for future reference.

Government Grants of €31,722 received during the year under review, in relation to activities carried out during the preceding accounting period, were not accrued for in the prior year, but were recognised as income in 2011. Following LGA's recommendation, the Council revised its Financial Statements and, through a prior year adjustment, included this amount with the previous year's income.

From time to time, the Council applies for a number of schemes which are launched by DLG. However, not all these applications are approved immediately by the latter. For prudence sake, the Council does not feel it would be appropriate to accrue for Income which is not yet approved. Nonetheless, for future Grants, the administration would seek to forward the details to the Council's appointed Accountant to accrue accordingly.

As a result of the number of cultural and social events undertaken by the Council, the budget in respect of Entertainment and Cultural events was exceeded by €4,000.

Point not addressed.

Part of the overtime cost, related to duties performed by two individuals in respect of a drama activity held by Mellieha Stage Friends at the local Primary School, was borne by the Council, notwithstanding that donations are prohibited under the prevailing regulations.

A distinction should be made between outright donation and the contribution to an activity held jointly between the Council and a local non-profit making organisation.

Capital Commitments disclosed in the unaudited Financial Statements totalled €2,017,241, while those included in the Budget for 2012 amounted to €1,946,241. The Council explained that the variance of €71,000 arose due to the fact that estimates provided by Architects and engineers were forwarded to the Council after the Financial Statements were finalised, but before the Budget 2012 was approved.

Furthermore, capital expenditure, as disclosed in the three-year business plan 2012-2014, was overstated by €12,000 when compared with the Budget 2012. Following LGA's recommendation, the note to the Financial Statements was adjusted accordingly.

The Council reiterates the comments given to Auditors as highlighted in the Management Letter. Nonetheless, for future reference, the Council will seek to have estimates in time for the approval of the Budget and Financial Statements accordingly.

Guarantees in favour of MEPA, amounting to €16,665, were not disclosed in the Financial Statements in line with IAS 37 - Provisions, Contingent Liabilities and Contingent Assets. However, following LGA's recommendation, the Council made an appropriate disclosure note in this regard.

LGA's comments noted.

Although Memo 122/2010 stipulates that the expenses in respect of 'Jum il-Lokal' should not exceed €3,500 or 0.5% of the Government Annual Allocation, which in this case is equivalent to €4,765, the amount expensed by the Council in this respect amounted to €5,232.

Memos 122/2010 and 8/2011 deal with the reception organised on the occasion of 'Jum il-Kunsill'. In the case of Mellieħa, 'Jum il-Kunsill' is made up of a series of activities spread over three days. Refreshments were served only in the case of the award presentation ceremony held at a local hotel. The relative charge for the food, drinks and use of the venue, involved an expenditure of €867. The rest of the expenses identified by the Auditors had nothing to do with receptions. Additionally, it is to be pointed out that the Council has benefited from a donation of €560, aimed at easing the organisational costs of these activities. Thus, the Council is not seeing any breach of procedure in this case.

Mgarr

The only two bidders who submitted their offer, following a call for tender for the provision of two handyman services, were the prior service providers. These bidders failed to submit the required Bid-Bond with their offer, and it was only submitted after the closing date of the tender, following a request by the Council. Notwithstanding this, the contract was still awarded to these two bidders.

Point not addressed.

Accountancy services, totalling €6,592, have been procured under a contract which was adjudicated on 28 August 2008. Despite that such contract has expired, the Council has failed to issue a new call for tenders.

Point not addressed.

Notwithstanding prior recommendations, the Council once again paid mobile phone reimbursements to Councillors, totalling €775, which reimbursements were not duly covered by an expense claim form, in line with the requirements of the Local Councils Procedures.

Reimbursements for such item have been halted.

No FAR is being maintained by the Council in line with the requirements of the Local Councils (Financial) Procedures. As a result, Depreciation is not being calculated and posted through FAR, as required by pertinent regulations. Consequently, existence and completeness of Fixed Assets disclosed in Financial Statements, as well as correctness of depreciation calculated thereon, could not be ensured, and a qualified audit opinion was issued in this respect.

Aware that FAR has not been maintained over the past years, after lengthy consultations with the Accountant and DLG, the Council has issued a call for the building-up and the maintenance of a FAR.

No disclosure of Capital Commitments has been made in the Financial Statements, despite the fact that the Council intends to undertake Capital Expenditure in 2012.

Point not addressed.

During the year, the Council capitalised Grants received of €4,672 and €29,293, for photovoltaic systems and road resurfacing respectively. However, according to the Income Approach, these Grants should be recorded as Deferred Income, and when the asset is put in use, the Grants should be amortised directly to the Statement of Comprehensive Income, at the same rate at which the asset is being depreciated. The audit report was qualified in this respect.

Point noted.

Debtors are being posted as batch journal entries rather than as invoices. As a result, audit trail is being disrupted, and Debtors included in the Financial Statements, amounting to €55,001, could not be tallied to their respective invoices. LGA requested the Council to provide a breakdown of the Debtors' balances and the respective invoices, however, these were not provided. In view of this, a qualified audit opinion was issued.

Point is noted and actioned upon.

The Council failed to accrue for Income, amounting to €20,000, due to the same Council in connection with a Housing Authority Scheme, namely 'Programma ta' Manutenzjoni fil-Binjiet tal-Gvern'. Since such income relates to 2011, it should have been included in the Financial Statements as Accrued Income, even though it was not yet received. The necessary audit adjustments were proposed by LGA, however the Council did not apply such adjustments correctly. In this respect the audit report was qualified.

Further to the above, the amount of €3,936, covering invoices in respect of the period February to December 2010, and Accrued Income due during the period January to December 2011, was not provided for by the Council. Following LGA's recommendations, the Council adjusted the Financial Statements accordingly.

Books of accounts are always prepared on the Accruals Basis of Accounting.

The Council also failed to recognise in the Financial Statements, a receivable of €5,100 due from WSC, in respect of reinstatement works undertaken by the Council on its behalf. An agreement negotiated with WSC, entitles the Council to a fixed fee of €50 per reinstatement. WSC has confirmed the works undertaken by the Council for the period January to October 2011, however the Council failed to reflect the amount due in its Financial Statements. The Council also failed to apply the adjustments proposed by LGA, and thus, the audit report was qualified in this respect.

The Council is not aware of the proposed adjustment being referred to.

The balance of two bank accounts, does not agree to the respective Nominal Ledger balance by €4,029 and €39 respectively. No reconciliation and bank statements were provided to LGA with respect to another account, however, it was concluded that the balance as per

Nominal Ledger does not agree to the balance as confirmed by the respective bank, by €1,283.

Bank reconciliations are carried out on a regular basis.

As at 31 December 2011, the Council recognised the amount of €26,489 as Trade Payables, however, instances were noted by LGA where the balances in the Creditors' List were misstated. Additionally, a Creditor balance of €14,805 could not be confirmed by LGA, and thus, correctness of Payables included in the Financial Statements could not be attained. The audit report was qualified on this issue.

The issue in this point has been settled recently.

The Accounting System currently adopted by the Council is a hybrid one between Cash and Accrual Accounting. Most invoices were recorded when they were paid, at times even by-passing the Purchase Ledger Control Account. Other invoices have been recorded in this account without the invoice number, thus hindering audit trail. Invoices pertaining to the same supplier were batched and recorded as one transaction, while invoices received in 2012, in respect of services provided in December 2011, were included with Creditors in the Financial Statements for period ending 31 December 2011. This accounting methodology is not in line with Generally Accepted Accounting Principles and goes against the basic concepts of accounting. Furthermore, the current system may easily lead to cut-off errors and incorrect financial information. In fact, Accruals amounting to €6,664 have been omitted from the Financial Statements, while others have been incorrectly accounted for. On the other hand, the Council accrued for expenses which had already been posted to the Creditors' Ledger before year-end, thus resulting in overstated Expenditure and Payables. Following LGA's recommendations, the Council adjusted the latter shortcomings accordingly.

Issue was discussed with the Accountant, and noted for future references.

Budgeted expenditure in respect of Repairs and Upkeep, Professional Services, Community and Hospitality as well as Insurance, has been exceeded by €47,524, €13,052, €8,809 and €5,433 respectively. This was also the case with respect to amounts paid in view of Salaries, Utilities, Rent, Membership fees, Office Services, Leasing Equipment and Other expenses, which in total have exceeded the budget by €13,132.

During 2011, expenses turned out to be substantially higher than predicted and this explained the issues raised in this point.

The amount of €358 was paid in respect of a Christmas party for Councillors and staff. Given that the number of persons who attended such activity was eight, the amount incurred per capita was higher than that laid down in Memo 8 of 2011.

Point noted.

Mosta

The adjustments accounted for by the Council at year-end were incomplete. While the Accruals' List provided to LGA amounted to €327,826, only €212,158 were recognised in the Financial Statements. It further transpired that €229,134, included in the List of Accruals, relate to Accruals brought forward from the previous year. Another €3,867, also brought forward from the preceding year, had a negative balance. No documentation was provided in these two instances. Additionally, an amount of €4,497, in respect of Performance Bonus, was included in the Accruals' List despite that such bonus was already paid to the respective employees in 2011. On the other hand, accrued Water and Electricity was understated by €4,253. No adjustment was passed to cover post year-end payments, amounting to €1,848, relating to works carried out during 2011, for which an invoice was issued in 2012. Moreover, Day Care Centre rental income of €134 should have been accounted for as Deferred Income.

The Council would like to clarify that the amount of accruals brought forward from previous years as at end of 2011, amounted to €226,694. This amount consisted of three balances as follows: €66,467 (re-patching works 2007-2009), €30,854 (Ta' Mlit embellishment works) and €129,373 (works on Pjazza Rotunda). Note was also taken of the minor discrepancies on Accruals, with a view of making sure that accruals are properly accounted for at the time of preparation of the accounts, which would be quite close to year-end, and thus makes it more difficult to get the full picture in this regard.

In previous years, the Council transferred the administration of the football ground 'Tal-Ghajba' in the hands of Mosta Football Club. As a result of this transfer, the latter are required to provide annual audited Financial Statements to the Council. However,

in breach of the agreement, the Council has never received these records. Moreover, LGA was also not provided with a copy of the agreement transferring the administration of the said ground from the Council to Mosta Football Club. Notwithstanding that this issue has already been reported in previous years, no action has been taken by the Council so far.

Steps are taken to organise the necessary meetings with the administrators of the football ground at 'Tal-Ghajba', with the objective of tackling all outstanding issues and also establishing a way forward with respect to the proper administration of such property. A request for audited Financial Statements of Mosta Football Club, as administrators, will also be made by the Local Council.

The amount of €2,226, being income from contraventions, was recognised by the Council in an account made up of €4,585 representing movement in LES Debtors, and a reversal of €2,361. LGA was not provided with any details on the rationale behind the LES movement.

LES Debtors, as well as the Provision for LES Doubtful Debts as currently disclosed in the Financial Statements, are overstated by €7,601 and €3,016 respectively. Whilst outstanding fines receivable recognised in the books of accounts stand at €55,762, only €48,160 are actually due as per reports extracted from the LES computerised system.

An increase in LES Debtors of €4,585, is in line with a report issued by the computerised system which was subsequently presented to the Auditors during their audit fieldwork. This report, entitled 'Pending Payments Report', was issued on 13 February 2012 and disclosed a balance of €55,671 as at year-end 2011. Unfortunately, the system report, which has been supplied to the Accountants by the Council, does not distinguish between pre-pooling and pooling amounts. The Accountants were unable to verify the said amounts, however, they have made the necessary adjustments in the accounts for 2012 to reflect the Auditors' observations highlighted above.

A substantial part of Trade Receivables, which amounted to €36,433 as at 31 December 2011, may not be recoverable since 83% of these Debtors have been outstanding for a long time. On the other hand, 45.26% of the total Creditors in the list (€520,378), have also been long overdue.

The Debtors' List will be reviewed with the aim of analysing its ageing, so that the Council can re-assess the amount being shown as Provision for Doubtful Debts. The Council's Accountants have taken the necessary steps to provide for the above as Doubtful Debts in the latest Management accounts, ending 31 May 2012.

On applications for permits for construction work requested by individuals or corporate bodies within the Mosta locality, the Council withholds a deposit which is refunded if the site has been left in good order after the works have been finalised. According to a list kept by the Council, showing applicants' deposits and movements in related refunds, the balance due by the Council to the applicants amounted to €70,252 as at year-end. However, according to the Nominal Ledger, only €28,322 were due by the Council, resulting in a discrepancy of €41,930. This is the third consecutive year in which such discrepancy is being reported. In the previous report, the discrepancy between the two records amounted to €1,712.

It was further noted that the Council has utilised these funds to finance its activities. In fact, the bank account hosting these deposits had a negative balance of €1,362 at year-end.

This matter is being taken up with the Council's Accountants to rectify the situation. The discrepancy mentioned dates back to prior 2008, and is also related to the alleged misappropriation of funds by the then Executive Secretary.

Expenses amounting to €12,328, incurred in relation to an EU Programme, were re-classified by the Council, and reported as a Receivable in the Statement of Financial Position. No official documentation was provided by the Council to substantiate its rationale, namely that the said expenses are expected to be recovered through EU Funding. Consequently, one can conclude that Receivables are overstated by €12,328, while expenses are understated by the same amount. Furthermore, the related transactions are not being recorded in the appropriate manner, in line with IFRS and the Generally Accepted Accounting Principles.

The Council would like to state that none of the Income and Expenditure in respect of EU funds was recognised in the Statement of Comprehensive Income, but a Debtor or Creditor was recognised in respect of such Income and Expenditure. In the Management Accounts of May 2012, the Statement of Comprehensive Income was amended in order to reflect the movement (incoming

and outgoing) on such projects, and also to identify the resultant transfer to Accrued Income or Deferred Income that occurs during the period under review.

Together with MEPA Guarantees, amounting to €5,400, and three cases in the Small Claims Tribunal, the Council has a pending case in front of the Arbitration Board, whereby a Contractor is requesting €100,000 as compensation for damages incurred by construction works carried out in the locality's main square. However, notwithstanding the materiality of the amounts involved, none of the above were disclosed in the Financial Statements in line with IAS 37.

Court cases that are in progress, and that could result in Contingent Liabilities, are being identified and reported. Furthermore, Bank Guarantees to MEPA of €5,400 have been standing for a long time. However the Council will contact the bank to get the full information about the status of these guarantees. Additionally, the matter with respect to court cases will be raised with the Council's Legal Advisor in order to ensure that the Council gets a full and proper picture of such contingencies.

Included with Payables is a Nominal Account with respect to the 'Archaeotour Project'. Payments of €2,085 and €381 were disclosed in this account, notwithstanding that these related to Expenditure of a Revenue and Capital nature respectively. Furthermore, payments made, for items accounted for in this account, were not effected from the bank account which was specifically opened for this project. In addition, no agreement was available in respect of this programme, and the Council was not in a position to provide LGA with an update on the outcome of the project.

This project will be treated as all other EU projects, as defined above.

Opening balances brought forward from the preceding year were not in agreement with the approved and audited Financial Statements of 2010. Variances were noted in the Retained Earnings (€7,541), Payables (€8,541) and Fixed Assets (€1,000).

Opening balances for 2011 have been duly corrected.

Both full-time and part-time emoluments, as disclosed in the Payer's Monthly Payment Advice namely FS5s, do not tally to those recognised in the Annual Reconciliation Advice, namely FS7. Whilst gross emoluments paid to full-timers, as provided

for in the FS5s, were understated by €7,323, part-time emoluments were overstated by €7,332, when compared to the amounts recorded in the FS7.

It has been noted that this was a software problem which was classifying the emoluments of the Mayor incorrectly. However, this was just a reporting issue and had a neutral effect in terms of the Income Tax and Social Security Contribution payable to CIR during the year.

During the year under review, the Council made payments on account of various social events, including a gift to a local personality costing €120 and trophies/medals amounting to €350.

The Executive Secretary is to ensure that a stricter approach to gifts and donations is adopted by the Council, though one must state that the amounts mentioned were extremely low in value terms.

No note disclosing Capital Commitments for the forthcoming year was included in the Financial Statements. The annual budget for 2012, and the three-year business plan, were not yet finalised by the time of audit. As a result, it could not be confirmed whether the Council will be incurring capital expenditure in 2012, and whether any disclosures are required in the Financial Statements.

As regards Capital Commitments, the Council was hampered by the fact that the previous Council had not finalised the three-year business plan, nor had it finalised the budget for 2012. Work has been started on all counts in this respect, in order to be able to finalise both documents. However, an exercise to establish future commitments has been done as at end of May 2012 by the Accountants, in conjunction with the Mayor and the Acting Executive Secretary. The Council is confident that it has now a truer picture of all commitments, be it a Capital or Revenue nature.

Mqabba

Grants totalling €154,800, receivable on four capital projects, were wholly recorded as income during the year under review. The Council approved the proposed audit adjustments in order to recognise Grants as Income on a systematic and rational basis over the useful life of assets, that is, in accordance with the annual depreciation charge.

Proposed adjustments were effected accordingly.

Notwithstanding previous recommendations, to-date the Council has still not compiled a FAR that agrees with the Nominal Ledger. Consequently, depreciation is being computed manually rather than through the accounting software. This has led to a computational error, resulting in an overstatement of €4,316 in the depreciation charge. The necessary audit adjustments were correctly incorporated in the Council's final set of Financial Statements.

Due to a lacuna in past data, arising on the introduction of Sage Pastel in lieu of the Sage Line 50, the Council is finding it very hard to reconcile the existing Fixed Asset Nominal Accounts with the Fixed Asset Schedule. However, during the last years there was a big improvement.

The Council's Creditors' List includes an amount of €12,328 due to a Contractor in relation to resurfacing works, which works were not certified by the Contract Manager before year-end. An additional amount of €451, included in the same list, covers Contract Management Service Fees that will be due on the said resurfacing works, once they are certified.

Point not addressed.

Despite previous recommendations about the importance of reporting all LES Debtors to ensure a complete disclosure in the Financial Statements, the balance of €101,472, representing pre-Regional LES Debtors, includes only tribunal pending payments for contraventions issued up to 31 August 2011. Although the Executive Secretary maintains a list of paid contraventions not remitted to the Council at year-end, such information was not incorporated in the books of accounts.

LES Income does not include paid contraventions that were not remitted to the Council before year-end. As reiterated in previous years, the Council has no say on the data. The change in policy will neutralise the issue automatically.

The Council accrued for a grant of €51,055 receivable on a Pilot Project, which Grant was recorded in full with 'Supplementary Government Income'. However, considering the completion stage of the project, and the fact that the Council had already received €225,000 out of the €300,000 under this Project, there were no Grants accruing to the latter as at period-end. An audit adjustment was proposed to reverse the above, which adjustment was approved by the Council and incorporated in the books of accounts.

By the end of this year, the Pilot Project would be history and the matters raised by LGA will be resolved.

In the preceding financial period, the Council accrued for Grants of €43,522 receivable on road resurfacing, and €6,413 for the installation of a photovoltaic system. These Grants were received in 2011, but the Council erroneously recorded them as Income rather than crediting Accrued Income.

Likewise, income of €2,000, received in respect of works performed during 2007, was accounted for as income rather than netted off against Accrued Income.

Following LGA's recommendation, the Council approved the necessary adjustments.

The fact that these amounts were erroneously recorded as Income was acknowledged by the Council.

The Council continued to provide for accrued rent of €1,165 per annum on the premises it currently occupies, even though there is no rental agreement in place, and thus no formal obligation to pay such amount. The Executive Secretary explained that the provision is only made for prudence purposes, since the Council does not foresee its eventual payment. As at 31 December 2011, the balance for accrued rent totalled €14,850.

For prudence sake, the Council continued recognising a yearly provision for the rent of such premises, which comprise of a house subdivided amongst the Commissioner of Police, Health Department and the Council. It is the Commissioner of Police who is paying the rent to the owner. Unfortunately, the landlord has recently passed away, and the Council does not know who are the respective heirs. One cannot ignore the informal instructions given by the Attorney General not to make deals or contact with the landlord since there was a court case which was won by Central Government. The landlord claimed that the Council has no right to use his premises, as these were sublet without his prior consent.

Included in the Creditors' List is an amount of €10,298 due to the Żurriq Joint Committee, which amount has been brought forward from previous reporting periods. However, according to the Executive Secretary, the Committee never requested payment of the said amount. Despite recommendations in the preceding year, the Council failed to obtain from the Committee, a direct confirmation of any balances still due.

This subject was extensively discussed during the Council meeting held on 3 May 2012. Considering that the respective Joint Committee is in liquidation, the Council cannot just raise this point. LGA is aware that there is a police investigation being conducted thereon, due to alleged irregularities. During the said meeting for which the Council's Accountant was present, it was not agreed that the respective amount be written off.

Included in the Council's books of accounts is a debit balance of €9,327 which, according to the Executive Secretary, includes unreconciled bank discrepancies accumulated over the 16 years of the Council's operations. However, despite LGA's recommendation in previous years, the Council has not yet investigated this balance. As a result, LGA was not in a position to establish the existence and valuation of this amount.

This case was discussed during a Council meeting held on 3 May 2011, in the presence of the Council's Accountant. The difficulty is very similar to that in reconciling the Fixed Assets. There is a lacuna in our data that occurred with the introduction of Sage Pastel, as nobody was aware (not even local authorities) of the fact that it keeps only the records of the current year plus the previous year. To keep track, one must register a new company every time a year commences.

The bank reconciliation, prepared by the Council in respect of a bank account, showed unreconciled differences of €2,033. It transpired that the book and bank balances, as well as the reconciling items in the reconciliation statement, were all incorrect. Furthermore, the Council failed to account for LES receipts of €1,338. Audit adjustments reconciling the book balances to the bank statement were proposed by LGA and approved by the Council.

The unreconciled difference of €2,033 on the particular bank account was material, and more efforts are being made to reconcile the LES Mqabba Local Council payments that are increasingly made on-line.

The personal accident insurance, financed by the Council, is not limited only to Malta, but provides coverage on a worldwide basis.

The Council checked whether the premium would be lowered if the Council policy on personal accident will cover only local activities. However, the answer was not in the affirmative. Besides that, following LGA's recommendation, the Council has now issued a call for quotations and another broker is currently in charge of the said insurance.

Msida

Two amounts of €4,649 and €865, supported by a call for quotations, were paid by the Council in respect of aluminium and soffit works, for the Day Care Centre and finishing works at the Council respectively. Although these were two different projects, works were carried out by the same Contractor. Furthermore, the services were of the same nature, and were procured within a period of four months. Thus, in line with the Local Councils (Financial) Regulations, they are considered to be one purchase and the Council should have issued a call for tenders, since the amount involved exceeded the threshold for quotations.

The Council has wanted to set up this Centre since 2008, however the Department for the Care of the Elderly in the Community did not have the human resources available to assist this project. In early 2011, human resources were available and the Council was informed that this Centre had to be running by the beginning of summer. The quotations covered several works that were pointed out as requirements by the Manager of Day Centres.

During the year under review, the Council qualified for four grants amounting to €179,215, out of which the amount of €36,281 was received during the same year. However, the Council failed to recognise the balance as Accrued Income, being the total Receivable at year-end in respect of three of the grants. The Council approved the necessary audit adjustments.

The Council also qualified to receive grants amounting to €103,398 in respect of road resurfacing, which amount was not yet received by year-end. On 1 November 2011, the Quantity Surveyor certified that works completed in this respect amounted to €103,398. The Council recorded this amount as 'Assets under Construction'. However, being an arterial road, it is not considered as the Council's property, and Transport Malta agreed to refund the Council the amount of €103,398 for tarmac works completed. In view of this, LGA proposed an adjustment to reverse the amount from the Fixed Assets Schedule. This adjustment was correctly incorporated in the final set of Financial Statements.

In both instances, the matter has been resolved as the audit adjustments proposed by the Auditors were correctly reflected in the Financial Statements.

The Council is not using the replacement basis when accounting for additions of traffic/street signs and mirrors, as instructed in Memo 121/2011. In previous years, these items were depreciated using a rate of 100%, thus the NBV of such items in FAR should be nil. However, the Council's Financial Statements show a NBV of €3,171.

Traffic signs, amounting to €3,171, will be fully depreciated in the 2012 Financial Year. Furthermore, the Council shall start using the replacement basis when accounting for traffic signs additions.

Included with Receivables is a balance of €16,700 due from WSC, for jobs executed by the Council between 2009 and 2011. During the year under review, through an email, WSC sent an official list of the jobs executed during 2010 and 2011, amounting to €3,450. Invoices raised by the Council were then based on these lists. However, the original e-mail submitted by WSC could not be traced. Consequently, accuracy of the amount reported in the Financial Statements, could not be ensured.

Assurance on the completeness of amounts stems from the fact that all previous dues, on which the Auditor had doubts in previous financial years, were all deposited in the Council's bank accounts correctly and on time.

Balance of a Current Account held with a financial institution, as disclosed in the Nominal Ledger, did not reconcile to the balance as per bank statement by €1,919 as at period-end.

The Council does not agree with the Auditor on this point. The mentioned bank account was reconciled as €0, as at 31 December 2011. It was also reconciled in time at year-end.

According to the Council's Budget for 2012, the latter is anticipating capital expenditure of €190,355. However, these do not correspond to the disclosures in the Financial Statements, where Capital Commitments amount to €223,625.

Funding for most of these projects comes from the 'Urban Improvement Fund' scheme operated by MEPA. All UIF contracts have been scrutinised by the Auditors and these amounts tally. During the budgeting process, not all UIF contracts would have been finalised, and Councillors rarely make a decision on a project a year in advance.

A Garnishee Order of €1,471 was included in a bank confirmation letter. From explanations provided by the Executive Secretary, it transpired that this restriction is in respect of a court case, initiated by the Council against a private limited company, which court case was closed during 2010, according to the Council. However, no documentation confirming that the case is closed was provided to LGA. As a result, it could not be confirmed that the liability has been extinguished.

The Garnishee Order is in respect of an accident which occurred in 2006, whereby the Contractor of the Council damaged the façade of a building in John Borg Street, whilst he was carrying out pavement works. The Council shall contact its bank and Advocate to see that this Garnishee Order is removed, since the matter above had been settled in 2007. The case against the private limited company was a completely different subject, which is now closed, and proceedings have been terminated after the parties have settled matters outside court.

Mtarfa

No tender was issued in respect of engineering services amounting to €5,103, provided during the year under review. Furthermore, Refuse Collection Services (€27,934), as well as the provision of services of an Accountant (€1,957), and a Lawyer (€1,416) were all obtained under an expired contract.

The Council shall review all expired contracts and renew or issue tenders or call for quotations, as the case may be, to regularise the position.

The contract in relation to street sweeping services was not yet signed due to a pending conflict on the said tender. The Local Council stated that it selected the second cheapest bidder on the basis that the respective offer met the Council's specific requirements, contrary to that of the cheapest bidder, whose bid was 35% cheaper. However, the latter is currently contesting the decision of the Council on the basis that the selected bidder was the third cheapest and not the second cheapest alternative. On the other hand, the Local Council is of the opinion that since the second cheapest bidder withdrew his bid, he could not be considered as a bidder any longer.

Point not addressed.

Despite the fact that, at least since last year, the Council did not hold any stock which in prior years consisted

of books held for resale, the Council still has Insurance Coverage of €20,000 in respect of Stock in Trade, when it does not have any such stock.

Point not addressed.

Whilst Capital Commitments as per Financial Statements amount to €17,500, only €7,000 were included in the Annual Budget of 2012.

The Council will ensure that its Financial Statements reflect the Capital Commitments as at year-end.

Notwithstanding prior recommendations about the upkeep of a FAR in line with established procedures, the matter has still not been addressed by the Council. In the absence of a proper FAR, enabling the Council to maintain control over capital expenditure, assurance on the existence and completeness of the balance of Fixed Assets recorded in the Financial Statements, having a NBV of €124,594, as well as on the completeness of the depreciation charged thereupon, could not be obtained. A qualified audit opinion was issued in this respect.

The programme containing the FAR of the Council has been lost due to a change in the computer hardware. An exercise to compile the FAR is being undertaken to ensure that the records of the Council's assets are according to regulations. There is some difficulty to trace old back-ups of Sage which contained the FAR up to the change of programme to Pastel and Evolution.

Accruals totalling €12,754 were not accounted for by the Council. This was due to the fact that a number of accrued expenses, as recorded by the Council, were substantially different from the amount paid or invoiced, while other unpaid amounts were completely omitted from the financial records. On the other hand, Architect fees amounting to €13,731 were accrued for, not taking in consideration a discount of €7,132 confirmed by the same Architect.

It shall be ensured that the list of accruals as at year-end is complete when the Financial Statements are finalised. With respect to the over-accrual for Architect's fees, the discount allowed by the Architect was only communicated to the Council after the finalisation of the Financial Statements. Thus the Council was not in a position to reduce the accrual before that time.

Accrued income is not being accounted for by the Council in line with IFRSs. Income of €7,500, in relation to an activity held in 2010, namely, 'Attivitajiet

Kulturali' 2010, was only recognised in 2011, when the said income was actually received. The Council also failed to provide for Supplementary Government Income of €7,000, relating to '*Skema Kulturali 2011*'. In addition, Accrued Income relating to WSC road reinstatement was understated by €2,350, and income relating to the share of Profits Receivable from LES Joint Committee, as well as for the 10% Administration Fee on contraventions paid at the Council, was under-accrued by €515.

Although as a general rule, the Council does account for its transactions, the €7,500 was not accrued for in the Financial Statements for the year ended 2010, as there was uncertainty as to whether the amount in question was going to be paid. The Council shall ensure that all Accrued Income is accounted for in the appropriate period. As in the case of pre-payments, the Council shall ensure that in the future Accrued Income is reported accurately in the Financial Statements.

An amount of €11,647, brought forward from previous years, was again recognised in the Financial Statements as Accrued Income. This amount relates to a grant that had been committed by the Housing Authority, but which has not yet been released, since the latter is still waiting for some clarifications, from the Council.

The Council agrees with the Auditor's comments that the issue of Accrued Income, due from the Housing Authority, has been long outstanding. This matter will be taken up with the Housing Authority without further delay.

The Council is still reimbursing €90 per month to one of the ELC employees, for using his personal vehicle for work related purposes, undertaken on behalf of the Council. This fixed monthly reimbursement has been established by the Council, and is neither covered by any agreement, nor linked to the actual mileage being reimbursed. In addition to the above, notwithstanding prior recommendations, no proper claim form is being prepared, indicating the actual mileage incurred for errands related to the Council.

The reimbursement to the ELC employee, for the use of his personal vehicle for work purposes, is now being supported by a proper claim form and a corresponding itemised bill.

The previous Executive Secretary was being paid more than what was actually due, resulting in an overpayment of approximately €280. Despite that this shortcoming

was brought to the Council's attention in the previous year's Management Letter, and that the Council had informed LGA that an adjustment for the overpayment was effected in March 2011, no such adjustment was noted, and no other action was taken by the Council to rectify the situation.

The Council will ensure that in the future all staff members are paid according to the applicable salary scales, and document any decisions taken with respect to such scales.

The amount of €210 was expended on the Christmas staff meal, organised for 10 Councillors and administrative staff, together with their spouses.

The cost of the staff Christmas party held, amounted to €210, resulting in the amount of €30 per person. The latter shall continue to ensure that limits imposed by regulations on such expenditure, are adhered to at all times.

The Council's Sage Pastel accounting ledgers are being kept at the Accountant's office, and no copy was in place on the Council's premises.

A copy of Sage Pastel is now being refreshed on the Council's computer regularly.

Munxar

The two-year contract for the provision of engineering services expired on 31 March 2003. However, the Council was still using the services of this particular supplier without having a renewed contract. The amount of €5,979 was expended in this respect during the year under review.

Point not addressed.

During 2011, the Council invoiced WSC for road reinstatement works on a monthly basis. The invoices were based on a list submitted by the Corporation, highlighting the roads in which works should have been carried out by the Council. However, the Council failed to carry out works which were included in the Corporation's list, although the latter was billed for these tasks. As a result, the amount of €6,000 was accounted for as Receivables and credited as Income for the year, notwithstanding that the respective services were not rendered by the Council in 2011. Thus, through an audit adjustment, the aforementioned amount was re-classified to Deferred Income, since the

works will be carried out in 2012.

The Income receivable from WSC was treated as recommended by LGA.

Funds received in 2010 in relation to two projects, namely the Restoration of Historical Sites and Project 'Għar Karolina', totalling €5,000 and €10,000 respectively, were erroneously recorded as Income in the year under review, notwithstanding that the two projects were not carried out in 2011 since the Council was awaiting approval of MEPA permits. Thus, no income should have been recognised this year. Adjustments were passed to reverse the Income and reclassify the funds as Deferred Income.

The points raised by LGA have been noted and will be looked into in further detail.

An invoice dated 4 January 2012, amounting to €8,850, related to Professional Fees and other expenses incurred during 2011, but which were not accrued for. An accrual for Legal Services provided during the year under review, totalling €300, was also not booked. The aforementioned expenses were recognised in the Financial Statements following the appropriate audit adjustments.

The invoices mentioned by the Auditors were not entered into the Financial Statements since these were received after the Financial Statements were prepared, i.e. on the 19 February. These were brought to the attention of the Auditor by the Council Secretary, in order to have them included in the final Financial Statements presented to NAO on 2 May.

Amounts receivable of €6,700 and €2,583, in respect of the Energy Saving Scheme and Enemalta, for the production of electricity respectively, were not accrued for. The necessary audit adjustments were passed to report such income in line with the provisions of the Accruals Concept.

On the other hand, Accrued Income recognised under 'Skema Inizjattivi Sportivi', was overstated by €1,059. An audit adjustment was passed to rectify the situation.

The statement from Enemalta was dated 29 February, and thus could not be included in the Financial Statements that were presented on 19 February. However, all the recommended adjustments have been approved and the Financial Statements were adjusted accordingly.

The budgeted expenditure under Hospitality and Community Services, Professional Services and Contractual Services, has been exceeded by €11,062, €7,886 and €506 respectively.

In the future, the Council will ensure that it adjusts its budget according to its actual expenditure. This was not done since the Council felt that this would beat the scope of the budget. It is important to know where the shortfalls were on the previous years' budget in order to be able to plan better for the future.

Nadur

The total cost in FAR was less than the cost of PPE as disclosed in the Financial Statements by €26,934. On the other hand, total accumulated depreciation in FAR was €1,257 more than the total depreciation in the accounts. As a result, the NBV as per FAR is overstated by €29,237 when compared to the NBV in the books of accounts.

It also transpired that the NBV as per FAR and the depreciation, which amounted to €871,726 and €841,064 respectively as at year-end, do not add to the Cost of Assets disclosed in the same FAR, which cost stood at €2,011,793.

Furthermore, a number of assets acquired during the year under review, bearing a total cost of €5,611, were capitalised in the accounts, but not included in FAR. In addition, an asset that was capitalised in 2010 accounts was included as a 2011 addition in FAR. It was also observed that a number of depreciation rates were entered incorrectly in FAR.

FAR will be reconciled with the Nominal Ledger during the current year. The discrepancy in FAR that the Auditor is mentioning, arises from a technical matter that will be resolved once the FAR is reconstructed.

A number of items of PPE included in FAR had a zero balance of depreciation to date, as well as a zero balance recorded as NBV. This implies that NBV was not recorded correctly and the depreciation on these particular assets was not being calculated.

The depreciation is calculated on the NBV in FAR. The issue of the depreciation and NBV being zero, together with all other matters mentioned in this section relating to the FAR, will be resolved when reconstructing the FAR.

Grants of €297,957 that were given for purpose of acquiring assets in the past, and which should have been used to net off against the cost price of the assets, were never included in FAR. Consequently, the depreciation charge of these assets is being overstated each year, thus having a negative impact on the Statement of Comprehensive Income. Furthermore, eventually, the NBV of these assets will end up with a negative balance, since the depreciation would have exceeded the net value after deducting the grants.

The assets on which grants were received by the Council in the past, will be identified and the correct amount will be entered in the FAR. The necessary adjustments will be made in order to rectify this situation.

Contrary to the provisions of IAS 16, assets are being capitalised on the date when the supplier issues the invoice, or when the Architect issues the bills, even if this occurs months after the work has been completed. During the year under review, all the eight roads under the PPP scheme were completed. However, since the resurfacing of four of these roads had some defects which had to be corrected, the Council's Architects indicated that these were only 98% complete. As a result, none of these roads was reflected in the books of accounts. Moreover, from the four roads certified during the year, only 40% of their total cost was capitalised in 2011. Consequently, depreciation was only charged on this percentage of the total cost of four roads. The necessary audit adjustments were passed to account for the total cost of the eight roads, which adjustment amounted to €439,514. A corresponding entry was also reflected against payables/accrued expenditure. An additional adjustment of €8,757 was recorded to account for the depreciation charge for the year.

Furthermore, the actual cost of the eight roads, amounting to €524,031, has exceeded the agreed costs of €406,553. The Council stated that unfortunately it was not possible to calculate the exact depth of excavation, and thus during the construction additional works were needed in relation to the depth of excavations and reinstatement.

Two invoices, amounting in total to €5,867 and relating to trenching works, were capitalised rather than recognised as Revenue Expenditure. The necessary audit adjustments were passed to correct this classification and to reverse the related depreciation charge of €153.

All recommendations made by the Auditors, in view of the above shortcomings, were noted. Furthermore, audit adjustments recommended by LGA were accounted for and reflected in the final set of Financial Statements.

Budgeted expenditure for Repairs and Maintenance, as well as Hospitality and Community Services, was exceeded by €11,894 and €4,048 respectively.

The budget was not revised during the year. The reason for this was to measure expenditure and income against the original budget which was approved by the Council.

At period-end, the Council failed to accrue for Income Receivable, totalling €7,510, of which €7,000 related to a collaboration agreement the Council had with one of its twinning towns during the Christmas Market Activity, while the remaining balance of €510 was due in respect of recycled waste.

Accrued Income was accounted for in line with LGA's recommendation.

Invoices totalling €5,120, issued in 2012 in view of services provided during 2011, have not been accrued for, thereby resulting in unrecorded liabilities. Following LGA's recommendation the Financial Statements were adjusted accordingly.

During the preceding year, the Council received €10,000 for the restoration of a historical site, which funds were correctly accounted for as Deferred Income, since the works were not yet completed by the end of the year. Upon the completion of works, during the year under review, the cost of such project was correctly expensed. However, rather than recognising the Income in full, in the Statement of Comprehensive Income to match the revenue with the respective expenditure, the Deferred Income was amortised and a charge was recognised in the books of accounts. The necessary audit adjustments to recognise the full amount as Income, and reverse the amortisation charge, were approved by the Council.

At period-end the Council capitalised the reconstruction of rubble walls in accordance to stages of completion, which as per IAS 16, is deemed correct. For this particular project, the Council was granted total funds of €67,690, out of which the amount of €21,000 was received during the year under review. However, the amount of €28,882 was capitalised as per Architect's certificate, and thus Deferred Income was to be

increased by €7,882 to match the capitalised costs. Amortisation for the year of €479 was also accounted for by way of audit adjustment.

The points made by the LGA have been noted and the recommended audit adjustments have been accounted for in the Financial Statements.

In the preceding year, it was highlighted that the agreement for the collection of commercial and household waste had expired. Although the tender was issued, it was not awarded since one of the suppliers who tendered objected. Notwithstanding that the case was then decided in favour of the Council, the supplier appealed. In the meantime, the Council continued to make use of the services of the previous supplier, without there being any renewal of the contract. The amount of €28,758 was paid in this respect.

The tender for household waste collection could not be stopped, otherwise there would be chaos. The previous contract could not be renewed since there would have been new conditions attached. The tender that was issued was at appeal stage by one of the suppliers, so this froze the tendering process for the Council. The latter did what it felt was best for the locality, without jeopardising its position with the previous Contractor and the prospective one.

Patching works carried out during the year, which amounted to €7,988, were not covered by a tender. The Council stated that the Contractor who carried out the said works, was already providing other services under a different tender. This service provider agreed to carry out the required works under the rates specified in that tender.

The tender for patching works will be issued as per LGA's recommendation. In Gozo there are only two suppliers of asphalt. The Council had already issued a tender for asphaltting works and the rates of the selected bidder were the cheapest. In order to save time and energy the Council decided to use the same supplier.

Transport expenses, incurred by two voluntary religious organisations, were partially financed by the Council. Contributions approved and effectively paid out of the latter's funds in this respect amounted to €700.

Point not addressed.

Included in the unaudited Financial Statements, was Capital Expenditure of €165,200, representing amounts contracted but not provided for in the

Financial Statements, and another €7,000 relating to commitments which have been approved but were not yet contracted for. Following LGA's recommendation, the respective note was amended to include only the latter amount.

All recommended adjustments were reflected in the final set of Financial Statements submitted.

Naxxar

The Council is still procuring beach cleaning services from a supplier whose contract has expired. Despite the fact that in 2011 the Council paid the amount of €41,354 for this service, no new calls for tender have been issued. Furthermore, since there is no specific amount allocated to 'Beach Cleaning', the Council is shifting the use of funds allocated for other expenditure, onto this beach cleaning activity. This is not in line with Article 61 of the Local Councils Act, which specifies that "The Council shall not authorise any works, the value of which exceeds the annual provision allotted to it for that financial year, taking into consideration the amount forecast for payment of acts of ordinary administration."

The Council issued the relative tender on 30 March 2012, before the Management Letter was received. In the meantime, since no funds are allocated to such service, the Council had to put the award of this tender on hold, until a direction from DLG is provided.

During the year under review, the Council invested the amount of €150,000 with La Vallette Funds Sicav plc. However, the Council was not aware that according to the Local Councils (Financial) Procedures, a formal approval was to be sought from DLG prior to investing funds in such investment vehicles. LGA was informed that clearance from the Department was subsequently requested, and should this request not be approved, the funds will be transferred back into a normal fixed deposit account with an authorised bank. In addition to the above, the disclosure of such investment was not fully compliant with IASs and IFRSs.

When the Council was approached by a local financial institution regarding the LA Vallette Funds, it was not aware that this is an investment. In fact, the Council was under the impression that it is a normal bank account. Although originally the Council had the intention to submit an application to DLG, it later redeemed the funds invested and deposited them into a normal fixed term bank account.

The Council undertook a major FAR reconstruction exercise during the year under review. However, no prior year adjustments were effected with respect to depreciation adjustments for previous years. As a result, LGA estimated an over-provision of €11,202 in depreciation charge for the year, as accounted for by the Council.

Comments made by LGA were acknowledged, and action has been taken accordingly.

The amount of €25,409, due to the Council from a private limited company, was contested by the former. However, this case has now been adjudicated by the Court against the Council, and is now closed. As a result, the receivable amount will not be recovered.

LGA's recommendation, to transfer such debt as a Bad Debt, has been implemented.

The Council is appealing a First Court sentence, wherein it was resolved that the former should pay the amount of €17,451 to the Public Cleansing Department. However, the amount of €13,471, recorded in the supplier's ledger of the Council's books of accounts, does not agree with the amount quoted in the Court sentence, resulting in a difference of €4,071.

Comments by LGA were acknowledged and action has been taken accordingly as per LGA's recommendation.

Although the Council's bank accounts are being reconciled on a regular basis, an account with a balance of €7,470, that has been opened in June 2011 and is being used for EU funding purposes in relation to Project Measure 313, was completely omitted from the Financial Statements. This bank account was then incorporated in the Financial Statements through the audit adjustments proposed by LGA.

Comments by LGA were acknowledged and action has been taken accordingly as per LGA's recommendation.

Included with Trade Receivables is an amount of €145,160, which has been outstanding for more than one year. Another debtor, relating to reimbursements from road reinstatements, was overstated by €5,400, due to the fact that an invoice issued in 2011, in respect of works carried out during 2010, was accounted for twice. On the other hand, the Council failed to recognise accrued income of €2,600, in respect of road reinstatements undertaken on behalf of WSC during the period November to December 2011. Following LGA's

recommendation the necessary audit adjustments were passed to rectify these errors.

The Council is already taking up the recommendations made by the Auditors, to eliminate any possibility of a repetition and ensure a proper assessment of its Accrued Income in the future.

Accrued Expenditure totalling €4,741 was not recognised in the General Ledger and Financial Statements. As a result, expenditure for 2011 was understated by the same amount. Adjustments proposed by LGA have been recognised by the Council accordingly.

Action has already been taken to rectify this shortcoming through the audit adjustments. In the meantime, the Council took note of the recommendation for future reference.

The amount of €937 was paid out of the Council's funds, in relation to the Christmas Staff lunch organised for Councillors and staff. In line with Memo 8/2011, such expenditure should not exceed €30 per person. Thus, given the fact that the Council has nine Councillors and seven members of the administrative staff, the total expenditure should not have exceeded €480.

The Council is aware of the limit of expenditure for the Christmas staff parties. It is important to note that against this expenditure was an income of €360, made by partners who joined their spouses for the Christmas dinner. Furthermore, along with the Councillors, Administrative Committee members were also entitled for the staff party and hence the amount eligible should be increased from 16 as mentioned in the Management Letter to 21 persons (including five of the Administrative Committee). Thus, the Council was allowed to spend a total amount of €630. When one offsets the income from the sum of €937 paid, the actual expenditure would be €577, which is less than that allowed. As a point of clarification, DLG Memo 122/2011 does not specifically state that Administrative Committee members are entitled to attend the Christmas Staff parties. However, an email sent by DLG on 10 November 2010, clarifies that whatever applies for the Councils, applies also for the Administrative Committees.

Budgeted expenditure within seven categories of expenditure, was exceeded by a total amount of €93,780. The respective variances were noted in Contractual services (€81,952), Travel (€2,829), Professional services (€2,645), Transport (€2,348), Rent (€2,036),

Office services (€1,755) and International Memberships (€215).

LGA's recommendation noted.

A discrepancy of €20,440 was noted between Capital Commitments as disclosed in the Financial Statements, amounting to €212,440, and those included in the Annual Budget, totalling €192,000.

Recommendations put forward by LGA were noted.

Paola

As reported in the preceding period, way back in January 2005, the Council entered into a pooling agreement with a number of other Local Councils. However, a copy of the said agreement was never provided to LGA, despite that the latter requested it several times during the past years. The Council informed LGA that the main scope of the agreement was to pool the expenditure administration of the Żejtun Joint Committee, rather than pooling of funds.

Point not addressed.

During the year under review, the Council adjusted multiple Creditor balances brought forward from previous years, but which were in fact not payable. However, it transpired that some other Creditors' balances are also not due or not fully payable. In addition, included in the Creditors' List is a debit amount of €2,329, that has been coming from previous years, and was never adjusted. These errors are distorting the amount due by the Council at any point in time. The audit report was qualified in this respect.

As suggested by the Auditor, suppliers' invoices are duly listed and accounted for when received, whilst payments are allocated against each invoice.

The Council is still not distinguishing between Accruals and Trade Payables. As a result, the amount of €1,942 was accrued for, when the balance in question should have been included with Payables. Other Accruals have been completely omitted from the books of accounts. From sample testing carried out by LGA, it resulted that Accruals have been overstated by €46,606 while Trade Payables were understated by €51,943. The necessary audit adjustments were approved by the Council.

The amendments proposed by LGA were all implemented.

Government Grants in respect of two projects were treated as Current Liabilities rather than Non-Current, with the portion to be released in the forthcoming year disclosed accordingly. As a result, former category has been overstated by €106,953, while the latter was understated by the same amount. Despite LGA's recommendation, the Council still failed to adjust its Financial Statements accordingly.

Point not properly addressed.

Disclosed under 'Cash and Cash Equivalents', is an investment in Bank of Valletta (BOV) La Vallette Funds sicav plc. According to Local Council (Financial) Procedures, a formal approval from DLG is required before any funds are invested into such investment vehicles. However, the Council was not aware of these requirements, and thus, no formal approval was sought from DLG. Furthermore, measurement and recognition of this financial asset are not in accordance with the requirements of IAS 39 - Financial Instruments: Recognition and Measurement. Appropriate disclosure was also not included in the Financial Statements in line with IAS 24 – Related Parties. This disclosure is required due to the fact that BOV majority owner is Central Government, and this is thus considered as a related party transaction. Due to the above, the audit opinion was qualified.

Although the heading of the account is 'Investment', this is actually a normal bank account where the capital invested is guaranteed by the respective financial institution.

Notwithstanding prior recommendations, no FAR is being maintained by the Council in line with standing Procedures. As a result, no reasonable assurance on the existence and completeness of the Fixed Assets as recorded in the Financial Statements, having a NBV of €646,117, could be obtained. Correctness of depreciation charged thereupon, totalling €59,566, could also not be confirmed. A qualified audit opinion was issued in this respect.

Since its inception in 1995, the Council has never maintained a FAR. It is now virtually impossible to trace the details of the Fixed Assets purchased over all those years. One also needs to understand that during the first few years of the Local Councils, the accounts

were being maintained on a handwritten ledger. It is therefore suggested that LGAs/NAO accept the balances for the past years to be entered in total, while henceforth all assets purchases will be entered in detail in FAR.

The Council's insurance policy document was not provided to LGA. As a result, it could not be assessed whether the different categories of PPE held by the Council are adequately insured or not.

This document was attached to the respective Payment Voucher and was made available for audit purposes.

Debtors totalling €60,135, recognised by the Council in the unaudited Financial Statements, in respect of LES contraventions adjudicated by the Tribunal in favour of the same Council, were understated by €52,768 when compared to the respective report extracted from the system. Moreover, during the year under review, the Council made some unidentified adjustments in the LES Debtors account. In addition, no Provision for Doubtful Debts was recognised in view of Debtors amounting to €50,819, which have been outstanding for more than two years. Following LGA's recommendation, the Financial Statements were adjusted accordingly.

Necessary adjustments were carried out as recommended by LGA.

As at 31 December 2011, amounts receivable from WSC, covering works carried out in 2009 and 2010, totalled €19,000. However, only the amount of €11,646 was disclosed in the books of accounts, against which an equivalent Provision for Doubtful Debts was recognised. Consequently, both Receivables and Retained Funds are understated by €7,354. A qualified audit opinion was issued in this respect.

Further details are required by the Council from LGA, as the former is not aware of the amounts mentioned.

Included with the reconciling items of a particular bank Current Account is the amount of €19,887, representing stale cheques. A similar issue was already reported upon in the preceding report, where stale cheques amounted to €4,784.

Cheques which were identified as at 31 December will be written off.

Opening balances, brought forward from the preceding year, were not in agreement with the approved and audited Financial Statements of 2010. An audit adjustment of €10,714 was proposed to this effect, however this was not reflected in the Council's Financial Statements.

Point not addressed.

A prior year adjustment was recognised in the Financial Statements, to amend previous year items which had been omitted from the accounts, or were incorrectly accounted for. These resulted in a net adjustment of €47,249 to the Retained Funds. However, the breakdown provided in respect of this adjustment was not in agreement to the amount recognised in the books of accounts. Furthermore, requirements in relation to prior period adjustments, emanating from the respective IAS/IFRS, were disregarded.

Point not addressed.

During the year under review, a number of payments in the form of donations, or on account of social events and activities, both in cash and in kind, were financed from the Council's funds. These include payments of €2,600 to three inmates at the Corradino Correctional Facility who were seconded with the Council, tokens worth €108 provided to the local Football Club in respect of its 90 years' anniversary, and the organisation of a Christmas party for the elderly, costing €558. Furthermore, the Council also paid the amount of €1,280 for hampers given to Members of Parliament, foremen and police during the Christmas season.

Regarding payments made to the three workers from the Corradino Correctional Facility, as was admitted by the Auditors themselves, 'this was a pilot project and the scope is that of enabling the inclusion of inmates back within society'. On the other hand, it is the opinion of the Council that 'token plagues' are meant to commemorate special or commemorative local occasions, and should not be considered as donations as is being suggested by the Auditor. Meanwhile, the Council considers the amount spent on the party for the elderly, as fair and reasonable.

Despite that the Council's Financial Statements disclosed a Capital Commitment of €10,000 for the forthcoming year, no such commitments have been reflected in the 2012 Budget. The Council amended the Financial Statements accordingly, following LGA's recommendation.

Indeed, this was not included in the budget. The Financial Statements were adjusted accordingly before these were submitted to NAO.

Notwithstanding that Memo 122/2010 stipulates that expenses incurred in respect of 'Jum il-Lokal' should not exceed €3,500 or 0.5% of the Government Annual Allocation, in which case amounting to €3,019, expenditure by the Council in respect of 'Notte Casal Paola' totalled €4,158, thus exceeding the maximum threshold by €658.

The Council has not actually incurred any expenditure on this activity, as the related expenses were totally covered by a grant under Memo 95/2010.

Various documents and items pertaining to the Council, including the internet banking secure key, are being taken out of the Council's offices in order for the Accountant to undertake the necessary work.

This is considered as a sweeping statement, which is indeed unprofessional and appears as if the Auditor wants to undermine the integrity of the Accountant.

Pembroke

Although a FAR is being maintained by the Council, a number of assets have been incorrectly categorised, with the consequence that an incorrect depreciation rate has been applied and recognised in the Financial Statements. Whilst LGA is of the opinion that there are material misstatements in the depreciation provision and charge for the year, there were no practicable procedures to arrive at the exact amount of misstatement. As a result, a qualified audit opinion was issued in this respect.

Further to the above, the Council is not following the requirements of Memo 150/2010, and has continued to recognise litterbins as Capital Expenditure in FAR instead of expensing them immediately to the Statement of Comprehensive Income. Similarly, notwithstanding the Council's accounting policy that trees should not be depreciated, the latter has €15,841 in trees, which have been fully depreciated. Following LGA's recommendation, the Council revised the depreciation charged on trees through a prior year adjustment.

Since photovoltaic panels have a life span of 25 years, it would make more sense to depreciate such assets

at the rate of 10% rather than 1%. With respect to procurement of litterbins and trees, the points raised by LGA were noted and recommendations will be taken on board for future purchases.

Budgeted expenditure for refuse collection amounting to €29,962 was considerably exceeded since the actual amount paid totalled €52,374. Other overruns were noted in Travel Expenses, Transport Costs, Professional Services and Road Markings, with the actual expenditure incurred exceeding the budgeted amounts by €12,702, €805, €1,823 and €1,793 respectively. However, these have been mitigated by substantial decreases in other areas of expenditure.

Point noted. The Council will ensure that next time the budget will be adjusted accordingly.

Pietà

An annual amount of €8,658 is being incurred for the cleaning and maintenance of parks and gardens. The Council stated that the original contract was entered into by MRRA, and was later assigned to the individual Councils. Notwithstanding that the contract expired, a new call for tenders, for the provision of such services, was still not issued during the year under review, despite prior recommendations.

Point not addressed.

The Council has not followed the selection process, as dictated by the Local Councils (Tendering) Procedures, for the procurement of services of an Architect and Civil Engineer. The former has been using the services of a particular Contractor since 2010, and during the year under review paid the amount of €5,695 for such services.

It has been decided that as soon as the projects, which at present are being monitored by the respective Architect, are finalised, a new call for tender will be issued.

As already noted in the preceding report, the amount of €27,762 (net of a provision of €12,644) receivable from WSC, was accounted for by the Council as part of its Trade Receivables. However, to-date, only the amount of €3,650 has been confirmed by the Corporation. No further supporting documentation was provided by the Council with respect to the remaining balance

of €24,112. In view of the lack of comfort on the recoverability of the amount, a qualified audit opinion was issued.

The Council will look into the matter in order to rectify this issue.

The Creditors' List still includes amounts that have been pending payment for several years. These mainly comprise amounts due to WSC and to an Architect, amounting to €21,986 and €15,574 respectively. On the other hand, an amount of €18,870 payable to WSC has been reversed by the Council. The invoice related to a fountain at the ex-torpedo depot, which property was not devolved to the Council and thus does not fall under the latter's responsibility. The Council has disclosed this balance as a Contingent Liability, indicating that it is not probable that this amount will become payable.

This dispute is still ongoing, however it is in the Council's interest that a solution is found in the least possible time.

The Accruals' List also includes amounts that have been outstanding for several years. Accrued Accountancy Fees have increased to €9,907, while an accrued expense of €5,541, with respect to Construction Fees, was brought forward from prior years.

This will be delved into, to possibly rectify the situation during 2012.

The list of prepaid expenses provided by the Council still includes amounts receivable which are not supported by official documentation. Included with these unsubstantiated amounts is a receivable from the car park joint venture, amounting to €4,452.

€1,703 of these prepaid expenses relate to estimated water and electricity of the car park for the period when this was not yet in operation, and thus was not incurring these costs. The balance refers to Accrued Income from the car park, and thus should be reclassified as such, rather than included in prepayments.

An amount of €2,599, receivable under a UIF agreement, was not recognised in the books of accounts. An audit adjustment, to increase Deferred Income by this amount, was approved by the Council. An additional adjustment was passed to release the amount of €555 from Deferred Income to the Statement

of Comprehensive Income.

LGA's recommendation was adhered to.

A bank reconciliation for a particular account still includes an outstanding deposit of €196, which according to the Council was lost in transit by a cash security company. A police report was filed for an investigation, but the Council did not file an insurance claim since the excess is more than the amount involved. This issue was already highlighted in the preceding report. However, to-date, the Council is still awaiting instructions from DLG as to whether this amount can be written off.

Point not addressed.

The Council approved the purchase of medals and trophies, costing €1,125, for the local football nursery.

The expense mentioned refers to a joint activity held between the Local Council and the local football nursery. This should not be classified as donations, since Councils are being encouraged to participate and promote social, cultural and sport activities among their communities.

Other Creditors disclosed in the accounting records, include a joint venture account of €4,100 and a deposit placed by a disputing tenderer of €2,121. The balance payable to the car park joint venture represents funds that belonged to the latter, and were retained by the Council until all amounts in dispute are settled. The other amount of €2,121 relates to a deposit that was made by an individual to refer his case to the Tribunal of Contracts. Following the decision of the Tribunal in favour of the Council, the tenderer has appealed, and to-date it is still pending judgement.

The Council is closely monitoring these Contingent Liabilities.

Qala

Although the service contracts for the provision of open skips and household waste collection have both expired, and there were no agreements for further extensions, the Council was still using the services of the same suppliers under the same terms and conditions of the expired contracts. During the year, the amounts of €9,700 and €20,101 respectively have been expended in this regard.

Tenders for services of open skips and household waste collection are to be issued in due course.

The Council's FAR is still not up-to-date, with the consequence that total cost of assets in FAR is understated by €111,804, when compared to that disclosed in the Financial Statements. This is mainly due to the fact that a number of Fixed Assets additions, totalling €101,120, were not included in FAR. On the other hand, total NBV in FAR is overstated by €135,363. In view of these discrepancies, depreciation is being calculated manually and not through the system.

'Assets under Construction', were being depreciated although the project was not completed by the end of the year.

It is important to point out that the FAR, on the SAGE software used by the Council, always agreed with the Nominal Ledger found on this same software. Also, the classifications in the Nominal Ledger are the same as those found in FAR. The Executive Secretary was on maternity leave, and thus, the SAGE accounts for the year under review were not prepared by her. The Council will review the cost totals of each Fixed Asset category in the FAR against the cost totals in the Nominal Ledger, so as to make them agree with each other, as they were in previous years. Postings to the appropriate depreciation accounts are made by month-end in the accounting package. Only in the prior year and the year under review, depreciation was calculated manually, due to errors that the accounting package was giving. The total accumulated depreciation in the FAR does not agree with that in the Nominal Ledger, since in previous years Auditors have made adjustments regarding depreciation to the Nominal Ledger accounts. When such adjustments are made, the FAR needs to be reconstructed completely in order to agree with the adjustments made to the Depreciation, and consequently the NBV of the assets, and brought in line with the Nominal Ledger.

Restoration works, amounting to €9,504, have been capitalised rather than written off in the Statement of Comprehensive Income. As a result, depreciation totalling €2,265 was also provided for in the Financial Statements. However, following LGA's recommendation, the necessary audit adjustments were passed to correct these errors.

The restoration of St. Anthony's Battery is a major project for the Council, and so has been listed as

a Special Project in the Capital Nominal accounts for quite a while. The Council has taken note of the Auditors' recommendation.

Accrued costs and Payables relating to the year under review, in aggregate amounting to €4,796, were not accounted for. Following LGA's recommendation, the final set of Financial Statements was adjusted accordingly.

Additionally, several invoices in relation to the Community Hall project, which was completed by 2011, were not received from the suppliers, and have not been accrued for. Although the exact amount of such expenditure is not yet known, it is estimated to be in the region of €15,000. As a result, the figure of €17,162, included with PPE additions for the year in respect of this project, is also understated by €15,000. In view of the lack of available information, a qualified audit opinion was issued in this respect.

The Council does its utmost to ensure that the Accruals Concept is embraced and records expenses effectively.

Accrued Income of €10,000 in relation to two projects was not accounted for, notwithstanding that both projects were finalised by the end of 2011. Audit adjustments to rectify this error were approved by the Council.

LGA's comments were noted.

Qormi

An amount of €6,874 was advanced to Kirkop Local Council in order to benefit under the 'Cohesion Policy 2007-2013'. However, no approval from DLG, with respect to this payment, was provided to LGA. Thus, it could not be determined if such a payment is permissible.

The Council forms part of the steering committee under Kirkop Local Council application, through Cohesion Policy 2007-2013, for the project of 'Empowering Pyrotechnicians for longevity and a safer quality of workplace'. The co-financing amount provided by the former, is part of the confirmation of participation under this project.

Books worth €3,000, which were procured with the intention to be distributed free of charge, were originally recognised as inventories. However, the

Council approved to expense the cost of these books, following LGAs' recommendation.

The proposed audit adjustment was approved by the Council and the cost of these books, was expensed.

Qrendi

During the year under review, the Council qualified for grants receivable totalling €321,963, out of which the amount of €78,762 was received on 2 February 2011. Whilst amounts received were correctly recorded as Deferred Income, the Council failed to recognise the remaining receivable balance as Accrued Income. Thus, an audit adjustment of €243,201 was approved, with a corresponding credit in Deferred Income.

In addition to the above, during the same year, the Council received the amount of €19,019, out of a balance of €23,132, representing grants receivable as at end of 2010. However, Accrued Income was not deducted accordingly to reflect the received funds. Thus, an audit adjustment was passed to reverse Accrued Income. An additional adjustment of €1,967 was approved to reflect Income released in line with the depreciation charged on the respective projects. Furthermore, since the Council confirmed that the remaining balance of €4,113 was not going to be received, an additional adjustment was passed.

According to the Budget for 2012, the Council is anticipating Capital Expenditure of €166,872, mainly comprising of Construction (€138,872) and Urban Improvements (€25,000). However, these Capital Commitments were not disclosed in the Financial Statements.

Points not addressed.

During the prior year, it was reported that an official credit note was not in place to support the reversal of a balance of €8,617, payable in respect of road works. This balance was in dispute since the Contractor did not resurface the road properly. Although the Council eventually received a statement which deleted this outstanding amount, a year after, an official credit note was still not obtained from the Contractor.

The Council will be doing its utmost to obtain an official credit note in due course.

The Financial Statements show Special Needs Creditors of €22,781, which funds were received for the building

of a coast guard room at 'Wied iż-Żurriq'. However, these funds were never utilised for the aforementioned project, and the Council transferred Income received to the Council's main bank account to utilise it on other projects. Hence, funds have been spent, and are no longer Special Needs Creditors under Memo 42/1999.

Although the Council obtained statements from most suppliers to confirm end-of year balances, significant differences were still noted between the Council's balances and the individual creditor statements. This implies that reconciliations with supplier statements are not given due importance. Amongst the differences, were an unbooked amount of €5,918 due to the Cleansing Services Department, and the amount of €3,700, which according to the Council was still outstanding, but it was later revealed that this amount had been settled in 2010, and the payment was debited to a wrong account by the Council. Proposed audit adjustments were approved by the latter, and the Financial Statements were amended accordingly.

Erroneously the Council has written off an amount of €12,090 against the wrong Creditor Account. Consequently, the long over-due balance, payable to the Local Council Contracts Unit, is still showing in the Council's books, whilst the balance due from the then Ministry for Resources and Infrastructure is now showing as a Debtor balance.

With reference to the several points mentioned above, the Council will liaise with its Accountant so that any shortcomings will be addressed.

Included with un-presented cheques are two cheques dated 22 November and 27 December 2011 respectively, issued as petty cash reimbursement. The two amounts correspond exactly to the total of the petty cash expenditure vouchers dated 21 November and 27 December 2011. It is uncertain as to who is paying for petty cash items, given that the petty cash balance is not being reimbursed on a regular basis.

One must point out that these cheques were cashed during the month of January 2012 and there should not be any uncertainty as to who is paying for petty cash items, because items are always paid by petty cash.

Bank guarantees in favour of third parties, amounting to €5,364, were not disclosed in the Financial Statements.

Point not addressed.

Rabat (Malta)

Following prior years' recommendations, the Council has so far prepared a form of FAR on the Sage Accounting Software. However, this approach is limited since it does not provide all the necessary details, and thus, it is not in line with best practice and the Local Council Procedures. Furthermore, the Council entered in every asset category, an opening balance of assets capitalised by the Council in previous years. In addition, only assets acquired in recent years were entered on a one by one basis, while a number of assets had no description or were shown simply as adjustments. As a result, no reasonable assurance could be obtained on the existence and completeness of the opening balance of Fixed Assets recorded in the Financial Statements, having a NBV of €1,764,160, as well as on the completeness of the depreciation charged thereupon. A qualified audit opinion was issued in this respect.

The Council has already taken action to have the FAR available on Sage Fixed Asset Register. The Council built the information of the FAR with the information available. Since its inception, the Council had never maintained a FAR, and thus, it is difficult to have an updated version of all items from the date of inception, but at least the Council made an effort to have the FAR on Sage Line 50 from the information available.

The amount of Capital Commitments, as disclosed in the Financial Statements, does not tally with the amount included in the 2012 Budget. While the former amounts to €853,456, of which €671,700 will be spread over three years, Capital Commitments as per annual Budget amounts only to €375,600, and includes only commitments for 2012.

With regards to the reconciliation of the figures, it was noted that when preparing the Financial Statements for the year 2011, the Capital Commitments contracted but not provided for, included additional road resurfacing costs, which were not considered when preparing the Budget for 2012.

In line with the Concept of Accrual Accounting, items amounting to €157,538 should have been accrued for, or accounted for as Creditors. For example, as at year-end no invoices were received by the Council from the Contractor, with respect to works carried out in relation to the PPP road resurfacing Scheme. The only invoices traced related to Architect fees. These were omitted

from the Financial Statements, but were eventually accounted for through audit adjustments.

Likewise, Accrued and Deferred Income, with respect to the works carried out by the Contractor, were also recognised in the books of accounts through an audit adjustment.

Point noted. The accruals relating to road resurfacing, which amounted to €149,000, were certified, and the bill was issued by order of our Architect on 24 January 2012.

Expenditure of €21,976 incurred during 2010, was recognised in the books of accounts after the Financial Statements of that year had been approved by the Council. This was due to the fact that the accounting records were being updated on a cash basis, and thus, invoices dated in 2010, but paid in 2011, were posted during the year under review with the invoice date, notwithstanding that such amounts should have been reflected through a prior year adjustment. In view of this, the Opening Balances of the Council with respect to Payables, Reserves, as well as profit for the year, were not in agreement with the approved and audited Financial Statements of 2010. The audit report was qualified in this respect.

The Financial Statements are being prepared on accruals basis and not cash basis. With regards to the opening balances, please note that LGA is referring to invoices which were dated 2010, accounted for as accruals, but were received during 2011, when the accounts were prepared. This does not mean that the Council did not account for these amounts. Moreover, when the opening balance of the Trial Balance is re-printed, these will be reflected as part of the balances, since they were dated in 2010. In the future, the Council will not take the date mentioned in the invoice for this purpose.

In at least three instances, the Council has paid for expenditure amounting to more than €1,165, and no request for quotations or tenders was issued. Included in such instances, was the provision of design courses amounting to €6,000.

According to the Council's knowledge, it had never accounted for or obtained the services of design courses amounting to €6,000, and for rubble wall and platform works, amounting to €1,597. The Council would appreciate if the Auditor indicates the suppliers relating to this observation.

Actual expenditure incurred in respect of Repairs and Upkeep, Waste Disposal, Refuse Collection, Road and Street Cleaning, Hire of Transport and Stationery, exceeded the budgeted amounts by €30,015, €21,683, €6,686, €4,025, €3,343 and €2,204 respectively.

With regards to the waste disposal, the Council is abiding with the instructions given by the LCA. Amounts invoiced by WasteServ Malta Ltd are accounted for. This confirms that the Council records transactions on the accruals basis and not on cash basis.

According to a receipt covering the Christmas staff party organised by the Council, the amount paid, totalling €473, comprised dinner for 25 persons. While the amount spent is within stipulated thresholds, the number of persons attending this dinner, exceeds the number of Council members and staff, and this is not in line with instructions issued by DLG.

Apart from nine council members and six members of the staff, the Council has also two administrative committees. These committees have five members each, thus amounting to the total number of 25 persons.

Rabat (Gozo)

Grants amounting to €401,515, were received over the past years with respect to 'Construction' and 'Special Programmes'. Although such grants should have been accounted for under the Capital Approach, for consistency purposes, they were not included in FAR, with the result that depreciation in these two categories was being calculated on the total cost, without deducting the grant. It is estimated that this issue is resulting in an overstated depreciation charge for the year of approximately €24,000. The audit report was qualified in this respect.

Further to the above, accumulated depreciation for Urban Improvements, as disclosed in FAR, is understated by €63,658 when compared to that recognised in the books of accounts. The Council explained that due to glitches in the software, this same software is not calculating depreciation for this specific category. In view of this, in order to calculate depreciation for this category, the Council built the FAR covering Urban Improvements on an Excel spreadsheet, and then posted manually in the accounts the total depreciation for the year. However, depreciation has been calculated on a yearly basis, rather than on a monthly basis in accordance with the policy adopted by the Council.

Other strange occurrences were noted in the depreciation calculated through the FAR. In certain instances, a full year depreciation charge was accounted for, despite that the assets were acquired throughout the year, and the acquisition date in the asset record was correctly recorded. On the other hand, in other instances, no depreciation at all was calculated, notwithstanding that there is still a NBV balance for the said items, and the depreciation rate is 10%.

As reported last year, the Council is still having technical problems with FAR, even though efforts were made by both the Council and the service provider. This problem has also been discussed at length with the Auditors. The Council has to decide whether to rebuild the FAR from the very first day of the Council, and/or otherwise install a new software in order to eliminate any corruption in the program. As a temporary measure, the records of depreciation of those categories which are corrupted on software are being kept on 'Excel'.

While the Council is now updating the FAR with the total cost of completion of the projects, assets' records created in previous years were not amended, and thus are still reflected as payments on account to the suppliers. As a result, projects are split under different assets. A typical example is the cost of the project of St. George's Square, which amounted to €322,336. This is still being disclosed in FAR under 11 different assets, all having different asset code, and different commencement dates for depreciation.

With regards to St. George's Square expenditure, the Council prefers that the expenditure remains shown in different assets accounts with separate codes.

Invoices relating to restoration works on niches costing €15,888, and the respective Architect's bill amounting to €836, have been capitalised when these actually represented maintenance work rather than Capital Expenditure. The necessary audit adjustments have been passed to correct this classification and reverse the related depreciation charge of €418.

Attention will be given by the Council in order to correctly allocate items of a Capital or Current Expenditure in their respective accounts.

Due to unresolved disputes, the Council was never invoiced for road resurfacing works carried out, bearing an estimated cost of €50,000. The Council has not accrued for such costs, with the consequence that

the value of PPE is understated by the same amount. As a result, the audit report was qualified.

The Council has been informed by its Architect that the Bills of Quantities, on the resurfacing works carried out, will be issued during 2012, in order to make the necessary accruals in the accounts.

On the other hand, included with the additions for the year are two invoices amounting to €25,159, which related to works carried out during the last quarter of 2008. It transpired that during the first quarter of the following year, an invoice amounting to €18,975, relating to the same work, was already accounted for. Thus, only the variance between the total final bill and the amount already recognised in the accounts should have been included with the additions. Although this amount should have been recognised in 2009, *i.e.* when the project was ready, no prior year adjustment was deemed necessary, since the amount was not considered material. However, an audit adjustment was passed to reverse both the extra amount of €18,975 and the related additional depreciation charge for the year, which amounted to €967.

Efforts will be made by the Council to ensure that any works of a capital nature carried out during the year will be invoiced and accrued before year-end.

Included with Accrued Income is an amount of €89,534 receivable from WSC. This amount refers to an estimate that the Council made for the reinstatement of roads and permits, dating back to 2003. However, the only supporting documentation provided by the Council is a court letter, which the latter sent to WSC, claiming the aforementioned amount. On the other hand, the Corporation is contesting around €66,000 of the amount claimed, on the basis that the number of jobs included in the claim made by the Council is over-estimated. Although a note on the subject matter has been included under 'Contingent Liabilities' in the Financial Statements, no provision has been made to cover this disputed amount, even though its recoverability is seriously doubtful. Consequently, the audit opinion issued by LGA was qualified in this respect.

Furthermore, an amount of €5,083 received from WSC during the year under review, in view of the outstanding balance, was incorrectly recorded as income, rather than netted off against the amounts accrued for in previous years. An audit adjustment was passed in this respect.

Discussions are still ongoing between WSC and LCA, about the amount still due by the former. The Council will make the necessary adjustments once these discussions are concluded.

According to reports downloaded from the LES computerised system, contraventions payable as at 31 December 2011 amounted to €122,468, out of which, €94,573 represented contraventions that are older than two years, and which have been provided for in line with standing instructions. Thus, the balance shown as receivable with respect to LES computerised should have amounted to €27,895. However, the amount disclosed in the Financial Statements in this respect totalled only €5,942. It was confirmed that the reports issued from the LES computerised system are not 100% reliable, and therefore variances could arise. Although, the Council approved to recognise the variance of €27,382 in the amount of LES Receivables, due to the uncertainties involved, a qualified audit opinion was issued.

The Council always took the year-end balances of LES receivables from reports given by the person administrating such system. The Council cannot verify whether the reports issued from such system are 100% reliable or not. All data and accruals that were entered in the Nominal Ledger were extracted from these statements. Furthermore, since the Council is no longer forming part of the LES it feels that there is no need of further discussions on this matter with the administrators of the system.

Reconciliations between the Purchase Ledger accounts and the statements received from the suppliers are not being carried out. This was evident from the fact that a number of variances were noted by LGA in these two records. While most of these variances have been adjusted for, the variance in the account of WasteServ Malta Ltd, amounting to €27,300, was not investigated and consequently no adjustments have been passed. If the variance had to be accounted for, most probable the operations and maintenance expenditure would have increased by €27,300 resulting in a higher deficit for the year. The audit report had to be qualified in this respect.

In order to match the payments effected, the Council posts invoices in batches. This makes it difficult to reconcile the accounts and also to identify any double postings. In fact, invoices amounting to €58,674, had been posted twice and went unnoticed. Of the said amount, €37,967 represented invoices posted twice

in preceding years. This is also resulting in having one date for the whole batch, rather than posting each invoice with each respective date. In addition, in many instances, the invoice number was not recorded in the transaction details. Although these weaknesses have been highlighted for a number of years, no action has been taken by the Council. Audit adjustments had to be posted to rectify these material errors, some of which had to be passed through a prior year adjustment.

In addition to the above, supplier invoices amounting to €8,620, as well as accrued expenses totalling €5,930, have been completely omitted from the books of accounts, resulting in unrecorded liabilities. Following LGA's recommendation, the Council approved the necessary audit adjustments and corrected the Financial Statements accordingly.

One has to point out that the accounts for financial year 2011 were ready to be presented for approval by the Council by mid-February 2012. Some invoices mentioned by LGA were presented to the Council after February 2012, even though these were dated before year-end. All efforts will be made by the Council to chase pending invoices by year-end, and make the necessary accruals if necessary. One has to point out however, that a lot of improvement has been made in this regard during the year under review.

Expenditure incurred during 2011 for Community and Hospitality, Contractual Services, Professional Services and Travel, have exceeded the budgeted amounts by €74,522, €71,662, €4,858 and €3,165 respectively.

Point has been noted.

As at year-end, the balance in an account held with a local bank, stood at €12,600. This amount does not reflect un-presented cheques amounting to €42,494, and deposits amounting to €1,726. These figures translated into an overdrawn bank balance of €28,168. This indicates that the Council may be overspending.

The Council issued several cheques at year-end, keeping in mind that the quarterly allocation from Central Government will usually be deposited in the bank account by year-end or early days of January.

Several invoices have been posted in the wrong Nominal Account. Reallocations amounting to €21,242 were passed in the books of accounts in order to ensure that the expenditure is appropriately categorised.

Action will be taken by the Council to ensure that all invoices and credit notes will enter in the company's records separately and with the correct date and description.

The amount invoiced by the Accountant during the year, amounted to €4,425. This amount is much higher than the amount quoted to the Local Council several years ago. Notwithstanding this, no fresh call for quotations has been made. The amount of €8,000, invoiced by a band that participated during the New Year's Eve activities, also fell within the limits requiring a call for tenders. However, procurement regulations have been by-passed.

Furthermore, notwithstanding that the contract for the Bulk Refuse Collection expired on 1 October 2010, during the year under review the Council was still procuring this service under the terms and conditions of this expired contract. The amount of €55,460 was paid during 2011 for this service. Although the Council approved the issuance of a tender for the provision of these services, the tender was not issued.

With regards to tendering procedures, it is true that sometimes, because of the urgency of matters, the Council did not issue calls for quotations for certain services. Quotations are always obtained from the suppliers of any service.

Safi

Upon testing of Creditors, it transpired that regular reconciliations were not carried out, since the Council failed to obtain monthly statements from suppliers. Testing also revealed that an invoice amounting to €1,492, owed to a private company, was not recorded in the books. Other differences of €63 and €380, were also encountered on the period-end balances, due to the same private company and the Joint Committee respectively. Furthermore, the Council has incorrectly shown the amount of €3,494 owed to MEPA as due to an individual Architect in the Creditors' List. In addition, the Creditors' List as at end of year did not agree to the Creditors' Control Account by €739.

Whilst the mistake with regards to the €3,494 has been reclassified, the amount payable of €1,493 was settled in early 2012.

An adjustment of €13,969 has been approved by the Council to recognise the tribunal pending payments as at 31 December 2011, since these were not yet recorded

in the accounting records. Likewise, another audit adjustment of €11,490 was passed to recognise the Provision for Doubtful LES Debtors, in respect of fines that have been outstanding for more than two years.

This point has been noted and the necessary adjustments have been properly posted in the Council's books of accounts.

The Council failed to prepare a reconciliation between the LES reports generated by the system, and actual cash received from contraventions, debtors outstanding at the end of the period, income received on behalf of other Councils, and amounts owed to other Councils. The reconciliations carried out by LGA revealed that LES Income as disclosed in Financial Statements is overstated by €6,775. However, the Council was unable to provide an explanation for such discrepancy. Consequently, LGA could not ensure the existence and completeness of LES income, LES Debtors and LES Creditors as well as the valuation of LES Debtors, and thus a qualified audit opinion was issued.

An exercise was carried out from the LES report to identify which contraventions were paid relating to prior to 2011. In fact, it was identified that an amount close to €6,000, which was previously provided for, was paid. The Provision for Doubtful LES Debtors was deducted to reflect such amounts.

NBV of Computer Equipment and Urban Improvements in the Nominal Ledger do not agree to those shown in the Financial Statements. Additions of €5,287 during the year were incorrectly allocated to Computer Equipment in the Financial Statements rather than Urban Improvements.

The Council does not agree with this statement and explained that the additions amounting to €5,287 were in respect to payment made for a monument, thus being correctly posted in Nominal Code 7240 (Urban Improvements) and not to Computer Equipment. Therefore, no further adjustments need to be made in the Financial Statements. In fact, the Council added that this issue never featured in discussions with the Auditor during the process of the audit, nor in the adjustments which were sent to the Council in April.

The amount of €5,287 was paid for the supply and laying of marble for a monument. However, such purchase was supported by only one quotation, amounting to €1,676, which was obtained from the same supplier in question. Apart from the fact that the cost exceeded the amount specified in the quotation, the Council should

have made a call for tenders rather than obtaining quotations, since the tendering threshold of €4,658 was exceeded.

Four different payments, amounting in total to €6,254, were made to a particular Contractor with respect to patching and other construction works carried out. This is against the Local Councils (Financial) Procedures 1996, which stipulate that a similar purchase within four months is to be considered as one single purchase. Thus, the Council should have issued a call for tenders rather than obtaining quotations, since the tendering limit cited above was exceeded.

The Council would like to note that for these services the Council was funded and hence the payments were received back.

The provision of refuse collection and cleaning services was also provided by the same service providers for several years, since the respective contracts have been extended and were still in operation as at audit date. Amounts expended in this respect during the year totalled €14,539 and €5,410 respectively. On further enquiry, LGA was informed that a new tender was issued and the contract for refuse collection was now signed.

Points not addressed.

Funds received during the year, relating to amounts that were accrued for during the preceding year, were wrongly recognised as Income rather than set off against the Accrued Income. Thus, an audit adjustment of €3,673 was approved to correct the relevant balances in the Financial Statements.

Points not addressed.

The Council's minutes indicate that the football nursery donated €72 to the Community Chest Fund. This was also confirmed by the Executive Secretary upon enquiry. However, this amount was included as an expense in the Council's books of accounts. Furthermore, the amount of €35 was paid to a school in respect of broken glass of the fire alarm.

The Council is conscious of Article 63A of the Local Councils Act. The stated 'donations' are in fact false. The donation was made by the Football Nursery and not by the Council. The Council had in fact asked DLG whether it could give any money towards Malta Community Chest Fund, but this was refused and hence the Council did not add to the amount.

Two Bank Guarantees amounting to €3,000 each, relating to the 'Misraħ San Ġużepp Project' and the 'Restoration of the Church's façade' in favour of MEPA, were not disclosed in the notes to the Financial Statements. Furthermore, the Council is showing as other receivable the bank guarantee relating to the 'Restoration of Church's façade'.

Points not addressed.

Since, by the time of audit, the annual budget for 2012 was not yet approved, this was not provided to LGA, with the result that the latter could not verify whether Capital Commitments have been fully disclosed in the Financial Statements.

Due to the impending elections and possible change in Council, a budget was not possible at the time of the audit and this was not provided after discussions with DLG, whereby the latter agreed that it would be difficult for the new elected Council to back the prepared budget.

San Ġiljan

In meeting 47, the Council unanimously approved the allocation of €3,500 for 'Il-Festa ta' Lapsi'. However, the total expenditure for this activity was in excess of €18,000. Of this total expenditure, €4,500 was refunded by the Government under the Activities' Initiatives Scheme.

The feast of 'Lapsi' is specific to the locality. One must consider that this was the first time that this activity was held and it was difficult to predict the exact cost of this event. In future, better budgeting can be made from past experience.

A limited liability company which, as per the Council's books of accounts, owes the latter the amount of €1,623, with respect to crane permits, is disputing such balance. In its reply to LGA's request for confirmation, the said company stated that the property in question was transferred and therefore the balance was no longer due by it.

The Council will be following up on the debt which is still outstanding by the concerned company, in order to determine the recoverability of this amount. The necessary provision will be made in the accounts once the situation is clarified and a decision is taken by the Council on how best to proceed on the matter.

A Bank Guarantee of €5,000, in relation to the 'Balluta Accessibility Project', was not disclosed in the notes to the Financial Statements.

This point was brought to the attention of the Accountant and further attention will be taken in the future.

On 7 December 2011 the Council's premises were burgled and €332 in cash as well as six bottles of whisky were stolen. A police report, which formed the basis for an insurance claim, was duly filed. It could not be ascertained whether the stolen amount was expensed and neither was a provision made in the books of accounts, in respect of the amount claimed from the insurance company.

The amount of cash stolen from the Council's premises amounting to €332 was accounted for under 'Sundry Minor Expenses'. The insurance claim was not recognised, since it is highly unlikely that the Council will receive any form of compensation from the insurance company, even though the necessary insurance policies were in place at the time of the incident.

The Council is still providing the Executive Secretary with a fixed amount of approximately €187 per quarter, for making use of her personal mobile and car for Council purposes.

The reimbursement noted again by LGA relates to a Council decision that was taken years ago.

San Ġwann

All of the Trade Debtors that have been recognised in the Financial Statements, amounting to €14,750, have been due for more than two years. However, no Provision for Doubtful Debts was accounted for.

The Administration of the Council is also analysing this matter. The amounts which the Auditors ought best not to disclose, related to amounts receivable from a private company in respect of recycled waste and balances due from WSC. On the latter, the Council notes that this is a common issue with quite a number of Councils, since the Contractor never honoured payments in respect of trenching works carried out, despite that various settlement agreements were signed.

The Council has incorrectly reversed the amount received from the Joint Committee totalling €9,667

against Accrued Income, although this did not form part of Accrued Income at the beginning of the year. Following LGA's recommendation, the Financial Statements were amended accordingly.

The adjustment proposed was passed in the books of accounts.

Monthly statements were not being requested from all of the Councils' suppliers. This led to discrepancies between amounts recognised in the Financial Statements and the balances actually due to the respective service providers. For example, two instances were identified whereby the amounts disclosed in the accounting records were overstated by €2,170 and €3,463 respectively when compared to the balances as per supplier statements. Moreover, on three other occasions, no explanation was provided by the Executive Secretary in respect of the unreconciled discrepancies noted.

The Council has taken note of the recommendations made by the Auditors and will put effort to ensure that Creditors' Balances will reconcile to the statements provided by the suppliers, whenever available. Should there be any discrepancies, these will be investigated immediately. All the adjustments proposed by the Auditors have been passed in the books of accounts and all other comments have been noted.

Tipping fee charged for September (€7,347) was entered twice in the books of accounts. No adjustment was proposed to reverse this amount since LGA could not trace the corresponding credit entry.

Whilst observations made by the Auditors have been noted, the Council will insist that such postings are reviewed on a monthly basis to avoid such occurrences.

The contract relating to street lighting was not provided for audit purposes. The Council stated that the contract is a joint agreement with other Councils. However, the Council did not obtain a copy of the tendering documentation, including the said contract. As a result, it could not be ascertained whether the agreement has expired or not. The amount paid in this respect, during the year under review, totalled €20,671.

From the testing carried out on Fixed Assets additions, it was noted that no tender was issued in the case of 'Misraħ il-Lewża Project' amounting to €8,271. This contravenes the Local Councils (Tendering) Procedures.

Provision of services in respect of street cleaning, street works, insurance and garden upkeep, were covered by a contract. The Contractors have been providing these services for several years and the respective contracts have expired during the year, yet the Council kept on using their services. LGA was informed that the new call for tenders was made towards the end of 2011, except for insurance where the call for tenders was issued during 2012.

Points not addressed.

The depreciation charge is being calculated annually and a full year's charge was taken, instead of a pro-rata according to the actual date of capitalisation. This led to a difference amounting to over €2,182 from the calculation carried out by LGA.

Point and recommendation made by LGA noted.

It was noted that frequent purchases of the same item, for example stationery and groceries, are being paid out of petty cash. Likewise, monthly fuel expenses of €20 or more were also being paid out of petty cash. The Council is to investigate excessive purchases of the same item.

A mechanism is in place whereby petty cash purchases are approved at Administration level. This is done to prevent any abuse of the system.

A fixed amount of €55 for petrol is also being paid to the Council's workers for making use of the Council's van.

The purchase of fuel for €55 on a monthly basis should not be deemed as any form of standing order. Although this is the amount budgeted by the Council, in reality there would generally be extra purchases of fuel within the month, via petty cash transactions.

Section 63A of the Local Councils Act prohibits the Council from making payments in the form of donations, whether in cash or in kind. However, expenses incurred with respect to uniforms for the helpers of old people's home and the international football tournament, were borne by the Council. In addition, the Council also financed a football tournament with the local football nursery, four lapel badges and six trophies in relation to a carnival activity, amounting to €1,000, €165 and €54 respectively. Furthermore, a contribution of €500 was provided to the Primary School of the locality, whilst €1,003 was paid for the provision of catering services on behalf of the local band club. Gifts given to

Councillors during the Christmas season, consisting of two bottles of vodka and 12 bottles of whisky totalling €155, were also paid out of the Council's funds.

The Council notes the recommendation by the Auditors, but points out that none of the expenses mentioned above, represented donations.

A payment amounting to €356 was expensed from the Council's funds, in view of a Christmas dinner hosted by the Council. From queries raised during the audit, it transpired that 10 persons were invited for such dinner, implying that the amount of €35.64 incurred *per capita* was higher than that specified in pertinent Memos issued by DLG, whereby it is stated that the Council can only spend €30 per person on a lunch/dinner.

It is important to note that the particular event did not exceed €30 per person (in accordance with Memo 122/2011), since the number of attendees was 12 and not 10.

Whilst reviewing the Budget for 2012, it was noted that the Council is anticipating Capital Expenditure of €10,000, and equipment of €9,200. These Capital Commitments, however, were not properly disclosed in the Financial Statements.

LGA's recommendation was noted.

The Council failed to disclose a note on claims from third parties for damages suffered on their vehicles, amounting to €2,000. Information provided by the Executive Secretary indicated that in 2012 the Council lost one of the cases.

Comments made by LGA were noted.

San Lawrenz

The Council exceeded the budgeted expenditure for Contractual Services by €40,562, Community and Hospitality by €26,303, Repairs and Upkeep by €6,070 and Travel by €3,963.

Point not addressed.

Instances were encountered whereby funds, relating to projects which were to commence during 2012, were incorrectly accounted for during the year under review. For example, at year-end the Council accounted for funds received with respect to a project, by debiting

the Accrued Income account and crediting the Deferred Income account, with funds received in January 2012. These entries were reversed, leaving a minor portion to match the petty administrative fees incurred in 2011. An audit adjustment amounting to €79,023 was passed to reverse these entries.

In a separate case, funds received during the year amounting to €26,510, with respect to a project that is still to be carried out, were fully recognised as income for the year. Following LGA's recommendation, the Council approved the necessary audit adjustments.

The application of the Income Approach Method for Government grants is to be adhered to.

Income of €11,528 derived from Utopia Project (€4,528), and Italian Participants of 'Soggiorno Respite Esoggiorno' (€7,000), was not backed up with proper supporting documentation, except for the deposit slips received from the bank.

The Council could not identify to which documentation the Auditor is referring to, since every deposit is supported by the respective documentation, which was provided when requested.

Funds granted by Central Government in respect of an EU Project, for which expenses were incurred during the year under review, were not accrued for at period-end. Thus, audit adjustments totalling €7,000 were passed in this respect to accrued for such income. On the other hand, grants amounting to €6,000 relating to the restoration of niches, are still accounted for as Accrued Income, despite that such funds have already been received in 2010 and were treated as Deferred Income, during the same year. Audit adjustments were passed in this respect.

Recommendations given by LGA have been noted. The Council is to keep efficient records thus recording every receivable due.

Two adjustments, one of €3,722 and another totalling €4,955 were passed, so as to account for payables and accrued expenses which have been omitted from the books of accounts at period-end.

More attention is to be implied on the immediate posting of invoices.

It was noted that the cash in hand, brought forward from previous year, was accounted for as income again

during the year under review, when these were actually deposited. Audit adjustments amounting to €3,777 were passed in order to set-off the cash in hand balance and reverse the income element for the year.

In regards to LGA's advice, additional care is to be taken.

Despite that the contract for the collection of waste expired, the Council was still using the services of the same service provider, without there being any renewal of the contract. Since DLG was reviewing the requirements of the tender, the Council did not issue such tender, during the year under review. The amount expended in this respect amounted to €13,226.

The Council is drafting the necessary tender document and is preparing to issue a collective tender with the neighbourhood Councils. Up to the submission of this reply, the tender was still to be published.

It transpired that architectural services procured during the year were neither covered by a call for quotations nor by a tender. The Executive Secretary stated that such expenses were paid on behalf of a parish project and had nothing to do with the Council's operations. This implies, that indirectly such payments fall under the definition of a donation. The total invoice amounted to €6,304, out of which the Council forked out €1,320.

The Council is to do its utmost to abide with the financial regulations.

Sannat

LGA noted that depreciation was calculated manually rather than through FAR, since the latter was not yet updated by the time the depreciation was being accounted for. As a result, various inaccuracies in depreciation charges were noted by LGA. Moreover, depreciation is also being charged on assets still under construction. For example, accumulated depreciation and the charge for the year are both overstated by approximately €29,976 and €15,173 respectively, simply because assets under construction concerning the new Council premises amounting to €157,444 have been depreciated. No audit adjustments were passed in this respect, however a qualified audit opinion was issued.

The FAR was updated during the year under review. The new Council premises have been under construction for over three years and the Auditors never recognised this asset as 'Asset under Construction'. The construction

work of the new Council premises was complete by end of 2011 and the main outstanding item was the installation of the lift. The recommendations made by LGA have been noted and a further review of FAR will be undertaken.

At year-end, the Council recognised total Accrued Income of €30,535, receivable from MEPA (€16,665) and ECO-Gozo (€13,870) respectively, in relation to projects that had either not yet commenced or else were not completely finished. Following LGA's recommendation, the necessary adjustments to reverse such transactions were approved by the Council.

The recommendation made by the auditors has been noted and the adjustments have been accounted for.

An accrued expense of €31,864 in respect of the provision of two hot rolled asphalt works that were carried out at 'Triq il-Blat' and 'Triq Vincenzo Caruana', which have been outstanding since 2009, was not settled during the year under review. This is due to the fact that the service provider has breached the terms laid down in the Letter of Acceptance and the respective contract, whereby he carried out the second hot rolled asphalt works without seeking prior approval from the Council. Thus, the payment was withheld.

Payments are never made to Contractors until it is in possession of the architect's certificate. This is why the bills mentioned by the Auditors are still outstanding.

The Council exceeded the budgeted expenditure for Contract Services by €9,840, Professional Services by €3,848 and Other Expenses by €692. Furthermore, it was noted that whilst expenditure incurred with respect to a weekend break in Malta totalled €1,487, the amount collected from the respective participants was short by €167. In addition no calls for quotations were issued in this case, notwithstanding that the stipulated thresholds were exceeded.

The Budget could have been adjusted to the actual expenditure incurred. However, this was not done since the Council felt that this would beat the scope of the budget. It is important to know where the shortfalls were on the previous year's budget in order to be able to plan better for the future.

As already reported in the prior year's Management Letter, the Council entered into an agreement with the locality of Xewkija, for embellishment works at 'Mgarr ix-Xini'. It was agreed that the latter forks out

75% of the cost, whilst only 25% of the expenses will be incurred by Sannat Local Council. However, whilst no formal agreement was drawn up between the two Councils, a copy of the relevant documentation was not retained by Sannat Local Council.

The project carried out in conjunction with Xewkija Local Council was eventually administered by both Councils. The Councils will look into the possibility of drafting an agreement as recommended by the Auditors.

San Pawl il-Baħar

Certain expenditure incurred in 2011 exceeded the budgeted amount. This mainly related to Community and Hospitality expenses (€20,388), Utilities (€9,190), Rent (€4,944), Office Services (€4,400), Travel (€3,301) and Professional Services (€877).

In addition, LGA came across instances where funds were not expended according to the table of Financial Allocation. For example, notwithstanding that the amount of €373,818 was allocated to Road Maintenance only the amount of €37,898 was expended in this respect. In contrast, expenditure incurred on the Administration Fund totalled €320,480, when the amount allocated for such purpose stood at €173,485.

Auditor's recommendation has been noted.

An invoice issued to the Ministry of Health, the Elderly and Community Care for €6,363, in relation to a 25% refund on the purchase of air-conditioning system for the Elderly Health Centre, was inappropriately disclosed as income in the Statement of Comprehensive Income. Since an air-conditioning system is a capital expense, it should have been accounted for under IAS 20 – Accounting for Government Grants using the Income Approach. Following LGA's recommendation, the Council approved the necessary audit adjustment.

Following Auditor's recommendation, the Council made the necessary adjustment.

At year-end, the Council failed to account for accrued income of €29,500 and €17,881, in respect of contributions from the Malta Tourism Association. Furthermore, investment income as well as administration fee receivable from the Regional Committee were both under-accrued by €2,950 and €731 respectively. However, the related audit

adjustments were correctly reflected in the final set of Financial Statements.

As pointed out, the Auditor's recommendation has been noted and the necessary adjustments made.

An expenditure of €29,500 covering professional services for St Paul's Bay Promenade was not accounted for in the year under review. Other similar instances, whereby items of expenditure, totalling €20,950, which were not accrued for, were also encountered. The situation was rectified through the approval of audit adjustments as proposed by LGA. On the other hand, items totalling €13,533 that should have been accounted for as Creditors were instead accrued for.

The Council adjusted accordingly its Financial Statements in this respect.

No supporting documentation was provided for the accrued amount of €5,000 relating to patching, which estimate was said to have been provided by an architect and which the Council reflected accordingly in its Financial Statements.

LGA's recommendation noted.

A bank account, which was opened during 2011 and is being used in relation to EU funding purposes, was not included in the Financial Statements. The balance of this account as at 31 December 2011 stood at €16,509. The transactions effected through this bank account were then recognised by means of an audit adjustment.

The Council adjusted its Financial Statements accordingly.

Notwithstanding that as per Schedule of Payments dated 15 December 2011, the Council has approved cheque payments of €10,372, such payments were still not included in the accounts for the year ending 31 December 2011.

Recommendation put forward by the Auditors has been noted.

At the end of the Financial Year, the Council held inventories, which consisted mainly of books costing €10,280. However, such stock was under-insured by €9,815, implying that the latter will not be in a position to recover any losses it might incur and subsequently to replace the books lost, in case of theft, fire or any other accident.

Auditor's recommendation has been noted.

The FAR is not maintained in the appropriate manner as stipulated by the Local Councils (Financial) Procedures. Upon reconciliation of FAR with the Nominal Ledger a discrepancy of €6,065 in the accumulated depreciation was also encountered.

Most of the items with lack of detail in FAR, are the assets purchased during the first five years of the Council's operations, which now have been depreciated considerably. The assets being purchased are now inputted in FAR with the most detail possible. It is the intention of the Council to make a disposal of all unusable items of Fixed Assets.

Amounts disclosed in the Capital Commitments note (€1,652,039) do not agree with the Capital Expenditure listed in the Annual Budget 2012 (€582,944). The Council stated that part of the discrepancy is due to the commitments undertaken under the PPP Scheme.

The PPP Scheme provides for contractually stipulated payment terms over a period of eight years. In the budget for 2012 only the current portion of this commitment has been included, but in the notes to the Financial Statements, and rightly so, the whole amount payable over the eight years has been included as a Capital Commitment. As such until the PPP Scheme is in force, the note to the Financial Statements and the budget cannot be reconciled. Nonetheless, in the future the note to the Financial Statements will explain further the payment terms within this scheme and the amount committed in the Budget of the subsequent year.

Expenditure incurred for the Christmas dinner organised by the Council for its members and staff, amounted to €795. This conflicts with Memo 8/2011 which stipulates that such expenditure could not exceed €30 per person.

This event was a dinner organised for 16 persons being the Councillors and Council staff.

Despite that the Local Councils Act prohibits any kind of donations, the Council still provided gifts in kind, such as statues as Father's Day tokens costing €100, key chains for Father's Day activity amounting to €56, and souvenirs from Pozzallo totalling €13.

The souvenirs and tokens mentioned above are considered as immaterial in nature.

In prior years, the Local Council paid €6,354 to MEPA on account of a development application in the name of a local club. This entailed the demolition of the existing playing field and reconstruction of semi-basement indoor 'boċċi' pitch with overlaying playing field. The Council has triggered the devolution process on this property, however the process is not yet finalised. Despite LGA's recommendation in previous years, the Council has still not entered into an agreement with the local club so as to ensure that, in the event that the demolition process is not successful, the latter has to refund the Council with the amount of the said permit fee.

The guarantee in question has now been cancelled.

On 5 September 2008, the Council entered into a contractual agreement with a third party over a lease, by way of temporary emphyteusis for 21 years up to 18th September 2029. The lease entitles the Council to acquire (at €233 per annum) the upper basement level, known as level zero, forming part of a block of buildings to be named Blue Waters. The Council is bound to exclusively use this property as a public car park. Despite that the Council's future intentions of this acquisition are proper and diligent, clearance and approval from DLG has not been obtained. Additionally, if the future intention of the Council is to hire this property in the form of parking space to third parties, it has also to seek legal advice on issues of VAT chargeable to the same third parties, as well as consider setting up a bye-law in this regard.

LGA's recommendation was noted and action will be taken accordingly. However, MEPA compliance certificate has still not been issued due to an objection from 'Kunsill Malti Persuni b'Dizabilita', relating to access to and from the car park by persons with disability. As a result, the owners of the property and their Architect have now presented plans to rectify this deficiency, after which it is hoped that this matter will be settled as soon as possible.

From correspondence with the Council's lawyer, it was noted that at period-end the Council had three pending cases, which are not being disclosed by way of a note in the Financial Statements.

Auditor's recommendation has been noted.

Santa Luċija

Upon recalculation of the depreciation charge for the year by LGA, a difference of €68,797 in the depreciation charge for Urban Improvements, was encountered. The Council charged €74,531, whereas the depreciation charge based on LGA's calculations amounted to only €5,734. This error arose due to the fact that included with the depreciation charge for the year are grants receivable of €72,000 with regards to the 'Jogging track'. LGA proposed an adjustment to record the amount with Deferred Income as grants receivable relating to Capital Expenditure should be deferred in line with the lifetime of the asset. The Council approved the adjustment.

The Council's Accountant took a 100% depreciation charge on the LED lighting system for the Jogging Track, which included the supply and installation of 46 lamp poles. This project was financed by the Housing Authority under a scheme issued in 2011. The Auditors proposed an audit adjustment which is now reflected in the Financial Statements.

The Council expensed costs of €56,655 incurred in relation to 'Programm ta' Manutenzjoni fil-Binjiet tal-Gvern' with Other Repairs and Upkeep. The respective agreement stipulates that once furnished with the adequate invoices and works are certified as complete up to the specifications, the Housing Authority will reimburse the Council with the related expenses. In view of this, LGA proposed an adjustment to reverse these expenses to Accrued Income, which adjustment was correctly reflected in the final set of Financial Statements.

During the year under review, the Council qualified, amongst others, for two different grants totalling €84,753, out of which the amount of €41,526 was received by period-end. However, the Council failed to recognise the resulting Accrued Income amounting to €43,227. Following LGA's recommendation, the Financial Statements were adjusted accordingly.

During the year under review, the Council succeeded in obtaining a number of grants related to various schemes issued by DLG and the Housing Authority. It seems that there were quite a few shortcomings in the recording of this income. Hence, the Council would like to take this opportunity to suggest that there should be information sessions on the subject matter, for all the

Accountants who give their service to Local Councils.

Notwithstanding that the Council in its Budget is anticipating Capital Expenditure of €134,633, comprising Construction Works of €16,000, Urban Improvements of €7,400, Equipment of €400 and Special Programmes of €110,833, these Capital Commitments were not disclosed in the Financial Statements.

The Council will disclose future commitments, as reflected in the Budget, in the Financial Statements.

Since the pooling system ceased operations on 31 August 2011, any contraventions outstanding at that date, which were issued in the locality of Santa Luċija during the pooling system, were wrongly included as Debtors of the Council.

However, since such Receivables are still to be collected by the Joint Committee, an adjustment to reverse the amount of €9,138 from Contraventions Income was proposed by LGA. Such adjustment was correctly reflected in the Financial Statements.

This matter was discussed with LGA and the Council agreed with the former's recommendation to record the income from Debtors when received.

The Council failed to provide the list of Accrued Expenses for the year ended 2011, supporting the total of €36,697 included in the Financial Statements. In addition, when LGA extracted the amounts from the General Ledger making up the amount, it was noted that opening Accruals of €11,985 were not reversed. An explanation or detailed list of these accruals was also not provided. Thus, a qualified audit opinion was issued in this respect.

The Council's Accountant failed to prepare the list of Accruals as requested. The Council has ended the service agreement with the said Accountant and issued a fresh call for the provision of accounting service.

LGA was also not presented with the list of Prepayments to support the amount of €4,154 shown in the Financial Statements for the year ended 2011.

Recommendation was noted and the Council will ensure that a list which is in agreement with the amounts posted is prepared.

Santa Venera

The Council did not always deposit its General Income on a regular basis. In one case, the amount of €23,500 received on 23 December 2011 was only deposited on 31 December 2011, almost a week after its receipt.

One of the two Clerks employed by the Council, resigned on 21 December 2011 and the Ex-Acting Executive Secretary's last day of work was on 22 December 2011. Moreover, the only Clerk available was injured on duty and taken to hospital, whilst the new Executive Secretary was appointed on 19 December 2011. However, the latter received her appointment letter on 21 December 2011 and attended her first Local Council meeting on 22 December 2011. Furthermore, the new Executive Secretary had to clear pending cases and give a handover at the Ministry's Secretariat, where she used to work. As a result, her attendance at the Council during that time was limited. However, from then onwards, deposits were done on a regular basis.

In July 2011, the Council received a Credit Note of €4,720, from a company which at the time was providing Architect and Civil Engineering services. However, the respective contract expired in August 2011, and following a new call for tenders the contract was not awarded to the same company. Thus, the Credit Note has no value as it cannot be set-off against services over the short-term.

Point not addressed.

In 2010 the public convenience in the locality was closed down, after the Council made an allegation that *Santa Venera Boċċi Club* was tampering with the public convenience's water and electricity. All invoices pending as at this date, totalling €1,646, have not yet been settled by the Council. Furthermore, a balance of approximately €4,600 payable to ARMS Limited is still pending, as the Council is holding *Santa Venera Boċċi Club* responsible for these utility bills. However, the Council will act depending on the outcome of the police investigation.

The Council has in fact approached the Secretary of the concerned club and pending bills with ARMS Limited have been settled even though the police investigation is still ongoing.

The list of Accrued Expenses includes an amount of €4,528 in relation to attendance and maintenance of the

public convenience. This covers a period of 11 months during which the service by the appointed Contractor was suspended after the allegations mentioned above.

LGA's comment was noted.

Included in the Payables' List are a number of Creditors, totalling €4,095, whose balances have been brought forward from previous periods. Likewise, constructions costs of €2,329, included with Accrued Expenditure, have been outstanding for a number of years.

LGA's remarks have been noted. The Accountant has been notified to rectify these pending matters accordingly.

The personal accident insurance provided is not limited to Malta but it's on a worldwide basis.

It was certified by our insurers that there were no differences in fees charged from worldwide cover to geographical coverage limited to Malta only. The insurers were informed that the Council needs to abide to LGA's instructions, and Councillors when in Malta should be covered for Malta only. Coverage is now for the Maltese Islands only.

Siggiewi

The amount paid in respect of repair of wooden furniture, which totalled €9,145, was not covered by a call for tenders.

The mentioned supplier is the Manufacturing and Services Department within the Ministry of Resources and Rural Affairs. As a consequence, there was no need to issue a demand for quotes or tenders.

Despite that the Council has a FAR in place, this is not properly maintained. Due to the various casting errors noted, such register also does not tally. Whilst cost and accumulated depreciation (including grants) as per FAR amounts to €3,301,386 and €1,848,459 respectively, a NBV of €983,877 is being reported in the same register. Furthermore, amounts included in FAR do not reconcile to those disclosed in the Financial Statements. Cost and accumulated depreciation (including grants) reported in the Financial Statements are also understated by €270 and €24,746 respectively, while NBV is overstated by €484,526 when compared to that illustrated in FAR.

The Council is in the process of migrating the FAR from the current state (an extended spreadsheet) over the fixed asset module within the Council's accounting package.

The Council's accounts include additions to Fixed Assets of €440,983, comprising of alteration works in the Civic Centre which were not certified by the Contracts Manager before year-end. Out of the aforementioned amount only the balance of €372,122 was traced to the tender agreements. The remaining €68,861 relates to additional works over and above the contracted value. In the absence of the Architect's estimate or Contract Manager's valuation, LGA was unable to ascertain the valuation and existence of these works and hence, a qualified audit opinion was issued. Furthermore, whilst for 2011 only €180,000 was budgeted for such project, actual expenditure amounted to €440,983. Moreover, Council's minutes do not indicate the Council's approval or authorisation to increase the allocation on the Civic Centre.

The Council would like to invite LGA to go through all the minutes of the Council to confirm how the variations came about.

As already reported in the preceding year, through a prior year adjustment, the Council has written off from the books of accounts, Fixed Assets having a book value of €271,887. However, the Council has still not provided a detailed list substantiating this write-off. Consequently LGA could not ascertain that the valuation of assets recorded in the accounts and whether FAR is free from material misstatements. Thus, a qualified audit opinion was issued in this respect.

The necessary information to justify the required writing off of a number of assets, which were either obsolete or had been long disposed off by the Council, was already provided in prior year's reply to the Management Letter.

The Council's depreciation charge of €111,409 (before LGA's proposed audit adjustments) was determined on the basis of the FAR which, as already indicated above, was agreed to the Nominal Accounts by means of an adjustment passed in the preceding year. Thus, due to the shortcomings mentioned earlier, LGA was unable to establish whether depreciation is fairly stated.

Depreciation is calculated on every single item within the FAR, based on the classification and the day it was purchased. The Auditors were presented with the full list and the appropriate calculations.

The cost of wall-mounted decorative street lanterns costing €42,920 was expensed, instead of capitalised since such items have been treated as run-of-the-mill street lighting. A similar mistake was also reported in prior year's Management Letter. In accordance with their nature (Urban Improvements), the fact that these are being reimbursed by a UIF grant, and for consistency with the previous year's accounting treatment, the Council approved an audit adjustment to capitalise this expenditure.

Recommendation was taken on board.

From testing carried out on opening balances, it transpired that the opening Provision for LES Debtors of €31,956 was set off against the gross carrying amount of LES Receivables. In this regard, an audit reclassification was proposed by LGA and this was incorporated in the Council's books of accounts.

Recommendation noted.

The Council's LES Debtors at period-end only include tribunal-pending payments which were found to be understated by €3,041. A difference of €5,406 was also noted in the Council's Provision for LES Debtors at the end of the reporting date. These were adjusted through the proposed audit adjustment.

The reconciliation of the LES Debtors has always been a nightmare to the Council due to the lack of concrete, clear and exact information within the system and the lack of resources for such exercises. Furthermore, whilst it is agreed that the Council should persist with such reconciliation, nevertheless the system is flawed as it has kept a substantial number of citations to remain unsettled, whilst the vehicle registrations were still being renewed. The Council does not have, and never had, any control on the enforcement of such collections. As per Accounting Policies, the Council should have accounted for the Provision for Doubtful Debts. However, it did not have the available reporting data itself.

At period-end, the Council failed to account for those grants that it was eligible for, but which were not yet received by year-end. Consequently, an audit adjustment of €24,282 was passed by the Council to recognise such Accrued Income.

At the time of the preparation of the Financial Statements, the commitment of the €10,000 grant to assist the Council in the finalisation of the new

premises, and the installation of a passenger lift, was not yet confirmed in writing. On the other hand, the Council is checking how the remaining balance was not included in the Financial Statements.

During the year under review, the Council received €7,200 of the amount receivable under the UIF Scheme on two bus shelters installed during the preceding year. Rather than charging the receipt against Other Receivables (to cancel the accrued grant recorded in 2010), the Council erroneously credited Deferred Income again. This was corrected by means of LGA's proposed audit adjustment, which was approved by the Council and was properly reflected in the Financial Statements.

Recommendation noted.

A local activity 'Mixghela Salib tal-Gholja' costing €8,386, was financed from the Council's funds. This contravenes Memo 8/2011 which limits expenditure on locality day to €3,500 or 0.5% of Annual Government Allocation (€3,408), whichever is the higher.

During 2011 the Locality Day was not organised. The 'Mixghela Salib tal-Gholja' an annual event visited by thousands of people, is a separate cultural activity.

The Council's accounts still include Prepaid expenses of €6,239 which have been brought forward from previous periods. An explanation or detailed list of these Prepayments, was not forthcoming from the Council.

The Council's Secretary does not have a list of these Prepayments since most of them were passed as audit adjustments, without the Council being given the exact workings for such. This makes it difficult to trace such long outstanding Prepayments. However, the Council undertakes to make sure that all Prepayments are revised and any amount which is not yet valid be removed.

Testing on Accrued Expenditure revealed that in certain instances opening Accruals was not reversed, whilst in other cases this was reversed against the wrong Nominal Account. Furthermore, accrued expenditure recognised at year-end with respect to bonuses and Councillors' allowances was understated by €2,087 and €200 respectively, whilst that for utilities was overstated by €651. Additionally, an invoice of €5,711 for the provision of refuse collection, was accounted for twice, once as Accrued Expenditure and once under Payables.

Recommendation noted.

In 2011, the Council renewed its premium of €4,753 for a Hospital Insurance Scheme. The existing health scheme covers medical treatment and in-patient hospitalisation, rather than insurance against injury or death while performing Council duties. In last year's Management Letter, LGA recommended that the Council obtains approval from DLG for this Scheme since it is a substantial amount incurred for the benefit of the Councillors and employees. Although in its reply the Council stated that it contacted DLG, who informed the former that it should abide by section 35 of the Local Councils (Financial) Regulations, which specifies that following approval by the Council, the Executive Secretary shall ensure the security of the Council's employees against injury or death, no written approval was traced in this regard. Furthermore, since the cost of the health scheme exceeds the tendering threshold, it requires the issue of a call for tenders.

Following the prior year's audit, the Council took up LGA's recommendation and contacted DLG on the subject matter. The latter advised that the Council should abide with Article 35(4) and Article 35(5) of the Local Councils (Financial Regulations). As can be understood from the aforementioned articles, the Council members shall be insured against third party liability. However, if the Council maintains a positive balance of accounts, then members may be insured in a health scheme, which is different from the one against third party liability. On the other hand, as already stated in last year's reply to the Management Letter, the supplier was not changed for the sole reason that the Council would have lost the 'no claim bonus' and thus would have incurred more expenses. Notwithstanding this, the Council undertakes to find a solution with DLG, so that this issue will be solved in the shortest time possible.

In the Management Letter of the preceding year, it was reported that an overpayment of €2,358, effected to IRD in 2009, was still shown as Other Receivables in the Financial Statements. This year, such overpayment is still recognised in the Council's books of accounts, implying that recommendations made by LGA were not taken on board by the Council.

Recommendation noted.

Bills pertaining to the Executive Secretary's mobile phone are paid entirely by the Council. During the current year the amount of €814 was paid in this

respect. No expense claim forms were completed and consequently approved by the Council, and thus no assurance could be obtained that the mobile was utilised for Council duties only.

The Council reiterates that for economical reasons, the mobile phone in question is on contract basis and the monthly bills were all duly approved by the Council.

Out of the Council's funds, the amounts of €1,550 and €527 were paid to the local Parish Church and the local Primary School respectively. The Council was requested to assess whether these payments are a form of donation. If in the affirmative, the latter is in breach of Section 63A of the Local Councils Act, which prohibits donations whether in cash or in kind.

Both amounts were not donations. The payment to the local Parish Church was made for services rendered in relation to Christmas decorations that were carried out for the Council by a Parish group. Moreover, the Council confirms that the amount forwarded to the local Primary School was in respect of a cultural tour jointly organised by the two entities.

The Council's Financial Statements do not disclose bank guarantees of € 14,300 in favour of MEPA, in relation to the restoration of the façade of the Civic Centre.

Recommendation noted.

Sliema

In August 2009, the Council has entered into an emergency contract agreement for waste collection services. Although the said agreement was to be renewed monthly, it was being renewed automatically without any formal endorsement from both parties. As at 31 December 2011, an invoice of €14,750 dated 1 June 2010 was withheld by the Council, on the basis that it was not supported by a contract agreement. However, it is pertinent to note that, in contrast, in February 2011, the concerned service provider was forwarded a cheque payment of €65,520, with respect to services provided between October and December 2010. This contract was terminated upon the adjudication made, on 13 July 2011, during a Council meeting on the call for tenders made regarding the emergency services of waste collection.

Auditor's comments are indeed correct. The Council will not make any payments for the supply of goods

or services which are not covered by a contractual agreement. For the time being, the Council will be monitoring the situation and seeking legal advice accordingly.

Additionally, five other instances have been encountered, whereby payments totalling €31,448 were effected on expired contracts, in respect of which neither an official renewal letter nor a call for tenders was issued. The services provided in this respect related to the circular bus service in the locality, maintenance of soft areas, maintenance works, project management for road works and the collection of mixed household waste.

Two further payments, in aggregate amounting to €4,518, in relation to musical services and hiring of lighting equipment, and security services and stage, for an activity held on 11 April 2010, were withheld on the basis that these were not supported by quotations or contract agreements. The respective service providers were subsequently paid after the Council obtained approval from DLG.

It is correct in highlighting that these contracts have been expired. Given the operational difficulties encountered by the Council, certain services, such as refuse collection and maintenance of soft areas, are considered fundamental and could not be terminated abruptly. In view of this, given that the current Council is a transitory one, special permission has been sought from DLG to extend certain important contracts. Other contracts which are not of fundamental importance have been terminated accordingly so that a fresh call for tenders would be issued in due course. With respect to the issue of direct orders, it is the policy of the current Council not to issue direct orders which exceed the threshold allowable by the law.

On behalf of Transport Malta, the Council commissioned construction works at 'Qui si Sana'. The latter was given authorisation by MEPA to apply for this project under the UIF Scheme and a grant of €365,943 was approved. A draft contract, which was undated and not signed by the contractual parties, stipulated that one of the parties involved, being a public limited company, should forward the amount of €326,634 to MEPA, which amount will then be forwarded to the Council to pay the Contractor for the works at 'Qui si Sana'. However, in the interim, an invoice of €326,634, dated 30 June 2011, was received by the Council from the Contractor, specifying that payment was received from MEPA as part of UIF. Consequently, the Council set

off this payment against Deferred Income. However, the following shortcomings were noted:

- a) The Council assigned the works at 'Qui si Sana' to the same Contractor who at the time was carrying out other construction works in the locality, despite the fact that variation exceeded 20% of the original contract sum.
- b) The Contractor is claiming the money from the Council, notwithstanding that payment was already received, as stipulated in the invoice.
- c) Although both MEPA's and the Council's Architects certified that total cost of works completed on 23 May 2011 was €262,725, representing 95% completion, the Council recorded €326,634 as 'Assets under Construction'. This was based on the invoice received from the Contractor on 30 June 2011.
- d) Although this project was ready by the end of 2011, the asset is still showing as 'Under Construction', since there are certain defects in the works which need to be addressed by the Contractor. In fact, at least by 27 March 2012, when the audit was concluded, the Architects had not certified the full amount of the works carried out.
- e) The Council could not find a copy of the contract agreement entered into with MEPA, stipulating that money will be forwarded by the latter to the former, once the project is certified by the Architects of the respective entity.

The Council was made aware of these issues, and discussions with the Contractor in question will start very shortly to settle the dispute. The Council shall see that all parties involved in the transaction, will carry their duties and responsibilities accordingly.

On 3 March 2010, the Council had a meeting wherein, in accordance with the instructions given by DLG, following the outcome of an investigation, carried out on the Council, it was decided which of the old creditors the latter is to pay, to keep on hold, and which to remove from the books of accounts. The Council agreed to reverse those amounts relating to works that were carried out without the approval of the Council, and where the procurement procedure applied was not in line with standing regulations. There was also a consensus about the fact that payments, that might

be deemed as donations, are not to be approved. In total, the amount of €44,586 was reversed from the accounting records. However, due to the specific circumstances, such reversals were not supported by documentary evidence, such as credit notes from the respective service providers. Furthermore, it was noted that the reversals were taken to income rather than posted against the individual expense or fixed asset.

The Auditor's comments are appreciated. Nonetheless, it should be ascertained that the Council has decided to write back the amounts payable with utmost due diligence after legal assistance was sought on the matter. The legal and financial advice given to the Council was clearly not to chase these suppliers for a Credit Note. If these suppliers had justifiable evidence to show that goods and services were ordered by the Council, then the Council would settle accordingly, but the Council at that time was determined and sure that it had not ordered such supplies. Other payable write-backs have been long overdue and were surely subject to statute-barred provisions. To date, none of these suppliers have put forward any claims against the Council. In this respect, the Council does not see the case in favour of disclosing a Contingent Liability note in the Financial Statements, since the amounts payable in question are not due by it.

As at period-end, amounts payable in view of Phase Two of the Fairy Lights Project, covering the provision and installation of lights along the Sliema promenade, totalled €116,572. The original tender did not cover this project, and hence, given that the variance was greater than 20% of the original contract, the Council should have issued a new call for tenders. The latter is still waiting for a response from DLG on whether this amount is to be paid. Up to audit date, this case was still not yet settled.

The Council is still waiting for the intervention and feedback of the Director (DLG). In the meantime, the Council is trying to find the best solution to solve this dispute.

As at the end of 2011, the Council had long overdue balances, amounting to €63,119, payable to a particular Contractor. These significant balances relate to construction works provided in prior years and which have been carried forward from preceding accounting periods.

The amounts due to the Contractor in question were purposely kept on hold, since the Council was seeking

certification from its Architect that the works carried out by the Contractor were up to standard and not defective. Other parts of the amounts due were withheld in lieu of the placement of cranes, scaffolding and machinery, on account of projects privately undertaken by the same Contractor within the Sliema boundaries.

In line with the notification received from LCA, stating that the amounts due from WSC shall be received during the year 2010 onwards, the amount of €44,654 for trenching works carried out in 2008 and 2009 was invoiced to the latter and subsequently disclosed in the Financial Statements as Accrued Income. However, no payments were received up to audit date.

The Council's monitoring techniques were vindicated since a substantial part of the outstanding payment was received.

Included in Debtors' List are three balances, totalling €21,585, which have been long outstanding.

Auditor's valid recommendations were taken on board and the situation will be followed closely.

Swieqi

The Architect's final certified Bill of Quantities of works measured, in respect of construction of pavements and road resurfacing projects carried out in *Triq il-Harrub and Triq il-Pedidawett*, was dated 2 February 2012. However, the Council has prematurely capitalised the respective cost of €77,969, with the consequence of overstating depreciation charge for the year by €650. It is to be noted that following LGA's recommendation, the necessary audit adjustment was passed to rectify this error.

These roads were completed by the end of the financial year under review and as such these should have been capitalised and depreciation charged thereon, as per the first draft presented by LGA. The Council noted that the date of 2 December 2012 on the certificate of payment, should read 2 December 2011. In fact to prove this, the Council received the certificate of payment on 14 December 2011, as stamped on the same certificate. It's the Council's practice to stamp and sign the date when all correspondence is received.

The names and list of the categories of assets in FAR do not reconcile to the respective Nominal Accounts. From samples analysed, it results that the category

titled Construction Works with cost value of €742,177 is not included in the General Ledger, when according to the official chart of accounts for Local Councils this should feature separately in Nominal Account No. 7100. In another instance, the categories titled Road Signs, Street Mirrors and Traffic Signs, in FAR, together having a cost value of €64,491, do not agree with the balance in Nominal Account No. 7230 amounting to €56,008.

A reconciliation, whereby totals as per FAR tallied with those as per Nominal Ledger, was provided to LGA. Notwithstanding this, the Council will ensure that it makes the necessary changes to improve its FAR.

Irrespective that the PPE Policy, as disclosed in the Financial Statements, specifies that street lighting as well as pots and plants are to be depreciated at the rate of 100%, a depreciation rate of 10% is actually being applied. Consequently, depreciation recognised in the books of accounts is understated by €10,220. The relevant audit adjustments were approved by the Council.

Comments made by LGA were noted and the Financial Statements were adjusted accordingly.

During the preceding year, the Council reversed all Receivables relating to LES contraventions, in respect of the pre-pooling period, by means of a prior year adjustment. A year later, the Council still did not adopt a proper accounting treatment to reinstate the amounts due and provide a full Provision for Doubtful Debts.

The necessary adjustments will be made during the year ending 31 December 2012.

The average monthly balance held in the current bank account was €120,000 in favour of the Council. However, no interest is receivable by the Council on positive balances running through this account. Hence, the Council is not maximising bank interest receivable which could be achieved by allocating the majority of funds in its e-saving account which it holds with the same financial institution, and earning interest of 1% on positive running balance. On a daily average balance of €120,000, the Council potentially could have received €1,200 more in annual interest.

LGA's recommendation was taken on board. The Council will start depositing all its income in the e-savings account and clearing cheque payments

through an automatic transfer to the bank's current account.

The Council's final Trial Balance contains a Nominal Account with the name 'Mispostings Account' amounting to €2,169. From the explanation provided, it transpired that the composition of this balance could not be analysed and re-allocated accordingly. Thus, the amount was re-allocated and set-off with other revenue expenditure listed in the Financial Statements.

The Council has already explained to the Auditors that this account was being used for miscellaneous petty items, generally pertaining to the financial year 2010, which were discovered and adjusted for during 2011. As per LGA's recommendation, the balance on this amount was written off and expensed in 2011.

The Executive Secretary was reimbursed the amount of €855 in respect of fuel expenses incurred while carrying out Council's operations. Despite that a proper claim form is being raised to support such reimbursement, the Council is not maintaining an electronic log book in terms of rule 18(5)(c) of the Fringe Benefit Regulations.

The Council is of the opinion that the current claim form includes all the necessary details required, comprising date, location, destinations and kilometres covered for each trip. These are eventually aggregated and multiplied with the prescribed rate per kilometre.

In line with Memo 8/2011, only the Councillors and administrative staff are entitled to be invited for Christmas Dinner, at the expense of the Council. Furthermore, the *per capita* entitlement for this expenditure is capped at €30. Notwithstanding this, the Council expended a net total of €399 on such activity. Considering that the Council is made up of seven members and four administrative staff, the aforementioned entitlement was thus exceeded by €6.31 *per capita*.

The Council is of the opinion that the workings per capita as highlighted by LGA are incorrect, since these do not take into account an additional five members of the Madliena Administrative Committee. Therefore, the total of €399 should have been divided by 16 and not by 11, resulting in an allowance per capita of €24.94, which is well within the limit.

Ta' Xbiex

Testing of Receivables revealed discrepancies between

the actual amounts owed by four debtors, totalling €146,629, and the List of Debtors provided by the Council. From further analysis, it transpired that the Council had provided for 50% of the Debtors in previous years, but this was wrongly deducted from the Debtor's balance, instead of being disclosed separately. There is also no disclosure of the Provision for Doubtful Debts passed in the Financial Statements. Moreover, the Council has not provided for an additional amount of €3,198 which has been due from another debtor since 2008.

The debtors mentioned above feature in the Debtors' List because of a pending court case for which no sentence has yet been finalised. All other comments have been noted.

MEPA has approved and signed a contract to pass UIF funds to the Council amounting to €68,789. The funds relate to landscaping works. Although this project was to commence in 2012, the Council should still have accounted for the grant receivable, since this had been agreed upon and approved. The audit adjustment, proposed by LGA in this regard, was approved by the Council and reflected in the Financial Statements.

The Council failed to account for the grant receivable on the 'Embellishment of the Roundabout Project' amounting to €14,708, which was finalised during the year under review. An audit adjustment was passed to record the grant in the books of accounts under the Income Approach. A further adjustment was then approved to transfer a portion of the grant to the Statement of Comprehensive Income, based on a systematic and rational basis in accordance with the useful life of the asset.

Comments have been noted.

The tender for the carrying out of the aforementioned embellishment works, was awarded at the quoted price of €14,708. However, the Contractor was actually paid €21,640. The resulting difference of €6,932, between the bidding price and what was actually paid, was endorsed by the Contract Manager, upon certification of work.

Increase was due to variance in works during work implementation.

Testing on accrued expenditure revealed that the accounting treatment used was not correct. Whilst accrued expenses for utilities and refuse collection was understated by €1,228 and €138 respectively,

no provision was made for certain accrued expenses, which in total amount to €565. Likewise, costs of €9,640 incurred on the embellishment of the 'Roundabout Project' were not accrued for, thus leading to understatement of the Capital Expenditure.

Furthermore, the amount of €15,443 relating to the 'Roundabout Project', which was recorded as an accrual in the prior year, differed from the actual invoice of €12,000 received during the year under review. Instead of reversing the difference of €3,443, the Council erroneously posted this balance to the Creditor's Account. Thus, apart from overstating the Creditor's Balance, this had also an impact on Capital Expenditure. An audit adjustment was approved by the Council to amend this error. Furthermore, an additional adjustment was passed to re-instate €325 pertaining to Contract Manager fees, which the Council erroneously reversed as over accruals of the previous year.

An amount of €149 (over accrued), relating to the additional cost of a photovoltaic system, was also reversed to the wrong account, against the 'Sundry Materials and Supplier's Account' instead of PPE.

The suggested audit adjustments by LGA have been passed in the Financial Statements.

Discrepancies have been noted between FAR and the accounting records. Cost of assets and the related accumulated depreciation, as recorded in the unadjusted books of accounts, are overstated by €9,231 and €2,752 respectively, when compared to amounts disclosed in FAR. This led to an overstatement of €6,479 in the NBV reported in the accounting records. Such differences were due to the fact that the Plant Register was not updated correctly for 2011.

We fully understand the importance of updating the Plant Register on a regular basis. The Council will be transferring all the data from Manual processing to the Sage Software in the next financial year. Depreciation charge will be calculated with the month-end facility. Thus, the Council will be implementing the comments suggested by LGA in conformity with LN 323.

Tarxien

As reported in the preceding year, in 2002, following approval sought from the then Ministry of Justice and

Local Government, the Council made an investment of €46,588 by entering into a Joint Venture agreement with the local football club and a private limited company, for the management and operation of a 5-a-side football ground, namely 'Kunsill Lokali Tarxien' in the locality. One fundamental condition emanating from the memorandum specifically states that the members of the Joint Venture should provide audited Financial Statements on a six monthly basis. However, this requirement is not being fulfilled. Furthermore, the agreement contains no clear exit clause should the Council decide to withdraw from the Joint Venture. This matter poses a legal risk, which might bring the Council into a negotiation deadlock situation.

The Council notes that the joint venture has not subjected its Financial Statements to an audit. It is presently looking into the matter in a bid to regularise its position. As indicated in previous years, the Council does not agree with LGA's comment that a deadlock could result in the Joint Venture, due to the fact that it is represented on the Committee by two members (total of board members is four). Furthermore, in view of the fact that the Chairman of the Committee, who is a Council representative, has a casting vote, it is highly unlikely that a deadlock will ever arise. The dissolution of the Joint Venture may resultantly be brought about through a majority vote at the Joint Venture Committee.

As at year-end, the Council has recognised pre-pooling LES Debtors of €69,521, against which an equivalent Provision for Doubtful Debts was disclosed. However, as per report extracted from the LES computerised system, the amount of pre-pooling LES contraventions due to the Council stood at €68,144.

Point raised by LGA was noted and action will be taken accordingly.

Included in the Creditors' List is a balance of €2,474, which was brought forward from previous years. It was stated that this balance is being disputed by the Council because of several default notices, and as a result, the Council will be reversing the balance in 2012. Another balance of €2,183, in relation to the provision of Architect's services, dates prior to 2008. During the preceding years, the Council claimed that this amount has been outstanding because the service provider passed away and his heirs never claimed the balance due. However, this year the Council stated that this balance is in dispute.

Furthermore, the amount of €1,917 recognised as payable is in fact not payable at all. Additionally, the amount due to WasteServ Malta Ltd as disclosed in the Council's books is understated by €1,961, when reconciled to that illustrated in the supplier's statement. An invoice of €248 was also not accounted for.

The Council notes LGA's observation and has taken appropriate action.

The amount of €5,113 was recognised as 'Other Payables'. This balance consists of amounts overpaid to the Council in respect of Youth Programmes, namely Youth Exchange amounting to €2,200 and European Voluntary Services amounting to €2,214. Included is also the amount of €699, being reimbursements made during 2008 that were never claimed.

The matter is being investigated.

Valletta

During the period September to December 2011, a particular employee who was employed with the Council as 'Work Co-ordinator' was paid the amount of €5,184 in overtime, on the premise that this employee worked long hours even during weekends.

In the future, the Council will carefully take into consideration all available employment options and choose the most cost-effective alternative.

The contract for the lease of a van used by the Council, has expired. However, no new tender was issued in this respect, implying that the service was still provided under the expired terms and conditions. The amount of €6,021 was paid during the year under review.

As per LGA's recommendation, a regular periodic review of all contracts and services in operation will be undertaken by the Council.

The Council did not provide LGA with a FAR in relation to Fixed Assets acquired by it. Consequently, no practical satisfactory audit procedures could be performed to obtain reasonable assurance on the existence and completeness of the opening balance of Fixed Assets recorded in the Financial Statements, having a NBV of €886,632, as well as on the completeness of depreciation charged thereupon.

The Accountants had no access to the FAR because of the change in the Executive Secretary. Due to this lack of

accessibility, an accurate depreciation charge could not be recognised. This matter is being given importance and the FAR should be updated during 2012.

Instances were noted whereby cheque payments were issued and cashed by the suppliers, before these were included in the schedule of payments and approved during a Council meeting. For example, cheque payments amounting to €374,913, which were issued before December 2011, were only approved during a Council meeting held on 6 February 2012. Three other cheques, totalling €26,117, were not included in any Schedule of Payments and were therefore never approved during a Council meeting.

The Council is already abiding to this recommendation and every payment is being first approved during a Council meeting and only after such approval, payments are issued to suppliers.

Grants amounting to €123,965, receivable from Central Government in relation to capital projects under the PPP Scheme, were fully recognised as income during 2011. Since none of the projects under the PPP Scheme were capitalised by period-end, no portion of the grant recognised as Deferred Income should have been released to the Statement of Comprehensive Income. The Council approved the necessary audit adjustments.

Included in the Financial Statements is an expenditure of €58,157, incurred for the maintenance of common areas in Government Housing Blocks, against which the Housing Authority has provided a corresponding grant. However, the related income was completely omitted from the books of accounts. Following LGA's recommendation, the final set of Financial Statements was adjusted accordingly. Furthermore, the invoices issued by the service provider in this respect, as well as the payment thereon, were both dated and issued before the Council's Architect certified such works. Whilst the invoices were submitted in December 2011 and the respective payments were effected in the same month, the certification was dated February 2012.

Funds received from Government Grants will be properly accounted for according to IAS 20 in the current financial year. The adjustments were passed in the books of the Council as recommended by LGA.

The amount receivable from LES Tribunal pending tickets in the Financial Statements as at period-end stood at €500,720, against which a Provision for Doubtful Debts of €447,067 was recognised. However,

from LES reports made available for audit purposes, it transpired that whilst the amount due as disclosed in the books of accounts is overstated by €1,363, the Provision for Doubtful Debts recognised thereon, was overstated by €71,391. Following LGA's recommendation, the Financial Statements were adjusted accordingly.

Compliance with LGA's recommendation will be ensured. The necessary adjustments will be made to correct the variances.

The Council recognised the amount of €11,930 as LES Debtors due from other Local Councils, in respect of tickets having the 'Place of incident' Valletta, but which were paid in other Local Councils. However, the Council did not provide relevant documentation supporting this balance.

A list is being prepared and such amounts are being chased regularly.

Included with Receivables are still outstanding balances that have been brought forward from previous years. The major balance relates to an amount due from DLG, amounting to €3,592. This balance relates to the extra income received from the Department regarding waste separation. The other balances in aggregate amounting to €1,750 relates to income from adverts relating to previous years. A confirmation of the respective balances have not been attained by the Council from the parties concerned. Following LGA's recommendation, the Council has recognised a Provision for Doubtful Debts amounting to €5,342.

The balance of €1,750 mentioned in the report pertains to amounts due from 2005 and shall now be treated as bad debts.

No documentation was provided to substantiate Accrued Income of €10,210 and €8,157, recognised in view of reinstatement fees charged to WSC for trenching works carried out in 2011 and prior to 2008 respectively. It is doubtful whether such works were actually carried out, since the Executive Secretary confirmed that no reinstatement jobs were undertaken in 2011. Consequently, the Council agreed to pass an adjustment to reverse these transactions. However, the audit adjustment of €8,517 was erroneously accounted for twice.

The Council will make the necessary adjustments to reflect the Accrued Income accordingly.

Bank reconciliations were not being prepared properly since, an unreconciled difference of €11,195 was encountered in one of the reconciliations presented for audit purposes. From further investigation by the Council during the audit, it resulted that two bank deposits, amounting to €11,113, were erroneously posted as bank payments. This implied that the bank balances as well as Other Income, as recognised in the Financial Statements, were both understated by €11,113. Following LGA's recommendation, the Council has undertaken the necessary adjustments to correct the variance.

All bank balances are now reconciling and attention will be given in the future not to repeat such differences in bank reconciliations. A bank reconciliation is prepared on a monthly basis and any variances are being investigated immediately.

A discrepancy of €4,909 was noted between the Creditors' List and the amount disclosed in the Financial Statements.

This difference has been brought forward from prior year, and will be tackled during 2012.

The lack of proper reconciliations also resulted in balances in the Creditors' List being misstated. In one case the balance of a particular supplier was overstated by €1,450, while on the other hand, balances understated by €16,092 were also encountered. At times, it was also noted that invoice amounts were not being recorded correctly in the accounting system.

Suppliers' statements are normally received on a regular basis. During the year under review a request was sent to those suppliers for which the Council did not receive such a statement. A proper reconciliation could not be done for those suppliers which at year-end had not provided their statement, in spite of the Council's request.

In the Financial Statements a liability amounting to €10,576, in respect of LES balance due to other Local Councils was recognised. However, the Council only provided documentation for €7,110, being payments made by the Council in 2012. Thus the amount of €3,466 remained unconfirmed.

Point noted and LGA's recommendation will be implemented accordingly.

The Honoraria paid to the Mayor during 2011, was not calculated in line with Memo 3/2010, with the consequence that the latter was overpaid the amount of €4,079. An audit adjustment was approved by the Council to recognise such amount as Prepayments.

LGA's recommendation vis-à-vis electronic payroll tools has been duly noted and the Council will ensure compliance with the requirements of Memos 3/2010 and 7/2011.

Services of heritage monitoring, in relation to PPP projects amounting to €7,451, were procured through direct order, despite that the amount involved required a call for tenders.

The necessary measures to be in line with the Local Council (Tendering) Procedures of 2009 are already taken. The Council is compliant with such procedures and regular verifications are being done to be in line with all requirements.

During the period under review, the Council has reimbursement the amount of €150 to the Executive Secretary in view of a personal mobile phone bill. The physical bill issued by the telephony company, addressed personally to the Executive Secretary, was the only supporting documentation in view of such reimbursement.

In this regard, the Council will ensure compliance with the Local Councils (Financial) Procedures as indicated by LGA.

The Council agreed to provide 'Hastings Gardens' free of charge to a local club in order to organise an activity.

This has been duly noted and the Council will ensure that it will not happen again.

Xaghra

No tender was issued for the provision of accommodation and catering services provided during the Figs Festival, which services were provided by a supplier at a total cost of €6,316.

All necessary tenders will be issued as stipulated in the financial regulations.

Costs relating to the 'Belvedere Project,' billed during 2011 and amounting to €65,966, were capitalised on 31st October 2011. However, from information

obtained from the Architect during audit testing, it was noticed that the project was fully completed in January 2012 and in fact the last Bill of Quantities relating to this project was being finalised during the audit. The unnecessary depreciation charge for 2011 on this asset amounted to €1,715.

Last year's Management Letter reported that the number of computers included in FAR exceeded the amount actually in existence at the Council's premises. At the time, the Council had stated that computers dating back more than ten years no longer exist. However, LGA was not provided with the relevant documentation showing that the necessary procedures to write off these items were followed. An annual exercise was to be carried out by the Council to check for impaired assets or assets no longer in use. However, no changes were made to FAR during the year under review.

The points made regarding PPE have been noted and the necessary adjustments will be carried out. In fact, some shortcomings which were noted in the annual audit for the year 2010 have been solved.

Bills of Quantities issued by the Council's Architect in December 2011, verifying works completed by a supplier on rubble walls amounting to €17,993, have not been accounted for. However, the financial grant received by the Council in this respect, was fully recognised in the Statement of Comprehensive Income on the premise that the project was completed in full. Following LGA's recommendation, the final set of Financial Statements was adjusted accordingly.

A number of invoices totalling €16,611, which were issued in 2012 but related to services provided in 2011, were not accrued for, resulting in unrecorded liabilities. Such expenditure related to Contract Management Fees, Performance Bonuses, Payroll Costs, Street Lighting expenses, Cultural and Social Events, Utilities bills as well as Operations and Maintenance Expenses. The necessary audit adjustments were correctly reflected in the final set of Financial Statements.

When testing the Deferred Income and the release therefrom of the portion relating to 2011, it transpired that the months in which the amortisation commenced did not correspond to the months in which the respective Assets were capitalised and the depreciation started being calculated. The variance, when compared to LGA's calculations, was of €6,404 was corrected through an adjustment.

Points not addressed.

An amount of €6,850 received from WSC, for road re-instatement works carried out during 2008, was recognised as income for the year, even though such income had already been accrued for in prior years. An audit adjustment was passed to correct this error.

Point made by LGA was noted and the respective adjustments were made. More attention will be given to year-end deposits and receipts and updated information.

Budgeted expenditure for Hospitality and Community Services, Contractual Services and Travel Expenses, was exceeded by €34,788, €7,184 and €5,535 respectively. The budget for Repairs and Maintenance was also exceeded by €60,442; however, in this case this was mitigated by a financial assistance of €70,000 obtained for a specific project that costed the Council €73,630.

The Council will try its best to control expenditure so as not to exceed the budgeted figures according to the respective categories.

Several cheques that were deposited in 2012 were received quite a long time before. For example, a cheque received from Malta College for Arts Science and the Technology for library services, whose remittance advice was dated in August 2011, was only deposited and accounted for in January 2012.

Point not addressed.

Xewkija

The cost, accumulated depreciation and NBV of Fixed Assets, as disclosed in the Financial Statements before taking into consideration the audit adjustments, did not agree with balances recorded in FAR. Whilst the cost in FAR was understated by €157,951, total accumulated depreciation was overstated by €12,515, leading to a NBV that should have been understated by €170,466. However, this figure in FAR was actually understated by €171,001 since the NBV was not tallying to the cost less accumulated depreciation shown in the same Register.

Other variances in the Fixed Asset additions for the year as per FAR were also noted when compared with the additions as per accounts. This resulted since some

of the Fixed Assets additions, which were capitalised in the accounts, were not included in FAR. For example, accrued costs relating to resurfacing works carried out in five roads listed under the PPP Scheme, amounting to €164,999, were not included in FAR. Another asset of €20,909 that was capitalised in 2010 accounts was included as a 2011 addition in FAR.

A Fixed Asset addition consisting of additional works on the new Public Convenience in 'Soil Street' costing €1,879, was by mistake expensed in the depreciation Nominal Account. The necessary adjustment was made to reclassify this addition under the correct asset category.

An exercise will be carried out during the current year in order to reconcile FAR with the Nominal Ledger. The register was not updated in the last month since the Pastel Evolution program on which the FAR was kept required an activation key from the supplier, and this was not made available to the Council before the end of February. This hindered access to the accounting package so updates could not be carried out. In order to avoid a repeat of this instance, and in order to have both accounting records and FAR in one accounting package, the Council has decided to revert back to using Sage Line 50 instead of continuing to use Sage Pastel and Pastel Evolution.

Further testing showed that four of five roads under the PPP Scheme were 100% complete in 2011. However, even though such expenditure was correctly accounted for, no depreciation was calculated in relation to these roads. Thus an audit adjustment of €3,326 was passed to account for the depreciation charge for the year for the four completed roads. Since one of the roads was only 90% complete by year-end, a reclassification of €31,074 was made to show 90% of its total costs as Assets under Construction. The remaining 10% of the capitalised cost, amounting to €3,453, was reversed since the work had not yet been completed.

For the Resurfacing of the five roads under the PPP Scheme mentioned above, the Council was granted total funds amounting to €82,500, out of which the amount of €41,250 was received during 2011. Erroneously this amount was fully recognised as income earned during the same year. Consequently, an audit adjustment was passed to reverse the income and re-classify the funds as Deferred Income. Furthermore, due to the fact that the total cost of the four roads, amounting to €130,472, were capitalised as per the Architect's calculations, additional adjustments were passed to increase the

Accrued and Deferred Income by €32,618, to match the funds receivable with the costs capitalised. In addition, the appropriate portion of amortisation of €1,663 was released to the Statement of Comprehensive Income.

Funds received during 2010 in respect of another five roads under the PPE Scheme, started to be amortised during 2011, in spite of the fact that the project was not complete by period-end. An audit adjustment was passed to reverse the total amount of €959, which had been released to the Statement of Comprehensive Income.

In addition to the costs incurred for the resurfacing works, the Council also incurred expenditure in relation to trenching works. The amounts due to WSC for such work was €6,552. Since these costs were not recorded in the accounts, an adjusting entry was passed to capitalise €3,680 covering works carried out in two of the completed roads. A further €2,872 was accounted for as Assets under Construction. Moreover, provided that the Council will be refunded 50% of the costs on trenching works, a further adjustment of €3,276 was passed to account for this accrued income.

Regarding the PPP and the trenching works, audit adjustments were carried out in line with the Auditor's recommendation. Furthermore, the Council will ensure that Deferred Income is not amortised before the completion of the project.

The Council exceeded the budgeted expenditure for Community and Hospitality by €29,321.

As highlighted by LGA, the Community and Hospitality expense exceeded the budgeted amount. The necessary adjustment for such variations will be made to the Budget in the future as recommended by the Auditor.

The amount of €13,250 paid by WSC for road reinstatement works, carried out during the years 2008 and 2010, was recognised as income for 2011, despite that such income has already been accrued for in prior years. Similarly, funds totalling €5,363, received in respect of various activities held by the Council in prior years, was also accounted for as income for the year under review when these were already recorded as Accrued Income in preceding years. Consequently, the necessary audit adjustments were passed to derecognise the income accounted for and reclassify the amounts against Accrued Income brought forward.

The audit adjustments in view of income due in previous years but which was received during the current year were accounted for in the Financial Statements.

On the other hand, audit adjustments totalling €8,053 were passed in the books of accounts, so as to account for Accrued Income receivable for activities held by the Council in the year under review.

The income from activities and in respect of the library were not recorded as Accrued Income. This was an oversight by the Council, however the audit adjustment recommended by the Auditors was accounted for.

A bank account held in the name of the Council was omitted from the books of accounts. This bank account, which had then been adjusted for, related to an EU funded project with a balance of €15,409. An adjusting entry was also passed to account for the interest of €21 credited in the bank account, which amount the Council will have to pay back to the Paying Agency.

The amount was adjusted as recommended by LGA. The Council will ensure that at the end of the financial year it has the latest bank statements of all bank accounts, so as to avoid similar situations in the future.

Various invoices issued in 2012 that related to services provided in the preceding year, as well as the Performance Bonus due to one of the Council's employees, were not accrued for. Thus, audit adjustments amounting to €2,714 were deemed necessary to account for such unrecorded liabilities. Furthermore, the amount of €1,184, relating to unbilled maintenance works carried out on various street lights, was accrued for. However, when the supplier issued the pending invoices for the jobs completed during the year, these totalled €5,802, resulting in a difference of €4,618 which was then accounted for through an audit adjustment.

The invoices in respect of 2011, referred to by LGA, were received after the presentation of the Financial Statements. The Performance Bonus was not yet approved, however the provision should have been made just the same. The street lighting Contractor is always late in presenting his invoices, thus calculating this amount always poses a problem. In future when such bills are not received, an estimate will be made by the Council. The audit adjustments recommended by LGA were accounted for and in future more attention will be given to this matter.

The Payables and Receivables Control Accounts in the Local Council's software, Sage Pastel, could not be accessed. Thus, LGA was unable to trace the transactions passed through these Nominal Accounts. The only entry that could be traced was the closing balance as at the end of the financial year.

The main reason for the Council's decision to revert to using Sage Line 50 is the fact that both Nominal Transactions and the FAR can be recorded in a single accounting package. In addition, using this package provides an audit trail which makes transactions more easy to trace.

Total Capital Commitments as disclosed in the unaudited Financial Statements amounted to €75,000. However, following LGA's recommendation, the note in the final set of Financial Statements was amended accordingly to disclose the entire Commitments, amounting to €325,260, that the Council intends to undertake.

Likewise, amounts included under Contingent Liabilities were not accurate. These were adjusted following LGA's recommendation.

The Financial Statements presented to NAO at the end of the annual audit were in line with IFRSs. All recommended audit adjustments were reflected in these Financial Statements.

Xghajra

The Council failed to disclose the amount of €141,794 as Capital Commitments, in respect of the proposed recreation centre and photovoltaic panels. The disclosure in the Financial Statements was left as it was in 2010. The Council also failed to disclose these commitments in the Budget prepared for 2012.

The Council has taken note of the said observation.

Deferred Income was being recorded in the books of accounts on a cash rather than on an accruals basis. This implies that Grants relating to Capital Expenditure incurred by the end of the year were neither accrued for nor deferred as required by IAS 20 - Accounting for Government Grants and Disclosure of Government Grants. In addition, grants received during the year were treated as Current Liabilities rather than Long-Term Deferred Income. As a result, Current Liabilities are overstated by €157,135, while both Non-Current

Liabilities and Current Receivables were understated by €200,704 and € 43,569 respectively.

The Council entered into an agreement with Malta Government Technology Investments Limited. This company is to provide the Council with funds amounting to €198,000 in respect of Capital Expenditure incurred on the *Recreational Sports Centre* in Xghajra. The agreement stipulates that the amounts will be on a reimbursement basis. However, by the end of the year, Capital Expenditure on this project, for which a reimbursement claim had not yet been made, amounted to €43,569. This amount was not recognised in the books of accounts as Accrued Income.

Furthermore, a Contingent Liability of €33,893, issued in favour of the aforementioned company was only recognised in the Financial Statements following LGA's recommendation.

The audit adjustments proposed by LGA to rectify the above-mentioned errors were approved by the Council.

LGA's comments are noted and the necessary adjustments were made.

The FAR maintained by the Council has not been set-up in the appropriate manner as stipulated by the Local Councils (Financial) Procedures. The descriptions lack fundamental details about the asset being capitalised, and its location. For example, no description was provided for Assets acquired, whose value totals €60,897, of which an aggregate of €1,710 were additions made in 2010 and during the year under review. This implies that such items cannot be identified and physically verified to ensure their existence. Furthermore, the scope for setting a FAR is not being fulfilled.

The Council has taken steps to prepare the FAR on the Sage software system. In the year 2000 the Asset Register was re-entered due to the previously recorded entries being distorted by the updating of the system, by the Connectivity inclusion through the Malta Information Technology and Training Services Ltd. Since the FAR had not been updated, various global auditing adjustments were made by the then Auditors for the year 2000, without providing a breakdown of these adjustments, thereby making it impossible to re-adjust each particular asset item and location. The Council is trying to do its best to gather the necessary information and then re-update the records accordingly.

The Auditors have been informed of this and are aware of this difficulty.

Fixed Assets covered by grants received were not accounted for in the FAR. Consequently cost and grants in FAR are understated by €210,176 and €210,617 respectively, thus resulting in understated NBV of €441.

The Council took note of the observation and will look into the matter to solve this issue.

LES Income as disclosed in the Financial Statements is understated by €4,283 when compared to the relevant reports extracted from the LES computerised system. Part of this variance, amounting to €3,130, is related to adjustments required in the amount of contraventions due, adjudicated by the Tribunal, LES online payments and Licensing and Testing Department. The necessary adjustments were approved by the Council and reflected in the final set of Financial Statements. However, the remaining variance of €1,153 could not be traced and remained unreconciled.

The reconciliation exercise of the LES system depends on the co-operation from other Local Councils, LCA and even the Licensing and Testing Department. Unfortunately, in our opinion, the present system cannot ensure a definite reconciled picture. During the year under review, the Council recorded the LES contraventions on a monthly basis, by generating various reports which are important for recording the transactions on an accrual basis. In the same period, the Local Council also had to reverse back a number of fines from the LES report for tickets given to the same vehicles, day after day, regarding derelict and abandoned cars. The Council will take note of the difference and try to perform a reconciliation exercise to tackle the variance mentioned in the Management Letter.

The opening balance of LES Debtors and the respective Provision for Doubtful Debts, were not adjusted in the books of accounts to tally with the prior year's closing balance disclosed in the audited Financial Statements. Consequently, the net amount receivable as reported in the 2011 unaudited Financial Statements was overstated. It also did not reconcile to the amounts quoted in the reports extracted from the LES computerised system. Following LGA's recommendation, the Council adjusted the final set of Financial Statements.

The Council has taken note and accepts the Auditor's recommendation. However, as already stated above, it is difficult to investigate properly the origins of the LES Income from other Local Councils. Furthermore, as specified by the Auditor, the Council had actually revised its Financial Statements.

The Council deferred the amount of €5,000 awarded as EU funds in respect of a Twinning Project. Since the related expenses were all recorded in the year under review, the income should have been recognised in the Statement of Comprehensive Income rather than deferred. Following LGA's recommendations, the Financial Statements were adjusted accordingly.

Point noted.

In 2011, the amount of €5,463 in expenditure relating to the previous year was posted in the Council's accounting records after the Financial Statements had been approved and audited. This resulted in expenses for the current year being overstated. A prior year adjustment should have been made to this effect.

As explained during the audit review, the Council had accounted for the invoices when these were dated even if year-end had been performed. Moreover, these invoices had mostly been accrued for in the Accruals' List for the year 2010. Therefore, the Local Council partially disagrees with the observation made by the Auditors on this matter.

The amount of €663, expensed with respect to Christmas reception organised by the Council, exceeded the threshold of €15 per person specified by Memo 8/2011 – 'Ikliet riċevimenti organizzati mill-Kunsilli Lokali'.

It was found to be extremely difficult to organise some sort of an annual event such as this, for less than the amount spent. The total number of staff, Councillors and other workers attached to the Xgħajra Local Council is 15 persons and the expenditure was €663.

A guarantee of €33,893 issued in favour of Malta Government Technology Investment Ltd, as well as the disputed amount of €2,517 with a creditor, were only included in the Financial Statements by means of a note following LGA's recommendation.

Point noted and action was taken accordingly.

Żabbar

Under the LES, the Council receives money, collected by other Local Councils on its behalf, for traffic fines with place of incident being Żabbar. However, some of these Local Councils, albeit depositing the funds in the Council's bank account, do not provide adequate information as to which traffic fines the deposited amount refers. The Council is grouping the amounts received in its General Ledger as Unidentified Deposits under Liabilities, when in actual fact these represent payments on account of Receivables from LES fines. In theory, the Council should at least have a corresponding amount of €7,159 recorded under Receivables and categorised as Amounts due from Other Local Councils. However, no such item of receivable is being recorded in the General Ledger, implying that the Council has not maintained an adequate system of LES income reconciliation.

Missing bank receipts are continuously being requested from all Local Councils having failed to provide the deposit slip.

The Council is not adhering to the fundamentals of Accrual Accounting and Matching Concepts. Whilst the amount of €14,000, as estimated by the Council's Architect for works carried out on account of road resurfacing works, was correctly accrued for, the Council failed to accrue for a grant of €4,200 representing 30% of the estimated expenditure which will be received by the Council within the parameters of the same PPP agreement. As a result, Deferred Income is also understated by the same amount. Despite the fact that LGA proposed that an audit adjustment is passed in this respect, the Council refused to approve such adjustment.

The €14,000 accrued expenditure on 'Triq Leli Tabone' was based on an estimate given by the Council's Architect for the first phase of works in this road. According to correspondence from DLG, payment will only be effected after the road works are completed. Since it is envisaged that the road works will be completed by August 2012, grants receivable under PPP Scheme were not accrued for.

The expense for street cleaning for the month of December was accounted for twice, the first time by means of an invoice whilst the second time by means of an accrual. This resulted in Accrued Expenses being overstated by €5,541. An audit adjustment was correctly incorporated in the books of accounts.

The overstated accrual has already been corrected.

Accumulated depreciation recognised in FAR is overstated by €3,585 when compared to the amount of depreciation accounted for in the Nominal Ledger. Consequently, NBV in FAR is understated by the same amount.

Further assistance is being sought so that the Council will be in a position to solve this problem.

The Contractor responsible for construction works is not providing the Council with an invoice. Instead, the latter pays the amount due upon receipt of a certificate from the Architect.

The Council has always ensured that payments will be made upon receipt of invoice from the supplier, and after proper verification by the Architect. There could have been isolated cases where this procedure was not fully adhered to. However, the Council will continue to make its effort to have all payments backed by a fiscal receipt.

It was noted that the balance of a current bank account was understated by €500 when reconciled to the bank statement. The Council stated that this was due to a cheque payment issued for €800 whilst only €300 was withdrawn. However, no adequate adjustment was made by the Council to record the bank's error.

The Council has already reversed the variance and reinstated the liability accordingly.

Expenses incurred for the organisation of 'Jum Haż-Żabbar' totalled €4,001. This is in breach of Memo 122/10, which specifies that the global expenditure for 'Jum il-Lokal' should not exceed €3,500 or 0.5% of the annual allocation, whichever is the higher. This implies that this expenditure should not have exceeded €3,606.

The Council is in full agreement with the Auditor and will ensure that the expenditure will not exceed €3,500 or 0.5% of the annual allocation.

Included in Contingent Liabilities is a guarantee of €1,164, issued in favour of the Joint Committee, which is no longer applicable.

It would be appreciated if LGA informs the Council when such shortcomings in disclosure items are noticed so that the Council could take immediate corrective action.

Żebbuġ (Malta)

A payment of €6,300 made to actors who took part in Night Fest was not covered by a call for tenders.

The payment in question refers to the annual main cultural event organized by the Local Council now branded as 'Night Fest @ Haż-Żebbuġ', for which the Council received €4,000 in support by the Government. Part of the event consists in the recreation of Haż-Żebbuġ as a medieval village where traditional crafts and customs ranging from carpentry to animal husbandry are brought back to life and put on display by a group of local re-enactors.

The insurance policy which expired in November 2011, was not yet renewed by 5 June 2012.

The Council acknowledges the fact that the policy was not immediately renewed but until the renewal was done, the previous policy was extended so the Council was never in a situation where there was no insurance cover.

A difference of €26,586 was noted between depreciation charge as disclosed in the books of accounts and the depreciation as calculated by LGA. This discrepancy arose due to the fact that the Council is not computing depreciation on a monthly basis, but a full year's charge was taken for major additions. This shortcoming was already highlighted in the preceding year's report. To rectify this error, the Council approved the adjustments proposed by LGA, and amended the Financial Statements accordingly.

The Council accepted the audit adjustment and the Financial Statements were adjusted accordingly.

Included in the Council's Financial Statements are resurfacing works carried out in 'Triq l-Isqof Caruana' amounting to €52,712, that were completed in 2011. Notwithstanding, that as by the time of audit such works have not been certified for payment by the Contract Manager, due to concerns in the quality of works, depreciation was still charged on such works.

The completion of works will be accounted for on certification by Architects.

Despite that way back in 1993, the Council's office premises were devolved to the Council by WSC, such fact was never reflected in the Council's books of accounts.

During the audit process, the Executive Secretary explained that neither he, nor the other members of the Council or its staff know how the Local Council premises were passed to the Council. It is virtually impossible for the Council books to reflect something which the Council cannot determine. The Council only knows that previously the premises were used by WSC.

Included in 'Other Receivables' is a long-outstanding amount of €160,089 due from the Housing Authority. During the year under review, the Council has obtained confirmation from the Authority that this amount will be settled when funds are available.

The Council is doing its utmost to collect these sums.

On the other hand, the amount of €11,820 due to a Contractor, has been outstanding for quite a long time. This balance represents a difference between the Council's initial cost estimate of the resurfacing works and the Contract Manager's certification.

Action will be taken during the next financial year.

Whilst tribunal pending payments as at year-end, as disclosed in the books of accounts, were understated by €4,113, a difference of €21,229 in the Council's Provision for LES Doubtful Debtors was also identified. These differences were adjusted for by means of an audit adjustment.

Observation acknowledged.

The Creditors' List as at year-end included debit balances of €46,624, which were presented with Trade Creditors in the unaudited Financial Statements. An amount of €36,228 was brought forward from previous years, while the remaining balance of €10,396 pertains to payments for services for which the respective invoices were not yet received and thus being recorded as Accrued Expenditure. A re-classification adjustment was passed to disclose these debit balances with receivables in the final set of Financial Statements.

As explained during the audit, this is a long-standing problem which the Council has been facing from previous administrations and which it has been able to mitigate year after year. The Council is planning to eliminate these debit balances by the end of the next financial year.

A difference of €8,306 was noted between the period-end statement issued by a particular supplier and the

Creditor balance in the Council's books of accounts. However, the Council failed to provide a reconciliation of the difference.

Point not addressed.

The bank reconciliation of one of the Council's account did not agree to the bank balance as per bank confirmation certificate by €911.

The Council has taken note of these observations and will address them during the next financial year.

During the year under review, members of the Council visited *Agira* in Sicily, whilst the foreign delegation was invited over to Malta. When analysing the Schedule of Payments, it transpired that expenditure incurred in this respect amounted to €5,847, thus implying that the maximum threshold of €3,500 set for such cases as per Memo 33/2009 was substantially exceeded. Furthermore, the Council failed to submit a report illustrating the results and benefits of the twinning and a Statement of Expenditure.

The Council pointed out that the twinning with Agira has been in place since 1997, and no twinning agreement was made during 2011. The expenses mistakenly referred to as 'twinning expenses' were all related to an activity which the Council organised through its contracts with its twinning partner. Indeed, the Council succeeded in bringing the Silver Urn containing the sacred relics of St. Philip of Agira. The expenses, which are erroneously being classified as 'twinning expenses', were in fact related to this unique, historic and one-off activity. Furthermore, during 2011, the Council also signed a co-operation agreement with the city of Enna. This kind of agreement is different from twinning. LGA has added up the expenses related to this agreement with those related to the one-off activity relating to the Urn of St. Philip and a visit which the Council delegation made to Agira during August 2011.

It was also noted that the Council paid for the flight ticket (€246) of a relative accompanying the Mayor and the Maltese delegation to *Agira*. It was alleged that the Council received a refund for the cost of the ticket, however LGA was unable to trace this receipt to the bank statements. Subsequently, the Council stated that there is a written agreement which stipulates that the cost of the ticket is to be set off against the Mayor's honorarium for the month of April 2012. However, although the respective agreement was not provided, during the course of the audit it was noted that the

amount was refunded by the Mayor on 31 May 2012.

The Mayor had never intended in any way to charge the expense of the extra air ticket to the Council. From the very outset, the Mayor stated very clearly that he would be paying for this ticket himself. In the meantime, the Mayor was owed the sum of €455 from the Council for the statutory 'per diem' allowance for the delegation to Agira in March 2011. Thus, the Mayor advised the Executive Secretary that he would offset these expenses against each other. This was clearly explained in a letter given by the Mayor to the Executive Secretary on 31 October 2011. While the Council regrets that this letter was not made available to the audit team when they asked for it, this does not in any way detract from the fact that the Mayor had declared from the outset that he would be personally financing the cost of the extra trip. This is so much the case that the Mayor has since deposited the respective amount in the Council's bank account.

During 2011, the Council incurred over €80,000 in social events and cultural activities. A significant percentage of these costs consist of travel and accommodation costs for Italian entertainers who took part in concerts organised by the Council. Other amounts were incurred to bring over the relic of St. Philip from *Agira*, Sicily. In view of the liquidity problems highlighted in the preceding years, the Council did not exercise adequate control over its expenditure and consequently this has resulted in a loss of €254,079 and net liability position of €431,007.

It is to be noted that over the last two years, the Council has managed to obtain €986,000 from other sources. In addition to this, the Council has not squandered public monies and has, in fact, also rescinded approved tenders which it deemed to be over-priced. In one case, on the specific initiative of the Mayor, the Council sought the advice of the Permanent Secretary at the MFEI in order to be advised as to whether to go ahead with such an over-priced tender for the resurfacing of roads in the 'Tal-Grazzja' area of Żebbuġ. The Mayor's request to rescind the contract in question was accepted. Furthermore, during 2012, the Council has embarked on a very aggressive and sustained policy of fund-raising in order to cover the cost of non-core business activities which the Council is expected to embark upon. To this end, through its Events and Marketing Consultant, the Council raised so far this year upwards of €70,000 in advertising, sponsorship and barter deals to finance such non-core business events.

From testing carried out it transpired that in some instances, the Council paid overtime of between €500 and €800 per month to one of its employees. However, no formal documentation approving the payment of these amounts was traced.

The overtime done by the employees is directly monitored by either the Executive Secretary and/or the Mayor. It is in the discretion of the Executive Secretary to deem whether the overtime is justified or not.

In line with an agreement with DLG, the Council used to reimburse an ELC worker €100 per month for use of car. However, from testing carried out, it transpired that in certain instances, the reimbursement for fuel ranged between €145 and €300 per month. These payments are mainly made from petty cash.

The Council actually complied with the agreement with DLG, since not more than €1,200 (€100 per month for a year) were spent on fuel to reimburse the ELC worker. The Council has suspended this agreement.

No claim forms were traced in respect of the reimbursement of mobile top-up cards to a Council's employee. Such payments which were made out of petty cash amounted to €215.

This point was noted and the Council will abide with the respective recommendation.

Payments in respect of FSS and NI were not being remitted to IRD on time. In fact, the balances due in respect of November and December 2011 were not yet paid at least by mid April 2012, *i.e.* at time of audit. Furthermore, during the year under review, the Council incurred penalties of €1,576 for late submission of FSS forms in the preceding year. Such penalties were originally accounted for with payroll expenditure, however these were reclassified to be disclosed as a separate line item.

Reclassification was carried out as proposed by LGA.

Grants of €5,000, receivable in respect of cultural events held during the year, were not accrued for at year-end. Following LGA's recommendation, the Financial Statements were adjusted accordingly.

The Council has taken note of this point and the Financial Statements have been adjusted accordingly.

Likewise, performance bonuses of €3,004 payable to clerks were accrued for by way of audit adjustments

proposed by LGA. Furthermore, some of the opening accrued expenditure was not reversed against the appropriate account. For instance, opening accrued wages of €4,512 were reversed against FSS/NI, whilst the opening accrual for Mayor's honorarium of €517 was not reversed at all, and is still included in the Council's accruals at year-end. Included also in the Accruals List is an amount of €1,229 with respect to accrued water and electricity which has been brought forward from previous years.

The Council accepted the proposed adjustments and the entry was adjusted accordingly in the Nominal Ledger.

An audit adjustment of €15,525 was proposed to the Council to correct the overstatement of the release of deferred grants to income. This adjustment was approved by the Council and correctly reflected in the final set of Financial Statements.

The necessary adjustment was approved by the Council and was reflected in the Financial Statements.

The Trial Balance provided by the Council includes a credit balance of €2,861 in a Suspense Account. This balance was disclosed with General Income in the unaudited Financial Statements. However, an audit adjustment was proposed by LGA to reclassify this balance to Other Creditors.

The necessary action will be taken.

The personal accident insurance is on a worldwide basis with a consequential higher premium.

The Council has taken note of this point and it agrees about limiting the geographic coverage to Malta.

During the year under review, the amount of €3,082 were paid out of Council's funds in form of donations. This included a cash payment of €175 to a religious convent, refreshments amounting to €349 paid on behalf of the local 'Boċċi Club', and another €2,558 with respect to catering for 'Anzjani Kunsill'.

The amounts paid on behalf of the local 'Boċċi Club' and the religious convent are not donations but payments for services rendered. On the other hand, 'Anzjani Kunsill' are not parties. These are monthly meetings organized for the elderly of the locality. During these meetings speakers are brought to lecture the elderly on a number of subjects which are of interest to them.

These payments refer to fees to the guest speakers, the hire of the parish hall where the talks are held, and light refreshments provided during the meeting.

The amount of €524 was incurred in respect of the staff Christmas dinner. It was noted that the Council's expenditure on the said lunch was an average of €37.46 per person, thus exceeding the maximum threshold that could be spent on such activities as stipulated by Memo 8/2011.

Point noted.

The unaudited Financial Statements of the Council incorrectly disclosed €131,045 of approved Capital Expenditure but not yet contracted, as 'Capital Expenditure that has been contracted for, but not provided for in the Financial Statements'. Following LGA's recommendation, the Council has correctly disclosed these Capital Commitments in the final set of Financial Statements.

Point acknowledged and action was taken accordingly.

During testing, it was noted that certain document files were not on the Council's premises but at the Accountant's office.

The Council must stress that all the files and documentation are always kept at the premises.

Żebbuġ (Gozo)

Amounts included in FAR did not agree with those disclosed in the Financial Statements, even before taking in consideration the audit adjustments passed during the audit. Whilst the total accumulated depreciation in FAR was €663,902, total depreciation plus grants in the Financial Statements amounted to €791,571. Part of this variance may be due to the fact that grants amounting to €84,498, acquired in prior years, were not included in FAR due to a different accounting treatment adopted.

A discrepancy was also noted in the resulting NBV as reported in FAR which stood at €844,025, when compared to that as illustrated in the Financial Statements amounting to €781,009.

It was also noted that the cost of assets at year-end as per FAR, totalling €1,572,583, does not agree to €1,507,927 as disclosed in the same register, with the latter being the summation of NBV of €844,025 and

the accumulated depreciation of €663,902.

In addition, a number of items of PPE under Special Programmes in FAR had a nil balance of depreciation to-date and nil balance of NBV. This implies that NBV was not recorded correctly and the depreciation of these particular assets was not being calculated through FAR. The cost of such assets that came to LGA's attention during the audit amounted to €24,277.

Decorative luminaries costing €23,397 were included in FAR but no depreciation was charged on such assets. These items were still being classified as Assets under Construction. The applicable depreciation was accounted for by way of audit adjustment.

On the other hand, funds in relation to these street lights, amounting to €19,820, were amortised as from July 2011, resulting in an amortisation of €971. Thus, in order to match the amortisation with the depreciation, an adjusting entry was passed to release to the Statement of Comprehensive Income the full amount of €18,849 which was still being accounted for as Deferred Income.

The points raised during the audit regarding FAR are all valid points which could not be addressed during the year under review. The Council will be taking immediate action in order to reconcile FAR with the Nominal Ledger. During this exercise, the appropriate depreciation rates will be assigned to the respective assets as prescribed by DLG.

Meanwhile, the recommended adjustments were accounted for in the Financial Statements.

During the year under review, the Council capitalised the reconstruction of rubble walls in accordance to the stages of completion and in line with IAS 16. For this particular project, the Council was granted total funds amounting to €70,000, out of which the amount of €21,000 was received during the year under review. Due to the fact that total costs of €59,154 were capitalised as per architect's certificate, there was also the need to start releasing to the Statement of Comprehensive Income, the appropriate portion of amortisation thereof. Thus, during the audit the Deferred Income was decreased by €10,439 to match the costs capitalised, whilst amortisation of €1,102 for the year was accounted for by way of audit adjustments.

Other cases whereby Deferred Income was not properly amortised, were also noted.

The Council installed 30 litter bins in Marsalforn, at

a cost of €410 per bin, thus incurring a total expense of €12,300. Such procurement was capitalised and depreciated at the rate of 100%. From explanations provided by the Council it was noted that some of the said bins were in fact replacements for old or damaged ones, while a few others were additional bins. Despite that Memo 150/2010 instructed Local Councils to write off any expenditure on litter bins directly to the Statement of Comprehensive Income, the Council wanted to capitalise such expenditure, in view of the nature and cost of each individual bin acquired. Part of the funds (€5,000) in relation to this project were received during 2010, while €15,986 was received during the year under review. However, due to the incorrect accounting treatment adopted by the Council for the amortisation of such funds, income was not matched with the respective cost. Thus, an audit adjustment of €20,741 was passed to rectify this error.

The points made by the Auditors about the amortisation of the Deferred Income in respect of capital projects, fully or partly financed by Government grants, have been noted. Whilst adjustments recommended by the Auditors were accounted for in the Financial Statements, efforts will be made in the future to avoid such shortcomings.

The Contractor who was awarded the tender for 'Patching with cold asphalt' had neither signed the contract agreement nor provided the Bank Guarantee. During the year 2011, the Council used the services of this particular supplier. However, it decided not to pay the three invoices submitted by the latter for the patching works carried out, amounting to €60,322 (net of the 5% Contract Management fee), before the Bank Guarantee is raised and the contract agreement is signed.

The Contractor regularised his position with the Council.

Unbilled jobs relating to maintenance works on street lights, carried out during the period July and December 2011, were not accrued for. Although an accurate estimate of the pending bills could have been calculated by simply referring to the jobs monitoring system, the Council failed to carry out such task. From calculations carried out by LGA, the estimated cost of unbilled jobs for the period January to June 2011 amounts to €7,000. Since the amount in question falls below the materiality level and is just an estimate, no adjustments were passed in this regard.

On the other hand, an adjustment of €2,800 was passed to recognise Accrued Expenditure in relation to the use of the Parish Centre's premises, street decorations and legal services, since this amount was completely omitted from the Financial Statements. Two unrecorded liabilities totalling €1,454 were also recognised in the books of accounts through audit adjustments.

Accruals and Payables were also adjusted as per recommended audit adjustments.

For the period January to November 2011, the Council issued invoices on a monthly basis to WSC for road re-instatement works by referring to the list sent by the latter, indicating roads whereby different sorts of work was carried out. However, it was noted that the Council did not actually carry out the re-instatement of roads with hot rolled asphalt, for which work it was issuing the mentioned bills. The amount in question of €10,300 was accounted for under Accounts Receivable and credited as Income for the year. An audit adjustment was passed to reclassify this amount as Deferred Income, on the basis that these works are going to be eventually carried out in a future date.

The re-instatement works were not done with the funds received from WSC during 2011.

The Council has exceeded the budgeted expenditure for Repairs and Maintenance by €47,590, Hospitality and Community Services by €21,467, Professional Services by €20,198 and Public Relations by €1,146.

Efforts will be made by the Council to avoid such budget variances.

Żejtun

Testing carried out on Accruals and Deferred Income revealed that the Council is not adhering to the Fundamental Concept of Accrual Accounting. For instance, accrued Capital Expenditure of €805,202 was recognised in respect of capital projects that have not yet commenced by the closure of the year under review. On the other hand, expenditure totalling €1,131, incurred for a community outing to 'Betlehem f'Għajnsielem', was not accrued for. Furthermore, the Council failed to recognise a Deferred Income adjustment of €2,683 in relation to rental income from leasing of kiosk, and €325 being rent receivable from the use of a football ground, for the period 2012. In addition, accrued expenses as recognised in the Financial Statements

were overstated by €1,500 when compared to the list of Accruals provided for audit testing. Following LGA's recommendation the necessary audit adjustments were approved by the Council.

The Council has taken note of the accrual pertaining to the activity 'Betlehem f'Ghajnsielem' amounting to €1,131. Further to the Auditor's recommendations, the necessary audit adjustments have been duly conducted. At the time of closing the accounts for the year 2011, the Council had the agreement signed for the funding of the projects through PPP and the respective Contractor was being given instructions on which roads to work. In fact, up to year-end two roads were finished, which justifies the fact as to why these works were accrued for. With regards to the variance of €1,500 the Council was already aware that an adjustment had to be made between the Accrued Payables and the Accrued Receivables. The adjustment will be made in 2012 when reversing the opening Accruals.

Notwithstanding the fact that the Council maintains a FAR, this is not up-to-date and reconciled with the Nominal Ledger. In fact, upon verification and reconciliation of FAR with the fixed asset codes in the Nominal Ledger, variances were noted. Both the cost and accumulated depreciation, including grants as disclosed in FAR, are understated by €1,520 and €71,724 respectively, thus resulting in an understated NBV of €70,204. Moreover, LGA could not perform practical satisfactory audit procedures to obtain reasonable assurance on the existence and completeness of the Fixed Assets recorded in the Financial Statements, with a NBV of €2,118,291, as well as on the completeness of the depreciation charged thereon.

The balance due to WSC as per Council's records, as at 31 December 2011, amounts to €8,638. This, however, does not reconcile with the balance as per supplier's statement reading €470. The variance of €8,168 is made up of a credit note of €11,869 and an invoice of €3,701, which were both not recognised by the Council in its accounting records. This resulted in the Payables' List being overstated by €8,168 which also implies that the Council is not undertaking a proper regular supplier balances' reconciliation exercise, which is fundamental to the internal control procedures in every accounting system.

The amounts quoted by the Auditors were traced and the necessary adjustments will be made.

A Bank Guarantee of €4,025, issued during 2010 in favour of the 'Kunsill Nazjonali Persuni b'Diżabilità'

was expensed in the Statement of Comprehensive Income rather than recognised as 'Other Receivables'. Despite LGA's recommendation, a year later the Council has still not adjusted such error, with the consequence that 'Other Receivables' are understated by the aforementioned amount.

The funds were effectively received during 2012. In view of this, the Council is considering adjusting for the amount of €4,025 during 2012 by one of the following approaches; either by crediting the reserves with the receipt, or else by passing a prior year adjustment to create a debtor against which the receipt would be credited. Essentially the end result is the same, in that the retained funds need to be credited.

Whilst Capital Commitments as illustrated in the Budget for 2012 amounted to €698,109, only €670,039 were disclosed in the respective note within the Financial Statements. However, following LGA's recommendation, the said note was adjusted accordingly.

As explained to the Auditors during the audit visit, in late 2011 the Council was notified that a donation of €25,000 for the completion of the Child Day Care Centre could be received in early 2012. In December 2011, the Council had no solid confirmation that this would actually materialise and thus, in line with the Accounting Prudence Concept, this figure was not included in the Annual Financial Budgets for 2012. Fortunately, this donation materialised in late February 2012 and thus, the necessary adjustments to the Council's financial budgets for the year 2012 were done accordingly. It was brought to the attention of Auditors that, during the preparation of the Financial Statements, this figure was not included in the Annual Budgets whilst the Auditors were presented with an updated version during their visit.

Żurriq

The amount of €296,859, relating to income receivable from Government grants, was credited to Other Government Income. The projects on which such income is receivable were not yet complete by the end of 2011. Hence, an adjustment to reverse this income to Deferred Income was approved by the Council, so that it will be transferred to income on a systematic basis once the project is completed. This adjustment was correctly reflected in the Financial Statements.

The Council agreed that funding, in respect of projects that have not yet been completed by year-end, is not

to be allocated against income. However, it had highlighted to the Auditors that certain projects, which were certainly completed as at year-end, should have not been reversed, and thus is to be considered as income for the year ending 2011.

During the year under review, the Council qualified for grants totalling €226,527, in respect of four projects. Out of this amount receivable, €43,920 was received during 2011. However, the Council incorrectly recognised the received amount as accrued income whilst it also failed to account for the resulting receivable balance of €182,607. The necessary audit adjustments were passed accordingly.

The necessary audit adjustments were made.

An additional adjustment of €5,711 was passed to reverse accrued income receivable for an EU funded project 'Conservation and Upgrading of the Rural Heritage', which contract was signed in 2010. Since, the Council was informed that it is entitled to receive €186,487 instead of €192,198. A further adjustment of €4,840, was approved by the Council to transfer to the Statement of Comprehensive Income, a portion of the grants directly attributable to the depreciation charge of the assets, in respect of projects that have been completed.

The adjustment has been made.

During 2010, from the total available amount of €20,000, the Council received €10,000 with respect to Memo 94/2010 'Skema ta' Finanzjament għall-Proġetti u Inizjattivi mill-Kumitati Amministrattivi fil-Lokalitajiet tagħhom'. Such receipt was recognised as Deferred Income. The remaining balance of €10,000 was received during the year under review. In addition, an amount of €2,000 was also advanced to the Council in view of Memo 95/2010 – 'Skema dwar Inizjattivi ta' Attivitajiet 2011'. Since these grants are of a revenue nature, income should be recognised in the period in which the related cost is incurred. Therefore, an audit adjustment of €22,000 was passed to transfer the amounts receivable from Deferred Income to Other Government Income, to correctly match grants received with the corresponding cost.

The adjustment has been made.

The cost of Fixed Assets as recorded in FAR is overstated by €20,549 when compared to that disclosed in the Financial Statements, before accounting

for adjustments. On the other hand, accumulated depreciation in FAR is understated by €458,071, also resulting in an overstated NBV of €478,620. Such discrepancies resulted from the fact that income from Government grants was accounted for using the Capital Approach. Therefore, the opening balance of grants, amounting to €360,281, should have been deducted from the purchase price in FAR to calculate the depreciation charge. However, no difference was noted between the purchase price and the re-valued price, both amounting to €2,316,301. Furthermore, in the current year, the Council had incorrectly included in FAR, further tree and plant additions, amounting to €764, which were not included in the Financial Statements.

The necessary audit adjustments were approved by the Council. With respect to the issue of Government Grants, the Council would like to examine how other Councils are handling this issue, prior to adjusting the books of accounts.

Moreover, assets amounting to €78,062, which were still under construction as at year-end, were disclosed under Special Programmes instead of Assets under Construction. Consequently, the Council has incorrectly charged depreciation on these assets. This resulted in an overstatement of the depreciation charge for the year by €7,458. The Council approved an adjustment of €78,062 to reclassify these additions to Assets under Construction and a further adjustment of €7,458 to reverse the depreciation charge on these assets.

As a result, upon testing for reasonableness on the depreciation charge of €105,531 as recognised in the Financial Statements, it transpired that this was overstated by €34,673.

Once an asset, with its purchase price, has been entered into the software, the possibility of adjustment to the purchase price is limited. Moreover, assets under construction are treated in the system like other ordinary assets. The software provider confirmed that the re-categorisation of assets can only be affected after the initial asset is scrapped from the system. Despite that the procedure itself is straightforward, an undesirable consequence is noted in the depreciation account, whereby depreciation already calculated cannot then be adjusted, thus resulting in an incorrect depreciation figure.

The Council shall ensure that such assets are included

under a different category namely Assets under Construction and shall also ensure that no depreciation is charged until completion date, then the respective amount will be transferred to the appropriate asset category.

It was noted that the discussion and subsequent decision for the write off, of the long outstanding Payables amounting to €79,566, was not minuted by the Council. Out of this balance, the amount of €16,754 was deducted from Fixed Assets additions, instead of showing them as adjustments. Hence, both the additions and adjustments for the current year, as presented in the Fixed Asset Schedule, are understated by €16,754.

The amount of €16,754 was not only discarded from Creditors but also from the respective Nominal Ledger account for the Fixed Assets. The supplier agreed to this deduction and did not take any action against the Council in this regard. Hence, although the value was deducted, the cost of the asset needs to be taken as the net amount.

Works amounting to €93,489 performed by a Contractor and being certified on 11 January 2012, were not included as additions for the year. Since the Financial Statements prepared as at year-end should fairly present the activities for the year, the Council is to try to obtain certification of works performed by the year-end, so that the inclusion of such works in the Financial Statements will show a clearer picture of the Council's position as at year-end.

At that time, it was not possible for the Council to estimate the amount of works completed.

LES Debtors as at 31 December 2011, as recognised in the Financial Statements, stood at €308,730. However, the tribunal pending payments report as at that date showed €316,002. Thus, an adjustment of €7,272 to increase such debtors was approved.

It was also noted that recognised Provision for Doubtful Debts, to cover Debtors older than two years, was understated by €20,967. Proposed audit adjustments were correctly included in the final set of Financial Statements.

Both proposed adjustments were carried out.

Invoices for 2008 and 2009 totalling €11,248, in respect of works performed by WSC, were accounted for in

accordance with the records kept by the Council, rather than as stated in the official lists submitted by WSC.

The Council shall ascertain that any such future estimates are calculated accordingly.

The bank reconciliations prepared for the current and savings accounts did not reconcile with the bank balance as at year-end by €323 and €111 respectively. Another bank current account balance as at end of year also did not agree to balance as per bank statement by €23.

The Council attempted to reconcile balance from the past 7 years.

While reviewing the list of unrepresented cheques with respect to a current account, it was noted that there is a stale cheque amounting to €6,196, which was issued on 15 August 2011 and not yet cashed in 2012.

The cheque was not stale by the end of year under review.

In line with the Budget for 2012, the Council is anticipating Capital Expenditure of €655,044, including Urban Improvements of €7,220, Equipment of €1,000 and Special Programmes of €646,824. However, Capital Commitments disclosed in the Financial Statements showed only the latter amount, comprising Construction Works (under the PPP Scheme) of €275,567, Road Resurfacing for €89,952, New Public Gardens for € 92,655 and 'Hal-Millieri' Project for €190,650.

The Council has checked its workings and it resulted that the amount of €648,824 is the correct balance. Thus, the schedule shown in the Financial Statements is correct.

As indicated in the bank confirmation letter received on 28 February 2012, bank guarantees amounting to €10,000 for two EU funded projects were noted. Following LGA's recommendation, the Council disclosed this as a Contingent Liability in accordance with IAS 37 - Provisions, Contingent Liabilities and Contingent Assets.

Disclosures have been amended to reflect the recommendation.

A substantial amount of the Petty Cash expenditure incurred by the Council relates to cash payments of €15 and €10 in respect of the weekly petrol allowances

granted to three ETC workers for Council's duties. The total amount paid in this respect went up to €1,010.

This item is going to be discussed during the Council meeting. Other options, such as the hiring or purchasing of a vehicle are very expensive. This only incurs €2 per day.

The Council sponsored trophies, bearing a total cost of €150, to the 'Boċċi Club' for the final game. Since the activity is not organised by the Council, the contribution is considered to be a donation.

As already stated to the Auditors, this activity was organized by the Council as part of 'Jum iż-Żurrieq' activities. This can also be confirmed with the Council meeting minutes. Thus, this was not a donation.

Northern Regional Committee

The Committee has recognised income amounting to €232,059 against amounts receivable, in respect of contravention tickets issued during the period under review, but which are still subject to adjudication. Following LGA's recommendation, this balance was revised and the necessary adjustments were passed.

Services provided by Wardens, as well as the administrator of the LES are carried out under a tender awarded by the Local Councils and not the Committee. The amounts of €149,493 and €21,310 were paid in this respect.

Furthermore, an invoice of €31,837 received in respect of Warden services provided during November, was recognised in the books of accounts as €35,322.

A supplier invoice of €3,485 was not recognised in the books of accounts, with the consequence that the balance in the Creditors' List did not agree to the supplier statement provided. In addition, the 10% commission due to the Local Councils for LES money collected on behalf of the Committee, amounting to €10,558, and expenses of €600 incurred on a Christmas staff party, were not accrued for. Omitted also from the Financial Statements is the amount of €2,766 in relation to Performance Bonuses since none of the Executive Secretaries, who have held office during the period under review was paid such Bonus. These errors were corrected through the proposed audit adjustments.

Included with Other Debtors is an amount of €433, receivable from the first Acting Executive Secretary. From testing carried out it transpired that the officer in question issued a cheque in his own name. Notwithstanding that details on the cheque stub read 'Inland Revenue Department', this was not used to settle dues owed by the Committee. Following a request by the latter, the aforementioned amount was refunded during 2012.

No disclosure of Capital Commitments has been made in the Financial Statements. However, LGA noted evidence of Capital Expenditure that the Council intends to undertake during 2012. Yet, this could not be confirmed, as the annual Budget for 2012 was not yet prepared by the date of the audit report.

No reply has been submitted.

South Eastern Regional Committee

Two particular supplier balances in the Creditors' List did not agree to the suppliers' statements provided. From further testing, it transpired that the difference was due to the fact that two invoices amounting to €13,966 and €295 respectively, were not accounted for. It was also noticed that the Committee is not obtaining monthly statements from its suppliers as is required by Memo 8/2002.

The two supplier invoices noted by LGA are presently being disputed by the Committee and resultantly were not booked in the accounting system. The Committee would like to point that this issue was disclosed under Contingent Liability note. With respect to supplier statements', the point has been noted and appropriate action is being undertaken.

At period-end, the Committee was disputing the amount of €1,917, payable in respect of Warden services provided, and the settlement of €6,478 to an individual for services rendered. In the latter case, the service provider made his claim through the Court, against which a counter claim was filed by the Committee. In addition, the Committee is also involved in a court case instigated by a private limited company. None of these issues were disclosed in the Financial Statements.

On 15 December 2011, the Council unanimously agreed that services not approved by the Committee are to be borne by the respective Council. In this respect the amount due for Warden services is to be incurred

by the concerned Council. To this effect, before the commencement of the audit, the service provider issued the related credit note. The Committee has taken note on the other observation and shall be taking the appropriate action.

Both offers submitted for the ‘Lease of Premises as Administrative Offices’ did not have a valid permit for the premises to be used as offices, as well as a permit that the premises are accessible in terms of the ‘Accessible for All’ Guidelines issued by the National Commission for Persons with a Disability.

The Committee has not yet entered into a rental agreement with the chosen bidder, however it will ensure that all the premises’ permits will be compliant prior to the signing of the agreement.

Assets falling under the responsibility of the Regional Committee are not covered by an insurance policy.

Point noted and the necessary action will be taken.

Southern Regional Committee

A call for tender for the provision of Warden services was issued and adjudicated. During the selection process one of the bidders was disqualified on the basis that he did not meet the minimum operating criteria. Since then, the bidder referred the case to the Court for reconsideration and this postponed the adjudication of the tender and commencement of the contract. Consequently, the Committee continued to use the same services as contracted by the superseded Joint Committee as advised by DLG.

The point raised by the Auditors was being looked into and has been discussed several times, as per meetings’ minutes numbers 28 and 30 in relation to meetings held in April and June 2012 respectively. In line with the decision agreed during the 30th Regional Committee meeting held on 15 June 2012, a new contract for the provision of Local Warden Services was signed on 28 August 2012, as per tender RN/01/10, together with a supplementary agreement that caters for every eventuality. The decision of the Court was still pending when this reply was submitted.

From the testing carried out, it transpired that a contract with the service provider for the provision of the LES software system is not in place.

Up till the submission of this reply, the Committee was still without a formal contract with the supplier. Attention of the respective authorities was drawn to the matter and the Committee was informed that a new contract has been drafted and sent to all Regional Committees for review and comments. However, discussions between the authorities have now reached a stalemate and all Regions have been left in the dark about the issue.

The Committee is making use of a standard receipt book without the emblem or name of the Committee. Upon further enquiry, the Committee explained that it is still waiting for the approval of the proposed emblem by DLG.

Up till the submission of its reply to the Management Letter, this Region was still using the standard receipt books which have a sequence number, and a standard stamp with the name and address of the Region, but no emblem. Approval for the use of said emblem has not yet been granted by DLG. At this stage, the Committee feels that it would make more sense to print new receipt books when the emblem has been officially approved.

As per report generated from the current system, paid contraventions remitted by all Local Councils and LCA during the period under review amounted to €84,583. However, only €78,294 has been actually transferred to the Committee’s bank account. No explanation was provided in respect of the resulting difference of €6,289.

Considerable timing differences were noted in the reports issued from the system’s software, and the related income. These differences are arising because the software system does not record contraventions as soon as they are issued. These are only reflected in the system once inputted by the Wardens or Police Officers. Since there can be a significant time gap between the contravention date and the input date, the reports will feature these differences until all contraventions are completely entered into the system.

Whilst agreeing with the comment passed by LGA, such reconciliation and variances are beyond the Committee’s control. It is important to point out that a number of reporting problems and variances with the LES software are being encountered, and the personnel in charge of the administration of this system is not in a position to provide explanations for such variances. Reports, including monetary figures, change within seconds from the moment they are requested/printed.

In spite of the fact that these concerns were drawn to the attention of the persons responsible for such system, to-date, such variances are still being encountered.

Included in the Committee's Creditors' List is an amount of €11,518 due to the Joint Committee. The balance relates to the payment of the Clerks' salaries, by the Joint Committee, on behalf of the Regional Committee. It is still uncertain whether this amount is to be refunded by the latter to the Joint Committee, and to date the Executive Secretary has been unable to confirm which party is to bear this expense.

Since the date of testing, a confirmation that the balance is not due to the Joint Committee was obtained. Hence during 2012, this balance will be reversed from Other Creditors and will be posted as Other Income.

Whilst reviewing the minutes of the Committee, it was noted that a number of members did not attend meetings regularly and on four occasions, the quorum necessary for the meeting was not reached.

The Committee insists that every member who fails to attend meetings, sends excuse letters to justify their absences. Such letters, which are kept regularly, were not requested by the Auditors during the audit fieldwork.

The Budget for the financial year 2012 was not prepared and consequently LGA could not verify that Capital Commitments have been accurately disclosed in the Financial Statements.

It is pertinent to note that way back in September 2011, during a meeting held with the then Parliamentary Secretary responsible for Regional Committees, all Committees were given instructions that for the time being there was no need to prepare a budget, considering that all Committees were still at their inception. However, for next year, the Regional Committee will do its utmost to prepare a budget in line with provision 56 of the Local Councils Act.

Gozo Regional Committee

LGA requested copies of annual Budgets in order to compare the actual expenditure with the budgeted amounts. However, the latter was informed that

Budgets have not been prepared. The reason being that since the Regional Committee does not have a fixed Central Government allocation fund, it is difficult to estimate the income that will be generated, mainly from the LES contraventions.

During a meeting held in December 2011, in the presence of Department officials, the Regional Committee's Secretaries were told that since the Regions are still being developed, at this stage no budget should be prepared and the focus should be to present proper Financial Statements on time.

Local Councils' Association

The following are the main weaknesses outlined in the Management Letter raised by LGA addressed to LCA:

The bonus paid during 2011 to two employees of the Association, in respect of the year 2010, which amounted to €3,686, was not included in the Payer's Annual Reconciliation Statement (FS7) of the Association, and in the Payee Statement of Earnings (FS3) of the respective employees. On the other hand, bonuses approved for 2011, amounting to €3,746, were included in the Annual FS7 and the monthly FS5 of the Association, despite that these were not yet paid by the end of the financial year. Consequently, gross salaries of €166,596 disclosed in the Annual Reconciliation Statement (FS7) did not tally to those recognised in the Payee Statement of Earnings (FS3s), Monthly Advice (FS5s) and the accounting records by €3,744, €60 and €233 respectively. These discrepancies were communicated to the Association and immediate action was taken to make the necessary amendments to the FSS forms already filed.

Computations are done using Excel. The errors noted by LGA, were all identified by the Executive Secretary and corrective measures were taken when the computations for January 2012 were carried out. The errors were not of material nature and did not have any material effect on the performance of the LCA.

Two Local Councils and three Regional Committees, who paid their contribution to the Association to join in the Group Money Insurance Policy, were not included in the list of Insured Premises noted under the Policy issued by the Insurance Agency for the year 2011.

Recommendation put forward by LGA is agreed to.

Joint Committees

As from 1 September 2011, the responsibility for the administration of LES was shifted on to the five Regional Committees. This brought by the cessation of the nine Joint Committees. However, by 31 December 2011, such Committees were not yet liquidated. Although these were expected to be wound up as soon as the one year following the set up of the Regional Committees elapses, NAO has no indication that such process officially commenced.

Financial Statements

As reported in previous years' reports, Joint Committees have been taking it easy to prepare and submit the related Financial Statements. Following various reminders sent by NAO, four Joint Committees, namely Birkirkara, Lvant, Żejtun and Gozo Joint Committees, submitted the respective Financial Statements covering up to 31 December 2011, during the current year. However, submission was still incomplete since the corresponding Management Letters were not sent, although these were requested.

Both the Central Joint Committee and the North Joint Committee failed to file the respective Financial Statements for the year ended 31 December 2011, with the latter not even submitting those covering the year ended 31 December 2010.

Once again these delays in submission, if at all, contributed to a significant number of qualified Audit Reports of Local Councils who are expected to be provided with the respective audited Financial Statements as per pooling agreement. Despite that such concern has been voiced by NAO in previous years, followed by various meetings held with the pertinent authorities responsible for Local Councils, the situation still prevailed.

Moreover, Fgura Joint Committee declared that it did not operate on a pooling system but on a Hybrid one, whereby income from fines was paid directly to the respective Council. It was also declared that the expenditure involved was also apportioned to a pre-established formula based on the number of processed fines. As stated by the then Chairman of the Joint Committee, such costs are paid directly by the

individual Councils. Since the respective Committee never has held or owned funds relating to its operation, it was not considered necessary to audit any accounts.

Meanwhile, Żurrieq and Valletta Joint Committees have in previous years declared that they do not prepare any Financial Statements at all.

Other Particular Concerns

Penalties imposed for Delayed Submission of Financial Statements

During the preceding period, NAO satisfactorily noted that DLG adopted a stricter stance and applied deductions in all the cases where statutory deadlines were not met. As indicated earlier in the report, such course of action was fruitful as a substantial number of Councils strived to meet the stipulated deadlines. However, unfortunately, cases were still encountered, during the year under review, whereby the required documentation was not filed in time.

DLG is encouraged to continue to take this approach, even in the event that Financial Statements are not up to the expected standard.

Performance Indicators (PIs)

As part of the Local Government Reform consultation process carried out during 2009, Performance Indicators (PIs) covering eight critical areas, namely environment, the road sector, education and culture, human resources management, equal opportunities, citizen participation, customer care and finance were identified. During the same year, the proposed PIs were then discussed with key stakeholders during a workshop organised by DLG, in collaboration with the Centre of Expertise for Local Government Reform from the Council of Europe. This was followed by planned task force meetings held by DLG to discuss the areas to be measured, the criteria to be adopted, as well as the interpretation of key definitions and terminology to be used in respect of these indicators. However, although substantial work had been carried out, this project was halted and to-date such PIs are not yet finalised.

These indicators are of particular importance in assisting Local Councils to monitor the actual level of performance and determine how they might become more efficient, effective and deliver more value for

money. Eventually, these would also enable NAO to carry out Value-for-Money Audits as requested by Local Councils Legislation.

Mid-term Audits

Whenever there is a change in the position of Executive Secretary within a particular Local Council, the Local Councils (Audit) Regulations state that a mid-term audit is required to be performed. This should serve as an independent handover exercise to the new incumbent. The responsibility for informing the Auditor General and the Director for Local Government when the Executive Secretary hands in his notice of termination of employment, or when the Local Council does not intend to renew his contract, is entrusted in the Mayor.

However, these regulations fail to address certain anomalies as listed hereunder;

- Whether such audit is to be carried out, before and/or after, in the case of relatively long absence of the Executive Secretary (ex. Maternity leave) and an Acting officer is appointed.

- The minimum time span that an Executive Secretary should be in office, before a mid-term audit is conducted following his termination.
- The time frame within which the mid-term audit is to be carried out since at times Councils take too long to perform the respective audit with the consequence no benefits are derived.

During the period under review, a number of Local Councils changed their Executive Secretaries and thus, in terms of standing regulations were obliged to carry out a mid-term audit. **Appendix L** refers. However, only two Local Councils, namely Fgura and Mtarfa, adhered to legislation cited above and performed the required exercise.

Despite that this non-adherence is becoming common, the Department is not taking any stand *vis-à-vis* the respective Councils. This lenient approach, lessens the importance that the mid-term audit should be given.

Appendices

Appendix A – Financial Allocation

Table 1- Income received by Local Councils

Local Council	Government allocation 1 January – 31 December 2011	Other supplementary income received from Central Government	Other income generated by Local Councils	Total
	€	€	€	€
Attard	529,821	6,785	93,830	630,436
Balzan	244,888	2,578	13,460	260,926
Birgu	253,698 [^]	26,363	166,458	446,519
Birkirkara	1,089,450	66,089	357,040	1,512,579
Birżebbuġa	613,163	16,289	140,517	769,969
Bormla	406,207	-	102,319	508,526
Dingli	291,202	2,785	83,127	377,114
Fgura	503,170	9,752	139,274	652,196
Floriana	314,061	15,307	379,096	708,464
Fontana	130,312	16,815	9,153	156,280
Gudja	245,980	2,505	67,061	315,546
Gżira	463,130	11,950	79,408	554,488
Għajnsielem	290,442	20,267	34,581	345,290
Għarb	200,768	63,098	34,708	298,574
Għarghur	211,907	21,482	16,878	250,267
Għasri	155,431	465	3,703	159,599
Għaxaq	293,687	4,032	35,109	332,828
Hamrun	602,930	6,217	227,076	836,223
Iklin	215,250	8,925	44,340	268,515
Isla	256,585	42,360	71,273	370,218
Kalkara	227,794	20,000	42,576	290,370
Kerċem	231,857	13,380	64,317	309,554
Kirkop	180,863	46,065	104,704	331,632
Lija	226,314	19,948	12,333	258,595
Luqa	348,225	2,441	157,277	507,943
Marsa	458,539	44,818	99,416	602,773
Marsascula	676,106	68,628	201,040	945,774
Marsaxlokk	319,173	4,000	34,014	357,187
Mdina	178,355	18,901	56,730	253,986
Mellieħa	952,926	120,359	78,579	1,151,864
Mgarr	380,986 [^]	28,349	52,481	461,816
Mosta	973,959 [^]	-	52,421	1,026,380
Mqabba	237,569	17,934	32,788	288,291
Msida	439,177	4,371	211,808	655,356
Mtarfa	227,846 [^]	7,000	19,779	254,625
Munxar	205,962	15,099	9,689	230,750
Nadur	396,679	32,173	33,843	462,695
Naxxar	803,388	44,172	111,454	959,014
Paola	603,730	13,000	187,915	804,645
Pembroke	338,597	1,690	41,616	381,903

Appendix A – Financial Allocation *cont.*

Table 1- Income received by Local Councils

Local Council	Government allocation 1 January – 31 December 2011	Other supplementary income received from Central Government	Other income generated by Local Councils	Total
	€	€	€	€
Pietà	264,596	10,587	111,048	386,231
Qala	246,986	26,124	5,854	278,964
Qormi	976,375	46,653	409,750	1,432,778
Qrendi	305,562 [^]	6,133	30,559	342,254
Rabat (Malta)	930,583	1,499	65,845	997,927
Rabat (Gozo)	477,781	8,000	176,733	662,514
Safi	214,211	4,944	66,857	286,012
San Ġiljan	577,373	5,238	263,118	845,729
San Ġwann	640,931 [^]	6,897	73,362	721,190
San Lawrenz	141,622	67,628	40,533	249,783
San Pawl il-Bahar	1,171,557	67,570	384,988	1,624,115
Sannat	200,208	5,308	4,486	210,002
Santa Luċġja	285,533	5,852	32,004	323,389
Santa Venera	364,401	-	107,687	472,088
Sigġiewi	681,663	11,307	78,017	770,987
Sliema	917,471	7,138	262,976	1,187,585
Swieqi	490,338 [^]	82,999	70,304	643,641
Ta' Xbiex	191,536	2,771	81,420	275,727
Tarxien	437,611	4,463	40,663	482,737
Valletta	664,863	34,137	507,978	1,206,978
Xaghra	442,003	82,444	18,846	543,293
Xewkija	306,570	9,129	8,086	323,785
Xgħajra	161,218	20,000	12,768	193,986
Żabbar	721,172	21,326	153,103	895,601
Żebbuġ (Malta)	699,788	7,876	152,155	859,819
Żebbuġ (Gozo)	395,920	58,181	8,403	462,504
Żejtun	721,318	105,355	132,030	958,703
Żurrieq	660,683	27,140	128,086	815,909
Total	30,010,000	1,603,091	7,130,850	38,743,941

[^] - Government Allocation as recoded in the Financial Statements differs from that disclosed in above table due to the fact that, as explained in the 'Areas of Concern' under the heading of 'Accounting', certain fees charged, such as Bring-In-Sites and e-Government fees, were netted off from the Government Allocation rather than recognised as expenses.

Source: - 'Government Allocation' – as per report provided by DLG.

'Other supplementary income received from Central Government' and 'Other income generated from Local Councils' – as disclosed in the audited Financial Statements.

Since instances were encountered whereby income was incorrectly classified under the wrong category in the Financial Statements, amounts disclosed in the table above might not reconcile to that recognised in the Financial Statements.

'Other income generated from Local Councils' includes also financial income, such as interest earned on bank balances.

Appendix A – Financial Allocation *cont.*

Table 2 – Income received by Regional Committees

Regional Committee	Government allocation	Other supplementary income received from Central Government	Other income generated by Regional Committees	Total
	€	€	€	€
Northern	23,924*	-	101,057	124,981
Central	37,924	-	843,070▪	880,994
South Eastern	38,924^	-	149,954	188,878
Southern	37,924	-	343,863	381,787
Gozo	37,924	-	76,528	114,452
Total	176,620	-	1,514,472	1,691,092

* In the Councils' Financial Statements these are recognised as 'Grants'.

▪ Amount has been taken from the unaudited Financial Statements.

^ In the Financial Statements of the respective Region, only €35,742 was disclosed as received from Central Government.

Source: - Government Allocation disclosed in the above table is in line with the information provided by DLG.

Appendix B – Reports that were either Qualified with an ‘except for’ Audit Opinion or highlighting an ‘emphasis of matter’

Column 1 indicates the localities wherein, included in the Financial Statements, is LES income received during the year under review, from the respective Joint Committee. LGAs were unable to determine the amount of additional income that the Council is entitled to receive since the audited Financial Statements of the Joint Committee for the year ended 31 December 2011 were not yet available. Furthermore, there were no alternative acceptable audit procedures that LGAs could perform to obtain reasonable assurance on the completeness of the share of income or expenses that was recorded in the Financial Statements.

Column 2 shows the Councils where the Financial Statements for the year under review were not prepared in their entirety in accordance with IFRSs, mostly since disclosure requirements were not adhered to. Very often such disclosures related to the requirements of IAS 1 – Presentation of Financial Statements, IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors, IAS 20 – Accounting for Government Grants and Disclosure of Government Assistance, IAS 24 – Related Party Disclosures and IFRS 7 – Financial Instruments.

Column 3 highlights the Councils where other specific issues on an individual basis were encountered.

Column 4 illustrates the localities where the Going Concern assumption, used in the preparation of the Financial Statements, is dependent on further sources of funds other than the annual financial allocation by Central Government, on the collection of debts due to the Councils, and on the continued support of the latter’s creditors. Any adverse change in either of these assumptions would hinder the Council in meeting its financial obligations as they fall due, without curtailing its future commitments.

Local Council*/ Regional Committee	Column 1	Column 2	Column 3	Column 4	
				‘Except for’ audit opinion	Emphasis of matter
Attard	X	X			X
Balzan	X	X			
Birgu		X	X	X	
Birkirkara	X	X	X		X
Birżebbuġa		X	X		X
Bormla		X	X	X	
Dingli	X	X	X		X
Fgura		X	X		
Floriana		X	X		
Fontana			X		
Gudja	X	X			
Gżira	X				
Għajnsielem		X			
Għarghur	X	X			
Għaxaq	X	X			
Hamrun		X	X		
Iklin	X	X	X		
Isla		X	X		X
Kalkara		X	X	X	
Kerċem			X		
Kirkop		X	X		X
Lija	X	X	X		X
Luqa			X		
Marsa		X	X		
Marsascalea		X	X		

Appendix B – Reports either Qualified with an ‘except for’ Audit Opinion or highlighting an ‘emphasis of matter’ *cont.*

Local Council*/Regional Committee	Column 1	Column 2	Column 3	Column 4	
				‘Except for’ audit opinion	Emphasis of matter
Marsaxlokk	X	X	X		
Mdina	X	X	X		X
Mellicha	X				
Mgarr	X	X	X		
Mqabba		X	X		
Msida		X	X		
Mtarfa	X	X	X		
Nadur			X	X	
Naxxar	X	X			
Paola	X	X	X	X	
Pembroke	X	X	X		X
Pietà			X		
Qala		X	X		
Qormi		X	X		
Qrendi		X	X		
Rabat (Malta)	X	X	X	X	
Rabat (Gozo)		X	X		X
Safi		X	X		
San Ġiljan	X		X		
San Ġwann	X	X	X		X
San Lawrenz		X			
San Pawl il-Baħar	X	X	X		
Sannat			X		
Santa Luċija	X	X	X		
Santa Venera	X	X			
Sigġiewi		X	X		
Sliema	X	X			
Swieqi	X		X		
Ta’ Xbiex	X	X			
Tarxien	X	X	X		
Valletta		X	X	X	
Xgħajra		X	X		
Żabbar		X	X		
Żebbuġ (Malta)		X	X		X
Żejtun	X	X	X		
Żurrieq		X	X		
Northern Regional Committee		X	X	X	
South Eastern Regional Committee		X	X	X	
Southern Regional Committee			X		
Gozo Regional Committee		X	X		

*Since no opinion was provided for Mosta, this has not been included in the table above.

Appendix C – Delayed Submission of Audit Reports on Financial Statements

Date when the Audited Financial Statements of Local Councils/Regional Committees were submitted			
14 May 2012 (almost fortnight after the deadline)	5 June 2012 (more than a month after the deadline)	Mid-September 2012	1 October 2012
Dingli	Birgu	Żebbuġ (Malta)	Southern Regional Committee
Kalkara		Northern Regional Committee	
Mdina			
Mosta			
Mqabba			
Paola			
Qala			
Rabat (Gozo)			
San Lawrenz			
Xaghra			
Xewkija			

The list does not include the Local Councils/Regional Committees that have submitted the Audited Financial Statements by the deadline, *i.e.* 2 May 2012.

Appendix D- Payments incurred with respect to Public Private Partnership Scheme

Maltese Local Council	Amounts advanced by Government – 30% of tender value			Amounts forked out by the Council - 70% of tender value €
	Amounts already paid €	Balances still to be paid €	Total amount €	
Attard	21,933.40	69,324.47	91,257.87	212,935.03
Birgu	-	51,112.55	51,112.55	119,262.62
Birkirkara	483,554.25	-	483,554.25 ^o	483,554.25
Birżebbuġa	83,790.29	169,362.29	253,152.58	590,689.35
Dingli	85,350.05	-	85,350.05	199,150.12
Fgura	18,303.94	36,607.85	54,911.79	128,127.51
Gżira	12,548.97	25,097.95	37,646.92	87,842.81
Gharghur	106,114.14	22,301.66	128,415.80	299,636.87
Ghaxaq	60,417.56	142,135.12	202,552.68	472,622.92
Isla	25,414.17	69,128.31	94,542.48*	192,599.12
Iklin	7,447.60	14,895.19	22,342.79	52,133.18
Lija	58,740.24	29,370.13	88,110.37	205,590.86
Luqa	26,716.36	53,432.73	80,149.09	187,014.54
Marsa	44,620.00	22,310.23	66,930.23	156,170.54
Mellieħa	71,858.01	143,716.02	215,574.03	503,006.07
Mgarr	49,118.21	40,786.66	89,904.87	209,778.03
Mosta	43,050.36	86,100.72	129,151.08	301,352.52
Msida	28,780.06	12,181.60	40,961.66	95,577.21
Paola	-	78,202.50	78,202.50	182,472.50
Pietà	84,882.50	169,765.00	254,647.50	594,177.50
Qrendi	34,717.97	69,435.64	104,153.61	243,025.09
Rabat (Malta)	40,000.00	6,745.73	46,745.73	109,073.37
San Ġiljan	58,944.68	78,980.74	137,925.42	321,825.98
San Pawl il-Baħar	188,662.79	257,024.33	445,687.12	1,039,936.61
Santa Luċija	41,526.45	41,526.45	83,052.90	193,790.10
Santa Venera	28,298.93	77,463.94	105,762.87	246,780.03
Sigġiewi	15,636.90	31,273.80	46,910.70	109,458.30
Tarxien	44,699.88	89,399.75	134,099.63	312,899.14
Valletta	41,321.58	82,643.16	123,964.74	289,251.06
Żabbar	-	33,657.75	33,657.75	78,534.75
Żebbuġ (Malta)	339,405.10	401,300.42	740,705.52*	794,979.55
Żejtun	-	182,626.92	182,626.92	426,129.48
Żurrieq	112,883.69	207,926.62	320,810.31^	646,076.50
Total	2,258,738.08	2,795,836.23	5,054,574.31	10,085,453.51

^o Birkirkara – Commitment by Government was revised from 30% to 50%. Thus, the amount that the Council is to fork out represents only 50% of the total value.

* Isla – The total estimated cost (€12,000), in respect of works carried out at ‘*Triq Kappillan Franġisk Azzopardi*’ was 100% provided by Government.

* Żebbuġ (Malta) - The estimated cost of re-surfacing works at ‘*Vjal il-Helsien*’ amounting to €400,000 was fully borne by Central Government.

^ Żurrieq – Estimated cost for works carried out at ‘*Triq San Vincenz Schembri*’ (€43,920.38) were 100% paid by Central Government.

Appendix D- Payments incurred with respect to Public Private Partnership Scheme *cont.*

Gozitan Local Council	Amounts advanced by Government – 50% of tender value			Amounts forked out by the Council -50% of tender value €
	Amounts already paid €	Balances still to be paid €	Total amount €	
Fontana	-	27,692.81	27,692.81	27,692.81
Għarb	111,165.45	111,165.45	222,330.90	222,330.90
Kerċem	20,332.42	40,664.82	60,997.24	60,997.24
Munxar	-	260,219.93	260,219.93 [×]	80,073.31
Nadur [√]	80,710.70	40,355.35	121,066.05	282,487.45
Rabat (Gozo)	45,934.85	45,934.86	91,869.71	91,869.70
Sannat	-	12,004.82	12,004.82	12,004.82
Xagħra	51,065.93	102,131.85	153,197.78	153,197.78
Xewkija	90,423.75	142,205.25	232,629.00	232,629.00
Żebbuġ (Gozo)	-	80,939.20	80,939.20	80,939.20
Total	399,633.10	863,314.34	1,262,947.44	1,244,222.21

[×] Munxar – Commitment of €240,219.93 represents 75% of the total estimated cost. Since this Council is one of the smallest, mostly made up of rural area and thus does not qualify for a high Government Allocation on road maintenance, it was felt that the project in the Parish Square, with an estimated cost of €20,000, be fully financed by Government.

[√] Nadur - In this case, the amount advanced by Government amounted to 30% of the tender value.

Summary	Amounts advanced by Government			Amounts which are to be forked out by the Council €
	Amounts already paid €	Balances still to be paid €	Total amount €	
Maltese Councils	2,258,738.08	2,795,836.23	5,054,574.31	10,085,453.51
Gozitan Councils	399,633.10	863,314.34	1,262,947.44	1,244,222.21
Total	2,658,371.18	3,659,150.57	6,317,521.75	11,329,675.72

Source: - The data as disclosed in the tables above was fully provided by DLG on 3 September 2012.

Appendix E – Amounts in Dispute

Local Council	Total amount in dispute given that invoices are higher than the actual allocation	Other amounts in dispute prior to 2010
	€	€
Attard	44,650	-
Balzan	14,002	-
Birżebbuġa	38,136	-
Birgu	8,052	-
Birkirkara^	241,911	-
Bormla	15,303	-
Dingli	13,607	-
Fgura	45,191	-
Floriana	4,677	1,199
Fontana	1,911	-
Gudja	1,468	-
Gżira	24,442	-
Għajnsielem	9,804	-
Għargħur	6,600	-
Għaxaq	21,110	-
Hamrun	19,168	-
Iklin	14,485	-
Isla	6,122	500
Kalkara	10,998	5,955
Kerċem	6,024	2,701
Kirkop	16,286	-
Lija	11,941	-
Luqa	25,997	-
Marsascala	32,350	-
Mellieħa	24,138	-
Mdina	317	-
Mġarr	13,018	-
Mqabba	12,813	-
Msida	13,521	-
Mtarfa	9,125	-
Munxar	3,496	-
Nadur	11,546	1,446
Naxxar	47,836	871
Pembroke	10,028	-
Pietà	14,789	-
Qala	4,704	-
Qormi	61,950	-
Qrendi	943	-
Rabat (Malta)	38,320	-
Rabat (Gozo)	20,764	6,534
Safi	10,062	-
San Ġiljan	17,032	-

Appendix E – Amounts in Dispute *cont.*

Local Council	Total amount in dispute given that invoices are higher than the actual allocation	Other amounts in dispute prior to 2010
	€	€
San Ġwann	27,283	-
San Pawl il-Baħar	25,719	-
Santa Luċija	11,411	-
Santa Venera	17,269	-
Siġġiewi	34,246	-
Sliema	2,582	-
Swieqi	25,140	-
Ta' Xbiex	9,450	-
Tarxien	26,952	593
Valletta	49,679	
Xaħhra	12,957	-
Xewkija	11,656	-
Xgħajra	2,836	-
Żabbar	47,099	2,632
Żebbuġ (Malta)	103,933	-
Żejtun	36,853	809
Żurrieq	38,665	-
Total	1,432,367	23,240

^ Birkirkara has not paid any tipping fees from August 2010 to December 2011. Allocation for tipping fees for 2011 was €109,342. The Council has however accounted for the full amount of invoices received.

As at 31 December 2011, Mosta Local Council had a backlog of payments in respect of WasteServ Malta Limited. The Council has the intention to settle part of such invoices, however it was difficult to identify the amount disputed at that stage.

Appendix F – Membership Fees paid either to Gal Xlokk or Majjistral Action Group

Local Council	Amount Paid* €	No of years Covered	Payment effected to	Details of Programme
Birzebbuga	7,000	2007 - 2015	Gal Xlokk	Leader Programme 2007 - 2013
Għaxaq	5,000	2011 - 2015	Gal Xlokk	Leader Programme 2007 - 2013
Kirkop	5,000	2011 - 2015	Gal Xlokk	Leader Programme 2007 – 2013
Lija	2,000	1 July 2010 – 30 June 2013	Majjistral Action Group	Rural Development Programme 2007 - 2013
Marsaxlokk	5,000	2011 - 2015	Gal Xlokk	Leader Programme 2007 - 2013
Mdina	2,000	1 July 2010 – 30 June 2013	Majjistral Action Group	Rural Development Programme 2007 - 2013
Mgarr	1,000	July 2010 – June 2013	Majjistral Action Group	Rural Development Programme 2007 – 2013
Qormi	11,000	Info not provided by the Council	Gal Xlokk	Leader Programme 2007 - 2013
Qrendi	5,000	2011 - 2015	Gal Xlokk	Leader Programme 2007 - 2013
Rabat (Malta)	3,600	2010 - 2013	Majjistral Action Group	Rural Development Programme 2007 - 2013
Safi	5,000	2011 - 2015	Gal Xlokk	Leader Programme 2007 – 2013
San Ġwann	3,600	2007 - 2013	Majjistral Action Group	Leader Programme 2007 - 2013
San Pawl il-Baħar	4,400	1 July 2007 – 30 June 2013	Majjistral Action Group	Rural Development Programme 2007 - 2013
Siggiewi	2,800	2011 - 2013	Majjistral Action Group	Majjistral Action Group 2007 - 2013
Żabbar	9,000	2011 - 2015	Gal Xlokk	Leader Programme 2007 - 2013
Żurrieq	9,000	2011 - 2015	Gal Xlokk	Leader Programme 2007 – 2013
Total	80,400			

* This represents the gross amount paid, before adjusting for any pre-paid balances.

Appendix G – Assets falling under the Council’s responsibility not properly insured

Local Council	Fixed Asset	Cost as per Financial Statements €	Amount insured €
Balzan	Electronic equipment	9,382	5,867
Birgu	Council’s premises and contents	-	95,000
	Furniture, fittings & plant & equipment	33,453	25,800
	Property in the open	-	11,500
	Urban improvements	447,269	-
	Office & computer equipment	36,760	-
Birkirkara	Building of standard construction including fire fighting equipment and air conditioners	Leased	2,329,373
	Child care centre	114,369	Nil
	Fixtures & fittings	50,089	39,843
	Office equipment	63,948	34,941
Birzebbuga	Fixtures & fittings	123,954	92,500
	Plant & machinery		
Bormla	Premises contents	-	174,703
	Furniture & fittings	60,441	
	Furniture	-	23,300
	Office equipment	26,635	23,300
	Street furniture/Urban improvements	119,395	16,252
	Electronic equipment	-	-
	Plant & machinery	5,408	-
Dingli	Construction & premises	1,291,678	112,563
	Urban improvements	126,230	116,468
	Equipment	48,188	161,952
	Furniture & fittings	65,827	
	Plant & machinery	8,973	
	Motor vehicles	12,113	10,239
Floriana	Office furniture & fittings	48,714	6,988
	Office equipment	36,991	2,637
	Computer equipment	9,024	-
	Urban improvements	404,168	15,681
Fgura	Council’s property	676,402	564,173
	Furniture, office equipment & plant & machinery	73,942	44,672
	Urban improvements	335,560	22,000

Appendix G – Assets falling under the Council’s responsibility not properly insured *cont.*

Local Council	Fixed Asset	Cost as per Financial Statements €	Amount insured €
Gżira	Property	179,001	316,684
	Office furniture & fittings	64,976	73,953
Għargħur	Land & buildings	107,992	121,400
	Office furniture	28,655	15,230
	Office equipment	17,782	24,083
	Plant & machinery	31,062	32,200
	Urban improvements	108,791	-
Għaxaq	Property and trade contents	87,724	112,277
	Electronic equipment	16,396	7,000
Hamrun	Electronic equipment	45,049	66,951
	Council premises	1,686,270	1,029,476
Iklin	Fixtures, fittings & furniture	22,992	11,172
	Plant & machinery & electronic equipment	26,161	5,000
	Trade contents consisting of property in open	-	2,330
	Fixed glass	-	582
Isla	Property	√	163,200
	Football ground equipment	58,836	29,987
	Furniture & fittings & equipment	98,157	32,220
	Property in the open re signage boards	-	1,415
	Urban improvements	145,735	-
Kalkara	Buildings	-	25,600
	Trade contents	-	14,000
	Office & computer equipment	18,861	-
	Plant & machinery	2,998	-
	Furniture & fixtures	20,852	-
	Urban improvements	243,247	-
Kirkop	Office furniture & fittings	44,479	10,000
	Plant & Machinery		
	Council building including day centre and akkademja	161,175	27,952
Lija	Fixtures & fittings	16,849	8,684
	Electronic equipment	36,288	4,490
Luqa	Electronic equipment	13,864	3,875

√ Council does not own its premises.

Appendix G – Assets falling under the Council’s responsibility not properly insured *cont.*

Local Council	Fixed Asset	Cost as per Financial Statements €	Amount insured €
Marsa	Fixtures & fittings	18,450	15,000
	Plant & machinery	389	
	Computer & office equipment	19,544	21,000
	Property in the open	528,221	57,302*
	Property	^	19,000
Marsascalea	Furniture & fittings	15,373	15,000
	Equipment	18,507	9,904
	Plant & machinery	2,412	-
Marsaxlokk	Office furniture & fixtures & plant & machinery	29,516	65,500
	Office & computer equipment	44,424	22,595
	Urban improvements & construction	899,525	81,500
Mdina	Construction	99,042	232,937
	Urban improvements	205,804	46,284
	Office furniture & fittings	25,783	16,800
	Office equipment	7,027	2,329
	Plant & machinery	3,590	-
	Computer equipment	5,721	-
Mellieħa	Land	338,425	244,584
	Building	-	97,175
	Furniture & fittings	52,729	36,800
	Equipment	30,995	7,060
Mġarr	Council’s premises & contents	398,457	444,700
	Furniture & office equipment	62,900	30,792
	Computer equipment	21,289	-
	Property in the open	-	66,600
	Plant & machinery	6,747	-
Mosta	Electronic equipment	122,509	18,500
	Furniture & Fittings	155,179	-
	Urban improvements	365,689	-
	Plant & machinery	52,543	-
Mqabba	Contents in property	35,225	6,988
	Electronic equipment	8,859	10,607

* It is not clear what this actually covers.

^ Council has just started the process to build its premises

Appendix G – Assets falling under the Council’s responsibility not properly insured *cont.*

Local Council	Fixed Asset	Cost as per Financial Statements €	Amount insured €
Msida	Buildings	465,835	380,200
	Furniture & fittings	67,833	27,952
	Street furniture	50,440	20,000
	Urban improvements	170,727	65,000
Mtarfa	Premises and contents fixtures & fittings	-	100,000
	Furniture & Office equipment	52,127	20,000
	Public convenience	-	12,000
	Urban improvements/ street furniture	248,075	64,323
	Christmas decorations	-	7,300
	Plant & machinery	2,399	-
	Computer equipment	7,124	-
Naxxar	Urban improvements	2,970,485	-
	Council premises	23,296	70,000
	Furniture & fittings, equipment & machinery	143,196	79,000
Pembroke	Property	√	70,000
	Furniture & fittings	25,998	28,601
	Plant & machinery	7,636	-
	Property in the open	325,219	81,000*
Pietà	Buildings including furniture & fittings	142,331	140,000
	Trade furniture, fixtures & fittings including office equipment and plant and machinery	91,131	35,000
Qormi	Property	532,368	595,040
	Office furniture, fixtures & fittings & all other contents of the insured property	106,718	83,273
	Plant & machinery	121,278	53,030
Qrendi	Buildings	127,998	23,766
	Office contents and electronic equipment	58,370	20,765
Rabat (Malta)	Council’s premises & contents	272,535	210,000
	Furniture & fittings, plant & machinery	42,114	20,000
	Fixed glass	-	1,200
	Office equipment	45,116	-
	Electronic equipment	34,133	32,268

√ Council does not have its own premises.

* Whilst it is not clear what ‘Property in the open’ actually covers, the Council had Urban Improvements amounting to €325,219.

Appendix G – Assets falling under the Council’s responsibility not properly insured *cont.*

Local Council	Fixed Asset	Cost as per Financial Statements €	Amount insured €
Safi	Buildings	253,458	228,278
	Office furniture, fittings, equipment, plant & machinery	86,920	30,281
San Ġiljan	Buildings, fixtures, fittings and electronic equipment	287,144	264,142
San Ġwann	Furniture, fixtures & fittings	39,547	25,000
	Computer & office equipment	35,619	32,383
	Photovoltaic system	15,272	17,000
	Building	246,865	174,703
	Street furniture	136,595	76,518
San Pawl il-Baħar	Urban improvements	988,657	132,254
	Council premises	720,645	1,244,505
	Furniture & equipment	168,590	46,587
Santa Luċija	Agricultural equipment	45,451	26,750
	Property in the open	170,246	90,000
	Electronic equipment	33,168	22,049
Santa Venera	Furniture, fixtures & fittings	31,298	25,735
	Computer & office equipment	34,329	21,448
	Plant & machinery	2,963	-
Siġġiewi	Photovoltaic system	12,970	13,000
	Fixtures, fittings, plant & machinery	19,313	35,940
	Electronic equipment	16,951	20,096
Sliema	Buildings	186,515	46,587
	Furniture, fixtures & fittings	43,774	26,083
	Computer & electronic equipment	28,591	23,689
Swieqi	Building	*	58,235
	Office & electronic equipment	23,815	16,188
	Furniture & Fittings	18,848	12,870
Ta' Xbiex	Buildings	165,125	170,000
	Fixtures, fittings, plant & machinery	33,909	22,153
Tarxien	Land & buildings	156,118	82,000
	Furniture & fittings	20,979	18,000
	Equipment	27,367	5,000
	Urban improvements	51,808	100,000

* Council’s building is rented.

Appendix G – Assets falling under the Council’s responsibility not properly insured *cont.*

Local Council	Fixed Asset	Cost as per Financial Statements €	Amount insured €
Valletta	Urban Improvements	868,883	88,982
	Office furniture & fittings	37,444	7,687
	Plant, machinery & equipment	36,973	30,398
Żabbar	Urban Improvements	95,067	11,647
	Furniture & fittings, office equipment & machinery	110,197	69,786
Żebbuġ (Malta)	Property	-	40,629
	Office furniture, fittings and equipment	18,769	12,812
	Electronic equipment	21,996	7,943
	Bus shelters and street furniture	394,244	42,794
Żejtun	Property	234,230	360,000
	Plant & machinery	4,395	-
	Office equipment, furniture & fittings	93,409	91,647
Żurrieq	Furniture, fixtures & office equipment	66,972	52,000
	Property	209,456	725,000
	Property in the open	43,983	22,500

The amounts disclosed in the above Table have been quoted by the respective LGA.

Appendix H – Expenditure in respect of which a proper Fiscal Receipt was not provided for Audit Purposes

Local Council/ Regional Committee	Amount €	Councils' reply
Birgu	11,244	A more vigilant approach with suppliers and contractors was adopted by the Council in respect of collecting the VAT receipts.
Bormla	20,806	The Council always asks in writing for the fiscal receipts with every Payment Voucher issued.
Dingli	5,222	The Council always asks for fiscal receipts and will continue to do so whenever this is required.
Fgura	807	The respective receipt was received by the Council on 12 January 2012.
Floriana	11,323	The Council has consistently requested such fiscal documentation from its suppliers, but unfortunately not all suppliers provide such document. Warnings have also been issued to defaulters who are also reported for such shortcoming to the VAT Department.
Gudja	2,464	The Council is insisting for VAT receipts and has warned the suppliers of the importance to comply or else their contract will be terminated.
Għarb	44,985	Point not addressed.
Għargħur	2,659	As noted by LGA, the Council consistently and actively follows the provision of fiscal receipts from suppliers of goods and services. Unfortunately, some still fail to comply. In such remote instances, the Council will refrain from dealing any further with these defaulting suppliers. Lately it has been agreed that payment will only be issued by the Council once a fiscal receipt is provided on the date of payment.
Għasri	6,825	Suppliers who have failed from issuing a fiscal receipt were contacted to provide such receipt.
Isla	968	Fiscal receipt referred to is in hand.
Kalkara	5,872	Recommendation noted and the Council will be taking the necessary actions.
Kirkop	2,969	The Council has asked for the VAT receipt but this was never provided.
Luqa	109,857*	Letters were sent to the respective suppliers but these still did not comply.
Marsascula	55,055	The Council goes an extra mile to ensure that a tax invoice and VAT receipt are provided. The importance of VAT receipt is also stressed in the purchase order given. The Council also started to request certain individuals with no VAT number to fill up necessary form in line with LN 254 of 2010.
Marsaxlokk	4,701	The Council always requests tax invoices and VAT receipts from all suppliers. However, it is not the Council's responsibility to ensure that suppliers are in conformance with the VAT regulations. The most that the Council can do is not to contract suppliers who refuse to submit a VAT receipt.
Mdina	13,435	It is the Council's practice to ask for proper invoices and VAT receipts for all purchases and all efforts are made to obtain such documentations and include them with the respective Payment Vouchers.
Mgarr	4,267	VAT receipts are being requested from all, and where VAT is not applicable, exemption forms are requested.
Mosta	57,959	The Council would like to point out that it has had an endemic problem of short staffing which has hampered the efficiency and efficacy of the Council's administration. Steps have been taken to increase the staff complement.

Appendix H – Expenditure in respect of which a proper Fiscal Receipt was not provided for Audit Purposes *cont.*

Local Council/ Regional Committee	Amount €	Councils' reply
Mqabba	3,475	The service provider is exempt from VAT registration as per LN 524/2010, and thus cannot provide the Council with a fiscal receipt.
Msida	37,063	The Council shall endeavour to pay suppliers only if their invoice is correct and contains the necessary details.
Mtarfa	10,746	Fiscal receipts are requested from all suppliers. A note requesting fiscal receipts is being printed on the Payment Vouchers, attached to cheques sent to suppliers. Defaulters are also followed up by phone. The Council shall ensure that fiscal receipts are received.
Nadur	2,714	The Council always chases suppliers for fiscal receipts.
Naxxar	6,447	The Council will continue to do all that is possible to ensure that all suppliers provide the necessary fiscal receipts. The Council will halt to procure from defaulters.
Paola	313,773	The Council is doing its utmost to control this irregularity and will continue to insist with its suppliers to provide the Council with fiscal receipts.
Pembroke	2,666	The Council will not continue to do business with those suppliers who fail to submit the required fiscal receipt.
Qala	13,048	On the Payment Voucher issued, the supplier is requested to issue a fiscal receipt upon payment.
Rabat (Malta)	43,782	The Council has consistently requested such fiscal documentation from its suppliers, but unfortunately not all suppliers provide such documents, on the basis that they are not obliged to register for VAT under the new regulations issued by Government.
Rabat (Gozo)	43,419	The Council always informs the suppliers to issue fiscal receipts and stamps all Payment Vouchers with wording saying 'Victoria Local Council – Please issue Fiscal Receipt'.
Safi	223	Point not addressed.
San Lawrenz	4,504	The Council is to do its utmost to abide with the financial regulations.
Santa Luċija	634	The service provider was contacted and he will be sending the respective receipts.
San Pawl il-Baħar	65,210	As per LN 524/2010 from the Department of VAT, the Council is not in a position to insist on fiscal receipts when the supplier falls under Article 11 of the VAT Act.
Siggiewi	8,203	The Council's payment advice slip states 'kindly note that you are obliged to forward a fiscal receipt in respect of the above payment. Failure to do so is in breach of the relevant legislation'. In some cases, it takes some time for the supplier to comply with this requirement.
Sliema	396	The Council has reason to believe that it has no control over this matter. It further believes that this matter should be taken up by DLG and reported to the respective Department accordingly.
Swieqi	11,794	It is the Council's practice to ask for proper invoices and VAT receipts for all purchases. All efforts are made to obtain such documentations and include them with the respective Payment Vouchers. This was also acknowledged in the auditor's report.
Valletta	13,888	The Council is chasing the suppliers to submit fiscal receipts and letter or e-mails will be sent to the suppliers in the event that no receipts are received. Throughout the period, the Council managed to reduce the number payments that are not supported by VAT receipts.

Appendix H – Expenditure in respect of which a proper Fiscal Receipt was not provided for Audit Purposes *cont.*

Local Council/ Regional Committee	Amount €	Councils' reply
Xagħra	26,667	Although the Council stipulates on the Payment Voucher that a VAT fiscal receipt is necessary, certain suppliers do not co-operate. The administration of the Council will continue to do its best to continue chasing suppliers for VAT receipts. Prior to ordering works, the Council tries to ensure that its suppliers are VAT registered. However, one has also to keep in mind that the Law allows self-employed to work without the VAT number in case that they do not exceed the turnover of €7,000.
Xgħajra	2,067	The Council asks every supplier to issue a VAT receipt and this can be seen in the payment slip attached with every payment. Every purchase/expense payment has its relevant documentation available which whenever the auditors queried they were provided with.
Żabbar	4,897	The Council has always ensured that payments will be made on receipt of invoice from the supplier and after verification from the architect. There could have been isolated cases, so the Council will continue to try its best to have all payments covered by a fiscal receipt.
Żebbuġ (Malta)	5,312	Two of the service providers are not registered for VAT. However, the Council will ensure that a tax invoice will be provided for the services/goods acquired during the year. The other supplier has provided the tax invoice.
Żejtun	9,524	The Council recognises the fact that despite the constant efforts to be provided with a fiscal VAT receipt from all its' suppliers, some still fail to adequately provide it. In addition to constantly chasing abusive suppliers, to minimise this issue as of 1 January 2011, Żejtun Local Council also included a disclaimer on the Payment Voucher aimed at suppliers exempted from providing a VAT receipt.
Żurrieq	2,224	Supplier has been contacted and copies of invoices with the required details will be made.
South Eastern Regional Committee	534	The Committee is not aware of any payments made that are not covered with an appropriate receipt or invoice. Throughout the year, the Committee took various measures to ensure a fiscal receipt is received in respect of all expenditure, including emphasis notes on the Payment Vouchers issued by Region, stressing that suppliers are legally bound to supply a VAT receipt.
Gozo Regional Committee	5,824	The only query regarding the matter raised during the audit exercise concerned a band march service [∞] . The auditor was presented by a copy of Memo showing that band march services are exempt from fiscal receipts.

* Luqa – In addition to the amount disclosed in the Table above, is another amount of €128,360 relating to works carried out during 2011, but which were paid during 2012, which were also not covered by a fiscal receipt. This particular service provider issues only 'Requests for payments'.

∞ As per LGA expenditure not supported by fiscal receipt related to two Public Companies.

Għaxaq – Payments made to the contractor responsible for the collection of domestic waste and emptying of skips were also not supported by a fiscal receipt. Since this shortcoming could not be quantified, the respective Council was not included in the above Table.

The list above is not exhaustive but includes solely those payments which were not properly covered by a fiscal receipt and that came to the attention of the Auditors during sample testing.

Appendix I – Inconsistency in Payroll Reconciliation*

Local Council / Regional Committee	Gross Personal Emoluments as per		
	Accounting records	Payer's Annual Reconciliation Statement (FS7)	Payer's Monthly Payment Advice (FS5s)
	€	€	€
Attard	97,848	97,329	97,329
Balzan	54,956	56,699	55,804
Dingli	59,087	59,757	60,769
Gżira	95,542	95,687	95,496
Għaxaq	55,461	54,618	54,638
Kerċem	61,030	57,846	57,839
Iklin	59,516	55,635	58,969
Kirkop	72,142	75,060	75,060
Luqa	80,186	80,226	79,780
Marsa	72,271	71,641	71,445
Marsaxlokk	72,682	71,963	-•
Mdina	52,724	50,939	51,157
Mġarr	66,964	63,420	63,830
Mqabba	65,946	67,810	65,246
Msida	93,316	93,119	91,476
Mosta	129,295	129,516	129,525
Mtarfa	48,379	48,085	48,087
Nadur	62,083	62,771	62,710
Paola	110,947	90,320	97,292
Pietà	60,986	61,078	60,205
Qrendi	68,634	64,875	68,988
Rabat (Gozo)	72,483	72,484	73,916
Safi	66,053	66,956	66,961
San Pawl il-Bahar	149,587	148,389	148,387
San Ġiljan	119,684	119,888	119,888
San Ġwann	117,191	116,083	116,125
San Lawrenz	47,697 [√]	51,448	51,451
Sannat	59,801	59,678	60,209
Santa Venera	60,567	58,649	58,649
Swieqi	82,537	81,169	81,169
Ta' Xbiex	74,878	74,794	74,087
Tarxien	68,546	69,342	68,545
Valletta	111,040	109,553	109,554
Xagħra	64,633 [√]	66,294	62,034
Xgħajra	58,605	59,737	58,605
Żebbuġ (Malta)	113,424	∞	110,162
Żebbuġ (Gozo)	70,518	70,218	69,030
Northern Regional Committee	18,806	18,826	17,919
South Eastern Regional Committee	39,013	39,013	36,595

* In certain instances, FSS and NI as disclosed in FS5, FS7 and accounting records also do not reconcile.

• No Gross amount for the month was disclosed in the FS5.

[√] Included in the respective figure is a refund from Mayor, in respect of overpaid honoraria, which was not included in the FSS forms.

∞ Document not provided.

Instances whereby the differences encountered added up to €60 or less were not included in the table above.

Source: - Figures as disclosed in the table above were in line with details provided by the respective LGA.

Appendix J – Management Letter Weaknesses

Local Council	1	2	3	4	5	6	7	8	9	10
Attard	X	X	X	X	X	X	X			X
Balzan	X	X	X	X	X	X	X	X	X	X
Birgu	X	X	X	X	X		X	X	X	X
Birkirkara	X	X	X	X	X	X	X	X	X	X
Birżebbuġa	X	X		X	X		X	X	X	X
Bormla	X	X	X	X	X	X	X		X	X
Dingli	X	X	X	X	X		X	X	X	X
Fgura	X	X	X	X	X	X	X		X	X
Floriana	X	X	X	X	X	X	X	X	X	X
Fontana	X	X	X	X	X	X	X			X
Gudja	X	X	X	X	X	X	X	X	X	X
Gzira	X	X	X	X	X		X	X	X	X
Għajnsielem	X	X	X	X	X	X	X			X
Għarb	X	X		X		X	X	X		X
Għarghur	X	X	X	X		X	X	X	X	X
Għasri	X	X	X	X	X		X		X	X
Għaxaq	X	X	X	X	X	X	X	X	X	X
Hamrun	X	X	X	X	X	X	X	X	X	X
Iklin	X	X	X	X	X		X	X	X	X
Isla	X	X	X	X	X	X		X		X
Kalkara	X	X	X	X	X	X	X	X	X	X
Kerċem	X	X		X	X	X	X	X		X
Kirkop	X	X	X	X	X	X	X	X	X	X
Lija	X	X	X	X	X	X	X	X	X	X
Luqa	X	X	X	X	X		X	X	X	X
Marsa	X	X	X	X	X	X		X		X
Marsascala	X	X	X	X	X	X	X	X	X	X
Marsaxlokk	X	X	X	X	X	X	X	X	X	X
Mdina	X	X	X	X	X	X	X	X	X	X
Mellieha	X	X	X	X					X	X
Mgarr	X	X	X	X	X	X	X	X	X	X
Mosta	X	X	X	X	X	X	X	X	X	X
Mqabba	X	X	X	X	X	X	X	X	X	X
Msida	X	X		X	X	X	X	X	X	X
Mtarfa	X	X	X	X	X	X	X	X	X	X
Munxar	X	X		X		X	X	X		X
Nadur	X	X		X	X	X	X	X	X	X
Naxxar	X	X	X	X	X	X	X	X	X	X
Paola	X	X	X	X	X	X	X	X	X	X
Pembroke	X	X	X	X	X		X	X	X	X
Pietà	X	X	X	X	X	X	X	X	X	X
Qala	X	X		X	X	X	X		X	X
Qormi	X	X		X	X		X	X		X
Qrendi	X	X	X	X	X		X	X	X	X
Rabat (Malta)	X	X	X	X	X		X	X	X	X

Appendix J – Management Letter Weaknesses *cont.*

Local Council	1	2	3	4	5	6	7	8	9	10
Rabat (Gozo)	X	X		X	X	X	X	X	X	X
Safi	X	X	X	X	X		X	X	X	X
San Ġiljan	X	X	X	X	X	X	X	X	X	X
San Ġwann	X	X	X	X	X	X	X	X	X	X
San Lawrenz	X	X	X	X	X	X	X	X	X	X
San Pawl il-Baħar	X	X	X	X	X		X	X	X	X
Sannat	X	X		X	X	X	X			X
Santa Luċija	X	X	X				X	X	X	X
Santa Venera	X	X	X	X	X	X	X	X	X	X
Sigġiewi	X	X	X	X	X	X	X	X	X	X
Sliema	X	X	X	X	X	X	X			X
Swieqi	X	X	X	X	X		X	X	X	X
Tarxien	X	X	X	X	X		X			X
Ta' Xbiex	X	X	X	X	X	X	X	X	X	X
Valetta	X	X	X	X	X	X	X	X	X	X
Xaghra	X	X	X	X	X	X	X	X	X	X
Xewkija	X	X	X	X	X	X	X	X		X
Xghajra	X	X	X	X	X		X	X	X	X
Żabbar	X	X	X	X	X	X	X	X	X	X
Żebbuġ (Malta)	X	X	X	X	X	X	X	X	X	X
Żebbuġ (Gozo)	X	X		X	X	X	X			X
Żejtun	X	X	X	X	X	X	X	X	X	X
Żurrieq	X	X	X	X	X	X	X	X	X	X
Regional Committees										
Northern		X	X	X	X		X	X	X	X
South Eastern	X	X	X	X	X		X	X		X
Southern		X	X	X			X	X	X	X
Gozo		X	X	X	X					X
Local Councils Association	X			X	X					

1. Property, Plant and Equipment
2. Accounting
3. Local Enforcement System
4. Procurement
5. Salaries
6. Receivables
7. Payables
8. Cash and Cash Equivalents
9. Invoices
10. Provisions outlined in the Subsidiary Legislation not complied with

Appendix K – Procurement not carried out in line with Pertinent Regulations

Table 1 – No public call for quotations was issued prior to procurement

Local Council/ Regional Committee	Amount €	Details	No. of quotations provided for audit purposes	Councils' reply
Attard	1,650.00	Music – Ceramics festival	-	The Council will try to follow all procurement and tendering regulations.
	2,242.00	Sound – Ceramics festival	-	
	1,638.00	Personal computers	-	
	4,291.17	CCTV for <i>Misrah Kola</i>	-	
Birkirkara	1,513.99	Photocopier lease	-	As soon as the contract for the services identified is brought to an end, the Council shall issue a call for quotations accordingly.
	1,168.10	Lease of van	-	
	2,119.75	Car hire	-	
Birżebbuġa	2,363.00	Cleaning of culverts	-	The Council has gone through all invoices issued by the service provider and no accumulated amount of invoices during any four consecutive months is in excess of €1,165.
Floriana	2,592.47	Insurance	-	The Council has already started the relevant procedures in order to be in line.
Gudja [^]	2,566.07	Maintenance of tiles	1	These were emergency works required for the proper upkeep of a playing field.
Kerċem	4,172.48	Works at <i>Triq Bir Riz</i>	3*	Point not addressed
Lija	1,730.00	Architect's fees	-	Quotation procedures will be followed according to pertinent regulations.
	2,971.00	Street lighting	-	
	3,073.00	Professional fees	-	
	1,392.00	Professional fees	-	
	1,973.00	Warden services	-	
	1,644.00	Plants & pots	-	
Luqa [^]	2,822.90	Architect services	-	Point not addressed.
Marsascalea	1,711.00	Catering services	-	No call for quotations was issued. However, the Council obtained three quotations and selected the cheapest offer.
Marsaxlokk	2,513.00	Removal of trailers	-	During 2012 measures have been taken so that such situations will not be repeated.
	2,510.00	Carnival activities	-	
	2,124.00	Fibre glass tank	-	
	1,463.00	Building material	-	
	3,819.00	Patching Works	-	

[^] In such cases, the Council had other items of expenditure that were not covered by a call for quotations. Such goods/services were not highlighted in the above table, simply because their cost did not exceed €1,165.

* No public call for quotations was issued. Quotes were obtained over the phone or through the internet. This is still not in line with procurement regulations as quotations have to be signed.

Appendix K – Procurement not carried out in line with Pertinent Regulations *cont.*

Table 1 – No public call for quotations was issued prior to procurement cont.

Local Council/ Regional Committee	Amount €	Details	No. of quotations provided for audit purposes	Councils' reply
Mdina	1,530.00	Cleaning services	-	The Council abides by the pertinent regulations, however there are circumstances where, due to the urgency and nature of the good/service required, a direct order is issued. In addition, most of the items identified by LGA are of a nature that cannot be quantified ahead and in many cases, items have to be purchased on the last minute.
	1,888.00	Hire of tables, stools <i>etc.</i>	-	
	1,976.00	Flowers and pots	-	
	2,555.00	Wiring of lanterns	1	
Mġarr	1,490.60	Catering services	-	The Council is issuing tenders and quotations on a very regular basis to be in line with the procedures and requirements.
Mqabba	1,259.46	Red deal wooden planks	-	Point not properly addressed.
	3,960.00	Cleaning of roads	-	Expense was higher than anticipated.
Mtarfa	3,115.00	World War II re-enactment	-	LGA's remarks were noted. In future, the requirement of the Local Councils (Tendering) Procedures will be followed.
	1,885.80	Provision of military vehicles and ammunition used during an activity organised by the Council.	-	
Munxar	1,759.00	Cold asphalt	2*	It must be noted that in Gozo there are only two contractors for the supply of cold asphalt. The contractor offering the cheapest rate was selected. The shortcoming that will be avoided in future is that quotes will be requested in writing. However, one must note that these were emergency repairs.
Paola	2,021.54	Operating materials	-	The amounts listed were in fact totals of a number of separate invoices, each within the limit stipulated in the purchasing procedures.
	3,850.00	Consultancy services	-	
	3,864.00	Curtains for hall	-	
	2,120.00	Air tickets	-	
	1,279.79	Christmas party hampers	-	
	1,805.73	Installation of flood lights	-	
Pietà	1,770.00	Air conditioners	-	The Local Councils Procedures will be strictly adhered to and calls for quotations will be published in the Government Gazette.
	1,843.10	Insurance policies	-	
	1,534.82	CCTV	-	
Qala	1,350.00	Musical services	-	Point not addressed.

* No public call for quotations was issued. Quotes were obtained over the phone or through the internet. This is still not in line with procurement regulations as quotations have to be signed.

Appendix K – Procurement not carried out in line with Pertinent Regulations *cont.*

Table 1 – No public call for quotations was issued prior to procurement cont.

Local Council/ Regional Committee	Amount €	Details	No. of quotations provided for audit purposes	Councils' reply
Qormi [^]	1,200.00	Special activity	-	Services are covered by official agreements.
	4,249.00	Solar lights	-	This procurement was covered under the project raised by the Youth's Council and approved by the Ministry of Youth, whereby quotations were raised.
	3,768.50	Air conditioners	-	This is an extension of the air conditioner supplied under official tender.
Rabat (Malta)	1,398.00	Grass cutting		Point not addressed
	1,597.00	Rubble wall & platform work		Such service was never requested.
Rabat (Gozo)	4,075.00	Flights	-	Quotations are always obtained.
	2,965.00	Accommodation	-	
Safi [^]	3,658.35	OGEM	-	These relate to payments which have been outstanding since 2010.
	1,219.51	Road markings	-	The Council is taking every precaution in order to satisfy the requirement for quotations requested by the Council.
San Ġwann	2,018.15	Contract fee	-	Point not addressed.
	2,004.03	Doggy bins & installation	-	
	1,729.50	Public convenience	-	
San Pawl	1,545.80	Sound hire	-	The Council has taken note of LGA's comments and recommendations.
	1,301.00	Hardware purchases	-	
	1,622.50	Handmade masks & ceramics	-	
	1,180.00	Rental of gazebo	-	
	3,500.00	Festa Hut 2011	-	
Siġġiewi	1,180.00	Furniture movers	At least three quotations were not obtained.	The amount exceeds threshold by a mere €15.
	1,782.00	Repair of benches		The cost was expected to be lower.
	2,158.00	Insurance premium		A contract was signed in 2005 through the quotations procedures. This contract was renewed on a yearly basis to retain the 'no claim bonus'. However, this year the Council will issue a new call, either through the quotations procedures or through the tender procedures.
	2,295.00	Benches & feast cover		The amount relates to two separate supplies. Thus, there was no need to obtain three quotations.

[^] In such case, the Council had other items of expenditure that were not covered by a call for quotations. Such goods/services were not highlighted in the above table, simply because their cost did not exceed €1,165.

Appendix K – Procurement not carried out in line with Pertinent Regulations *cont.*

Table 1 – No public call for quotations was issued prior to procurement cont.

Local Council/ Regional Committee	Amount €	Details	No. of quotations provided for audit purposes	Councils' reply
Tarxien	2,360.00	Malta International Folk Festival	-	The Council issues quotations for all purchases that are above €1,165.
Valetta	1,380.00	Drainage inspection	Quotations sought were not obtained through a public call	The Council will ensure compliance with the Local Councils (Tendering) Procedures. However, in some cases due to time restrictions, problems <i>vis-a-vis</i> availability, which limits the Council's options, are encountered.
Xaghra	1,947.00	Street signs	-	All necessary quotations will be issued as stipulated in the financial regulations.
	2,018.00	Concrete	-	
	1,404.00	Air tickets	-	
	2,327.00	Crossover cable & sound equipment	-	
Xghajra	2,875.00	Accommodation	-	Point noted, however this expenditure related to accommodation of a visiting twinning Council and thus the Council had to accept the only quote of accommodation in Marsascala which is the nearest to Xghajra and the most economically viable proposition. Furthermore, this expenditure is a part of a global sum which is reimbursable under the existing twinning agreement.
	2,484.00	Sundry materials and supplies	-	This expenditure was solely made for the supply of cement works and similar construction material which can only be supplied economically by a local batching plant which services the Council with small requests way below the minimum ordering quantities of other batching plants situated well away from the locality of Xghajra.
Żebbuġ (Malta)	2,758.00	Hotel accommodation regarding conference of the European Forum for Urban Safety	-	Quotations were in fact obtained.
	3,338.00	Music activity	-	This was a cultural initiative organised by the Council aimed at promoting local heritage with school children. The musician proposed setting a number of Dun Karm Psaila's best known poems to music, and publishing them as commemorative CD. This original project was being also co-sponsored by the Ministry of Education, <i>Kunsill Nazzjonali għall-Ilsien Malti, the Akkademja tal-Malti etc.</i> The Council decided to join this project by co-sponsoring it and then getting 600 CD at a discounted price, which were then distributed to children attending the local Primary School.

Appendix K – Procurement not carried out in line with Pertinent Regulations *cont.*

Table 1 – No public call for quotations was issued prior to procurement cont.

Local Council/ Regional Committee	Amount €	Details	No. of quotations provided for audit purposes	Councils' reply
Żejtun	2,295.00	Rental of billboard space	-	This relates to the rentals, artwork and printing of multiple billboards.
	1,992.00	Maintenance of computer networkings	-	This relates to urgent maintenance work which needed to be carried out without any delays at the Local Council Administration Offices. Failure to treat this matter with maximum urgency would have resulted in a chaotic disruption of the services offered to the general public.
South Eastern	1,545.00	Legal services	-	Point noted and action will be taken accordingly.

Certain anomalies were noted between the thresholds laid down in the Local Councils (Financial) Procedures 1996 and Local Councils Financial Regulations, whereby procurement is to be covered by a call for quotations. Whilst, the Local Councils (Financial) Procedures, 1996 stipulates that at least three official signed quotations are required for the purchases of value above €233 (Lm100) but not greater than €2,333 (Lm1,000), the Local Councils Financial Regulations specifies three official signed quotations are to be obtained prior to procurement of items exceeding €1,165(Lm500) but not exceeding €4,659 (Lm2,000), in which case a call for tender is then required.

The Table above includes only those instances, whereby procurement exceeding €1,165 was not covered by a call for quotations. The list is also not exhaustive as this includes only instances that were noted by the Auditors whilst carrying out sample-testing.

Appendix K – Procurement not carried out in line with Pertinent Regulations *cont.*

Table 2 – Goods/services of the same nature procured within a period of four consecutive months without issuing a public call for quotations

Local Council	Amount €	Details	Councils' reply
Balzan	784.00	Security services	Entered agreement with service provider on 1 September 2010.
	1,070.00	Repairs & maintenance	Noted
	1,319.00	Transport	Noted
	1,398.00	Stationery & office catering supplies	Noted
	2,214.00	Insurance coverage	Entered agreement with service provider up to 30 April 2014.
	3,002.00	Maintenance of public gardens	Together with Birkirkara Local Council entered into an agreement with ELC up to 1 February 2014.
Bormla	4,335.00	Accountancy services	A public call for quotation has been issued and will be adjudicated on 31 May 2012.
	1,899.00	Insurance cover	
	1,233.00	Computer equipment	A computer was urgently required in relation to work carried out by <i>Kunsill Lokali Żgħażaġh Bormla</i> after the latter was awarded a sum of €7,500. Thus, the Council had to either grab the opportunity to purchase a computer worth €1,233 for €308 (as 75% was paid from the acquired funds) or lose this opportunity and the related funds.
Birgu*	1,353.00	Railing	All comments have been noted. The Council would like to point out that for the majority of the instances mentioned, despite that a call for quotations was not issued, the Council acquired quotations from other suppliers. The Council will make sure to adopt further control.
	1,460.00	Candles	
	1,841.00	Capital expenditure	
	2,300.00	Social events – Birgufest	
	1,360.00	Printing services	
	2,243.00	Tent – Birgufest	
	1,200.00	Conference equipment rental	
Gudja	4,620.46	Stationery items	The Council has issued instructions to ensure that this stipulation is to be strictly observed.
	1,971.72	Road paint & markings	
Gharghur	1,363.00	Speed moderators	A quotation that is valid for 3 years was issued in 2009. Thus, the said procurement is still covered by a call for quotations.
Għaxaq	1,287.00	Sundry materials	The Council cannot issue a call for quotations for sundry materials as these are purchased <i>ad hoc</i> and vary from day to day.
	1,412.00	Paint for road markings	The Council shall in the future do its best to follow as far as possible the procedures and other memos.

*In certain cases, quotations have been directly gathered from particular suppliers.

Appendix K – Procurement not carried out in line with Pertinent Regulations *cont.*

Table 2 – Goods/services of the same nature procured within a period of four consecutive months without issuing a public call for quotations *cont.*

Local Council	Amount €	Details	Councils' reply
Kirkop	1,320.00	Zumba classes	These were courses of Zumba and dancing which were self-sustained as stated in the Council Meeting no. 30 and 36.
	1,649.00	Zumba classes	
Marsa	2,835.00	Repairs & maintenance	Services ranged from repairs in the public garden, digging of pot holes for feasts in roads and maintenance to football pitch. So to this end the Council followed the regulations.
Mosta	1,866.00	Stationery	The new Acting Executive Secretary is to ensure that all procedures relating to tenders and quotations are adhered to.
	1,751.00	Catering services	
	1,550.00	Cleaning of public conveniences	
Mqabba	978.00	Sundry materials	These are heavy materials that have to be transported. To save money these are transported on a wheelbarrow by IPSL workers.
	1,443.00	Office cleaning	Service is backed up by a tender that was issued by the Council.
	2,037.00	Website hosting	Service is backed up by a tender.
	2,104.00	Stationery and office supplies	The supplier was chosen as he honours delivery within one day.
	3,884.00	Works at gardens & playing fields	Service is backed up by a tender
	3,475.00	Cleaning of public convenience	A tender was issued by the Council.
Mtarfa	1,197.00	Cleaning services	Point noted.
San Pawl il-Bahar	3,500.00	Local organisation on account of social events	LGA's comments and recommendations were noted.
Santa Venera*	947.00	Cold asphalt	This concern was not addressed.
	1,409.00	Legal services	
	1,691.00	Sundry supplies & materials	
Siggiewi	1,657.00	Cleaning of Council premises	The amount was exceeded due the extra unforeseen work involved upon the transfer of the Council premises to temporary offices. A minimal refurbishment work had to be carried out in these offices.
	3,505.00	IT maintenance	Three quotations were obtained and the cheapest offer was chosen.
Valletta	1,611.00	Rental of hall	The Council will ensure compliance with the Local Councils Procedures. However, in some cases due to time restrictions, problems <i>vis-à-vis</i> availability that limits the existing options are encountered.
Żebbuġ (Malta)	2,000.00	Distribution of magazine	Point noted. The Council will abide accordingly.
	2,673.94	Stationery	

*In certain cases, quotations have been gathered from particular suppliers.

Appendix L – Change in Executive Secretary

Local Council	Office Term of the outgoing Secretary		Remarks
	From	To	
Balzan	01/01/1994	31/10/2011	
Dingli	31/05/2002	24/08/2011	
Fgura	27/09/2010	20/07/2011	Acting Executive Secretary
Fontana	01/01/2010	07/10/2011	
	10/10/2011	12/12/2011	
Għasri	01/06/1994	14/07/2011	
	15/04/2011	07/10/2011	Acting Executive Secretary
Iklin	15/02/2002	31/07/2011	
Lija	06/02/2008	31/07/2011	Then the same officer, is acting as 'Acting Executive Secretary'
Marsaxlokk	16/05/1995	31/08/2011	
	29/07/2011	31/08/2011	Deputy Executive Secretary
	01/09/2011	04/10/2011	Acting Executive Secretary
Mosta	01/06/2010	19/06/2011	Acting Executive Secretary
Mtarfa	27/07/2010	09/10/2011	Acting Executive Secretary
Pietà	13/11/2007	31/07/2011	
Rabat (Malta)	07/12/2010	02/02/2011	Acting Executive Secretary
	03/02/2011	03/07/2011	Deputy Executive Secretary
Rabat (Gozo)*	14/12/2010	29/04/2011	Acting Executive Secretary
Safi	01/01/2010	31/01/2011	Part-time Executive Secretary
San Ġwann	17/11/2008	17/06/2011	The same officer, then acted as 'Acting Executive Secretary' up to 29 September 2011
Santa Venera	08/06/2010	19/12/2011	Acting Executive Secretary
Sliema	10/05/2010	04/11/2011	
Tarxien	06/10/1994	30/04/2011	
	03/02/2011	26/09/2011	Deputy Executive Secretary
Valetta	15/05/1995	01/06/2011	
Xagħra	01/03/1994	13/10/2011	The same officer, then acted as 'Acting Executive Secretary' up to 21 November 2011
Xewkija	01/07/1995	26/09/2011	
Xgħajra	01/06/1995	28/02/2011	Deputy Executive Secretary
Żabbar*	18/01/2010	27/03/2011	Deputy Executive Secretary
Żebbuġ (Gozo)*	06/12/2010	06/04/2011	Acting Executive Secretary

* In these cases there was not an official change in the Executive Secretary. The change was only for a temporary period to cover a long absence of the current Executive Secretary.

Source: - Information disclosed in Table above was provided by the Department of Local Government.



Ministry for Gozo

Ministry for Gozo Health Personal Emoluments

Background

‘Health’, comprising the Gozo General Hospital (GGH), Health Centre (HC) as well as the Public Health Inspectorate, is a Cost Centre (CC) within the Directorate for Customer Services, and is one of the ten CCs making up the Ministry for Gozo (MGOZ).

Apart from Director Customer Services, the management team comprises the Medical Administrator, a Lay Administrator, and a Manager Nursing Services. As at 31 December 2011, the aggregate number of employees engaged with GGH and HC stood at 677.

For financial year 2011, the recurrent original budget earmarked for Personal Emoluments (Health) amounted to €16,311,200, being 92% of the total budget allocated for this CC, and an increase of 1.4% over 2010 approved estimates. Out of this budget, €15,907,776 were allocated for GGH and the balance of €403,424 assigned to HC. The actual net amounts paid in 2011 by GGH and HC were €16,564,074 and €400,944 respectively.

The greatest disparity between the original budget and actual expenditure in percentage terms arose in the GGH Overtime Line Item, where the (net) expenditure of €192,438 exceeded the original budget, estimated at €94,000, by €98,438, *i.e.* 105%. On the other hand, the net amount paid in respect of allowances to GGH permanent staff amounted to €4,186,628, exceeding the original budget by €264,628.

During the year under review, the highest amount paid in allowances to an individual amounted to €50,684. **Table 1** indicates the number of employees receiving allowances in 2011 over the amount of €1,000.

Audit Scope and Methodology

The main objectives of the audit were to assess the effectiveness and efficiency of the control system relating to the payment of personal emoluments, and obtain reasonable assurance that benefits paid are accurate and in line with standing applicable agreements. Other objectives were to ensure that

Table 1

Amount received in Allowances	No. of Employees
Over €50,000	1
Between €40,000 and €50,000	3
Between €30,000 and €40,000	15
Between €20,000 and €30,000	6
Between €10,000 and €20,000	89
Between €5,000 and €10,000	208
Between €1,000 and €5,000	274
Less than €1,000	33

allowances have been approved from the right levels of authority and that payment thereof is supported by appropriate documentation.

The audit focused on the management controls in place with relation to salary payments effected during 2011. Reviews of the systems in place and documentation were limited to those areas that had a direct impact on the payment of allowances, as well as adjustments to basic salaries, overtime, vacation leave (VL) and time off in lieu (TOIL).

The audit was conducted in accordance with generally accepted auditing standards. Audit fieldwork, included meetings with the officers within the Administration Sections of GGH and Mater Dei Hospital (MDH), and the Office of the Prime Minister (OPM), in order to obtain an understanding of relevant policies and procedures adopted. Walk-through tests and detailed substantive testing were carried out to confirm the existence and the correct application of controls. Personal files relating to officers in the audit sample were also reviewed.

The selection of the audit sample was based on the materiality of the amounts involved. Conclusions and recommendations are based on the analysis of documentation obtained as well as the outcome of meetings held.

Key Issues

Limitations of Scope

Consultants

Correctness of amounts paid to Consultants, especially those on Contract A, whose remuneration is based on a per session basis but were noted to be invariably paid in full, could not be ascertained, since no records are kept to indicate the number of sessions performed. Furthermore, VL and SL availed of by these officers could likewise not be verified, since the only traceable record is the ‘Employees Attendance Book’ kept by a Senior Clerk, in which various shortcomings were noted, as reported hereunder.

Doctors’ Vacation Leave

Doctors do not use VL cards to record such absences, thus the only source records covering their VL are the actual applications. However, notwithstanding that

this is the only source record, there is no proper filing system, and VL applications are shelved haphazardly, irrespective of the applicant and the period they cover. The applications traced by the Auditors in the same pile ranged from years 2008 to 2012. As a result, it could not be ascertained whether the VL recorded on attendance sheets and VL records kept by the officer in charge, are accurate and complete. Any potential inaccuracies could have financial implications.

Applications for ‘Change of Duty’

As in the above-mentioned case, applications for change of duty are all mixed-up together with VL application forms, irrespective of the applicant and year. Consequently, change of duties reported on the attendance sheets could not be verified with the actual applications. In the instances reviewed for audit purposes, copies of such application forms were provided by the respective officers concerned, however, it could not be ascertained that they are true copies of the original applications.

Time-off in Lieu

Accumulated hours of TOIL, and hours availed of, are only recorded on the respective officers’ TOIL record sheets after the officer-in-charge receives a form, wherein TOIL is allegedly approved and authorised by the Head of Section. This could not be verified since once recorded in the respective cards, these forms are discarded. In the absence of such forms, it could not be ensured that accumulated hours, as well as hours availed of, have been duly approved.

Lack of Effective Controls

During the audit, it transpired that in various areas relating to salaries, internal controls are weak or entirely lacking, indicating that little or no monitoring is in place to ensure efficient administration of public funds. Below is an example of instances of internal control failure identified during audit testing. Each issue will be discussed separately further down in the report, under the pertinent observations.

- Incomplete and unreliable records.
- Unverified attendance sheet records.
- Lack of verification of overtime claims.

- Overtime only endorsed by non-authorised officer.
- Incorrect computation of overtime hours.
- Discrepancies between details of attendance sheets and other supporting records.
- Non-compliance with PSMC provisions and other relevant standing rules and instructions.

Weak Budgetary Control on Overtime

- a) The net overtime expenditure during 2011 amounted to €192,438, exceeding the original budget of €94,100 by 105%, and also exceeding the net expenditure of 2010 by €64,371, *i.e.* 50%. These figures, which exclude overtime remunerated as TOIL, reveal that improvements are needed in the areas of planning and management controls.
- b) It was noted that while instructions on the pay process and assignment of responsibilities are in place, policies and guidelines on how, why and when overtime should be resorted to, are lacking.
- c) During testing intended to assess the controls over overtime, it transpired that the established controls are not being applied effectively, if at all. Identified weaknesses included, overtime payments for work performed during the respective officers' working hours, incorrect computation of overtime hours and Permanent Secretary's (PS) approval sought long after the overtime has been performed. Such weaknesses are reported upon under Control Issues.

Control Issues

Opportunities for improvement were identified in the following areas:

Recording of Attendance

Punch Clock Verification System applied only for Selected Grades

Notwithstanding that two punch clocks are installed at GGH premises, only officers below the grade of Nursing Aide, totalling 159 employees working at

GGH, are required to record their attendance through this system. Manual attendance records are kept for all other officers, with the exception of officers in Grade 4 or higher, who are not required to record their attendance, in line with established practice across Government.

On the other hand, all officers posted at the Surveillance Section (Gate), irrespective of their grade, sign the attendance sheets.

Daily Staff Report not submitted by all Sections

- a) Not all Heads of Section submit the 'Daily Report of Staff'. This is resulting in inefficient use of resources, since whenever an officer from the foregoing Sections inadvertently does not sign the attendance sheet, the officers in charge (Administration) have to contact them to check the status of the employee concerned and record details on attendance sheet accordingly.
- b) From the very few reports reviewed during the audit testing, it was noted that officers working overtime are not always being included in the 'Daily Report of Staff'.

Upkeep of Attendance Records

Lack of Verification of Attendance Sheet Details

Though attendance sheets are checked every morning to ensure that all employees are duly accounted for, no certifications were noted on these records to evidence that the attendance sheets have been inspected and found to be correct. This may imply that no detailed checks are being carried out to ensure accuracy of the hours and details recorded therein. Furthermore, this is not in line with the provisions of the PSMC requiring such certification.

Discrepancies between Attendance Sheet Details and other Records

From testing carried out on attendance records of a sample of 10 employees, it was noted that in a number of instances details in attendance sheets did not tally with substantiating records. As a result of the lack of checking of the attendance sheet details, as highlighted above, such discrepancies remained undetected. Identified shortcomings include the following:

- a) On three instances, two officers were reported as TOIL on attendance sheet, but the hours were not deducted from the balance of TOIL entitlement record.
- b) On four instances, two officers were shown as VL on the attendance sheet, but the respective hours were not included in VL card of the employee and Administration records respectively, thus not being deducted from the VL entitlement. These shortcomings were not quantified due to the different shifts and hours involved.
- c) An officer's attendance record indicated that on 24 June 2011 the officer was working at GGH and signed in as 13:30 till 18:00. However, attendance records of a different Section within the Customer Services Department revealed that on that same day, this same officer was on duty at the latter till 14:00 hours.

Overtime

Background

GGH uses an internal form to request overtime, titled 'GGH – Request for Overtime Work'. Such form is raised for every officer performing overtime. Amongst other details, the form shows the Section requiring overtime, the requesting officer, the employee working overtime, date, time and duration of overtime, and type of remuneration, *i.e.* whether financial or TOIL. These requests are then endorsed by the officer-in-charge of the respective Section and another officer, referred to as the Endorsing Officer, being either the Lay Administrator, or Manager Nursing Services, or an Assistant Principal on behalf of the Medical Superintendent.

At a later stage, forms covering overtime performed in a particular month are grouped together and a request is raised for PS's retrospective approval.

Permanent Secretary's Approval sought long after Overtime has been performed

- a) Notwithstanding that as per Section 3.2.1.2 of the PSMC "*Permanent Secretaries are responsible for regulating all overtime work within their Departments*", overtime approval is only being sought from the former after the overtime has been performed. Furthermore, rather than

submitting one detailed request, covering all the overtime in any particular month, a number of requests are being submitted to the PS for his approval. As an example, in October 2011, at least five requests were forwarded to the PS requesting approval for overtime worked, all commencing on 1 October. As a result, PS may not be in a position to regulate and control overtime as necessary.

- b) In the sample of 16 requests reviewed, overtime was at times approved by the PS between two and seven and a half months after it had been performed. For example, overtime performed during February 2011, was approved by the PS on 16 September 2011, after a request for approval was raised on 10 August 2011 by the Manager Nursing Services.
- c) In six out of the 16 requests reviewed, no date was included in the request for overtime work form, indicating when the PS approved such overtime, notwithstanding that the date is a requirement of 'Section D' of the same form.
- d) Although as per Section 3.2.1.2 of PSMC, the authority vested in PS to authorise overtime work cannot be delegated, on at least two instances the requests were not approved by the latter, but were only endorsed by Director Customer Services.

Ad Hoc Overtime Requests

On reviewing overtime requests for staff at the Medical Laboratory, it was noted that overtime was being regularly performed by two officers, whenever an officer from the Section happened to be on SL or VL. In contrast, in January 2011, the two officers concerned were both granted paid Study Leave between the 9th and 14th, however, no overtime was made to cover their absence.

Furthermore, in another two instances during the same period, namely 16 and 19 January 2011, the same two officers were scheduled to be on duty on the same days. However, they both requested and were allowed to change the date of duty. While no overtime was required to cover the absence of these two officers on 19 January, overtime between 13:15 and 20:30 was performed on 16 January.

Officer below the eligible Grade endorsing Overtime

Section D of the ‘GGH – Request for Overtime Work’ form specifies that the Endorsing Officer shall be an officer from the Administration not below Scale 7. However, it was noted that overtime requests raised by various Medical Sections were being endorsed by an Assistant Principal, *i.e.*, officer in Scale 10. Following queries by the National Audit Office (NAO), it transpired that in breach of standing regulations the Medical Superintendent delegated his authority to his Secretary.

In addition to the fact that the foregoing officer is not vested with the relevant authority to endorse and approve overtime requests, this same officer may not be in a position to assess and determine whether overtime requests are justified.

Unauthorised Higher Overtime Rate for Public Holidays

Notwithstanding that Section 3.2.7. of the PSMC specifies that “*Employees eligible for overtime payment, who are required to work on public holidays are remunerated at one and a half times plain actual time rates...*”, overtime performed on public holidays, by Doctors employed at GGH, is being remunerated at two and a half times the normal hourly rate. Following queries about the source of this rate, Auditors were provided with an unendorsed extract titled ‘MAM – Government Corrective Agreement (January 2002)’ specifying the above, amongst other details.

Neither OPM nor MFEI were aware of this document. Checks carried out by NAO also revealed that this clause was not incorporated in subsequent agreements entered into between the Government of Malta and the Medical Association of Malta (MAM) in 2007, thus questioning the validity of the said document.

Incorrect Computation of Overtime Hours

a) During the review of overtime requests raised by the four officers chosen in the audit sample, a number of errors in the computation of overtime hours were noted, resulting in overpaid hours and overstated TOIL. In another instance falling outside the audit sample, which the auditors encountered while browsing the respective documents, the calculation was understated. These errors remained undetected

notwithstanding the fact that two, at times three officers were endorsing the requests. This may imply that the respective officers are merely signing the forms without carrying out any verifications on the correctness of details therein.

- b) The General Rules in the same form requesting overtime work specifies that ‘the total before overtime rate’ shall be the actual total hours of overtime worked, net of any breaks. However, cases were noted where overtime hours for night shift (19:00-07:00) at the Ambulance Garage varied between 10 and 12, implying that the two-hour break is not always being deducted. Only applications raised by the Ambulance Garage and Kitchen were reviewed for this exercise, thus similar shortcomings in other Sections cannot be ruled out.

Vague Justification for Overtime Request

In at least 17 instances, the justification for overtime, provided in requests raised by the cleaning and laundry Sections, was very vague, indicating only ‘cleaning’ or ‘laundry’.

Other Shortcomings in the ‘Request for Overtime Work’ Forms

- a) In many instances, authorisation of the officer in charge of the respective Section asking for overtime was not evidenced on the request for overtime forms.
- b) At times, the employee working overtime, and the requesting officer, were the same individual, resulting in lack of segregation of duties and inadequate approval.
- c) The GGH ‘Request for Overtime Work’ did not always include a date indicating when the endorsing officer authorised the overtime.
- d) In a number of instances, the endorsing officer did not indicate his/her name and grade, as required in the Request for Overtime Work form.

Officers paid Overtime during their Normal Working Hours

The requests for overtime and the respective attendance records of three officers covering a five-month sample

were reviewed for audit purposes. In two instances, two of these officers were paid overtime for hours which fell within their normal working hours. The following refers:

- a) On 11 May 2011, an officer was working shift 'C', *i.e.* 07:00-13:00. However, on the same date, the same officer was paid for overtime between 07:00 and 16:30. Furthermore, punch clock records indicate that on the day, the said officer clocked in at 06:12 and out at 15:49.
- b) On 30 July 2011, another officer was on shift 'A' and according to attendance sheet worked from 07:00 till 11:00 and from 12:45 till 20:00. However, notwithstanding that shift 'A' working hours are up till 20:00, between 16:00 and 18:00 the officer requested and was paid for overtime.

Time Off in Lieu

Source Documents not available

As already highlighted under the Limitation of Scope, before TOIL hours are entered in the official TOIL record, requests for accumulation of hours, and/or hours to be availed of, are raised and authorised on separate forms, which forms are then discarded following the inputting of the said hours in the official records. Consequently, it could not be ensured that accumulated hours of TOIL, as well as hours availed of, have been duly approved.

Furthermore, the forms on which requests for such leave are raised, do not indicate outstanding balance as this is only reported on the official TOIL record. As a result, authorising officers are approving requests without having an indication whether the officers concerned have any outstanding balance.

Accumulation of Time Off in Lieu

In addition to the above, as in the preceding observation, no formal policies are in place with respect to the accumulation of TOIL. From the sample tested, it was noted that as at end December 2011, two employees, out of the nine included in the sample, had a negative TOIL balance, one of which had a balance of -26.75 hours outstanding since August 2010. On the other hand, other officers have accumulated substantial number of hours, with one officer having a balance of

2,133 hours by end December 2011, the equivalent of over one year in TOIL.

Sickness Verifications on behalf of the Gozo Ministry

Background

According to MGOZ two General Practitioners (GPs) employed at HC have been performing sick leave verifications since December 1997 and January 2002 respectively, and remunerated at overtime rates. Between 2010 and 2011, MGOZ issued three calls for tenders for medical services, but in all three instances there were no bidders willing to offer this service. As a result, the same GPs continued to provide the service.

No Agreement covering the Provision of Services

No agreement covering the engagement of these two GPs for the aforementioned service was made available during the audit. As a result, contracted terms, such as amounts due to these Doctors and duration of the engagement, could not be determined.

Erratic Average Duration per Visit claimed for Payment

SL verifications are being remunerated on an hourly basis at overtime rates rather than per visit. Following an analysis of a report provided by MGOZ covering visits performed, and respective hours claimed as recorded in the attendance sheets, it resulted that the duration of visits ranges from an average of two minutes to 180 minutes per visit.

No Evidence corroborating Claimed Visits

NAO was verbally informed that there is no evidence corroborating requests for SL verifications raised by Heads of Departments/Sections, since the requests were being placed mainly through phone. Likewise, Doctors were in turn also informed by phone to conduct the requested visits.

Unreliable Sick Leave Reports provided for Audit Purposes

A spreadsheet titled 'Sick Leave Report' for 2011, showing the date when the SL verification visit on behalf of MGOZ was requested, details of officers warranting a Doctor's visit, and the name of the

Doctor who performed such visit, was submitted to NAO by an officer in charge at MGOZ on 25 May 2012. Exhaustive testing on the details of this report and the SL verification attendance records revealed various shortcomings. Following queries raised by NAO, on 9 July 2012, MGOZ submitted the same report with a number of amendments. It transpired that: -

- a) the data held by MGOZ in relation to the SL Verification visits was not being kept updated. The ‘Sick Leave Report’ for 2011, was only updated more than seven months after year-end, following queries raised by this Office.
- b) on comparing both reports, this Office noted various differences between the original report and the last version provided.
- c) in the amended report, at least 13% of the visits showed that, in the column titled ‘status as per Doctor’s Report’, the comment included therein was “to review later”. According to MGOZ, this means that when visiting the patient, the Doctor was not in a position to assess when the employee will be fit to return to work. However, in the majority of the cases, there was no indication as to when the subsequent visit was made. Following a review of 10 random visits indicated, “to be reviewed later”, it transpired that in six instances no follow-up visits could be traced.

Lack of Effective Communication and Co-ordination between the Various Officers

- a) Up to time of audit, attendance sheets, supporting the overtime performed by HC Doctors on behalf of MGOZ, were not being checked prior to effecting payments to ensure correctness of details therein. This lack of verification was also noted for details recorded in attendance sheets covering normal working hours at HC, the relative salary payment of which was also being disbursed by GGH.
- b) The two sets of attendance sheets are kept in two different locations, namely GGH and MGOZ. However, from the various shortcomings reported in the following observations, which were not detected, it appears that there is no communication between the respective officers to ensure correctness of details, and hence

overtime payments were still effected without proper checking.

Unreliable Overtime Records

Overtime hours, arising in respect of Sick Leave Verifications on behalf of MGOZ, are recorded on a separate attendance sheet, with individual records kept for each GP, which records are then submitted to MGOZ for payment. Up to the time of audit, at the end of the month, total hours were computed by an officer at the Ministry, referred to the DCS or Assistant DCS for endorsement, and then forwarded to PS. A request was then sent to GGH, indicating the amounts due to the two GPs, to be paid accordingly. During 2011, overtime payments issued to the two GPs in this respect amounted to €10,305. From a review of the respective documentation, the following was noted:

- a) According to the ‘Sick Leave Report’ for 2011, on 27 occasions, out of which five instances happen to be a Public Holiday, no visits were requested by MGOZ. However, on the SL verification attendance sheet, at least an aggregate of 68 overtime hours were claimed between these two Doctors on the said instances and paid accordingly.

Following NAO queries, MGOZ claimed that “the dates in the report are the dates when the Doctors were requested to carry out the visit. There are instances where a Doctor will not be able to carry out the visit on the day. If the officer is still on sick leave the following day, the visit is carried out then”.

- b) During the review of HC attendance records and the Sick Leave Verifications attendance sheets of both GPs, it was noted that one of the Doctors claimed overtime for Sick Leave Verifications, when HC attendance sheets indicated that:
 - on 38 instances, claiming a total of 84.5 hours, the GP was performing his full-time duty at HC.
 - in at least three instances, the GP claimed a total of seven hours overtime for SL verifications, when according to the attendance sheets the said GP was carrying out duties at the Law Courts.
 - on three other occasions, GP claimed a total of 7.5 hours of overtime when as per attendance records the said officer was on SL.

- c) Overtime performed on 13 August 2011 was covered by two attendance sheets, one indicating that visits were performed between 10:00-13:00, while the other attendance sheet showed no verifications carried out on that day. It was also noted that MGOZ did not request for any visits to be carried out on that particular day.

These deficiencies imply that no checking whatsoever was being carried out on the hours claimed by the GP in question, prior to authorising overtime payment. In such cases, the total hours claimed were also taken into consideration for the Extra Duty Allowance (EDA) computation, as explained under the subsequent observation.

General Practitioners receiving Extra Duty Allowance for Hours during which they were not present at Work

Notwithstanding that the working hours, during which SL verifications are performed were remunerated at overtime rates, those same hours were also taken into consideration in the computation of the EDA, resulting in additional payments. Auditors were verbally informed by the officer in charge for the computation of this allowance, that the latter presumed that the Sickness Verifications are performed when the GPs in question were off-duty.

Sick Leave Verifications not substantiated by relevant Report

According to the amended Sick Leave report, during 2011, MGOZ requested the GPs to perform a total of 2,951 sick leave verification visits. From the comments made by MGOZ on the report, it was noted that:

- a) In 1,994 cases, *i.e.* 68%, the GPs' report, indicating the outcome of the visits, could not be found. In the absence of these reports, due to lack of evidence, it could not be ascertained whether the visits included in the SL report provided by DCS were duly performed.
- b) Subsequently, NAO selected a random sample of 26 visits included in the aforementioned report, and requested a copy of the respective GPs reports. However, only seven were duly substantiated by the Doctor's report confirming that the visit has been carried out.

- c) One of the reports provided, for a visit performed on 5 January 2011, was only stamped by MGOZ as 'referred for the necessary action' on 9 June, *i.e.*, five months later, while another report for a visit dated 9 December 2011 was stamped on 27 December 2011. This delay hinders timely action by the employer and defeats the benefit of the verification. Up to time of audit, no action was being taken by the Ministry over the non-submission of these reports.

Sickness Verifications charged to GGH's Overtime Budget

Notwithstanding that the service for sickness verification is provided on behalf of MGOZ, the full cost is being borne by GGH. This is being paid out from the limited funds allocated for Overtime, and thus, also contributing to GGH's overtime budget overspend.

Extra Duty Allowance

Background

Doctors who are required to work in excess of 45 hours per week will be paid at the rate of time and a half for any hours worked in excess of this benchmark. Any extra time worked between 41 and 45 hours will be paid at normal hourly rates. This arises from the Amendment to the Classification and Grading Agreement, signed between the Government of Malta and MAM, which was effective 1 January 2002. Payment for the aforementioned hours is referred to as EDA.

Computation of Extra Duty Allowance

At GGH, the calculation to determine the number of hours worked by each Doctor, and the respective payment covering EDA for a four-week period, is prepared through 'Excel' spreadsheet. This, however, involves a considerable amount of manual input since the hours worked on each day are obtained from manual calculations, from the attendance sheets, and are rather time consuming for the officer in charge.

This contrasts well with the method adopted at MDH, where the same allowance is calculated automatically through a module, namely the 'Roster Entry by Employee' in the Dakar System. As declared by MDH, the only manual input involved in the process is the entry of codes to reflect whether the Doctors concerned are duty night, day, off *etc.*

Divergences in the calculation of Extra Duty Allowance

It was noted that there are various divergences in the computation of EDA between the workings performed by GGH and those by MDH. The following refers:

- At MDH, the weekday hours taken into consideration for the EDA calculation are taken to be 6.67 hours per day, resulting in a 40-hour week over a six-day period. On the other hand, the weekday hours applied by GGH for the same computation are 6.75 hours per day, which result in a 40.5-hour week, thus paid an additional two hours per month for the EDA.
- On public holidays falling when Doctors are off-duty, the hours taken into consideration for the EDA calculation at MDH stand at 5.75 hours, while only five hours are added to the computations of doctors working at GGH on the same instances.

In view of the above divergences, NAO tried to seek guidance to establish the correct approach with respect to the payment of EDA. However, notwithstanding queries to the Chief Financial Officer, Director and Assistant Director (Human Resources), all within the Ministry for Health, and the Financial Controller as well as a Principal at MDH, and a Principal at GGH, no satisfactory replies were provided. Many of the said officers claimed that EDA falls outside the area of their responsibility, while the Principal at MDH stated that they followed instructions traced in one of the departmental files. On the other hand, GGH claimed they followed instructions from MDH.

Other Matters

Lack of Policies in respect of Change of Duty

Standing policies and instructions with respect to change of duty are limited to cover the Nursing and Midwifery grades, and staff working in wards. No other policies were traced covering change of duty arrangements by other staff.

- a) There are no stipulated timeframes within which the change may be effected. As an example, instances were noted where duties falling on 18 and 19 January 2011 were changed with off-duty work allegedly performed on 21 and

28 December 2009. Another shift due on 5 February 2011 was changed with off-duty work performed on 23 December 2009.

- b) From the reviewed applications for change of duty, it was noted that in certain instances the application was raised on the same date as the officer's request to refrain from duty, implying that no prior written notice was given.
- c) As already indicated under 'Limitation of Scope' - 'Applications for Change of Duty', the respective original applications are stacked without any system whatsoever, and it proved to be difficult and time consuming to trace the ones required for audit testing. Hence, copies of the requested applications were provided by the respective Section, namely the Medical Laboratory, but notwithstanding the certifications, it could not be ascertained that the ones provided were true copies of the original applications.

Paid Study Leave not substantiated

All study leave applications raised by the Consultants in the audit sample were related to participation in conferences and/or seminars held abroad. While invitations were at times traced with the request, no other documentation, such as copies of air tickets and/or boarding cards, were traced in their personal file confirming attendance to support the paid Study Leave. Even though Consultants' salary is expected to be based on the number of sessions actually performed, they are still paid in full when on Study Leave.

Undue Amounts erroneously given to a Consultant

During audit testing, a review of the personal file related to a Consultant revealed that the letter of appointment issued by the Minister for Gozo on 10 August 2011 was not clear with respect to the effective date of the appointment. This letter stated that the Prime Minister approved the appointment for this individual for a period of one year, starting from 1 July 2011, with a salary of €29,162 per annum, with effect from 19 January 2011.

Following queries raised by NAO to the Public Administration HR Office (PAHRO) within OPM, it transpired that though his engagement was approved on 19 January 2011, the said officer had requested to

postpone his appointment to 1 July 2011, which request was approved by MGOZ. However, during the audit it was revealed that the Salaries Section was not aware of this correspondence, and with the 10th payroll the officer still received the amount of €2,216.38, being arrears for the difference in salary between Scale 5 and Scale 4, covering period 19 January till 9 September 2011.

Lack of Knowledge and Documentation in respect of Diving Allowance

Four Staff Nurses working at the Hyperbaric Unit were noted to be receiving a ‘Diving Allowance’. Correspondence was also traced in the relevant departmental file indicating that in 2010, OPM forwarded to GGH the rates to be paid according to the number of diving hours. Since the rates stipulated are in respect of the number of diving hours and that these employees do not perform any diving duties, the justification for such payment could not be validated. The following were also noted:

- a) The payment of such allowance neither emanates from the PSMC nor from the Public Service Reform Agreements. Subsequent to queries to OPM, it transpired that the rates paid were established ‘*on 26 September 1977 by the then Establishments together with Finance*’. Consequently, it could not be determined whether the amount of allowance paid is duly authorised.
- b) Following further queries by NAO, and correspondence exchanged thereafter with GGH, MDH and OPM, from the latter it resulted that in January 1979 the then Establishments, together with Finance, agreed that the ‘*personnel undergoing recompression in the Recompression Chamber should receive the rate of allowance given to the Public Works Divers in respect of periods during which they are submitted to an increased atmosphere in the Chamber*’.

Compliance Issues

Returns not in Compliance with Standing Regulations

During the audit, it was noted that GGH are using different application forms which lack certain details

that are required to be included in the forms stipulated in the PSMC. Such forms include:

- a) the *pro-forma* application form for the approval of overtime work by PS; and
- b) the bi-annual Return of Allowances submitted to MFEI providing updated information regarding allowances paid by the respective Departments.

Lack of Attendance Sheets supporting Claims for Overtime Payment

Although the provision stipulated in Paragraph 3.2.2.1. (c) of the PSMC stipulates otherwise, overtime payments claimed are not being accompanied by a certified extract of the attendance book. Payments are only based on the ‘Request for Overtime’ form where various deficiencies were noted and already highlighted under the Control Issues.

Recommendations

Key Issues

Lack of Effective Controls

Internal controls are fundamental to the successful operation and day-to-day running of the hospital. It is thus recommended that Management develop its own internal control procedures, having regard to its specific circumstances and characteristics. Ideally, controls are to be embedded in the operations and form part of the overall culture, be capable of responding quickly to evolving risks and include procedures for reporting immediately to appropriate levels identified weaknesses or significant control failings.

Notwithstanding the above, sound internal controls cannot eliminate the possibility of processes being deliberately circumvented by the collusion of employees or poor judgement in decision-making. Thus, staff and operations should be supervised by competent officers who understand the processes and procedures that are in place. They should also be ready to query such procedures and decisions, if and when necessary, and to take necessary action to address any shortcomings.

Weak Budgetary Control on Overtime

To obtain the necessary involvement from officers to control overtime and its causes, it is important to assign clear and proper responsibilities and to step up overtime management. This could be done through departmental guidelines, as well as policies, that enhance accountability and support cost-conscious attitudes towards the judicious use of overtime. Proper overtime management requires that work outside the planned schedule is properly assessed and alternative methods, such as the adjustment to existing work schedules, or the restructuring of present work processes, be considered in order to economise the expenditure on overtime and increase productivity by other means.

In addition, it is essential that clear rules are established and communicated to all staff. Budgetary information, including information on overtime use, cost and justification, is to be continuously monitored by management, enabling corrective action to be taken in a timely manner.

Control Issues

Recording of Attendance

Punch Clock Verification System applied only for Selected Grades

Management is encouraged to review the current policy with respect to the attendance record systems. The Attendance Verification Systems¹ (AVS), such as the punch clock, although they will not eliminate all risks, they reduce errors which are more prone to arise from the manual system. Moreover, in addition to providing more reliable and accurate records and more effective use of human resources, such systems may also result in better perception of fairness for the employees.

Furthermore, it is to be pointed out that, as per PSMC section 3.1.6, Government was bound to introduce AVS in all its places of work by not later than December 2010.

Daily Staff Report not submitted by all Sections

All Sections should invariably submit a complete report

showing attendance details of all officers employed within the Section. This will enable the officers in charge of attendance sheets to update their records as applicable, in line with the details in the daily report.

Upkeep of Attendance Records

Lack of Verification of Attendance Sheet Details

In line with section 3.1.2.1, of the PSMC, ‘attendance registers are to be inspected and certified correct at the start of each week by Directors or senior officers authorised by them who are to see that the previous week’s record of attendance is complete in every detail’. Only after such checks have been carried out, time sheets are to be endorsed, clearly indicating the name and grade of officer performing such verifications.

Discrepancies between Attendance Sheet Details and other Records

In addition to the checks that are expected to be performed prior to certifying attendance sheets, as already highlighted in the previous recommendation, communication between the individual officers involved in this process needs to be enhanced, in order to ensure that the said officers receive the relevant information in a timely manner, enabling them to update their records accordingly.

Overtime

Permanent Secretary’s Approval sought long after Overtime has been performed

While acknowledging that the needs of a hospital are different from those of other departments, the provisions of the PSMC cannot be disregarded. A best estimate of the required overtime hours is to be submitted for PS’s approval prior to the commencement of overtime. In line with the provisions of the same regulations, PS can approve overtime for periods not exceeding three months. Any variations, however, will still have to be approved by the latter. Proper approval of overtime is vital to help Management monitor its use and control the respective expenditure. In case of long absence of PS, urgent overtime requests are to be authorised by the next most senior officer.

¹ AVS are effective means of capturing employee attendances by means of decentralized external and internal electronic reading devices.

Ad Hoc Overtime Requests

The need for overtime is to be well defined. Thus, it is recommended that minimum service level requirements are set by every Section, giving an indication as to when and why overtime may be requested. Basis, against which overtime requests may be assessed, are also to be provided.

Officer below the eligible Grade endorsing Overtime

Established rules and instructions are to be abided with. Management should ensure that officers entrusted with the authority to approve and endorse overtime requests are not below Scale 7, and have adequate experience enabling them to assess requests judiciously, in order to exercise the expected control.

Unauthorised Higher Overtime Rate for Public Holidays

Prior to implementing any instructions, officers are to ensure that these are given from the right level of authority and have been duly approved. In addition, GGH officers responsible for the payment of allowances are encouraged to liaise with MFEI in order to obtain access to the Public Service Reform Agreements entered into by the Government of Malta. Officers can then compare any documentation provided relating to salary payment, with the provisions of the agreements, and identify divergences in a timely manner. No overtime payments are to be made unless such remuneration is backed by official agreements/directives.

Incorrect Computation of Overtime Hours

GGH is to enhance the current controls by adequately checking and recording of overtime hours. Any overpayments, which may not be due to the employees are also to be recouped.

Vague Justification for Overtime Request

Proper justification is to be provided on the 'Request for Overtime' forms, in support of overtime hours, before these are duly approved.

Other Shortcomings in the 'Request for Overtime Work' Forms

Management is to ensure that internal controls are operating effectively and are not being bypassed. This

can only be achieved if all officers involved in the process understand their role and are held accountable in case they fail to carry out their duties properly. Moreover, officers entrusted with the monitoring and authorisation of overtime are to ensure compliance with policies and procedures in place, prior to approving payment for claimed overtime.

Officers paid Overtime during their Normal Working Hours

Authorising officers are not to endorse overtime requests until they can duly certify that the overtime is justified and all details are correct. Furthermore, the same authorising officers are to be held accountable for shortcomings in the approved overtime requests.

Time Off in Lieu

Source Documents not available

Controls over recording of TOIL are expected to be strengthened. GGH may consider revising the current official template titled 'Record for Time-Off in Lieu' to reflect the authorisation and any additional remarks required. This will not only provide fair audit trail in one document, but will also eliminate the need for other forms.

Accumulation of Time Off in Lieu

Furthermore, as with all forms of reward for overtime, TOIL requires proper management with the ground rules clearly spelled out, including the maximum total hours that may be accumulated and the period during which these hours can be availed of. When employees perform work outside their standard hours, and opt to be compensated in TOIL, it is important that the extra hours are authorised and properly recorded.

Moreover, no authority is to be granted to officers to avail of TOIL, if the latter have not accumulated sufficient hours to cover their request.

Sickness Verifications on behalf of the Gozo Ministry

No Agreement covering the provision of Services

The engagement is to be formally backed up by an agreement, signed by the parties involved. Applicable conditions of service, remuneration, and the duration of the agreement are to be clearly spelled out.

Erratic Average Duration per Visit claimed for Payment

MGOZ is to consider negotiating payments on a per visit basis. This will also enable reconciliation between the actual number of visits requested and those performed.

No Evidence corroborating Claimed Visits

Request for SL verification, and the assignment of task thereof, is to be made in writing and such source records are to be duly filed for future reference.

Unreliable Sick Leave Reports provided for Audit Purposes

In order for records to be considered as effective management tools, they have to be complete and reliable. Thus, the Sick Leave Report is expected to be updated regularly. A reconciliation between visits performed and overtime hours claimed is recommended before the respective payment is effected.

Lack of Effective Communication and Co-ordination between the Various Officers

Strong internal controls are to be implemented. Neither EDA nor overtime is to be paid prior to the attendance sheets are thoroughly checked and certified as correct by an authorised officer. Officers are to be reminded that when endorsing a document, it is implied that one is assuming the responsibility that the data, including the amounts contained in that document, are correct. Unless adequate checks are carried out, no certification is to be endorsed, and no payments are to be effected. Moreover, records are to be properly scrutinized to avoid errors and overpayments.

Unreliable Overtime Records

Attendance sheets are to be reviewed and endorsed on a regular basis, confirming that details therein have been checked. Any absences from work are to be duly substantiated with documentation, where possible. Furthermore, unjustified payments are to be recovered following a comprehensive exercise to identify this malpractice.

General Practitioners receiving Extra Duty Allowance for Hours during which they were not present at Work

The Ministry, together with GGH, are encouraged to review, where possible, all payments issued to these

two GPs and recoup all amounts which were not duly due. Evidence of refunded amounts is to be provided to this Office.

Sick Leave Verifications not substantiated by relevant Report

Requests for SL verification visits on behalf of MGOZ are to be forwarded in writing. The Ministry may consider drawing up a template form where the Doctors' feedback may be included in the same document.

Sickness Verifications charged to GGH's Overtime Budget

A specific budget for this service, whose cost is expected to be borne by the pertinent CC requesting the service, is recommended. This also enables better control over the expenditure incurred by the same entity.

Extra Duty Allowance

Computation of Extra Duty Allowance

While the system in use by MDH is also prone to errors, it mitigates certain risks highlighted above, besides being also less time consuming. Thus, GGH should consider looking into the possibility of incorporating the foregoing module into their system.

Divergences in the calculation of Extra Duty Allowance

All related parties are to get together and draw up a set of procedures with respect to the computation and payment of this allowance, based on the pertinent agreements. Officers involved in the computation of EDA are to be informed accordingly to ensure consistency in the payment of the said allowance.

Other Matters

Lack of Policies in respect of Change of Duty

GGH may consider drawing up a policy, covering all members of staff, clearly stipulating the timeframe during which requests for change of duty may be made, and circumstances when such requests may be approved. Ideally, requests for change of duty are to be presented well in advance, to enable Heads to plan and allocate staff effectively. Furthermore,

officers authorising such requests are to ensure that the respective consent will not negatively affect the level of service, or give rise to additional costs to maintain the expected standard. Should this be the case, requests are to be declined.

Paid Study Leave not substantiated

The Department should to ask all officers attending conferences abroad to submit a copy of air ticket and/or boarding card as evidence of participation.

Undue Amounts erroneously given to a Consultant

Relevant correspondence, especially that having a financial impact, is to be copied to all officers concerned to ensure that appropriate action is taken to prevent shortcomings and overpayments. A new letter of appointment, reflecting the correct effective date, is to be issued and copied to this Office. Furthermore, GGH is to recoup the amount overpaid, also submitting evidence to this Office.

Lack of Knowledge and Documentation in respect of Diving Allowance

GGH is encouraged to liaise with the pertinent authorities, to obtain source documentation clearly stipulating the circumstances when this allowance should be paid.

Furthermore, notes are to be made in the personal files of the officers concerned, indicating the date when the said officers became eligible for the payment of the said allowance, and the applicable rates.

Compliance Issues

Returns not in Compliance with Standing Regulations

Management is to make sure that officers in charge of the respective tasks are aware of the updated statutory returns and that these are compiled in an accurate and timely manner.

Lack of Attendance Sheets supporting Claims for Overtime Payment

Overtime pay claimed is to be accompanied by a certified extract of the attendance book. Overtime returns are to be thoroughly checked against the

supporting attendance sheets, by the officer in charge of salaries, before payments are processed.

Management Comments

Management accepted most of the recommendations made by NAO, some of which have already been implemented, while others will be taken on board in the near future. Actions taken by Management include:

- Circulars issued to staff, to address NAO's remarks on '*Lack of verifications of Attendance Sheet details*' and '*Paid Study Leave not Substantiated*';
- the updating of Vacation Leave, Sick Leave and TOIL records;
- the revision of the Letter of Appointment of a Consultant; and
- the enhancement on the 'Change of Duty' and TOIL application forms, and on the filing systems in place of the various application forms.

Management also stated that policies in place for Nursing and Midwifery grades and staff working in wards are being extended to cover change of duty arrangements by other staff.

Overtime estimates will also be referred for PS's approval every three months, starting from October 2012. Furthermore, instructions have been issued requesting the Medical Administrator to invariably authorise overtime.

Internal controls with respect to overtime requests will be stepped up and extra hours paid will be recouped and the necessary disciplinary action will also be taken.

The Ministry will take the necessary steps to have a contract drawn up in the coming weeks to cover the sickness verification visits performed by the two GPs. Furthermore, MGOZ is currently establishing a rate per visit. In the meantime, controls as to the number of visits requested and those actually performed have already been put in place. A new template, which will include the Doctor's report and other relevant information, will also be introduced.

MGOZ also declared that the payroll system in use at MDH will be implemented at GGH as part of the new system of hospital accounts. With respect to the divergences in the computation of EDA, Management confirmed that in contrast with MDH, GGH is not deducting break-time in the calculation of EDA. Instructions have been issued to regularise the calculation of EDA/VL hours in line with MDH. However, with respect to the other divergences, it was further remarked that the Health Division is aware of the discrepancies between the various hospitals, and instructions to implement a uniform system are to be issued by the Division.

The following comments and reservations were also submitted:

With respect to the Limitation of Scope related to Consultants, Management stated that *“there is a Hospital Audit System which is one system across the Health Service and which records output of Consultants. Each Consultant has a Job Plan, which emerges from agreements between MAM and the Health Division and stipulates what is expected of the Consultant. Furthermore, the Patient Administration System records the patients attended to by each Consultant. Electronic means of verifying attendance is an issue which is being managed by central government and the Directorate will follow any instructions issued”*.

Although no explanation was provided, as to why officers in the same grade are treated differently, regarding the Punch Clock Verification System, Management claimed that *“all categories of officers at Gozo General Hospital who sign their attendance are fully in line with the practice in place at Mater Dei Hospital. In fact, there are no punch clocks at Mater Dei Hospital while Gozo General Hospital has retained the punch clock system for certain grade”*.

The overtime rate paid to Doctors on public holidays and the payment of diving allowances are also in line with that paid at MDH.

In reply to the observation highlighting the fact that a number of officers have accumulated substantial hours in TOIL, Management stated that *“this is a result of shortage of staff and of the fact that not all staff accept to undertake overtime”*.

With respect to the observation titled ‘Officers paid Overtime during their Normal Working Hours’, one of the officers highlighted in the Management Letter admitted full responsibility for the error, while in the other case, it was claimed that the date on the overtime sheet was erroneously recorded.

Management contested the observation stating that EDA was overpaid for hours during which GPs were not present at work.



**Ministry for Infrastructure,
Transport and Communications**

Land and Public Registry Revenue / Arrears of Revenue Fees from Searches

Background

The Land Registry – Searches Unit

The Land and Public Registry (LPR), falling under the responsibility of the Ministry for Infrastructure, Transport and Communications, comprises the Searches Unit and the *Preżentata* Section which are both regulated by the Public Registry Act (Chapter 56 of the Laws of Malta).

The main function of the Searches Unit is the provision of official Searches against individuals and entities in connection with the enrollment of notes on the transfer, '*inter vivos*' as well as '*causa mortis*', of immovable property, and the registration of notes of hypothec and privilege which secure obligations, such as loans, payment of ground-rents and testamentary Searches of individuals in both Malta and Gozo. As per Departmental Accounting System (DAS) records, revenue collected during 2011 in this respect amounted to €2,389,120.

The Land Registry Searches Unit Application

Between April 2000 and March 2010, a private company, namely Eureka Services Ltd, was commissioned by the Government to provide, through a back-office operation, the service of conducting public Searches by creating a computerised system for this purpose. This arrangement enabled Government to provide, for the first time ever, official and guaranteed Searches, thus enhancing considerably the proof of ownership process. Incidentally, an audit assignment relating to the LPR Searches Unit was carried out earlier on, and published in the Annual Report of the Auditor

General – Public Accounts 2005. The computerised system - the Land Registry Searches Unit Application (LRSUA), previously known as Eureka - is still in use by the Searches Unit, whereby requests for Searches are recorded. Such system is also accessible online, through which non-official Searches may be obtained, mostly by notaries public.

Applications for Searches

There are three types of Searches, which may be applied for through the compilation of the relative application form:

- Transfers: Any public deed enrolled with Public Registry, or enrolled notes (warrants, such as a mandate) according to law.
- Liabilities: Hypothecs, privileges, waivers, cancellations, notes of postponement, that are enrolled with the Registry.
- Testamentary Searches: Results of enrollment notes with regards to Public Wills (Malta and Gozo), but excluding Secret Wills.

Applicants approach the Searches Unit's front office to fill in the related application form. When compiled, the requested Search is collected in person from the same Unit. A distinction is made as follows:

- Professionals, such as auditors, notaries etc., are given an account on request, and do not need to pay the standard deposit of €14.40 for every Search applied for, if done through email.

- On the other hand, the general public, *i.e.* non-professionals, cannot apply for an account, and must therefore pay the standard deposit.

Support Agreement

Government took over LRSUA with effect from April 2010, following the expiration of the contract with Eureka Services Ltd. This enabled Government to have in place a fully-computerised Searches system without incurring any major capital costs. A Support Agreement was signed on 30 March 2010, for a period of 12 months, between the Ministry for Infrastructure, Transport and Communications and Loqus Services Ltd, the original developers of the system. Such agreement required the supplier to provide specific services to support the software on which records are captured and stored. To this effect, it was confirmed that, though the servers are located at the Malta Information Technology Agency, the latter are only involved in providing hosting resources for the application, whilst administrator access and data is only available at the service provider's end. The Ministry of Finance, the Economy and Investment granted a Direct Order approval on 7 November 2011 for the renewal of this Agreement for a further period of one year (2nd year run), for the total cost of €21,840, excluding VAT.

Audit Scope and Methodology

The scope of the audit was to evaluate the present internal control systems in place for the collection of revenue from Fees generated from Searches, including the correctness of amounts reported by LPR as still outstanding. This audit was carried out between April and June 2012.

To this effect, a meeting was held with the respective officials at LPR to obtain an overview of the procedures and systems in place with respect to revenue collected from Fees from Searches. Arrears of Revenue as at year end 2011 were also taken into consideration. Minutes of meeting were referred back to the officials concerned for their comments.

A walkthrough test on cash collected on 3 August 2011 was also performed.

An additional exercise was carried out to reconcile total revenue as per DAS nominal ledger, totaling €2,389,120 during 2011, with a summary of monthly Searches prepared in excel format by the Searches Unit for statistical purposes, amounting to €2,453,443. Following the consideration of cancelled receipts, Schedules of Payment and returned cheques, an immaterial difference of €263 remained unresolved.

A spot check was also carried out on 23 April 2012 for both¹ 'Searches General' and 'Public Registry Fees' Cash Books whilst the cashiers were reconciling the revenue collected on that particular day. No discrepancies were observed.

Sample of Invoices

The original sample was intended to incorporate a selection of application forms, to be traced through the system up to the record of revenue in DAS. However, due to limitations of LRSUA, which was set up only to carry out the required Searches, as further explained under 'Limitation on Scope of Audit', this was not possible.

A sample of 61 invoices, amounting to €35,954 and representing 2% of total revenue (€2,389,120), was chosen from the List of Invoices issued on a daily basis, by randomly selecting an average of five invoices from each month. The related receipt numbers for each payment effected were traced through the daily Cash Books by the Searches Unit. This process was carried out since LRSUA only caters up to the invoicing stage. Details were then verified for correctness against the Cash Book, CBM Deposit Slips and finally against DAS.

Arrears of Revenue

In order to verify the correctness and completeness of reported arrears of revenue as at 31 December 2011, NAO conducted a number of tests on amounts featuring in the return submitted by LPR. The closing balance of gross arrears of €95,804, as reported by LPR as at year-end 2010, was compared with opening figures for 2011. The gross outstanding balance as at year-end 2011 amounted to €114,603. A random sample of 62 pending Searches², bearing a monetary value of €4,913,

¹ Two separate cash books are maintained at the Searches Unit, one for Public Registry Fees (payments for Hypothecs, References and Enrollments), and another for Searches General. At the end of each day, cash collected by the Public Registry is reconciled, and finally allocated to DAS together with Fees from Searches. All cash is deposited to the Central Bank of Malta on the following day.

² These were selected from pending invoices filed manually at the front office of the Searches Unit.

and representing 4% of gross aforesaid outstanding amounts was reviewed. These were verified against breakdowns of Searches remaining unpaid for the years 2001-2011, supporting the ARR submitted by the Division.

Due to an upward revision of the outstanding amounts carried out by LPR during the year, an analysis was carried out to compare reported figures for pending Searches, between the lists of breakdowns submitted with the 2010 and 2011 ARRs respectively.

With regards to amounts reported as ‘estimated as not collectable’, a sample of 55 outstanding invoices, totalling to €1,726 (4% out of €43,324), was randomly selected from the list of arrears proposed to be written off, as compiled during 2011. These were verified against the breakdown of outstanding amounts supporting the return.

Limitations on Scope of Audit

Originally, the source for testing unpaid Fees from Searches consisted of the compiled application forms³ received at the Searches Unit during 2011, each represented by a unique order number generated from LRSUA, following the input of relative details. The audit objective was to verify that the order number generated from the LRSUA corroborated with the invoice number, amount due and the related receipt number to be eventually traced in DAS. However, since the current system provides only up to the invoicing stage, no link could be traced between the invoice number, the collected fee, and corresponding receipt number.

Due to this limitation, although not the ideal way, the sample had to be chosen from the list of invoices issued daily by back-office. However, it further transpired that only 17 out of 61 invoices and receipt numbers (28%), could be traced from the daily Cash Books maintained in excel format. An additional 11 invoices and their related receipt numbers were traced to the Cash Books manually.

Key Issues

Revenue

Limited Search Criteria

LRSUA does not have an input field for Identity Card numbers, with the consequence that unrelated Searches may be produced and invoiced to applicants, especially in those cases where parental details are lacking. This situation leads to numerous objections and claims for refunds by clients.

Lack of Reporting Facilities

The Searches Unit was requested to provide a list of all applications received and invoices issued during 2011. However, since this information is generated on a daily basis, according to Management, the system does not have the facility to issue such data after a certain period of time has elapsed. Therefore, such information was obtained from a spreadsheet kept manually on a monthly basis by the Searches Unit that includes, amongst other data, the following information:

	Year 2011
Number of Searches Applications received	65,652
Number of Wills ⁴ Applications received	7,906
Number of Searches Invoices issued	29,997
Total amount collected from Searches and Wills	€2,453,443

The reliability of the above-mentioned figures is questionable, on the basis that the latter fail to eliminate any cancelled applications and/or receipts carried out during the year. As a result, Management does not have complete information as to the total of applications received and revenue generated. Moreover, since data is compiled manually, there is a higher risk for human error, which could lead to incorrect data being provided in the case of related queries.

³ An application form may contain one or more Searches which will feature in a single invoice to be identified by a unique order number.

⁴ Applications related to wills are accounted for separately since no invoice is generated from LRSUA. Unlike other Searches, wills applications are paid in advance, as the respective results are then sent out by post instead of collected from the Searches Unit.

Arrears of Revenue

Unreliable Arrears of Revenue Figures

Initially, the amounts reported as ‘Newly Accrued Arrears’ stood at €33,986. This figure did not tally with supporting documentation and was queried by the National Audit Office (NAO). The Division subsequently submitted a revised ARR dated 12 June 2012, with an updated closing figure of €27,986, consisting of ‘Newly Accrued Arrears’ of €12,648, and an adjusted upward revision of €15,338⁵ of prior outstanding amounts, implying that the closing balance of the previous year was understated.

Following a review of the revised Return submitted by LPR, NAO still could not conclude that reported figures are considered reliable due to the following shortcomings:

- A discrepancy between the upward revision figure as reported in the revised Return, as against the balance in corresponding breakdowns.
- Inaccurate reported balance of ‘Past Arrears Collected’ in the ARR.
- Differences between arrears featuring in the breakdown lists and respective amounts awaiting write-off approval.
- Outstanding fees from Searches filed at LPR not reflected in the Return of arrears.

Further details are given below:

Discrepancy in Upward Revision figure between Return of Arrears and related Breakdowns

When comparing breakdown lists for the years 2001 to 2010 supporting the 2010 ARR, with those forwarded for 2011, it transpired that revenue in arrears actually increased by €19,941 for the years 2001 to 2004, and 2007, and not €15,338 as reflected in the revised 2011 ARR.

Unrealistic balance of Past Arrears Collected

LPR could not provide a list of those clients whose arrears were collected during the year, since the rudimentary system in place does not keep record of this data. In fact, balances of outstanding Searches are compiled manually by adding up the amounts due for uncollected Searches retained at the Searches Unit. When a payment is effected, the respective amount is then removed from the list of arrears kept on an excel sheet, and the total amount is automatically adjusted. This inappropriate procedure⁶, of arriving at the ‘Past Arrears Collected’ figure by elimination, was already reported upon in previous Annual Reports of the Auditor General, which situation still prevails.

Moreover, past arrears collected of €9,187, as reported in the 2011 ARR, are understated by a further amount of €4,602. The latter figure pertains to 2005 and 2006 arrears collected during the year, as evidenced in supporting breakdowns submitted with the Return, but not reported accordingly.

Discrepancies between Breakdown Lists and List of Arrears proposed for Write-off

When reconciling the 55 sampled debtors, obtained at random from the list of arrears proposed to the Permanent Secretary to be written off, with pending arrears listed in the ARR, the following observations were noted:

- Twenty-one defaulters proposed to be written off, representing 38% of the sample, and having a monetary value of €1,528, could not be traced in the breakdown lists supporting the figures quoted in the ARR.
- Five out of the sample chosen (9% of 55), were included in both lists, but had different amounts.
- An additional five Searches (9% of the sample) had a different name on both lists.

Outstanding Searches omitted from the 2011 Arrears of Revenue Return

Following a review of a sample of pending invoices filed manually at the Searches Unit, NAO identified 28

⁵ Consisting of the revised total for Column (d) amounting to €27,986 less newly accrued arrears of €12,648 as per breakdown list for 2011.

⁶ The procedure consists of deducting the resulting balance of closing gross outstanding arrears less the newly accrued arrears figure from the opening gross outstanding arrears for 2011.

outstanding Searches out of the 62 selected, representing 45%, which were omitted from the relative lists of Searches remaining unpaid. This resulted in an understated figure of the outstanding amount of at least €1,693.

Lack of Adequate Debtors' Control

NAO observed that the gross closing balance of arrears of revenue stood at €114,603 as at 2011, an increase of €18,800 over 2010. It also transpired that, out of 62 sampled outstanding debtors, only 27 (44%) of these were sent reminders by LPR during 2011 to collect unpaid amounts, which is indicative of insufficient debtors' management that could decrease the likelihood of dues being settled.

Moreover, the Searches Unit fails to reject applications from repeating defaulters. In fact, four clients with 17 pending invoices in total, for the period 2001 to 2010, failed to collect ordered Searches during 2011, and consequently the respective amounts fell under revenue in arrears. Reminders were only sent on two instances, thus the remaining 15 uncollected Searches remained unchased.

The majority of revenue falling in arrears, totalling €89,540, relate to the period 2001 to 2009. It is highly improbable that these clients will collect the relative outstanding Searches and settle their dues with the Division. However, following a stock-taking exercise undertaken during 2011, LPR only reported an amount of €43,324 under 'Estimated as not Collectable', and this figure also includes dues relating to 2010 and 2011. Up to the date of audit, the Permanent Secretary's approval for the write-off of this amount was still pending.

Control Issues

Opportunities for improvement were identified in the following areas:

Revenue

Sanctions against Defaulting Professionals

Once a client submits an application in person at the Searches Unit, the deposit paid is not refundable if such order is cancelled, even within 24 hours.⁷

However, when a Search is ordered by a professional via email, no deposit is paid. Therefore, no deposit is forfeited if the latter decides to cancel the order within the stipulated timeframe. Thus, the risk that Searches ordered by professionals remain uncollected and unpaid is increased.

No Back-up of Applications through Email

A soft copy of all applications received by email is kept on the Principal Officer's computer hard disk at the Searches Unit. NAO noted that no back-ups are maintained, neither are hard copies filed, which could result in a loss of data in the eventuality of a fault to the computer in question.

Misallocation of Revenue from Gozo Searches

Revenue collected at Gozo Searches Unit is accounted for by means of a 'Transfer Schedule of Payment' in DAS every six months. All balances are allocated to the account pertaining to Public Registry Fees, irrespective of whether they consist of Public Registry Fees or to Fees from Searches.

Cancelled DAS Receipts

When a DAS receipt is cancelled, this still features in the report titled 'List of Receipts per Section Over the Period Requested' printed daily by the Searches Unit from DAS. However, this is not indicated accordingly. Furthermore, cancelled receipts have to be deducted manually from this report to reconcile the actual revenue collected with the Cash Book, which might lead to computation errors that effect the daily reconciliation of the latter. No additional report from DAS is issued to support the reconciliation process.

It also transpired that the reason for cancellation was rarely documented on the respective receipt, whilst it was also not cross-referenced to the new receipt number, therefore hindering audit trail.

Lack of Control on Online Accounts used by Professionals

A professional can contact the Searches Unit over the phone to top-up his account in order to conduct non-official Searches, as well as obtain updates online.

⁷ Ordered Searches may be cancelled or amended within 24 hours as stipulated in Article 5(4) of Legal Notice 278 of 2010.

Each time a Search is performed online, the related cost is deducted from the credit balance. However, the account balance is not indicated online, thus a manual list of pending payments is maintained, including date of order, name, amount credited, together with the date of payment and the related receipt number.

This method of providing the service to clients, before the actual payment is effected, may be contributing to an increase in outstanding debtors. Moreover, records maintained manually might lead to loss of data and consequently outstanding amounts could remain unpaid.

Arrears of Revenue

Standard Deposit featuring incorrectly on the Invoice

The standard deposit of €14.40⁸, which is payable when Searches are applied for, features as ‘Number of Searches’ on the relative invoice rather than being indicated as actual ‘Deposit’. Moreover, this amount automatically features irrespective of whether the deposit has been paid or not.

Furthermore, when applicants collect the ordered Searches, the standard deposit amount is deducted manually from the total amount due shown on the invoice, without counter checking the deposit receipt provided to the clients upon application, which may result in loss of revenue to Government. In those instances where no deposit is paid, in which case the full value of the invoice is payable, there is no indication on the relative invoice that such application was carried out online.

Testing also revealed that the standard paid deposit of €14.40 relating to six outstanding Searches, representing 10% of the sample (62), was not deducted from the balance due on invoice. Consequently, the ARR and relative breakdown lists were overstated by €101.

Double Orders for Searches effected due to System Error

Out of 62 outstanding Searches tested, five orders, representing 8% and having a monetary value of €149, were ordered twice since, as explained by the

Division, LRSUA failed to issue the confirmation email, to applicants ordering Searches, upon receipt of the relative order. This flaw in the current system may result in double invoicing, which cause overstated arrears’ figures.

Recommendations

Key Issues

Limited Search Criteria

Management is to evaluate the possibility of the system being enhanced with the inclusion of a field for Identity Card numbers. This will reduce unwanted Searches from being unnecessarily printed and charged to clients, at least as regards deeds being recorded from now on.

Lack of Reporting Facilities

Periodic reports are considered part of management tools that could assist the Division with the daily running of the Searches Unit, whilst also improving audit trail.

Unreliable Arrears of Revenue Figures

LPR is to implement adequate systems of controls to ensure that arrears of revenue are accurately recorded and reported upon in future submissions of ARR. The efficiency of reporting and control function of the Division’s debtors has to be addressed without delay. An option could be to update the current system in use to record debtors, to include reference to payments, thus enabling uncollected Searches’ Fees to be automatically generated.

NAO suggests that a reconciliatory exercise is carried out between pending invoices at the Searches Unit and lists providing breakdowns of unpaid Searches, in order to update the ARR accordingly. This will ensure that all arrears are reported to Treasury.

Lack of Adequate Debtors’ Control

Besides sending timely reminders, the Division is to intensify its efforts to collect outstanding amounts, by declining requests for Searches by repeating defaulters.

⁸ In the case of Priority Orders, the applicant has to pay a deposit of €28.79.

Reminders have to be adequately followed up, with legal action if necessary, including any other measures that are within applicable laws. Management is also to consider increasing the respective deposit to partly mitigate this shortcoming.

Control Issues

Sanctions against Defaulting Professionals

It is understood that no deposit is requested from professionals on the premise that actions could be taken against defaulters. Thus, sanctions are expected to be rigorously enforced, mainly not issuing further Searches until pending payments are made.

No Back-up of Applications through Email

The Division is to ensure that data storage of applications is kept in a secure manner in order to safeguard a proper audit trail.

Misallocation of Revenue from Gozo Searches

Revenue collected by Gozo Searches Unit should be analysed and credited to the appropriate Account numbers in DAS.

Cancelled DAS Receipts

Management may consider requesting modification to the DAS report to address this shortcoming, so that cancelled receipts will feature accordingly. This will facilitate the reconciliation process and reduce the risk of errors. The reason for cancelling a receipt should be endorsed appropriately, whilst it is also suggested that the new receipt number be recorded on the cancelled receipt for full audit trail.

Lack of Control on Online Accounts used by Professionals

LPR is to ensure that proper computerised records are maintained for online accounts used by professionals. It is further recommended that a system be implemented whereby payment is obtained from clients before non-official Searches are conducted.

Standard Deposit featuring incorrectly on the Invoice

LPR is to update the current System such that the

actual deposit is deducted from the total cost of Searches, thus showing the actual balance due by clients when Searches are collected and payment is made. Moreover, deposits should only be deducted on presentation of receipt. This will ensure that all revenue due to Government is duly collected.

Double Orders for Searches effected due to System Error

In such cases, the Division has to take the necessary steps to ensure that System errors are addressed by the System Administrator accordingly. Moreover, such amounts should be classified as 'not due' in the ARR as soon as they arise.

Management Comments

Management concurred with the majority of findings mentioned in the report and will be taking the necessary corrective measures to improve the systems of control. Some of the main comments submitted are detailed below:

- Regarding the use of Identity Card numbers, LPR reiterated that although the use of these may facilitate the process, one must keep in mind that before 1990, Identity Card numbers were not used on contracts and were thus not recorded on notes of enrolment. However, since currently the system cannot incorporate such enhancement, the inclusion of this field will be considered with the upcoming Central Registry Act.
- LPR is in the process of inputting the uncollected Searches in the system, so that when ordering, notaries are warned of pending dues. A policy to refuse orders of defaulting applicants is to be discussed further. The Division is also awaiting the outcome of a Court case that has been pending before the Civil Court for more than six years, which will eventually serve as a test case for any future action to be taken against similar defaulters. Management also stated that during October 2012 legal action will be taken against those applicants who fail to collect and pay for ordered Searches.
- According to LPR, the present top-up procedure will soon be replaced by the ongoing e-form project, by computerising the whole process.

Contractual Services

Background

The Corporate Services Directorate within the Ministry for Infrastructure, Transport and Communications (MITC) provides essential support services to Departments and Entities falling within the Ministry, especially in matters related to financial planning and public procurement, amongst others.

The Directorate also manages requests for the release of approved capital and recurrent budgetary subventions and other financial allocations submitted by the Ministry's entities, amongst which are the Malta Freeport Corporation, the Grand Harbour Regeneration Corporation (GHRC), the Malta Communications Authority (MCA), and the Marine Software Engineering Cluster of Excellence (MARSEC-XL).

Audit Scope and Methodology

The scope of the audit was to:

- verify that during 2011 funds earmarked for Contractual Services falling under selected MITC's Programmes and Initiatives, Contributions to Government Entities and Capital Votes, were appropriately disbursed as budgeted in the 2011 Financial Estimates; and

- assess whether these payments were made in accordance with associated conditions laid down in the respective circulars, contracts and Cabinet memoranda.

An introductory meeting was held with MITC officials on 14 March 2012, with the aim of discussing the audit objective and obtaining an understanding of the origin of all the line items subject to testing, as well as their respective payment procedures.

Further discussions were subsequently held with MITC, Transport Malta (TM) and Ministry of Finance, the Economy and Investment (MFEI) officials, to elaborate on matters discussed in the introductory meeting and other issues encountered during the course of the audit.

Recurrent Vote

MITC's estimated recurrent Vote 17 for the year 2011 totalled €45,825,000, of which, €37,484,000 and €4,677,000, related to Programmes and Initiatives, and Contributions to Government Entities respectively. For the purposes of this audit, eight line items representing a total of €26,623,000 were selected from these two expenditure headings, as listed in Table 1.

Table 1 - Programmes and Initiatives and Contributions to Government Entities 2011

Programmes and Initiatives	Budgeted Amounts €	Actual Amounts €
Public Service Obligation – Public Transport (5586)	7,000,000	10,471,440
Public Service Obligation – Inter-Island Transportation (5587)	4,000,000	6,720,970
Public Service Obligation – Maritime Transportation (5462)	349,000	349,408
Information and Communications Technology Academic Programmes (5532)	280,000	202,090
Blue Med European Union Programme (5529)	250,000	101,177
Marine Software Engineering Cluster of Excellence (5530)	300,000	300,000
Malta Freeport Interest Payments (5480)	14,044,000	14,034,770
<i>Total Programmes and Initiatives</i>	26,223,000	32,179,855
Contributions to Government Entities		
Malta Communications Authority (6795)	400,000	512,500
<i>Total Contributions to Government Entities</i>	400,000	512,500
Total	26,623,000	32,692,355

A thorough understanding of the selected line items was obtained during the course of the audit. Supporting contracts, Cabinet memoranda and Circulars were analysed, where applicable, and a brief write-up in respect of each is included in this Report.

Capital Vote

The sum of €126,515,000 was voted for MITC's Capital expenditure for 2011. Out of this amount, a total of €12,900,000, which related to two Capital items, was selected for the purposes of this audit, as shown in Table 2.

Programmes and Initiatives

Public Service Obligation – Public Transport

Public Transport Association

In 1995, the Government of Malta entered into an agreement with the Public Transport Association (PTA), by virtue of which Government paid the latter a capped subsidy for the provision of public transport services. This agreement was then revised in 1999, when this capping was removed.

Table 2 - Capital 2011

	Estimated Amounts €	Actual Amounts €
Grand Harbour Regeneration Corporation	900,000	887,590
Malta Freeport Corporation – Development of Facilities (Subvention/Capital Development)	12,000,000	4,633,002
Total	12,900,000	5,520,592

A subsequent agreement with PTA was reached in November 2003 stipulating that the operational subsidy had to be phased out over a period of three to four years. The Government of Malta had, however, bound itself to keep paying a subsidy for the 'Karta Anzjan' and 'Students Pass.'

Subsequently, an agreement was signed between the Government of Malta, the Malta Transport Authority and PTA on 4 October 2004. This agreement detailed the payments that were to be made by the Government to settle the accrued subsidy due for 2004¹, and bound all parties to hold discussions in relation to a public transport reform. Although a new contract was planned to be signed with PTA, this never materialised. Thus, technically PTA were still bound by the relevant conditions of the 2004 agreement until their last day of operation on 2 July 2011.

Arriva Malta Limited

TM published a call for Expressions of Interest in July 2009, inviting candidates interested in providing public transport services in Malta for a period of ten years.

Four candidates submitted their bids for this tender, two of which were disqualified at the technical evaluation stage on the basis of non-compliance with mandatory tender requirements. The remaining two bidders satisfied the minimum tender requirements and proceeded to the financial evaluation stage.

Further scores were given with respect to the financial aspect of both bids and Arriva Malta Limited was chosen as the most advantageous bidder.

The Public Transport Concession contract for Malta and Gozo was signed on 20 November 2010. The contract, which is effective for a period of ten years from the commencement date, sets the terms and conditions with which the operator has to abide when providing the transport services. The compensation, payable by Government in equal monthly installments in arrears, was set at €8,225,000 for the first three years of operation and €5,325,000 for the remaining seven years.

Observation: Revision of original Compensation

The agreed compensation was revised eight months from

when Arriva Malta Limited started its actual operation on the island, in an addendum signed in April 2012, by virtue of which, a total compensation of €79,850,000 is payable to the operator over its ten-year tenure. The considerable increase of €17,900,000 in compensation, amounting to a variance of approximately 29%, over and above what was originally agreed upon in the contract dated 20 November 2010, was due to a request by the Authority for Transport in Malta, to the operator, to re-engineer the network and carry out substantial modifications.

Verification of 2011 Payments

MITC processed payments in 2011, in favour of both PTA and Arriva Malta Limited, amounting to €7,044,349 and €3,427,091 respectively. A sample of 11 payments (28%) out of a total of 39 recorded transactions was taken, the value of which amounted to €6,195,624, representing 59% of the total transacted value of €10,471,440. All five transactions made in 2011 relating to Arriva, each of €685,418 and in aggregate amounting to €3,427,091, were included in the sample taken by the National Audit Office (NAO). The following shortcomings were noted.

Public Transport Association

Observation: Annual Subsidy

The subsidy due to PTA for 1 January 2011 to 2 July 2011 was based on an agreed methodology between TM and PTA to calculate the annual subsidy.

Out of 34 transactions related to PTA, a sample of six, representing 18% and amounting to €2,768,533, was selected for testing. This represents 39% of the full amount paid to PTA during 2011.

Four of the selected six transactions, for a total value of €2,738,507, related to subsidies paid to PTA. These payments could not be verified against the agreement signed in 2004, since the latter did not stipulate how subsidy payments after the first year were to be paid. Thus, vetting of payments was very limited.

Observation: Additional Payments

Besides the subsidy, other payments were made to PTA during 2011 for Direct Services to Mater Dei Hospital

¹ The contract did not stipulate the amount of subsidy due to PTA for years other than 2004.

and other Express Service Routes during the first six months under review. Once again, no official agreement in connection with these additional payments has been traced.

Two transactions in the audit sample, amounting to €30,026, related to these other services provided by PTA. Since no agreement has been traced in relation to such services, again, checking of payments was limited.

Public Service Obligation – Maritime Transportation

In correspondence by the then Malta Maritime Authority (MMA), dated 9 May 2006, the Authority stated that *“Government has determined that it is imperative that given Malta’s (Gozo) dual insularity, and given that circa 90% of the islands’ trade is carried out by sea to/from mainland Europe, Malta needs to ascertain that there shall be a regular, frequent and safe means of transport by sea, linking Malta to the EU continent irrespective of the route’s commercial viability.”*

Subsequent to the above-mentioned correspondence, a Public Service Obligation contract was concluded between the Government and Sea Malta Limited. However, following the voluntary liquidation of the latter, the contract was then awarded to the Grimaldi (Naples) Group, through its subsidiary Malta Motorways of the Sea Limited (MMOS). The first contract with MMOS expired on 13 December 2006. Following its expiry, a new contract between the same parties, was signed on 28 March 2007.

It also transpired that an extension of three months to the initial contract was contemplated to begin as from 14 December 2006, to ensure that the standing contract at the time would not be allowed to expire, and thus leave the sector exposed.

In spite of the discussions indicated, no detailed examination of the extension of the contract was traced in the Departmental files provided to NAO by MITC. Departmental Accounting System reports for 2006 and 2007 revealed that no payments related to this three-month period were effected to MMOS from MCC. In fact, written confirmation to this Office from MITC stated that MMOS were out of contract between December 2006 and March 2007. Nevertheless, the company continued to provide the service uninterrupted without benefitting from a subsidy.

A new tender for the provision of Maritime Transport Services, for goods between the islands of Malta and any one port lying between the ports of Genoa and Reggio Calabria, and Palermo or Catania, was issued on 28 November 2006 with a budget of €349,406 (Lm150,000). Participation in this bid was regulated by means of an open tender procedure, as provided for in the Public Contract Regulations 2005 (Legal Notice 177/2005), and was open to all natural and legal persons of the Member States of the European Union (EU) and Candidate Countries.

MMOS was the only bidder for this tender. The evaluation committee was satisfied that the bidder successfully met all the criteria set in the tender document and subsequently recommended this supplier for award. Eventually, a new contract between the Government of Malta and MMOS was signed on 28 March 2007, for a period of five years until 27 March 2012.

For the five-year duration of the contract, MMOS was bound to charge prices to its customers as pre-determined in the contract. In order to offset MMOS’ potential negative financial effect of adhering to this contract, the Government was to provide compensation to the service provider for the amount of €349,406 (Lm150,000) per annum, which is the estimated operating loss agreed between MMOS and the Government. Payments were to be made quarterly in arrears.

Observation: Changes to the Initial Tender Document

Prior to the expiration of the five-year contract signed in 2007, a new call for tenders was issued on 13 January 2012. Originally, the tender was to cater for the same ports included in the previous contract (i.e. any one port between Genoa and Reggio Calabria, and the port of Palermo or Catania). However, following a request for clarification from one of the bidders, the tender document was amended to read ‘Any Port in Sicily’ instead of ‘Palermo or Catania.’

Two suppliers submitted their bids for this tender. Following evaluation, however, the evaluation committee agreed that both bidders were administratively non-compliant as they failed to submit specific information as requested in the tender document. Hence, none of the two bidders was recommended.

Observation: Contested Negotiated Procedure

A Negotiated Procedure with both bidders was approved by MITC in terms of the Procurement Regulations, to cover the service mentioned above. However, a letter of objection from one of the bidders was submitted to the Public Contracts Review Board, complaining that there was no reason, based on the requirements of the tender document, why the tender should be rejected by the Adjudication Board. As a result of this objection, the negotiated procedure could not be initiated. At the time of writing, *i.e.* end August 2012, a Court case was still pending in relation to this matter.

In these circumstances, an addendum to the contract with MMOS was made to extend the contract period by two months up till 31 May 2012, or until a new contract for the same services was signed, whichever came first. This would imply that this service is being carried out without covering approval.

Public Service Obligation – Inter-Island Transportation

On 16 April 2004, an agreement was signed between the Government of Malta and Gozo Channel Company Limited. The contract, covering a period of six years, gave rights to the supplier for the provision of ferry transport services between Malta and Gozo.

When this contract expired in April 2010², a new contract for the same services was signed in September 2011, between the Government of Malta and Gozo Channel Transport Joint Venture, following a call for tender. The fares charged by the successful bidder are regulated by the Gozo Passenger and Goods Service (Fares) Regulations as per Legal Notice 314 of 2004. These regulations are to remain in force throughout the period of the public service contract.

The Government of Malta is bound by the agreement to provide financial compensation to the contractor to cover the obligations imposed by the public service contract. Claims by the operator for such compensation for a particular financial year are to be worked out provisionally, based on the audited accounts of the operator for the previous financial year, and shall be duly submitted to the Minister responsible

for Maritime Transport. The applicable adjustments to these workings are made and implemented within three months of the presentation of the respective audited accounts of the operator.

Observation: Contract Addendum

In February 2012, correspondence between MITC and the Office of the Attorney General revealed that, inadvertently, the draft contract as published in the tender document was not utilised. Instead, the standard template used by the Department of Contracts was inserted and signed by both parties on 30 September 2011. An addendum to the contract was endorsed on 15 March 2012 to guarantee the proper fulfilment of the tender's objectives, and specify in more detail the rights and obligations assumed by the parties in terms of the contract.

*Information and Communications Technology Academic Programmes**The Malta College of Arts, Science and Technology*

Before measures were taken by the Government of Malta for academic year 2005/2006, tuition could not be offered by the Information and Communications Technology (ICT) Institute within the Malta College of Arts, Science and Technology's (MCAST), to all eligible applicants. This was the result of limited ICT lecturing capacity, restricted financial resources, as well as the limited physical space available at the College. Demand for the course increased gradually over the years, bringing along the need for capacity to increase at an equal pace.

A number of measures were therefore implemented by Government, such as the:

- granting of allowances to ICT lecturers and ICT deputy managers;
- recruitment of ICT lecturers;
- subcontracting of private training providers to run the same courses on offer at the ICT Institute; and

² Despite the gap between the expiry of the old contract and the inception of the new one, Clause 6.1 of the contract dated April 2004 states that, "...it is expressly agreed that this Contract cannot be renewed either expressly or implicitly for a period exceeding the grant of six (6) years... this clause does not preclude Gozo Channel from continuing to operate under the present terms and conditions until such time as a new contract is signed with Gozo Channel or some other third party."

- creating additional physical capacity at the Institute.

These measures ensured staff retention as well as the possibility to accommodate all applicants to MCAST's ICT courses.

In a Cabinet memorandum dated 15 July 2009, a number of recommendations were put forward for the academic year 2009/2010.

Amongst others, it was recommended that the allowances payable to ICT lecturers in academic year 2008/2009 were extended to the following academic year (2009/2010), since these allowances had proven to be effective in attracting and maintaining the required number of new lecturers to meet the increased demand at the ICT Institute.

In addition, Government funds were also to be provided to cover the salaries of the two project managers, who were engaged in 2007 to coordinate the relations between MCAST and the private training providers.

The Cabinet memorandum further recommended that new calls for applications were issued to increase the staff complement as well as the physical capacity at the Institute. The measures proposed in this memorandum were approved in the Cabinet meeting held on 20 July 2009.

Observation: Verification of 2011 payments

Payments to MCAST from the Consolidated Fund were made during 2011 to cover parts of academic years 2010/2011 and 2011/2012. Since no further Cabinet communication was traced, payments for 2011 were only vetted against the original Cabinet memorandum dated 15 July 2009.

Blue Med EU Programme

The Blue Med project is a regional Air Traffic Management development assignment, aiming towards the creation of a Functional Airspace Block (FAB)³ in the South-East Mediterranean, in accordance with the requirements of the Single European Sky initiative. The project commenced in 2012, with 2015 as a target date for full FAB operations.

³ Functional Airspace Block means an airspace block based on operational requirements, reflecting the need to ensure more integrated management of the airspace regardless of existing boundaries.

⁴ Consisting of the four EU Partner States (Italy, Cyprus, Greece and Malta).

The objective of the Single European Sky initiative is to enhance current safety standards and overall efficiency for general air traffic in Europe, to optimise capacity in meeting the requirements of all airspace users, and to minimise delays.

The programme was initiated by the Republic of Italy in 2006, and currently comprises four EU partner states (Cyprus, Greece, Italy and Malta), three non-EU states associated partners (Egypt, Tunisia and Albania), and two observer states (Lebanon and the Kingdom of Jordan).

Blue Med Functional Airspace Block Mission

The mission of the Blue Med initiative is to:

- enable growth – performance must improve to accommodate the projected growth of 75% more aircraft movements by 2020;
- reduce environmental impact;
- continue improvement of aviation safety; and
- improve cost efficiency.

MITC is leading Malta's involvement in this project. It engaged a number of professionals with the required expertise to handle the subjects in question. Payments were issued from the Blue Med EU Programme Line Item, to cover expenses incurred by MITC in connection with this project.

EU Community financial aid of not more than €2,825,872 is to be granted to the Beneficiaries⁴. This corresponds to 50% of the total eligible cost of the project. The remaining balance is expected to be funded by the respective Member States.

Observation: No formal agreement in place

A sample of payments made by MITC in connection with Blue Med in 2011 was taken for the purposes of this audit.

Out of 43 transactions, 16 were credit entries, and from the remaining 27 transactions, a sample of seven (26%) was selected, amounting to €75,489. This represents

75% of the total monetary value of the relative payments made in 2011.

Whilst checking a payment of €51,779 from the Line Item in question, to the Authority in charge of Transport in Malta, in relation to services rendered by Malta Air Traffic Services Limited, it was observed that no contract exists between the same and MITC. The latter was paid a total of €134,650 during the year under review.

Marine Software Engineering Cluster of Excellence

In 2007, a number of Government entities, these being the Malta Maritime Authority, the Malta Council for Science and Technology, Malta Enterprise, MCAST, the then Ministry for Investments, Industry and Information Technology, as well as the University of Malta, established MARSEC-XL⁵, in partnership with a private company.

The results of an economic impact assessment revealed that the project could potentially have a positive impact, including:

- a cluster of excellence in yachting with accumulated revenue greater than €93 million to be reached by 2011;
- a new highly specialised niche business sector, which can reach an annual revenue of close to €46.5 million by 2011;
- the establishment of a number of newly highly qualified work positions; and
- various students trained in topics related to marine software engineering through a collaboration with MCAST and the University of Malta.

NAO was informed that MARSEC-XL was discussed in a Cabinet meeting held on 21 January 2008, which approved funds specifically for this project to be used for:

- baseline research;

- development and dissemination of education and training packages; and
- job creation in Malta.

Verification of 2011 Payments

Payments made in connection with MARSEC-XL in 2011, totalling €300,000, were checked by this Office and were found to be in line with the Cabinet memorandum of January 2008. The payment procedure in relation to these payments was also correctly followed.

Malta Freeport Interest Payments

According to a document dated 3 October 1990, signed by the then Minister for Economic Affairs, in connection with the Malta Freeport Development, the Malta Freeport Corporation was assigned the duty and responsibility to ascertain the development of the Marsaxlokk Freeport, as required by the Malta Freeport Act, 1989. In addition, funds allocated for the construction of infrastructure, and for the procurement of equipment for the Freeport, formed part of the Vote of the then Ministry for Economic Affairs.

Correspondence received by NAO from the Malta Freeport confirmed that the clauses contained in the document referred to above, may be considered the basis for the origin of the loans made to Malta Freeport.

During 2011, payments amounting to €18,667,772 were made by MITC to the Malta Freeport Corporation for interest payments on a Bullet Bond 2028, which were charged to the Recurrent Vote under Programmes and Initiatives: Item 5480 - Malta Freeport Interest Payments. Other payments, for interest/capital repayments on a number of bank loans, were charged to Capital vote: Item 7089 – Malta Freeport Corporation (Development of Facilities).

MITC confirmed that it is not aware of any agreements between the Malta Freeport Corporation and the Ministry in connection with the loans' repayment. The latter further revealed that loan repayments started way before MITC was established in 2008.

⁵ A foundation set out to shape the digital future of the marine industry through the application of Marine Systems and Software Engineering.

Observation: No formal agreement in place

Both interest repayments made by MITC to Malta Freeport in 2011, in relation to the Bullet Bond, for a total of €14,034,770, were tested during the audit. It was claimed by MITC that initial verification is carried out by the Ministry, on every payment request. MFEI clearance prior to effecting payments is also to be obtained. However, a formal agreement between MITC and the Malta Freeport Corporation was not available, thus payments effected could not be validated.

Testing of other interest/capital repayments on bank loans held by Malta Freeport are dealt with under Capital (Malta Freeport Corporation – Development of Facilities).

*Contributions to Government Entities**Malta Communications Authority*

Budgetary Estimates for 2011 show that €400,000 were earmarked for MCA in connection with its activities in relation to the implementation of the Information Society initiatives, in line with the National Information Communication Technology Strategy. This amount was to be paid out as a subvention.

A Cabinet memorandum dated December 2008 was traced in relation to the Commonwealth Network of Information Technology for Development (COMNET-IT). According to this memorandum, COMNET-IT was originally a joint foundation set up in 1995 by the Commonwealth Secretariat and the Government of Malta.

COMNET-IT's activities have been largely related to ICT and the Foundation has often collaborated with national governments or multilateral organisations, including the EU. For some time, COMNET-IT was not meeting established goals, and eventually in 2007, Malta proposed its leadership in furthering the aspirations of the programme. As a result, in the re-drawn 2008 Ministerial portfolios, COMNET-IT was allocated to the Ministry responsible for ICT.

Observation: Lump Payments to Malta Communications Authority

All three payments made to MCA in 2011 were tested during the audit – a payment in March for €200,000,

a subsequent payment in August for €180,000, and a final payment in December for €20,000. Such practice goes against the provisions of Treasury Circulars No. 2 of 2004 and No. 4 of 2009, which state that subventions are to be advanced to the entities concerned in monthly tranches.

Correspondence revealed that MFEI approval had been obtained to release the subvention in two equal tranches of €200,000 in March and August. However, only €180,000 was paid in August since funds fell short. The remaining balance was settled in December following an approval for additional funds by MFEI.

Observation: Funds for the Programme not budgeted for

Payments relating to COMNET-IT were made by MITC during 2011, even though it transpired that the Budgetary Estimates for 2011 did not take the amount due to COMNET-IT into account. However, correspondence between MFEI and MITC confirmed that the remaining €112,500, due in connection with the foregoing programme, were advanced during the year under review.

*Capital**Grand Harbour Regeneration Corporation*

GHRC was set up in August 2007 as a Government entity under MITC. Its mission is to formulate and co-ordinate strategies and projects for the regeneration and development of the Grand Harbour and its surrounding areas, by commissioning necessary studies, both technical and financial, in relation to each selected project.

MITC officials confirmed that there is no hard agreement between MITC and GHRC. However, a Capital vote was created to cater for the expenditure to be incurred amongst others on the restoration and renovation works on Palazzo Zondadari, which houses the Minister's Secretariat.

Subsequently, the Ministry directed GHRC to claim refunds based on a number of conditions as indicated hereunder:

- A report from GHRC was to be obtained, confirming that all the works, services and supplies, in virtue of which claims for refund

were being made, were procured in accordance with the Public Procurement regulations.

- All invoices were to be certified correct.
- Copies of the respective receipts were to be obtained for those payments that were funded by MITC.

Observation: Payments not substantiated

Out of 12 payments in connection with GHRC during 2011, a sample of six transactions amounting €739,285 was selected, representing 83% of the total amount of €887,590. However, these payments could not be verified against any standing agreement.

It was also noted that the internal procedures set out by MITC, in connection with GHRC refunds, which were communicated to the latter, were not always followed. For example, for the selected sample, GHRC failed to present the respective certification of invoices and copies of fiscal receipts, in five out of six payments tested, totalling €737,598. Moreover, such documentation was not requested by the Ministry before payment was processed.

Malta Freeport Corporation – Development of Facilities

The origin of the capital repayments made by MITC, pertaining to Malta Freeport Corporation, is explained

under Programmes and Initiatives, line item 5480 (Malta Freeport Interest Payments).

Observation: No supporting agreement

Since as indicated earlier on in this report, no agreement exists between MITC and Malta Freeport Corporation, all nine payments made in 2011, out of the Capital vote: Item 7089 (Development of Facilities), for a total of €4,633,002 could not be validated. NAO also questions why only approximately 39% of the budgeted amount was utilised during 2011.

General Recommendations

MITC is to ensure that it does not proceed with payments unless a formal agreement or contract is in place. In addition, the Ministry is to ascertain that the basic internal controls and verification procedures are adhered to before payments are effected.

Subventions are to be advanced to entities in monthly tranches in accordance with the relevant Treasury Circulars.

Management Comments

Up to the writing of this report, no management comments were received, although NAO even extended the deadline for such submission.



**Ministry for Resources and
Rural Affairs**

Cleansing Services Directorate

Overtime Payments

Background

The Cleansing Services Directorate (CSD) provides Waste Management Services to Central Government and Local Councils, also promoting an environment free from refuse, rubbish, debris, litter, dirt or any other form of abandoned waste.

The main services provided by the Directorate are:

- street sweeping services of urban roads;
- collection of bulky waste from households;
- removal of accumulated waste in urban and non-urban roads;
- removal of carcasses from main roads;
- upkeep and manning of public conveniences;
- upkeep and cleaning of water culverts in arterial roads; and
- maintenance and cleansing of water reservoirs.

The audit covered overtime payments made to CSD employees during 2010. The cost of overtime incurred during the year under review amounted to €466,347, a substantial part of which, totalling €358,693, was recouped from third parties.

Audit Scope and Methodology

The scope of the audit was to evaluate the internal controls on overtime and to ensure that the adopted procedures comply with the relevant provisions set out in the Public Service Management Code (PSMC).

Meetings were held in order to gain knowledge about the functions of the Directorate and to establish the procedure for the administration and payment of overtime. Data submitted by CSD contained records of 330 employees who were paid for tasks performed after normal working hours during 2010. At a Confidence Level of 90% and a Confidence Interval of 14%, a sample of 30 officers was selected for testing.

The overtime payment due to each officer was re-computed and its eligibility confirmed. The relative Requests for the Approval of Overtime Work forms were examined to ensure that they were adequately completed and duly authorised by the Permanent Secretary (PS), in accordance with PSMC directives. The total overtime claimed against each of these requests was verified to confirm that it was performed during the authorised period and that the approved estimated cost was not exceeded.

As most of the Directorate's overtime related to beach cleaning, this Office obtained and evaluated the relevant documents in order to establish the responsibility for the cleaning of areas with concession permits.¹

Key Issues

Private Operators ignoring their Duties

The cleaning of beaches undertaken by the Directorate includes also designated beach concession areas used by

¹ Beach concession permits are issued to companies or individuals in order to provide bathing facilities to swimmers in specific areas. Such permits are given subject to terms and conditions which are binding on the permit holder.

operators to mount shade umbrellas. In a report on Beach Cleaning Activities in 2010, dated 18 January 2011, which was presented to PS, Ministry for Resources and Rural Affairs (MRRA), the Director expressed his concern that although beach concession operators are obliged to clean the assigned areas, in actual fact the operators were ignoring their duties. This situation has left CSD with no option other than using its own personnel to carry out these extra tasks. Consequently additional overtime hours had to be worked.

Documents reviewed during the audit confirmed that out of 14 beach concessions, 11 (79%) of the permits were granted on this condition. With regards to the other three beach concessions, although Malta Tourism Authority (MTA) is responsible for the beach management services, which includes beach cleaning, the latter confirmed that the provision of such cleaning was sub-contracted to MRRA.

The National Audit Office (NAO) is not aware of any enforcement action taken against the private operators for ignoring their beach cleaning obligations. Additionally, due to inadequate records available at the Directorate at the time of the audit, it was not possible to quantify the cost of these extra tasks performed.

Overtime paid to Ineligible Officers

An Officer in Scale 6 received €1,834 in overtime payments during 2010. In a communication dated 13 September 2011, the Director claimed that all employees are “entitled” to overtime with the exception of the Director and Assistant Director. An officer within CSD also made reference to the Salaries Pay Scales Schedules prepared by HR Systems and Data Management Directorate within Public Administration Human Resources Office (PAHRO), which contain an overtime rate even in the case of officers in Scale 6. However, this is not in line with Section 3.2.1.3 of the PSMC, which states that officers above the grade of Senior Principal (Scale 7) and analogous grades are not entitled to overtime pay.

As soon as the anomaly was brought to MRRA’s attention, payment for overtime to Officers in Scale 6 was stopped immediately and the attention of the HR Systems and Data Management Directorate was drawn to this effect. However no reply was received from PAHRO, following a request for clarification submitted by this Office on the matter.

Overtime Records not available

A lack of control was noted over the performance and respective payment of overtime. Although PSMC stipulates that overtime claimed is to be accompanied by a certified extract of the Attendance Book, no such records were kept during 2010. As a result, NAO was not in a position to confirm that overtime work paid was actually performed.

NAO was informed that during 2011, the Directorate started using Notification Forms which are sent daily to People Management and Support Services Directorate (PMSSD). Through these forms the latter is notified of each officer’s working location, normal working hours, vacation leave and any overtime hours, if applicable.

Control Issues

Opportunities for improvement were identified in the following areas:

Considerable Amount of Overtime

Most of CSD’s overtime, which collectively amounted to €466,347, was incurred for beach cleaning during the summer months. The need for such a considerable overtime expenditure was upheld in correspondence dated 24 October 2011 by PS, where it was stated that the Beach Cleaning Section has to resort to deploying workers for very long hours resulting in the payment of a substantial amount of overtime due to lack of staff.

Overtime claimed from Third Parties not adequately substantiated

As part of the audit testing, NAO deemed it necessary to confirm whether the Directorate recouped all costs involved in the case of recoverable overtime. A total of 14 overtime requests were verified, six of which related to recoverable overtime. Only two of these requests could be checked for a possible shortfall due to inadequate overtime records maintained. No shortcomings were noted with respect to one of these two requests mentioned. However, from the other overtime request, it transpired that CSD charged the Malta Council for Culture and the Arts €4,400 for overtime costing €4,621, resulting in a shortfall of €221.

The lack of adequate overtime records held by the Directorate can also be substantiated by the following particular situations encountered during the audit:

- a) The Beach Cleaning Unit (BCU) was transferred to MRRA during 2009. The cost incurred in respect of overtime work carried out during the same year in beaches administered by MTA was refunded by the latter in November 2009. However, only one periodic spreadsheet was prepared for overtime work performed in all beaches. From the information contained in such spreadsheet, one cannot distinguish between recoverable and unrecoverable overtime work. As a result, NAO was not in a position to reconcile the overtime hours worked on beaches administered by MTA, with the respective amounts invoiced by CSD and the relative payments received from the Authority.
- b) A similar issue was noted when attempting to reconcile overtime work carried out by the Directorate for St. Julian's Local Council with the respective payments received. The overtime spreadsheets contained record of overtime performed for different jobs carried out for the Council and also incorporated a record of overtime carried out in different localities. In fact, such spreadsheet only shows the overtime hours performed by each officer on a particular date, without identifying the specific task.

Following an audit query, CSD confirmed that *“matters have been rectified and we are now in a position to identify all overtime computed on each particular job”*.

Absence of Attendance Verification Systems

As stated in PSMC, Government was bound to introduce Attendance Verification Systems (AVS) in all its places of work by not later than December 2010. However, no such devices were being used within CSD by the time the audit fieldwork was concluded in November 2011.

When this matter was brought to the attention of the Director, PMSSD, NAO was informed that MRRA installed a number of AVS, but none were located at CSD. MRRA intended to procure additional ones, however Ministries were instructed by the Office of the Prime Minister (OPM) not to purchase further

equipment in view of a central tender issued by the latter, in this regard. Management stated that although the tender was awarded, the process stalled due to an appeal by an unsuccessful bidder. It was also declared that following the confirmation of the award of the tender by OPM, AVS will be installed in all Directorates.

Services provided only covered by Expired Contracts

St. Julian's Local Council contracted CSD for street cleaning as well as for cleaning and maintenance of public conveniences for a period of one year, starting 1 October 2007, at an agreed annual amount. CSD was also contracted by the Local Council for the collection of bulky refuse covering the same one year period. Following the expiry of these two contracts, the Directorate continued to provide services to the Local Council until 15 August 2010, at the rates stipulated in the expired contracts, until a notification was received by the Council to terminate such service.

Although no evidence was made available, CSD stated that following the expiration of the contracts, it exerted continuous pressure on the Local Council to issue fresh calls for tenders, which were eventually published in June 2010. In the meantime, the Directorate claimed that it was not in a position to stop cleansing operations in St. Julian's *“due to the fact that CSD was very conscious of this high priority area for the tourism sector.”*

Agreements relevant to the Directorate not available

Transfer of the Beach Cleaning Unit

During an introductory meeting held in June 2011, the Director explained that BCU became part of CSD during 2009. However, a signed copy of the Agreement regulating the transfer of such Unit from the then Department of Tourism was only obtained and made available to NAO during the first week of November 2011, when the audit was being finalised.

Beach Concession Permits

As already mentioned, the report on Beach Cleaning Activities in 2010, referred to the cleaning responsibility emanating from beach concession permits which is being ignored by the respective operators. When NAO

requested copies of such permits, in order to confirm the assertions made in the report, the Director replied that “CSD does not have access to contracts involving beach concessions”.

In view of the direct interest to CSD, the Director was advised by this Office to make the necessary arrangements to obtain such contracts and forward copies to NAO. Documents were only provided after the Director General, Government Property Division (GPD) ascertained that they were needed for audit purposes.

Funding Concerns

Funds for beach cleaning allocated to Local Councils

Notwithstanding that CSD is responsible for beach cleaning, a report by PS dated 6 April 2011, addressed to the Director General, Budget Office, Ministry of Finance, the Economy and Investment (MFEI), stated that Local Councils are also allocated funds for beach cleaning. In this report, it was remarked that these funds should be allocated to CSD, being the entity which is ultimately responsible for the provision of such services. However, six months later, the Director confirmed that no developments were noted in this regard.

Funds payable by the Malta Tourism Authority

CSD Director showed his concerns about the fact that the Directorate is performing cleaning duties in beach concession areas. An annual Beach Management Fee is payable by three beach concession operators to MTA. It is understood that such fee also covers beach cleaning by the latter. However, although the cleaning is performed by CSD, the Directorate is not being compensated by the Authority. This Office could not quantify the expense incurred by the Directorate for the cleaning of these areas due to inadequate overtime records which were being maintained.

In contrast with a statement from the Financial Controller at MTA, claiming that no fees are payable to CSD *vis-à-vis* beach cleaning, the Agreement undertaken on the transfer of BCU stipulates that extra cleaning duties in beaches administered by MTA are funded by the latter. This Agreement was applicable for 2009. However, according to communication dated 7 November 2011, the Director CSD confirmed that the same arrangements still hold.

Invoice to recover Overtime Cost not sent

An invoice to recover overtime worked during the Independence Day festivities in 2010 was only sent to the client on 22 September 2011, after NAO found no evidence that the Directorate requested payment. CSD confirmed that when the audit was being finalised, this claim was still outstanding and a statement was being sent monthly.

Compliance Issues

Approval of Overtime

Background

The Director is responsible for submitting requests for the approval of overtime to PS. Such requests are expected to include a list of employees who will be performing overtime, the duration of overtime which must not exceed three months in accordance with PSMC directives, the estimated overtime cost and the reason why the performance of overtime was required.

Shortcomings in the Request for the Approval of Overtime

Fourteen Requests for the Approval of Overtime Work were examined. A number of weaknesses, which indicate a lack of control over overtime and relative payments, are listed hereunder:

- In five cases overtime was approved for a period exceeding three months whilst in one particular case, it was approved for a whole year.
- Dates confirming PS’s approval for overtime work were not evidenced in 13 out of the 14 cases. Therefore, it was not possible to establish whether the approval was obtained prior to the commencement of such work or afterwards.
- A Request for the Approval of Overtime Work for beach cleaning during the period 12 June to 30 September 2010, for an estimated cost of €338,000, was dated 11 June 2010. PS’s authorisation for this request was only granted on 24 August 2010, more than two months after the relative overtime commenced.

- In another case, a request for overtime to be carried out from January to March 2010 was dated 5 January 2010. However, overtime claimed under this request included work carried out on 2 January 2010.
- The actual overtime expense incurred exceeded the estimated cost authorised by PS in six cases.
- In three instances, overtime was paid for periods which fell outside the authorised timeframe and for which no further approval was obtained.
- Approved requests for cleansing overtime works to be carried out in St. Julian's were used to claim overtime for work performed in a number of different localities. A similar instance was encountered when overtime hours in respect of cleaning carried out at the Jazz Festival were claimed against the approved overtime request for beach cleaning. As a result, overtime claimed against unrelated approved requests was performed without the necessary approval.

Recommendations

Key Issues

Private Operators ignoring their Duties

Failure by permit holders of beach concession areas to honour their respective cleaning obligations is increasing the workload of the BCU, resulting in unnecessary disbursement of public funds for overtime performed. Thus, since such beach concessions fall within the responsibility of GPD, CSD is to embark on a joint exercise with the latter to seek remedial action. Concessions are not to be renewed unless operators abide by the respective conditions.

Overtime paid to Ineligible Officers

Overtime is only to be approved for eligible officers. The anomaly between the provisions of PSMC and schedules issued by PAHRO is to be resolved without further delay in order to prevent misunderstandings.

Overtime Records not available

CSD is to ensure that adequate electronic and/or manual records are maintained to log overtime. These

will validate the performance of overtime hours worked prior to payment.

Control Issues

Considerable Amount of Overtime

Management is to seriously consider other more cost-effective ways in carrying out beach cleaning tasks. Attention is also being drawn to PSMC which states that overtime work should be resorted to only in exceptional circumstances. Overtime work is expected to be reviewed periodically with the aim of restructuring work processes in order to economise on such expense and increase productivity through other means. This Office reiterates the need to take enforcement action on operators of beach concession areas in order to reduce costs being incurred by CSD.

NAO also acknowledges the fact that a number of reports have been drawn up and high level meetings were held with the aim of addressing the issue of significant overtime costs. In fact, one of the options put forward by PS related to a service-wide call, inviting public officers in Salary Scales 18 to 20, to carry out beach cleaning duties with CSD during the summer months on a 12 hour shift basis. According to PS, this option will result in savings of around €250,000 annually.

Overtime claimed from Third Parties not adequately substantiated

It is important that adequate records are kept to ensure that overtime hours worked for each task can be easily identified. When overtime is reimbursable, this will enable the Directorate to compute the actual cost of each task performed and issue the relative invoice accordingly, thus avoiding the risk of providing services at a loss.

Absence of Attendance Verification Systems

AVS are an effective tool to capture employee attendances by means of electronic reading devices. These devices eliminate manual record keeping on attendance sheets and simplify payroll calculations. In this regard, action is to be taken for such systems to be installed as soon as the award of tender is finally confirmed.

Services provided only covered by Expired Contracts

Although the importance of clean environment of certain areas is acknowledged, it is to be ensured that extended contracts are substantiated by the appropriate official documentation. In the absence of such records, the parties are not legally bound by specific terms and conditions, thus increasing the possibility of misunderstanding and/or disputes.

Agreements relevant to the Directorate not available

CSD is to obtain and safeguard copies of any documents in which it has a direct interest. Only by following the provisions of such agreements or permits can the Directorate ascertain the precise responsibilities of the parties involved and take the necessary action when such duties are not fulfilled.

Funding Concerns

Funds for beach cleaning are expected to be channelled to the entity responsible for performing the task. With regards to the Agreement regulating the transfer of the BCU, efforts are to be made to clear misunderstandings regarding funds which may be due from MTA to CSD.

Invoice to recover Overtime Cost not sent

CSD is to issue claims in a timely manner and ensure that amounts due are collected whenever overtime is recoverable from third parties. Otherwise, the Directorate may end up bearing the expense itself.

Compliance Issues

Approval of Overtime

It is to be ensured that the period requested for overtime approval is within the parameters outlined in PSMC. Requests for overtime are to be raised in a timely manner to ensure that authorisation is granted prior to the commencement of the respective work. The date when approval was granted is also to be documented. Additionally, disbursements for the payment of overtime should not be effected unless the necessary authorisations and certification of attendance are obtained.

Management Comments

Management concurred with all the observations and has taken remedial action to implement most of NAO's recommendations whilst others will be taken on board in due course. The reply noted that "*all observations mentioned in the NAO Management Letter are all being carefully monitored and management is constantly assuring compliance with PSMC provisions in each overtime job*". The following comments were also submitted:

- A meeting was held in March 2012 with the Director, Estate Management. It was agreed that GPD will be providing all beach concession documents and a joint exercise will be held to enforce remedial action.
- Salaries Pay Schedules prepared by PAHRO for the year 2012 are now in line with PSMC provisions.
- CSD started using electronic and manual records to log overtime.
- The Directorate embarked on a process to establish work processes with the aim of reducing overtime performed by BCU during the summer months. CSD is in the final stages of recommending new work methods based on a shift system in order to reduce costs and overheads.
- Every overtime file now includes a statement indicating the relative cost of overtime, administration charges and machinery expenses. Upon the completion of works, the client is immediately issued with an invoice bearing all costs and a statement is submitted at the end of each month for overdue balances.
- Local Councils are being informed through official documentation to issue new tenders upon the expiry of contracts.
- The Directorate will endeavour to obtain all relevant agreements.
- CSD is constantly exerting pressure on MTA to clear any misunderstandings emanating from the BCU Agreement.

- Discussions were already held and the Directorate will keep exerting pressure to be given funds currently allocated to Local Councils for beach cleaning tasks. Additionally, MRRA *“is clearing the issue regarding allocation of such funds to Local Councils, if any, with MFEI”*.
- Immediate action was taken to ensure that the date for the approval of overtime by PS can be confirmed.
- In September 2012, the Directorate provided evidence that the amount due for work performed during the Independence Day festivities had been partially collected.

Environment Landscaping Maintenance and Project Works in Malta

Background

The Malta Embellishment and Landscaping Project (MELP) started operations on 1 November 2002 under the responsibility of the Ministry for Resources and Rural Affairs (MRRA), to control the running of the first Public Private Partnership (PPP) agreement in Malta. Following an Expression of Interest, the Environmental Landscapes Consortium Limited (ELC) was chosen to perform the function of the Urban and Rural Landscaping Section (URLS), which was responsible for the landscaping of various sites. Consequently, the entire URLS employees together with all operating sites and equipment were deployed with ELC. During 2011, MRRA incurred expenditure on landscaping both from recurrent as well as capital vote, amounting to €7 million and €465,000 respectively.

Audit Scope and Methodology

The scope of the audit was to ensure compliance with the provisions outlined in the Agreement entered into on 31 October 2002 and the Addendum to the Agreement dated October 2007, as well as to ascertain whether MELP monitoring unit is administering the foregoing Agreement efficiently. The method of procurement adopted for the landscaping services was also reviewed.

Various documents relating to the maintenance and project works were obtained and examined. In addition, transactions posted to the Below-the-Line (BL) accounts were traced to the Garden Fund (GF) account held by MELP and to any supporting documentation. Meetings were held in order to obtain an overview

regarding the audit to be performed, and the planned way forward, given that the Agreement is due to expire on 31 December 2012.

Key Issues

Agreement with the Environmental Landscapes Consortium Limited

First Extension to the Original Agreement

The initial five-year Agreement, for an estimated total value of €9.31 million per annum, was extended for a further five years and two months. This value was revised with the Addendum, to €7.45 million per annum. Although the renewal of the contract was approved by the Department of Contracts (DC), subject to the provisions of the Agreement which technically permitted such extension, the National Audit Office (NAO) still questions this option since, in the absence of a call for tenders, it was not even included in the call for Expression of Interest. Furthermore, this might result in such extension occurring perpetually, without giving the opportunity to other service providers.

Forthcoming Expiration of the Current Agreement

Although various analysis were carried out, and meetings were held in respect of the forthcoming expiration of the applicable Agreement, concrete actions have not been taken to initiate procurement for landscaping for 2013 onwards, at least by mid May when the audit was concluded. Consequently, the publication and adjudication of a potential tender may not be finalised on time.

Contract for Service of the Chairman managing Landscaping

Expired Contract with the Chairman

The contract with MELP Chairman expired on 31 October 2011 and another one covering the subsequent period was not available, even though the latter was still occupying the post. During March 2012, when the audit was finalised, DC granted approval of a new contract for the ensuing period until end December 2012.

Control Issues

Below-the-Line Accounts

Contradicting Clauses

The Addendum includes clauses which are effectively contradictory to a condition stipulated by the then Ministry of Finance. The latter granted approval to open BL accounts, wherein revenue deposited was to be used to supplement recurrent expenditure. However, as agreed to in the Addendum, an amount of €96,139 from the amounts accumulated over the years, was used in 2011 to carry out upgrading works considered as capital expenditure.

Transactions erroneously recorded in the Below-the-Line Accounts

Transactions pertaining to other entities were erroneously posted by MRRA in BL accounts. These comprised 14 payments amounting to €59,803 which were corrected when highlighted by MELP, a credit entry of €16,064 neutralised by a respective debit entry and two transactions amounting to €1,659 intended to be corrected following NAO's remarks.

Accounting Entries not substantiated by MRRA

Income amounting to €483, posted by MRRA in BL account, could not be substantiated by the latter due to lack of audit trail. Eventually, MELP confirmed that this income related to an amount of €250 received at the end of the year 2011 but recorded in GF in the subsequent year, and €233 paid directly to MRRA but considered as still pending by MELP since the latter was not informed accordingly.

The Garden Fund

Inaccurate or Incomplete Records maintained

GF maintained by MELP included inaccurate or incomplete data, rendering such records unreliable. Furthermore, since not all transactions were supported with appropriate documentation, correctness of amounts and the respective details could not be verified.

Rates charged for use of Public Gardens not verifiable

Accuracy of €2,351 charged for use of public gardens could not be ascertained due to incomplete information on the respective documents and copies of applications not attached. In addition, less income was derived from a third party, who was charged €349, in this case 50% less than the applicable rate.

Cancelled receipt not retained to substantiate unrecorded amount

The original receipt of €116 was not retained by MELP, to support an unrecorded amount. The latter claimed that the permit was "*Probably same day cancellation*". However, this could not be validated due to lack of records.

VAT Issues

Incorrect Calculation of VAT due

The Value Added Tax (VAT) due to VAT Department, which should be forwarded through MRRA, was incorrectly calculated by MELP on various instances. In addition, VAT on two transactions was totally excluded from such calculation.

VAT on Permits

The decision by MELP and MRRA, not to charge VAT on permits, could not be substantiated since no supporting documentation was available from the VAT Department.

Certification of Works and Invoices

Endorsements

Five certificates amounting to €350,745, comprising a breakdown of MRRA project works, were not

individually endorsed by MELP Chairman. Although these formed the basis of the global certification document, the latter was still approved. Furthermore, lack of endorsement on invoices for maintenance works carried out in Gozo was also noted.

Insufficient Details and Liaison

Insufficient details on 12 invoices, amounting to €6,988,271, provided no proper evidence in support of the amounts paid. Furthermore, it transpired that there is lack of communication by MRRA, since MELP claimed that the former is not keeping it abreast on payments effected directly by MRRA to ELC.

Variations

Unrecorded Variations

The Addendum specifies that, if the variation limit of +15% is envisaged with respect to the established area, discussions are to be held between the Government and ELC, to determine whether the latter shall be exempted from covering extra areas or increasing the consideration. However, since extra areas only started being recorded as from March 2011, this hindered checking whether the set variation limit was approached or exceeded. It was also not possible to establish the financial implication, if any.

Variation Limit Exceeded

In September and October 2011, the percentage increase of the areas covered by ELC was 21.06% and 21.93% respectively. Although MELP managed to convince ELC not to claim for extra areas covered, the latter may still be entitled for any payment requests submitted in this respect, in the absence of a stipulated time limit.

Changes to Areas not updated and inappropriately recorded

Proper verification of rates charged, whereby changes were made to the agreed areas and/or maintenance levels, could not be carried out due to records not updated by MELP or data inappropriately recorded. This may lead to unnecessary payments being made to ELC.

Other Matters

Supporting Documentation not available

Since documents used for both maintenance and project site inspections were not filed with the certificates for payments, the basis on which amounts were certified is not evident.

Lack of Documentation in Project Files

Although approved costs were at times exceeded, revised costs of works were not always available to verify MELP's consent for such changes. In addition, an order to start works was not issued by MELP, to confirm approval given to ELC, to commence works amounting to €19,014.

List of Trees/Plants not updated

The Addendum to the Agreement stipulates that trees, plants, flowers etc. are to be purchased mainly from *Wied Inċita* Nursery at the agreed rates. Since the respective list was never updated, it was not possible to establish whether species not included in the original list were purchased accordingly.

Compliance Issues

Rounding up Rules on Euro Conversion not followed

A rate quoted at Lm1.35 per square metre was not converted in accordance with the established rules on rounding. Though the amount *prima facie* appears to be negligible, considering that the rate of €3.15 was applied rather than €3.14, ELC are being regularly overpaid €607 monthly.

Over/Under Payments

In a period of one year, the Contractor was paid an additional amount of €130,320 over and above the agreed amount as per Addendum. This overpayment was due to additions to areas erroneously charged for and changes to maintenance levels, which were not possible to verify whether these resulted from new projects or upgrading. Furthermore, rates charged were intentionally lowered by MELP to include new areas within the same budget, resulting in an underpayment

of €89,865. Therefore, the net difference could not be accurately quantified.

Ineligible Claims for Services rendered

The Addendum stipulates that, “Rates chargeable to third parties for use of the gardens shall be reviewed annually ...” and “All expenses incurred by the Contractor (e.g. overtime, additional cleaning, etc.) are to be considered as his contribution to the improvement of the gardens”. Instead of reviewing the rates charged every year, MELP negotiated with ELC that the latter would be paid for extra expenses incurred. In fact, rather than MELP benefiting from additional revenue over the years as expected, six claims in aggregate amounting to €4,108, were made by ELC for settlement of overtime and cleaning carried out between 2010 and 2011.

Gate Money and/or Revenue Making Activities

Following an organiser’s request of a particular annual event, MELP agreed to reduce to 10%, the stipulated rate of 15% of gate money and/or revenue making activities. Apart from deriving less income, such negotiations set a precedent that can have future negative implications.

Additional Labour Charge for Planting

The Addendum stipulates that no labour shall be charged for planting. However, NAO noted that an amount of €1,221 was erroneously paid by MELP to the Contractor in this respect. Although this will be deducted from the next certificate of payment, public funds may be disbursed unnecessarily if the former does not ensure that payments made are according to the Agreement.

Reporting Requirements

The following reports were not available, even though the Contractor is obliged by the Addendum to submit these to MELP:

- a list of all theft/damages encountered on site, including estimated costs and programme for their replacement/repair;
- the list of employees and relative offence describing the respective disciplinary measures/

procedures taken as well as the status of pending disciplinary procedures (if any); and

- the list of new employees indicating their roles.

Dual Currency Display

Although the Addendum was signed during the dual currency display period, amounts quoted therein were only prescribed in Maltese lira.

Misallocation of Expenditure

Maintenance and project works, amounting to €6,999,999 and €465,000 respectively, were inappropriately recorded in account ‘Repair and Upkeep - Sundry Repairs’, rather than in account ‘Other Contractual Services’, given that such services were obtained by the Government under contract.

List of Authorised Signatories

Following the audit, NAO was provided with a list of authorised signatories dated 11 September 2003, which may imply that an updated list in terms of Treasury Circular No. 5/2008 was not prepared.

Recommendations

Key Issues

Agreement with the Environmental Landscapes Consortium Limited

First Extension to the Original Agreement

A fresh call for tenders is encouraged, in order to ensure that the best rates and conditions are obtained within the framework of a transparent and fair selection process. Furthermore, extension clauses in agreements are to be approved only if they were already incorporated in the original call for tenders.

Forthcoming Expiration of the Current Agreement

If it is still Management’s intention to farm out this service, it is imperative that the drafting of the tender and its publication is given the highest priority, especially in view of the tight timeframes.

Contract for Service of the Chairman managing Landscaping

Expired Contract with the Chairman

In similar future instances, a valid contract is to be drawn up and the necessary authorisation from the appropriate level of authority is to be obtained, prior to the expiration of the existing contract.

Control Issues

Below-the-Line Accounts

Contradicting Clauses

This matter is to be taken into consideration, prior to concluding any future agreements in order to address the issue of contradicting clauses.

Transactions erroneously recorded in the Below-the-Line Accounts

BL accounts are to be used strictly and solely as per conditions stipulated in the authority to open the accounts in question.

Accounting Entries not substantiated by MRRA

All records are to be backed up with sufficient information. MRRA is also expected to inform MELP when receiving income directly.

The Garden Fund

Inaccurate or Incomplete Records maintained

NAO's observations are to be addressed accordingly. In addition, controls over computer inputting of records are to be strengthened and supporting documentation is to be retained in the relevant file.

Rates charged for use of Public Gardens not verifiable

Adequate information is to be included on the relevant documents and rates charged correctly.

Cancelled receipt not retained to substantiate unrecorded amount

Original cancelled receipts are to be retained to support the unrecorded revenue.

VAT Issues

Incorrect Calculation of VAT due

All VAT amounts are to be accurately and sequentially included in the calculation of VAT due.

VAT on Permits

MELP is to obtain written confirmation from the VAT Department to substantiate the decision in question.

Certification of Works and Invoices

Endorsements

Before effecting payments to ELC, the responsible officer is expected to ensure that, every individual certification of amounts due is duly endorsed by MELP Chairman and invoices for maintenance works carried out in Gozo are endorsed accordingly.

Insufficient Details and Liaison

Detailed invoices from ELC are to be requested by MRRA. In addition, MELP officers are to be regularly provided with a breakdown of payments effected by MRRA.

Variations

Unrecorded Variations

Whilst acknowledging that presently a list of extra areas covered is being compiled, it is emphasised that any type of information is to be recorded for monitoring purposes.

Variation Limit Exceeded

The agreed outcome of verbal discussions is to be documented and duly signed by both parties.

Changes to Areas not updated and inappropriately recorded

Records are to be updated in a timely manner and variations adequately recorded.

Other Matters

Supporting Documentation not available

Site inspection documents are to be duly endorsed and filed accordingly.

Lack of Documentation in Project Files

Any relevant documents are to be properly filed and also endorsed for future reference.

List of Trees/Plants not updated

This list is to be updated periodically by the Contractor and a copy forwarded to MELP.

Compliance Issues

Rounding up Rules on Euro Conversion not followed

Rate is expected to be adjusted in line with the established rules on rounding.

Over/Under Payments

MELP is to ensure that rates charged are as stipulated in the Addendum.

Ineligible Claims for Services rendered

The terms and conditions stipulated in the Addendum are to be adhered to.

Gate Money and/or Revenue Making Activities

Established rates are not expected to be negotiated.

Additional Labour Charge for Planting

Amounts charged are to be thoroughly checked by MELP in order to detect any extra charges.

Reporting Requirements

While MELP is to ensure that ELC has submitted all relevant reports, the latter is to be aware of any consequences of late or non-submission, which may lead to the withholding of payments if deemed necessary.

Dual Currency Display

The pertinent Legislation and/or Guideline are expected to be followed as appropriate.

Misallocation of Expenditure

Payments are to be appropriately posted in the respective account. Reference is also to be made to the Financial Estimates 'Explanatory Notes on Standard Objects of Expenditure', which give indications of what certain titles of expenditure comprise.

List of Authorised Signatories

Actions are to be taken by MRRA in order to update the list of authorised signatories on a regular basis.

Management Comments

Management concurred with most of the recommendations put forward by NAO and action has already been taken to address certain areas. The following comments and reservations were also submitted:

- After Government considered NAO's recommendation and keeping in view that similar PPP contracts usually are for periods of around 20 years, it was decided that the present contract should be extended for a further seven years without the possibility of a further renewal.
- A second officer is now verifying rates charged for use of public gardens and the schedule of rates is being modified in order to avoid any possible misunderstandings.
- Since MELP requested an updated list of trees, plants, flowers etc. from ELC on various occasions but to no avail, this is being compiled by the limited technical officers at MELP.

- The Addendum does not cover upgrades in already existing sites, which did not involve new projects. However, action should be taken to clarify payments relating to changes in maintenance levels, in the eventual new agreement.
- Additional payments with regard to services rendered have been permanently withheld. This

issue will also be discussed before entering any new agreement.

- As stated by MELP, the stipulated rate of gate money and/or revenue making activities should be analysed and discussed further for the eventual new agreement.

WasteServ Malta Ltd

Capital and Recurrent Expenditure

Background

The audit focused mainly on expenditure from Capital Vote, Line Item 7164 – ‘WasteServ Malta Ltd’ under the Financial Estimates for the Ministry for Resources and Rural Affairs (MRRA), which budgeted expenditure amounted to €8,200,000. Furthermore, a range of expenditure items from Line Item 5426 – Solid Waste Management Strategy, Recurrent Vote 19, under Programmes and Initiatives, showing a budgeted figure of €7,000,000 was also selected. The sample from the Recurrent Vote was limited to Transport, Professional Fees, Subcontracted Labour and Hire of Vehicles and Equipment. Actual capital expenditure as per the Departmental Accounting System (DAS) amounted to €6,699,984, whereas actual recurrent expenditure amounted to €8,378,179.

Audit Scope and Methodology

The scope of the audit was to ensure that procedures adopted by WasteServ Malta (WSM) for procurement are adequate and in compliance with standing regulations and policies. Capital expenditure was also assessed in terms of timeliness in execution and monitoring of project costs and quality, in relation to the budgets and timeframes.

Testing was carried out to ascertain that procurement was approved from the appropriate authority levels and covered by the necessary documentation. A number of departmental files were reviewed in order to assess the procurement process.

Limitation of Scope

Validity and correctness of payments with respect to the hire of a stand-by generator could not be ensured since no contract was entered into indicating the applicable rates. Furthermore, due to insufficient details on the invoices, it was not possible to tally the rates charged with the quoted prices. In addition, the respective calls for quotation, as well as the Adjudication Report, were not made available for audit purposes, hindering the planned verifications.

Key Issues

Sub-contracted Labour

Background

On 31 January 2008, WSM Board of Directors approved the issue of a tender for the provision of personnel services, for sites managed and operated by WSM, with an estimated value of €1,111,529. This estimate included the cost of salaries, overtime, social security contributions, etc., as well as the contractor’s commission. Permanent Secretary (PS) of the then Ministry for Rural Affairs and the Environment, and WSM, also sought approvals from the Director General (DG) (Budget Affairs) MFEI as required by OPM Circular No. 20/2006, to issue this tender, covering the contract for service of 101 personnel, for a period of six months.

Following consultation with the Financial Management & Monitoring Unit (FMMU), DG (Budget Affairs)

approved the request on 4 April 2008. However, it was stressed that the procurement of these services should not constitute recruitment of personnel. DG (Budget Affairs) also advised WSM to re-consider the contracted period since “a six month period is rather a short period in order to receive for more favourable offers”.

A tender was awarded for the provision of labour supply in respect of Waste Sorters, Operators, Drivers and semi-skilled General Duty Personnel as well as Executive staff, for sites and/or offices managed and operated by WSM. The sub-contracted employees were subject to the same conditions and salary package as their counterparts directly employed by WSM. Following the award of tender, the contract was then signed on 25 June 2010, with a value of approximately €2,375,000, for a period of one year from the date of signature. This contract specifies that WSM is not to be billed for any absenteeism of the contractor’s employees, whether they are on vacation or sick leave, and that monthly payments will be made to the contractor within 90 days from date of receipt of invoice.

Substantial changes to what was approved by the Ministry of Finance

On 1 November 2011, an Addendum to the Contract was signed, wherein substantial changes were endorsed. The value of the contract was reduced to €1,600,000, but specifying that it only covered the commission element, the period was extended for a further three years, and the amount of personnel that could be engaged was set at a maximum of 350.

Thus, the contract conditions following the signing of the Addendum, compared to the original proposal approved by Director General (DG) (Budget Affairs) were as follows:

- a) the six month period was increased to four years;
- b) the value of €29,186,207 for the four years of the contract, including remuneration and commission, contrasted sharply with the amount of €1,111,529 originally approved; and
- c) maximum personnel increased to 350, compared to the 101 as per proposal.

DG (Budget Affairs) approval for these changes was not sought and neither was the latter updated with the respective changes.

Significant variations to Contract Conditions approved by the Department of Contracts

Absenteeism charged

From the sampled invoice, dated 31 July 2011, it was noted that out of six employees, five availed themselves of sick or vacation leave during that month. However, these were not reflected in the bills raised by the Contractor, and no deductions were made in respect of these absences. Moreover, WSM paid the full amount in accordance to the invoice. The value of the aggregate leave as per sample amounted to at least €533, *i.e.* 11% of the basic salary of the respective employees.

Credit terms not taken advantage of

The applicable 90-day credit term was not always taken advantage of to the maximum. For example, one of the two invoices in the audit sample, dated 31 July 2011, was paid on 27 September 2011, *i.e.* a month in advance of the due date.

Expired Contract

Though the contract expired on 26 June 2011, the service still continued to be provided up to 31 October 2011. A retrospective Addendum was eventually signed on 1 November 2011, *i.e.* more than four months after the expiry date. This extension, which was endorsed by the Department of Contracts (DC), was not provided for in the contract.

Significant changes in the Addendum

Besides the variations mentioned in the previous observation, the section referring to non-payment for any amount reflecting absenteeism was removed, the credit period was reduced from 90 to 60 days from invoice date, and the contract commencement date was changed from 26 June 2010 to September 2010 (with no specific date). The changes brought about by the Addendum were very significant and contradict the conditions set within the tender document. Furthermore, the invoices relating to the period prior to 31 October 2011 were not in line with the contract conditions, and were only ‘regularised’ retrospectively through the signing of the addendum.

Long Delays and Substantial Cost Variations on Capital Projects

As highlighted in the subsequent observations, throughout the audit testing it was noted that a number of capital projects experienced long delays and substantial cost variations. Although a certain amount of delays is acceptable, it cannot be denied that such delays or changes in one tender would very often have ripple effects on other tenders relating to the same project. This would result in additional costs, also contributing to the substantial cost variances.

Sant'Antnin Waste Treatment Plant

Supervisory Consultancy Assistance

Background

One of DC tenders issued by WSM was for a Supervision Consultant to assist during the implementation of *Sant'Antnin* Waste Treatment Plant and Materials Recovery Facilities projects. Although the original value of the contract was €317,300 over a period of 18 months, with the possibility to extend it for a further six months at the discretion of DC, the contract was actually extended for a further 43 months, at an additional cost of €463,154, as explained below.

Extension and Cost Variation

Subsequent to the expiry of the contract with the Supervision Consultant, although not provided for in the same contract, an addendum was signed on 12 June 2008 where, after the six-month extension, the period was extended for a further 15 months. Moreover, another addendum signed on 21 November 2008, increased the value of the contract by €128,698. Both addenda were endorsed by DC.

Additional Contract signed and further Cost Variation

Following negotiated procedures taking place a year later, *i.e.* in November 2009, another contract dated 12 February 2010 was entered into, covering the period from 1 October 2009 up to the issue of the Final Compliance Certificate, and including retrospectively the four-month period from June to September 2009. The approved cost of this second contract, also endorsed by DC, amounted to €253,808.

Additional Claim for Compensation by the Contractor

Besides the costs quoted above, the contractor made a further claim of €80,648 on 23 September 2011, to compensate for extended services, attributable to delays by the other contractors actually carrying out the works. WSM remarked that this amount was being claimed back from the respective contractors, but no amicable agreement had been reached by 24 August 2012, *i.e.* as at date of audit testing.

Hire of Stand-by Generator

In view of the Malta Environment and Planning Authority (MEPA) permit and Enemalta Corporation requirements to have a stand-by generator always on site, WSM had to resort to the hiring of a generator until the actual purchase was made. Costs incurred amounted to €26,599 excluding VAT. These covered the hire and ancillary costs for a period spanning from November 2010 to December 2011, as indicated by the 13 invoices issued during this period.

Lack of Transparency in the Procurement Process

Audit testing revealed lack of transparency in the procurement process as well as several shortcomings related to the hire of a stand-by generator at *Sant'Antnin* Waste Treatment Plant as outlined below.

- a) Although requested several times for audit purposes, a copy of the respective call for quotations was not provided to determine the specifications of what was actually requested and when. The related report by the Adjudication Board was also not provided.
- b) Despite the fact that three quotations were filed, it was not possible to compare the different quotes obtained since:
 - i. the first quote dated 6 October 2010 referred to a 150 kVA generator;
 - ii. the second quote dated 2 November 2010 was for an 850 kVA generator; and
 - iii. another quote dated 3 November, also for an 850 kVA generator, was received from a foreign supplier. However, this quote did not include transportation and installation costs.
- c) Notwithstanding that the amount involved was in excess of the applicable threshold, the hire of

the stand-by generator was acquired from the open market, without the necessary approval from MFEI.

- d) Due to insufficient details on the respective invoices, it was not possible to reconcile the rates charged with those quoted. Moreover, whilst the quotation of the selected supplier refers to a price of €275 per day if taken for a minimum period of three months, purchase orders prepared by WSM and the related invoices referred to a rental charge of only €820 per month.
- e) A contract to cover the hire of the generator was not entered into. Thus, the National Audit Office (NAO) could not validate the rates being charged. The absence of a contract and documentation supporting the procurement process limited the scope of the audit in this area, to ensure fairness and transparency.
- f) Besides fuel costs amounting to €1,886, substantial additional costs were incurred relating to the hire of the generator, for transportation, repositioning and maintenance, amounting collectively to €25,117 (excl. VAT). In fact, the cumulative costs over a 13-month period amounted to approximately 25% of the value of the new generator, eventually purchased on 11 July 2011 for a total cost of €103,628 (excl. VAT).

Clearing of Topsoil and other Material at the Waste Transfer Station

Background

A Waste Transfer Station was to be developed by WSM at *Tal-Kus* limits of *Xewkija* in Gozo. Material from the Quarry and Waste Transfer Station Area was to be cleared before commencement of work. The execution of this contract took over five months when it was planned to be finalised within 30 days. The following shortcomings were also noted.

Budgeted amount not substantiated

No detailed budget was prepared in connection with the drawing up of the tender. The only relevant document provided was an email dated 4 October 2010, stating that €120,000 excluding VAT was budgeted for this tender.

MEPA notified after the Commencement of Work

According to the Construction Management Plan presented to MEPA, WSM and the contractor had to present a statement to the Authority, as well as the Superintendence of Cultural Heritage, two weeks prior to commencement of works, in order to outline the method to be used to carry out this task. However, MEPA was only informed on 1 March 2011 that the cleaning of material was due to commence on 28 February 2011. Moreover, following the exchange of various correspondence between WSM, MEPA and Superintendence of Cultural Heritage, the order to start works was eventually rescheduled to 23 May 2011.

Another condition emanating from the Construction Management Plan presented to MEPA was that a toothless bucket was to be used for the removal of material. This condition was not indicated in the tender, and apparently triggered a slower progress of work which resulted in a further extension to the contract till 12 August 2011.

Tender conditions not observed

The tender conditions stipulated that the contractor had to draw up a daily report, which included the total number of hours the plant was in use and details of the work performed. Notwithstanding this condition, as well as two requests made by WSM to comply, neither the daily reports, nor the respective dumping chits to substantiate the work performed, were provided. Additionally the contract provided penalty clauses, but no such fines were charged to the contractor for non-compliance. The lack of enforcement by WSM may lead to the same requirements being overlooked.

Ghallis Landfill

Rock Excavation at Ghallis Landfill

Background

The then Ministry for the Environment was granted dispensation, as per Public Procurement Regulations 1996, to oversee and regulate the procurement related to rock excavation and ancillary works at *Ghallis*. A tender was awarded for such works for a total value of €18,740,049, including a contingency of 10%. Up to 31 May 2012, €14,499,856 were spent on this contract.

Contract exceeding the indicated Three-Year Period

The contract considered the date of Letter of Intent, *i.e.* 5 May 2006, as the date of commencement. Thus in effect, this increased the contract period with nearly another five months to the three years stated in the contract.

Disparity in Quantity of Rock required

The total volume of rock to be excavated, as indicated in the contract, amounted to 1,266,500 m³, while Bills of Quantity included as an appendix to the contract showed requirements amounting to 1,520,000m³.

No Bank Guarantee

Though the contract obliged the contractor to have a bank guarantee for the sum of at least €232,937 (Lm100,000) for the duration of the contract, no valid bank guarantees covering years 2011 and 2012 were made available to NAO, despite various requests to WSM. Only a copy of the original bank guarantee dated 25 July 2006, for the sum of €91,416 (Lm39,245) which expired on 28 January 2007 was filed. Thus any potential claims imposed on the contractor cannot be entertained.

Verification of Invoices not properly carried out

Despite the survey sheets¹ and invoices² being endorsed by a number of officials, it was noted that invoices for a period spanning from March 2010 to February 2012 were being charged using Blasting rates, when the excavation was actually being done by Heavy Machinery due to a change in MEPA requirements. This was expected to be charged at €10.94 per m³ as against the invoiced rate of €9.36 per m³. Neither the survey sheets nor the contractor's invoices specified the type of excavation used on site during a particular period.

It further transpired that in January and February 2012, the contractor eventually invoiced WSM for the difference in the applicable rates, in aggregate amounting to €452,065.

Extension of Agreement not formalised

The contract included a clause stipulating that, in the event of delays caused by unforeseen circumstances beyond the reasonable control of the contractor, an extension of time may be granted subject to mutual agreement and confirmed in writing. However, despite that the contract expired on 30 September 2009, and was still in operation towards the end of 2012, there was no official agreement between WSM and the contractor to extend the contract. This could have resulted in potential unregulated disputes.

The only request made by WSM to DG Contracts to extend the contract was on 20 June 2012. Moreover, in the respective correspondence, the former also requested to increase the value of the contract by an additional €1,210,000, representing a 6.5% increase on the original total agreed value. Though a new call for tenders for further Rock Excavation and Ancillary Works was issued on 11 May 2012, and offers were scheduled to be received by 5 July 2012, WSM contended that it was very critical to retain the present contractor to complete one 'waste cell', which excavation should be completed by the end of January 2013.

*Construction of a Geosynthetic Lining System**By-passing Procurement Regulations*

The Schedule of Prices and Rates prepared by WSM, for the construction of a Geosynthetic Lining System for the Ghallis Landfill indicated that the estimated value amounted to €212,400, excluding VAT. Notwithstanding this, rather than going through DC as required by the Procurement Regulations, in 2010 WSM opted to issue a departmental tender up to the applicable threshold, in breach of section 16 (3) of the Public Procurement Regulations.

A request for approval to cover the procurement by departmental tender, which was already published and adjudicated, was sought from DC on 8 February 2011. However, it was not conceded since the contract value was in excess of the departmental threshold of €120,000, and thus "*should have been issued through the Department of Contracts,*" and "*the respective*

¹ Survey sheets were signed by Chief Operations Officer or by a WSM Quantity Surveyor

² Invoices were endorsed by Works Manager and by Chief Executive Officer or Chief Projects Officer.

tender notice should have also been published through the EU Journal”.

Fun Park in Marsascala

Background

The tender published in September 2009, relating to the Construction of Information Centre and the Storm Water Culvert on the site of the Family Fun Park in Marsascala, was awarded for the amount of €692,970 (excl. VAT).

Upon commencement of works, a number of live electricity high-tension cables were discovered running within the site area. Immediate action was taken to investigate the matter with Enemalta Corporation in order to determine the course of action necessary to disconnect these cables and shift them to another location in the vicinity. Notwithstanding that during the planning application process the latter had made no conditions or comments to this effect, as was their obligation, WSM was directed to unearth the cables and shift them to another trench.

Delays and variations in completion of the Project

The completion of works relating to the construction of Information Centre and the storm water culvert took twice the time planned, and practically double the tendered price, as indicated below.

- a) Although as per tender provisions, works were to commence not later than 23 June 2010 and completed by 18 January 2011, an addendum endorsed by DC, entered into on 19 January 2012, extended retrospectively the period of execution till 25 August 2011.
- b) Variations totalling €545,988 (excl. VAT) were approved by two addenda signed on 11 October 2011 and 19 January 2012 respectively. As stated by WSM, the main additional costs were related to “increased excavation quantities, revision of the designs by the Contracting Authority and Under-Qualification within the Bills of Quantities”. This excludes further costs reported upon under the next observation, relating to claims for compensation due to damaged cables.

Claim for Compensation for Additional Costs due to Damaged Cables

On 3 September 2010, the contractor wrote to the Project Leader, highlighting a sequence of events that resulted in the cables being damaged and necessitating replacement. The contractor claimed that he was not to blame for such damage and requested compensation for the additional costs incurred. The Project Leader supported the contractor’s claim and through letter dated 20 October 2010 addressed to WSM, it was stated that the contractor was not liable as he had acted as instructed. Subsequently, a request for approval of two direct orders, one amounting to €77,768 for trenching and cable shifting works, and a further €60,118 in respect of reconstruction of the storm water system, both excluding VAT, were approved by DC on 19 January 2011. The contractor was paid accordingly on 25 January 2011.

Although WSM expected that it will be reimbursed by Enemalta Corporation for the trenching and cable shifting works, and an invoice to the latter was raised in this respect on 3 March 2011, there was no written agreement stipulating that these expenses will be reimbursed. As at time of audit, *i.e.* 24 September 2012, no reimbursement had yet been made, as the Corporation contested certain items shown in the Bills of Quantity.

No Insurance Cover for the Extended Period

Although one of the requirements in the tender document was to have an insurance cover throughout the project, the insurance policy expired on 18 January 2011 and was not renewed thereafter to cover the extended period, *i.e.* till 25 August 2011. In the absence of a valid insurance policy, intended to protect the interests of the contracting authority, the latter is rendering itself more vulnerable to risks inherent from the performance of the contractor, and at the same time limiting the actions that may be taken in case of default.

Consultancy Services for Treatment Plant in the North of Malta

Background

The tender for the Engineering Procurement Construction Management of a mechanical and biological treatment plant in the north of Malta was awarded at a cost of €1,984,173, including 10%

Contingency, but excluding VAT. The contract commenced on 14 April 2010, being the date of the Letter of Intent sent to the contractor, while the actual agreement was eventually signed on 28 September 2010.

Changes to the Contract requested after only one day it was signed

On 29 September 2010, *i.e.* the day after the agreement was signed, in mutual agreement, WSM and the contractor wrote to DC, requesting a number of amendments to the Contract, amongst which the commencement date was changed to 1 June 2010. An Addendum to reflect the relevant changes was signed on 8 November 2010.

Cost Variations due to Technical Changes to Original Plans

Due to technical changes to the original plans, the Contractor requested several approvals for cost variations. Although the project was still in the relatively early stages, between 15 November 2010 and 15 March 2012 an aggregate amount of €302,564 was approved as variations over the original contracted value. These comprised €160,757 (*i.e.* 89%) from the allowable contingency claims and €141,807 as a result of the additional design requirements and duplication of reports.

Increase to Actual Financial Allocation

WSM Capital expenditure is included under Line Item 7164 – ‘Wasteserv - Capital Vote’ within MRRA Financial Estimates, since the former is considered as an Extra Budgetary Unit responsible for making the necessary payments to its suppliers. Presently, WSM prepares a list of outstanding invoices related to capital expenditure and sends it to the Ministry. The latter allocates the amount claimed within DAS before transferring the amount to the entity’s bank account, so that the necessary payments can be made to the listed suppliers.

The VAT element of WSM’s invoices is eventually claimed as Input VAT by WSM. However it is retained by the latter, whilst the amount in question is still being considered as Capital Expenditure by MRRA within DAS. This could result in a distortion

between the official figures representing Capital Expenditure as shown by MRRA, and the actual figures reported by WSM, due to the VAT portion not being properly allocated in DAS. Moreover, such practice automatically increases the available funds at the entity’s disposal.

Control Issues

Delays in Inspection Visits on Hired Equipment

Hire of two Eight Wheeler Tipper Trucks

The period contract for the Hire of two Eight Wheeler Tipper Trucks, for the transport and laying of Material at the *Ghallis* Landfill, was awarded at an hourly rate of €54.90 (excluding VAT) per truck. These trucks were utilised from October 2010 up to April 2011 and the aggregate cost amounted to €141,548.

However, the only inspection conducted within the seven-month period, to ensure that the actual heavy vehicles were provided within the technical specifications of the tender, was only conducted on 22 January 2011, thus nearly four months later.

Hire of Medium-Size Track-Mounted Hydraulic Excavators

The Hire of two Medium-Size Track-Mounted Hydraulic Excavators, (with Operators), for the Magħtab Rehabilitation Project at the *Ghallis* Landfill, was also acquired through a period contract. This contract, which works were to commence on 1 November 2010, was awarded at an hourly rate of €57.50 with the condition that the two excavators are to be used concurrently and another one as stand-by readily available. The said contract covered a period of 12 months on an ‘if and when required basis’, or until the value of €120,000 (exclusive of VAT) is exhausted, whichever was the earlier.

WSM had the right to send an engineer to inspect the equipment on site. However, the first inspection was only carried out on 15 March 2011, followed by another inspection on 13 April 2011. It also transpired that the first inspection was only carried out on one of the two excavators on site and failed to confirm whether the second excavator was even on site or otherwise, limiting the scope of the inspection.

Transport of Municipal Waste

Background

Following the closure of the *Qortin* landfill, limits of *Xagħra*, Gozo way back in 2004, all Municipal Solid Waste from Gozo is now being transported to Malta.

Delays in adjudicating the Tender

From a review of the invoice in the audit sample, relating to the tender for transport of municipal waste, the following issues were noted.

A tender for the transportation of municipal solid waste, issued by DC on 18 December 2009, was only awarded in April 2011. An objection was filed by the second cheapest bidder, in joint venture with two other contractors, on 18 April 2011. The respective hearing was set for 20 July 2011. The substantial time taken for evaluation by the Adjudication Board to award the tender rendered the same tender ineffective.

Meanwhile, WSM could not do without this essential service and issued seven departmental tenders between February 2010 and February 2011, each tender capped up to the threshold limit of €120,000. The respective tenders were all awarded to members of the aforementioned joint venture, since only one member at a time submitted his bid. It is also presumed that since the departmental tender only covered a fairly short period, no other service provider was willing to invest in the necessary equipment for a short term.

It was only on 3 July 2012 that a tender through DC was issued, which by the finalisation of the audit as at 25 October 2012, the tender was still to be adjudicated.

Lack of fair competition

The Public Contracts Review Board that evaluated the objection in question in fact contended that *“due to the timeline involved between original publication and the recommendation for award of this tender, the scope of this tender has been rendered ineffective and recommends that this tender be cancelled and reissued within three (3) months”*. In its report, the Board also suggested that *“the document content be revisited to ensure full clarity of scope, transparency and equal opportunity for potential tenderers to participate on an equal footing.....”*.

Another statement from the Board’s report remarked that *“it is considered crucial for the period contemplated in the new tender for this to cover a longer time frame, say 36 months, in order to enable proper recoupment by the awarded tenderer of the capital expenditure involved”*. This substantiates NAO’s concern highlighted above since it could imply that with the provisions in the original tender document, potential competitors were not given the opportunity to compete.

Electrical Engineering Consultancy

Background

Due to the specialised level of skilled personnel required during the implementation stage of the waste management facilities in Malta and Gozo, the electrical engineering consultancy services was sub-contracted.

Finance Approval for Direct Order sought after the First Agreement was signed

The task for electrical engineering consultancy on waste management facilities was given by direct order, with the agreement entered into on 1 June 2006. Covering finance approval to procure direct from the open market was only obtained on 12 June 2006, for a period of two years, with an option of a further 12-month extension. The approved maximum cost over the three-year period was capped at €49,476 (Lm21,240), including VAT. By-passing procurement regulations hinders transparency and fair competition, leading to discrimination with other potential bidders.

Second Agreement for Direct Order signed without Finance Authority

Following the expiry of the renewed contract, rather than issuing a fresh call for tenders, WSM entered into another agreement with the same company on 2 June 2009. The new agreement was valid for two years, with an option of a further two-year extension at the same chargeable rate. The necessary Finance approval for direct order was only obtained on 23 June 2009, thus again when the contract was already formalised.

Extending a contract for subsequent periods may result in such extension occurring perpetually, without giving any opportunity to other service providers who might be willing to compete had a new call for tenders been made.

Compliance Issues

Monitoring of Aerial Emissions at Ghallis

Background

A period contract for the Characterisation Monitoring of Aerial Emissions was awarded for the amount of €17,992 (excl. VAT). According to LA dated 17 December 2010, analysis had to be carried out on a regular basis over a period of three months, irrespective of whether it rained or not, within a period of 12 months.

Undated Evaluation Report

The evaluation report following the adjudication of tender was not dated. As a result, it could not be confirmed that tenders were opened after the closing date, in line with the standing Procurement Regulations.

Extensions to Deadline for Completion of Project

- a) The deadline for the project to monitor aerial emissions, which was originally planned for 12 January 2012, was extended by six months on 6 September 2011 and by another five months on 17 February 2012 up till December 2012. Unplanned extensions may in turn result in WSM having to delay planned and approved activities.
- b) The bank guarantee in place was not extended to reflect the new deadline for the completion of the project. Thus, between 1 October 2012 and 31 December 2012, WSM was not covered by a bank guarantee. In the circumstances, actions that may be taken against the service provider in case of default may be limited.

Environmental Monitoring Programme at Marsascalea

Background

In 2010, a tender for the provision of services for the consolidation of an environmental monitoring programme, based on the *Sant' Antnin* Waste Treatment

Plant environmental permits, was adjudicated for the value of €24,000 (excl. VAT).

Additional Services awarded to the same Contractor through Direct Order

In addition to the monitoring of aerial emissions covered by the above-mentioned tender, WSM requested the same service provider to provide a proposal for the measuring of baseline levels for various air quality parameters. Although these additional services, amounting to €20,376 (excl. VAT), were not included in the original tender, they were still awarded to the service provider in question, without seeking MFEI's direct order approval. The only approval traced was from PS at MRRA.

It further transpired that notwithstanding that the additional services were approved by PS on 1 February 2011, and the service provider was formally informed on 3 February 2011, the invoice raised by the service provider was dated 6 January 2011, before PS approval was obtained.

Consultancy Services related to the Treatment Process of Slaughterhouse Waste

No Extension traced in file

LA issued on 3 January 2011 with respect to consultancy services, relating to the treatment process of slaughterhouse waste, stipulated that tasks had to be finalised by the 38th week of 2011. It further stipulated that if the timeframes cannot be maintained, the contractor shall submit an explanation to the Chief Executive Officer, requesting a modification in the timeline and get the approval in writing.

From email traced in file, it transpired that the work was not finalised as at 10 September 2012, *i.e.* a year later. However, notwithstanding the above, no written requests and approvals for the modification of timelines were available. Thus, it could not be ascertained whether this delay was justified and duly approved. Furthermore, the absence of proper approvals hinders effective controls on the project and the related costs.

Recommendations

Key Issues

Sub-contracted Labour

Changes to the original approved terms and conditions are only to be made subject to approval from the relevant authorities prior to implementation. Addenda to the contracts are not expected to be in contradiction to the agreed tender conditions already endorsed following the award of the tender. Moreover, invoices are to be invariably verified with the contract conditions prior to issuing payment.

Sant'Antnin Waste Treatment Plant

Supervisory Consultancy Assistance

Greater co-ordination between different entities working on a particular project should be ensured for the smooth running of projects and completion within stipulated budgets and timeframes. Furthermore, in cases of non-compliance with tender requirements, penalties, if applicable, are to be enforced.

Hire of Stand-by Generator

For transparency and fair competition, Public Procurement Regulations are to be invariably adhered to. MEPA Permit Conditions are not to be overlooked, to eliminate undue delays so that work performed is in accordance to planned budgets and timeframes.

Before payments are effected, WSM is expected to verify invoices, which should be detailed and corroborated with the respective contracted rates and conditions. NAO still awaits copies of the respective call/s for quotations for verification purposes.

Clearing of Topsoil and other Material at the Waste Transfer Station

MEPA requirements are to be invariably taken into consideration within the tender conditions. Adherence to tender requirements is also solicited. WSM is also encouraged to apply penalty clauses in case of non-compliance with the reporting requirements.

Ghallis Landfill

Rock Excavation at Ghallis Landfill

A contract is expected to be prepared within a reasonable period of time and in accordance to the tender requirements, covering the full contract period. It is also recommended to ensure that valid bank guarantees are in place and extended accordingly. Invoices are also to be invariably verified prior to payment.

Construction of a Geosynthetic Lining System

In line with the aforementioned regulations, WSM shall not adopt any mechanism, the purpose of which being to circumvent the application of the same regulations. Any tenders with an estimated value in excess of €120,000 are to be issued through DC.

Fun Park in Marsascala

Proper research and planning are to be undertaken at the very beginning of a project to keep changes at a minimum, thus increasing the possibility that the project is completed within the stipulated timeframes and budgeted costs.

While an entity may, in exceptional cases, place direct orders after obtaining the appropriate MFEI approval, this is not to be considered as best practice. Continuous review of activities is recommended so that the need for goods and services can be determined at an early stage, allowing enough time to follow the appropriate procurement procedures as much as possible.

Greater co-ordination between Government entities is vital to ensure the smooth running of projects and completion within stipulated budgets and timeframes. Furthermore, specific issues, such as the reimbursement issue, are to be discussed at an earlier stage and decisions to be documented in an agreement endorsed by both parties.

The contracting authority dealing with public funds is duty bound to ensure that the interests of taxpayers are safeguarded. Thus, any clauses included in the Tender document, intended to protect the contracting authority, are to be observed.

Consultancy Services for Treatment Plant in the North of Malta

Adequate planning is imperative in order to adhere to the original scope of the project and remain within the budgeted limit. Proper discussions are also recommended prior to the issue of the related tenders to avoid changes taking place after the contract is signed.

Increase to Actual Financial Allocation

Input VAT is to be allocated accordingly in DAS to show accurate figures of expenditure, and the amount in question is expected to be refunded to the Government Consolidated Fund.

Control Issues

Delays in Inspection Visits on Hired Equipment

To ensure effective controls over such expenditure, regular and effective inspections are expected to be performed on site to substantiate the billed amounts with the respective inspection reports.

Transport of Municipal Waste

The issuing of long term tenders through DC may encourage potential contractors to submit their offer, as this may sustain the purchase of new equipment.

The evaluation process by the Adjudication Board to award tenders is to be carried out within a reasonable period of time.

Electrical Engineering Consultancy

For fairness and transparency, the acquisition of goods and/or services has to be in line with the Procurement Regulations. Thus, at least a call for quotations was expected to be published in the Government Gazette. In exceptional circumstances, direct orders are allowed provided that prior approval is obtained from the Ministry of Finance before, and not after, the contract is entered into.

Extension clauses in contracts should only be included if they were already incorporated in the original call for tenders. The Ministry of Finance is to be kept abreast of any extensions intended to be made before the contract period expires. However, for fair competition

as well as to ensure that the best rates are obtained, a fresh call for tenders is encouraged.

Compliance Issues

Monitoring of Aerial Emissions at *Ghallis*

The evaluation report shall be duly dated, confirming that tenders were only opened after the closing date.

It is recommended that WSM ensures that timeframes are respected, and in case of default, enforce penalty clauses, where applicable. Extensions are to be formally approved and covered by a valid bank guarantee.

Environmental Monitoring Programme at Marsascala

Whoever enters into any commitments without the prior approval of management is to be held responsible for the settlement of respective dues. When, in exceptional circumstances, procurement is made through a direct order, prior approval is to be obtained from MFEI without exception or fail. Furthermore, a thorough review of internal controls is to be undertaken to ensure that these are not being by-passed.

Consultancy Services related to the Treatment Process of Slaughterhouse Waste

WSM is encouraged to duly monitor timeframes. Delays are only to be approved after detailed and justified explanations are provided by the contractor. Such approvals are to be given in writing, in line with the terms stipulated in the LA and are to be filed for future reference.

Management Comments

Management claimed that the first year of operation of sub-contracted labour was as per contract and the additional three years were all approved by the General Contracts Committee. It was also declared that originally it was unclear whether the contract value related to the payment of salaries, or only to the payment of the commission. These issues were only crystallized and resolved on 5 May 2011 following correspondence with DC. The increase of personnel was necessary to reflect the organisation's growth and its additional areas of operation. The Director of Contracts was duly informed on 29 March 2011.

Notwithstanding substantial changes to the original contract, Management made reservations as regards the revised conditions not approved by DC, stating that the contract is a fee based contract, thus attempting to justify the removal of clause on absenteeism. WSM considered this as a solitary clause in complete isolation, also arguing that it was deemed in conflict with the rest of the tender document. It was also stated that the 60-day credit period was more ethically fair. The contract commencement date was changed to reflect the actual starting date and, since most staff at WSM was provided through this contract, appropriate renewal would have hindered most of the operations.

Management agreed that there were long delays and substantial cost variations on a number of capital projects and remarked that the facilities developed by WasteServ were all new in our country. Both the regulator and the client had to ensure that the best environmental results are obtained when the facility is eventually in operation. Thus, efforts were needed to include “known fresh improvements in the technology” even during the development period. Furthermore, one has to take into consideration the dividing fine line between the ‘duration’ of a contract, and its ‘execution’ (duration of actual works). WSM contend that in most of the cases, though the duration of the contract was extended, the actual execution of the works remained within the contracted timeframe.

WSM stated that the contract period for the Supervisory Consultant specified at tender stage only served to enable the tenderers to establish a price to the tender. During the operation of the contract, the Company encountered a number of problems which were beyond its control.

Though the absolute value of the contract was increased, Management claimed that the average monthly cost for service was reduced considerably, taking into consideration the parts of the project that had been completed. Furthermore, since this was a very specialized technical contract, WSM contended that it had no alternative but to extend the contract.

Management agreed that the omission of a toothless bucket requirement was an oversight when compiling the tender document for the clearing of Topsoil at the Waste Transfer Station. The contract period was increased as there was no particular urgency and in fact work was concluded within the agreed revised timeframe.

Although the daily report was a contractual obligation, Management decided that it was not really required as payment was based on the quantity of material removed rather than the hours that the plant was used.

WSM concurred with most of NAO’s observations regarding the Hire of Stand-by Generator which was necessary to satisfy MEPA and Enemalta Corporation requirements. Since the hire was not intended to extend over a long period of time, procurement was expected to be below the applicable threshold of €6,000 where MFEI approval was not required.

Management also stated that following further clarifications with the supplier, the hiring charge was based on usage rather than a monthly charge, saving the company substantial amounts over the duration of the contract.

It was acknowledged that since works on the construction of a Geosynthetic Lining System were urgently required, the contract was awarded within the limit of a Departmental Tender.

Management declared that early in the contract for Rock Excavation at *Ghallis* Landfill, the contractor was requested to slow down the rate of excavation, owing to cashflow considerations. Additionally, as the quality of material excavated deteriorated and rendered the product as waste, it was decided to store this material, in part of the area to be excavated, for later use for the resurfacing of the closed *Magħtab* Landfill. As a result, the contractor had to slow down excavations to keep operations going in the remaining area.

It was also stated that the preliminary estimated volume of rock to be excavated, indicated in the Tender document, was indicative but necessary for the prospective tenderers to realise the extent of works.

Referring to the missing bank guarantees, Management claimed that payments were withheld in lieu of the guarantees to ensure adequate cover. A Document Management System will be implemented in the coming weeks aiming to remove the eventuality of such scenarios.

A Memorandum of Understanding, proposed by WSM, was signed by the contractor in June 2012, setting down his acceptance to undertake further excavation until December 2012 at the same rates, terms and conditions. Furthermore, MFEI covering approval

was also obtained in November 2012 for extension of contract that expired in September 2009.

The issue relating to ‘Verification of Invoices not properly carried out’ was not adequately addressed by WSM.

Management stated that the delays in completion of the Fun Park in Marsascala resulted from the lengthy decision processes of the Contracting Authority, adding that it is only after the closure of works that the reasons for such delays could be established and the necessary approvals for extensions be sought.

Notwithstanding prior site investigations, underground conditions proved to be different at execution stage. This necessitated additional excavations, resulting in increased foundation costs and relocation of reservoir. WSM contended that works amounting to approximately €300,000 were within the scope of the contract and covered by approved rates. Furthermore, there were also new additional works which were not originally within the scope of the contract.

WSM strives to maintain adequate planning relating to the Consultancy Services for the Treatment Plant in the North of Malta. However, in certain major projects, the necessity of discussions with various stakeholders and interested parties, in order to ensure that the project is approved, usually brings in its wake delays resulting in additional costs. In the case of this project, these were inevitable.

By claiming the gross capital expenditure (including VAT) from MRRA, WSM admitted that it is effectively accelerating its cash flow.

Although not substantiated, Management maintained that technical inspections on hired equipment are carried out by their staff on a regular basis, to ensure technical compliance. Furthermore, the site manager

carries out regular inspections to ensure that contractual obligations are in order.

NAO’s recommendations as well as those by the Public Contracts Review Board on the Transport of Municipal Waste were taken on board.

With regards to Electrical Engineering Consultancy, Management presumes that, as per established practice at the time, MFEI might have granted its preliminary approval by email prior to 1 June 2006. However, such correspondence was not provided. Furthermore, there was no alternative but to renew the existing agreement. However, as per NAO’s recommendation, a fresh call for tenders will be issued on expiry of the present contract.

The omission of the date of the evaluation report for the monitoring of the aerial emissions at *Ghallis*, was an oversight. It was also claimed that the extensions were due to operational difficulties, relating to the locations and the time taken to get the necessary approval from MEPA, to undertake the monitoring of one station at a time rather than contemporaneously.

The Finance Department was instructed to withhold the respective contractor’s payments until a valid bank guarantee is in place.

Both works in connection with the Environmental Monitoring Programme at Marsascala were considered to be quite closely and intrinsically related. Hence, Management opted for the same contractor not to stall the original contract.

WSM agreed that the timeframes for the project were not maintained. However, the delays were not attributed to WSM’s lack of action or co-ordination. When multiple parties are involved, and each being very stringent in its requirements, then progress on such contracts becomes inevitably slow.

**Ministry of Education, Employment
and the Family**

Education Department Expenditure

Background

For Financial Year 2011, the recurrent original budget allocated to the Education Department comprising eight Cost Centres (CCs) stood at €143,254,000, providing €129,555,000 for Personal Emoluments, €11,051,000 to cover Operational and Maintenance Expenses and €2,648,000 for Programmes and Initiatives. The actual recurrent expenditure for 2011 amounted to €145,662,162.

Audit Scope and Methodology

The main scope of the audit was to determine the level of internal controls over expenditure and to ensure efficient administration of public funds, in line with standing laws, regulations, policies and procedures, making recommendations where warranted. Other objectives were to assess the reliability and adequacy of information available for decision-making and accountability purposes, ensuring it is accurate, complete, and free from material misstatements, and also to ascertain that resources are being used judiciously.

The audit initially focused on Imprest Funds provided to schools. From the sample tested, adequate controls were noted in this area, and subsequently the assignment covered Operational and Maintenance Expenses met out from the recurrent budget, as well as transactions incurred from two Programmes and Initiatives Control Accounts, namely, 5369 – Implementation Reform Programme in Education and 5370 – Literacy Initiatives attached thereto. Transactions effected from recurrent accounts linked to Capital accounts 7027 – Equipment for Government Schools and 7028 – Information Technology in Government Schools were also reviewed, as were transactions charged to three

Below-the-Line Accounts, namely 8341 – Training in Inclusive/Special Education, 8429 – Transactions on behalf of third parties and 8432 – Central School Fund.

The audit was conducted in accordance with generally accepted auditing standards. Audit fieldwork included various meetings with the Education Department's officers, in order to obtain an understanding of the relevant policies and procedures adopted. Walk-through tests and detailed substantive testing were carried out to confirm the existence and the correct application of controls.

The selection of transactions included in the audit sample was based on their nature and materiality. A total of 118 transactions, collectively totalling €401,688, representing 15% of the amounts expended from the sampled accounts, were reviewed.

Key Issues

Weak or Lack of Internal Controls

During audit testing it was noted that internal controls in various areas were lacking, indicating that little or no monitoring is in place to ensure efficient financial management. Below is an example of instances of internal control failure identified during audit testing. Each issue will be covered in further detail under the Control Issues.

- No segregation of duties *vis-à-vis* procurement, as well as re-imbursments/refunds.
- Invoices certified correct by various officers, notwithstanding the discrepancies between amounts invoiced and supporting documentation, indicating hours worked and rates quoted.

- No proper stock records, hindering verifications over stock in hand.
- Lack of compliance with standing rules and regulations.
- Invoices preceding Local Purchase Orders (LPOs).
- Misallocation of expenditure, mainly relating to travel and hospitality.
- Source documentation, such as Finance warrants and vendor input forms, were not traced at the Department.

Control Issues

Opportunities for improvement were identified in the following areas:

Incorrect Payments due to Inadequate Verifications

- In four out of the nine payments reviewed, relating to nursing services provided to students with special needs, overpayments were noted. In these four instances, the hours invoiced and paid for, collectively exceeded the actual hours worked, as per timesheets, by 57 hours¹.
- The aforementioned overpayments took place notwithstanding that every invoice was certified correct by two, at times three, officers independently in most cases being the Head/Assistant Head of School and a Service Manager within the Directorate for Educational Services (DES), while the Payment Voucher (PV) was endorsed by a different officer. These identified shortcomings indicate that though the invoices were being certified, no checking was being carried out to ensure correctness of invoiced amounts, and thus the intended controls are being by-passed.
- Other undetected discrepancies, resulting in underpayments, were encountered in the case of payments issued to a contractor for filming and editing services, and another contractor providing supervision services.

Malta-Gozo Ferry Tickets

Inadequate Records for Stock of Malta-Gozo Ferry Tickets

- The manual record that was being kept showed only the ferry tickets issued, and failed to indicate both the quantity of tickets purchased during the year, as well as the number and value of tickets still in hand. Thus, the balance of stock items at any point in time could not be determined, hindering verifications. Furthermore, this same record is not in line with the Stock Control Procedures laid down in Treasury Circular No. 6/2004, limiting the control being exercised on the stock of ferry tickets.
- As a result of the above shortcomings, it was not possible to carry out a stock-take and reconcile the records to the actual unused tickets in stock.

No Control on the usage of the Frequent Travel Cards

During the year under review the Department paid the amount of €1,465 in respect of nine frequent travel cards procured on behalf of seven officers. The log book of such usage, relating to an officer who travels to Gozo on a day-to-day basis, was requested. However, the documentation received by the National Audit Office (NAO) consisted of a spreadsheet, simply illustrating the dates when the said officer proceeded to Gozo and the respective schools visited. Furthermore, it was noted that this documentation was initialled and dated 2 February 2012, thus presuming that it was only drawn up following this Office's request. This shows that very little control is exercised over the use of such cards and thus it could not be ascertained that the frequent travel cards are used only on official duties.

Medical Services

Background

Following the issue of a call for tenders, the Department appointed the contractor to assist management in the verification of sick leave, by carrying out home visits on employees as indicated. Medical services were to be provided for a period of 24 months, commencing

¹ Hourly rate as per tender is €8.25 inclusive of VAT.

from 5 March 2010, against a fee of €6.65 (inclusive of VAT) per visit performed.

A two month sample was selected for testing.

Incomplete/Wrong Addresses provided to Contractor

- a) On 14 instances, officers could not be located by the doctors. As a result, in such cases, visits were not performed.
- b) In another 10 cases, the address provided by the Department to the service provider, generally being that forwarded by the schools, was incomplete/incorrect. However, while no payment was claimed by the service provider where the address could not be located by the doctor, visits not performed due to incorrect addresses submitted by the Department were still paid for.

Requested Visits not Performed by the Service Provider

Besides the cases reported above, the service provider failed to carry out almost another 10% of the total visits requested by the Department during the two months under review. Auditors were informed that this was a regular issue. However, no formal complaint was raised against the Contractor.

Fruitless Home Visits by Doctors

On three occasions, the request for a doctor's visit and the latter's actual home call took place following the officers' return to work. In fact, on its report, the service provider reported that the three officers concerned were at work at the time of the visit.

Services Provided by Malta Memorial District Nursing Association

Background

During the year under review, the amount of €38,904 was paid to MMDNA for services rendered in connection with daily nursing visits to state schools. The services included in the agreement in force cover the administration of medication as prescribed by a physician, administration of insulin to diabetic students

and monitoring of blood glucose levels as required and when necessary, as well as any other form of medication that may be indicated and as agreed upon by the Directorate and Contractor.

Futile Nursing Visits

Adequate control with respect to the number of visits invoiced and the related payment is being exercised by the Nursing Officer-in-charge within DES. However, through monitoring exercised by the latter, it was noted that similar to the case of the untimely doctor's visits mentioned earlier on, futile visits were also being performed in cases when the students concerned are absent from school. From the records kept by this Officer, it transpired that from the amount of €31,710 invoiced by the service provider for services carried out during the period November 2010 to July 2011, the amount of €2,316 was paid in respect of futile² visits, mainly because students were absent and MMDNA was not informed accordingly by the respective schools. An analysis of monitoring reports covering the periods June, July and December 2011 revealed the issues reported hereunder.

- a) Thirteen out of 68 visits, *i.e.* 19%, performed at the Boys Secondary School in Cospicua (St. Margaret's College) during the period June-July 2011 were futile visits. On eight of these instances, there was either no school or exams were in progress, while in other instances the students were absent. However, in none of these cases were MMDNA informed. As a result, the nurse turned up at the school and the visits had to be paid for.
- b) Similarly, 11 out of the 46, *i.e.* 24% of the visits performed at Mtarfa Boys Secondary School, (St. Nicholas College) during December 2011, were useless. A particular student was absent for six consecutive days, but since MMDNA were not informed by the school that the student was not attending, the visits had to be paid for.
- c) Other reported instances, resulting in futile visits, were encountered when students are present at school but fail to turn up when the nurse calls. This was mostly evident at 'Tal-Handaq' Boys Secondary School (St. Ignatius College) during December 2011, where though the students were present at school, they did not turn up for 19 out

² Futile visits under this heading relate to the administration of tablets at a cost of €3 per visit .

of the 61 visits performed by the nurse during the same period. Thus, 31% of the visits paid in respect of this school for the said period were in vain.

- d) School Open Days, as well as school outings, were further increasing the number of futile visits. During the period under review, *i.e.* June, July and December 2011, 21 fruitless visits to various schools were paid for. On 17 of these instances, students were out on school activities while in the other four instances, there was a school Open Day.

Procurement of Professional Services

No Agreement covering the Engagement of two Professionals

No agreement was entered into, between the Department and the two individuals in the audit sample providing professional services, confirming the rates to be charged by the latter, the number of hours they had to put in per week, and the duration of the said engagement. Consequently, it could not be ascertained that agreed terms, if any, were respected.

Tax Deductions not in line with Standing Provisions

In May 2011, the two professionals included in the audit sample provided the DES with a copy of the payee's declaration status, namely the FS4. Through these forms, one of the individuals, instructed the Department to deduct tax at a fixed rate of 15%, while the other, indicated that this income constitutes her main emoluments and the single person tax bands are to be applied. However the following transpired:

- a) Notwithstanding that the professional in question opted for the 15% part-time deduction, she failed to indicate whether she was employed on a full-time basis with a different employer in line with the Part-time Regulations, and to indicate the P.E. number of her full time employer. As a result, her eligibility for the 15% tax deduction could not be ascertained.
- b) Irrespective of the instructions provided through the FS4, to deduct 15% as indicated above, in the case of the aforementioned professional,

such deduction was only effected in two instances. In the other seven payments issued to this individual, the full amount due was paid without any tax deduction.

- c) Despite the declaration made in the FS4, that this income is her main emolument, the other professional was deducting 15% from the total amount due to her, when raising the invoices, referring to this deduction as tax at source. On the other hand, despite the calculation in the invoice, the Department only applied this deduction in 13 out of the 20 payments issued to this individual, while in the other seven cases the full amount was paid. Apart from the inconsistency in the approach, when applying the deduction, the Department is not ensuring whether it is in compliance with local tax regulations.

- d) Since the required information, confirming the eligibility of this individual to qualify for the 15% tax deduction, was not recorded in the FS4 provided to DES and made available to the Auditors, it could not be ascertained whether the said individual qualified for this special tax rate in line with the applicable Part-time Regulations.
- e) In addition to point (d) above, it was noted that gross income earned during 2011 by this individual, on which the 15% deduction was applied, amounted to €7,394. Whilst other income was noted as having been earned by this person, this amount is already in excess of the threshold of €7,000 which qualifies for the special tax rate deduction of 15% as per the Part-time Regulations.

Incorrect Amounts declared in Payee Statement of Earnings (FS3) filed with the Inland Revenue Department

Following a review of the Final Settlement System – Payee Statement of Earnings (FS3), that the Department filed with the Inland Revenue Department (IRD) on behalf of the two professionals referred to in the preceding observations, it was noted that besides the fact that information such as ID number and Payee number was lacking, the amounts declared therein were incorrect. The following refers:

- a) The gross amount invoiced by one of the

individuals, with respect to all professional services provided to the Department during the year under review, totalled €10,306. Out of the said amount, the sum of €1,109 was deducted as tax at source. However, the amounts reported in the FS3 prepared by the Department showed Gross Emoluments and tax deductions as €2,095 and €314 respectively, implying that both income and tax, as reported by the Department, are under-declared by €8,211 and €795 respectively. Meanwhile, the difference of €795, arising between the tax paid by the individual and that forwarded to IRD, is still in favour of the Department, in its Recurrent Vote.

- b) Gross Emoluments earned by the other individual during 2011 amounted to €7,530, out of which the amount of €337 was deducted as tax at source. However, as in the above case, the amounts reported in the FS3 prepared by the Department did not match. While the amount of tax deductions was correctly reported, only €2,250 was declared as gross earnings with IRD, resulting in an under-declaration of €5,280. In reply to queries raised by the Auditors in this respect, the officer responsible for the compilation of these returns verbally admitted that only amounts paid through Multi-Payments have been included. Amounts paid to the service provider by PVs were not taken in consideration, as the Department was of the impression that such amounts will be reported to IRD by the Treasury Division.

Following NAO's queries, a new FS3 form was filled for one of the individuals. Nonetheless, amounts declared therein were still incorrect. While the reported Gross Income was again understated by €3,030, tax deductions were then overstated by €337, given that the Department declared that €674 was deducted as tax at source, whereas only the amount of €337 was actually withheld.

Timesheets not endorsed

Timesheets kept with respect to the services provided by the foregoing two professionals were not being certified by any officer from DES to confirm that details recorded therein are correct.

Below-the-Line Accounts

Ineffective Monitoring of Below-the-Line Accounts

Notwithstanding that MFEI imposes a number of conditions when granting approval for the opening of Below-the-Line Accounts, it was noted that no effective monitoring is being carried out by Education officers in order to ensure compliance with the same conditions. This was mainly evident from the fact that expenditure not falling within the scope of the three Below-the-Line accounts reviewed was being charged thereto, while unrelated income was also credited to these accounts.

NAO officers were also informed by a Director that notwithstanding various requests to receive DAS extracts in respect of transactions from the Below-the-Line Accounts falling under his responsibility, such information was not provided.

Central School Fund used to sponsor Education Football Team

Background

In June 2011, an officer wrote to the Permanent Secretary (PS), stating that the 'Education Teams' have won both Men's and Ladies' Football Leagues organised by the Malta Employees Sports Association (MESA). He also notified that given the success achieved and contacts established, they were planning to participate in a football tournament in Cyprus later on. A travel agency was already contacted and quoted the cost of €8,100 to cover 23 individuals. It was then enquired whether it would be possible for the Education Football Teams to receive any financial support from Government.

On the same day, the PS informed the officer that the Minister approved the proposed visit for the two (male and female) teams representing the Ministry of Education, Employment and the Family (MEEF), and Director Corporate Services (DCS) was instructed to cover the costs. From testing carried out the following shortcomings were noted:

- a) A Multi-Payment amounting to €8,100, charged to Below-the-Line account 82028432 (Other Deposits – Payments to Non-Government Institutions – Central School Fund), was issued to one of the participants as reimbursement for '23 Cyprus packages'. The cost covered the

flights and transfers for the 23 individuals, as well as accommodation on bed and breakfast basis, between 14 and 18 July 2011.

- b) No official documentation was traced in file confirming the participation of the teams in the tournament, and indicating when the tournament was to be held. Following NAO's queries, a report prepared by one of the participants was submitted, indicating that both tournaments were held on 15 July 2011. The report was neither signed nor dated.
- c) No copies of actual air tickets or boarding cards were attached with the PV in support of the payment. The only documentation traced consisted of a receipt issued by the travel agency. Following queries by the Auditors, a copy of the boarding cards was forwarded, however boarding cards relating to two participants were not included.
- d) Record of the 23 officers who took part in this visit was also not attached with the PV. This information was only provided following queries raised by the Auditors.
- e) There was no evidence that quotations were sought for flight and accommodation, in line with procurement regulations, to ensure that the most economic rates were obtained.
- f) The payment did not indicate any file reference where documentation related to the visit may be traced.

School Cleaning Services

Fragmented Procurement for Schools' Cleaning Service

- From testing carried out with respect to cleaning services in schools, it transpired that though procurement of such service is centralised, since it is being coordinated by the Department, no exercise is undertaken by the latter to determine the schools' cleaning requirements prior to the beginning of a scholastic year. These are addressed individually as the need arises, and the service is then procured through fragmented calls for quotations/tenders as applicable.

- From documentation provided during the audit, it transpired that six separate agreements, with three different service providers were in force during 2011. As a result of this system, the Department is incurring additional administrative costs for issuing a number of individual calls and the adjudication thereof. This system also hinders effective budgeting as unplanned requests crop up during the year. In addition, having to monitor and control several contracts, covering the same service, with related documentation in different files, may reflect ineffectiveness and inefficiency in the use of the limited human and financial resources.
- This system is also resulting in considerable price disparity. It was noted that during 2011, daily rates varied from €52 per day with a school population of 833 (Boys Secondary School Kirkop) to €296.77 per day with a school population of 586 (Boys Secondary School Mosta).
- In two out of the six agreements in force, where the date awarded was reported as 25 November 2010 and 14 December 2010 respectively, Auditors were verbally informed that a public call for quotations was only published in the Government Gazettes in August 2011, *i.e.*, over eight months later. Quotations covering prior periods were obtained through a restrictive procedure, directly from selected service providers.

Shortcomings relating to Procurement

Procurement Requisition Form not raised

All reimbursements, as well as most of the other various payments included in the audit sample, were not covered by a Procurement Requisition Form prior to the purchasing of goods and/or services. Hence, it could not be ascertained whether prior authorisation was sought from the right level of authority.

Furthermore, from documents and minute sheets filed by the Department, NAO noted that on many instances the Curriculum Centre within MEEF were forwarding invoices and/or receipts to the Accounts Section for the issuance of the respective payment to suppliers, for supplies and services procured by the former prior to the commitment of funds.

Procurement obtained direct from the Open Market

Survey on Reading Habits

From a letter minute dated 30 August 2010, it transpired that the Minister responsible for Education, agreed with a proposal to carry out a quantitative survey on reading habits of the general public, at a total cost of €12,390 including VAT. The following shortcomings were noted:

- a) Notwithstanding the amount involved, there was neither a call for tenders, nor were quotations published in the Government Gazette in line with Article 20 1(d) of the Public Contracts Regulations. Following the submission of its proposal on 13 August 2009, a Contractor was directly appointed to conduct the survey on the basis that the latter had the appropriate tools and expertise to carry out the task, designed according to the requirements laid down by the National Book Council.
- b) A request for direct order approval from the Ministry of Finance, the Economy and Investment (MFEI) was only raised by the Department on 23 September 2010, almost a month after the receipt of the first invoice of €6,195, from the service provider, dated 24 August 2010. However, MFEI, informed the Department that for the sake of fairness and transparency, a call for tenders is to be issued.
- c) The aforementioned advice given by MFEI was not heeded by Education, and the procurement went ahead without the necessary clearance. On 30 November 2010, a second invoice of €6,195 was received from the service provider. On 28 January 2011, PS at the Ministry of Education, once again requested MFEI's approval to cover this direct order. However in his reply, the Director General (DG) (MFEI) reprimanded the Ministry and the request was not acceded to. The payment was only approved on 30 March 2011, after MFEI's PS condoned the breach of the Public Procurement Regulations although no one was exonerated in the process.
- d) The mentioned two invoices relating to the readership survey were not endorsed by any officers certifying their correctness. Except for a copy of the Letter of Acceptance bearing the

same date of the PV, no other documentation was traced with the vouchers, enabling the same documents to be checked without reference to any other record, in line with Article 52 (2) of the General Financial Regulations (GFR).

Magazine commemorating the Official Opening of a Primary School

The production and distribution of the school magazine, commemorating the official opening of the School, totalling €15,750, was also procured without a call for quotations or tenders published in the Government Gazette in line with standing regulations. Furthermore, although the delivery order was dated 7 December 2009, MFEI's authority was only sought on 28 January 2011 and approved by the PS MFEI on 30 March 2011, without assuming personal responsibility for the breach of the Regulations.

Maintenance works at the Home Economics Seminar Centre

During the year under review, the amount of €8,500 was paid in respect of maintenance works carried out at the Home Economics Seminar Centre. However, neither a public call for quotations nor a call for tenders was traced in support of this payment. In a reply to a query raised by NAO, it was claimed that services were directly procured from the open market due to the urgency of works and restrictive timeframes. However, MFEI's approval was not sought to cover this direct order.

Shortcomings related to Travel

Overseas Travelling either not approved by the Permanent Secretary or not approved in Due Time

In three out of the eight visits reviewed, officers proceeded abroad despite that their visit was not yet officially approved by the PS. From the testing carried out, it transpired that on two occasions, the latter's approval was provided on the official form, *i.e.* GA27, when the concerned officers were already abroad, while in the other case, authorisation was only given after the officer's return to Malta.

Delegation of Authority given verbally

Repeatedly, travel forms (GA27) were being signed by the Head of Accounts Section at MEEF instead of the

DCS. From queries raised by NAO in this respect, it was claimed that such delegation of authority was only given verbally.

Air–ticket for the same Officer procured twice due to Incorrect Personal Details

The request for reimbursement raised in respect of EU-related air-tickets, procured in view of training which was held in Manchester in 2011, was reviewed. It was noted that whilst the respective invoice totalled €7,044, only €6,510 was claimed for reimbursement from the EU. The resultant difference, which amounts to €534, relates to an extra ticket which was erroneously purchased. The ticket was originally procured on the scholar's maiden surname. However this was not suitable for travel since by then the latter was married and had changed both passport and I.D. card details. Thus, a second ticket had to be procured.

Reimbursements

Vague Details on Receipts

In 11 out of 34 cases, correctness of refunds paid by the Education Department during 2011 could not be ascertained due to insufficient details on the fiscal receipts forwarded for payment which were not itemised.

Unauthorised Self-payment

It was noted that in December 2011, the officer-in-charge of Accounts, who also happens to be the Secretary of MESA, issued and endorsed a Multi-Payment amounting to €200, covering Affiliation and Competition fees for football season 2011/2012, to himself rather than addressing the payment to MESA, being the entity issuing the invoice.

Moreover, a receipt from MESA to support the payment was not found attached with the PV. Furthermore, no formal approval authorising this payment was obtained.

Hospitality Expenditure not endorsed by the Permanent Secretary

Testing revealed that the required PS's approval, in line with standing regulations, was not evidenced for the settlement of three claims for reimbursements, included in the audit sample. These amounted to €563.21 and related to hospitality.

Other Matters

Production of Mini-Digital Videos

In July 2011, four companies were asked to submit a quotation for the production, recording and editing of three mini productions, of three to five minutes each. The following were noted:

- a) Documents in the file did not indicate whether any Board was set up to adjudicate the quotations received. However, a note in the file stated that, *“given envisaged number of hours per video based on past experience, quote A is the cheapest”*. This referred to a quote by a service provider who quoted an hourly rate of €21.98 (inclusive of VAT). Notwithstanding the declaration, there was no indication of the envisaged number of hours per video in support of the decision taken.
- b) Payments issued to the selected contractor, in respect of the aforementioned productions, amounted to €3,034 (excluding cost of DVDs). This worked out to be €201 more expensive than the offer submitted by another contractor, whose quote was €2,832 for the whole production.
- c) In the schedule of quotations received, it was reported that the cost for extra copies of DVDs with simple basic labelling would be between €2 and €3 per copy. However, the cost for 100 DVDs amounted to €649, *i.e.* €6.49 per DVD. No justification for the discrepancy in the price was provided on the PV.
- d) No agreement for the procurement of the aforementioned service was traced in the respective departmental file. The only agreement traced with the same service provider was signed in November 2011, covering a different service, namely the filming and editing of two 10-minute video vox pops.

Misallocation of Travel and Hospitality Expenditure

While this audit was planned to cover the hospitality and travel Line Items, during testing carried out in connection with accounts falling within the scope of the audit, it was noted that a considerable amount of hospitality related expenses, as well as air tickets, were charged to the reviewed accounts. The following relates:

- a) The amount of €30,650 covering mainly dinners, accommodation and lodgings, catering, hospitality, receptions and gifts was charged to various unrelated accounts included in the audit sample rather than to the Hospitality Line Item.
- b) Another amount of €12,340, covering the purchase of air tickets, was not charged to ‘Travel’.
- c) The amount of €30,650 indicated in observation (a) above, contrasts sharply with the approved hospitality allocation, as reported in the Financial Estimates for 2011, which amounts to only €3,000. Similarly, the amount of €12,340, covering the purchase of air tickets mis-posted to unrelated accounts, is equal to 21% of the approved financial allocation intended for travel.
- d) The above findings are not exhaustive and similar expenditure ‘hidden’ under the incorrect accounts cannot be ruled out.

Incorrect File Numbers quoted on Vouchers

In two particular cases, agreements traced in the specific files quoted on PV, relating to services provided by MMDNA, as well as other nursing services provided to students with special needs, were expired. However, it later transpired that new calls for tenders were issued and relative documentation was inserted in different files. Such instances hinder verifications and result in waste of time.

Invoices issued prior to the Goods and Services Purchase Order

The non-commitment of funds prior to the procurement of supplies and services was noted as being the norm. The Goods and Services Purchase Orders (GSPOs) were constantly being raised on the same day that the PV was issued, that is following the receipt of the invoice from the supplier.

Signatures not clearly Identifiable

In various instances, officers certifying invoices could not be identified since the signature was neither accompanied by a rubber stamp nor was the name and position of the officer clearly written on the document.

Compliance Issues

Expenditure not substantiated by Fiscal Receipts

Fiscal receipts submitted to the Department by the respective service providers were not being attached to the related PVs. From queries raised by this Office, it was understood that such receipts were being stored in a separate box.

Non-Submission of Statutory Returns

VAT Defaulters List

NAO found no evidence that the Department is furnishing the Audit and Assurance Section of the VAT Department with quarterly returns illustrating VAT defaulters.

Inventory

Notwithstanding the provisions in MF Circular No. 14/99 – Revised Inventory Control Regulations, the latest inventory return traced to NAO files covered up to June 2009, implying that the statutory return was not being submitted to this Office on a regular basis. The return for the year ending 2011, was submitted following NAO’s request.

Lack of compliance with Standing Travel Regulations

- a) A final programme outlining the work which was expected to be carried out during the meeting of the ‘Joint Board Inspectors’, which was held in Brussels between 4 and 6 October 2011, was not traced. Only a draft agenda was provided. Thus, in the instance that the final programme deferred from the draft submitted, accuracy of the subsistence allowance, provided by the Department to the two officers attending this meeting, could not be verified.
- b) Notwithstanding instructions in clause 8.9.1.8 of the PSMC, specifying that ‘accounting officers should not process, and are to withhold blank or incomplete declaration forms (GA27 and GA27A)’, these forms, namely ‘Visits Abroad on Official Duties’, are still being processed even though they are not completed in line with standing regulations.

Section C of the GA27 form, which is to be endorsed by the delegate prior to departure as proof of receipt of funds, was being left out. These sections were only being completed upon arrival and are then attached to the Statement of Expenses.

- c) Both the Staff Development Organisation and MFEI are not being informed of overseas external training, in line with the pertinent Circular issued by MFEI. This shortcoming was also upheld by DCS who confirmed that the Department was not in line with the aforementioned Circular.

Recommendations

Key Issues

Weak or Lack of Internal Controls

Management is to ensure that ongoing monitoring activities, to evaluate and improve the design, execution and effectiveness of internal controls, are duly carried out. Spot-checking transactions or basic sampling techniques can provide a reasonable level of confidence that the controls are functioning as intended.

Control Issues

Incorrect Payments due to Inadequate Verifications

All invoices, timesheets, and any other documentation on which payments are based, are to be vetted for accuracy before these are certified correct and processed for payment. Article 52 (3) of the GFR clearly states that “*on signing a voucher, the officer concerned shall certify to the accuracy of every detail in the voucher. He shall be held responsible that the services specified have been duly performed ...*”, and amongst other things “*... that computations and castings have been verified and are arithmetically correct ...*”. In addition, since controls are found to be weak, management is expected to increase supervision and monitoring. Overpayments effected are to be recouped.

Malta-Gozo Ferry Tickets

Inadequate Records for Stock of Malta-Gozo Ferry Tickets

A stock control system, as stipulated in the pertinent Circular, is to be adopted. Furthermore, annual stock-

takes and reconciliations are to be carried out, ideally by an independent officer.

No Control on the usage of the Frequent Travel Cards

Management is to ascertain that adequate controls are in place to ensure that the foregoing cards are only used on official travel.

Medical Services

Incomplete/Wrong Addresses provided to Contractor

Accurate and relevant information is a key to effective control. Heads sending the information are to be held responsible in cases where details submitted are incorrect. In such cases, payment is to be borne by the respective School/Section.

Requested Visits not performed by the Service Provider

A formal complaint is to be raised by the officer-in-charge, and forwarded to Management, indicating the number of requested visits that were not performed by the service provider for a given period, for any action deemed necessary.

Fruitless Home Visits by Doctors

Requests for doctor’s home visits are to be forwarded by the Head of School in a timely manner. The latter is to be held responsible for additional costs incurred by the Department, as a result of untimely demands submitted by the same Schools.

Services provided by Malta Memorial District Nursing Association

Futile Nursing Visits

Heads of School are to abide with the guidelines issued by the Department and take the necessary actions to inform MMDNA in a timely manner when the student will not be at the school. Action is to be taken by the Department, against those schools who fail to comply with the established instructions.

Similarly, while at school, it is the responsibility of the respective Head to ensure students invariably attend for such visits. If a student is at the school but fails

to turn up for the scheduled visit, the latter is expected to bear such expense. Should a student fail to turn up for the visits on a regular basis, the parents are to be informed, and if the situation persists, service is to be suspended, following a notification in writing to the parents to this effect.

Procurement of Professional Services

No Agreement covering the Engagement of two Professionals

The successful bidder's engagement is to be duly backed by an agreement, signed by the two parties involved, and supported by bank guarantees, where applicable, reflecting the actual contract value. Both the conditions of service and the duration of the agreement are to be clearly spelled out.

Tax Deductions not in line with Standing Provisions

The 15% tax at source deduction may only be applied in specific circumstances. Prior to certifying invoices, officer-in-charge is to ensure that the applicable conditions have been fulfilled, and the applicant is duly eligible for the said deduction. All payments issued to individuals providing professional services are to be reviewed to ensure compliance with standing regulations.

Incorrect Amounts declared in Payee Statement of Earnings (FS3) filed with the Inland Revenue Department

The Department is to ensure that official tax records are compiled in a proper and complete manner, thus ascertaining that all income earned and taxes paid by the respective individuals are fully declared. Upon compilation, such returns are to be independently reviewed, ideally by an officer who has at least a basic knowledge of the tax regime, so that any errors could be detected and corrected in a timely manner. Management is also expected to delve into this matter by reviewing reported income and respective tax deductions of individuals classified under this category, even retrospectively.

Timesheets not endorsed

The Department is to consider setting up a standard form to record third party attendance to be used by all service providers charging on an hourly basis. In addition to basic details, including the date when the

service was provided and duration, such a form could be endorsed by the service provider, as well as by the recipient receiving the service. In addition, details are to be verified by an independent officer, endorsed by the latter as evidence that they have been checked and found to be correct, and then tallied with the invoice.

Below-the-Line Accounts

Ineffective Monitoring of Below-the-Line Accounts

It is recommended that DAS extracts of below-the-line accounts are forwarded to the respective Directors on a regular basis for verification, enabling any unrelated expenditure as well as errors to be traced and corrected in a timely manner. Only in this way may Directors be held responsible for the operation of the said accounts, and compliance with MFEI's set conditions ensured.

Central School Fund used to sponsor Education Football Team

Payments are invariably to be substantiated by adequate documentation, enabling full audit trail and independent verifications by third parties. Where documentation cannot be attached to the PV, clear reference is to be indicated therein, so that substantiating information may be traced. Furthermore, the correct incidence of charge is to be applied in line with the provisions of the GFR.

School Cleaning Services

Fragmented Procurement for Schools' Cleaning Service

Management is recommended to identify and plan ahead the cleaning services required. At the end of a scholastic year, the Department may hold discussions with all the Colleges in order to identify the anticipated services required during the subsequent scholastic year. This will not only allow enough time to follow the appropriate procurement procedures, but also to obtain the most advantageous prices.

Shortcomings relating to Procurement

Procurement Requisition Form not raised

Management is to ascertain that effective control is exercised on payments and reimbursements. A procurement requisition is to be drawn up by all officers who may require any goods/services, including justification therein for the purchase being requested.

These forms are to be endorsed by authorised officers, according to their level of authority.

Furthermore, a GSPO is to be invariably raised by the Procurement Section, following the receipt of a duly filled Procurement Requisition Form, and prior to the placing of orders for goods or services with the supplier.

Procurement obtained direct from the Open Market

Compliance with procurement rules and regulations is imperative. While an entity may, in exceptional cases, place direct orders, after obtaining the appropriate MFEI approval, this is not to be considered as best practice. Continuous review of activities is recommended so that needs for goods and services can be determined at an early stage, allowing enough time to follow the appropriate procurement procedures.

Shortcomings related to Travel

Overseas Travelling either not approved by the Permanent Secretary or not approved in due time

As stipulated in the PSMC, justified official travel by public officers requires prior approval of the PS. In the latter's immediate absence, such travel is to be authorized by DCS. Non-compliance with standing regulations is not to be tolerated.

Delegation of Authority given verbally

Delegation of authority is expected to be made in writing and filed for future reference.

Air-ticket for the same Officer procured twice due to Incorrect Personal Details

It is of utmost importance that officers proceeding abroad provide correct details. In the case that costs are incurred due to incorrect information submitted, the Department is to ensure that such costs are borne by the officer concerned.

Reimbursements

Vague Details on Receipts

The Department is to ascertain that unless requests for payments are duly supported by detailed breakdown of the claimed expenses as well as the respective receipts, where possible, these are not to be refunded.

Unauthorised Self-payment

Controls are expected to be in place so that no officer is in a position to authorise purchases and payments to himself.

Hospitality Expenditure not endorsed by the Permanent Secretary

Education Department is to ensure that authority from the respective PS is sought for disbursement of public funds in connection with Government hospitality. Each request is also expected to be endorsed by the latter before the expenditure is incurred, as required by the relevant provisions of the PSMC.

Other Matters

Production of Mini-Digital Videos

In similar cases, the Department may consider seeking quotations for the completion of the entire production, rather than for an hourly rate of filming and editing. This will enable a fair comparison of the quoted rates, while reducing the risk of inflated hours.

Furthermore, where amounts charged differ from quoted prices, a justification is to be included on the payment, explaining the difference in the amount paid.

Misallocation of Travel and Hospitality Expenditure

Expenditure is to be reported under the correct Line Items. Vouchers are not to be endorsed by the accounting officer unless the correct account is quoted. If funds are not available in the relevant account, proper virement procedures should be followed.

Incorrect File Numbers quoted on Vouchers

Reference on the PVs is expected to relate to the applicable updated documentation in connection with the same payments, especially where supporting records cannot be attached to the respective vouchers.

Invoices issued prior to the Goods and Services Purchase Order

A GSPO is to be raised as soon as a commitment is made to acquire goods or services. Thus, it will be ensured that sufficient funds are available to cover the purchase.

Signatures not clearly identifiable

The names of officers endorsing official documents are to be clearly identifiable. The Department is encouraged to issue instructions stipulating that all signatures have to be accompanied by a rubber stamp, clearly indicating the name and position of the said officers.

Compliance Issues

Expenditure not substantiated by Fiscal Receipts

It is to be ensured that fiscal receipts are attached to the respective PV. In cases where suppliers fail to adhere to VAT regulations, purchasing from such defaulters is to be discontinued until the situation is rectified.

Non-Submission of Statutory Returns

Management is to ensure that pertinent regulations are adhered to and complete returns are submitted on a timely and consistent manner. Furthermore, a copy of the submitted returns is also to be kept by the Department for future reference.

Lack of compliance with Standing Travel Regulations

Officers entrusted with the responsibility of official visits are expected to adhere to the pertinent regulations, so as to ascertain full accountability of the expenditure incurred out of public funds.

Management Comments

Management accepted a number of recommendations, particularly those relating to proper checks of documents submitted for payment, upkeep of records and compliance with set regulations and procedures. Contracts for service covering individuals providing professional services to the Department will be drawn up. Action is also taken where sickness verification visits and futile nursing visits performed by MMDNA are concerned. DAS reports covering below-the-line accounts will also be sent to the respective Directors on a regular basis. Internal procedures with respect to reimbursements, hospitality expenditure, as well as delegates proceeding abroad, have also been enhanced.

The remaining observations were either not properly addressed or contested by Management as detailed hereunder.

In the absence of confirmation of a principal full time job, the Accounts Section is not deducting 15% tax on payments for services rendered to the Directorates on a part-time basis. Tax deductions are also not being made in case of self-employed persons, usually engaged on a Contract for Service. FS3 is only compiled for full-time employees or employees engaged on a Contract for Service. Both replies submitted by the Department failed to address properly the related observations.

Management claimed that the payment effected out of the Central School Fund to sponsor the Education Football team was a one-off payment and that all players are staff of the Ministry for Education.

As regards the fragmented procurement of school cleaning services, Management deems that under the current system the issue of tenders has been rationalised. It was further stated that the difference in the daily rates of the two schools reflects the cleaning requirements as forwarded by the College Principal. In the schools in question, there are general hand and/or part-time cleaners employed and contracted services were needed for a part of the school premises only.

According to Management, the difference in price of the production of mini-digital videos, was due to the fact that the estimate was based on 100 hours of footage. The number of actual hours exceeded the 100 hours subsequent to DG's direction for two extra DVDs which were required urgently for the consultation process. Unforeseen problems with the filming and editing also contributed to the additional hours. It was further stated that the extra 100 DVDs for schools were produced in extreme urgency.

As stated in the reply submitted, before any travel arrangements are initiated by the Travel Abroad Section, the Internal Clearance Form is duly filled and sent to the PS for his approval, following which an e-mail is then received from the Office of the PS, stating that the latter has approved the delegates visit abroad. Although no evidence was provided, it was further claimed that covering approval by email was received in advance of each visit abroad in the instances highlighted in the report.

With respect to NAO's remarks on the usage of the Frequent Travel Card, Management stated that officers are requested to sign the time sheets in the respective schools they service and they also fall under the responsibility of the College Principal for

Gozo. Control over travelling in Gozo and visits to schools were carried out by the College Principal who forwarded the requested documentation.

Management claimed that monitoring of Below-the-Line Accounts is made by the Head of Accounts on a regular basis charging only expenditure which is directly related to school needs. There was one instance where income was credited to the wrong Below-the-Line Account but this was remedied with the transfer of income to the appropriate Account. All the expenses mentioned in the report refer to expenses incurred for the benefit of schools either directly by Head Office or through the office of the College Principals.

With respect to the observations regarding Procurement from the Open Market, Management stated that in the

case of the Survey on Reading Habits, the service provider was selected on the basis that it had the tools and competency to carry out such research. Furthermore, the company carried out similar research for Eurobarometer and the Council wanted to use this expertise to get the best possible result. For the procurement related to the School Magazine, the Ministry had requested three quotes for the printing of the booklet, and the supplier selection was based on the premise that he could give the Ministry the three services required.

According to Management, Hospitality and Travel expenses were charged to the Below-the-Line Account since this expenditure was related to special education.

Foundation for Social Welfare Services – *Aġenzija Sapport*

Background

The purpose of the *Aġenzija Sapport*, hereafter referred to as the ‘Agency’, is to provide community and residential services to persons with disability and their families. *Sapport* is incorporated within the spectrum of the Foundation for Social Welfare Services (FSWS) together with *Aġenzija Appoġġ* and *Aġenzija Sedqa*.

FSWS, which previously fell under the responsibility of the Ministry of Education, Employment and the Family (MEEF), was incorporated within the Ministry for Justice, Dialogue and the Family, following the re-assignment of ministerial portfolios in January 2012.

The original approved financial estimate for the year 2011, under Item 6774 – *Sapport*, in Recurrent Vote 19 – MEEF, amounted to €6,590,000. This amount was increased by an additional allocation of €400,000 as per letter dated 2 March 2011. However, based on its requirements, the Agency received a total of €6,907,668, out of an aggregate budget of €6,990,000.

The Agency was also allocated €120,000 under the Ministry’s Capital Vote. This consisted of an amount of €60,000 under Item 7007 – Day Centres for Persons with Disability and a further amount of €60,000 under Item 7008 – Adaptation works at Supported Living Residential Centres.

Audit Scope and Methodology

FSWS is audited annually by a private audit firm. However, this particular audit focused merely on *Aġenzija Sapport* and was carried out by this Office in terms of the Auditor General and National Audit Office Act, 1997.

The objectives of the audit were to ascertain that adequate internal controls were in place during financial year 2011 and to ensure that procurement procedures were in accordance with the Public Procurement Regulations (PPR), relevant circulars and internal policies.

An overview of the adopted procedures and controls was obtained through various meetings held with the Financial Controller (FC) and other accounting and administrative officers. A sample of 68 payments, covering various expenditure categories, was selected following an analytical review and the identification of material transactions. Areas tested also included assets, cash and cash equivalents, receivables, payables, payroll, revenue and expenditure.

Key Issues

Deed of Foundation not drawn up

FSWS confirmed that there is no specific Deed covering the official foundation of *Aġenzija Sapport*.

In the absence of such Deed, it cannot be ensured that the operations of the latter are being run as intended and in uniformity with established procedures.

Agreement with Insurance Brokers

Insurance Cover Agreement for 2011 not made available

The National Audit Office (NAO) was informed that a call for an expression of interest for the appointment of insurance brokers was issued towards the end of 2011. Subsequent to the evaluation of quotes submitted, insurance brokers were appointed for a period of one year, covering 2012. However, a copy of the official agreement with the insurance brokers for the preceding year, *i.e.* the year under review, was not provided. The absence of a formal agreement endorsed by both parties increases the possibility of misunderstanding.

Notification of Award not in line with the Expression of Interest Document

On 23 December 2011, FSWS informed the unsuccessful bidders via e-mail about the outcome of the evaluation process, whereby they were also notified of the supplier chosen and the criteria used for selection. However, such communication did not contain additional information required in accordance with Section 33 of the Expression of Interest Document, namely:

- the recommended price of the successful bidder;
- the reasons why the unsuccessful bidder did not meet the technical specifications/ notification that the offer was not the cheapest (if applicable);
- the deadline for filing a notice of objection; and
- the deposit required if lodging an appeal.

Complete information was only provided to one of the unsuccessful bidders on 2 January 2012, after the company requested additional information which should have been provided in accordance with the established guidelines set out in the Expression of Interest Document.

Appeal Provisions erroneously included in the Expression of Interest Document

The Expression of Interest Document contained extracts from PPR which, amongst others, specify that appeals

shall be filed within ten calendar days following the date on which the contracting authority has, by fax or electronic means, sent its proposed decision.

Following an exchange of correspondence between FSWS and one of the bidders, the latter filed a formal notice of objection dated 9 January 2012 with the Public Contracts Review Board (PCRB), within the Ministry of Finance, the Economy and Investment (MFEI). In the meantime, in a communication dated 13 January 2012, the Secretary of PCRB informed FSWS of the objection filed and that in the circumstances, the process “*shall be completely suspended*”. Subsequently, a letter dated 9 March 2012 was sent by the Board to the aggrieved bidder, stating that since the procurement concerned involved an amount which is less than €12,000, it was not subject to appeals. This ruling is conflicting to the information contained in the Expression of Interest Document, which explicitly stated that the decision was subject to an appeal.

Incorrect Information communicated to the Public Contracts Review Board

When the appeal was being evaluated by PCRB, FSWS was requested to fill in an information sheet. Through such document, the Foundation informed the Board that the selected bidder was contracted as no objection had been received within the stipulated time-frame of ten calendar days. However, NAO noted that in actual fact this statement was incorrect, since on 23 December 2011 FSWS instructed the selected broker to renew the insurance coverage. This was on the same day that the other bidders were informed about the chosen supplier.

Avoidance of the issue of a Call for Tender

As mentioned above, the Foundation issued a call for expression of interest for the appointment of an insurance broker. The Letter of Appointment dated 30 December 2011, in line with the conditions set by the same Expression of Interest, specified that the selected broker was responsible, among others, to set up an insurance programme for FSWS and seek quotations from the insurance market. However, the instructions given to the chosen bidder on 23 December 2011 were specifically for the renewal of the current coverage, without making any reference to quotations.

The collective amount of €29,040 paid by the Agency itself to the brokers for insurance premiums, which excludes other payments effected by the Foundation

and/or its other Agencies, required a departmental call for tenders or at least publishing a call for quotations in the Government Gazette in accordance with PPR. Nevertheless, the service provider was only selected following the call for expression of interest, on the basis of a free brokerage fee, overlooking the value of the insurance itself.

Control Issues

Contingent Liability to the Inland Revenue

The Management Letters drawn up by the private audit firm revealed a disclosed contingent liability, indicating that there could be possible outstanding dues relating to Social Security and employees' tax, as Final Settlement returns relating to previous years (up to 2008) were not duly submitted for *Aġenzija Appoġġ* and *Aġenzija Sapport*. The quantum of the financial impact could not yet be determined and a contingent liability was disclosed in this respect in the financial statements for the year 2011.

FSWS declared that it has been fully compliant with Inland Revenue Department (IRD) returns as from 2009 and also stated that the exercise cannot be concluded until documents are traced. NAO's attempt to assess how the matter was being addressed was inconclusive as the only document provided consisted of a handwritten sheet of paper whose author was unidentified.

Official Cars for General Use

Log Books not available

A total of 17 general-use vehicles were at the disposal of the Agency in 2011. The log books for all vehicles used during particular months, *i.e.* January in the case of Day Centres and August in the case of *Sapport* vehicles, were requested for review.

The log books for two vehicles, namely a Coach and a Lifter, were not made available. Management claimed that the Coach has been out of service since 2010. However, this Office noted that a fine of €384 was settled in May 2011 with respect to the same vehicle, as its road license was paid late and was also being driven without a valid licence. Following further enquiry, management replied that the vehicle was used only once, *i.e.* when the fine was incurred. With regards to the Lifter, the Officer in charge declared that relevant

records were only kept as from November 2011.

Shortcomings with the format and presentation of Log Books

All log books presented for audit purposes were kept loose leaf and did not contain a page number. The log book format used for Day Centres' cars was even different to that used by the other cars. Furthermore, there was no room to record 'destination' and 'reason' of the journey separately in the log books used by *Sapport*. Moreover, all log books did not contain a specific field to record fuel purchased.

Shortcomings in trip records were also noted in all log books provided for inspection. Information recording journeys performed was at times incomplete or not available. Consequently, the mileage and dates recorded on the Fuel Requisition and Issue Notes could not be reconciled with the log book records. Instances were also encountered where journey details were recorded in pencil.

Evidence confirming Certification of Log Books not available

NAO did not find any evidence to confirm that log books were being inspected periodically by a responsible officer to monitor fuel consumption and to ensure that irregular use of cars is duly reported.

Fuel Requisition used twice

A particular fuel requisition was raised by different persons on two different dates to supply fuel to the same vehicle. NAO confirmed that the Agency was also billed twice as this requisition featured in both July and August fuel invoices.

Excessive Fuel Consumption

The recorded approximate average fuel consumption was deemed excessive with respect to a number of cars. The highest average consumption, which was equivalent to 8.1 miles per gallon, was registered with respect to a Ford Transit used by the Day Centres during January 2011.

NAO also noted contrasting results when comparing the consumption of identical vehicles in the same fleet. For example, two Chevrolet Aveo cars, both running on unleaded petrol, registered an approximate average

fuel consumption of 18.3 and 35.2 miles per gallon respectively in January 2011. Inconsistencies were also evident for two Ford Focus cars during August 2011, both having a diesel engine, which registered an approximate fuel consumption of 36 and 24.6 miles per gallon respectively.

Reimbursement claimed for the use of Personal Vehicles

As per FSWS Policy, employees, contractees and volunteers may use their own vehicles for work related duties and are reimbursed at the prevailing Public Service rate. A total reimbursement of €47,488 was disbursed by the Agency in this respect.

Testing on a sample of individual fuel reimbursements revealed the following shortcomings:

- Claims made are only authorised retrospectively and no maximum limit is set.
- One officer recorded only the total daily mileage, without indicating the mileage covered for each individual trip. Various instances were noted when the mileage claimed by this officer, ranging up to 122 kilometres (Kms) in one day, was deemed excessive. The reason for a number of trips made by the same officer was for the purchase of pet food. Without prejudice to their nature, such trips could have been easily combined with other journeys.
- Claims raised by another officer did not always contain the reason for each trip performed.

Shortcomings in the Transport of Clients

Sapport provides free transportation for clients with disability to and from Day Centres. In the majority of cases, this is provided by three service providers. A total actual expenditure of €629,701 was recognised in the accounts for 2011.

The following audit concerns were encountered with respect to the two sampled service providers:

Transport for Disabled Persons

No contract was made available between the service provider of transport for disabled persons and *Sapport*. As a result, NAO could not determine the basis on

which the Agency paid €239,962 in 2011 for services rendered.

Transport of Day Centre Clients

It was claimed that when the Day Centres were transferred under FSWS's responsibility in April 2007, the transport of clients continued to be provided under the conditions established by two separate contracts, initially undertaken by the Department for the Elderly and the Education Department respectively with the service provider.

Upon examination, it transpired that both contracts provided were invalid for the following reasons:

- The contract between the Department for the Elderly and the service provider for the transportation of Day Centre clients, expired on 30 September 2004 and was never renewed.
- The other contract, namely the one undertaken by the Education Department, merely regulates the provision of transport to state schools' students and has nothing to do with the Agency. *Sapport* informed NAO that it was advised by FSWS Management, and also by the then MEEF Secretariat, that this agreement was also applicable for Day Centres. However, documentation supporting this advice was not made available.

Additionally, from the information provided, NAO could not reconcile the rates charged, which in 2011 in aggregate amounted to €350,851, to any of the above-mentioned agreements.

Vehicle on loan from the Malta Community Chest Fund

The management of the service and the use of a coach donated to Malta Community Chest Fund (MCCF) was delegated to FSWS, as per agreement dated 19 December 2005. The agreement expired on 18 December 2010 and was not renewed as it was claimed that the vehicle is often idle with mechanical problems.

As already mentioned earlier on, *Sapport* incurred a 'Late Payment Fee' of €314 and a 'Fine for driving without a licence' of €70 in connection with the above coach. This expense, amounting collectively to €384, could have been avoided if the annual licence was paid on time.

Staff and Payroll Issues

Background

The Agency's payroll cost amounted to €5,701,333 for year ending 31 December 2011, of which €3,508,756 were attributable to Day Centres, and €2,192,577 were expensed by *Sapport*.

Lack of Control over Timesheets

The Agency uses a system of timesheets which are filled-in manually by each officer to log hours worked. Each timesheet is drawn up on an A4 paper and besides hours worked, it also includes location, vacation leave, sick leave, public/national holidays, team meetings, supervision/training and time-in-lieu over a four weekly period. The space allocated to record the daily hours worked is very limited with the result that the records were at times ineligible.

The following shortcomings were also noted from the timesheets reviewed:

- Three of the four officers whose payroll was examined were paid overtime, amounting collectively to €1,039. However, the respective timesheets do not contain any reference to the roster worked by the employees. In such absence, or any other formal documentation, NAO could not validate any payments for overtime, which in 2011 amounted to €62,877.
- One out of the four timesheets reviewed was not endorsed by an authorised officer. Additionally, amendments to the timesheets were not initialled. Consequently, this Office could not establish by whom the changes were effected and thus could not confirm whether adequate controls over such records are in place.

Overtime Budget exceeded

Total overtime cost incurred during 2011, which as indicated earlier on amounted to €62,877, exceeded the budgeted expenditure by 168%. The Agency claimed that overtime is authorised in exceptional circumstances, mostly to attend to the needs of persons with disability in residential units when the scheduled officers are on sick leave.

Overtime authorised verbally

No documentation was made available to evidence the approval of overtime by an authorised officer. It was noted that overtime was only being approved verbally. However, although through e-mail dated 13 February 2012, FC claimed that the matter was in hand and that NAO would be copied with the respective Memo when it is finalised, nothing was received in this regard by the end of September 2012, when this report was being concluded.

Contract of Employment not valid

Audit testing revealed that one of the officers in the audit sample did not have a valid employment contract with the result that his salary, which in 2011 amounted to €20,319, could not be verified. The contract which was made available referred to the grade of House Leader, which was abolished way back in 2003.

Pilot Project to cater for the need of a Client with Severe Physical Disability

Background

A Pilot Project was set up in order to provide care services for a particular client with severe physical disability, to give him the opportunity to lead an independent life within the community, thus enabling him to live away from an institutional set-up. The provision of this service during 2011, which cost for the year amounted to €67,928, was covered by two agreements, each valid for one year, one up to 9 August 2011 and the other from there onwards. In both instances, the service provider was chosen by the client whilst MCCF and MFEI committed themselves to provide the necessary funding. *Sapport* was not involved in the procurement of the service but was entrusted with the administration of such funds.

First Agreement

The Letter of Commitment states that services will be provided as per quotation dated 20 July 2010 attached as Appendix 1. However, this document was not included. A quote from the supplier, bearing a different date of 20 May 2010, was provided instead following audit queries. In the circumstances, the rates charged could not be validated.

Second Agreement

The second agreement states that all parties accepted the quote dated 20 July 2011, which should have been included as Appendix 1. Such document was also not available but was only obtained by the Agency during audit testing. This may imply that proper scrutiny of the invoiced amounts is not being carried out prior to payment.

Fixed Assets

Accounting Shortcomings

The cost of three items purchased, namely a monitor, a washing machine and a hot plate, collectively amounting to €959, was not capitalised with the fixed assets.

No depreciation for the year was charged for additions, amounting to €33,350, categorised under Improvements to Property in respect of Day Centres. This matter was brought to the attention of FC and was rectified in the audited Financial Statements.

Room Inventory Lists not available

No room inventory lists were made available, upon enquiry, for locations falling within the remit of *Sapport* and three Day Centres. Although the room lists of the remaining Day Centres were made available, they lacked the necessary details to enable the identification of assets.

Unreliable Inventory Records

The Agency does not have a consolidated fixed asset register, whose value tallies with the figure reported in the balance sheet. Separate inventory databases are held for the different locations which fall within the Agency's remit. Additionally, the format of such databases is not uniform.

Important information, such as date of purchase and cost, was missing in the inventory databases, either because the relative template did not necessitate the recording of such information, or because the space allocated was simply left blank.

NAO also noted that the 'Remarks' column of a number of Day Centres' databases included comments such as 'not found', 'withdrawn', 'moved', 'removed' and

'broken' which question the reliability and correctness of data.

Notwithstanding the above shortcomings, NAO still attempted to trace a sample of assets, whose collective value amounted to €8,386, but none could be confirmed in the inventory databases.

Procedures Manual Incomplete

The management letter for the year 2010, which was drawn up by the private audit firm, made reference to the fact that, in most instances, procedures were developed through practice rather than through a formalised process. Such manual was not yet finalised, at least till January 2012 when the audit was in hand. Unless the Procedures Manual is completed without further delay, the Foundation and its Agencies will continue to operate without a focal point of reference, which may limit the possibility of effective internal controls.

Compliance Issues

Lack of Transparency in the Hiring and Leasing of Vehicles

Agreements for Leased/Hired Vehicles not available

During 2011, *Sapport* made use of eight leased/hired vehicles from two separate service providers, at a total cost of €25,234 and €12,593 respectively.

NAO was informed that the first five cars were leased from a supplier following a call for expression of interest by FSWS in 2005. The other three cars were hired from another supplier, in accordance with an arrangement which prevailed in April 2007, when the Day Centres were transferred from the Ministry for Social Policy to the Agency. However, due to the lack of documentation, the audit could not establish whether procurement regulations were followed and that payments made were accurate.

Finance Approval not confirmed

Letter Circular dated 29 November 2004, addressed to all Chief Executives in the public sector, obliges public organisations to seek the approval of the Ministry of Finance in order to buy, lease, rent or otherwise obtain the use of any additional car. However, NAO was not

provided with the relevant approvals in line with this Letter Circular.

Non-Compliance with the Public Procurement Regulations

Although the amount disbursed to a particular supplier for the provision of table water exceeded the €7,080 threshold, it was not covered by a call for tender or the publication of a call for quotations in the Government Gazette in accordance with PPR.

Cleaning Services

Procurement Regulations not followed

The agreement entered into between FSWS and the supplier for the provision of cleaning services specifies a minimum of 100 hours of cleaning per week. Although at inception the total cost of the service over two years was anticipated to be €46,072 (excluding VAT), only two quotes were made available to NAO upon enquiry about the selection of the service provider. On the basis of the information provided, it is evident that the procurement regulations were not followed.

In a communication dated 6 February 2012, this Office was informed that FSWS was awaiting consent from the Ministry to proceed with an agreement, given that the tendering process for cleaning services has now been finalised.

Provision of Service not covered by a Formal Agreement

One of the sampled payments related to an invoiced amount of €1,003, covering cleaning services carried out during November 2007 in four locations, which were not covered by the agreement. Furthermore, the contract refers to an 'Addendum' which specifies both venue and time of the cleaning arrangements, and that any changes thereto must be endorsed by both parties. It also refers to a scheduled timetable. However, none of these documents were made available to NAO for audit purposes.

Timesheets not available

The invoice in relation to the above-mentioned work performed in 2007 did not contain a breakdown of the number of hours claimed, or supporting timesheets

indicating hours worked. Thus, it is unclear on what basis this was certified correct and processed for payment.

VAT Receipts not made available

The necessary fiscal receipts were not submitted in eight out of 22 payments, collectively amounting to €6,491. This practice may result in VAT dues not being duly handed over to the VAT department and in the possible under-declaration of profit for Income Tax purposes.

Recommendations

Key Issues

Deed of Foundation not drawn up

Management is to officially formalise the setting up of the Agency, through a specific Deed of Foundation, which outlines, amongst others, its aims, powers, objectives and responsibilities. The attention of FSWS is also drawn to MFIN Circular No. 5/07, 'Defining Ownership of Assets and Liabilities when New Public Sector Organisations are established'. This Circular stipulates that whenever new public organisations are established to assume responsibilities from Central Government, a Memorandum of Understanding is to be drawn up to identify the assets and liabilities taken over by the new organisation and those retained by Government.

Agreement with Insurance Brokers

When drafting documents in preparation for the procurement of goods or services, FSWS is to ensure that only the relevant provisions are included. Due care should be given to avoid clauses that may be conflicting.

Furthermore, it might be eventually more cost efficient for the Foundation to commission the drawing up of an independent tailor-made Insurance Programme, forming the basis on which calls for quotes or tenders are published. Additionally, Management is recommended to cost the aggregate annual insurance expenditure for the Foundation and its Agencies, in order to be able to select the appropriate procedure in accordance with PPR.

Control Issues

Contingent Liability to the Inland Revenue

Management is encouraged to document all actions taken *vis-a-vis* the outstanding liability with IRD and adequately file as evidence for future reference.

Official Cars for General Use

It is Management's responsibility to exercise strict controls on the Agency's general use vehicles in order to ensure that only journeys on official business are performed. The attention of Management is also being drawn to the relative guidelines outlined in the Public Service Management Code to regulate the use of such vehicles.

These guidelines stipulate that a log book should be kept for each vehicle to record the exact mileage covered and other journey details, where a specimen log book can also be found. The Agency is encouraged to use such specimen for all vehicles under its responsibility in order to obtain uniformity, whilst ensuring that a comprehensive detail of each journey performed is recorded.

The same guidelines also require that a certificate is entered on each log book at the end of each month. This certification will serve as a confirmation that the trips recorded in the log book were made on official duty. Reasonability of fuel consumption is also to be adequately monitored.

Reimbursement claimed for the use of Personal Vehicles

Management is to consider enhancing controls in this area. Unless it is stipulated in the employment contract, prior specific authority is to be sought for officers to use their personal vehicle for work related duties. Such concession is only to be given if it is not possible to use the Agency's cars. The maximum mileage allotment for a given period is also to be indicated.

Moreover, a log book is to be kept by each officer using personal transport for work related duties and adequate details of each journey performed recorded therein. Such log books are to be inspected monthly by an officer in charge to confirm that there are no irregularities and, where applicable, to check that the allotted mileage is not exceeded.

Shortcomings in the Transport of Clients

The Agency is to make the necessary arrangements to ensure that the provision of the transport of clients is guaranteed. In this respect, remedial action is to be taken to select a service provider in accordance with the provisions of the procurement regulations. Once *Sapport* is billed for this service, it is to be ensured that details and cost of trips are reconciled to the new agreement and certified correct accordingly prior to payment.

Vehicle on loan from the Malta Community Chest Fund

Sapport is to ensure that all agreements are valid. The Officer in charge of transport is also to ascertain that the necessary arrangements are in place so that licences for all vehicles in use by the Agency are duly paid on time, thus avoiding any unnecessary disbursement from the Agency's financial allocation.

Staff and Payroll Issues

Lack of Control over Timesheets

Management is to consider installing Attendance Verification Systems (AVSs), instead of the manual system currently in use, to manage effectively time-keeping and staff movement. Such electronic reading devices have the potential to reduce or eliminate manual calculations, thus decrease the possibility of error and simplify the payroll procedure. Until such time AVSs are installed, it is to be ensured that all timesheets are endorsed by authorised officers and any changes to work records initialled.

Overtime Budget exceeded

Overtime work should be resorted to only in exceptional circumstances. It is expected to be reviewed periodically in order to identify and introduce alternative working possibilities which will help the Agency attain its objectives, whilst economising on such expense.

Overtime authorised verbally

The Agency is to ensure that adequate records are available to evidence the authorisation of overtime prior to the commencement of the respective work. As

a minimum requirement, such record is to identify the officer requested to work overtime and the respective authorising officer. It should give details such as the date, time and location where the work will be performed, as well as a proper justification for such requirement. The date when the approval was granted is also to be clearly noted. Disbursements for the payment of overtime should not be effected unless the necessary authorisations are obtained.

Contract of Employment not valid

Valid contracts of employment are to be drawn up for all employees in order to formalise employment relationships. These will ensure agreement between the parties concerned when it comes to the job description, remuneration and terms and conditions related to the particular post.

Pilot Project to cater for the need of a Client with Severe Physical Disability

This Office acknowledges the fact that the requirements of the procurement regulations were of secondary importance since this was a pilot project and the main objective was to provide the client with carers of his choice. However, when *Support* is entrusted to issue payment, whether in the role of administrator or otherwise, it is within its responsibility to confirm that amounts invoiced are correct. Thus, it is recommended that the Agency obtains and maintains all documents to which invoices should be corroborated prior to payment.

Fixed Assets

A list of the items of inventory in respect of each room is to be generated by the Officer in charge of inventory. Ideally this list is generated in duplicate, one copy of which is to be kept by the inventory holder and the other by the former. Whenever assets are added or removed, a new list is to be produced, however the replaced room inventory list is to be retained for control purposes. Ideally, room inventory lists are to be displayed in the respective rooms. Management can refer to MF Circular No. 14/99 'Government Accrual Accounting: Revised Inventory Control Regulations' for guidance regarding the details to be included in such lists.

The Agency is also recommended to take the necessary remedial action to keep its inventory records updated and consolidate these same records. Besides providing

management information on demand, this will help to keep track of each fixed asset and facilitates the computation of depreciation. MF Circular No. 14/99 'Government Accrual Accounting: Revised Inventory Control Regulations' will be of guidance in this respect.

Procedures Manual Incomplete

The Procedures Manual promotes internal control and consistency within the functions of an organisation. This is obtained by formalising procedures presently used for routine and non-routine activities, and identifying responsibilities for their execution. FSWS is thus recommended to speed up the process for the completion and adoption of such Manual.

Compliance Issues

Lack of Transparency in the Hiring and Leasing of Vehicles

Management is to ensure that all commitments are in line with the Procurement Regulations and relevant Circulars. Timely action is to be taken in the event of non-compliance.

Non-Compliance with the Public Procurement Regulations

Strict compliance with PPR is recommended. Besides ensuring better control, adherence to these requirements is intended to provide more value for money for the items purchased.

Cleaning Services

Transparency in the procurement process cannot be guaranteed unless the relative regulations are followed. Thus, the Foundation is to ensure that the acquisition of all goods and services is made in line with PPR.

Furthermore, procurement is to be duly covered by a comprehensive formal agreement, indicating the applicable terms and conditions binding the contracting parties. In such absence, the Agency may be rendering itself more vulnerable to risks inherent from the performance of the service provider, and at the same time, limiting the corrective actions that may be taken against the latter in case of default.

Invoices for cleaning services should indicate clearly the number of hours charged and the applicable rate.

These are expected to be reconciled with attendance sheets prior to payment. In this regard, the service provider is to maintain a detailed record of work performed, to be endorsed by a designated officer from the Agency, in order to support claims for payment.

VAT Receipts not made available

The attention of the Agency is drawn to MFEI Circular No. 2/2012. This obliges public sector organisations to report defaulting suppliers as per procedures set out in MF Circular No. 5/2002 (Submission of Fiscal Receipts to Government Departments) and MFEI Circular No. 7/2011 (Submission of Fiscal Receipts to Government Departments - Update to MF Circular No. 5/2002). Thus, it is to be ensured that all suppliers, who have been paid for goods or services, invariably provide fiscal receipts. Other types of receipts are acceptable only when suppliers are exempted from registering for VAT.

Moreover, the VAT Department is to be informed of the designated officer who is responsible for the compliance of the above-mentioned circulars. Additionally, quarterly returns, highlighting those suppliers not complying with VAT regulations, are to be duly filled and submitted to the VAT Department in electronic format as per MF Circular No. 2/2012.

Management Comments

Management concurred with a number of recommendations put forward by NAO. Whilst remedial action has already been taken in particular areas, management intends to take further corrective action in line with NAO's recommendations. The following comments, at times with reservations, were also submitted:

- Whilst it was confirmed that all IRD documentation has been appropriately filed as from 2010 onwards, management has done its utmost to trace the relative documentation with respect to previous years.
- Strict controls are in place to ensure that the Agency's general use vehicles are only used on official business. Nevertheless, the log book certificate will be introduced to ensure better compliance.
- Prior authority is always sought when personal vehicles need to be used for work related duties.

However, the maximum mileage allotment cannot be indicated due to the different needs of clients.

- The tender for the provision of transport of clients was issued in May 2011, however the bids submitted were above budget. Agreement has been reached with service providers following consultation with the Department of Contracts.
- The MCCF coach is no longer used and is in the process of being returned.
- The payment of salary is not effected unless timesheets are duly endorsed. The feasibility of introducing AVSs will also be considered.
- The increasing needs of the clients' ageing population require the use of overtime. However, excluding minor exceptions, overtime is now duly pre-authorised.
- An exercise was performed in order to ensure that all employees have a valid contract of employment.
- The procedures manual for most of the accounting process has been completed. Other procedures are formalised by memos which are addressed to the administration leaders.
- FSWS obtained MFEI approval to replace a number of vehicles, whilst the rest of the fleet will be gradually phased out. However, the Agency still needs to use a minimum number of leased vehicles.
- The Finance Department forwards the report as per MFEI Circular No. 2/2012 to the VAT Department. Additionally, the remittance advice contains a note whereby suppliers are informed that their details will be forwarded to the VAT Department unless they comply with VAT legislation.

The documents presented with the management comments following the audit report were not directly relevant to the audit issues raised under the heading 'Deed of Foundation not drawn up'. Additionally, comments made by management did not properly address NAO's concerns raised under the heading 'Agreement with Insurance Brokers'.



**Ministry of Finance, the Economy
and Investment**

Value Added Tax Department

Fiscal Receipt Defaulters

Background

In terms of Article 50 (1) of the Value Added Tax (VAT) Act, 1999, *“Every person registered under article 10 who makes a supply, other than an exempt without credit supply, to another person who identifies himself for the purpose of that supply by means of a value added tax identification number shall provide that other person a tax invoice within thirty days...”*. Where the buyer is not identifiable through a VAT number, Article 51 requires the seller to provide an invoice, receipt or other document as specified by the Thirteenth Schedule of the VAT Act.

Ministry of Finance, the Economy and Investment (MFEI) Circular No. 7/2011, and Ministry of Finance Circular No. 5/2002, which relate to the submission of fiscal receipts to Government Departments, both stipulate that *“Heads of Department and other Accounting Officers are to ensure that they are invariably issued with a fiscal receipt by suppliers who have been paid for stores / services provided by them.”*

Government Departments are obliged to submit Quarterly Returns indicating defaulting suppliers to the VAT Department, within six weeks from the end of each quarter, in accordance with Ministry of Finance Circular No. 40/02/A. In cases where there are no defaulting suppliers to report, nil returns are expected to be submitted.

Audit Scope and Methodology

The scope of the audit was to:

- ascertain whether sound internal control systems are in place, ensuring that complaints about fiscal receipt defaulters, received from the general public and Government Departments, are properly maintained;
- verify whether the required Quarterly Returns are in actual fact being submitted by Government Departments; and
- verify whether adequate follow-up action is being carried out by the VAT Department in respect of the above information.

An introductory meeting was held with VAT officials on 17 November 2011, to discuss audit objectives and obtain an understanding of the Department’s internal controls in connection with complaints about fiscal receipt defaulters, irrespective of whether they are raised from the general public or Government Departments. Issues raised during this meeting were documented and confirmed by the officers concerned.

Further meetings were subsequently held with VAT officials, to elaborate on matters discussed during the introductory meeting. The audit was carried out during December 2011 and January 2012. An exit meeting with VAT senior officials, who were very cooperative throughout this audit, was held on 12th April 2012.

Complaints raised by the General Public

Complaints related to fiscal receipt defaulters raised by the general public are maintained by the Department by means of a computerised system, the VAT 99 Console. Upon receipt, complaints are registered under the appropriate category of the Complaints System within VAT 99. Following subsequent inspection, the responsible inspectors document their findings in both the Complaints System and Risk Analysis Application, the latter also within VAT 99.

Officers responsible for coordinating inspections on defaulters, keep a separate list of complaints in spreadsheet format. This is compiled from printouts forwarded to them from the officers inputting complaints into the Complaints System after inspections are carried out. This spreadsheet is maintained as an additional tool in assisting the respective officers to coordinate inspections. During the systems overview, the National Audit Office (NAO) was informed that such officers have ‘read only’ access to the Complaints System and Risk Analysis Application within VAT 99.

A list generated from the Complaints System for January to October 2011, as well as a copy of the VAT officials’ spreadsheet for the same period, was provided to NAO for analysis purposes. These lists

were reconciled and differences were discussed with the Department. Furthermore, NAO performed an analysis of the population issued from the VAT 99 Console and the spreadsheet, totalling 462 complaints raised by the general public during the foregoing 10 months of 2011. These were classified under seven categories, as shown in Table 1.

A systems overview of the operations of the VAT Department, in relation to complaints raised by the public, was compiled. A walk-through test of seven complaints was then carried out to verify the controls outlined in such overview. These were selected at random and represent each of the categories listed in Table 1⁶. Mandatory fields and audit trails in the VAT 99 Console were also tested.

Government Defaulters

Defaulters that are included in the Quarterly Returns submitted by Government Departments are recorded by the VAT Department in a spreadsheet known as the Defaulters’ List. The dates of submission of these returns are recorded in a separate spreadsheet (‘Returns List’). Copies of both spreadsheets together with supporting returns for the period January to September 2011 were provided to NAO.

Table 1 – Complaints Analysis

Results following Inspectors’ visit	Complaints System ¹	Officers’ spreadsheet ²	Total	%
No Adverse Remarks	145	31	176	38%
Follow-Up Recommended Report ³	65	16	81	18%
Found Closed	53	20	73	16%
Not Found	33	5	38	8%
No Information ⁴	29	3	32	7%
Pending Complaints ⁵	16	0	16	3%
	46	0	46	10%
TOTAL	387	75	462	100%

¹ Complaints included in the Complaints System list also feature in the officers’ spreadsheet, with the exception of ‘Pending Complaints’, as further explained in footnote five.

² These (75) represent complaints featuring in the spreadsheet, but not in the Complaints System. Whilst 29 did not feature in the Complaints System list, since these were incorrectly classified at input stage, another 46 complaints were never registered in the Complaints System (the second observation under Key Issues refers).

³ ‘Report’ denotes that the complaint has been tackled and referred to the Legal and International Section for legal action.

⁴ ‘No Information’ denotes that insufficient information is provided for an inspection to be carried out.

⁵ ‘Pending Complaints’ refers to those complaints which feature in the VAT 99 Console but not in the spreadsheet kept by VAT officials, for which there has been no action/conclusion. All these complaints remain pending.

⁶ The category ‘No Information’ was not represented in the walk-through testing due to insufficient information as indicated in footnote four. Complaints which were incorrectly classified during the inputting stage, as explained earlier in footnote two, were tested instead.

The population under this category, obtained for audit purposes, consisted of 35 Departments from various Ministries, each of which were required to submit three Quarterly Returns for the period January to September 2011.

As at 16 November 2011, 42 returns out of an aggregate of 105 pertaining to the first three Quarters of 2011, representing 40% of the total population, had still not been received by the VAT Department. During the course of the audit on 17 November 2011, only 21 reminders⁷ related to 31 non-submitted returns, were sent by the VAT Department to various Government Departments which had not forwarded the required returns by said date. A copy of these was also forwarded to NAO.

Reconciliations were carried out by the auditors, between the Defaulters' List and the Quarterly Returns submitted by Government Departments. Such returns were also reconciled with the Returns' List containing the submission dates. The discrepancies encountered were discussed with VAT officials.

Since the compilation of the Defaulters' List was still being carried out by the VAT Department during the course of this audit, an updated list was subsequently provided. This revealed that, out of a total of 105 returns, 88 (84%) were duly submitted to the VAT Department, whilst the remaining 17 were not sent. Thirty returns, representing 34% of total returns submitted, did not report any defaulters (nil returns).

Limitation on Scope of Audit

The VAT Department provided NAO with a list of Government Departments which had submitted one or more Quarterly Returns during the period January to September 2011. Notwithstanding this, the Department does not have all the necessary information to assess which other Departments effect purchases, and are therefore also required to submit a Quarterly Return in compliance with the prescribed Circulars. This implies that the list of 35 Departments provided for NAO analysis might be incomplete due to the possibility of other Departments which did not submit any return for the period.

Key Issues

Defaulting Suppliers reported by Government Entities

Limited action carried out in relation to defaulters reported by Government Departments

Out of 3,518 transactions, amounting to €2,812,468, recorded in the Defaulters' List for the first three Quarters of 2011, inspections were only carried out by the VAT Department covering 46 transactions totalling to €34,528 and pertaining to 11 different suppliers.

Only one Department, out of 23 submitting a return to report defaulters, informed VAT officials that eight of its missing fiscal receipts with a total value of €1,613, relating to four suppliers, were subsequently received. This situation may lead to unnecessary inspections being carried out by the Department, thus impinging on its limited resources.

Complaints by the General Public

Complaints not featuring in list issued from the VAT 99 Console

Seventy-five out of a total of 462 complaints (Table 1 refers), representing 16% of the total population, could not be traced in the list generated from the Complaints System, even though these featured in the officials' spreadsheet. Twenty-nine of these were a result of complaints which were incorrectly classified into the Complaints System. Such complaints were also not included in the list forwarded to NAO during the course of the audit. The remaining 46 represent informal complaints received by VAT officials which were not logged into the Complaints System. This increases the risk of action not being taken in a timely manner, if at all.

Complaints not featuring in the VAT Officials' spreadsheet

Forty-six out of a total of 387 complaints in VAT 99, representing 12% of the total complaints population, did not feature in the VAT officials' spreadsheet

⁷ The VAT Department sent 27 reminder letters, however six of these were not required since related Departments had submitted their Quarterly Return.

prepared with the aim of coordinating inspections and the recording of their outcome. Following discussions with VAT officials, these complaints were confirmed to be still pending and no action has been taken on them. It was noted that 12 (26%) of these 46 pending complaints were long outstanding since they were raised during January to March 2011.

NAO also noted that the prioritisation of the allocation of resources for inspections involves a high element of human judgment, the basis of which was not documented.

Control Issues

Opportunities for improvement were identified in the following areas:

Complaints reported by Government Departments not included in the Defaulters' List

An amount of 418 complaints, featuring in 10 returns submitted by nine Departments, did not show in the Defaulters' List serving the basis from where suppliers for inspection are selected. VAT officials confirmed that the discrepancy was due to errors in compiling the Defaulters' List. A total of 361 complaints from these omissions pertain to one Ministry. If the Defaulters' List is not complete and up-to-date, the risk of action not being taken, or not being taken on time, increases significantly.

No Action taken by VAT Department vis-à-vis Ministries not submitting Defaulters' Quarterly Returns

The VAT Department provided NAO with a list of 35 Government Departments which had submitted one or more Quarterly Returns (including nil returns) during the period January to September 2011. This list, however, does not include details of those Departments which did not submit any return for the period.

NAO further noted that none of the Departments within the Ministry for Resources and Rural Affairs and the Ministry for Health, Elderly and Community Care submitted the required returns. No action was taken in this respect from the VAT Department's end.

List of nominated Officers not available at the VAT Department

NAO requested the VAT Department to furnish a list of Government Departments' nominated officers who are assigned with the responsibility of compliance with fiscal receipt directives. Unfortunately, such information was not available at hand, thus hindering the same Department from communicating effectively with other entities.

Late reminders

As at the date of the introductory meeting with the VAT Department on 17 November 2011, 42 returns had yet to be submitted by various Departments in relation to the period January to September 2011. On that same day, only 21⁸ reminders in relation to 31 returns were sent by the VAT Department. No other reminders were sent prior to this date to request 2011 returns.

No Link between the Complaints System and the Risk Analysis Application

The Complaints System and the Risk Analysis Application, both within the VAT 99 Console, are not interlinked. This means that following an inspection, the officers in charge have to update both modules with their findings, thus increasing the risk of omission.

Preventive Monitoring of Audit Trails not carried out

No regular preventive monitoring of the Complaints and Risk Analysis modules' audit trails is carried out by management. Consequently, the risk of not identifying unauthorised changes to the system is increased.

Compliance Issues

Submission of Quarterly Returns

Returns not submitted

Seventeen returns out of the total identified population of 105, representing 16%, were not submitted to the VAT Department. Fifteen of these non-submitted returns were still not sent at least by 9 January 2012 in

⁸ Refer to footnote seven.

spite of the latter's reminder sent on 17 November 2011. For the remaining two returns, the VAT Department did not send any reminders to follow-up on the missing submissions which were still not forwarded by the time of audit.

Returns not submitted on time

Sixty-one out of the 88 submitted returns were not received within six weeks from the end of the respective quarter, as specified in Ministry of Finance Circular No. 40/02/A. This represents 69% of total submitted returns, which increases the risk of untimely action by the VAT Department.

Recommendations

Key Issues

Limited action carried out in relation to defaulters reported by Government Departments

The VAT Department is expected to increase its efforts to ensure that complaints are followed up in a timely manner. In addition, Government Departments are to be instructed to immediately inform the VAT Department whenever a complaint they have submitted is subsequently rectified.

Complaints not featuring in list issued from the VAT 99 Console

The VAT Department is to ensure that all complaints received are logged into the system, under the correct classification to enable completeness of information.

Complaints not featuring in the VAT Officials' spreadsheet

It is recommended that VAT 99 caters for the need of VAT officers, enabling them to take note of incoming complaints and keep track of all inspections carried out. This measure would eliminate the need for these officers to rely on printed copies of registered complaints forwarded to them for subsequent inspections, as well as the need to keep a separate spreadsheet.

Control Issues

Complaints reported by Government Departments not included in the Defaulters' List

The VAT Department is to ensure that the Defaulters' List is complete and accurate, thus permitting appropriate and immediate action against defaulters. This may be facilitated if Quarterly Returns are submitted in electronic format and include the number and date of the payment voucher, details of supplier including address and VAT Registration number, and the transaction amount.

No Action taken by VAT Department vis-à-vis Ministries not submitting Defaulters' Quarterly Returns

The VAT Department may liaise with MFEI to identify all Departments effecting purchases with the aim of compiling a full list of departments from which they expect to receive the foregoing return.

List of nominated Officers not available at the VAT Department

An amendment to the Circulars presently in force is highly recommended to ensure that each Government entity informs the VAT Department of its nominated officer. This will enable the Department to direct any queries to the person in charge. It is in the former's interest to be notified of any changes, both with regard to nominated officers as well as changes to information submitted in Quarterly Returns.

Late reminders

When a full list of all Government Departments, obliged to submit the Quarterly Return, is available as recommended for the second observation under Control Issues above, the VAT Department is to ensure that timely reminders are sent to all defaulting Government Departments. Until this list is finalised, timely reminders should continue to be sent to all those non-complying entities that the VAT Department is currently aware of.

No Link between the Complaints System and the Risk Analysis Application

During the systems' overview, NAO was informed that a Case Management project is currently under development in collaboration with the Malta Information Technology Agency. One of the project's aims is to link the Complaints System and the Risk Analysis Application using a common field. This should minimise the possibility of discrepancies between the two modules and allow for the automatic updating of inspections' findings into the Complaints System.

Until the project is implemented, a regular reconciliation is to be carried out to ensure that the information in both modules is synonymous.

Preventive Monitoring of Audit Trails not carried out

Management is to request and properly monitor periodical audit trail reports.

Compliance Issues

Returns not submitted

NAO recommends that reminders are sent at the earliest time following which a return falls due. Second and subsequent reminders are also encouraged when non-submission prevails.

Returns not submitted on time

The relevant Circulars are to be further reinforced to ensure that the six-week deadline is adhered to by Government entities. This would enable the VAT Department to take the required timely action.

Management Comments

During the final compilation of this Report, MFEI issued Circular No. 2/2012 dated 21 February 2012, informing accounting officers with additional provisions to come into immediate effect. Such provisions include the requirement to send the Quarterly Returns electronically to the VAT Department in a specified format, besides obligating Ministries/Departments/Public Sector Organisations to submit revised lists of designated officers responsible for the compliance to the Circular in question. NAO satisfactorily notes

that this Circular includes most recommendations put forward in this Report.

Management concurred with the majority of observations highlighted in the Report and, besides action already taken by means of the above-mentioned Circular, is committed to implement related recommendations. The following comments were also submitted:

- Although every effort is made to improve efficiency, the Department is facing human resource constraints which impinge on the number of inspections which could be carried out.

Out of the 3,518 transactions recorded in the Defaulters' List for the period under review, there were 616 transactions, amounting to €757,245, which were reported more than once by entities. Another 669 transactions (totalling to €637,834) were exempt under the Thirteenth Schedule and did not require the issue of a fiscal receipt. Hence, the number of transactions requiring inspections amounts to 2,233, with a total value of €1,417,389. These refer to 624 suppliers which would require an equal number of inspections.

- Despite the fact that 75 complaints from the general public did not feature in the VAT 99 Console list forwarded to NAO, this had no bearing on the cases being inspected, since timely action was taken. Nevertheless, the Department will endeavour to ensure that all complaints are entered correctly in VAT 99.
- Since a hard copy of all complaints is forwarded to the official concerned, the latter was aware that action was still pending in connection with the 46 complaints which did not feature in the spreadsheet. In view of the commitment of the VAT Department to continuously enhance its operations, a procedure entailing reconciliation between complaints logged in VAT 99 and the spreadsheet is being carried out on a monthly basis.

The Department also reiterated that it is duty bound to ensure that all complaints are verified. However, in view of the lack of human resources, logistics, different operating times of businesses

and risk factors, it is not always possible to use the first in, first out method of assigning cases.

- None of MFEI Circulars regulating the returns of defaulters puts the onus on the VAT Department to take action against non-compliant entities, nor were any instructions ever received from MFEI to this effect. Furthermore, MFEI are notified, normally on a six-monthly basis, by means of a report that indicates the quarterly report submissions by Ministries/Departments.
- The VAT Department submitted a letter to all Directors Corporate Services on 25 November 2011 to obtain information regarding nominated officers. This issue was further addressed by means of the recent Circular, but unfortunately, only three entities submitted their reply to the Department.

NAO satisfactorily noted from correspondence dated 18 April 2012, that action has been taken

by the VAT Department to inform MFEI of the extent of compliance with respect to designated officers. Moreover, a comprehensive list of Government entities, including Public Sector Organisations, was also requested for this purpose.

- Management confirmed that, to-date, audit trails are not monitored, but that pertinent reports are consulted when needed. However, it is to be noted that measures are in place to ensure that all cases reported by inspectors are referred for legal action. In addition, it is the Department's intention to request MITA to enhance the Risk VAT 99 application so that all inspection reports, which are currently drawn up by one inspector, will eventually be approved by the second accompanying inspector. Any amendments thereto would also require the input of both inspectors. MITA will be requested to block amendments by third parties.

Inland Revenue Department

Expenditure

Background

The Inland Revenue Department (IRD) is responsible for the administration of the Income Tax and Capital Transfer Duty Acts, including the enforcement of Social Security Contributions under the direction of the Ministry of Finance, the Economy and Investment (MFEI).

In the discharge of these responsibilities, whilst doing its utmost to maximise revenue collection in a timely and cost effective manner, IRD is to provide taxpayers with quality and timely service, to encourage compliance and to simplify procedures.

IRD's budgetary allocation for Financial Year 2011, in respect of Operational and Maintenance expenditure relating to Cost Centre 01 – Income Tax, stood at €1,322,000, while another €176,000 was allocated for Capital Transfer Duty – Cost Centre 02.

Audit Scope and Methodology

The objectives of this audit were to evaluate existing internal controls over Operational and Maintenance expenditure from Cost Centre 01 – Income Tax, and to ascertain that procurement was made in accordance with standing regulations, policies and circulars.

During 2011, there were 3,035 Operational and Maintenance expenditure transactions recorded in the

Departmental Accounting System (DAS) Nominal Ledger, totalling to €1,271,718. These transactions were analysed, and a sample of 81¹, in aggregate amounting to €307,293, representing 24% of the total aforementioned expenditure, were tested. Particular consideration was given to the materiality of amounts and nature of expense when selecting the audit sample.

Payment Vouchers

Audit testing consisted of ensuring compliance with the Public Procurement Regulations through Legal Notice 296 of 2010, Article 20. Payments selected were traced to Local Purchase Orders (LPOs)/Letters of Acceptance (LAs), invoices and fiscal receipts, in order to determine whether LPOs were raised prior to the date of the invoice, and that each acquisition was duly authorised and amount due correctly computed.

The selected sample was also tested against existing period contracts, related circulars, individual agreements and departmental files. Inventory items falling in the sample chosen were checked to ensure that they were recorded in conformity with MF Circular No. 14/99.

Payment Vouchers (PVs) relating to duty travel were checked to ascertain that the subsistence allowance granted was in accordance with rates issued by MFEI, as well as in compliance with the Public Service Management Code (PSMC).

¹ Sixty-eight of these transactions (amounting to €196,006) were Payment Vouchers, or formed part of a Payment Voucher, whilst the remaining 13 transactions (amounting to €111,287) were Schedules of Payment or bank payments (Central Bank of Malta advances).

Fuel Consumption and Log Books

Testing was carried out on the fuel consumed by six fully-expensed vehicles assigned to senior officers, as well as on the maintenance of log books of seven general use vehicles.² The latter were each examined for a period of two months³ to verify compliance with relative sections of PSMC.

In the case of the fully-expensed cars, relevant extracts from the Fleet Management System were obtained to ensure that monthly fuel consumption limits, as set by MF Circular No. 5/98, were not exceeded.

Control Issues

Opportunities for improvement were identified in the following areas:

Local Purchase Orders/Letters of Acceptance dated after Suppliers' Invoices

Twenty LPOs/LAs out of the 81 transactions tested, were issued following receipt of the invoice. The issue of the LPO/LA ensures that the relative expense falls within the approved budget. Non-adherence may result in not having sufficient funds to pay for the actual expense.

Segregation of Duties not evidenced in the Procurement Process

Although the purchasing process is subdivided between various officers, the certification of PVs and LPOs/LAs was carried out by the same senior officer. Furthermore, no proof was provided by IRD of any certification as to whether goods and services were received in good condition and were properly taken on charge. This might lead to payments being effected for items or services not received, or not received to specifications.

Compliance Issues

Non-Submission of Fiscal Receipts

Seventeen transactions, representing 21% of the audit sample, and collectively amounting to €44,562, were not supported by a valid fiscal receipt. Furthermore,

during 2011, IRD failed to submit the quarterly returns in line with standing regulations. Consequently, none of these defaulters were reported to the VAT Department.

Log Books improperly maintained

Whilst testing whether adequate controls are in place over the use of Government-owned vehicles, from a review of the log books of all seven general use vehicles, the following shortcomings were noted:

- The purpose of journeys was not recorded in the log book of one vehicle.
- For two vehicles, the distance covered for all journeys was updated once a day, rather than for every journey. As a result, only one officer signed for all journeys carried out each day.
- The mileage of various journeys for five vehicles was not recorded.
- The duration for every journey was omitted in all log books tested.

Moreover, all log books were not certified at the end of each month as specified in the PSMC, indicating that no monitoring is being carried out on the issue of fuel and the respective expenditure, as well as insufficient control thereof.

Lack of Inventory Database

A complete database comprising all inventory items pertaining to IRD has still not been completed, thereby minimising the Department's control over such assets. Upon inquiry, it was confirmed that an officer was appointed in 2012 to prepare a new record of inventory items, which was still being compiled during the audit.

Mobile Phone Bill not issued on an Itemised Basis

PSMC clearly states that "*bills issued in relation to the use of mobile phones should be issued on an itemised basis, giving details of all local and international calls as well as any charges incurred for other services;*". However, a mobile phone bill included in the sample was not raised on an itemised basis.

² According to a list obtained from the Inland Revenue Department, thirteen cars were assigned for official use during 2011.

³ Given that one of the general use cars was used only for five months during 2011, one month usage was tested.

Travel Arrangements not covered by Proper Quotations

Although three quotations were obtained for an air ticket to Mexico costing €8,653, for the purpose of Tax Treaty negotiations held during June 2011, such quotations did not include a quotation from Air Malta, as required by the relative Section of the PSMC.

Recommendations

Control Issues

Local Purchase Orders/Letters of Acceptance dated after Suppliers' Invoices

Whenever possible, the LPO/LA is to be prepared upon placing an order for goods or services to commit the required funds in DAS. This will also ensure that proper authorisation for the purchase is obtained.

Segregation of Duties not evidenced in the Procurement Process

Management is to establish effective control over requests for purchase of goods and services, by requesting officers to fill out a procurement requisition, and to include the justification for the purchase being requested, which is to be finally endorsed by at least one authorised officer.

The lower part of the LPO is to be duly filled in and signed by the officer receiving the goods, thus certifying that what has been received complies to specifications.

Compliance Issues

Non-Submission of Fiscal Receipts

IRD is to ensure that it makes every effort to secure

compliance from suppliers so that it is invariably issued with a fiscal receipt. All defaulters are to be reported to the VAT authorities as per standing regulations.

Log Books improperly maintained

Details in the log books are to be recorded as required by the relative template portrayed in Appendix 8.I of Section 8.2.4.1 of PSMC, and duly certified as per Appendix 8.II of the same code, following the necessary verification to monitor the use of general use vehicles and fuel consumption.

Lack of Inventory Database

IRD's inventory database is to be completed in the shortest time possible in accordance with MF Circular No. 14/99.

Mobile Phone Bill not issued on an Itemised Basis

Mobile phone bills presented for payment are not to be paid unless these are itemised.

Travel Arrangements not covered by Proper Quotations

As required by the relative provisions of PSMC, air travel arrangements should only be authorised on the presentation of at least three quotes, one of which must be from Air Malta.

Management Comments

Management concurred with the majority of findings mentioned in the report and will be taking the necessary corrective measures to avoid future occurrences.

National Lotteries Good Causes Fund 2006 - 2010

Background

In accordance with Article 50(7) of the Lotteries and Other Games Act, 2001 Cap. 438 (LOGA), the National Lotteries Good Causes Fund (NLGCF) is intended to support projects and initiatives proposed by “... persons, organisations, bodies or other entities pursuing objectives of a religious, philanthropic, cultural, sports, educational, social or civic nature or in support of other deserving causes, and in such amounts, in such manner and at such times, as may be determined by the Minister from time to time after consultation with an Advisory Board appointed by him for the purpose”.

The Fund generates its income through:

- a percentage of the gross sums, fees, duties and taxes paid by the National Lottery licensee to the Lotteries and Gaming Authority in terms of Article 31(4) of LOGA – presently calculated at 8% on duty collected by the Authority per month;
- unclaimed lottery prizes which are credited to the *Below-the-Line* account and following Ministerial approval are transferred to the respective Central Bank of Malta (CBM) account twice a year; and
- interest generated on CBM account.

Article 50(8) of the LOGA requires that “A statement of the receipts and expenditure of the National Lottery Good Causes Fund shall, as soon as possible after the

close of each financial year and in any case not later than three months after the close of such year, be forwarded by the Accountant General to the Auditor General, and article 65(2) of the Financial Administration and Audit Act shall apply to such statement”.

When NLGCF started to operate in 2006, the Ministry responsible for Finance issued an Information Pack to assist beneficiaries during the application process. This was later superseded with new Guidelines in January 2009, which are re-issued annually with new timeframes for applicants.

An Advisory Board is appointed within the Ministry of Finance, the Economy and Investment (MFEI) and is responsible for the selection process of projects to be granted funds from NLGCF. This Board considers two streams of applications for projects and initiatives under:

- Tier 1 that exceed €5,000 in value, to be submitted on specified dates following a call in the Government Gazette; and
- Tier 2 that do not exceed €5,000 in value, which remain open all year round. These are considered on a first come first served basis up to an annual aggregate allocation limit of €200,000.

Following a selection process, the Advisory Board presents a quarterly report to the Minister which, after approval will proceed with the issue of a letter of commitment to the respective project applicant/s. This letter indicates the amount of funding to be allocated to each project, as well as any approved terms and

conditions. Refused applications are notified in the following quarter of the year.

On 18 April 2011, the National Audit Office (NAO) received a request from the Accountant General to certify NLGCF Statement for the financial year 2010, in accordance with Article 65(1)(b) of the Financial Administration and Audit Act, 1962 (FAAA).

NAO representatives met with Treasury Department officials to discuss the issues relative with the certification requested. Both parties agreed that NLGCF Statement has to feature and be reported upon in the Financial Statements, since it is a statement of the receipts and payments of a Fund created by a law other than FAAA.

Following the foregoing meeting, NAO notified Treasury Department that the former was precluded from certifying that the 2010 NLGCF Statement's figures agree with Treasury Books, as required by Article 5(1)(c) of the First Schedule of the Auditor General and NAO Act, on the basis that:

- The request for certification was forwarded to NAO later than three months following the closure of the financial year being reported upon, thus going against Article 65(1) of FAAA and Article 50(8) of LOGA. Furthermore, the 2010 Financial Statements had already been duly certified by the Auditor General.
- As opposed to providing an audit opinion, certification requires the testing of each individual figure featuring in the 2010 NLGCF Statement, including the opening balance figure. However, Treasury Department had no possession of documents and statements relative to transactions effected in previous years.
- Treasury books did not comprise record of NLGCF, such that Departmental Accounting System (DAS) reports were not available with respect to the relevant bank account with CBM, except for a *Below-the-Line* account used for topping up foregoing CBM account.

Subsequently, in a communication dated 13 May 2011, Treasury Department informed NAO that it received a copy of the 2010 NLGCF Statement on 15 April

2011 from MFEI, following which it was immediately referred to NAO for certification. Treasury Department also confirmed that it was not in possession of documentation substantiating each individual figure featuring in the foregoing Statement, including the opening balance figure, since NLGCF was never included under the Central Government accounting regime.

As stipulated in LOGA, Article 50(7), "*There shall be created and kept in the Treasury Department an account to be styled 'National Lottery Good Causes Fund' to which there shall be credited and paid the credit balance in the Gaming Authority National Lottery Reserve Fund paid by the Authority to the Treasury in terms of sub-article (6)*". Treasury Department also notified the Auditor General that action was going to be taken with MFEI so that all relevant documentation would be available to NAO to conduct proper certification of the figures submitted.

Following a meeting held on 25 May 2011 between Treasury Department and MFEI, the latter stated that although "*... no report was ever forwarded to Treasury, a different report¹ was being tabled in parliament*". This was also confirmed during a meeting at NAO with MFEI Permanent Secretary and other representatives held on 28 June 2011. During the aforementioned meeting, it was decided that in view of the legal requirement established by Article 50(7) of LOGA, with effect from 1 January 2011, a Bank Account and a Control Account titled 'Good Causes Fund' is to be opened in DAS. Such accounts are to mirror the transactions in the bank accounts (already in existence and active at CBM).

Audit Scope and Methodology

The objectives of this audit were to:

- verify NLGCF Statements since the commencement of operation of the Fund, *i.e.* for the years 2006 – 2010, to enable certification of the 2011 NLGCF Statement in accordance with legislation; and
- ascertain whether sound internal control systems are in place, ensuring that payments made to beneficiaries were correctly disbursed

¹ Representing annual funds committed for eventual payment.

in accordance with the applicable guidelines for the approval of eligible projects and initiatives.

An introductory meeting was held with MFEI officials to discuss the objectives of the audit, to obtain information regarding procedures and systems in place with respect to NLGCF, and to outline the documentation required for testing purposes.

For the years 2006 to 2010, MFEI provided a summary of transactions of DAS *Below-the-Line* account used for the topping of NLGCF bank account at CBM. Receipts of funds into the *Below-the-Line* account were vouched against DAS *Statement of Remittance to Bank*, DAS Revenue Deposits and CBM deposit slips. Furthermore, these credit entries in DAS² were traced to Bank Statements, the list of Unclaimed Prizes, copies of cheques and DAS receipts. The transfers, from the *Below-the-Line* account to NLGCF account with CBM, were traced to documentation pertaining to Transfer of Unclaimed Prizes forwarded by MFEI.

Additionally, NAO obtained the yearly Cash Statements as prepared by the Chairperson of NLGCF and examined these against supporting documentation. NAO also acquired two lists comprising payments issued from NLGCF to beneficiaries. One list included allocation of funds paid for the years 2006 to 2008 and the other for years 2009 and 2010. Two separate samples were randomly selected, one from each respective list, after considering the materiality of amounts granted, and the frequency of grants disbursed to the same beneficiary.

The chosen samples consisted of 82 payments relating to the years 2006 - 2008 and 65 payments relating to 2009 - 2010, representing 8% of the entire population totalling 1,788 transactions for the years 2006 - 2010. The samples selected, amounting to €3,209,262, represent 36% of the aggregate payments to beneficiaries totalling €8,836,783 for the years 2006 - 2010.

In order to test the allocation of funds paid to randomly selected beneficiaries, all the relevant documentation relating to the particular project/beneficiary, together with a copy of the respective CBM cheque or electronic transfer, were verified to determine the correctness and completeness of procedures in place. Reference was made to the NLGCF *Information Pack* dated June 2006

for the 2006 - 2008 sample, whilst *Guidelines for the Approval of Projects* dated January 2009 were referred to during the analysis of the 2009 - 2010 sample.

From the total sample selected, any payments from NLGCF with respect to commissions³ on *Lotto* and *Super 5* sales, were treated separately due to the different nature of these payments. The respective sales reports provided by both MFEI and *Maltco* Lotteries were verified by re-calculating the commission percentages which were paid out. The *Quarterly* and *Total Commissions Reports* compiled by MFEI were checked against the *Maltco Sales Reports* and *Memo* issued by MFEI to NLGCF Board for authorisation of payment. Reference was made to a specimen agreement provided by MFEI between the said Ministry and a particular club.

The commissions on *Lotto* and *Super 5* sales as per sample selected consisted of 21 payments relating to the years 2006 - 2008 and nine payments relating to 2009 - 2010. These represented 20% of the whole sample of 147 payments selected for testing.

Limitation on Scope of Audit

All necessary information requested to carry out this audit was made available by MFEI, except for supporting documentation of five payments pertaining to the 2006 - 2008 sample and another one selected in the 2009 - 2010 sample.

Key Issues

Period covering 2006 - 2008

No Service Agreement submitted for Projects exceeding Lm1,000 (€2,329)

According to the guidelines in force at the time, applicants were requested to “*enter into a service agreement which will clearly state the outputs to be carried out, the funds to be granted for such outputs and the conditions to which the NGO shall abide to...*”. Forty-one applicants, who were in aggregate granted €1,883,949, representing 98% of sampled beneficiaries who were obliged to enter into such agreement (42)⁴, did not sign a service agreement as required, thus

² Representing the 8% monthly transfer of duties referred to in the Background section.

³ These commissions are paid to various organisations/clubs at pre-agreed rates for offering a location within their premises to serve as Lotto booths for *Maltco* Lotteries.

⁴ Consisting of 82 beneficiaries, less 21 payments relating to commissions and 19 others whose payment did not exceed Lm1,000 (€2,329).

indicating a lack of enforcement and control by the NLGCF Committee of the time. On the other hand, the only service agreement provided by the remaining beneficiary was not duly signed and dated. It further transpired that beneficiaries did not abide with the clauses outlined in the service agreement, such as the requirement to submit evaluation reports, management accounts and audited reports, amongst others.

No Evidence showing how Funds have been utilised

As per the applicable NLGCF *Information Pack*, all beneficiaries were requested to "...give account to Government on the manner in which public funds are utilised...". Twenty-nine beneficiaries, representing 58% out of 50⁵, did not provide evidence⁶ to Government on how funds, in total amounting to €1,213,349, have been spent; thereby increasing the risk of funds granted not being utilised on the approved project.

Period covering 2009 – 2010

Funds granted and/or requested exceeding the Maximum Entitlement

As per *Guidelines for the Approval of Projects*, applicants are required to "...co-finance their project by a minimum of 33 per cent of its total cost." This limited the grant to a maximum of 67% of the aggregate project cost. Ten beneficiaries, representing 21% of selected projects⁷, requested funds exceeding the applicable portion of total cost of project, of which three (representing 6%) were granted funds in excess of the established threshold.

Total funds granted to the Same Project exceeding Threshold

The guidelines state that "*Total contribution towards the proposed project should not exceed €50,000*". In the case of three beneficiaries, representing 6% of the total sample⁸, funds granted were in excess of this threshold; in one of these cases it was substantially

exceeded by €90,000. If financing parameters are not strictly adhered to, the available funding cannot be fairly shared amongst as many beneficiaries as possible.

Funds distributed before Completion of Project

The guidelines specify that "*The Advisory Board will not disburse any funds unless it is first provided with evidence that the project or initiative would have been carried out.*" However, it was observed that 12 beneficiaries, representing 25% out of a total of 48⁹ selected, did receive funds, in aggregate amounting to €436,076, prior to completion of the proposed project. This may lead to the risk that the amount granted is utilised inefficiently and not in accordance with the original request.

No Evidence detailing how Funds have been utilised

In addition to guideline requirements quoted in the previous observation, the same guidelines also state that "*Such evidence may include fiscal receipts, certificates of works, photographic evidence, physical inspection or any other form the Board feels appropriate.*"

Five applicants, representing 9% of the sample¹⁰, did not submit fiscal receipts, in aggregate amounting to €160,000, or any other evidence to support their expenditure as requested. Another four applicants, representing 8% of those (49) who submitted receipts/ other evidence, totalling €228,576, even failed to submit all fiscal receipts at least to support the entire amount of funds granted.

Only two beneficiaries provided all fiscal receipts covering the total cost of the project, together with certification of work and also related photographic evidence where applicable, while the remaining only provided receipts covering the amount of grant received instead of the total project cost.

⁵ This is arrived at after deducting 21 payments relating to commissions and another five payments not forwarded (as mentioned in Limitation on Scope of Audit section) from the total sample of 82 pertaining to 2006 – 2008. Another beneficiary was also deducted since it consisted of a voluntary donation, whilst an additional five beneficiaries were not considered applicable.

⁶ Evidence could be in the form of suppliers' invoices, fiscal receipts, certification of works, etc.

⁷ These consisted of 47 applicable projects from the total selected sample of 65 payments.

⁸ Consisting of 54 beneficiaries after deducting nine commission payments, a donation and an additional payment the documents of which were not forwarded (refer to Limitation on Scope of Audit section).

⁹ Refer to footnote 8, excluding a further six projects which could not be verified due to completion date not recorded.

¹⁰ Refer to footnote 8.

Control Issues

Opportunities for improvement were identified in the following areas:

Period covering 2006 - 2008

No Signed Declaration upon receipt of Funds

During the course of the audit, it was noted that 29 beneficiaries, in aggregate receiving €1,009,617, did not sign upon receipt of the respective funds from MFEI as proof of receiving the actual grant. This represented 52% of the total sample selected¹¹.

Missing Copies of CBM Cheques/Electronic Transfer

Copies of CBM cheques or payment transfer relating to six beneficiaries, totalling €154,688, representing 11% of the total sample¹², were not provided by MFEI, hindering the reconciliation with *Transactions' Lists* provided by the latter, whilst impinging on the controls expected to be exercised over such funds.

Period covering 2009 – 2010

Date of Commencement and Completion of Project not provided

MFEI guidelines indicated that for projects exceeding €5,000 (Tier 1), applicants were required to submit the application as per set timeframes according to the project's commencement date. However, the planned start date is not requested by MFEI to confirm whether set timeframes are respected.

Applicants were also required to submit the date of completion of the proposed project, as outlined in the application forming part of NLGCF guidelines. However, three beneficiaries, representing 6% of the total sample¹³ selected, did not indicate the date of completion in the submitted application. Unavailable planned completion dates may also hinder appropriate budgeting of this fund.

¹¹ Amounting to 56 beneficiaries, after deducting 21 commission payments and another five payments not forwarded during the audit from the sample of 82 payments relating to 2006 – 2008 period.

¹² Refer to footnote 11.

¹³ Refer to footnote 8.

¹⁴ Refer to footnote 11.

¹⁵ Refer to footnote 5.

¹⁶ Refer to footnote 11, less a voluntary donation.

Compliance Issues

Period covering 2006 - 2008

Total Project Value and Amount Requested not specified

Applicants were asked to specify the total project cost and amount requested in their application. Nineteen applicants, representing 34% out of the 56¹⁴ selected, who were eventually in aggregate granted €827,746, did not state the total project value, while 21 applicants, representing 38% of the same sample, did not include the amount of funds requested with regard to the proposed project. The lack of specified information may limit the basis on which such grants are approved.

No Declaration with respect to Other Contributions received from Government

NLGCF *Information Pack* also required beneficiaries to “...notify the committee in writing about any/all other assistance – be they funds, human resources and in kind – given to it by Ministries, Government Departments and other entities...”. However, 41 beneficiaries, representing 82% of the total sample¹⁵ selected failed to answer whether any other financial assistance was received, which may result in first-time applicants not being given precedence over previous beneficiaries.

Application not submitted

All applicants were required to submit an application in order to be considered for a grant. Nine beneficiaries, receiving a total of €420,784 and representing 16% of a total of 55¹⁶ payments selected for testing, did not submit an application. Not even other form of correspondence, whether by postal mail or electronic format, could be traced, which is indicative of an overall lack of transparency and audit trail.

Period covering 2009 - 2010

No Signed Declaration of Receipt of Funds

NLGCF regulations clearly specify that *“When a payment is presented to a beneficiary, a declaration confirming its receipt by the appropriate and authorised beneficiary is to be signed”*. During the course of the audit, it was noted that 11 beneficiaries, in aggregate receiving €277,223, did not endorse a declaration upon receipt of funds from MFEI. This represented 20% of the total sample¹⁷ selected, implying that MFEI will not be in possession of any evidence supporting beneficiaries’ receipt of granted funds.

Application Form not submitted, forwarded incomplete, or not in time

In accordance with MFEI guidelines, *“Applications may be made by the submission of the formal application form...”* or *“...by means of a simple letter provided that this gives sufficient information to the Advisory Board for evaluation purposes.”*

Out of 15 beneficiaries whose grants were less than €5,000 (falling under Tier 2), one beneficiary (7%) neither submitted an application form nor a letter.

In the case of two out of 39 beneficiaries whose grant exceeded €5,000 (falling under Tier 1), and who in aggregate received a total of €50,850, no form of application could be traced. On the other hand, 10 beneficiaries, representing 26% of the above-mentioned sample, receiving amongst them a total of €335,576, either submitted an incomplete application form or else did not submit the application within the stipulated timeframes under Tier 1. This may hinder the Board’s evaluation process, which could lead to funds being allocated to low priority projects, as well as an overall lack of transparency of the same evaluation process may result.

Selected Project not included in Advisory Board’s Report for Minister’s approval

With reference to the NLGCF guidelines, *“Following a selection process, a report will be presented to*

the Minister. The Minister will signify his approval or otherwise on the same report together with any additional directions in respect of each proposed project.” Three projects out of the total sample selected (55)¹⁸, representing 5%, that were granted a total of €116,165, were not recorded in the Board’s Report submitted to the Minister for his approval, indicating that the allocation of funds to these projects was not formally authorised.

Letter of Commitment to Beneficiaries not available

NLGCF guidelines specify that *“When the report is approved by the Minister, the Secretary to the Board will be issuing ... a letter of commitment to the respective project applicants. This letter would indicate the amount of funding that would be allocated to each project, as well as any approved terms and conditions related to each approved project or initiative.”* In three instances, representing 6% of cases from the total sample selected¹⁹, no letter of commitment was available. On the other hand, NAO noted three letters of commitment that were not duly signed by the Minister. If letters of commitment are not sent to beneficiaries, the latter would not be obliged to adhere to the respective mandatory terms of funding, limiting the Advisory Board’s exercise of control.

Funds requested by Limited Liability Companies

MFEI guidelines list a number of criteria to be adhered to by Limited Liability Companies when requesting funds from NLGCF. From the total sample selected, there were six Companies that benefited a total of €67,000 from NLGCF. However, it could not be ascertained whether these complied with the stipulated criteria, due to incomplete information compiled in application phase.

Recommendations

Key Issues

No Service Agreement submitted for Projects exceeding Lm1,000 (€2,329)

Since updated guidelines no longer oblige applicants to

¹⁷ Refer to footnote 8, but including the donation.

¹⁸ Refer to footnote 17.

¹⁹ Refer to footnote 8.

enter into a service agreement, MFEI is to implement and duly enforce stricter controls to ensure that granted funds are utilised towards proposed projects.

No Evidence showing how Funds have been utilised

MFEI is to make sure that all applicants submit the necessary evidence, covering the total project cost and the amount granted, before payment of grant is effected to beneficiaries.

Funds granted and/or requested exceeding the Maximum Entitlement

The Advisory Board is to ensure that all beneficiaries commit themselves to fund the minimum percentage requested. Additionally, if there are exceptional instances where MFEI approves funds in excess of the established criteria, such excess should be covered by a separate written approval from the Minister.

Total funds granted to the Same Project exceeding Threshold

The Advisory Board is to ensure that established parameters are not exceeded. For those projects that require further financial assistance, the Board is to obtain prior written approval from the Minister, clearly indicating that allocated amount will exceed the threshold.

Funds distributed before Completion of Project

MFEI is to ensure that the project's intended outcome has been fulfilled before distributing funds to beneficiaries. Furthermore, the Board is expected to have proper controls in place to verify that the proposed project has been completed in time and according to the specifications originally listed in the application form.

No Evidence detailing how Funds have been utilised

MFEI is to make sure that all beneficiaries provide the required evidence, in whatever form, so that the Board can ascertain that funds were appropriately disbursed for the purpose for which such funds were originally granted. Moreover, the Board is to have proper mechanisms in place to conduct physical inspection on randomly selected projects, particularly to validate the expenditure being incurred.

Control Issues

No Signed Declaration upon receipt of Funds

It is recommended that a formal procedure be implemented by MFEI to keep record of persons/officials collecting payments on behalf of beneficiaries.

Missing Copies of CBM Cheques/Electronic Transfer

All copies of CBM cheques/transfers issued to beneficiaries are to be maintained with the related documentation pertaining to the project in question, for future reference.

Date of Commencement and Completion of Project not provided

NLGCF Advisory Board is to consider amending the application form to include the date of commencement of the proposed project. It is also essential that all applicants submit the planned date of completion of the proposed project in the application.

Compliance Issues

Total Project Value and Amount Requested not specified

MFEI is to certify that all applicants submit the necessary information as requested in the application before these are processed. Incomplete application forms are to be rejected.

No Declaration with respect to Other Contributions received from Government

Applicants are obliged to notify MFEI of any previous assistance received from Government, even if the said assistance was not intended for the proposed project. Such information is to be detailed and submitted together with the application. It is also recommended that MFEI maintains a database, updated regularly, with all the funds allocated to the different beneficiaries to keep an audit trail for future reference.

Application not submitted

MFEI is to ensure that all applicants invariably submit a fully filled-in application as per established guidelines, duly signed and dated. Applicants are also to provide all the necessary documentation related to the proposed project in order to substantiate their request for funds from NLGCF.

No Signed Declaration of Receipt of Funds

In order to obtain hard evidence that the correct beneficiary received the grant, NAO recommends that a declaration letter is prepared to this effect, to be signed by the person collecting the respective cheque.

Application Form not submitted, forwarded incomplete, or not in time

It is imperative that all applicants submit a fully compiled application form within prescribed timeframes. If applicants opt to apply for funding through mail, such correspondence should include sufficient information to allow the Advisory Board to conduct a proper evaluation.

Selected Project not included in Advisory Board's Report for Minister's approval

All projects selected for funding by the Advisory Board must have formal approval by the Minister before issuing the Letter of Commitment and distributing funds to beneficiaries. The Advisory Board is also to ensure that it maintains an updated database of all projects selected and approved, as well as those rejected.

Letter of Commitment to Beneficiaries not available

The Advisory Board is to ensure that a letter of commitment, duly signed by the Minister, is sent to all beneficiaries as per NLGCF guidelines.

Funds requested by Limited Liability Companies

The Advisory Board is to ascertain that all Limited Liability Companies provide the required documents and information in order to be eligible for funding, as outlined in MFEI guidelines.

Other Verifications

NAO feels it pertinent to point out that no irregularities were encountered with regard to the following:

- (a) Verification of transfer of funds from the *Below-the-Line* account to NLGCF account with CBM.
- (b) Examination of balances of NLGCF bank statements vis-à-vis Statements presented by MFEI for the period 2006 – 2010.
- (c) Calculation of commissions paid out of NLGCF to lotto receivers on revenue from *Lotto* and *Super 5* sales.

Furthermore, the threshold of €200,000 per annum as per NLGCF guidelines for projects not exceeding €5,000 (Tier 2) was respected.

Management Comments

In its comments, MFEI stated that to address the issue of missing supporting documentation and other recommendations put forward by NAO, the Advisory Board recommended that a legal contract be signed with successful applicants to the Fund. This agreement will ensure that the beneficiaries will be legally bound to submit to the Board all necessary supporting documentation and information.

In its concluding remarks, Management also declared that, "... *the Advisory Board within the Ministry of Finance, The Economy & Investment will be taking on board the other recommendations in the NAO report it agrees with.*"

Direct Orders Approvals

Background

In terms of sub-article 20(1)(d) of Legal Notice 296 of 2010, Public Procurement Regulations 2010 (PPR), purchasing by contracting authorities whose “... *estimated value exceeds six thousand euro (€6,000) but not one hundred and twenty thousand euro (€120,000), the equipment, stores, works or services may be procured after a departmental call for tenders or after publishing a call for quotations in the Gazette.*” However, Schedule 9 of PPR and Article 2 of Legal Notice 12 of 2006 (Financial Administration and Audit Act, Cap. 174)¹ stipulate higher thresholds in the case of particular entities and public contracts.

Direct contracts valued in excess of €6,000 may, solely in exceptional and urgent cases, be placed by any contracting authority after such Ministries/Departments/Extra-Budgetary Units (M/D/EBU) obtain prior written approval from the Minister responsible for Finance, who may delegate his authority in writing to the Permanent Secretary or any other senior official within the Ministry. This implies that the Ministry of Finance, the Economy and Investment (MFEI) shall not approve requests for Direct Orders (DO) that are submitted retrospectively. Requests in writing for DO approval, supported by proper justification, are expected to be forwarded to MFEI through the DO Section, which during the course of the audit was manned by one officer and an Advisor appointed by the respective Minister.

MFEI officials confirmed that although additional documentation is sometimes requested prior to approving a DO, no type of post-checks on such approvals are carried out due to lack of human resources within the DO Section. However, before DO approvals are granted, M/D/EBU are strongly recommended to issue a call for quotations or obtain at least three quotations, where applicable, for the sake of transparency.

Audit Scope and Methodology

The scope of the audit was to ascertain whether sound internal control systems are in place, ensuring that DO approved by MFEI, during 2011, were covered by appropriate authority, and that any applicable thresholds were not exceeded by M/D/EBU. The audit was carried out between February and May 2012.

An introductory meeting was held with MFEI officials on 23 January 2012, with the aim of discussing audit objectives, obtaining an understanding of the Ministry’s internal controls in connection with DO approvals, and discussing the relative regulations in place.

MFEI provided the National Audit Office (NAO) with a list of all DO approvals granted during the year 2011, totalling a population of 1,203 approvals, with an aggregate value of €45,417,514 (excluding VAT). The data provided to NAO was further categorised by Ministry as follows:

¹ Refer also to Legal Notice 178 of 2005, Public Procurement of Entities Operating in the Water, Energy, Transport and Postal Services Sectors Regulations which was superseded by Article 2 of Legal Notice 12 of 2006.

Table 1 – Direct Order Approvals by Ministry for year 2011

Ministry	Number of Direct Order Approvals ²	% of Direct Order Approvals	Amount (excluding VAT) ³ €	% of Direct Order Amount
Office of the Prime Minister	122	10.14	3,644,276	8.02
House of Representatives	1	0.08	7,200	0.02
Office of the President	9	0.75	311,577	0.69
Ministry of Foreign Affairs	43	3.57	1,010,112	2.22
Ministry for Gozo	18	1.50	1,362,209	3.00
Ministry for Infrastructure, Transport and Communications	49	4.07	2,147,043	4.73
Ministry for Resources and Rural Affairs	97	8.06	3,202,990	7.05
Ministry for Education, Employment and the Family	147	12.23	3,507,334	7.72
Ministry of Finance, the Economy and Investment	352	29.26	15,472,997	34.07
Ministry for Justice and Home Affairs	44	3.66	2,869,147	6.32
Ministry for Health, the Elderly and Community Care	320	26.60	11,782,041	25.94
Various ⁴	1	0.08	100,588	0.22
TOTAL	1,203	100	45,417,514	100

In some of the cases, amounts approved were quoted in currencies other than Euro. A cut-off date as at 31 December 2011 was applied to determine the applicable exchange rate as published by the Central Bank of Malta for conversion purposes.

Given the large number of DOs approved, a case study approach was undertaken, by randomly selecting a total of 53 approvals, representing 4% of the total population (1,203), covering each Ministry. The sample, the aggregate value of which amounted to €7,718,950, *i.e.* 17% of the total value of DO approvals (€45,417,514), was based on the nature, frequency and value of the approval in question.

All correspondence and documentation available, leading to the eventual MFEI approval, was reviewed to ensure that:

- sampled DO approvals are covered by appropriate authority;
- internal procedures as outlined by MFEI were adhered to;
- MFEI queries and requests for information have been followed-up by the respective M/D/EBU prior to Finance approval;
- such approval was actually on exceptional basis and/or justified by urgency for procurement, and the amount approved falls within DO thresholds as established in the PPR; and
- no retrospective approvals were given during the period under review.

² Such approvals may in actual fact contain more than one Direct Order, but one formal letter of approval is issued by MFEI. Any extension requested towards an already approved Direct Order is considered as a variation to the original, thus constituting one Direct Order. Refer to Limitation on Scope of Audit.

³ When not specified, the amount quoted in the Direct Order approvals list for year 2011, as provided by MFEI, was deemed to be excluding VAT. In addition, in cases where the approval was capped, this was considered as the actual amount approved by the Ministry.

⁴ Following clarification with MFEI, it transpired that this Direct Order Approval was subdivided equally between five entities (Ministry for Health, Elderly and Community Care, Ministry for Gozo, Ministry of Education, Employment and the Family, Mount Carmel Hospital and Foundation for Medical Services).

Apart from the documents and correspondence available at MFEI, further supporting documentation was requested from the respective M/D/EBU (where applicable), as listed below:

- Call for Quotations and submissions thereof.
- Service Contract Agreement/s.
- Local Purchase Orders and/or Invoices.
- Payment Vouchers (or any other form of proof of payment).
- Other relevant correspondence and documentation pertaining to the DO in question justifying the request.

A further meeting was subsequently held with MFEI officials, on 7 March 2012, to discuss the reasons justifying approvals granted for a number of selected DOs.

Information and documents forwarded by the respective M/D/EBU revealed that, up to end of March 2012, out of the 53 DO approvals tested, full or part-payments had been effected in relation to 46 cases, representing 87% of the total sample selected. NAO verified such disbursements against the 'Payments to Vendor' and 'Commitments by Vendor' reports, both in the Departmental Accounting System (DAS).

In addition, from Commitments Reports generated from this system, this Office also identified any other payment transactions made to the same suppliers, that were related to the DO approvals being audited.

Finally, an analysis of DO requests that were refused during 2011 was carried out. In total, MFEI initially rejected 163 requests from various M/D/EBU, of which 25 were subsequently approved later on during the year. Reasons for not granting approval are categorised in Table 2.

Limitation on Scope of Audit

As previously indicated, the list of DO approvals submitted by MFEI may incorporate a number of requests by the same entity. Given the limited information available at MFEI, and time constraints to complete the analysis, it was not possible for NAO to establish the exact number of cases where approval for DO was given. Therefore, for the purpose of this report, any reference to a DO approval may refer to one or more cases .

With regards to testing on DAS reports, this was limited to Ministries and Departments since Extra-Budgetary Units do not generally make use of this accounting system. In fact, out of the total of 46 sampled cases purchased by DO, and paid either in full or in part, disbursements relating to 26 DO cases tested (57%), relating to Extra-Budgetary Units, could not be verified

Table 2 – Direct Order Refusals for year 2011

Reasons for Refusal	Number of original Refusals	Number of subsequent approvals in 2011	Net Refusals
Further Information Requested	19	11	8
Request above threshold of €125,000	7	1	6
Request less than €6,000	16	0	16
Retroactive	26	2	24
Other Contracting Authority ⁵	13	1	12
Referred to Department of Contracts/or falling within Departmental Call threshold	60	9	51
Other ⁶	22	1	21
TOTAL	163	25	138

⁵ Direct Order requests are refused on the basis of Article 17(3) of the Public Procurement Regulations 2010, which states that "These regulations shall not apply to public service contracts awarded by a contracting authority to another contracting authority..."

⁶ Requests for Direct Orders which are not applicable in terms of Article 17 (1) of the Public Procurement Regulations 2010.

against the respective accounting system in use since no such reports were available at MFEI.

Key Issues

Retroactive Approvals

Retroactive approval for DO was granted by MFEI in four out of 53 cases tested, representing 8% of the selected sample and totalling to €302,566. In three of these cases, the Service Agreement between the Government entity and the respective service provider was signed before the relative DO approval was obtained, while in the other instance, the entity concerned raised a purchase order, thus committing itself to purchase prior to the same approval being granted.

It also transpired that, in one case, full payment of €54,156 was made before such approval was obtained, while in the three other cases, the invoice had also already been received, in two of these instances the bill was partly paid. The following relate:

Ministry for Infrastructure, Transport and Communications

Following the Ministry's request for DO approval, dated 21 August 2011, for a contract for service in relation to the Blue-Med EU Programme, MFEI approved such request on 1 September 2011 for a total amount of €64,068. However, the related contract between the Ministry and the selected expert had commenced much earlier, on 2 June 2009, for a period of 31 months, ending on 31 December 2011. It also transpired that payments amounting to €39,129 were effected during 2010 and 2011, before DO approval was actually obtained.

Employment and Training Corporation

In June 2011, the Planning and Priorities Coordination Department informed the Employment and Training Corporation that the agreement signed on 25 June 2010 with the Institute of Tourism Studies, to provide training in Tourism and Hospitality, was in breach of the PPR. As a result, a retrospective DO request was raised by the Corporation on 9 June 2011, which was approved by MFEI on 13 June 2011 for €125,000.

From documentation provided in connection with this case, it transpired that three invoices relating to 2009, and totalling to €1,200, were already paid before such approval, thus even before the agreement was entered into.

University of Malta

No details relating to the period covered were found, in both DO request and MFEI approval, in relation to the payment of an Annual Software Maintenance licence for the Office of the Registrar within the University of Malta. However, the relative invoice provided revealed that this covered the period 1 October 2010 to 30 September 2011. The purchase order and relative payment of €63,904 (incl. VAT) were both dated prior to MFEI approval. On this basis, one could conclude that a retroactive approval was granted, as this was dated 1 April 2011.

Ministry for Justice and Home Affairs – Police

A maintenance agreement on software and hardware, of a digital processor used by the Forensic Laboratories Photographic Section within the Police Department was signed with the selected supplier on 10 June 2011 with effect 28 March 2011. DO approval for €59,341 was only granted by MFEI on 1 August 2011.

Approvals granted despite lack of Preventive Measures undertaken by Entities to be in line with Procurement Regulations

Six DO requests, in aggregate amounting to €357,913, and representing 11% of the sample (53), were granted MFEI approval. However, there was no evidence of any preventive measures undertaken by the M/D/EBU requesting DO, to initiate the procurement process in time in line with PPR. Such untimely action puts the DO Section in a precarious situation since the respective requests may seldom be refused. The following relate:

Ministry for Health, the Elderly and Community Care – Government Health Procurement Services

A request for the purchase of 11,900 Insulin Glargine Cartridges was made and approved on 6 June 2011, *i.e.* same day, for €124,950, to eliminate an out of stock situation by the Government Health Procurement Services.

Ministry of Education, Employment and the Family - Public Broadcasting Services Ltd

The purchase of a Playout System by the Public Broadcasting Services Ltd was urgently required due to an obsolete system which, as stated by the latter, was resulting in a loss of revenue. Originally, the foregoing entity issued a tender with the Department of Contracts, which was however not accepted due to lack of compliance with PPR. Following a request for DO, MFEI granted approval for DO on 3 May 2011 for a total cost of €115,000 (excluding VAT).

Ministry of Finance, the Economy and Investment – Water Services Corporation

A request for DO was raised for the purchase of Gunmetal stopcocks due to stock shortages at the Water Services Corporation. In its approval dated 22 November 2011, for a maximum purchase of €68,477, MFEI directed that the next procurement is made through normal tendering procedure and to keep DOs to the barest minimum.

Ministry for Resources and Rural Affairs - Malta Resources Authority

The Malta Resources Authority raised a request for DO on 7 July 2011 in order to continue with the relative mandatory Fuel Sampling tests as required by standing legislation, until the tendering process was finalised. In fact, at that time, the tender was still in the initial stages and such DO represented an interim solution for the Authority. MFEI granted approval on 31 August 2011 for a maximum amount of €35,000.

Ministry for Justice and Home Affairs - Corradino Correctional Facility

On 6 April 2011, Corradino Correctional Facility requested to purchase Protective Equipment by means of a DO since their present stock was obsolete, which created an urgency situation. The respective official approval was given on 18 April 2011 for a total cost of €9,986.

Ministry for Infrastructure, Transport and Communications - Land and Public Registry

On 17 May 2011, the Land and Public Registry Division requested, and was subsequently granted, approval for a DO to extend the Insurance Cover for Personal Searches for a further period of three months, for the amount of €4,500. The insurance policy expired on 1 May 2011, however the drafting of the next call for tender document had not yet been finalised. This extension was intended to suffice until the closure of the tender procedure.

Control Issues

Opportunities for improvement were identified in the following areas:

Value of Invoices and respective Payments exceeding amount approved by Direct Order

The respective M/D/EBU in the audit sample was required by NAO to submit a copy of the relevant invoices and payments effected till that date, being 22 February 2012. In two cases, totalling €113,725 and representing 4% of total DO approvals⁷, it was noted that the value of invoices and respective payments exceeded the maximum amount approved by MFEI by an aggregate total of €5,745; an average variation of 5%.

It also transpired that MFEI does not have procedures in place to compare actual total disbursements for each DO approved.

Quotations not obtained prior to requesting to buy from the Open Market

In 31% of selected approved DOs⁸, consisting of 11 cases with an aggregate value of €600,864, neither MFEI nor the respective M/D/EBU provided NAO with evidence to substantiate that quotations from different suppliers were obtained. Thus, one is not in a position to assess whether the respective costs are fair and reasonable.

⁷ Consisting of 53 Direct Order approvals tested, less seven cases for which the respective Ministries, Departments, Extra Budgetary Units did not submit to NAO a copy of the proof of payment/s made to the respective supplier, since they confirmed that no payments were effected up to date of request.

⁸ Amounting to 35 approved DO (amounting in aggregate to €4,669,499) out of the total selected sample of 53 DO, which due to their nature, the issue of a call for application/quotations by Ministries, Departments, Extra Budgetary Units was necessary.

NAO also noted that in four of these cases, three of which were from the same Ministry, the respective entity did not provide this Office with supporting hard evidence, justifying the selection of the service provider.

The following briefly summarises the cases and explanatory responses received:

Ministry for Gozo

Responsible Travel/Zooming on the Gozo destination to promote the rural experience of the Maltese Islands

A DO was requested by the Ministry for Gozo on 21 January 2011 to develop an online guide book with particular focus on the characteristics of Gozo. MFEI approval was granted on the same day for a maximum amount of €23,943. Management claimed that given the competitive nature of tourism promotion abroad, the objective of attending trade fairs overseas is to meet players in the field, with lobbying being organised with the most reputable operators, in collaboration with Malta Tourism Authority. No other documentary evidence was provided.

Edition Brochure - Plongee Magazine

The Ministry for Gozo submitted a DO request to advertise in a French magazine for the purpose of developing high quality literature of the underwater diving possibilities in Gozo. In its DO request, which was approved on 5 May 2011 for €32,554, the Ministry described the selected service provider as the recommended top diving magazine in France by the Gozo Tourism Association.

Cruise Industry - Seatrade Advertising in September and December 2011, and March 2012

Following participation at the Miami Cruise and Shipping Fair 2011, and various meetings with operators that already promoted Gozo as a distinct port-of-call, the Ministry for Gozo requested to place a DO to promote Gozo and Comino as destinations in the cruise liner business, by advertising within an international cruise review magazine. MFEI granted

approval on 27 June 2011 for direct procurement of €20,000. According to management, the selected supplier was highly influential and respected by cruise liner executives.

Ministry of Finance, the Economy and Investment

HNWI Scheme Support

A DO request was made by MFEI to the DO Section within its Ministry to formulate a scheme that attracts persons in receipt of pensions to retire in Malta. Relative approval was granted on 14 October 2011 for a total amount of €10,000. NAO was provided with a copy of the selected service provider's profile, which according to MFEI portrayed the greatest value in terms of discussion, detail and experience.

Compliance Issue

Entities notified before Permanent Secretary's formal approval

Up till 23 March 2011, the Director General (Support Services) within MFEI was delegated with the power to authorise DOs, without any recourse to the Permanent Secretary of MFEI. Out of the total sample selected, seventeen DOs were approved during the period 1 January to 23 March 2011, all of which were appropriately authorised by the Director General.

Following the then Director General's retirement on 24 March 2011, the Permanent Secretary assumed full authority for DO approvals following recommendations by the appointed Advisor⁹. However, from audit testing it transpired that with respect to 36¹⁰ approvals given after 23 March 2011, there was a time lag between the Letter of Approval issued by DO Section to M/D/EBU, authorising the entity to purchase from the open market, and the actual formal approval by the Permanent Secretary. This delay varied from nine to 104 days.

In such circumstances, the Permanent Secretary is never in a position to revoke an approval, if this is necessary, on the basis that approved works or service concerned may have already commenced.

⁹ The Advisor previously held the position of Director General within the Ministry.

¹⁰ Consisting of 53 Direct Orders selected for testing, less 17 cases approved during the period 1 January 2011 to 23 March 2011

Recommendations

Key Issues

Retroactive Approvals

In accordance with the recently issued MFEI Circular No. 3/2012, MFEI is to invariably reject retrospective requests.

Approvals granted despite lack of Preventive Measures undertaken by Entities to be in line with Procurement Regulations

DO Section is to scrutinise all requests for procurement direct from the open market. Where it results that there was unjustified lack of preventive measures undertaken by management to initiate the procurement process in time, requests are to be rejected. Careful planning on the part of the respective Ministries/departments would reduce considerably such urgency situations.

Control Issues

Value of Invoices and respective Payments exceeding amount approved by Direct Order

MFEI is to ensure that the amount approved through a DO is not exceeded, unless specifically covered by appropriate authority by means of a variation to the original approval.

Quotations not obtained prior to requesting to buy from the Open Market

It is recommended that MFEI obtains evidence to ensure that entities requesting DO approvals have taken all necessary steps to ensure that the procurement in question can only be obtained from the selected supplier.

Compliance Issue

Entities notified before Permanent Secretary's formal approval

It is more appropriate if the issuance of the Letter of Approval follows the Permanent Secretary's authorisation upon recommendation by the Advisor.

Management Comments

Management expressed reservations towards NAO's findings by submitting the following comments:

- Whilst confirming that no post-checks on approvals are carried out, MFEI claimed that apart from the fact that DO Section does not have the necessary resources to carry out such checks, it is felt that such function is not within its remit.
- Management adopts a hard line approach when retroactive requests are received. This is even more evident with the issue of a relevant Circular, dated 24 February 2012, intended to eliminate the mistaken impression that such approvals were the norm. Notwithstanding the fact that DO Section relies mostly on documentation submitted by M/D/EBU, the Office, despite its limited resources, does its utmost to discourage entities from bypassing regulations.
- MFEI reiterated that, though it is sometimes evident that the respective M/D/EBU failed to take the necessary precautions to ensure procurement in accordance with the law, it would be almost impossible to refuse such DO requests.
- Management also pointed out that in certain instances it would not be feasible to obtain a minimum of three quotations, especially in the case of specialised services/products and those of a propriety nature, as were the cases cited by NAO. DO Section also strongly emphasised that it is the direct responsibility of whoever is effecting or authorising payment to ensure that approved DO amounts are not exceeded.
- MFEI is aware of the risk involved, when no quotations are obtained, and regularly requires M/D/EBU to submit documentation evidencing the latter's attempt to obtain such quotations from the open market. On the other hand, the current procedure adopted by MFEI to authorise DOs is purely of an administrative nature, and is meant to ensure that urgent requests for the necessary approval are processed without delay.

Customs Department

Customs Procedure 42

Background

Customs Procedure 42 (CP42) is a Value Added Tax (VAT) procedure implemented by the Customs Department (CD) on behalf of the VAT Department, also known as the Onward Supply Relief (OSR) procedure. This procedure is used by taxable persons registered for VAT under Article 10 of the VAT Act, 1998, to obtain a VAT exemption on the importation of goods into Malta, from a third country outside the European Union (EU). Such goods are released into free circulation in Malta and subsequently dispatched or transported to a taxable person in another EU Member State as an intra-community supply.

In accordance with Item 3 of Part Four of the Fifth Schedule of the VAT Act, 1998, as amended by Legal Notice 534 of 2010,¹ the exemption from VAT is only applicable if at the time of importation, the importer has provided to the Comptroller of Customs with, not only his VAT identification number, but that of his customer to whom the goods will be supplied in the other Member State. Evidence that the relative goods were transported from Malta to the Member State of destination should also be provided.

Without adequate controls, there is a risk that goods remain in the Member State of importation without payment of VAT, or be consumed in the Member State of destination with no VAT being charged.

Hence, upon Malta's accession in the EU, a set of guidelines were drawn up between CD and the VAT Department. In addition, during 2010, CD set up an OSR Unit within the Customs Economic and Procedures Unit (CEPU) to take control of tasks related to this procedure, as well as to issue authorisations to importers to apply the CP42 mechanism.

CD has taken additional measures to enhance security, with the imposition of a personal deposit or bank guarantee on all foreign economic operators using the OSR mechanism. Prior to releasing the personal deposit/bank guarantee, CD officials verify that the economic operator has submitted the Recapitulative Statements (RECAPs) to the VAT Department. Such statements portray the aggregate amount for all intra-community supplies carried out during a specific period by any economic operator, including CP42 transactions.

Once the intra-community supply made in Malta is reported in the VAT Information Exchange System (VIES) by means of the RECAPs, the tax authorities of the other Member State will be notified accordingly. As a result, it will be ensured that VAT is accounted for in the other Member State where the final consumer is registered, usually under the Reverse Charge mechanism.

During a meeting between the National Audit Office (NAO) and VAT Department, held on 21 June 2012, VAT officials stated that no data concerning CP42

¹ Also refer to Council Directive 2009/69/EC of 25 June 2009, amending Article 143 of Directive 2006/112/EC on the common system of value added tax as regards tax evasion linked to imports.

transactions for 2011 was made available to their Department by CD. This was due to the latter's inability to retrieve the VAT identification number of the receiving operator from the Customs Electronic System (CES). Following a subsequent meeting between officials from both entities, the two parties agreed that CD is to regularly update the VAT Department with all transaction data pertaining to CP42, including the above-mentioned information.

Audit Scope and Methodology

The scope of this audit was to assess the operation of the controls adopted by CD in relation to CP42. This assessment included testing of a random sample of transactions made in the year 2011 under this procedure.

To this effect, an introductory meeting was held with CD officials on 14 May 2012, with the aim of discussing audit objectives, obtaining an understanding of the Department's control approaches in connection with CP42, and discussing the relative regulations and controls in place.

CD provided NAO with a list of all CP42 transactions carried out in 2011, totalling 1,085 transactions, with an aggregate value of €603,054,544. NAO also obtained a list of authorisations and renewals issued by CEPU for the year under review, which totalled 64, in connection with trading activity under CP42.

A case study approach was undertaken by randomly selecting a number of transactions, determined by their nature and monetary value. A total of 30 importations, representing 3% of the total population, were randomly selected for testing.² The aggregate value of the sample amounted to €478,548,021, i.e. 79% of the total value of transactions.

A walkthrough test on two different types of transactions was carried out, by compiling a system overview of the operations within CD, with reference to the transactions being selected for this purpose.

Documentation available, relating to the sample selected, was reviewed to ensure that:

- transfer of goods between EU Member States was correctly treated;

- proper authorisations exempting the transfer from VAT were granted by CEPU; and
- all established controls and procedures in place were adhered to.

Such documents included the Import Declaration, bank guarantee, minutes and correspondence retained by CEPU, together with copies of invoices, freight and other documents provided by the respective economic operator.

Additionally, NAO accessed VIES to confirm the validity of the VAT numbers of both the economic operators importing the goods in Malta, and of the final recipients of such goods in the Member State of destination.

NAO also verified whether RECAPs were submitted to the VAT Department, prior to the release of any deposit or bank guarantee by CEPU.

Finally, a meeting was held with VAT Department officials on 21 June 2012, to discuss the relative controls in place with respect to the submission of RECAPs with the VAT Department by economic operators. VAT officials explained that since this statement shows the total for all transactions (intra-community sales) carried out during a particular period to each client for all categories, including CP42, it is only possible to verify that the amount reported in the RECAP is equal to, or greater than, the transactions declared under CP42 in the respective Import Declaration.

VAT Department provided NAO with hard copy evidence of the RECAPs submitted by the respective economic operators, relating to the sample of transactions selected for the audit. Figures declared in these RECAPs were compared with CP42 amounts reported in the respective Import Declaration Forms.

Limitations on Scope of Audit

Given the limited information retrievable from the RECAPs, it was not possible for NAO to ascertain whether the intra-community supply was actually included in the total amount declared in the RECAPs submitted with the VAT Department by the economic operator, thus ensuring that all information was

² The total sample is made up of eight transactions relating to transfer of yachts, while the remaining 22 relate to other trading activities.

available in VIES for other Member States to utilise as necessary.

Therefore, for the selected sample, testing was limited to whether the total figure in such statements was equal to or exceeded the CP42 transaction/s for that particular period, derived from the relative Import Declaration.

Key Issues

Lack of Communication between Customs Department and VAT Department

Apart from having access to VIES to verify the validity of VAT identification numbers, CEPU is also required to communicate with the VAT Department on a timely basis, by providing the list of CP42 transactions carried out during a period of time by any economic operator. This will enable the VAT Department to verify that RECAPs are in order, thus enabling exchange of information between EU Member States.

However, during 2011, no such report, relating to CP42 transactions, was submitted to the VAT Department, hindering the latter from verifying that all information was declared in VIES appropriately.

VAT Identification Number of Final Consumer not provided in Import Declaration Form

According to Legal Notice 534 of 2010, the economic operator has to provide the CD at the time of importation with "...the VAT identification number of the customer, to whom the goods are supplied...". In 13 cases, representing 43% of the total sample selected, in aggregate amounting to €243,931,232, the VAT identification number of the final recipient of goods (within the EU) was not included in the Import Declaration Form. This situation could lead to VAT evasion in the other Member States, if it results that the VAT identification number of customers receiving the goods is not valid.

Recapitulative Statements not submitted with VAT Department

With reference to the 'Guidelines to Officers Processing OSR Applications,' any economic operator has to provide details of its entity (in Malta), which will be responsible to forward the RECAPs to the VAT

Department. Eventually, this will enable tax authorities of different Member States to compare information based on RECAPs submitted by the importer.

It transpired that for 16 transactions, making up 53% of the selected sample with a total value of €278,263,321, no RECAPs were submitted to the VAT Department. Consequently, relative information was not documented in VIES to be made available to the Member States where goods were eventually dispatched, thus resulting in undeclared intra-community supplies.

Undeclared amounts in Recapitulative Statements

Whilst reviewing the 14 cases for which economic operators submitted RECAPs, it was noted that in three of these instances, a 'nil' value for transacted goods, costing in aggregate €114,803,963, was declared in the respective RECAPs, resulting in inaccurate information being exchanged between Member States.

For two instances, the VAT authority in the Member State of destination, through the local importer, confirmed to CD in Malta that VAT was still paid on the respective yachts. However, for the other case, no such confirmation could be traced in the respective file. The department verbally admitted that this was an oversight from their end. The respective observation is also highlighted under the second Control Issue.

Control Issues

Opportunities for improvement were identified in the following areas:

VAT number validation not evidenced

Prior to authorising exemption, CEPU is to verify that the VAT identification number of the final customer in the other Member State, as stated in the Import Declaration Form, is valid. However, in 22 cases reviewed, representing 73% of the sample tested, no evidence of such verification could be traced by NAO.

Furthermore, NAO noted that in all 30 transactions examined, evidence of such validation from VIES, relating to the VAT identification number of the local importer, was also not retained by CEPU in the respective departmental file.

This practice may hinder audit trail during the verification process which has to be carried out by CD before authorisations for CP42 transactions are granted.

No proof that VAT has been collected at Country of Destination

When transactions under CP42 involve the importation of yachts, CD obtains a confirmation from the VAT authorities of the final place of supply of the yacht, evidencing that VAT due has been accounted for. In one instance, out of the eight cases, each relating to the transfer of a yacht, NAO could not retrieve such a confirmation, indicating that CD cannot rule out the possibility that no irregularity has occurred in connection with this transaction with a value of €52,094,186.

Compliance Issue

No Supporting Documentation to evidence that Goods were transported to the Final Place of Supply

The VAT Act clearly stipulates that the economic operator has to provide “...evidence that the imported goods are intended to be transported or dispatched from Malta to another Member State...”. However, from the importations examined, it transpired that no supporting documents were provided for two cases (7% of the sample), indicating that goods with a total value of €191,434, were physically transported from Malta to another Member State. The lack of such evidence may lead to the risk that imported goods remain in the Member State of importation without payment of VAT.

Recommendations

Key Issues

Lack of Communication between Customs Department and VAT Department

NAO recommends that CD makes the necessary arrangements with its system administrator to update CES, by amending the Import Declaration Form, in order to be able to gather the required information in a usable format. It is also advisable that CD and the VAT Department update each other regularly throughout the year, to ensure that all CP42 activity is adequately monitored and declared.

VAT Identification Number of Final Consumer not provided in Import Declaration Form

The Import Declaration Form is to be amended to include the VAT number of the final recipient, thus constituting a mandatory field to be filled in upon submission of the form. Furthermore, CEPU officials must ensure that all VAT identification numbers, of both the importer and customer, have been included in the Import Declaration Form, before granting authorisation for VAT exemption.

It is also recommended that CES is enhanced to process only those Import Declaration Forms having all the required information. This also applies to online applications.

Recapitulative Statements not submitted with VAT Department

It is very important that CD and the VAT Department cooperate fully to ensure that all transactions using the OSR mechanisms are recorded in a timely manner in VIES.

Undeclared amounts in Recapitulative Statements

Both CD and the VAT Department are to have adequate mechanisms in place that will enable either party to verify that a particular RECAP is duly submitted with all the necessary details.

Control Issues

VAT number validation not evidenced

CEPU is to ensure that relevant VAT identification numbers are validated through VIES, and to retain such confirmations for future reference. This evidence ascertains that the local economic operator, his representative (if applicable) and the consumer at final destination place, are registered for VAT in any Member State.

No proof that VAT has been collected at Country of Destination

CD is to investigate whether VAT has been duly collected by the relevant authority in the country of destination, and to provide NAO with any further information. All necessary checks are to be carried out for intra-

community supplies, by insisting with importers to provide the Department with all information possible.

Compliance Issue

No Supporting Documentation to evidence that Goods were transported to the Final Place of Supply

CD is to comply with the VAT Act in all instances, by ensuring that all necessary documents relating to the transfer of goods outside Malta are verified and any irregularities followed up.

Management Comments

Management stated that valid recommendations provided in this report were discussed with the OSR Unit within CEPU, and instructions have been given to rectify any gaps in operating procedures. In addition, both CD and the VAT Department confirmed that data relating to CP42 transactions is now being forwarded to the latter on a monthly basis, whilst acknowledging that the correct submission of RECAPs is the best tool to assist other Member States to account for VAT.

CD claimed that the Import Declaration Form cannot be amended to include VAT identification numbers of final consumers, since this is a standard EU format that cannot be changed by Member States. However, the Department has approached its information technology experts to explore the possibility of CP42 declarations with no VAT number information to be flagged in the system.

Customs also maintained that even though confirmations of the validity of VAT numbers in VIES have only lately started to be inserted in the respective departmental files, CES has an inbuilt safeguard which does not accept import declarations for invalid VAT numbers.

With regards to the yacht for which no evidence of VAT collected could be traced in file, CD claimed that the local agent of the yacht in question has been contacted and since a confirmation from the VAT authorities has not been submitted, the case is still pending.

**Ministry for Justice and Home
Affairs**

Malta Police Force Transport

Background

As per Fleet Management System (FMS) report, generated from the system by the National Audit Office

(NAO) subsequent to its launch by the Malta Police Force (MPF) in 2012, the vehicles and equipment requiring fuel intake comprised 597 vehicles composed of the following¹:

	Active	Not in use ²	Totals
Boats	5		5
Buses	10		10
Cars	212	102	314
Crane	1		1
Dinghies	5		5
Fire Engines	2		2
Generators	8	1	9
Grass Cutter	1		1
Hearses	3		3
Jeep		1	1
Land Rover	1		1
Low Loaders	3		3
Motorcycles	54	1	55
Quad Bike	1		1
Refuse Disposal	1		1
Rotary Mower	1		1
Trucks	9	1	10
Vans	15	1	16
Vehicles ³	55	101	156
Water Pump	1		1
Wheel Shovel	1		1
Totals	389	208	597

¹ Disclaimer – in view of the fact that various errors were noted whilst scrutinising the report, this information may not be accurate.

² Besides the 135 unserviceable vehicles as at end of year 2011, this includes other vehicles also considered as unserviceable up to 22 March 2012 as well as vehicles under repair.

³ The description of the type of vehicles was not specified.

The Financial Estimates show that the approved budget for transport for 2011 was €1,240,000, whereas actual expenditure as per Financial Report amounted to €1,230,504.

Audit Scope and Methodology

The scope of the audit was to ensure compliance with the Public Procurement Regulations (PPR) S.L. 174.04, the Public Service Management Code (PSMC) and other relevant circulars, as well as to ascertain that data recorded in FMS is complete, accurate and updated. The method adopted in acquiring, transferring and scrapping of vehicles was also reviewed.

The following audit work was performed:

- Obtained various documents relating to 30 transactions selected for testing and examined against NAO expenditure checklist.
- Generated a report from FMS and scrutinised all entries.
- Talled details of 31 Vehicle Registration Documents (VRDs) with those as per FMS records.
- Verified that vehicle entries were appropriately recorded in the Inventory Database and regularly updated according to MF Circular No. 14/99.
- Traced and compared FMS records to data recorded in the Inventory Database and *vice versa*.
- Ensured that proper authorisation was sought prior to acquiring and scrapping of vehicles and that the foregoing were appropriately recorded in the Inventory Database and FMS.
- Reviewed details of nine log books provided, from the requested sample of 30.

Key Issues

Gozo Fuel Pump - Suspected Leakage in the Underground Fuel Tank

The Officer in charge of the Gozo fuel pump claimed that no inspections were carried out, even though around November 2010 he submitted a report to his superiors,

highlighting a suspected leakage of approximately 50 to 60 litres of unleaded petrol every two months. Since neither the said report nor the respective file was available, this Officer's statement could not be corroborated. If this allegation is valid, public funds are constantly being wasted. This may also jeopardise the health and safety aspect of the work environment.

Chauffeur Driven Cars and/or Journeys from Private Residences

An official internal policy, regulating the practice of providing chauffeur driven cars and/or journeys from private residence to work place and *vice versa* to certain officers, was not provided. In such absence, effective control over government-owned vehicles may be hindered.

Control Issues

Request for Direct Order not made

Due to an oversight, during 2011 two hired vehicles were not covered by a direct order approval, the total cost of which, as stated by MPF, amounted approximately to €8,424. The invoices relating to May 2011 onwards were still pending in June 2012, when an approval was sought from the Ministry of Finance, the Economy and Investment (MFEI), for settlement thereof. Furthermore, the period covered by two direct order approvals pertaining to other vehicles could easily be challenged, since they did not specify the one year period that they intended to cover.

Analysis of the Report generated from the Fleet Management System

Although FMS is expected to be the main source of management tool to control the use of vehicles within the Ministries/Departments, various shortcomings were noted whilst scrutinising the respective FMS report. Furthermore, unreliable records were noted in FMS, whilst comparing details with those specified in the 31 VRDs selected for testing.

Vehicles not traceable in the Inventory Database

A reconciliation of FMS records with the Inventory Database resulted in 171 unreconciled vehicles. Furthermore, the latter also included incomplete, unspecified or different details of make and/or model of the vehicles in question.

Incomplete Documentation for Acquired Vehicles

No documents were provided in order to substantiate acquisition details of three vehicles transferred from other entities. Furthermore, acquisition details of seven vehicles out of the 35 purchased in 2011, were incorrectly recorded in the respective FMS or in the list of acquired vehicles.

Unserviceable Vehicles disposed off still not indicated accordingly

Although required by MF Circular No. 14/99, the Permanent Secretary's (PS) authority to execute the Board's recommendations for the disposal of 135 unserviceable vehicles was not obtained. Furthermore, except for 24 vehicles, which against good practice were completely removed from the Inventory Database, the disposed unserviceable vehicles still featured in the records, resulting in insufficient control over asset movements as well as lack of audit trail when items are completely deleted.

Expired Gozo Ferry Ticket

No action was taken by MPF in respect of an expired vehicle ferry ticket costing €58.20, even though an exchange policy is adopted by the Gozo Channel Co. Ltd. Ticket expiry dates may be inadvertently overlooked when tickets are purchased in advance and stored.

Commitment of Funds subsequent to receipt of Invoice

In 14 out of 30 (47%) transactions tested, amounting collectively to €37,221, Local Purchase Orders (LPOs) or Letters of Acceptance (LAs) were dated subsequent to the invoice date. Thus there exists the risk of not having enough funds to honour the actual expense.

VAT Receipts not available

In 13 out of 30 payments (43%) reviewed, amounting collectively to €54,578, fiscal receipts were not available. This practice may result both in the Value Added Tax (VAT) dues not being duly handed over to VAT Department and in the under declaration of profit for income tax purposes.

Compliance Issues

Potential Competitive Suppliers of Fuel

MFEI Circular No. 9/2009 stipulates that, "*The market for inland liquid fuel was liberalised in 2007*", implying that liquid fuel can be procured from suppliers other than Enemalta Corporation. However, purchase of fuel is limited from the latter, increasing the possibility of more favourable offers being missed.

Delegation of Authority not evidenced

Although required by PPR, no document was available to substantiate the delegation of authority to the high-ranking officers in Gozo, authorising payments between €2,500 and €6,000.

Procurement of Motor Scooters in Breach of Standing Regulations

While on 10 May 2011, MFEI Direct Orders Section did not grant approval to procure five motor scooters by direct order, amounting to €13,500, the purchase of one motor scooter from the open market was authorised by MPF, which selected quotation was dated 7 February 2011, *i.e.*, prior to the foregoing request. In addition, in September 2011, both MPF and the Financial Policy and Management Division within MFEI granted approval for the purchase of another two motor scooters from the same supplier.

Subsequently, in November 2011, the Inspector requested procurement of a further two motor scooters, which request was not yet approved at least up to date of audit testing, *i.e.* May 2012. The foregoing procedures indicate attempts to avoid departmental call for tenders, although MPF alleged that this call was postponed due to budget constraints while collected evidence indicated otherwise.

Returns relating to Inventory Management not submitted to the Auditor General

Even though required by MF Circular No. 14/99, the following returns were not provided for the year under review:

- a list of items added to the Department's inventory, which information is to be submitted as a soft copy on a half yearly basis;

- a certified hard copy of the database, which is required at least once a year;
- documents in respect of any donations, transfers or movements of items; and
- a copy of PS’s authority to write-off the obsolete inventory item.

Incomplete Inventory Database

Various shortcomings were noted in an analysis of the Inventory Database provided, indicating non-compliance with MF Circular No. 14/99, rendering such records both incomplete and unreliable.

Manual Stock Records

MPF Accounts Section reverted only to a manual system to record stock items, which is more prone to human errors and may result in a possible delay when the need for information arises.

Obsolete Store Items not identified

Although required in terms of Treasury Circular No. 6/2004, a list of obsolete store items and fuel stocktaking reports were not submitted to NAO, which may indicate lack of control and also hinders the monitoring of the stock items in question.

Vehicle Log Books not presented for Audit and Lack of Control over Fuel Consumption

Only nine out of 30 vehicle log books (30%) were provided. This could imply that the necessary records in respect of various general use vehicles are not being maintained. Besides hindering the audit objectives, this indicates weak internal controls over the use of government-owned vehicles and fuel consumption. Furthermore, those log books reviewed included incorrect and incomplete records, also confirming that the expected controls are lacking.

Damages due to Collisions with Third Parties

Although PSMC specifies that “... approval from the Permanent Secretary of the Ministry concerned is invariably to be obtained in all cases, before any payments are made”, PS authority was bypassed in the case of two vehicle collision claims in the audit sample, in aggregate amounting to €4,318.

Invoices not duly endorsed

From the audit sample, invoices, amounting collectively to €23,226 were either not authorised or not certified as correct, but still processed for payment. At times, not even the supporting documentation was endorsed.

Recommendations

Key Issues

Gozo Fuel Pump - Suspected Leakage in the Underground Fuel Tank

An immediate inspection is recommended to be carried out followed by any action deemed necessary without undue delay. Management is also to consider analysing the pros and cons of having an underground tank for unleaded petrol.

Chauffeur Driven Cars and/or Journeys from Private Residences

An internal policy is to be drawn up and duly endorsed by the Minister or PS concerned. This is to be consistent with contents of PSMC and the Code of Ethics for Employees in the Public Sector, stating that public officers are to be efficient and economical in the use and management of public resources.

Control Issues

Request for Direct Order not made

Payments are not to be effected prior to verifying that appropriate authorisation was obtained. The period covered is also to be clearly defined in order to avoid misunderstandings or double payments.

Analysis of the Report generated from the Fleet Management System

Authorising officers are to ensure that the data recorded in FMS is reviewed in its entirety and amended as necessary. Furthermore, controls over computer inputting of data are expected to be strengthened and reference is to be made to details indicated in the respective VRD.

Vehicles not traceable in the Inventory Database

An exercise is to be carried out in order to ensure consistency and accuracy in the records being maintained.

Incomplete Documentation for Acquired Vehicles

Information recorded is to be accurate and all documents must be kept in the relevant file.

Unserviceable Vehicles disposed off still not indicated accordingly

Adopted procedures are to be in accordance with all relevant circulars. Furthermore, rather than deleting entries, the respective row is to be copied in the Inventory Database with a negative sign in front of both the quantity and value, and marked as scrapped in FMS ‘lay-off menu’.

Expired Gozo Ferry Ticket

Gozo ferry tickets that are purchased to stock, are to be regularly checked and if it transpires that a ticket expires, it can be replaced by returning it to the Gozo Channel Co. Ltd.

Commitment of Funds subsequent to receipt of Invoice

Efforts are to be made by MPF in order to, whenever possible, issue LPOs or LAs prior to invoices, in line with Government’s policies and best practices.

VAT Receipts not available

Every effort is to be made to enforce the principle that VAT receipts are obtained from suppliers for every purchase of goods and/or services, when VAT is not being reclaimed.

Compliance Issues

Potential Competitive Suppliers of Fuel

MPF is to endeavour to benefit from the most economic and advantageous prices within the market, by adopting a Framework Agreement with the possible ‘call offs’ on a regular basis, according to MPF’s requirements.

Delegation of Authority not evidenced

MPF is to comply with PPR and ensure that the appropriate authorisation is obtained as stipulated therein.

Procurement of Motor Scooters in Breach of Standing Regulations

Proper planning is to be carried out in order to ensure that the method of purchase is in line with the applicable regulations.

Returns relating to Inventory Management not submitted to the Auditor General

Statutory information is to be forwarded to NAO, as required by MF Circular No. 14/99, in order to ensure compliance with the established provisions and enable control over government-owned assets.

Incomplete Inventory Database

Inventory records are to show complete, relevant and accurate information, in order to reflect precise and reliable data as required by MF Circular No. 14/99.

Manual Stock Records

A computerised system is to be introduced once again for stock recording purposes.

Obsolete Store Items not identified

Adherence to Treasury Circular No. 6/2004 is solicited, by forwarding a report to PS, the Accountant General and the Auditor General showing the balances of each stock quantity and value, as well as the amount of write-offs during the first month of each financial year.

Vehicle Log Books not presented for Audit and Lack of Control over Fuel Consumption

The Officer in charge of Transport is to ascertain that a log book is maintained. He is also expected to request such log books for proper examination, in order to ensure adherence to the provisions set out by standing regulations. These records are also to be presented to Management and/or other pertinent third parties for monitoring purposes as necessary.

Damages due to Collisions with Third Parties

Unless PSMC is amended to indicate otherwise, PS's authorisation is expected to be obtained accordingly in all instances.

Invoices not duly endorsed

Invoices are to be processed for payment only if the relevant certification and authorisation are both evident.

Management Comments

Management concurred with a number of recommendations put forward by NAO and action has already been taken to address certain areas. Furthermore, on 11 September 2012, a technical team at Enemalta Corporation was to perform an inspection of the suspected leakage. The Superintendent responsible for ferry tickets confirmed that, arrangements were already in place with the Gozo Channel Co. Ltd., to replace all expired tickets accordingly.

The following reservations were also submitted:

- Certain officers are granted the facility of a chauffeur driven car from and to their residence, both for security reasons as well as due to the abnormal hours worked by these officers.
- Management is of the opinion that, the approval of Director General, Strategy and Support, is sufficient to execute the Board's recommendations for the disposal of unserviceable vehicles.

- While every effort is being made to issue LPOs or LAs prior to invoices, there are instances where the amount to be committed is not known beforehand, or the purchase was made in Gozo where personnel have to make use of manual books. Civilian staff raising these documents could also not be available due to different working hours from those of MPF.
- Following enquiries made to MFEI with regard to liberalisation of the fuel market, MPF was informed that a departmental call for tender was not required. However, the respective directive was not revised up to date of writing of this Report.
- The allocated funds for the procurement of five motor scooters were committed to some other priority.
- Although not substantiated and provided for in PSMC, Management claimed that PS approval to settle collision claims was delegated to Director General, Strategy and Support.

Furthermore, Management comments either did not properly address NAO's concerns, or did not indicate whether the recommendations will be taken on board to cover the following areas:

- Delegation of authority not evidenced.
- Invoices not duly endorsed.



**Ministry for Health, the Elderly and
Community Care**

Mater Dei Hospital Personal Emoluments

Background

The budget allocation for financial year 2011, in respect of Personal Emoluments for Mater Dei Hospital (MDH) within Recurrent Vote 42, the Ministry for Health, the Elderly and Community Care (MHEC), stood at €97,206,300. Of this amount, €28,530,600 (29%) and €4,025,900 (4%) were allocated to allowances and overtime respectively. However, the actual expenditure incurred by MDH on allowances and overtime was €28,891,986 and €4,368,745 respectively. The average number of employees employed at MDH during the same period was 3,846.

Audit Scope and Methodology

The objectives of the audit were to determine whether adequate controls were in place in relation to the payment of personal emoluments, as well as to verify whether the applicable regulations and agreements were followed for the awarding, allocation and payment thereof.

The audit mainly focused on allowances in view of the substantial amounts paid by MDH to its staff. During the year under review, the average allowance absorbed per employee stood at around €7,500. However, an overview of the allowances paid during the year revealed that the highest allowances paid to an individual Consultant amounted to €80,040¹. Table 1 indicates the number of employees and allowances received during 2011.

Table 1

Amount received in Allowances	No. of Employees
Over €80,000	1
Between €70,000 and €80,000	Nil
Between €60,000 and €70,000	4
Between €50,000 and €60,000	11
Between €40,000 and €50,000	37
Between €30,000 and €40,000	82
Between €20,000 and €30,000	182
Between €10,000 and €20,000	547
Between €5,000 and €10,000	1,204
Between €1,000 and €5,000	1,311
Less than €1,000	467
TOTAL	3,846

¹ Of this amount, €11,070 were arrears from prior year while a total of €15,859 were noted to be overpaid (refer to Control Issue – Overpayments to Consultants).

Meetings with officers from the Payroll Office were held, in order to obtain an understanding of relevant policies and procedures adopted. An audit sample of 12 employees was selected for testing, based on the materiality of the amounts involved. For each employee selected, testing was made on all allowances received during the year under review.

Overtime planning and authorisation procedures within MDH were also reviewed, as it was noted that overtime payments to a number of employees were more than double their basic salary during 2011.

Audit Disclaimer

In view of time constraints, testing was neither comprehensive nor exhaustive in the following areas:

- *Classes of Employees*

Testing was not made on all categories of employees at MDH but was limited to three Consultants², four Doctors, two Dentists, two Midwives and one Nurse.

- *Fieldwork*

For each employee in the audit sample, the level of detailed testing was limited to those areas that directly affected the eligibility and payment of allowances.

- *Consultants' Attendances*

The payments to Consultants for attendance during 'extra sessions' and 'extra ward visits after normal hours' could not be corroborated since no attendance records are kept for Consultants.

- *Overtime*

Observations noted on overtime, in general were arrived at, following enquiries of a high-level nature. More detailed enquiries were only made on the highest overtime earners.

- *Radiographers*

No detailed testing was performed on Radiographers, but this was limited to enquiry about the procedures in place and guidelines followed.

Key Issues

Internal Control Deficiencies

During the course of the audit, several instances indicating deficiencies in internal control were observed, ultimately denoting an inappropriate management of public funds.

It was Management's intention to set up an Internal Audit Department at MDH, to monitor and control public funds through the conduct of financial audits, due to the large set up at MDH. However the latter was informed by the Ministry's Financial Monitoring and Control Unit that the plan was for such a Department to be set up centrally. However, at least by end September 2012, action to this effect was not yet taken.

Insufficient Controls on Overtime and Non-compliance with Procedures

During 2011, overtime expenditure incurred by MDH amounted to €4,368,745, an excess of 8.5% over the allocated budget, as well as an increase of 11% over previous year's expenditure. Testing uncovered the following shortcomings:

Permanent Secretary's approval not sought

Even though the Public Service Management Code (PSMC) states that the respective Permanent Secretaries (PS) are responsible for regulating all overtime work within their Departments, MDH overtime requests were not forwarded to PS for approval. MDH Finance Director confirmed that the situation is the same even with other Health entities.

² Referred to as Consultant A, B and C respectively.

Consistent use of Overtime

PSMC states that *“Overtime work should be resorted to only in exceptional circumstances.”* However, such guidance was not duly followed since in MDH Circular No. 99/2012 issued on 20 March 2012, the hospital’s Chief Executive Officer (CEO) stated that *“... over the years, in some sections overtime has become institutionalised with stark examples of employees almost doubling their working hours through the consistent use of overtime”*. In March 2012, a high level Overtime Committee was set up at MDH, chaired by the Finance Director, with the objective of monitoring the overtime situation.

Quarterly Estimates of Overtime not authorised

Procedures on authorisation of overtime, introduced at the hospital during 2005, stated that overtime requests for each Department are to be prepared quarterly and forwarded to the Finance Department. *“Failure to provide the required information in time will prejudice the relative request and hence, deemed as not having been authorised. ... Under no circumstances whatsoever will overtime be paid for, unless duly authorised in writing”*.

However, testing revealed that not all Departments were forwarding their overtime estimates to Finance. Upon enquiry, it transpired that irrespective whether requests are sent or not, the current Finance Director never approved them, since he is not in a position to verify whether clinical requests are justified or otherwise. It was also declared that the previous Finance Director never signed and authorised these requests, since as it was stated *“If he had done so, then all the over inflated overtime projections which we now know of would have been authorised”*.

Overtime by the Payroll Office

In three out of four quarters during 2011, the Payroll Office did not submit quarterly estimates for the Director’s approval. Further research revealed that during 2011, four employees from this Office, three of which were at clerical level, were at the top of the highest overtime earners at MDH, receiving an average amount of €28,700 each for overtime in 2011. Even

though the Finance Director stated that an officer in charge certified and authorised overtime performed prior to payment, it is pertinent to point out that the latter *“... managed and authorised all the Section’s overtime including her own”*. This officer happened to receive the highest amount (€35,273) for overtime at MDH in 2011. Without prejudice as to the justification of such expense, in principle no control can be exercised when a person’s overtime is approved by one’s self.

Unless the Finance Director, and ultimately PS, are informed about the overtime planned to be undertaken, appropriate reviews cannot be made and remedial action cannot be taken to economise on such expenditure, whilst still attaining productivity.

Shortage of Staff within the Payroll Office

During 2011, the Payroll Office at MDH was run by 10 officers³ of various grade designations. The audit revealed that three officers are considered as the key persons within the Office, who must work considerable overtime hours in order to respect Treasury deadlines for processing of payrolls. During 2011, these key officers were in fact amongst the highest overtime earners amongst MDH employees, as indicated above.

In the eventuality that any of the key officers is absent from work for a lengthy period, continuation of the payroll process would be put at risk or slowed down considerably.

Control Issues

Lack of an Electronic Attendance Verification System

As per Collective Agreement for Employees in the Public Service, Government was bound to introduce *“... a modern mechanical and/or electronic systems for the purpose of security, recording attendance, salary computation and audit trails”* by not later than 31 December 2010. Up to the date of audit testing in August 2012, no electronic Attendance Verification System (AVS) was yet in place at MDH.

Attendance of staff⁴ is recorded on manual attendance sheets, which details must then be manually inputted

³ This number includes four Group 4 Security Clerks, who are not on MDH’s payroll but are paid through a contractual agreement. One Payroll Clerk was on long leave since July 2011 whereas another Clerk commenced duties during December 2011.

⁴ Excluding Consultants since no records are maintained for their attendance.

into the computer system⁵ by Payroll Clerks. Control over attendance may be weakened without an electronic AVS, since manual attendance sheets tend to have more flexibility for officers recording time in and out. Furthermore, manual registers further increase the procedures and workload for Payroll Officers, who are also prone to human error whilst inputting details onto the system.

Job Planning not submitted on time

As outlined in the Medical Class Agreement dated 1 November 2007, the review and formulation of any new job plan⁶ has to be completed by not later than two months after expiration. However, the following was noted in the job plans of two out of three Consultants in the audit sample:

- a) Consultant A was employed in December 2009. The first job plan was temporarily approved in March 2010 and an amended version was finalised in September 2010. The copy of the first job plan available in the Consultant's personal file was not endorsed by the latter. The 2011 job plan was approved in April 2011, however, only an extract was filed in the personal file.
- b) No job plan for year 2011 was found in Consultant B's personal file. Furthermore, even though the other job plans available stated that frequency of 'on-call shift' is of '1 in 6' days with an allowance of €699 per annum, the Consultant was paid for a frequency of '1 in 1' days at €1,863 per annum. An enquiry to clarify this matter was put forward by the National Audit Office (NAO), however, an explanation was not provided.

NAO was further informed that there are also delays in handing over these job plans to the Payroll Office. Moreover, no notes are attached to job plans, indicating the exact dates from which any necessary changes should be effected in the salary. All this may result in delays, giving rise to arrear payments which may be inaccurate, leading to complaints from Consultants in case of underpayments.

⁵ Attendance records of part-timers are administered entirely manual.

⁶ Job plans are required for all Consultants, since these are used as timetables setting out professional duties, including time and service commitments.

⁷ Extra sessions are those worked over and above the basic working week.

⁸ Consultant A on Contract Type A + 3 (working three extra sessions of four hours each in addition to their basic week of 48 hours). Of these allowances, €11,070 were prior year arrears and €15,859 were an overpayment.

⁹ Consultant C on Contract Type A (working a basic week of 12 sessions of four hours each). Most of this allowance relates to the year under review.

¹⁰ Consultant B on Contract Type B + 2 (working two extra sessions in addition to the basic week of 40 hours). All this allowance is related to the year under review.

¹¹ Ward visits over and above the basic and extra sessions.

No Records maintained for Consultants' Attendances

The following was noted while testing allowances received by Consultants:

Payment for Extra Sessions not substantiated

During 2011, the three Consultants in the audit sample received allowances for extra sessions⁷ of €79,527⁸, €48,508⁹ and €10,901¹⁰ respectively. However, as indicated under 'Audit Disclaimer', the actual attendance of extra sessions could not be corroborated to any attendance records, and thus, payments could not be validated.

Payment for Extra Ward Visits after Normal Hours not validated

As per the Agreement for Doctors, dated 1 November 2007, Consultants on Contract Type B are eligible to an allowance for ward visits after normal hours¹¹. During years 2011 and 2012, 68 and 74 Consultants were paid aggregate allowances of €114,605 and €176,334 for extra ward visits attended in 2010 and 2011 respectively.

However, no audit testing could be performed to verify these extra ward visits in the absence of supporting documents. Upon enquiry, it also became known that although duly approved, very limited substantive checks are performed by MDH prior to payment of these allowances.

MDH CEO admitted that the procedures in place for Consultants' attendance "... is not a very fool-proof system and we would be very willing to have an electronic or bio-metric means of keeping attendances of MDH Consultants. ... such a proposal was raised several times in the past but was blocked by the Doctor's union." In the absence of an electronic AVS, or at least manual records of attendance maintained, control over Consultants' attendances and respective remuneration is totally hindered.

Overpayments to Consultants

The following was observed for two out of three Consultants in the audit sample:

Consultant A

Following employment in December 2009, the Consultant's job plan for 2010 was temporarily approved on Contract Type A in March 2010 and ultimately approved as Contract Type A + 3 in September 2010. Subsequently in April 2011, the job plan for year 2011 was again approved as Contract Type A + 3.

i) Payment of Allowances falling in arrears

As a result of lengthy administrative procedures, the mentioned job plans were not passed on time to the Payroll Office. Consequently, ever since commencement of employment up to April 2011, the Consultant was only paid allowances for the basic sessions of €2,793 per payroll, whereas in actual fact, since April 2010, the Consultant should have been paid allowances both for basic and extra sessions of €4,046 per payroll. During 2011, two arrear payments totalling €31,943, were made to the Consultant. However, audit testing revealed that these arrear payments were erroneously made for both basic and extra sessions, rather than for just the latter. This resulted in an overpayment of €15,859.

ii) Lack of Audit Evidence

Even though the first job plan for Contract Type A + 3 was approved in September 2010, the Consultant was paid for extra sessions as from April 2010. NAO was informed that at that time, the Consultant provided evidence as proof of extra sessions since April 2010. However, this evidence was not available during the audit to corroborate this statement.

Consultant C

The Consultant was appointed with effect from 16 November 2010 and opted for a Contract Type A. The only job plan provided was unsigned and dated 10 March 2011.

i) Erroneous Payments

Notwithstanding the fact that under Contract Type A, Consultants are only eligible to allowances for extra sessions, testing revealed that during 2011, this Consultant was erroneously paid for tuition, specialisation and on-call allowances, collectively amounting to €3,463. Following discussions during the audit, on 3 August 2012, CEO confirmed that these amounts were to be refunded.

ii) Incorrect Formula

Extra Duty Allowance (EDA) amounting to €234 was paid in respect of a public holiday. It transpired that the Consultant did not work on that particular day and was not even automatically entitled to EDA due to his appointment on Contract Type A. Furthermore, the amount paid was also wrongly calculated in view of an incorrect formula being applied in the system.

The total overpayment, amounting to €3,697, was to be refunded by monthly salary deductions of €91, *i.e.* over a period of 40 months, commencing in August 2012. There is a continual risk if flaws in the Payroll System exist and remain undetected.

Extra Duty Allowance Over/Underpayments

Doctors are paid EDA at the rate of 1.5 for hours exceeding 45, double rate for Sundays, and public holidays at the rate of 2.5.

- a) Testing of allowances received by the four Doctors in the audit sample revealed that three of the Doctors were refunded the amounts of €374, €857 and €1,260 respectively, whilst the other Doctor had an amount of €87 deducted, all in respect of extra duties worked.

Further testing revealed that overall, 106 Doctors were overpaid an aggregate amount of €40,353, while 214 Doctors were underpaid a total of €98,291, all in relation to extra duties carried out during December 2010 and paid in January 2011.

The discrepancies resulted following updates in the Payroll System by the software supplier's

personnel, which adversely effected the December public holiday dates and Sundays. Consequently, the Payroll Office had to resort to working additional overtime to address the problem and manually calculate the amounts actually due, increasing the risk of human error.

- b) A similar technical problem related to the leap year was encountered in 2012. This again resulted in EDA overpayments to 50 Doctors amounting to €10,612, and underpayments to 84 Doctors amounting to €18,914.
- c) NAO enquired whether the supplier had been held liable for these incidents. The Office was informed on 18 August 2012 by the Principal, Payroll Office, that support services were provided immediately but was unaware whether the supplier had been held liable. There is a risk that similar problems will re-occur, with further financial implications.

Collection of Overpayments overlooked

The mentioned EDA overpayments were to be recouped by MDH through deductions from future salaries, which had to be settled by 31 December 2011.

- a) The payment history of eight out of the 106 overpayments were checked and testing revealed that in five cases there was still an outstanding balance as at end December 2011.
- b) In another case, the amount calculated to be refunded was overstated. Moreover, testing showed that this inaccurate amount was deducted twice from the employee's salaries.

These shortcomings remained unnoticed prior to the audit, indicating lack of monitoring and control over the repayment programme, which could have led to loss of public funds. The remaining balances were to be recouped through forthcoming deductions whilst the latter employee was to be refunded the amount over-deducted.

Unclear Source for Public Holidays Rate applied

PSMC stipulates that staff eligible for overtime payment, who are required to work on public holidays, are to be remunerated at 1.5 times of basic actual time rates. On the other hand, MDH Doctors are remunerated at the rate of 2.5 for hours worked on a public holiday. On enquiry about the source of such rate, a one page unendorsed extract, titled 'MAM-Government Corrective Agreement (January 2002)', was provided. However, it could not be ascertained whether this higher rate of payment is justified, since uncertainty arises about the validity of the mentioned document, as neither the Office of the Prime Minister (OPM) nor the Ministry of Finance, the Economy and Investment (MFEI) were aware of this document¹².

Payment to Dentists for Extra Hours not evidenced

Eligibility for EDA¹³ received during 2011, amounting to €3,530 and €3,030 by the two Dentists in the audit sample respectively, could not be validated. Even though PSMC states that staff are required to register times of arrival and departure, upon checking attendance sheets of these Dentists it transpired that extra hours could not be verified, since as per the union's Directive issued on 27 April 2010, Dentists only endorse the attendance sheets without any reference to the actual 'Time In' and 'Time Out'.

Attendance Sheets not endorsed

Doctors' attendance sheets examined during the audit were duly signed and times of arrival and departure were recorded, in accordance to PSMC. However, another requirement was not complied with, since these sheets were not endorsed by an authorised officer, and this was confirmed to be common practice. Lack of compliance with the latter requirement was also noted following a review of Dentists' attendance sheets. Adequate control on the correctness and reliability of such records could not be ensured.

¹² This was revealed through checks carried out by NAO, whilst conducting a similar audit on the Gozo General Hospital.

¹³ The addendum to the agreement of the Dental Class, dated 4 March 2008, states that members of the Dental Class shall be given the opportunity to put in four extra hours per week. Those signifying their agreement to work these additional hours accordingly shall be entitled to EDA.

Inaccuracies in Payments to a Part-time Staff Nurse

The following inaccuracies were observed following a re-computation of the 2011 salary of the only part-time Nurse in the audit sample:

Basic Salary

During the year under review, the Staff Nurse increased the working shift from an 18 to a 20-hour week. Checking of a sample of attendance sheets revealed that although on four days the Nurse signed for shifts of seven hours each, details of these shifts were written on the ‘white card’¹⁴ as six hours each. This resulted in an underpayment of €37.

Nursing Premium

Nursing premium¹⁵ of €1,001 was paid to the Nurse in question for 888 hours worked during 2011. However, a detailed review of the Nurse’s ‘white card’ revealed that hours worked were actually 976. Furthermore, upon increasing shift hours in August 2011, the Nurse switched from day shifts, payable at €1.17 per hour, to outpatients at an hourly rate of €1.01. However, payment of nursing premium for a period was erroneously made at the higher rate. These observations resulted in another net under-payment of €77.

Government Bonus

A re-computation of the Government bonus revealed that erroneously, not all hours worked between the periods October 2010 to December 2011 were taken into consideration.

Bridging

As from 25 October 2007, the officer was eligible for the bridging clause¹⁶, however, payment was only made with effect from 1 January 2008, resulting in

an underpayment of €286. Furthermore, during the period 1 January to 15 July 2011, 468 hours were taken into consideration for bridging calculation, whereas in reality, 504 hours were actually worked, triggering another underpayment of €53.

The manual process of counting the hours listed on the ‘white card’ increases further the risk of human error. Even though audit testing was limited to one part-time Nurse, the latter may be a representative of other part-timers at MDH, with the risk that similar inaccuracies and erroneous payments may have been made to other staff. In cases where working hours have decreased, this could have an adverse effect on MDH funds.

Shortcomings with respect to a Doctor’s Salary Scale and Allowance Payments

- a) A Doctor was appointed as a Higher Specialist Trainee on scale 6, with effect from 26 January 2010. The incumbent resigned from the training course he was undertaking overseas, on 25 October 2010. The Agreement between the Government of Malta and the Medical Association of Malta (MAM) stipulates that *“Wherever a trainee does not complete his/her training ... shall remain in the same salary scale they would have attained and shall be referred to as medical officer in staff grades.”* However, with effect from 24 January 2011, a letter of appointment to the Medical Officer was issued on scale 8 instead of 6. The matter was only noted during the audit and consequently, an amended letter of appointment was to be processed, backdated to 24 January 2011.
- b) The audit also revealed that since this Doctor is a Medical Officer, he was not eligible to the two installments for specialisation allowance in aggregate amounting to €2,329, which he was paid during 2011. The Medical Officer was to be notified accordingly in order to refund the overpayment.

¹⁴ Part-timers’ hours worked as detailed on attendance sheets are copied on a manual card known as a ‘white card’. This is similar to a one-page calendar, listing all months and days during the year. The number of hours listed on each ‘white card’ are manually counted and summarised upon the processing of every payroll.

¹⁵ Nursing premium is payable at €1.17 per hour for part-time Nurses working day shifts in wards and at €1.01 per hour for part-time Nurses working in out-patient units.

¹⁶ As per addendum to the agreement of the classification and grading of the nursing service grades and the agreement on the classification of the midwifery section, signed on 25 October 2007, the bridging process will be applied to those Nurses and Midwives who after resigning, decide to return and are re-employed with the Public Service. The process implies that all service previously rendered will be recognised and thus on their return, be placed in the same salary scale and point.

‘On-call’ Allowance incorrectly calculated

From testing of the ‘on-call’ allowance paid to another Doctor in the sample, it was established that since 2007, the Doctor concerned personally calculated the allowance due to him, using an incorrect lower rate. The Payroll Office effected payments based on the amounts claimed in the respective ‘on-call’ returns submitted by the Doctor and since then, the total underpayment in this respect amounted to €955. Controls over payments are weakened if no checking is performed beforehand and if an employee’s workings are relied on completely. This situation was rectified in September 2012 following the audit.

Miscellaneous Inaccuracies

The following weaknesses within both automated as well as manual procedures were observed:

Erroneous Deductions

A Midwife’s payroll showed that a one-day pay of €100, was automatically deducted since the Vacation Leave (VL)¹⁷ limit according to the Payroll System was exceeded during the year. MDH stated that when such deductions are automatically made, Payroll Clerks must perform a check of the history of absences to ensure that only those meriting a deduction are taken into account. Checking upon audit enquiry proved that the Midwife’s paid VL limit was in fact not exceeded and the deduction should have been reversed.

Public Holiday Allowance not paid

A re-computation of the public holiday allowance paid to another Midwife proved that a payment of €173 was not made. NAO was informed that this was a system error, which cannot be detected by the Payroll Office unless a manual re-computation is made or a complaint received. A refund was never made since the Officer did not notice the missing payment.

Amount refunded twice

A Registrar (Dentistry) was deducted the amount of €128 in respect of absences that were later justified.

The audit revealed that the amount was erroneously refunded twice.

Qualification Allowance paid five years in retrospect

A Doctor was eligible for a qualification allowance of €699 per annum, with effect from 14 September 2005. In 2011, a payment for this allowance, amounting to €2,711, was paid retrospectively for the period 21 December 2006 to 15 November 2010. No justification was given as to why this allowance was not paid on a regular basis if this was an entitlement. The incumbent, Consultant C, was appointed on Contract Type A with effect from 16 November 2010, and hence was no longer entitled to this allowance.

Entitlement to Casualty Allowance not verifiable

During 2011, Consultant C received casualty allowances of €874 for the period October to December 2010 and €3,494 for January to September 2011¹⁸. Upon his appointment as a Consultant on Contract Type A, entitlement to this allowance became unclear although the Agreement between Government and MAM stipulates that Doctors working in the Accident and Emergency Department or in the Intensive Therapy Unit shall receive this annual allowance.

During the audit, NAO was informed that there was a period when the casualty allowance was not paid to Consultants on Contract Type A, however, following MAM verbal instructions, retrospective payments were effected. No written communication to this effect was provided. Thus, eligibility to this allowance could not be validated and unless there is official written clarification to this effect, such eligibility may remain subject to interpretation.

Questionable Hours of Overtime worked by Radiographers

Enquiries revealed that in view of exposure to radiation, “... radiographers work a 35 hour week, which is based on international guidelines for radiographers”. However, copies of such guidelines were not available. Hours worked in excess of 35 are considered as overtime, said to be carried out in

¹⁷ For automatic deductions, the Payroll System takes into account any type of approved absence recorded, such as paid VL, duty leave, study leave, cultural leave, marriage leave, birth leave, etc. In principle, the deduction of a day’s pay should only be made when paid VL entitlement is exceeded.

¹⁸ Up to 16 November 2010 as a Doctor, following which as a Consultant.

areas where there is no or controlled radiation. During the year under review, 24 radiographers were paid overtime in aggregate amounting to €28,587, with the highest individual earning €3,452 as compensation for this ‘extra’ time.

In the absence of more comprehensive explanations, it is not clear why Radiographers’ basic week is not that of 40 hours, of which only 35 hours can be worked in radiation-exposed areas in line with the alleged guidelines.

Lack of Official Guidelines in respect of Diving Allowance

Though not part of the audit sample, two Staff Nurses and one Enrolled Nurse were noted to be receiving a diving allowance. It could not be established whether payment of this allowance is officially approved, since this allowance is neither mentioned in PSMC nor in any of the Public Service Reform Agreements signed to date of audit. The only information available was a series of email correspondence between OPM and MDH in 2010, stating the rate per diving hour.

Compliance Issues

Fragmented Agreements and Conditions

On 1 November 2007, and again on 22 April 2008, the Government of Malta and MAM agreed to “... *codify into one document all agreements, addenda and side letters that are in force*” with respect to the Medical Class. Up to the date of audit testing in August 2012, the necessary codification had not yet been made. This situation was also noted for the various agreements entered into with other Classes of employees working in the Health Sector. This results in a perplexing situation where there is no single document which lays down the conditions of work and remuneration agreed upon over the past years.

Consultants’ Rates of Pay

The agreement dated 1 November 2007, covering Doctors’ conditions of work up to 31 December 2012, states that Consultants’ rates per session “... *for 2011 and 2012 shall be subject to negotiations that shall start by not later than 1st June 2010 and be concluded by 30th November 2010.*” During audit testing in August 2012, it was noted that payment was still being made at

the rate negotiated for year 2010 at €104.82 per session.

An enquiry to the Chief Medical Officer (CMO) revealed that no negotiations on the revision of rates had yet taken place and that towards the end of 2011, Government had advised MAM that it was not in a position to consider upwards revision of these rates. CMO further commented that there is no Government commitment to pay out any arrears should an upwards revision be implemented. However, it was also admitted that this is always subject to the negotiations with the respective union and any further direction provided from higher authority. In the eventuality of an upward revision and payment of arrears for all previous years’ sessions, these will have to be manually calculated, thereby increasing the risk of human error.

Biannual Return of Allowances not prepared and submitted

In accordance to PSMC, Directors responsible for corporate services should submit twice yearly to MFEI, a return on the payment of allowances in the respective Departments, as on 30 June and 31 December. However, although ‘MFEA Circular No. 4/2003 – Payment of Allowances’ and the Manual on Allowances Payable to Public Officers, also spell out this requirement, the biannual return was not being submitted, thus hindering periodical monitoring and reviews of all allowances which might be undertaken through the preparation and subsequent submission of the information.

Consequently, a breakdown of the different allowances paid to all MDH employees during the year under review was not readily available for audit purposes and NAO was informed that the information would need to be extracted from the Payroll System “*by trial and error*”.

Prompt action at the Ministry was taken during the audit and the respective biannual return template was forwarded to all Responsible Officers within MHEC for adherence and submission of both returns, for 2011 and subsequent years.

Inconsistencies in Extra Duty Pay Deductions

PSMC states that monthly-paid shift workers, allowed to put in 46 hours per week, receive extra remuneration, known as Extra Duty Pay (EDP). These workers must

then forfeit the extra pay element upon utilising the equivalent of seven days/attendances in VL¹⁹, whether these days are accumulated over a period or availed of at a stretch. However, from audit testing it transpired that deductions are only made when VL is availed of as a full day.

It is not clear whether VL availed of in hours should also be included in making up the seven days/attendances. Furthermore, in the circumstances, there may be situations where no EDP deductions are made to staff who still utilises seven days/attendances over a period of time. NAO was informed that a discussion was held with the Malta Union of Midwives and Nurses to this effect. However, nothing was confirmed by the date of enquiry on 12 July 2012.

Recommendations

Key Issues

Internal Control Deficiencies

Strong internal controls are essential in assisting Management to mitigate financial risks and achieve its objectives to manage public funds entrusted to it effectively. The set up of an internal audit unit would further support the hospital in controlling its financial operations, as well as assist in reducing other risks faced in such a complex environment.

Insufficient Controls on Overtime and Non-compliance with Procedures

The Overtime Committee was a step in the right direction and the policies and targets are to be “... *firmly and rigidly controlled and implemented* ...”. Every effort is to be made to ensure that the Committee’s target to reduce overtime expenditure by 40% during 2012 is achieved.

Planning and the actual performance of an officer’s overtime should always be approved by a higher level.

Shortage of Staff within the Payroll Office

MDH is to determine whether the deployment of additional staff within the Payroll Office would be more cost beneficial than the current situation, in

which excessive spending on overtime was observed. If the need to deploy more staff is established, requests are to be put forth to the appropriate authorities. The increase in staff would also enhance controls through segregation of duties and assist in distributing the payroll process amongst more key persons.

Control Issues

Lack of an Electronic Attendance Verification System

MDH is encouraged to introduce an electronic AVS at the earliest, so as to abide by the provisions set out in the Collective Agreement. As also outlined in PSMC, an AVS is an effective means of capturing employee attendances by means of devices, which eliminate manual data entry from attendance sheets into the payroll system and simplify payroll calculations.

Job Planning not submitted on time

MDH Management is to ensure that job plans are completed within the stipulated time frame and handed over to the Payroll Office on time. Proper instructions are also to be given so that arrear payments are minimised as much as possible.

Furthermore, it is expected that job plans filed in the Consultants’ personal files reflect complete and accurate information.

No Records maintained for Consultants’ Attendances

Until an AVS is introduced as already indicated, manual attendance records are expected to be maintained also for Consultants. As stated in the Collective Agreement, “*Where such systems are introduced in a particular place of work, all employees therein shall be required to make use of such systems.*”

Overpayments to Consultants

Payroll personnel are to ensure that no allowances are disbursed before the job plan is received and the Contract Type confirmed. Complex calculations and explanatory documentation, especially when related to substantial payments, are to be double-checked and retained for future reference and audit trail.

¹⁹ For EDP purposes, VL includes paid VL, duty leave, study leave, cultural leave, marriage leave, birth leave, etc.

The Payroll System supplier is to be informed of the flaw identified in the software system, and ensure that the necessary action is immediately taken to eliminate the problem.

It is recommended that an exercise is carried out whereby all payments for allowances, made to Consultants appointed during the last three years, are thoroughly reviewed for accuracy, and any errors rectified accordingly.

Extra Duty Allowance Over/Underpayments

Discussions are to be held with the Payroll System supplier during which it is to be emphasised that if such technical problems arise again in future, the company is to be held liable for the labour costs and any other expenses incurred to rectify the situation.

Collection of Overpayments overlooked

It is vital that Payroll personnel thoroughly check the entire EDA overpayments, in particular those deducted by installments, to ensure that all the deductions were effected. This also applies to the overpayments that arose following the technical problems encountered with the 2012 leap year.

Unclear Source for Public Holidays Rate applied

Efforts are to be made by the Payroll Office to ensure that duly endorsed source documents are available to substantiate payments or, in this case, the rate being applied. Furthermore, if authorised, it is advisable to include the mentioned extract's contents in an updated agreement.

Payment to Dentists for Extra Hours not evidenced

Controls over dentists' attendances are expected to be strengthened so that EDA can be substantiated. NAO reiterates that an electronic AVS is recommended to be introduced for all employees at MDH; in the meantime, time of entry and exit should be clearly indicated.

Attendance Sheets not endorsed

The provisions of PSMC are to be invariably adhered to in order to strengthen controls over employee attendance and ensure the correctness and completeness of the registers in question.

Inaccuracies in Payments to a Part-time Staff Nurse

Payroll Officers in charge should re-visit the current procedures in relation to the observations noted, to ensure that errors are rectified and similar inaccuracies are not repeated.

Shortcomings with respect to a Doctor's Salary Scale and Allowance Payments

Reference is to be made to any relevant Agreements before issuing a letter of appointment, in order to establish beforehand the terms and conditions applicable. Furthermore, efforts are to be made to double-check allowance entitlements before payments are actually effected, in order to prevent overpayments from arising.

'On-call' Allowance incorrectly calculated

'On-call' returns are to be independently checked to ensure that the request submitted is in line with PSMC and that calculations are correct before payment is effected. Furthermore, the returns are to be endorsed by the respective Head of Section or Director.

Miscellaneous Inaccuracies

The Payroll System is to be programmed to take into consideration only deductible VL, eliminating the risk of erroneous deductions and oversight by clerks working on payroll.

Any system errors need to be addressed and the control environment is to be strengthened so as to avoid instances of issuing erroneous payments, which may remain unnoticed or have serious consequences at a later stage.

Qualification Allowance paid five years in retrospect

Directives relating to salaries and allowances of personnel are to be duly channeled to the Payroll Office and thereafter processed efficiently, to ensure that payments are invariably effected on a monthly basis in line with the current custom, unless there is a justified reason to do otherwise.

Entitlement to Casualty Allowance not verifiable

Discussions are to be held with MAM and other related parties, in order to establish whether the entitlement of casualty allowance extends to Consultants on Contract Type A. Subsequently, such eligibility is to be clearly defined in future agreements between the Government of Malta and MAM, as applicable.

Questionable Hours of Overtime worked by Radiographers

MDH is to have in hand copies of any official guidelines in place for Radiographers, so as to ensure that any enquiries can be backed up and corroborated to evidence. Financial implications of a 35-hour basic week are also to be considered.

Lack of Official Guidelines in respect of Diving Allowance

MDH is to coordinate with the relevant authorities and unions, to incorporate in the applicable agreements and procedures manuals, a provision that clearly stipulates the eligibility and payment of this allowance, if this is considered justified.

Compliance Issues

Fragmented Agreements and Conditions

The various agreements for each Class respectively, entered into over the years, are to be codified into one document without further delay. This will facilitate understanding, ease of reference and especially ensure that the latest regulations are duly followed in a standard manner.

Consultants' Rates of Pay

Negotiations with the respective union are recommended without undue delays, given that the contract is due to expire on 31 December 2012. In all cases, double-checking and controls over the respective computations is recommended.

Biannual Return of Allowances not prepared and submitted

It is to be ensured that all allowances are reviewed regularly in order to ascertain whether the conditions

under which they were granted are still valid. Management is to ensure that the relevant information is collated and the return is regularly submitted to the pertinent authorities.

Inconsistencies in Extra Duty Pay Deductions

MDH is to clarify the issue of EDP without delay, so that deductions are appropriately made to all staff that ultimately utilise the same number of hours over a period.

Management Comments

Management concurred with most of the observations put forward by NAO and action has already been taken to address certain areas. The following comments and reservations were also submitted:

- Management is aiming to set up an Internal Audit Department across the Ministry, which will report to PS.
- Management agreed that overpayments to Consultants arise due to lack of rigorous internal checking and standard processes with respect to material payments. Cross-checking by a different Payroll Officer will be introduced over transactions with a threshold of €5,000.
- When part-timers change the number of hours worked, payment for more hours is not made until a legend declaring the change is received by Payroll from the officer-in-charge. Since at times these are not received by Payroll in time, MDH will be issuing a circular defining a deadline for submission of such legends. Disciplinary action will be taken for disregarding the deadline.
- During the year audited, Payroll Officers needed to resort to overtime in view of the continuous problems related to under-staffing, as well as bugs in the Payroll System that needed immediate attention. Given the unpredictability of the situation, not much emphasis was placed on overtime estimates, even though the Director would have still been made aware.
- Management stated that although it is very difficult for Payroll Officers to give a hand-over to each other in view of time constraints, if anyone is on a long absence, recruitment and complete handing over is resorted to.

- Previous attempts to introduce an AVS within MDH had already been done. However, this is subject to negotiations with the various unions. The introduction of an AVS is being spearheaded by OPM for all the civil service.
- Whilst Management agrees entirely that internal control over Consultants' attendances is weak,

given that no agreement with the respective union has been reached over the introduction of AVS or manual attendance sheets, MDH is left with no other option but to effect payment on the basis of job plans. Action will still be taken by CEO to request Consultants to sign on attendance sheets in line with other employees.

Government Health Procurement Services

Medicines and Surgical Materials

Background

During financial year 2010, the main functions of the Government Health Procurement Services (GHPS) within the Ministry for Health, the Elderly and Community Care (MHEC) were the purchase, storage and distribution of medicines and surgical materials for the entire Health Division (HD)¹ and state Elderly Homes. During 2010, actual expenditure by GHPS amounted to €64,025,168.

A reform was made throughout HD during 2011, following which GHPS formed part of a Centralised Procurement and Supplies Unit (CPSU) for the entire Division².

Audit Scope and Methodology

The scope of the audit was to determine the level of internal controls over expenditure and to ascertain that procurement was made in accordance with standing regulations, policies and procedures.

Testing was carried out to ensure that procurement was approved at the appropriate authority levels and covered by the necessary and correct documentation. With the aim of carrying out verifications on the process of the award of tenders and quotations to different suppliers, a number of departmental files were obtained and

reviewed. Meetings were held, mainly in respect of expenditure and stock control procedures.

Audit Disclaimer

The Value Added Tax (VAT) Act specifies what fiscal documents sellers are to provide to buyers, depending under which VAT Article the latter persons are registered. During the audit fieldwork, a Certificate of VAT Registration was not available and information provided was insufficient to establish under which Article HD is registered. Thus, audit testing was limited to checking whether a valid tax invoice or a fiscal receipt was provided, as required in the Twelfth and Thirteenth Schedules of the VAT Act respectively.

Key Issues

Authorisation for the Procurement of Unlicensed Product Overlooked

A direct order approval for urgent procurement of a medicinal product was obtained from the Ministry of Finance, the Economy and Investment (MFEI) on 12 February 2010, after which the first order was made on 19 February 2010. In view of the product being unlicensed, authorisation from the Director General (DG) Public Health Regulations (PHR) under Article

¹ Entities within HD are mainly all state Hospitals, Primary Health Care Centres, the Pharmacy of Your Choice and the National Blood Transfusion Centre.

² When referring to GHPS following the reform, this will be referred to as CPSU throughout this Report.

20 of the Medicines Act³ was required, which was however only obtained on 25 March 2010. A Senior Pharmacist had clearly stated on file that, for further orders, DG's prior authority was to be sought.

DG PHR approved "... *subject to registration*"⁴, which according to the Responsible Person, upon such approvals merely "... *a statement of intention from the supplier ...*" to register the product "... *is acceptable as 'proof of application'*". In fact, the supplier's statement "*Yes we hope to register this*" was acceptable to GHPS and a further order was placed on 15 June 2010 without evidence of the required registration.

Unclear and Contradictory Procedures

Approval by DG PHR for the first procurement of an unregistered pharmaceutical item was granted on 18 May 2010 "... *subject to registration*". A request to the supplier to confirm the intention to register the product remained unanswered, thus another request was made to DG PHR in order to urgently procure the unregistered product. On 19 May 2010, DG PHR "*Approved for this consignment only*", also reiterating that "*Approval for further consignments is subject to registration*".

Prior to further procurement, on 4 October 2010 the supplier was again requested to confirm intention to register, but to no avail and no further approvals were sought for subsequent procurement. A statement provided by CPSU, claiming that "*Since this consignment is processed via direct order ..., this approval covers the whole order*", is also contradictory. However, the National Audit Office (NAO) is of the opinion that DG's approval only covered the first batch delivered.

Initial Direct Order Approval Exceeded

- a) Medical instruments for specific operations were procured through a direct order approved by MFEI, the latter also stating that the amount of €63,000 should in no way be exceeded. Following the operations, it resulted that actual costs incurred amounted to €111,672, thus an

approval covering a further €48,672 was again sought and attained from MFEI.

- b) Following expiration of a tender, the Department of Contracts (DC) approved an extension at an estimated cost of €549,400 up to 25 February 2011. The "... *capping limit was inadvertently not noted ...*" and procurement continued to be made over the tender, resulting in excess expenditure of €636,079. On 15 July 2011, approval for this excess expenditure was sought from DC once more and subsequently granted on 22 September 2011 for a sum of €602,938⁵.

Direct Order Method Adopted for Specific Procurements

In "... *specific limited circumstances ...*" when medicines and surgical materials were urgently required, GHPS procured through a 'Request for Submission of a Pro-forma Invoice' (PFI), whereby suppliers submit quotations and the most adequate offer is chosen by the former. Subsequently, a direct order approval⁶ is requested through MFEI or DC as applicable, thereby hastening the lengthy procurement procedures.

In three out of four direct order approvals given, MFEI conditioned GHPS to still endeavor to procure through normal competitive bidding rather than through the direct order process, since hardly any transparency is evidenced through the latter.

Inadequate Storage Locations for Stock

Stores of medicines and surgical materials are located in Madliena, Marsa and Guardamangia. Both stores at Marsa and Madliena stock surgical materials, whereas medicines procured in bulk and others procured in small quantities are kept in Marsa and Guardamangia respectively.

The stores at Madliena are inadequate for storage purposes in view of the building's old structure, which may affect the quality of items stored.

³ When products are not locally registered, "*Authorisation to place medicinal products on the market*" as per Article 20 of the Medicines Act must be obtained by CPSU prior to purchase. This provision states that in exceptional cases, the use of medicinal products may be allowed without a marketing authorisation.

⁴ This term implies that the supplier is to register the product with the Medicines Authority.

⁵ The difference from the amount requested was due to the exchange rate applied.

⁶ MFEI approves direct orders up to a limit of €120,000 (excluding VAT). Approvals exceeding this limit are granted by DC.

The Marsa stores, on the other hand, are not in accordance with the requirements and standards established by the Medicines Authority (MA). In fact, the latter have directed CPSU to rectify the situation of these stores or otherwise seek alternative locations. In this regard, CPSU declared that it is the Ministry's long term plan to build adequate combined stores and offices near the Mater Dei Hospital by the year 2013. Until then, it was planned to lease other adequate stores for which financial approval by MFEI was still awaited.

Excess and Expired Stock Quantities

Many times CPSU are faced with excessive quantities of stock which may not be consumed, thus eventually becoming expired and obsolete. This situation arises since:

- Government is expected to have working and buffer stocks available at all times;
- stock ordering quantities are planned on previous year's actual Annual Consumption⁷ of all the requesting entities⁸, which may include expired or unused items, and/or stock transferred between the entities themselves;
- the Pharmacy of Your Choice only accepts items with a remaining shelf life of six months or more in view of standing procedures, which results in CPSU having to supply medicine with a longer shelf life before;
- consultants prescribing new medicine instead of others, leading to stock in store which is no longer demanded; and
- a drop in actual consumption from previous year's demand.

The total value of identified expired goods during Financial Years 2010 and 2011 amounted to €640,645 and €146,109 respectively.

During the period 2008 to 2011, 663 different stock items were not consumed, the value of which could not be ascertained since slow moving items cannot be identified through the current reporting system. As a

procedure, such items are not removed or disposed of from stores until these are expired.

Actions by Management

New procedures will entail suppliers holding the stock themselves and the entities ordering directly from the former. Delivery will be made directly to the entities and payments will be disbursed from the latter's own funds. This will lead to CPSU holding lower stock levels, thus minimising the risk of having excess items becoming expired and obsolete.

Treatment, Disposal and Write-off of Expired Stock

Enquiry revealed that items expired during 2010 were physically removed from shelves and placed in a separate area. However, even though the necessary Board of Survey had been set up to oversee the disposal and eventual destruction, this process had not yet been completed by the time of audit, *i.e.* on 28 February 2012.

Further enquiry was made to determine if this stock was written off with the appropriate authority as required in terms of Treasury Circular No. 6/2004. CPSU confirmed that these items were removed from SAGE stock records and further claimed that this cannot be interpreted as a write-off. However, NAO emphasised that, in accounting terms, a write-off is a cancellation of an item in the books of account.

Unreconciled Accounting Systems running in Parallel

During October 2010, GHPS introduced SAGE Pastel as its accounting software, in order to eventually replace SAGE Line 100. The two accounting systems were managed in parallel for a period of time. However, due to a number of manual and system errors, the systems could not be reconciled. During October 2011, the Accounts Section started operating only on SAGE Pastel whilst the Stocks Section continued using both systems in parallel. The management of two accounting systems in parallel involved duplication of work and efforts, as well as an increased risk of manual errors.

⁷ The actual Annual Consumption is the amount of stock that CPSU distributes to the entities during a year, irrespective of whether such stock is consumed or not.

⁸ The requesting entities are those entities within the HD and the Elderly Homes, to which CPSU distributes stock of medicines and surgical materials.

Control Issues

Insufficient Security Controls over Physical Stocks

Pharmaceutical items stored in small quantities are kept at Guardamangia, which stores are considered as adequate in line with the requirements and standards of MA. However, these stores are not equipped with security alarms, cameras and/or intercoms at the stores entrance doors. Another drawback is the limitation of space in these stores, especially in the goods received area, which is situated in an entrance hall behind the door from which stock is consigned by the suppliers.

Special Stock Items Not Recorded

Recording of information in the system for special stock items⁹ procured is only limited to details of supplier invoice and payment, as against the detailed descriptions recorded for other items procured by CPSU. Special stock items are not always delivered to CPSU stores but may also be delivered directly to the end users. In such cases, CPSU has only limited records and basically no control over these items whose value is very often relatively high.

Stocktaking

Stocktaking procedures are performed yearly whereby physical stock is checked with both stock system records and manual bin cards. Random spot checks are not carried out regularly during the year, posing the risk that any discrepancies occurring may be difficult to trace if not timely identified.

Following a stocktake carried out by CPSU on all stores for year ended 2011, discrepancies between physical quantities and stock records were identified in five items, amounting to €1,468. No action was taken on such discrepancies since Management considers this value to be immaterial when compared to CPSU's stock holding in excess of €18 million.

Inconsistent Exchange Rate used for Payment to Suppliers

Unless instructed otherwise, upon payment of invoices in foreign currency, these are converted at the rate of

exchange as at date of delivery of goods. In one instance tested, this procedure was specified by GHPS in the acceptance of departmental tender letter. However, NAO is of the opinion that the rate of exchange as at Payment Voucher (PV) date would better reflect the actual payment made.

From testing of seven foreign currency payments translated at delivery date, substantial differences resulted; an over-payment of €1,717 to the supplier and another two under-payments totalling €8,566.

Tendering Documents not always Available

While reviewing files of procurement made through DC, inconsistencies by CPSU in filing of tendering information were noted, whereby some information was not filed at all. Thus, a number of files were requested from DC, which delayed submission of information.

Renewed and up-to-date Bank Guarantees or Single Bonds were not always found in the relevant files reviewed, thus a number of documents were requested to DC but to no avail, as files could not be brought up in view of lack of personnel resources.

Incomplete Declaration Forms

Declaration Forms for Confidentiality and Impartiality are to be filled in by Members of the Adjudication Board. Ten out of 14 files reviewed contained incomplete details such as lack of cross reference to the tender's publication number. Furthermore, one form was signed approximately four months after the report's date, while another one was not dated. These instances may indicate control deficiencies.

Compliance Issues

Financial Limits Disregarded

Annual Consumption, as per tender information sheets of two items, was for quantities of 11,550 and 220,000 costing €150,150 and €70,831 respectively. However, it transpired that the quantities being procured were limited to 3,610 and 145,500 respectively, in order not to exceed the departmental limit of €47,000¹⁰. This approach was taken notwithstanding that Public

⁹ Special stock items refer to items which are very urgently required or received in bulk, as well as other items of a very high value, requested directly by surgeons (referred to as end users, mostly from Mater Dei Hospital) for specific operations.

¹⁰ Departmental tenders threshold prior to the change in legislation on 1 June 2010, was at €47,000 as per Public Contracts Regulations, S.L. 174.04.

Contracts Regulations S.L. 174.04 Article 15 (3), states that “*Contracting authorities shall not adopt any mechanism, including sub-division of public contracts, the purpose of which is to circumvent the application, in part or in whole, of these regulations*”.

In the following instances, procurement could potentially have been made through public contracts rather than through departmental call for tenders, which threshold at the time was not to exceed €47,000:

- Procurement of a pharmaceutical item was estimated to cost €21,850. However, total payments actually amounted to €86,842. Notwithstanding that the departmental limit was exceeded, approval from DG DC was not obtained.
- In February 2007, a three-year contract was entered into following a call for tender for the procurement of another pharmaceutical item estimated at €4,188. Over the years, its consumption and the costs involved increased such that on 28 July 2009, when related expenditure incurred amounted to €72,840, GHPS requested approval from Senior Management to place further orders *via* this tender. However, no such authority was found on file. Further procurement was made until the tender's expiry in February 2010, with total costs incurred amounting to €124,885.

Statutory Stocktake Return not submitted to NAO

In accordance to Section 111 of the L.N. 83 of 1999, (amendments to the General Financial Regulations (1966)), the Auditor General must be furnished with a report showing the balances of each stock quantity and value, as well as the amount of write-offs during the first month of each Financial Year and reason thereof. Even though Treasury Circular No. 6/2004 also spells out this requirement, the return is not being submitted to this Office. Potential monitoring on stock items, envisaged to be undertaken through the submission of the aforementioned documentation, is hindered.

VAT Legislation

An invoice provided by a supplier for the amount of €3,899.84, was not a proper tax invoice since no reference was made to the VAT registration number of GHPS. This indicates that officers in charge may

not be well informed of VAT regulations in order to determine which fiscal documents should be received from the respective suppliers.

Recommendations

Key Issues

Authorisation for the Procurement of Unlicensed Product Overlooked

DG PHR approval is to be invariably sought prior to obtaining MFEI authorisation and placing orders. Suppliers' statements of their intention to register the product are at least also expected to be assertive.

Unclear and Contradictory Procedures

CPSU is to ensure that instructions by DG PHR are clearly interpreted and observed at all times.

Initial Direct Order Approval Exceeded

More reasonable estimates are to be sought prior to obtaining timely direct order approvals, besides ensuring that costs are fair and reasonable. Furthermore, CPSU is to strive to ensure that the applicable regulations are adhered to.

Direct Order Method Adopted for Specific Procurements

To ensure fair proceedings as much as possible, procurement is to be made through a more transparent and competitive process.

Inadequate Storage Locations for Stock

Whilst acknowledging the Ministry's long term plan, NAO recommends that directions given by MA are adhered to by CPSU without any unnecessary delays.

Excess and Expired Stock Quantities

Even though as stated by CPSU “... *it is always considered safer to have excess stocks rather than risk having out of stock items*”, until the new procedures are introduced, CPSU must endeavour to obtain information that better reflects the actual consumption of stock.

Treatment, Disposal and Write-off of Expired Stock

The procedures outlined in Treasury Circular No. 6/2004 for the treatment, disposal and write-off of expired stock items should be invariably adhered to.

Unreconciled Accounting Systems running in Parallel

All manual and system errors are to be rectified without further delays so that CPSU can operate on a unique system. NAO acknowledges Management's intention to introduce Access Dimensions Financial Package in year 2013.

Control Issues

Insufficient Security Controls over Physical Stocks

Management is to consider enhancing security at Guardamangia stores through the deployment of a Security Officer as well as installation of alarms, cameras and/or intercoms at the doors, in particular at the goods receiving area.

Special Stock Items Not Recorded

Special stock items are expected to be recorded in the system in line with the established stock control procedures, so that appropriate records are maintained, especially in view of the high value of these items.

Stocktaking

Random spot checks are recommended to be performed on a regular basis in order to identify any potential problems and discrepancies in a timely manner.

Inconsistent Exchange Rate used for Payment to Suppliers

Using the rate of exchange as at PV date is to be considered, in order to better reflect actual payments being made.

Tendering Documents not always Available

CPSU is to ascertain that a uniform procedure is adopted in filing relevant documents in order to ensure that requested information is available in a timely manner.

Incomplete Declaration Forms

Declaration Forms for Confidentiality and Impartiality should be appropriately and timely filled in.

Compliance Issues

Financial Limits Disregarded

Adherence to procurement regulations is deemed necessary at all times. Approvals should always be obtained from DC before the applicable limits are exceeded. Any guidance received from the latter is to be documented and officially endorsed.

Statutory Stocktake Return not submitted to NAO

Relevant returns are to be regularly forwarded to NAO.

VAT Legislation

Officers in charge are to be well informed regarding VAT status of their entity. Documents backing up payments are to meet the criteria set out in the VAT Act and any documents provided by suppliers that are not in line with the Act are not to be accepted.

Management Comments

Management concurred with a number of observations put forward by NAO. Action has already been taken to address certain areas as indicated hereunder:

- For urgent procurement requiring DG PHR approvals, requests are made through email and correspondence kept on file.
- To ensure that time frames for suppliers to register a product are adhered to, CPSU started giving a deadline of usually six months from DG PHR approvals.
- CPSU is obtaining financial approval in principle and resorting back for definite approval once actual total costs are known, in cases such as for procurement of medical instruments for specific operations.
- The process to oversee the disposal and eventual destruction of expired stock dating back since 2006 is in progress.

- Consultants have been engaged to address VAT matters.

The following comments and reservations were also submitted:

- Management claimed that a declaration signed by the Responsible Person, stating the supplier's intention to register a product, is considered as sufficient proof even by MA.
- CPSU maintained that DG PHR approval and subsequent MFEI's consent for direct order is considered to cover the entire consignment.
- No supplier was chosen without advertising the call through Government Gazette and GHPS website. PFI procedures were adopted since patients could not be left without treatment pending administrative issues. When the product is patented or licensed locally to only one importer, direct negotiations through MFEI and DC approvals are being made and better prices are being obtained.
- An expression of interest has been issued to identify a suitable location, or to upgrade the present premises where medicines can be stored. Discussions are ongoing with the Marsa stores owners, to upgrade a section of these stores in line with the recommendations made by MA. Management has emphasised that notwithstanding these matters, there are "... *no threats to Public Health therein*".
- In the area of pharmaceutical wholesale, dealing with a certain percentage of expired supplies is inevitable. CPSU is obliged to keep a specific amount of stock as standby so that, as far as possible, all requested and potential drugs are available when needed by patients.
- Management affirmed that following the reform, CPSU is being more stringent on the expiry date of items delivered and short dated stock is not being accepted, thus saving space and minimising expired stock. Furthermore, the current policy at Guardamangia stores is to refrain from issuing new stock before stock expiring within six months is issued.
- CPSU is in the process of setting up a new stock control system that will include all necessary tools for control. Implementation of the system is subject to budget availability.
- Expired stock is removed from records because it hinders the correct procurement quantities when making orders. In declarations submitted to MFEI, such quantities are still shown as part of the stock. This limitation in the SAGE stock control system will be eliminated upon introducing the new system.
- A requisition to acquire a closed circuit television system was raised. As for a Security Officer at Guardamangia stores, such request was made repeatedly to MHEC but replies were always in the negative.

Mater Dei Hospital

Non-medical Equipment Facilities Management

Background

The programmes and initiatives item titled 'Mater Dei Hospital (MDH) Non-medical Equipment Facilities Management' relates to expenditure incurred for preventive and remedial maintenance of non-medical equipment and facilities at MDH. During Financial Year 2011, actual expenditure from this line item amounted to €5,094,377, of which 89% was incurred on contractual services whilst 11% was spent on operating materials and supplies¹.

Audit Scope and Methodology

The scope of the audit was to ensure that procedures adopted for procurement and stock control are adequate and in compliance with standing regulations, policies and procedures.

Testing was carried out to ascertain that procurement was approved from the appropriate authority levels and covered by the necessary and correct documentation. With the objective of carrying out verifications on the process of the award of tenders and quotations to different suppliers, a number of departmental files were obtained and reviewed. Meetings were also held in respect of expenditure and stock control procedures.

Key Issues

Negotiated Procedures and Direct Order Approvals

Direct Order Approvals for Proprietary Services

In 13 out of 29 different cases reviewed, direct order approvals that amounted to over €13 million, excluding Value Added Tax (VAT), were sought and obtained from the Ministry of Finance, the Economy and Investment (MFEI) or from the Department of Contracts (DC)² as applicable, in view of the service requested claimed to be of a proprietary nature.

In four of the above cases, MFEI emphasised that as soon as the Health Authorities are aware that other potential service providers are available, procurement is to be made through normal tendering procedures.

Expired Contracts

In the below-mentioned cases, services provided to MDH between 1 January 2011 up to the date the respective contracts were signed, were not provided by a valid binding contract. Thus, no action as per applicable terms and conditions could be taken against contractors in case of any default.

¹ Items of an operational and maintenance nature are procured and stored within the Engineering and Maintenance Stores at MDH. The value of stock within these stores as at 31 December 2011 (prior to stocktake adjustment) amounted to €1,210,164 (circa 38% of all stock at MDH).

² MFEI approves direct orders up to a limit of €120,000 (excluding VAT). Approvals exceeding this limit are granted by DC.

a) *Purchasing Officer at the Engineering Department*

Following expiry³ of the contract for services of a purchasing officer at the Engineering Department on 31 December 2010, a direct order approval for a one-year contract extension, costing *circa* €28,000, was requested by MDH on 4 January 2011. This was made notwithstanding the fact that in the previous approval granted on 13 October 2009, MFEI explicitly stated that MDH should seek more permanent solutions for the provision of these services. The Permanent Secretary (PS) responsible for Health, as well as the Direct Order Section within MFEI, approved on 19 May and 14 June 2011 respectively, and the contract was eventually signed on 20 June 2011.

b) *Maintenance of Security Access Control System*

The contract for maintenance of security access control system expired on 31 December 2010 and subsequently, on 3 February 2011, MDH sought approval from DC, to enter into a negotiated agreement with the same service provider since the service was considered as proprietary. Approval was granted on 4 March 2011, for a period of three years at a total value of €1,045,528 excluding VAT, and the contract was ultimately signed on 22 March 2011.

c) *Maintenance of the Building Management System*

Prior to the expiry of the contract on 31 December 2010, MDH commenced negotiations during May 2010, to enter into a new five-year negotiated agreement with the same contractor for maintenance of the building management system. A request in this regard was only made to DC on 3 February 2011. In the meantime, correspondence by the contractor, dated 11 January 2011, upheld the fact that no formal agreement was yet in place.

The direct order approval was granted by DC on 4 March 2011, for a period of three years. However, since MDH had already negotiated terms for a five-year agreement, DC was requested to reconsider the approval, which

was conclusively granted on 15 March 2011, covering a five-year period for a total value of €3,969,292 excluding VAT. The new contract was finalised on 2 May 2011.

A Series of Contract Extensions

The first contract with the provider of mechanical and electrical maintenance services at MDH expired on 31 December 2008. During April 2009, a tender was published to identify a competent contractor to provide the services, which were fundamental for MDH since the latter did not possess the necessary competences and skills. None of the offers submitted were administratively compliant and subsequently a new tender was compiled. However, by February 2012, when the audit was being carried out, the tender had not yet been published. Consequently, MDH had no other option than to seek various extensions to the original contract, which extensions up to audit date covered until March 2012, i.e. three years three months, in aggregate amounting to €5,612,276. Obtaining contract extensions for a long period of time may lead to lack of fair competition amongst other service providers and, moreover, there exists the risk that best prices are not ensured.

Appointment of a Technical Manager as Consultant

a) *New Contract for Service*

The contract of service for the definite employment of a Technical Manager expired on 31 December 2009. MFEI granted a direct order approval for MDH to extend this contract until 31 December 2010, "*... for the maximum cost of €70,000 excluding any applicable taxes and National Insurance, as per present terms and conditions*". Rather than a contract of service, an agreement for the provision of consultancy services was made between MDH and this individual, for a period of one year, unless appointment was terminated. It is not clear why the extended contract of employment was replaced by a contract for service.

b) *Amounts Charged by the Consultant*

Invoices raised by the foregoing Consultant during 2011 amounted to €120,417, comprising

³ Most of the original contractual agreements for provision of services that are ongoing at MDH were entered into by the Foundation for Medical Services. Upon termination of these contracts, re-negotiation was made by MDH.

the fee as per contract and additional charges for income tax, Social Security Contributions (SSC) and VAT. Therefore, €50,417 were still incurred by MDH over and above the €70,000, which according to the latter “... *compared well with the previous conditions*”. Of these additional charges, €18,369 were incurred in VAT, which was not part of the Consultant’s previous remuneration.

No documentation from the Inland Revenue Department (IRD) was ever provided to MDH to support the income tax and SSC amounts invoiced, thus these amounts could not be validated.

c) Proper Attendance Sheets not maintained

The new contract for service did not specify fixed working hours, but stated that services were to be rendered on a demand basis. No monthly time sheets supporting invoices were presented by the Consultant to MDH. The latter just checked dates against attendance sheets prepared by MDH Engineering support clerks, before invoices were certified correct and referred for payment. However, it was noted that the Consultant’s duty presence was marked on attendance sheets merely because the clerks “... *visually see the person ...*”.

d) Vacation Leave Entitlement

Even though the contract did not refer to Vacation Leave (VL) entitlement, two invoices were presented with deductions for unpaid VL availed of. It is not clear why such procedure was adopted since the contract did not specify a fixed number of hours to be worked by the Consultant.

Environmental Landscapes Consortium Limited

Payment of Invoices prior to Approval by Department of Contracts

During February 2010, Environmental Landscapes Consortium Limited (ELC) submitted to MDH statements of pending invoices amounting to €209,420, covering provision of soft landscaping services between

October 2008 and February 2010 on MDH premises. A number of these invoices were not certified correct by MDH, thus eventually, a credit note of €26,792 was received in this regard. Inquiry revealed that this credit note and the corresponding invoices, were not recorded in the Departmental Accounting System (DAS), resulting in incomplete records and lack of audit trail.

On 1 June 2010, MDH sought retrospective covering approval from DC for past procurement since October 2008. However, it was noted that a number of invoices amounting to €91,410 were already paid. In the eventuality that approval was not granted by DC, unauthorised payments would have already been effected. Furthermore, proper certification in line with Article 52 (3) of the General Financial Regulations (GFR) was not made since upon payment, the officer concerned was expected to verify that approval to purchase was obtained from the right level of authority.

Payment for Services for the Provision of Water not substantiated

The new agreement between MDH and ELC stated that ELC is to supply irrigation water to MDH, at the latter’s expense, when it is not possible for MDH to provide it in-house. During summer 2010, this service was requested and payment of an invoice amounting to €7,331 was made by MDH in respect of 592,793 gallons of irrigation water provided by ELC. A rate of €10.48 (excluding VAT) per 1,000 gallons of water was charged by ELC, however, such rate could not be validated as it was not quoted in the contract. Furthermore, no other details or documents supported the quantities billed.

Invoice dated earlier than Actual Provision of Service

Following an agreement between MDH and ELC, the afore mentioned invoice of €7,331 for water supplied in summer 2010, was dated as 28 February 2010, on which date the service had not yet even been provided. This approach was adopted to utilise the balance of funds already approved by DC for past procurement, and which were not fully utilised due to a credit note received from ELC. However, such procedure is in breach of accounting principles, posing the risk of financial irregularities within the entity’s control environment.

Channelling of works through Malta Embellishment and Landscaping Project not evidenced

A Letter Circular by the Office of the Prime Minister dated 21 July 2009, with reference to 'Landscaping Works (Projects & Maintenance) of all Government Property', stated that when such works are to be contracted, the respective Department's/Entity's requirements are to be channelled through the Chairman, Malta Embellishment and Landscaping Project (MELP).

However, notwithstanding MDH allegations that discussions were held with the Waste Manager of MELP at the time the project was being negotiated, the former confirmed that no documented evidence of such discussions was available. Thus, it could not be ascertained whether standing procedures to properly manage such tasks were actually adhered to.

Certification of Invoices by Malta Embellishment and Landscaping Project

The new contract between MDH and ELC stated that payments due to ELC for services rendered shall be effected by MDH after the sanctioning of the correctness of invoices by MELP. Furthermore, the latter is to give its approval for payment by formally indicating in writing on the relative invoices.

However, upon verification of this procedure, it transpired that ELC were not handing any hard copy certificates from MELP with their monthly invoices. Up to January 2012, total payments amounting to €314,454 were approved and effected by MDH without evidence of MELP certification; of which 34% related to the period since signing of the new contract, while the remaining balance covered prior period. As at date of audit inquiry in February 2012, other invoices amounting to €7,732 were outstanding, awaiting evidence of MELP certification prior to effecting payment, as recommended by the National Audit Office (NAO).

Control Issues

VAT Payable on Services by Foreign Suppliers not forwarded to the VAT Department in time

MDH pays the VAT element on invoices, for procurement of goods and services from foreign suppliers, directly

to the VAT Department. Such payments have to be located from DAS by the accounting officer rather than being identified through a reporting facility within the same system.

Amongst the audit sample of 30 payment vouchers tested, four payments totalling €45,165 were to foreign suppliers. On 1 February 2012, an audit inquiry to verify such VAT due by MDH revealed that VAT amounts of €5,971 and €1,080, due to be submitted with Returns dated August and October 2011 respectively, had not yet been transferred to the VAT Department.

MDH may easily fail to notice the VAT amount due on foreign supplies. Had it not been the audit inquiry, this could have been a case in point.

Stocktaking Procedures

During the 2011 year-end physical stocktake at the Engineering and Maintenance Stores (EMS), a net adverse discrepancy of 0.6%, amounting to €7,400, was identified. However, the source of error could not always be traced. A breakdown of the inventory discrepancies was not provided to NAO. Even though the net discrepancies may be considered immaterial, such errors may indicate insufficient control within the system and over the handling of stock items and/or recording thereof.

MDH claimed that the stocktake report generated from the system, was not issuing all stock items within each section. Therefore, while physically counting stock, a number of items could not be corroborated to the report. A number of shortcomings were also identified by the latter.

Moreover, an actual stocktake report was not being compiled and officially signed, indicating lack of control. Furthermore, formal authorisation from MDH Management, prior to posting of the inventory adjustments in the system, was not sought.

Goods not delivered as per Specifications

An invoice in the audit sample, for the supply of filter bags costing €30,932, was only partly certified correct by MDH Engineering Department, since two of the parts invoiced were not received as per specifications. These related to 240 units and 120 units of two different parts valued at €1,241 and €895 respectively.

- a) Although the 240 units were returned to supplier and a Goods Returned Note was raised in September 2011, the respective credit note was not received and a debit note was not raised by MDH either, at least by 25 January 2012 when the audit was carried out. This implied that there was no official acknowledgement by the supplier that the items in question were returned and replaced.

It was also noted that the units were issued from stock at a price of €6.37 rather than at €5.17 as stipulated in the Goods Received Note (GRN). Consequently, proper off-setting cannot be done if the cost price inputted upon receipt does not tally with that on the return of stock.

- b) The other 120 units still featured in the stock system. Although the storekeeper claimed that a replacement was eventually made by the supplier, a Goods Returned Note for the original parts as well as a fresh delivery note were not traced, thus hindering audit trail. Action to eventually certify the invoice as correct and process the respective payment accordingly was also not evidenced.

Contents of Contract not initialised by Service Provider

A three-year agreement was entered into between Management and a contractor for the servicing and maintenance of an uninterrupted power supply system. Although the contract was endorsed by both parties, initialisation on each page was only made by an MDH representative, creating the risk that the contract could be challenged due to possible manipulation of its contents.

Compliance Issues

Calls for Quotations

Avoidance of Departmental Tenders through Repetitive Calls for Quotations

In eight cases from the sample reviewed, it was noted that consecutive calls for quotes were issued through electronic mail by MDH for procurement of the same goods or services. Even though various suppliers were being requested to submit their quote, the list does

not necessarily include all potential suppliers. Thus besides the issue of fair competition, MDH might have missed better prices. The following relate:

a) Modification of Glass Doors

On 19 October 2010, a direct call for quotes at a maximum budget of €7,080 was issued to various suppliers. Internal correspondence revealed that this quote covered approximately 65 doors, whereas approximately 400 glass doors were actually in need of modification. Reference was also made in the respective file to three other calls for quotes, dated 16 September 2009, 15 March 2010 and 1 October 2010 respectively, which were all for the same job and awarded to the same service provider.

b) Domestic Waste Collection and Disposal

These services were being rendered by a contractor, through several short contracts of approximately two-month periods, for a maximum of €6,000 excluding VAT each. From 25 August 2010 up to the date of audit enquiry as at 3 February 2012, a total of €91,780 was incurred on such short-term contracts. However, direct order approvals were never obtained from MFEI. Upon audit enquiry, NAO was informed that a departmental tender was published on 6 September 2011. However, while its adjudication was in progress, short-term contracts were being entered into as the hospital could not be left without such a service.

c) Aluminium Trunking and Accessories

On 27 August 2010 and 15 February 2011, two calls for quotes for aluminium trunking and accessories were made, requiring quantities up to a value of €6,000 each, excluding VAT, respectively. MDH claimed that it was not in a position to determine long-term requirements since procurement depended on requests from various departments.

d) Refurbishment of Shower Rooms

A direct call for quotations asking for the cost of refurbishment of shower rooms was submitted to various suppliers. Expenditure excluding VAT was not to exceed €6,000. Correspondence in the relevant file indicated that a maximum

of six showers could be refurbished through a quotation, when it was known that there were actually much more to be restored.

e) *Disposable Pleated Filters*

Two separate direct calls for quotes from various suppliers for disposable pleated filters were made on 7 July and 8 November 2010 respectively, each for a quantity up to a value of €6,000 excluding VAT.

f) *Bag Filters*

Calls for quotes were made on 12 July 2010 and 1 April 2011, for a total maximum price of €7,080 each, respectively. In both cases, procurement was made from the same supplier. Although minimally, the limit of the first quotation was exceeded by *circa* €22, since more filters than originally planned were supplied.

g) *Rigid Screen Filters*

Procurement for rigid screen filters was requested through a call for quotes on 1 April 2011, for a maximum of €6,000 excluding VAT, direct from various suppliers. It was noted that prior to this call, two other calls for quotes were made on 15 July 2009 and 26 February 2010.

h) *Crash Barriers*

On 12 October 2010 and 6 September 2011, two calls for quotes were made for the procurement of the same item at a maximum cost of €7,080 each.

Lowering of Amounts procured not to exceed the Maximum Threshold

The pertinent procurement regulations may have not been scrupulously followed in the following cases:

a) *Flat Panel Disposable Pleated Filters*

A call for quotes for flat panel disposable pleated filters was made through electronic mail; however, neither of the bids was accepted since quotes submitted exceeded the procurement limit through direct quotes. MDH Engineering Directorate recommended to "... *re-schedule quantities of filters which need to be ordered to*

be within €7,080 and re-issue call for quotes". Thus, instead of publishing a call for quotations or tenders, the quantity required was decreased and the order was awarded to the cheapest bidder for a total cost of €7,078.

b) *Steel Bollards*

MDH requested 80 steel bollards through a call for quotes by electronic mail on 6 December 2010. The price quoted by the cheapest supplier exceeded the quotation limit, thus only 78 bollards were procured for a total cost of €7,070, to remain below the allowable threshold.

Departmental Tenders

Efficiency in procurement management cannot be attained when contracts tenders are intentionally avoided. The following cases relate:

Procurement of Trademarked false ceiling tiles

On 9 October 2009, MDH made a direct order request to DC for the purchase of trademarked false ceiling tiles at an estimated cost of €400,000 over three years. In reply to the request made, DC stated that since the required trademarked tiles were considered of a proprietary nature, an approval from Director of Contracts for a negotiated procedure was suggested.

Subsequently, MDH decided to purchase less ceiling tiles at an estimated value of €47,000 (excluding VAT), hence giving the opportunity to several suppliers to submit their bid following a call for tenders. However, tender requirements were issued with specifications for ceiling tiles similar in all aspects to those already installed at MDH. Following the publication of the said call, only one offer was submitted by the same supplier of the original tiles and on 23 September 2010, the tender was awarded to the foregoing supplier at a total value of €47,142.

Increase in Departmental Tender Threshold

On 7 July 2010, a contracts tender published on 26 January 2010, calling for the supply of filters at an estimated cost of €630,000 over three years, was cancelled claiming that none of the submitted offers were fully compliant with the tender specifications. In the light of the new Public Procurement Regulations (PPR) thresholds, with the possibility to issue a

departmental tender up to a value of €120,000 against the previous limited threshold of €47,000, both excluding VAT, it was decided to procure a first consignment through a departmental tender issued on 19 October 2010, and subsequently go for a contracts tender covering a longer period. This may have involved additional waste of resources to prepare and adjudicate two separate tenders.

Inadequate Departmental Tender Estimates

The estimated value for the certification of hot water boiler and pressure vessels, for a period of three years, was set at €15,000 excluding VAT. This value was based on a total of 240 inspections at €62.50 each, which price was sought from the service provider through a phone call. The only bidder for this tender was recommended at unit prices of €305 and €295 for both tests of the hot water boiler and pressure vessels respectively.

Even though these prices were significantly higher than estimated, final approval by PS was still sought for a budget of merely €15,000. This budget was in fact utilised before the first year the contract elapsed, and since further tests needed to be completed as planned, MDH decided to issue a call for quotes up to €6,000 (excluding VAT) and subsequently initiate another tender for a three-year period, hoping to obtain better prices.

Stock Control Procedures

Goods Received Notes

Upon receipt of stock in stores and following the necessary procedures entailed, three copies of GRN are printed and signed by the officer preparing it. No copies of the GRN are being retained by the Head of Department and purchasing officer as requested by the applicable Inventory Control Regulations, thus impinging on the effectiveness over the necessary controls.

Moreover, in two out of 12 cases tested, no GRNs were raised upon receipt of two items costing €39,294 and €6,020 respectively, which items were taken directly on site. This provides no proof that goods have been

delivered and received by the buyer/recipient. There is also the possibility of uninspected goods received as well as the risk that stock may not be recorded within the system.

Understated Value of Stock

In two out of four instances of procurement from foreign suppliers, the VAT was not included as part of the cost of the stock items in the system, presumably since no VAT was charged on these foreign invoices, which tax is however still payable directly by the client to the VAT Department. This omission resulted in an underestimation of stock cost by a total of €6,306.

Submission of Statutory Returns

Statutory Stocktake Return not submitted to NAO

A report of physical stocktaking carried out, the stores examined and results obtained are to be submitted to the Auditor General on an annual basis. However, although Treasury Circular No. 6/2004 also spells out this requirement, the return is not being sent to this Office, hindering potential monitoring that may be undertaken through the submission of this report.

Statement of Account for Stores Written Off

- a) During the year ended 31 December 2010⁴ and 2011, MDH claimed that there were no expired and/or obsolete store items at EMS that required a write-off. However, a nil return was not sent to the Auditor General as required by GFR Article 102 (2).
- b) A return showing nil write-offs was submitted to Treasury by electronic mail, even though Treasury Circular No. 2/2011 specifically stated that nil returns by email will not be accepted. Although this return was neither signed nor as per template, NAO was informed that the Treasury did not reject the return sent by MDH.

Lack of control over Government-owned assets may result in the absence of monitoring and necessary corrective action possible through such returns.

⁴ Audit enquiry was also made with regards to year 2010 since any stock written off would have been treated during the period under review.

Other Matters

Inappropriate Tax Invoices

Two invoices from two different suppliers, for amounts of €28,796 and €7,080 respectively, made no indication as to the amount of VAT being charged, implying lack of compliance with the VAT Act. There was also no attempt to obtain proper detailed invoices from these two suppliers since MDH claimed that invoices are settled as received; otherwise, the latter would end up with a back log of invoices.

Recommendations

Key Issues

Negotiated Procedures and Direct Order Approvals

Direct Order Approvals for Proprietary Services

As much as possible, MDH is expected to abide by MFEI's recommendations, especially for the sake of transparency in the procurement process.

Management is also to assess whether it is more feasible to recruit adequately trained personnel so as to have such specialised competencies in-house, rather than depending on external service providers.

Expired Contracts

MDH must strive to ensure that services are covered by valid contracts at all times. Negotiation procedures are to commence as early as possible, and if such procedures are not yet concluded by contracts termination date, a purchase order or a valid binding document is to be temporarily drawn up to ensure that the provision of services are legally covered.

A Series of Contract Extensions

The process of issuing and awarding the new tender in question is to be completed without any unnecessary delay, so as to finally regularise the provision of services through the signing of a new contract, following a transparent and competitive procurement process.

Appointment of a Technical Manager as Consultant

Upon entering into new contracts, a reasonable estimate of the contract value, as well as terms and conditions, are to be indicated.

All costs are to be taken into consideration prior to making decisions, in order to ensure, as much as possible, that unnecessary expenses are not incurred, especially VAT which is an unrecoverable cost to MDH.

Invoices are to be invariably substantiated and backed up by the necessary documentation prior to certification and payment.

Controls over attendance of consultants are also expected to be strengthened by introducing other verification systems that can better substantiate a person's presence on duty.

Environmental Landscapes Consortium Limited

Payment of Invoices prior to Approval by Department of Contracts

MDH is to ensure that procurement regulations are duly followed and that no payments are made that are not covered by the proper authority.

All transactions made by MDH are to be invariably recorded in the latter's accounting system for completeness of records and audit trail purposes.

Payment for Services for the Provision of Water not substantiated

Costs for any services provided by the contractor are expected to be included in the contract. In case this is overlooked, as noted under this observation, a formal side agreement is to be endorsed by both parties and filed accordingly.

Supporting documentation, backing up details in invoices, is to be obtained by MDH prior to certification of invoices and payment thereof.

Invoice dated earlier than Actual Provision of Service

Such financial irregularities are to be avoided in order not to violate basic accounting principles.

Channelling of works through Malta Embellishment and Landscaping Project not evidenced

MDH is to ensure that pertinent communication is documented and retained, especially to substantiate compliance with the relevant Circular.

Certification of Invoices by Malta Embellishment and Landscaping Project

MDH is to adhere to the provisions outlined in the contract and payments are only to be processed once prior certification by MELP is evidenced.

Control Issues

VAT Payable on Services by Foreign Suppliers not forwarded to the VAT Department in time

The limitations of DAS are expected to be compensated for by MDH through the adoption of a more reliable procedure to track VAT payable on services received from foreign suppliers, thus ensuring timely payments to the VAT Department.

Stocktaking Procedures

As also admitted by MDH, a refresher training session related to this area would assist officers in charge of stores to manage stock under their responsibility in a more efficient manner.

Detailed reports of stocktaking results are also to be maintained, enabling a better analysis and track record of the individual discrepancies noted. Stocktaking procedures demanded in terms of Treasury Circular No. 6/2004 are to be regarded.

Goods not delivered as per Specifications

Credit notes backing up incorrect invoices are to be invariably sought from the suppliers prior to making payments. If a credit note is eventually not raised by the supplier, MDH are expected to issue a debit note to off-set pending amounts.

Receipt and returns of stock items from the system are to be charged at the same price in order to enable a complete off-set.

Controls over returns are also to be enhanced to ensure that items not to specifications are not paid for as well as to ascertain that a replacement is timely received.

Contents of Contract not initialised by Service Provider

MDH is to ensure that contents of contracts are invariably endorsed and initialised by both parties, evidencing that all terms and conditions within the contract have been agreed to.

Compliance Issues

Calls for Quotations

Avoidance of Departmental Tenders through Repetitive Calls for Quotations

Procurement is to be made, as much as possible, through departmental calls for tenders or at least a public call for quotation is expected to be published in the Government Gazette, as regulated by PPR. Any correspondence with DC is to be filed in the relevant files.

In line with MFEI Circular No. 3/12, requests in writing for direct order approval, supported by proper justifications, should be lodged with MFEI through the Direct Orders Office for processing, before any commitment for the procurement of goods and/or services is entered into. Thus, until the tender is finalised and awarded, such approval for direct order is to be sought.

Furthermore, in view of the lengthy departmental tender procedures, better planning is to be made well in advance so as to publish public calls in time.

Lowering of Amounts procured not to exceed the Maximum Threshold

As stated in the standing procurement regulations, contracting authorities shall not adopt any mechanism, including sub-division of public contracts, the purpose of which is to circumvent the application, in part or in whole, of such regulations. Quantities required are not to be purposely manipulated in order to avoid the application of pertinent regulations.

Departmental Tenders

Procurement of Trademarked false ceiling tiles

In line with the relevant regulations, contracting authorities shall not establish an estimated value of a public contract with the intention of avoiding the application, in part or in whole, of these regulations. Adherence to such regulations is invariably expected.

Increase in Departmental Tender Threshold

As reiterated earlier on, sub-division of public contracts, the purpose of which is to circumvent the application, in part or in whole, of the applicable procurement regulations, is not permitted.

Inadequate Departmental Tender Estimates

Realistic estimates from appropriate sources are to be sought prior to initiating tendering procedures, thus determining from the start whether a departmental or contractual call for tenders is required.

Stock Control Procedures

Goods Received Notes

The preparation of a GRN is part of an effective Inventory Control Management since it confirms that goods have been delivered and received by the buyer. It is also beneficial since it details when a delivery is made and the quantities that were received by the buyer following the necessary verifications performed. Thus, its use is highly recommended.

Understated Value of Stock

As also outlined in Treasury Circular No. 6/2004, the price of stock is to comprise all relevant costs incurred in bringing the items to their present location and condition. Particular attention is to be made to procurement from foreign suppliers since the VAT cost is not included on invoices, but is still being incurred without credit.

Submission of Statutory Returns

Statutory Stocktake Return not submitted to NAO

Management is to ensure that officers entrusted with the responsibility for maintaining the stock records are aware of such requirements and that the relevant return is regularly forwarded to NAO.

Statement of Account for Stores Written Off

Management is to ensure that complete returns are submitted on a regular basis as set out in the relevant regulations and circulars.

Other Matters

Inappropriate Tax Invoices

MDH is to inform suppliers of any invoices that are not compliant with the VAT Act, to regularise their position prior to processing the respective invoices for payment.

Management Comments

Management concurred with most of the observations put forward by NAO and action has already been taken to address certain areas. The following comments and reservations were also submitted:

- Direct orders and negotiated agreements are only resorted to when the Purchasing Department has documented evidence and confirmation from the Technical Department that services and supplies are of a proprietary nature, and technically such services cannot be rendered by any firm/contractor other than the manufacturer/supplier. Engaging a third party contractor to maintain the respective systems will always increase the risk of malfunctions.
- It is not deemed desirable to recruit adequately trained personnel and incur the cost of an in-house set-up for proprietary services. This would significantly transfer the risk of malfunction onto

the hospital, as against the current procedure of having the supplier covering for any eventuality.

- In practise, contract negotiations do start at an early stage. However, given the lengthy procedures entailed as well as the significant value and complexity of the services concerned, considerable time passes due to the time and effort needed to conclude an agreement with favourable terms to the Government.
- Following contract expiration, drawing up a purchase order or a valid binding document as an interim measure would not solve the problem of having services provided without legal coverage, since normal contractual approval through MFEI would still be needed given that the services are financially significant.
- Although no documentation from IRD was ever provided to MDH to support the income tax and SSC amounts invoiced by the Consultant, MDH was certain of the accuracy of the amounts invoiced prior to certifying correct. It was then the Consultant's obligation to declare revenue accordingly.
- MDH confirmed that when the Consultant was not available to provide the tasks as per contract, deductions for VL were made from invoices accordingly, even though the contract did not specify a fixed schedule of attendances.
- MDH claimed that ELC invoices were being certified on a gentlemen's agreement following verbal communication that MELP approval was obtained by ELC. In the absence of written certification, payments to ELC were stopped until the position was regularised. The current

procedure is for ELC invoices either to be supported by a copy of MELP certificate, or to be endorsed directly by the latter.

- The situation of the VAT due on foreign invoices has been regularised.
- The results of the physical stocktake are now the subject of a report, which outcome was being channelled and endorsed by the appropriate authority through electronic mail.
- Management claimed that the current PPR and the applicable thresholds are not suitable to properly meet the requirements of MDH within a reasonable time frame. A formal application was filed by the Minister of the then Ministry for Social Policy to MFEI in order to increase the delegated ministerial financial authority for MDH. However an official endorsed copy of this correspondence was not provided.
- In many instances, MDH opted for call for quotes as interim measures since goods or services were urgently required and procurement could not wait until the lengthy departmental procedures were completed. However, all calls for quotes were published on the Purchasing Department's website in line with Legal Notice 296/10, instead of the Government Gazette, following approval from DC.
- Management also claimed that some services were new and, since a learning curve was being experienced, end users had difficulties in estimating costs. However, documented evidence is now always supporting the indicated estimated costs.

Mount Carmel Hospital

Background

The main services provided by Mount Carmel Hospital (MCH) within the Ministry for Health, the Elderly and Community Care (MHEC) are mental health services and geriatric services.

The Financial Estimates, Recurrent Vote 42, Contributions to Government Entities - Item 6029 under Cost Centre 01, show that the estimated budget for 2011 was €21 million, whereas actual expenditure as per Financial Report for the same year amounted to €22 million.

Audit Scope and Methodology

The objectives of the audit were to verify that during financial year 2011, expenditure incurred was accurate, complete and free of material misstatement, as well as to ensure that adopted procedures in procurement were adequate and in adherence to the Public Procurement Regulations (PPR) and other relevant circulars.

An overview of the procedures and controls in place was obtained by means of a meeting held at MCH with the Financial Controller (FC). A sample of 28 transactions was selected, covering contractual services, repairs and upkeep as well as professional services under Direct Expenses, and contractual services, repairs and upkeep, office services, information services and professional services under Administration Costs.

Key Issues

Nursing Services

Approval by the Department of Contracts following the Call for Quotations

The Department of Contracts (DC) approved procurement of nursing services through a negotiated procedure, for a total value of €740,000, from 1 December 2010 to 31 May 2011. However, the procurement process, which merely consisted of a call for quotations, did neither comprise the setting up of an *ad hoc* committee as required by law, nor was consultation with any potential service providers evident. Had the negotiated procedure been appropriately performed, MCH could have obtained additional value for money.

Adjudication Board Report not drawn up

A formal adjudication report was not drawn up following the call for quotations dated 2 November 2010. Only the recommendation made by the Manager Nursing Services was made available upon enquiry during the audit.

Agreement not formalised

Following the call for quotations, the chosen supplier was informed through an email accordingly. However,

the procurement was not formalised by means of a written agreement endorsed by both parties. In such absence, the possibility of misunderstanding increases.

Services other than Nursing

Two invoices for the months of April and May 2011, amounting to €27,794 and €30,691 respectively, included charges for services rendered by 28 individuals, who were listed on the timesheets as clerks, care workers, nurses, secretaries and a cook. Although MCH insisted that these were part of the procurement process for nursing services, the call for quotations and the departmental tenders were issued strictly for the provision of nursing services. Although it is evident that considerable unauthorised payments were issued from funds intended to cover nursing services, from information made available, it was not possible to quantify such payments. Besides the value for money implications, PPR have also been by-passed in the procurement of additional support services.

Insufficient covering approval

Nursing services were obtained through a call for quotations, which was valid until May 2011, and two departmental tenders which were awarded up to a maximum expenditure of €120,000 each. Furthermore, a retrospective approval, amounting to €947,000, was obtained from Director General Contracts on 22 August 2012, *i.e.*, when the audit was being finalised. Since total approved expenditure amounted to €1,187,000 and the amount of €1,219,868 was actually paid to the supplier, this resulted in unapproved expenditure of €32,868. This indicates lack of controls in place prior to procurement.

Finance Approval not obtained

The approval from the Ministry of Finance, the Economy and Investment (MFEI), to outsource the nursing services as required by OPM Circular No. 20/2006, was not provided. From information made available, there was no evidence that the outsourcing of support services was even discussed.

Requests for Services not substantiated

There are no records to support requests made by MCH to the service provider for support services and nursing hours required. Although the former claimed that support services are fixed and do not

change daily, no documentation was available to evidence this arrangement. It was also claimed that nursing hours required are standard, with any changes requested through a telephone call. It was also noted that the nursing hours worked in particular wards varied considerably during October 2011. Since no documentation requesting the required services was provided, the National Audit Office (NAO) could not substantiate that claims for payment were valid.

Excessive Consecutive Hours worked by a Nurse

A nurse worked periods of 18, 24, 30, 36 and even 42 hours at a stretch during October 2011. In fact, a total of 216 hours were worked by this employee in one fortnight. MCH acknowledged this abnormality and attributed it to staff shortages faced by the contractor. However, the efficiency, safety and legal implications are being ignored when a nurse is allowed to work extensive shifts with such long hours.

Procurement of Supporting Plinths

Approval for Direct Order not obtained

Procurement of two supporting plinths amounted collectively to €8,573 (VAT excl.). Although PPR threshold of €6,000 (VAT excl.) was exceeded, MCH placed a direct order with the supplier following the sole approval provided by FC. A request for approval to cover the direct order was only made to MFEI on 13 July 2012, subsequent to audit enquiries, and well following payments made on 22 November 2011.

Cost Estimate Variance

The cost estimate of €3,781 provided by the Foundation for Medical Services (FfMS) did not include labour costs, since the original plan was that work was to be carried out by MCH employees. However, this was not possible due to time constraints and lack of human resources available, resulting in a material difference of €6,335 to the invoiced amount.

Inappropriate Posting

The total cost of €10,116 for the two supporting plinths, which were essential for the generators to be functional, was recorded in account 'Repairs to Property', resulting in inaccurate information being reported. Given the amounts invoiced and since payments were also made from the Capital Vote, NAO is of the opinion that this

amount was to be capitalised, which approach is also in line with the applicable International Accounting Standard.

Security Services

Direct Order Approval exceeded

Approval for direct order for security services was acquired from MFEI for a total cost of €26,800, from 25 January to 24 July 2011. However, services rendered during August 2011, and costs exceeding the authorised amount by €5,755, were not covered by Finance approval.

No Formal Contract

A formal contract for security services for the value of €65,000 was not available, even though required by the terms and conditions of the tender awarded to the same service provider on 6 September 2011.

Training Certificates and Private Guard Licences not provided

FC claimed that persons to be engaged as security guards are filtered by MCH Management before they are accepted. However, it was not possible to verify whether security officers were well trained and registered, since a training certificate as well as a private guard licence, as required by the Tender Specifications, were not provided.

Incorrect Rates charged

Services covered by an invoice in the audit sample were charged at a rate higher than that quoted as per tender. Following this finding, MCH requested a credit note from the supplier for the difference. This implies lack of scrutiny of invoices, which may result in erroneous overpayments that may be difficult to recoup.

Social Workers' Services

Services not covered by Agreement

The service of three social workers, provided in October 2008 and paid for in 2011, was not covered by an agreement. The applicable service agreement referred to one particular social worker and did not include the three employees in question. It transpired that this service was taken for granted by both parties

and no official documentation was available covering the other social workers at MCH.

Long Outstanding Payment

An invoice dated 31 October 2008 to the amount of €6,806 was paid by MCH during 2011, since it was misplaced from Head Office. Unless creditors' statements are checked on a regular basis, missing invoices will not be identified.

Payment not substantiated

Payments for social workers' services were not substantiated with timesheets. Furthermore, the invoice in the audit sample was not addressed to MCH. This hinders the necessary internal controls expected to be performed during the payment process. Furthermore, neither the invoice nor the breakdown of salaries of the three social workers in question, were endorsed by the service provider and the Community Manager respectively.

Maintenance of Air-conditioning Units

Extension not provided for

The tender for the maintenance of air-conditioning units was effective from 4 September 2009, for a two-year period without the possibility of being extended. Although an extension was not in line with the procurement regulations, on 12 September 2011 the same contractor was requested to extend the contract until the new one was awarded on 7 February 2012.

Finance Approval not obtained

The contract extension was only approved by FC and not by MFEI, even though the amount invoiced for the period in question was €8,029 (VAT excl.), thus beyond the threshold allowable for a direct order.

No Formal Contracts and Bank Guarantees

A signed contract and Bank Guarantee, for the value of €47,000 and 10% thereof respectively, were not available even though required by the conditions of the above-mentioned tender. Similarly, a signed contract and Bank Guarantee, for the value of €47,000 and 10% or 15% thereof respectively, were not available for a previous tender awarded on 8 May 2007.

Extra Payments

The invoice dated 21 November 2011, amounting to €9,474, covered maintenance service of 452 units at €20.96 each, which rate entitled MCH to four visits per year. Although FC claimed that this invoice relates only to the period October 2011 to February 2012, from documentation provided it transpired that MCH was still entitled to the four quarterly services. This implies that separate additional payments may be made in line with the new contract, to the same supplier, for the same period.

Control Issues

Modules and Applications for Software Support not codified into one Agreement

An agreement entered into on 2 February 2001 was valid for an initial period of 12 months, and thereafter could be extended for further contiguous 12-month periods. Although various modules/applications were purchased and implemented over the years, these were not integrated in one agreement. Rather than official contracts laying down the conditions and pricing agreed upon, only copies of proposals were provided, making it difficult for the verification of invoices. Furthermore, 10% Bank Guarantee of the contract value amounting to €39,874 was not provided, even though required by the terms and conditions of the tender document.

Laundry Services

Testing of two invoices, amounting collectively to €82,370, out of total payments of €317,829 during 2011, revealed the following shortcomings:

- a) The cost of €426 monthly, for a detergent used by the hospital's launderette, was not included in the price list to the contract, but was only covered by verbal agreement.
- b) The amount of €540 invoiced monthly, covering 'Steam for Kitchen', was also not included in the respective price list, since initially it was provided free of charge. However, in this case MCH provided documentation wherein the Chief Executive Officer (CEO) authorised its procurement for a cost of €458 monthly. The difference of €82 is equivalent to the VAT element.

- c) Incorrect prices inserted on a spreadsheet used in the re-computation of invoices by MCH led to a number of immaterial errors, questioning the effectiveness of the latter's checking.

VAT Receipts not available

In 19 out of 28 payments (68%) reviewed, amounting collectively to €353,698, fiscal receipts were not available. Officers in charge may not be well-versed with VAT regulations and cannot determine which documents should be received from suppliers backing up payments made.

Mechanical and Electrical Works' at St. Jeanne Antide Wards

According to DC, approval for extra works could be obtained following endorsement by the respective Permanent Secretary. Whilst DC approved variations for an amount of €85,728, the required endorsement could not be traced, neither in MCH nor in DC file. This may indicate lack of control on procurement.

Care Workers' Services

A signed contract for the value of €141,600, in connection with the provision of care workers' services, was not available even though required by the terms of the respective tender document.

An immaterial difference, noted whilst re-calculating the total hours worked at the Psychiatric Out Patients during the month of November 2011, indicated that amounts paid may be subject to undetected errors.

Verification of Sick Leave

The notification letter, in connection with the verification of sick leave on MCH employees, did not specify the duration of a contract commencing from 1 January 2007. Thus, it was not possible to check whether it was still valid for 2011. Only Letter of Acceptance (LA) dated 30 November 2009, also covering the period tested, was provided subsequent to audit enquires. Furthermore, it was noted that the chargeable rate of €6.99 in the said LA differed from that of €5.24 (Lm2.25) available in the respective file during the audit.

The lists comprising the employee name and the date reported sick, do not specify the identification card numbers of the respective employees. Therefore, in

the absence of a unique reference to an individual, it will be difficult to identify a person with certainty. Furthermore, the invoice and the respective lists, relating to November 2011, were erroneously recorded in the system as October 2011.

Cleaning Services

The actual palm readings for cleaning services are derived from the reports generated by the system in use, whilst total hours to be paid are compiled by the Salaries Department at MCH taking into consideration any necessary adjustments. However, since not all adjustments were supported with appropriate documentation, correctness of actual hours worked remained unverified. Furthermore, since details were illegible on a particular job chit, the amount charged could only be corroborated following a request for another copy made to the supplier subsequent to audit enquiries.

Two immaterial differences for two employees respectively, noted in the total hours paid during the month of August 2011, indicate lack of scrutiny of total actual hours palmed which may result in erroneous payments.

Professional Fee for Engineering Services

Although specifically required by the terms and conditions of the tender document, a signed formal contract for the provision of service was not available.

The invoice, purchase order, payment voucher and relevant documents required for audit purposes, were only inserted in the respective file following audit testing, resulting in a longer verification process.

Controls over the payment process may be considered weak, since an invoice in the audit sample, amounting to €6,450, was not certified correct by MCH, but still processed for payment.

Compliance Issues

Domestic Waste Collection and Disposal Service

Short Term Contracts

Procurement with regard to domestic waste collection and disposal service is entirely managed either by the Centralised Procurement and Supplies Unit (CPSU)

or centrally by Mater Dei Hospital. It was noted that services were being rendered to various health entities through several direct short term contracts, for a maximum of €6,000 (VAT excl.) for each contract, approximately covering a period of 37 days. During 2011, total invoices paid by MCH, excluding the other entities, amounted to €27,142. This might imply that procurement regulations necessitating the issue of a departmental call for tender, or at least a call for quotations published in the Government Gazette, are being overlooked. In addition, such approach does not offer the comfort of transparency and does not ensure that the best competitive prices are being paid.

Letters of Acceptance not filed

Since LAs covering the period being tested, *i.e.* August 2011, and various periods of 2011 were not available in the relevant file reviewed, the charge for 15 skips at the daily rate of €4.24 per unit (VAT excl.) could only be verified following audit enquiries. This implies that invoices were not adequately verified with source documentation.

Information Technology Services

Services by Direct Quotations

Upon the resignation of an Information Technology (IT) Administrator in April 2011, MCH made several requests to FfMS for an immediate replacement. MCH was informed that recruitment was to be part of the Capacity Building Exercise (CBE) that would provide the replacement once the exercise was completed. Consequently, procurement was made direct from the open market for a temporary assignment. Since the approval of CBE was always postponed and the recruitment never materialised, IT services continued to be provided without an agreement in place.

Approval not obtained

Payments up to date of audit testing amounted to €9,680 (VAT excl.), with the sole approval provided by FC. The latter claimed that MCH kept waiting for a definite reply regarding the eventual issue of the call for the replacement through FfMS, following the intended CBE. Therefore, unless FfMS take up the matter without further delays, other payments will continue to be made by virtue of a direct order.

Delegation of Authority

According to PPR, purchases between €2,500 and €6,000 may be procured direct from the open market subject to the Minister's approval, or by the member of the department authorised by the Minister. FC claimed that this responsibility automatically lies within the role of CEO. However, no documents were available to substantiate the delegation of authority. Thus, in the circumstances, procurement cannot be considered as approved from the appropriate level of authority.

Although PPR does not stipulate that authority may be further delegated, FC was authorised by CEO to approve purchases up to €3,000, above which shall be authorised jointly. This approach may lead to CEO not being duly informed to approve procurement accordingly.

Attendance Verification Systems not introduced

As stated in the Public Service Management Code (PSMC) and emphasised in the Collective Agreement for Employees in the Public Service, Government was bound to introduce Attendance Verification Systems (AVS) in all its places of work, by not later than December 2010. However, neither Government employees nor the contractor's nursing staff make use of the palm reader already installed at MCH. Furthermore, AVS are not installed at the other 13 Community Centres, including Day Centres and Psychiatric Out Patients, as MCH claimed that it does not have the funds available. Manual records do not give concrete evidence of an employee's attendance hours on the job. It also involves extensive amount of paperwork as well as manual checking which are more prone to errors.

Recommendations

Key Issues

Nursing Services

PPR should invariably be adhered to, ascertaining that value for money is achieved and enabling transparency as well as accountability. Clear distinction should have been made in the procurement process between nursing and other support services. The procurement procedures are expected to commence in due time to

avoid situations where unauthorised commitments have to be approved retrospectively. Furthermore, prior approval is also to be obtained from MFEI before entering a contract for service.

Hours of services provided are to be formally authorised by MCH in advance. Requests for changes to the daily nurse complement are to be documented and confirmed with timesheets prior to payment. Additionally, the service provider is not expected to be allowed to cover the nurse complement by providing staff working excessive long hours.

Procurement of Supporting Plinths

The conditions and thresholds imposed in PPR are to be invariably followed. Payments are not to be effected prior to verifying that appropriate authorisation was obtained. In addition, transactions are to be duly posted in the respective accounts.

Security Services

All commitments entered into by direct order are to be invariably covered by prior Finance approval. Relevant documents, such as training certificates and private guard licences, are to be requested to cover security officers delivering the service. Controls over verification of invoices paid are also expected to be strengthened.

Social Workers' Services

Social workers providing a service to MCH are to be covered by an agreement. Each creditor's balance is to be reconciled regularly to the supplier's statement of account to ensure accuracy. Invoices payable by MCH are expected to be addressed accordingly. Moreover, each payment is to be adequately substantiated with source documentation, duly checked and endorsed.

Maintenance of Air-conditioning Units

Extension clauses should only be granted if they were already included in the call for tenders/quotations. In such absence, MCH is to ensure that authorisation from the relevant authority is sought to extend an existing contract. MCH is to ascertain that the supplier does not charge for services which have already been paid for.

Control Issues

Modules and Applications for Software Support not codified into one Agreement

Various proposals are to be codified into one agreement and details of pricing included therein, in order to facilitate verification of amounts charged.

Laundry Services

MCH is expected to obtain and maintain the necessary documents to which invoices should be corroborated. Additionally, verification of invoices is to be carried out diligently to ensure that any mistakes are identified prior to payment.

VAT Receipts not available

Every effort is to be made to enforce the principle that VAT receipts are obtained from suppliers for every purchase of goods and/or services.

Mechanical and Electrical Works at St. Jeanne Antide Wards

The Permanent Secretary is to be kept abreast with any variations to the original amounts, by duly endorsing such variations for control purposes. All relevant documents backing up procurement are to be properly filed for future reference and audit purposes.

Care Workers' Services

Independent double checking on manual records is strongly recommended for control purposes.

Verification of Sick Leave

The duration of a contract is to be clearly specified. Furthermore, the respective employee's identification card number is to be invariably quoted in order to avoid misunderstandings.

Cleaning Services

Adjustments to the computerised report are to be substantiated and filed accordingly. Reconciliation is also to be prepared to ensure accuracy of payments.

Professional Fee for Engineering Services

A contract, endorsed by both parties, is expected to be in place to outline the terms and conditions binding the contractual agreement. All supporting documents are to be retained in the relevant file for future reference. Invoices are to be invariably certified as correct in order to confirm their accuracy before processed for payment.

Compliance Issues

Domestic Waste Collection and Disposal Service

Procurement is to be made, as much as possible, through departmental calls for tenders if it is within the established threshold in line with PPR.

Information Technology Services

It is important that this issue is given priority by FfMS so that MCH can have the necessary IT knowledge and competence.

Delegation of Authority

MCH is to ensure that adopted procedures are in accordance with all relevant regulations so that procurement is duly authorised.

Attendance Verification Systems not introduced

All employees at MCH are expected to start using the palm reader already installed on site. As specified in PSMC, this will increase controls over the actual hours worked, eliminate manual data entry and simplify salary calculations. Furthermore, the introduction of AVS in all the other locations is recommended.

Management Comments

Management concurred with a number of recommendations put forward by NAO and action has already been taken to address certain areas. MCH also agreed that the absence of a contract required by the tender document constitutes a shortcoming. This was discussed and agreed upon with CPSU to be rectified for all future awarded tenders. The following comments were also submitted:

- MCH will be seeking advice prior to decide what classification to be given to expenses incurred from the Capital Vote that can have various interpretations.
- With respect to the wrong charge out rate for security services, MCH has duly received the requested credit note and the supplier apologised for the genuine mistake.
- Regarding the supplier's misplaced invoice for social workers' services, MCH confirmed that this happened only once and was not its fault. All invoices are endorsed, checked and matched against timesheets before processed for payment, as nowadays MCH liaises directly with the service provider.
- The supplier for maintenance of air-conditioning units acknowledged the possibility of extra payments and confirmed that this will be rectified.
- MCH acknowledged that Bank Guarantees were not provided due to an oversight and it confirmed that all the new tenders have the Bank Guarantee inserted in file.
- It is MCH's intention to channel the procurement of laundry detergent through CPSU and to take remedial action depending on the outcome.
- There was a misconception from MHEC entities about the need to either ask for a VAT receipt or accept a tax invoice. However, this was clarified by the VAT Department which stated that the fiscal receipts are required. MCH will rectify this shortcoming immediately.
- MCH is not aware of the procurement procedures adopted for domestic waste collection and disposal service. Since this is a decision that has to be taken at the Financial Monitoring and Control Unit and CPSU level, MCH will raise this issue to find a proper solution.

The following reservations were also made:

- Although direct order approval for security services was exceeded by €5,755, Management

is of the opinion that this amount does not exceed PPR threshold of €6,000 and consequently MCH did not seek MFEI's authorisation.

- Management assured that, since DC granted approval for the variation in mechanical and electrical works, this means that the Permanent Secretary was aware and approved such variation, otherwise DC would have never issued the letter of approval.
- The recommendations with regards to verification of sick leave were agreed to. However, MCH stated that, the respective contract is dealt with centrally by MHEC for all entities.
- Although MCH agrees that the post of IT Administrator should be filled through a replacement and not through the more costly alternative of procurement, recruitment is beyond MCH's control. This limits its ability to operate efficiently and at times can trigger complicated issues relating to procurement.
- Although MCH agreed with the recommendations made by NAO with regard to AVS, it is not a decision that it can take on its own. Various negotiations between MHEC and the Unions took place in the past, but so far no final decision has been communicated to MCH.

In addition, Management comments either did not properly address NAO's concerns, or made no reference to shortcomings raised under Key Issue titled 'Nursing Services' with the sub-headings listed below:

- Approval by Department of Contracts following the Call for Quotations.
- No Adjudication Board Report.
- Agreement not formalised.
- Services other than Nursing.
- Finance Approval not obtained.

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NAO Audit Reports

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