

Report by the *Auditor General*

Public Accounts 2012





Annual Audit Report

Public Accounts 2012

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List of Abbreviations

ADT	<i>Awtorità Dwar it-Trasport</i>
AFM	Armed Forces of Malta
AG	Attorney General
ARF	Academic Resources Fund
ARR	Arrears of Revenue Return(s)
AVS	Attendance Verification System
BRS	Bank Reconciliation Statement
CBM	Central Bank of Malta
CCF	Corradino Correctional Facility
CCTV	Closed Circuit Television
CEO	Chief Executive Officer
CIO	Chief Information Officer
CIR	Commissioner of Inland Revenue
COJ	Courts of Justice
COLA	Cost of Living Adjustment
CSOSO	Conditions of Service for Officers Serving Overseas
CVA	Controlled Vehicular Access
DAS	Departmental Accounting System
DC	Department of Contracts
DCS	Director Corporate Services
DGSS	Director General Support Services
DLG	Department for Local Government
DMD	Debt Management Directorate
DSS	Department of Social Security
EAFRD	European Agricultural Fund for Rural Development
ECCD	Elderly and Community Care Department
ECDS	Elderly Contribution Determination System
ECMS	Embassies and Cash Management System
EFUS	European Forum for Urban Safety
ELC	Environmental Landscapes Consortium
EMA	European Medicines Agency
ERDF	European Regional Development Fund
ERS	Expenditure Reporting Scheme(s)
ESF	European Social Fund
ESM	European Stability Mechanism
ETC	Employment and Training Corporation
EU	European Union
EUPA	European Union Programmes Agency
FAR	Fixed Asset Register
FMCU	Financial Management and Control Unit
FMS	Fleet Management System

FR	Financial Report
FSI	Financial Situation Indicator
FSS	Final Settlement System
FS5	Payer's Monthly Payment Advice
FS7	Payer's Annual Reconciliation Statement
GFR	General Financial Regulation(s)
GGH	Gozo General Hospital
GPD	Government Property Department
GPP	Government Printing Press
HA	Housing Authority
HO	Head Office
HRMD	Human Resource Management and Development
IAS	International Accounting Standard(s)
IFRS	International Financial Reporting Standard(s)
IRD	Inland Revenue Department
IT	Information Technology
ITS	Institute of Tourism Studies
LA	Letter of Acceptance
LCA	Local Councils Association
LEMIS	Land and Estate Management Information System
LEP	Locally Engaged Personnel
LES	Local Enforcement System
LGA	Local Government Auditor
LN	Legal Notice
LPO	Local Purchase Order
LR	Land Registry
LTD	Land Transport Directorate
MA	Medicines Authority
MBO	Malta Based Officer
MCA	Malta Communications Authority
MCAST	Malta College of Arts, Science and Technology
MCH	Mount Carmel Hospital
MDH	Mater Dei Hospital
ME	Malta Enterprise
MEDE	Ministry of Education and Employment
MEEF	Ministry of Education, Employment and the Family
MEPA	Malta Environment and Planning Authority
MFA	Ministry of Foreign Affairs
MFEI	Ministry of Finance, the Economy and Investment
MFIN	Ministry for Finance
MGI	Malta Government Investments Limited
MGS	Malta Government Stocks
MHEC	Ministry for Health, the Elderly and Community Care
MIA	Malta International Airport
MITA	Malta Information Technology Agency
MITC	Ministry for Infrastructure, Transport and Communications
MJHA	Ministry for Justice and Home Affairs
MPO	Management and Personnel Office

MRA	Malta Resources Authority
MRRA	Ministry for Resources and Rural Affairs
MSA	Malta Statistics Authority
MTA	Malta Tourism Authority
MTV	Music Television
NAO	National Audit Office
NBV	Net Book Value
NGO	Non-Government Organisation
NI	National Insurance
OPEX	Operational Expenditure
OPM	Office of the Prime Minister
PHC	Primary Health Care
PI	Performance Indicator(s)
PPCD	Planning and Priorities Co-ordination Department
PPE	Property, Plant and Equipment
PPP	Public Private Partnership
PPR	Public Procurement Regulations
PREU	Permanent Representation of Malta to the European Union
PS	Permanent Secretary
PSMC	Public Service Management Code
PV	Payment Voucher
SABS	Social Assistance and Benefits System
SL	Sick Leave
SMG	Students' Maintenance Grants
SOP	Standard Operating Procedures
SPBH	Sir Paul Boffa Hospital
SSA	Social Security Act
SSC	Social Security Contributions
SVPR	Saint Vincent de Paul Residence
TA	Technical Attachés
TCU	Tax Compliance Unit
TM	Transport Malta
TIO	Tourist Information Office
TVLU	Television Licensing Unit
UIF	Urban Improvement Fund
UK	United Kingdom
UoM	University of Malta
VAT	Value Added Tax
VL	Vacation Leave
WSC	Water Services Corporation
WSD	Works and Services Department

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 2012, 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** (page 14), incorporating Financial Statements and Accounts for the year 2012, 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, it is emphasised that:

- Letters of Comfort and Bank Guarantees reached €1,242 million (against €1,142 million in 2011). These constitute Contingent Liabilities for Government;
- substantial excess of actual over budgeted figures of various items of Expenditure was once again reported, these being identical to those reported last year. Explanations for these reoccurrences are being noted accordingly; and
- a detailed statement showing outstanding Advances made to various Government Departments, Agencies and Organisations is being provided, including the Ministry's plans to settle such amounts.

In contrast to last year, only one Ministry failed to submit the **Arrears of Revenue Return** for 2012, required in terms of Treasury Circular No. 4/2013. However, a review of these returns revealed several issues in the collectability of outstanding balances. (page 56)

Completeness of revenue generated by the **Medicines Authority** could not be ascertained due to the absence of an integrated IT system. Besides other control issues, testing also revealed concerns with employees' employment contracts. (page 94)

An audit of Personal Emoluments was conducted on a sample of 14 officers with different designations, working within the **Malta Tourism Authority**. Testing carried out revealed that internal controls in various areas were weak or entirely lacking. It transpired that officers working at the Head Office were not always recording their attendance through the recognition device in place, thus attendance records and overtime claims could not be verified. On the other hand, manual records maintained at certain Tourist Information Offices were incomplete and unreliable. Weak budgetary control on overtime, as well as variances in the basic pay, was also encountered. (page 105)

From the limited documentation provided during the audit of operative and marketing expenditure incurred by the same Authority, it transpired that direct orders for various goods and services were not covered by the necessary finance approval. (page 119)

By the time the respective write-up was concluded, *i.e.* mid October 2013, the audited Financial Statements of Kalkara and Xgħajra **Local Councils**, as well as the Central Regional Committee, were still not forwarded to NAO. (page 129)

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:

- a. For the third consecutive year, no audit opinion was expressed on the Financial Statements of Mosta Local Council, due to the various material shortcomings encountered.
- b. The Audit Reports of another 57 Local Councils and four Regional Committees were qualified with an 'except for' audit opinion.
- c. Twenty-five Local Councils and a Regional Committee recorded a negative Working Capital in the Statement of Financial Position.
- d. Thirty-one Local Councils registered a Financial Situation Indicator below the established benchmark of 10%.
- e. Thirty-two Local Councils and a Regional Committee registered a deficit in the Statement of Comprehensive Income.

The lack of attendance sheets kept by the **Maltese Mission in Brussels** hindered audit testing, which, as a result, had to be based on the official vacation and sick leave records. However, a number of shortcomings were noted in the upkeep of these records, including discrepancies when compared with other relevant source records, particularly those related to overtime. (page 366)

The procurement of services by the **Land Transport Directorate** within Transport Malta was not always in line with standing regulations. At times, such procurement was made directly from the open market without a public call for quotations or tenders, and on occasions, without the necessary Finance approval. (page 390)

An audit of the expenditure by the **Ministry for Resources and Rural Affairs**, for Upgrading works at Main Touristic Areas, revealed that the majority of capital projects experienced unplanned changes, as well as additional work after the issue and adjudication of the tenders, thus defining the planning as inadequate. This caused substantial cost variations to the budgeted tendered amounts, which could also trigger lack of transparency and unfair competition for the amounts in question. (page 398)

Internal controls at the **Malta Resources Authority** were not sufficient, mostly due to lack of segregation of duties. Various shortcomings were identified during the audit, including salary payments not always substantiated and verification of invoices not corroborated. (page 408)

Testing carried out on the statement of the Arrears of Revenue for year ending 2012, submitted by the Ministry of Education and Employment revealed that figures featuring therein were unreliable, particularly the compilation of arrears pertaining to the **Refunds of Overpaid Students' Maintenance Grants** from Junior College, Higher Secondary and University of Malta students. The Ministry does not have a reliable system in place to reconcile the actual refunds, against that actually deposited at the Central Bank of Malta. The inadequacy of the overall internal controls and lack of audit trail were a major concern. The main shortcomings included, refunds not deposited at Bank, missing receipt books and official receipts not issued. (page 418)

The lack of information made available to NAO by the **G.F. Abela Junior College** limited the scope of audit. Delayed responses to audit queries also hindered the course of the auditors' planned tasks. Furthermore, shortcomings were noted in purchases effected by academic staff from the Academic Resources Fund, and the reporting of such expenditure. Formal approval for overtime was invariably sought retrospectively. Moreover, no inventory records pertaining to the College were made available for audit purposes. (page 426)

The audit at the **Employment and Training Corporation** revealed that the contract covering the provision of staff transport was not valid, whilst the rent of the Head Office was also not covered by an agreement.

Procurement regulations were not followed for the provision of maintenance services to the Fingerprint Recognition hardware and software. (page 436)

An audit on the **Overpayments of Social Security Benefits**, generated by the Social Security Department within the Ministry for the Family and Social Solidarity, revealed practices and procedures which created unnecessary overpayments, and limited the recoverability of such amounts. It was noted that considerable overpayments were created due to lack of co-operation between a number of Government entities. This audit was also subject to a limitation on scope since the Department failed to answer a number of audit queries. (page 440)

A number of instances were encountered where the **Housing Authority** bypassed the Public Procurement Regulations. Various other shortcomings were noted in several aspects relating to the granting of subsidy under Scheme R, covering amounts granted to tenants for rent paid for ordinary residences leased from the private sector. (page 455)

During 2012, a general lack of internal control procedures, in the area of procurement of goods and services within **Malta Enterprise**, was identified. The non-compliance with standing regulations and policies, together with the identification of a number of irregular contracts in relation to various services procured by the Enterprise, were conducive to an inefficient use of public funds. (page 466)

The **Malta Statistics Authority** lacked a formal system for authorising its procurement activities, whilst cleaning services from a particular supplier could not be validated with a contract for service. The audit also revealed that the rates charged by the National Statistics Office for customised requests, were not transcribed by law in accordance with pertinent legislation. (page 476)

From an overview of Government grants disbursed by the **Ministry of Finance, the Economy and Investment**, through Schemes operated by various entities, it transpired that there were cases where grant applications were not processed by order of receipt. In addition, in certain instances, relating to the grant on acquisition of more environment-friendly cars, applications received at Transport Malta were not supported by a valid fiscal receipt, as required by the relevant Government Notice. (page 480)

An audit of accrued rent on Government property revealed distorted figures in relation to rents due to the **Government Property Department** from other Government Entities. Credit balances recorded in the Department's system were also erroneously offsetting the total amount of rent in arrears. The audit, which also verified rent collectable from commercial tenements, revealed other weaknesses, such as expired lease contracts that were not renewed, and reminders for overdue rent that were overlooked. (page 484)

Various shortcomings in the procurement, administration and payment of a number of services were revealed during an audit at the **Department of Correctional Services** within the Ministry for Justice and Home Affairs. Several internal control issues, particularly relating to stores, were identified. Amongst others, these comprised lack of transparency in the procurement process, material discrepancies between the balance as per bin cards when compared to those recorded in the computerised system, as well as lack of control on food provisions. Inventory records were also not available for Government-owned assets. Moreover, the completeness of the audit was hindered as Management failed to present the requested information in a number of instances. (page 494)

The **Welfare Committee**, within the Ministry of Health, Elderly and Community Care, has been operating without a Chairman and the respective Board for the past five years, in breach of the Social Security Act. Several shortcomings were noted in a number of contracts in force and other long-expired contracts that were still in use. (page 525) An inefficient system was also observed, for the collection of the contributions due by elderly persons. Such contribution is payable for their care and upkeep at state-owned residential homes and institutions. Furthermore, late and inaccurate assessments following the latter's admittance were noted. (page 510)



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 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
9th December 2013

Financial Report

Analysis of the Financial Report 2012

Introduction

Statements of the Consolidated Fund Account, showing the comparative positions in 2011 and 2012, and the receipts and payments of funds created by law, were laid on the Table of the House of Representatives during Sitting No. 4 on 9 April 2013, 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 2012 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 National Audit Office Act, 1997. The Report was laid on the Table of the House of Representatives during Sitting No. 49, on 10 July 2013.

Further details of Government financial operations can be found by making reference to both the Annual Financial Statements and the FR for 2012.

Consolidated Fund Statement – 2012

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 2012 Budget (Estimates) for an expenditure of €3,668,677,000, as authorised by Warrant No. 1 issued on 16 December 2011, and a further €130,625,000 approved by Supplementary Estimates Warrant No. 2 dated 17 April 2013, it was estimated that expenditure was to exceed revenue by €58,141,000. However, following the closure of the 2012 Accounts, it resulted that in actual fact expenditure had exceeded revenue by €82,920,000, as detailed in Table 1, leading to an end-of-year consolidated negative balance of €80,123,000.

Table 1 – Consolidated Fund 2012

	Estimated (Original & Supplementary)		Actual	
	€000's	€000's	€000's	€000's
Opening Consolidated Balance as on 1st January 2012				2,797
<i>Revenue</i>				
Ordinary (incl. Grants)	2,961,000		2,715,732	
Extraordinary	780,161	3,741,161	726,077	3,441,809
<i>Expenditure</i>				
Recurrent	2,566,095		2,540,423	
Public Debt Servicing	751,880		587,137	
Capital	481,327	3,799,302	397,169	3,524,729
Net Cash Flow		(58,141)		(82,920)
Closing Consolidated Balance as on 31st December 2012				(80,123)

(Source: FR 2012, pg xiii)

Table 2 hereafter shows the same end-of-year consolidated negative balance of €80,123,000 as in the Table above, highlighting figures relating to the recurrent Deficit for 2012, amounting to €342,276,000, as well as the financing of present Foreign and Local Loans, totalling €386,297,000. This led to a total Public Sector Borrowing Requirement of €728,572,000, which was partly financed with the issue of new Local Loans, amounting to €645,652,000.

Table 2 – Consolidated Fund 2012

	2012	
	€000's	€000's
Total Recurrent Revenue		2,715,732
Total Recurrent Expenditure	(2,714,230)	
Capital Expenditure	(343,777)	
Overall Expenditure		(3,058,008)
Recurrent Deficit		(342, 276)
Financing (excluding new loans)		
Foreign	(6,716)	
Local	(379, 581)	
Total Financing		(386,297)
Public Sector Borrowing Requirement		(728,572)
Opening Consolidated Balance as on 1st January 2012	2,797	
Local Loans Issuance	645,652	
		648,449
Closing Consolidated Balance as on 31st December 2012		(80,123)

Figures in Statement may not add up due to rounding up.
(Source: FR 2012 pg xv)

Revenue

Details of Revenue collected during 2012, classified by heads and subheads, as compared with the Estimates, are shown in the FR pages xvi to xviii. Explanatory comments regarding variations between actual and budgeted revenue, as forwarded by the Ministry for Finance (MFIN) are provided in Part 1 of the same FR.

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 2012. Some of the major recognised variances in sources of revenue are listed in Table 3. This is followed with detailed explanations for these variances, as provided by both Treasury and Budget Office.

Table 3 – Major Variances in Revenue for Financial Year 2012

Revenue	Budget Estimates	Actual	Variation
	€000's	€000's	€000's
<i>Tax Revenue</i>			
Indirect:			
Customs and Excise Duties	220,400	155,790	(64,610)
Value Added Tax	581,600	534,197	(47,403)
<i>Grants</i>	194,483	92,859	(101,624)
<i>Local Loans</i>	700,000	645,652	(54,348)

(Source: FR 2012, pgs xix-xxi)

Reasons for Variations

Indirect Tax Revenue - Customs and Excise Duties

Revenue collection from Customs and Excise Duties was lower than anticipated, due to excise on fuel, which was collected by Enemalta Corporation, but not passed on to Government in time prior to the closure of the financial year 2012. The amount due featured on the receivables side of Government's books when reporting in terms of the 1995 European System of Accounts (ESA 95), and so this shortfall had no adverse effect on the 2012 general Government deficit.

Indirect Tax Revenue - Value Added Tax

The assumptions taken within the then Ministry of Finance, the Economy and Investment (MFEI) when estimating the amount to be received through this revenue source during 2012, did not materialise in full as the year progressed. This included amounts to be received under the penalty reduction scheme, where anticipated revenue estimates were, at the budget preparatory stage, projected higher than the eventual actual outturn.

Grants

The amount featuring under revenue reflects the actual grants received from the European Union (EU) Commission during 2012. Each year, variances arise on this Item due to two factors; firstly, cash received in a particular year could pertain to reimbursements of the previous year, and secondly, claims for expenditure incurred during the current year, might not yet be reimbursed due to certification and other processes still in progress. At budget presentation time, estimates of the pre-financing, required to cover all EU funded projects, are provided against the respective capital Items on the expenditure side, under the sub-Items for 'EU Funds'. An equivalent amount is featured on the revenue side, which arrangement is based on the fact that EU funds have a neutral effect on the deficit. Thus, when submitting its Fiscal Notification on Deficit and Debt to the EU Commission, the shortfall (or otherwise) occurring in the Consolidated Fund under this revenue heading is also neutralised in line with this same principle.

Local Loans

The Debt Management Directorate (DMD) within Treasury confirmed that the strategy pursued up to 2011 was reviewed, to address the roll-over risk linked to the maturities of Malta Government Stocks (MGS) for the period 2012 to 2014. The first market operation was launched in November 2011, after that such

a policy was discussed and approved at the Public Debt Management Advisory Committee, following a series of consultations with institutional investors.

This led to a Bond Switch transaction conducted in December 2011, in which €160 million in the 5.7% MGS 2012 (II) were exchanged for €158 million in the 4.3% MGS 2016 (IV) by auction on a bid price basis. The transaction was successful, and contributed towards the reduction in the level of MGS maturing in 2012, from €509.6 million to €349.7 million. Hence, this contributed to a lowering in the overall borrowing requirements for 2012, which affect directly the loans that have to be issued to cover the loan repayments. The financing needs (local loans figure) for the year sets a capping on the amount of borrowing that Government can undertake for that year, through the enactment of the Budget Measures Implementation Act, by Parliament.

It is to be noted that the budgetary estimates for 2012, in respect of Local Loans (issuance of MGS), was computed on a direct loan repayment figure of €509.6 million and not on the €349.7 million. The main reasons behind such treatment were that, the estimated figures for the year 2012 were submitted to the Budget Office before the results of the bond switch were known, and for prudence purposes, it was assumed that the bond switch might not be successful.

Expenditure

The appropriations for expenditure during 2012, authorised by the issue of MFEI Warrant Nos. 1 and 2, were made under the following Statutes:

	€
i) Appropriation Act	2,168,241,229
ii) In terms of Special Laws	1,628,948,000
iii) In terms of the Constitution	2,112,771

Analysis of Appropriations

i) Appropriation Act

	€
Appropriated by Act XXV of 2011 (original budget)	2,070,296,229
Appropriated by Act II of 2013 (supplementary)	97,945,000

ii) Special Laws

The following amounts (including supplementary estimates as detailed in Warrant No. 2 of 2012) were appropriated in terms of the various laws as indicated:

Table 4 – Amounts Permanently Appropriated in terms of the various Laws

	2012	2011
	€	€
Expenses of the Electoral Commission – General Elections Act (Cap. 354)	450,000	450,000
Expenses of the Broadcasting Authority – Broadcasting Act, 1992 (Act XII of 1991 – Cap. 350)	650,000	650,000
Expenses under Re-letting of Urban Property Ordinance (Cap. 69) and Agriculture Leases (Re-letting) (Cap. 199)	71,000	37,000
Land Acquisition (Public Purposes) Ordinance (Cap. 88)	110,000	110,000
Social Security Act, 1987 (Act X of 1987 – Cap. 318)	782,700,000	733,770,000
Pensions Ordinance (Cap. 93)	86,380,000	85,200,000
Expenses of the Office of the Ombudsman (Cap. 385)	824,000	500,000
Expenses of the Permanent Commission Against Corruption (Act XXII of 1988 – Cap. 326)	58,000	58,000
Interest plus contribution to the Sinking Funds i.r.o. Local Government Stock – Registered Stock and Security Ordinance 1959 (Cap. 161)	732,661,000	386,942,000
Interest plus contribution to the Sinking Funds i.r.o. Foreign Loans (Cap. 213)	10,068,000	10,672,000
Malta Arbitration Centre (Act II of 1996 – Cap. 387)	70,000	70,000
Expenses of the NAO (Act XVII of 1997 – Cap. 396)	2,300,000	2,200,000
Refunds under Value Added Tax (VAT)/CET Acts	1,398,000	1,400,000
Widows' and Orphans' Pensions Act (Cap. 58)	500,000	503,000
Personal Injuries (Emergency Provisions) Ordinance (Cap. 111)	55,000	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)	1,400,000	1,432,000
Short Term Borrowing – Treasury Bills Act (Cap. 133)	7,000,000	7,000,000
€56,378,732 Interest payable on ex Malta Drydocks/Malta Shipbuilding Company Limited Loans (Act XV of 2003)	2,253,000	-
TOTAL	1,628,948,000	1,231,049,000

Following queries forwarded to the Budget Office, the following explanations were provided to explain major increases of actual expenditure over the previous year:

Expenses under Reletting of Urban Property Ordinance (Cap. 69) and Agriculture Leases (Reletting) (Cap. 199)

The Judicial Department had requested an increase in the budgetary provision for 2012, based on requirements emerging under the relevant legislation, that is, the Reletting of Urban Property Ordinance and the Agricultural Leases (Reletting) Act.

Social Security Act, 1987 (Act X of 1987 – Cap. 318)

The increase in 2012 over the previous year’s budget was due to several reasons, including:

- the natural increase in load of social benefits from one year to the following year;
- the revision of pensions’ exercise carried out by the respective Department;
- an increase in the minimum rate for children’s allowance;
- a timing issue to cover an additional payment due in December 2012; and
- cost of living adjustments due to pensioners who benefit from the full increase.

Pensions Ordinance (Cap. 93)

A higher budgetary allocation was provided to cover the actual number of pensioners and payments of gratuities.

Expenses of the Office of the Ombudsman (Cap. 385)

The higher 2012 budgetary provision was necessary to cover statutory increases under personal emoluments, including the allocation of funds for Item 6623 – Office of the University Ombudsman, which was previously shown under the Ministry of Education.

Interest payable on ex Malta Drydocks/Malta Shipbuilding Company Limited Loans (Act XV of 2003)

The increase in the budgetary allocation was required to cover interest payments as they fell due, in terms of the respective loan agreement, since the existing loan and overdraft facility was refinanced in March 2011, via a new five-year fixed rate bank loan maturing in 2016.

Interest plus contribution to the Sinking Funds in respect of Local Government Stock

According to Treasury, the increase between estimated figures provided for the years 2011 and 2012 was mainly due to the following:

- A higher provision for servicing costs on MGS was necessary in 2012, when compared to the year 2011, due to changes in the respective portfolio. At the end of 2012, the outstanding amount of MGS increased by €194,446,000 over 2011, which inevitably required a higher provision in order to service the level of outstanding amounts.
- The total nominal amount of outstanding local loan repayment for the year 2012 amounted to €509,701,502 as against the previous year which totalled €182,013,201.

iii) In terms of the Constitution

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

	€
The President of Malta	70,048
The Attorney General	47,756
Judges and Magistrates	1,924,870
The Public Service Commission	70,097
	<u>2,112,771</u>

Budgetary Procedure for the year 2012

Following NAO query, the Budget Office provided a detailed description of the main elements, comprising the 2012 budgetary process, as outlined below.

This commenced through the issue of MF Circular No. 3/2011, entitled 2012 Financial Plans, on 19 April 2011. By means of this circular, all Ministries, Departments and Entities, were requested to submit their respective revenue, as well as recurrent and capital expenditure projections for the year 2012. Within the context of Government's ongoing fiscal consolidation, Ministries were encouraged to strive towards expenditure containment and the enhancement of revenue generation. Indications for additional funding, if any, were to be kept at an absolute minimum, limited only to those instances where non-provision of funds, over the parameters set through the circular, would adversely impact the core workings of the respective Ministries, Departments and Entities.

Thus, in the case of recurrent and capital expenditure for 2012, the overriding assumption applied was that the indicative budgets for the year, at total category level and excluding any one-off expenditures, were to be equivalent to the approved budgetary allocations appearing in the 2011 Financial Estimates. Whilst the shifting of allocations between line Items remained at the discretion of each line Ministry, all non-discretionary spending was to be substantiated. Notwithstanding this, the templates accompanying the circular still allowed for each submission to incorporate claims for additional funds, where it was not possible for the respective Ministry, Department or Entity, to retain the same level of service as that provided in 2011, if levels of Government funding remain unchanged for 2012.

Financial plans were assessed within the context of the macro-economic projections that were produced by the Economic Policy Division within MFEI, which included comparisons against the internal projections for 2012, such as considerations on revenue and expenditure trends, known commitments, and performance for the current year (2011).

Such internal projections are forecast over a three-year basis (2012 to 2014), with the first year serving as the foundation for eventual compilation of the Financial Estimates pertaining to that same year. The 2012 to 2014 projections were internally adjusted accordingly where necessary, to reflect requirements emerging from the respective Ministries' financial plans, only following assessment and justification of the amounts involved. At this stage, no provisions were made for new initiatives, which Government may decide to embark upon at a later stage during the budget process.

Following this assessment, a first round of bilateral meetings was held between the Permanent Secretary of MFEI and each Ministry's respective Permanent Secretary, together with key officials from the Budget Affairs Division, line Ministries and their respective entities. During such meetings, the contents of the financial plans were discussed in detail, including any points requiring further clarifications, such that 2012 projections were further refined.

Indicative budgetary allocations for the year 2012 were then communicated to all line Ministries, followed by a second round of bilateral meetings, which were attended by all Ministers, together with key officials as necessary. The main purpose of these meetings was to address any arising issues, should each line Ministry be allocated a budget equivalent to that indicated in the 2012 Financial Estimates, as well as to discuss new initiatives that Government was planning to undertake.

The revenue and expenditure projections were finally adjusted to incorporate any budget measures, as well as other changes deemed appropriate that emerged during the meetings. However, this was effected within the fiscal framework, targeting a reduction in the general Government deficit for 2012. Eventually, the projections comprised the 2012 Financial Estimates, which were presented to Parliament on 14 November 2011.

Supplementary Expenditure

Details surrounding the process involved in the issue of supplementary expenditure, as outlined by the Budget Office, are provided below.

As the financial year progresses, cases arise where, for line Ministries to be in a position to continue providing the public services for which they are responsible following unforeseen and/or unavoidable financial requirements, supplementary funds need to be provided in addition to the amounts voted in the Financial Estimates. Owing to the prevailing budgetary constraints, the first thrust given towards any claims for supplementary funding, would be to identify savings within the same vote, as contemplated in the Financial Administration and Audit Act, to offset such additional spending.

There are instances where the requesting Ministry is even asked to explore the possibility of savings within votes pertaining to other Departments within its portfolio. Moreover, internally, and as far as is possible, any additional funds are compensated by lower expenditure across Government, or improved revenue collection over the approved targets, so that the adverse effect of any supplementary funding is mitigated as much as possible, and kept within the parameters of the financial framework for that year.

As a result, there have been instances in the past where a series of budget revisions had to be resorted to during the year, by targeting Items for which reductions will not adversely impact the level of service being given by the Ministry concerned. Furthermore, it must be kept in view, that the purpose of budget reductions may also be to compensate for revenue shortfalls, which present themselves as the year progresses. However, in those cases where it is not possible to offset additional funding through compensatory savings within the same vote or through budget reductions, then the provision of additional funds becomes necessary.

Examples where the need for supplementary estimates arises, include:

- efficiency savings targeted at budget preparation time may be taking more time to implement and materialise, with the result that targeted savings are not registered, or are only partially registered;
- recruitment processes are finalised prior to the date when it was estimated that they would be concluded, with the result that additional paylists need to be covered to those featuring when the estimates were compiled;
- capital projects progress at a faster rate than estimated at budget time;
- emergency circumstances, such as a high arrival of irregular immigrants;
- response to initiatives launched is higher than originally anticipated; and
- a Government entity which has seen a drop in its forecast revenues and requires additional subvention from Government to finance ongoing costs.

Supplementary funding is only provided as a last resort and when there would be overriding reasons to do so. Such funding is then presented to the House of Representatives in terms of the Financial Administration and Audit Act, generally immediately after the presentation of the budgetary estimates in respect of the following year.

Excess of Expenditure over Estimates

The supplementary estimates contributed in part to the overall fiscal outturn for 2012, with the other contributing element being revenue performance. Table 5 portrays those votes whose expenditure exceeded budgeted figures well over €1 million.

Table 5 – Excess of Expenditure over Original Budget by Vote

Vote	Original Budget 2012	Actual 2012	Variation Actual 2012/ Original Budget 2012
	€	€	€
Recurrent Expenditure			
Vote 13: Electoral Office	3,667,000	5,160,269	1,493,269
Vote 20: Education	152,945,000	157,045,940	4,100,940
Vote 22: Social Security Benefits	750,400,000	782,559,401	32,159,401
Vote 24: Ministry of Finance, the Economy and Investment	123,323,000	140,826,924	17,503,924
Vote 25: Treasury	24,729,000	56,782,714	32,053,714
Vote 41: Ministry for Health, the Elderly and Community Care	326,188,000	330,241,701	4,053,701
Capital Expenditure			
Vote VI: Ministry of Education, Employment and the Family	40,815,000	46,563,842	5,748,842
Vote VII: Ministry of Finance, the Economy and Investment	96,133,000	125,919,725	29,786,725
TOTAL	1,518,200,000	1,645,100,516	126,900,516

(Source: FR2012 pgs ix-xi, 42-146)

Excess expenditure over original budgeted figures exceeding €1 million occurred in the line Items shown in Table 6. The same line Items experienced a similar excess of expenditure during 2011, as portrayed in the Table.

Table 6 – Excess of Expenditure over Original Budget/Revised Estimates by Item

Vote, Item	Original Budget 2012	Revised Estimates 2012¹	Actual 2012	Variation Actual 2012/ Revised Estimates 2012	Variation Actual 2012/ Original Budget 2012	Variation Actual 2011/ Original Budget 2011
	€	€	€	€	€	€
Vote 13: Electoral Office						
Item 5219: Electoral Commission Activities	1,800,000	3,160,000	3,152,144	(7,856)	1,352,144	2,476,608
Vote 20: Ministry of Education, Employment and the Family						
Item 12: Salaries and Wages	116,470,000	118,770,000	118,736,719	(33,281)	2,266,719	1,729,508
Vote 22: Social Security Benefits						
Item 5143: Bonus	43,800,000	55,300,000	54,348,788	(951,212)	10,548,788	4,694,470
Vote 25: Treasury						
Item 5613: Loan Facility Agreement with Air Malta plc	-	32,100,000	52,000,000	19,900,000	52,000,000	52,000,000
Vote 41: Ministry for Health, the Elderly and Community Care						
Item 16: Allowances	38,000,000	39,100,000	41,866,649	2,766,649	3,866,649	1,773,718
Item 30: Contractual Services	17,000,000	19,000,000	19,182,039	182,039	2,182,039	1,434,398
Vote 42: Elderly and Community Care						
Item 16: Allowances	5,500,000	6,300,000	7,535,330	1,235,330	2,035,330	961,293
Capital Vote VI: Ministry of Education, Employment and the Family						
Item 7021: Construction/adaptation/refurbishment works and equipment	3,450,000	6,360,000	6,360,000	-	2,910,000	951,606

¹ Revised estimates are made up of the Original Budget 2012 and the Supplementary Estimates for the same Item.

Vote, Item	Original Budget 2012	Revised Estimates 2012 ¹	Actual 2012	Variation Actual 2012/ Revised Estimates 2012	Variation Actual 2012/ Original Budget 2012	Variation Actual 2011/ Original Budget 2011
	€	€	€	€	€	€
Vote VII: Ministry of Finance, the Economy and Investment						
Item 7212: EU Cohesion Fund 2007 - 2013	-	1	1,058,670	1,058,669	1,058,670	2,319,041

The Budget Office submitted the following reasons behind the repeated excess expenditure over original budgeted figures of the line Items outlined in the Table above.

Vote 13: Electoral Office - Item 5219: Electoral Commission Activities

An additional amount of €1,360,000 was necessary in connection with the Electoral Commission's activities required during the year. By means of correspondence between the Commission and the Budget Office, the former explained that, except for the recruitment of Assistant Electoral Commissioners and counting staff, it was not in a position to await the outcome of developments occurring during 2012, before commencing the extensive preparations for the eventuality of the General Elections. As a result, it was necessary to expedite activities by procuring certain Items during the financial year under review.

Vote 20: Ministry of Education, Employment and the Family - Item 12: Salaries and Wages

Supplementary funds of €2,300,000 were provided in connection with the 2011 – 2016 Public Service Collective Agreement signed in October, 2012. Due to recruitment arising as a result of approved capacity building, which progressed at an increased pace than originally expected, supplementary funds were necessary in order for the Education Division to meet the costs of salaries for the year, in accordance with the collective agreement.

Vote 22: Social Security Benefits - Item 5143: Bonus

An additional amount of €11,500,000 was required to cover all social security benefits as the year progressed. Available estimates at budget preparation time proved insufficient to meet the actual requirements of all beneficiaries, taking into account the 2012 demographical developments. These amounts were appropriated in terms of the Social Security Act, 1987.

Vote 25: Treasury - Item 5613: Loan Facility Agreement with Air Malta plc

On 15 November 2010, the Government and Air Malta plc signed a Rescue Aid loan agreement amounting to €52 million, whereas the latter's position was defined as a 'firm in difficulty', in terms of the European Community Guidelines on State Aid for Rescuing Firms in Difficulty (2004/C 244/02). This agreement was entered into so that Air Malta plc could meet its short-term liquidity requirements, and enable it to continue with its operations until a Restructuring Plan was to be put in place.

Following this loan agreement and subsequent extensions of the repayment deadline of the loan advance to Air Malta plc, on 15 November 2012, Government issued a commercial loan, amounting to €52 million, which funds were to be used by Air Malta plc to pay back the Rescue Aid Loan. In fact, on the same

day of the new commercial loan issue, the company repaid Government, the capital value of the rescue loan (€52 million) plus accumulated interest. Since a specific Item was not featuring for this purpose in the original Financial Estimates for 2012, it was necessary to create an 'ad hoc' Item by means of a Contingencies Fund Warrant.

Eventually, supplementary funding of €32,100,000 was resorted to, after savings of nearly €20 million from other line Items within the same vote were made during the year.

Vote 41: Ministry for Health, the Elderly and Community Care - Item 16: Allowances

Owing to collective agreement requirements, as well as recruitment which materialised at a more advanced pace during the year, additional funds of €3,867,000 were required to maintain the health service provision.

After partly offsetting savings registered under Item 12 (Salaries and Wages) and Item 5505 (National Health Screening) within the same recurrent vote, a supplementary amount of €1,100,000 was still required.

Vote 41: Ministry for Health, the Elderly and Community Care - Item 30: Contractual Services

Ongoing budget monitoring applied by MFEI revealed that a rise in the amount of the Ministry's creditors was foreseen by the end of 2012. Notwithstanding the Ministry's efforts to ensure that commitments were entered into within budgetary allocations available, it was still necessary to provide supplementary funding to ensure the smooth running of the health service.

An additional supplementary amount of €2 million was approved to cover actual requirements under this Item for the provision of contractual services, comprising the provision of clerical services, security services, laundry services, patient meals, cleaning services, staff meals and carers.

Vote 42: Elderly and Community Care - Item 16: Allowances

During 2012, Social Assistants at the Elderly and Community Care Department were engaged on a full time basis and thus became entitled to a number of allowances. In addition, new medical staff at St. Vincent De Paul Residence were also engaged. Consequently, after partly offsetting savings registered under other Items within the same recurrent vote, a supplementary amount of €800,000 was still required to pay for such allowances during the year.

Capital Vote VI: Ministry of Education, Employment and the Family - Item 7021: Construction/adaptation/refurbishment works and equipment

Supplementary funds of €2,910,000 were provided to cover University of Malta's contractual commitments on its capital program of works, since these progressed at a pace which differed from that originally estimated. Following discussions between MFEI and the University of Malta, it was necessary to supplement the original capital budgetary allocation, so that the latter could pay its creditors for certified works carried out.

Capital Vote VII: Ministry of Finance, the Economy and Investment - Item 7212: EU Cohesion Fund 2007 - 2013

An additional amount of €1,059,000 was provided in respect of the Malta South Sewage Treatment Project, which is partly reimbursable from EU. The balance was met out of savings under other Items within the same vote.

The Budget Office confirmed that although at budget preparation time, all efforts are made to ensure that the financial estimates are arrived at as comprehensively as possible, the complexity of arriving at estimates needs to be kept in view. During 2012, supplementary estimates amounted to 3.5% of recurrent expenditure² and 8.4% of capital expenditure³.

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. Given that Central Government accounts are still cash-based, not all Government’s assets and liabilities are included in this statement as would be under an accruals-based accounting system.

Assets

Table 7 represents the Statement of Assets.

Table 7 – Statement of Assets

	2012	2011
	€000’s	€000’s
Public Credit		
Share Holding	389,761	348,299
Other Investments	453,439	296,346
Loans	<u>108,175</u>	<u>107,953</u>
	<u>951,375</u>	<u>752,597</u>
Investments held on behalf of		
Sinking Funds (Local)	93,018	117,290
Sinking Funds (Foreign)	34,049	39,848
Trust Funds	<u>1,545</u>	<u>1,399</u>
	<u>128,612</u>	<u>158,537</u>
Advances		
Advances	<u>140,042</u>	<u>158,064</u>
Bank and Cash		
Banks ⁴	4,179	2,564
Central Bank of Malta – Public Account	<u>7,108</u>	<u>205,847</u>
	<u>11,286</u>	<u>208,411</u>
TOTAL ASSETS	<u>1,231,315</u>	<u>1,277,609</u>

Figures in Statement may not add up due to rounding up.
(Source: FR 2012 pg165)

² Total Recurrent Expenditure as per Financial Estimates 2012 (page 1) amounted to €2,680,900.

³ Capital Expenditure as per Financial Estimates 2012 (page 1) amounted to €425,327.

⁴ Consists of bank accounts held by foreign Embassies/Commissions and the National Lottery Good Causes Fund bank account.

Public Credit – Shareholding

The value of direct investments, as shown in the FR as at 31 December 2012, stood at €389,760,603 (€348,298,679 in 2011). This was made up of €176,493,017 unquoted shares valued at purchase cost, and €213,267,586 quoted shares, which have been valued at market price as at year-end. The nominal value of shares denominated in British Pounds remained unchanged (£41,339) from 2011, whilst the nominal value of United States Dollars substantially increased to \$138,630,753 (\$11,147,455 in 2011) due to new investments.

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 2012 and the preceding year:

New Investment

- The Treaty Establishing the European Stability Mechanism (ESM) was originally signed by Finance Ministers of the 17 euro-area countries on 11 July 2011. However, a modified version of the Treaty, incorporating amendments aimed at improving the effectiveness of the mechanism, was signed in Brussels on 2 February 2012.

The main features of the ESM build on the existing European Financial Stability Facility. It complements the new framework for reinforced economic surveillance in the EU, and includes a stronger focus on debt sustainability by focusing on prevention, to substantially reduce the probability of a crisis emerging in the future.

For this purpose, ESM is entitled to raise funds by issuing financial instruments, or by entering into financial or other agreements/arrangements with ESM Members, financial institutions or other third parties.

By virtue of Article 8(4) of ESM Treaty, members irrevocably and unconditionally undertook to provide their contribution to the authorised capital stock of €700,000 million, in accordance with their contribution key, as set out in Annex I of the same Treaty. This capital is divided into seven million shares, having a nominal value of €100,000 each, and divided into paid-in and callable shares. The initial aggregate nominal value of paid-in shares issued at par was €80,000 million.

The ESM Treaty entered into force on 27 September 2012. The Eurogroup agreed that two tranches of capital were to be paid in 2012, another two tranches in 2013, and a final tranche in the first half of 2014.

To this effect, during 2012, Malta paid the first two tranches due to ESM, which amounted in total to €23,392,000, as paid-in capital, representing 4.571428571% of the 5,117 shares of the authorised capital stock, of which, 584.8 are paid-in shares and 4,532.2 were still to be called-up.

Increase in Investments

- At an extraordinary meeting of the shareholders of Malita Investments plc, held on 29 May 2012, the shareholders resolved that the nominal value of the Ordinary shares in the company be converted from €1 to €0.50 per share, and that both the authorised and issued share capital of the company be redenominated accordingly. As a result, the value of Government's investment in this company as that date, which stood at €14,999,999 and consisted of 14,999,999 shares of €1 each, were converted to 29,999,998 shares of €0.50 each.

At the same meeting, it was also resolved that the company was to issue and allot 20 million ordinary 'A' shares of a nominal value of €0.50 per share for cash to the Government.

Moreover, at a Board meeting held on the same date, the directors of Malita Investments plc agreed for an increase in the Government's shareholding in the company amounting to 68,108,064 Ordinary 'A' shares, of €0.50 each, following exchange of transfer of lands.

The Treasury Department reported Malita Investments plc as an unquoted investment in its FR, since the Government currently holds 'A' shares, whilst the shares that are listed on the Malta Stock Exchange are the 'B' shares. In addition, a clause in the Memorandum and Articles of Association of the company imposes a percentage ceiling on the shares that shall be owned by the Government.

- In a Board resolution dated 16 December 2011, Bank of Valletta plc capitalised €30 million of its reserves, for the purpose of a bonus issue of 30 million fully paid ordinary shares of a nominal value of €1 per share. As a result, the Government was allotted a further 7,569,035 shares, representing one bonus share for every eight held, leading to a nominal value of the investment as at 31 December 2012 amounting to €68,121,316.

Decrease in Investments

- Following an extraordinary general meeting of Air Malta plc, held on 27 September 2012, the shareholders of the company approved a reduction of the Issued Share Capital from €25,892,094, divided into 11,115,478 Ordinary Shares of a nominal value of €2.329373, to €1,000,393, consisting of 1,000,393 Ordinary Shares of €1 each. This decrease was effected by a set-off of €24,891,701 against the share capital of the company, being part of the accumulated losses as at 31 March 2012. Consequently, the Issued Share Capital of the Government was redenominated from a fully paid-up nominal value of €25,360,997 (10,887,478 shares of €2.329373 each), to €979,873 (979,873 shares of €1 each). The reduction in the share premium, from €42,400,270 to €1,638,220, followed the provisions of Article 114 of the Companies Act.

As part of the Restructuring Plan approved by the European Commission, binding Government to take up €130 million shares in the company, the Government subscribed to 78 million Ordinary Shares, being its pro-rata share of the issue by the company of 79,633,436 shares of €1, offered to all shareholders of Air Malta plc. As a result, by end-of-year 2012, the Government paid-in the cash sum of €20 million which is equivalent to 25.641% of the nominal value.

The movement of Government's investment in the company was agreed upon between both parties, on the signing of a subscription agreement on 6 October 2012. This agreement also stipulates when the new issue will be subject to calls for payment of the unpaid part, whereas Government will be expected to contribute the full 100% of the nominal value of shares by 15 January 2016. Through the same agreement, Government also committed itself to subscribe to another 52 million ordinary shares, which will also be fully paid-up by 2016. Government's shareholding in Air Malta plc, as at 31 December 2012, reached 99.97%.

Investments struck-off

- The Government had a cost of investment of €465,688 and €2,014,927 in Malta External Trade Corporation Ltd and Medigrain Co. Ltd, respectively. The former was struck-off on 15 December 2011, and the latter on 26 September 2012.

Other Movements in Investments

- According to a confirmation dated 11 March 2013, obtained from Treasury through the European Investment Bank, Malta's authorised shareholding in same, as at end-of-year 2012, stood at €102,665,000. This was after increases of €32,861,000 in the subscribed capital of the Bank up till 31 December 2012. To this effect, Government's aggregate paid-in capital by end 2012 amounted to €4,921,475.
- Government's subscription in the share capital of the European Bank for Reconstruction and Development, as at end 2012, totalled a nominal value of €2.1 million, which was partly called-up at a cost of €630,000. This included an increase in paid-in capital which was funded through the reallocation of the Bank's reserves during 2010, which amounted to 10 shares of €10,000 each.
- Through correspondence with Treasury, dated 12 February 2013, the International Bank for Reconstruction and Development confirmed that, as at 2012, Malta's nominal value of its investment was \$129,561,990, out of which a total of \$5,445,765 was called-up and paid. Treasury's books were updated accordingly on 30 July 2012 to reflect the increase in capital contribution, and again on 12 February 2013, due to a revaluation arising from exchange rate movements.
- Treasury carried out an upward adjustment of €35,325 in the cost of Government's investment in Malta Investment Management Company Limited, to reflect a new issue of 36,502 ordinary shares of €1 each, against a capitalisation from the Revenue Reserve Account of the Company, following a change in the nominal value of its shares from €2.33 to €1. Both changes were resolved during an extraordinary meeting of the shareholders of the Company during the year 2008.
- A direct confirmation from Multilateral Investment Guarantee Agency, dated 22 February 2012, revealed that Government's paid-in portion to the initial subscription of 75 shares of \$10,820 each, amounted to 20%. To this effect, Treasury carried out an upward adjustment of €58,667 in the cost of investment, to reflect both the increase in the paid-up portion as described above, and the revaluation of the cost of investment as per closing rate of exchange.
- As at 31 December 2012, Malta's contribution to the Trust Fund Facility for Euro-Mediterranean Investment and Partnership, administered by the European Investment Bank, stood at €1.5 million. The fund's main purpose is to assist the economic and social development of Mediterranean partner countries.

Government made an initial contribution of €1 million into this fund, paid in three annual tranches during years 2005 to 2007. A second contribution of €500,000 followed, consisting of two equal payments of €250,000 during 2011 and 2012. The adjustment in Treasury books, to reflect this investment, was effected accordingly.

Movements in Values of Existing Investments

During 2012, there was a decrease in cost of investments in the following entities, attributable to the change in the United States Dollar exchange rate, in aggregate amounting to €148,014:

- Council of Europe Development Bank;
- International Bank for Reconstruction and Development;
- Malta Freeport Corporation Ltd;

- Mediterranean Offshore Bunkering Co. Ltd; and
- Multilateral Investment Guarantee Agency.

Public Credit – Other Investments

Investment in Industry

A return submitted by Malta Government Investments Limited (MGI) to the Accountant General showed that the total cost of investment in 38 companies amounted to €13,347,358 as at 31 December 2012.

MGI estimated that the net book value of these investments amounted to €11,680,987, after an accumulated provisional loss of €1,666,371. Further details are provided in Table 8.

Table 8 – Investments through Malta Government Investments Ltd.

Investment Type	No. of Companies	Cost	Provisional Loss	Net Book Value
		€	€	€
Subsidiary Companies	20	11,890,481	559,917	11,330,564
Associated Companies	2	1,455,858	1,106,454	349,404
Minority Interest in Other Companies	16	1,019	-	1,019

The return also indicated that seven of these companies were undergoing liquidation procedures and another two never commenced operations.

At the end of 2012, the total of investment in industry, as reported by Treasury, amounted to €13,369,735 as against €19,089,400 on 31 December 2011, a decrease of €5,719,665 over the previous year.

This decrease works out as follows:

- The striking off of Medigrain Co. Ltd from the Treasury Books, which reduced the total investment in industry by €5,922,665.
- An increase of €200,000 in the shareholding in Ricasoli Tank Cleaning Limited.
- New investment in Pitkalija Limited's ordinary shares amounting to €3,000.

It is to be noted that indirect investments at year-end, as reported by Treasury, amounting to €13,369,735, do not tally with MGI aggregate balances reported, standing at €13,347,358. 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 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 which has never been reported by the latter.

(Source: Treasury)

New 'Other Investments'

Employment and Training Corporation

In 2012, Employment and Training Corporation has been endowed with an initial capital of €582,343, which has been paid by the Government out of the Consolidated Fund, as per Section 19(1) of the Employment and Training Services Act (Cap. 343).

Addition in 'Other Investments'

Enemalta Corporation

By virtue of a deed signed between the Government and Enemalta Corporation on 31 December 2012, the Government's Interest in the Corporation increased by €208,066,802. This increase was in settlement of part of the price of the properties granted on temporary emphyteusis, by the Government to the Corporation, which properties were occupied or utilised by the Corporation for the purpose of carrying out its activities. This deed had absolutely no bearing on the other Government Interest in the Corporation, which existed on the day of publication of deed.

Euro Coins

During 2012, the Central Bank of Malta (CBM) made Euro Coin issues on behalf of Treasury totalling €4,261,510, bringing the total amount of Euro Coins in circulation as at 31 December 2012, to €50,098,000.

Dividend/Profit Received

Central Bank of Malta

A total of €46 million was received in five tranches from CBM during 2012, of which €42 million consisted of 2011 profits due to Government, and €4 million representing interim payments on 2012 profits.

Malta Financial Services Authority – Capital Fund

Surplus funds amounting to €8,989,985 were received in six tranches from the Malta Financial Services Authority during 2012, in terms of Section 26(3) of the Malta Financial Services Act (Cap. 330).

Inspection of Investments - Government Securities Board

The purpose of the Government Securities Board is to verify and certify the list of investments held by the Government as at 31 December 2012, 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 MFIN Permanent Secretary, a representative of Malta Investments Management Company Limited and the Accountant General. All members were present for the meeting held on 16 July 2013 to inspect the investments held at the Treasury.

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.

During the meeting, the possibility of amalgamating Trust Funds that have been dormant for a number of years, into a single fund, was discussed. In fact, income derived from a number of existing Trust Funds, which as at 31 December 2012 amounted to €1,544,523⁵, is very often reinvested, since the purpose for which they were set up is no longer relevant. As a result, a memo was drawn up by Treasury and was forwarded to the Attorney General, to determine whether there are any legal implications if these funds are amalgamated into one fund. The Board proposed that this fund be reinvested, and the income derived distributed to non-Government organisations to be utilised for educational, cultural and social purposes.

Public Credit – Loans made by Government and Repayments thereof

Balances and other details of all loans issued by Government as on 31 December 2012 as reported in Appendix E of FR 2012, are summarised as follows:

	€
I. Loans under Act II of 1956	23,099
II. Other Loans	108,152,281

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	50,683,923
Loan Facility Agreement with Air Malta plc	52,000,000
Loan – Mariam Al Batool	399,854

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 2012 amounted to €50,683,923.

The loan to the Hellenic Republic originated from an €80 billion Loan Facility Agreement signed between the Euro Member States (the Lenders) except Greece, and the Hellenic Republic (the Borrower), dated 8 May 2010. The maximum amount that the lenders shall contribute under the Facility was established in this Agreement, which in Malta's case stood at €74,543,026.

The release of the first Loan was conditional upon the signature of the Memorandum of Understanding and the entry into force of this Agreement. Following consultation with the European Commission, the Hellenic Republic may request for subsequent loan disbursements, which must be agreed upon by all Lender States before funds are released. Disbursements are effected after consultation with the European Central Bank, following the Commission's verification that the implementation of economic policy reforms by the Borrower is in line with the required adjustment programme, or any other conditions laid down in the European Council decision, on the basis of Articles 126(9) and 136 of the Treaty on the Functioning of the European Union, and the Memorandum of Understanding.

During the period 18 May 2010 to 14 December 2011, €52.9 billion were disbursed under the Facility in six loans. For each of the Loans, the share of each contributing Lender was calculated on their respective Contribution Key as explained in the Intercreditor Agreement. The Greek loan facility was effectively reduced to €77.3 billion, following the non-participation of Slovakia, and the stepping-out of Ireland

⁵ List of Trust Funds can be obtained from FR 2012 page 154.

and Portugal on 30 November 2010 and 3 May 2011 respectively. However, some Lenders' actual disbursements were not always congruent to their respective Contribution Key for two reasons: Lenders could not always complete their national procedures in time, and for some Lenders the annual budgetary allocation was limited, as in Malta's case.

With no further loans disbursed under the Loan Facility Agreement with the Hellenic Republic, on 15 June 2012 the Euro-zone Working Group carried out a rebalancing exercise, establishing what each Committed Lender should have disbursed vis-a-vis the actual disbursement. To this effect, the final report issued by the European Commission was communicated to MFEI on 18 October 2012. The Working Group also decided that any resulting balance due by each Committed Lender, be netted-off against interest receivable from the Borrower in subsequent periods. Following the rebalancing exercise, it was established that Malta had a shortfall of €72,399, which amount was reported as an increase in Loan to the Hellenic Republic in 2012.

Loan – Mariam Al Batoool School

In the year 2011, the Government agreed to lend the sum of €250,000 to the Mariam Al Batoool school, due to 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. In fact, 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.

During 2012, the school was granted a further loan facility of €150,000, which was already contemplated in the agreement signed on 14 December 2011.

New Loans

Loan Facility Agreement with Air Malta plc

Following a European Commission Decision of 15 November 2010, a rescue aid loan of €52 million was originally granted to Air Malta plc by Government, in accordance with the Loan Facility Agreement entered into between the two parties, on the same date. Air Malta plc required these funds to meet its short-term liquidity requirements, and enable it to continue with its operations until its Restructuring Plan is put into place.

On 16 May 2011, Malta notified the Commission of a restructuring plan in the form of a capital injection amounting to €130 million, including a debt-to-equity swap of the already approved rescue loan of €52 million. This plan was authorised by the European Commission, through its Decision of 27 June 2012 on the State Aid No. SA.33015 (2012/C), covering a five-year restructuring period from November 2010 until the third quarter of 2015.

The original loan facility agreement of €52 million was terminated on 15 November 2012 and paid in full accordingly. On the same date, this was replaced by a new loan agreement under different terms and conditions, granting Air Malta plc a loan of another €52 million, with repayment terms of €40 million payable in January 2015, and the remainder sum of €12 million payable a year after.

Additionally, the Government is committed to take up 130 million ordinary shares of €1 each, in two tranches of 78 million and 52 million respectively. Further details of the Government's investment in Air Malta plc, in accordance with the restructuring plan, may be found under Investments on page 29 of this analysis report.

Existing Loan Agreement

Water Services Corporation

The initial amount of the loan to the Water Services Corporation was of €10,482,180. This loan, which as at 31 December 2012 amounted to €4,967,885, is interest free, and repayable either through a direct payment to Treasury in the event that no subvention is required by the Corporation, or through a Transfer Voucher in the event that the Government subvention is still required.

No loan repayments were made in the years 2008 to 2012. Moreover, previous repayments were, either charged from grants to the Water Services Corporation, or set-off against the Corporation's bills, mainly from the then Malta Drydocks.

Investments held on behalf of Sinking Funds

The following is a breakdown of Investments held on behalf of Sinking Funds:

Table 9 – Sinking Funds Investments

Investment	Sinking Funds – Local	Sinking Funds – Foreign
	€	€
Central Bank of Malta Deposit Accounts	67,962,833	34,049,412
Malta Government Stocks	25,055,440	-
TOTAL	93,018,273	34,049,412

(Source: FR 2012, pg 160)

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 FR incorporates a detailed statement of balances remaining outstanding as on 31 December 2012, in respect of advances made to various Government Departments, Agencies and Organisations.

Pending advances were reported as amounting to €140,042,146 as on 31 December 2012, as against €158,063,739 outstanding by the end of the previous year.

New Advance

According to FR 2012, Appendix L, one new Advance Warrant for the amount of €150,000 was issued during 2012, in favour of the Mariam Al Batoool school for the purpose of extending loan facilities.

Advance Repaid

The advance to Enemalta Corporation 1997, amounting to €6,034,197, was fully repaid during the year, out of the annual budgetary provision under Item 7189 (Contribution towards Treasury Clearance Fund) of MFEI Capital Vote.

Outstanding Advances

Outstanding advances as at 31 December 2012, apart from advances forwarded to the former Malta Drydocks Corporation and Malta Shipbuilding Co. Ltd., were the following (Table 10 refers):

Table 10 – 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	2,099,539
Commissioner of Inland Revenue, to meet loans in terms of Article 4 of the Monte Di Pieta' Act (No. XXXIX) of 1976	356,402
Ministry of Finance, for the purchase of shares held by Enemalta Corporation in Mediterranean Offshore Bunkering Co. Ltd.	9,317,494
Treasury 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 the same Company, 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 the Company	1,109,173
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
Ministry for Economic Services, for the purpose of settling during 1999 and further servicing costs of Malta Freeport loans	13,977,644
Ministry for Economic Services, to meet expenditure in connection with the privatisation process of the Malta Freeport operations	2,118,836
Ministry for Economic Services, for the purpose of settling Malta Freeport equipment claims	10,482,180
Treasury for the purchase of Medigrain shares from Mid-Med Bank plc in 1999	2,014,927
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
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
Ministry of Finance, the Economy and Investment for the purpose of extending loan Facilities to Mariam Al Batool School	399,854
TOTAL	55,787,630

Remarks

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. This advance will continue to be pursued within the context of pending legal proceedings that were initiated against a local holding company. This company entered into a deed of sale in 1997. Legal proceedings covered outstanding dues to Malta Enterprise Corporation and the unfulfilled obligations for the development and operation of a new hotel complex.

Bank of Valletta Employees Foundation - €2,099,539

MFIN stated that it will continue to pursue this advance through annual instalment payments, in accordance with the loan agreement of 1995.

Loans in terms of the Monte Di Pieta' Act, 1976 - €356,402

During 2012, repayments made in respect of this advance totalled €38,685.

Purchase of Mediterranean Offshore Bunkering Co. Ltd. Shares from Enemalta and Sea Malta Co. Ltd. - €9,317,494 and €1,109,173, respectively

MFIN confirmed that shares of both companies are planned to be repaid from the proceeds which Government shall receive from the disposal of its shares, following the privatisation of the Mediterranean Offshore Bunkering Co. Ltd.

Loan to Maltacom Employees Foundation - €4,907,504

MFIN informed NAO that it will continue to pursue this advance through annual instalment payments in accordance with the loan agreement of 1998.

Malta Freeport Loan Servicing - €13,977,644

During 2012, a repayment was made in respect of this advance, amounting to €1 million. In fact, MFIN confirmed that presently this advance, is being repaid out of the annual budgetary provision under Item 7189 (Contribution towards Treasury Clearance Fund) of the Ministry for Finance Capital Vote.

Malta Freeport Privatisation Process, Malta Freeport Equipment Claims and Purchase of Medigrain Shares from Mid-Med Bank plc - €2,118,836, €10,482,180 and €2,014,927, respectively

According to MFIN, these advances are planned to be repaid out of an annual budgetary provision under Item 7189 (Contribution towards Treasury Clearance Fund) of the Ministry for Finance Capital Vote.

Mid-Med Bank Employees Foundation - €6,988,120

As stated by MFIN, the repayment of this loan will commence in 2018, when the 15-year moratorium of the loan agreement comes to an end.

Gozo Channel Company 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, for the advance amount of €1,164,687 which was to be completely repaid by 2013.

As detailed in the schedule of payments, it was projected that a capital repayment of €145,586, and interest amounting to €11,647, should have been paid in 2012. However, even though the Ministry sent a reminder to Gozo Channel Co. Ltd., on 30 November 2012, requesting the company to honour its dues for the year, no payments were received from the company. Finally, MFIN confirmed that this advance will continue to be pursued within the context of the financial position of the company.

Loan Facilities to Mariam Al Batool School - €399,854

Two warrants, totalling €249,854, were issued in favour of the Mariam Al Batool school for the purpose of extending loan facilities during year 2011. As described earlier under the sub-heading New Advances, a third warrant was issued during 2012 for €150,000 for the same purpose.

Other Outstanding Advances

Pending advances to be repaid out of the Contribution towards Treasury Clearance Fund are listed in Table 11.

Table 11 – Pending Advances to the former Malta Shipbuilding Co. Ltd and Malta Drydocks Corporation

	€
Construction of ships at Malta Shipbuilding Co. Ltd.	21,643,890
Malta Drydocks Corporation – 1999	7,000,185
Malta Drydocks Corporation – 2000	25,623,107
Malta Drydocks Corporation – 2001	29,987,336
TOTAL	84,254,518

MFIN confirmed that the advance to Malta Drydocks Corporation in 1999, is presently being repaid out of the above-mentioned annual budgetary provision, under Item 7189 (Contribution towards Treasury Clearance Fund). In fact, during year 2012, an amount of €11 million has been repaid, as can be seen in the 2012 FR page 182. MFIN is planning that the remaining advances listed in Table 11 will be repaid, using the same procedure for the 1999 advance.

It is to be noted that the budgeted amount of €14,527,000 for the year under review, under the Capital Vote VII (Item 7189) for the Ministry responsible for Finance, which was to be utilised towards paying Treasury Clearance Fund Advances, was exceeded by a total of €3,507,197.

Central Bank of Malta Public Account

Until May 2012, Treasury has continued with the practice of submitting to NAO, a monthly reconciliation statement for the Public Account. However, as from June 2012 onwards, monthly reconciliation statements for the Public Account were not submitted.

In a reply to a query forwarded to Treasury on this matter, the latter replied that the Malta Information Technology Agency (MITA) had instructed them not to perform the June 2012 Bank Reconciliation Statement (BRS), since “...the BRS was, and still is, subject to many fixes which are currently being done by MITA.” Moreover, MITA are currently still performing system testing of a new version of the BRS application.

The unreconciled balance between CBM statement and the balance as per cash book, noted in the May 2012 BRS, amounted to €8,274,893. Treasury stated that this discrepancy does not only relate to stale cheques, but also to other fixes consisting of “...amounts reconciled across databases (prior Euro) and close-offs.” Furthermore, it was confirmed that a breakdown of these unreconciled Items is not available.

As reported in last year’s Annual Audit Report (AAR), on the Reconciliation for the period June 1992 to December 2001, Treasury’s position remained the same as detailed in the 2010 AAR.

Developments on the 'new' Bank Reconciliation Statement

As at beginning of September 2013, Treasury confirmed that *“As per MITA, the multi-matching facility (one-to-many) has long been developed by MITA since 2011, however, the module has been tested several times and has since been upgraded to the latest version along with other BRS enhancements which have been user accepted ... by Treasury this year. This BRS release, which includes this upgraded functionality, is scheduled for October 2013.”*

Boards of Survey

Boards of Survey at Treasury and at the Ministry for Gozo 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 2012. Both Boards had no adverse remarks to make.

The Board at Treasury was informed that the new BRS had been implemented as from the statement for end December 2011. It also confirmed that the cash book balance and the bank balance in the report agreed with the Departmental Accounting System and the Public Account bank statement balance respectively.

NAO noted a considerable time lag between the end-of-year closure of the books and the submission of the reports by the Board of Survey, which delays were even longer than in the previous year. In fact, the reports by the respective Boards relating to moneys, deposits and other values at Treasury and the Ministry for Gozo, were received by NAO on 25 July 2013 and 5 March 2013 respectively.

Ministerial/Departmental Bank Accounts

Treasury Circular No. 1/2013, issued on 8 January 2013, requested Heads of Departments and other Accounting Officers to submit a soft copy of the Return indicating the cash and bank balances as at 31 December 2012, including the position of each bank account held both at local commercial banks and CBM. This information is automatically captured with a Bank Accounts Database developed by Treasury during 2009. In addition, officers are to submit a hard copy of these balances to Treasury, clearly indicating those bank accounts against which a liability exists, as well as identify bank accounts in respect of Trust Funds.

The respective balances were published in the FR 2012 (pages i to v refer). 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 exceptions noted in respect of the latter were reported in the FR, and related to the Ministry for Education, Employment and the Family, and the Education Department, which had overdrawn some of their accounts.

Despite that Treasury sent a number of reminders to the Correctional Services, to submit the above mentioned soft and hard copies of the cash and bank balances as at 31 December 2012, the latter still failed to comply. This was reported as a defaulter in the FR.

In last year’s AAR, NAO reported that Treasury had plans to discuss their data with the National Statistics Office, within the context of the System of National Accounts and the Financial Accounts that the latter produces on a quarterly basis. To this effect, Treasury confirmed that due to lack of staff as well as other priorities, no new progress has been made in this respect.

Liabilities

Table 12 features the Statement of Liabilities.

Table 12 – Statement of Liabilities

	2012	2011
	€000's	€000's
Public Debt	4,469,988	4,185,131
Euro Coins issued o.b.o Treasury	50,098	45,836
Treasury Bills	153,224	256,103
Deposits		
Court and Other Deposits	76,975	106,295
Other	23	23
	76,998	106,318
Funds		
Sinking Funds	127,068	157,138
Contingencies Fund	1,165	1,165
Trust Funds	1,609	1,491
	129,842	159,794
TOTAL LIABILITIES	<u>4,880,150</u>	<u>4,753,182</u>
EXCESS OF TOTAL LIABILITIES OVER TOTAL ASSETS	<u>(3,648,835)</u>	<u>(3,475,573)</u>
Accumulated Fund		
Consolidated Fund at year end	(80,123)	2,797
Net Public Debt/Public Credit	<u>(3,568,711)</u>	<u>(3,478,370)</u>
	<u>(3,648,835)</u>	<u>(3,475,573)</u>

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

(Source: FR 2012, pg 166)

Public Debt

Debt Composition

In general, Government's borrowing programme includes MGS, Treasury Bills, and Foreign Loans. The Government sets the long-term Public Debt Management goal, and its preference as to the type of debt and the maturity profile helps provide the market with long-term confidence about the nature of future Government borrowing.

Debt Composition as at 31 December 2012 stood as follows (Tables 13 and 14 refer):

Table 13 – Debt Composition

Domestic Debt	External Debt
%	%
98.67	1.33

(Source: FR 2012, pgs 149-150 – see Table below for % calculations)

Table 14 – Domestic and External Debt Composition

Type of Debt	€	% of Total Debt
Malta Government Stocks	4,351,639,200	93.12
Ex Malta Drydocks	56,378,732	1.21
Treasury Bills	153,224,306	3.72
Euro Coins	50,098,000	1.07
Foreign Loans	61,969,898	1.33
Total Debt	4,673,310,136	100

(Source: FR 2012, pgs 149-150)

Public Debt Percentages

Table 15 portrays debt as a percentage of Gross Domestic Product.

Table 15 – Debt as a Percentage of Gross Domestic Product

Public Debt 31 December 2012	Gross Domestic Product 2012	Ratio Public Debt to Gross Domestic Product
€	€	%
4,673,310,136 ⁶	6,803,093,000 ⁷	68.69

⁶ Source: FR 2012, page 150

⁷ Source: Gross Domestic Product Quarter 1/2013 – National Statistics Office News Release Number 110/2013

Local Loans

On 31 December 2012, the local Public Debt, as reported in Appendix F of the FR, amounted to €4,611,340,239, representing an increase of €198,851,309 over the corresponding reported figure for 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 €153,224,307, €50,098,000, and €56,378,732 respectively.

This increase works out as follows:

	€
Total New Loans	1,489,729,269
Currency Issue	4,261,510
Total Repayments	<u>(1,295,139,470)</u>
Net Increase in Public Debt	<u>198,851,309</u>

Debt Management

Following NAO query, DMD provided a detailed description of the main elements, comprising Debt Management for 2012, as outlined below.

The principal objective of the Directorate in its debt and cash management activities is to raise funds, as well as to carry out other financial transactions in such a way as to ensure that:

- Central Government borrowing programme (short and long-term) is financed at the lowest possible long-term borrowing costs and subject to a prudent level of portfolio risk;
- liquidity of Government funds is adequate to meet Government's payment obligations as they arise and fall due; and
- domestic financial markets are given the necessary support.

Malta Government Stocks – Strategy and Implementation

Government's 2012 borrowing strategy was broadly on the same lines to that of the previous years. It continued to tap the domestic capital market, by issuing both fixed-rate and floating-rate euro-denominated securities (zero currency risk) in the medium and long-term maturity horizons. The conventional fixed rate MGS constitute Treasury's primary financial instrument by which to fund Central Government borrowing requirements.

The reliance on funding from local sources is driven by the strong demand for Government paper, both from the retail and wholesale sectors, and for its benefits that help lessen the impact from the volatility prevailing in the international capital markets. Following consultations held with institutional investors, Treasury targeted not only the demand coming from credit institutions, but also retail and insurance investors in search of attractive yields particularly in the prevailing low interest rate environment.

Table 16 summarises the issuance performance of MGS for the year 2012, including the level of overall participation by domestic investors.

Table 16 – 2012 Malta Government Stocks Issuance Performance

Date	On offer (plus over-allotment)	Total participation
	€million	€million
February	150 + 150	274.7
June	120 + 60	191.6
September (floating-rate ⁸)	50 + 25	66.9
November	100 + 40	252.9
TOTAL	420 + 275	786.1

(Source: DMD)

Treasury Bills

During 2012, Treasury Bills were issued to cover temporary shortfalls in cash, arising from mismatches between receipts and payments. Apart from this primary role, the issuance of Treasury Bills served also to maintain liquidity in the domestic market.

Risk Plan

Prior to each MGS issue, Treasury embarks on a comprehensive exercise to minimise a number of risks, which includes:

- consultations that are held with stakeholders to target those investors with the highest demand;
- analysis carried out on the holdings of maturing MGS (concentration risk);
- subject to market conditions, MGS are issued with maturity horizon aimed mostly at the medium to long-term (above seven years);
- an informal threshold limit maintained at €450 million of redemptions per year;
- planning the timing of issuance of MGS, in order to mitigate competition by the private sector; and
- a combination of floating-rate and longer term fixed-rate MGS is applied for the issuance of domestic debt, whereby the ratio of floating-rate debt to total marketable domestic debt is kept below 10%.

Control Activities

The statutory limits that the Government may raise, by way of loans for the financial year ahead, is authorised by the Budget Measures Implementation Act, that are annually tabled during the Budget presentation.

The timing, amount and pricing of MGS issues, covering the financing programme for the year, is initiated through the Treasury by DMD, after consultation with CBM. This results in the formulation of a proposal, outlining the overall strategy for the year, which is submitted to MFIN for discussion.

⁸ The issue in September was of Floating-Rate Stocks linked to the six-month Euribor.

Recommendations are then referred to the consideration of the Public Debt Management Advisory Committee, which is to provide advice to the Minister for Finance on the recommended strategy. Recorded minutes of all Committee meetings are kept in a registry file.

Following the Minister's approval, in early January of each year, Treasury publishes an indicative issuance calendar of MGS, via a press release issued by the Department of Information. Such calendar outlines the main elements of the issuance strategy, including the maximum amount of MGS that can be issued during the year, the main purposes for Government's borrowing, type of instruments to be used, planned frequency of issuance and their maturity.

Moreover, in 2012, a standard debt operations manual was introduced with the assistance of the Management Efficiency Unit.

Operational Planning

Gantt Charts and Timetables are issued prior to every new issuance of MGS to minimise operational risks. These would include a series of actions that would need to be taken at different points in time, in preparation for, and during a MGS issue.

An event calendar is shared among responsible officers to indicate the dates where action is needed to be taken, including processing of interest payments, redemptions, rate announcements, and stop trading instructions.

Debt Monitoring

Portfolio metrics, such as weighted average maturities, are monitored on a regular basis by DMD. All the data relevant to Central Government debt is collected by the Directorate and is updated immediately after the execution of each transaction. Such data is used for the preparation of reports for the public domain (published on the Treasury website), as well for the purpose of carrying out internal analysis and assignments.

Treasury Bill and MGS auction results are published on the Treasury website on the same day they are conducted. Furthermore, information on the outstanding MGS portfolio and investor distribution data is also published on a quarterly basis.

Additionally, public debt interest payments are monitored on an ongoing basis, and the Budget Office is kept updated on a regular basis.

Information and Communication

All data relevant to Central Government debt is collected by DMD. The auctions of Treasury Bills and MGS are conducted manually using excel spreadsheet templates, which have been specifically designed for this purpose. Related data, including debt portfolio risk indicators, is captured in these spreadsheets, which are saved on a shared server, to facilitate access to senior management. This is also backed up on a remote server, which is managed by MITA.

DMD submits the following information to MFIN by the due date requested by the Ministry:

- A compilation of the recurrent vote of the Public Debt in the financial estimates.
- The financial plan with three different scenarios, representing different market conditions and issuance strategies for the year ahead, for further evaluation by MFIN.

- A monthly debt servicing schedule is sent to the Budget Office showing the actual interest payments of past months, and the scheduled interest payments for the months ahead, against the budgetary allocations.

Foreign Loans

The authorisation and regulation of raising foreign loans is governed by the Development Loan Act, which authorises the Government of Malta to enter into agreements with foreign governments, international organisations or other institutions, to obtain financing from abroad in support of the economic development of the country.

Whereas all domestic borrowing by the Maltese Government is by way of public offer of securities, all foreign borrowing is in the form of bilateral non-marketable loans with foreign governments and international institutions.

The policy of borrowing from overseas through bilateral agreements with foreign governments/ organisations lies within the remit of MFIN, and is usually sought to finance specific projects. All loan agreements are subject to the final approval of the Minister for Finance, after consulting the CBM on the terms and conditions of each loan. DMD is ultimately responsible for the recording and servicing of such loans.

A detailed analysis of existing foreign loans due by Government, which as at 2012 stood at €61,696,898, is provided in Table 17:

Table 17 – Foreign Loan Analysis

Foreign Loan	Financing Purpose	Year of Issue	Amount Disbursed	Interest Rate	Date of Maturity	Balance due as at 31 December 2012
				%		€
U.S.A. Government	Tug boat, cranes and spare parts related to projects	1973	USD 5 million	3	13/11/2015	541,946
Government of Canada	Telephone cables and equipment	1974	CAD 1 million	0	31/05/2024	218,848
European Union Loan B	Improvements in the Grand Harbour	1979	EUR 5 million	1	15/11/2018	1,124,000
European Union Loan C	Solid Waste Composting Project	1987	EUR 3 million	1	15/09/2027	1,612,200
European Union Loan F	Sewerage Projects	1993	EUR 7 million	4.85	30/04/2013	333,800
Republic of Italy 1991	Supply of Italian goods and services related to projects approved by the Italian and Maltese Governments	1993	ITL 50 billion	2.50	09/12/2014	89,104
Council of Europe Fund for Development 2002	Mater Dei Hospital	2002	EUR 25.5 million	5.06	11/12/2017	12,750,000
Council of Europe Fund for Development 2003	Mater Dei Hospital	2003	EUR 75.5 million	4.65	07/05/2018	45,300,000
TOTAL						61,969,898

(Source: DMD)

Finally, DMD stated that any future policy, on obtaining foreign borrowing in the international markets, has to be explored in the context of the Euro market, taking into consideration the risk of relying too much on a few domestic players within the local capital market.

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 2012, Court Deposits amounted to €36,103,961, while Other Deposits totalled €40,870,780.

Letters of Comfort and Bank Guarantees

When a Government entity applies for a loan or overdraft facility, the banks usually request a Letter of Guarantee or Comfort as a security on such banking facilities. As a result, when MFIN receives such a request from an entity, through its respective Ministry, it takes into account Government (Guaranteed) Debt in the context of the Maastricht criteria and State Aid Regulations. With respect to the latter, such request has to be referred to the State Aid Monitoring Board for their comments and recommendations.

Prior to its approval, MFIN also takes into account aspects as to whether:

- the purpose of the related loan involves the financing of capital programmes required to improve the operations of the entity concerned and to enhance its assets;
- Government will be eventually financing the interest, or the interest and capital, of the loan;
- such loan is being taken to replace another already existing loan, and whether the interest rate of the new loan will be the same, or less than the interest rate of the loan being replaced;
- a Government bank guarantee is required in the national interest; and
- a clear and specific loan repayment schedule is available for the purpose of eventual monitoring of such schedule, especially when, and if, a subsequent request for guarantee extension is made.

In the light of the above guidelines, after having assessed each request, MFIN must also consider whether any specific reason exists behind the request for a Government bank guarantee.

Furthermore, the Ministry has a Manual of Procedures, which is used for the issue, extension, cancellation and compilation of data on Letters of Guarantee/Comfort.

The position of Contingent Liabilities as at 31 December 2012, as reported upon in Part I of the FR 2012 and comparative figures for 2011 are reproduced in Table 18, a breakdown of which can be found in Table 19.

Table 18 – Contingent Liabilities

	2012	2011
	€	€
Government Guarantees:		
Local	570,353,969	576,242,536
Foreign	<u>591,804,504</u>	<u>486,504,838</u>
	1,162,158,473	1,062,747,374
Letters of Comfort	<u>80,516,598</u>	<u>79,827,777</u>
TOTAL	1,242,675,071	1,142,575,151

Table 19 – Actual Guarantees made by Government

Beneficiary	31 Dec 2012	31 Dec 2011	Remarks
	€	€	
Enemalta Corporation	75,000,000	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	A Letter of Guarantee was issued for this amount on 7 April 2008 to secure loan facility. This Guarantee was replaced by another one secured in the name of Vault Finance Ltd.
	-	17,678,576	This Letter of Guarantee, originally amounting to €30,000,000, was issued on 27 November 2008 to secure temporary short-term overdraft facility. This Guarantee was replaced by another one secured in the name of Vault Finance Ltd.
	26,250,000	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	A Letter of Guarantee was issued for the amount of €10,000,000 on 5 January 2009 to secure overdraft facility. This Guarantee was replaced by another one secured in the name of Vault Finance Ltd.
	-	5,893,003	This Letter of Guarantee, issued on 5 January 2009 and originally amounting to €10,000,000, was issued to secure overdraft facility. This Guarantee was replaced by another one secured in the name of Vault Finance Ltd.
	10,000,000	10,000,000	A Letter of Guarantee was issued for this amount, on 5 January 2009, to secure overdraft facility.
	20,000,000	20,000,000	A Letter of Guarantee was issued for this amount, on 27 November 2008, to secure temporary short-term overdraft facility.
	16,000,000	16,000,000	A Letter of Guarantee was issued on 9 July 2009, for this amount to cover General Banking Facility, which will cover the issuance of a stand-by Letter of Credit.
	24,475,725	25,701,954	This Letter of Guarantee, originally issued on 9 July 2009 and amounting to €27,000,000, was issued to cover loan facility.

Beneficiary	31 Dec 2012	31 Dec 2011	Remarks
	€	€	
	-	75,000,000	A Letter of Guarantee was issued for this amount, on 30 November 2009, to secure loan facility. This Guarantee was replaced by another one secured in the name of Vault Finance Ltd.
	150,000,000	150,000,000	This Guarantee secures loan taken on 22 September 2008 to part-finance the Corporation's investments in the national electricity supply system and distribution network.
	50,000,000	50,000,000	A Letter of Guarantee was issued for this amount, on 9 December 2010, to secure loan facility in connection with the construction of interconnector between Malta and Sicily.
	-	35,000,000	This Guarantee was issued on 5 October 2011 to secure loan facility of €35,000,000. This Guarantee was replaced by another one secured in the name of Vault Finance Ltd.
	100,000,000	-	This Guarantee ⁹ secures loan for €100,000,000, taken on 20 December 2010, to part-finance the construction of the interconnector between Malta and Italy.
	<u>471,725,725</u>	<u>621,523,533</u>	
Malta Enterprise Corporation (ex Malta Development Corporation)	1,698,912	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 Letters of Guarantee for €2,911,717, dated 19 May 2009, and by a Letter of Guarantee dated 3 March 2010.
	883,146	608,778	Letter of Guarantee issued on 6 July 2001 to secure loan/credit facilities made available to the Corporation. The limit of this Guarantee was reduced from €4,658,747 to €2,500,000 during the year.
	908,834	2,364,581	On 21 October 1991 and 21 October 1993, Letters of Guarantee were issued for a total of €9,317,494. The Letter of Guarantee for €5,823,433 was reduced to €2,500,000 during 2012.
	3,490,892	4,532,922	

⁹ Even though this Guarantee was taken on 20 December 2010, no amount was withdrawn during the year 2011. The amount of €100,000,000 was then withdrawn in 2012.

Beneficiary	31 Dec 2012	31 Dec 2011	Remarks
	€	€	
Water Services Corporation	62,598,088	62,092,715	Four Letters of Guarantee issued on 30 April 2007 in connection with Loan 1 and Loan 2 Facility, other loan and overdraft facilities and general banking facility. 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.
	39,799,666	29,500,000	
	<u>102,397,754</u>	<u>91,592,715</u>	
Malta Freeport Corporation Ltd.	-	962,505	This facility was taken over from Malta Freeport Terminals Ltd. as a result of the privatisation process. The Commercial bank requested a Letter of Comfort to cover this facility. There was no exposure during 2012.
	535,952	1,263,046	This facility was 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.
	58,091	55,727	Letter of Guarantee was issued in substitution of the Letter of Guarantee covering the balance on the loans of €18,052,644.
	-	1,630,123	The remaining balance in 2011 consisted of three Letters of Guarantee to secure loan facilities, two of which were cancelled during 2012. No exposure was recorded for the other Letter of Guarantee during 2012.
	200,754,838	200,754,838	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).
	<u>201,348,881</u>	<u>204,666,239</u>	
Malta Industrial Parks Ltd.	16,318,497	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. This Letter of Comfort was amended to €18,000,000 during 2012.
	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 2012	31 Dec 2011	Remarks
	€	€	
Malta Industrial Parks Ltd.	22,689,402	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, and again superseded on 10 July 2012.
	4,203,554	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. This Letter of Comfort was amended to €4,500,000 during 2012.
	11,443,639	11,985,846	A Letter of Guarantee, originally amounting to €13,000,000, was issued to secure loan facility. This was superseded by Letter of Guarantee dated 10 July 2012 for €11,650,000.
	2,890,794	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. This was superseded by a Letter of Guarantee dated 10 July 2012.
	25,000,000	-	Letter of Guarantee was issued for this amount, on 5 October 2012, to secure loan facility to finance the acquisition of property from Air Malta plc.
	985,128	-	On 9 August 2012, Letter of Guarantee was issued to secure loan facility of €12,000,000.
	595,000	595,000	Letter of Guarantee issued on 10 July 2012 with a local bank to supersede the one issued on 12 June 2009 to cover a Bank Guarantee facility.
	-	284,010	This Letter of Guarantee was cancelled during 2012.
	<u>91,114,134</u>	<u>71,547,601</u>	
Malta Government Technology and Investment	611,438	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.	6,389,826	6,209,534	Two Letters of Guarantee were issued on 23 December 2005 to cover working capital and other financing requirements. The limit of one guarantee was reduced to €6,700,000 on 24 August 2012.

Beneficiary	31 Dec 2012	31 Dec 2011	Remarks
	€	€	
Foundation for Tomorrow's Schools	60,036,775	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.	6,000,000	6,000,000	This Letter of Guarantee, originally amounting to €9,000,000, was issued to secure loan facility. This was reduced to €6,000,000 during 2012.
Authority for Transport in Malta	8,064,020	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.
	43,745,866	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>51,809,886</u>	<u>51,137,781</u>	
Grand Harbour Regeneration Corporation	-	13,293,362	This Letter of Guarantee was cancelled during 2012.
	-	13,827,598	This Letter of Guarantee was cancelled during 2012.
	1,228,420	-	A Letter of Comfort issued on 31 October 2012, to secure overdraft facility and finance services/works associated with the City Gate project.
	<u>1,228,420</u>	<u>27,120,960</u>	
Malta Air Traffic Services	104	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.
Gozo Ferries	1,360,000	-	Letter of Guarantee issued for this amount on 18 December 2012 to secure loan facility.
Public Broadcasting Services	1,661,236	-	Letter of Comfort issued on 26 September 2012 to secure loan facility up to €6,800,000, to finance investment in equipment upgrade and the development of the company's properties.
Vault Finance Ltd.	243,500,000	-	Letter of Guarantee issued on 31 December 2012 to secure loan facility for €318,500,000 and replace existing Enemalta Guarantees.
TOTAL	<u>1,242,675,071</u>	<u>1,142,575,151</u>	

The above Letters of Comfort and Bank Guarantees may translate into dues by Government, up to €1,242,675,071, should the companies call upon the latter to make good for the respective debts.

Creditors' Analysis

Forty-nine Ministries/Departments submitted to Treasury an 'Analysis of Creditors' as at 31 December 2012, in the required accruals' template. Total creditors reported in these analysis amounted to €181,714,713, as at year-end. The opening balance as at 1 January 2012, was made up of balances submitted by 47 Ministries/Departments, with an aggregate amount of €170,650,762.

At the end of the year, nine Ministries/Departments reported a 'Nil' creditors balance in their Returns. Moreover, €177,299 of total creditors (equal to 0.1%) related to contested amounts. Table 20 shows an ageing analysis of the remaining creditors' balances as at 31 December 2012:

Table 20 – Ageing of Remaining Creditors

Days Overdue	2012		2011	
	Amount Due €	%	Amount Due €	%
01-30	66,684,313	36.74	80,307,931	49.98
31-60	9,985,699	5.50	8,197,698	5.05
61-90	19,505,601	10.74	7,615,353	4.69
91-180	24,749,684	13.63	9,496,629	5.85
181-360	8,285,345	4.56	3,575,343	2.20
Over 360	52,326,773	28.83	53,104,535	32.73
TOTAL	181,537,415	100	162,297,489	100

Credit balances overdue by over 360 days were mainly related to the Government Property Department, the Ministry for Resources and Rural Affairs, and the Ministry of Education, Employment and the Family, with aggregate amounts of €44,889,531, €3,581,585, and €2,876,651, respectively.

Management Comments

Both the Treasury Department and the Budget Affairs Division agreed with the contents of this Analysis. Additional comments submitted by the Treasury are outlined below:

Central Bank of Malta Public Account

According to Treasury, a breakdown of unreconciled items, amounting to €8,274,893, will be available once the exercise to identify such discrepancy is completed. Moreover, the latest version of the BRS is now scheduled to be completed by December 2013.

It was also commented that the Board of Survey report was submitted late, due to the fact that the Government Securities Board had resigned, and had to be subsequently reappointed. In view of this, the meeting was held on 16 July 2013, following which the Board of Survey could conclude its report.





Corporate Issues

Arrears of Revenue 2012

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. 4/2013 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 5 April 2013. 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 also 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.*”

Returns

Details of Arrears of Revenue included in the Table on page 90 have been compiled only from Returns forwarded to the National Audit Office (NAO) by Treasury. The following Departments submitted nil Returns:

- Office of the President
- House of Representatives
- Office of the Prime Minister
 - o Public Service Commission
 - o Electoral Office

- Ministry of Foreign Affairs
- Ministry for Gozo
 - o Department of Corporate Services
- Ministry for Infrastructure, Transport and Communications
 - o Ministry
 - o Civil Registry
 - o Public Registry
- Ministry of Education, Employment and the Family
 - o Libraries
- Ministry of Finance, the Economy and Investment
 - o Economic Policy
 - o Public Lotto
- Ministry for Justice and Home Affairs
 - o Correctional Services
 - o Probation and Parole Services
- Ministry for Health, the Elderly and Community Care
 - o Central Procurement and Supplies Unit

Treasury reported the Ministry for Health, the Elderly and Community Care (MHEC), in Part I of the 2012 Financial Report, as the only entity that failed to comply with the Circular in force.

Notes and Comments on Arrears of Revenue

Office of the Prime Minister

The gross closing balance as at 31 December 2012, disclosed by the Office of the Prime Minister (OPM) in its ARR amounts to €11,958. The outstanding balance is due from five individuals, and is made up as follows:

- a. €4,233 relates to dues from a debtor for breaching a Contract of Undertaking in 2007;
- b. €3,387 is in respect of overpaid salaries to two employees;
- c. €2,238 is to be reimbursed by an employee who failed to resume her duties and work the stipulated uninterrupted period of six months, after availing herself of Maternity Leave and unpaid Parental Leave/Career Break; and
- d. the amount of €2,100 is expected to be refunded from an employee who did not fulfil her obligations related to the sponsorship of a Masters Degree.

Ageing of debtors are classified as follows:

	€
Arrears outstanding over five years (2007)	4,233
Arrears outstanding over two years but less than five years (2010)	3,087
Arrears outstanding over one year but less than two years (2011)	2,238
Arrears outstanding equal to or less than one year (2012)	<u>2,400</u>
Net Closing Balance	11,958

Armed Forces of Malta

The gross closing balance as at 31 December 2012, disclosed by the Armed Forces of Malta (AFM) in its ARR, stood at €322,428 and can be analysed as indicated hereunder.

	€
a. Security Duties	206,293
b. Helicopter and other services rendered by AFM	106,774
c. Refund of Wages	4,149
d. Patrol Craft Conveyance/Hire of Vehicles and Machinery	4,117
e. Explosive Ordinance Depot Charges	<u>1,095</u>
Gross Closing Balance	322,428

Out of this outstanding balance, the amount of €92,698 relates to dues that are considered as difficult to recoup, leaving a net collectable balance of €229,730. The amount of €20,608 is due from Government Entities, whilst the remaining balance of €209,122 is expected to be collected from individuals and/or private companies.

	€
Arrears outstanding equal to or less than one year (2012)	225,319
Arrears outstanding over one year but less than two years (2011)	Nil
Arrears outstanding over two years but less than five years (2008 – 2010)	3,982
Arrears outstanding over five years but less than 10 years (2006 – 2007)	<u>429</u>
Net Closing Balance	229,730

The amount of €2,625,254 is being declared as not due. This was mainly made up of 10 claims relating to security duties at the Malta International Airport in 2011, amounting to €2,624,218, which were cancelled and re-issued in 2012. The remaining balance of €1,306 pertains to a claim issued in 2011 and paid in the same year, but was erroneously reported as outstanding in the Return ending 31 December 2011.

A claim amounting to €1,264 relating to a helicopter flight, was written-off since the flight was not performed due to bad weather.

Out of €92,699 considered as not collectable, the amount of €13,929 is under contestation. This latter amount includes 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 maintained that they did not request the service given by AFM. The remaining balance of €4,149 relates to overpaid wages to three ex-staff, which amounts have been contested since 1994/1995.

Tourism and Culture

The following is a sub-classification of the gross outstanding balance as reported by the Department in its ARR ending 31 December 2012:

	€
a. Malta Tourism Authority – Police Licence and Ex-Hotels and Catering Establishment Board	1,388,264
b. Dues to ex-White Rocks Holiday Complex	54,365
c. Tourism – dues from Local Councils in respect of beach cleaning services	<u>181,735</u>
Gross Closing Balance	1,624,364

From the gross receivable at year-end, the total amount of €236,100 is being estimated as not collectable, leaving a net closing balance of €1,388,264, which relates to unpaid licences due from individuals to the Malta Tourism Authority, as analysed below.

	€
Arrears outstanding equal to or less than one year (2012)	529,593
Arrears outstanding over one year but less than two years (2011)	299,263
Arrears outstanding over two years (2010 and prior)	<u>559,408</u>
Net Closing Balance	1,388,264

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

Out of the €1,286,180 due at the beginning of the year, the Malta Tourism Authority recouped the total sum of €361,900. The amount of €65,609, declared as not due, relates to cancelled invoices, mainly when they require to be amended and re-issued. The difference represents newly accrued amounts.

Dues to Ex-White Rocks Holiday Complex

During 2012, out of the amount of €78,458 due to the ex-White Rocks Holiday Complex at *Baħar iċ-Ċagħaq*, €24,092 were written off. The balance of €54,365, which has been due since pre-1995, is considered as non-recoverable.

Dues from Local Councils for Beach Cleaning Services

For several years the Tourism Department disclosed an estimated as not collectable closing balance of €202,588. This amount relates to invoices due for over 15 years which were never honoured by the respective Local Councils, for beach cleaning services.

During 2012, €20,564 of this amount were written off, apart from an amount of €289 which was actually found to be not due.

The remaining balance of €181,735, due from four Local Councils for works carried out between 1995 and 1997, is still being reported as estimated as not collectable.

Industrial and Employment Relations

The Arrears of Revenue due to the Industrial and Employment Relations Department consist of outstanding repayment of loans under the ‘Self Employed Loan Incentive Scheme’, which was introduced in the 1989 Budget and closed at the end of 1992. The aim of this Scheme was to assist individuals to start up a business enterprise.

At the beginning of the year 2012, arrears stood at €319,073, which amount was due to the Department by 75 individuals who benefited from this Scheme. From an exercise carried out by NAO, it was noted that 12 of these individuals, owing a total amount of €63,337, have never effected any payments throughout the years. On the other hand, during the year under review, the amount of €8,094 was collected from past arrears, representing 2.5% of the opening balance.

Notwithstanding that the Department is constantly sending legal letters and reminders, it is still finding it very difficult to recoup loans from various persons who are registering as unemployed. Thus, out of an outstanding gross closing balance of €310,979, the total amount of €195,685 is being estimated as not collectable.

	€
Arrears outstanding over 15 years but less than 20 years (1993 – 1997)	111,169
Arrears outstanding over 10 years but less than 15 years (2002)	<u>4,125</u>
Net Closing Balance	115,294

Department of Information

The outstanding balance of €62,056, as at 31 December 2012, is all due from Government Departments and Entities, out of which the amount of €52,269, *i.e.* 84%, relates to dues covering adverts featured in the Government Gazette.

	€
Arrears outstanding equal to or less than one year (2012)	54,973
Arrears outstanding over one year but less than two years (2011)	2,715
Arrears outstanding over two years but less than five years (2008 – 2010)	<u>4,368</u>
Net Closing Balance	62,056

Government Printing Press

As reported in last year's annual report, during 2011 the Government Printing Press were not in a position to furnish comprehensive details for the past arrears collected and the newly accrued amounts, due to problems encountered with the Management Information System. The problem was rectified during 2012. The net closing balance of €521,797, disclosed in the last Return, is expected to be collected from Government Department/Entities. This amount can be analysed as follows:

	€
a. Revenue	260,051
b. Revolving	<u>261,746</u>
Net Closing Balance	521,797

Ageing of debtors

	€
Arrears outstanding equal to or less than one year (2012)	153,899
Arrears outstanding over one year but less than two years (2011)	173,637
Arrears outstanding over two years but less than five years (2008 – 2010)	145,718
Arrears outstanding over five years but less than 10 years (2005 – 2007)	<u>48,543</u>
Net Closing Balance	521,797

Ministry for Gozo

Out of an opening balance of €252,903, the amount of €28,183, all due to the Ministry for Gozo from Local Councils, is reported as not collectable as they are difficult to be recouped, leaving a net collectable balance of €220,120 as at 31 December 2012. The amount of €27,051 estimated as not collectable, *i.e.* 96%, are due from Local Councils to the Agriculture Department, however, in conjunction with the Directorate for Corporate Services, efforts are being made to recoup these dues.

During 2012, the Ministry collected the amount of €18,034, of which €13,396, *i.e.* 74% were due to the Public Cleansing Department by Local Councils, for services in the locality. However, the situation of the arrears due to the same Department, in respect of Waste Disposal, remained unchanged. The outstanding balance, remained constant for the last three years, at €149,030, of which €104,666 are due from individuals and private companies, while the balance is owed by Government Entities. NAO was informed that there were attempts to address the situation, but records in connection with the arrears in question were incomplete.

All other outstanding arrears pertaining to the Works and Agriculture Departments, as well as the Public Cleansing, are due from Local Councils.

The Ministry's performance and ageing of debtors can be analysed as follows:

Department	Opening Balance	Amount Collected	Percentage Collected	Gross Outstanding Balance	Amounts considered as not collectable
	€	€		€	€
Public Cleansing – Local Councils	32,304	13,396	41.5%	31,185	1,132
Public Cleansing – Waste Disposal	149,030	-	0%	149,030	-
Works	42,731	2,851	6.67%	39,880	-
Agriculture	<u>28,838</u>	<u>1,787</u>	6.2%	<u>28,208</u>	<u>27,051</u>
Total	252,903	18,034		248,303	28,183

Ageing of the net collectable arrears:

	€
Amounts outstanding for over 10 years but less than 20 years	95,677
Amounts outstanding for over five years but less than 10 years	96,646
Amounts outstanding for over two years but less than five years	14,357
Amounts outstanding for over one year but less than two years	269
Amounts outstanding for less than one year	<u>13,171</u>
Net Closing Balance	220,120

Gozo General Hospital

As at 31 December 2011, outstanding arrears disclosed in the Annual Report stood at €109,780. However, it was also reported by NAO in the preceding year that due to a number of shortcomings, the accuracy of this amount could not be ensured.

Shortcomings highlighted included the fact that patients could settle bills directly with the Health Division, by paying at the Central Bank or through internet banking, but the Gozo General Hospital (GGH) is not always informed about such payments, resulting in overstated outstanding arrears. Another factor contributing to overstated arrears is the free healthcare provided to European Union (EU) residents. Where a copy of the actual health card was not provided with the form submitted to the Revenue Section, the respective amounts were being included with arrears, but very often they are not actually due.

During 2013, a Financial Controller was engaged at GGH. Through an exercise carried out in the Revenue Section, a number of errors were noted in the records being kept. This also included debtors who had paid and were not removed from the pending debtors list. In this respect, the opening balance for 2012 was revised downwards to €93,770, of which €2,294 were collected during the same year. Newly accrued amounts totalled €17,328, leaving a closing balance of €108,804, of which €42,952 were estimated as not collectable.

The Financial Controller was in the process of restructuring the Revenue Section. Departmental Accounting System reconciliations will be carried out on a regular basis, while Standard Operating Procedures will be drawn up to eliminate the shortcomings highlighted above. There were also plans to install an Electronic Point of Sale system at GGH, to make it easier to recoup amounts due before patients leave the hospital, thus improving the collection rate, which for the year under review stood at just over 2% of the opening balance.

Ageing of Debtors can be analysed as follows:

	€
Arrears outstanding over 10 years to 15 years (1996 – 2002)	16,185
Arrears outstanding over five years but less than 10 years (2003 – 2007)	26,767
Arrears outstanding over two years but less than five years (2008 – 2010)	33,269
Arrears outstanding over one year but less than two years (2011)	15,255
Arrears outstanding equal to or less than 1 year (2012)	<u>17,328</u>
Net Closing Balance	108,804

Ministry for Infrastructure, Transport and Communications

Land Transport Directorate

The gross/net closing balance of arrears amounting to €17,850,304, as reported in the 2012 ARR submitted by the Land Transport Directorate, consists of dues in respect of motor vehicle road and driving licences, as follows:

	€
a. Vehicle Licences	17,514,034
b. Driving Licences	<u>336,270</u>
Total	17,850,304

As reported last year, none of the outstanding dues were written off during the year, nor has any provision for bad debts been taken, notwithstanding that a substantial amount has been long outstanding.

Vehicle licences can be further analysed as follows:

	€
Amounts outstanding for over five years	13,212,987
Amounts outstanding for over two years but less than five years	2,657,208
Amounts outstanding for over one year but less than two years	719,121
Amounts outstanding for less than one year	<u>924,718</u>
Net Closing Balance	17,514,034

From the outstanding balance, an amount of €10,064,673 related to previous years up till 2004. Upon enquiry, the Directorate could not provide a complete ageing of this amount, and has thus submitted a request to its Information Technology Department.

Road Licence Regularisation Scheme

The scheme announced in 2012, where registered owners with accumulated unpaid licences were given the possibility of regularising their position, was further extended until 31 December 2013, through Legal Notice No. 85 of 2013. Those participating in the scheme may benefit from a reduction in licence fees and administrative fines, depending on whether the vehicle is scrapped, garaged or has its licence renewed.

Due to the problem concerning individuals not willing, or unable, to settle pending contraventions linked with their licences, the Directorate stated that, “*We have discussed this problem last year with the department for local councils and the Ministry of Finance and the ministry of finance advised the DLC to introduce a similar scheme to collect the pending contraventions.*”

During 2012, a total of 23,109 renewal letters were sent to owners of unlicensed vehicles, of which 4,256 (i.e. 18%) regularised their position in line with the scheme. To this effect, out of the total arrears collected, amounting to €909,904, the amount of €336,646 related to licence fees and €532,663 comprised

administrative fines. As a result of the Scheme, an amount of €2,982,700 in outstanding vehicle licences were waived off, and reported as not due in the Directorate's ARR.

Television Licensing Unit

Arrears due to Government, falling under the responsibility of the Television Licensing Unit (TVLU), were reported as €10,430,454, which balance is made up of outstanding:

- a. television licences, amounting to €10,184,450; and
- b. radio communication licences totalling €246,004, which prior to 1 January 2012, were under the responsibility of the Ministry for Infrastructure, Transport and Communications (MITC).

Radio Communication Licences

The difference between the 2011 gross closing balance of arrears, and the 2012 opening balance, amounting to €282,425, represents radio communication licences. The purpose of such fees is to grant the right to install and use radio communications equipment, as regulated by the Electronic Communication Regulations Act (Cap. 399), 2010.

In 2011, it was agreed through a Cabinet Memo, that as from 2012, the responsibility of the invoicing and collection of these licences would be vested in the Malta Communications Authority (MCA). However, it was later decided that past arrears, which were at least three years overdue, were to be collected by TVLU, with the remaining more recent amounts to be chased by MCA.

During the year, TVLU recovered an amount of €30,413 from outstanding arrears, and reported that a balance of €156,759 was unlikely to be recovered. This resulted in outstanding net collectable arrears of €89,245.

Television Licences

As in previous years, TVLU did not provide 'Past Arrears Collected' and 'Newly Accrued Arrears' balances, relating to television licences, 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.

In this regard, TVLU stated that the possibility of upgrading the system was discussed with the software provider, but considering the cost involved and the uncertainty of the future of this Unit, the decision was postponed. Additionally, TVLU is still awaiting Ministerial clearance for a debt-collection plan, and that meetings on this matter are ongoing.

An amount of €32,215 was reported as not due. These amounts pertained to instances where either a licensee declares that the television set is no longer in use, or when sets are transferred from one owner to another.

Collection efforts

A thorough exercise was carried out, which resulted in a total of 46,362 reminders being mailed to defaulters. Moreover, those reminders that were returned due to 'insufficient address', were followed-up, resulting in a number of licensees who were either deceased or claimed prescription. In fact, during the year under review, a total of television licences' arrears of €390,597, were duly authorised and written off accordingly.

Net collectable arrears as at year-end 2012

TVLU estimated that 40% of its gross outstanding television licences, amounting to €4,073,780, are not collectable. The outstanding balance can be analysed as follows:

	€
Amounts outstanding for over five years	3,051,150
Amounts outstanding for over two years but less than five years	1,199,592
Amounts outstanding for over one year but less than two years	1,859,017
Amounts outstanding for less than one year	<u>911</u>
Net Closing Balance	6,110,670

An ageing analysis of outstanding radio communications licences could not be derived, except that they are more than three years overdue.

Malta Communications Authority

The gross closing balance as at 31 December 2012 reported by MCA, amounting to €327,870, consisted mostly of Radio Communication Licences.

In fact, the difference between the 2011 gross closing balance and the 2012 opening balance of arrears, of €551,604, consists of such licences, which prior to 1 January 2012, fell under the responsibility of the then MITC.

The outstanding balances as at end December 2012, due from individuals and private companies, can be analysed as follows:

	€
Amounts outstanding for less than one year (2012)	212,729
Amounts outstanding for over one year but less than two years (2011)	63,443
Amounts outstanding for over two years but less than five years (2008 – 2010)	<u>51,698</u>
Gross/Net Closing Balance	327,870

Collection efforts

As soon as MCA took over the Radio Communications Licences, various collection efforts, which could lead to licence revocation and legal proceedings, were initiated to oblige licensees to regularise their position. In a communication to NAO, the Authority stated that by the end of 2012, the balance of €551,604 was reduced to €115,141, and then further to €61,881 by June 2013.

MCA also stated that it would be shortly implementing a new licensing software application, which will facilitate access to information in respect of payment defaulters, and assist the Authority in the implementation of the payment recovery activities.

Land Registry

The arrears of revenue reported by the Land Registry (LR) relate to outstanding fees from official searches on individuals and Entities, requested by notaries and other interested third parties, in connection with transfers, liabilities, and testamentary searches.

The gross closing balance of arrears as at 31 December 2012 stood at €81,454, an ageing analysis of which is provided below:

	€
Amounts outstanding for less than one year	9,702
Amounts outstanding for over one year but less than two years	2,569
Amounts outstanding for over two years but less than five years	29,661
Amounts outstanding for over five years but less than 10 years	38,935
Amounts outstanding for over 10 years but less than 15 years	<u>587</u>
Gross Closing Balance	81,454

Amounts written off and estimated as not collectable

The amount of €43,308 that was reported as not collectable in the previous year's Return, resulting from an exercise carried out in 2010, was approved for write-off, and thus included in the 2012 ARR accordingly. Even though LR declared that it is likely that a balance of €28,530 will not be recovered from defaulters, in a recent communication to NAO, Management confirmed that it is estimated that €48,000 worth in searches will be written off. The relevant report will be presented towards the end of 2013.

Past arrears collected

As reported in past years' Annual Audit Reports, LR could not provide a list of those clients whose arrears were collected during the year, since the system in place does not provide such information. Therefore, the 'Past Arrears Collected' figure was arrived at by elimination; by deducting the resultant balance of gross outstanding arrears less the newly accrued figure, from the opening gross balance. Notwithstanding this inappropriate procedure of compiling the ARR, detailed breakdowns of pending searches, which tally with reported figures, were provided.

Management also confirmed that the outcome of a Court case, that had been pending before the Civil Court for more than six years, has finally resulted in a ruling in favour of LR, which ruling ordered the notary in question to settle the amount of €11,000. To this effect, an agreement was signed, binding the latter to pay by monthly instalments, starting from May 2013.

LR also stated that since Government took over the searches' functionality in 2010, new outstanding amounts have decreased considerably, by issuing judicial letters to defaulting applicants, following the third notice. It was also confirmed that during 2013, LR managed to collect over €7,000 from such arrears, bringing down the gross closing balance of arrears as at end 2012 to €52,100.

Ministry for Resources and Rural Affairs

The 2012 Statement of Arrears of Revenue submitted by MRRA incorporates the following Revenue Categories and the net closing balance of €1,511,555 comprises dues:

	€
a. from Local Councils issued by Central District Department	83,907
b. from Local Councils issued by Cleansing Services Directorate	193,281
c. to Manufacturing and Services Department	67,729
d. to Aquaculture	412,370
e. for Plant Quarantine	2,536
f. for Fish Marketing Scheme	328,146
g. from Breach of Contracts, Damages, Maintenance and others	123,090
h. from Sundry Revenue, Director Corporate Services Salary, Loans Co-Operatives, Fisheries Loans (Prior amalgamation with MRRA)	30,961
i. to Salaries Section	35,736
j. to Veterinary Services	202,433
k. to the Paying Agency	<u>31,366</u>
Total	1,511,555

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

	€
Amounts outstanding equal or less than one year	821,885
Amounts outstanding over one year till two years	313,526
Amounts outstanding over two years till five years	260,309
Amounts outstanding over five years till 10 years	34,456
Amounts outstanding over 10 years	<u>81,379</u>
Net Closing Balance	1,511,555

Amounts Not Due and/or Adjustments

Dues from Sundry Revenue, Director for Corporate Services Salary, Loans Co-Operatives, Fisheries Loans

The amount of €25,554 has now been reported as 'Amounts not due', since it represents a loan recorded in the Financial Report under Public Debt Servicing.

Estimated as Not Collectable

Dues from Deposits of Waste and Rubble – Cleansing Services Directorate

The provision for bad debts, amounting to €209,474, consists of arrears ranging between the years 1999 to 2004. A substantial amount of €187,273 (89%) is due by a cooperative entity which is in the process of being liquidated.

The then MFEI authorised write-off of this amount on 25 August 2008, yet the amount was not reported accordingly in previous ARRs. It transpired that the relative file was retained for a period of five years by an officer within the Financial Control Unit at MRRA. An explanation was requested by NAO from the foregoing but this was not forthcoming, notwithstanding communications sent.

Dues to Manufacturing Services Department

The amount of €14,230, which comprises claims issued during the years 2007 to 2012, was included within the provision for bad debts. In all cases, write-off approval was not yet sought nor had legal action been initiated.

*Collectable Arrears**Dues from Local Councils – Central Districts Office*

Net collectable arrears totalled €83,907, out of which dues by a particular Council, collectively amounting to €81,378 (97%) have in their majority been outstanding from the years 1996 to 1999. As at date of testing, Court proceedings were still in progress, however judgement was expected in November 2013.

Dues from Local Councils – Cleansing Services Directorate

Net collectable arrears reported amounted to €193,281, of which €52,950 (27%) relates to the years 2007 to 2011. From the latter amount, €3,149 (6%) was collected during 2013. The outstanding balance consists of:

- a. €18,465 (35%) for which, as at date of testing, an appeal was lodged during 2010;
- b. €13,473 (25%) for which write-off authorisation was to be obtained;
- c. €9,959 (19%) in respect of road sweeping services, in an area deemed to be of high touristic importance, thus it is being contested on the grounds that the area falls under Central Government's responsibility; and
- d. €7,904 (15%) due by three separate entities.

Dues to Aquaculture

Net collectable arrears as at 31 December 2012, which amounted to €412,370, are entirely due by a private Company. Balances of previous outstanding dues amounted to €232,048, none of which was collected during 2012, whilst newly accrued arrears of €180,322 were reported.

Following NAO enquiries, the respective Company was notified that the outstanding balance had to be addressed immediately. Subsequently, NAO was informed that the Company had proposed to repay €15,000 monthly and had in fact submitted the first instalment during October 2013.

Dues to Veterinary Services

Net collectable arrears reported at year-end amounted to €202,433, of which €165,874 (82%) was due from a particular private Company.

This Company had entered into an Agreement on 4 February 2009, to pay its outstanding amount of €187,573, which was previously written off. An amount of €21,699 was settled during the years 2009 to 2011. However, no further payments were made by the Company; thus legal proceedings were to be initiated.

Upon enquiry, it was confirmed that there were no developments.

Conclusion and Recommendations

In the case of ‘Aquaculture’ a statement provided by MRRA indicated a balance due which increased to €570,117 as at 9 September 2013. The Company in question has commenced repayments of €15,000 monthly, thus it will take approximately three years to recoup this outstanding amount.

The Ministry stated that outstanding claims were being referred to the Legal Office after six months from date of issue, to avoid prescription. A monthly review of claims was also being carried out. However, in order to quantify a realistic net amount of debtors, a comprehensive exercise is recommended to be conducted on all outstanding dues.

Ministry of Education, Employment and the Family

The gross closing balance as at 31 December 2012, disclosed by the Ministry in its amended statement of Arrears of Revenue can be analysed as follows:

		€
a. Directorate for Educational Services	<i>Breach of Contract</i>	124,320
	<i>Overpayment in Salaries</i>	151,596
	<i>Running of Tuck-shops</i>	7,851
b. Ministry – Administration	<i>Salary Overpayment</i>	233
c. Examinations Department	<i>External Examinations</i>	1,356
d. Lifelong Learning Directorate	<i>Courses’ Fees</i>	12,000
e. Institute of Tourism Studies (ITS)	<i>B/L Running of ITS</i>	361,503
f. Maintenance Grants Section		
• University		145,232
• Malta College of Arts, Science and Technology		55,383
• Junior College		8,158
Gross Closing Balance		867,632

Out of the aforementioned gross closing balance, €332,141 is due from Government Departments, while €459,794 is expected to be collected from individuals and/or private companies. The balance of €75,697 relates to dues that are being considered as difficult to recoup, leaving a net collectable balance as at end December 2012 of €791,935 that can be categorised as follows:

	€
Arrears outstanding equal to or less than one year (2012)	210,009
Arrears outstanding over one year but less than two years (2011)	235,286
Arrears outstanding over two years but less than five years (2008 – 2010)	163,252
Arrears outstanding over five years but less than 10 years (2003 – 2007)	126,489
Arrears outstanding over 10 years but less than 15 years (1998 – 2002)	45,047
Arrears outstanding over 15 years but less than 20 years (1993 – 1997)	10,642
Arrears outstanding over 20 years (1990 – 1992)	1,210
Net Closing Balance	791,935

Directorate for Educational Services

The gross closing balance, which amounted to €283,767 as at 31 December 2012, is all due to the Directorate from individuals, and made up of:

- a. €124,320 relating to dues from eight debtors in respect of breach of contract of employment;
- b. €151,596 overpaid salaries to a total of 100 ex-employees; and
- c. the amount of €7,851 due from two debtors for the rent of Tuck-shops.

Breach of Contract

Out of the amount of €124,320 payable for breaching the Contract of Employment, the total of €48,081 due from three defaulters is being considered as difficult to recoup. Of this latter amount, €12,329 have been outstanding since 1972, whilst the amounts of €6,488 and €29,264 have been due since 1993 and 1995 respectively. These cases have been referred to the Attorney General's Office (AG).

Salary Overpayments

During 2012, the Directorate for Educational Services collected the total sum of €10,314, out of the amount of €79,076 due at the beginning of the year. It was stated by the Directorate that every effort is being taken to recoup the outstanding net collectable amount of €150,988.

Rent of School Tuck-shops

The amount of €7,851 is due from two debtors with respect to rent of school Tuck-shops. Whilst efforts are still underway to collect the amount of €2,168 following a Court case decided in favour of the Department, legal action is still in progress with regards to the remaining balance of €5,683.

Examinations Department

A discrepancy of €516, between the closing balance for the year 2011 and the opening balance for 2012, mainly reflects an amount inadvertently omitted from last year's Return.

Lifelong Learning Directorate

The Lifelong Learning Directorate attempted for the first time to submit the arrears of revenue for year ending 2012. NAO is informed that the amount outstanding of €12,000 is due from adult learners in respect of course fees.

The Directorate claimed that during December 2012, an exercise was carried out, whereby the information was manually extracted from an 'old' computerised system which is currently in the process of being phased out. However, the amount in question was not substantiated.

Due to lack of information NAO could not ascertain the correctness of the amount outstanding submitted by the Directorate.

Institute of Tourism Studies

From the closing balance of €261,580 brought forward from previous year, the amount of €13,869 was collected, while €12,675 was written off. This latter amount, together with another amount of €16,606, which is being estimated as not collectable, relate to refund of stipends due by students who resigned from

their studies way back between 1995 and 2007. ITS indicated that a write-off approval for these amounts will be requested since it is not feasible to chase these defaulters due to the amounts now becoming statute-barred.

During 2012, the Employment and Training Corporation, one of the major debtors of the Institute, noted discrepancies on the invoices submitted by the latter, for courses held to students engaged on training programmes. To rectify the situation, this entailed the aggregate amount due, to be revised downwards by €4,325.

From the net closing balance of €344,898, the amount of €332,141 is due from Government Departments, while the remaining balance is due from individuals.

Maintenance Grants Section

University of Malta

Following a review of the statement of Arrears as at December 2012, submitted by the University's Stipend Office, it was observed that the practices reported upon in previous years' Audit Reports, such as the shortcomings indicated hereafter, still prevail:

- a. Under the newly accrued column, amounts already collected during the year are also included, instead of being netted off against the respective payments.
- b. Most of the balances, shown under newly accrued during 2012, 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.

Further testing on the overpaid Maintenance Grants revealed that the internal control structure over cash received is inadequate and of a great concern to NAO. No debtors' ledger showing all outstanding refunds by individuals is kept, while the computerised receipts issued are unofficial and the receipt number is handwritten. Thus, completeness of revenue collected could not be ascertained.

Moreover, the University's Stipends Office does not record refunds received in a cashbook but maintains Excel datasheets, which are poorly organised and lack relevant details, resulting in general lack of transparency and accountability.

As already recommended in previous years, NAO reiterates that an intensive exercise should be carried out so these anomalies, which have been consistently reported upon in the Annual Reports of the Auditor General, at least since 2007, will be addressed without further delay.

Junior College and Higher Secondary

The Return relating to Maintenance Grants overpaid to Junior College and Higher Secondary students does not show a true picture of the financial state of affairs. For example, the amount disclosed under the 'Past Arrears Collected' column included payments related to maintenance grants overpaid during the year 2012. Likewise, the newly accrued arrears column included amounts that were actually settled during the foregoing year. Following an audit exercise, NAO also revealed a number of weaknesses and concerns which are being reported upon separately in this report under the respective Ministry on page 426. As a result, this Office could not ascertain the completeness and accuracy of reported figures in the ARR for 2012, and therefore the balances disclosed in the report, and which are being published as submitted by the Students Maintenance Grants Section, are not considered reliable.

Malta College of Arts, Science and Technology

Two debtors, that were still outstanding at end of 2011, were inadvertently omitted from the Return of the previous year. This resulted in an immaterial adjustment to the opening balance for 2012.

Arrears newly accrued to the College amount to €19,970, giving a gross amount of €55,383 as at end 2012, out of which €2,551, was estimated as not collectable.

Social Security Benefits

Arrears of Revenue pertaining to the Department of Social Security (DSS) are made up of various Social Security Benefits and Assurances which have been overpaid to the beneficiaries, and are thus due to Government. These are created either when the Department erroneously overpays the beneficiary, or due to the Department being misled by missing or false declaration by the claimant.

Overpayments are mainly recouped through withholding parts of any Benefits or Assurances that the beneficiary may still be entitled to, or through payment agreements with the beneficiaries.

Initial Overview

The Return submitted by DSS groups all Benefits and Assurances together, and does not provide an analysis by each category. However, such analysis was included as part of the supporting documentation provided by the Department. Using this information, the Gross/Net closing balance of €16,130,270 can be analysed as follows:

Benefit/Assurance Type

	€
a. Social/Unemployment Assistance, incl Drug Addict etc.	8,708,143
b. Age/Old Age/Carers/Blind and Disability Pensions	1,482,353
c. Milk Grant, Sickness/Leprosy/Tuberculosis Assistance	902,655
d. Marriage Grant, Unemployment/Injury/Maternity/Sickness Benefit etc.	195,891
e. Six Month/Special Weekly/COLA Bonuses	109,315
f. Children/Foster Child Allowance	1,405,225
g. Supplementary Allowance	100,472
h. Pensions (various)	3,122,776
i. Energy Benefit	101,038
j. Senior Citizen Grant	<u>2,402</u>
Total	16,130,270

This analysis clearly highlights that over half of the overpayments due at year-end (54%) relate to Social and/or Unemployment Assistance.

It was also observed that the balances reported in the Return included an amount of €4,876 pertaining to new cases in 2012 that were written off in the same year, and thus should not have been included in the Return. As a result, the Newly Accrued amounts and written-off balances are both overstated by an amount of €4,876, however, these effectively cancel each other out.

Opening Balance

Following analysis of information provided and testing carried out, it transpired that various cases of overpayment, arising in prior years, had been omitted and were never reported in the respective Returns. This resulted in an amendment of €56,501 to the opening gross balance, a breakdown of which, by individual, benefit type and date, was provided.

By the end of 2012, out of the €56,501 due, €7,451 had been collected, €6,445 written off, €630 cancelled and €41,975 were still outstanding.

An ageing analysis of the €41,975 due at year-end, arising from these previously unreported cases, shows that amounts can be categorised as follows: between one and two years old (2011) €33,864 – 81%; between three and five years old (2008 – 2010) €4,512 – 11%; between six and 10 years old (2003 – 2007) €869 – 2%; and between 11 and 12 years old (2001 – 2002) €2,731 – 6%.

Analysis of Performance

An analysis of performance during the year was carried out, including the overall change registered as at year-end.

Arrears of revenue pertaining to DSS have in general increased significantly, by 16%, translating into a substantial increase of €2,170,316 during 2012. This is even higher than the increase reported in last year's review of the Return, *i.e.* 5%.

A detailed review revealed that from the opening balance of €13,959,955, 15% (€2,027,469) have been collected, and a further 3% (€458,542) have been written off or marked as not due. However, the substantial amounts of newly accrued cases for the year (€4,656,327) translate to more than double the amount collected during this period, and equate to 29% of the closing balance.

From the information provided, a sample of written-off and 'not due' cases, covering various benefits and assistances, was selected for examination. The sample was selected on the basis of materiality whilst taking into consideration long overdue balances. Ten write-offs, amounting to €13,427 (40% of write-offs) and 10 not due (cancelled) cases, totalling €122,736 (29% of not due), were selected. The respective personal files for each of these claimants was requested, however, as at audit date (October 2013), three of the relevant files were claimed to be misplaced. This limited the planned tests on the selected sample.

Write-Offs

The sample tested revealed three instances, collectively amounting to €4,077, which were written off without the necessary endorsement and approval of the Permanent Secretary. Such write-offs were instead approved by the Director General. An official letter delegating such authority to another officer, as required by the General Financial Regulations, was not available.

The designation of an officer within DSS, who approved a write-off of €6,389, could not be ascertained since only the signature was evident.

Ageing of Debtors

The ageing of the gross/net balances due at year-end can be analysed as follows:

	€
Newly accrued arrears (2012)	4,634,055
Balance due for more than one year till two years (2011)	2,421,791
Balances which are from three to five years old (2008 – 2010)	5,285,042
Balances which are from six to 10 years old (2003 – 2007)	2,419,889
Balances due for more than 10 and up to 34 years (1974 – 2002)	<u>1,369,493</u>
Gross/Net Closing Balance	16,130,270

The full recoverability of the long overdue amounts, in particular those between 10 and 34 years, is questionable. A review of these cases by the Department is highly recommended.

An audit on Overpaid Social Security Benefits revealed several shortcomings which have been reported upon separately under the respective Ministry on page 440.

Ministry of Finance, the Economy and Investment

The gross/net closing balance as at 31 December 2012, as provided by the Ministry, consist of:

	€
a. Dues to the Quality Assurance Unit	9,536
b. Scrappage Fund – due from Transport Malta	23,142
c. Miscellaneous Reimbursements	<u>17,412</u>
Closing balance	50,090

An ageing analysis of the collectable arrears is as follows:

	€
Amounts outstanding for less than one year (2012)	45,666
Amounts outstanding for over one year but less than two years (2011)	1,354
Amounts outstanding for over two years but less than five years (2008 – 2010)	1,824
Amounts outstanding for over five years but less than 10 years (2003 – 2007)	279
Amounts outstanding for over 10 years but less than 15 years (1997 – 2002)	Nil
Amounts outstanding for over 15 years but less than 20 years (1992 – 1996)	<u>967</u>
Gross/Net Closing Balance	50,090

Lotteries and Gaming Authority

A difference of €182,990 was noted between the closing balance as reported in the ARR for 2011 and the opening balance as reported in the subsequent year, which according to the Lotteries and Gaming Authority, pertained to collections of taxes and licences that were erroneously left out from the previous year's Return.

From the gross outstanding balance of €858,263, an amount of €356,087 was reported as being estimated as not collectable, of which €346,769 were due from licensees who were already being chased by the Tax Defaulters Committee during 2011. The Authority confirmed that these defaulters were reported to law enforcement.

Ageing Analysis

An ageing analysis of net outstanding arrears provided by the Lotteries and Gaming Authority, confirmed that the majority of arrears were outstanding for less than one year, with only two defaulters, with an aggregate balance of €27,960 being in arrears for a longer period, as detailed below:

	€
Amounts outstanding for less than one year	474,216
Amounts outstanding for over one year but less than two years	<u>27,960</u>
Net Closing Balance	502,176

Treasury Department, Salaries and Pensions Section

The gross closing balance as at 31 December 2012, as provided by the Treasury Department, Salaries and Pensions Section, consists of:

	€
a. Pension Claims from Public Entities	23,221,843
b. Overpayments to Pensioners	13,946
c. Special Cases	8,770
d. Refunds of Deceased Pensioners	<u>4,073</u>
Gross Closing Balance	23,248,632

During the year, the sum of €1,344,162 was collected, representing 6% of the opening arrears balance as at 1 January 2012. This is relatively much less than the amount collected during 2011, which totalled €8,525,633 and represented 30% of the then opening balance.

Correspondence between Treasury and the Pensions Section has however revealed that the ARR included only invoices up to financial year 2011, since those for 2012 were not yet raised.

Given the substantial amounts falling in arrears, the Department forwarded the following explanations.

Pension Claims from Public Entities

The amounts due from Public Entities are regulated by the Pensions Ordinance Act, and are also reflected in the Statutory Act for each Entity. The Department calculates amounts due by Entities through a cost sharing exercise, which in accordance with the above-mentioned Act, are obliged to contribute to Treasury, the difference between the cost of the pension payable at the time of the employee's retirement from the Entities concerned, and the cost of the pension computed at the time of the termination of the service with the Government. Arrears have accumulated over the years, since Entities were reluctant to settle their dues.

Overpayments to Pensioners

These overpayments arise when retired employees, exceed the permitted earnings threshold, which would result in overpayments in pension, that have to be refunded.

The Department confirmed that in an effort to minimise this category of arrears, it liaises constantly with the Social Security Department, to ensure that the respective pension payments are correct before they are actually processed.

Special Cases

Different cases relating to overpayments fall under this category, however these balances mainly relate to errors in previous revision of pensions, which have to be adjusted once they are detected.

Refunds of Deceased Pensioners

These dues consist of pensions issued by the Department to individuals who pass away during the period to which the pension relates. Recoupment of these amounts is made either directly through the pensioner's bank account, or when the account has been closed, by sending a letter requesting collection to the registered heirs. During 2012, the Department entered into negotiations with a local bank, whereby it was agreed that such refunds are to be processed through bank transfers and not *via* the cheques procedure.

Ageing of Debtors

	€
Arrears outstanding over five years (2007)	22,897,458
Arrears outstanding over two years but less than five years (2008 – 2010)	330,625
Arrears outstanding over one year but less than two years (2011)	9,959
Arrears outstanding equal to or less than one year (2012)	<u>10,590</u>
Net Closing Balance	23,248,632

Inland Revenue Department

NAO noted that for the first time this year, the Inland Revenue Department (IRD) reported in its ARR, outstanding balances relating to the Final Settlement System and Social Security Contributions. To this effect, the gross opening balance differed with the closing balance reported in 2011, by €185,335,742.

The following is a sub-classification of the gross closing balance of arrears as reported by the Department in its ARR for the year ending 2012:

	€
a. Pre' 99 System (Up to Year of Assessment 1998)	167,301,445
b. Self-Assessment System (Post Year of Assessment 1998)	360,437,132
c. Final Settlement System (Employers)	40,405,244
d. Social Security Contributions Class 1 (Employers)	84,825,616
e. Social Security Contributions Class 2 (Self-Employed/Occupied)	<u>55,669,308</u>
Net Closing Balance	708,638,745

Out of this balance, the amount of €535,399,571 was considered as not collectable, thus resulting in net collectable arrears of only €173,239,174.

Ageing Analysis

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

	€
Amounts outstanding for over 20 years (before 1993)	24,066,345
Amounts outstanding for over 10 years but less than 20 years (1993 – 2002)	50,362,499
Amounts outstanding for over five years but less than 10 years (2003 – 2007)	27,662,267
Amounts outstanding for over two years but less than five years (2008 – 2010)	41,689,926
Amounts outstanding for over one year but less than two years (2011)	20,750,679
Amounts outstanding for less than one year (2012)	<u>8,693,392</u>
Total	173,225,108

No explanation was provided to substantiate the difference of €14,066 between the balance reported in the Return and the supporting documentation.

Similar to previous years, the net collectable amounts were derived by multiplying aged closing balances with arbitrary percentages. In this regard, the Department stated that, “...an exercise is embarked upon so that the percentages applied to derive the non collectable amounts are derived and based on a more scientific basis rather than on a flat arbitrary rate.”

Moreover, IRD commented that the arrears’ balance for the Self-Assessment System, amounting to €360 million, represents 3% of the amount originally due. The Department also stated that it is aware that outstanding balances are still considered to be significantly material, and is thus fully committed to ensure that such amounts are collected.

Capital Transfer Duty Department

The gross closing balance as reported by the Capital and Transfer Duty Department in its ARR ending 31 December 2012 consists of:

	€
a. Duty on Documents	25,867,164
b. Death and Donation Duty	<u>4,632,912</u>
Total	30,500,076

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

Out of the €30,500,076 gross closing balance, the amount of €19,872,289 was considered as not collectable, of which €19,376,354 were reported as ‘under contestation’, thus resulting in net collectable arrears pertaining to Duty on Documents and Death and Donation of €7,909,364 and €2,718,423 respectively.

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

	€
Amounts outstanding for over 20 years (before 1993)	231,046
Amounts outstanding for over 10 years but less than 20 years (1993 – 2002)	6,359,021
Amounts outstanding for over five years but less than 10 years (2003 – 2007)	1,534,827
Amounts outstanding for over two years but less than five years (2008 – 2010)	806,716
Amounts outstanding for over one year but less than two years (2011)	555,778
Amounts outstanding for less than one year (2012)	<u>1,140,399</u>
Net Closing Balance	10,627,787

Customs Department

The net closing balance of arrears, amounting to €65,586,944, as provided by the Customs Department, is analysed as follows:

	€
a. Import and Export Duties	64,730,213
b. Licences, Taxes and Fines	54,811
c. Fees of Office	2,406
d. Reimbursements	<u>799,514</u>
Total	65,586,944

Newly Accrued Arrears

Newly accrued arrears amounted to €58,194,487, as against €3,044,874 reported in 2011. An amount of €50.7 million pertained to excise duties on petroleum products, averaging €6.3 million per month, which Enemalta failed to pay since March 2012. This excludes November and December 2012 due to a two-month credit period allowed. An additional €2.7 million were also due by Enemalta in respect of excise tax on consumption of fuel for power generation.

According to the Department, an amount of €4 million related to post-entries raised in respect of excise duties owed on non-duty free bunkers, as well as from the 'own use' procedure used for commercial bunkering activity.

Amounts under Contestation

Customs reported an aggregate amount of €6,877,939 as being contested in the Courts, the majority of which was due to failure of payment on the debtor's part. As reported in previous years, the Department was unable to carry out an assessment of the collectability of such Duties, thus no estimation was made for the uncollectable portion. Customs officials stated that Court cases, particularly the ones involving material amounts, take decades to be decided, and so it is difficult to anticipate the result of such cases. Even when judgement is passed in favour of the Department, the latter would still need to institute recovery proceedings, thereby extending the collection process further. Moreover, the longer such cases take, the higher the risk that no more assets are left to recover what is due.

Collection efforts of Reimbursements

The majority of dues under this heading (€783,646), consist of Merchants' requests, which fall in arrears when debtors fail to settle invoices issued by the Accounts section. Should the initial notification letter sent be ignored, the Customs Enforcement Unit would call at the Value Added Tax (VAT) registered address to recover the amounts due. If these efforts prove unsuccessful, a judicial letter is sent, which is escalated if necessary.

Debtors Ageing Analysis

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

	€
Amounts outstanding for less than one year	58,194,487
Amounts outstanding for over one year but less than two years	16,705
Amounts outstanding for over two years but less than five years	420,443
Amounts outstanding for over five years but less than 10 years	6,643,605
Amounts outstanding for over 10 years but less than 20 years	22,310
Amounts outstanding for over 20 years	<u>1,973</u>
Net Closing Balance	65,299,523

This total does not agree with the total net collectable arrears reported in the ARR, by €287,421, being arrears which could not be traced to their year of origin.

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 as at year ending 2012:

	€
a. VAT (1998)	667,393,792
b. VAT (1995)	15,926,054
c. Customs and Excise Tax	8,195,356
d. ECO Contribution	6,366,699
e. Refund to Government on stocks – 1997	<u>620,381</u>
Total	698,502,282

Net collectable arrears amounted to only €55,305,413, after deducting a balance of €643,196,869, which is estimated as not collectable by the Department.

Whereas write-offs during the year amounted to €2,241, a total balance of €142,526,955 was reported as not due, representing cancellation of assessments, levies and interest, following the submission of declarations by taxpayers.

Further to a Public Accounts Committee meeting held on 29 April 2013, during which reference was made to the proposed merger between the VAT and IRD Departments, NAO requested an update on the state of affairs. A joint reply was submitted by both Departments stating that:

“We are still in the initial phases of the merger and a common approach to chase defaulters has only been reviewed at a high level. There are various outstanding issues that need to be addressed before we can embark upon the streamlining of process(es) related to debt Collection that include:

- *The registration process;*
- *Tax Return filing;*
- *Legislative amendments (e.g. to harmonise the collection procedures, penalty regimes, rules of appropriation, etc);*
- *proper cut-offs to ascertain and freeze the outstanding balances split into pure tax, interests, penalties and tax in dispute;*
- *design of a unified accounting system; and*
- *design of business processes and IT system to follow up on due balances and other supporting processes to... Taxpayer services and Cash Office.*

We are in the process of producing a project plan to implement the above tasks”.

Notwithstanding various efforts by the Analysis and Control Unit, as well as the Information Technology Section within the VAT Department, the latter was unable to obtain an ageing analysis of outstanding arrears.

Department of Contracts

The outstanding gross closing balance of arrears of €341,981, reported by the Contracts Department, consisted of outstanding penalties and damages due by contractors, which are still being pursued by the AG.

The only dues collected during the year, amounting to €4,436, pertain to a contractor, who, during 2011, was served with a garnishee order onto local banks, as well as a performance guarantee in favour of the Contracts Department.

An amount of €59,748 that is owed by a foreign company, was again this year considered as not collectable. Notwithstanding that this debt has been outstanding for more than 30 years, according to the Department, efforts are still underway to recoup the amount owed, with the possibility of engaging a foreign lawyer to enforce the local judgement against this company.

The resulting net closing balance of €282,233 is analysed as follows:

	€
Amounts outstanding for less than one year	Nil
Amounts outstanding for over one year but less than two years	198,275
Amounts outstanding for over two years but less than five years	33,823
Amounts outstanding for over five years but less than 10 years	31,747
Amounts outstanding for over 10 years but less than 15 years	<u>18,388</u>
Net Closing Balance	282,233

Amounts owing by two contractors, following decisions of the Courts of Justice (COJ), and amounting to €126,375, were reported as under contestation, since both cases were appealed by the contractors.

Government Property Department

The state of arrears of the Government Property Department is being reported upon separately on page 484 of this Report.

Commerce Department

The following is a sub-classification of the gross closing balance of arrears as reported by the Commerce Department in the 2012 ARR.

	€
a. Trading Licences	4,738,864
b. Miscellaneous Receipts	3,800
c. Penalties paid by Students	<u>7,549</u>
Total	4,750,213

An amount of €147,354 reported under 'Amounts not due and/or adjustments', consists of €112,311 being waived due to tariff reductions which had taken place in 2007. Tariff reductions could only be availed of, if licensees declared the relative area of their commercial premises, which, in the absence of such declaration, the previous tariffs continued to accumulate. The remaining balance of €35,043 relate to other tariffs not actually due, as a result of cancellations or transfers.

Ageing of Net Debtors

In contrast to last year, the Department derived a detailed analysis of net collectable arrears as follows:

	€
Amounts outstanding or less than one year	817,505
Amounts outstanding for over one year but less than two years	570,175
Amounts outstanding for over two years but less than five years	1,489,545
Amounts outstanding for over five years but less than 10 years	1,587,980
Amounts outstanding for over 10 years but less than 15 years	223,075
Amounts outstanding for over 15 years but less than 20 years	Nil
Amounts outstanding for over 20 years	<u>7,549</u>
Net Closing Balance	4,695,829

The longest outstanding amount of €7,549, consisting of penalties due by students who failed to honour their contracting obligations, pertains to the period 1986 till 1989, thus being outstanding for more than 20 years.

Collectability of Trading Licences

As indicated by the Commerce Department, until 2012, when a commercial activity ceased, the owner was still obliged to pay the respective trading licence until an application for cancellation was filed. This led to situations, where the owners either did not file a cancellation, with the resulting accumulation of arrears, or else, once the application is filed, the Department would cancel the licence and chase the outstanding arrears. In both cases, the Department had to resort to COJ.

Towards the end of 2012, amendments were approved whereby the payment for renewal of a licence would only be due until the date the commercial activity ceased. In addition, in those cases where a licence has not been paid for a period of four years, the Director of Trade has now the authority to cancel licences without Court intervention.

The Commerce Department confirmed that it would be taking the following course of action, as permitted by the amendments, as detailed below:

- *“A letter will be sent to commercial entities where licence holders have been identified as deceased who have defaulted for more than 4 years requesting them to regularise their situation or risk having their licence cancelled*
- *A letter will be sent to those licence holders who have defaulted for more than 4 years requesting them to regularise their situation or risk having their licence cancelled*
- *Renewal notices will be sent to the remainder, i.e. those who are up to date and those who have defaulted for less than 3 years”.*

The contractor supporting the computer software was also requested to make the necessary arrangements for the above permutations.

Ministry for Justice and Home Affairs

Attorney General

The opening balance for 2012 was slightly amended after a number of discrepancies were noted by NAO whilst carrying out the necessary verifications on the original ARR submitted by the AG’s Office.

The net collectable balance of €5,779 as at end December 2012 covers legal fees in respect of 15 cases. Ageing of debtors has been analysed as follows:

Arrears outstanding over five years but less than 10 years (2004 – 2007)	€ 653
Arrears outstanding over two years but less than five years (2008 – 2010)	4,983
Arrears outstanding equal to or less than one year (2012)	<u>143</u>
Net Closing Balance	5,779

Courts of Justice Division – Malta

The COJ Department noted recommendations made by NAO, in the *Report by the Auditor General – Public Accounts 2011*, and action has been taken to enhance the computerised Lecam system. As a result, a comprehensive exercise was undertaken by COJ, whereby each fine and fee was reviewed, and the report, where possible, was amended accordingly. Following this intensive assessment, COJ detected a number of shortcomings, resulting in an aggregate discrepancy of €58,825 in the opening balance when compared to the reported closing balance as at 31 December 2011.

A major contribution to this discrepancy concerns the arrears relating to Civil Fines of the Inferior and Superior Registries, which arrears amount to €43,501 and are being reported for the first time in the year under review. COJ stated that after the enhancements carried out on the Lecam system, they are now in a position to start featuring these arrears, which in the past, due to a fault in the system, were never included in the ARR.

The gross closing balance as at 31 December 2012, disclosed by COJ can be analysed as follows:

	€
Court Fines – Judges	5,588,990
Court Fines – Magistrates	4,617,811
Court Fees	2,157,570
Superior Registry – Civil Fines	32,810
Inferior Registry – Civil Fines	<u>18,886</u>
Gross Closing Balance	12,416,067

From the gross closing balance of €12,416,067, the amount of €5,056,925 relates to dues that are considered as not possible to be recouped, as explained further on in this write-up, leaving a net collectable balance of €7,359,142, which can be analysed as follows:

	€
Arrears outstanding equal to or less than one year (2012)	1,633,554
Arrears outstanding over one year but less than two years (2011)	1,037,930
Arrears outstanding over two years but less than five years (2008 – 2010)	2,043,182
Arrears outstanding over five years but less than 10 years (2003 – 2007)	1,233,190
Arrears outstanding over 10 years but less than 15 years (1998 – 2002)	1,055,411
Arrears outstanding over 15 years but less than 20 years (1992 – 1997)	170,818
Arrears outstanding over 20 years (1969 – 1991)	<u>185,057</u>
Net Closing Balance	7,359,142

Court Fines

Judges Court Fines

The gross closing balance of arrears of revenue, reported as at end December 2011 by COJ last year, amounted to €5,576,587. However, the opening balance for 2012 was revised by the latter to read €5,601,192. COJ stated that the difference of €24,605 emanates from the fact that:

- a. eight fines, in aggregate amounting to €25,669 were erroneously omitted in last year's ARR;
- b. in last year's Return the outstanding balance of eight fines was incorrectly understated by an aggregate amount of €1,200;
- c. a fine amounting to €6,840, due since 2007 and which is still pending, was erroneously omitted from previous Return;

- d. due to a default in the Lecam System, a fine amounting to €9,084 was erroneously omitted from the opening balance; and
- e. a fine amounting to €58 was erroneously reported twice in last year's ARR.

During 2012, out of the €5,601,192 opening balance, the amount of €94,104, *i.e.* less than 2% was collected, whilst an aggregate amount of €9,070, relating to 20 fines dating between 1974 and 2010, was written off.

The amount of €131,455 is being disclosed as not due. This consists of 18 fines (€120,497) which were converted into imprisonment, one fine (€4,663) which was collected on behalf a third party and four fines (€6,295) which were cancelled.

Newly accrued amounts totalled €205,678, whilst an amount of €16,749 relates to four fines included under the upward revision column.

Out of the €5,588,990 gross closing balance, the amount of €4,961,138 (*i.e.* 89%) relates to fines that are being considered as not possible to recoup, leaving a net collectable balance of €627,852. The amount of €4,961,138 comprises 19 deceased debtors (€987,011), 11 untraceable debtors (€13,620) and four debtors (€3,960,507) whose fine is being contested in the Constitutional Court.

Magistrate Court Fines

The ARR for year 2011 indicated a closing balance of €4,859,718, however, for 2012, COJ reported an opening balance of €4,845,405, *i.e.* a net discrepancy of €14,313. Following a thorough review, COJ submitted to this Office a detailed report illustrating the reasons for every variance. The major difference relates to fines that were actually settled in 2011, but were erroneously featured as pending in last year's Return.

The Return for 2012 indicated a gross closing balance of €4,617,811, out of which the amount of €95,787 relates to dues that are considered as not possible to be recouped, leaving a net collectable balance of €4,522,023. The amount of €95,787 covers 141 untraceable debtors (€81,585), five out of which are residing abroad (€6,143), 20 deceased debtors (€14,155) and one debtor who was deported from Malta (€47).

Court Fees

As pointed out in prior periods, accrued Court Fees extracted from the computerised Cortex system are not proving to be reliable. Several shortcomings prevailing from previous years have not yet been sorted out. However, this year, a comprehensive exercise was undertaken by COJ whereby each fee was reviewed and, where possible, amended accordingly.

A database reflecting these amendments was forwarded to NAO, indicating an opening balance of €2,206,020, out of which the amount of €248,636 was collected. Arrears newly accrued amounted to €200,187, giving a net collectable balance of €2,157,570 as at 31 December 2012.

However, NAO is still not in a position to verify the 2012 ARR submitted by COJ since no progress on the present computerised system was yet made.

Civil Fines

Inferior Registry and Superior Registry

Due to the enhancements carried out on the Lecam system, COJ are now in a position to report arrears for the first time, in respect of the Inferior and the Superior Registries.

The Inferior Registry opened with a balance of €14,241, while the Superior Registry has an opening balance of €29,260. However, these opening balances for the year 2012 could not be tallied against any closing balances brought forward from previous year.

As at 31 December 2012, the outstanding balance of the Inferior Registry stood at €18,886, while the Superior Registry had a closing balance of €32,810. The amount of €2,100 is being disclosed as not due under Superior Registry and represents ten revoked fines.

Courts of Justice Division – Gozo

The opening balances as at 1 January 2012 reported in the ARR submitted by the Gozo Law Courts, stood at €281,780 and €274,724 for Fines and Fees respectively.

Court Fines

Out of the opening balance disclosed above, during 2012, the amount of €107,259, *i.e.* 38% was collected, €17,544 were reported as not due, while newly accrued arrears amounted to €64,087. This resulted in outstanding amount of €221,064 as at 31 December 2012, of which €48,634 are estimated as not collectable.

However, as already reported in previous years in the *Annual Report by the Auditor General*, the Fines Report extracted from the Lecam computerised system, includes fines disclosed with a negative balance. In fact, closing balance in 15 instances showed a negative amount.

In addition to the above, another issue, already reported upon previously, concerns fines which have been settled but whose amounts are still reported as outstanding. By way of example, a fine inflicted in 1996, was settled in 1998. Notwithstanding this, the case has not been closed and the amount is still shown as due. In another case, an individual served a prison term *in lieu* of the payment of a fine inflicted in 1991, however, the respective amount is also reported as outstanding.

It also transpired that although both in Malta and Gozo the same Lecam system is used for the recording of fines, during the current year, the system in Malta was enhanced to produce more detailed information, while that in Gozo lacked such facility. Thus, since still no distinction is made in the Fines Report issued by Gozo Courts, between amounts written-off and those considered as not due, separation of these amounts had to be carried out manually by NAO for audit purposes.

Outstanding Court Fines were not included in the Debtors' Template, giving rise to a discrepancy of €221,065 between the latter and the ARR. These fines are deemed to be revenue attributable to the Courts of Justice Division in Malta, while the role of Gozo Courts is limited to the monitoring of their collection process.

Court Fees

The opening balance for 2012, as reflected in the Fees Report extracted from the Cortex computerised system, stood at €270,984, resulting in a discrepancy of €3,740 when compared with the opening balance as disclosed in the ARR. The difference has been reported as not due and can be analysed as follows:

- a. A fee amounting to €2,324 reported as pending in 2011, but which was actually paid in 2010;
- b. three cases which were re-taxed, resulting in a net decrease of €1,127 in the opening balance for 2012;
- c. a fee amounting to €220 was reported as pending in 2011, even though the amount had been settled by end 2011; and
- d. fees of €70, covering 10 notification letters, were also omitted from the opening balance of 2012 since such fees are no longer applicable.

During the year under review, the amount of €48,727 was collected in Court Fees, while €132,465 are arrears newly accrued during the same year. This gives a closing balance of €354,722, of which €27,451 are estimated as not collectable.

The ageing of outstanding arrears¹ can be analysed as follows:

	€
Amounts outstanding for less than one year	196,553
Amounts outstanding for over one year but less than two years	134,038
Amounts outstanding for over two years but less than five years	78,540
Amounts outstanding for over five years but less than 10 years	86,575
Amounts outstanding for over 10 years but less than 15 years	38,932
Amounts outstanding over 15 years but less than 20 years	24,836
Amounts outstanding for over 20 years	<u>16,313</u>
Gross Closing Balance	575,787

Police Department

Arrears of Revenue pertaining to the Police Department are made up as follows:

	€
a. Weapons (Sporting) Licences	319,478
b. Miscellaneous Fines (issued to Airlines or Shipping Companies)	81,878
c. Services to Third Parties (Extra Duty)	9,360
d. Other Revenue (due from third parties upon collisions)	<u>15,951</u>
Total	426,667

¹ Ageing is reported for all outstanding balances since such information for the amounts estimated as not collectable could not be reliably determined.

The opening balances as per Return submitted have been amended, resulting in the following variances, when compared to the balance of the previous year.

Revenue Type	Gross Closing 31/12/2011	Revised Opening 01/01/2012	Variance
	€	€	€
Sporting Licences	339,401	340,837	1,436
Miscellaneous Fines	96,786	96,786	-
Services to Third Parties	968	44,165	43,197
Other Revenue	-	8,505	8,505
Totals	437,155	490,293	53,138

A breakdown was provided to substantiate the difference relating to 'Sporting Licences', which were previously omitted. However, explanation given still exceeded the amount shown in the Return by €200.

The opening balances for 'Services to Third Parties' has increased substantially by €43,197 due to a change in the Department's policy in 2011, covering the administration charge rate on services rendered to third parties. It was claimed that this rate was incorrectly applied throughout the invoices still to be collected.

'Other Revenue' comprises the amount of €8,505 relating to dues from third parties representing reimbursements for damages on vehicles in four separate collisions which occurred prior to the year under review, which amounts had never been reported in the Return. No amounts were collected in 2012 to this effect.

Ageing of Debtors

As previously reported, an ageing analysis of 'Sporting Licences' could not be performed since the Weapons System in place at the Police Department is not designed to provide this information.

The ageing of the remaining debtors is as follows:

	€
Arrears outstanding equal to or less than one year (2012)	18,765
Arrears outstanding over one year but less than two years (2011)	28,542
Arrears outstanding over two years but less than five years (2008 – 2010)	8,130
Arrears outstanding over five years but less than ten years (2003 – 2007)	<u>51,752</u>
Total	107,189

From the amounts included under 'Miscellaneous Fines', an amount of €15,141 was approved for write-off in 2013 and a further amount of €28,302, that has been pending between six to nine years, is awaiting such approval. However, no amount was included as not collectable under the appropriate section.

Civil Protection

The Civil Protection Department reported a gross closing balance of €20,207 as shown in the ageing analysis below.

	€
Arrears outstanding equal to or less than one year (2012)	13,505
Arrears outstanding over one year but less than two years (2011)	Nil
Arrears outstanding over two years but less than five years (2008 – 2010)	<u>6,702</u>
Gross/Net Closing Balance	20,207

Ministry for Health, the Elderly and Community Care

Health Division

The gross/net closing balance of €3,488,297 as at 31 December 2012, is made up of the following:

	€
a. Licences	24,202
b. Ship Sanitation	6,259
c. Pharmacy Bills Mater Dei Hospital (MDH)	19,550
d. Hospital Fees St. Luke's Hospital	248,008
e. Hospital Fees MDH	1,451,351
f. Hospital Tests Primary Health Care (PHC)	2,032
g. Hospital Fees Sir Paul Boffa Hospital (SPBH)	82,074
h. Sundry Bills MDH	70,901
i. Resignations and Overpayments MDH	277,587
j. Resignation	2,278
k. EU Countries E125	1,220,772
l. EU Countries E127	<u>83,283</u>
Total	3,488,297

In contrast to the amount of €239,444 reported as not collected as at end 31 December 2010, no provision was made in the subsequent two years, despite that the amount in question was not written off. There was also clear indication that these were unrecoverable. In fact, the ageing of debtors as shown hereafter, reveals that the amount of €153,685 has been due for over 10 years, while an additional €658,520 relates to dues outstanding between five and 10 years.

Ageing of gross/net collectable arrears at end of year, can be analysed as follows:

	€
Arrears outstanding equal to or less than one year (2012)	1,275,002
Arrears outstanding over one year but less than two years (2011)	702,107
Arrears outstanding over two years but less than five years (2008 – 2010)	698,981
Arrears outstanding over five years but less than 10 years (2003 – 2007)	658,520
Arrears outstanding over 10 years but less than 15 years (1998 – 2002)	111,735
Arrears outstanding over 15 years (1997 and prior)	<u>41,950</u>
Gross/Net Closing Balance	3,488,295

Although required by Treasury Circular No. 4/2013, the Health Division failed to submit a consolidated statement for 2012, showing the aggregate amount of arrears of revenue pertaining to the Departments and Entities falling under the Ministry's portfolio. Whilst an ARR was presented by the respective Ministry, amounts relating to SPBH, PHC and MDH were not included, as the respective Returns were only submitted individually. In fact, the Director General, Finance, declared that, "*the reason behind this emanated from*

the full implementation of decentralised finance units within our Ministry, which essentially brought with it the need of stand alone data sets for each entity leading to responsibility accounting framework". As a result, NAO had to compile the consolidated ARR and Debtor's Template.

In addition to ARRs not being timely submitted as required by the aforementioned Circular, three Returns and the respective Debtor's Templates were revised following NAO queries, and eventually re-submitted during September and October 2013.

However, whilst scrutinising the Return submitted by MDH, it was still noted that the 2012 opening balances for 'Hospital Fees – St. Luke's Hospital' and 'Resignations and Overpayments', did not tally with the closing balances for 2011, resulting in a difference of €1,218 and €1,195 respectively. Furthermore, amounts in the column representing an analysis of the net arrears of revenue that are due from Government Departments, Parastatal Bodies and/or individuals, did not agree with the totals in the preceding column, resulting in a total difference of €2,944. In addition, the amounts featuring as collected could not be tallied with supporting documentation provided by MDH.

Entitlement Unit

During a meeting held at the Entitlement Unit within MHEC, officers in charge described the computer system in use by this Unit as fragmented and not fit for the purpose. As an example, the current system does not have the facility of cut-off dates and does not cater for reports generation, hence data has to be compiled manually. The system is labour intensive and complex, thus data is subject to human error. The officers in charge also sustained that data inputted is often being corrupted, resulting in untraceable entries in the system. In view of such limitations imposed, the Entitlement Unit requested a new reliable system from the respective Ministry. Unless the system is enhanced certain shortcomings as highlighted hereafter will prevail.

The gross closing balance as at end December 2011, reported by the Entitlement Unit, amounted to €1,348,678. However, the opening balance for 2012 was revised to €936,686. The negative difference of €411,992 emanates from the fact that a rigorous reconciliation exercise was carried out with each EU country to confirm actual balances due to Malta.

The ageing details for 'E125'² claims did not clearly specify the days overdue, but balances were only categorised in two, *i.e.* from 1 January to 30 June 2012 and from 1 July to 31 December 2012. As a result, the latter balance amounting to €344,630, was reported in the Debtor's Template as due from 91 to 180 days, even though this figure includes the months from October to December 2012.

A sample of 20 'E125' claims, amounting collectively to €237,272, was selected in order to assess the recoverability of amounts due. This resulted in the following shortcomings:

- a. Although applicable fees for the provision of medical services are to be derived from Subsidiary Legislation 35.28 'Healthcare (Fees) Regulations', it was noted that 21 treatments and the respective charge, in aggregate amounting to €3,017, were not covered by the said Legislation. The Billing Section at MDH confirmed that there are approximately a total of 172 fees not covered by the said Legislation.
- b. Although the above-mentioned 20 claims ranged from years 2005 to 2012, only two reminders were sent to the respective countries in 2012, to recover the amount due, one of which dated way back to May 2007.

² EU residents visiting Malta on a temporary basis.

Sir Paul Boffa Hospital

SPBH confirmed that no collection effort is made, claiming that sufficient documentation is not available to support the amount of €68,840 recorded as still outstanding at the beginning of 2012. However, three relevant files made available for audit purposes revealed the following:

- a. An amount of €25,926 has been shown as payable by a patient since the year 2000. However, from a review of the relevant file, it transpired that following contestation by the latter, in October 2009, the amount in question was considered prescribed in terms of the Civil Code, Chapter 16. In fact, SPBH also incurred an additional €445 to reimburse the patient's respective legal fees. Notwithstanding this outcome, the amount is still featuring as collectable in the ARR as at end 2012.
- b. Through minutes filed, it was observed that another amount of €17,559, dated way back to 2002, was referred for write-off both in 2007 and 2008, since the chances of retrieving the amount was remote. A Judicial Letter issued on 22 October 2009 also proved futile. No further action was taken for the recoupment of the amount due. Moreover, the necessary provision was not taken.
- c. On 14 September 2008, a foreign resident was injured during a private social event and the patient was charged €24,086 for medical services rendered by SPBH. Subsequently, a civil law suit was filed against the organisers of the event and a service provider. Costs charged by SBPH are expected to be recovered only if the patient manages to recover the amounts through the law suit. Besides a copy of the writ of summons dated 17 March 2011, no further documentation could be traced in the relevant file.

Elderly and Community Care

The Elderly and Community Care Department reported a net collectable balance of €2,179,633. However, since the ARR as at end 2011 was not submitted, it was not possible to confirm the opening gross balance as at 1 January 2012, amounting to €1,523,895.

The 2012 Return submitted by the Department incorporated the following Revenue Categories:

	€
a. Revenue Account	58,338
b. Staff Salaries reimbursement	2,119,597
c. Telephone	922
d. Training	<u>776</u>
Total	2,179,633

The Ageing of Net Collectable Arrears at end of year could not be analysed as the year of origin of the debtors was not provided in all cases, notwithstanding communications sent.

Additionally, it was not possible to confirm the amount related to newly accrued arrears, as the Department did not provide the necessary information identifying to what period/s the amounts received relate.

The amount of €2,119,597, comprised outstanding claims issued to other departments for reimbursement of salaries in respect of seconded personnel. Therefore, testing was only focused on the Revenue Account, consisting of the 60% contribution of “*any other income*” received by the residents accommodated in Public Private Partnership Homes, as outlined in Legal Notice 259/2004.

Five files pertaining to residents with an aggregate outstanding balance amounting to €15,974 (27%) were reviewed. It was established that in three cases, totalling €5,319 (33%), the residents were deceased whilst the case relating to another amount of €4,579 (29%) was passed for the necessary legal action.

Arrears of Revenue 2012

Ministry/Department		Gross Outstanding on 31/12/2011	Collected during 2012	Written off 2012	Not due 2012	Arrears 2012
Office of the Prime Minister	€	19,594	10,037	0	0	2,400
Armed Forces of Malta	€	3,046,141	322,514	1,264	2,625,254	225,319
Tourism and Culture	€	1,567,225	361,900	65,898	44,656	529,593
Industrial and Employment Relations	€	319,073	8,094	0	0	0
Department of Local Government	€	0	0	0	0	1,611
Information Department	€	50,304	43,221	0	0	54,973
Government Printing Press	€	511,141	143,243	0	0	153,899
Ministry for Gozo	€	252,903	18,034	0	869	14,303
Gozo General Hospital ^d	€	93,770	2,294	0	0	17,328
Ministry for Infrastructure, Transport and Communications Land Transport Directorate	€	18,186,211	909,904	0	2,982,700	3,556,697
Television Licencing Unit ^{c,d}	€	11,510,405	c	390,597	50,590	c
Malta Communications Authority ^d	€	556,895	441,754	0	0	212,729
Land Registry	€	114,587	2,698	43,308	0	12,889
Ministry for Resources and Rural Affairs	€	1,650,909	634,497	6,613	26,437	801,475
Ministry of Education, Employment and the Family ^d	€	650,280	65,331	13,563	14,715	310,962
Social Security Benefits ^d	€	13,959,955	2,027,469	33,693	424,849	4,656,327
Social Welfare Standards	€	6,053	6,053	0	0	0
Ministry of Finance, the Economy and Investment	€	12,338	7,914	0	0	45,666
Lotteries and Gaming Authority ^{c,d}	€	685,114	301,067	0	0	474,216
Notary to Government	€	911	911	0	0	72
Treasury (Pensions Section)	€	21,641,592	1,344,162	0	0	2,951,202
Inland Revenue (including Tax Compliance Unit) Income Tax ^{c,d}	€	546,925,699	1,166,611,394	1,823,600	331,054,426	1,480,302,298
Social Security Contributions Class 1 and Class 2 ^{c,d}	€	144,484,473	311,143,695	0	649,923	307,804,069
Final Settlement System ^c	€	40,851,269	260,303,063	0	2,030,233	261,887,271
Capital Transfer Duty: Duty on Documents	€	28,114,882	2,584,836	0	11,670,144	12,007,262
Death and Donation Duty (including Penalties)	€	4,795,464	16,160	0	146,670	278
Customs	€	10,050,431	2,652,119	1,649	4,206	58,194,487
VAT ^b	€	567,443,145	84,378,971	2,241	142,526,955	357,967,305
Contracts	€	346,417	4,436	0	0	0
Government Property Department ^c	€	25,696,353	6,920,683	474,594	(1,867,855)	8,084,149
Commerce	€	4,460,727	382,252	0	147,354	819,092
Ministry for Justice and Home Affairs Attorney General ^d	€	14,278	8,073	0	0	143
Judicial: Malta ^d	€	12,696,118	1,519,884	9,070	415,541	1,664,444
Gozo	€	556,504	155,986	0	21,284	196,553
Police ^d	€	490,293	97,489	1,048	30,309	65,220
Civil Protection	€	39,544	32,842	0	0	13,505
Ministry for Health, the Elderly and Community Care Health ^d	€	2,804,032	653,805	0	77,096	1,415,164
Elderly and Community Care (including Welfare Committee)	€	1,523,895	0	0	0	655,738
TOTAL^e	€	1,466,128,925	1,844,116,785	2,867,138	493,076,356	2,505,098,639

a) Did not send Return of Arrears 2011.

b) Return of Arrears 2012 not submitted.

c) Information not available or incomplete.

d) Opening Balance 2012 does not tally with Closing Balance 2011 (*vide* comments).

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

Gross Outstanding on 31/12/2012	Gross Variation	Amounts Est. as not Collectable	Net collectable arrears as at 31/12/2012	Net collectable arrears as at 31/12/2011	Net Variation	Due from Govt. Dept. & Para. Bodies	Individual & Private Companies
11,957	(7,637)	0	11,957	19,594	(7,637)	0	11,957
322,428	(2,723,713)	92,698	229,730	2,930,630	(2,700,900)	20,607	209,122
1,624,364	57,139	236,100	1,388,264	1,286,180	102,084	0	1,388,264
310,979	(8,094)	195,685	115,294	246,568	(131,274)	0	115,294
1,611	1,611	0	1,611	0	1,611	1,611	0
62,056	11,752	0	62,056	50,304	11,752	62,056	0
521,797	10,656	0	521,797	511,141	10,656	521,679	117
248,303	(4,600)	28,183	220,120	224,978	(4,858)	71,090	149,030
108,804	15,034	42,952	65,852	54,484	11,368	0	65,852
17,850,304	(335,907)	0	17,850,304	18,186,211	(335,907)	0	17,850,304
10,430,454	(1,079,951)	4,230,539	6,199,915	6,736,788	(536,873)	c	c
327,870	(229,025)	0	327,870	5,291	322,579	0	327,870
81,470	(33,117)	28,530	52,940	71,279	(18,339)	0	52,940
1,784,837	133,928	273,281	1,511,556	1,311,078	200,478	458,123	1,053,432
867,633	217,353	75,697	791,936	646,820	145,116	332,141	459,794
16,130,271	2,170,316	0	16,130,271	13,903,453	2,226,818	0	16,130,271
0	(6,053)	0	0	6,053	(6,053)	0	0
50,090	37,752	0	50,090	12,338	37,752	35,988	14,103
858,263	173,149	356,087	502,176	521,335	(19,159)	c	c
72	(839)	0	72	911	(839)	72	0
23,248,632	1,607,040	0	23,248,632	21,641,592	1,607,040	23,221,843	26,789
527,738,577	(19,187,122)	415,750,897	111,987,680	100,121,259	11,866,421	c	c
140,494,924	(3,989,549)	91,365,003	49,129,921	a	a	c	c
40,405,244	(446,025)	28,283,671	12,121,573	a	a	c	c
25,867,164	(2,247,718)	17,957,800	7,909,364	8,467,962	(558,598)	0	7,909,364
4,632,912	(162,552)	1,914,489	2,718,423	2,812,946	(94,523)	0	2,718,423
65,586,944	55,536,513	0	65,586,944	10,050,431	55,536,513	53,653,712	11,933,233
698,502,283	131,059,138	643,196,869	55,305,414	36,018,383	19,287,031	c	c
341,981	(4,436)	59,748	282,233	286,669	(4,436)	0	282,233
28,253,080	2,556,727	9,458,542	18,794,538	25,696,353	(6,901,815)	c	c
4,750,213	289,486	54,371	4,695,842	4,455,727	240,115	0	4,695,842
6,348	(7,930)	569	5,779	14,207	(8,428)	0	5,779
12,416,067	(280,051)	5,056,925	7,359,142	7,585,933	(226,791)	0	7,359,142
575,787	19,283	76,085	499,702	556,504	(56,802)	0	499,702
426,667	(63,626)	0	426,667	483,981	(57,314)	9,887	416,780
20,207	(19,337)	6,702	13,505	37,120	(23,615)	3,652	9,853
3,488,295	684,263	0	3,488,295	3,216,045	272,250	1,333,794	2,154,502
2,179,633	655,738	0	2,179,633	a	a	2,120,519	59,114
1,630,528,521	164,399,596	1,218,741,423	411,787,098	268,170,548	80,185,423	81,846,775	75,899,106





Office of the Prime Minister

Medicines Authority

Background

The Medicines Authority (MA) was established as an autonomous body in 2003, under the Medicines Act Cap. 458. Its main role is to contribute to the protection of public health in Malta, through the regulation of the safety, quality and efficacy of medicines for sale or supply on the Maltese market, and the regulation of pharmaceutical activities. The Authority is committed to provide high quality licensing, pharmacovigilance, inspection and enforcement services to its stakeholders for the ultimate benefit of the Maltese general public.

The Authority generates most of its revenue through its own operations, by virtue of the following legislation:

- Medicines Act, Cap. 458;
- ‘Medicines Authority (Fees) Regulations’, S.L. 458.46;
- ‘Special Procedure (Penalties in respect of the Medicines Act) Regulations’, S.L. 458.48;
- ‘Pharmacy Licences (Fees) Regulations’, S.L. 458.53;
- ‘Qualified Persons (Fees for Applications) Regulations’, S.L. 458.38; and
- ‘Licensing Fees for Private Medical Premises Regulations’, S.L. 458.26.

Other income is derived from the provision of linguistic services to the European Medicines

Agency (EMA) located in London and from other procedures of various other European Medicines Agencies, such as the centralised procedures. MA was also allocated a budget of €150,000 under the Office of the Prime Minister (OPM)’s Recurrent Vote 5 for the year 2012. However, upon submission of the necessary financial information to the Ministry of Finance, the Economy and Investment (MFEI), the Government subvention was revised downwards to €110,000.

Emphasis of Matter due to Misappropriation of Funds

Following an investigation by the Internal Audit and Investigations Directorate concluded in November 2006, a court sentence in January 2010 condemned an officer, who had occupied the position of Director Corporate Services within the Authority in 2006, of misappropriation of funds totalling €165,000. Although the latter was ordered to reimburse the amount in question, the case was still under appeal as at audit date, *i.e.*, end May 2013. The amount was fully provided for in the Authority’s accounts as it was uncertain whether the amount is recoverable. An emphasis of matter to this effect was included in the private auditor’s report.

Audit Scope and Methodology

Besides being audited annually by an external auditor, as required by the Medicines Act, the Authority’s accounts are also subject to audit by the Auditor General in terms of Article 10(1) of the same Act.

The objectives of the audit were to verify accuracy of the Authority's income, as well as expenditure, during the financial year 2012. Various meetings were held, mostly with the Finance and Administration Manager and other Accounting and Administrative officers during the audit, in order to obtain an overview of adopted procedures and controls. A sample of revenue and expenditure accounts were identified from the nominal transaction listing, following an analytical review and the identification of material transactions. The salary of a number of MA officers was also checked against the relevant employment contracts and collective agreements, to confirm entitlement and adherence to Income Tax Regulations.

Key Issues

Revenue

Background

Since MA generates most of its income through revenue received from various activities, a number of revenue accounts were chosen for testing, in order to ascertain that the procedures for recording and receiving income were adequate. The accounts examined, whose collective value amounted to €918,475, was equivalent to 67% of the total income of €1,377,493 recorded in the accounts.

Completeness of Revenue cannot be ascertained

Pharmacies, wholesale dealers, importers and manufacturers have to pay an annual license to MA, as required by the applicable regulations, which also stipulate that an annual fee is due for marketing authorisations¹. Upon enquiry, the National Audit Office (NAO) was informed that in the absence of an integrated Information Technology (IT) system, the Finance and Administration Unit has no option but to rely on spreadsheets, which are prepared by the Authority's Technical Directorates, for accounting purposes.

The lists containing names of pharmacies, wholesale dealers, importers, manufacturers and marketing authorisations for the year 2011 and 2012 were obtained, in order to perform analytical and walk through tests, thus confirming their reliability.

NAO has reservations regarding the accuracy of lists prepared by the Technical Directorates since a number of issues noted were of particular concern:

- a. Upon enquiry, the Chief Executive Officer (CEO) confirmed that the list of licensed pharmacies, as at 31 December 2011, erroneously included two pharmacies whose licences were actually issued for the first time in January 2012.
- b. The list of licensed manufacturers as at 31 December 2011, which was initially made available for audit purposes, was subsequently replaced following further audit queries, implying that the first one provided was not correct.
- c. The number of entries in the above mentioned lists totalled 226 pharmacies and 18 manufacturers respectively. The inaccuracies in these lists which contain relatively few entries, give rise to further concerns, since the list of marketing authorisations, containing over 4,000 types of medicines, and against which revenue collected in aggregate amounted to €277,499 in 2012, is even more prone to errors given its magnitude.
- d. Although the Finance and Administration Manager claimed that checks and reconciliations are performed to ensure accuracy of amounts posted in the accounts, no proper reconciliations were made available for review.

Due to these circumstances, the completeness of revenue and correctness of records maintained could not be ascertained.

¹ A marketing authorisation is required before any medicinal product is made available for consumption.

Lease of Premises

Background

MA offices are situated in *Rue D'Argens*, Gżira. These premises, which have been leased from third parties, were covered by three lease agreements covering the period from October 2001 to September 2013.

A brief overview of the most salient points concerning the lease agreements is given hereunder:

- On 12 November 2001, the then Ministry of Health entered into a contract with the landlord for the lease of the said premises, for use by the then Medicines Regulatory Unit, which, during 2003, became known as MA. Correspondence filed by the latter indicated that these premises, with a floor area of approximately 1,524 square metres, were selected by the Ministry following a public call for tenders issued by the Department of Contracts.
- The terms of the first lease agreement, effective from 1 October 2001 and expiring on 1 October 2007, stipulated that the first four years were compulsory with a further two years renewable at the tenant's discretion. Prior to the expiration of this agreement, MA enquired whether it was the Ministry's intention to find alternative premises. However, no specific reply was received when NAO enquired whether Ministerial response to this effect was available.
- Five months after the expiration of the original agreement, MA obtained approval from the then Ministry of Health, the Elderly and Community Care, to renew the rent agreement² for a further year, starting 1 October 2007. Subsequently, in January 2009, the Ministry requested MA to submit details of office space requirements, since it was decided to allocate Carga House, situated in Santa Venera, to the Public

Health Regulations Division. However, the foregoing plan did not materialise, thereby, following consultations with Government, a five-year rental agreement for the same premises was entered into with the landlord. The agreement, signed on 22 September 2010, was retrospectively effective from 1 October 2008 to 30 September 2013.

Aggregate Lease Expenditure

The annual lease, which started at €113,599, eventually increased to €138,455 in 2013. By the end of the last lease agreement, the Authority incurred an aggregate lease expenditure on office premises of €1,519,404 and maintenance costs of €101,121.

Expiry of the last Lease Agreement

In view that the lease agreement, which prevailed during the audit, was due to expire by the end of September 2013, NAO enquired whether discussions to find alternative premises had commenced with the Ministry. It transpired that the situation was put on hold, on instructions from the Permanent Secretary.

Control Issues

Payroll

Background

The Authority's payroll cost amounted to €1,113,004 for year ending 31 December 2012. The average number of persons employed by MA during the year was 36, the majority of which, totalling 22, were Technical Officers. Seven employees held a Management position whilst another seven were employed in Administration. There was no payment for overtime during the year.

Besides assessing the adequacy of controls and payroll records, a sample of four officers was chosen for audit purposes to confirm entitlement

² Agreement renewed with the same terms and conditions as the previous agreement except for the annual rent, which was set to €81.53 per square metre, thus equivalent to €124,249 annually.

to salary payment, including allowances and fringe benefits, as applicable.

Chief Executive Officer – Renewal of Appointment not available

Articles 8(1) and 8(4a) of the Medicines Act Cap. 458 stipulate that CEO shall be appointed by the Minister for a period not exceeding five years, and shall be eligible for reappointment for further periods, each not exceeding five years.

A review of the personal file of the outgoing CEO revealed that the Officer was appointed by the then Minister of Health on 19 February 2004. The post, effective from 1 March 2004, was for a period of three years, renewable in accordance with the Act. CEO was reappointed on 1 June 2007 for a further three years, effective retrospectively from 1 March 2007.

After the expiry of the second term on 28 February 2010, CEO retained her post, but the Minister's authorisation, corroborating the renewed appointment, was not available at MA. However, on 26 November 2012, the then MFEI, approved that CEO's grade was to be pegged to salary scale 2, and also indicated that the increases are to be in line with those in the public service.

Contracts of Employment not valid

A review of the personal files of the remaining three employees in the audit sample revealed shortcomings in their contracts of employment as follows:

Director

The Officer's contract of employment, effective as from 2 February 2004 for a definite period of three years, expired on 1 February 2007. As per section 11 of the same contract, three months prior to the expiry of the agreement, the incumbent was bound to notify her employer, in writing, whether she intended to renew the contract for another mutually agreed period. The employer subsequently had to determine whether the engagement was to be renewed.

However, the Officer only confirmed that she wanted to renew her contract, and requested revised terms and conditions, in a letter dated 26 February 2008, *i.e.* more than a year after the expiry of her contract. It also transpired that although CEO requested the then Ministry of Health, the Elderly and Community Care to renew the Officer's appointment, MA claimed that no position was taken by the said Ministry, hence an official approval to renew this contract was never received.

Following NAO's request for advice, the Department of Industrial and Employment Relations confirmed that since 12 days elapsed from the expiry of the definite contract, and the employee was retained in employment, even without being given a new contract, the employment automatically became indefinite in terms of Article 34(2) of the Employment and Industrial Relations Act.

The Officer's management position, which falls outside the scope of the Collective Agreement, is comparable to scale 4 in the Public Service. In this regard, the opportunity to continue to retain this officer on a fixed term contract, in line with Article 7(4)(b) of L.N. 51/2007, 'Contracts of Service for a Fixed Term Regulations, 2007', was missed given that prompt action was not taken.

Quality Assessor

The Officer's contract of employment, effective as from 1 June 2004 for a definite period of three years, expired on 31 May 2007. Section 11 of this contract was identical to that of the Director mentioned above. In this case, MA confirmed that this Officer automatically also became employed indefinitely in terms of the Act.

Although this Officer's employment is regulated by the Collective Agreement, no record of the change to an indefinite employment was traced in the personal file. Additionally, a letter dated 22 June 2006 confirmed that there were other employees who requested that all definite contracts of employment are changed to indefinite contracts. However, the necessary approvals were not given by OPM.

Pharmacist

The employee, who was engaged with the Ministry of Health on 26 August 2010 as an officer in scale 9, was detailed with the Authority as from 23 July 2012. The Officer's contract of employment made available for audit purposes, and which was intended to be effective as from this date, was still in draft form and unsigned by mid-2013. In September 2012, the Permanent Secretary informed the Pharmacist that, as a result of the Public Service Reform, she progressed to scale 8 as from 26 August 2012. However, as per MFEI instructions, the Authority continued to pay the Officer the Collective Agreement salary package, which although being on scale 9, was more favourable, taking into consideration the annual allowance of €1,102.

It further transpired that the Pharmacist initially refused to sign the contract, as she wanted to wait until the Collective Agreement was finalised in December 2012, but eventually the contract was still not signed on the Union's advice. NAO was informed that this matter was being actively followed up, in order to be regularised.

Incorrect Salary Payments

Audit testing of salary payments revealed inaccuracies in two out of the four cases mentioned above. The Pharmacist was erroneously given arrears relating to the Market Corrector Allowance, introduced in December 2012, following the new Collective Agreement, amounting to €816. The Officer had already been compensated for this allowance through the payment of a 'Pharmacist Allowance', thus no additional arrears were due. Additionally, the Quality Assessor was overpaid a cash allowance arrears relating to 2011, amounting to €131, as no account had been given to the fact that she was on parental leave until mid-September of the same year. Following NAO's observation to this effect, an agreement was reached for the refund of the respective amounts. However, other inaccurate payments cannot be excluded.

Timesheets not prepared

An Attendance Verification System is installed at MA, to manage effectively time-keeping and staff movement. However, officers are not requested to prepare timesheets to log hours worked on particular tasks, indicating a lack of control over the hours worked.

Provision of Linguistic Reviews for the European Medicines Agency

Background

The provision of linguistic services to EMA entails checking translations of medicinal product information authorised by the European Commission, from English to Maltese, to ensure that they are of the required quality. EMA pays pre-established hourly rates to MA for the linguistic services rendered, and the latter pays approximately 60% of these rates to the persons subcontracted.

During 2012, linguistic checks were carried out by 12 individuals, 10 of which were MA employees, who performed this work on a part-time basis. Out of a total of €23,024 disbursed by the Authority in this regard, it resulted that €20,009 was paid to the Authority's employees.

The employees who perform linguistic reviews³ have a contract for service, on a self-employed basis, with the Authority. Thus, in such cases, the responsibility to appropriately declare income derived for the provision of this service, by grossing it up with that derived from the full-time employment, is only vested within the same officers.

Declaration of Income earned from Linguistic Reviews

All MA employees who performed linguistic reviews during 2012, also performed such checks during 2011. As part of the audit testing, in

³ Linguistic reviews are carried out at the employees' respective residence.

April 2013, NAO requested the Inland Revenue Department (IRD) to forward copies of the nine⁴ Income Tax Returns, relating to year of assessment 2012 (basis year 2011), filed by these employees⁵. Subsequently, IRD confirmed that six were non-filers and only three filed a return.

It was concluded that in four cases, the linguistic services remuneration, in aggregate amounting to €6,645, had not been declared at all. On the other hand, although this Office was informed by IRD that the other five employees declared part-time self-employed income, from information made available⁶, it could not be ascertained whether such income was derived from the linguistic reviews. Thus, this income is being subject to tax evasion, resulting in the loss of public funds.

Pharmacists' Contracts for Service

Background

The Director General Budget Affairs (MFEI) approved MA's request to enter into yearly contracts for service with pharmacists⁷ at the proposed rate of €9 per hour⁸. Subsequently, approval was obtained from Director General Support Services (MFEI) to enter into contracts for same service, at the rate of €17⁹ per hour (VAT incl.).

The recruitment procedures adopted by MA are documented in Standard Operating Procedures (SOP). Amongst others, the process includes application screening by a Board, to establish the eligibility or otherwise of potential candidates and the publication of results thereof.

Lack of Transparency related to Pharmacists' Appointments

Testing was carried out in respect of all three pharmacists who had a contract for service, effective from 1 January to 31 December 2012. These three pharmacists received a collective amount of €24,081 during 2012.

It was noted that the result sheets were not filed in two cases, whilst the screening sheet was also not available in one of these two instances. The two pharmacists were employed after public calls were issued during 2009. MA stated that both applicants were accepted following an informal meeting and their contracts were renewed up to 31 December annually.

VAT Element retained by Non-vatable Service Providers

The contract for service between MA and the pharmacists referred to in the previous observation stipulated that an hourly rate, inclusive of VAT, is payable during the period of service. Notwithstanding that both pharmacists in question were exempt from charging VAT, the tax element was not deducted from the hourly rate, but charged in full and retained by the service provider.

Overstated Hourly Rate paid to Outsourced Pharmacists

The above-mentioned charge rate of €9 per hour was based on the basic minimum hourly rate, payable to a Pharmacist on scale 9, plus 18% VAT, as per email sent by Director General (Resources and Support) Ministry for Social Policy, to Director General Budget Affairs (MFEI), on 12 February 2009.

Subsequently, on 30 July 2010, as indicated in an e-mail sent by CEO of MA to the Permanent Secretary MFEI, a charge rate of €17 per hour (VAT incl.) was established. This revised rate was calculated on the basic salary maximum scale 9, together with allowances for Pharmacists, Continued Professional Education and a Masters Degree Qualification. Furthermore, the employer's national insurance contribution was also taken into consideration.

Following a call for applications, where another pharmacist was engaged in addition to the two who were already contracted subsequent to the

⁴ Two officers filed one return since they are a married couple.

⁵ The Income Tax Return is filed by the spouse in the case of married female employees.

⁶ IRD provided a copy of TA22 in only one case, however the source of the income declared could still not be established. The Department stated that until 2012, TA22s were used to identify the payment type and were not retained after receipting. TA22s will be scanned as from 2013.

⁷ Required to support licensing of medicinal products, pharmacovigilance and inspectorate activities.

⁸ Hourly rate payable to a pharmacist calculated on the basic minimum salary scale 9, plus 18% VAT.

⁹ Calculated on a pharmacist basic maximum salary scale 9 plus allowances, company national insurance contribution and 18% VAT.

previous calls, all the three pharmacists started being paid at the new rate of €17 per hour.

However, it was noted that two of the service providers already had a full-time employment, and thus, the employer's national insurance contribution was already being paid. Furthermore, since the Masters Degree was not a requisite for the engagement when the calls were issued in 2009, and not all candidates had this qualification, revising the rate to compensate for this element is not considered necessary.

Information Technology Budget

Background

An IT recurrent costs budget, which is discussed with and conveyed to CEO, is prepared by the Authority's Information Systems Manager. Actual and budgeted expenditure is also discussed during management meetings, depending on changing operations and resources.

The budget is forwarded to the respective Ministry's¹⁰ Chief Information Officer (CIO) annually in June, in order to obtain Operational Expenditure (OPEX) refunds from the same Ministry in the subsequent year.

IT OPEX budget relating to financial year 2012, dated 10 June 2011, consisted mainly of service agreements, both planned and others which were already contracted for, as well as committed projects. MA's IT OPEX budget for the year under review amounted to €498,614.

Shortcomings in the preparation of the Information Technology Budget

A number of concerns noted in relation to the compilation and presentation of IT OPEX budget are detailed hereunder:

- a. MA claimed that the Ministry does not confirm the approval of the budget or the funds which will actually be refunded. It also maintained that the Authority submits selected paid invoices to claim refund, but then it is at OPM's discretion what amounts are refunded.

- b. IT costs reflected in the nominal ledger amounted in aggregate to €74,186, whilst the related IT OPEX budget, as already mentioned above, amounted to €498,614. Considering the difference of €424,428, this means that such budget, which was 572% more than the amount actually spent, was significantly overstated.

MA claimed that, in fact, not all projects budgeted for through OPEX need necessarily be implemented in the following year, because the implementation of certain projects might be reconsidered in line with operational and priority changes, the availability of resources, and financial limitations, while the implementation of other projects may be postponed.

Overseas Travel

Background

MA SOP document regulating overseas travel stipulates, amongst others, that Government travel-related rules and regulations, as applicable to MA, are abided by. The Authority financed official overseas travel in 21 instances, three of which were examined for the purpose of this audit.

Non-adherence with Standing Regulations

The Authority did not always abide by the prevailing overseas travel circular issued by Government. As an example, an officer on scale 7, who was required to perform official overseas duties twice during 2012, was granted additional subsistence allowance on both occasions, in aggregate amounting to €168, over and above her entitlement. The subsistence paid to the officer was the class 'A' rate normally paid to the Director who had to be substituted by the former on both occasions. However, MFIN Circular No. 1/2008 (4) stipulates that officers other than those in salary scales 1 to 5 are entitled to class 'B' rate, unless it is necessary for them to travel with senior officers and stay at the same hotel.

¹⁰ Although the Authority was listed under OPM in the Budget Estimates for 2012, it fell under the responsibility of the Ministry for Fair Competition, Small Business and Consumers following the reassignment of Ministerial portfolios in January 2012.

Inspectorate Department Car Hire

Following a public call for quotes in a local newspaper, an agreement for car hire at the daily rate of €12.98 was entered into with a service provider. This agreement, which was valid for two years as from 1 October 2010, was renewed for a further year in 2012, under the same rental terms and conditions. An aggregate amount of €1,928 was recognised in the accounts to this effect. This comprised both hire cost and fuel.

During the audit, it transpired that a VAT receipt for an amount of €1,297, covering 51 invoices, net of six credit notes, was provided by the supplier. Although a breakdown of such amount was made available upon request, ascertaining that the VAT receipt covered all invoices was very time-consuming.

Cleaning Services

Cleaning services are provided to MA at the rate of €4.54 per hour (VAT excl.), including all cleaning material. During 2012, a total of €6,662 was recorded as an expense in this respect.

The following shortcomings were noted:

- a. No contract was available for cleaning services, thus limiting audit verification of the accuracy of payments made. The service provider was engaged by the Ministry of Health prior to setting up MA, *i.e.* more than 10 years back, and the rate per hour remained unchanged since then.
- b. No documentation was made available to support the procurement process of this service, with the result that its regularity could not be ascertained.
- c. Invoices and VAT receipts provided by the service provider were still being addressed to the Medicines Regulatory Unit, when in actual fact, this has been replaced by MA since 2003.

Recommendations

Key Issues

Revenue

NAO is informed that a tender for the new IT system, which includes the possibility of integration with the accounting package, was issued by the Department of Contracts on behalf of MA. However, it was also stated that the ultimate implementation of such system will depend on financial resources available. In this regard, it is advisable that MA actively follows up the progress registered to this effect, and endeavours to adopt a robust income recording process at its earliest.

Lease of Premises

In view that the premises lease agreements involve a substantial outlay, and the applicable contract has now expired, top priority is to be given to this matter.

NAO is aware that the Public Health Regulations Division has been considering the possibility of having all the related Directorates and MA located within a single building. Particular sites were identified but no decision was taken, even though this exercise has been ongoing for a number of years. In this regard, a long term feasibility study is recommended, to ensure that Government can take the necessary decision accordingly.

Should the above-mentioned integration not materialise, it is recommended that an exercise is carried out in order to identify any alternative Government premises which satisfy MA's requirements, and to determine whether the option of moving to new premises is feasible and cost effective.

In the event that adequate premises are not available, the Authority is encouraged to issue an expression of interest, in order to be made aware of other alternatives which may be considered. The approach taken is to be in line with the

requirements of the procurement regulations, to ensure that the best rates and conditions are obtained within the framework of a transparent and fair selection process, if MA decides to continue leasing the premises.

Control Issues

Payroll

Chief Executive Officer – Renewal of Appointment not available

A valid document is to be drawn up for each officer in office, in order to regularise the respective appointment. Such document is to be filed for future reference as well as for audit purposes.

Contracts of Employment not valid

Valid contracts of employment are to be drawn up for all employees in order to establish commitment and formalise employment relationships. This will ensure agreement between the parties concerned when it comes to the job description, remuneration and terms and conditions related to the particular post.

Attention is also drawn to objective reasons for retaining employees on a fixed term employment contract, which are contemplated by L.N. 51/2007, ‘Contracts of Service for a Fixed Term Regulations, 2007’. In particular, this legal notice stipulates that officers holding management positions from scale 1 to 4 in the Public Service, or a comparable grade in the Public Sector, may be retained on a fixed term contract. In this respect, the Authority is recommended to actively follow-up employment agreements and draw up the necessary contracts on time, so as to take advantage of the above-mentioned legal provisions, as necessary.

Incorrect Salary Payments

Although NAO acknowledges that the payroll procedure was more complex during 2012, in view of the finalisation of the Collective Agreement and the calculation of the resulting arrears, it is to be ensured that salaries are double-checked prior to payment, in order to avoid mistakes.

Timesheets not prepared

The Authority is to consider implementing a system of timesheets, whereby a log of tasks performed and the respective time taken to complete each task is duly documented. Such information would be useful to assess performance appraisals effectively, taking time management and cost effectiveness in account. Furthermore, it will assist in the costing of revenue generating activities which MA opts to perform from time to time, such as services given to other European Medicines Agencies.

Provision of Linguistic Reviews for the European Medicines Agency

It is recommended that MA seeks guidance from IRD about the possibility of deducting tax at source to safeguard the interest of Government. This will assist IRD in collecting the correct amount of tax due in a timely manner.

Pharmacists’ Contracts for Service

Lack of Transparency related to Pharmacists’ Appointments

The standard procedures outlined in the Recruitment SOP, particularly the application screening by a Board and the publication of results, are to be adhered to. All related documents are to be properly filed for future reference and audit purposes.

VAT Element retained by Non-vatable Service Providers

The Authority is to ensure that the relevant VAT is deducted from the chargeable rate when the service provider is exempt. Otherwise, the VAT element paid by the Authority would be retained by the individual instead of being relayed to the Department.

Overstated Hourly Rate paid to Outsourced Pharmacists

The established rate is expected to be more fair and reasonable. MA should also consider the cost-effectiveness of employing rather than contracting for service, especially if the related service is required in the long term.

Information Technology Budget

NAO acknowledges the fact that when the budget is being prepared, there are many unknowns. However, it is recommended that the Information System Manager liaises with CIO of the Ministry, in order to provide more realistic figures, thus attaining the scope of the budget.

It is also to be ensured that the budget scope is clearly defined and proper guidelines are given by the Ministry. This would also facilitate the strategic planning of the Authority. Additionally, the Ministry is expected to officially approve the annual IT budget submitted by MA, and confirm the funds to be allocated to the latter for the following year.

Overseas Travel

The Authority is to fully comply with the relevant official travel circulars without any exception.

Inspectorate Department Car Hire

The Authority may consider requesting the supplier to provide VAT receipts more frequently, in order to facilitate reconciliation of the amounts in question.

Cleaning Services

MA is to ensure that a formal valid contract is available to cover this service, in order to secure its provision. The service provider is also expected to appropriately address invoices and VAT receipts to the Authority.

Management Comments

Management concurred with most of NAO's findings. 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 were also submitted:

- A tender for a Licensing Management Solution System, which includes the possibility of an integrated financial application, was issued in 2012 and its

adjudication is in the final stages. The Authority has continued to improve on the internal control system whilst securing funding for an integrated licensing system.

- The suitability of alternative Government premises is being actively considered following discussions with the new line Ministry.
- The Authority issues an appointment letter when newly recruits are covered by the Collective Agreement. Contracts of service are issued for other appointments. It will be ensured that decisions to renew contracts, or otherwise, will be taken on a timely basis. By the end of 2013, all personal files will be reviewed to ensure that appointment letters and contracts of service are valid.
- Incorrect salary payments occurred due to an extraordinary situation as the payment of arrears had to be calculated and paid in a very tight schedule following the introduction of the Collective Agreement. All arrears calculated have been rechecked to ensure that there were no further inaccuracies.
- Although employees are not requested to prepare timesheets, different methodologies are used to monitor performance. Additionally, performance appraisals are carried out at least annually and meetings with staff are held to evaluate performance. During September 2013, the line Ministry has also been requested to perform a strategic review of the Authority with the aim of facilitating cost recovery and capacity planning.
- Officers performing linguistic reviews are being informed to regularise their position with IRD. Additionally, in coordination with the line Ministry, the Authority is in contact with IRD to ensure compliance with the relative regulations.
- The hourly rate paid to outsourced pharmacists is considered as fair and reasonable in view of the required professional expertise. The Authority will

carry out a cost effectiveness exercise by the end of the year 2013, to re-evaluate its operational needs and to establish whether it is more feasible to employ rather than contracting for service.

- The Information Systems Manager always liaises with CIO about the budget. Following submission of the budget, CIO

requests clarifications and the Information Systems Manager carries out any changes requested and agreed upon.

- The Authority will ensure that a formal valid contract is available to cover cleaning services and that invoices and VAT receipts are properly addressed.

Malta Tourism Authority

Personal Emoluments

Background

During financial year 2012, the work force of the Authority was made up of 145 employees, out of which 142 were on a full-time basis, whilst three were on a part-time basis. However, the remuneration paid to another 86 casual workers performing re-enactments for *In Guardia* parade, was also fully borne by the Authority.

As per MTA's Management Accounts for the year ending 31 December 2012, the Authority budgeted a total expenditure of €3,578,317 in relation to Wages and Salaries, with the actual total cost incurred by year-end reported as €3,495,401. Thus, overall, the Authority managed to curtail its payroll costs by €82,916 as indicated in **Table 1**.

Audit Scope and Methodology

The main scope of the audit was to determine the level of internal controls in relation to the payment of personal emoluments, as well as to verify whether the applicable regulations and agreements were followed.

Audit procedures were planned and performed in order to obtain reasonable assurance as to whether the internal control structure at the Authority is adequate. Walk-through tests and detailed substantive testing were carried out to confirm the existence and the correct application of controls. Furthermore, various meetings were held with the Authority's officers in order to obtain an understanding of the relevant policies and procedures adopted.

Table 1: Wages and Salaries¹

Wages and Salaries	Budgeted	Actual	Difference
	€	€	€
Payroll Costs	3,328,317	3,251,353	76,964
Board Members Allowances	30,000	33,425	(3,425)
Overtime	40,000	59,496	(19,496)
Temporary Staff	180,000	151,127	28,873
Total	3,578,317	3,495,401	82,916

¹ Source: MTA's Management Accounts 31 December 2012.

The sample selected for audit purposes comprised 14 officers with different designations, whereby emoluments and allowances paid to them throughout 2012 were verified.

Key Issues

Lack of Internal Controls

From verifications carried out on a sample of employees, it transpired that internal controls in various areas were lacking, indicating that little or no monitoring was 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 discussed separately further on in the report, under the pertinent observations.

- Contract of employment not in place
- Incorrect basic salary payment
- Incomplete and unreliable attendance records
- Lack of verification of attendance records and overtime claims
- Number of hours actually worked not even adding up to the Officer's official working schedule
- Payment of certain allowances which were not included in the Collective Agreement²
- Excessive phone bills, which at times even exceeded the Officer's entitlement

Weak Budgetary Control on Overtime

Upon comparing the actual overtime expense of €59,496 incurred during 2012, against that anticipated in the original budget for the same year, it transpired that the budget for this line item was exceeded by €19,496, *i.e.* 48.74%. This discrepancy is the result of lack of planning and control over overtime, as will be highlighted in more detail further on in the report.

²The last applicable Collective Agreement expired with effect from 1 January 2011.

Control Issues

Lack of Source Documentation

Employees not having a signed Contract in line with their present Conditions of Work

It was the Authority's practice to fill vacant or new posts by an internal call for applications. However, from the audit testing carried out, it was noted that the promotion of employees to substantive grades was not properly supported by a new Contract of Employment, clearly indicating the new working terms and conditions. In such cases, only a 'Salary and/or Position Change Form', issued by the Corporate Human Resource and Administration Division to the Finance Section, was being added to the file records. This form, which was not endorsed by the officer being promoted, solely indicated the new position of the latter, together with the personal emoluments, including allowances that were to be paid as from the effective date specified in the same form.

Personal Files not updated

Whilst reviewing the personal files of the employees falling in the audit sample, it was noted that the files had not been updated for quite some time. For example on 13 May 2009, an officer was assigned the post of Senior Manager, with a probation period of 12 months, *i.e.* up to 12 May 2010. However, no documentation was traced in the respective personal file indicating whether the said officer was officially appointed as Senior Manager or not following his probation period.

Recording and Verification of Attendance

Background

Attendance of employees at MTA was being recorded in two ways. At the Valletta Head Office, a Biometric Recognition Device, consisting of a palm/hand reader, was in place, whereby officers below the grade of Senior Manager were obliged to record their attendance through this automated Attendance Verification System (AVS). On the other hand, personnel working at the Tourist

Information Offices (TIOs) situated at the Malta International Airport (MIA), Mdina, Mellieħa and Gozo, as well as staff at the Quality Assurance Section at MTA's Gozo Branch, were required to sign the manual attendance sheets.

Officers not clocking their Arrival and/or when leaving Premises

Despite that an AVS was in place at MTA's Head Office, this was not being properly operated. Upon verifying the 'Time/Attendance Detail Report' of the officers falling within the audit sample, various instances were traced whereby the respective officers failed to record their in/out time. Consequently, disbursements made in respect of overtime and allowances, which payment was based on the attendance records, could not be validated.

For example, one officer, in the position of Messenger/Driver, more often than not, did not record his departure time at end of day, notwithstanding that in the majority of days he was claiming overtime. This issue is discussed in more detail, further on in the report.

Lack of Verification of the Time/Attendance Detail Report

MTA's Management did not perform detailed checks on attendance records, intended to ensure that all officers are adhering to the official working schedule, on a regular basis. It was verbally declared that only sample checks are undertaken from time to time, normally within a three-month period. However, from the sample of attendance records reviewed during the audit testing, this monitoring was not evidenced.

Vacation/Sick Leave Records not updated

Whilst reviewing both the manual Attendance Sheets³ and the computerised 'Time/Attendance Detail Report', it was noted that instances of absences were not always being recorded

accordingly in the vacation and sick leave computerised reports, which data is inputted manually.

Manual Attendance Sheets

The following shortcomings also transpired from the manual attendance sheets maintained at the following TIOs.

Malta International Airport

- a. For the period 12 to 18 March 2012, two attendance sheets were drawn up by the TIO at MIA. The first attendance sheet was dated 18 March, whilst the second one was dated 25 March. Both attendance sheets were endorsed by the Manager in charge. However, various discrepancies were noted between the two records.
- b. Between 2 and 8 April 2012, one of the officers failed to endorse the respective attendance sheet and this was left blank. Consequently, it could not be ascertained whether, during this period, the foregoing officer reported for work or not, since no other remark to this effect was disclosed.

Mdina

- c. Instances were noted whereby an officer was shown as being on vacation leave on 14 January 2012 on the attendance sheet, but he still endorsed the attendance records for that day. Besides that the respective hours were not included in the Vacation Leave records, it also transpired that no vacation leave was deducted.
- d. On two other instances, the vacation leave records for the above officer indicated that the employee was on leave. However, the attendance records, which evidenced the word 'leave', were still endorsed, suggesting that the officer was on duty. In these two instances, vacation leave was deducted.

³ Manual attendance sheets maintained at TIOs located at Mdina, MIA and Gozo.

Computerised Time/Attendance Detail Reports

Head Office

- a. On 17 July 2012, an Executive Officer working at MTA Head Office neither clocked in nor out. Upon queries raised by this Office, MTA stated that on that day the foregoing employee was on sick leave. However, the sick leave report was not updated accordingly.
- b. Although a Manager had to report for work on 6 February 2012 after availing herself of maternity leave, she opted to take up to 17 February 2012 as vacation leave. However, it transpired that no such leave was deducted for 6 and 7 February. Another instance was noted whereby, on 22 August 2012, six hours of vacation leave were deducted from her entitlement, whilst the attendance records indicated that the Officer reported for work on that day.

Shortcomings in the Manual Attendance Sheets noted during an Onsite Inspection

On Wednesday 9 January 2013, NAO officers carried out a physical audit inspection at the TIOs located at Mdina and MIA, whereby a copy of the attendance records maintained at both offices was requested for the necessary audit verifications. According to the official roster on that day, both TIOs were expected to be manned by two officers.

Notwithstanding this, on both instances, NAO officers found just one employee present at the respective TIO and were verbally informed that the other two employees, who were expected to be on duty, reported sick. However, by 10:30am, this was not yet reflected accordingly in the respective attendance records.

Whilst the officer at MIA amended the attendance sheet in the presence of NAO's Officials by writing the word 'Sick Leave' next to the name of the officer who did not report for work, the other employee at Mdina left the attendance record blank.

Unreliable Manual Attendance Recording System for Service Providers

The officer mentioned in the previous observation, who on the date of NAO's inspection was supposed to be on duty at Mdina's TIO but was reported as sick, was not a public officer but was engaged as a service provider, against a gross hourly payment of €7.00. Furthermore, the respective service provider was not entitled to any sick/vacation leave or to any other benefits stipulated in MTA's Collective Agreement.

The fact that the respective attendance sheet was not amended accordingly instantaneously implied that the said officer could endorse the attendance records on her return, and thus claim unjustified payment in respect of those days when she did not actually report for work.

No Assurance that Additional Working Hours were actually being performed

In line with what is stipulated in the Collective Agreement (2007-2010), all Executives, other than those working in the Hospitality Division, received an annual allowance of €931.75. Such an allowance was to compensate for an additional 70 hours of work that the said Officers were obliged to carry out during the year under review, in excess of the average 40 hours per week. However, since certain officers were repeatedly failing to clock in/out, as already explained above, it was not possible to determine whether the additional hours were being actually performed or not.

Non-adherence to Flexi-time Working Schedule Policies

The official working hours of MTA are from 8:00 to 17:00 during winter and from 8:00 till 14:00 in summer⁴. However, the Collective Agreement (2007-2010) specified that, at the discretion of Management and subject to work exigencies, the Authority may consider allowing its employees to work on a flexi-time system. It also stipulated that approved requests are to be covered by a written agreement, clearly indicating the period as well as

⁴ During the months of July and September, the working hours of every Monday and Wednesday are from 8:00 to 17:00.

the conditions under which the related approval was granted. Thereafter, such agreement is to be renewed on an annual basis.

Whilst reviewing the attendance records of the employees falling within the audit sample, the following shortcomings were noted.

- a. Two Executive Officers, working within the Quality Assurance Division and the Hospitality Division respectively, were repeatedly clocking in and out earlier than the stipulated official timings. This implied that the foregoing officers adopted a flexi-time system despite that a request to this effect was not available in the respective personal files.
- b. In another instance, an Executive Officer in the Marketing Division, requested to start working on a flexi-time schedule way back in 2010.
 - The related approval, which was granted through an e-mail dated 19 October 2010, only indicated the working schedule, without any indication from when this was applicable. Such approval was renewed on an annual basis through a simple e-mail, solely indicating that the said officer was to report at work at seven in the morning. However, no written agreement was in place as required by the Collective Agreement.
 - Once granted approval to work on a flexi-timetable, the new official working hours of the foregoing Executive Officer were changed accordingly⁵. Yet, these were still within the established core hours⁶, during which all employees are expected to be on duty. However, whilst going through the attendance records, it was noted that the said officer was repetitively clocking out earlier than allowed, implying that she was working short of her weekly schedule. For example, a review of the working hours during the month of January, revealed that

during this period the officer worked 6 hours 45 minutes less than the approved work schedule.

- Besides not adhering to her official timings, the respective employee also failed to give in the extra 70 hours that Executives working in the Marketing Division are obliged to carry out in addition to their normal working schedule during the year. Notwithstanding this, in 2012, the said Executive Officer still received the amount of €931.75 for the required extra hours.

Basic Pay

Variances in the Basic Pay

Testing carried out on the basic salary, paid to the 14 employees falling in the audit sample, revealed that five officers, who during 2012 were not yet in the maximum salary pay point, *i.e.* pay point 7, were being remunerated incorrectly due to several reasons. By way of example, discrepancies relating to two Executive Officers out of the five foregoing employees, in aggregate resulting in an under-payment of €790, are analysed hereunder.

a. Cost of Living Adjustment

At least for two consecutive years, namely 2011 and 2012, the Authority failed to top up the basic salaries with the Cost of Living Adjustment (COLA), amounting to €60.32 and €242.32 respectively to each employee, with effect from 1 January as announced by Government in its Annual Budget Speech.

It transpired that the basic salaries paid during these two years were still in line with the expired Collective Agreement 2007-2010.

b. 2012 Government Salary Increase

During December 2012, following the signing of a new collective agreement for employees in the Public Service, effective

⁵ 7:00 – 16:00 – inclusive of a 35 minute lunch break (on full work days)
7:00 – 13:00 (on short days)

⁶ 9:00 – 16:00 (on full work days)
9:00 – 13:00 (on short days)

from 2011-2016, MTA's employees also received the marginal 2.5% annual salary increase for public service employees, since the salaries in MTA's Collective Agreement, which expired on 31 December 2010, were pegged to the public service salary scales.

However, notwithstanding that MFEI provided guidelines to MTA on how to pay the salary increases, verifications carried out by NAO, on the amount remunerated to the 14 officers falling in the audit sample, revealed that on five instances the amount was inaccurately calculated. This wrong calculation also contributed to the variance mentioned above.

c. Incremental Payments

Each increment was being granted at the beginning of a new financial year, *i.e.* 1 January of each year, without taking into consideration the date of employment of the respective officer. Consequently, during the audit testing, instances were noted whereby, for example, officers recruited during September were still granted a salary increment the following January, whilst being on probationary period.

Overtime

Overtime authorised verbally

No documentation was made available to evidence the approval of overtime by an authorised officer. It was noted that there is no formal procedure in place for the planning, requisition, and authorization of overtime work prior to this being performed. In fact, overtime was only being approved verbally by Management. This implies that the necessary final approvals from the CEO were not being obtained, to control the respective expenditure prior to the execution of such work. Moreover, the CEO was approving the related payment only occasionally.

Lack of Control in respect of Overtime performed

During 2012, a Messenger/Driver earned the total amount of €10,092 for 999.5 hours of overtime worked. Whilst carrying out the necessary

verifications, the following shortcomings were noted:

- a. From testing carried out on the month of January 2012, it transpired that the officer's attendance records were not complete, as he rarely clocked out when leaving the premises. For this particular month, he claimed 56.5 hours which could not be substantiated.
- b. On the other hand, when occasionally he recorded the 'time out', the actual number of overtime hours worked differed from those detailed in the 'Request for Payment of Overtime'. Testing carried out on these instances revealed that in 2012, the officer was overpaid €397 for extra hours which it is clear that he did not actually perform.
- c. Despite these discrepancies, the 'Request for Payment of Overtime' form was still endorsed as approved, at times even by two officers, namely the Assistant Manager at the Administration and Human Resource Section and the CEO. These forms were then passed to the Finance Section for payment, where the latter paid according to the number of hours claimed by the officer, without conducting any additional testing. This led to over/under-payments, which are detailed out further on in the report.

These shortcomings imply that the endorsing officers are merely signing the forms without carrying out any verification on the correctness of details therein.

Extra hours worked by an Officer on a reduced Timetable, paid at Overtime Rates

Section 11(d) of the Collective Agreement (2007-2010) stipulated that "*Those employees who have been granted permission to work reduced hours shall be paid for overtime only if their attendance of work exceeds the normal average of forty hours per week*". Notwithstanding this, one of the Senior Clerks working at the TIO located at Valletta, on a reduced timetable of 25 hours per week, and who repeatedly worked beyond her usual weekly hours, was remunerated at overtime rates rather than at the normal hourly rate, despite that the total number of weekly hours worked did

not exceed 40 hours. It resulted that during 2012, the foregoing officer was overpaid the amount of €768.53, in respect of 224.5 extra hours claimed.

Insufficient Control on Overtime Attendance by Tourist Information Officers

Officers posted at TIOs are frequently requested to perform overtime work, either at another TIO or even off-site, like for example at the Valletta Waterfront. In such instances, the norm was that these officers still endorsed the attendance sheet maintained at the TIO where they habitually report for work. The fact that the attendance records were not being signed on the same day when the work is actually performed, again implies that these were being endorsed only for the sake of formality, rather than to clearly indicate the actual timings during which overtime work was carried out.

Allowances

Allowances paid not supported by the Collective Agreement

From the verifications carried out on the sample of 14 employees, it transpired that certain officers are in receipt of allowances, despite that their entitlement does not emanate from the Collective Agreement. Such allowances were solely paid at the discretion of Management, without obtaining the necessary approvals from MFEI and the Public Administration Human Resources Office (PAHRO) within OPM.

Substitution Allowance in respect of Higher Grade Duties paid to Officer on Probation Period

On 13 May 2009, following a call for applications and subsequent interviews, the then Manager at the Product Development Division was appointed as a Senior Manager, with a probationary period of 12 months.

From documentation traced in the personal file, the following anomalies were noted:

- a. Four months following this appointment, *i.e.* on 17 September 2009, the CEO approved the payment of a retrospective substitution allowance to the respective employee, to compensate him for carrying out duties assigned to Senior Managers when he was still in the grade of a Manager. As per instructions issued, the foregoing officer was to be paid, for the period 3 March 2009 up till 12 May 2009, a pro-rate annual allowance of €3,263.
- b. On the same day, the CEO also approved the payment of an annual substitution allowance of €2,865 to the foregoing officer. This allowance, which by the time of the audit was still being paid, represented the difference between the basic salary paid to Senior Managers and Directors, and thus denoted the additional duties that the said employee was expected to be carrying out.

Such payment had also to be applied retrospectively as from 13 May 2009, incidentally being the same date when the concerned officer was appointed to his new post as a Senior Manager. Thus, while still starting his probationary period of his new appointment, with immediate effect he was paid a substitution allowance for carrying out even higher-grade duties.
- c. The employee was initially placed on a probationary status of one year, *i.e.* between 13 May 2009 and 12 May 2010. However, other documentation indicated that the full probationary period ended on 12 November 2009. No further documentation was traced to justify why the remaining probation period was revoked.
- d. Written confirmation of appointment could not be found in the personal file to support that the officer had successfully completed the related probationary period.
- e. The said officer was also benefitting from fuel consumption at MTA's expense. However, due to the absence of a contract agreement, it could not be ascertained whether the related approvals were in place. The only documentation found in this regard was an e-mail dated 23 April 2012, from DCS within MTA, authorising the Product Development Division to start issuing up to 30 litres of fuel per week. From the fuel chits presented

for audit purposes, it was noted that up to 22 April 2012, the said officer was in receipt of fuel consumption to the value of €30 per week.

Executive Officers compensated for Dinners that they did not host

The expired Collective Agreement specified that Executives working within the Hospitality⁷ as well as the Marketing⁸ Divisions, and who were indicated by Management to host dinners outside the normal working hours, were to be compensated by paying them an additional allowance.

Throughout the year under review, the total amount of €8,131 was advanced to ten Executive Officers who were responsible to host an aggregate of 190⁹ dinners. However, from the testing carried out, it transpired that during 2012, only 111 dinners were performed, resulting in a shortfall of 79 dinners. Thus, it resulted that for each dinner attended, Executives within the Hospitality Division were paid an average of €71, while those working with the Marketing Division received an average compensation of €80 per dinner.

Allowances paid to an Executive Officer during Unpaid Leave

During 2012, one of the Executive Officers mentioned in the previous observation, working within the Marketing Division, commenced her 14 weeks maternity leave on full pay with effect from 12 March 2012. In addition, she opted for an extension of two weeks, between 18 and 29 June 2012, with maternity grants being paid by the Social Security Department. During the period 2 July to 24 August, the foregoing officer availed herself of paid vacation leave and with effect from 27 August she was granted one year unpaid parental leave.

Testing revealed that during the period January to mid-March 2012, the officer availed herself of 29 days sick leave and thus only worked a total

of approximately 18 days in 2012. According to the attendance records provided, the foregoing officer did not work any extra hours in addition to her normal working schedule. Moreover, documentation obtained from MTA showed no evidence that the Executive hosted any dinners during the year under review.

However, this officer kept on receiving the Executive Allowance of €116.46 per pay period, for the applicable extra hours for dinners expected to be hosted, up until 8 September 2012. This translated to a total amount of €1,048, to which no refund was traced.

Payment of Allowance for hosting Dinners overlooked

Notwithstanding that up to year-end, an Executive Officer hosted three dinners, she was still not proportionately paid the respective annual allowance of €582.34. The Executive commenced her employment with MTA on 27 September 2012 and was engaged within the Marketing Division. Upon queries raised by this Office on the subject matter, Management confirmed that this was an oversight and stated that the concerned officer will start receiving this allowance during 2013, whilst being reimbursed in arrears for amounts related to 2012.

Allowances intended for a Temporary Period paid for the Last Five Years

For a temporary period between 28 February up to 10 April 2008, the officer who was assigned the duties of a Messenger/Driver was granted double the normal monthly allowance of €140 for transporting and carrying heavy boxes on his own. On 14 April 2008, the officer was informed that he was to carry on with these duties until the issuance of further notice. However, no subsequent guidance was issued on the subject matter and, nearly five years later, the officer was still in receipt of the double allowance, amounting to €140 per pay period, resulting in an annual allowance of €1,817.

⁷ Executives in the Hospitality Division were in receipt of an annual allowance amounting to €1,514, against which they were expected to attend for 35 dinners per year.

⁸ Executives in the Marketing Division benefit from a yearly allowance of €582.34, in respect of which they had to be present for 15 dinners.

⁹ This was calculated on the number of Executives engaged with MTA during 2012, on a pro-rate basis where applicable.

Handyman deployed with the Department of Health still paid Allowances emanating from MTA's Working Agreement

Through a letter dated 12 January 2010, the CEO confirmed that the Authority found no objection, that one of its' officers¹⁰ continues to report for duty at the Transport Section of the Department of Health, as long as the salary paid out from MTA's funds will be fully reimbursed by the said Department. At the end of each pay period, MTA's Finance Section received from the Financial Management and Control Unit (FMCU) within the Ministry of Health, the Elderly and Community Care (MHEC), data relating to the remuneration payable to the said officer. Such information included the overtime performed, the shift and roster allowances, as well as a post-tax food allowance. From its end, MTA then remunerated the employee accordingly, whilst invoicing MHEC the respective amount.

Upon reconciling the amounts specified by FMCU, with the actual payments paid to this employee, it transpired that repeatedly, MTA was paying an extra allowance to that indicated by FMCU. In fact, although the foregoing officer was not performing any duties at the Authority, he was still being paid an annual allowance of €699, for "additional related tasks", which he was expected to carry out in the past, when he used to work as a handyman with MTA. However, no queries were evidenced from FMCU, questioning the related discrepancies, which extra cost was being borne by this entity.

Authority for the Payment of an On-Call Allowance not traced

During the year under review, two Executives falling within the audit sample received the amount of €2,181 and €277 respectively, as an 'On-Call Allowance'. In line with the Collective Agreement (2007-2010), officers required to be stand-by at home outside normal working hours are entitled for payment of allowance to this effect, provided that a prior agreement for an on-call allowance has been reached and signed by the respective Director/Head. However, in both

cases, no agreement approving the payment of the related allowance was traced. Despite that further clarifications were requested from Management, this Office was referred back to the Collective Agreement (2007-2010).

Difference in the Calculation of a Day's Pay

Notwithstanding that MTA's Collective Agreement (2007-2010) stipulates that stand-by hours carried out on a Sunday are to be paid at one day's pay, plus €3.38 (winter), or €4.19 (summer), for a stand-by period of 24 hours, it failed to specify any particular guidelines to follow for the calculation of a day's pay when paying the 'On-Call Allowance'. It was also noted that the one-day's pay calculation, forming the basis for payment of this allowance falling due on a Sunday, was not computed in line with the guidelines provided in the PSMC. In fact, a small sample testing of just two employees in receipt of such allowance revealed an aggregate adverse variance of €548 for 2012.

Fixed and Mobile Telephone Lines

Excessive Expenditure on Mobile Phone Bills

As per data submitted by MTA, during the year under review, the Authority incurred the total amount of over €32,284¹¹, in respect of 58 mobile lines, used by its employees. This does not include mobile calls from fixed lines paid by MTA. From the necessary audit verifications carried out, the following issues were noted.

- a. Out of the 58 mobile lines, 18 pertained to employees holding a headship position. Eight of these employees had an uncapped entitlement, in respect of which the amount of €14,596 was expensed. On the other hand, the entitlement of the other ten employees was capped at €698.76 per annum, out of which four had already exceeded the maximum stipulated amount before taking into account the bills for December 2012.
- b. The remaining 40 lines were used by employees below the grade of Senior Manager¹², ranging from Managers to Drivers.

¹⁰ The officer was formerly engaged as a handyman at MTA, but was later deployed with the Department of Health.

¹¹ This information is not exhaustive, since on a number of instances the bill for December was not disclosed in the database provided.

¹² Grade pegged to the Public Service Salary Scale 4.

No capping was assigned to 11 of the said lines, which MTA claimed that are required by officers to carry out official duties. In two instances, the bills presented by a Manager and an Executive respectively, each exceeded €1,000 in the year under review.

- c. The two drivers employed by MTA are entitled to an annual maximum reimbursement of €240 each for mobile telephone expenses. Notwithstanding that the bills presented by these two employees, amounted to €257.65¹³ and €295.29¹⁴ respectively, the Authority still settled the bills in full.

Compliance Issues

Officers reimbursed at Different Rates than that stipulated in the Collective Agreement

Clause 12(f) of the Collective Agreement (2007-2010) stipulated that employees detailed by Management to attend, after normal working hours, events/festivals that are either organised, sponsored or has a direct interest, shall be paid a flat rate of €9.32 (before tax) per hour of attendance. However, it was noted that officers in the audit sample who attended such events, were reimbursed for the hours worked at overtime rates, which at times were double the foregoing rate.

Fiscal Receipt not provided as the Service Provider deregistered for VAT prior to the receipt of Payment

Audit testing carried out on the fiscal receipts provided by an 'exempt' service provider carrying out duties as a Tourist Information Officer, for services rendered in Gozo during the period 1 January 2012 to 21 July 2012, revealed that the payment of €763, in relation to services provided during July 2012, was not covered by the related fiscal receipt. MTA claimed that the said supplier had resigned and deregistered from VAT, prior to the receipt of payment. Consequently, the related fiscal receipt could not be issued.

Recommendations

Key Issues

Lack of Internal Controls

Strong internal controls are essential in assisting MTA's Management to mitigate financial risks and achieve its objectives to manage public funds entrusted to it effectively.

Weak Budgetary Control on Overtime

As far as possible, overtime work is to be well planned, and should only be resorted to in exceptional and unavoidable circumstances. Furthermore, it is expected to be reviewed periodically with the aim of restructuring work processes, in order to economise on such expense whilst increasing productivity through other means.

Control Issues

Lack of Source Documentation

Employees not having a signed Contract in line with their present Conditions of Work

Every employer is expected to have in place, in respect of each of its employee, a signed contract of service, which clearly sets out the applicable conditions of employment. Thus, Management is encouraged to draft new contracts of employment that truly and fairly reflect the conditions of its workforce.

Personal Files not updated

In order for personal records to be considered as effective management tools, they have to be complete and reliable. Thus, all personal files are expected to be updated with all relevant documents filed accordingly in a timely manner.

¹³ This amount does not include the bill for the usage during the month of December.

¹⁴ This amount does not include the bill for the usage during the months of November and December.

Recording and Verification of Attendance

Officers not clocking their Arrival and/or when leaving Premises

While the attendance records are in themselves an element of internal control, incomplete and inaccurate records thereof, together with lack of monitoring, will hinder the benefits that are expected to be attained with the intended controls. Thus, Management is to ensure that all employees clock in and out every time they leave/return to the place of work, for whatever reason. Moreover, disciplinary measures are to be taken against those officers who fail to adhere to such directives.

Lack of Verification of the Time/Attendance Detail Report

Attendance records are to be supervised on a daily basis, to ensure completeness and accuracy of the reported times, and duly certified by the officer in charge.

Vacation/Sick Leave Records not updated

Regular reconciliations, between attendance reports and vacation leave as well as sick leave records, are to be performed by the officer in charge of Human Resources, to ensure that leave records are updated accordingly.

It is also of utmost importance that Management acknowledges the fact that when endorsing attendance registers, it is assuming responsibility that these are correct in every detail, and that all employees falling under its responsibility have been duly accounted for.

Moreover, the Authority is to enforce disciplinary actions against those employees who fail to abide with the standing regulations, as outlined in the Authority's Collective Agreement.

Shortcomings in the Manual Attendance Sheets noted during an Onsite Inspection

For the sake of transparency, Management is to abide with the Attendance Verification Systems – Policy and Guidelines, issued by the Management and Personnel Office (MPO), by installing an AVS at each TIO, instead of the manual system currently

in use. Until such time AVSs are installed, it is to be ensured that the manual attendance sheets are properly maintained, with absences on account of sick or vacation leave recorded in red ink in the space provided for the officer's signature, by the senior officer in charge.

Unreliable Manual Attendance Recording System for Service Providers

Immediately after the normal opening hours of the TIOs, a copy of the attendance sheet is to be scanned to the respective Manager. The latter is to inspect and certify correct on a daily basis these records, before forwarding them to the HR Section.

No Assurance that Additional Working Hours were actually being performed

Management is to ensure that efficient operating procedures are in place. A system, where regular reconciliations between the attendance records and the number of hours that the respective officers were ought to carry out, is to be adopted, thus achieving a reasonable level of efficiency and accuracy.

Non-adherence to Flexi-time Working Schedule Policies

Full compliance with the relevant clauses of the Collective Agreement (2007-2010) is recommended. Management is encouraged to instruct employees to regularise their position. Thus, those who would like to work on a flexi-time system are to make their request in writing. The related agreements are then to be drawn up and filed for future reference. Furthermore, official instructions are to be issued to paying officers, to invariably decline processing of payment of allowances to employees who fail to comply with the respective terms and conditions.

Basic Pay

Variances in the Basic Pay

MTA is required to ensure that it abides with its legal obligations and to financially reimburse its employees in line with relevant legislation. Chapter 452 – Employment and Industrial Act,

Part II Section 8 binds all employers to pay, every employee, the general increase in wages granted by the Government with the applicable effective date.

MTA is also recommended to clearly define eligibility for increment payment, in future agreements between MTA and the respective Union. A clause may be included in the agreement whereby it indicates that newly recruited, or newly promoted employees on probationary period, are entitled for an increment only after successfully completing the probation period with a satisfactory performance.

MTA is encouraged to carry out an exhaustive exercise, at least on the Payroll for 2012, and rectify this issue on proper incremental pay.

Overtime

Overtime authorised verbally

The need for overtime is to be well defined. MTA 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 is expected to give details such as the date, time, and location where the work will be performed, as well as a proper justification for this requirement. The date when the approval was granted is also to be clearly noted. Disbursements for the payment of overtime are not to be effected unless the necessary authorisations are obtained.

Lack of Control in respect of Overtime performed

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. Full use of the automated system is encouraged to enable maintenance of efficient records for overtime. The Head of Section is to counter-check the hours detailed in the 'Request for Payment of Overtime' against the Attendance Records, before endorsing his/her signature and

passed to the CEO for his final approval. Proper checking of the workings maintained by the officer in charge of salaries is to be also performed before any payments are issued.

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. Thus, requests for payment of overtime submitted by employees who repeatedly fail to clock in/out, and hence their attendance is not captured by means of an electronic reading device, are not to be honoured.

Extra hours worked by an Officer on a reduced Timetable paid at Overtime Rates

MTA is to ensure that the overtime rates paid to employees working on a reduced timetable are as per standing regulations, *i.e.* only applicable in cases where the 40 hours per week are exceeded. It is recommended that an exercise is carried out whereby, all overtime paid to employees on a reduced timetable are thoroughly reviewed. Any overpayments are to be recouped.

Insufficient Control on Overtime Attendance by Tourist Information Officers

The Manager responsible for TIOs is to ensure that when officers are attending duty outside the offices, their attendance is recorded where the work is actually being performed, and not from some other place. The attendance reflecting the actual place, date and timings, is to be duly endorsed by both the said officer and the respective Manager, before being submitted for payment.

Allowances

Allowances paid not supported by the Collective Agreement

If the allowances in question are considered justified, MTA is to obtain the necessary approvals from PAHRO, whilst co-ordinating with the Union to incorporate a provision that clearly stipulates the eligibility and payment of these allowances in the forthcoming Collective Agreement.

Substitution Allowance in respect of Higher Grade Duties paid to Officer on Probation Period

Prior to the granting of a substitution allowance during the probation period, Management is to ensure that no other suitable employee is available to perform the required duties. Moreover, these type of allowances are expected to be provided for a temporary basis, and until someone is appointed permanently rather than for an indefinite period.

Furthermore, an updated contract of employment, as well as approvals from the right level of authority for fuel consumption at the Authority's expense, are to be properly recorded and filed for future reference. Management is also to ensure that the required supporting documentation is available prior to effecting disbursements from public funds.

Executive Officers compensated for Dinners that they did not host

Management is encouraged to consider revising the system in place and adopt one that is more cost-effective, whereby if it feels that this allowance is justified, officers are not to be paid a fixed amount but they are to be remunerated on a meal-by-meal basis.

Allowances paid to an Executive Officer during Unpaid Leave

Allowances related to specific work which is not being performed are expected to be withheld immediately.

Payment of Allowance for hosting Dinners overlooked

Source documentation, containing information to be used for payroll purposes, is to be invariably verified by an independent person. From its end, the Finance Section is to ensure that allowances paid are traced back to the related agreements and approvals. Although this will not eliminate the incidence of inaccuracies, it will enable better control to ascertain that officers are paid what they are actually entitled to.

Allowances intended for a Temporary Period paid for the Last Five Years

The Director responsible for Corporate Services is to exercise the necessary controls and ensure that the guidelines on payment of allowances are strictly adhered to before payments to the respective beneficiaries are made.

Handyman deployed with the Department of Health still paid Allowances emanating from MTA's Working Agreement

Since the circumstances have changed, and the officer is no longer working for MTA, Management is to review the situation to determine whether entitlement is still warranted. In the event that payment is not justified, MTA is to revert from effecting further disbursements in this regard. Management is also encouraged to carry out a test, whereby allowances paid to employees deployed within the Public Service are analysed to ascertain that only justified allowances are paid.

Authority for the Payment of an On-Call Allowance not traced

For the sake of transparency, it is important to ensure that the necessary agreements are in place and that payments effected are in line with such agreements, duly endorsed from the appropriate authority.

Difference in the Calculation of a Day's Pay

In order to prevent anomalies it is important that, when drafting the new Collective Agreement, the basis of such calculation is included therein, in line with the PSMC. In the meantime, the Authority is recommended to follow guidelines already established in Government standing regulations.

*Fixed and Mobile Telephone Lines**Excessive Expenditure on Mobile Phone Bills*

To administer control over telephone facilities, extended under whatever form of contract or authority, it is advisable that this is regulated by

a ceiling, as is already established in many cases. Moreover, the use of the most cost-efficient means of communication should also be encouraged.

Compliance Issues

Officers reimbursed at Different Rates than that stipulated in the Collective Agreement

MTA is to ensure that the rates paid comply with those stipulated in the Collective Agreement. Any overpayments are to be recouped.

Fiscal Receipt not provided as the Service-Provider deregistered for VAT prior to the receipt of Payment

MTA is to ascertain that all suppliers of goods and services adhere to the VAT Regulations. If the latter have outstanding dues, one would expect that their application for deregistration for VAT purposes is rejected.

Management Comments

Management took immediate action to comply with a number of recommendations, whilst others were planned to be taken on board in due course. The following reservations were also submitted.

The rates of pay as disclosed in 'Appendix B' of the Collective Agreement for the period 1 January 2007 to 31 December 2010 were inclusive of COLA. Notwithstanding that the said agreement expired on 31 December 2010, Management still maintained that no adjustments were applicable to salaries for 2011 and 2012 paid to employees who were not on the last step of the salary scale. Management further claimed that calculations, in respect of 2012 Government Salary increase, were correct.

According to Management, very few persons in the Authority perform overtime. This is mainly limited to Tourist Information Officers manning the reception desk and messengers/drivers. Furthermore, overtime hours performed by staff at the reception desk are dependent on factors that cannot be foreseen, such as the working hours of Ministerial staff. However, Management is aware that overtime should be kept to the minimum and has taken steps for better control through a stricter monitoring of the AVS.

The allowance due to Executives is pegged to the latter's grade, and thus this is payable whether or not the 70 hours of overtime are performed. Through negotiations of the Collective Agreement it was agreed that the grade allowance would be quantified in hours and that the first 70 hours of overtime worked would carry no remuneration. Not paying the allowance in full would be going counter to the Collective Agreement.

MTA claimed that it sees no reason why the double the normal monthly allowance paid to the Messenger/Driver is removed, claiming that circumstances have not changed since 2008.

With respect to the excessive expenditure on mobile phones, MTA declared that it wants to maintain an amount of flexibility in the established ceilings. It was stated that the highest bills are attributable to roaming charges and are incurred by high ranking officers of the Authority who are required to travel often as part of their job. It was also claimed that to keep mobile phone costs under control, the Authority sought to negotiate favourable deals with service providers.

Management claimed that the fixed rate of €9.32 for attending special events after normal working hours, mentioned in the Collective Agreement, is applicable only if the officer in question performs tasks outside his normal duties. On the other hand, MTA maintained that if tasks during a particular event are within an employee's normal role, then overtime rates apply.

Malta Tourism Authority

Operative and Marketing Expenditure

Background

The Malta Travel and Tourism Service Act (1999) – Chapter 409, formally set up the Malta Tourism Authority (MTA). This legislation clearly defines the Authority's role, extending it beyond that of international marketing to include a domestic, motivating, directional, coordinating and regulatory role.

The promotion of Malta is done through a number of initiatives, including participation in both leisure and specialised fairs, as well as advertising campaigns, in all of its main core and secondary markets. Perceiving public relations as one of the most important tools to promote the islands, every year MTA hosts an average of 850 journalists in

Malta, originating from a number of markets and mediums. The overseas network is responsible to source these journalists and for the subsequent follow up, in order to ensure that adequate exposure is given to Malta in the foreign press. In most markets, MTA has professional agencies to assist it in the execution of its public relations programme.

As per MTA's Management Accounts for the year ending 31 December 2012, out of a total budget of €40,480,521, the Authority had a forecasted budget of €7,815,469 in relation to advertising, public relations and hospitality, as well as overseas travelling, with the actual total cost incurred by year-end reported as €7,398,277. **Table 1** below refers.

Table 1: Expenditure¹

Details	Budgeted	Actual	(Over)/Under spending
	€	€	€
Advertising	6,335,500	5,935,493	400,007
Public Relations Expenditure and Hospitality	1,230,000	1,243,160	(13,160)
Overseas Travelling	249,969	219,624	30,345
Total	7,815,469	7,398,277	417,192

¹ Source: MTA's Management Accounts 31 December 2012.

Audit Scope and Methodology

The main scope of the audit was to identify the controls exercised by MTA in relation to advertising, hospitality and overseas travelling, as well as to determine the degree of compliance with existing rules and regulations. Internal operating procedures were assessed and evaluated. Officers within the specific Units, related to the areas reviewed, were contacted and/or interviewed during the course of the audit.

The selection of transactions included in the audit sample (€496,156²), was based on their nature and materiality.

Limitation on Scope of Audit

Documentation/Information requested not provided for Audit Purposes

Notwithstanding that on various occasions the National Audit Office (NAO) raised a number of audit queries with the Authority, the latter failed to provide the relevant documentation and/or explanations within a reasonable timeframe. As a result, testing carried out was limited to the extent that it was not possible to ascertain that expenditure incurred, in the areas indicated hereunder, was in line with established relevant laws and regulations.

Transport Services

During the year under review, the total amount of €127,342 and €27,510 was paid to two service providers, for transport services required during the Familiarisation Trips of foreign travel agents and media journalists, hosted by MTA. Since a copy of the tenders submitted by the respective suppliers was not made available for audit purposes, NAO could not ascertain that the rates charged were in line with the agreed price.

Press Awards

Audit testing could not be carried out on an amount of €17,000 expended with relation to Press

Awards, due to insufficient information provided by MTA.

Travel on Official Duties

Verification of the accuracy of €17,679 subsistence allowance paid to 11 travelling officers was also hindered, since the related documentation, such as agendas and programmes, were not made available. It could also not be ensured whether any compensation provided by the hosts, in money or in kind, were duly deducted from the amount advanced.

Local Sponsorship

- a. Despite that MTA briefly outlined the current procedure of how the sponsorships are awarded, it failed to provide requested documentation supporting four sponsorships, ranging between €1,500 and €20,000, totalling €43,000, granted to individuals/organisations which were part of the audit sample. Hence, transparency and fairness of allocation on this matter could not be ascertained.
- b. According to MTA's website, as part of the measures undertaken by Central Government for the development of sustainable localities, a fund amounting to €100,000 was allocated to assist Local Councils in the implementation of events held throughout the year. The Director Corporate Services (DCS) verbally stated that this amount was paid out to the Department for Local Government (DLG), so that it can assist the Local Councils in easing out the expenses incurred for the organisation of tourist attraction events. NAO enquired whether MTA receives any briefing as to how such funds are allocated to the respective Local Councils. A reply on this matter was also not received, hence it could not be ensured whether the amount was utilised by DLG as it was intended.
- c. Audit testing on three credit entries, amounting to €12,174, noted in Nominal Account 4510-602-444 (Local Sponsorships), could not be carried out since the necessary transaction details were not provided by MTA.

² Amount includes Payment Vouchers, totalling €43,000, which were requested for the necessary audit verifications, but which were not provided by MTA.

Advertising

- a. From the Nominal Ledger Account 'Advertising UK' (no. 4900-302-444), it was noted that during 2012, an international company was paid out the aggregate amount of €1,135,575. A single payment amounting to €122,139 was selected as part of the audit sample. Further information and documents were requested for the necessary verifications; however MTA failed to accede this request, and therefore it could not be ascertained whether the Authority issued a call for tender from the Contracts Department, in relation to the services procured from the foregoing company.
- b. A copy of the agreement in place, with a local limited liability company, was not provided. MTA also failed to state whether the necessary direct order approval, for the amount of €8,427, was sought from the then Ministry of Finance, the Economy and Investment (MFEI). Thus, the planned audit verifications on this transaction could not be carried out.

Hosting of Isle of MTV Concert

NAO requested MTA to confirm its understandings in writing, on various issues which were discussed during a meeting with the International Media Relations Manager, relating to the accommodation expenses incurred for the hosting of Isle of MTV, amounting to €80,040. However, documentation substantiating these verbal statements, together with the necessary financial approvals, was not submitted. Consequently, this Office could not conclude the audit testing intended to be carried out in this area.

Promotional Items and Brochures

During the year under review, MTA issued two tenders, namely 'Printing of Brochures' which was awarded to a single bidder, and 'Promotional Items', which tender was divided between two different tenderers.

However, it could not be ascertained whether MTA complied with the relevant rules and regulations issued from MFEI, since the Authority failed to

provide the documentation requested as detailed hereunder:

- a. a copy of the relevant invoice and the respective receipt issued by one of the service providers to substantiate the payment of €3,770 paid;
- b. a copy of the fiscal receipts for the amounts of €88,200 and €13,965 respectively, issued by another service provider; and
- c. a copy of the bank guarantee submitted by the three bidders, with respect to the awardance of tender relating to the printing of brochures and the procurement of promotional items.

20 + 20 Rio Conference

The Authority did not provide NAO with the requested updates and any further correspondence with respect to the re-imbusement of €12,217 from the Ministry of Tourism, covering accommodation in Rio de Janeiro for a Ministerial Delegation of eight people in June 2012, borne from MTA's funds.

Due to lack of information provided on this expense, NAO could not ascertain whether the pertinent procurement regulations were duly followed.

Standing Regulations

NAO enquired whether MTA comply with the provisions stipulated in MFEI Circular No. 5/2002, regulating the submission of fiscal receipts to Government Departments and Circular No. 11/2011. This latter Circular requires heads of public entities to publish biannually in the Government Gazette, a full list of Departmental Contracts awarded, and a list of cases involving variations which exceed the original contract values by more than 5%. However, MTA also failed to reply to such queries. Thus NAO could not ensure that standing policies issued from the respective Ministry were being followed.

Tourist Guides

During 2012, a particular tourist guide, earned the total amount of €7,478 out of which payments

amounting to €4,067, paid out from nominal account no. 4360-603-444-302 – ‘Familiarisation UK’, were selected as part of the audit sample. This Office could not validate the invoices provided for audit testing, since the Familiarisation Trips Programmes prepared by the International Media Relations Section were not forwarded to NAO as requested.

Control Issues

Travel

Chief Executive Officer’s Official Visits not approved from Higher Authority

Testing carried out on 24 visits³ abroad undertaken by the CEO during the year under review, revealed that none of the said visits had higher authority approval.

Meals sponsored by the Host not deducted from Subsistence Allowance

NAO could not ascertain whether meals sponsored by the entity organising the event had been deducted from the subsistence allowance advanced to the respective travelling officers, since the related agendas and/or programmes were not provided for audit testing. However, research on the internet, and verifications carried out on an audit sample, still revealed that when free meals were included in the programme, or the same MTA hosted business lunches abroad, the subsistence allowance of the respective officials was not adjusted accordingly, but was still paid in full. Furthermore, these expenses were not refunded by the travelling officer/s.

Reimbursements to the International Marketing Director

The Director International Marketing is based at MTA’s German office in Frankfurt, and is entrusted with directing the overseas network to execute the marketing plan, to promote the Maltese Islands

in the various source markets whilst achieving the Authority’s targets and objectives. This is attained by continually meeting tour operators to ensure that the destination is well positioned in the market.

During 2012, expenses paid out of nominal account ‘Overseas Travelling – International Marketing Division’ totalled €36,654, out of which the amount of €31,667 related to payments made to the aforementioned Director. A sample of refunds to the said Director, comprising three payments, in aggregate amounting to €5,524, were selected for audit purposes. The following shortcomings were noted whilst validating the correctness of these payments, which related to various travelling expenses, mainly comprising subsistence allowance, meals, fuel, flight ticket, taxi services and parking fees.

- a. Neither the claims raised by the foregoing Director, nor the subsequent payments made, were endorsed by the CEO. In fact, no one else authorised these payments. This casts doubt as to whether approval from higher authority was sought prior to the incurrence of such expenditure.
- b. A number of receipts relating to meals were attached to the request for reimbursement forms. However, despite that the amounts claimed were always higher than those covered by the respective receipts, these were still refunded in full without any queries raised.
- c. Notwithstanding that the said officer was also in receipt of a full subsistence allowance, the latter at times still claimed the cost of snacks and/or meals and was reimbursed accordingly.

The shortcomings highlighted above imply that the necessary verifications to ensure correctness of amounts claimed, were not being carried out by the Finance Section. Thus, one can conclude that internal controls are lacking.

³ Number of overseas visits during 2012 is not exhaustive.

Hosting of Isle of MTV Concert

Background

Since 2007, the Music Television (MTV) has been making the trip to Malta every summer, to host the Isle of MTV Special, which annual event is organised in association with MTA, with the latter being responsible for flight bookings, accommodation and hotel transfers of the respective guests.

On 2 April 2011, MTA entered into a Group and Event Contract with a local five-star hotel, for the hosting of MTV guests between 18 and 28 June 2012. It was agreed by both parties that accommodation on bed and breakfast basis was to be charged at the rate of €120 per night for a single room, whilst any double sharing rooms were to be charged at €140 per room per night. Furthermore, between 25 and 27 June 2012, MTA was to be provided with ten complimentary rooms.

Direct Order not supported by the Necessary Approvals

Accommodation costs incurred during 2012, for the hosting of MTV crew, artists and journalists, totalled €80,266. As verbally claimed by the International Media Relations Manager, this public concert has constantly been held at the Granaries in Floriana, and for proximity and logistics reasons, for the year 2012, MTA opted to host its guests at a five-star hotel located in Floriana. However, no approval for this direct order was sought from MFEI, in line with the procurement regulations.

Guest Lists prepared by MTA not reconciled to the Respective Invoice

An attempt to reconcile MTV's guest list as provided by MTA, against the invoice submitted by the hotel, proved futile. The audit also revealed that MTA was overcharged at least €2,940 as outlined hereunder.

- a. Significant specific details, such as the name and the number of guests, as well as the arrival and/or departure dates, were not always indicated by MTA, thus resulting in incomplete data which could not be

reconciled. These differences resulted in additional costs of at least €1,680.

- b. Six individuals were each charged the double sharing room rate of €140, despite that these occupied only three double rooms. This resulted in another overcharge of €1,260.
- c. Irrespective of these shortcomings, 'Payment Authorisation Form' was still approved by MTA and the respective payment of €80,040, claimed by the service provider, was subsequently honoured in full.

The above shortcomings imply that verifications, if any, carried out prior to the issuing of payments, are not effective in order to ensure that amounts claimed by the service provider are accurate. This lack of control implies that MTA is totally relying on the information provided by the respective hotel, without having an accurate independent source of verification. The Authority may now also find it difficult to recoup the overpayment in question.

Procurement

Finance Approvals not sought

Throughout the year under review, the amount of €8,427 was paid to a local limited liability company, for a full-page advertisement in the monthly magazine 'Day By Day – Malta & Gozo', issued between November 2011 and December 2012. MTA verbally claimed that an agreement supporting this advertising campaign was in place. However, neither the related finance approval nor the said agreement were available. This is in breach of Section 20(4) of the Public Procurement Regulations which stipulates that direct contracts valued in excess of €6,000 are to be resorted to in exceptional cases, **only** after obtaining written approval from the Ministry of Finance (MFIN).

Expenses incurred by the Ministry borne by the Malta Tourism Authority

As indicated under Limitation on Scope of Audit, between 12 and 23 June 2012, a Ministerial delegation headed by the then Minister responsible for Tourism, attended the 20 + 20 Rio Conference. Despite that none of the Authority's

officers was part of the said delegation, MTA still took responsibility for making the necessary accommodation arrangements, for which the equivalent of €12,217 was also subsequently paid by the latter. Notwithstanding that on 1 September 2012 the Authority raised an invoice to the Ministry, claiming payment of the related expenses, at least seven months later, *i.e.* up to the time of audit, the amount was still not settled.

Expenditure paid through VISA not substantiated

- a. During the year under review, the total amount of €2,446⁴ was paid out from VISA Card No. xxx1023, in respect of dinners hosted both locally and abroad. However, details substantiating these expenses, such as the number and rank of guests hosted, were not provided. Upon queries raised by this Office on the subject matter, MTA claimed that it is not always in a position to confirm such details.
- b. Out of the aforementioned amount, three transactions in aggregate totalling €285, covering three lunches, were not even backed up by the relative receipts.
- c. Another 14 transactions amounting to €643, mainly consisting of domain name registration were financed out of VISA Card No. xxx9016, against which no supporting documentation and/or registration confirmation was traced.

Control cannot be exercised if one is not in a position to ensure that only duly eligible payments are honoured, duly supported by adequate explanation and respective receipts.

Delay in the Awarding of Tender leading to Higher Costs

On 17 February 2012, the Authority published a call for tenders for the supply of ten promotional items. Eight prospective tenderers submitted their bid, out of which four could not be considered by the Evaluation Committee as being administratively compliant, since they failed to provide the necessary factory documentation supporting

technical criteria required per lot tendered. A review of the evaluation of such tender that was divided between two different suppliers, revealed the following shortcomings.

- a. Notwithstanding that the tender validity period was for 150 days, *i.e.* from 15 March 2012 to 12 August 2012, the evaluation process was concluded on 11 September 2012, *i.e.* 30 days over the stipulated timeframe.
- b. It took a further 28 days, *i.e.* up to 9 October 2012, for MTA to award the contract and subsequently inform the two suppliers, both being both the cheapest bidders for the respective lots allotted to them.
- c. By means of an e-mail correspondence dated 15 October 2012, the winning bidder of lots 1 and 6, claimed that it was not in a position to provide the respective items at the quoted price. The company further stated that since 59 days had elapsed over the tender validation period, a number of economic factors had negatively effected the price. These included less favourable exchange rates, increase in the price of raw materials and higher transport costs. This situation made it unfeasible for the winning bidder to maintain the price as originally quoted.

In a counter-reply on 16 October 2012, MTA informed the supplier that it cannot accept a different quotation and thus it had to offer the lots to the next cheapest bidder.

The delay in awarding such tender meant that, for the acquisition of lots 1 and 6, the Authority had to fork out an additional €4,895, since it had to go to the second cheapest bidder.

Copy of the Bank Guarantee not retained

Upon awarding a tender to the winning bidder, the Authority clearly spells out that, for the contract to be valid, the latter is to be provided with a bank guarantee amounting to 10% of the contract's value. However, MTA verbally claimed that it does not maintain a copy of the original bank guarantee submitted, which, upon the expiration

⁴ Out of this, the amount of €805 relates to expenses incurred during Ministerial Delegations abroad, which were referred to in the preceding observation.

of the respective validity period, is returned to the service provider for cancellation. Consequently, this hindered the audit testing planned to be carried out in this area, as it cannot be ascertained that the winning bidder had placed such guarantee in the first place.

Familiarisation Programmes

Background

Annually, the International Media Relations Section within MTA promotes the Maltese Islands overseas, by hosting and organising familiarisation trips to Malta for travel agents and media journalists. This Section is responsible to book flights, hotel transfers and necessary guides, as well as for creating programmes which are tailor-made to the needs of every guest. Whilst conducting audit testing on a sample of expenditure incurred for the organisation of such programmes, the following shortcomings were noted.

No Formal Procedure for the Engagement of Tourist Guides

During 2012, the amount of €10,909 was paid out of Nominal Account 'Familiarisation UK', for guiding services provided during the hospitalisation of journalists brought from the United Kingdom. A total of €4,903 of the aforementioned amount *i.e.* almost 45%, was paid to one single tourist guide.

From our understanding, following explanations provided by the Manager within the International Media Relations Section, no formal procedures regulating the procurement of tourist guide services were in place. In actual fact, tourist guides were engaged at the exclusive discretion of the Executive responsible for the organisation of the specific programme, after taking into consideration availability, language and the area of specialisation of the said guides. It was stated that the applicable rates are those stipulated by MTA way back in 2007. However, no formal agreements between the Authority and the respective tourist

guides, covering the engagement of the latter, were traced. Consequently, the Authority 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.

Overtime claimed by Tourist Guide not validated

Upon testing carried out on a sample of 18 invoices, amounting to €4,067, submitted during 2012 by the guide⁵ falling within the audit sample, the following shortcomings were encountered.

- a. The itinerary prepared for the tour 'Malta as a City Trip Destination' indicated that on 22 April 2012, prior to their departure at 16:25, guests were to be entertained by a number of organised excursions starting at 09:30. Despite that the planned tour was to last for longer than four hours⁶, it transpired that on the day, the guide was only booked for a half-day tour. Consequently, MTA was invoiced for a half-day tour together with three hours of overtime. This turned out to be more costly when compared to the amount payable for a full-day tour.
- b. Amounts claimed in four invoices, in respect of ten hours of overtime, were not supported by any relevant documentation evidencing that work was actually carried out after the normal hours. Notwithstanding that this request for payment could not be validated, as justifications for performing such overtime were not provided, payment was still effected. The invoice disclosed only the date and the total extra hours worked.

Given the relatively small sample taken for audit purposes, similar shortcomings, even in respect of other guides not forming part of the audit sample, cannot be excluded.

⁵ Throughout the year under review, the said guide earned the total amount of €7,478, for guiding services provided for several familiarisation programmes, most of which, as reported upon under Compliance Issue No.1 were not covered by fiscal receipts.

⁶ Tourist guide met guests at hotel lobby at 09:30 and together proceeded to a number of excursions.

Compliance Issues

Expenditure not substantiated by Fiscal Receipts

From the testing carried out on the selected sample, a total of 23 instances were encountered whereby neither a tax invoice as set out in the Twelfth Schedule to the VAT Act, nor a fiscal receipt was traced. Such payments totalled €225,044.

Recommendations

Limitation on Scope of Audit

Documentation/Information requested not provided for Audit Purposes

As laid down in the Second Schedule of Chapter 396 – Auditor General and National Audit Act, the Auditor General and all authorised officers of NAO are to have free access at all reasonable times to documentation, reports and explanations, that may be required by them for the proper execution of their functions according to law. Thus, Management is to ensure that documentation provided is complete and accurate, and to avoid any unnecessary delays in the submission of such information.

Control Issues

Travel

Chief Executive Officer's Official Visits not approved from Higher Authority

It is recommended that approval from MTA Board or the respective Permanent Secretary, is sought in such instances.

Meals sponsored by the Host not deducted from Subsistence Allowance

Subsistence allowance is to be calculated according to standing regulations and independently checked for the applicable deductions, when meals are hosted for free. Copies of the official programme should be attached to the request for payment of subsistence allowance forwarded to the Finance Section, for the latter's perusal.

The Authority is to invariably recoup any extra subsistence allowance granted.

Reimbursements to the International Marketing Director

MTA is to ensure that approval from the right level of authority is sought prior to the settlement of requests for reimbursements. Furthermore, details justifying the expenditure are also to be invariably provided.

In the case of hospitality functions, the Authority is to be guided by the 'Guidelines for Extending Hospitality' as laid down in the PSMC. This will ensure tighter control and transparency in the way public resources are managed.

Hosting of Isle of MTV Concert

Direct Order not supported by the Necessary Approvals

MTA is to be more aware of its responsibilities and obligations under the Public Procurement Regulations. Direct Orders are to be resorted to only in exceptional cases. In such instances, request for approval from MFIN is to be sought before any commitment is entered into.

Guest Lists prepared by MTA not reconciled to the Respective Invoice

Considering that this event is organised each year and involves substantial public funds, it is imperative that strong internal controls are implemented, to ascertain that amounts claimed by the service provider are thoroughly checked and certified correct prior to the issuance of payments. MTA is also to ensure that, from its end, it has a correct and updated version of the actual guest list in hand, at least by the end of the event.

Procurement

Finance Approvals not sought

MTA is to comply with the public procurement rules, and standing regulations issued by MFIN.

Expenses incurred by the Ministry borne by the Malta Tourism Authority

Expenses are to be borne by the entity that is actually incurring them. Thus, MTA is to take action to recoup the said amounts.

Expenditure paid through VISA not substantiated

For the sake of transparency and accountability, all amounts paid out of the Authority's funds are to be backed by official documentation which is to be retained for future reference.

Delay in the Awarding of Tender leading to Higher Costs

The evaluation process by the Adjudication Board to award tenders is to be carried out within a reasonable period of time. Moreover, for fair competition as well as to ensure that the best rates are obtained, a fresh call for tenders is encouraged when the tender validity period expires.

Copy of the Bank Guarantee not retained

MTA is to retain a copy of all documentation, including the bank guarantee relating to each contract awarded, for future reference.

*Familiarisation Programmes**No Formal Procedure for the Engagement of Tourist Guides*

It is important that competent individuals who are licensed to provide guiding services are given the same opportunity. Thus, MTA may consider publishing an 'Expression of Interest' in the Government Gazette, on an annual basis, whereby tourist guides who are interested in giving such service are given the chance to express their interest. Subsequently, an agreement stipulating the terms of engagement of the selected candidates is to be drawn up.

Overtime claimed by Tourist Guide not validated

Transparency in the management of public funds is an integral part of good governance and accountability. Thus, payments are to be invariably

substantiated by adequate documentation, enabling full audit trail and independent verifications by third parties.

Officers responsible for the planning of such programmes are also to take into consideration the financial aspect, and opt for the most cost-effective option.

*Compliance Issues**Expenditure not substantiated by Fiscal Receipts*

Officer-in-charge of Accounts is to ensure that fiscal receipts are attached to the respective payment. In cases where suppliers fail to adhere to VAT regulations, such defaulters are to be reported to the VAT authorities.

Management Comments

Management stated that during the audit period, MTA was undergoing its annual external statutory audit, which was required to be finalised in time for the Authority to present its Financial Statements in Parliament by 31 March 2013. In addition, both the external auditors and NAO were requesting the same documentation at the same time. The Authority also claimed that, in the circumstances, not enough time was given by NAO to find the relevant documentation being requested.

Commenting on NAO's observation that the subsistence allowance was not being adjusted accordingly, MTA maintained that as part of its remit, officials are obliged to meet several operators when on duty abroad. Hosting a drink or a light lunch is required on specific occasions and on most instances these are not even claimed by the latter.

The Authority remarked that the amount of €1,135,575 was not paid for services provided by the selected international company, but for advertising undertaken by the latter on MTA's behalf. It was also claimed that the Authority cannot issue a tender each time it needs to advertise the Maltese Islands on a particular medium. A comparison exercise was carried out at the end of 2009, whereby three companies were asked to cost MTA's 2010 campaign, which resulted in the selected bidder being the cheapest and most

advantageous agency to work with. A similar exercise was undertaken at the beginning of 2013, however it was halted since the only competing company pulled out at the request stage. In order to ensure that the service provider continues to offer the best available rates on the market, “spot checks” are carried out over the phone.

Instructions to pay for accommodation required during the 20 + 20 Rio Conference, were received from the Ministry of Tourism through the office of the Permanent Secretary. The Authority was not involved in any way in the determination of the accommodation chosen.

MTA is of the opinion that since the CEO occupies the top position within the Authority, he is not required to obtain approval from higher level prior to proceeding abroad on official duties.

Regarding the fact that guest lists prepared by MTA are not reconciled to the respective invoice, the latter reiterated that last minute changes are the norm for a concert of the scale of Isle of MTV.

MTA also maintained that expenditure paid through VISA is properly controlled, as these cards are handled only by two persons, namely the CEO and the respective Financial Controller.

Prior to the awarding of the tender of promotional items to the winning bidder, MTA undertook eight

different evaluation reports, since the Departmental Contracts Committee was not satisfied with the previous ones, with the consequence that new meetings and new decisions had to be taken after each report. However, it is unusual that these delays happen.

The Authority claimed that guides are chosen according to area of expertise, language, suitability, as well as availability. However, it was acknowledged that checks need to be in place, to make sure that there is no form of abuse. MTA intends to schedule a meeting with the Malta Union of Tourist Guides, to enter into a new updated agreement that will include new rates and conditions, that shall be made public to all its members.

MTA reiterated that in most cases, guides are booked according to the number of hours required, *i.e.* either half day or a full day tour. However, instances might be encountered whereby due to last minute changes requested by the journalists, the guides will be required to extend the service by additional hours, which are always authorised by the International Media Relations Section.

Management concurred with the remaining observations, and remedial action to implement most of NAO’s recommendations will be taken on board in due course.

Local Councils

Background

The responsibility to draw up the Councils' Financial Statements, which fairly present the Council's financial situation as at year-end, rests with the Executive Secretary of the respective Local Council. Once approved by the Council, and co-signed by the Mayor and the Executive Secretary, a copy of the accounts is then submitted to the Auditor General, in order to 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 public tender.

The Financial Statements being reported upon cover calendar year 2012, during which Government allocated €31.5 million¹ (2011: €30.01 million) and €102,772 to Local Councils and LCA respectively. **Appendix A – Table 1** refers.

As laid down in article 32 of Legal Notice (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. In contrast to the preceding year, whereby for their first financial period Regional

Committees were granted an aggregate allocation of €176,620, during the year under review, Regional Committees were not provided with a Government allocation, implying that their main source of income was the income generated from the Local Enforcement System (LES). **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 the Mayors and Councillors, were in accordance with the applicable accounting policies and that they give a true and fair view of their financial situation. 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

¹ As per information provided by the Department for Local Government (DLG).

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 account 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. Notwithstanding that this issue was already highlighted in the preceding year, an appropriate IT systems' audit was not yet conducted by 31 December 2012.

Income from the Local Enforcement System not substantiated

As from 1 September 2011, the responsibility for the administration of LES was shifted on to the five Regional Committees. This was brought by the cessation of the nine Joint Committees. However, by 31 December 2012, 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 received no indication that such process officially commenced.

Furthermore, the audited Financial Statements of the Joint Committees, for the year-ended 31 December 2012, were not available. Consequently, as in previous years, LGAs were unable to determine the amount of income that a total of 29 Local Councils were entitled to receive from the pooling surplus generated by the respective Joint Committee. Moreover, 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 Council. **Appendix B** refers. 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.

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 receivable from the Joint Committee with respect to the pre-Regional period. Notwithstanding this, included in the Financial Statements of the Gozo Regional Committee is the amount of €26,000 payable to the Joint Committee, in view of an advance that the latter has provided to the former to assist it in setting up. Technically, these funds related to profits that should eventually be distributed to the Gozitan Local Councils that formed part of the Joint Committee, on a *pro-rata* basis of the number of fines given in each locality. The issue is whether, due to its liquidity problem, the Gozo Regional Committee will ever be in a position to pay back such an advance.

Mosta Local Council – No Audit Opinion Expressed

In line with the prior two years, 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 €1,082,371, as well as on the accuracy 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. The stock of books and maps as recognised in the Financial Statements, amounting to €17,473, was valued at selling price rather than the lower of cost or Net Realisable Value. Furthermore, it was noted that the stock of three publications increased by €2,519 when compared to the value as at the date of the

Mid-Term audit, despite that no new publications were made during the year. On the other hand, whilst other items of stock decreased, no related income was recorded in the Financial Statements. In addition, it was also noted that the Council does not hold an insurance policy in respect of such inventories.

Receivables

As at 31 December 2012, the Council recognised an amount of €20,476 in the Debtors' List and another €8,900 as Accrued Income receivable from Water Services Corporation (WSC), for road re-instatement in respect of works carried out for water-house connections. Meanwhile, as disclosed in the General Income Note in the Financial Statements, the Council has impaired the amount of €39,628 as a tentative action to write off amounts due on account for the period 2007 to 2009. However, the amount receivable and impaired from this source of income is characterised by a series of values which do not correlate. In fact, the Receivables note in the Financial Statements discloses that the amount impaired is €39,267, which implies that either of the notes is not disclosing accurate details. In addition, included in this note is the fact that a settlement agreement, estimated at €13,950, has been reached with WSC to cover long outstanding amounts. However, such agreement was not provided to LGA for audit purposes. Furthermore, as per Nominal Ledger, the write-off was actually of €42,767 which does not concur with any of the aforementioned figures. These facts imply that the amount receivable from WSC, as recognised and disclosed in the Financial Statements, is purely based on estimates prepared by the Council and its Accountant. No documentary evidence providing reasonable assurance that the amounts recognised were not materially misstated was made available.

Included under Accrued Income is an amount of €78,213 representing amounts to be recovered under European Union (EU) Funding projects. However, the information and evidence provided by the Council in this respect was not sufficient for LGA to determine whether the recognition of these receivables was correct and in line with the requirements of International Financial Reporting Standards (IFRSs). Furthermore, €3,730 of this

amount should have been treated as Assets not yet Capitalised, with the consequence that Accrued Income is overstated whereas loss and Assets not yet Capitalised are both understated as at year-end. In connection with the same EU Programmes, no documentation was provided to substantiate the amount of €237,081 recognised under Deferred Income.

Payables

The Council's Statement of Financial Position shows the amount of €661,970 as Supplier Payables as at year-end. Evidence provided by the Council with respect to part of these Payables amounting to €331,682, was not sufficient for LGA to determine whether the recognition of such amount was correctly accounted for and recognised in the Financial Statements, in line with the requirements of IFRSs. From an analysis of Trade Payables, it also transpired that the Council is not carrying out regular reconciliations with Suppliers' Statements. In fact, a discrepancy of €22,747 was recognised between the balance payable to a particular supplier as recorded in the Creditors' Ledger and the respective confirmation provided by the said supplier. From post year-end payments, it was also established that Payables were understated by €879, which amount relates to unpaid invoices issued in 2012, which were excluded from the List of Creditors. These omitted invoices were then incorporated in the books of account through an audit adjustment. It was also noted that a number of Creditors, amounting to €23,365, which were mainly brought forward from the preceding years, had a debit balance. This was the result of paid invoices not posted in the system. Additionally, a variance of €230 was noted between the list of deposits withheld upon application for permits for construction works, and the respective amount recognised in the books of account.

Included in the Accruals' List are two balances, amounting in total to €160,227, that were brought forward from previous year, and another amount of €66,467 which was accrued for in respect of patching works. No documentation was provided to substantiate these material amounts. In addition, the amount of €13,370 disclosed under Other Creditors in respect of Rents due to Land Department was also not substantiated.

Public Private Partnership Scheme

For the year ending 31 December 2012, the Council recognised Accrued Income of €609,454 with respect to the Public Private Partnership (PPP) Scheme. This transaction does not reflect appropriate recognition of the events, since the Council should have at least reallocated the amount of €609,454 as Road Resurfacing Works under construction with PPE. The Council also failed to accrue for Grants receivable of €43,050 in respect of the funds not yet received, for those roads which were finalised as at year-end.

On the other hand, the amount of €343,050, for which no proper documentation was provided, was recognised as long-term Deferred Income from Grants under the same Scheme. Furthermore, the Council included with Prepayments an amount of €10,045 which should have been deducted from the Grant since this related to the release of the Grant to income. To this effect, Receivables are overstated by €576,449, PPE is understated by €609,454 and Deferred Income understated by €43,050.

‘Except for’ Audit Opinion

Apart from Mosta Local Council, another 57 Audit Reports², out of the 66 received, were qualified with an ‘except for’ audit opinion, for one or more of the defaults mentioned hereunder. This same qualified audit opinion was also given to the four Regional Committees who provided their Financial Statements.

- a. Forty-seven 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, IAS 8, IAS 20, IAS 24, and IFRS 7.
- b. The ‘Going Concern’ assumption used in the preparation of three Local Councils’ 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 Councils’ 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.

- c. Other specific issues for the Local Councils and Regional Committees on an individual basis.

It is pertinent to note that the financial liquidity concern was also evident in another 16 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 qualifications and the related 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 and 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

Twenty-five Local Councils (2011: 17) and a Regional Committee registered a negative Working Capital³ during the year under review. This could imply that they may encounter difficulties in meeting their obligations when due.

Table 1 lists these Councils and Regional Committees, 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 2012.

² Fifty-seven Audit Reports represent 86% (31 December 2011: 90%) of all the submitted Financial Statements.

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

Table 1: Negative Working Capital

Local Council	31 December 2012	31 December 2011	31 December 2010
	€	€	€
Attard	(133,648)	(37,502)*	59,969
Birgu	(192,858)	(202,108)▪	(150,236)
Birkirkara	(792,930)	(786,717)	(549,262)
Birżebbuġa	(29,980)	(168,425)	235,792
Bormla	(64,842)	(61,783)	(72,684)
Dingli	(61,224)	(35,020)▪	230,720
Gżira	(6,525)	27,559	53,703
Gharghur	(8,269)	25,280	32,988
Isla	(14,544)	60,827	24,565
Mdina	(90,265)	(83,557)	8,059
Mqabba	(166,284)	132,698	97,318
Msida	(17,502)	166,676	67,966
Nadur	(152,274)	(118,259)	168,486
Paola	(305)	(91,464)▪	104,892
Pieta`	(26,086)	133,195▪	140,047
Qormi	(89,790)	(19,691)*	76,195*
Rabat (Malta)	(179,864)	(154,737)	(134,444)
Rabat (Gozo)	(13,226)	(26,288)▪	(138,169)
San Ġwann	(54,166)	(50,569)	(38,265)
Sannat	(24,162)	109,906	79,214
Siggiewi	(34,994)	25,127	121,271
Valletta	(95,000)	148,152*	219,636
Xagħra	(85,660)	102,386*	135,435
Żebbuġ (Malta)	(524,633)	(259,048)▪	203,919
Żurrieq	(148,806)	291,664	279,884
Regional Committees			
Gozo Regional Committee	(447)	1,175	-

*Comparative figures have been reclassified to conform with the current year's presentation.

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

Attard

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 €78,425 in overall Current Assets, coupled by an increase of €17,721 in total Current Liabilities. The movement in Current Assets was mainly brought by a decrease of €76,053 in Receivables. On the other hand, whilst a rise of

€18,237 and €20,355 was registered in Payables and Other Creditors respectively, Accrued Expenditure diminished by €19,596.

Birgu

The decrease of €38,270 in overall Payables, marginally improved the financial situation from that registered in the preceding year. Whilst amounts reported for Payables, Accruals as well as Deferred Income decreased by €24,583, €4,623

and €45,870 respectively over the prior year, Bank Overdraft and Other Payables increased by €8,800 and €15,525. Meanwhile, the increase of €503 and €26,136 in Receivables and Prepayments, together with Accrued Income, was not enough to sustain the decrease of €28,643 with respect to EU Programmes recoverable expenses, and a downward movement of €27,487 in LES Debtors, which was mainly the result of an increase of €15,829 in the Provision for Doubtful Debts. A marginal increase of €997 was also noted in Cash and Cash Equivalents.

Birkirkara

The Council's financial situation deteriorated further during the current period. The substantial increase of €253,402 in overall Current Assets was not enough to sustain an even higher increase of €259,615 in overall Current Liabilities. Whilst Receivables and Cash and Cash Equivalents increased by €244,042 and €9,674 respectively, an increase of €159,154 and €140,665 was registered for Payables and Deferred Income. On the other hand, a decrease of €36,550 in Accruals was noted when comparing the year under review with the preceding year. Additionally, it is important to note that the Council is disputing amounts payable to two capital creditors amounting to €157,134 and €12,626, which amounts were disclosed as Contingent Liabilities rather than accounted for as liabilities. This negative situation also resulted from the fact that during the current year, the budget set for actual Capital and Current Expenditure was exceeded by €635,898 and €608,813 respectively. Thus, the Council had to finance additional expenses, which were not originally planned.

Birżebbuġa

Whilst the financial situation of the Council improved from the prior year due to an overall decrease of 6.89% in the Current Liabilities, coupled up with an increase of 29.09% in overall Current Assets, the latter still closed the financial year with a negative Working Capital of €29,980. The movement in Current Liabilities was brought by a decrease of €91,199 in Payables which was partly outweighed by an increase of €55,316 in short-term Borrowings. On the other hand, both Receivables and Cash and Cash Equivalents increased by €30,681 and €71,881 respectively.

Bormla

The decrease of €29,214 in overall Current Liabilities was not sufficient to compensate for the downward movement of €32,273 in overall Current Assets, with the consequence that the negative liability position registered by the Council as at year-end was slightly higher than that reported in the preceding year. Whilst Cash at bank and in hand increased by €37,604 over the prior period, Trade and Other Receivables decreased by €69,877, mainly due to an increase of €43,151 in the Provision for LES Doubtful Debts. Furthermore, Trade and Other Payables decreased by €41,996, whilst an increase of €12,782 was registered in the Overdrawn Bank Balance.

Dingli

The financial position of the Council worsened to a negative Working Capital of €61,224 at the end of the year. The decrease of €51,282 in overall Current Liabilities, was not enough to sustain the substantial decrease of €77,486 in overall Current Assets. Whilst Cash and Cash Equivalents remained fairly stable when compared to the preceding year, a decrease of €76,602 was registered in Trade and Other Receivables. This was mainly due to a decrease of €75,097 in Accrued Income. On the other hand, whilst Payables increased by €17,946, Accrued Expenses decreased by €66,492.

Gżira

The marginal increase of €6,363 in Current Assets was not enough to make up for the significant upward movement of €40,447 in Current Liabilities. Whilst Receivables and Cash and Cash Equivalents increased only by €3,955 and €2,523 respectively, reported increases in respect of Trade Payables and the Overdrawn Bank Balance totalled €42,187 and €13,146 respectively. On the other hand, Accrued Expenses and Other Creditors decreased by €21,752. Moreover, during the current year, the Council availed itself of a bank loan to finance the purchase of property used to house the administrative offices of the Council. The current portion of this long-term borrowing amounted to €7,930. Included with Current Liabilities is also the amount of €2,351 representing a long-term payable.

Gharghur

The net liability position of €8,269 registered by the Council at year-end was the result of an increase of €27,160 in overall Current Liabilities, combined with a decrease of €6,389 recorded in Current Assets, which was mainly brought by a downward movement in Trade and Other Receivables. Since the Payables comparative figures were not disclosed in the Financial Statements, it was not possible to analyse the movement reported in Current Liabilities.

Isla

The Council's Current Liabilities exceeded its Current Assets by €14,544 and from a positive financial situation during the prior year, the Council moved to a negative position. This was mainly brought about by a decrease of €25,522 and €1,362 in Cash and Cash Equivalents, as well as Inventories, respectively. Moreover, Trade and Other Receivables decreased by €29,711 when compared to prior year, mainly due to an increase of €26,497 in Provision for Doubtful Debts. Meanwhile, an increase of €23,951 was registered in Trade Creditors, whilst Accrued Expenses and Deferred Income decreased by €5,408.

Mdina

When compared to prior year, the Council's financial situation deteriorated further during the current period. The overall increase of €22,494 in Current Assets was not enough to sustain the increase of €29,202 in overall Current Liabilities. Whilst amounts reported for Accrued Expenditure as well as Deferred Income remained fairly stable when compared to those registered in the preceding year, Payables increased by €31,247. Meanwhile, both Receivables as well as Cash and Cash Equivalents increased by €10,666 and €11,828 respectively.

Mqabba

As at year-end, the Council registered a net Current Liability position of €166,284 which resulted from a decrease of €58,691 in overall Current Assets coupled up by a considerable increase of €240,291 in Current Liabilities. Although Receivables increased by €14,937, Cash and Cash Equivalents have substantially decreased by €73,628, whilst

Payables and Accrued Expenditure increased by €128,355 and €47,666 respectively. Furthermore, current Deferred Income also increased by €64,270.

Msida

From a positive Working Capital of €166,676 recorded at the end of the previous year, the Council closed the current financial year with a negative Working Capital of €17,502. The decrease of €32,229 in overall Current Liabilities coupled up with the marginal increase of €2,858 experienced in Cash and Cash Equivalents, were not enough to make up for the significant decrease of €219,265 in Receivables. This substantial decline in Receivables was partly related to an increase of €42,858 in the Provision for Doubtful Debts, whilst the balance of €45,497 was reversed from Accrued Income due to the fact that Grants receivable, as reported in the preceding year, were overstated by the aforementioned amount.

Nadur

At year-end Current Liabilities inclusive of the Overdrawn Bank Balance of €10,397 exceeded Current Assets by €152,274. Although, overall Payables decreased by €62,614, such decrease was not enough to sustain the significant downward movement of €82,807 and €13,822 registered in both Cash and Cash Equivalents as well as Receivables respectively. Whilst Payables increased by €26,824, Accrued Expenditure decreased by €87,780 when compared to the preceding year. The latter movement explains the main decrease in overall Payables from prior year.

Paola

The substantial improvement in the Council's financial situation was the result of a decrease of €70,035 in overall Current Liabilities coupled with an increase of €21,124 in overall Current Assets. LES Debtors as well as the respective Provision for Doubtful Debts, as recognised in the Financial Statements, have decreased by €33,843 and €28,756 when compared to the preceding year. However, as highlighted further down in the report, these amounts are misstated, as they do not reconcile to LES reports extracted from the system. Furthermore, an increase of €20,995 was

registered for Cash and Cash Equivalents. On the other hand, Trade Creditors as well as Deferred Income decreased by €71,547 and €16,588 respectively, whilst Accrued Expenses increased by €5,531.

Pieta`

The Council closed the financial year with a negative liquidity position. This was brought about by an overall increase in Current Liabilities coupled up with a substantial decrease in Current Assets. During the current period, the Provision for LES Doubtful Debts increased by €18,553, however, net Receivables were only €1,066 less than those recorded in the preceding period. On the other hand, a considerable downward movement of €87,749 was registered in Cash and Cash Equivalents. Furthermore, Payables and Accrued Expenses increased considerably by €49,189 and €13,105 respectively, whilst increases in Other Payables and Deferred Income totalled only to €3,588 and €4,319 respectively.

Qormi

Compared to prior year, the financial position of the Council worsened, with a negative Working Capital of €89,790 at the end of the year. Whilst the Council managed to decrease its overall Current Liabilities by €229,472, an even higher reduction of €299,571 was noted in overall Current Assets. This resulted from a substantial decline in Receivables of €320,637, which was partly outweighed by a marginal increase of €20,851 in Cash and Cash Equivalents.

Rabat (Malta)

The Council's financial situation in 2012 continued to deteriorate when compared to that of the prior periods. This was due to an overall decrease of €13,078 in Current Assets, with an increase of €12,049 in Current Liabilities. Whilst Receivables decreased by €60,232 over the prior period, an increase of €47,154 was registered in Cash and Cash Equivalents. Meanwhile, the increase of €103,355 in Payables was partially outweighed by a decrease of €78,920 and €12,548 in Accrued Expenditure and Government Grants respectively.

Rabat (Gozo)

Though the Council's negative Working Capital situation has still not been cleared, it has improved when compared to that of prior year, since the negative Working Capital balance has decreased by €13,062. This was brought about by an increase of €37,066 and €50,455 in Inventories and Cash and Cash Equivalents respectively, together with a decrease of €11,232 in the Overdrawn Bank Balance. On the other hand, whilst a decrease of €36,536 was registered in Receivables, an increase of €49,155 was noted in Payables.

San Ġwann

The Council's Current Liabilities exceeded its Current Assets by €54,166, thus weakening the financial situation of the Local Council furthermore. Payables and short-term Deferred Income increased by €6,328 and €5,739 respectively, whilst Accrued Expenses as well as Other Payables decreased by €6,818 and €5,568. On the other hand, the increase in Receivables of €19,199 was totally outweighed by a decrease in Cash and Cash Equivalents of €27,287.

Sannat

From a positive financial situation during the previous year, the Council moved to a negative position in the current period. The net increase of €14,495 in Receivables was not enough to make up for the considerable decrease of €47,539 in Cash and Cash Equivalents. Meanwhile, whilst Payables decreased by €7,694, an increase of €101,603 was reported for Accrued Expenditure. This resulted partly from the fact that invoices that were received during the year were recorded as Accruals instead of as Accounts Payable. Furthermore, Deferred Income increased by €7,115, when compared to prior year.

Siggiewi

The overall decrease of €108,011 in Current Liabilities was not sufficient to cover the significant decline of €168,132 in Current Assets. During the year under review, a considerable decrease of €153,702 was registered in Cash and Cash Equivalents, whilst Receivables lowered by €14,430, partly due to an increase in the Provision

for Doubtful Debts. On the other hand, the increases of €142,415 and €4,421 in Trade Payables and short-term Deferred Income respectively, were totally outweighed by a decrease of €253,600 in Accrued Expenses.

Valletta

Although during the current year overall Current Liabilities decreased by €53,076 when compared to the preceding year, the Council still ended the year with a net current liability position of €95,000. This was mainly due to a substantial decrease of €282,173 in Receivables, coupled with a downward movement of €14,055 in Cash and Cash Equivalents. The main decrease in Receivables was noted in Accrued Income which at year-end stood at €150,515, *i.e.* a decrease of €209,407 over the amount reported in the preceding year (€359,922). On the other hand, LES Debtors decreased by €90,564, partly due to an increase of €34,588 in the Provision for Doubtful Debts, whilst Other Receivables reduced by €27,843. Notwithstanding that as per agreement signed between the Council and the PPP contractor, expenditure incurred under the PPP Scheme was to be paid over a period of eight years, the Council settled the full amount. This course of action effected negatively both the Council's Cash Flow as well as its financial situation.

Xaghra

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 brought by an overall decrease of €147,102 in Current Assets together with an increase of €40,944 in Current Liabilities. Receivables decreased by €110,635, after recognising a Provision for Doubtful Debts of €5,000 and an impairment of €7,398 in respect of funds that have been outstanding for a number of years. On the other hand, a downward movement of €36,467 was noted in Cash and Cash Equivalents.

Żebbuġ (Malta)

In the current year, the financial situation of the Council deteriorated further as Current Liabilities exceeded Current Assets by €1,224,505. This

was the result of a significant decrease in both Receivables (€168,547) and Cash and Cash Equivalents (€62,659), coupled up by a considerable increase in Payables (€709,448) and Overdrawn Bank Balance (€25,573). The movement in Receivables was mainly due to an increase of €111,829 in the Provision for Doubtful Debts and a decline of €59,569 in Prepayments and Accrued Income. Conversely, an upward movement of €24,247 was registered for LES Debtors. Meanwhile, whilst Accrued Expenses decreased by €59,871 over the prior year, an increase of €18,776 was also reported in short-term Deferred Income. Included within Payables as reported in the Financial Statement is the amount of €699,872, due to Capital Creditors for more than one year. However, due to the materiality of the amount involved the figures reported in **Table 1** above were adjusted accordingly to reflect the actual negative Working Capital as at year-end.

Żurrieq

The negative Working Capital was brought about by a decrease of €324,401 in Current Assets, and an increase of €333,797 in Current Liabilities. Whilst Receivables and Cash and Cash Equivalents decreased by €215,313, and €109,088, Payables, Deferred Income as well as the Overdrawn Bank Balance increased by €339,121, €14,060 and €11,116 respectively over the preceding year. These substantial increases in Payables resulted from the fact that Deferred Income was not apportioned between long-term and short-term components. Furthermore, included with Trade Payables is an amount of €326,592 which is due to Capital Creditors, out of which the balance of €217,728 is due to be paid after more than one year. Notwithstanding this, in both instances, the full amount was recognised under Current Liabilities in the Financial Statements. Due to the materiality of the amount, figures illustrated in **Table 1** above were adjusted accordingly to reflect the actual negative Working Capital.

Gozo Regional Committee

Current Assets at year-end totalled €147,728, whilst Current Liabilities amounted to €148,175, with the consequence that the Committee ended the financial year with a net current liability position of €447. This arose because contraventions are not being paid and thus sufficient funds are not

Table 2: Improvement in Working Capital

Local Council	31 December 2012	31 December 2011	31 December 2010
	€	€	€
Lija	643	(40,854)	(8,509)
Regional Committees			
Northern	373,217	(76,104)	-
South Eastern	271,650	(80,082)*	-

*Comparative figures have been reclassified to conform with the current year's presentation.

available to pay all the amounts falling due within one year. In fact, whilst Receivables increased by €78,831, an increase of €72,955 was reported in Payables, over the preceding year. Meanwhile, Cash and Cash Equivalents declined by €7,498.

Improvement in Working Capital

As indicated in **Table 2**, only one Local Council and one Regional Committee have improved their financial position, from a negative to a positive Working Capital by the end of this 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. In the event that the Financial Situation Indicator (FSI) is less than 10%, the Council is obliged to inform the Director about the situation, whilst explaining the actions that are intended to be taken to remedy the situation.

The cited legislation, defines FSI as the difference between the total of all Current Assets and the total of all current and long-term Liabilities for the current and subsequent financial years, excluding any long-term commitments approved by the Minister in terms of the Act, taken as a percentage of the annual allocation.

However, during meetings held by NAO with the relevant stakeholders, LGAs raised the issue that the substantial change in the Council's financial scenario rendered the current computation rather meaningless. It was claimed that Councils are reporting significant bank balances despite that this money could not actually be used to settle outstanding debts since these are tied up for specific projects/schemes. Thus, these funds, as well as amounts representing Deferred Income together with long-term balances payable under the PPP Scheme, are not to be included in the FSI calculation. Upon unanimous agreement, the formula for the computation of the FSI was modified on such basis.

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 11 years later, these Councils are still stating that this exemption prevails. As reiterated in the preceding years, considering that now the Councils are operating in a financial environment which is 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.

Thirty-one Local Councils (2011: 23) registered a FSI below the 10% benchmark required by law. The localities as well as the Council's reply to this issue are shown in **Table 3**.

Table 3: Financial Situation Indicator

Local Council	FSI 1 January – 31 December 2012 [^]	FSI 1 January – 31 December 2011 [^]	Council's reply
	%	%	
Attard	(23.96)	(9.79)	Point not addressed.
Birgu	(29.89)	(66.08)	One must appreciate the fact that on many occasions, the Council is strongly encouraged by Central Government to participate in projects which entail borrowing for expenditure incurred. This creates a continuous deficit problem, since the Council will be spending funds which it does not have. Thus, it will be extremely difficult for the Council to have at least a positive net current asset position of 10% of the Annual Financial Allocation, unless it will stop participating in all projects and utilise the Government's Allocation for honouring cleaning contracts, as well as to curtail for staff and any other administrative costs for a minimum period of five years.
Birkirkara	(62.54)	(66.89)	The Council is aware that its liquidity position remained dreadful. Yet it is very pleased to note that its efforts in reducing the deficit are reaping the fruits. The Council will continue to revise its Cash Flow projections, so as to address the financial problem over time till the financial position is back within acceptable parameters.
Birżebbuġa	(6.50)	(22.64)	The Council will inform the Director accordingly, and closely monitor all expenses to reduce costs as much as possible.
Bormla	(15.75)	(15.21)	For the Council to improve its position, the Government should increase the annual financial allocation by at least €99,000. The Council will also have to reduce the services which it is obliged to provide, such as street sweeping and collection of mixed household waste. Due to the financial difficulties, the Council did not engage in infrastructural projects for the past years, even though its reputation suffered greatly.
Dingli	(17.07)	(6.42)	Point not properly addressed.
Gzira	9.24	0.76	LGA's recommendation has been noted. The Council has been trying to take all the necessary measures to improve its financial position.
Gharb	(3.75)	172.17	Point not properly addressed.
Ghasri	3.14	36.32	Although the FSI was below the 10% threshold, the Council still maintained a positive Working Capital. This decrease was due to the fact that during the year under review, the Council paid for all the capital projects undertaken at ' <i>Triq Dun Karm Caruana</i> ' and ' <i>Pjazza Salvatur</i> '. Other unplanned road works, which had to be carried out, also effected the FSI.
Għaxaq	6.21	10.03	The Council shall ensure that the FSI does not go below the 10% threshold.
Isla	(5.72)	24.14	LGA's comments were noted.
Kalkara*	(22.75)	1.41	

Table 3: Financial Situation Indicator cont./

Local Council	FSI 1 January – 31 December 2012 [^]	FSI 1 January – 31 December 2011 [^]	Council's reply
Kirkop	(65.18)	(59.11)	The Agent Executive Secretary has been in office since 14 October 2012, and thus he was not in a position to inform DLG regarding the current Council's situation. However, DLG will be notified in due course, and all measures are being evaluated on how to address this situation.
Lija	3.88	(18.05)	The Council is aware of the situation. As one can note, this has improved drastically since last year, and the Council has and is still taking all the necessary measures to improve the situation.
Mdina	(47.77)	(45.24)	The Council will monitor its expenditure further, and has embarked on a cost-cutting exercise in an attempt to bring back its finances to a proper level of liquidity and a positive net Current Asset value. However, it should be noted that the Council has a substantial amount of unbudgeted expenditure due to damages sustained, especially when considering the frequent vandalism acts that take place.
Mosta	(38.38)	29.00	Point not addressed.
Mqabba	(31.47)	13.05	During the year under review, the Council concluded a costly project of resurfacing all the roads with the financial assistance of Central Government. Therefore, the Council is not to be expected to maintain a positive FSI. Besides, the quarterly financial reports were forwarded to DLG upon approval. However, no irregularities were ever observed by the latter.
Msida	(6.35)	3.56	This situation will be remedied by the increase in the Council's allocation, which will be partly used to ensure that the Council retains the 10% threshold required by law.
Nadur	(33.12)	(26.13)	The main cause for the negative FSI is due to the number of capital projects which the Council embarked on, for which it does not have the necessary finances.
Pieta`	(3.62)	29.60	LGA's comments were noted and measures will be taken to rectify this situation.
Qormi	(5.02)	0.82	The Council strongly disagrees with LGA's conclusions, because since 2005 it has been exempted from Regulation 55 of the Local Councils Act.
Rabat (Malta)	(13.70)	(11.06)	The Council agreed that a strategy had to be adopted to regularise this negative situation. As a first measure, no capital projects were to be entered into unless supportive funding is available. Furthermore, the Council has taken action on tenders related to street cleaning, where the cheapest offers were accepted, thus saving on expenditure.
Rabat (Gozo)	(19.30)	(17.59)	Point not addressed.
San Ġwann	(6.90)	(7.33)	Point not addressed.
San Lawrenz	(15.85)	(11.54)	Point not properly addressed.

Table 3: Financial Situation Indicator cont./

Local Council	FSI 1 January – 31 December 2012 [^]	FSI 1 January – 31 December 2011 [^]	Council's reply
Sannat	(18.97)	17.45	The Council will try to change the situation from a negative to a positive one. It shall also try to maintain the 10% margin, in order to be able to manage its cash flows properly.
Siggiewi	(5.17)	26.18	The Council is aware that during these financial years, its liquidity position has deteriorated due to the fact that it undertook numerous capital projects. Nevertheless, this was the first time that the Council found itself in a negative cash liquidity position, and will seek to rectify this situation in the upcoming financial year.
Tarxien	(1.76)	39.56	The negative FSI resulted from the fact that prepayments relating to the PPP project, amounting to €69,200 were deducted from Current Assets when calculating the percentage. This prepayment, has been classified as a Current Asset and is to be deducted from the amounts due to the PPP supplier in 2013.
Valetta	(2.96)	(1.49)	During the year, more expenditure of a capital nature was incurred by the Council, in order to carry out various projects which were already agreed upon. This position is expected to improve during 2013, since the Council has no further financial obligations towards these finalised projects.
Xaghra	(15.39)	20.93	The Council will try to change the situation from a negative to a positive one. It shall also try to maintain the 10% margin, in order to be able to manage its cash flows properly.
Żebbuġ (Malta)	(144.78)	(60.26)	No feedback was received.

[^]Workings as provided by LGAs.

*The Council failed to submit the audited Financial Statements for the year under review.

Statement of Comprehensive Income⁴

Thirty-two Local Councils (2011: 22) and the Gozo Regional Committee (2011: 2) registered a deficit in the Statement of Comprehensive Income for the year. For a number of Councils 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 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 2012

Local Council	1 January – 31 December 2012	1 January – 31 December 2011	1 January – 31 December 2012
	€	€	€
Attard	(22,289)	(69,050)	(38,898)
Birgu	(59,094)	(1,066)	(13,903)
Birkirkara	(95,543)	(50,689)	(16,587)
Bormla	(37,123)	(14,086)	(122,481)
Dingli	(20,287)	(6,198)	11,332
Fgura	(7,021)	(18,950)	215,389
Floriana	(116,250)	(108,328)	61,580
Gudja	(15,074)	61,571	38,725
Hamrun	(89,060)	150,048	85,894
Isla	(18,944)	21,181	(17,503)
Kerċem	(57,718)	37,569	33,705
Kirkop	(23,628)	(63,718)	(14,433)
Lija	(26,323)	(17,934)	(20,308)
Luqa	(27,433)	56,520	112,221
Marsascala	(54,295)	(25,304)	132,024
Mdina	(41,796)	(97,470)	(135,110)
Mosta	(214,676)	2,803	136,589
Mqabba	(5,575)	4,425	22,759
Msida	(49,087)	11,179	72,572
Pieta`	(17,406)	(8,147) [*]	64,841
Qormi	(226,856)	528	52,938
Rabat (Malta)	(68,300)	21,582	58,016
Rabat (Gozo)	(87,087)	(23,601)	(168,453)
Safi	(20,798)	13,604	21,240
San Ġiljan	(27,938)	32,398	724
San Lawrenz	(7,227)	25,315	(7,847)
Sannat	(17,432)	(8,908)	16,250
San Pawl il-Baħar	(63,855)	131,927	164,327
Siggiewi	(27,461)	76,413	130,666
Valletta	(29,897)	24,854	78,169
Xaghra	(24,687)	24,393	7,219
Żebbuġ (Malta)	(219,178)	(254,080)	93,271

Regional Committee	1 January – 31 December 2012	1 August 2010 – 31 December 2011
	€	€
Gozo Regional Committee	(1,813)	2,034

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

The following were reasons⁵ attributed to the deficits, which have been reported by the respective Local Councils and Gozo Regional Committee at the end of the current year, when compared to the prior period.

Attard

Though the position from the previous year improved slightly, the Council still registered a deficit at period-end. This improvement was mainly due to an overall increase of almost 6% in income. On the other hand, whilst the Council managed to curtail Operations and Maintenance Expenses by 7.94%, amounts paid out in respect of Personal Emoluments increased by 17.04%. Notwithstanding that substantial decreases were noted in the amounts incurred on Cultural Events (€12,045), Utilities (€11,821) and Penalties (€7,503), overall the Council still registered a marginal increase of 1.78% in Administration and Other Expenditure, mainly due to the high depreciation charges. Furthermore, during the year under review, the Council also reported an Asset Impairment Loss of €1,606.

Birgu

Though the Council managed to cut back its Operations and Maintenance Expenses, as well as the Administration Expenses by €16,246 and €32,340 respectively, it still ended the financial year with a deficit higher than that reported in the preceding period. This was mainly due to the fact that overall income received by the Council decreased by €98,585 when compared to that reported in 2011. A decrease of €50,310 and €50,384 was noted in Income raised under LES as well as Income received from EU Funds respectively. Meanwhile, an increase of €8,029 was registered in Personal Emoluments paid during the year under review, whilst expenses incurred on Roads Upkeep and Maintenance, Provision for Bad Debts and Sundry Minor Expenses still increased by €10,997, €6,854 and €5,492 respectively.

Birkirkara

From year to year, the financial position of the Council is deteriorating. The €95,543 deficit

reported during the year under review is almost twice as much as that reported in the preceding year. This was due to the fact that the general increase of 5.35% in overall income received by the Council was not sufficient to cover an increase of 8.05% in the total expenditure incurred. The decrease of €76,236 and €25,089 in income raised under LES and Bye-Laws respectively, was outweighed by the overall increase in Funds received from Central Government and General Income of €167,675 and €14,481 respectively. On the other hand, whilst a slight decrease was registered in Personal Emoluments paid, substantial increases were noted for expenditure incurred on Repairs and Upkeep of roads and pavements (€55,627), Other Repairs and Upkeep (€66,121), Refuse Collection (€25,349), Cleaning and Maintenance of Parks and Gardens (€17,949), Utilities (€31,251), Architect/Engineering Services (€18,927), Other Hospitality Costs (€11,891), Cultural Events (€8,719) as well as Depreciation Charges (€75,939).

Bormla

During the current year, the financial position of the Council worsened even further. The overall marginal increase of €1,753 in the income received by the Council during the year under review, was not enough to sustain the substantial increase of €24,790 in the expenditure incurred. Whilst Income received from LES decreased by €48,452, Funds received from Central Government, as well as General Income, increased by €23,276 and €27,033 respectively, mainly due to an increase of €56,688 in Government Grants. Significant increases in costs incurred were noted for Repairs and Upkeep of Public Property (€40,754), Cleaning and Maintenance of Soft Areas (€8,864), Street Lighting (€9,991) and Provision for Doubtful Debts (€8,348).

Dingli

Whilst during the current year, overall Administration and Other Expenditure decreased by €56,421 when compared to prior year, Funds received from Central Government increased by €26,363. However, this was not enough to sustain a significant decrease of €61,368 in General Income, together with an increase of €1,581 and

⁵ Figures quoted in the Analytical Review carried out, are in line with the amounts disclosed in the audited Financial Statements provided by the Council.

€34,162 in Personal Emoluments and Operations and Maintenance Expenses respectively, thus resulting in a deficit position. The main increases in expenditure were reported for Road Markings (€4,004), Public Property (€8,043), Patching Works (€14,180), Bulky Refuse Collection (€3,218), Waste Disposal Expenses (€6,425), Social and Cultural Events (€19,084), as well as Depreciation Charge (€9,853).

Fgura

Notwithstanding that the position from the prior period improved, the Council still ended the year with a deficit. While income received by the Council increased significantly, especially that arising from General Income (€110,173), an increase in expenditure was likewise registered. On the other hand, Income from LES decreased by €100,593 when compared to the preceding period. Meanwhile, increases in expenditure were noted in respect of Emoluments and Allowances paid to the Executive Secretary (€11,285), Materials and Supplies (€7,067), Street Markings (€11,595), Professional Services (€6,270), as well as Depreciation Charges (€39,647). Substantial increases were also noted for Roads Repairs and Upkeep (€56,774) and Pavements Repairs and Upkeep (€9,901). Furthermore, as highlighted further down in the report, budgeted expenditure for Repairs and Upkeep was exceeded.

Floriana

Despite that during the year under review, the Council managed to curtail its expenses by an overall amount of €283,502, it still registered a deficit higher than that reported in the preceding year. This was mainly due to the substantial decrease of €321,951 in the Income raised under LES. Meanwhile the Provision for Doubtful LES Debtors decreased by €84,775, thus decreasing Administration and Other Expenses by the same amount. On the other hand, expenses incurred in respect of 'Gardmed' project increased by €43,199 when compared to the prior period.

Gudja

Total expenses increased by €118,794 over the preceding year, whilst revenue earned increased only by €42,149. Increases of €77,351 and

€10,498 in the supplementary income and the annual allocation respectively, both received from Central Government, were mainly responsible for the high revenue reported this year. On the other hand, income raised under LES decreased by €46,113 when compared to that generated during 2011. Meanwhile, significant increases in expenditure were noted for Community Services and Social Events (€11,127), Repairs and Upkeep of Pavements (€9,931), Professional Services (€9,262) and Street Lighting (€6,110). Furthermore, included with Repairs and Upkeep is the amount of €76,531 incurred on Government's property for the regeneration of the housing estate and the surrounding area, against which a maximum Grant of €75,000 was granted to the Council.

Hamrun

The deficit reported at year-end was the result of a decrease of almost 23% in income received by the Council, coupled by an increase of 6.87% in expenditure incurred. The decrease of €191,959 in income, mainly arose from a decline in amounts generated from LES, Contributions towards reinstatement works, Income from Other Activities, Investment Income and Income raised from Bye-Laws. On the other hand, whilst expenses in relation to LES decreased by €86,137, an overall increase in expenditure, aggregating to €77,215, was noted for Salaries paid to employees, Repairs and Upkeep of road and street pavements, Bulky refuse collection, Road and Street cleaning, Other Repairs and Upkeep, Social and Cultural Events, as well as Finance Costs. During the year under review, an increase of €81,067 was reported in the Provision for Doubtful Debts. From audit verifications carried out, it transpired that the said provision was overstated by €20,662, thus also having a direct impact on the loss reported by the Council.

Isla

The loss reported for the current year was the result of both a decrease in income and an increase in expenditure. Income raised under LES and Funds received from Central Government, decreased by €26,471 and €16,502 respectively, which reduction fully outweighed the increase of €14,764 disclosed under the General Income categories.

Furthermore, the expenditure categories of Personal Emoluments, and Administration and Other Expenditure have increased by €2,352 and €40,652, whilst Operations and Maintenance costs decreased by €30,277.

Kerċem

Increases of €19,733 in Street Lighting, €18,087 in Refuse Collection and €5,152 in Cultural Events, were the main contributors to the Local Council's negative position in its Statement of Comprehensive Income during the current year, when compared to the prior period. Furthermore, the Council has recognised an impairment provision of €14,900 on receivables due from WSC, since the related works have not been actually carried out by the former. In addition, a decrease of €32,869 was registered in General Income. As explained further down in the report, it was also noted that in certain instances budgeted expenditure was exceeded.

Kirkop

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 €23,628. This improvement was mainly due to a decrease of almost 31% (€121,786) in overall expenditure. Meanwhile, a reduction of 24.63% (€81,696) was also registered in the overall income generated by the Council during the year under review.

Lija

Notwithstanding the increase of 3.32% in overall income, the Council this year still ended with a deficit higher than that of the preceding period. This was mainly brought by an increase of 6.13% in overall expenditure incurred during the same year. The main variances were encountered in amounts expensed on Community Services and Events, Repairs and Upkeep of road and street pavements, Street lighting services as well as Depreciation Charges.

Luqa

The overall decrease of €27,863 in expenses incurred during the year was not enough to

sustain the overall fall of €112,440 in the revenue generated. This led the Council to a deficit of €27,433 during the current financial year. Income earned from LES decreased by €136,943 when compared to prior year. Whilst the Council curtailed Operations and Maintenance Expenses by €56,672, an increase of €11,326 and €17,483 was reported in Personal Emoluments, as well as Administrative Expenses incurred during the year.

Marsascla

During the year under review, the Council's financial situation worsened even further. Whilst Personal Emoluments remained fairly stable, and Operations and Maintenance Expenses decreased by €57,627, an increase of €56,112 was registered in the Administrative and Other Expenditure. This was accompanied by a decrease of €30,132 in overall income received by the Council, mainly due to a substantial downward movement of €135,888 in Income generated from LES. This was partly outweighed by increases of €86,612 in Funds received from Central Government, €14,985 in General Income, as well as €3,725 in Finance Income. The main increases in expenditure were noted for Other Repairs and Upkeep (€10,370), Sundry Repairs (€4,028), Road and Street Cleaning and Grass Cutting (€8,699), Street Lighting (€8,134), Sundry Materials and Supplies (€13,128), Other Support Services (€5,283), expenditure on 'European Union Programmes Agency' (EUPA) project (€13,151) and Depreciation (€74,482). Meanwhile, Sundry Minor Expenses stood at a negative amount of €11,024.

Mdina

Notwithstanding that the deficit is not as high as that registered in the prior year, the Council ended the current financial year with an excess of expenditure over income of €41,796. This improvement was mainly brought about by a decrease of €14,147 and €37,443 in Operations and Maintenance, and Administration Expenses respectively, coupled up by an overall marginal increase of €3,365 in the income derived by the Council.

Mosta

Though funds received from Central Government increased by €57,983 over the preceding year, the Council still ended the financial year with a deficit. This was mainly brought about by a substantial increase of €238,914 in the total expenditure incurred, coupled up by a decrease of €7,668, €15,038 and €13,844 in income generated from Council Bye-Laws, Income from LES as well as General Income, respectively. The decrease in General Income was mainly due to a write-off of €39,268 against amounts receivable from WSC, in relation to reinstatement works. Similarly, included under Income raised from LES, is also a write-off of €7,602 with respect to LES Debtors. Meanwhile, Personal Emoluments increased by €17,218 over the preceding year mainly due to an increase in the salaries paid to employees. Other considerable increases in expenditure were noted for Patching works (€186,448), Street Lighting (€13,269), Community Services (€7,482), Legal and Professional Fees (€9,210), Day Centre Expenses (€5,369), Stock Movement (€9,420) as well as Depreciation Charges (€27,581). In addition, during the year under review, the Council reported Bad Debts Written Off and Provision for Doubtful Debts of €31,403 and €29,842 respectively. Furthermore, it was also noted that due to various defaults, the aggregate amount of €36,779 was deducted from the Government Allocation forwarded to the Council during the year under review. Rather than recognising such deductions as an expense in the Financial Statements, the Council has directly deducted the aforementioned balance from income. However, as already highlighted further up in the report, due to the insufficient audit evidence, LGA could not provide a basis for an audit opinion as to whether the Financial Statements provided by the Council give a true and fair view of the latter's financial situation for the year ended 31 December 2012.

Mqabba

The overall increase of €44,509 in the Council's expenditure totally outweighed the increase of €34,393 over the previous year's income. While Grants released and the financial allocation provided by Central Government increased by €41,174 and €10,677 respectively, income from LES decreased by €13,064. Furthermore, expenditure relating to Depreciation, Refuse

Collection and Personal Emoluments increased substantially by €42,391, €8,858 and €6,091 respectively, thus overcoming the increase in income from previous year.

Msida

From a positive financial situation registered by the end of the previous year, the Council was driven to a negative financial position during the current period. The overall decrease in the Council's income totally outweighed the reduction in the expenditure incurred. The main factor contributing to this deficit is the decrease of €168,756 in income generated from LES, whereby the related expense was reduced by only €80,544. On the other hand, Funds received from Central Government and General Income increased by €36,723 and €5,096 respectively. As regard total amounts paid during 2012, on Personal Emoluments and Administration Expenses, only marginal increases were noted when compared to the prior period.

Pieta`

The deficit reported at year-end was the result of a decrease in overall income generated by the Council, together with an increase in the costs incurred. The total increases of €18,677 and €15,897 registered in Funds received from Central Government, as well as General Income respectively, were not enough to sustain the decrease of €41,397 in Income raised under LES. On the other hand, whilst an overall decrease of 17.61% (€40,118) was reported in Operations and Maintenance Expenditure, amounts incurred with respect to Personal Emoluments and Administration increased by 22.07% (€14,983) and 34.58% (€27,395) respectively. Main increases were reported for Employees' Salaries, Utilities, Rent and Depreciation Charge.

Qormi

By the end of the current year, the deterioration of the Council's financial situation was due to the overall decrease in revenue by 11.96%, coupled with an overall increase of 3.91% in expenditure. Although Funds received from Central Government and General Income increased by €149,792 and €34,830 respectively,

income from LES decreased by €357,437. In addition, main expenditure increases related to Personal Emoluments, Repairs and Upkeep of road and street pavements, Other Repairs and Upkeep, Refuse Collection, Utilities, Provision for Doubtful Debts as well as Depreciation Charges, which in aggregate increased by €204,090. On the other hand, a decrease of €151,406 was reported for Local Enforcement expenses.

Rabat (Malta)

The overall increase of €202,410 in the Council's expenditure totally outweighed the increase of €112,528 over the previous year's income. The main contributors to this increase in Revenue, were an increase of €95,062 and €17,447 in Funds received from Central Government and General Income respectively. Substantial increases in expenditure were noted for Personal Emoluments (€23,475), Repairs and Upkeep of road and street pavements (€62,014), Plant and Equipment (€7,030) as well as Sundry Repairs (€6,353). High increases were also noted for amounts paid out in relation to Refuse Collection (€17,174), Cleaning and Maintenance of Non-Urban Roads (€30,655), Professional Services (€17,531), expenses incurred under EU Common Agriculture Policy (€27,642), and Depreciation (€20,869).

Rabat (Gozo)

During the year under review the financial situation of the Council worsened even further when compared to the preceding year. In fact, the Council registered a loss of €87,087 compared to that of €23,601 for 2011. This was brought about by substantial increases over the amounts budgeted for expenditure under certain categories, coupled up with a decrease of €74,213 in the overall income earned by the Council. Although decreases were identified in certain expenditure categories, these were not sufficient to overcome the reduction in overall income and increases in other expense categories. In fact an overall decrease of €63,110 was registered in Operations and Maintenance Expenditure. This was mainly brought about by a decrease of €87,639 in LES expenses incurred, which was partly outweighed by increases registered for Repairs and Upkeep (€10,323), Bulky Refuse Collection (€11,189) as well as Road and Street Cleaning expenses (€9,959). On the other hand,

Administration and Other Expenditure as well as Personal Emoluments increased by €48,685 and €3,582 respectively. Meanwhile, penalties of €12,614 and €1,798 incurred during 2011 and 2012 respectively due to the late submission of the Financial Statements, were recognised in the Statement of Comprehensive Income during the current period. In addition, amounts expensed with respect to Cultural Events increased considerably by €40,590 over the prior year.

Safi

The increase of €13,239 in Funds received from Central Government was not enough to sustain the general decrease of €21,431 in the overall revenue generated by the Council during the year under review, which was mainly brought about by a substantial decrease of €29,767 in Income earned from LES. On the other hand, total expenditure incurred increased by 4.76%. Main variances were noted for Personal Emoluments, Waste Disposal, Refuse Collection, Community Services and Events as well as Provision for Doubtful Debts.

San Ġiljan

A substantial negative impact was noted in the financial situation of the Council at period-end, with the consequence that a deficit of €27,938 was reported when compared with the surplus of €32,398 for the prior year. This was brought by the fact that the increase of 17.77% in overall expenses was almost double the increase of 9.95% reported in the overall income received during the year. The main variances in income were registered in the Funds received from Central Government, mainly due to increases of €64,315 in Other Government Income and of €45,383 in the annual allocation advanced to the Council. On the other hand, income generated from LES decreased by €26,742. Meanwhile, whilst amounts paid out in respect of Personal Emoluments, and Operations and Maintenance Expenses increased by €10,487 and €149,098 respectively, a decrease of €15,813 was reported for Administrative Expenses. Other substantial increases in expenditure were noted for Repairs and Upkeep of road and street pavements, Road and Street Cleaning, as well as Street Lighting. During the year under review, the Council also incurred the amount of €56,476 in relation to the 'Housing Estate' project. A portion of the Grant received for this project, equivalent

to the aforementioned costs, was released to the Statement of Comprehensive Income and recognised as income during the current year, so as to be in line with the Matching Concept.

San Lawrenz

Overall expenditure incurred under Operations and Maintenance decreased by €52,191 when compared to the prior period, mainly due to the fact that during the year under review no expenses were borne by the Council for Studies and Consultation, whilst during the preceding year, the amount of €46,023 was paid in this respect. However, amounts paid out on Personal Emoluments, as well as Administration Expenses, increased by €4,083 and €10,127 respectively. As highlighted further down in the report, the Council exceeded budgeted expenditure for Professional Services and Community and Hospitality expenses. In fact, the main variance was encountered in Professional Services, which increased by €16,385 during the current year. It was also noted that the amount of €13,579 was expensed in relation to the 'Panacea' project expenses. The expenditure related to travel costs and professional expenses, which were originally capitalised by the Council, but following LGA's recommendation these were written off in the Statement of Comprehensive Income. On the other hand, expenses incurred in relation to Twinning and International Conferences decreased by €23,119 when compared to the preceding period. As for revenue, overall income received by the Council during the year under review decreased by €70,568 when compared to that reported in the previous year.

Sannat

During the current year, the financial situation of the Council deteriorated even further, mainly due to the fact that the increase of €32,362 registered in overall income received by the Council was totally outweighed by the substantial increase of €40,886 in total expenditure incurred during the year. The main increase in revenue (€30,843) was reported for Funds received from Central Government, which includes also Grants provided for specific projects. Likewise, upward movements in the amounts paid out for Personal Emoluments (€4,176), Community and Hospitality expenses (€7,066), Professional

Services (€3,804) as well as Street Signs (€3,449), were registered. In addition, Depreciation Charge for the year amounted to €49,039 (2011: €27,818), thus resulting in an increase in expenditure of €21,221. As highlighted further down in the report, this amount is overstated by approximately €7,015 since assets procured for the new Council premises started to be depreciated according to the invoice date, rather than on the completion of the project. Moreover, included with expenses is the amount of €9,036 incurred on the restoration of rubble walls, against which a Grant was also recognised.

San Pawl il-Bahar

A substantial negative impact was noted in the financial situation of the Council at period-end, with the consequence that a deficit of €63,855 was reported, when compared with the surplus of €131,927 for the prior year. This was brought by a decrease of €147,251 in overall income received during the year, coupled by an increase of €10,431 and €78,623 in Personal Emoluments, and Operations and Maintenance Expenses respectively. The increase of €103,070 in Funds received from Central Government was not enough to sustain a decrease of €137,955 and €113,003 in Income raised under LES and General Income respectively. On the other hand, a substantial increase in expenditure was noted for Employees' Salaries (€7,255), Patching expenses (€20,339), Repairs and Upkeep of roads and street pavements (€30,674), Refuse Collection (€41,909), Bulky Refuse Collection (€7,347), LES related expenditure (€4,739) and Other Contractual Services (€6,363). Meanwhile, whilst expenditure incurred for Community Services (€11,944), Engineering Services (€23,727), Operating Materials and Supplies (€13,928), and Loss on Disposal of Assets (€11,146) have increased, overall Administrative Expenses decreased by €40,523 over the preceding year. It was also noted that the substantial expenditure increases, as outlined above, resulted from the fact that the budgeted expenditure for these categories was considerably surpassed.

Siggiewi

The increase of 2.31% in overall income received by the Council was not enough to

sustain the substantial rise of 17.52% in the overall expenditure incurred during the year. Whilst funds received from Central Government increased by €50,009, both income generated from LES, as well as General Income, decreased by €20,929 and €14,741 respectively. On the other hand, significant increases in costs incurred were noted for Repairs and Upkeep of road and street pavements (€53,712), Street Lighting (€17,193), Cultural Events (€18,225), Other Repairs and Upkeep (€24,732) as well as Office Services (€7,148). In addition, during the year under review, the Council also incurred a loss on disposal of fixed assets amounting to €9,546.

Valletta

The decrease of €200,172 in the expenditure reported under Operations and Maintenance was not enough to sustain a decrease of €214,634 in the income received by the Council coupled up by an overall increase of €40,289 in expenditure incurred during the year under review, on Personal Emoluments, Administration Expenses, as well as Interest Payable. Whilst Funds received from Central Government and General Income increased by €22,926 and €140,497 respectively, a decrease of €377,703 was reported in Income raised under LES. Main increases in expenditure were noted for Works at Housing Authority Blocks (€17,321), Professional Services (€31,134), Social Events (€11,103), Community Services (€5,687), Amounts written off (€18,141) and Depreciation Charge for the year (€24,331).

Xaghra

From a surplus of €24,393 registered at the end of the previous period, the Council ended the current financial year with a deficit of €24,687. This resulted mainly from increases in Office Services, Cultural Events, EU projects and Twinning, Impairment of Receivables, Depreciation Charge, as well as Provision for Doubtful Debts, amounting in total to €71,000. A decrease of €19,979 was also noted in the overall income received by the Council during the year. On the other hand, overall amounts paid out for Personal Emoluments as well as Operations and Maintenance Expenses decreased by €1,453 and €42,804 respectively, when compared to prior year.

Żebbuġ (Malta)

Despite that a slight improvement in the Council's position was registered over the prior period, the Local Council still ended the year with a substantial deficit of €219,178, due to the fact that during 2012, costs incurred for social events and cultural activities increased even further, when compared to the preceding year. For example, expenses paid out for Carnival activities increased by €9,847, whilst the amount of €18,264 was incurred in respect of a trip to 'Acireale'. Other increases were noted for Materials and Supplies (€29,349), Provision for Bad Debts (€87,842), 'EU Pyrotechnics' project (€5,892) and Depreciation Charge (33,792). On the other hand, the Council managed to curtail Operations and Maintenance Expenses by €160,877, whilst amounts paid out for Personal Emoluments remained fairly stable when compared to the prior year. Meanwhile, whilst Funds received from Central Government, as well as General Income, increased by €62,344 and €17,045 respectively, income raised under LES system declined by €111,487.

Gozo Regional Committee

The overall extrapolated increase of €257,890 in the Committee's expenditure totally outweighed the respective increase of €254,641 in its income. This was evidenced with an increase of €286,969 in Funds raised under LES, together with a decrease of €5,558 in General Income. Furthermore, whilst almost a year prior to their inception, Regional Committees were provided with funds from Central Government, no further allocation was provided to the former by the latter, following the delegation of the administration of LES to these Committees as from 1 September 2011. Substantial increases were also noted in expenditure relating to LES expenses, Commission to Councils on LES, as well as Community and Hospitality expenses.

Rectified Positive balance between Income and Expenditure

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

Table 5: Rectified Positive Balance between Income and Expenditure

Local Council	31 December 2012	31 December 2011	31 December 2010
	€	€	€
Birżebbuġa	26,469	(16,154)	111,081
Gżira	4,956	(20,410)	2,366
Għargħur	13,495	(11,557)	11,905
Għasri	7,996	(904)	6,844
Marsaxlokk	3,391	(4,341)	40,630
Qrendi	679	(30,139)	(9,394)
San Ġwann	2,949	(38,358)	29,836
Żebbuġ (Gozo)	45,998	(35,814)	90,252

Regional Committee	1 January – 31 December 2012	1 August 2010 - 31 December 2011
	€	€
Northern	451,149	(76,104)
South Eastern	360,299	(78,118)

Control Issues

A number of control issues necessitating improvement were identified across various Local Councils:

- a. 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.
- b. Budgeted expenditure for certain expenses exceeded.
- c. Established limit for petty cash expenditure exceeded.
- d. Cash from custodial receipts and from other general income not deposited on a twice-weekly basis, as required by the regulations.
- e. Reimbursement to Councillors and Local Council employees not fully supported by appropriate documentation. At times not even a proper claim form was raised in respect of such reimbursements.
- f. The Council did not raise signed Purchase

Orders and/or Purchase Request Forms to suppliers, in order to officially confirm its approval for the purchases of less than €1,165.

- g. The Council did not prepare a Payment Voucher covering each purchase undertaken by the Council and paid accordingly. Moreover, the Payment Vouchers were not being signed by both the Mayor and the Executive Secretary. At times, these were not even signed by anyone. Instances of manual adjustments were also noted.
- h. Local Councils were not making use of the reporting tools in hand, such as the 12-month Budget, the three-year Business Plans, the Quarterly Reports, and the yearly Administrative Reports.

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; and
- f. Notes to the Financial Statements.

The stricter stance adopted by DLG during the preceding years, whereby penalties were imposed on those Local Councils that did not adhere to the respective deadlines, was fruitful. In fact, with the exception of five Local Councils and two Regional Committees, all Local Councils (2011: 67) and the other three Regional Committees (2011: 2) managed to submit the respective unaudited Financial Statements by the required deadline of 21 February 2013. Meanwhile, whilst three Local Councils submitted the respective Financial Statements the day after *i.e.* on 22 February 2013, another Council kept prolonging until 16 May 2013. The unaudited Financial Statements of the Northern Regional Committee were finalised by the stipulated deadline. However, these were not yet approved due to lack of quorum and were only filed on 1 March 2013. Submission by the Central Regional Committee was effected on 7 May 2013. On the other hand, a copy of the unaudited Financial Statements of Kalkara Local Council was only made available by the respective LGA, as the Council failed to submit a copy of these Financial Statements to the Auditor General.

Audit Report and Financial Statements

Sixty-two Local Councils and three Regional Committees strived to deliver the audited Financial Statements and Management Letters (2011: 55) Local Councils, and 2 Regional Committees) by the stipulated deadline of 2 May 2013. Another four audited Financial Statements reached NAO by 14 May 2013, while the Northern

Regional Committee kept delaying its submission. Meanwhile, the Financial Statements of Kalkara and Xghajra Local Councils, as well as those of the Central Regional Committee⁶ were not submitted at all by mid-October 2013, being the ultimate deadline set by NAO for analysing the audited Financial Statements. **Appendix C** refers. Local Councils, as well as Regional Committees are expected to take all necessary actions to ensure the submission of proper and accurate Financial Statements within the established timeframes.

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 of the cost value as per tender, is financed by Government⁷, with the resulting balance being paid by the Council over a period of eight years, in varying percentages. In a number of instances involving Councils facing liquidity problems, these problems render the situation even more problematic.

In addition, certain Councils are experiencing difficulties and, to a certain extent, have limited control over the collection process of their Receivables. Instances have been identified whereby amounts receivable were carried forward from one year to another, with the risk that these will become statute-barred. Meanwhile, action has been taken by providing a provision against some of these Debtors, but creating further cash flow problems to the respective Councils.

Furthermore, despite their precarious financial position, certain Councils still approved and contracted for additional Capital Commitments,

⁶ Even during the preceding year, the Central Regional Committee did not submit the respective audited Financial Statements by the set deadlines.

⁷ 30% in the case of Maltese Councils and 50% in respect of Gozitan Councils. However, this might differ depending on the individual circumstances.

reaching up to hundreds of thousands of Euro, which expenditure is also to be met during the subsequent financial year, *i.e.* 2013.

Incorrect Bookkeeping

Once again, it has been noted by NAO that the Financial Statements presented by a number of Local Councils for audit purposes were of poor quality, besides that they contained a number of errors. Instances have been encountered whereby a number of adjustments in the accounts and the Financial Statements were passed, after these were approved by the Council but prior to the audit, at times without notifying the respective LGA accordingly. In addition, the various shortcomings highlighted in the respective Management Letters, indicate that there are instances with serious shortcomings in the updating of the Council's accounting records. Another cause of concern was the significant audit adjustments passed to correct the material misstatements that were at times 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. One has to realise that it is useless to submit the Financial Statements 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 indicated above, such services (often not being of the required standard) are not always yielding the desired results. Thus, also to be cost-effective, in the preceding years DLG has been encouraged to consider the recruitment of a number of qualified accountants reporting directly to 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, whilst enhancing communication with the same accountants.

Greater attention is also to be given to the bookkeeping function. Councils should not rely on the year-end audit to reveal errors in the preparation of their accounts. In line with Memo 59/2012, Councils are to ensure that the person in charge of the preparation of the Financial Statements, apart from being in possession of the warrant of Certified Public Accountant, should also be up-to-date with the Accounting Standards and Regulations. On the other hand, DLG is expected to take a stricter stance against those Councils who do not prepare the related Financial Statements properly.

Tipping Fees payable to WasteServ Malta Limited in dispute

By year-end, no decisive action was taken to resolve the dispute, in existence since the end of 2009, between Councils and WasteServ Malta Limited. Amounts in dispute as at end of 2012 are shown in **Appendix D**.

Consequently, for the third consecutive year, Local Councils failed to account for waste tipping services in their entirety, when expenditure exceeded the amount allocated by Government to the respective Council for this purpose. Such action was taken following the directions given by LCA on 26 July 2010, whereby Councils were instructed not to pay beyond what was allocated in this respect. Other instances were noted whereby the amount of tipping fees included in the accounting records varied from one month to the other, notwithstanding that the monthly amount invoiced to the Council in respect of such fees was the same. At times, the full amount being invoiced was accounted for, whilst in other cases, only the amount paid was recognised. Thus, upon reconciling balances due to WasteServ Malta Limited with the Suppliers' Statements, a number of differences emerged, not to mention the fact that instances were also encountered whereby the year-end balance as recognised in the respective creditor's account in the Nominal Ledger, was negative.

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 account, 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, implying that both Payables and the respective expense account were understated. A qualified audit opinion was issued to the concerned Councils to this effect.

In a meeting held on 19 June 2013, with a representative from the Local Government Parliamentary Secretariat, the latter indicated that in its budget for 2013, the Government allocated €1,400,000 to settle these outstanding arrears, which amount will be paid directly to WasteServ Malta Limited, thus ensuring a more transparent and smooth process. Notwithstanding that at the time discussions between DLG and WasteServ Malta Limited on the amount payable were underway, no agreement was reached by the two parties on the actual balance due. However, in the event that the allocated amount is not enough to settle all pending payments, the Ministry of Finance (MFIN) has committed itself to allocate the necessary funds to clear up such dues in the budget for 2014. It was also stated that since this concern was escalated to Cabinet, the Prime Minister delegated this issue to the respective Permanent Secretaries within MFIN and the Ministry for Sustainable Development, to propose the best way forward, so that this issue is solved once and forever.

Membership Fees paid to Local Action Groups

Despite that Local Councils have no proper authorisation to pay membership fees to any of the three Local Action Groups, namely Gal Xlokk, Majjistral Action Group and Gozo Action Group, testing carried out revealed that over the years a number of Councils still effected payments in this respect. **Appendix E** refers.

These Local Action Groups were set up in 2009, upon the implementation of the LEADER programme, that is one of the funding strands under the Rural Development Programme 2007-2013. The aim of this programme is to improve the development potential of rural areas, by bringing together the different public and private local stakeholders. 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, which funds were used for the improvement of access roads and passage ways, to enable farmers to increase their productivity and deliver a better product to the consumer, the facilitation, development and adaptation of agriculture, together with the organisation of festivals, amongst other projects. During a press conference held on 17 September 2013, the new measures for the LEADER programme were announced. Under the new initiatives, these three Local Action Groups will benefit from a total of €7 million.

However, to take part in such Schemes, Local Councils have to become a member of these Local Action Groups and are obliged to pay a membership fee. Such fee, which is specifically determined by the latter and may vary from one Action Group to another, 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 books of account was incorrect, as they failed to defer amounts paid in advance for future periods. In fact, 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, information provided, if any, in respect of the benefits derived by each particular Council from such initiatives was very limited. 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.

In addition, it is still unclear whether the Financial Statements of these Local Action Groups are being audited on an annual basis.

Assets falling under the Councils' responsibility not properly insured

Notwithstanding that the Local Councils (Financial) Procedures, vest 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, year after year, it is being reported that different categories of PPE held by the Councils are not properly insured. This results in assets being either under-insured or even not insured at all. **Appendix F** refers. Furthermore, in certain instances the details provided in the insurance policy 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 type of assets, since insurers are hesitant to issue the respective 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.

The Department is encouraged to consider issuing one insurance policy covering all Local Councils. Meanwhile, as reiterated in the preceding year, DLG 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 the item 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 on 31 August 2011, 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, through Memo 106/2011, 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.

Notwithstanding that two years had elapsed, since the official inception of Regional Committees, the delegation process was still not yet concluded by end 2012, and thus DLG's instruction on this matter, as outlined above, still holds. Consequently, in breach of the procurement regulations, certain 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, whilst others have extended the respective contract indefinitely.

In the case of Gozo, with the exception of Fontana Local Council, the lighting contract used by the other 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.

Due to its size, and the presumption that in some cases it can get better prices, the Fontana Local Council did not form part of this tender. The current practice is that this Council requests quotations as and when necessary.

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 the 13th Schedule of the VAT Act.

However, instances were noted whereby substantial amount of expenditure incurred for the Councils' operations was not supported by a valid fiscal receipt, even though the respective service

provider did not qualify for the exemption under the pertinent LN. **Appendix G** 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 an unofficial piece of paper. In view of this, it could not be ascertained that the respective items were actually procured for the running of the Council.

Local Councils are to ensure that an invoice as well as 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.

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.

In view of the fact that Local Councils are required to prepare their Financial Statements in accordance with IFRSs, the related specimen of the Financial Statements included in the Local Councils (Audit) Procedures can be considered outdated *vis-à-vis* accounting standards. As also reported 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

Following a consultation exercise held in 2008 by NAO with LGAs in office at that time, it was decided that for consistency purposes, the Income Approach as outlined in IAS 20, was to be applied when accounting for Government Grants. Hence,

funds 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 offset with 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.

- a. Certain Councils are still adopting the Capital Approach for the treatment of such Grants.
- b. Funds received are at times accounted for on a cash basis, implying that at year-end no provision is made in respect of amounts which have not yet been received.
- c. Deferred Income is not always amortised in line with the depreciation charge. At times, the release of Deferred Income is recognised on a yearly basis rather than on a monthly basis, as per Council's depreciation policy. Very often, these are adjusted following the attention drawn by LGAs.
- d. Amounts fully recognised as income in the year these are received, irrespective of whether the project was completed or not.
- e. Deferred Income released to the Statement of Comprehensive Income is higher than the amount actually spent. There is the possibility that the difference will have to be refunded.
- f. The amortisation of Deferred Income did not commence on the date when the related capital project was completed.
- g. Deferred Income not apportioned properly between short-term and long-term components.

Water Services Corporation

Notwithstanding that during the year under review, a number of Councils received the amounts that were due to them, in respect of trenching works carried out during the preceding years on behalf of WSC, instances were still encountered whereby certain Councils were still awaiting payment. Upon queries raised on this matter, NAO was given to understand that where payments were not honoured, this was either due to the fact that the Council did not chase the Corporation for the respective payments, or the claims for payment were not raised by the stipulated deadlines. 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 or otherwise to settle these balances.

Personal Emoluments and Allowances

Unreconciled Payroll

As already highlighted during the preceding year, reconciliation of the books of account with the Final Settlement System (FSS) forms submitted to the Inland Revenue Department (IRD) was either not taken seriously by the Councils or was not being performed at all. This is evident from the differences encountered, upon reconciling emoluments as disclosed in the Financial Statements⁸, with the monthly and annual documentation filed with IRD. Such variances are illustrated in **Appendix H**.

Incorrect Personal Tax Deductions

The issue of what tax rate is applicable in respect of the Mayors' Honoraria and Councillors' Allowances has been the subject of a long debate, since directives communicated through Memo 26/2010 issued by DLG and Income Tax Legislation are somewhat contradicting. The Final Settlement System rules (S.L. 372.14) clearly indicate that through the Payee Status Declaration form (FS4), a taxpayer should indicate the tax rates to be used for the deductions out of his emoluments. Furthermore, the Income Tax Act stipulates that pensioners and students

may choose that their emoluments be taxed at a rate less than the prescribed rate of 20%. On the other hand, 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 rate, then a refund will be claimed in the individual tax return.

Yet, instances were still noted whereby Councils did not adhere to DLG's instructions with the consequence that 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 FS4 forms were not filed. Moreover, in certain instances the Mayor's Honoraria, allowances paid to Councillors, as well as salaries paid to the Executive Secretary were considered as 'Part-time' emoluments when declared in the FSS documentation, thus taxed at 15%.

Remedial action by the Department was only taken on 14 June 2013, following NAO's continuous recommendations during relevant meetings, to reword the aforementioned Memo and bring it in line with the provisions of the Income Tax Act. Through Memo 11/2013 DLG clarified that on an individual basis, Mayors and Councillors are to seek guidance from IRD on the tax rate that is to be applied on their honoraria and allowances respectively.

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 in the Income Tax Act. Thus, over/under-payments were encountered. The audit also revealed similar shortcomings in the calculation of National Insurance (NI) contributions.

Refund of Mayors' Honoraria

The upward revision in the Honoraria paid to Mayors with effect from 1 January 2010, and the subsequent decision taken on 20 January 2011 to revoke such increase, resulted in Mayors being overpaid and consequently having to refund these

⁸ Adjustments for opening/closing accruals and prepayments as well as any audit adjustments passed were taken into consideration.

additional amounts. However, remedial action by the Department to recoup these overpayments was only taken after NAO drew the latter's attention that a number of Mayors were still dragging to refund the respective amounts. 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. However, DLG claimed that only five Local Councils⁹ confirmed that an agreement with the respective Mayor was drawn up to recoup the amounts in question.

As evidenced by the information provided by the Department as at 31 December 2012, at least the amount of €55,595 was still to be refunded. With the exception of five ex-Mayors¹⁰, all the others are adhering to the directives issued by DLG, implying that refunds are being effected on a monthly basis.

LGAs also highlighted the fact that certain Mayors who had still not fully settled the Honoraria overpayment, and who were to run for the Council or General elections in March 2013 ignored DLG's directives, whereby the latter requested such individuals to sign an agreement stipulating that the respective Mayor will refund any amounts still due, should he not be re-elected in the Council.

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

As part of the Local Councils' 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.

⁹ As per information provided by DLG, there were 37 individuals who had still not yet refunded the overpaid honoraria by year-end. However, it seems that the submitted list is not exhaustive.

¹⁰ One of these ex-Mayors, having an outstanding balance of €3,840, passed away in 2011.

¹¹ 66 Local Councils submitted the Financial Statements by mid-October 2013.

¹² Four Regional Committees submitted the Financial Statements by mid-October 2013.

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.

Local Councils' response following Management Letters

As at 13 June 2013, or six weeks after the Audit Report, 44 out of 66¹¹ Local Councils, as well as the LCA, 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, namely Kerċem, Lija, Msida and Mtarfa, was only made available by either DLG or the respective LGA, as these failed to submit their feedback to NAO. Meanwhile, Żebbuġ (Malta) did not submit its reply at all, up to the time of writing of this report, *i.e.* mid-October 2013.

The Southern and Gozo Regional Committees managed to forward a reply to the Management Letter in time. By the finalisation of this report, no reply was provided by the Northern and South Eastern Regional Committees¹².

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 years, this is not acceptable.

It is evident that whilst certain Management Letter points are simply ignored, others are just answered with 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 recommendations. This indicates a total lack of accountability on the part of the respective Councils. Eventually, it is the Council's and Executive Secretary's responsibility to implement the Auditor's recommendations as well as to correct in a timely manner, any weaknesses in the Council's accounting and financial operations.

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 themselves.

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 Council's Financial Statements. However, certain Local Councils registered very little improvement, if any.

Areas of Concern

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

- a. Property, Plant and Equipment
- b. Accounting
- c. Local Enforcement System
- d. Procurement
- e. Salaries
- f. Receivables
- g. Payables
- h. Cash and Cash Equivalents
- i. Invoices
- j. Provisions outlined in the Subsidiary Legislation

Appendix I 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. Assets are not tagged and consequently could not be physically identified.
- d. 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 account and that calculated by LGA.
- e. Depreciation is calculated on a yearly basis instead of monthly, and the rates used are not in line with the respective policy.
- f. 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.
- g. Assets not classified in their proper plant category and thus the wrong depreciation rate has been charged.
- h. 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.
- i. 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.
- j. Council's approval in respect of asset acquisition and/or disposal was not traced.
- k. Assets at the Council's premises were not found listed in FAR.

- l. The classification of the cost of some of the Fixed Assets in the accounting records is not consistent with that recorded in FAR, thus making it impossible to reconcile the two documents.
- m. Computer software accounted for as tangible asset under category 'Computer Equipment'.

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. At times, this was due to the fact that prior year adjustments passed during the year under review were dated 1 January 2012.
- b. Discrepancies between the Council's Trial Balance and the unaudited Financial Statements.
- c. The system being used to record income 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. List of Accruals and Prepayments provided for audit purposes did not agree to the amounts disclosed in the books of 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 account.
- h. Expenses incurred were netted-off against the income received.
- i. 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.

- j. A stock-list confirming the inventory items held at year-end was not always provided.
- k. Discrepancies were noted between the stock list provided for audit purposes and the actual stock in hand, since at times, the Council failed to recognise the respective stock movement in the books of account.
- l. Income earned by the Council was not always covered by a Bye-Law.
- m. The Nominal Ledger Chart of Accounts was not prepared in line with the standard guidelines applicable to Local Councils.
- n. Amounts in dispute were disclosed both as a Contingent Liability as well as amounts payable.
- o. Invoices relating to 2011 were accounted for during 2012, whilst invoices relating to the year under review were completely omitted from the accounting records.
- p. Expenditure of a Capital nature recorded as a Recurrent Expenditure and *vice-versa*.

Local Enforcement System

Outstanding fines should not take longer than one year to be settled, as these are usually payable before 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 most probably 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. In several cases the situation was rectified through the adjustments proposed by LGAs, which were taken on board by the respective Local Councils. However, others failed to reflect this fact in their accounts, thus failing to show a true and fair view of the Financial Statements.

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 December 2012 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. Discrepancies were identified between amounts receivable as reported in the Financial Statements, and those recorded in LES reports made available to LGAs. The amount of Provision for Doubtful Debts accounted is also likely to be inaccurate.
- c. Variances were noted between income receivable from Regional Committees, for contraventions collected by the Councils, as disclosed in their accounting records, and that illustrated in reports generated from the LOQUS system.
- d. Administration fee receivable from the respective Regional Committee was not always recorded in the books of account. At times these were being recorded on a cash basis, thus only paid invoices were accounted for.
- e. Invoices issued to Regional Committees were not being raised on time.
- f. The Receivables' List as at year-end still includes amounts that were settled during the year.
- g. Discrepancies were noted between the amount of contraventions paid during the year under

review and the respective movement in LES Debtors.

Procurement

Non-compliance 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 in line 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 J – Table 1** refers.
- b. Number of payments forwarded to the same service provider within a period of four months, for the provision of similar services, so as to by-pass the requirement of a public call for tenders/quotations. **Appendix J – Table 2** refers.
- c. Contract agreements not in place, either due to the fact that no agreement was drawn up in the first place, or it got lost.

- d. 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.
 - e. 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.
 - f. 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. At times, the respective adverts were not provided for audit purposes.
 - g. 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. Instances were noted whereby this schedule was only signed by the Executive Secretary and one Councillor.
 - h. 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. Furthermore, instances were encountered whereby the respective documents were not even requested by the Council.
 - i. 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.
 - j. Obligatory tender documents not duly filled in by the contractor.
 - k. Valid reason was not always provided as justification for not choosing the cheapest offer.
 - l. The Council did not maintain a copy of the third party liability insurance provided by contractors.
 - m. Discrepancies were noted between the invoiced amount and that disclosed in the Purchase Order.
 - n. Letter of Acceptance was either not issued or not signed.
- Salaries**
- a. Not all employees had a signed contract of employment, in line with their present conditions of work.
 - b. A copy of the engagement and/or termination forms submitted to the Employment and Training Corporation (ETC) were not provided for audit purposes.
 - c. Wages computation, as well as that of the applicable NI contributions and FSS, were at times inaccurate.
 - d. Instances were encountered whereby no payslips were issued to Council's employees or these lacked necessary details.
 - e. Salaries and allowances paid, as well as the applicable income tax and NI contributions, were not being posted in the correct Nominal Account.
 - f. Increases in the pay scales following the signing of the new collective agreement were not taken into account with the consequence that both the wages as well as the applicable performance bonuses were calculated on the old pay scale.
 - g. Salaries in arrears were not correctly calculated according to the respective scale. Furthermore, NI workings were not adjusted accordingly to reflect the increase on the revised basic salaries.
 - h. The new collective agreement arrears were paid in November rather than in December as instructed by DLG. However, instances were also noted whereby such arrears were not yet settled by year-end.
 - i. Performance bonuses paid to Councillors and/or Executive Secretary were incorrectly

calculated, thus leading to over/under payments.

- j. 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.
- k. Leave was either approved verbally or it was not approved before it was actually availed of. On the other hand, sick leave was not always supported by a medical certificate.
- l. Mayor's honorarium paid for 2012 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.
- m. Calculations made by LGA in respect of the Mayor's Honorarium, as well as allowances payable to Councillors, did not tally to the amounts disclosed in the Financial Statements.
- n. The set-off of the Mayor's prepaid Honorarium was declared again as income in the Mayor's FS3 for this year, despite that this was already included in the previous years' return.
- o. Income tax and NI contributions were not being remitted to IRD on a timely basis.
- p. The Council was applying different tax rates to different types of income.
- q. 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 on dates of employment and part-time emoluments recognised as fringe benefits. At times overtime paid was not declared in the respective FS3s.
- r. The Council failed to keep a copy of the Payer's Monthly Payment Advice (FS5s) declarations.
- s. FS4s were not submitted to IRD. There were cases when these were not even prepared at all.

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. Amounts due from Debtor and/or Accrued Income over/understated due to invoices/receipts posted twice or not posted at all.
- d. Negative balances in the Receivables Control Account.
- e. Amounts received during the year, in relation to Receivables' balances brought forward, were treated as income instead of settled against the respective debtor's balance.
- f. Income still receivable at year-end neither recognised as Accrued Income nor as a Contingent Asset.
- g. Amounts invoiced were disclosed under Accrued Income, rather than accounted for as Receivables.
- h. Bank charges incurred in respect of guarantees receivable were netted off against the amount receivable.
- i. In the Financial Statements, Provision for Bad Debts was not disclosed as a separate line item in line with IAS7, but was netted off directly from Trade Debtors.

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 2012 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 account, thus resulting in unrecorded liabilities, or posted twice.
- e. Included in the Creditors' List were debit balances, which in certain instances were brought forward from previous years, representing either overpaid amounts to suppliers or payments against which an invoice was not accounted for.
- f. Certain Councils are still unable to distinguish between Creditors and Accruals.
- g. Instances were noted whereby payments were effected upon 'Request for Payments', and invoices were only issued after the supplier was paid.
- h. Amounts paid during the year under review, in relation to Creditors' balances brought forward, were erroneously posted as an expense for the year, rather than posted against the supplier's balance.
- i. Payables not paid within the maximum time credit period.
- j. Incorrect disclosure of short-term and long-term portions of liabilities.
- k. Instances were identified whereby expenditure was not supported by adequate documentation.
- c. Bank accounts in the name of a third party, thus not legally falling under the responsibility of the Council were included in the General Ledger and *vice-versa*, i.e. bank accounts held by the Councils not recognised in the books of account.
- d. As per bank confirmation letter, a particular bank account was closed down. However, as per accounting records such bank account was still active and had a balance at year-end.
- e. Stale and/or cancelled cheques not written off and reversed accordingly from the accounting system.
- f. Cheque stubs were undated and do not contain payee details.
- g. Cheques issued were not recorded in the Nominal Ledger with the consequence that both bank balances and amounts payable were overstated.
- h. Bank interest received/receivable not accounted for.
- i. Cheques issued during 2012 but cashed the following year were not included in the list of unrepresented cheques.
- j. Despite that the Council is a non-taxable entity, a final withholding tax was charged on interest, received on the savings deposit account.
- k. Variances were noted between the deposit sheet prepared by the Council and the actual postings in the Nominal Ledger.

Cash and Cash Equivalents

- a. Bank reconciliations were not always carried out. When these were performed, at times they were either done manually or through spreadsheets, rather than in the accounting system.
- b. Unreconciled discrepancies between bank reconciliation prepared by the Council and the actual Bank Balance.
- l. Current portion of bank loan, as disclosed in the Financial Statements, was incorrectly calculated.
- m. Cash held at Council premises higher than the maximum threshold stipulated by the pertinent regulations.
- n. Differences identified between amounts as per physical cash count and amounts as per accounting records.

- o. The Council was not maintaining an Imprest System for Petty Cash.
- p. 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 accordingly.
- q. Cash received at the Council's reception desk was not being passed on a timely basis to the employee in charge of cash.
- r. Petty cash expenditure not approved in Councils' meetings.
- s. Petty cash sheet either not prepared at all, or does not include a detailed analysis of the expenditure.
- t. Petty cash payments not accounted for, or accounted for twice.
- u. Books of account include cash balances which were brought forward from preceding years, and which do not represent the actual cash balances held at the Council's premises.
- v. Instances were traced whereby petty cash expenditure incurred in a particular month was not fully recorded in the books of account during that same month, but was recognised in the Nominal Ledger the following year.
- w. Petty cash expenses paid out from the income received on account of permits issued by the Council.

Invoices and Receipts

- a. Multiple receipt books were used concurrently for various sources of income.
- b. Amounts receivable were not always covered by a proper serial enumerated invoice. Where an invoice was issued, this was not raised through the accounting system, but issued manually. At times receipts were also issued manually, thus increasing the risk of human error.
- c. Receipts supporting income received from the use of heavy vehicles were not provided for audit purposes, despite that these were requested on several occasions.
- d. Invoices were not being integrated and posted into the accounting system.
- e. The Council was not always reconciling its receipts when a deposit is made.
- f. Instances were encountered whereby the respective invoices were not traced.

Non-compliance with certain Provisions outlined in the Subsidiary Legislation

- a. LGA was not always provided with all official documentation requested.
- b. Lack of organisation in the upkeep of documentation and updating of the Council's accounting records.
- c. Official documentation, including Quarterly Reports, the approved Financial Statements, the Budget, reports on travel abroad, reports on twinning agreements, as well as the reply to the Management Letter, not prepared and approved on time, and sometimes 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. Councils' minutes and Schedules of Payments were not always uploaded on the respective Councils' website on time. At times, Schedules of Payments uploaded on the website were not signed accordingly, and had missing important information, such as purchase order number and cheque number.
- g. Councils' minutes were not properly prepared and maintained. Furthermore, these are not bound on an annual basis.
- h. Council meetings commenced before the established time without obtaining the respective Councillors' approval. These lasted for more than the three-hour maximum

duration. At times, the minutes also failed to indicate the time of the meeting's adjournment.

- i. Members recorded in Council meetings' attendance sheets provided by the Council did not tally to the number of members recorded as present in the respective minutes.
- j. Council meeting not held within five weeks from the immediately preceding meeting.
- k. Procurement of litter bins and street signs not accounted for on replacement value, as specified in Memo 121/2011.
- l. Insurance Health Policy still includes individuals who are no longer Council members.
- m. In breach of Memo 1/2010, call for tender and/or quotations were not published on both the Government Gazette and another local newspaper, as indicated by DLG.
- n. Instances were identified whereby payments effected were not included in the Schedule of Payments.

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 by the Councils. 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 during the year under review, are highlighted hereafter together with the Council's comments, if any, relative to each.

Attard

Accrued Capital Expenditure of €54,751 with respect to embellishment works carried out in 'Hal-Warda Garden', as disclosed in the Accruals List presented for audit purposes, was overstated by €10,799 when compared to the contract

manager's certificate issued subsequent to year-end. This error was corrected through an audit adjustment proposed by LGA, and approved by the Council.

No further comments received.

Although Memo 109/2010 strictly prohibited Councils from purchasing mobile top-up cards, during 2012, the Council provided a €10 top-up card every month to its project manager. Moreover, the necessary claim forms supporting such expenses were not traced.

This item will be tackled by the Council to find an adequate solution.

Whilst reviewing the stock movements incurred during the year, it was noted that 38 books, costing €104, were given out as prizes.

Books are often handed out to school for prize days. It was always the Council's intention to give out to students its publications. It would be appreciated if this issue is tackled by DLG and a Memo issued to regularise such donations to school and students who merit this for the work carried out during their scholastic year.

A number of overdue Payables, which have been carried forward from preceding accounting periods, are still pending. Furthermore, the Creditors' List included debit balances amounting to €1,099. These were reclassified to Other Debtors by means of a proposed audit reclassification.

No further comments received.

Apart from the Council members and staff, the Christmas staff meal organised by the Council catered also for partners of Councillors and administrative staff. This is in breach of Memo 122/2010. Expenses incurred from the Council's funds during the Christmas period totalled €1,067, which apart from the aforementioned meal, this amount also covered the cost of two parties organised for kids and elderly people respectively.

The Council was not aware that only Councillors and Council staff should be invited. In the future, the Council will abide accordingly.

The former Mayor, who passed away in September 2011, is still covered by the Council's health insurance policy.

Point not addressed.

Balzan

The Council issued a monthly payment of €20 to one of its employees, as fuel reimbursement for using his personal vehicle to carry out maintenance and works around the locality. Although approved by the Council, these payments were not supported by expense claim forms.

The Council shall comply in the future.

No progress was registered by the Council in resolving the issue of long outstanding Payables in respect of crane deposits that have not been claimed by the applicants. Consequently, the amount payable increased from €8,619 in 2011 to €9,551 in 2012, some of which dates back to 2004. In the circumstances, the Council is to establish a cut-off date and balances created before this date are approved for write-back, given that the probability of a refund is remote.

Clarification on how to proceed is being sought from DLG.

Following last year's recommendations, the Council approved to write off a number of Trade Payables, which had been outstanding for a number of years. However, the Financial Statements still include a long outstanding amount of €5,590 due to a third party. This amount is subject to a warrant of seizure by the Court and thus could not be written back. Meanwhile the amount of €2,329 is payable to Court in respect of court fees incurred during this court case.

LES administration fees were understated by €2,087, whilst income receivable from WSC, for trenching works carried out in 2010, was overstated by €1,620. Furthermore, the Council failed to provide for accrued performance bonuses amounting to €3,376, as well as the project administration fee of €1,750 covering December 2012, in the unaudited Financial Statements. Although the opening accrual of €2,205 in respect of tipping fees for December 2011 was properly

reversed, the Council did not record the actual invoice for the same amount. The Council approved the relevant adjustments and the Financial Statements were revised accordingly.

Points noted.

The bank reconciliation of the Council's account number XXX002 included three stale cheques for a total value of €826, as well as 'Adjustments' of €16 which could not be verified. Furthermore, the reconciliations of another two bank accounts were not provided for audit purposes. The balances of these bank accounts as per bank confirmation letter differed from the amounts disclosed in the books of account by €27 and €2 respectively. Since an amount of €242 held in a local commercial bank current account is blocked, and thus is restricted from use, its classification with 'Cash at Bank' was inappropriate. Following LGA's recommendation the Council approved reclassification of this amount to Other Debtors.

Points noted.

Although the total NBVs as recorded in both FAR and the Nominal Ledger are in agreement, the totals of two individual categories, namely Special Programmes and Construction, differed by €19,329.

Once again the Council reiterates that due to restrictions in the software, this cannot be rectified in FAR, since the error is in the register and not in the Ledger.

Birgu

Since aluminium works from the same service provider totalled €6,266 during the year under review, this procurement merited a call for tenders. However, only quotations were obtained to this effect. Furthermore, it was noted that although the contract for the provision of accountancy services expired on 12 September 2012, the Council was still obtaining the services of the same Accountant without issuing a new call for tenders.

Point not addressed.

During the year under review, the Council issued a tender for the provision of street sweeping and

collection of domestic waste, covering the period 1 January to 31 December 2013. However, it was noted that the contract having a value of €79,580, drawn up following the awardance of such tender, was neither signed by the Mayor nor by the respective contractor. The Executive Secretary claimed that she was chasing the supplier to endorse this agreement.

All comments were noted. The Executive Secretary will make sure that the tender procedures will be strictly followed.

Since the annual Budget for 2013 was not provided for audit purposes, LGA was not in a position to ensure that Capital Commitments of €75,000, as disclosed in the Financial Statements, were in line with those included in the Budget.

Unfortunately, due to the fact that the budget from Central Government took long to be approved, the Council was not in a position to prepare the Budget for the year 2013 on the estimates provided, by the time of audit.

Testing carried out revealed that during the period under review, the Council effected a number of reimbursements. An employee was refunded flight tickets costing €552, while another two employees were reimbursed €500 and €250, being the cost of a meal at a local restaurant and other minor sundry expenses respectively.

All comments were duly noted. The reimbursements effected to the employees were strictly tied up to the duties of the Council, as listed in the respective Payment Voucher and supporting documentation. One must point out that all expenses were covered with the appropriate documentation, i.e. the Payment Voucher, as well as the respective receipt showing and confirming the amount paid.

Furthermore, fuel expenses of €727 incurred by the Council, were not supported by a claim form, to confirm that these expenses related to Council business. This is in breach of the provisions of Memo 109/2010.

The fuel expense relates to the fuel being paid for the use of the Council's van. This is currently

being used by the workers assigned by ETC, to carry out works around the locality and collect bulky refuse.

Expenditure totalling €8,950, was not supported by an invoice. In another case, the Payment Voucher covering an invoice of €2,772 was not prepared. Instances were also encountered whereby payments made were not included in the Schedule of Payments, with the consequence that Council's approval was not sought.

All recommendations were duly noted. The Council has currently a system where all payments done are instantly issued a Payment Voucher, and all invoices received are instantly written in the next Schedule of Payments to be presented in the upcoming Council meeting. Unfortunately, there were instances where the payment was made before the approval, but these were only exceptional circumstances and then they would have been listed in the upcoming Schedule of Payments anyway.

During the year under review, the Council incurred capital expenditure for works carried out on the premises it is currently using as the Local Council Office at Auberge de France. These premises are leased from Government and during the last two years, i.e. 2011 and 2012¹³, the latter advanced funds to the Council to cover costs incurred for their renovation. However, although Government had informed the Council that it will bear any capital expenses incurred for such renovation, the Executive Secretary confirmed that this agreement was verbal. Thus, in the absence of a written agreement, the Council has no confirmation that it will be receiving funds to cover expenditure already incurred, as well as additional costs that will be needed in 2013 to complete the project.

Even though this project was still ongoing as at year-end, costs amounting to €28,937, incurred during the year under review, were capitalised under Fixtures and Fittings. It was also noted that Deferred Income in relation to this project was incorrectly accounted for under short-term liabilities, despite that the project will not be ready by the end of 2013. Following LGA's recommendation, the necessary audit adjustments were passed to rectify these errors.

¹³ During 2012, the Council received the aggregate amount of €64,427 from Central Government in respect of such renovation.

All comments and recommendations were duly noted. The Council has stated that unless it receives Government's assistance to renovate Auberge de France it will not be in a position to continue with the renovation works needed. The Birgu Local Council is doing its utmost to clarify the situation with Central Government.

The Council has not accounted for the release of the Public Access Terminal, costing €4,215 in the Statement of Comprehensive Income. The short-term Deferred Income of €1,054, equivalent to the depreciation for 2013, should have been included. The related adjustments were approved by the Council and the Financial Statements were adjusted accordingly.

The Council failed to account for Other Receivables amounting to €2,500, relating to a 30% reimbursement of the participants' flights and insurance expenses, incurred with respect to the 'Cotogen' project. This amount receivable will eventually be paid back to the participants, however such payable was also completely omitted from the books of account. Following LGA's recommendation, the Council agreed to adjust its financial records accordingly.

All comments were duly noted. The Council has revised its Financial Statements according to the recommendation given by LGA.

Accrued Income amounting to €11,465 was accounted for by means of an audit adjustment, since this was completely omitted from the books of account. The aforementioned amount is made up of rental income for 2012, amounting to €3,799, receivable from a Non-Government Organisation (NGO) as per agreement dated 18 March 2008, an adjustment of €654 in respect of the rent receivable from the same NGO for 2011 as this was understated, two Grants amounting to €5,855 and €1,094 relating to refund of expenses incurred for 'Oralities' and 'Sea to Land' projects respectively, and other administration fees of €62, payable by three Regional Committees.

All comments and recommendations were duly noted. At end of year, the Council will thus review cautiously the after year-end payment and receipts and adjust the records accordingly, together with any agreements and transactions undertaken. However, as already explained in its reply to last

year's Management Letter, the Council reiterates that the agreement was till March 2012. It would be extremely appreciated if an explanation of how the rental income of 2011 with the NGO added up to €3,799 is presented, as the agreement stated that €279.11 per month should be paid.

Lack of control was noted over income from LES contraventions. Apart from the fact that such income received from LES pre-regional fees was not recognised, the Council does not reconcile the income as per LES reports, to the income actually received and receipted. Audit verifications carried out revealed that during the year under review, the Council received income of €8,076 in respect of fines issued prior to September 2011. A qualified audit opinion was issued in this regard.

All recommendations for the management of the contravention system were duly noted. The Council's Accountant, with the help of the Executive Secretary and the administrative staff, are implementing a system of strict control, as well as a reconciliation system. However, the Council has to point out that in 2012, the LES system has changed drastically and is currently working on improving the current reconciliation system.

As at year-end, the Council provided for the amount of €101,092 as income accruing from LES. However, it transpired that this figure is overstated by €2,528. On the other hand, the Provision for LES Bad Debts as recorded by the Council is understated by €2,280. These errors were rectified through the audit adjustments proposed by LGA.

After the recommendations given by LGA, the Council has revised its Financial Statements accordingly. The Council has to point out that the LES system has now changed, where the responsibility falls directly under the Regional Committees and not the Fgura Joint Committee. Thus, any income arising from the system will go directly to the Regional Committee and not the Local Council.

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 posted twice, and balances due to Creditors being either

understated or overstated. In addition, the Council failed to account for various purchase invoices that were issued in 2012, but which were paid during 2013. In view of this, LGA proposed an audit adjustment of €7,589. However, the Council included this amount as an accrual instead of adjusting the supplier balances, as recommended by LGA. It was also noted that, in view of the liquidity problems which the Council is facing, it is taking very long to settle the amounts due.

All recommendations and comments were duly noted. 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.

Unfortunately, the Birgu Local Council has no option other than taking long to settle its amounts due, as it is currently facing a cash flow problem. From its end, the Council has informed all the concerned entities, including MFIN, as well as the Parliamentary Secretary for Local Councils and Culture, about this situation. The Council believes that the current allocation given by Central Government is wrongly calculated and believes that this should be revised. The Council is doing its utmost to decrease its Creditors, whilst it is still waiting to receive funds from the European projects that it is currently participating in. The Council is aware of its financial situation and thus it is not doing any capital works, but only immediate and urgent improvement works.

The Financial Statements included an amount of €21,788 payable to IRD in respect of FSS and NI contribution balances, covering the period October 2011 to December 2012. Upon reconciling this balance with the actual FSS documentation, a discrepancy of €1,066 was noted. However, the Council was not in a position to provide an explanation for such variance. Furthermore, the Council failed to remit to IRD the FSS and NI contributions deductions covering the period October 2011 to December 2012.

The Council would like to point out that payments are not always submitted by due dates due to the cash flow problems that unfortunately it is currently facing. However, it is doing its utmost to reconcile, as well as to pay immediately the amounts due.

Although the Council holds a stock of Vittoriosa books which are held for sale, no proper stock control system and appropriate accounting is in place, in accordance with the Local Councils (Financial) Procedures. During the year under review, the Council both purchased and sold such books. However, the value of stock held was not recognised in the Financial Statements. In view of the limitations encountered while verifying stock, LGA issued a qualified audit opinion.

All recommendations were duly noted. The Council will make sure to adopt further control.

Following an analysis of the Personal Emoluments paid by the Council during the year under review, various shortcomings have been identified. For example, allowances of €4,000, of which €3,200 pertaining to Councillors, and €800 payable to the Mayor, that were disclosed in the respective FS3s, were still due as at year-end. In fact, these amounts were recorded as Accrued Expenditure. It was also noted that no NI contributions were deducted from the Mayor's Honoraria. In addition, emoluments paid to an employee working on a reduced hours timetable were incorrectly recorded in the latter's FS3 as both full-time income and part-time income. Consequently, incorrect tax rates were applied to calculate the tax due by this employee.

All recommendations were duly noted. However, one must point out that appropriate documentation for every payroll is being issued to Council employees. Although the Council will now look at the possibility of using electronic payroll tools available on the market to reduce its administrative burden and human errors, at the moment, it is not in a position to incur further expenses. One must also point out that the employee referred to in the above observation, opted for the parent rate in 2013 and not before. The latter was employed as a full-timer in February 2013. Moreover, the Mayor has requested that no NI contributions be deducted from his Honoraria, as he is unemployed and does not get any benefits from Central Government.

Despite that in the Financial Statements the Council included a note indicating that it has a pending litigation with one of its contractors, it failed to disclose the actual balance in dispute, which amounts to €9,030. Furthermore, a separate litigation with another service provider

was completely omitted from the said note. In the latter case, LGA was not provided with the disputed amount.

All comments were duly noted and recommendations adhered to. However, one must point out that as regard the pending litigation that was not disclosed in the Financial Statements, the Council is only a witness. The litigation is between the supplier and the Department for Works.

Birkirkara

The Council commissioned the setting up of a monument for Sir Anthony Mamo, costing €36,500. Notwithstanding that a public call for an Expression of Interest was issued, no acceptable offer was received. Consequently, due to the nature of the purchase, the Council proceeded by direct order from the open market.

Furthermore, the Council received donations of €10,050 for this project. This amount was erroneously transferred to income during the year under review, upon the completion of the project. Following LGA's recommendation, the Council approved an audit adjustment to transfer this balance to Deferred Income, so that these donations are recognised in the Statement of Comprehensive Income over the same period as the costs they were intended to cover.

The Council does not agree that this was a case of direct order. As correctly stated by LGA, there was a call for Expression of Interest for the construction of the monument, but as stated, no offer was acceptable. Yet, given the importance of this monument, not only for the locality of Birkirkara, but also on a national level, it was still decided to get the work done by the only artist locally available to do the job.

Another four instances were encountered whereby goods/services procured by the Council were not covered by a call for tenders. The said procurement related to photocopier lease (€8,292), professional fees (€5,664), lease of van (€4,723), as well as the purchase of solar street lights (€6,435).

The Council shall be looking into these contracts and terminate them immediately if they are in breach of law. It shall look forward to adhere to the relevant procurement procedures accordingly.

Notwithstanding that the three-year contract, covering the maintenance of street lighting, expired on 1 April 2012, the Council continued to make use of the services provided by the same supplier. The accounting records indicate that total invoices received between April and December 2012 in relation to street lighting amounted to €20,118.

The Council does not agree that it is using the services of a supplier for maintenance of street lighting beyond the legal parameters of the contract. The practice for Local Councils is to set a contract for three years, renewable for another year, while the tendering preparations are being done. In fact, this tender has been issued and awarded by April 2013. So, the Council is not seeing any breach of procedures here.

During Council meeting 34, held on 16 February 2012, the Council approved the hiring of services of the contractor responsible for street sweeping, for the opening and closing of 'Ġnien l-Istazzjon'. This procurement, which costs the Council €14 daily, was done through direct order. As per Schedule of Payments, the Council has paid €4,279 for the provision of this service between March 2012 and December 2012.

A solution is being found for the problem of opening and closing of 'Ġnien l-Istazzjon', without breaching procedures.

Although the Local Councils Act and Memo 109/2010 require all fixed contracts on mobile phones to be terminated, the Council has continued to make use of mobile phones on such fixed contracts. Total invoices received during 2012 in this respect amounted to €2,598.

At the date of approval of the reply to the Management Letter, all mobile phones/lines were removed by the Council.

Budgeted amounts for both current and capital expenditure were exceeded by €608,813 and €635,898 respectively. On the other hand, actual Revenue exceeded budgeted figures by €289,653. In response to queries raised by LGA, the Council claimed that the annual Budget is prepared on a cash basis, and thus cannot be compared to the annual report.

It should be assured that the annual Budget is being 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, 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.

The year-end of the Plant Register Software has remained 31 March rather than changed to 31 December. Furthermore, the Council has erroneously taken the depreciation charge, as calculated by the Plant Register for nine months only. Thus, amounts disclosed in the Plant Register did not tally with those registered in the accounting records. Following LGA's recommendation, the Council approved an audit adjustment to increase the depreciation charge by €82,415 in the final set of Financial Statements.

The Council has completely reconstructed its FAR during the financial year 2004/2005, after a thorough exercise which has been carried out by the Council's administration, and since then, it has been maintained in perfect condition. Whilst it is true that the Plant Register Software has remained as at 31 March, 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 suppliers to get this matter sorted once and for all. It is admitted, though, that there was an error in the depreciation Journal Entry and as LGA correctly stated, the Council has taken up the related recommendation accordingly through an audit adjustment.

Due to the lack of information provided, it was difficult to ascertain whether five projects, collectively costing €560,507, and which were disclosed as Assets under Construction, were completed during the year under review. Following queries raised by LGA, the Executive Secretary claimed that these projects were completed soon after year-end and an Architect certification to approve the final value was still to be issued.

The Council feels that the capitalisation process is correct and in line with the requirements of IAS 16. The administration had indeed confirmed that these projects were all concluded between January and March 2013 and have not been signed off due to outstanding issues. Although physically completed, the Council is still awaiting for certifications. Thus, the latter is not seeing any weaknesses in this respect.

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 obvious safety and functional reasons, it was the desire of both parties that the said Child Care Centre is developed on one floor and be accessible from the adjoining public garden (ex. Railway Station). In view of this, on 18 March 2007, the Council and the said developer entered into an agreement, whereby it was agreed that the Council will end up with the same area of circa 280 square meters. The premises, as well as the finishing of the said Care Centre, was to be provided by the developer to the Council. In return, the latter will transfer to the former the underlying and overlying subsequent spaces 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 the Council a consideration. At the end of the reporting period, the Council was still recognising the amount of €130,445 as Receivable from this developer. The Council claimed that it has been repeatedly informed by the Land Department that preparations to devolve the garden to the Council are in the final stages. Furthermore, the Council stated that the application for devolution was forwarded to Parliament for final approval. However, documentation to support the fact that the contractor still intends to pursue the project was not made available. A qualified audit opinion was issued in this respect.

Developments on the 'Ta' Monita' project and ancillary agreement are being monitored. The Council has been repeatedly told that the Land Department is making its 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. During February 2013, the Council received the first part of this money and it is hoped that it will be receiving the outstanding balance during the coming months of the financial year 2013.

The difference of €10,116 between the balance payable to Environmental Landscapes Consortium (ELC) Limited, as recorded in the Council's account and the Supplier's Statement, was noted again this year. This balance represents an amount that the Council still claims to be payable by the Ministry of Resources and Rural Affairs (MRRA). The Council has disclosed this disputed amount as a Contingent Liability.

The Council has a confirmation in writing from MRRA that it will settle the outstanding amount. 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.

During the year under review, the Council made significant progress to reach an agreement with a particular contractor, on the value of projects completed in prior years. In fact, the Council managed to reconcile the books of account to the statements and bills received from the respective contractor, whilst the total amount in dispute was substantially reduced to €12,626 (2011: €129,670). On the other hand, the amount payable to another creditor in respect of construction works carried out, is understated by €157,134. This represents an excess in the amount claimed by the service provider over that contracted for. Both disputed amounts were disclosed as Contingent Liabilities in the Financial Statements, instead of being recorded in the books of account. In view of this, a qualified audit opinion was issued.

The reconciliatory meeting between the contractor and the Council was concluded. All differences against the latter will be recorded as a liability accordingly. The Council is just waiting for the final certifications to be issued, so that the account with this supplier is closed once and for all.

The amount of €157,134 due to the other creditor was not backed up by appropriate details of the actual work carried out, in justification of the claims presented by the latter. In the absence of

such detail, the Council has put pressure on the supplier to provide the necessary appropriate details accordingly, so that the Council's Architect may then certify for payment. In the meantime though, it should be understood that the Council could not recognise a liability when this was uncertain and that is why it opted to disclose as a Contingent Liability note, in terms of IAS 37.

The amount payable to the Works Division was reduced by €16,691, as a result of a set-off against a balance receivable from a private limited company responsible for recycled waste. However, relevant documentation supporting the validity of this set-off was not provided. Furthermore, since a Supplier Statement was not obtained from the Works Division, it could not be ascertained that amounts payable to the latter, as reported in the books of account, are correct.

The question of documentary evidence of the set-off between the private limited company and the Works Division will be brought up by the Council in the coming months and will provide the necessary clearance in writing in support of the agreement which was in place between the three parties in question; the Council, the private company and the Works Division.

No evidence of approval from the Minister and LCA was traced in respect of the twinning activities held with 'Citta Di Locri'. Furthermore, the Council failed to draw up a statement of account recording total expenses of €11,314, and a Grant of €9,100 received to this effect.

In this agreement there was the involvement of the Fleur-de-Lys Administrative Committee and the committee members in charge of the agreement were not aware of this procedure. The Council is ultimately responsible for this issue and therefore it regrets the inconvenience. In the future, it will see that this issue does not repeat itself.

Notwithstanding that Article 63A of the Local Councils Act prohibits the payment of any form of donation, whether in cash or in kind, the Council made two donations of €100 each to a voluntary organisation and an individual respectively. Furthermore, up to the audit date, no supporting documentation was provided to evidence authorisation from DLG in respect of a sponsorship of €2,000 for a degree course granted

to a Council employee in 2011. No amounts were refunded by the said employee.

The Council will make sure that no donations will be paid in the future.

According to the bank confirmation letter obtained by LGA, the Council issued a Bank Guarantee of €3,800 in favour of third parties. However, for another consecutive year, the Council failed to disclose this Guarantee as a Contingent Liability in the notes to the Financial Statements.

Furthermore, the Council received Grants for the funding of road resurfacing for eight roads, amounting to 50% of the total estimated cost of €967,108. However, only six roads were completed, and as approved in Council meeting 37, the Council does not intend to resurface the remaining roads, which bear an estimated cost of €260,508. Notwithstanding that the Department has the right to reclaim funds transferred if the contract is not honoured in full, such issue was not disclosed in the notes to the Financial Statements.

All valuable comments made by LGA are noted and will be addressed accordingly for the forthcoming year ending 31 December 2013.

Birżebbuġa

From testing carried out it transpired that the Council was not always adhering to pertinent procurement regulations. Instances were encountered whereby goods and services were procured following a public call for quotations, rather than through a call for tenders, as required by the Local Councils (Financial) Regulations. Examples of such purchases included cold asphalt (€12,102), mechanical sweeping services (€8,625), as well as various supplies acquired from a pet shop (€10,065) and an ironmongery (€7,938).

The Council has issued a call for quotations for these supplies instead of a public tender, since these items are bought on demand and hence the latter cannot foresee the total yearly expenditure. However, the Council will follow LGA's recommendation and issue a call for tenders for such supplies.

Actual expenditure incurred in respect of Operations and Administration, as well as Personal

Emoluments, exceeded the estimated budget by €188,601 and €3,603 respectively. On the other hand, whilst €500,895 was budgeted for capital expenditure, only €12,628 was actually spent.

Furthermore, when comparing Capital Commitments, as disclosed in the Financial Statements, to the annual Budget for 2013 and the Business Plan for the years 2012 to 2014, significant differences were encountered. Whilst the Financial Statements reported Capital Commitments of €713,019, amounts included in the annual Budget and Business Plan totalled €1,217,816 and €242,400 respectively.

At the beginning of every financial year, the Council prepares the Budget and Business Plan. The latter tries to adhere to these reports during the course of the year. However, in case of circumstances of an urgent matter, or which are beyond the Council's control, one has no other option but to deviate from the planned work. Furthermore, the Council makes use of these reports to monitor and control costs.

In view of fraud allegations against the Council's road works contractor, the latter refrained from executing all the works and obligations outlined in the respective PPP agreement. Consequently, the Council demanded the bank to transfer in its favour the maximum Bank Guarantees amounting to €95,441. In fact, the aforementioned amount was immediately recognised as income for the year ended 31 December 2012. Furthermore, notwithstanding that in line with the guidance provided by Central Government all payments to the said service provider are currently on hold, the Financial Statements presented by the Council still disclosed the current and non-current portions for this liability in accordance with the original contract signed with the supplier.

This matter is being monitored very closely. To date, the Council has received the Bank Guarantees of the contractor amounting to €95,441, and is awaiting instructions from the Council's Advocate to issue due payments to the contractor.

In spite of prior years' recommendations, it was noted that the Council has still not updated the Plant Register. In fact, the difference of €449,461 between FAR, and the aggregate plant cost as recorded in the Nominal Ledger, was still not

resolved by the time of the current year's audit. Thus, a qualified audit opinion was issued in this respect. Furthermore, in the absence of a FAR, depreciation is being computed manually by means of a spreadsheet, rather than through the accounting package.

As stated in the previous Management Letters, the Council has issued a call for quotations to reconcile the FAR with the Nominal Ledger three times since 2010. The first two times, even though a competent contractor was chosen, the work was not carried out. Both times, the Council did not pay for the work as the job was never finished to specifications. During the current year, for the third time, the Council issued a public call for quotations and is currently doing the necessary work so that the differences in FAR are identified and corrected. The depreciation was not calculated through the FAR as this is not updated.

Meanwhile, in order to tally the NBV in the Financial Statements with the amount disclosed in the Nominal Ledger, a reclassification of €72,570 was passed by the Council between two asset categories, namely Urban Improvements and Special Programmes.

The reallocation will be reflected in 2013 dataset.

A Bank Guarantee of €7,800, issued in favour of the Malta Environment and Planning Authority (MEPA), was completely omitted from the books of account. Following LGA's recommendation, the Council included this Guarantee in the Financial Statements.

As pointed out, the adjustment has been carried out during the year ending 31 December 2012 and was reflected in the current year's Financial Statements.

Included with Payables are long overdue balances of €1,096, which have been carried forward from preceding accounting periods.

The Council will investigate these amounts and discuss a way forward.

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 €329,726, out of which €301,068 relate to the period 1 January 2000 to 31 December 2010.

In addition, 69% (*i.e.* €10,424) of the Trade Receivables have been due for more than one year. Whilst adequate provision (€301,068) has been taken against LES Debtors, the provision for long outstanding Trade Receivables was not updated from the preceding year, and therefore, it does not reflect the circumstances of the Council's Debtors as at financial year-end.

The Council believes that, since the matter of LES Debtors is affecting almost all Local Councils, Central Government should intervene. As regard the Provision for Doubtful Debts, this will be updated during 2013 and Debtors which are deemed not recoverable will be written off.

Accrued Income includes an amount of €21,738, in respect of which no supporting documentation was provided. The Council also failed to accrue for a Grant of €2,040, receivable from the Housing Authority, with respect to an educational study carried out during the year under review, as well as €233 receivable in respect of the Library Scheme. These omissions were disclosed in the Financial Statements through an audit adjustment.

The Council adjusted the Financial Statements according to LGA's recommendation, as already stated in the report.

No refund has yet been received by the Council for expenditure incurred in previous periods in relation to the 'E-MED IT' project, of which 75% had to be refunded through the use of EU funds. Based on supporting documentation the refund amounts to €107,990. At the same time, included under Payables is an advance of €122,516, forwarded to the Council by the then Ministry for Justice and Home Affairs (MJHA), in order to finance the said project. In 2010, this loan was accounted for in line with the provisions of IAS 20, and effective interest payable of €7,290 was also recorded. However, no interest was charged in 2011 and 2012, and a change in the accounting policy was not made in this regard. In view of the limited information and evidence provided by the Council with respect to the receivable amount and the equivalent payable amount advanced by the then MJHA, it could not be determined whether

the accounting treatment of both transactions was correctly reflected in the Financial Statements. Thus, LGA had no option other than issuing a qualified audit opinion.

Regretfully, in spite of the Council's repeated explanations, LGA felt it necessary to qualify his audit opinion. This matter is being dealt with together with 'RCSM' project.

The Council maintains a FAR to record Fixed Assets in its possession. However, a number of assets have been incorrectly categorised, resulting in the application and recognition in the Financial Statements of an incorrect depreciation rate. LGA is 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. Thus, a qualified audit opinion was issued in this respect.

The assets mentioned by LGA will be re-categorised and the accumulated depreciation will be revised during 2013.

Variances were noted between the balances recorded in FAR and those reported in the unaudited Financial Statements. The cost of assets, as well as accumulated depreciation in FAR, are both overstated by €23,907 and €1,826 respectively when compared to the Nominal Ledger, thus resulting in an overstated NBV of €22,081. The amount of €4,571, capitalised by the Council during 2011 with respect to the construction of a ramp under the Accessibility Scheme, was also overstated. However, the Council failed to revise this amount both in the Nominal Ledger and the FAR. Furthermore, software acquired during the year was incorrectly recorded as expenditure of a revenue nature.

All variances will be identified and rectified during 2013. The amount of €510, which refers to an upgrade in the accounting software, has already been reallocated to the proper account.

During 2011, the Council recognised the amount of €11,986 as Deferred Income. However, no movement was recorded in 2012, with the consequence that the release to the Statement of Comprehensive Income was not accounted for. Furthermore, Grants of €28,118, received during

the year under review for the construction of the public convenience, were not duly deferred but were included in the Financial Statements as Contributions Income. Since the Grant received for the ramp, referred to in the preceding observation, has been revised from the amount accounted for in the Financial Statements, the Council should have amended the Deferred Income brought forward and also the release for the previous year. However, these adjustments were omitted. In addition the Council failed to split such Deferred Income between short and long-term portion. The necessary audit adjustments were passed to correct these errors.

LGA's recommendations will be discussed with the Council's Accountants to ensure that the accounting recording system will be rectified in 2013.

Although the Council reconciles the Creditors balances on a frequent basis, testing carried out revealed that the balances payable to four suppliers were in fact misstated. In all cases, the issue was that invoices dated 2012 had not yet been posted by year-end, with the consequence that Creditors' balances were understated by €3,134. Furthermore, from cut-off tests performed during the audit, it transpired that Accruals, as recorded in the Financial Statements, were also slightly understated.

In addition, as at year-end, the Council passed a Journal Entry for €2,040 between the Creditors Control and the Cash Account. Since no details were provided for this entry, LGA proposed an audit adjustment to reverse this amount. The Financial Statements were amended accordingly by the Council.

LGA is referring to Creditors' invoices which the Council received late from its suppliers and as a result were not posted by year-end. The Council will do its utmost to avoid such transactions in the future.

The Council entered into a Joint Venture agreement with a private contractor, for the construction and administration of two 5-a-side football pitches in the Verdala Playing Field, which had been devolved to the Council in June 2006. Approval for this project was obtained from the Land Department on 21 July 2006. The devolution

agreement specifically states that consent is to be obtained from the latter prior to subleasing any part of this property. However, in 2010, the Council issued a call for persons interested in operating the football grounds and hiring of bar facilities, without obtaining any approval from the Land Department. Furthermore, although required by the Joint Venture agreement, an audited annual report of the said Joint Venture is not being prepared. The Council also failed to recognise its portion of the two bank accounts that are jointly held with the private contractor. As at year-end, the book balance of the said accounts stood at €541 and €1,958 respectively. In view of this omission, LGA could not obtain reasonable assurance on the amount of assets and liabilities recorded under this Joint Venture, and thus, a qualified audit opinion was issued in this respect.

The Council shall seek the Land Department's approval for the subleasing of the bar facilities. Furthermore, all joint bank accounts between the Council and the contractor will be closed and balances will be split according to the profit-sharing ratio agreed between the parties. Thereafter, all proceeds from the rental of the pitches will be deposited directly into the Council's accounts, according to the same profit-sharing ratio.

The bank reconciliations of two bank accounts, held with local commercial banks, were not properly prepared. Bank interest and charges, amounting to €148, were omitted from the Financial Statements, while a bank lodgement dated more than six months earlier was still recorded. From further analysis, it transpired that the amount was incorrectly posted in two bank accounts. Furthermore, cash and bank balances in the Financial Statements were misstated as at year-end. The amount of Cash and Cash Equivalents, as disclosed in the Statement of Cash Flows of the audited Financial Statements, amounted to €36,648, when this should have read €36,157, had all adjustments been correctly passed.

Financial Statements have been adjusted according to LGA's recommendation.

No explanation was provided as to why a Nominal Account, relating to cash held on behalf of other Local Councils, had a negative balance of €418. From LGA's understanding, this balance is a result

of incorrect accounting for balances of cash, held in relation to LES contraventions due to other Councils.

On 1 January 2013, an audit adjustment was passed against Retained Earnings. In the meantime, the Council is conducting an exercise with a view to identify what led to this negative balance and the dataset will be adjusted accordingly.

The Council paid the amount of €712 for the staff Christmas dinner, out of which the balance of €112 was reimbursed to the Council. However, considering that the Council and the administrative staff amount in total to 11 persons, the net amount incurred by the Council in this regard is higher than that permitted by Memo 8/2011.

It seems that the Council misinterpreted Memo 8/2011. The Council will ensure that the content of this Memo will be strictly adhered to.

Contingent Liabilities of €1,016, in respect of a dispute with one of the Council's suppliers, as well as a Performance Guarantee amounting to €1,500, were completely omitted from the Financial Statements.

LGA's recommendation will be complied with as from 2013.

Although the Council had correctly reflected the audit adjustments of 2011 in its Financial Statements, these were passed in the accounting system during 2012. Furthermore, not all the adjustments were reflected in the dataset provided by the Council to LGA. One of these adjustments related to an over-accrual of Contributions Income, amounting to €8,000. When the Council reversed the opening accruals of 2011 (pre-audit), it ended up with the Contributions Income being understated by this amount.

Moreover, the Council incorrectly recorded a sales receipt of €3,445 which should have been posted to the Trade Receivables Control Account. Income classified as Contributions in the Financial Statements was also overstated by €23,443. Following LGA's recommendation, the Council amended the Financial Statements accordingly.

Likewise, the Council not only failed to reverse the opening accrual with respect to the performance

bonus of 2011, but also to pass the accrual for 2012. Since the Mayor's Honoraria was also understated by €61, the payroll expense in the Financial Statements is understated by €2,804.

Requests raised by LGA to be provided with an Extended Trial Balance, correctly reflecting the amounts in the Financial Statements, were rendered futile. LGA was informed that the Financial Statements were drafted on a Trial Balance that was not final, and that a number of year-end accounting adjustments were passed without any supporting documentation.

The necessary adjustments have been posted and the opening balances for 2013 are in agreement with the audited Financial Statements 2012.

Dingli

No supporting documentation was provided in respect of income, amounting to €2,400, relating to 2010 WSC road reinstatement works. Furthermore, income generated from crane and kiosk permits, totalling €17,770 and €75 respectively, was classified as income raised under a Local Council Bye-Law, despite that no specific Bye-Law is in place to cover such income.

On the other hand, expenses collectively amounting to €115,601 were not supported by an invoice. Moreover, it was noted that whilst an invoice submitted by the locality band club amounted to €783, the respective payment was of €983. In addition, a purchase order to WasteServ Malta Limited, was manually adjusted to €1,596, whilst the payment effected in this respect amounted to €1,885.

The Council is taking note of this point and will implement the necessary procedures, as well as adopt a system of receipting.

The Council is not obtaining monthly statements from its suppliers, as required by Memo 8/2002. Consequently, LGA was unable to obtain sufficient assurance that the amount of €73,796, recognised as Payables, is accurate. Thus, a qualified audit opinion was issued in this respect.

The Council tries to settle amounts payable as soon as possible, thus avoiding the need for the supplier to send a statement. However, all

statements received are checked against the Council's records, and any discrepancies are followed-up and rectified. The Council shall, on a monthly basis, ask for statements for outstanding amounts.

Accrued Income was not correctly accounted for, as the Council failed to adopt adequate cut-off procedures. Government Grants of €4,000, for the activity 'Wirja Agrarja 2012' and €466 receivable in respect of the public library as per Memo 120/2011, were both excluded from the Financial Statements. In another instance, whilst the expense incurred to run the Scheme Life Long Learning was recognised in the Financial Statements 2012, the respective Grant of €1,330 was not accrued for. On the other hand, although the Council accrued for €8,770 with respect to 'Sparda' project, the Executive Secretary confirmed that this income will not be received by the Council. The necessary audit adjustments were passed to correct these omissions.

Points noted and the necessary adjustments and updates were carried out accordingly. Although the Council does prepare the accounts on an Accruals basis, it shall ensure that all adjustments for accruals are properly included in the accounting records.

Whilst invoices issued by the Council to LES Regional Committees, for commission on post-regional LES fines totalled €2,015, €2,263 was recognised in the books of account. Furthermore, according to the report issued from the LES system, the Council's share of commission for 2012 should amount to €1,958. However, the balance neither reconciles with the amount of invoices issued, nor with the amount recorded in the Financial Statements. In addition, included with pre-pooling LES Receivables is the amount of €1,654, which was also recognised as a Provision for Doubtful Debts. However, as per documentation extracted from the LES system, pre-pooling Debtors as at 31 December 2012 actually amounted to €1,467. An audit adjustment was effected accordingly. Although the amounts are immaterial, these show that the Council is not adopting appropriate procedures to reconcile LES income.

The Council is taking note of this point and will adopt appropriate procedures to reconcile LES income.

The Council has made use of the PPP Scheme, launched through Memo 45/2010. By virtue of this Scheme, the Council entered into an agreement, whereby the contractor has undertaken road resurfacing works. However, during the said contract, the Council had to request work from another supplier, since the original service provider was defaulting. The terms agreed with the second supplier were different, although the amount due was still to be repaid over a number of years, as had been agreed upon with the original service provider. The Council incorrectly included the commitments due to both suppliers as a short-term liability under Accruals. Moreover, Grants released in respect of this Scheme were €3,081 higher than the appropriate amount, thus resulting in Deferred Income being understated by the same amount.

The Council was aware of the arithmetical error and informed LGA of this before the audit started. Furthermore, the Council will commit itself to improve this aspect.

Variances in aggregate amounting to €2,893 were noted between the book balances of three bank accounts and the respective bank statements. In addition, the balance of a current bank account, as disclosed in the accounting records, differed from that recorded in the respective bank statement by €1,697 due to an unreconciled item recorded as ‘Reversals of prior year error’.

Points were noted and the Council will commit itself to improve this aspect.

Included with inventories was the cost of €774 in relation to books procured by the Council for the library. Since such items are not held for resale, these were to be expensed in the Statement of Comprehensive Income. Following LGA’s recommendation the Council approved the necessary audit adjustments and amended the Financial Statements accordingly. In addition, notwithstanding that a stock list was provided for audit purposes, the cost and selling prices were not included. Furthermore, the amount of physical items held at year-end as detailed in the Stock List, and the value recognised in the Financial Statements, are incongruent.

Point noted and action will be taken accordingly.

During the year under review, the Council incurred specific expenditure that is not permitted. For example, €729 was spent on diaries distributed to the local community, whilst cakes costing €270 were bought for the elderly during the Christmas period. Furthermore, the Council financed the organisation of a dinner costing €243, held on 16 March, with the aim of bringing together the Councillors whose term ended in March and those newly elected.

The Council is contesting the fact that the named items were donations or gifts, both in kind and in cash. This is part of the marketing mix of the Council to enhance the contact with the residents. On the other hand, the said dinner was organised so that the outgoing and incoming members discuss and give a good handover of the tasks to be continued. The Council is of the opinion that this has brought together all stakeholders, and that future Council operations would benefit.

The Council failed to provide a FAR to substantiate the amounts of Fixed Assets as recognised in the Financial Statements. Consequently, LGA’s testing to verify the physical existence of the Fixed Assets held by the Council was limited. Furthermore, instead of being calculated and posted through the FAR in the accounting system, as required by the Financial Procedures, depreciation is being accounted for through a Journal Entry. Moreover, it was noted that computers were being depreciated at 20%, when these should be depreciated at 25%.

Two instances were encountered whereby expenditure of a capital nature, amounting to €1,376, was recorded as expenditure of a revenue nature. These errors were subsequently corrected through the audit adjustments proposed by LGA.

In addition, the Council did not provide LGA with adequate details and information of the Assets not yet Capitalised, costing €400,463, as at year-end. In view of the fact that there were no other practical ways of obtaining reasonable assurance on the completeness of the Fixed Assets, as well as on the depreciation calculated thereupon, recorded in the Financial Statements, a qualified audit opinion was issued.

The Council did maintain a FAR. However, it experienced a computer failure and the respective data was lost. An attempt is being made to compile

a new FAR from data available on old back-ups of the accounting system. Once all data is recovered, LGA's recommendations will be implemented. Furthermore, as soon as the FAR is compiled, the depreciation charge shall be calculated using the month-end routine, as required by the Financial Regulations. The Council will also ensure that all expenditure of a capital nature is distinguished from Revenue Expenditure at all times. As regard Assets not yet Capitalised, the Accountant provided all the necessary details. These were included in the Nominal Accounts provided to LGA.

A total of €5,200 was paid by the Council for the organisation of 'Jum Dingli', thus exceeding the maximum allowable limit stipulated in Memo 122/2010, which states that such expenses should not be greater than €3,500 or 0.5% of the Annual Government Allocation (which in this case amounted to €1,528), whichever is the highest.

The Council will make its utmost to improve further the expenditure for 'Jum Dingli' although prices are getting higher and the allocation is being reduced.

Although the Council initially disclosed in the Financial Statements that there were no Capital Commitments, capital expenditure of €70,000 is included in the annual Budget 2013. Following LGA's recommendation, the Financial Statements were revised accordingly.

The Council is taking note of this point and will act accordingly.

The Council's Accountant abandoned the contract, and to remedy the situation, the Council appointed another Accountant by direct order. However, in verifying the qualifications of the newly appointed Accountant, who was involved in the preparation of the Financial Statements, it was noted that the latter does not hold a warrant of a Certified Public Accountant, even though the cover page of the Financial Statements re-approved on 29 April 2013, bears a declaration by the same Accountant that she holds the appropriate warrant to practice independently. This contravenes Memo 150/2010, which stipulates that Councils should ensure that the Accountant engaged to prepare the respective reports is warranted.

The Council confirmed that the Accountant is a fully professional Accountant holding a degree in accounting with a number of years experience in accountancy. She confirmed that an application was already submitted to obtain the warrant of a Certified Public Accountant at the time of the audit.

Testing carried out revealed that the Opening Balances of the Council's Nominal Ledger were not in agreement with the approved and audited Financial Statements of 2011. LGA requested the Council to provide the necessary workings, in order to confirm whether these variances have been adjusted, since no transaction to this effect could be traced in the Nominal Ledger. However, these were not provided. Furthermore, the Statement of Cash Flows comparative included in the Financial Statements is not in agreement to the previous year's audited Financial Statements. Cash and Cash Equivalents at the beginning of the year should read €315,117 and not €31,517. Moreover, included with current year's Payables is the amount of €9,435 relating to the overdrawn bank balance. However, since this is not an overdraft account, this amount should be deducted from Cash and Cash Equivalents, rather than disclosed with Payables. Despite LGA's recommendation, the Council failed to adjust the Financial Statements accordingly.

The Council strongly disagrees with the last point, since the overdrawn bank balance should be declared separately with Payables on the face of the Statement of Financial Position.

Figura

Budgeted expenditure with respect to Repairs and Upkeep was exceeded by €71,940.

The Council finds this remark as acceptable. However, it is to be noted that such over-expenditure related to the costs incurred with respect to the construction of the new Civic Centre, being a one-time expenditure. The Council shall be taking the recommended action.

Although the Council maintains a FAR, 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 was no practicable procedures to arrive to the exact amount of misstatement. Thus, a qualified audit opinion was issued in this respect.

Furthermore, differences have been identified between the assets as disclosed in FAR and those recognised in the Nominal Ledger. For example, the depreciation of Urban Improvements in the Nominal Ledger is understated by €16,018, whilst that of Construction is overstated by the same amount. Following LGA's recommendation, the Council has adjusted the Financial Statements accordingly.

The Council has the practice of reviewing the FAR periodically, at least once a year, and as such, 'cleaning' of FAR is always done during the year. This does not mean that certain items that need 'cleaning' are not missed out. The Council will be reviewing the FAR with particular reference to the items referred to in LGA's report and any corrections that need to be done to either FAR or the Nominal Ledger will be made in 2013.

It is understood that the Council is experiencing difficulties in the collection of fines adjudicated in its favour by the Local Enforcement Tribunal. In fact, as at period-end, the Council still had pending fines relating to the period 1 May 2000 to 31 August 2011. Furthermore, upon comparing LES Receivables as recognised in the Financial Statements (€408,859) with the actual amount receivable as per reports extracted from the LES system (€402,921), it transpired that the former was overstated by €5,938. Likewise, the Provision for Doubtful Debts, recognised in respect of these Debtors, was also overstated by €2,091 in the Financial Statements. Administrative fees of €148, receivable from Regional Committees, were accounted for twice. The necessary audit adjustments were passed to rectify these errors.

The Council discussed this matter with other Executive Secretaries, who had chased such Debtors, as recommended by LGA. It transpired that the administrative burden and effort that the recommended exercise implies, would in turn prove itself as not being worthwhile in terms of return. The report from which the values were taken to build up the Financial Statements had the wrong filters with regard to period-end dates. The relative adjustment was taken up during the audit.

The matter with respect to administrative fees, was brought to the attention of LGA by the Council's Accountant and, following an agreement between the parties, the relative adjustments were taken up.

During the year under review, the Council received two receipts of €3,053 each, from a particular Debtor. Testing carried out on Trade Receivables revealed that, whilst one of the receipts was allocated to an incorrect Debtor Account, the other was completely omitted from the accounting records. These errors raise doubts on the proper and correct cut-off procedures undertaken to ensure that the Council's Financial Statements provide a true and fair view of the latter's financial position and performance as at year-end. The Council effected the necessary audit adjustments in the Financial Statements.

The error was the result of the change in name of the customer company. The required adjustments were made accordingly.

The Council is not carrying out regular reconciliations of its Creditors' Accounts. In fact, whilst carrying out testing on Trade Payables, amounting to €104,434, a significant number of misstatements, arising out of the lack of proper accounting and recording of such Payables, were encountered. For example, from the confirmation letter submitted by a service provider, it transpired that the payable amount, as disclosed in the books of account, was overstated by €907. Another two instances were identified, whereby the Council claimed that the amount disclosed in the Creditors' Ledger was not due. The Council stated that these amounts consisted of deductions in respect of damages caused by the contractor, and price reductions arising as a result of the fact that works performed were not to the Council's satisfaction. However, in both cases, the latter failed to request the suppliers to issue Credit Notes to set-off such balances. Since no practicable acceptable audit procedures could be performed to obtain reasonable assurance that Trade Payables not included within the audit sample were not materially misstated, a qualified audit opinion was issued in this respect.

The items brought to light under this observation would be looked into during 2013 and the necessary adjustments will be made.

LES income of €685, erroneously deposited in the Council's bank account by LCA, was

still disclosed as a liability under 'Unidentified Deposits', notwithstanding that the Council refunded the entire amount in 2012.

The amount that was actually due to the South East Regional Committee totalled €664. The respective payment was accounted for in a different account from that, where the liability was recorded. The adjustment suggested by LGA was passed in the accounts, but unfortunately this did not actually correct the error. Proper remedial action will be taken in 2013.

Cut-off procedures were not carried out properly, with the result that accrued expenditure, as accounted for in the Financial Statements, was incorrect. Whilst accrual for construction works carried out at the new Council's new premises was overstated by €48,928, the Executive Secretary's performance bonus was under-accrued by €1,807. Likewise, the Council failed to include Accrued Income of €763, relating to waste collection during December 2012. The Council approved the necessary adjustments to rectify these errors.

The adjustments relating to Accruals were taken up in the audited Financial Statements. As regard the latter issue, all income with respect to waste collection is invoiced and not booked in the Ledgers on a cash basis. The issue in question is only of a short accrual of income from this steam. Eventually, the necessary adjustments were taken up as confirmed in the report.

A variance of €1,900 was noted between Payables as recorded in the Financial Statements and the Creditors' List provided for audit purposes. The encountered discrepancy related to an Architect's bill which was not included in the Financial Statements. In addition, the Creditors' List included a debit balance of €1,150. Following LGA's recommendation, the necessary audit adjustments were made.

The Council received the invoice referred to by LGA after the Financial Statements were concluded (21 February 2013), and the supplier had dated the invoice 12 December 2012. Eventually, the matter was brought to LGA's attention by the Council's Accountant and the relative adjustment was made in the second set of Financial Statements. As regard the debit balance, the amount in question

was traced and adjustments thereto were made accordingly.

Following previous years' recommendations, long outstanding Creditors' balances of €82,969, which were statute-barred, have been written off. However, it was noted that out of the aforementioned amount, balances totalling €3,770 were written off from the books of account without obtaining proper approval from the Council. Furthermore, the Council has still to take legal advice on long outstanding balances, amounting to €941, and assess if such balances should be written off.

The amounts written back were part of the normal cleaning of accounts held periodically. The Council did approve such accounts, and thus their writing-off, during a Council meeting held on 20 February 2013.

During 2012, the amount of €17,692 was released by the Council from the Deferred Income account to the Statement of Comprehensive Income, in respect of Urban Improvement Fund (UIF) Grants provided to finance capital expenditure. However, an understatement of €1,279 was noted in the Grant released for the project 'GHE Phase 3'. Furthermore, although the PPP project at 'Triq il-Karmnu' was not yet completed by year-end, the Council still released €1,669 to income. Thus, in aggregate, the Grants released to income was overstated by a net amount of €390. Such errors were subsequently corrected by means of an audit adjustment.

The matter was discussed during the audit and the necessary adjustments made, as confirmed in the report.

As at year-end, the Council had still not yet invoiced, nor recognised as Accrued Income, the amount of €804 representing part of the prepaid pending honoraria. It was also noted that a set-off of €300, effected during the year under review, between the amounts owed by the said Mayor and his Councillor's allowance for December 2012, was incorrectly accounted for as an Accrual, rather than being deducted from the Receivables Account. As a result, Payables were understated by €300, whilst Receivables were overstated by the same amount. However, following LGA's

recommendation, the Council adjusted the Financial Statements accordingly.

It is noted that the former Mayor owes the Council the sum of €1,709. Furthermore, the Council invoiced the former as recommended.

From the bank certificates provided for audit purposes, it was noted that the former Executive Secretary was still listed as a bank representative of the Council for the savings account.

There should have been a mistake from the bank's end, as the Council had applied for a change of signatories on 7 August 2011, just one day after the incumbent Secretary had been appointed as Acting Executive Secretary. In fact, the bank had requested the Council to fill another application on 7 March 2013.

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 FAR, on a spreadsheet up to 31 December 2010, and it has exported to a worksheet, the Nominal Account for the 2011 and 2012 additions. However, this approach is limited since it does not provide the necessary details, and the depreciation workings vary from that calculated by the FAR integrated in the accounting system. Consequently, LGA was limited in the procedures to verify the physical existence of PPE held by the Council at a NBV of €792,032, as well as to ascertain that the depreciation charge of €102,313 is correct. Thus, a qualified audit opinion was issued in this respect.

Furthermore, a lift installed during 2011, and paid for by two different cheques, was allocated to two different asset categories. Whilst the amount of €5,569 was recognised under Construction, at a depreciation rate of 10%, the balance of €14,334 was accounted for under 'Office Furniture' with a depreciation rate of 7.5%. Despite that this issue was highlighted in the preceding year, no adjustments were passed by the Council to rectify this error. It was also noted that this erroneous approach to depreciation has distorted also the approach to the accounting methodology of the related Deferred Grant. In addition, upon comparing the values recorded in FAR, which is

being kept on a spreadsheet, with those disclosed in the Financial Statements, it was noted that whilst the cost of assets in the former document is overstated by a net amount of €16,967, the depreciation disclosed thereon is understated by a net amount of €130,847.

With respect to the fully automated FAR, the Council has taken note and is doing its utmost to settle the matter by end of May 2013. As regard the other remarks, the Council has accepted LGA's recommendation, whilst adjustments were carried out accordingly.

The acquisition of LED lamps and electrical components for a lighting festoon, costing €23,828, was recognised in the Statement of Comprehensive Income, even though such procurement was of a capital nature. Following LGA's recommendation, the necessary audit adjustments were made to reclassify this expenditure and to account for the related depreciation thereon.

Although in principle these lamps were bought as a replacement for existing light bulbs in 'St. Anne Street', which have a 100% depreciation, the Council has taken note and adjusted accordingly.

The Council is not reconciling its records in the Suppliers' Ledger with the actual Suppliers' Statements on a regular basis. The Creditors' List includes negative balances, collectively amounting to €872, relating to invoices that were not accounted for. Other balances due to a local hotel and a service provider were misstated as recorded in the books of account, since payment made to the former was erroneously posted in the latter's Creditor Account.

Moreover, from the liability cut-offs carried out, it transpired that an accrual of only €9,964 was taken in respect of invoices issued in 2012, but paid in the following year, collectively amounting to €12,116. A number of omitted invoices were eventually addressed by the Council through LGA's proposed audit adjustments.

The Council has taken note of LGA's recommendations and will be introducing a Creditors' reconciliation exercise on a monthly basis.

Whilst accrued expenditure disclosed in the Financial Statements amounted to €72,381, the Accruals' List, provided for audit purposes by the Council's Accountant totalled €72,928 after netting-off a negative amount of €8,281. Queries raised by LGA on the discrepancy arising between these two data sources remained unanswered by the Council. The latter also failed to adequately accrue for a number of expenses, which in aggregate amount to €3,821. An invoice for a special type of flooring costing €21,240, received by the Council prior to year-end, was also unaccounted for in the Financial Statements. LGA considered this expenditure item as an accrual since the delivery of the said product was not yet effected by 31 December 2012. The necessary audit adjustments were approved by the Council to record these omitted transactions.

Note has been taken and the accruals will be rectified accordingly. As regard the amount of €21,240, the Council would like to remark that this was not an invoice, but a third and last payment on an order of flooring material. This payment was effected on 31 January 2013.

Supporting documentation requested by LGA, to cover additional liabilities including Deferred Income, collectively amounting to €14,536, was not provided by the Council. Consequently, 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. It was also noted that the Council's Accountant made a last minute adjustment to write off the amount of €2,029 forming part of these unexplained balances, in an attempt to rectify the situation. However, instead of allocating the write off against General Income, it was erroneously posted against Funds received from Central Government.

The amount of €4,000 included in the total of €14,536 relates to an agreement of rental of kiosk, which covers the period from 26 May till 25 May of the following year. All the other points were noted and the Council will pass the necessary adjustments during 2013.

Payables include the amount of €2,885 representing contractors' guarantees, out of which €1,720 was retained permanently by the Council due to damages inflicted by contractors. However,

instead of recognising this amount as income, the Council's Accountant opted to disclose this amount with Liabilities, thus resulting in an overstatement of liabilities whilst income was understated. Following LGA's proposal, the Financial Statements were adjusted accordingly.

The point raised by LGA was taken into consideration and the Council confirms that the outstanding balance as at year-end was €1,165.

As at year-end the Council recognised LES Debtors of €127,492, against which a provision for Doubtful Debts of €27,965 was recorded. However, upon comparing the aforementioned amounts with reports extracted from the LES system, it transpired that the LES Tribunal Pending Payments, as well as the related Provision for Doubtful Debts as disclosed in the unaudited Financial Statements, were both understated by €80,794 and €145,991 respectively. In view of these material differences, a qualified audit opinion was issued on the basis that there were no practical ways of obtaining reasonable assurance on the completeness of LES income and receivables being recorded in the Financial Statements as at year-end. Furthermore, variances were encountered between the invoices for administrative fees issued by the Council to Regional Committees (€4,937), the respective amount disclosed in the Financial Statements (€4,844) and the balance receivable by the Council (€5,116), as per reports extracted from the LES system.

The Council accepted the qualification on the audit report, and is doing its best to collect as much as possible from the outstanding dues to the Council. This issue will be minimised in the future, since as from 1 September 2011, Regional Committees were established, and the Local Council is charging 10% on the amount collected at the Council to the respective Regional Committee. Moreover, the Council confirms that invoices to Regional Committees are being issued on a monthly basis. In addition, in view of the latter issue, the Council would like to point out that the respective variances resulted from the fact that a contravention paid to the Regional Committee was incorrectly posted as administration fee in the LES reports.

Accrued Income as disclosed in the Financial Statements amounted to €4,879, whilst the total featuring on the respective list provided by the

Council was €3,979. No details were forwarded to LGA explaining the difference. Furthermore, no supporting documentation was provided with respect to €1,979 receivable from advertising on street furniture, as well as an unidentified income of €2,000, included in the Accrued Income List provided for audit purposes.

The Council does not estimate its Accrued Income unless contracts, documents or physical evidence are present. The values included in the Financial Statements provided are not misleading.

No proper stock control system and accounting is in force in respect of inventory of books and compact disks held by the Council. The value of stock held, as recognised in the Financial Statements, stood at €12,478. However, from the information provided by the Council, it transpired that there is stock which is unaccounted for in the Financial Statements, as well as other stock which is not appropriately valued in accordance with IAS 2. Furthermore, the cost of €800 incurred for the additional print of 500 copies of the books 'Tislima lill-Vittmi tal-Gwerra Furjanizi', was incorrectly disclosed in the Statement of Comprehensive Income as Publications. This implies that the stock movement is not correct and in actual fact, the stock value as at year-end should read €15,997. In the second set of Financial Statements, the Council has rectified this discrepancy.

The Council performs physical stock checks at least on quarterly basis, and a stock take at year-end, and everything is recorded accordingly. All items have been fully costed, and where discrepancies were found, action was taken to correct them. Moreover, the Stock List is compiled on a spreadsheet, whereby movements in stocks are being recorded on a daily basis. As regard the other remarks, the Council took the necessary actions to correct the respective errors.

The balance of a current account held with a commercial bank, as recorded in the Nominal Ledger differed from that featuring in the respective bank statement, by €3,180. A variance was also noted while reconciling a savings account.

The Council will take the necessary measures so as to improve this area.

During the year under review, the Council made payments for various social events, including mementos costing €140, presented to the outgoing Executive Secretary and an ex-employee, as well as plaques and trophies costing €302, distributed during an event held by the Hockey Club. An amount of €11,200 was also advanced to third parties for their participation in the 'Fireworks Festival'.

There have been no donations in all cases listed. In the first case, the Council deemed necessary to appreciate the contribution of employees who resigned during the year under review, after having served the Council for a period of time. The Council considers a memento, as different from a gift or a donation. With reference to the expenses in relation to the 'Fireworks Festival', the Council has paid for supplies acquired from 16 different fireworks factories, each with specific conditions, at a price which varies between one factory and another. The Council organises activities for the community, and to keep contact with the community. A number of these are organised in conjunction with other entities, thus sharing the costs, rather than as being misleadingly stated by LGA, distributing the Council's resources to organisations within the locality.

A discrepancy of €76,260 was noted between the Capital Commitments as disclosed in the Financial Statements and those recorded in the annual Budget for 2013, as approved by the Council. Following LGA's recommendation, the Council adjusted the Financial Statements accordingly.

The Council noticed that LGA listed the Capital plans mentioned in the annual estimates (Budget) for year 2012. This list does not reflect the Capital Commitments authorised or contracted for but not yet incurred for during the year under review, but it 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. The amount of €21,260 is included in the Budget, and part of €112,860, is already included as a Creditor in the Financial Statements for the year ended 31 December 2012, and therefore it should not be disclosed as Capital Commitment in the notes to the Financial Statements. With regard to all the rest, with the exception of a commitment of €25,000, these were committed but not contracted.

Instances were encountered whereby Council's sources of income were accounted for twice. For example, sponsorships were overstated by €200, since a receipt from a particular private entity was posted twice. An audit adjustment was passed to rectify this error. Though the amount might seem immaterial, one has to bear in mind that audit testing is carried out on a sample basis, and thus other similar instances cannot be excluded. Such occurrences imply that the Council is not reconciling its records with actual monies received and deposited in the bank on a regular basis. This indicates that the internal controls of the Council with respect to income receipts may be weak.

Internal checks are done monthly throughout the year. Erroneously, the double counting mentioned by LGA was a result of issuing a customer invoice and a cash receipt for the same amount, and for the same customer. In fact, the said customer is still shown in the Debtors' List and a Credit Note will be issued to write off the amount due from him.

During the year under review, one of the employees was promoted from scale 13 point 5 with a four-weekly gross salary of €1,122.69, to scale 11 point 3 with a four-weekly gross salary of €1,213.18. However, in line with pertinent regulations, employees promoted to a higher scale are to start from the lowest point, given that the salary of the lowest point is not below that previously remunerated to the respective employee. Thus, considering that in this case the respective employee was to be promoted to scale 11 point 1 with a four-weekly wage of €1,155.46, the latter was overpaid €58 each week.

The salary allocated to the employee was based upon Part V (Miscellaneous), Article 27(c) of the Human Resources Regulations, which stipulates that 'Provided that if an employee is offered a contract with the same Council in a higher scale, he shall then be subject to a term of probation of three months and shall be paid two notches below the maximum of the new scale'.

As at year-end, the Council had a judicial letter of €5,825 in its favour. On the other hand, it had a potential claim for damages filed against it by a minor who sustained an injury during one of the 'Fireworks Festival' events held in the locality. A court case was also instituted against the Council

by a local insurance company of a value less than €3,300. However, these representations were not duly disclosed in the Financial Statements. Whilst following LGA's recommendation the Council adjusted for the Contingent Asset, while the Contingent Liability Note as disclosed in the Financial Statements was still incorrect.

The Financial Statements were amended to be in line with IFRSs.

Fontana

The contract for domestic waste collection, which expired in 2008, was being renewed on a monthly basis, at the same rates. In 2010, the Council issued a call for tenders for the provision of this service. However, problems were encountered and the new contract was never entered into. Although the Council sought guidance from a Legal Advisor on this issue, it never received a formal response on the way forward. The Council's efforts to seek advice from another Legal Advisor in 2012, as to whether it should award the tender already issued or issue another call, were also rendered futile, since by the time of audit, no response was received in this respect.

The tender for refuse collection expired in 2010. As pointed out by LGA, the tender was issued and legal advice sought from two different Lawyers. However, no response was received. The Council sought further advice from DLG and in March was authorised to reissue the tender.

Audit verifications carried out on expenditure incurred during the year, revealed that the amounts of €273 and €50 were paid out for the procurement of fuel and car hire services respectively. Following queries raised by LGA on the nature of such expenses, the Council stated that these relate to travelling costs incurred by the Mayor for carrying out his Council duties. Since the latter does not drive, he has either to rent a car or else refund the fuel costs to the persons who drive him around with their own car.

The note made by LGA regarding the use of a hired car by the Mayor, is not correct, as the car was hired for the Mayor and acting Executive Secretary to attend various meetings in Malta. The fuel cost mentioned is the total fuel spent during the year

for workers, such as the handy man, to carry out their duties around the locality.

The cost of assets in FAR is lower than that recorded in the Nominal Ledger by €134,642. Since this variance is approximately equal to additions acquired during the preceding three years *i.e.* between 2010 and 2012, LGA is of the opinion that new assets are not being included in FAR. This issue was already highlighted in the previous year's Management Letter. 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 €297,611. As a result, NBV as reported in FAR was higher than that disclosed in the Nominal Ledger, by €34,870.

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 €4,902 were posted in this respect, resulting in a net increase of the depreciation charge for the year by €1,173.

Although the total balances were in agreement, the opening balances of the individual Nominal Accounts of the accumulated depreciation as per Council's Nominal Ledger did not tally with the opening balances shown in last year's audited Financial Statements. The necessary audit adjustments were made to correct these discrepancies.

Furthermore, an invoice of €2,340, relating to services rendered by an Architect in connection with the construction of the second phase of the Civic Centre, remained unaccounted for. The aforementioned balance was recorded in the books of account through an audit adjustment proposed by LGA.

FAR does not agree with the Nominal Ledger since in previous years, LGAs have made adjustments 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 assets' NBVs. LGA's recommendation that a reconciliation exercise needs to be carried out and FAR is reconstructed

to be brought in line with the Nominal Ledger, will be put forward to the Council. Audit adjustments recommended by LGA were accounted for in the audited Financial Statements.

The Council failed to account for amounts still receivable at year-end, in respect of projects that were fully completed during the year, as well as funds receivable under different schemes. Following LGA's recommendation the Council agreed to account for the related Accrued Income of €12,580, through audit adjustments.

The amounts of Accrued Income mentioned by LGA were not known at the time of preparation of the unaudited Financial Statements. The recommendations made by the latter have been noted, and the necessary adjustments have been carried out in the audited Financial Statements.

No provision was made in the Financial Statements to account for expenses, totalling €1,343, incurred during the current year, but for which the respective invoice was received during 2013. Likewise, no accrual was made for patching works, which started in 2012, but which were still in progress by year-end. The estimated percentage completed until the end of the year was 25% and the value of such works amounted to €3,875. In addition, performance bonus of €1,828 payable at year-end was not accrued for. The related audit adjustments were approved by the Council and were incorporated in the final set of Financial Statements.

The Council did not account for the amounts outstanding for tarmac works since no invoices were received from the contractor. The amount of performance bonus was not yet approved by the Council as at year-end, and thus the amount payable was not clear at the time of concluding the Financial Statements. The adjustments recommended by LGA were reflected in the audited Financial Statements.

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 €2,095, 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 audited Financial Statements.

The Council was predicting a deficit of €125,878 after taking into account capital expenditure totalling €183,500. However, at year-end, the Council registered a surplus of €4,905. Budgeted expenditure for certain categories was also exceeded.

The administration of the Council will continue to do its best to adhere to the procedures in all its aspects and continue building on the recommendations forwarded by LGA.

A stale cheque of €1,150, replaced by a new cheque issued by the Council for the same amount, was not reversed from the accounting records. Consequently, the cheque and the related expense were accounted for twice. This error was rectified through an audit adjustment. Furthermore, upon reconciling actual cash in hand at year-end with the amount disclosed in the accounts, a discrepancy of €100 was noted between the two balances. No explanations were provided by the Council for this variance.

The necessary adjustments identified by LGA were made and reflected in the audited Financial Statements. The discrepancy in petty cash will be investigated by the Council and reconciled accordingly. The recommendation made by LGA to keep a Petty Cash Register will be implemented by the Council.

Gudja

The Council paid €8,420 to band clubs for band services and Christmas decorations. Furthermore, it was noted that this payment was not covered by a fiscal receipt but solely by a computer-generated receipt. The Council is to assess if this expenditure is really essential for the continuation of its operations.

The Council is of the opinion that this expenditure is necessary and in line with the latter's objective to spread culture, as well as to establish the locality as a place of touristic attraction and importance, particularly since the Malta International Airport lies within the physical boundaries of the locality. This can also be considered as strategic expenditure. Yet the Council is also endeavouring

to obtain other finances to supplement its own financial resources in organising cultural activities.

The amount of €76,531, incurred in connection with the regeneration of the housing estate was erroneously accounted for as capital expenditure and depreciation was charged thereon. Likewise, the Grant of €75,000 received from the Housing Authority in relation to the said project was incorrectly recognised as Deferred Income. Since the said property does not fall under the Council's responsibility, the necessary audit adjustments were approved to recognise both expenditure and income in the Statement of Comprehensive Income.

A reclassification of €51,098 from Assets not yet Capitalised to Construction Asset accounts, was erroneously included as additions in the Fixed Asset Schedule.

Points noted and position rectified.

In the absence of a FAR, depreciation is being computed manually rather than through the accounting package. In view of this, the depreciation charge on construction works was understated by €4,419. This error was rectified through an audit adjustment.

The reason why depreciation was computed manually is because some of the items in FAR were tagged with the incorrect depreciation charge method in the accounting system. Thus, if the monthly depreciation charge was computed using the FAR incorporated in the accounting software, this would not have been accurate. In view of this, it was deemed to be more appropriate to compute depreciation using the Reducing Balance method, which conforms with the Local Council's PPE Accounting Policy.

Although the Council awarded the tender for insurance brokerage services to the sole bidder on 10 July 2012, no agreement was yet reached on the insurance premia and cover by the time of audit. Consequently, for the second consecutive year, the Council did not have an insurance policy in place.

During the period under review, the Council was concerned to obtain the best cost-effective

cover (with the least possible exclusions) for the maximum financial loss/risks being faced by the Council. The latter is very conscious of the fact that in the prevailing insurance market conditions, it can easily have a false idea of being insured, (since the premium would be paid), while in case of claim for benefit, it would face the risk of receiving a negative reply as 'insured but not covered' for many various reasons. The Council studied this situation with its brokers, who were also advising the Council on how to meet the Council's requirements in the most effective and cost efficient manner. The Council wanted to ensure that it receives the best value for its money spent on premium.

Furthermore, the Council was in part acting as its own economic insurer, while also avoiding any unnecessary risks. During this period, there were no claims against the Council. The prevailing situation was not an act of negligence, but a conscious decision that the Council should obtain the best cover possible in all respects. Through the assistance of the appointed brokers, the required insurance cover was obtained in January 2013. Therefore, the necessary security of the Council's assets and employees, as well as to cover other claims by third parties for injury or damage, is completely in place. Thus, the matter has now been rectified.

Income of €5,050, received by the Council during the year under review, for trenching works carried out during 2009, was incorrectly included in the Financial Statements, since this amount was already recognised as income in 2010. Thus, an audit adjustment was passed to reverse this entry and record the said amount against Receivables.

The Council is in full agreement to review debtors' balances on a regular basis. For this reason, it has established a monthly monitoring system.

Although Memo 8/2011 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 €1,282, the amount expended by the Council in this respect amounted to €5,384.

An item of expenditure has inadvertently been included with expenses relating to other events

organised by the Council. The latter agrees to comply with Memo 8/2011 issued by DLG.

The Financial Statements include a number of long outstanding Trade Creditors, including a balance of €2,457 receivable from WSC, which amount has been outstanding for a number of years. On the other hand, the Creditors balance at year-end includes three long outstanding balances totalling €1,535, which have been brought forward from prior years.

The Council is chasing WSC for settlement and also requested various meetings to check this account on an item-per-item basis, so as to find the points of contention which led to this delay in payment. The Council will also consider writing off this balance, unless settlement is obtained during this financial year. As regard the other balances, the Council will clear the matter during the current year.

An audit adjustment of €6,491 was made to account for refuse collection expenditure, relating to the period May to August 2012. The Council failed to record these transactions in the books of account, on the basis that the contractor is not expected to bill the Council for the services rendered.

Payroll tax liabilities of €2,661 were incorrectly disclosed with Accruals in the Financial Statements. The necessary audit adjustments were made to rectify these errors.

LGA's recommendations were fully accepted by the Council, who on its behalf will monitor more closely and clear these matters during the next financial period.

Although a court case was filed, 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 amount in dispute, which totals €24,100, relates to a payment withheld by the Council, since it is claiming that the work was never performed by the contractor. Another amount of €5,355 due to a different service provider, is also in dispute, as a result of the discrepancies arising between the contractor's valuation and the contract manager's certification.

The Council was informed by its legal advisor that the claimants withdrew their court case. There is

no notification as yet as to whether the case will be taken up through Arbitration. Meanwhile, the Council is following this matter closely to ensure that it will take any further necessary action to defend its position and protect its financial interest, as to date, it had not found any justification for this claim for payment.

As regard the second issue, the Council is in full agreement with LGA's remark that this dispute relates to discrepancies between the contractor's valuation of works, together with other pretensions and the certification of the Council's contract manager. The Council attempted to solve this dispute through an independent Arbitrator, however, it did not receive the expected feedback by the contractor.

A bank account, having a period-end balance of €235 was not included in the Council's Trial Balance. Furthermore, amount as per physical cash-count differed from that recorded in the Petty Cash Account at year-end by €44, since the Council failed to record petty cash expenditure incurred in the month of October 2012. An audit adjustment was made to rectify the petty cash records.

The account was originally being fed from funds deposited by the Council for the running of the Gudja Local Council Library. The Council has previously asked the bank to close this account and to forward any proceeds to the former. However, somehow, these instructions were ignored. The Council also agrees to monitor petty cash more closely.

Gżira

The procurement of 25 litter bins, costing €9,725 was not covered by a call for tenders. Instead, the Council obtained quotations in accordance with the Procurement Regulations and Memo 1/2010. When queried on the matter, the Council explained that all the submitted bids exceeded the quotation threshold, and given that the results of the call for quotations are published, it could not just issue a call for tenders to remedy the situation. Hence, the contract was automatically upgraded to a tender, thus applying the relevant procedures. Furthermore, no performance bond was requested as this is not a requisite when submitting quotations. In addition, instead of recording this transaction on a replacement basis, as laid down in Memo

59/2012, the Council accounted for these items as asset additions under Urban Improvements. The necessary audit adjustments to treat this purchase as an expense and to reverse the depreciation charged thereon, were proposed by LGA, and the Financial Statements were amended accordingly.

The Council issued a call for quotations for the purchase of 25 litter bins. This call was advertised in full compliance with LN 296/2010 and Memo 1/2010, as rightly remarked. During the course of the audit, LGA was introduced to the fact that the Council issued a call for quotations instead of a tender as it was genuinely unaware of the market price value of such an acquisition. However, as LGA noted during the audit, the Council followed the same procedure as that of a tender public call. The stance as adopted by the Council in this case indicates that the latter was fully compliant with the tendering procedures and regulations.

As regard the incorrect classification, the adjustment recommended by LGA was carried out and reflected in the audited Financial Statements. The FAR will also be adjusted accordingly.

After taking into account the reversal of depreciation on litter bins, referred to in the preceding paragraph, a difference of €1,675 was noted between the depreciation charge for the year, as recorded by the Council and that recalculated by LGA. No audit adjustments were proposed in this respect since depreciation was based on an estimate of the useful lives of the assets. It was also noted that the Council is calculating depreciation manually rather than through the accounting software.

The depreciation charge was calculated through the accounting package. The amounts at the beginning of the period were reconciled with the Nominal Ledger.

Five contracts, covering the repairs of manholes, street sweeping and grass cutting, architect services, maintenance of soft areas and road markings, which expired during the preceding years, were still in operation as at audit date. Although the extension of the said contracts was already brought to the Council's attention in previous Management Letters, the latter is still making use of the same contractors' services, instead of issuing a fresh call for tenders. Upon

further enquiry, LGA was informed that a new call for tenders for street sweeping and grass cutting, will be issued in 2013. As per Schedule of Payments, during the year under review, the Council paid the total amount of €119,440 for the aforementioned services.

As demonstrated during the course of the audit, LGA was presented with the tenders that are being drafted in full compliance with LN 296/2010, the Department of Contracts standards and the Green Public Procurement Regulations, for all the expired tenders, except for the maintenance of soft areas, which was issued and awarded to ELC during the audit period. The rightful and professional approach to issue tenders is a very laborious undertaking, which stance and process was adopted from the Council's experience following mixed household waste appeal. Throughout 2013, the majority of expired tenders will be issued.

Furthermore, the Council continues to procure legal services from an individual whose letter of appointment dates back to 1994, and which was never extended since then.

The Council has issued a call by Expression of Interest for the services of a Lawyer way back in 1994. This call was not time barred and the retainer rates have remained the same since then. It is to be noted that the Local Councils (Financial) Regulations were established in 1996 and no remarks to this effect were ever made in the past audits.

Likewise, street lighting maintenance services were still being procured from the same contractor who was selected way back in 1994, following a call for quotations.

As remarked in the past Management Letters' replies, and also proved during the audit process, the Council continued using the same quotation for street lighting maintenance since this devolution was mandated to the Council. This procedure was adopted and followed, as the Council is still awaiting this service to be transferred onto the Central Regional Committee.

Testing carried out revealed that the Council's cleaner is being paid an average of €209 monthly, for services which she has been providing since 1994. No call for quotations was ever issued in this

respect. Furthermore, the amounts paid were not supported by a fiscal receipt. The Council claimed that it is in possession of a declaration made by the cleaner, confirming that she is not a VAT registered person, since she does not exceed the €7,000 threshold. However, this documentation was not made available for audit purposes. Following the retirement of the cleaner in January 2013, the Council started making use of an ETC appointed person for cleaning services.

The VAT exempt declaration of the cleaner was not instantly supplied upon request as this document was archived and was not readily available. The Council has made the provisions to keep such records at hand for any future eventualities. Furthermore, the Council was provided with a cleaner free of charge under the ETC Work Community Scheme and thus has stopped the services from the former cleaner.

In 2010, the Council issued a call for tenders for the collection and separation at source of household and commercial waste, following the expiry of the said contract covering 2009. The tender was awarded to the contractor who had been providing this service to the Council since April 2008. Claiming that the contract was not reasonably adjudicated, one of the bidders filed an appeal to the Board of Public Contracts, who ordered the Council to issue a new tender. However, the appellant disagreed with this decision and filed a court case.

As rightly remarked, the tender for mixed household waste collection was awarded to the same contractor during 2010. Yet the second contender filed two separate appeals with the Public Review Contracts Board and the Law Courts. This tender will be re-issued during the financial year 2013.

During 2010, the Council issued a tender for pavement and resurfacing works in 'Sir Patrick Stuart Street' and 'Sir Frederick Ponsomby Street', for the value of €63,431 and €62,058 respectively. This project is being partly financed by the PPP Scheme, whereby 30% of the contract value, is contributed by Central Government. However, this Scheme is intended to finance only resurfacing works, whilst pavement works should be fully borne by the Council. Thus, two separate

tenders for the different tasks were expected to be issued.

Whilst carrying the necessary audit verifications on payments made in respect of works carried out in 'Sir Patrick Stuart Street', the following shortcomings were noted:

- a. The ambiguity in the tender title, which was issued as 'resurfacing works', as well as the fact that the bill of quantities specifications issued in the same tender did not separate pavement and construction works, led the contractor to invoice the Council for 'resurfacing works', even though work carried out related to pavement works.
- b. During 2011, the Council paid the contractor the amount of €24,851 for works carried out on the aforementioned street. However, the amount certified by the Council's Architect for pavement works totalled only €16,449, thus resulting in an overpayment of €8,402. Although the overpaid amount was deducted from the resurfacing works performed in the same street, the asset value was not adjusted accordingly. Hence, LGA proposed an audit adjustment to deduct the overpayment from the asset value and Creditor's account.
- c. Contract management fees of €1,164, paid in relation to resurfacing works, were accounted for twice. The Council approved the necessary audit adjustment to reverse this double counting.
- d. The bill of €3,693 presented by the contractor in respect of the additional resurfacing works in connection with the trenching works carried out by Enemalta Corporation, was completely omitted from the accounting records. Out of the aforementioned balance, the Council is to pay only €917, as certified by the Architect, whilst the remaining balance of €2,776 is to be re-charged to Enemalta Corporation. The related liability was incorporated in the books of account through an audit adjustment.
- e. A difference of €20,317 was noted between the balance disclosed in the accounting records, after taking into account the above-mentioned adjustments, and that recorded in the Supplier Statement provided by the contractor. Since

an explanation for this discrepancy was not provided by the Council, a qualified audit opinion was issued in this respect.

The repayment terms agreed with the contractor for both the resurfacing and the pavement works were based on the PPP repayment Scheme. However, the costs of each item are clearly identifiable. The workings of the separate costs for the pavement and the resurfacing works for the two mentioned streets were forwarded to LGA. The points raised by LGA were noted and the respective adjustments were reflected in the audited Financial Statements.

During the course of the audit for the year ended 31 December 2012, the Council, in collaboration with all the stakeholders including LGA, conducted an exercise to clean the account of the concerned contractor, so as to reflect the proper amounts spread over a period of eight years, as laid out by Tender GLC 003/2010 and GLC T 003/2012. This exercise included the total zeroing of all invoices from the contractor, the re-issue of proper invoices and allocation of payments made by this office. This sorted out mismatches in Supplier Statements, as well as overpayment issues, whilst setting out a repayment plan up to the year 2020 that was agreed upon by the contractor, the Council, its Architect, as well as LGA.

The short-term Deferred Income included retention money amounting to €2,351 on works in 'Ponsomby Street' and 'Gżira Gardens'. This balance should have been disclosed as a long-term Payable. Although a reclassification adjustment was proposed by LGA, the Council failed to amend the Financial Statements accordingly.

The retention money for 'Ponsomby Street' will be reclassified under long-term liabilities as recommended by LGA. The adjustments proposed by LGA in view of Deferred Income would have changed the way long-term and short-term liabilities are shown in the Financial Statements. Thus, since this would have altered the presentation of the previous years' figures, it was decided to follow the presentation of last year.

No provision for accrued utility bills was made in the books of account. Thus, an adjustment of €1,903, to reflect the estimated accrual omitted, was proposed by LGA. On the other hand, payroll tax liabilities totalling €3,246 at balance

sheet date, have been incorrectly disclosed with Accruals, rather than Other Creditors whilst an invoice of €602, dated 31 December 2012 and relating to maintenance of street lighting, was not recognised in the accounting records. The necessary adjustments were approved by the Council and incorporated in the final set of Financial Statements.

Recommendations made by LGA were noted and the respective adjustments were approved.

Sixty-four percent (or €3,750) of total Trade Debtors are more than 120 days due.

The Council will continue to chase its Trade Debtors to ensure that these amounts are received by the Council within the credit period.

The reconciliation of an account held with a commercial bank revealed a discrepancy of €433 between the bank statement balance and the amount as recorded in the books of account. This was due to the fact that the reconciliation prepared by the Council covered the period up to 29 December 2012, and excluded two payments covering the amount in question.

The bank statement mentioned by LGA was not available at the date when the unaudited Financial Statements were prepared.

Capital Commitments, as disclosed in the Financial Statements, amounted to €189,862, while the capital expenditure, as reported in the 2013 annual Budget approved by the Council, totalled €178,000.

The discrepancy in the Capital Commitments was due to the fact that the Budget was not final when the unaudited Financial Statements were prepared and submitted. When LGA carried out the audit, the Budget had been finalised and the figures for Capital Commitments had been revised.

Contingent Liabilities included an amount of €60,733 relating to a tender awarded to a contractor for pavement works. However, such works had not yet commenced by year-end and therefore, this note should not have been included in the Financial Statements, since the Council had no obligation towards the service provider. The Contingent Liability of €15,077 on the balance

due to WasteServ Malta Limited as disclosed in the Financial Statements is also incorrect, as this should amount to €1,540. On the other hand, no disclosure was made in respect of a balance of €20,000, held in a local commercial bank account, which amount has been blocked by the bank. The Council was unable to provide the necessary explanations regarding this issue.

The discrepancy with WasteServ Malta Limited relates to an amount due that was in dispute. This amount will be adjusted in the Contingent Liabilities note, so that this will agree with the outstanding balance on the Supplier's Statement.

Furthermore, when the Financial Statements under review were prepared, the Council was unaware of the action taken by the commercial bank. The latter will look into this matter to establish the reason.

All other explanations and recommendations made by LGA have been noted.

A review of the Council's minutes revealed that the total amount of €576 was paid out of the Council's funds to two charitable organisations. LGA was not provided with evidence to show that the amount in question was collected from third parties on behalf of these organisations.

The Council disqualifies this remark done by LGA, as in no point did the Council pay donations whether in cash or in kind. This issue was also clarified with LGA during the course of the audit. As stated in the minutes, the donation to one of the organisations would have only been made following a written approval from DLG. With regard to the other donation, the Council was in accordance with Memo 89/2011 as specifically reported in the minutes. The Council clarifies that the money presented were collected during a sports activity organised by the local football club.

Għajnsielem

Testing carried out on the monthly expense of €1,486, with respect to Waste Disposal services, revealed that the Council does not hold any tender documents relating to the provision of the said service. This tender was issued jointly with other Local Councils.

Since this expense does not exceed €1,165 yearly, the Council did not renew its tender in this respect.

During the year under review, the Council outsourced the exercise of reconstructing the FAR from scratch. However, one of the problems encountered was the fact that the Council had no backups of the accounts prior to 2008, as these were kept by the previous Accountant on his personal computer. The procedure adopted for the reconstruction was to identify assets pertaining to the Council and gather all relevant documents about the items of PPE. As regard road resurfacing, the related expenses were extracted from the Architect's final certification. The Council listed all the assets present in the new Civic Centre and tallied them to the Nominal Ledger.

The Council has reconstructed the FAR from scratch, taking a proactive approach of compiling, categorising and taking photos of all assets held inside, as well as those found outside the Council premises. This was necessary since the backups prior to 2008 were not provided by the previous Accountant, and thus the only option of reconstructing the FAR was to physically identify all assets and match them to the amounts recognised in the Financial Statements. Moreover, since the present Mayor has held office since the Council's first judicature, the Council was able to reliably confirm that all road reconstruction works carried out from 1995 were identified. The Architect's final certifications of works were utilised to obtain the value of works certified.

The method adopted for the FAR reconstruction created various discrepancies in the cost and accumulated depreciation of assets as disclosed in last year's Financial Statements. Thus, in order to reconcile the FAR with the Nominal Ledger, the net difference of €52,808 was accounted for as impairment through a prior year adjustment. The amounts written off from the assets' cost and accumulated depreciation totalled €156,229 and €103,421 respectively.

Moreover, the new FAR lacked important details, particularly in respect of the new Civic Centre. For example, total expenditure, including construction works, electrical works, as well as other expenses incurred in the building of the new Civic Centre, was grouped under one heading instead of being disclosed separately. The method used for the

building of the new FAR created several problems. There is no assurance that the costs taken for the individual items of PPE are all correct and it is very possible that items have been left out from the register, even though these are still in existence and in good condition. Likewise, there is no assurance that the new calculation of the depreciation of the assets was carried out correctly.

The variances of €156,229 and €103,421 noted in the opening cost and the accumulated depreciation thereon, relates to differences between the value of the physical assets identified and the amounts recognised in the Financial Statements. The net variance of €52,808 relates to assets disposed of and impaired assets which were not written off during previous years. Depreciation calculation errors, which were not adjusted by the previous Accountant, as has been noted in several previous Management Reports prepared by LGA, were also included in this variance.

The exact start date for assets' depreciation cannot be recorded in FAR since there is lack of information. However, although it is difficult to identify the month of purchase of each asset, the Council can reliably confirm the year in which the asset was purchased and made available for use.

As regard the line item in FAR relating to the construction of the new Civic Centre, the Council has provided LGA with details on the amount of €241,439. It would be inappropriate to list for example Architect fees, MEPA fees, aluminium works, plastering works and electrical works, as a separate line item, since this would defeat the purpose of building a FAR. Moreover, the Council is in the process of coding its assets. However, it is surely understandable that electrical and plastering works, would not be asset coded. The proper reconstruction of FAR makes it easier to regularly reconcile the physical existence of the asset with its record keeping in the ledgers. It is to be noted that the new Civic Centre was inaugurated and used for the first time on 3 March 2012, and all assets relating to the Council premises have been depreciated as from this date.

A variance of €28,067 was noted between the cost of assets as disclosed in FAR (€1,002,623) and the amount recorded in the Nominal Ledger and Financial Statements (€1,030,690) presented for audit purposes. NBV in FAR exceeded the amount

disclosed in the Financial Statements by €17,554. Further testing revealed that Government Grants have been completely omitted from FAR, thus implying that the depreciation is being calculated on the total cost without deducting the value of Grants received. Consequently, depreciation charge for the year is overstated.

The variance of €28,067 relates to projects which are not yet capitalised, namely 'Għajn tal-Hasselin' project, €14,502 and 'Ta' Passi' project, €13,565. These projects should not be included in FAR, since these are still in their early stages and are not yet certified and completed.

Furthermore, the Council could not reliably identify to which project the Grants relate and the year when these were received. Therefore, the Grants were not included in FAR.

As from the year under review, the depreciation charge was calculated through the accounting software, and was based on the new FAR as inputted by the Council. Thus, the depreciation charge was calculated on the new adjusted NBV balance. However, as explained above, accuracy of this balance, and consequently the depreciation charge thereon, could not be verified. Moreover, it was noted that a full year's depreciation was being charged on the additions made during the year. For example, depreciation on the cost of the Civic Centre was calculated as from January 2012, when the Centre was completed in March 2012. On the other hand, depreciation charge on a motor vehicle purchased in December was recorded in the accounts as €4,885, when only one month's depreciation (€407) should have been included.

In view of these shortcomings, LGA had no other option than to issue a qualified audit opinion.

LGA correctly mentioned a variance in the depreciation charge of the motor vehicle addition, which was depreciated for a whole year instead of one month. This error has been adjusted accordingly. As for all other 2012 additions, these are being correctly depreciated.

A discrepancy of €5,523 was noted between the amount receivable from WSC as recorded in the Council's books of account and the amount confirmed by the former. The Receivables

Account includes an amount of €1,350 due from the Corporation, with respect to permits and road reinstatement works, whilst the amount of €4,350 is disclosed as Accrued Income. However, the amount due from the Corporation, as confirmed by the circularisation letter, totalled only €177.

LGA's comments have been noted. Although the Council still believes that the income of €1,350 is receivable, it is currently investigating the fact that only €177 was confirmed as due by the said Corporation. The feedback given by the latter was that the balance of €177 relates to permits issued until 2008. Meanwhile, the amount of €4,350 with respect of road reinstatement works for 2009 was received and deposited on 1 March 2013.

Instances were encountered whereby budgeted expenditure was exceeded. For example, amounts paid for Professional Services, Travel and Office Services exceeded the Budget by €14,872, €8,455 and €1,700 respectively. Furthermore, although the Council predicted a deficit of €60,510, it registered a surplus of €40,884, as at year-end.

For the year ended 31 December 2012, the Council was forecasting a balanced Budget. It must be admitted that in certain areas of expenditure, the Council has exceeded the Budget but this was compensated for by an excess in the actual income received when compared to the budgeted income. Moreover, during the year, the Council entered into an EU project and therefore expenses such as travel costs, office services, as well as professional services have increased. However, such costs are being compensated by the reimbursement accounted for as income receivable from EU funding.

It should be ensured that the Council continuously monitors and compares actual with budgeted income and expenditure. LGA's recommendations are taken on board and during 2013, funds within the Budget will be reallocated and adjusted to reflect shifts emanating from decreases or increases in budgeted income or expenditure, on a quarterly basis.

Despite that donations are prohibited, the Council still handed gifts to people in the locality, in particular, Christmas cakes to the elderly. The amount of €200 was expensed in this respect.

LGA's recommendation was noted and the Council will do its utmost to avoid such instances in the future.

Għarb

Waste collection services were still being procured under an expired contract, which was dated May 2003 and covered the period till May 2008. During the year under review, a total of €7,234 was invoiced.

A new waste collection contract was issued, but has not yet been signed. The Council is working at very advantageous rates with the present contractor and the signing of the new contract will involve a substantial increase in the cost of such services.

Depreciation was charged on a Fixed Asset addition costing €91,818, notwithstanding that such asset was not complete, and therefore, not available for use. Consequently, the depreciation for the year was overstated by €9,815. An audit adjustment was made in this respect, whilst the cost of the asset was reclassified accordingly. Another adjustment of €24,178 was made to reclassify the cost incurred on 'Piazza Gerano' project under Assets under Construction, as works were still in progress at year-end.

The adjustments recommended by LGA in respect of Assets under Construction were carried out. The necessary adjustments will also be made in FAR, to avoid discrepancies in the coming years.

Some items that should have been classified under Furniture and Fittings, were accounted for under Special Programmes. Since amounts involved were immaterial, no audit adjustments were made to this effect. However, reclassification adjustments totalling €20,802 were passed with respect to Urban Improvements additions.

Furthermore, development fees of €9,696 paid to MEPA, in respect of the leisure park project, were expensed instead of being capitalised. This payment was reclassified to Assets under Construction, by means of an audit adjustment.

All adjustments recommended by LGA were carried out before presenting the audited Financial Statements. In the future, more attention will

be given when analysing capital and revenue expenditure.

Testing carried out on FAR revealed that, although the total NBV as per FAR and the corresponding figure disclosed in the Financial Statements are in agreement, for certain asset categories, the NBV as disclosed in the two documents did not tally.

The disagreement in the Fixed Asset categories referred to by LGA, is due to overlapping categories, such as Construction, Special Programmes and Urban Improvements, which are not always easy to categorise. However, since the depreciation rate for these asset categories is the same, the depreciation charge is not effected.

Instances were encountered whereby amortisation of Deferred Income for the year was incorrectly calculated. For example, on four occasions the respective amortisation was overstated by a total of €11,546, whilst in another case, this was understated by €784. The Council approved the necessary audit adjustments, as proposed by LGA, to correct these errors.

The amount of Deferred Income released by the Council was based on the completion date of the projects. This is always subjective and LGAs make their own calculations, which at times differ from those made by the Council. Nonetheless, the latter has made the adjustments recommended by LGA and these are reflected in the Financial Statements.

At year-end, Accounts Payable brought forward from previous year, but which were not yet settled, totalled €16,251. Upon querying on these long overdue balances, it was noted that two of these balances were actually paid during the year. However, the amount paid was incorrectly recorded as an expense rather than being netted off against the respective amount payable. This resulted in an overstatement of €1,766 in both Liabilities and the related expenses. An audit adjustment was approved to correctly record these two payments.

The long overdue payables were discussed with the Executive Secretary during the audit visit. It was agreed that during the coming year, an exercise will be carried out to verify the amounts outstanding and these will be settled.

A discrepancy of €42,072 was noted between the amount receivable from WSC, made up of two invoices totalling €42,135, as disclosed in the Council's Financial Statements, and the confirmation of €63 obtained from the former through a circularisation letter. The Executive Secretary claimed that the Corporation only confirmed the normal permits and road reinstatement charges, while the two invoices in question related to projects that have been discussed between the Mayor and WSC during several meetings, and which are deemed to be recoverable.

The Council is still holding meetings with WSC in order to recover the amounts. The former is trying to obtain written confirmation and to receive payment from the Corporation.

Accrued Income of €1,701, brought forward from the preceding year, had not been settled by year-end. From the audit verifications carried out, it transpired that in 2011 the aforementioned amount was accounted for twice, as a receivable and as accrued income. Another amount of €10,652, receivable in respect of the 'OBIMED' project, was also accounted for twice. The related transaction was recorded through a Journal Entry, despite that it already formed part of a payment request sent by the Council, which was accrued for. The respective audit adjustments were approved by the Council and have been incorporated in the final set of Financial Statements.

The amount of €1,701 referred to by LGA, was erroneously included twice and the necessary adjustment was made. This was brought to LGA's attention by the Executive Secretary. As regard the second amount mentioned above, this was not accounted for twice. The bank erroneously took the project funds from the Council's ordinary funds, so the Council is still awaiting refund in this respect.

Although invoices, collectively amounting to €72,431, were issued by the Council, the respective amounts were recognised as Accrued Income rather than as Receivables. Furthermore, invoices totalling €1,465, issued in 2013 but which related to services provided during 2012, were incorrectly accounted for as Payables, instead of being recorded as Accrued Expenditure.

Upon the issuance of invoices, the Council will start to account for invoices as amounts receivable, rather than as Accrued Income.

The bank reconciliation report included a number of cheques, totalling €2,659, which had become stale by the end of the financial year. Furthermore, whilst testing receipts deposited after year-end, it was noted that a receipt of €29,925, whose remittance advice was dated before year-end, was only received in 2013, according to the Executive Secretary. Following the decision that the receipt should have been accounted for during the year under review, the necessary adjustments were made in the Financial Statements.

The stale cheques will be investigated, and the necessary audit adjustments will be made accordingly, depending on each individual situation. In addition, the amount of €29,925 mentioned in the Management Letter was received by the Council in March 2013, whilst the cheque was backdated to 2012.

Budgeted expenditure for Contractual Services and Information Services was exceeded by €35,951 and €1,374 respectively.

The Council prepared a revised Budget for the year and this was very much in line with expenditure incurred during the financial year under review.

Għarghur

Capital Commitments disclosed in the Financial Statements, amounting to €113,749, relate entirely to road resurfacing works under the PPP Scheme. However, the Budget document for 2013 shows a commitment of €135,000 on construction and improvements. The difference could not be explained and strangely, the note in the Financial Statements is referring to commitments for 2011 and 2012. Additionally, such note does not distinguish between commitments approved but not contracted, and commitments contracted but not provided in the Financial Statements in terms of IAS 16.

As already highlighted in the previous year, variances were noted between the balances recorded in FAR and those in the Nominal Ledger. While cost of assets in FAR is understated by €67,192 when compared to the Nominal

Ledger, accumulated depreciation and Grants are overstated by €67,098, resulting in an understated NBV of €94. Furthermore, the FAR does not reconcile on a category basis.

Notwithstanding that during the financial year 2010, the Council conducted a major reorganisation of its FAR, LGA still identified various shortcomings with respect to asset allocations in the correct categories of the FAR. Although such instances were highlighted in last year's Management Letter, these were still not rectified. Other cases were encountered whereby assets being recorded do not have a detailed description, but are rather recorded in a very generic way. From the audit testing carried out, it also transpired that assets are not tagged to the respective fixed asset code. Consequently, certain assets were not readily identifiable, whilst other items, which were physically identified, had a nil value in FAR. This implies that the FAR is not being updated.

Once again, certain Fixed Assets in FAR were also being assigned the wrong depreciation rate, thus, depreciation expense charged to the Statement of Comprehensive Income was incorrect. Furthermore, depreciation is not being correctly generated by the FAR and subsequently posted to the respective Nominal Ledgers. During the year under review, depreciation was calculated manually on an annual basis. However, no calculations were provided by the Council to verify the workings accordingly for any misstatements. In the absence of appropriate calculations, LGA carried out a generic test for reasonableness, whereby a deviation of 6% from the amount recognised by the Council was noted.

It was also noted that Assets under Construction are being capitalised in parts, when bills are issued by the respective contractors. Even in FAR, these assets are being recorded on an expense incurring basis, rather than capitalised and recorded as a whole project. Moreover, it was only following LGA's recommendation that ongoing projects, overlapping from one financial year to another, were recorded under a separate heading entitled 'Assets not yet Capitalised', in the PPE Schedule disclosed in the Financial Statements.

On the other hand, instances were encountered whereby expenditure of a capital nature was recorded as expenditure of a revenue nature, as

the amounts incurred were directly expensed in the Statement of Comprehensive Income. Re-allocation adjustments, totalling €5,139, were passed to rectify this error.

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 €17,038 representing Grants received on account of the UIF Scheme financing 'Triq Karmnu Zarb' paving project, which, instead of being posted to the long-term Deferred Grants Nominal Account, was recognised directly in the Statement of Comprehensive Income. In another instance, an amount of €6,637, received on account of a Grant to finance the photovoltaic project of 'Gnien il-Paċi', was accounted for using the Capital Approach. Thus, the respective amount was written off directly against the cost of the asset, also ignoring completely the fact that this Grant had been already accrued for in previous years and accounted for using the Income Approach. These issues show serious inconsistencies in the accounting methodology adopted by the Council. Despite that the proposed audit adjustments were approved by the Council, these were not reflected in the Financial Statements.

The Council's Accountant was asked to note the recommendations made by LGA.

The Council did not adhere to the fundamentals of Accrual Accounting and the Matching Concept. During 2011 and 2012, after obtaining the necessary approvals from MFEI and DLG, the Council entered into a PPP agreement with the local football club and band club, to acquire use of sports facilities and musical services in advance for a period of ten and five years respectively. Besides the fact that the Council erroneously calculated the prepaid portion of these agreements, the adjustment was directly posted against the long-term liability recognised on account of amounts due to a contractor, for road works carried out under another PPP agreement with respect to road resurfacing works. The rent prepaid for the Council premises and search light battery site were also incorrectly calculated. Furthermore, a Grant receivable of €466, to finance the locality's library, was completely omitted from the year-end Accrued Income provision. These errors were rectified through the necessary audit adjustments proposed by LGA.

No regular reconciliations were carried out between the Suppliers' Ledger and the actual Suppliers' Statement. This led to discrepancies between amounts recognised in the Financial Statements and the balances due to the respective service providers. Furthermore, whilst carrying out the necessary liability cut-off tests, it transpired that invoices relating to expenditure items, totalling €2,796, were completely omitted from the books of account. Such invoices were then recorded by means of an audit adjustment proposed by LGA.

On the other hand, it was noted that invoices amounting to €3,974 were recorded as accrued expenditure, even though these were dated in 2012. In addition, audit testing carried out revealed that whilst certain accrued expenditure remained unaccounted for, in another two instances, the cost of the website, as well as the amount incurred for public convenience maintenance, was accrued for twice. Consequently, this resulted in a net understatement of €1,182, which was eventually corrected through an audit adjustment.

Included within Receivables is an amount of €4,704 due by WSC on account of road reinstatement reimbursements, and an additional amount of €4,462 relating to Accrued Income also receivable from WSC. From independent information provided by the Corporation, only the amount of €1,103 is claimed as payable to the Council, out of which the balance of €900 is being contested by the former. These discrepancies resulted from the fact that, at times, amounts receivable were accounted for twice. Following a thorough reconciliation carried out by LGA, the Council approved the necessary audit adjustments to address these errors and rectify the situation. A Provision for Doubtful Debts was also recognised in respect of the amount for which the Corporation independently confirmed that no payment will be made.

LGA's recommendations were noted.

Along the years, the Council has published various books for resale with the locality's theme and as at year-end a total of 796 books were still in hand. However, even though the Council maintains a perpetual inventory system for these publications, no value of the closing stock of these books was recognised in the Financial Statements. Eventually, the cost incurred for the publication

of the said books was immediately written off and expensed in the Statement of Comprehensive Income. Furthermore, LGA was not provided with enough detail to propose the necessary audit adjustments.

The Council will do its utmost to improve the perpetual inventory system even though the value of the stock held is minimal.

The Council has availed itself of the PPP Scheme launched through Memo 45/2010, by virtue of which it has entered into a contract with respect to road resurfacing works amounting to €317,318, out of which the balance of €126,928 was settled immediately. The resulting balance of €190,390, which is to be paid over a number of years, was then fully recognised as a liability. During 2012, the Council honoured the repayment commitment for the year, forming part of the agreement and amounting to €50,285. However, this amount was set-off against the long-term portion of the Grants received on the same project, thus reducing future Deferred Income to the Statement of Comprehensive Income by the same amount. Furthermore, despite that the repayment commitment for the financial year 2013 amounts to €25,143, this balance was not reclassified from long-term to short-term Payables. Upon verification of the correctness of the matter, LGA noted that the amount due to the contractor within one year amounts to €39,726, thus resulting in a variance of €14,583. Following LGA's recommendation, the Financial Statements were adjusted accordingly.

LGA's recommendation was noted.

Għasri

The contract covering the provision of the refuse collection expired on 31 December 2010, and an extension letter was drawn up by the Secretary to inform the supplier that the contract was being extended. Notwithstanding that a new tender for such service was issued, by year-end the Council was still waiting for the adjudication board to choose the winner for such tender. During the year under review, the amount paid by the Council for such services amounted to €10,433. The new contract was then entered into on 1 April 2013 with the same service provider.

The expired tender was extended up till the end of March 2013 until the adjudication of the new tender. In fact, a new contract agreement was signed on 1 April 2013.

Assets amounting to €79,602, which should have been capitalised under the category Special Programmes – Resurfacing, were instead capitalised under the category Construction. It was noted that costs relating to the same projects were previously classified under the category Special Programme – Resurfacing.

The Council does not have an insurance policy in place to cover the items of PPE falling under its responsibility, which at year-end had a total cost of €692,754.

As recommended by LGA, the FAR is being updated and the Council will ensure that an insurance policy will be in place to cover the assets falling under its responsibility.

Testing carried out revealed that the Council failed to account for invoices, totalling €2,070, that were issued to a local company, in respect of administrative work carried out in connection with the collection of recyclable refuse. The Executive Secretary claimed that although the respective cheques were dated in December 2012, these were only received in February 2013. The related income was accounted for by means of an audit adjustment proposed by LGA.

Recommendations put forward by LGA were agreed upon by the Council. All the necessary audit adjustments were passed.

Instances were encountered whereby the Council paid out the amount of €255 for gifts, such as hampers, which were provided to the elderly.

The Council would like to point out that these were gifts given out to elderly people during a Christmas activity and thus, these should not be considered as a donation. These small presents were given out to show appreciation and encouragement for attending such activities.

Expenditure incurred for Repairs and Upkeep, as well as Professional Services, exceeded the stipulated Budget by €7,616 and €3,382 respectively.

Whilst the Council will be more cautious so that this situation will not repeat itself, it would like to point out that the Budget in general was not exceeded and in fact it ended the financial year with a surplus.

Għaxaq

At time of audit, the Council had not yet compiled a FAR. From the necessary audit verifications carried out, the following shortcomings were encountered.

- a. As regard the PPP resurfacing project, the Council only recorded the interim invoices issued, rather than the total cost of the project as measured by the bill of quantities and certified by the project manager. This resulted in a discrepancy of €171,643. Hence an audit adjustment was proposed to recognise these unrecorded assets in the books of account.
- b. Notwithstanding that works carried out on the upgrading of a playing field near the housing estate were still ongoing at year-end, costs of €13,567, incurred up to the reporting date, were capitalised. Furthermore, depreciation was charged thereon. An audit adjustment to reclassify this capital expenditure to Assets under Construction and reverse the depreciation charge, were approved by the Council.
- c. The Council recorded additions to construction assets that were already accrued for in the previous financial year. The value of these additions, amounting to €20,268, was reversed against Accruals by means of an audit adjustment.
- d. Professional fees of €13,329, incurred in connection with capital projects, were expensed in the Statement of Comprehensive Income. LGA proposed an audit adjustment to capitalise this expenditure with the cost of the asset.
- e. Playing field equipment was incorrectly depreciated at 10% *per annum* instead of 100%.
- f. Contrary to that laid down in pertinent regulations, the Council is computing

depreciation manually. Upon the recalculation of the depreciation charge, following the incorporation of the audit adjustments mentioned above, it was noted that this was understated by €12,710. Thus, an audit adjustment was proposed to rectify this error.

The Council is still in the process of re-compiling the FAR. The data available is not complete as yet and an effort is being made to access old accounting records to enable the completion of certain missing details, like suppliers and location of the asset. Consequently, the depreciation charge is not being calculated through the month-end routine in accounting software, but manually through the use of a spreadsheet. Besides the adjustments required in the depreciation charge as a result of unrecorded assets, there was a mistake in the calculation of the depreciation charge of Urban Improvements. LGA was informed about this mistake during the audit. Once the FAR is updated in Evolution, the month-end routine for depreciation purposes will be applied.

Under normal circumstances, the Council recognises all additions to Fixed Assets in its books of account. The exclusion of the PPP resurfacing project accrual was the result of uncertainty as to the extent to which the PPP project is to be accrued. Adjustments proposed by LGA were approved and the Council shall ensure that all capital expenditure is recorded in its books at the appropriate time. Furthermore, the latter shall also ensure that accrued expenditure is reversed from the same account at the beginning of each financial year.

All expenses related to capital projects shall be capitalised in the future. Audit adjustments, proposed by LGA to classify work in progress in a separate category, have been posted in the Council's accounting records. The Council shall, in the future, continue to classify work in progress under the Assets under Construction category.

Further to Memo 45/2010, the Council qualified for Grants of €135,974, out of which only €60,418 was received by the end of the financial year. The Council did not account for any provision in respect of accrued Grants receivable on the completed phases of the project.

As part of the PPP project, the Council carried out WSC civil works, the cost of which amounted to €22,616 in the year under review. According to an email from DLG, the latter will finance 30% of the cost of these works equivalent to €6,785. Since the Council failed to account for this accrued income, an audit adjustment to cover Grants receivable was proposed by LGA and approved by the Council.

LGA's observation regarding Grants was noted. The Council instructed its Accountant to ensure that in future Grants are accounted for according to IFRSs.

During the year under review, the Council procured and installed photovoltaic panels, in respect of which a Grant of €4,454, was received. Besides that these assets were erroneously assigned with Office Furniture and Fittings rather than with Plant and Machinery, the Council also recorded the full Grant as income for the year. Likewise, the amount of €1,500 in settlement for reinstatement works performed in 2008 and 2010, as well as a receipt of €234 from a public limited company, were both credited to Income instead of being charged against the respective Debtor account. The Council also failed to account for income of €3,666, received in the form of a Grant, in respect of a sports activity which the Council organised in collaboration with 'Kunsill Malti għall-Isports'. The Council approved the necessary audit adjustments to correct these errors.

The classification of photovoltaic panels is rather subjective. However, LGA's recommendation was noted and the respective asset was reclassified from Furniture and Fittings to Plant and Machinery.

The Income Approach is to be used when recognising income received from Grants. The Council shall ensure that all receipts that were previously accrued for are not taken to income but charged against the respective debtor account.

The Council shall ensure that all income from Grants receivable is recorded in the year in which the activities are held.

Another audit adjustment of €3,140 was proposed to the Council to correct the release of Deferred Grants to Income, which were understated by the same amount. This adjustment was approved by

the Council and was correctly reflected in the final set of Financial Statements.

The audit adjustment proposed by LGA has been posted and included in the Financial Statements. A schedule of Deferred Grants shall in the future be drawn up, as suggested.

Included in the Council's Creditors' List at year-end is an overdue balance of €18,221 payable to a service provider. This amount is being disputed by the Council because of latent defects in the work carried out by the contractor. However, the Executive Secretary claimed that the latter has agreed to re-perform the works during 2013, and thus it is expected that the issue will be resolved over the coming financial year.

No further comments received.

A total of €4,245 debit balances were noted in the Creditors' List as at year-end. Out of the aforementioned balance, the amount of €3,575 related to a payment made during 2012, in respect of two invoices that were completely omitted from the accounting records. The remaining balance of €670 was reclassified to Other Debtors, whilst the respective invoices were accounted for through an audit adjustment.

These debit balances are to be investigated and any write-offs will be approved where necessary.

The Council's Financial Statements indicate that anticipated Capital Commitments over the next financial period amount to €205,665. This contradicts the same Council's financial Budget, which estimates a capital expenditure of €176,414 for the same period.

The discrepancy between 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. The fact that the Budget is prepared on a Cash Basis also contributes to the discrepancy.

A year-end balance of €13,567, relating to a new bank account held with a local bank, was incorrectly included with an existing account held with another local bank. LGA proposed an audit

adjustment to reclassify this balance to a new account.

LGA's recommendation was noted and the necessary adjustments were approved.

As reported in previous years' Management Letters, the Council's inventory, whose cost amounted to €3,148 at year-end, comprises books held for free distribution. Thus, it is unlikely that these items will have any realisable value. Furthermore, a stock list confirming the said inventory was not provided for audit purposes.

The Council shall take up LGA's recommendation and will be writing-off the inventory value during the next financial year.

An amount of €803 was expended on a Christmas party, organised for Councillors, administrative staff, contractors and members of organisations, including Gal Xlokk.

The Council's expenditure on social activities is very limited. Nonetheless, the Council shall in the future abide by the regulations in this regard.

Monthly payments of €26 are being paid out of the Council's funds for an internet key connection. Furthermore, reimbursements of €55 in respect of a car accident, and €10 for a mobile top-up card, were also identified.

The internet key is used during the performance of Council duties and is needed when work needs to be carried out from locations where internet is not available. The Council is re-evaluating the need for the key and will decide whether it is to be retained or not.

The mobile top-up card mentioned by LGA was used to top-up the mobile phone belonging to the Council and used for Council work. This mobile phone is rarely used since Councillors and employees normally use their personal mobile phones without claiming any reimbursement.

Hamrun

Capital Commitments for the forthcoming year, amounting to €278,612, were not disclosed in the unaudited Financial Statements. The final set of

Financial Statements was adjusted accordingly following LGA's recommendation.

This matter was addressed in the final Financial Statements.

As in the prior year, following audit verifications carried out on LES Income and LES Debtors, significant variances were noted between the accounting records and the relevant reports downloaded from the system. Upon enquiries performed by LGA, the Council provided a number of accounting adjustments, reducing the discrepancy in LES Debtors from €152,188 to €3,647. However, testing carried out revealed that the increase in the Provision for Doubtful LES Debtors, recognised during the year under review, was still overstated by €20,662. Since explanations for the differences found were not provided, and in the absence of a reconciliation of all LES Debtors and receipts, relevant audit procedures to verify existence and completeness of LES Income, as well as LES Debtors and Creditors, could not be performed. Thus LGA's audit opinion was qualified in this respect.

The Council would like to remark that it has done every effort to be able to reconcile the books of account to the relevant reports following DLG's directives. All other comments made by LGA have been noted.

An amount of €35,000, representing Grants receivable for the embellishment of a public garden in front of the Council offices, was accrued for, notwithstanding that the balance confirmed by MEPA, through correspondence dated 21 February 2013, was only €25,000. This resulted in both Accrued and Deferred income being overstated by €10,000. The Council approved to adjust the amount accordingly.

Furthermore, the Council recorded an amount of €11,651, receivable from WSC for trenching works carried out during 2012. However, from the testing performed, it transpired that no refunds will be received as the respective work was not actually performed. Following LGA's recommendation, the Council approved to write off this balance from the accounting records.

Adjustments proposed by LGA have been approved and reflected in the books of account. All further comments have been noted.

Audit testing carried out revealed that Accruals accounted for by the Council are not complete. Instances were noted where amounts payable to the South Regional Committee and other balances incurred for street lighting maintenance have been omitted from the books of account. Due to these shortcomings, Accruals were understated by €16,881. Following LGA's recommendation, the Financial Statements were adjusted accordingly.

A Grant of €6,085, received for the purchase and installation of photovoltaic panels, was incorrectly recognised as income during the current year. Additionally, included in Deferred Income is a balance of €1,079 in respect of a Grant received in prior years under the Sustainable Localities Scheme, despite that the respective project was completed and no further expenses will be incurred. Moreover, whilst reviewing the Council's workings for the release of Deferred Grants to Income, it transpired that the release was not made in accordance with the Income Approach of IAS 20. Following queries raised by LGA, the Council revised the workings and the necessary adjustments were posted to correct the errors encountered.

The proposed adjustments were made in the Council's books of account. All other comments have been noted.

During the year under review, the Council entered into a 'European Social Fund' (ESF) project 'Promoting Life-Long Learning amongst Civil Society Organisation Voluntary Staff'. However, as per report prepared by the Planning and Priorities Coordination Department (PPCD) highlighting irregularities, it was noted that the Council's evaluation was based on a set of criteria different from that indicated in the respective tender. In fact, the Evaluation Committee failed to give any weight to the financial aspect of the tender and experience was used as the main award criterion. Furthermore, notwithstanding that the invoice was for 20 participants, the attendance sheets only recorded the signatures of seven persons, implying that only part of the invoice is eligible for co-funding. Consequently, the Council had to pay an amount of €6,097, representing non-eligible expenditure caused by the aforementioned irregularities.

The Council is aware of the decision taken by PPCD, which decision was discussed

during several Council Meetings. Since the former was unsuccessful in bringing together enough participants to reach the set target, after consultation with PPCD, the project was terminated.

An unreconciled difference of €8,444 was noted between the balance disclosed in the books of account (€12,028) and that recorded in the respective Supplier's Statement (€3,584). The Executive Secretary was unable to identify the supplier invoices pending payment at year-end and a valid explanation for this difference was not provided. In view of this, a qualified audit opinion was issued.

Although beyond its control, the Council will do its best to obtain statements from all suppliers at year-end. Moreover, the Council accepts the recommendations put forward by LGA and will correct the Creditor's balance mentioned in the audit report.

As already reported in the previous year's Management Letter, Assets under Construction were included in FAR and depreciated over years in which these were not in use. The car park was completed and ready for use at the beginning of 2012, however the start date for the depreciation charge on construction works of the said asset was set at 26 October 2006, implying that by year-end, extra depreciation charged in aggregate amounted to €30,067. Furthermore, on the basis that the rent could be extended indefinitely, the Council decided to depreciate its premises and the car park over a period of 100 years, despite that the land lease agreement is for a period of 30 years.

The Council agrees with LGA's recommendation and will amend the depreciation rates to reflect the 30-year period lease agreement.

A public access terminal costing €4,214, its corresponding two-year maintenance agreement of €786, and the related Grant amounting to €5,000, were not recognised in the books of account. The Council approved adjustments proposed by LGA to include these balances in the books of account and to recognise the depreciation charge thereon of €653. An additional adjustment was made to release the corresponding Deferred Income. Furthermore, a total net difference of €2,180 was noted between NBV as disclosed in the unadjusted

Financial Statements, and that illustrated in the Nominal Ledger which resulted from Fixed Assets additions, amounting to €2,180, being omitted from the unaudited Financial Statements.

The adjustments proposed by LGA have been incorporated in the books. The Council has provided a FAR which matched the NBV of the assets presented in the Council's books, after a small difference in the presentation had been identified and corrected in due course.

Litter bins procured during the year were recorded as capital expenditure rather than accounted for on a Replacement Basis. The Council approved to reverse the respective additions of €1,891 and the related depreciation charge.

The adjustment proposed by LGA had been incorporated in the books of account.

The bank reconciliation provided for audit purposes, included two stale cheques amounting to €1,353.

The Council accepts the recommendations put forward by LGA and will investigate the stale cheques and reverse them in the books of account.

The additional amount of €1,029 claimed by the Commissioner of Inland Revenue (CIR) for FSS payments, as well as the fact that the Council has been drawn into a court case for claims made by a private limited liability company, whereby the possible outcome and subsequent liability are yet unknown, were not disclosed in the unaudited Financial Statements. Following LGA's recommendation, the Financial Statements were amended accordingly to include these Contingent Liabilities.

Most of the points mentioned in the Management Letter have been complied with in the final set of Financial Statements as approved by the Council. Furthermore, the Council will do all effort in order to ensure that its Financial Statements will be in full compliance with IFRSs.

Iklin

Capital Commitments as disclosed in the Financial Statements are overstated by €190,686 when

compared to those reported in the 2013 Budget document approved by the Council.

The Capital Commitments included in the Financial Statements include road resurfacing works under the PPP Scheme, which Scheme is payable over a period of eight years. It also includes the restoration/reconstruction of rubble walls which is to be reimbursed from EU funds.

In the unaudited Financial Statements, the Council disclosed a Contingent Liability of €19,059 which was already recorded in the books. Following LGA's notification, the Council removed the respective disclosure in the audited Financial Statements.

The note with regard to WasteServ Malta Limited was removed in the audited Financial Statements.

Included with long-term Deferred Income is an amount of €18,670, which was received more than ten years ago in respect of the construction of a car park and football ground. The said project is still in its initial phase and the only expenses incurred relate to Architect's fees, amounting to €11,800. Upon further inquiry, the Executive Secretary claimed that the Council was waiting for the Land Department to issue a call for tender, however if the project is approved this will be the responsibility of the Government and not the Council. Consequently, the latter was advised to seek clarification as to who will finance the project and whether the remaining funds are to be refunded back to Government, if the project is to be financed by the latter.

Furthermore, the respective Architect's fees amounting to €11,800 were not recognised as Assets under Construction.

LGA's instructions were noted and the Council will do its utmost to put more pressure on the Lands Department to address this long outstanding issue. Following a resolution approved in Parliament dating back to 23 June 1999, which states that the funds not used up shall be used for the resurfacing of roads within the locality, the Council has used up the remaining funds as per resolution and therefore confirms that no further funds are available. A copy of these documents were forwarded to LGA.

In the future, professional fees on items of a capital nature will be capitalised together with the cost of the asset.

Included within Accrued Income was the amount of €2,250 relating to WSC reinstatement works. Given that this income was received on 30 December 2012, an adjustment was passed to reclassify this amount to bank.

The deposit was taken to the bank on 30 December 2012, but the cheque was still not cleared by 31 December 2012. Further to LGA's suggestion, this entry was amended and recorded as an unreconciled item in the bank reconciliation.

A difference of €974 was noted in the rent expense, between the accounts and the invoice. The difference mainly pertains to the incorrect reversal of the opening prepayment. Furthermore, the amount recorded as closing prepayment was incorrectly recorded in the books of account.

In the future, reversals of opening prepayments will be correctly recorded to ensure that the expense reflects the actual charge for the year.

It was noted that the Council did not obtain statements from all suppliers. In fact, a discrepancy of €556 was noted in the amount payable to a service provider. Further testing revealed that this was due to the fact that, the Council had incorrectly recorded in its books an invoice relating to road resurfacing expenditure. It also transpired that this respective supplier issues requests for payments, and raises the invoice after the Council places its payment.

The Council will continue to follow LGA's recommendations on this matter, however contractors and suppliers of professional services, for VAT purposes, are allowed to issue invoices once they are paid so that they will only record in their books of account the liability for VAT once this has been paid by the debtor.

Isla

Notwithstanding that in the Financial Statements the Council disclosed Capital Commitments of €125,427, relating to amounts expended on the PPP Scheme for a road resurfacing project, this

capital expenditure was not recorded in the Budget for 2013. The Executive Secretary explained that such project would not be effectively carried out in 2013, and thus the disclosure in the Financial Statements was not required. On the other hand, included in the Budget document for 2013, as approved by the Council, are budgeted capital expenditure of €49,457, which items were not disclosed in the Financial Statements as Capital Commitments.

Furthermore, given that there was no public call for tenders, the selection process, for the purchasing of services relating to the refurbishment of public convenience, amounting to €5,000 was not in line with the Local Councils (Tendering) Procedures.

Action will be taken to implement LGA's recommendations.

The Council is experiencing some difficulties with the collection of fines adjudicated in its favour by the Local Enforcement Tribunal. Furthermore, LES receivables disclosed in the Financial Statements, totalling €129,470, exceeded the amounts recorded in documentation extracted from the LES computerised system, by €10,773. Meanwhile, the Provision for Doubtful Debts recognised thereon was understated by €755. Following LGA's recommendation the Council has undertaken the necessary adjustments to rectify the matter accordingly.

The Council has undertaken the necessary adjustments in the Financial Statements. Moreover, action will be taken to implement LGA's recommendation.

Notwithstanding that the Council does not have ample evidence to show that the amount of €10,900, being WSC reinstatement fees for the period 2011 and 2012, is due and will be settled, the said amount was still recognised as a Receivable. However, following LGA's recommendation, the Council approved the necessary adjustments and recognised a Provision for Doubtful Debts against such balance.

The amount receivable from WSC reflects reinstatement jobs done in Isla during 2012 and covers an invoice issued by the Council as per agreement with WSC. As these are funds due to the Council, the latter is continuously chasing WSC for payment.

Upon verifying and reconciling the amounts disclosed in FAR with those recorded in the Nominal Ledger, it was noted that whilst the cost of Urban Improvements as recognised in the latter document is overstated by €673, the cost of Special Programmes is understated by the same amount. Moreover, computer software, with a NBV of €258, was accounted for in both the Financial Statements and FAR under the 'Computer Equipment' category. It was also noted that disclosed under the category of Urban Improvements in FAR is an asset described as 'Opening Balance Adjustment', with a cost of €5,031.

Furthermore, a number of litter bins are not fully depreciated in line with the accounting policy outlined in the Financial Statements. The Council also failed to recognise depreciation on an asset addition costing €2,760. In addition, new lighting in 'Gardjola Gardens', costing €4,786, that was purchased during the year under review was incorrectly depreciated at 10%, rather than at 100%. Consequently, the amount of Grant received for the procurement of such asset, which was released to the Statement of Comprehensive Income, was understated by €4,074. In view of the latter case, the necessary audit adjustments were passed to correct the respective error.

The Council has undertaken the necessary adjustments in the Financial Statements. Furthermore, action will be taken to implement LGA's recommendation.

Despite that as from 2 April 2012 the Council had a new Mayor, from the bank certificate supplied by the Council's bank to LGA, it was noted that the former Mayor is still listed as the bank representative of the Council.

Upon the change of the Mayor, the Council took all the necessary actions and filled in all the required documentation at the bank to make the relative changes in bank representatives and signatories of the Council. However, this matter will be followed up with the bank.

By the time of the audit, the Council did not have an audited report of the administration and management of a five-a-side synthetic football ground. Furthermore, in the Financial Statements, only €145 has been recognised as income from

the hire and use of the ground. Considering the substantial investment undertaken by the Council on this project, with the aim that, apart from providing a recreational facility to the locality, it will be a source of revenue to the Council, the income generated there from seems to be trivial.

The Council is continuously monitoring the control of the operations and financial aspects of the football ground. As regard operations, an Executive Board made up of three Council members and two members from the Senglea Nursery is formed up with the role of controlling such operations. As regard finances, weekly reconciliations are carried out between the Council and the ground manager. Also, monthly accounts are prepared by the Council, which are being approved by both the Council and the Executive Board. Finally, yearly Financial Statements and audited Financial Statements are prepared for Council and Board approval.

During the year under review, the Council financed the procurement of oranges costing €1,950, which were distributed to all the residents of the locality by way of a gift during the Christmas period. Furthermore, an amount of €220 was paid for hampers that were given to Councillors.

During 2012 it was decided to offer oranges instead of the usual diary/directory given to the residents. The hampers distributed to the Councillors are a way of showing appreciation towards the work done within the Council's responsibilities. This has been done in previous years too.

Kerċem

Contrary to the Local Councils (Tendering) Procedures, no public call for tenders was issued for the provision of road works carried out in April 2012. The amount paid in this respect totalled €6,366.

Point not addressed.

The total cost in FAR was less than the cost of PPE as disclosed in the Financial Statements, by €365,798. On the other hand, total accumulated depreciation in FAR was €115,053 more than the total depreciation in the accounts.

Furthermore, as was also the case in the previous year, all the additions procured during 2012, amounting to €66,680, were not included in FAR, thus implying that the register is not being updated at all.

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 these adjustments refer to, but only knows that these relate to prior years' audit adjustments. This issue was already highlighted to the Council in the previous years, 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.

Consequently, depreciation is being calculated manually rather than through 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 and Construction, Office Equipment, Computer Equipment and Special Programmes was overstated by an aggregate amount of €12,242. These variances resulted mainly due to Government Grants not being taken into account when calculating the depreciation charge. Moreover, additions for the year were added to the opening NBV instead of being included in the correct month. This has resulted in depreciation being calculated on a full year basis rather than on a monthly basis. The necessary audit adjustments were passed to rectify the related variances in the depreciation charge.

It was also revealed that Fixed Assets additions made during the year under review, amounting to €18,467, were not accounted for. These comprised works carried out on two roads under the PPP Scheme amounting to €6,912, light fittings and part of an invoice relating to granite and marble works at the Civic Centre totalling €8,820, as well as decorative luminaries costing €2,735. These additions, and the related depreciation charge thereon, were incorporated in the books of account through the audit adjustments proposed by LGA.

On the other hand, the Council incorrectly capitalised the amount of €4,200, paid out in respect of maintenance works carried out on 'Triq

Għar Ilma, the cost incurred for the procurement of new street signs totalling €1,552, as well as penalties of €2,050 charged by MEPA. Following LGA's recommendation the Council approved to write off these expenses to the Statement of Comprehensive Income.

PPE has been an issue for the Council for a number of years. It's the intention of the Council to tackle the FAR problem and to compile, reconcile and update the latter. As discussed also in the Management Letter itself, this is not an easy and straight forward task but the Council has already begun the process of analysing the present FAR, reconciling it to the Financial Statements and keeping it updated.

The Council failed to account for Accrued Income, totalling €47,216. From this amount, €40,665 relates to Grants receivable in respect of the PPP Scheme, whilst the remaining balance of €6,551 is receivable in connection with three different activities which have been completed by the end of the financial period. These transactions were then recorded through audit adjustments.

A receipt of €587, relating to opening Accrued Income with respect to reimbursement of travelling costs, was incorrectly recorded as income for the current year. On the other hand, two Journal Entries, totalling €6,110, were passed to reverse Accrued Income against Income accounts, despite that this amount was not included in the prior year's list of closing Accrued Income. Following LGA's recommendation, the Council approved the necessary audit adjustments to rectify these errors.

Meanwhile, the amount of €673 recorded by the Council as Accrued Income against Sundry Materials and Supplies account, was not supported by any documentation. Queries raised by LGA on the subject matter remained unanswered as no one was aware of what this figure is actually made up of. In view of this an audit adjustment was made to reverse this entry.

During the preceding year, the Council had accrued for income receivable of €14,900 from WSC with respect to road reinstatement works, covering the period from August 2010 to December 2011, which amount remained unsettled. Upon queries raised by LGA on the recoverability of this outstanding balance, the Council claimed that it is

improbable that this will be recovered since road reinstatement works, as agreed under the new agreement with the Corporation, have not been actually carried out by the Council. Consequently, the latter agreed to fully provide for this amount through an impairment provision.

Points noted. Any audit adjustments relating to the accounting of Accrued Income were posted in the accounts and thus their effect is included in the audited Financial Statements. For the future, any revenue not yet received as at year-end, will be accounted for using the Accruals Concept.

Grants receivable on five projects, totalling €47,862, were entirely 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 of the particular asset.

On the other hand, instances were encountered with respect to Grants received in relation to projects that were completed during the year under review, for which no amortisation was accounted for in line with the respective depreciation charge. In addition, various calculations of the amortisation charge were found to be incorrect, resulting in a net variance of €6,560. An audit adjustment was made to reverse the Council's postings and to record the correct release of Deferred Income for the year.

Deferred and Accrued Income recognised during the preceding year, covering two separate projects relating to the construction of rubble walls, were overstated by €634 and €3,491 respectively. The necessary audit adjustments were passed to reverse these overstatements.

Points noted. Any requirements, in relation to the amortisation of Government Grants, coming out from IAS 20 will be adhered to.

From the cut-off testing carried out, it was noted that accruals for expenditure have not been correctly accounted for. It transpired that there were items that should have been accrued or accounted for as creditors, but which were omitted from the Financial Statements. Such items amounted to €14,839. The necessary adjustments

were approved by the Council and reflected in the final set of Financial Statements. In addition, a reclassification adjustment of €2,087 was passed to re-allocate the balance due to IRD, from the Creditors' account to a separate account.

Whilst noting the requirement of the Accruals Basis when preparing the accounts, one has to keep in mind that the accounts are prepared in the first weeks of 2013, so as to be approved by the Council in the second week of February to meet the deadline. Thus, it is very common that invoices relating to 2012 would have not yet been received by the cut-off date. Although every effort is made to accrue for any expenses not invoiced, it's not always possible to accurately calculate the accrued amount.

Testing carried out revealed that income for the year was not allocated to the proper income account. In fact two adjustments, of €3,876 and €533, were approved by the Council to re-classify amounts disclosed from General Income and Annual Government Income respectively, to Other Income. Moreover, it was noted that cash collected before year-end with respect to the sale of stamps, MaltaPost p.l.c. commissions, registered letters and permits, amounting to €1,053, was completely omitted from the financial records. These amounts which were then deposited in the beginning of 2013, were included as income for 2012, by means of an audit adjustment.

Points noted. Any proposed audit adjustments were posted and thus the Financial Statements include the effect of the proposed reclassifications and audit adjustments.

It was noted that in the account named 'Sundry Materials and Supplies', there were various incorrect entries. From the audit verifications carried out it transpired that this account was used to dump in it figures that, due to lack of details, the Council was unsure where to post them. Other entries in this account were on the credit side as these actually related to variances that remained unresolved while reversing the opening accruals. All these transactions were adjusted through audit adjustments proposed by LGA.

No comments submitted.

A review of the Personal Emoluments paid out from the Council's funds during 2012, revealed the following shortcomings:

- a. The FS5 for December 2012 was not correctly filled in as NI contributions in the FS5 form represented only one amount of €503 payable by either the employee or the employer.
- b. All the FSS forms were not correctly filled in, since the Mayor's honoraria and Councillors allowances were included in the part-time emoluments box, although these do not fall under the part-time regulations. Furthermore, the Mayor's honoraria for the first three months was taxed at the rate of 39%, which rate is higher than the highest tax rate of 35% applicable in Malta.
- c. Errors were also noted in the computation of salaries and a number of over/understatements in the emoluments paid were encountered.
- d. FSS tax and NI contributions were recorded all in one account, while income supplements were not shown separately.
- e. The monthly payment as per FS5 for December 2011, amounting to €3,538, was incorrectly posted in the NI expense account for 2012. Likewise, the reversal of the accrual of the performance bonus for 2011, totalling €3,254, was erroneously made in NI account. These errors were adjusted for during the audit.
- f. An amount of €2,411 was recorded by the Council as an expense against the amounts payable to IRD. Since this amount was not supported by any documentation, the transaction was reversed.
- g. Another amount of €2,579 was reversed as an opening accrual despite that this was never recorded as such. On the other hand, included with salaries is a closing accrual of €474, even though this balance was actually settled during the current year. Following LGA's recommendation the necessary audit adjustments were approved by the Council to correct these errors.
- h. A reclassification of €1,600 was made from the Mayor's Honoraria account to the Mayor's

and Councillor's Allowances account.

- i. An amount overpaid to IRD during 2011 was offset against one of the payments made in 2012. This amount of €958 had to be reallocated as it was wrongly posted and was creating a variance in the payroll reconciliation.
- j. To reconcile Personal Emoluments costs with the related FSS forms, an adjustment of €2,616 relating to payroll was posted into the Sundry Materials and Supplies account. However, this entry was reversed through an audit adjustment.
- k. An amount of €353 which was over-paid in the preceding year to one of the clerks, was reversed during the current year when this overpayment was not actually refunded. This was then corrected through an audit adjustment.

Necessary adjustments will be made and posting practices will be updated to ensure that the accounts give a true and fair view of the financial position of the Local Council. Comments about Mayor's honoraria and Councillors' allowances included under the part-time box when these should have been included with the full-time employment box had been noted in last year's Management Letter and in fact the monthly FS5s since April 2012 had been submitted correctly.

Budgeted expenditure with respect to several line items was exceeded. The major excess of €31,169 was registered on contractual services, followed by Employees Wages and Salaries which expenditure exceeded the budget by €3,490.

The Council was predicting a deficit of €526,656 for the year. However, when deducting capital expenditure, this resulted in a revenue surplus of €27,344. Notwithstanding this, as reported in the Statement of Comprehensive Income, the Council still ended the financial year under review with a deficit of €57,718.

The variance between the budgeted and actual expenditure was mainly due to contractual services. This variance was due to the invoice of the street lighting maintenance, the revision in the domestic waste contract, and the accounting for

the waste separation claims of previous years.

Kirkop

Although the three-year tender for the provision of contract management services expired on 16 February 2012, a fresh call for tenders was not issued. The Council continued to use the services of the same service provider. During the year, the amount of €13,451 was expended in this regard.

A fresh call for tenders has been published by the Council on 16 April 2013, with the new tender set to be awarded in June/July 2013.

The total amount of €9,716 was paid to another service provider for the installation of an elevator in the Council's premises. Notwithstanding that the Council issued and adjudicated the tender in 2009, a signed contract was not traced. Consequently, the contract duration could not be determined, and thus it could not be ascertained whether the respective tender had expired or not.

Point not addressed.

During 2010, Kirkop Local Council, together with five other Councils, published their letter of intent to participate in the proposed project entitled 'Empowering Pyrotechnicians for Longevity and a Safer Quality of Workplace'. Whilst 85% of this project was to be financed by the ESF, the other 15% was to be financed by the six participants, and paid to the Treasury Department within MFEI. On 1 December 2010, the Council was informed that its application, to act as the lead partner of the project and the other Local Councils as participants, was accepted for the co-financing, on condition that the application was accepted by the Managing Authority within PPCD. On 24 October 2011, the project was formally approved by the latter and on 28 July 2012, a contract was signed between PPCD and the beneficiaries of the project. The agreement stipulated that the participants will contribute their 15% share, while upon the receipt of the contractors' invoices, PPCD will pay the contractors. The following shortcomings were noted:

- a. Kirkop Local Council did not contribute its 15% share (€6,874) like the other participants. Being the lead partner and administrator of the project, the Council did not feel the need

to give their share. However, this exception was not included in the contract.

- b. On 13 January 2012, a call for tenders for the provision of a project coordinator, researcher and training provider, was issued. The first tender was adjudicated in favour of Malta European Mobility, whilst the other two tenders were both awarded to 'Cooperazione Sud per l'Europa'. Although the Procedures stipulated that the Schedules of Offers for two of the aforementioned contracts should have been signed by two Councillors and the Executive Secretary, these were only signed by the former Mayor and Executive Secretary.
- c. The contractors were not presented with a Letter of Acceptance indicating the commencement date. This letter was also to include a request for the submission of the Performance Bond, equivalent to 10% of the contract value, within seven days from the date of the Letter. However, in the absence of the Acceptance Letters, the contractors did not furnish the Council with the Performance Bonds, whilst the respective services were still provided to the respective participants. It was only in December 2012 that the relevant Performance Bonds were delivered.
- d. Due to the fact that the Council did not comply with the Grant agreement when the Performance Bond was not requested, and also failed to input the contractor's invoices in the system, PPCD did not honour the payments due to the respective contractors. Consequently, the amounts of €5,030 and €8,236 were paid to Malta European Mobility and 'Cooperazione Sud per l'Europa' respectively, by the Council via bank draft. Both payments included the 15% share that should have been borne by the participants. Moreover, bank charges of €60 on both payments were also borne by the Council.
- e. Since the agreement signed with PPCD was not observed, the Council terminated the project during January 2013. In fact, the Performance Bonds, which were sent by the contractors in December 2012, were released.

This project was commenced by the previous Local Council and Executive Secretary. The present

Local Council tried to rectify its position and the shortcomings in this project, but to no avail. Thus, it decided to terminate the project.

Included with the Council's bank accounts is an account relating to the 'Ecoagro' project, which, as explained by the Executive Secretary, entitles students to go abroad to study and practice agriculture and farming. Following requests for a copy of the signed contract of this project, the Executive Secretary claimed that this was not available at the Council's premises.

In August 2011, the Council received €30,620 from the EU Programmes Agency, against which, no costs were incurred by the former during that same year. However, during 2012, 15 students travelled to Portugal, Spain and Italy. Expenses incurred by the Council, which were fully paid out through bank drafts from the aforementioned bank account, totalled €26,262, out of which the amount of €6,742 was paid to the then Mayor and Executive Secretary as a refund for flight tickets paid on behalf of the students. In addition, the amount of €6,402 was paid to a foreign entity, whilst another two were each paid the sum of €6,559. Testing carried out revealed that these payments were not covered by a call for tenders, and thus the basis on which the respective contractors were invoicing the Council could not be verified. Moreover, since a formal contract was not provided, it could not be determined whether the above-mentioned service providers were formally selected by EU.

'Leonardo da Vinci Initial Vocational Training' projects do not involve tendering procedures. The coordinator, which in this case was the Kirkop Local Council, found partners at application stage, who wanted to support the project if it was awarded. The partners interested had to send a Letter of Intent to the coordinator of the project and copies of these letters had to reach EUPA (the national agency which awards these projects) with the application. The latter would then request the original Letter of Intent if the project is awarded. This is the only binding document between the parties required by the 'Leonardo da Vinci Initial Vocational Training' project rules. These partners have to be from the EU as they eventually will host students in the EU – the project only allows for funding in the EU.

The following shortcomings were noted following a review of the expenditure incurred on 'LitusGo' project:

- a. Contrary to that agreed upon during Council meeting 23, held on 29 March 2010, the two technical books providing information on innovative management of natural resources for small islands, such as Malta to teachers, students, counsellors, NGOs and the general public, were not issued following the completion of the project.
- b. As per contract, eligible costs for reimbursements amounted to €55,855. However, since the Executive Secretary in office was not involved in the project, he could neither identify the costs claimed for reimbursement nor the nature of expenses that are not reimbursable to the Council. Moreover, LGA was not provided with the annexes to the contract, particularly the 'breakdown of estimated budget, according to headings of eligible costs'.
- c. The aim of 'LitusGo' contract was to issue the technical books referred to above. Article II.9 of the respective agreement specified that the tender for the issuance of the technical books was to be awarded to the bidder offering the best value for money. Notwithstanding this, LGA was not provided with any evidence indicating that the Council had issued a tender in this respect, or had reviewed different bids to determine which one offered was the most favourable.
- d. No supporting documentation was provided, to substantiate the amount of €576 incurred on flight expenses. Furthermore, workings regarding the basis upon which wages/allowances of €5,755 were calculated and paid were not available. Thus, the auditor's report has been qualified.
- e. Council meeting 23, held on the 29 March 2010, also stated that as a result of this project, the Council has benefited from three laptops and a projector. However, upon physical inspection, only two laptops and a projector were found at the Council premises. Moreover, since the Council does not tag its assets and no Plant Register is available, LGA

could not ascertain whether the laptops on site were in fact those made available for this project. Furthermore, no documentation was forwarded, indicating whether such assets would have to be returned once the project ends. The contract agreement specifies that the project should have ended on 31 May 2012, but during the audit, the assets in question were still at the Council's disposal.

As per information disclosed in the books of account, since 2010, the Council earned income of €26,749 from this project, whilst total expenditure of €32,837 was incurred. This resulted in accumulated deficit of €6,088, thus worsening further the Council's liquidity position. However, as already highlighted in previous years' Management Letters, supporting documentation validating this expenditure was never provided.

This project was carried out during the last legislature which ended on 31 March 2012 and certain issues cannot be addressed by the current administration. By the time of the drafting of its reply, the Council was still waiting for the final audit report by PPCD, in order to finally close the project.

The Council failed to provide proper bank reconciliations for three bank accounts held in its name. Two of the said bank accounts were exclusively opened for the 'Ecoagro' and 'Pyrotechnics' projects. Whilst the reconciliation provided for the 'Ecoagro' bank account did not reconcile by €26,412, the balance of €21,106 in the 'Pyrotechnics' bank account was not recorded in the books of account. Meanwhile, the balance of another bank account did not reconcile to the respective bank statement by €960. Since LGA was unable to confirm the existence and completeness of the Council's bank balances at balance sheet date, a qualified audit opinion was issued in this respect.

Furthermore, the reconciliation of another bank account included two stale cheques, amounting to €394 and €184, which were issued on 30 March 2012 and 8 June 2012 respectively, but which had not been presented by the time of audit. It was also noted that a cheque for €1,565, payable to IRD in respect of tax deductions on the Councillors' allowances, was still not presented at year-end. Further testing carried out revealed that

the latter cheque actually amounted to €640 rather than €1,565. Moreover, two cheques amounting to €2,000 and €3,326, which were issued on 31 December 2012 but presented on 9 January 2013, were not included in the bank reconciliation as unrepresented cheques.

The Council will liaise with its Accountants so that any shortcomings will be addressed.

On 31 December 2012, the amount of €4,242 receivable from EU Tech was deposited in one of the Council's bank accounts. Queries raised on the nature of this deposit revealed that the Council is unaware of who the beneficiary is. This bank account was opened especially for the 'Opportunities Close to Home' project, which was 85% financed by the ESF. The role of the Council in this project which was completed in February 2012, was to act as a project leader.

The Council liaised with the respective financial institution but unfortunately the latter was not in a position to give additional information on the amount of €4,242. However, the Council continued to track this situation internally and it transpired that this amount was the total of invoices numbered 21 to 24, amounting to €1,029, €1,080, €1,046 and €1,088, issued in respect of project administration, and which were payable to an individual with reference to ESF Project 'Opportunities Close to Home'. This amount was paid in full to the latter, along with the 15% co-financing. The Treasury Department refunded the Council by depositing this amount in its bank account.

Since fines issued after 1 September 2011 belong to the Regional Committees, debtors relating to the pre-regional period, are expected to decrease or at least remain the same. However, the Tribunal Pending Payment report issued from the Loqus System as at 31 December 2012, illustrated an increase in LES Debtors of €8,921 over the preceding year. This increase was incorrectly recorded as income from contraventions in the unaudited Financial Statements.

Furthermore, included with Income from Administration Fees is €6,099 received from the Licensing and Testing Department (LTD) and other Local Councils, covering pre-regional fines, i.e. fines issued before 1 September 2011. These

receipts should have been deducted from LES Debtors, as these had already been disclosed as income when the Council accrued for the Tribunal Pending Payments.

Following LGA's recommendation the Council approved the necessary audit adjustments to reduce LES Debtors and debit the Income from Contraventions.

The above shortcomings imply that the Council did not prepare a reconciliation between the LES reports generated from the IT system and actual cash received, debtors outstanding at period-end, cash received on behalf of other Councils and amounts due to other Councils. A qualified audit opinion was issued in this respect.

The amount of €31,731, received to cover expenses incurred on the 'Housing' project, was erroneously credited to income, although such balance was already accrued for during the preceding year. An audit adjustment was approved by the Council to debit General Income and credit Accrued Income with the amount.

No further comments were provided.

A review of the Fixed Asset Schedule in the unaudited Financial Statements revealed that a Grant charge of €12,359 was included therein, thereby reducing the Fixed Asset balance. From further testing carried out it transpired that, instead of reducing the funds received during the year from the Accrued Income balance, the Council had incorrectly accounted for this amount as Deferred Income. An audit adjustment was passed to correct this error.

Three Nominal Accounts relating to capital expenditure, collectively amounting to €9,338, were incorrectly classified as Administrative Expenses instead of Fixed Assets. In addition, the Council treated income received with respect to the VAT element, on 'Measure 323' project, as General Income. However, since the Grant entered into does not include VAT, LGA proposed an adjustment to reverse the VAT element of €521 to the cost, which the Council approved.

Moreover, interest of €209 received on a bank account for the same Measure, was treated as income. Since such interest is repayable to the

Paying Agency, an audit adjustment was proposed to debit interest income and credit bank by the aforementioned amount.

Once again, the Council capitalised a balance of €6,871 and expensed an amount of €499, both incurred on the '*Housing Estate*' project. Since the contract agreement signed with the Housing Authority states that the latter shall reimburse the costs incurred once provided with the respective invoices, all expenditure, whether of a capital or revenue nature, incurred on such project is to be accounted for as accrued income. Thus, the Council approved the necessary audit adjustments to rectify this error.

Moreover, it was noted that the capitalised amount of €6,871, included an addition of €6,651 relating to a CCTV system installed at the Housing Estate. From the necessary audit verifications carried out, it transpired that the amount recorded in the books of account differed from the amount of €9,977 invoiced by the supplier. However, no proper justification was given as to whether the expenditure was recorded in full or not. The Council only explained that, due to its current liquidity problem, it decided to pay the supplier in three separate instalments. An adjustment of €3,326 was approved by the Council to account for the full amount in Creditors and Accrued Income.

Out of the amount of €34,325 that was included with the Fixed Assets additions for the year, covering works carried out at '*Triq San Pietru*', the total balance of €31,281 was already capitalised during the previous year. Thus, an audit adjustment of the same amount was proposed by LGA as these works were already recorded during the prior year.

Furthermore, whilst an addition of €24,894 was recorded in the Council's books as road works at '*Triq il-Fieres*', as per Architect's certification, these works related to major patching works at Kirkop. Thus, the description on the two documents is not consistent. Furthermore, clear distinction is to be made between resurfacing and patching, since whilst the former is capitalised, the latter is expensed.

Included with Fixed Asset additions and Payables is the amount of €9,013 relating to an elevator installed at the new Council premises. The actual cost of this asset amounts to €21,806. However,

the supplier deducted the amount of €12,793, representing previous payments made by the Council on the elevator at the old premises. Although the Council is of the opinion that the cost of the old elevator will be borne by the new tenants of its old office, no supporting documentation was provided to this effect. Furthermore, the amount already paid was deducted directly from the invoice and no Credit Note substantiating the reduction was made available. Since LGA could not ascertain the completeness of the reported figure for Creditors at balance sheet date, a qualified audit opinion was issued in this respect.

On 27 June 2012, the Council received €6,710 in respect of the installation of the said elevator in the Council's premises, which as stated in Memo 7/2010, is financed by Government. However, the Council credited the whole amount to Other Government Income instead of deferring the income received in line with the depreciation rate. In addition, the Memo states that the Council will receive the amount of €10,000 upon presentation of invoices, fiscal receipts and Schedule of Payments. Thus, since in 2012, the Council paid the supplier the amount of €6,710, the remaining €3,290 should be recognised as Accrued Income in the Financial Statements. The Council approved an adjustment to debit Other Government Income and credit Deferred Income with €6,710, as well as debit Accrued Income and credit Deferred Income with the extra €3,290 receivable upon presentation of the supplier's fiscal receipt.

Moreover, as the Council is no longer using the elevator installed at the old Council premises, the Grant of €7,932 received as part of the Accessibilities Scheme should have been released to income. Therefore, an adjustment to debit Deferred Income and credit Other Government Income was made. An additional adjustment was approved by the Council to book the full invoiced amount of the new elevator and to dispose of the one at the old Council premises and reverse the accumulated depreciation thereon.

An additional adjustment of €21,315 was approved to transfer a portion of the Grants which are directly attributable to the depreciation charge of the assets, to revenue, since the respective assets were completed before the end of 2012.

In the absence of a Plant Register, the Council was not using the accounting package to calculate the depreciation charge, but was calculating it manually. Furthermore, instances were encountered whereby depreciation was not calculated using the reducing balance method. Consequently, a discrepancy of €2,772 was noted between the depreciation charge as per LGA's workings and that presented in the Financial Statements.

Notwithstanding that the opening accrued capital expenditure, amounting to €40,582, was correctly reversed at the beginning of the year, the Council failed to account again for the value of works performed as per Architect's certifications received during the year. This resulted in an understatement of Assets. An adjustment was made to capitalise again the road works reversed, in line with the Architect's certification. Despite LGA's prior year recommendation, at year-end the Council still accrued for the amount of €29,976, in respect of works carried out at 'Triq il-Gudja', even though the Architect's certification was dated 16 January 2013.

The Council will liaise with its Accountant so that any shortcomings will be addressed. Furthermore, as regard the Grant on the elevator installed at the Council's premises, since the invoices and fiscal receipts submitted by the Council amounted to €6,710, this was the amount that was actually received by the latter, despite that the original Grant amounted to €10,000. Thus, the resulting balance of €3,290 is not accrued income, but represents funds that were not utilised by the Council.

A review of the Accruals' List revealed that the Council failed to accrue for works carried out during 2011 on the new Council premises. The Council maintained that the amount in question should be €1,000 and not €1,716, as invoiced by the service provider. However, by the time of audit, the issue had not yet been settled. Likewise, the accrual for water and electricity bills, amounting to €616, was completely omitted from the books, whilst tipping fees for December 2012 were not accrued in full. The necessary audit adjustments were approved to correct the related omissions.

LGA was not presented with the Prepayments' List to support the amount of €4,766 as shown in the Financial Statements, for the year ended 2012,

which amount remained the same as that reported in the preceding year. However, following queries raised, the Council stated that prepaid expenses at year-end comprised insurance, rent and Gal Xlokk membership fees, totalling €4,107, thus resulting in an overstatement of €659.

Similarly, no explanation or supporting documentation was made available to substantiate an accrued expense balance of €8,651 which was brought forward from prior years. Since LGA could not perform any practicable alternative procedures to ascertain the existence of the aforementioned amount, a qualified audit opinion was issued.

An unreconciled net difference of €7,301 was identified between the Council's books and a Supplier's Statement at year-end. This variance is mainly due to an opening balance brought forward of €563, an amount of €7,819 relating to a Fixed Asset addition, recognised in the books of the Council but not shown in the Supplier's Statement, as well as a charge of €1,081 for WSC works not disclosed in the accounting records. As LGA could not verify the existence of the reported figures for Fixed Assets and Creditors at balance sheet date, the audit report was qualified in this respect. Additionally, an amount of €7,779 owing to the Council by the same service provider, was still included in the Financial Statements and was netted off against Trade Payables. The Council is to investigate if the receivable amount is related to the variance mentioned above.

Points not addressed.

A review of the water and electricity charge incurred during the year revealed that the Council deducted a total amount of €1,232 from the periodic bills received. From queries raised, it transpired that the Council was unsure whether a utility bill of €1,232 incurred on the premises utilised by the Social Services Department is due by it or not. Thus, the former decided to forward this bill to the latter. However, it was noted that ARMS Limited was still claiming payment from the Council. Furthermore, for the last bill received, the Council failed to deduct this amount and recorded the bill as payable in full. No adjustment was proposed on this balance, since the Council had not yet confirmed whether it is responsible for paying this amount.

The Council is doing its utmost to settle this issue with the authorities concerned.

Disclosed in the Creditors' List were two debit balances amounting to €2,300, €2,000 of which related to a payment for retention money on the construction of the Council's premises. This was due to the fact that the payment was recorded in the Suppliers' Control rather than being capitalised.

In addition, the amounts of €1,537 in respect of contraventions not yet received, and €629 relating to the LES system, were included under Other Debtors and Other Payables respectively. Both balances have been outstanding for more than seven years but no provision was taken.

Instances were encountered whereby, professional fees amounting to €9,520 were expensed rather than being capitalised as required by IAS 16. Such expenses were incurred to bring assets to an acceptable working condition.

A discrepancy of €1,980 was noted between the net Councillors' allowances of €3,840 and the amount recorded in the books of account totalling €5,820. Furthermore, whilst reviewing the Mayor's honorarium paid, the following issues were identified:

- a. Included with the current year's expense is an amount of €1,000 relating to the 2011 Mayor's allowance. This amount had already been accrued for during prior years and was actually settled during the current year.
- b. The tax element on the Mayor's allowance amounting to €320 was accounted for twice.
- c. The amount of €1,141, earned by the former Mayor on the 'LitusGo' project, was disclosed in the Mayor's Allowance Nominal Account, whilst a further €1,842 payable to the latter was included in 'LitusGo' Nominal Account. However, neither supporting documentation confirming the allowances receivable on this project by the former Mayor, nor a list of expenses incurred, was provided for audit purposes.

The Council was summoned to Court by an insurance company, on the claim that one of its insured persons had an accident in Kirkop due to

negligence by the Council. The case was deferred to 18 March 2013. However, the Council failed to disclose any obligations it may face, in its Financial Statements. Likewise, no disclosure was made in the accounts highlighting that the amounts of €297,389 and €82,459, received in respect of 'Measure 313' and 'Measure 323' respectively, are restricted for the sole use of these projects.

On the other hand, the Council claimed that it had reached an agreement with a local gas company and the issue regarding the extension of the latter's plant at the locality's outskirts has now been settled. However, the contract provided for audit purposes was neither dated nor signed by the parties concerned.

By the time of audit, the annual Budget, as well as the Quarterly Financial Reports were not yet prepared. Consequently, LGA could not ascertain that Capital Commitments of €158,430, as disclosed in the Financial Statements, which amount was identical to the previous year, were correct.

Testing carried out revealed that an expenditure account was in credit, due to the fact that ten cheques, totalling €1,832, were reversed and incorrectly treated as income. No details, except for the name of the beneficiary, were provided in respect of one of the reversed cheques, which amounted to €1,071.

Points not addressed.

Lija

During a physical inspection, LGA was informed that a laptop was not at the Council's premises. However, following an inquiry by the Auditors, this was brought over by the former Executive Secretary. An approval by the acting Executive Secretary for this asset to be moved outside the Council's premises was not traced.

Point noted.

An amount of €9,565 was 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. Although the contract

had expired in 2003, a new call for tenders for the provision of such services was still not issued during the year under review, despite prior recommendations made.

Notwithstanding that the Local Councils (Tendering) Procedures stipulate that a contract must be entered into for a maximum period of three years, up to June 2012, the Council was still procuring refuse collection services under a contract which was entered into in 2003. The amount of €11,612 was paid for the services provided during the first six months of 2012, prior to the signing of a contract with a new supplier.

The Council will discuss the matters that are beyond its control with the concerned Departments.

The amount of €523 was paid out of the Council's funds, in respect of mobile phone usage by the Executive Secretary.

The Council will act upon LGA's recommendation with immediate effect.

Following a review of the Receivables' List provided by the Council for audit purposes, the following shortcomings, which were subsequently corrected in line with the relevant adjustments proposed by LGA, were noted:

- a. Accrued income receivable under the PPP Scheme was overstated by €3,325.
- b. A Grant receivable of €8,000, for the 'Live Crib' activity, was completely omitted from the books of account.
- c. Amounts receivable at year-end from Regional Committees, totalling €2,009, were not recognised in the accounting records.
- d. A Grant receivable in respect of the 'Citrus Festival', out of which €2,000 was received during 2012, was erroneously deducted in the list of receivables.
- e. The list of receivables included a balance of €1,403, brought forward from previous years, and for which no proper explanation was provided by the Council.

Points were noted and the necessary adjustments were carried out.

In 2012, the Council had an agreement to receive a Grant under the PPP Scheme. However, it was noted that the first two payments received were accounted for by deducting the amount received from the cost of the asset. Meanwhile, the final payment receivable was transferred to Deferred Income and 10% (€2,960) of which was transferred to the Income Statement using the Deferred Income Approach. Upon enquiry, the Council's Accountant provided the necessary adjustments to correct the above-mentioned errors, including, the increase of Deferred Income and the decrease of accumulated depreciation by €49,122, the release to the Statement of Comprehensive Income of an additional Deferred Income of €8,571, as well as the reversal of Deferred Income of €2,960, which in the unaudited Financial Statements was originally released to income.

In addition to the above adjustments, LGA proposed a reclassification of €71,824 between the short-term and long-term portions of Deferred Income.

This issue is being looked into and the necessary steps will be taken to comply as per LGA's recommendations.

The Council failed to recognise in its books of account the procurement of a public access terminal (€4,215) and the related prepayments in respect of the two-year maintenance agreement (€785). The corresponding Grant, totalling €5,000, was also omitted from the accounting records. Furthermore, street lighting expenditure of €3,712, as well as Architect fees amounting to €2,313, incurred in relation to construction works, were expensed directly to the Statement of Comprehensive Income, rather than being added to the cost of Fixed Assets. Following LGA's recommendation, the Council approved the necessary adjustments to record these assets and to account for the depreciation charges thereon. An additional adjustment was also made to recognise part of the prepayments as maintenance expenses for the current year.

Point noted and the necessary adjustments were made.

The list of unrepresented cheques included a cheque of €3,780 payable to a construction company, despite that this was not yet issued up to audit date.

The payment was still recorded in the books of account and deducted from the supplier's balance. Adjustments proposed by LGA to reverse the said payment were not acceded to by the Council. Furthermore, the bank reconciliation provided for audit purposes included a stale cheque of €499. It was also noted that the value of a particular cheque was wrongly posted in the bank reconciliation, resulting in an unreconciled balance of €383. The Council approved to adjust the cheque payment by this amount in the accounting records.

The two cheques were not delivered to the suppliers, but the Council felt that these should be recorded in the Financial Statements. Their reversal would have resulted in incomplete accounting with respect to creditors and expenditure. As to the recording and mailing of cheques, once the Council approves payments, these are recorded in the accounting system. If reversed, the payments would not be in congruence with the payments approved by the Council.

The Council is still unable to distinguish between Accruals and Trade Payables. A difference of €4,527 was noted between the Supplier's Statement and the Creditor balance in the books of account. A reclassification adjustment was passed to correct this error. During the year under review, the Council also deducted €1,500 from the balance due to the said contractor, in relation to a claim for loss of business made by an ironmonger. The said amount which the Council agreed to pay was deducted directly from the amount due to the contractor. However, as per Supplier's Statement, this balance is still showing as due.

Points were noted and adjustments made.

Accrued expenditure relating to the 'Live Crib' activity held during December, as well as civil protection services, were omitted completely from the books of account. Following LGA's recommendation, the Council approved an adjustment of €9,968 to recognise these expenses and liabilities in the final Financial Statements. An additional adjustment of €1,191 was proposed to reverse an entry passed by the Council's Accountant, as no valid explanation was provided for debiting Deferred Income and crediting Accruals by the aforementioned amount. The Council agreed to reverse this transaction.

The Creditors' List still included long overdue balances, amounting to €7,202, payable to five different service providers. Debit balances of €1,213 were also noted in the aforementioned list.

The Council is looking into these balances and will take the necessary action during the current period.

During the year under review, the Council approved to pay €700 for a concert performed by the local band. Since the band organised activities in collaboration with the Council, it is unclear as to whether the amount paid constitutes a donation. Furthermore, three cheques payable to voluntary organisations, in aggregate amounting to €585, were also approved. However, these payments were not recorded in the books of account. The Executive Secretary claimed that these cheques were not issued up to audit date. Following LGA's enquiry, these were cancelled.

The activity was a cultural event organised in the locality in collaboration with the local band club. The Council had partly funded the expenses incurred.

Luqa

The amount of works certified in respect of road resurfacing at 'Wied il-Knisja' stood at €35,581, while payments forwarded to the contractor in this respect totalled €55,581. Hence, the latter was overpaid the net amount of €20,000. The same situation was also identified in the prior year Management Letter, whereby the Council made an overpayment to the same contractor of €20,868. The Executive Secretary claimed that during 2013, the contractor issued a Credit Note of €14,567, however, it is clear that this is not enough to cover the total amount overpaid. No information or explanations were provided by the Council to sustain this overpayment.

Furthermore, included with Trade Payables is the amount of €7,778 due to the same service provider. The Council failed to prepare the respective reconciliation between amounts due as per Creditor's balance recorded in the books of account, and those as per Supplier's Statement. On the other hand, LGA was unable to obtain direct confirmation of the balance from this creditor. Moreover, satisfactory audit procedures to test this

balance could not be applied by LGA, since the Council did not resolve a discrepancy relating to this balance which emerged during the previous financial year. Thus, a qualified audit opinion was issued on the subject matter.

The Council agrees with LGA's recommendation, and it has been making an effort to reconcile the amounts due to the said service provider, as this is essential especially when considering the value of the contracted works.

Included in the Creditors' List is a balance of €16,599 payable to another contractor, who between 2003 and 2006 resurfaced some of the roads in the locality, for a total cost of €41,599. However, since the work was not carried out to the Council's satisfaction, the latter refused to pay the service provider until works were redone. In 2012, an agreement was reached with the supplier, whereby he agreed to redo the work, and up to year-end the Council settled the amount of €25,000, thus leaving a balance of €16,599. The Council has recorded this outstanding balance in its books. However, since LGA was unable to verify whether the cost of €41,599 was actually accounted for when the works were done, *i.e.* between 2003 and 2006, it could not be ascertained that the outstanding balance of €16,599 was not accounted for twice.

The accounting entry was recorded when the works were done between 2003 and 2006. The recommendation put forward by LGA will be discussed further by the Council.

The amount of €15,167 due to Capital Creditors was fully disclosed under Current Liabilities, despite that out of the said amount, the balance of €10,643 is due to be paid after more than one year.

Point not properly addressed.

Due to the fact that the contracts entered into with two separate contractors, for alteration and construction work at Day Care Centre and paving works respectively, were not provided for audit purposes, the date when the contracts were entered into and their respective duration could not be ascertained. The amounts paid to the said contractors during the year under review totalled €38,314 and €3,222 respectively.

The previous Executive Secretary should have ensured that the contracts relating to the work at the Day Centre and resurfacing have been made and signed accordingly.

Notwithstanding that the contract for professional services entered into expired at the beginning of the year, the Council continued to procure these services from the same service provider. The total amount of €1,124 was paid in this respect throughout the year. A new tender was only issued at the end of 2012.

The Council approved the extension of the contract during one of its meetings.

Since the Council failed to provide evidence of the publication of the advert on the Government Gazette and any local newspaper, it could not be ascertained that works on 'appogg', carried out at the Day Care Centre by an individual, totalling €2,894, were covered by a call for quotations.

The Council shall ensure that a call for quotations is issued at the stipulated threshold and this shall be published in the newspapers.

No rental agreement is in place, covering the annual rental charge of €573, in respect of a football ground rented out from a third party.

LGA's recommendation was noted and the Council will ensure that a rental contract for the football ground is drawn up with the third party.

From the testing carried out on Cash and Cash Equivalents, it was noted that the bank reconciliation of one of the accounts was not prepared properly. LGA was unable to reconcile the amount overdrawn of €12,877 recorded in the accounting records, with the overdrawn balance of €20,172 configured by the bank reconciliation provided for audit purposes. The reconciliation prepared through the accounting software indicates that the difference relates to cheques issued before year-end but which had not been recorded in the books of account. However, these cheques could not be traced. A qualified audit opinion was issued in this respect.

The bank reconciliations are prepared on a monthly basis as recommended by LGA. The documentation requested by the latter was submitted during the course of the audit.

Whilst comparing Fixed Assets in the Nominal Accounts with the corresponding amounts in the unaudited Financial Statements, a difference of €167,988 was noted between the NBV reported for Urban Improvements and that for Construction.

The Fixed Asset Schedule will be adjusted accordingly.

Construction costs of €41,208, incurred in respect of the Day Care Centre, as well as application fees totalling €10,040 which were paid out in view of the family park in *Hal Farruġ*, were capitalised despite that the related projects were not completed by year-end. Besides that the necessary audit adjustments were passed to correct this error, an additional adjustment of €3,188 was passed to reverse the depreciation charged on these assets.

On the other hand, Architect fees of €1,457, paid in respect of the resurfacing of '*Daqquqa Kahla Street*', were expensed in the Statement of Comprehensive Income. The Council approved the related adjustments to capitalise the said amount and account for the depreciation charge thereon.

The costs related to the application fee for the project are not to be considered as assets in the first place but as sunken costs. The issue concerning construction costs related to the Day Care Centre has to be taken into consideration. In fact, it has also been included for insurance purposes. As the building is already present, one must provide details for expenses especially if damages are made and a claim is filed with the respective insurance company. On the other hand, the expenses relating to Architect fees are put under professional fees even in the Budget. Classifying them as part of the project will be misleading.

Notwithstanding that the adjudicated tender in relation to alterations and construction works of the Day Care Centre amounted to €32,683, the actual amount paid to the respective contractor totalled €38,314. Following queries raised with the Executive Secretary, the latter claimed that additional works became necessary during the construction phase.

This issue will be addressed when other capital projects of a similar nature are made or whenever such expenses are incurred.

The Architect's certification, confirming the amount of €23,578 paid to a contractor for the construction of a ramp in *Hal Farruġ*, was not provided for audit purposes.

This project was certified by the Housing Authority's Architect, as the main beneficiary of this project was the same Authority. However, the Council always certifies its work irrespective of who the beneficiary is.

The Council failed to prepare a reconciliation between the LES reports generated from the IT system and actual cash received, debtors outstanding at the end of the period, cash received on behalf of other Councils and amounts owed to other Councils. In view of this, LGA could not perform any audit procedures to ascertain the existence and completeness of LES Debtors and LES Creditors, and the valuation of LES Debtors at 31 December 2012. Thus, a qualified audit opinion was issued in this respect.

Furthermore the Council provided two reports covering Tribunal Pending Payments, in respect of fines issued during the pre-regional period. One report was issued by Datatrak and the other one issued by Loqus, amounting to €410,137 and €420,107 respectively. Thus, there was a difference of €9,970 between the two reports. In addition, included in the Financial Statements was income from contraventions amounting to €10,451, out of which €3,954 related to the 10% administration fee. The remaining balance of €6,497 related to income from pre-regional fines, thus these were to be posted against LES Debtors. An audit adjustment was proposed to rectify this error.

The Provision for LES Debtors at the end of the reporting period was also understated by €38,924. Hence, an audit adjustment was proposed accordingly.

Actions will be taken in order to clarify the differences.

No supporting documentation was provided to substantiate Accrued Income of €1,336 comprising of LCA online payments of €1,185 and Local Councils deposits of €151.

The balances mentioned were extracted through the LES system as at 31 December 2012. The Council does not have other means to ensure that it will receive these revenues. However, the Council reconciles the receipts through the LES system on a regular basis.

Besides that income from Central Government was stated net of cleaning service fees of €300, a difference of €2,508 was noted between the Nominal Account and the actual Government allocation. The Executive Secretary was unable to provide LGA with the necessary explanation for the aforementioned discrepancy. An adjustment to gross up the allocation was approved by the Council.

The Executive Secretary has provided four e-mails which mention the basis on which the deductions from the allocation were made. Upon request for further explanation from DLG, the Council was told that the e-mails give enough details.

Since a particular receipt book (receipt numbers 4800-4850) was missing, testing on the completeness of General Income in respect of the above receipts was not possible.

The Council shall take proper measures to ensure better upkeep of these records. Moreover, multiple copies of the receipts are being kept, so as to avoid this happening again.

An audit adjustment of €3,365 was proposed to the Council in order to correct the overstatement of the release of Deferred Grants to Income. The adjustment was approved by the Council and is reflected in the audited Financial Statements. Meanwhile a portion of the long-term Deferred Income relating to the Grant received from the Housing Authority, amounting to €1,152, was not utilised. Queries raised by LGA as to whether this amount is to be refunded to Government, were not answered by the Council.

The Council released the Deferred Grant to Income based on the date of completion of the project. The audit adjustment recommended by LGA was made and reflected in the audited Financial Statements. As regard the unutilised amount of the Grant received from the Housing Authority, the Council needs to check what is going to happen.

A discrepancy was noted in the fair value of the available-for-sale security held by the Council, as disclosed in the Financial Statements. An adjustment of €1,585 was approved to record the fair value of the said investment, in accordance with the price list as at 31 December 2012 provided by the Malta Stock Exchange.

The proposed audit adjustment in relation to the investment held by the Council was made. The calculation of this value was based on the information available on the electronic site of the Malta Stock Exchange.

Notwithstanding that any form of donations, whether monetary or in kind is prohibited, the Council still paid out €300 in respect of trophies for Luqa Youth Centre, and €150 for T-shirts with the Council emblem for the local football club. In addition, the amount of €60 was expensed in respect of gifts to the parish priest, whilst €50 was provided for a football game in aid of a voluntary organisation.

The Executive Secretary explained and provided proof, even through photographs, which showed that the events were organised by the Local Council in collaboration with the particular organisation. This is not classified as a donation.

Marsa

Capital Commitments of €272,462 were included in the Budget for 2013, however only €153,462 were recognised in this respect in the Financial Statements.

LGA's recommendations have been passed to the Council's Financial Advisor so as to have proper disclosure in the Financial Statements.

As already reported during the preceding year, the FAR maintained by the Council, which so far has been prepared on a spreadsheet, is not in line with best practice and with the Local Councils (Financial) Procedures. In addition to the limitations arising from this adopted approach, including the measurement of depreciation, a number of assets were incorrectly categorised, with the result that an incorrect depreciation rate was applied and recognised in the Financial Statements.

Furthermore, litter bins were categorised under Urban Improvements, with the result that these were depreciated at the rate of 10%, when they should have been written off. Whilst LGA is of the opinion that there may be 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 litter bins, are highlighted in red and fully written off in line with the Procedures, as they were fully depreciated in the year of acquisition. Nonetheless, following consultation with the Council's Financial Advisor, the Council will be having the applications as dictated by LGA.

In its Financial Statements, the Council recognised a provision with respect to LES contraventions adjudicated prior to 31 December 2010, amounting to €61,047. As per reports issued from the LES system, these amounted to €70,114, thus resulting in an under-provision of €9,067. Following LGA's recommendation, the Council undertook the necessary audit adjustments in its Financial Statements.

According to our Financial Advisor, the amounts reported in the Financial Statements were in accordance with reports 103 and opening balance from previous years. The amount recognised by the Council, in respect of provisional LES Debtors, was calculated for those LES tickets that were dated over two years from tribunal date and not from ticket date. Legally, the two-year period for the Council to provide for a Provision for Doubtful Debts commences after tribunal judgement. This is the Council's interpretation, however, on LGA's recommendation, the Council has adjusted accordingly.

Marsascala

As already reported in the preceding year, the Council was 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 €2,690, omitted from the books, while an invoice of €5,196 was posted twice. Furthermore, balances due to two Creditors were overstated by €22,885

and €5,971 respectively. In addition, the Council failed to account for invoices amounting to €605, issued in 2012 but paid in 2013. These variances distort the total amount due by the Council to its Creditors.

With regard to the remark that the Council is not carrying out regular reconciliations with all Suppliers' Statements, the Council begs to differ. The Suppliers' Statements are being reconciled to the Ledgers upon receipt. However, not all suppliers send a statement. Furthermore, it is not appropriate that LGA hinted that the Council is not adhering to the Fundamental Concept of Accounting. The Accruals Concept of Accounting is embraced by the Council. Errors leading to certain costs being left out of the accounting system by mistake does not mean that the Council is neglecting to account in line with the concept.

The Creditors' List provided by the Council, as well as the Nominal Ledger in the Trial Balance, also 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 referred to as 'Creditors' Suspense'. 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. Likewise, a variance of €416 was identified between the Accruals included in the Financial Statements and the Accruals' List provided for audit purposes.

The amount in question under Payables will be treated as liabilities written back since a clean-up exercise was undertaken and the amount was found to be overstated in Creditors.

Whilst Prepaid Expenditure as recorded in the Financial Statements amounted to €11,173, the Prepayments' List provided for audit purposes totalled only €8,868. Furthermore, no documentation was provided to substantiate part of the recognised prepaid expenditure amounting to €4,943. Testing carried out revealed that part of the difference, between the balance recognised in the accounting records and that included in the list, was due to Prepayments amounting to €5,506, which were not reversed. Following the recognition of the necessary audit adjustments, Prepaid Expenditure in the Financial Statements

amounted to €5,667, thus, still leaving an unexplained discrepancy of €3,202.

It was also noted that the list provided in respect of Accrued Income, amounting to €11,733, was short by €5,000 when compared to the actual amount of €16,733 recognised in the Financial Statements.

The matter was discussed with LGA during the audit, and the reasons for such variances were given. The Council, through its Accountant had also suggested the relative adjustments but LGA did not accept them. All adjustments will thus be made during 2013.

The Council not only failed to accrue for the performance bonus of €7,625, due to the employees and the Executive Secretary in respect of 2012, but it also failed to reverse the prior year performance bonus, amounting to €7,285. Furthermore, minor discrepancies were noted in the performance bonus calculated and paid to three of the employees. The necessary audit adjustments were passed to rectify these errors.

Likewise, it was noted that the rental expense of €12,007 as recognised in the Financial Statements did not include the amount of €2,146 that was prepaid by end of the previous year. In addition, despite that the Training Centre lease agreement covered up to 31 May 2012, a full year lease payment was actually effected and accounted for.

The movement in the performance bonus accrual was adjusted for in the Financial Statements. The Council also tried to calculate afresh the performance bonuses in line with the basic pay for December 2012, but did not arrive at the variances quoted by LGA. It would be more effective if LGA could indicate to whom each variance refers in order to take remedial action. With reference to the rental agreement for the training centre, it is the intention of the Council to extend the existing contract until the new premises are built, and will take the necessary action to extend the contract. The Council had issued several tenders and took a long time to finally find the right place and had invested to upgrade the premises. The Council will keep these premises until the new Local Council premises are built. Furthermore, the variance referred to was adjusted in the revised Financial Statements.

As at 31 December 2012, the Council had recognised Other Receivables amounting to €94,578 and LES Debtors – Other Councils totalling €1,424. However, the Council only provided information on an amount of €526 recorded under Other Receivables, thus resulting in a variance of €94,052 for which no supporting documentation was provided. In the absence of the necessary adequate documentation, LGA could not obtain reasonable assurance to ensure that such Receivables are not materially misstated, and that these were accounted for in line with the requirements of IFRSs. Consequently, a qualified audit opinion was issued in this respect.

Point not addressed.

It is evident that the Council is experiencing difficulties with the collection of fines adjudicated in its favour by the Local Enforcement Tribunal. LGA noted that included in the Financial Statements there are still substantial fines pending from the period 1 January 2000 to 31 December 2010.

The Council is of the opinion that the long outstanding Debtors under this heading are not due to any fault that can be pinned on the Council. Nonetheless the Council had tried once to chase the individual Debtors but little positive results were obtained. In fact, the cost of chasing these Debtors was never recovered. The Council, as instructed by DLG, had provided for the said Debtors, therefore writing them off would not have any effect on the Comprehensive Income.

Notwithstanding that as per reports extracted from the LES system, Tribunal Pending Payments as at end 2011 and 2012 stood at €371,413 and €343,071 respectively, resulting in a credit movement of €28,342, the amount recorded in the accounting records was a debit of €11,791. This resulted in a variance of €40,133 between LGA's workings in respect of pre-regional LES income receivable by the Council, and the actual amount recognised in the Financial Statements. In view of such discrepancy, a qualified audit opinion was issued. Additional discrepancies were noted between the administration fees invoiced to the Regional Committees, totalling €5,974, the amount actually receivable by the Council as per reports extracted from the system, being €7,565,

and the outstanding balance of €6,323 recognised in the Financial Statements.

At the time of drawing up the Financial Statements, the amount of €349, being Accrued Income at the end of 2011, was erroneously not reversed to the Income account. The reversal was suggested to LGA during the audit fieldwork so that the Income account would actually reflect the true income for 2012, but this was not taken up as an audit adjustment. Nonetheless, the amount is still featuring under Debtors and will be reversed to income during 2013.

The total of report 483, quoted as €75,648, is the gross total inclusive of €373 'Reversed Payments'. Therefore, the total of this report was actually €75,275. Furthermore, the total being quoted is inclusive of contraventions that were paid at other localities and hence Marsascala Local Council does not have an income from commissions thereon. Moreover, the said report does not include any contraventions paid at the Council of which the place of incidence was not Marsascala. The report should have been filtered with the 'Paid At'. The total for the report, drawn up with the proper filters, reads €59,738 as value for contraventions paid at the counter of the Local Council Marsascala, generating a 10% revenue to the Council of €5,974 and not €7,565 as quoted by LGA. The Ledger account for 2012 showed the value of €6,323 which, when the amount of €349 is deducted, this sums up to €5,974.

The Council recognised the sum of €102,730 as UIF Grants released to income in its Financial Statements. However, workings provided by the Council amount to €115,235, thus a variance of €12,505 resulted between the two documents. In view of the fact that LGA could not obtain reasonable assurance that the released Grants were not materially misstated, a qualified audit opinion was issued.

The Grants schedule provided for audit purposes is divided into three parts, namely; Receivable Grants, Deferred Income and Release Analysis. This was submitted to LGA and it was also explained to them that the release as per the above schedule was €132,602, out of which the amount of €16,721 was deducted. The deduction represented the amount over released in prior

years. During the discussion on the subject with LGA, it was agreed that the amount can be treated in this manner without resorting to a prior year adjustment. Hence the amount disclosed in the Financial Statements is €115,881.

Notwithstanding that the Council maintains a FAR to record Fixed Assets in its possession, a number of assets were incorrectly categorised with the consequence that an incorrect depreciation rate was applied and recognised in the Financial Statements. Furthermore, the Fixed Assets' NBV as per Financial Statements does not agree with that of the FAR by €190,136. 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 calculate the exact amount of misstatements. Thus, a qualified audit opinion was issued in this respect.

The difference between the cost of assets in FAR and that in the Financial Statements, is due to the Grants value that used to be accounted for through the Balance Sheet method. Thus, the FAR and the Nominal Ledger are reconciled at €2,524,445. After the Financial Statements were submitted on 21 February 2013, the Council discovered an amount of €22,886 that was erroneously reported in both the FAR and the Nominal Ledger. As such this error was communicated to LGA during their field work and effectively the adjustment was taken up as suggested. The remaining variance between the FAR and the Nominal Ledger/Financial Statements amounts to €22,886. However, the FAR could not be adjusted before LGA provided the respective proposed audit adjustment. Thus, the FAR will be corrected during 2013. The variance in the depreciation, quoted as €6,899, follows the same argument.

The official asset categories as per Memo 17/1992 and Memo 29/1998 do not have a category for Computer Software and thus, the said software was categorised with the available category – Computer Equipment. The Council has the practice of reviewing the FAR periodically, at least once a year, and cleaning of the FAR is always done during the year. This does not mean that certain items that need cleaning are not missed out. With regard to the other points raised, the Council will be reviewing the FAR for further cleaning.

Included in the PPE Schedule in the Financial Statements is a disposal of €5,940, out of which €4,893 were deducted from Urban Improvements. According to the Council this relates to ‘*Pjazza Mifsud Bonnici*’. However, such disposal was not approved during a Council meeting. Furthermore, another amount of €997 was accounted for as disposal when this related to an item which has been double accounted for in the past. No information was given with respect to the remaining balance of €50.

The comment was noted for rectification.

The Council failed to provide adequate details and information in respect of Assets not yet Capitalised, amounting to €19,570. It was also noted that the cost of a software system amounting to €2,750, as well as the yearly maintenance fee of €590 on this software, were both classified as Work in Progress. An audit adjustment was posted to rectify this error.

The major project, still under construction at year-end, was the ‘Regeneration of the Tourism Market in Marsascala’. This project was independently reported in the Financial Statements under the heading Special Programmes. The PPCD, within OPM, had informed the Council that such disclosure is required separately and as such the Council could not disclose it under ‘Assets not yet Capitalised’. The other cost items that total only €19,570 are very immaterial compared to the entity of such a project. Noticeably is the comment made on the software costs. The software itself was not concluded by year-end, and as such all costs relating to the intangible asset into use were being accumulated until the item is capitalised.

A payment of €38,762 advanced to a particular contractor in respect of resurfacing and patching of various streets was only supported by a request for payment, as the respective invoice was not provided.

The Council will contact the contractor to send the invoice instead of the request for payment. At the time of finalisation of this reply, this matter was already sorted out.

Instances were identified, whereby either income receivable by the Council remained unaccounted for, or the recognition thereof was not correct.

For example, income receivable under the EU Programmes Agency – Youth in Action Programme was understated by €3,397. Although, the necessary audit adjustment to record such income was proposed by LGA, the Council failed to adjust the Financial Statements accordingly. It was also noted that during the preceding year, the Council received and incorrectly recognised income amounting to €1,991 in respect of a sponsorship for ‘*Jum Marsascala 2012*’. Such income should have been deferred and recognised during the year under review. Furthermore, included under Income raised from Bye-Laws, is the aggregate amount of €13,509, which was received for permits from different activities which do not fall under Council Bye-Law, such as ‘*Skema Inizzjativi ta’ Attivitajiet 2012*’, as well as the organisation of courses, children activities and coffee mornings. On the other hand, income raised in respect of advertising on street furniture, amounting to €900, which is covered by a Council Bye-Law, was incorrectly recorded under General Income. In such cases, the Council approved the necessary audit adjustments to record income in the appropriate accounts.

The amount receivable from the EU Programmes Agency is fully recognised as a receivable Grant. With regard to the amount that was released to income, the Council was prudent enough to recognise only that amount which was matched to the respective expense, even though the amount actually received was higher.

The amount of €1,991, invoiced in 2011 and recognised as income in the same year, was for ‘Zonqor Point Junction re-instatement’ and not for ‘Jum Marsascala 2012’ as referred to by LGA. The Council properly recognised the income in the correct year, i.e. 2011.

As regard income from Bye-Laws, the Council took the necessary actions to adjust the Financial Statements accordingly.

Five cheques totalling €7,577, which were issued in 2012 but presented during 2013, were not included in the list of unrepresented cheques at year-end. Consequently, the respective bank balance as recognised in the Financial Statements was overstated by the aforementioned amount.

The error has been noted for future reference.

Inventories worth €4,091, that were held by the Council as at year-end, were only disclosed in the Financial Statements following LGA's recommendation.

The matter was rectified in the audited Financial Statements.

The Contingent Liability note disclosed in the Financial Statements was not accurate, as it included Bank Guarantees of €8,198, when in actual fact the amount to be disclosed according to the bank report was a pledge of €4,099. The Council also failed to disclose as a Contingent Asset, the case which it has against MEPA. Following LGA's recommendation the Council adjusted the respective note accordingly.

The matter regarding the Contingent Liability was corrected in the audited Financial Statements. With regard to the Contingent Asset, at the time of drawing up the unaudited Financial Statements, the Council's administration deemed it more prudent to remain silent about it in the report.

The opening balances of the Council were not in total agreement with the approved and audited Financial Statements of 2011. Variances of €4,270 were noticed in the Retained Earnings as well as PPE. Furthermore, discrepancies in different categories were also encountered between the Trial Balance and the Financial Statements. In addition, following a review of the annual Budget for 2012, it was noted that amounts incurred with respect to Capital Expenditure and Employers NI have exceeded the budgeted amount by €169,984 (38%) and €3,121 (45%) respectively.

The opening balance error was corrected in the audited Financial Statements. The Budget is prepared with due care and diligence, and all the necessary caution is taken to ensure that the Council adheres to the Budget. In view of this, there were several instances during the Council's meetings, whereby the Executive Secretary drew the Councillors' attention about the amount of capital expenditure exceeding the approved Budget. It was only through an unanimous decision that the Council agreed to proceed and spend more than it was actually going to receive during the year. This could only be done due to the healthy cash flow that the Council has managed to accumulate throughout the years. Moreover,

the Council managed to accomplish the creation of a new playing field at 'Pjazza Mifsud Bonnici', which was completely recovered from UIF and 'European Regional Development Fund (ERDF) 212' project where the Council managed to obtain more than €200,000 in EU funds. Taking into consideration all the work involved to ensure the success of such projects, the Council should be praised that it managed to accomplish these major capital projects without utilising Council's funds.

Marsaxlokk

The Council has not applied proper controls to ensure correct cut-off recognition for its income. Instances were encountered whereby income receivable amounting to €4,966 was completely omitted from the Financial Statements. The Council also netted the amount of €8,974 relating to prepaid expenses against its Accruals. In addition, a Prepayment of €3,000 for the membership fee of Gal Xlokk was not recognised in the accounting records. Testing carried out also revealed that the Council effected a payment of €2,649 to the South Eastern Regional Committee, following instructions provided by the LCA's Executive Secretary, who claimed that the said amount had been erroneously deposited in the Council's bank account. However, it transpired that these deposits were never made, implying that the latter was not obliged to make such payment to the Regional Committee.

Likewise, inaccuracies were also noted in the accounting of accrued expenses, as well as amounts payable. For example, no supporting documentation and explanations were provided on the nature of a recognised accrued expense amounting to €1,165. Upon further investigation, it was noted that this accrued expense was carried forward since 2008. Furthermore, whilst the recognised provision for accrued electricity and telecommunication expenses was understated by €3,119 and €298 respectively, that for street lighting was overstated by €593. Moreover, an electricity bill amounting to €2,067, that was issued at year-end, was accounted for as an accrual rather than as a creditor, and amounts payable totalling €1,442 were not recorded. The necessary audit adjustments were proposed to rectify these errors.

Following LGA's recommendation with respect to revenue recognition, the Council has revised its

Financial Statements, and it shall do its utmost to ensure that this shortcoming won't be repeated. The points raised regarding Prepayments and Accrued Income have been noted. Certain items mentioned as Accrued Income at year-end were not clear to the Council at the time when the unaudited Financial Statements were prepared. On the other hand, the inaccuracies mentioned by LGA with respect to accrued expenditure were due to bills not being received by the Council before the date of submission of the unaudited Financial Statements. The invoice date does not necessarily mean that the documentation was received by the Council by that date. In view of this, the recommended adjustments were reflected in the audited Financial Statements.

The FAR is not being maintained in the appropriate manner as stipulated by the Local Councils (Financial) Procedures. Furthermore, a number of assets have been incorrectly categorised with the consequence that an incorrect depreciation rate was 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, amounting to €28,847, no practicable procedures could be carried out to determine the exact amount of misstatement. A qualified audit opinion was issued in this respect. It was also noticed that capital expenditure amounting to €229 in respect of software and €1,180 in respect of Assets not yet Capitalised were written off immediately to the Statement of Comprehensive Income as repairs and maintenance, and professional fees respectively.

The Council is currently updating its FAR which is expected to be ready for next year's audit. While the process is being carried out, great attention is being given to the categorisation and depreciation of assets. Whilst LGA's recommendations were taken into consideration and adjustments are being made, other issues are also being considered so as to have a more accurate FAR. The adjustments recommended by LGA with respect to capital expenditure were effected.

In previous years, the Council recognised an amount of €37,380 in respect of PPE, which was financed through Grants administered by MEPA's UIF. These Grants, which were received

on account of these specific capital projects, were accounted for using the Capital Approach, whereby the Grant is allocated in its entirety against the cost of the asset. This approach is not in line with instructions provided by DLG, which state that such capital projects should be accounted for using the Income Approach. This approach stipulates that the Grants shall be recognised as income over the periods necessary to match them with the related costs which they are intended to compensate on a systematic basis. In view of this, a qualified audit opinion was issued.

It was also noted that during 2011, the Council obtained a new Grant, amounting to €59,995, in relation to works on the water fountain in 'Piazza Madonna ta' Pompeii'. While the said works were completed and certified by the end of 2011, the funds in relation to this Grant were not received by the end of the year under review. The total cost of the project amounted to €58,515, however the Council had accrued for the whole amount of the Grant, thus resulting in an over accrual of €1,480. Furthermore, since the Deferred Income workings were based on the amount of €59,995, the annual release to the Statement of Comprehensive Income in the Financial Statements is slightly overstated and the short-term portion of Deferred Income was also understated. Following LGA's recommendation, the Council has undertaken the necessary adjustments to revise this variance.

The calculation for the Deferred Income was made and reflected in the unaudited Financial Statements. The amount of €1,480 was not recognised as refundable to MEPA due to lack of knowledge at the time of preparation of the Financial Statements. The adjustments recommended by LGA have been made.

While the amount receivable by the Council in respect of LES Tribunal pending tickets (pre-pooling period) stood at €51,277 as at the end of the financial year, the balance recognised in the Financial Statements amounted to €60,952. The necessary adjustments were carried out by the Council to record the appropriate amounts.

The Council has taken note of LGA's recommendation and made the necessary adjustments.

Included within Trade Receivables is an amount of €2,099 due from the ex-Mayor in relation to the excess honoraria paid to him in 2010. Although the Council withheld the last allowance due to the said ex-Mayor as set-off in respect of the amount due, no adjustment was recognised in the Council's records to reflect this deduction from the outstanding amount. Consequently, whilst the Councillors' allowance, as recognised in the books of account, is understated by €600, Receivables are overstated by the same amount. In addition, it was noted that arrears covering January to March 2012, payable in respect of the new collective agreement were not paid to the previous Mayor as should have been done, but were instead paid to the current Mayor who was elected with effect from April 2012.

These items have already been settled during the financial year 2013. The funds due by the ex-Mayor will also be evaluated by the Council.

The Council has also recognised an amount of €2,808 as Other Receivables. This amount has been coming from previous years and no explanations were provided on the nature of these receivables.

The Other Receivables balance of €2,808 carried forward from previous years, related to a Garnishee Order. This amount has been explained to LGA every year. The Council will need to evaluate whether this amount is actually recoverable, and, if not write it off.

In line with the preceding periods, two amounts of €12,854 and €932, owed to two Contractors, are long overdue and have been in the Council's books of account for a number of years. The suppliers in question have not contacted the Council to recover the said amounts and the Council has no recent evidence to show that these amounts are in fact due. Notwithstanding LGA's recommendation in the previous reports, 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. A qualified audit opinion was issued in this respect.

The Local Council has made contact with both suppliers concerning the said balances. These suppliers were urged to provide any documentation

which they have in relation to the said balances. Should they fail to produce requested information the Council will take legal advice on the matter.

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 previous 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. Furthermore, the accounting treatment for the recording of such financial asset is not in line with the requirements of IAS 39.

This issue was already tackled during the audit of 2009 which is the year when the agreement with Marsaxlokk Football Club was signed. As stated in the Management Letter of the same year, the main reason for the agreement with the football club was to promote sport in the locality, especially for the under 18's. A tender could not be issued since there was only one football club in the locality. The advance payment was made in order to achieve the best possible price for the facility. LGA's recommendations were noted and no other such long-term agreements have been entered into since then.

The amount of Capital Commitments, as disclosed in the Financial Statements, does not tally with the amount in the approved Budget report for 2013, whereby the latter exceeds the amount disclosed in the Financial Statements by €2,250.

The Capital Commitments disclosed in the Financial Statements were calculated prior to the finalisation of the Budget. LGA's recommendations have been noted.

Mdina

During the year under review, the Executive Secretary was paid the amount of €310 in relation to a personal vehicle allowance, together with subsistence allowances of €552. In breach of the provisions of Memo 109/2010, the Council paid the said amount without having been provided with a claim form which clearly indicated the mileage being claimed, and invoices covering the expenses incurred. It is also to be noted that, from a fiscal point of view, the Fringe Benefit Regulations stipulate that any fuel cost reimbursement exceeding €0.35 per kilometre, is taxable.

The Council would like to point out that these petrol reimbursements were given upon the presentation of a receipt, for the use of personal cars which were at the Council's disposal, to carry out various Council errands. With respect to the travel subsistence, the Council would like to point out that only half of this allowance was claimed by the Executive Secretary since the rest was claimed by another Councillor. Moreover, the Council will enquire on whether expense claim forms and receipts were to be presented in this case as it believes that since the travel subsistence allowance did not exceed the €230 allowance per diem, it is not obliged to do so according to MFIN regulations.

Notwithstanding that the Council has been occupying its offices since 1994, no rental agreement has ever been in place. In addition, this rental expense was never paid by the Council, and the latter has been accruing for this since 1994. As at year-end, accumulated Accrual stood at €41,520. Despite that this issue was already highlighted in previous years, no action was taken to rectify this matter.

LGA's comments about the absence of a proper rental agreement is an issue which the Council had already replied in previous Management Letters. The Council was given the premises by DLG in 1994 with no lease agreement being made at the time. When the Vilhena Palace was taken by Heritage Malta, the latter stated that the administrative office forms part of the Vilhena Palace. This was always denied by the Council and eventually Heritage Malta never insisted on this claim. The Council maintains that since it has never received any legal demand to pay this rent,

it is only due to the insistence of LGAs that an accrual for rent is being made. Notwithstanding this, a proper lease agreement will be in place, as the Council is in the process of leasing new premises.

The FAR provided by the Council is not in line with the best practice and in terms of the Local Councils (Financial) Procedures. Furthermore, the reconstruction of the FAR could not be carried out due to missing documentation and Nominal Ledger history with respect to financial years covering 1994 to 2007. Consequently, LGA was limited in the audit procedures it could perform to verify the physical existence of the items of PPE with a NBV of €140,263 held by the Council, as well as to ascertain that the depreciation charge of €39,635 is correct. Thus, a qualified audit opinion was issued in this respect.

The FAR's issue was addressed by the Council during the year under review. One must appreciate the accurate reconstruction made to the FAR, since this was a time-consuming exercise that involved a certain cost. Moreover, the Council is continuously updating the FAR upon purchase of capital items and correctly posting the depreciation charge from the Fixed Asset Module on a monthly basis, as per the terms listed in the Local Councils (Financial) Procedures. Notwithstanding this, the Council will follow LGA's recommendations to continue improving the FAR.

The Council has in place a system of back filing to store its records, however, one has to understand that the majority of its assets were acquired and not purchased, implying that the value kept on the computer program is based on an estimate. Thus again one has to appreciate the fact that the Council has reconstructed the FAR as accurately as possible, based on the available information such as the prior year audited Financial Statements/Nominal Ledgers. Moreover, the Council is also committed to maintain all the required documentation for new assets purchased and to follow LGA's recommendations.

During 2012, the Council experienced acts of vandalism in one of its playing fields and ancillary equipment. From the insurance claims filed, it was clear that the vandalised equipment was beyond repair and not in line with standards established by the Malta Standards Authority. Consequently, the Council had no option other than replacing the respective assets. In view of this, it was noted that

no impairment adjustment was provided for in the Financial Statements for the vandalised assets. Moreover, upon review of the FAR, it transpired that certain impaired items were still included in the Financial Statements.

The Council noted LGA's recommendation and would like to point out that during the coming year it will concentrate to make the FAR as accurate as possible by carrying out a physical inspection where possible.

Cut-off procedures adopted by the Council at year-end were not correct, with the consequence that both Prepayments and Accrued Expenditure as recognised in the Financial Statements were inaccurate. Whilst Accrued Expenditure was understated by €1,524, Prepayments were overstated by €414. Meanwhile, the Council failed to provide for Accrued Income of €5,228. The necessary audit adjustments were approved by the Council to rectify these errors. On the other hand, a sales receipt of €3,494 in relation to an invoice issued during the preceding year, was incorrectly recognised as income during the year under review.

The Council would like to highlight the fact that information pertaining to the events mentioned in LGA's report was not available by the time of the preparation of the Financial Statements. Notwithstanding this, the Council will ensure that such year-end transactions are correctly accounted for in every financial reporting period. The proposed set of audit adjustments were accounted for, and the Council will ensure that it correctly accrues for all expenditure in line with the Concept of Accrual Accounting.

Included within Receivables is a total amount of €14,814, which has been overdue for more than one year. This amount is mainly receivable from Malta Tourism Authority (MTA) (€3,615), MRRA (€3,519) as well as a private hotel (€2,850).

The Council has noted LGA's comments and would like to note that an appropriate exercise was carried out and a Provision for Doubtful Debts will be included in next year's Financial Statements. Furthermore, with the exception of MRRA, the long overdue amounts listed by LGA are now settled.

As already reported in preceding years, a substantial portion of the revenue generated by the Council consists of Income from Bye-Laws. However, there is neither a Bye-Law in place regulating income arising from the rental of 'Mdina Square' for public activities, nor for the use of the Council hall. In spite of this, the Council has again collected the amount of €4,050 in this respect during the year under review.

With respect to the use of public spaces in Mdina, the Council only charges an administration fee to cover the expenses in connection with cleaning and warden services. Notwithstanding this, the Council has already submitted a Bye-Law to the Department and the Minister concerned to regulate such income.

During the year under review, the Council was engaged in an exchange programme with several towns and villages in other EU Member States. In connection with this event, there were reimbursements in favour of the Council for costs incurred relating to overseas tickets and hospitality arrangements. From the audit verifications carried out, it transpired that the Council was netting-off such income against the respective costs incurred. Although the resultant effect on the Statement of Comprehensive Income is nil, items of income and expenditure should always be clearly distinguished from each other, as required by IFRSs. In view of this, a reclassification adjustment of €17,881 was approved by the Council to correctly record both income and expenditure.

The Council has noted LGA's observation and has made the necessary adjustments in the Financial Statements to outline a better presentation. The Council will also make sure to adhere with LGA's recommendation.

The amount of €816 was expended on the Christmas staff meal organised for Councillors and administrative staff. Considering that the Council is made up of five Councillors and two members of administrative staff, the maximum expenditure in line with Memo 8/2011 should have only been €210. While, it is understandable that partners and guests were also invited for this activity, no reimbursement was traced for the portion in excess of €210 that was paid out of the Council's funds.

LGA's observation was noted, however, the Council strongly argues that it has been following the guidelines of Memo 8/2011, and apart from not exceeding the €30 per head for Council members and administrative staff, the accompanying partners and guests have paid their share of expenses in January 2013.

Although donations are prohibited, the Council still has paid €150 in respect of gifts.

The Council is aware that it cannot give any donations, in fact, no donations were given during the year under review. The items listed by LGA are the result of social and cultural obligations, for example, mementos presented to distinguished guests on special occasions. One also has to appreciate the fact that the Council already tries to keep this type of hospitality expenditure to a minimum.

The disclosure in the Financial Statements regarding Capital Commitments states that, in view of its accumulated losses, the Council is not planning any future Capital Commitments. Notwithstanding this, the Budget document for 2013 shows a commitment of €6,500 on improvements.

LGA's observation was noted and the Council would like to clarify that the €6,500 commitment for improvements listed in the Budget document for 2013, relates to provision for minor improvements that may be necessary, mainly due to health and safety issues.

In a number of categories, expenditure incurred exceeded the budgeted figures for 2012 prepared by the Council. The major variances encountered related to Professional Fees (€28,930), Community and Hospitality expenses (€21,010), Office Services (€1,357), and International Membership (€831).

The Council would like to clarify that certain expenses are incurred on work that was not planned by the Council. For example, during 2012 Professional Fees in connection with the reconstruction of the FAR and the services of an Architect relating to a project had to be incurred. With regard to hospitality expenses, the Council would like to point out that it is obliged to host

distinguished people and thus certain expenses cannot be anticipated. Notwithstanding this, the Council is committed to follow LGA's recommendations where possible.

Mellieħa

Expenditure amounting to €33,699 was not substantiated by a proper invoice. The only supporting documentation provided was the request for payment.

The contractor's attention was drawn to the statutory requirement to submit proper invoices with respect to each payment claim. Notwithstanding such shortcoming, the same supplier had issued a fiscal receipt following each payment effected by the Council.

Government Grants of €11,400 received in relation to projects of a capital nature were recorded as Grants of a revenue nature with the consequence that these were recognised in full as income during the year under review. Following LGA's recommendation, the Council adjusted its Financial Statements by allocating the Grant to Deferred Income, however no release of the current year's portion was taken to the Statement of Comprehensive Income.

The Council does its utmost to account for Government Grants in line with the requirements of IAS 20. This accounting treatment was correctly applied for the majority of the Government Grants. The two Grants mentioned by LGA were not received in the financial year under review, however these were accrued for since the commitment letter had been issued by DLG. The two Grants were incorrectly accrued for against the Statement of Comprehensive Income instead of the Statement of Financial Position, which error has been adjusted.

Variances were encountered between the amounts disclosed in the Trial Balance and those recorded in the Financial Statements. Prepayments and Accrued Income, as well as Non-Current Liabilities as recognised in the Trial Balance, were both understated by €71,633 when compared to those accounted for in the Financial Statements.

When preparing the Financial Statements, a Journal Entry was recorded in the extended Trial Balance, however, this has not yet been posted in the Council's accounting system. In the meantime, these Journal Entries were effected in the system by debiting Prepayments and Crediting UIF Long-term Grants by €71,633.

Testing carried out on Prepayments and Accrued Income revealed that these were not accounted for properly in the Financial Statements. For example, Grants of €35,588 receivable as at year-end with respect to 'Misraħ Żjara tal-Papa' project, were omitted from the books of account.

The Accrued Income relating to 'Misraħ iż-Żjara tal-Papa' project has not been accounted for since the project costs were still recognised as Assets not yet Capitalised and the correct IAS 20 treatment will then be applied once the entire expenditure relating to this project is transferred out of this account.

Likewise, items amounting to €15,677, which should have been accrued for, were completely omitted from the books of account. On the other hand, an amount of €6,278 which should have been accounted for as a Creditor, was instead accrued. Following LGA's recommendation, the Council approved to post the necessary adjustment to recognise expenditure that was originally unaccounted for.

The Financial Statements were approved by the Council in the second week of February 2013. It is important to keep in mind that in order to manage to finalise the Financial Statements by that deadline, the Council had to stop processing transactions around the beginning of February. By then, the majority of supplier invoices for the year under review would have been received and processed by the Council. Unfortunately, the invoices mentioned by LGA were received after the cut-off date and were subsequently posted through audit adjustments, as recommended in the Management Letter.

It was also noted that whilst in the Financial Statements Assets not yet Capitalised amounted to €3,015,454 before audit adjustments, the list of the said assets provided for audit purposes totalled €2,968,704, thus resulting in a discrepancy

of €46,750 between the two documents. The Council also failed to recognise in its accounting records expenditure of €78,750 in relation to works carried out on the new Council premises, which amount had not yet been paid by year-end. In addition, four projects amounting to €1,119,365 were not capitalised even though these were all finalised and inaugurated prior to year-end. Consequently, no depreciation was charged thereon. Furthermore, part of the Grants received in respect of such projects was not released to the Statement of Comprehensive Income. Despite LGA's recommendation to rectify these errors, the Council only adjusted its Financial Statements in respect of the New Council Premises and the capitalisation of two out of four projects. A qualified audit opinion was issued in this respect.

One of the projects was inaugurated in August 2012, however final billing has not yet been submitted by the contractor. In addition, the Architect in charge of the project has not yet certified such billing and thus the professional fees due are still not known to the Council. Another project was inaugurated in February 2011, however not all billing has so far been concluded as problems arose with the issue of a compliance certificate by MEPA, which matter was only solved in March 2013. Electrical supply was given in mid-May 2013 and subsequently the pumps and the irrigation system were installed. In view of these reasons, the costs relating to this project were not transferred out from Assets not yet Capitalised. On the other hand, two projects were completed during the year under review and by year-end all related invoices had been processed. Thus, the costs relating to these projects were transferred out of Assets not yet Capitalised.

During the preceding years, the Council availed of the PPP Scheme launched through Memo 45/2010 and entered into a contract whereby the contractor has undertaken road resurfacing works amounting to €367,846 in 2011, being Phase 1 of the project, and €348,492 in 2012, being Phase 2 of the project. By the end of the year under review, 60% of the amount under Phase 1 and 40% of the amount under Phase 2 had been settled. The Council recognised as a liability the full amount still due under Phase 1, however it failed to account for the amount outstanding under Phase 2, amounting to €209,095. Furthermore, the latter recognised in the Financial Statements a non-current liability payable to third parties of €214,901. This is

equal to the Grant received in respect of the PPP Scheme, and not the non-current amount payable to the supplier under the agreement. Following LGA's recommendation, the Council adjusted its Financial Statements accordingly.

The Council adjusted the Financial Statements in line with the requirements of IAS 39.

Irrespective of the fact that donations, whether monetary or in kind, are prohibited, during 'Jum il-Kunsill' the Council donated an oil painting costing €237 to the then Minister for Tourism. Another three paintings, bearing a total cost of €495 and which were fully financed from the Council's funds, were also donated. Furthermore, whilst going through the Council minutes of the meeting held on 9 October 2012, it was noted that the Council paid the amount of €3,119 in respect of works to embellish the School Council Hall at the Mellieħa Primary School. There was no basis for this expenditure except for the explanation that the School Council Hall is used by NGOs in Mellieħa and sometimes by the Council itself.

The paintings referred to by LGA were not given to the indicated persons in their personal capacities. The painting presented to the former Minister for Tourism was in recognition of his efforts to improve tourist facilities in the locality. As for the other three paintings, one was given to the EU Commissioner upon inaugurating the European Destination of Excellence Monument at 'Triq Qasam il-Barrani', whilst the other two were presented to the Mayor of Ayia Napa (Cyprus). The exchange of gifts between Mayors of twinned localities and other distinguished personalities is normal practice and part of the established protocol.

As for the school embellishment, the school hall is Government property and therefore any improvements carried out there should in no way be considered as a donation to NGOs. Together with the Education Division, the Council has invested in this important asset in the locality for the benefit of the community. Furthermore, the community hall is frequently used by the Council for important gathering and cultural activities. The improvements carried out in this hall over the years were the result of resource pooling between the Education Division and the Council. Thus, in the Council's opinion, LGA's interpretation of

Article 63A is incorrect, as improvements carried out by the Council in a Government owned edifice are certainly not to be considered as a donation. Furthermore, the Council has correspondence in hand from DLG stating that co-operation with NGO's is to be encouraged to enable the organisation of cultural and sports activities. So a modest expenditure of €3,119 should be considered as a concrete step in fulfilling part of the Council's social and cultural obligations within the locality.

The Contingent Liability disclosure note in the Financial Statements states that the Council has Guarantees amounting to €16,665, however in actual fact there were no Guarantees due as at year-end. As recommended by LGA, the Council agreed to adjust the Financial Statements accordingly.

As the Council had no Bank Guarantees in place by the end of the financial year, the Financial Statements were updated accordingly, as advised by LGA.

Although there was no urgent motive to issue a payment of €110 to an individual who is not on the Council's payroll records, for the use of his personal vehicle, such payment was effected without it being approved at the Local Council meeting.

The payment made involved reimbursement of expenses incurred for use of private vehicle in connection with Council work. The Executive Secretary and the Mayor endorsed the relative claim before a cheque was issued to the individual. The payment has been raised in a Schedule of Payments submitted for approval during the 73rd Council sitting held on 10th August 2012.

Mġarr

Testing carried out on income received by the Council revealed that several receipts of income were posted in the expenditure accounts with the consequence that these were netted-off against the related expense. These involve a reimbursement from 'Cypfire' project amounting to €34,894, a reimbursement of €17,696 with respect to 'Biolmed' project, reimbursement from 'Tastes of Europe' project totalling €17,186, as well as income from Cultural Event Schemes, organisation of courses, printing, and sale of electricity cards, totalling

€4,809. Likewise, the Government allocation for the year was not recorded gross, but was accounted for net of deductions for Wi-Fi services and bring-in sites waste disposal. Moreover, it was noted that income from Governmental sources was posted as General Income. Following LGA's recommendation, the Council approved the necessary audit adjustments to rectify these errors. In addition, notwithstanding that a portion of the income arising to the Council consists of fees, amounting to €996, earned from rent of the latter's penthouse, a Bye-Law in accordance with Article 34 of the Local Councils Act is not in place to regulate such income.

Points raised have been noted. Since funds received from DLG are done via direct bank transfer, there is traceability for the funds through the bank account workings. The issue with respect to the Government allocation has been discussed during the audit between LGA, the Accountant, the Mayor and the Executive Secretary and it was agreed that the amendments will be dealt with in next year's audit. As for EU projects, these have now been concluded and the related expenses were reimbursed at cost. The issue for the use of the Council's premises by third parties was only a temporary one, since, during 2012, the venue was turned into a Day-Care Centre for the elderly.

During the year under review, expenditure of €300 relating to the Youth Exchange Programme was reimbursed without a claim form. This goes against the provisions of Memo 109/2010 which stipulate that a Council should not be paying expenses without a claim form.

Note taken. Council aims to improve on this in 2013.

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 the FAR on a monthly basis, using the Reducing Balance Method, as required by the applicable regulations. As a result, existence and completeness of Fixed Assets disclosed in Financial Statements having a NBV of €798,948, as well as accuracy of depreciation calculated thereon, could not be ensured, and thus, a qualified audit opinion was issued in this respect.

While the Council acknowledges the fact that it does not have a FAR in place, it is important to note that a call for tender for the supply of this service (code MGR 2012/04) was issued in summer of 2012. Thus, work is currently underway to formulate and maintain a FAR, even though difficulties could be faced in retrieving past information since certain data has been completely destroyed.

As at 31 December 2012, the Council has recognised an amount of €107,063 as Receivables, out of which €43,111 had been due for more than one year. It was noted that some of the transactions in the Sales Ledger were being posted as Journal Entries rather than as sales invoices. Furthermore, the Council was issuing sales invoices manually and instances were encountered whereby certain transactions could not be traced to the respective sales invoice. This implies that there is no system in place to ensure that sales invoices are issued and duly sent to the respective Debtor for all the income receivable by the Council. Consequently, LGA could not obtain confirmation of the amounts receivable, and thus it was impossible to obtain reasonable assurance that such amounts, as recognised in the Financial Statements are not materially misstated. In view of this, a qualified audit opinion was issued.

Testing carried out on the ageing of the Council's Customer Ledger revealed that €43,111 of Trade Receivables were more than one year overdue. Following further analysis, it transpired that €33,202 were to be received following claims for EU projects, while the remaining balance relates to Receivables of €9,672 from DLG and €237 from WSC. In addition, an old balance of €6,112, which was carried forward from prior years was traced. Following LGA's recommendation, the Council approved to write off this unidentified balance as Bad Debt. Furthermore, given that LGA was not provided with supporting documentation to confirm that the Receivables are correct and not impaired, a qualified audit opinion was issued.

An exercise is being carried out with the Council's Accountant to verify and quantify the amounts of the claims as mentioned.

The Council failed to accrue for income, amounting to €2,082, due in connection with the Library Scheme as well as 'Festa Hidmet

Missirijietna'. Likewise, income of €11,637 receivable from the Accessibility Scheme, in relation to the construction of a ramp that was fully completed during 2012, was not recognised in the books of account, as the claim for such funds was submitted during 2013. Furthermore, no provision was recognised by the Council in respect of income receivable, totalling €5,476, for work carried out on behalf of other related parties, namely WSC and Regional Committees, as well as a private company.

It also transpired that the Council was not recording the LES administration fee on an accruals basis but rather on a cash basis, *i.e.* upon the receipt of income. This resulted in an understatement of €1,417 in the amounts receivable by the Council at year-end. Moreover, income of €9,355, which had been accrued for during the preceding year by means of an audit adjustment, was reversed despite that the Council had not yet received the respective amount. It was also noted that during the year under review, the Council received income of €17,187 in respect of '*Tastes of Europe*' project which, although completed during the preceding year, it was not accounted for accordingly during that period. These errors were rectified by means of audit adjustments proposed by LGA.

Meanwhile, Grants totalling €4,650, received during the year in relation to the photovoltaic system, were wholly recorded as income. However, the Council approved the necessary audit adjustment to correct this error. Furthermore, included with Deferred Income is an amount of €33,429 relating to Grants received for capital projects. However, the Council did not account for such Grants in line with IAS 20. Notwithstanding that an amount should have been released to income, in line with the amount of depreciation being charged to that asset for which such funds were utilised, no such income was included in the Financial Statements. A qualified audit opinion was issued in this respect.

The activity with respect to 'Festival Hidmet Missirijietna' will be held in July 2013, and thus no income was to be accrued at year-end. The ramp was done with funds received from the Accessibility Scheme, and the works were carried out in February 2013. Thus, no provision for both Accrued and Deferred Income was accounted for

at year-end. Income with respect to the 'Tastes of Europe' project was discussed during the audit and since it had no effect on the reserves, the adjustment was made during 2012.

An analysis of the Trade Creditors as at 31 December 2012 revealed that the Council was not carrying out regular reconciliations with Suppliers' Statements. Instances were encountered whereby the balances recognised in the Creditors' List were under/overstated due to the fact that either certain invoices remained unaccounted for, or were accounted for twice. Furthermore, no confirmation could be obtained for a substantial part of Trade Payables. Thus, LGA was unable to obtain reasonable assurance that the amounts payable recognised in the Financial Statements, totalling €19,866, were not materially misstated, resulting in a qualification of the audit opinion in this respect.

The Accounting System currently adopted by the Council is a hybrid one between Cash and Accruals Accounting. Testing carried out revealed that there were some postings which lacked descriptive details as these were merely balancing items. Examples are two transactions amounting to €1,799 and €1,813 posted in the Cultural Event Account, with the description '*w/o rounding*'. Several other expenses were not correctly classified in their appropriate Nominal Account, with the consequence that a number of audit adjustments had to be proposed to reclassify such expenditure accordingly. 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 €10,507 were omitted from the Financial Statements. Likewise, Prepayments recognised in the Financial Statements were understated by €1,335 and expenses amounting to €6,435, which should have been posted to the Creditors' Ledger, since the respective invoices were dated in 2012, were incorrectly accrued for. The Council approved the audit adjustments proposed by LGA and adjusted the Financial Statements accordingly.

There might be instances where invoices would be received after the approval of the Financial Statements, thus creating problems for the

Accruals System and its completion. Prepayments will be taken into consideration in the future. It should also be noted that during the year under review, there was a change in the supplier of accountancy services and thus, this brought about some transitional changing problems and issues.

Audit verifications carried out on cash and bank balances revealed that not all bank accounts were reconciled as at year-end. Despite that a particular bank account was closed on 29 March 2012, a balance of €1,284 was still recognised in the Nominal Ledger in respect of this account. On the other hand, a bank account that was opened during 2012, and which at year-end held a balance of €10, was completely omitted from the Trial Balance and Financial Statements.

Discussions are being held with the bank manager to mitigate the discrepancies listed down in the report.

It was noted that a number of payments, totalling €25,062, were made prior to the approval of the Schedule of Payments in the Council's meeting.

Cheques are always issued after approval is sought during Council meeting. However, there were rare instances when the need was urgent to acquire and pay for a product or service. The Council would be informed of this in the following meeting and approval sought accordingly.

Contrary to what is laid down in the Local Council Procedures, which state that Councils are required to deposit cash in hand at least twice a week, the Council was taking more than a week to deposit cash received. As a result of this practice, in the first week of June 2012, the Council noted a sum of €1,387 missing from its cash box, which amount could not be traced. Upon further enquiry, it was noted that the Council administrative staff kept all cash, whether it is petty cash, income from permits or income from tenders, in the same cash box. Furthermore, cash reconciliations were not carried out on a daily basis, but much less frequently, every three or four weeks.

The Council immediately informed the Police and DLG about the incident and took the necessary action to prevent a similar case from happening again.

Mosta

It was noted that the Council is still procuring the provision of certain services under an expired contract. These comprise engineering services, collection of bulky refuse, cleaning and maintenance of parks and gardens, street sweeping, as well as the cleaning and attendance of public convenience.

No feedback was provided by the Council.

A tender was not traced in respect of the supply and laying of membrane costing €5,835. This procurement was solely substantiated by a purchase order.

An analysis of the rent agreements in place revealed that the rent expense, as recorded in the Financial Statements, following an audit adjustment of €1,254, was understated by €7,261.

The Council has taken note of the observations made by LGA. The rental charge for the Day Care Centre is at present not being shown under 'Rent Expenses' but under 'Day Care Expenses'. This is the main reason for the discrepancy in the rent expense identified by LGA.

During the year under review, the Council made payment for the purchase of trophies, amounting to €797, which were awarded during a bird show that was organised by a private individual. Another €500 were paid for the purchase of two gold medals in connection with 'Jum il-Mosta' 2011, which expense should have been included in the prior period Financial Statements. It was also noted that during the village feast, the Council organised a party for members of Local Organisations and the amount of €518 was paid in this respect.

In breach of the Local Councils (Financial) Procedures, expenditure not supported by appropriate documentation was identified by LGA. Such expenditure consisted of an amount of €6,404 paid to Heritage Malta through internet banking, which amount was only supported by a bank advice, €500 paid in respect of 'Fuljett Magazine issue 41' for which no invoice was provided, and adjustments amounting to €4,041 that were executed during the reconciliation of

the Suppliers' Balances, for which no supporting documentation was provided.

The Council has taken note of the observations made by LGA. The former is also taking note that the Internet Banking facility should be used for viewing purposes only. As a matter of fact these are the arrangements which the Council has with its bankers.

The Council is not honouring the fundamental concept of Accrual Accounting, thus providing an incomplete and misleading picture of its financial position. In fact, accruals accounted for at year-end were incomplete. A review of the post year-end payments revealed that invoices totalling €74,585, that were issued in 2013 but which related to 2012, were not accrued for. These were then incorporated in the accounting records by means of an audit adjustment. Similarly, prepaid expenses as recognised in the Financial Statements were understated by €730.

The Council's Accountants have taken note of the need to include invoices received post year-end date. Council staff have been instructed to forward to the Accountants any unconcluded Purchase Orders and works orders issued prior to year-end for inclusion in the provision for accrued expenditure. The Council also took note of the minor differences identified in Prepayments and has in the meantime improved the system of calculating period-end prepayments and accruals to increase accuracy.

During 2011, the Council benefitted from a Grant of €5,800, in relation to the Energy Saving Scheme. Even though the project had been completed, only the amount of €1,976 received up to 31 May 2012 was recognised in the Financial Statements. Furthermore, such amount was posted directly to the Statement of Comprehensive Income rather than the Deferred Income account under non-current liabilities. In this respect, Retained Earnings are overstated by €1,976, whilst Liabilities and Receivables are understated by €5,800 and €3,824 respectively. No adjustments were undertaken by the Council to rectify these errors.

Included in Deferred Income is a Grant of €5,000, received in respect of the President's Creativity

Award Scheme. No supporting documentation was provided for audit purposes in respect of this amount.

The Council has documentary evidence with respect to such award.

At year-end, the Council posted two adjustments, amounting in total to €198,205, in the Nominal Account 'Construction', to capitalise some roads falling under the PPP Scheme, as well as assets from the Assets not yet Capitalised account. However, the Council failed to provide further details, such as the list of roads and assets capitalised, so as to validate the respective adjustments. Furthermore, it was noted that the PPE Schedule, as disclosed in the Financial Statements, did not reflect any transfer from the Assets not yet Capitalised account.

During the year under review, testing on completion of works was carried out by the Council's Accountants. This led to the capitalisation of all amounts previously shown as Assets under Construction, and therefore not yet capitalised. However, the Council has taken note of LGA's recommendation, to keep further detail of the breakdown of assets capitalised and for this purpose new spreadsheets will be created to show such breakdown for newly capitalised assets.

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, the Council has never received such Financial Statements. 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 upon in previous years, no action has been taken by the Council so far.

Point not addressed.

As at year-end, the Council recognised the amount of €58,528 as Trade Debtors, in respect of which a Provision for Doubtful Debts, of 32% was recognised. Notwithstanding that €18,164 of the remaining Debtors had also been outstanding for quite a long time, this balance was not provided for.

The Provision for Bad Debts was made in line with the instructions given to the Council by DLG for the year ended 2012. Furthermore, the Council staff and Accountants have carried out a very extensive exercise in order to reconcile all accounts, especially those showing old balances or negative balances. Corrective measures were taken to ensure that the Debtors Ageing Report is reflective of the real collectible values from Trade Debtors.

Included with Other Debtors is the amount of €12,529 in relation to funds receivable on account of 'SMART' project. However, as per confirmation obtained from PPCD, the amount receivable by the Council as at end of May 2012 totalled €15,802, implying that Receivables as recognised in the Financial Statements are understated by €3,273, following an unexplained write-off undertaken during the year under review. The necessary audit adjustments were passed to rectify these errors.

In early 2012, the Council consulted with PPCD in order to have a clarification of the exact amounts that are due from the 'SMART' and 'Cultexchange' projects. The difference was written off and duly recognised in the Statement of Comprehensive Income for the year ended 2012. However, it later transpired that the relative authorities subsequently changed these estimates and therefore these discrepancies had to be rectified post-audit. Furthermore, with respect to Accrued Income on EU projects, the Council would like to state that LGA was provided with correspondence with the relative authorities, showing what was due to the Council at project-end.

Variances were noted between the invoices issued to Regional Committees (€11,728) relating to the administration fees, the amount recognised in the Financial Statements (€12,173) in this respect, as well as the amount actually receivable by the Council (€11,636) as per LES reports. Likewise, a discrepancy was also noted between the LES Debtors of €48,160 reported in the unaudited Financial Statements, against which a full provision for Doubtful Debts was provided, and the LES report extracted from the system which totalled €47,695. In view of the latter case, the Financial Statements were adjusted accordingly.

In the year under review, the Council reversed the amount of €7,601 directly against LES income, since LES Debtors were overstated by this amount due to an error which had been accumulating since 2002. Consequently, the amount of Income raised from LES as recognised in the Financial Statements is understated by the same amount. This issue was highlighted in the prior Management Letters.

In respect to the accounting of LES Debtors, the Council would like to point out that the reversal of €7,601 was not shown as a prior year adjustment, on materiality grounds. Furthermore, the Council would like to thank LGA for clarifying that the value of tickets collected by the Council should stand at 10% of the report titled 'LES Report 483 – Post-Regional Tickets'. A periodic reconciliation with this 'LES Report 483' will be carried out whenever Management Accounts are prepared.

During the year under review, the Council released the amount of €11,668 from the Deferred Income account to the Statement of Comprehensive Income. However, as per workings provided by the Council's Accountant, the amount released in respect of PPP Scheme amounts to €10,045, whereby the amount of €2,870 should have been released in the previous year. It was also noticed that the release took place on receipt of the Grant by the Council, and not when the project was completed.

The Council took note of the respective observation concerning the application of IAS 20 in respect of the PPP projects.

As per audit verifications carried on the recording of income received, the following shortcomings were noted. An amount of €31,760 was included as Other Income despite that this was composed mainly of rental income, advertising, sponsorships, donations and insurance claims and should thus be recorded accordingly. A write-off of a Receivable amounting to €26,744, which should have been recorded as a Bad Debt, has instead been accounted for under General Income, which amounts should have been separately itemised in the note. It was also noted that a write-off of refundable deposits, totalling €88, was not approved during a Council meeting.

The Council recognised as income, a deposit of €1,200 which was received in respect of a tender contestation, however, since this income was not yet actually generated by the Council, it should have been recognised as Payable. The income will only crystallise if the appellant loses the contestation. The Council also received a sponsorship of €500 in respect of ‘*Jum il-Mosta*’ from one of its main contractors. It would be more appropriate if such sponsorships are avoided, as these may tarnish the independence of the Council. In view of these shortcomings, Income, Expenses, as well as Payables, were understated by €25,544, €26,744 and €1,200 respectively. Furthermore, the amounts of €2,237 and €349 receivable by the Council under ‘*Skema ta’ Għajjnuna Finanzjarja għal Korsijiet Lifelong Learning*’ and for Lace Making courses respectively, were completely omitted from the accounting records. It was also noted that income was not classified in the correct manner, as required by the respective Local Councils (Audit) Procedures. For example, the amount of €15,318 was recorded as ‘Income raised under Council Legal Notices’, when in actual fact this related to permits issued for various activities. Following LGA’s recommendation, part of the aforementioned errors were adjusted by means of an audit adjustment.

As regard the Other Income shortcomings, the Council has taken note of the observations made by LGA, with a view of adhering to such advice in the financial reports to be issued in the future. Furthermore, steps were taken to show all income which is not arising from Bye-Laws under Other Income. The Council is to take the necessary steps to regularise its position with regard to the promulgation of Bye-Laws as and when necessary. Note was also taken in respect of the lack of recognition of the Other Government Income.

Testing carried out revealed that the opening balances of the Council’s Nominal Ledger were not in agreement with the approved and audited Financial Statements for the year ended 31 December 2011. Variances of €108,960, €247,610, €356,416 and €154 were noted in Retained Earnings, Payables, Receivables as well as Cash and Cash Equivalents respectively.

Notice has been taken of the observation made by LGA in respect of opening balances and necessary action has been taken in this regard.

Contrary to that laid down in IAS 8, the Council recognised a prior year adjustment of €50,467 during the year under review, to record retrospectively an accounting estimate that was omitted from the financial records during the preceding period. As a result of such adjustment, Retained Earnings decreased by the aforementioned amount, to reflect the under-accrual at the end of the previous year. Following LGA’s recommendation, the Council attempted to reverse this adjustment, however it erroneously increased Retained Earnings by €60,644. This implies that a total adjustment of €111,111 was erroneously posted. However, no details of this adjustment were provided.

The Council has taken note of LGA’s observation, stating that, any change in an accounting estimate should be recognised prospectively. Therefore there was no need for any prior year adjustment in this regard.

The Capital Commitments of €1,764,158 as disclosed in the Financial Statements were not limited only to 2013, but also included the capital projects which the Council is planning to undertake between 2013 and 2020. As per the Budget document for 2013, budgeted capital expenditure amounts to €611,774.

Capital Commitments are accordingly reported in the accounts for year ended 2012. The Council has taken note of the observation, of providing further detail on such Capital Commitments that relate to PPP1 and PPP2 projects.

From a letter addressed to LGA by the Council’s Lawyers, it was noted that as at 31 December 2012, the Council had received a Court case notification. Furthermore, review of the bankers’ audit report revealed that the Council was served with a Garnishee Order amounting to €3,745. None of these cases were disclosed in the unaudited Financial Statements, in line with IAS 37. The Financial Statements were only adjusted following LGA’s recommendation.

The Council’s Lawyer was asked to update the Council with the list of all court cases and also with the list of all Contingent Liabilities and quantum. These were duly reported in the accounts for the year ended 2012 and were approved by the Council. However, it transpired that the Garnishee

Order, amounting to €3,745 in respect of the court case, was not included in this list.

Mqabba

Testing carried out on the apportionment of Grants revealed that the amount released to income was overstated by €32,345. The necessary audit adjustment was approved by the Council and incorporated in the final set of Financial Statements. However, additional testing on Deferred Income revealed a further discrepancy of €1,197, which difference could not be reconciled as the Council failed to provide LGA with the related workings.

Although the Council does not have any problem to accept the audit adjustment as LGA deems fit, no information was provided by the latter explaining how the overstatement of more than €30,000 was calculated. Such comments by the Auditors leave the Council with no option other than that of approving their workings.

During the year under review, the Council undertook a heritage project involving the regeneration of 'Diamond Jubilee Square', which was fully financed by funds under the European Agricultural Fund for Rural Development (EAFRD). Notwithstanding that the project was completed before year-end, the Council failed to account for the respective approved Grant receivable of €54,990. In view of this, an audit adjustment was proposed to accrue for this amount.

The Executive Secretary claimed that the Paying Agency, administering the EAFRD funds, paid for works, totalling €8,757, which fell outside the scope of the financing agreement. Consequently, the Council was requested to refund the respective amount, after year-end. In view of the request raised by the Executive Secretary, LGA proposed an audit adjustment to transfer this amount from Deferred Income to Other Creditors. The related adjustments were correctly reflected in the accounting records.

Meanwhile, at year-end, the Council erroneously accrued for income receivable from WSC, amounting to €1,350, in respect of works, which were not actually carried out by the former. Subsequently the Council agreed to reverse this transaction.

The Council is not in a position to classify if the reinstatement works, carried out on behalf of WSC on trenches, can be considered as an Accrual or otherwise. In view of this, it is recommended that Central Government, with the assistance of LCA, clarify the matter directly with WSC, as this is a common issue amongst all Councils. With regard to the 'Diamond Jubilee Square' project financed by EAFRD, the Council was very reluctant and prudent to account for €54,990 of Grants receivable. It is assumed that the term 'approved grant receivable' is derived from the contract entered into between the Paying Agency and the Council. However, the Council is not sure whether 'the criteria for eligibility is met' or otherwise, since MRRA are being very strict on the conformity of such capital project. Indeed, intentionally the Council left this issue to LGA as it was not ready to assume these amounts until these are really deposited into its bank account.

The Council has failed to prepare reconciliations between the LES reports generated from the IT system and actual cash received, Debtors outstanding at the end of the period, cash received on behalf of other Councils and amounts owed to other Councils. In fact, although the Council operated the LES up till 31 August 2011, during the year under review, an increase of €3,165 was noted in the pre-regional LES Debtors. However, from the testing carried out, it transpired that this amount related to contraventions issued during 2012, and therefore are payable to the South Regional Committee. Furthermore, an amount of €4,532 received in respect of pre-regional contraventions, was incorrectly recorded as income rather than offset against LES Receivables. Moreover, due to the lack of details on pre-regional contraventions paid during the year, LGA was unable to ascertain if these receipts related to LES Debtors for which a provision had been created in the past. The Council approved the necessary audit adjustments. In view of these shortcomings, LGA could not perform any audit procedures to ascertain the existence and completeness of LES Debtors and Creditors, and the valuation of LES Debtors as at 31 December 2012. Thus a qualified audit opinion was issued in this respect.

The LES Debtors List was presented to LGA by the Executive Secretary. In fact, the detailed pre-regional list of all outstanding debtors, including details such as the house number, street and

locality together with the details of their vehicle number, was readily available at the Council's office, prior to LGA's visit. With regard to the reconciliation, all bank accounts were reconciled, however the main difficulty was that there is insufficient information on the statements to reconcile with LTD and LCA paid contraventions. The Council commented many times on this difficulty as it could be very easily eliminated if bank cashiers input the contravention number for every individual transaction, which will then be shown on the bank statements.

Included in the Council's Cash and Cash Equivalents at year-end is a credit balance of €9,327 which, according to the Executive Secretary, comprises unreconciled bank discrepancies. LGA was unable to carry out audit procedures on this amount and consequently, its existence and valuation could not be validated.

The credit balance of €9,327, made up of accumulated unreconciled bank difference, is still being investigated.

Notwithstanding previous recommendations, at the time of audit, the Council had still not compiled a FAR that agrees with the Nominal Ledger. Consequently, depreciation was computed manually rather than through the accounting software. This led to a calculation error, resulting in an understatement of €2,240, in the depreciation charge, for the year. However, since depreciation is an accounting estimate, no adjustments were proposed by LGA in this respect.

To date, several attempts were made to reconcile the FAR with the books of account. However, the depreciation charge method chosen by Central Government, which is not the straight-line method, makes it very difficult as the Council is still dealing with assets that are never brought down to a NBV of zero. Most of these asset items are depleted and it is not very much easy to, for example, wipe out a road from the register, as most of the items are roads and construction rather than office furniture and equipment. Notwithstanding that depreciation charge is being computed manually, due care is given to those assets bought at the beginning or end of the month.

During the current year, in connection with an initiative of LCA called egov4u, the Council

received a total Grant of €5,000, in respect of an outdoor public access terminal costing €4,215 and a two-year maintenance agreement worth €785. The full amount was recognised as a Fixed Asset addition, and the computer was depreciated at the standard rate of 25% *per annum* using the Reducing Balance Method. Since the Council fully recognised the Grant on the computer, as income on acquisition date, LGA proposed an adjustment of €3,493 to record depreciation at the rate of 100%. This is in line with the policy that outdoor equipment is subject to a higher rate of depreciation because of the added risk of damage and loss in value. An additional adjustment was proposed to record the cost of the maintenance agreement as prepaid expenditure, whilst reversing back to Deferred Income the related portion of the Grant, which was originally recognised as income for the year.

Point not addressed.

In line with the previous year, the Council was not making a distinction between Creditors and Accruals. For example, accrued expenditure of €4,272 and €1,720 in relation to refuse collection and tipping fees respectively was incorrectly recorded in the Creditors' Account. On the other hand, the Council's provision for accrued electricity was overstated by more than €1,500. However, since LGA was not provided with the respective workings, no further audit testing could be carried out. In addition, disclosed under Other Creditors were stale cheques of €526 and cancelled cheques of €661, which cheques were issued between July 2010 and June 2012.

Council's staff is very well aware of the distinction between Trade Creditors and Accruals, which transactions are treated with integrity and accuracy. The manner in which LGA brought up the examples, sounded as if the respective amounts were completely omitted from the accounting records, when in actual fact, these transactions were registered in the accounting system. Regarding the stale and cancelled cheques, the latter were never entered in the books whilst stale cheques were taken care of at the end of the year. However, it is important to point out that everyone makes mistakes and in the instances where cheques are not correctly written, these are replaced immediately by another cheque and are

then revealed at the end of each month when a comprehensive reconciliation is made.

No progress was registered by the Council in resolving a long outstanding balance of €10,298 payable to Żurrieq Joint Committee. However, according to the Council, the Committee never requested payment of the said amount.

This issue was automatically resolved by the Żurrieq Joint Committee. At last the Council managed to obtain a Supplier Statement, in which the old balance of €10,298 was not included. In the Council's opinion the problem has been resolved.

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 2012, the balance for accrued rent totalled €16,015.

Central Government has sublet part of this scheduled old house to the Council. The house, which is now used as a police station and health centre, besides providing for the Local Council services, is owned by a third party and the major heir has recently passed away. The Attorney General advised the Council not to hand any rent to any third party, since otherwise the latter will be prejudicing the long standing case between the Government and the proprietors, which case was won by Central Government.

The group personal accident insurance financed by the Council is not limited only to Malta, but provides coverage on a worldwide basis. Insurance coverage is expected to be confined to Malta only and, if foreign travel is necessary for Council purposes, the Council should take out insurance for the period of travel only.

To differ from the original contract of insurance and enter into a different agreement, the Council needs the endorsement of the Director for Local Government. Thus, if this still falls under the remit of the Financial Procedures, the Council is requesting permission to sign a new agreement.

Although donations whether in money or in kind, are prohibited, the Council has donated, in kind, €314 in respect of Christmas hampers to contractors.

Authorised Capital Commitments of €27,000 were only disclosed in the Financial Statements upon LGA's recommendation.

Points not addressed.

Msida

Testing carried out revealed that, subsequent to the expiration of the contract for a receptionist, as well as that for road markings, the Council continued to procure the respective services from the same service providers, thus breaching the Local Councils (Tendering) Procedures.

The respective service providers have been informed that their contract was terminated and that a new call for tenders will be issued soon.

The procurement of artificial turf costing €14,311 was completely omitted from FAR, resulting in discrepancies between the Fixed Assets additions disclosed in the Financial Statements and the Plant Register.

The issue with respect to the reconciliation of the Financial Statements to the accounting records has been settled.

During the previous year, the Council qualified for five Grants amounting to €269,559, out of which €157,038 was received during the years 2011 and 2012. From the necessary audit verifications carried out, the following shortcomings were noted:

- a. On two instances, total Grants receivable were overstated by €33,138 and €12,359 respectively. Following LGA's recommendation, the Council approved the necessary adjustments to decrease both Accrued and Deferred Income with the aforementioned amounts. Additional adjustments for the amortisation of Deferred Income, as well as reclassifications from current to non-current Deferred Income, were also posted.

- b. For one of the projects, the Council failed to recognise as Accrued Income a final payment of €12,181 due from DLG.
- c. Grants received in respect of three projects exceeded the cost of the capitalised project by €5,370, €3,052 and €995 respectively. However, whilst in the first two cases, LGA was unable to determine whether this difference is refundable or not, and thus no audit adjustments were proposed, in the latter case, the Council's Accountant made an adjustment to increase the amortisation of Deferred Income by €915.

The adjustment of €12,359 was made in the accounting records. Furthermore, with regard to the excess Grants received, totalling €3,052 and €5,370, the Council is in the process of determining whether this amount is refundable.

Invoices totalling €10,289 (out of which €4,610 related to 2009) were issued by the Council to a private company, in respect of recyclable waste for which no payments were received and no third party confirmations were provided for such receivables.

An outstanding amount of €16,700, receivable from WSC, was partly settled during the year under review, through a payment of €13,800, thus leaving a balance of €2,900. However, no sufficient audit evidence, providing reasonable assurance regarding the recoverability of this remaining balance, was made available. In view of this, the Council is to determine whether the balance of €2,900, as well as the €10,289 cited above are recoverable.

A meeting was held with the respective company and a payment of €4,000 was received. The remaining balance is to be paid over the coming six months. The Council, however, does not exclude legal action if the need arises. On the other hand, the matter with WSC is being followed closely as recommended.

Although unidentified LES deposits decreased to €406, a credit balance due to LTD was disclosed in the Debtor's List, implying that the Council owes the former a net amount of €9,606. Further testing revealed that LTD had erroneously deposited funds

in relation to post-regional contraventions in the Council's bank account. The amount in question, as confirmed by the Central Regional Committee, totalled €10,059.

This amount is to be recorded under Payables.

An analysis of Suppliers' balances revealed that payments of €109,764, advanced to a private company, were made on account, and thus were not properly allocated to purchase invoices. Consequently, LGA was unable to determine which invoices were still pending at year-end. Invoices posted in the accounting system during the year under review with respect to this supplier totalled €184,214.

Staff has been informed not to post payments on account, but to allocate each payment to a specific invoice.

As already highlighted in the preceding year's Management Letter, the Council is not using the Replacement Basis when accounting for additions of traffic/street signs and mirrors, as instructed in Memo 121/2011. The Council has instead recorded such assets as capital expenditure and subsequently applied a 100% depreciation rate. Adjustments were proposed by LGA for the reversal of these additions (€2,680), the related depreciation charges (€5,296), and their carrying amount (€556), as well as the writing off of the opening balance (€3,172) from the accounting records.

The Council confirms that bins and street lights will be recorded as an expense and not as a Fixed Asset, thus adhering to Memo 59/2012. Moreover, all identified adjustments were carried out.

Although the Executive Secretary, on whom the Council's motor vehicle is registered, is no longer in office, the Council failed to transfer the said asset in the name of the Executive Secretary in office, so as to ensure ownership over the vehicle.

The Council was awaiting the appointment of the new Executive Secretary in order to proceed with the transfer. The new Executive Secretary was appointed on 1 April 2013 and procedures for the transfer are already underway.

The Council spent €600 on a staff meal organised during the Christmas period, which was not enjoyed solely by the Mayor, Councillors, Executive Secretary and employees. This is in contravention of Memo 122/2010, which states that only the aforementioned persons can take part in such activities at the Council's expense.

Point not properly addressed.

Mtarfa

No tenders were issued in respect of engineering services, amounting to €8,719, provided during the year under review. Furthermore, services in relation to the cleaning of public convenience, collection of domestic waste and maintenance of soft areas, were all performed under expired contract.

The engineering services paid refer to various jobs undertaken between 2010 and 2011, which were confirmed by the Council as having been completed. Adverts in respect of the contracts for collection of domestic waste and cleaning of public convenience were issued in October and an adjudication meeting was held in February. As for the collection of domestic waste, relevant letters were sent to all contractors right after the Council meeting, whereby the winning bidder was chosen. However, one of the contractors appealed the Council's decision and thus the latter is still awaiting a meeting with the Contracts Department. The contract for the cleaning of public convenience has been awarded since the audit. All other points raised up by LGA were noted.

As noted in prior years, the Council is still reimbursing €90 per month to one of the ELC employees for using his personal vehicle to carry out work on behalf of the Council. This fixed monthly reimbursement had been established by the Council, and is neither covered by any agreement, nor reflecting the actual mileage being reimbursed. Furthermore, notwithstanding prior recommendations, no proper claim form was prepared, indicating the actual mileage incurred for errands related to the Council.

The respective individual is supplying a claim form in the form of an invoice. Most of the reimbursement relates to petrol and wear and tear

of his own vehicle, incurred whilst carrying out Council's duties.

Despite prior recommendations on the upkeep of a FAR in line with established procedures, the matter was still not addressed by the Council. Moreover, certain assets were categorised incorrectly, such as photovoltaic panels, amounting to €5,034 which were disclosed as Office Equipment. Instances were also encountered whereby expenditure of a capital nature, amounting to €12,651, was directly written off to the Statement of Comprehensive Income as an expense. Following LGA's recommendation, the Council approved adjustments, totalling €12,001, to capitalise such expenses. Furthermore, during a meeting held on 21 March 2012, the Council agreed to dispose or scrap a number of assets. However, this decision was not reflected in the books of account, resulting in an overstatement in the Financial Statements by the net effect of these assets NBV. Thus, without a proper FAR, assurance on the existence and completeness of the balance of Fixed Assets, having a NBV of €167,474 recorded in the Financial Statements, as well as on the accuracy of the depreciation charged thereupon, could not be obtained. A qualified audit opinion was issued in this respect.

During 2012, the Council completed the exercise to trace details of the capital expenditure it had incurred since its inception. FAR on a spreadsheet has been completed and a copy was forwarded to LGA. The next step is to compile the data into the accounting system and include as many details available as possible. Most of this data was recovered by referring to Payment Vouchers and invoices. All details available were recorded, however it is impossible to have a complete FAR on the lines requested by LGA. There is no way, for example, to trace the location of traffic signs or similar items. Since the accounting system has not been updated, the depreciation charge had to be calculated manually, through the use of a spreadsheet. When FAR is compiled, the month-end routine shall be used to calculate the depreciation charge. The Council will also ensure that works of a 'repair' nature and those of a capital nature are clearly distinguished in order to be properly classified in the Council's books of account. Furthermore, the Council shall review the FAR and will account for any obsolete or scrapped items in line with IAS 16.

At least since the last three years, the Council did not hold any stock which in prior years consisted of books held for resale. Nonetheless, the Council still has insurance coverage of €20,000 in respect of Stock in Trade.

The Council's insurance policy will be brought in line with the Council's assets.

Testing carried out revealed that income is being recorded on a cash basis rather than on an accrual basis. A case in point is the amount of €695 due from Regional Committees during the year under review, which was completely omitted from the accounting records. In addition, Accrued Income is not being accounted for by the Council in line with IFRSs. In fact, at year-end, the Council failed to recognise income of €31,915 receivable in respect of certain projects. Consequently Deferred Income was understated by the foregoing amount. Furthermore, income of €2,190, receivable either under a specific Scheme or in respect of services rendered by the Council during the year under review or during preceding periods, as in the case of reinstatement works carried out on behalf of WSC during 2010 and 2011, was also not accrued for. These transactions were subsequently accounted for by means of an audit adjustment.

In the future, the Council shall account for amounts due from the Regional Committee in a timely manner. The adjustments recommended by LGA with regard to Deferred Income have been posted accordingly.

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 was not yet released, since the latter is still waiting for some clarifications from the Council.

The Council agrees that the issue of Accrued Income due from the Housing Authority has been long outstanding. In view of this, the Council shall take up the matter with the Housing Authority without further delay.

The Council did not carry out regular reconciliations of its Suppliers' balances. Consequently, variances

were identified between amounts payable, as disclosed in the books of account, and those included in the respective Suppliers' Statements. In view of this, audit adjustments amounting to €851 were made to account for unrecorded invoices. Moreover, accrued expenses accounted for by the Council as at year-end were not complete, since a total of €47,295, was either substantially different from the actual amount invoiced, or completely omitted from the financial records. As a result, both capital and revenue expenditure, as originally reported by the Council, were understated by €43,451 and €3,844 respectively. Likewise, some of the prepaid expenses were not correctly estimated, although the variances were not material. Following LGA's recommendations, the necessary audit adjustments were approved by the Council to rectify these errors.

The Council shall ensure that accounts with outstanding balances are reconciled with Suppliers' Statements periodically. The Creditors' List has now been reviewed and incorrect entries were reversed. Furthermore, the Council shall do its utmost to ascertain that both Accruals and Prepayments are properly recognised in the Financial Statements, and that the respective lists as at year-end are complete.

Whilst Capital Commitments as per Financial Statements amount to €38,000, only €10,000 were included in the annual Budget for 2013.

The Council will ensure that Capital Commitments as at year-end are properly recognised in the Financial Statements.

The Council's accounting system is accessible only from the Accountant's office, while no back-up is kept at the Local Council.

A copy of the accounting software is now being refreshed on the Council's computer regularly.

A Contingent Liability of €1,563, to cover a dispute in the Small Claims Tribunal, was not disclosed in the Financial Statements.

The Council's Accountant has been asked to ensure that IFRSs are followed at all times when the Financial Statements are prepared.

Munxar

The three-year contract with the Director for Tourism and Economic Development, for the cleaning of the public conveniences, expired in 1997. However, the Council is still using the service without having issued a new call for tenders, since this would entail higher rates being charged to the Council. During the year under review, the amount of €6,729 was expensed in this respect.

The Council is aware that the contract for the cleaning of public convenience has expired and will discuss this further, whilst taking into consideration LGA's recommendation.

Whilst carrying out testing on Fixed Asset additions, it was noted that three particular items costing €55,724 were capitalised under various asset categories and depreciation was charged thereon, even though the related projects were not completed or the asset was not yet installed. The necessary audit adjustments were made to reclassify these assets as Assets under Construction and to reverse the depreciation charged thereon.

On the other hand, a project costing €57,133, relating to Eco Gozo and which was ready by the end of the year under review, was neither capitalised nor accrued for. Given that such project should have been accounted for by way of an accrual, an audit adjustment was posted to reflect the cost of this project. Additional adjustments were also approved to recognise both depreciation, as well as the amortisation of the Grants received specifically for such project.

Another adjustment was made to recognise accrued expenditure of €53,475, relating to resurfacing of the rural track at 'Tal-Ponta'. These works initiated during December 2012, but were not fully completed by the end of the year. The Council then approved the related payment on 22 January 2013.

The recommendations made by LGA have been noted. In the future, more attention will be directed towards assets that were not yet completed by year-end. Audit adjustments recommended by LGA were reflected in the audited Financial Statements.

The VAT refund and the 10% co-financing received during the year under two particular Schemes, namely 'Measure 313' and 'Measure 323', were netted-off against the cost of the assets, with the result that this, as well as the depreciation charged thereon, were both understated. An audit adjustment of €14,793 was proposed, so as to gross up the cost of the capital projects and to include the Grants received for these projects with Deferred Income. Furthermore, the depreciation charge was also adjusted.

LGA's recommendation has been noted. The adjustment was not clear at the time of posting, since VAT is usually not considered as part of the cost of a supply, especially if this is refunded to the end user. The Council has approved the adjustments as recommended by LGA.

Included within Accounts Receivable is an amount of €13,888 due from WSC covering permits and road reinstatement works, out of which the amount of €5,400 was invoiced during the year under review. However, WSC confirmed that only €30 were due to the respective Council. Upon queries raised by LGA, the Council confirmed that, up to the time of audit, it had not carried out any works yet, but it was planned to do these works in the future. Thus, it was agreed to defer this income until the works are carried out.

This matter will be looked into by the Executive Secretary, so as to reconcile the amounts receivable from the Corporation and make the necessary adjustments to reflect the correct amounts.

At period-end, the Council failed to accrue for Income Receivable, totalling €34,489, of which €30,420 related to the Grant still due on the 'Eco Gozo – Xlendi' project, which was completed during the year under review. The remaining balance of €4,069 related to two sports and other activities for which the Council was given funds as per Memo 90/2011 and Memo 65/2011. Likewise, no disclosure was made with respect to the amounts receivable for services rendered during the period October to December 2012 to a company that handles waste management and recycling. The necessary audit adjustments were made to report such income as required by the Accruals Concept.

An aggregate amount of €7,602, receivable as at 31 December 2011 under the Energy Saving Scheme, the Gozo Regional Committee and the Sports Scheme, were received during the current year. However, erroneously, the Council recognised these balances as income for the year, rather than netting them off against the amounts receivable brought forward. Following LGA's recommendation, the Financial Statements were adjusted accordingly.

The necessary adjustments for the funds receivable under the various funding Schemes were accounted for as recommended by LGA.

Funds of €20,000, received during the year for the financing of Projects and Initiatives taken by the Xlendi Administrative Committee in their locality was amortised in line with the applicable depreciation rate. Since the related asset is still under construction, an audit adjustment of €1,451 was made to reverse the respective amortisation.

On the other hand, the funds received during the preceding year in relation to restoration works that were actually carried out during the year under review, were not transferred to the Statement of Comprehensive Income, to match the related costs of €1,406.

At period-end the Council failed to recognise a provision for accrued expenditure with respect to legal services, rent payable, utility costs for the last period of the year, as well as expenses incurred in relation to Christmas decorations. Following LGA's recommendation, the Council approved an audit adjustment of €5,693, to account for the aforementioned expenses in its books.

The points raised by LGA have been noted and will be looked into in further detail. In the future, more attention will be given to the points mentioned, in order to avoid repeating the same errors. The adjustments recommended by LGA have been made and are reflected in the audited Financial Statements.

The previous year's Management Letter, included remarks on a batch of cheques, totalling €3,200, which were erroneously posted in the accounting system as being dated 30 January 2012, instead of with the correct issue date of 30 December 2011. During the same year, a reclassification adjustment

was made to correct such error. However, this adjustment was not reversed accordingly during the current year, with the consequence that the related expense was accounted for twice. To rectify the situation, an audit adjustment was approved by the Council.

The batch of cheques mentioned by LGA was erroneously entered into the accounting system with the wrong date. The recommended adjustment was made.

Testing carried out on cash deposited in the Council's bank account after year-end revealed that a number of receipts, received prior to 31 December 2012, were deposited in 2013. Since such receipts should have been accounted for when they were actually received, an audit adjustment of €2,681 was made to recognise the aforementioned balance in the books of account.

Point not addressed.

Nadur

In the preceding years, LGA brought to the attention of the Council the expiry of the agreement for the collection of commercial and household waste. This contract expired on 31 August 2008, however, in line with the instructions provided by DLG, the Council continued to extend the said agreement. Although the tender was issued in 2010, 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 renewing the original contract. The amount of €31,207 was paid during 2012 in this respect. The new agreement was eventually signed on 30 June 2013.

As explained last year, the tender for household waste collection could not be stopped otherwise there would have been 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 and the prospective contractors.

The total cost and accumulated depreciation in FAR was less than the cost of PPE and accumulated depreciation, including Government Grants charged thereon, as disclosed in the Financial Statements by €389,624 and €411,271 respectively. On the other hand, NBV as recorded in FAR was €215,942 less than as per accounts.

It also transpired that NBV as per FAR and the accumulated depreciation, which amounted to €1,020,431 and €856,684 respectively, do not add up to the cost of assets disclosed in the same FAR, which stood at €2,114,705.

FAR will be reconciled with the Nominal Ledger during the current year. The discrepancy noted by LGA in FAR is a technical matter that will be resolved once FAR is reconstructed.

As already highlighted in previous years, Grants of €297,957, intended for the purchase of 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. Eventually, 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 FAR. The necessary adjustments will be made in order to rectify this situation.

None of the additions of PPE, having a value of €127,721 and which were capitalised in the accounts during the current year, had been included in FAR. It was also observed that depreciation rates were entered incorrectly in FAR.

Due to the aforementioned shortcomings, depreciation was calculated manually. Upon recalculating the depreciation charge, LGA noted that this was overstated by a net amount of €2,247, even after taking into consideration the charge on assets which were capitalised through audit adjustments.

Contract management fees incurred on two capital projects were incorrectly recognised as an expense

for the year. Following LGA's recommendation, the Council approved an audit adjustment of €9,604 to capitalise these amounts.

Testing carried out revealed that the entire accrued expense, relating to the roads resurfacing carried out under the PPP Scheme, was fully reversed during the year under review, despite that not all the related invoices had been issued. LGA proposed an audit adjustment of €69,667 to reverse this entry and thus provide for an accrued expenditure to be carried forward until the invoices are actually issued. Moreover, an Architect valuation for extra works carried out with respect to this project, totalling €7,172, was unaccounted for. An audit adjustment was passed to reflect this amount, by increasing the capitalised costs for the roads resurfacing and crediting accruals, given that no invoice had yet been issued.

It was also noted that a number of invoices, totalling €11,716, that were issued by a contractor during 2012, were erroneously posted in the books of account in 2013. On the other hand, another invoice from the same supplier, amounting to €21,224 and dated in 2013, was incorrectly posted against the Creditors' account in 2012. Likewise, another invoice of €500 relating to Urban Improvements was also recorded in the books of account during the same year, despite that this was dated 2013. The necessary audit adjustments were posted to reclassify the liabilities between the Accounts Payable and Accruals, since all the respective works were ready during the year under review.

In addition, testing carried out revealed that an invoice for project management fees, amounting to €2,443, was posted twice, whilst another invoice due to the same supplier was posted as €3,664 instead of €3,464. These errors were corrected by means of an audit adjustment.

The final bill with regard to the 'Eco Gozo' project was completely omitted from the books, even though the project was completed by year-end. The Council approved to make the necessary audit adjustments to capitalise the amount of €22,491, accrue the balance of €21,366 covering an invoice that was not yet issued, and recognise the amount of €1,125 as accounts payable in view of the contract management fee invoiced. An additional adjustment of €3,183 was posted to account for the respective depreciation charged thereon.

All the recommendations made by LGA have been noted. The invoices mentioned by the latter, that were not posted, were received by the Council after preparing the unaudited Financial Statements. The audit adjustments recommended by LGA were accounted for and reflected in the audited Financial Statements.

The above shortcomings clearly indicate that the Council failed to carry out regular reconciliations between the Suppliers' Ledgers in the accounts and the respective Suppliers' Statements. An instance was also encountered whereby unexplained variances were noted between the amounts disclosed in the books of account and the related statement. The amount of €13,819 had not been accounted for as yet, since this balance was in dispute due to the fact that the works carried out by the service provider were not deemed satisfactory by the Council. However, after deducting this balance, an unexplained discrepancy of €666 still remained.

The Council tries to obtain Suppliers' Statements. However, if suppliers do not cooperate, this is not possible.

The amortisation of Deferred Income, with regard to the Government Grants received for the 'Eco Gozo' project, was calculated on the incorrect completion dates. Consequently, an adjusting entry was made to reverse the overstatement of amortisation, amounting to €3,197. Other minor adjustments were made to correct similar errors in the amortisation for the year calculation relating to other projects.

Whilst testing income, it was noted that the amount of €1,301, relating to a refund made to Government with respect to an overpaid amount in previous years, was incorrectly allocated against Other Government Income, instead of being allocated against the respective Deferred Income to eliminate the overpayment. This error was corrected through an audit adjustment.

The recommendations made by LGA regarding Deferred Income and the amortisation of assets have been noted. The recommended adjustments were accounted for and reflected in the audited Financial Statements.

The Council has exceeded the budgeted expenditure under certain categories, namely Contractual Services (€16,622), Repairs and Upkeep (€14,910), Information Services (€11,437) as well as Community and Hospitality (€3,792). Although overall the Council was predicting a deficit of €8,126, in reality it ended up with a surplus of €2,790.

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.

The Council approved and effectively paid out the amount of €450 for 'figolli' distributed free of charge. This is considered to be a donation.

The 'figolli' mentioned by LGA were not a donation, but were given to the youths who participated in the village's Good Friday procession. This is a cultural event that the Council is trying to keep alive. The children who participated were given a ticket, which was to be presented upon the collection of the 'figolla'.

Naxxar

Balances totalling €90,198, included with Trade Receivables, have been outstanding for more than one year. Out of this amount, €51,859 is receivable from MEPA. However, such balance will only be received following the certification that the works were carried out according to the specifications. The remaining balance of €38,339 remains doubtful. In addition, the Council recognised the amount of €5,150 as receivable from WSC with respect to road reinstatement works. However, from an independent verification, it transpired that this work was not actually carried out by the Council and thus, an adjustment was posted to reverse this transaction.

A Provision for Doubtful Debts will be made for any Debtors which might not materialise.

Instances were identified where the Council did not adhere to the fundamentals of Accrual Accounting and the Matching Concept. For example, the Council failed to provide for Accrued Income of €3,839 with respect to expenditure incurred up to 31 December 2012, for a particular project which is 100% refundable under the EU

Funding 'Measure 313', as per agreement signed on 21 March 2011. It was also noted that the Council had not yet made the claim for such reimbursement. Furthermore, interest receivable of €145 and accrued expenditure, totalling €3,483, were completely omitted. These transactions were incorporated in the books of account by means of an audit adjustment.

Accrued Income will be accounted for Measure 313 in the future. When the accounting year is closed off, not all the invoices would have been received, while by the time LGA perform the audit, more information would obviously be available. The Council will continue to do its utmost to accrue for all expenditure.

The Council is not carrying out regular reconciliation exercises between its records in the Suppliers' Ledger and the actual Suppliers' Statements. In fact, instances were encountered whereby invoices, totalling €7,740, were completely omitted from the Councils' records. As a result, both expenditure, as well as liabilities, were understated by the same amount. The Financial Statements were adjusted accordingly by means of an audit adjustment.

Furthermore, the Council is appealing a First Court sentence, wherein it was resolved that the former should pay the amount of €17,542 to the Public Cleansing Department. However, the amount of €17,451, as recorded in the Council's Nominal Ledger, does not agree with the amount quoted in the Court sentence.

LGA's recommendation was noted for the future and an audit adjustment has been made.

The Council withholds a deposit upon application for crane and machinery permits, which is refundable if the site is left in good condition. In view of this, disclosed under Trade and Other Payables is the amount of €28,932 relating to such deposits, some of which dated back to 2002. Due to the fact that no audit procedures could be performed to obtain reasonable assurance on the completeness of this amount, a qualified audit opinion was issued in this respect.

LGA's recommendation was noted. However, the Council does its utmost to ensure correctness of the information and monies due and/or withheld.

Through the new computerised permit system, the Council will ensure more control.

Notwithstanding that there is no specific amount allocated to 'Beach Cleaning', during the year under review, the Council still incurred substantial expenditure of €21,777 in this respect, by shifting the use of funds allocated for other expenditure onto this activity. In view of the previous years' Management Letter point, the Council sought guidance in this respect and the beach cleaning tender was not awarded. The respective contract, which expired during the preceding year, was extended for a further year until June 2012. A new tender was not published, as the Executive Secretary recognised the fact that beach cleaning was not the responsibility of the Council but of MTA.

Action in this regard has been taken as noted in the Management Letter. However, it was basically impossible to terminate a contract before its expiry date.

A discrepancy of €100,363 was noted between Capital Commitments (€93,637) disclosed in the Financial Statements, and those included in the annual Budget (€194,000). Furthermore, LGA was given to understand that a particular project was planned to be carried out in 2013. However, this was not disclosed in the Financial Statements.

In future, the Capital Commitments note in the Financial Statements will be in agreement with the capital expenditure Budget for the subsequent year.

The Council is maintaining a FAR. However, its composition is not in line with best practice and in terms of the Local Councils (Financial) Procedures. Upon reconciling the category amounts of the Nominal Ledger to those in FAR, it was noted that both the cost and the depreciation of certain categories in the Financial Statements do not agree with the corresponding amounts in FAR. Furthermore, a category labelled as 'Office Refurbishment' has been included in FAR, but there is no corresponding account in the Nominal Ledger.

Moreover, the computer software was not separately categorised, neither in FAR nor in the accounts. Accordingly, the new software for the

permit receiving system 'Public Access Terminal', purchased during the year under review for €4,215, was included as Computer Equipment and not Computer Software in both Financial Statements and FAR. This implies that several assets are not categorised in their appropriate accounts.

It also transpired that additions relating to Street Signs were classified as capital expenditure rather than revenue expenditure. Additionally, trees with a value of €2,300 were erroneously expended with maintenance of parks and gardens, whereas Computer Software amounting to €2,773 was incorrectly posted under IT Development Services in the Statement of Comprehensive Income. Consequently, the depreciation charged on Fixed Assets is not in line with the policy disclosed in the Financial Statements.

From the minutes of one of the Council's sittings, it was noted that an LED solar-powered traffic sign was damaged and a quotation for a replacement was obtained. Eventually, the new asset was purchased during September 2012. However, no impairment adjustment against the damaged item was made in the Financial Statements. Part of the above-mentioned shortcomings were corrected by means of reclassification adjustments proposed by LGA.

The Council has taken note of LGA's comments to improve FAR and make it more in line with the requirements. Furthermore, FAR will be scrutinised so that the assets are transferred under the correct heading. In future, all street signs will be expensed in the Statement of Comprehensive Income. The 'Public Access Terminal', as the name implies, is not a software but the actual equipment which the general public can use. This is located at the front office of the Council. As regard the LED solar-powered traffic sign, this is repairable and thus will not be disposed of.

One of the Council's sources of income is the hiring of facilities falling under its responsibility. Notwithstanding that the respective Bye-Laws were not in place, during the year under review, the Council collected €674 from the hire of the council hall and €140 from the hire of the football ground.

The Council already commenced the process to issue the necessary Bye-Laws.

The budgeted figures for five categories of expenditure were exceeded by a total amount of €52,288. The major variances were noted in Professional Fees (€28,930), Community and Hospitality Expenses (€21,010), Office Services (€1,357), and International Memberships (€831).

LGA's recommendations were noted. The Council will do its utmost to comply accordingly.

Paola

As reported in the preceding periods, way back in January 2005, the Council entered into a pooling agreement with a number of other Local Councils. The Paola Council informed LGA that the main scope of the agreement was to pool the administration expenditure of the Żejtun Joint Committee, rather than pooling funds. However, a copy of the said agreement was never provided to LGA, despite that the latter requested it several times during the past years.

Point not addressed.

Disclosed under Cash and Cash Equivalents, was an amount in an 'Investment Fund'. According to the Local Councils (Financial) Procedures, a formal approval from DLG is required before any funds are invested into such funds. 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. Appropriate disclosure was also not included in the Financial Statements, in line with IAS 24. This disclosure is required due to the fact that the major owner of the entity offering such funds is Central Government, and this is thus considered as a related party transaction. Such issues were already highlighted in the preceding year's Management Letter. Following LGA's recommendation, the Council reallocated the investment from Cash and Cash Equivalents. However, disclosure in line with IAS 39 was not effected.

Although the heading of this account is 'Investment', according to the Manager of the respective bank, this is actually a normal bank account, where the bank is guaranteeing the capital invested.

LES Debtors totalling €28,242, recognised by the Council in its Financial Statements, were understated by €82,099 when compared to the respective reports extracted from the system. Likewise, the Provision for Doubtful Debts recognised thereon was also understated by €77,012.

Point not properly addressed.

Whilst the amount recognised in the Financial Statements in respect of Pre-Regional Income reads €928, as per LES report 622 – Tribunal Pending Payments, the movement between 2011 and 2012 amounted to €2,562, thus resulting in an understatement of €1,634.

Point not addressed.

Other various shortcomings were noted in the recording of income. For example, bank interest receivable, as accounted for in the books of account, is understated by €506. Meanwhile, whilst the amount recognised in the Financial Statements as ‘Fees from Bye-Laws’ totals €7,810, in actual fact, only €456 falls under a Council Bye-Law. The Council approved the necessary audit adjustment to rectify this error. Furthermore, a deposit of €1,322 was substantiated by a receipt amounting to €1,750, resulting in an unexplained variance of €428. Instances were also encountered whereby, from one year to another, income from the same source was not being categorised in the same Nominal Account, thus hindering comparability.

LGA’s remarks regarding the correct method of recognising Income from Bye-Laws and of comparing income under the various account headings have been noted for future reference. As for the difference of €428 in deposits, the Council is requesting more definite information from LGA to be able to reply to the query. To the Council’s knowledge, the amount of €1,322 has nothing to do with bank deposits. As regard the bank interest, the adjustment of €506 will be made during 2013.

As at 31 December 2012, amounts receivable from WSC, covering works carried out in 2009 as well as between August and December 2010, totalled €19,000. However, only the amount of €11,646 was disclosed in the Financial Statements. Hence, both Receivables and Retained Earnings are understated by €7,354. Although this issue was

already highlighted in the preceding year’s report, it was not rectified. A qualified audit opinion was issued in this respect.

The Council is not aware of the amounts mentioned by LGA, as being due from WSC. The Council has in fact been in contact with the Corporation and adjusted the accounts to reflect the agreed arrangements between the two parties.

Accrued Income totalling €5,582 was completely omitted from the accounting records. Likewise, Accrued Expenditure of €8,056, as well as Payables of €255 were unaccounted for. Following LGA’s recommendation, the Council adjusted the Financial Statements accordingly.

LGA’s recommendation concerning the accurate accounting for Accruals and to prepare accounts in compliance with the Accruals Concept, were noted and accepted. All the necessary adjustments were made in the accounts before the approved Financial Statements were submitted.

The Council did not provide any documentation to support the amount recorded as Payables, amounting to €12,023, in respect of ESF. Thus, a qualified audit opinion was issued in this respect.

Point not addressed.

The only balance included in the Creditors’ List as at year-end was €6,667. This amount is being disputed in the Tribunal. However, the maximum amount for which the Council can be liable, is €3,000. Furthermore, the respective balance is also included as a Contingent Liability, implying that the amount of €6,667 is an overstatement of the amounts payable by the Council. Following LGA’s recommendation, the Council adjusted the accounts accordingly.

LGA’s recommendation for the outstanding debt was adhered to and the accounts were adjusted accordingly before the Financial Statements were submitted.

In breach of the requirements of the Local Councils (Financial) Procedures, the Council does not maintain a FAR to record the value, depreciation and location of its assets. Consequently, LGA could not perform satisfactory audit procedures to obtain reasonable assurance on the existence

and completeness of the Fixed Assets having an NBV of €600,330, as well as on the accuracy of the depreciation of €91,752 charged thereon, as recorded in the Financial Statements. Hence, a qualified audit opinion was issued in this respect.

The Council was established in 1995 and since its inception, it has never maintained a FAR. It is now almost impossible to trace the details of the Fixed Assets purchased throughout the years. One also needs to understand that during the first few years of the Council, the accounts were being maintained on a hand-written ledger. It is therefore suggested that LGA or NAO will accept that balances for the past years be recorded in total, while henceforth all purchases of Fixed Assets will be entered in detail in FAR. This has been suggested in previous replies to the Management Letter, but no feedback was ever received.

No adequate details and information were provided to substantiate Assets not yet Capitalised, amounting to €6,065. It was also noted that the balance brought forward in the Nominal Ledger account of Street Signs, as well as the accumulated depreciation thereon, both amounting to €20,436, were reduced by €5,289. However, no explanation was provided in respect of this transaction. Furthermore, due to the fact that the Budget for 2013 was not made available for audit purposes, it could not be confirmed whether the Capital Commitments note, as disclosed in the Financial Statements, showing that the Council does not have any commitments, is correct.

The amount shown under the heading 'Assets not yet Capitalised' refers to the hybrid project which is being financed by EU, and for which the total expenditure will be refunded upon completion of the project and submission of all the receipts. Purchases of street signs costing €5,289 were initially capitalised, but an adjustment was subsequently made to account for this expense in line with Memo 150/2010 and LGA's recommendations. The Council has indeed discussed and tried to draw up a Budget for capital expenditure, but this could not be concluded due to lack of resources.

Two cases were identified whereby expenditure of a capital nature, amounting to €2,871, was incorrectly recorded as recurrent expenditure.

On the other hand, the purchase of a Baby Jesus figurine, costing €65, was capitalised. The necessary adjustments were made by the Council and the Financial Statements were adjusted accordingly.

As the Auditor's report states, these discrepancies were adjusted before the Financial Statements were submitted.

The Council's bank accounts are being reconciled by means of a spreadsheet rather than through the accounting system. Upon comparing the balance as per bank statements to that recorded in the Trial Balance, various shortcomings were identified. The reconciliation of one of the bank accounts resulted in a variance of €3,880. This account also included several Journal Entries with unclear referencing such as 'JV' and 'ADJ', which date back to 2010 and 2011. Furthermore, disclosed in the bank reconciliation is a number of unrepresented cheques dated more than six months prior to year-end. This implies that the Council is not verifying the transactions inputted in the reconciliation on a regular basis.

On another three instances, discrepancies totalling €276, were encountered between the bank balance and the respective amount recorded in the Nominal Ledger. It also transpired that two cancelled cheques, totalling €4,169, were still included in the accounting records. No supporting documentation was provided to LGA with respect to the latter cheques. Furthermore, cheques were not being issued in sequential order.

The reconciliation of the Current Bank Account had actually been carried out on the accounting system and a disk copy of accounts, complete with the bank reconciliation, was personally forwarded to LGA at the very start of the audit. LGA's recommendations concerning unrepresented cheques will be adhered to. Furthermore, recommendations on the issue of post-dated or back-dated cheques have been noted.

Instances were encountered whereby neither an invoice nor a fiscal receipt was provided in respect of expenditure totalling €137,639. In addition, as highlighted in **Appendix G**, a number of other payments, collectively amounting to €11,301, were also not substantiated by fiscal receipts.

The Council is doing its utmost to control this anomaly and will continue to insist with its suppliers to provide the Council with fiscal receipts.

Government Grants in respect of two projects and the photovoltaic panels under Energy 2010 Scheme were fully treated as Current Liabilities, rather than being apportioned between Current and Non-Current Liabilities. As a result, the former category was overstated by €95,031, while the latter was understated by the same amount.

The Council has taken note of LGA's recommendations concerning the accounting for Deferred Income.

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 paid from the Council's funds. These include a payment of €1,000 to each of the four inmates at the Corradino Correctional Facility who were seconded with the Council, two payments of €700 each to the two local band clubs and an amount of €250, paid to the fireworks factory. Although LGA requested the Council to provide further details on these payments, no reply was forthcoming.

Regarding payments made to the 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'. The Council has noted LGA's recommendations and will be more considerate in the manner it distributes its assistance to organisations within the locality.

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 amounted to €3,184), whichever is the highest, expenditure paid out by the Council in respect of this event totalled €5,713. Thus the maximum threshold was exceeded by €2,213.

The Council will ensure that the approved expenditure for the celebrations of 'Jum il-Lokal' will not be exceeded.

Whilst reviewing the bank report, it was noted that the Council failed to disclose as a Contingency a Garnishee Order of €23,444. Following LGA's recommendation, the Financial Statements were adjusted accordingly.

LGA have pointed out, prior to the submission of the Financial Statements, that the bank had issued a Garnishee Order against the Paola Local Council, for the amount of €23,444. When the bank was contacted, it emphatically confirmed that no such Garnishee Order has been served to the Council. However, LGA's suggestion that this should be disclosed by way of note in the accounts was accepted, and a note was included in the Financial Statements before these were submitted.

Pembroke

Although the contract for the provision of accountancy services had expired, the service was still being supplied by the same provider. Such contract was awarded in 2009, following a call for quotations, and during the year under review, the Council extended the contract for a further period. In view of this, the Council should have issued a new call for quotations or tender offer, since this service exceeded three years and the fee has increased from €2,040 to €2,640.

The contract expired in October 2012. The Council requested the concerned supplier to provide accounting services until March 2013, i.e. until the end of the Council's term. The fee charged for the five months from November 2012 until March 2013 was under the Direct Order Limit.

Although a FAR is being maintained by the Council, a number of assets were incorrectly categorised, with the consequence that an incorrect depreciation rate was applied and recognised in the Financial Statements. Whilst LGA is of the opinion that there may be material misstatements in the depreciation provision and charge for the year, there were not 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 did not follow the requirements of Memo 150/2010, and continued to recognise litter bins as capital expenditure in FAR, instead of expensing them immediately

to the Statement of Comprehensive Income. In addition, a discrepancy of €2,603 was noted in the cost of furniture and fittings as disclosed in FAR, and that recorded in the Financial Statements.

During the course of the audit, the issue of the litter bins was brought to the Council's attention and an adjustment was made to expense the respective cost to the Statement of Comprehensive Income. As regard the categorisation of assets, FAR will be adjusted during 2013. Moreover, during 2012, the only addition in Furniture and Fittings amounted to €316. The FAR was in agreement with the Nominal Ledger.

Testing performed on accrued expenditure revealed that the Council did not apply proper controls to ensure correct cut-off recognition. Consequently, instances were encountered whereby accrued expenditure was either over or understated. In fact, over-accruals identified amounted to €6,389, whereas under-provision for accrued expenditure amounted to €3,173. The necessary audit adjustments were approved by the Council to rectify these errors. Furthermore, the unpaid balance of €453 in respect of an invoice issued by a contractor for works carried out in August 2012 was not recognised within Trade Payables.

The Council has adjusted its Financial Statements during the course of the audit.

Capital Commitments as disclosed in the Financial Statements are understated by €3,602 when compared to those illustrated in the Annual Budget.

The Budget includes also an allocation for the yearly loan repayment.

Pieta`

An annual amount of €8,658 is being incurred for the cleaning and maintenance of parks and gardens under a contract that was originally entered into by MRRA, but which 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 recommendation in previous years.

Point not addressed.

No call for tenders was issued prior to the procurement of services relating to the restoration of niches, amounting to €5,200. This issue was already highlighted in the Management Letter for the year ended 31 December 2010.

Such work was implemented during the financial year 2010, prior to the current Executive Secretary's appointment.

Accountancy services, as well as the collection of bulky refuse, were procured under contracts that expired during 2011. During the year under review the amounts of €4,755 and €2,453 were incurred in this respect.

As regard the bulky refuse service, a new tender initiated during June 2012, and contrary to that stated by LGA, the Council has refrained to procure from the previous service provider. The Council has also terminated the agreement for the bookkeeping services.

During 2012, the Council capitalised works carried out on 'Triq il-Qrejten', amounting to €94,731. From the necessary audit verifications carried out, it transpired that the amount capitalised was based on the supplier's bill of quantities rather than on Architect's certification. Notwithstanding that by the time of the audit, these works had not yet been certified, the contractor was still paid €37,892, in respect of such project.

LGA's comments were noted and will be adhered to.

The Creditors' List still included balances due to five service providers, totalling €23,739, that had been pending for several years, out of which the amount of €18,245 was payable to WSC. During 2011, the Council reversed an amount of €18,870 due to the Corporation, in relation to a bill for a fountain at the ex-torpedo depot, which property was not transferred to the Council, and thus does not fall under the latter's responsibility. Whilst the Council had correctly disclosed this balance as a Contingent Liability during 2011, it failed to include it again in the current year's Financial Statements.

Likewise, a Bank Guarantee of €2,400, issued in favour of third parties, was completely omitted from the Financial Statements.

As explained in the Management Letter, the dispute with WSC is about a water and electricity bill for a fountain at the ex-torpedo depot garden, which was never devolved to the Local Council. The dispute is still ongoing but it is in the Council's interest that a solution is sought in the least possible time. The fact that the Council failed to disclose the Contingent Liability, was not highlighted during the audit fieldwork.

Included with the accruals for the year, are accountancy fees, totalling €12,550, covering services provided in relation to the preparation of Management Accounts and Financial Statements, but which have not yet been invoiced since 2009. The Council confirmed that such services are not supported by a contract. Furthermore, an accrued expense of €5,888 for electricity bills was overstated by approximately €2,000, since only €3,898 of the overall amount was supported by relevant documentation. Upon queries raised by LGA, the Council explained that it had accrued for bills relating to certain locations, which are doubtful as to whether these are to be paid by the Council or not. Moreover, the difference of €1,277 identified during the prior year between a Supplier Statement and the accounting records was incorrectly included with accrued expenses rather than accounted for as a payable. To correct this error, a reclassification adjustment was approved.

As regard accountancy services, the matter has now been rectified and a new Accountant has been engaged. Moreover, the Council acknowledges the accountancy services that have been rendered during 2009 and is thus waiting for the invoice to effect settlement. All other comments were noted and will be adhered to.

Other Creditors, as disclosed in the accounting records, included 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 which were retained by the Council until all amounts in dispute are settled. The other amount of €2,121 related 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 appealed and at time of audit, such appeal was still pending judgment. These issues were already highlighted in prior year's report.

The Council is closely monitoring these contingent liabilities.

Testing performed on LES Revenue revealed that the Council made an adjustment of €18,217 to prior year, so as to agree the accounting records to the report of LES Tribunal Pending Payments for 2011. However, following queries raised by LGA the Executive Secretary provided a second report for Tribunal Pending Payments in respect of tickets issued up to 31 August 2011, and with sittings held up to 31 December 2011. However, the last report disclosed a different balance from the first one, thus resulting in a difference of €6,086 between the latter report and the adjusted closing balance in the Financial Statements for 2011.

Furthermore, when testing the current year-end balance, a difference amounting to €4,757 was also identified between the report and the accounting system. No satisfactory explanations were provided for these variances. LGA was unable to draw a conclusion on the existence and completeness of LES Income, LES Debtors and LES Creditors, thus a qualified audit opinion was issued.

The necessary adjustments to increase the provision for LES by €18,552 were only approved by the Council, following LGA's recommendation. It was also noted that the Council failed to invoice the respective Regional Committees the amount of €355 in respect of commission receivable for contraventions collected in 2011.

All invoices were sent to all Regional Committees for commissions receivable in respect of contraventions collected during 2011 and 2012. LGA's other comments were noted.

Depreciation charge for the year, as disclosed in the Financial Statements, differed from the independent workings calculated by LGA, by €4,141. This variance resulted from the fact that NBV, as reported in FAR, was greater than that disclosed in the Nominal Ledger by €4,109. As a result, the Council passed an additional

depreciation charge of €3,742 in its books to account for the differences in FAR. Furthermore, due to a number of reclassifications posted by the Council's Accountant, subsequent to the submission of the unaudited Financial Statements, variations in respect of certain asset categories were identified between NBV, as included in the Financial Statements, and that illustrated in the Nominal Ledger.

The reason why FAR does not tally with the Nominal Ledger is because of the audit adjustments for 2005 which were not reflected in the Asset Register. Based on agreement with LGA, the Council is taking steps to rectify this situation. The monthly depreciation charge, will be calculated automatically by the accounting software, after the Asset Register is updated. The manual adjustment, which is being carried out monthly, is to rectify the differences which arose. Issues regarding the correct classification of Fixed Assets and the tallying of asset classification in the Register with the Nominal Ledger were discussed during the audit. It was agreed that the audited Financial Statements be adjusted accordingly.

During October 2012, assets relating to construction works, amounting to €5,541, as well as the corresponding accumulated depreciation of €1,938 were reversed. However, by the time of audit, this reversal was not yet approved and minuted by the Council during the meeting.

LGA's comments were noted.

As already noted in previous years' reports, the Debtor's Ledger at year-end contains an outstanding balance of €24,162 (net of a provision of €12,644) receivable from WSC, in respect of trenching works performed prior to 2007, for which no supporting documentation is available. On the other hand, disclosed in the Creditors' List is the balance of €18,244, payable to the same Corporation, thus resulting in a net receivable amount of €5,918. In view of the lack of comfort on the recoverability of the amount, a qualified audit opinion was issued.

The amount in the Debtor's Ledger will be reversed during 2013.

Disclosed within Receivables, are amounts that were brought forward from previous years and 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; €1,044 due from a local communications service provider, a refund of €189 from the VAT Department as well as another €2,912 owed by other debtors.

Since these balances have been pending for several years, the Executive Secretary requested the Accountant's opinion on this issue and was informed that support records are available.

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 reports. However, to-date, the Council is still awaiting instructions from DLG as to whether this amount can be written off.

LGA's comments were noted.

The Council approved the payment of €363 covering the procurement of drinks for the locality's feast. Furthermore, the amount of €431 was expensed in relation to a Christmas party, for which contractors and suppliers were also invited.

This expense refers to a joint activity held between the Local Council and the Pieta` Feast Committee. This should not be classified as a donation since Local Councils are being encouraged to participate and promote social, cultural and sport activities amongst their communities.

Qala

The contracts for refuse collection and the provision of open skips initially covered up to 31 October 2007. The refuse collection contract was then extended up till 31 April 2008. Subsequently, the Council had DLG's approval to extend such contract for a further four months. However, no new contract was entered into since then. Notwithstanding this, the Council was invoiced the amount of €76,427 for the aforementioned services, since the expiration of the contracts.

Tenders for services of open skips and household waste collection are to be issued in due course.

As already reported in previous years, the Council's FAR is still not up-to-date. Consequently, total NBV in FAR is overstated by €139,930 when compared to that disclosed in the Financial Statements (prior to the recognition of any audit adjustments). In view of these discrepancies, depreciation was calculated manually and not through the system. Furthermore, due to the fact that, at times, depreciation was not calculated in line with the specified Accounting Policies, certain variances were encountered. In fact, depreciation charge for the year was increased by €9,093 by means of an audit adjustment. It was also noted that new Fixed Assets additions were not included under the correct asset category, resulting in an incorrect depreciation rate being applied on such assets.

Furthermore, accrued costs and Payables relating to the year under review, in aggregate amounting to €49,609, were not accounted for. Out of the foregoing figure, the amount of €47,324 related to Fixed Asset additions. Following LGA's recommendation, the final set of Financial Statements was adjusted accordingly.

The Council would like to point out that FAR in the accounting system always agreed to the Nominal Ledger found in the same software, and that the classifications in the Nominal Ledger are the same as those found in FAR. The Council has reviewed the cost totals of each Fixed Asset category in FAR and found that these agreed to the corresponding value of each Fixed Asset category in the Nominal Ledger. Postings to the appropriate depreciation accounts were always made by month-end in the Local Council's accounting package, but, during the past three years, depreciation was calculated manually due to errors in accounting package.

The total accumulated depreciation in FAR does not agree with the accumulated depreciation in the Nominal Ledger since, in previous years, LGA has made adjustments to the depreciation in the Nominal Ledger. When such adjustments are made, FAR needs to be reconstructed completely, in order to tally with the figures portrayed in the Financial Statements. Thus a reconciliation exercise will need to be carried out for FAR to be brought in line with the Nominal Ledger. Furthermore, the Council does its utmost to ensure that the Accruals Concept is embraced and to record expenses effectively. All other recommendations were noted.

Testing carried out on Deferred Income revealed that the amortisation of certain assets was being incorrectly calculated and accounted for. Consequently, an audit adjustment of €4,595 on the amortisation of Deferred Income was proposed by LGA. Moreover, an additional adjustment of €10,938 was posted, since the amount released with respect to the playing field equipment was not in line with the depreciation policy adopted by the Council, which states that the cost of playground equipment is to be written off in the year of purchase. These audit adjustments were correctly incorporated in the final set of Financial Statements.

Accrued Income included an amount of €3,845 relating to income from permits. From the necessary audit verifications carried out it transpired that the aforementioned amount represented funds which had accumulated while the Executive Secretary was on maternity leave, and which were not deposited by year-end. By the time of audit, the respective amount was still not yet deposited in the Council's bank account. An audit adjustment was made against petty cash to rectify this error.

In another instance, Accrued Income recognised in respect of funds, receivable from MEPA, relating to a play centre, was not only limited to the actual cost incurred. This resulted in an overstatement of €2,162, which was then reversed through an audit adjustment.

Invoices for management fees, charged to a company that handles waste management and recycling, were not being issued on a regular basis by the Council. The last invoice made available for audit purposes covered up till March 2012.

Up to time of audit, the accrued income of €1,200 with respect to the road reinstatements for 2007, chargeable to WSC, had not been received by the Council.

The Council has taken note of LGA's recommendations.

Although in total, the total budget for 2012 was not exceeded, instances were encountered whereby actual costs within a certain expenditure category exceeded the estimated amount. A case in point is the budget for Repairs and Upkeep, which was exceeded by €2,122.

The Council's administration will continue to do its best to adhere to the procedures in all its aspects, and continue building on the recommendations made by LGA.

Qormi

A total of €5,557 was paid by the Council for the organisation of 'Jum il-Lokal'. Thus the maximum allowable limit stipulated in Memo 8/2011, stating that such expenditure should not exceed €3,500 or 0.5% of the Annual Government Allocation (which in this case amounted to €5,119), whichever is the highest, was exceeded.

The Council disagrees with LGA, because the expenditure of €5,557 incurred on the locality day includes the purchase of 'ceramic tribunas', when in reality, only 26 were used for 'Jum Qormi 2012'. Thus, the actual sum incurred for the locality day was of €4,849, which is under 0.5% of the Annual Government Allocation (equivalent to €5,119), as per Memo 8/2011.

Other Receivables disclosed in the accounting records include a long outstanding amount of €2,000 due from the Qormi Football Club, covering the leasing of a kiosk for €1,000 annually. As per contract dated 13 April 2011, the lease payments are payable to the Council quarterly in advance, and unless the lessee abides with the agreed terms, the said agreement can be terminated with immediate effect. However, despite that the first two lease payments were not honoured, the contract was not terminated. Moreover, upon further queries, LGA was informed that during Council meetings, it was decided that the lessee should be given more time to pay, without specifying any timeframes.

The Council agrees with LGA's comments whereby the lessee failed to pay the first two lease payments and the contract can be terminated. However, the Council gave ample time to the lessee to pay, as it was ready to do so in the coming weeks and preferred to avoid legal proceedings. In the absence of such payment, the Council will have no alternative but to terminate the contract and proceed with legal action to recoup the amounts receivable.

The amount of €16,627 is receivable from WSC in relation to reinstatement works carried out during 2009. Although the Council might be certain of

the amount receivable, its recoverability is still doubtful, in view of the fact that this has been long outstanding.

In 2013 the Council will carry out the necessary confirmations with WSC to assess the recoverability of the amount. As pointed out by LGA, the Council will then write off or recognise a provision if it is found that the amount will not be fully recovered.

Included in the Creditors' List was a balance of €23,357 owed to a private limited liability company. Since this amount related to invoices issued in January 2013, LGA proposed an audit adjustment to reclassify the aforementioned balance to accruals. The Council approved the proposed reclassification and the final set of Financial Statements was adjusted accordingly.

The amount in question was classified as Trade Creditors on the basis that the Council had received the request for payment from the supplier. The amount of Payables reported would still be the same if the amount is either classified as Trade Creditors or as Accruals. For future similar situations, the Council will implement LGA's recommendation.

Fees of €52,219 and €38,543, incurred with respect to the refurbishment and maintenance of the Housing Estates respectively, were recorded in the books of account based on the Architect's certification. Since no invoices were made available, LGA could not ascertain that these transactions were properly recorded.

LGA is incorrect in stating that there were no invoices available in the case of the 'Housing Authority' project, because, the Council has that particular invoice in hand. Furthermore, there should have been no difficulty for LGA to determine that transactions were properly recorded, since the latter could easily compare the invoice and Architect's certification with the transaction recorded.

Disclosures in the Financial Statements with respect to borrowings do not include the special privilege for €262,008 over all the Council's property, as specified in the sanction letter dated 19 January 2011. Although this omission was brought to the Council's attention, it has not been included in the audited Financial Statements.

LGA's recommendation will be taken on board as from 2013.

Qrendi

During 2011, the Council qualified for Grants receivable amounting to €235,635 (excluding VAT), in respect of the 'Measure 313' project for the construction of a pedestrian pavement from 'Misraħ il-Maqluba' along 'Triq Haġar Qim', which amount was correctly reflected in the Financial Statements. Apart from €44,043 that was received during the preceding year upon the awardance of the tender, the Council received another payment of €90,234 during the current year. However, it was noted that whilst €26,959 was accounted for using the Capital Approach, the remaining balance of €63,276 was again recognised as Deferred Income, even though this was already accounted for as such during the preceding year. Furthermore, the Council erroneously treated the VAT element of €22,029 on income received, as Accrued Income, by deducting it from the cost of the assets still under construction. Following LGA's recommendation the Council approved the necessary audit adjustments.

During 2012, the Council's Architect certified five interim bills of quantities, for the said project. Although still under construction, such works were capitalised and depreciated at the rate of 10%. Hence, the Council approved an audit adjustment of €136,910 to reclassify the capitalised assets to Assets under Construction, and an additional adjustment to reverse the depreciation charged thereon, amounting to €6,600. Another audit adjustment of €2,238 was approved by the Council, to transfer a portion of the Grants, which were directly attributable to the depreciation charge of the assets, to revenue, since the said assets were completed on or before 2012.

Another €4,000, received during 2012 in relation to Memo 65/2011, was also accounted for using the Capital Approach, by deducting the amount from the cost of the assets. Given that the respective Grant is of a revenue nature, LGA proposed an adjustment to record income received as 'Other Government Income' in the Income Statement, to match with expenditure incurred on the related activities. The Financial Statements were adjusted accordingly.

The reconciliation prepared by the Council, in respect of one of its bank accounts, showed an unreconciled discrepancy of €26,874. Testing carried out revealed that the bank reconciliation covered only up to 24 December 2012. Thus, a payment of the aforementioned amount to a service provider, effected on 28 December 2012, was excluded. An audit adjustment was approved by the Council, so as to reconcile the book balances to the bank statement, and reduce Creditors.

Points not addressed.

Notwithstanding prior years' recommendations, the Financial Statements still disclose Special Needs Creditors of €22,781. These funds, which were received for the building of a coast guard room at 'Wied iż-Żurrieq', were never utilised for this project, but were utilised on other projects. Thus, should no longer be classified as Special Needs Creditors under Memo 42/1999.

At year-end, the Council had a dispute with WSC in respect of a claim of €21,000 for works performed in previous years. The said amount was neither recorded in the books of account, nor disclosed as a Contingent Liability in the Financial Statements. In view of this, a qualified audit opinion was issued.

In the previous year's Management Letter, it was reported that the Council had erroneously written off an amount of €12,090 against the incorrect Creditor Account. Consequently, the long overdue balance, payable to the Local Council Contracts Unit, was still showing in the Council's books, whilst the balance due from the then Ministry for Resources and Infrastructure was disclosed as a Debtor balance. A year later, the Council had still not reversed this entry or posted the write-off to the correct debtor account.

The Council will liaise with its Accountant so that any shortcomings will be addressed.

During preceding years, LGA highlighted the fact 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 amount was in dispute, since resurfacing works were not satisfactory. During 2011, the Council eventually received a statement which deleted this outstanding amount. Notwithstanding this, during

the year under review, the Council paid the amount of €500, resulting into a net pending balance of €8,117, in respect of which an official Credit Note was not yet obtained.

The Council did not prepare a reconciliation between the LES reports generated from the IT system and the actual cash received, the Receivables outstanding at the end of the period, cash received on behalf of other Councils, and amounts owed to other Councils. As per the Tribunal Pending Payments report, amounts receivable in respect of fines issued during the pre-regional period as at 31 December 2012 amounted to €89,795, implying an increase of €5,459 over that reported during the previous year. However, following LGA's recommendation, the Council approved to reduce both LES Debtors and income from contraventions by €5,459.

The Financial Statements included also income of €5,876 from fines issued during the pre-regional period, and €849 relating to amounts receivable from other Councils, which should have been posted against debtors.

In addition, whilst the Tribunal Pending Payments report as at 31 December 2010 disclosed a balance of €73,350, the Provision for Doubtful Debts in the Financial Statements amounted only to €66,631. The Council approved to adjust the related provision for Doubtful Debts. However, since LGA could not perform any audit procedures to ascertain the existence and completeness of LES Debtors and LES Creditors at 31 December 2012, a qualified audit opinion was issued in this respect.

Two Bank Guarantees totalling €5,370, which were released by the bank during the year under review, were recorded with 'General Income' rather than settled off against Receivables. Since upon the issue of such Guarantees in 2011, the Council recorded the respective amount with Receivables, LGA proposed an adjustment to credit Receivables and debit General Income by the aforementioned amount. The Financial Statements were adjusted accordingly.

The cost of assets as disclosed in FAR was €4,282 lower than that reported in the unaudited Financial Statements. Furthermore, a difference of €1,683 was noted between the depreciation charge as

disclosed in the Financial Statements, and that recalculated by LGA.

Whilst comparing the closing audited Trial Balance for the year ended 31 December 2011 with the opening balances in the Nominal Ledger, it was noted that Accrued Income, as well as Grants with respect to construction works, as recorded in the Nominal Ledger, were understated by €10,482.

Points not addressed.

Rabat (Malta)

As highlighted in the previous year's Management Letter, the Council has so far prepared a form of FAR on the accounting system, however, this is limited since it does not provide all the necessary details, and thus, it is not in line with best practice and in terms of the Local Councils (Financial) Procedures. Furthermore, the Council inputted, in every asset category, an opening balance of assets capitalised in previous years. In addition, a number of assets had no description or were shown simply as adjustments, whilst certain assets were categorised in the incorrect asset category with the consequence that these were depreciated using an incorrect depreciation rate. Moreover, variances have been noted in Fixed Asset categories between the FAR and the Nominal Ledger. For example, the NBV of Urban Improvements and Special Programmes as disclosed in FAR was overstated by €73,021 and €256,951 respectively, when compared to that recorded in the Nominal Ledger. The discrepancies relate to Grants against items of capital expenditure within these categories, that were not reflected in FAR.

Although the Council has correctly identified its software as an Intangible Asset in the Financial Statements, in line with the requirements of IAS 38, Intangible Assets in FAR are not separately identified but have been incorporated under Computer Equipment. Additionally, whilst the FAR lists two items of computer software, which when aggregated have a NBV of €902, Intangible Assets as disclosed in the Financial Statements had a NBV of €665. In view of the aforementioned issues, no reasonable assurance could be obtained on the existence and completeness of the balance of Fixed Assets recorded in the Financial Statements, having a NBV of €1,888,910, as well as on the

accuracy of the depreciation charged thereon. A qualified audit opinion was issued in this respect.

The Council has embarked on a project to update the FAR from the date of its incorporation. In fact, the FAR forms part of the accounting software that the Council has at its offices, however, it transpired that the FAR was not being updated and therefore today it is difficult to have proper entries in FAR stretching for nearly two decades. Furthermore, during the first years of the Council's operations, no FAR was kept, and to make things even worse it was reported that no backups were kept resulting in loss of data for three times, and consequently, loss of narration in all capital accounts. As regard the variances highlighted by LGA, the Council will commission its Accountant to report about the amounts for differing to the Nominal Ledger, and to further recommend the course of action to be taken so as to ensure that no discrepancies are noted by the end of 2013. Other points mentioned by LGA will also be part of the Accountant's assignment.

According to the Council's Accountant, he feels 'surprised' about the point made by LGA regarding the depreciation charge. The same policy has been used each and every year, however LGA never mentioned such issue. The Council will also assign its Accountant to report and give further explanations on the points mentioned by LGA in terms of incorrect asset categories, propose the requested adjustments and ensure that, as from 2013, all capital expenditure is recorded properly in the respective category and with the appropriate depreciation rate.

Testing carried out on Repairs and Maintenance expenditure revealed that a private company has invoiced the Council the amount of €2,992 for the removal of old lanterns and installation of new ones. The Council has also undertaken a number of disposals during the year, with a total cost of €7,540 and a NBV of €1,512. However, besides that the list provided did not include the lanterns, it was noted that the Council has not approved the disposal of the assets during the year under review.

The issue raised by LGA in relation to 'lanterns' does not fall under the disposal of assets. It is being clarified that these so called lanterns are actually public street lighting and thus purchased and installed originally by Enemalta Corporation.

Hence, there was no need for the Council to approve such disposal since there was no writing-off or replacement of assets. The Council will take the appropriate measure and instruct the Accountant to add all the new lanterns purchased by the Council in FAR. Furthermore, the other disposals mentioned by LGA were only deducted from FAR but the issue had still to be brought to the Council's approval. In fact, the stated items are still within the Council's main office and LGA could have easily checked each and every item if requested to do so. As for future disposals, the Council will approve any request raised by the Executive Secretary by means of a report specifically drawn by the Council's Accountant and will subsequently follow the requirements of the law in this regard too.

No proper certification was undertaken in relation to structural works carried out on St. Augustine Catacombs amounting to €10,858. Furthermore, the Council has incorrectly capitalised such repairs even though the Grant received for this work was recognised in full in the Statement of Comprehensive Income. On the other hand, new street lighting in 'Bahrija' and 'Triq Santu Wistin', costing €3,734, was directly recognised as a recurrent expenditure, when this should have been treated as a capital expenditure.

Contrary to that stated by LGA, Architect's certification was present, and if LGA asked for such documentation, it would have been easily provided. Once again, the Council will instruct its Accountant to ensure that such circumstances do not happen as from 2013 and a proper distinction will be made between Capital and Revenue Expenditure.

An analysis of the aged Payables report revealed at least an amount of €127,897 which has been long outstanding. The major balances identified related to road resurfacing, totalling €88,547 and €28,854 respectively, as well as €10,000 payable with respect to patching works.

The Council reached an agreement with the road resurfacing suppliers for the settlement of pending amounts by an instalment payment system. It must be emphasised that this system has been adopted for the past three years and LGA had viewed the supplier's activity where they could have noticed that a payment on account was being made on a

monthly basis. The Council is also planning to settle the amount payable with respect to patching works.

The Council did not carry out regular reconciliations with Suppliers' Statements. In fact, various debit balances, aggregating to €6,763, were traced in the Creditors' List, besides that several supplier invoices dated in 2012, totalling €3,688, were completely omitted from the books. Furthermore, in line with the Concept of Accrual Accounting, items amounting to €27,885 should have been accrued for, whilst invoices totalling €11,374 were recognised as Accruals rather than Creditors. Likewise, the Council failed to recognise accrued income of €26,250, receivable under the Housing Authority Scheme. Following LGA's recommendation, the Council revised its Financial Statements accordingly.

LGA's comments have been noted and the Council is emphasising that no present member, the Executive Secretary or any other member of the staff had ever instructed the Accountant to either omit from the Ledger or post any invoice received as an Accrual for the year under review. Thus, the Council shall seek an explanation from the Accountant on this matter. Furthermore, the Council has received a report compiled by the Executive Secretary, highlighting a substantial amount of invoices received by the Council, for services reported to have been rendered to the latter from various suppliers for the year under review and for early 2013, and which however are neither supported by a Council approval nor a Purchase Order. These invoices, amounting to €38,022, were not included in the accounts nor in the Financial Statements. The Council has approved the report, inclusive of its recommendations, and referred it to DLG for further instructions as to whether the amount, in full or part, is to be considered as a Creditor or otherwise. The Council agrees with LGA's recommendation and shall be instructing its Accountant to carry out a regular reconciliation of its Creditors and report any shortcomings to the Executive Secretary.

Whilst acknowledging that a forecast of services was accounted for with Accruals, the Council shall instruct its Accountant to fully comply with the concept of Accrual Accounting and prepare the Council's Financial Statements in compliance with the Generally Accepted Accounting Principles and IFRSs.

With respect to Accrued Income, the Council shall also ensure that the Accountant will take the appropriate action to ensure that incidents reported by LGA will not be repeated and that all receivable income is included in its Financial Statements against the documentation that sustains such claims.

Income of €10,000 received in respect of Sustainable Localities Scheme, which was applied for and undertaken in prior years, was accounted for as income receivable for 2012 since the Council failed to accrue for such income during the preceding years. Following LGA's recommendation the Council has revised its Financial Statements accordingly and recognised the respective transaction as a prior year adjustment.

The Council has referred the matter to the Accountant who has ensured that proper cut-off procedures with the income received will be adopted. The circumstance mentioned by LGA has been rectified accordingly.

The Council has incorrectly recognised the settlement of a Grant, amounting to €10,000 as Deferred Income in view of a capital project undertaken in 2011, despite that this was already accounted for during the preceding year. It was also noted that the release of €8,153 from Deferred Income to the Statement of Comprehensive Income was understated by €6,591 due to the fact that the Council failed to release income in relation to 'Tas-Santi' project, 'Tal-Virtu' paving, and other road resurfacing.

In cases where the Grant amount was lower than the cost of the asset, the Council still released Deferred Income in line with the depreciation charged on the entire cost of the respective assets for which the Grant was provided, rather than on a *pro rata* basis to the actual amount received. In addition, upon queries raised by LGA as to whether the Accessibility Scheme of 2011, amounting to €2,500, was still recoverable, the Council confirmed that the amount had been forfeited due to non-compliance with certain conditions imposed by the Scheme. The necessary audit adjustments were approved by the Council to rectify these errors.

Although the Council has approved the adjustments proposed by LGA, considering their observations,

the Council will instruct its Accountant to take the remedial action necessary to ensure that the Council is fully abiding by the income approach of IAS 20.

Whilst Capital Commitments as recorded in the Financial Statements stood at €371,153, no capital expenditure was forecasted in the annual Budget issued by the Council for 2013.

According to the Council's Budget for 2013, approved in meeting number F53 held on 30 January 2013, the Council decided to undertake a number of the remaining resurfacing of roads which were still outstanding, as per contract T/0102/2011, amounting to €256,630. The Capital Commitments mentioned in the Financial Statements, amounting to €371,153, refer to the remaining above-mentioned contractual agreement (€114,523), since the capital expenditure is to be done over a period of two years. In view of this, LGA was incorrect in stating that no capital expenditure has been forecasted in the Annual Budget approved by the Council for 2013.

Actual expenditure incurred in respect of Cleaning and Maintenance of Non-Urban Areas, Utilities, Other Contractual Services, Insurance and Cleaning of Council Premises, exceeded the budgeted amounts by €14,667, €10,704, €7,001, €1,508 and €686 respectively.

Regarding utilities, cleaning and maintenance of non-urban roads and other contractual services, the Council would like to point out that it has no control on certain expenditure which crops up during the year, such as heavy rain water making extensive damage to non-urban roads. In case of the insurance expenditure, the Council has revised the insurance policy after the Budget was presented and during the course of last year's audit, which was performed in March 2012. As for the cleaning of Council premises, it seems that the Council under-budgeted the expenditure. The Accountant will be instructed to ensure that deviations from the Annual Budget are made by proposing to the Council any expenditure item that would likely exceed the budgeted amount.

At year-end three cheques totalling €1,203 were still included with the unrepresented cheques despite that these were cancelled, whilst an amount of €38

that was deposited to the bank on 20 December 2012 was not recorded in the accounting records. In addition, a discrepancy of €136 was noted between the balance of the Council's current bank account and the amount disclosed in the Nominal Ledger. The petty cash amount as disclosed in the Financial Statements, was also overstated by €40 when compared to the actual balance of cash in hand and the respective Petty Cash Sheet.

The Council will instruct the Accountant to reverse the cancelled cheques during 2013. The latter will also be instructed to ensure that variances in the bank reconciliation do not repeat themselves in the future. As regard the deposit of €38, the Council has informed the Regional Committee about this amount that was deposited by mistake. It has to be observed that the balance of €240 has remained so for a number of years and LGA never mentioned such discrepancies. However, the Council will see that the difference in petty cash is adjusted accordingly with the Council's needs and the Accountant will be instructed to take the appropriate measures.

During the year under review, the Council paid out the amount of €1,100 to a local private company, in respect of computer courses, which it then offered free of charge to its residents.

The provision of courses is not considered to be a donation. The Scheme mentioned refers to a payment made for the provision of services related to IT courses. LGA could have well taken note of the agreements that were signed to this effect between the Council and the supplier.

Rabat (Gozo)

Instances were encountered whereby payments for the procurement of goods and services were made without a call for tenders. For example, services offered by a local Band and the National Orchestra amounting to €8,000, and €19,706 respectively, hotel accommodation totalling €6,607, patching works amounting to €4,968 and €6,304 respectively, as well as cleaning of a playing field for €8,547, were procured directly from the open market, when in line with the Local Councils (Financial) Regulations, the amounts involved merited a call for tenders.

It is true that sometimes, because of the urgency of matters, the Council did not issue tenders for certain services. However, a quotation is always obtained from the suppliers of any product or service.

The amount invoiced by the Accountant during the year, amounted to €5,900. 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. This issue was already highlighted in the preceding year's Management Letter.

The amount which was paid to the Accountant in the last couple of years includes other services rendered by the latter, which were not included in the quotation. Such services mainly included preparation of projections and other reports which the Council needed from time to time with regard to EU funds applications.

Notwithstanding that the last signed contract for the provision of Refuse Collection, dated 1 July 2007, was valid only for three years, during the year under review the Council was still procuring this service under the terms and conditions of this agreement, which by now has well expired. The amount of €55,218 was paid during 2012 for this service. Although the Council issued a tender for the provision of these services, the tender was not eventually awarded. Likewise, during the first nine months of the year, the Council was using the services of a supplier for Bulky Refuse Collection whose contract expired in 2010. The total amount invoiced to the Council for these nine months of 2012 was €13,197. A new agreement was entered into with a new supplier who won the tender effective as from October 2012.

The tender for the service of collection of organic waste was not awarded as one bidder filed an appeal with the Contracts Department. A tender for the service for collection of bulky refuse was issued in July 2012 and awarded in August 2012.

The Local Council has over the past years received a total amount of €401,515 worth of Government Grants with respect to construction and special programmes that were at the time accounted for under the Capital Approach in accordance with IAS 20. When calculating the depreciation charge for the year through FAR, only €121,278

of these Grants were deducted from the cost of the respective items of PPE. Consequently, depreciation was calculated on a depreciable amount that was overstated by €280,237. LGA estimated that depreciation charge for the current year is thus overstated by approximately €23,000. Furthermore, since the required information was not provided, it was not possible to work out the effect on the accumulated depreciation till 31 December 2012. The audit report was qualified in this respect.

Further to the above, accumulated depreciation for Construction as well as Urban Improvements, as disclosed in FAR, is understated by €4,160 and €84,949 respectively, when compared to that recognised in the books of account. The Council explained that due to glitches in the software, this same software is not calculating depreciation on Urban Improvements. In view of this, in order to calculate depreciation for this category, the Council built the FAR covering Urban Improvements on a spreadsheet, and then posted it manually in the accounts. However, depreciation was calculated on a yearly basis, rather than on a monthly basis in accordance with the policy adopted by the Council.

While the Council is now updating 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 €367,649. Out of this amount, the total of €322,336 is still being disclosed in FAR under 11 different assets, all having a different asset code and different commencement dates for depreciation. The resulting difference of €45,313 relates to additional invoices of €43,645 and €1,668 relating to lighting and floor tiles of the square respectively, which are also disclosed in separate line items.

Other strange occurrences were noted in the depreciation calculated through FAR. In certain instances, a full year depreciation charge was accounted for, despite that the assets were acquired part way through the year. In addition, invoices of €200 relating to litter bins have been capitalised rather than accounted for on a replacement basis.

Due to unresolved disputes, the Council was never invoiced for road resurfacing works bearing an estimated cost of €50,000. The Council did not accrue for such costs, with the consequence that the value of PPE is understated by the same amount. Furthermore, the accumulated depreciation on these assets to-date would be approximately €16,700. As a result, the audit report was qualified.

All the above-mentioned shortcomings were already highlighted in the previous year's Management Letter.

As reported last year, the Council is still having technical problems with FAR despite that both the Council and the service provider made their utmost to resolve this issue. This problem has been taken up again and has also been discussed at length with LGA. The Council has decided to rebuild FAR from its first day and/or otherwise install a new software in order to eliminate any corruption in the programme. As a temporary measure, the records of depreciation of those categories which are corrupted on the software are being kept on a spreadsheet. Furthermore attention will be given by the Council in order to improve the presentation and workings of FAR. With regard to 'St. George's Square' expenditure, the Council prefers that the expenditure remains shown in different assets accounts with separate codes. All other points and recommendations were noted by the Council.

Included within Accrued Income is an amount of €65,550 receivable from WSC. This amount refers to an estimate that the Council made for the reinstatement works of roads and permits, dating back to 2003. The Council never issued invoices in real time and hence, the only supporting documentation provided by the Council is a court letter, which was sent to WSC, claiming the aforementioned amount. On the other hand, the Corporation is contesting around €65,300 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 was 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.

Discussions are still going on between WSC and LCA about the amount still due by the Corporation. The Council is in total disagreement with the arguments and balances that the Corporation is presenting. Hopefully, a final agreement will be made with WSC during the current year and the necessary audit adjustments will be made.

It was also noted that the amount of €6,650 received towards the end of 2012 from the Corporation was not recognised in the books of account. The Council approved the necessary audit adjustments to reduce the amount shown as receivable from the former. The figures quoted in the previous observation reflect this adjustment.

As at year-end, the Council failed to account for a Grant receivable under Europe for Citizens Scheme. The amount of €7,000 was then received during 2013 and was recognised in the accounting records through an audit adjustment.

Though certain documents of income were dated late December 2012 these were only received in late February 2013 and the beginning of March 2013. Consequently these documents were not in hand during the preparation of the Financial Statements.

On the other hand, included in Accrued Income are two amounts of €93,286 and €38,636 respectively, receivable from MEPA which are long overdue. However, LGA was unable to obtain confirmation of these amounts and their recoverability. The only supporting documentation provided was a copy of the original agreements, dated 2009 and 2010 respectively, that were signed by the Council and MEPA, showing the total amounts that may be given for each project.

All efforts are being made by the Council so that written confirmation from MEPA will be obtained in order to pay the committed funds on certain projects.

According to LES reports provided by the Council, contraventions payable as at 31 December 2012 amounted to €102,950, out of which €97,921 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 should have amounted to €5,029. However, the

amount disclosed in the Financial Statements in this respect was only €2,471. An adjustment was posted to recognise the variance in the amount of LES receivables.

As in previous years, the Council always took the year-end balances of LES receivables from the reports extracted from the LES system, however it cannot be verified whether these reports are 100% reliable or not.

Reconciliations between the Purchase Ledger accounts and the statements received from the suppliers were not carried out. This was evident from a number of variances identified by LGA in these two records, most of which have been adjusted for following LGA's recommendation.

In order to match the payments effected, the Council sometimes posted invoices in batches. This makes it difficult to reconcile the accounts, as well as to identify any double postings. In fact, invoices amounting to €18,476 were posted twice and this went unnoticed. This is also resulting in having one date for a whole batch of invoices, rather than posting each invoice with its 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 errors, one of which had to be passed through a prior year adjustment.

In addition to the above, supplier invoices for works carried out on pavements, amounting to €28,658, as well as accrued expenses totalling €12,827, were completely omitted from the books of account, resulting in unrecorded liabilities. Following LGA's recommendation, the Council approved the necessary audit adjustments to record these transactions. A further adjustment of €4,622 was passed to reverse an accrual recognised for refuse collection services provided during December, since the respective invoice was already accounted for within Payables. The payment of Architect's fees, amounting to €1,327, was also incorrectly posted as an expense rather than against the supplier account. Thus, an additional adjustment was passed to offset the expense against the amount due to the contractor and to correct the Financial Statements accordingly.

Several invoices were posted in the wrong Nominal Account. Reallocations, amounting to €19,164, were passed in the books in order to ensure that the expenditure is appropriately categorised. Furthermore, instances were encountered whereby items of income and expenditure were netted off, for example, the income and expenses relating to the 'Victoria International Arts Festival' (€7,080) and the delegation from 'Goro' (€2,100). The necessary reclassification adjustments were passed to rectify these errors.

Included in the Creditors' List were debit balances of €8,250. A reclassification was approved by the Council to recognise the aforementioned balance with Receivables.

Funds received for the National Enterprise Award, amounting to €30,000, were deferred rather than allocated directly to the Statement of Comprehensive Income during 2012 so as to match the related expenses that these intend to cover. Given that the Executive Secretary confirmed that all the expenses relating to such project were incurred during the year under review, an audit adjustment was passed to recognise such funds as income for the year.

One has to point out that the accounts for financial year 2012 were ready to be presented for approval by the Council by mid-February 2013. Some invoices mentioned by LGA were received by 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 need be. One has to point out that a lot of improvement has been made with this regard during the year under review.

It is also important to point out that there are several suppliers who never send a statement in order to reconcile, even though pressure is applied by the Council to do so. As noted in the Financial Statements, the Council is still in dispute with a couple of other suppliers. Once these balances are solved with suppliers, the Council will make the necessary adjustments, if any.

Notwithstanding that donations, whether in cash or in kind, are prohibited, during the year under review, the Council has donated 141 copies of a book that it has launched in the same year, for a

total cost of €2,200. Furthermore, the Council is also paying for the services of a volleyball coach for the volleyball team in Victoria. The amount of €280 was incurred during the year under review in this respect.

In addition, the Council is adopting a policy to purchase ten books from local authors. During the year under review, the Council acquired 40 books with a total cost of €340.

Point noted and the necessary action will be taken by the Council.

The Council deposited a number of cheques that were dated in 2012, during the first quarter of 2013. For example, a cheque dated 16 July 2012, that was received from the Government with respect to the co-financing of the 'ERDF' project, was not yet deposited by year-end. Following queries raised by LGA, the Executive Secretary claimed that these amounts were only received by the Council during 2013. An audit adjustment of €33,210 was passed to reflect these cheques in the accounting records.

The Council also failed to account for a cheque of €4,000 issued to a local band, which was still unrepresented at year-end. This transaction was incorporated in the Financial Statements through an audit adjustment.

Though the cheques amounting to €33,210 were dated 2012, these were only received by the Council in March 2013. All other points queried by LGA with regard to Cash and Cash Equivalents were noted.

As at year-end, the balance in an account held with a local commercial bank stood at €3,839. The total value of cheques issued but not yet presented to the bank was €26,705 while the deposits not yet reflected amounted to €6,650. These figures, which translated into an overdrawn bank balance of €16,216, might imply 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 at the beginning of January.

In line with the Budgets prepared, the Council was predicting a surplus for the year of €63,000. However, it eventually ended the financial year with a loss of €87,087. Testing carried out revealed that budgeted expenditure under certain categories was exceeded. The major variances were noted for Community and Hospitality (€116,363), Repair and Upkeep (€20,106), Office Services (€11,379), Transport (€4,355), Contractual Services (€1,678) and Material and Supplies (€943).

The Council will make it a point to make use of the reporting tools in order not to exceed the budget.

As at year-end, the Council was projecting total additional Capital Expenditure of €1,111,152, out of which the amount of €556,461 relates to commitments that were already contracted for. Included in the latter balance is the amount of €374,126 for road resurfacing that had already been contracted for during the preceding year. Only €75,000 was accounted for to cover the maintenance of Government buildings. This implies that figures included in the Capital Commitment note in the Financial Statements were not properly categorised. A qualified audit opinion was issued in this respect.

Point not addressed.

An instance was noted whereby the Council charged VAT of €225 to a company on the sponsorship fee of €1,250 for the end of year events, when the Council is outside the scope of VAT.

Point not addressed.

During the year under review, an employee of the Council took more than three consecutive days of sick leave. However, sickness benefits received from the Government were not deducted from the salary or refunded accordingly.

Point not addressed.

On the feasts of St. Mary and St. George, the Council charged twice the statutory fee stipulated by law, to cover permits of kiosks, with the intention to cover the cleaning of the streets with the extra charge. Meanwhile, for the Christmas and New Year's Eve activities, the Council requested bar owners to pay €200 as a permit. The amount

remaining after deducting there from the statutory permit fee, was considered as a sponsorship for the activity even though the receipt does not state so. Such charges are not in line with pertinent legislation.

The Council asks for sponsorships from shops and kiosks which are in the area where the activity of New Year's Eve is held, in order to help organise the activity. Other financial help is asked for partly financing the extra cleaning services during the feasts of St. Mary and St. George.

Safi

Despite the fact that refuse collection is covered by an agreement stipulating the fixed rate to be charged throughout the contract period, expenditure incurred in this respect increased from €14,625 in 2011 to €22,366 in 2012, resulting in an increase of more than €7,700, i.e. more than 50%, over a period of one year. Other than the possibility of the negative impact of diesel indexation, LGA was unable to obtain an explanation for this significant increase.

An increase in occupied households, leading to an increase in garbage collection, affected the price increase as stated in the Management Letter. There was also the diesel indexation which caused the sum to increase even further.

No formal rental agreement is in place, covering the annual payment of €233 with respect to the rental of a football ground by the Council from a third party. In addition, a difference of €115 was noted between the actual invoice and the rent expense as disclosed in the books of account. However no audit adjustments were proposed, due to the immateriality of the transaction.

The Council has an indefinite contract with regard to the football pitch as the land is the same as that of the Local Council.

The Council did not prepare reconciliations between the LES report generated from the IT system and actual cash received, debtors outstanding at the end of the period, cash received on behalf of other Councils and amounts owed to other Councils. In fact, a discrepancy of €17,123 was encountered between pre-regional LES Debtors, as illustrated in the report extracted

from LOQUS system as at 31 December 2012, and the amount recorded in the books of account. Furthermore, testing carried out on income earned from Regional Committees revealed that this was overstated by €4,622. This balance related to income earned during the year under review, in view of pending amounts pertaining to the pre-regional period. These errors were rectified through audit adjustments approved by the Council. An additional adjustment of €13,064 was also made to correct misstatements in the Provision for Doubtful Debts.

The pre-regional report (report no.483) that was printed from the system seems not to be to LGA's satisfaction. LGA should recommend the appropriate report which should be printed to eliminate such differences in the future. Furthermore, adjustments proposed by LGA with regard to LES Debtors have been accepted by the Council and were included in the audited Financial Statements.

Included with deferred expenditure is an amount of €14,029, relating to initial costs incurred up to 31 December 2012 on two separate projects, out of which the balance of €6,175 was incurred during 2011. The Executive Secretary claimed that the projects would only be continued if the Council manages to obtain additional funds. However, although the Council is doing its utmost to get the necessary funds, it is quite improbable that such funds will be collected.

The Council is paying the fees with regard to the Child Care Centre and 'Sir Alexander Ball Garden' as a global sum separated into five payments. Payments have also been made with regard to the shelters under the 'Church Square'. In addition, the Executive Secretary would like to point out that the Council has no control over the receiving of Grants it had applied for. The latter is adamant that these projects take place.

The Council did not request monthly statements from suppliers. Consequently, besides being in breach of the relevant Procedures, the Council's creditors were not properly recorded in the books of account.

The Council will not tolerate suppliers' inefficiency in providing statements.

The Accrual's List provided by the Council for audit purposes did not reconcile to the accrued expenditure as recorded in the Nominal Ledger and Financial Statements, by €1,526 and €157 respectively. In addition, an unpaid amount of €1,180 covering invoices issued during 2011, and the balance of €2,025 due to IRD, were both recorded as accrued expenditure rather than disclosed with creditors. Accrued expenditure relating to water and electricity was also overprovided for, by the amount of €5,761. The necessary adjustments and reclassifications were approved by the Council and reflected in the Financial Statements.

LGA's recommendations were noted and the proposed adjustments were approved.

During a Council meeting held on 12 September 2012, the Council approved a payment of €2,248 to a particular contractor. The only information available in the respective minutes was that this related to 2005. The contractor has simply submitted a request for payment. Thus, in the absence of a proper invoice it could not be ascertained that the works were actually carried out. Moreover, no accrual or creditor relating to this amount was recorded in the books of account in the preceding years. Hence, LGA was unable to ascertain the validity of such payment.

The Council accepted to pay, after the ex-Mayor insisted that this contractor was not paid. The ex-Mayor reported that this payment had been held back after one of the preceding Executive Secretaries was found to be taking Council money, and the previous request for payment was made around the time when this trouble started to brew, and consequently it was not paid.

A discrepancy of €32,946 was encountered between Capital Commitments, as disclosed in the Financial Statements (€57,946), and those included in the Council's Budget for 2013 (€25,000) as approved by the Council.

Point not addressed.

During the year under review, the amount of €1,422 in the form of donations were paid out of the Council's funds. This included hampers for old people of €731, trophies amounting to €510, procurement of toys for a children's party totalling

€134, and a cash payment of €47 to the football nursery.

The hampers and toys are gifts given during the end-of-year for the locality celebrations held for youths and elderly alike. These are items bought by the Council and in no way could this be classified as a donation. As regard the trophies, these are handed out after certain activities that the Council holds. These vary from wine competitions to penalty shoot-outs. Once again, the Council rightfully purchases these items. With regard to the football nursery donations, it was stated during the audit that the football nursery held an event in which they donated money to a charity. The latter approached the Council to hand over a cheque and they paid the money in cash. The Council has always strictly abided to the rule of not donating or accepting donations of any kind. In fact, when a proposal was made to participate in the President's run, the Council decided to provide transport to the village residents who were willing to participate. The Council only did this after it had asked DLG to clarify whether this was allowed or whether it is classified as a donation, to which the latter answered that it is one donation they would approve.

San Ġiljan

During the year under review, the Council incurred an amount of €18,534 in respect of 'Festa Lapsi'. Out of this amount, €11,718 was paid to a private entity for the organisation of such activity. However, despite that the amount paid merited a call for tender, it was only covered by a call for quotations. Furthermore, income generated from such activity totalled only €11,650, thus resulting in a net loss of €6,884. Moreover, despite LGA's prior year's recommendation, no clarification was sought by the Council from DLG, as to whether such event falls under Memo 8/2011. During audit testing, LGA was informed that a tender was issued in November 2012, in respect of the activity for 2013.

'Festa Lapsi' has nothing to do with the locality day. This was organised under another Scheme in line with Memo 65/2011 issued by DLG. The Council was not given the full amount so it had to pay the difference. It should be noted that the Council did not exceed the 5% of the allocation for activities covered under Memo 8/2011.

A call for interest was published, but only one of the three interested parties submitted a quote. By this time it was too late to issue a call for tenders. Therefore, a call for tenders was issued for the coming year, so that the procedures will surely be adhered to.

Travelling expenses of €8,000 incurred by the Council, on behalf of the Mayor and the Executive Secretary who travelled to Ireland for European Cities against Drugs conference, and to Riccione in Italy, could not be validated as the relevant post travel reports were not provided.

Documents requested by LGA in respect of 'ECAD' conference were forwarded by the Executive Secretary. The workings of travel expenses, which are in line with MFEI Circular Nos. 4/2012 and 5/2012, were also forwarded to LGA.

Notwithstanding prior years' recommendations, the Council still provided the Executive Secretary with fixed amounts, of approximately €186 for the use of the latter's personal mobile for Council purposes.

The amount of €93 per quarter was never received by the Executive Secretary as reimbursement. As stated in previous years, the reimbursement of expenses to the Executive Secretary is approved by the Council.

During the preceding year, the Council qualified for two Grants of €58,945 and €30,911, relating to PPP Scheme and UIF funds respectively. By the end of the current year, the 'UIF' project was not completed, whilst only one road out of 15 was completed from the PPP Scheme. LGA was informed that although the contractor should have finished the road works by the end of 2012, the latter refused to continue the resurfacing works on the other 14 roads, on the basis that the costs of materials used were much higher than the amount quoted on the tender. The contractor requested the revision of the tendered amount, however the Council declined such request. Notwithstanding this, the Executive Secretary claimed that in a meeting held on 26 February 2013, the Council decided to reconsider whether the contract should be terminated. In view of this, an adjustment to release a portion of the Grant, based on the proportion of the total cost of the project, was proposed by LGA. An additional adjustment of

€8,585 was passed to reverse the portion of Grants receivable on these projects, which Grants the Council had incorrectly released to the Statement of Comprehensive Income. These adjustments were incorporated in the final set of Financial Statements.

The adjustments proposed by LGA in respect of the release of income from Grants were carried out and were incorporated in the final set of the Financial Statements.

The contract for the construction of a ramp for ease of accessibility to the quay covered by UIF Grants referred to in the previous observation, was not made available for audit purposes since this was missing. LGA was unable to determine the date when the contract was entered into and its duration. Furthermore, the service provider failed to submit the Performance Bond on time. The amount expended by the Council in this respect totalled €23,800.

The contract was issued after MEPA issued the permit for the Accessibility of the Quay. This was signed in March 2013. The contractor did not provide the Performance Bond when requested because the Architect had to resubmit plans to MEPA.

Part of a Grant, received with respect to the 'Housing Estate' project, was amortised in the Statement of Comprehensive Income. However, since the respective grant does not relate to the Council's capital assets, such income should be transferred to the Statement of Comprehensive Income, against the respective total cost incurred amounting to €55,716. In view of this, the Council approved the necessary audit adjustments and amended the Financial Statements accordingly.

Furthermore, since expenses relating to the maintenance of the housing estate, amounting to €3,520, were incorrectly recorded with street pavements, a reclassification adjustment was passed to recognise the said expense under the correct Nominal Account.

The necessary reversals, reclassifications and adjustments, have been made in accordance with the audit adjustments and recommendations made by LGA.

During one of its meetings, the Council approved to withdraw from the project on the Balluta Accessibility Scheme, amounting to €10,000. Although the amount received (€5,000) was correctly reversed, the remaining balance of €5,000 was still recorded as accrued income, whilst the Bank Guarantee of €5,000 issued in this respect was not cancelled. The necessary audit adjustments were reflected in the final set of Financial Statements.

The amount referred to by LGA was accounted before 2010 when Government Grants were treated on the Capital Cost basis. The Executive Secretary identified how this was recorded by the previous Accountant and agreed immediately that the adjustment was necessary.

Included in Trade Receivables is a long outstanding debtor of €1,623 from a private company, which balance has been due for over two years. Furthermore, an amount receivable from another debtor, as recorded in the books of account, was understated by €3,828, resulting from a receipt of €2,520 incorrectly recorded against the Debtor's balance, and an invoice, amounting to €1,308 which was completely omitted from the accounting records. The Financial Statements were corrected through the audit adjustments proposed by LGA.

A further discrepancy of €245 was noted between invoices issued by the Council to the Central Regional Committee and the amount receivable by the latter, as disclosed in the Financial Statements. On the other hand, the cost of air tickets (€1,245), procured on behalf of the Mayor in respect of his visit to China in January 2013, was treated as an expense for the current year, rather than accounted for as a prepayment. No adjustments were proposed by LGA in respect of the last two issues, as the amounts involved were deemed as immaterial.

The Council will look into the recoverability of the amount due by the entity, whilst it will also decide whether this amount should be written off as a Bad Debt. Furthermore, the adjustments recommended by LGA were made in the Financial Statements. The Council will also carry out a Debtors' reconciliation on a regular basis to ensure that these are recorded correctly. Additional recommendations made by LGA have been noted and further attention to similar matters will be given in the future.

Disclosed with Current Liabilities under Accounts Payable in the Financial Statements is an amount of €24,551 which is due to Capital Creditors, out of which the balance of €13,749 is payable after more than one year.

Point not properly addressed.

A review of the minutes revealed that the Council unanimously approved to allocate between €500 and €700, to provide refreshments to the two local band clubs and their committees during the locality feast period.

The expenses mentioned were not given as donations, but the Council premises was open for drinks for the band clubs during the local feast to give the Council and the band members a chance to meet.

Capital Commitments as disclosed in the unaudited Financial Statements were understated by €7,560 when compared to those recorded in the approved Budget. The difference related to the repayment of a loan, which balance should not be included with Capital Commitments. Notwithstanding this, rather than amending the Budget, the Council incorrectly adjusted the Capital Commitments note in the final set of Financial Statements, to include the aforementioned amount.

The loan repayment was included with Capital Commitments as this relates to the property.

San Ġwann

Up to the audit date, the Council had not compiled a FAR that agrees to the Nominal Ledger. In fact, a discrepancy of €81,026 was noted between NBV in the Nominal Ledger (€579,890), and that disclosed in the Financial Statements (€498,864).

The Council is doing its utmost to find another supplier to compile the Council's FAR, which exercise will be finalised during 2013. Following LGA's recommendation, prior to the presentation of the final set of Financial Statements, the Council has adjusted the differences between the Fixed Assets categories in the Nominal Ledger and those in the Fixed Assets Schedule.

In the absence of a FAR, the Council is computing depreciation manually rather than using the

respective tool in the accounting package. Besides that, depreciation is being calculated annually instead of *pro rata* according to the actual date of capitalisation. This led to a difference of €2,569, from the calculation carried out by LGA. Notwithstanding that this shortcoming had already been highlighted in the previous year's Management Letter, the Council still continued to charge depreciation on an annual basis.

LGA's comments were noted.

The cost of €5,179 relating to 'Kappara Garden' project was inadvertently expensed during the year under review. Furthermore, in April 2012 the Council refunded back the unused portion (€1,321) of the Grant received (€6,500) in relation to such project. Besides that the accounting entries passed to record this transaction were incorrect, the Council also failed to release a portion of the respective Grant to the Statement of Comprehensive Income. These errors were rectified through audit adjustments proposed by LGA, which the Council approved and correctly recorded in the audited Financial Statements.

Adjustments proposed by LGA were incorporated in the books of account.

The disposal of an obsolete computer, in respect of which the Council received a cheque payment of €20 from a third party, was not recorded in the books of account. As LGA was not provided with the necessary information regarding the cost and accumulated depreciation of this asset, no audit adjustments could be proposed.

The obsolete computer was sold following an open call for disposal. The only enquirer offered €20, which bid was accepted by the Council.

During the year under review, the Council qualified for two Grants of €75,000 and €4,241, relating to 'Awrikarja' project and Accessibility Scheme respectively. Despite that these projects were completed during the same year, the Council failed to release part of the Grants in Deferred Income to the Statement of Comprehensive Income. Likewise, the amount of €6,000, received from Government as a reimbursement for the costs of attendance on 'Masgar Leopoldu Tabone', was still included as Deferred Income when this had

to be recognised as income. Due to these errors, Deferred Income was not properly apportioned into its short-term and long-term components. In both instances, the necessary audit adjustments were approved by the Council and correctly incorporated in the audited Financial Statements.

In addition, the Council incorrectly presented Grants relating to 'Awrikarja' and 'Masgar Leopoldu Tabone' projects under the Capital Approach.

The adjustments proposed by LGA have been incorporated in the books of account. Furthermore, all the other comments have been noted.

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, the Council provided financing for the Primary School to help to reduce illiteracy (€810), two contributions of €65 and €40 to voluntary organisations, as well as six trophies for animal blessings (€60). In addition, expenses (€43) incurred for hampers distributed to elderly people, were also borne by the Council.

The amount paid to the Primary School was not a donation but constituted a payment to teachers for an after school assistance programme organised by the Council to assist Primary School children. The funds given to a voluntary organisation were collected during an activity in 2011 and deposited in 2011 but were then donated to the foundation in 2012. Meanwhile, the balance given to the other voluntary organisation was a donation and this represented a topping up of the amount gathered by the Councillors. The trophies were given out to participants who participated in the activity organised by the Council.

A payment amounting to €418 was expensed by the Council, in respect of a Christmas dinner hosted by the Council. Since the number of persons attending to such activity totalled 13, this implies that the amount of €32.15 incurred *per capita* was higher than that specified in pertinent Memos issued by DLG, whereby it was stated that the Council can only spend €30 per person on a lunch/dinner.

Furthermore, the Council approved and incurred expenses of €3,604 in respect of the locality day.

This contravenes Memo 121/2011, which limits expenditure on locality day and staff lunches to €3,500 or 0.5% of annual Government allocation (€3,379), whichever is the higher.

The budget to be spent on the Christmas dinner for 15 persons, was €450. Two persons did not attend and thus the budget was still not exceeded as the amount of €418 was spent.

A shortfall of €2,269 was noted in the Mayor's honoraria as disclosed in the accounting records. Whilst part of the difference related to the Mayor's allowance of €1,280 (net of tax), which was incorrectly classified in Councillor's Allowance Account, no explanation was provided for the remaining discrepancy of €989.

The Council's Receivables at year-end still included amounts of €7,927 and €7,056 owed by WSC and another company with respect to recycled waste. These balances have been outstanding for more than two years. Testing carried out on Trade Debtors further revealed a discrepancy of €233 between the invoices issued to WSC and the books of account. This was mainly due to the fact that the Council did not prepare monthly reconciliations of its Debtors' balances.

The Council accepts LGA's recommendation and will make sure to review the recoverability of the amounts receivable.

At the end of the preceding reporting period, the Council had Accrued Income of €12,600, relating to reinstatement income due from WSC. Part of the aforementioned balance, amounting to €1,300 was received during the year under review, and was incorrectly recognised as income for the year rather than netted off against Accrued Income. Moreover, the administration fees charged to Regional Committees, as included in the accounting records, were overstated by €1,789, since the respective opening balance was not reversed accordingly. The necessary audit adjustments were approved by the Council.

Furthermore included with Accrued Income is the amount of €1,149, that was brought forward from the previous year. This related to part of the Grant receivable in view of the Pope's visit in 2011, and which had not yet been received by the Council. However, upon queries raised by LGA with the

Executive Secretary on the subject matter, the latter claimed that he was totally unaware of this amount.

The adjustments proposed by LGA have been incorporated in the books of account. All further comments have been noted.

Monthly statements were not being requested from all the Council's suppliers. This led to discrepancies between amounts recognised in the Financial Statements and the balances actually due to the respective service providers. For example, an instance was identified whereby a difference of €3,629 was noted between the Supplier Statement and the balance recorded in the Creditors' Control Account. This resulted from the fact that two invoices, amounting to €4,455, were not recorded in the books of account. Moreover, the Council had incorrectly included the audit adjustment proposed by LGA to account for these invoices, as €4,555 instead of €4,455 in the audited Financial Statements. The remaining difference of €826 was brought forward from previous years.

Upon reconciling the Supplier's Statement provided by ELC, a discrepancy of €2,823 was also encountered. Further testing revealed that two payments, totalling €5,033, were not recorded in the Supplier's Statement. In addition, an invoice of €266 was inadvertently recorded as €226. On the other hand, the resulting difference of €2,170 was brought forward from prior years.

Two balances of €839 and €459 payable to two service providers, and which have been outstanding for more than two years, were not settled by the end of the year. Moreover, included in the Creditors' List are debit balances of €151, which have been brought forward from the previous years. Meanwhile, an invoice of €216, covering the maintenance of the Council computers for the month of December, was not accounted for.

The Council agrees with LGA's comments and will carry out an in-depth exercise during the course of this financial year, to go through long outstanding Creditors' balances and adjust them accordingly.

Notwithstanding that the Council is disclosing Contingent Liabilities relating to court cases on two tenders issued in 2010, it has failed to disclose the amounts of such liabilities in order to

be covered for any claims from third parties for damages suffered.

The Council would like to remark that no financial liability exists with regard to these two tenders. The cases, which are still under appeal, refer to two tenders which the bidders are claiming that should have been awarded to them.

San Lawrenz

The Council exceeded the budgeted expenditure for Professional Services, as well as Community and Hospitality, by €25,920 and €6,850 respectively. Consequently, it ended the financial year with a loss of €7,227 despite predicting a surplus for the year of €3,291, after deducting capital expenditure.

The Council will endeavour to keep track of actual expenditure with budgeted expenditure and will, from time to time, revise the Budget accordingly, and reallocate funds from one budgeted expense to another in order to keep in line with the overall budgeted amount.

Notwithstanding that, as indicated by the Executive Secretary, the contract for the open skips service had expired, the Council was still using the services of that same supplier without renewing the agreement. LGA was given to understand that another call was not issued, due to the favourable rates charged by the current service providers. However, this still goes against the procurement regulations that the Council has to follow. Moreover, the latter could not trace the documentation relating to the original call for quotations for this service. The total amount invoiced for the services rendered between January and October 2012 amounted to €1,429.

The Council is aware that the said contract has expired and will discuss this further, taking into consideration LGA's recommendation. A new tender for the open-skips is to be launched in the coming weeks.

The amount of €12,744, paid to the Council's Lawyer during the year under review, was not covered by a call for tenders, although the said payment exceeded the tender limit. Moreover, invoices issued in this respect were addressed to the Council's members personally, rather than to

the Council, with the consequence that LGA was unable to confirm whether the said invoices were actually expenses of the Council. The invoices and related letters submitted by the Lawyer indicated that the latter was representing the members of the Council and the Executive Secretary who, in their personal capacity, are facing criminal charges in respect to allegations related to the issue of a tender. A qualified audit opinion was issued in this respect.

A tender was not issued for legal services since the Council agreed to contract a specific Lawyer as it needed the required services with urgency. The choice of the Lawyer was unanimously agreed upon during a Council meeting. Furthermore, the Council was not aware that the legal fees would rise to such an amount that would exceed the tender limit. The latter will consider LGA's recommendation on this matter for future cases.

Testing carried out on amounts incurred for the 'Culvert' project, which was finalised during 2012, revealed the following shortcomings:

- a. Although the contractor had not yet issued any invoices in respect of this project, the Council made part-payments against no documentation, in order to ensure that the former completes the works on time. Moreover, the amounts paid were not covered by a fiscal receipt.
- b. Only the part-payments that were effected during the year, amounting to €40,000, were capitalised. From the necessary audit verifications carried out, it transpired that after year-end another part-payment of €20,000 had been effected. This was then accounted for by means of an audit adjustment as proposed by LGA.
- c. The Bill of Quantities, as drawn up during the tender stage, showed that the total cost amounted to more than the total of these part-payments. The difference of €11,350 was accrued for through an audit adjustment and capitalised, since the actual total cost should have been equal to the amount tendered for.

Similarly, upon receipt of the Architect's report, relating to the works carried out till the end of the year with respect to Measure 323, it was noted that the Council failed to accrue for such works. Thus,

an audit adjustment of €33,012 was approved by the latter to recognise this transaction in its books of account.

With respect to the projects under 'Measure 323', the Council was instructed to pay a pre-financing payment of €117,716. However, the latter incorrectly capitalised such amount instead of treating it as an advance payment. Meanwhile, the bank receipts of €156,713 received in respect of this project were disclosed as income for the year, despite that by year-end only minor works had started. Thus, these funds do not relate to the year under review. Following LGA's recommendation, an adjustment was approved by the Council to reclassify the said amount to Prepayments, so that this will be eventually matched against the invoices issued by the supplier. Another adjustment was passed to reverse the income recognised during the year under review, from the Statement of Comprehensive Income to record it as Deferred Income.

It was also noted that costs relating to unfinished projects, such as the 'Panacea' project, which was completed in March 2013, were capitalised rather than classified as Assets under Construction. Moreover, expenses of a revenue nature, such as travel costs and professional expenses, which should have been written off to the Statement of Comprehensive Income, were capitalised instead. In addition, all the costs incurred were merged together and were recorded in FAR as one line item, implying that some of the assets might be depreciated at the wrong rate. Moreover, it was noted that funds of €79,027 received in relation to this project were fully recognised as income for the year rather than deferred for future periods. In view of this, audit adjustments were approved to reclassify the capital expense of €51,000 to Assets under Construction, whilst writing off expenses totalling €13,579 to the Statement of Comprehensive Income. An additional adjustment was made to reclassify income received as Deferred Income.

It was also noted that expenses of a revenue nature, such as restoration works, were being treated as a capital expense with the consequence that depreciation was charged thereon. An audit adjustment, amounting to €2,581, was approved to write off these expenses to the Statement of Comprehensive Income. Another adjustment of

€1,738 was posted to reverse the capitalisation of bank interest received during the previous years. This was erroneously capitalised by the Council, despite that the latter was instructed that this was to be refunded to the Department.

On the other hand, costs incurred with respect to services provided by an Architect, related to capitalised assets, were being written off directly in the Statement of Comprehensive Income. The necessary audit adjustments were passed to capitalise the amount of €9,399 that was paid out by the Council in this respect.

In view of the above points, the depreciation charge of €25,789, as calculated by the Council, was incorrect. Following an exercise carried out, and taking into account all the above points, the charge was adjusted by €8,340 for a final depreciation charge for the year of €17,449.

Furthermore, discrepancies were noted between amounts disclosed in FAR and those included in the Nominal Ledger and Financial Statements provided for audit purposes. Whilst the total accumulated depreciation in FAR amounted to €410,240, depreciation plus Grants in the Nominal Ledger totalled €482,386, thus resulting in a difference of €72,146 between the two documents. Meanwhile NBV in FAR also exceeds that disclosed in the Financial Statements by €72,148.

In future more attention will be given to the classification of assets and those items that classify as revenue expenditure. However, this is not always clear-cut and may be subject to interpretation. All recommendations and comments made by LGA have been noted and will be investigated further in order to ensure that the expenditure of the Council is treated in the correct manner. The audit adjustments recommended by LGA were all carried out and reflected in the audited Financial Statements, including those relating to Deferred Income. The FAR will also be reviewed following the audit adjustments made, so that this will agree with the Nominal Ledger. Prior to the audit, FAR and the Nominal Ledger were reconciled.

Through an agreement entered into by the Council during 2009, the latter was entitled to receive total funds of €3,750 in relation to a Co-Financial Scheme, titled 'Town for Citizens'. Whilst the Council had received fifty percent of the said

amount during the same year, up to the time of the audit the remaining balance of €1,875 was not yet received. Once again, during the year under review, the Council incorrectly recorded the amount still to be received as income, resulting in double accounting of Accrued Income. The necessary adjustments were made to reverse this transaction.

The amount received upon the release of a Bank Guarantee was recorded as income, rather than set-off against the amount receivable brought forward. An audit adjustment of €2,390 was passed to correct this error.

The necessary adjustments for the funds receivable under the various funding Schemes and the Bank Guarantee were accounted for as recommended by LGA.

Whilst going through the bank Nominal Accounts, it was noted that the Council holds a bank account which is used to deposit income received from services offered by the latter on behalf of MaltaPost p.l.c. As at year-end the balance of the said account, as per accounting records stood at €38,902. However, from the audit verifications carried out it transpired that payments forwarded to MaltaPost p.l.c. during the current year, amounting to €38,078, were incorrectly credited to the Income account. Following LGA's recommendation, the Council approved the necessary audit adjustments.

Furthermore, despite that by year-end all funds received in this respect were forwarded to MaltaPost p.l.c., the Council was still recognising the amount of €725 as payable to the former. Thus, an audit adjustment was passed against the bank book balance to reduce the variance in the bank reconciliation to €130.

The MaltaPost p.l.c. account will be accounted for in a more appropriate manner in order to reflect the current situation at all times. The audit adjustment was made and reflected in the audited Financial Statements.

The bank reconciliations provided for audit purposes, included a number of unrepresented cheques amounting to €3,704 which had become stale by year-end. It is evident that these cheques were not investigated by the Council. In fact,

further testing carried out by LGA revealed that a particular cheque relating to April's NI and FSS payments was cancelled and replaced by another cheque after the end of the financial year. However, the original cheque was not reversed and was still showing as being unrepresented.

The recommendation made by LGA regarding bank reconciliation statements has been noted and although this was done on a regular basis during the year, due to the high pressure of work at year-end, the discrepancy in the reconciliation was not found. This was resolved at a later date.

Accrued expenses at year-end were understated by €9,957. Additional variances of €3,813 were noticed in the Creditors' Balances, representing invoices issued during 2012, which were omitted from the books of account. Following LGA's recommendation, the Financial Statements were adjusted accordingly.

Opening accruals of €13,734 were not reversed despite that these were fully paid during the year under review. An audit adjustment was passed to reverse these amounts. Furthermore, it was noted that certain invoices relating to prior periods were recorded as current year's expenditure.

The points raised by LGA have been noted and will be looked into in further detail. In the future more attention will be given to these points raised by LGA in order to ensure that Accruals and Creditors are recorded correctly.

Disclosed under Accounts Payable is a supplier account named 'Events Creditors', in which the Council is posting previous year's adjustments relating to unaccounted accounts payable. Accounting for adjustments in such a way makes it difficult to trace the actual supplier and reconcile with any statements sent by the latter. Furthermore, such payable balances may be overseen and any payments to these service providers in the following years may be accounted for again as an expense. In fact, during the year under review, an audit adjustment amounting to €1,803 had to be made to set-off the payments against the opening accounts payable balances.

The recommendation made regarding the opening of individual supplier accounts has been noted. The account mentioned was opened to account

for the audit adjustments made in the previous year since the creditors could not be identified at the time. The intention was to reverse these creditors and enter the actual invoices when these were received. The adjustment recommended by LGA has been made and reflected in the audited Financial Statements.

Four instances were encountered whereby funds received in relation to specific projects or schemes started to be amortised during 2012, in spite of the fact that the respective project was not complete by period-end. An audit adjustment was passed to reverse the total amount of €33,215, which had been released to the Statement of Comprehensive Income.

Meanwhile, another case was noted whereby the amount of €5,172, received in relation to Eco Gozo Scheme, was fully recognised as income for the current year, notwithstanding that this project will be finalised during 2013. Furthermore, it was noted that erroneously this transaction was accounted for twice. These errors were rectified through the audit adjustments proposed by LGA.

Another two audit adjustments, totalling €11,708, were approved by the Council to record amortisation of funds received with respect to projects that were completed by year-end.

An additional audit adjustment of €3,419 was passed to reclassify unutilised funds from Deferred Income to Payables. In previous years, the Council was granted €6,000 worth of funds in relation to niche restoration, under the specific condition that any unutilised funds were to be refunded. The respective works were carried out during the year under review and the Council had incorrectly recognised the related cost of €2,581, as a capital expense. Consequently the respective Deferred Income was amortised on the Income Approach in line with the depreciation charge. However, since the expenditure was of a revenue nature, the release was increased by a further €2,008, by means of an audit adjustment. Another adjustment of €2,581 was passed to decrease the cost of assets and increase revenue expenditure by the same amount.

The recommendations made by LGA in respect of Deferred Income have been noted and further attention will be given to this matter in the future. The adjustments recommended by LGA have been made and reflected in the Financial Statements.

Included with income received was the amount of €3,810, in relation to funds received by the Council, for a tour that was to be held in January 2013. In fact, no expenses relating to the said tour were incurred during the year under review. In view of this, an audit adjustment was approved by the Council to recognise the said amount as Other Payables.

LGA's recommendations have been noted and further action will be taken to ensure that the matters mentioned are resolved. The audit adjustments have been made and reflected in the audited Financial Statements.

Upon calculation of FSI, it was noted that whilst the amount of cash received in the bank, which was restricted in use since the related projects had not yet started, totalled €469,020. However, the amount of Cash and Cash Equivalent as disclosed in the Statement of Financial Position at year-end amounted only to €429,598. This implies that the Council is using funds given for specific projects, to finance other activities.

Point not addressed.

From the audit sample tested it transpired that at the end of the year, the Council purchased small gifts, costing €389, which it distributed to the elderly.

All recommendations made by LGA have been noted and the necessary action will be taken by the Council.

San Pawl il-Baħar

Several instances, as illustrated in **Table 6** below, have been identified whereby procurement of goods and services was effected either through a direct order or under an expired contract.

Table 6:-Procurement not effected in line with Pertinent Regulations

Procurement	€	Remarks
Engineering services	70,825	Four-year contract expired in 2012.
Resurfacing of 'Triq Patri Ġuzeppi Calleja'	68,639	Three-year contract expired in 2012.
Road maintenance, patching and extensive patching	63,237	The respective four-year contracts expired in 2012.
Building and maintenance of footpaths	28,907	
Ramps for disabled people	11,294	By direct order.
Collection of bulky refuse	10,672	The Council had two other contracts in place, but for an unknown reason, it was hiring the service from another service provider.
Provision of Council's insurance	4,659	Four-year contract expired in 2012.
Cleaning and maintenance of parks and gardens	24,010	These were either not covered by a contract through a call for quotation/tender, or else if in place, these were not made available for audit purposes.
Printing of magazines	4,370	
Electrical and plumbing services	2,700	
Band musical services	2,690	
Printing and distribution of flyers	1,843	
Provision of pots and plants	1,458	
Provision of stationery items	1,310	

The Council has taken note of LGA's comments and suggestions.

The contract for the provision of road servicing, with a tender value of €113,928, was not signed. Furthermore, the Performance Guarantee in respect of this tender was not provided for audit purposes. During the year under review the Council was invoiced and paid the amount of €101,893, for such services.

The Council has taken note of LGA's comments and recommendations.

A variance of €642,104 was noted between Capital Commitments as recorded in the Financial Statements (€866,862), and those recognised in the annual Budget as approved by the Council (€224,758). It was noted that whilst the note to the Financial Statements disclosed the full commitment under the road resurfacing PPP Scheme which is committed over a period of eight years, the Budget included only commitments projected for 2013. Furthermore, a commitment of €132,270 relating to a playing field project was omitted from the Budget for 2013, since this has been approved but not yet contracted for.

The PPP Scheme provides for contractually stipulated payment terms over a period of eight years. In the Budget for 2013 only the current portion of this commitment has been included. However, 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. The commitment regarding a playing field project is to be financed out of the MEPA Urban Improvement Funds and not out of the Council's Government Allocation.

Certain expenditure incurred in 2012 exceeded the budgeted amount. This mainly related to Professional Services (€61,955), Repair and Upkeep expenses (€25,875), Community and Hospitality expenses (€17,985), Travel (€16,964), Materials and Supplies (€7,661), Office Services (€6,754), LES related expenditure (€4,308) and Utilities (€1,304).

Instances were also encountered whereby expenditure incurred, totalling €9,787, was not substantiated by an appropriate invoice. Furthermore, on three instances, the Payment Vouchers prepared in respect of expenditure, aggregating to €75,969, were not appropriately signed.

Point not addressed.

An analysis of the Personal Emoluments incurred during the period under review revealed that new employees engaged with the Council during the year were paid a salary on Scale 15 point 2, instead of the minimum of Scale 15. Another four employees were granted an increase in their salaries, from point 3 in 2011, to point 7 in 2012. Furthermore, no approval was sought during a Council meeting in respect of a promotion awarded to another employee. The latter was promoted from Scale 15 to Scale 13. In addition, the contract of employment of a new employee was not provided for audit purposes.

The promotion of an employee from Scale 15 to Scale 13, as well as the payment of salary on Salary Scale 15 point 2 to the new employees, is in line with the Collective Agreement. The Council approved the increase paid to employees. Moreover, the contracts of employment for all new employees are in place.

The FAR is not maintained in the appropriate manner as stipulated by the Local Councils (Financial) Procedures. New software that was procured during the year under review, for a total cost of €4,215, was incorrectly recorded in both the Financial Statements and FAR, as Computer Equipment instead of Computer Software. Meanwhile, additions with respect to street signs (€915) and litter bins (€708) were capitalised rather than expensed directly in the Statement of Comprehensive Income. Other instances were encountered whereby items in FAR were classified under the wrong asset category. Consequently, a considerable variance was noted between the depreciation charge as accounted for by the Council and the preliminary tests carried out by LGA.

A physical inspection on the assets recorded in books of account revealed that a particular laptop was not at the Council's premises, whilst another laptop held by an administrative clerk was not

listed in FAR. Moreover, the disposal of several Fixed Asset items, undertaken during the year under review, was not formally approved during a Council meeting. The only reference to such disposal was made during Council sitting number 18, where it was mentioned that there were some damaged or obsolete items that needed to be scrapped to save office space.

Following LGA's recommendation, street signs and litter bins will be written off in the Statement of Comprehensive Income in the future. The Public Access Terminal as the name implies is not a software but actually computer equipment.

In addition to the above, the Architect's certification was not provided to cover precast concrete works costing €28,455, which were commissioned by the Council in relation to the 'Thalassalejn Boċċi Club'.

Included with Receivables is an amount of €133,560 that was more than one year long overdue, out of which a balance of €104,112 was receivable from the WSC for reinstatement works. In addition, as per road reinstatement agreement with WSC, it is understood that the Council opted for reinstating the trenches with hot-rolled asphalt itself and then seek reimbursement of €50 per trench from the Corporation. Whilst the Council had invoiced the Corporation for the period January to July 2012, it failed to account for any estimates, on account of income receivable, covering the period August to December 2012, which in line with the information provided to LGA these approximated to €3,700. However, since no supporting documentation was provided in this respect, no audit adjustments were proposed.

Likewise, accrued expenditure at year-end was not completely accounted for, with the consequence that the provision provided for by the Council was understated by €11,826. Consequently, an audit adjustment was approved to include the appropriate amount in both the General Ledger and Financial Statements.

Points not addressed.

During 2012, following the issuance of an invoice for €1,700, covering amounts receivable for the period November and December 2011, the Council failed to adjust the provision of €4,320 that was recognised during the preceding year.

Thus, accrued income from reinstatement fees was overstated by €2,620.

Included with Accrued Income was the amount of €1,000, which the Council invoiced to MTA, in respect of the financial contribution towards 'Abba Tribute Concert'. However, this income should be receivable by 'Kumitat Festa San Pawl il-Baħar'. An adjustment of €1,000 was approved by the Council to reverse this transaction.

The Council adjusted accordingly its Financial Statements in this respect.

At the end of the financial year, the Council held inventories, which consisted mainly of books held for re-sale costing €7,972. Such stock was under-insured by €7,472, implying that the Council 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.

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 18 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 for 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 spaces to third parties, it should also 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.

Testing carried out on bank balances revealed that cheques were not being issued in a sequential order. Notwithstanding that the last cheque number issued during 2012 was 14417, a number of cheques numbered prior to this were neither cashed nor included in the unrepresented cheques list of the respective bank reconciliation.

Whilst going through the reconciliation provided for audit purposes, in respect of another bank account held with a local commercial bank, LGA noted that two automated transfers, totalling €8,900, dated 30 November and 31 December 2012 respectively were not reconciled. Furthermore, out of the amount of €10,479 in cheques that were included in the list of unrepresented cheques, €6,865 were eventually cashed by year-end. This also implies that no regular reconciliations were being carried out in respect of this current account.

Points not addressed.

Notwithstanding that a receipt of €29,500 from MTA, covering a reimbursement of Architect fees in connection with 'St. Paul's Bay Promenade Embellishment' project, was correctly posted as income, the corresponding expenditure was erroneously recorded in the same account, thus leaving the Financial Statements with a set-off effect. A reclassification adjustment was approved by the Council to correctly recognise the respective expenditure separately.

LGA's recommendation was noted and in future income will be recognised gross whilst the respective payments will be disclosed in the correct expense account.

The Council received income of €1,449 to cover the organisation of courses and €1,290 in relation to sports programmes, despite that both activities are not covered by a Bye-Law.

Income arising from the organisation of courses was under the Life Long Learning Scheme, whilst income from sports programmes was raised under another Scheme.

Expenditure incurred for the Christmas dinner organised by the Council for its members and staff, totalling 22, amounted to €795. This conflicts with Memo 8/2011 which stipulates that such expenditure should not exceed €30 per person. It is understood that partners and guests accompanied Councillors and staff for this activity. However, no reimbursements to cover the portion paid by the Council on behalf of guests were traced.

Point not properly addressed.

Despite that the Local Councils Act prohibits any kind of donations, the Council still provided gifts in kind, such as 70 Father's Day tokens costing €155, as well as trophies and medals for Malta Power Boat event totalling €320 and €330 respectively.

The Council has taken note of LGA's comments and suggestions.

Sannat

In May 2004, the Council entered into an agreement for the provision of contract management services covering a period of one year, with the option of renewing it for another two years. However, upon the expiration of the contract, the Council continued to renew the said agreement year by year, on the basis that certain projects, which fell under the responsibility of the said service provider, were still in progress. It was also noted that even new projects were given to the same supplier. The total amount invoiced by the respective service provider during the year under review amounted to €6,464.

The recommendation made by LGA regarding the Architect's contract was discussed by the Council and a decision was taken on how best to proceed. The Council issued a new call for the services of an Architect.

Testing carried out on Fixed Assets revealed that capital expenditure of €44,002 incurred on a project was completed by period-end, this was still disclosed under Assets under Construction. Thus, no depreciation was charged thereon. On the other hand, amounts of €39,361 paid out for a playing field that was still under construction by the end of the financial year, were capitalised. The necessary audit adjustments were approved by the Council and are incorporated in the final set of Financial Statements.

Several unpaid expenditure was not accrued for at year-end, and was only incorporated in the accounting records by means of an audit adjustment proposed by LGA. For example, no accrual was provided for the project relating to rubble walls, which works were completed by October 2012. The total cost of the project, also included works of a maintenance nature amounting to €36,203. This resulted in an understatement of €27,166 and €674

in capital expenditure and depreciation charge respectively, whilst revenue expenditure was understated by €9,036. Additional adjustments were passed to match income received through Grants, with the related costs incurred.

Similarly, the Council failed to recognise a provision for accrued capital expenditure in relation to two projects that were not yet finalised by the end of the reporting period. Consequently, Assets not yet Capitalised were understated by €64,197.

An additional audit adjustment of €1,042 was approved to account for contract management fees payable on such projects.

Although the total cost of PPE as disclosed in the Financial Statements agreed to the total cost in FAR, it was noted that some individual categories did not agree. A number of new additions acquired during the year under review, were not easily identifiable in FAR. Certain additions were also not properly categorised, with the consequence that the rate of depreciation applied was incorrect. LGA proposed a number of reclassifications to rectify the errors.

An amount of €196,327 (2011: €157,444), disclosed within PPE category Construction, related to works that were being carried out on the new Council premises, which project was only finalised late in May 2012. However, though in accordance with IAS 16, no depreciation should have been charged on these assets prior to the aforementioned date, depreciation was being calculated from the invoice dates. Consequently, both accumulated depreciation as well as the charge for the year are overstated by approximately €34,991 and €7,015 respectively. A qualified audit opinion was issued in this respect.

It also transpired that interest payable on the bank loan issued to finance the construction of the Council premises was directly expensed in the Statement of Comprehensive Income, rather than capitalised with the cost of the asset. The interest that should have been capitalised for this year only, amounted to around €2,050. Since this interest was never capitalised over the years, coupled up with the fact that no adjustments were passed to correct these errors, LGA had no other option than to issue a qualified audit opinion in this respect.

The FAR was updated during 2011. The categories will be reviewed in order to comply fully with the Nominal Ledger. The various points raised by LGA have been noted and further attention will be given to the recording of assets. The Council would like to point out that invoices received from suppliers at year-end are always recorded in the accounting records. Accruals have been taken for projects that were clearly completed by year-end, however, those which were not completed were estimated by the percentage of completion at this date and accrued for in the Financial Statements. Furthermore, audit adjustments recommended by LGA were made and reflected in the audited Financial Statements. Moreover, the recommendation made by LGA, regarding the capitalisation of interest has been noted and will be capitalised.

At year-end, the Council recognised total accrued income of €36,475, receivable from MEPA in relation to projects that had either not yet commenced or else were not completely finished. On the other hand, despite that works at 'Ras in-Newwiela' were completed by year-end, the Council failed to accrue for the funds granted by Central Government amounting to €14,678, in respect of this project. Following LGA's recommendation, the Council approved the necessary audit adjustments to correct these errors.

Whilst recommendations made by LGA regarding receivables have been noted, the proposed adjustments were made and reflected in the audited Financial Statements.

An accrued expense of €13,815, which has been outstanding since 2009, in respect of the provision of two hot-rolled asphalt works that were carried out at 'Triq il-Blat' and 'Triq Vincenzo Caruana', was not yet settled during the year under review. This is due to the fact that the service provider had breached the terms laid down in the Letter of Acceptance and the respective contract, whereby he carried out one of the jobs without seeking prior approval from the Council. Thus the payment was withheld.

The Council would like to point out that payments are never made to contractors until it is in possession of the Architect's certificate, as it is aware that once payment is made it is very difficult to get the contractor to correct the bad work.

The Paying Agency has not approved the payment to the Architect, for works on 'Tal-Bidwi Park' project, amounting to €7,670. This was due to the fact that the same Architect acted as Technical Consultant and project manager for the same project, which responsibilities were covered by a single tender, instead of two separate tenders. In view of this, the Council decided that this amount should not be accrued for, at least for now.

Point not addressed.

From the necessary audit verifications carried out, it transpired that the Council was not adhering to the requirements of IAS 20. Several items within the Deferred Income account were either amortised, despite that the respective assets were not yet completed, or were amortised for the whole year when eventually the related assets were ready during the year. Another instance was encountered whereby funds provided for the procurement of lamp-posts were amortised at the rate of 10% rather than 100% to match the depreciation charged thereon. Furthermore, a project, which was partly of a capital and partly of a revenue nature, was amortised incorrectly. The release of Deferred Income, to the Statement of Comprehensive Income, in relation to the revenue part of the project, was not taken into consideration, with the consequence that Deferred Income was overstated. Several audit adjustments were passed to correct the amortisation of the various items of Deferred Income.

An amount of €4,419 received as Government Grant was incorrectly accounted for as income for the year, when this should have been recorded as Deferred Income. Furthermore, instances were encountered whereby income was accounted for in the wrong Nominal Account. These errors were rectified through audit adjustments proposed by LGA.

The points raised by LGA regarding the various receipts of funds during the year have been noted. The proposed adjustments were made and are reflected in the audited Financial Statements.

Despite that the Council was predicting a deficit of €59,381, it has registered a surplus of €17,432, as reported in the Statement of Comprehensive Income. However, the Council still exceeded the budgeted expenditure for Professional Services

by €6,253, and Hospitality and Communitarian Services by €4,353.

The Council could adjust its Budget according to its actual expenditure. This was not done since the latter 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 years' Management Letters, 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 costs, whilst only 25% of the expenses will be incurred by the Sannat Local Council. However, no formal agreement was drawn up between the two Councils. A copy of the relevant documentation was also not retained by Sannat Local Council.

The project carried out in conjunction with Xewkija Local Council was eventually administered and paid by the latter since they received the funds. The Councils are drafting an agreement as recommended by LGA.

Santa Luċija

Whilst the annual Budget for 2013, as approved by the Council, indicates a capital expenditure of €1,800, Capital Commitments as disclosed in the Financial Statements, which includes road resurfacing works forming part of the PPP programme, amounted to €212,140.

Point not properly addressed.

During the year under review, the Council compiled FAR on a spreadsheet. However, whilst NBV as disclosed in the Trial Balance agreed in total to that recognised in the unaudited Financial Statements, differences were noted in NBV of different asset categories. With the aim of agreeing NBV of each asset category with that disclosed in FAR, the Council's Accountant proposed several adjustments, but which were not posted in the Nominal Ledger. Since LGA was not provided with an updated Trial Balance, the latter had no other option than to pass the adjustments proposed by the Council's Accountant.

An adjustment of €26,284, representing the cost of assets which were no longer in the Council's custody, was made in order to write off these assets. However, the list of eliminated items provided by the Executive Secretary amounted only to €21,393. No further explanations were provided for the resulting difference of €4,891.

Depreciation released on Construction Works and Special Programmes as disclosed in the Financial Statements is €1,526 higher than the released cost. Due to the lack of available information, LGA could not ascertain whether the difference is attributed to the release of Government Grants or otherwise.

Government Grants of €2,637 relating to Office and Computer Equipment were eliminated when posting the adjustments proposed by the Accountant to reconcile the Financial Statements with FAR.

As clearly stated in the Management Letter and as explained during the audit, the Council has carried out an extensive exercise to verify the physical existence of all assets in FAR. It was noted that no adjustments had ever been done by the previous Accountant to reconcile the Fixed Assets as per Nominal Ledger with FAR. The Council has decided that amounts as per FAR, which has been built up from actual suppliers' invoices throughout the year, should represent the actual cost and accumulated depreciation for each category of asset. Therefore, adjustments as presented to LGA were deemed necessary. The reason why these adjustments were not posted in the accounting system prior to the presentation of the final Trial Balance to LGA, was because it was deemed appropriate to discuss the matter with the latter and once LGA approved the adjustments, these were finalised and passed on to the latter to be included with the final list of adjustments.

Architects' fees and plate bearing tests incurred in connection with the public convenience project, as well as roads financed under the PPP Scheme, were erroneously expensed rather than recorded as capital expenditure. LGA proposed an adjustment of €5,717 and €246 respectively to capitalise such expenses and recognise depreciation on roads financed through the Scheme.

Similarly, Architects' fees amounting to €10,421, that were incurred up to 31 December 2012 in respect of architectural designs, submission of MEPA application, as well as the preparation of preliminary estimates for ERDF application, were also expensed in the Statement of Comprehensive Income. The Executive Secretary claimed that the Council is committed to implement the project. In fact it is doing its utmost to receive the funds to be able to start the project. However, it is uncertain whether these funds will be received. Thus, an adjustment was made to reclassify these expenses as deferred expenditure until the Council determines whether the project will be undertaken.

The Council has taken note of the adjustments proposed by LGA and these were duly reflected in the final audited Financial Statements.

In 2011, the Council qualified to receive Grants financed under the PPP Scheme, totalling €83,053, to cover the resurfacing of three roads. During the year under review, the Council debited Deferred Income and credited Other Government Income by €4,152, being 10% of the amount that the latter received in the preceding year. However, since only one road was completed and verified in July 2012, the Council should only have released to the Statement of Comprehensive Income, the amount of €1,381, representing 10% of the actual Grant received (€27,853) for such works. Following LGA's recommendation, the Council approved an adjustment of €2,771 to credit Deferred Income and debit Other Government Income with the excess amount.

The Council noted and approved the adjustments proposed by LGA regarding the recording of income received by the former under the PPP Scheme. The Financial Statements have been adjusted accordingly.

The Council is still not distinguishing between Accrued Income and Trade Debtors. As a result, the amounts of €6,602 and €5,280 receivable from WSC and a private company respectively, in respect of invoices raised during 2012, were accrued for, when these should have been included with Receivables. Furthermore, invoices issued to WSC were not in agreement to the official list of jobs indicated by WSC.

With reference to the amount due for the reinstatement of trenches for works carried out during 2009, 2010 and 2011, WSC has settled the amount due for the year 2009. The Council will continue to follow the matter until the Corporation settles the amounts due for part of the year 2010 and the year 2011 which are still pending. LGA's recommendation regarding the recording of invoices issued was noted.

When comparing the closing balances in the Financial Statements for the year ended 31 December 2011 with the opening balances in the Nominal Ledger, certain differences were noted between the two documents.

Any necessary adjustments have been posted as at 31 December 2012, so that balances in Financial Statements agree 100% with the extended Trial Balance. This included any reclassifications necessary in the opening balances of 2012 which previously had not been done. Therefore, for 2013, the Council has started with opening balances which agree with the audited Financial Statements of 2012.

Santa Venera

A difference of €29,708 was noted between Fixed Assets additions and disposals as included in the Fixed Asset Schedule in the Council's unaudited Financial Statements and those reported in the accounting records. Whilst the Fixed Assets Schedule disclosed additions of €87,417 and disposals of €2,329, the balances recorded in the books of account amounted to €117,125 and €30,037 respectively.

Point not addressed.

NBV of construction assets as per FAR is €3,105 higher than that in the accounting records. The difference in cost is due to a reversal of a capital accrual of €2,329 in the books of account, which was not reflected in the register. However, no explanation was provided for the discrepancy of €776 in the accumulated depreciation.

Note was taken and the necessary adjustments will be made as per LGA's recommendations.

The Council's approval for the procurement of two computers, a laptop and software costing €2,270 was not traced. Likewise the writing-off of accrued performance bonus amounting to €997 and accrued salary of €1,326, payable to the Executive Secretary and Agent Executive Secretary respectively, who both resigned during prior years, was not supported by the Council's approval.

It is the Council's responsibility to ensure that regulations are adhered to when Fixed Assets are procured. In view of this, the Council should keep a new file with copies of invoices pertaining to Fixed Assets bought during the financial year 2013.

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. Despite prior year's recommendation, a year later the Council had still not requested a cash refund and the said credit note is still included in the Financial Statements.

The Council shall follow LGA's recommendation and if possible it should request the service provider a cash refund to settle off the Credit Note of €4,720. If no agreement is reached, a legal advice will be sought.

An amount of €8,657 was incurred on WSC works in 'Triq Braille' which was resurfaced under the PPP Scheme during the year. However, the Council did not accrue for Grants eligible on this capital expenditure. Since no documentation confirming that the Council will receive any amounts in this respect was made available, no audit adjustments were proposed. Furthermore, whilst prepaid rent, as calculated by the Council, was understated by €791, no provision was made for accrued performance bonuses payable to the Executive Secretary and clerk, as well as utilities expenses, which as per estimate amounted to €3,838 and €1,394 respectively. Following LGA's recommendation, the Council approved the necessary audit adjustment to rectify the difference.

Certain details on the arrangements with the PPP contractors were provided to the Council after it had raised specific questions on the matter and after the Financial Statements were already submitted. Whilst the Council acknowledges that this might have a minor impact on its accounts, the Council's Accountants are now in a position to follow, monitor and do the necessary postings. All the other points have been noted.

The Council did not request monthly statements from all suppliers, and consequently regular reconciliations with Suppliers' Statements are not being carried out. As a result, significant misstatements in the Creditors' List, arising due to the lack of proper recording of transactions, remained undetected by the Council. In one case, invoices totalling €4,687 were completely omitted from the financial records, while in another instance, invoices amounting to €11,866 were posted under the wrong Creditor Account. These two errors were corrected through audit adjustments proposed by LGA.

Included in the amount payable to a particular service provider were two invoices of €989.45 and €988.63 respectively with the same reference number and date. However, it was noted that the actual invoice amounts to €988.63. These variances distort the total amount payable by the Council to its Creditors.

A total amount of €4,931 was reclassified to 'Other Debtors' in order to reverse debit balances in the Payables' List. Furthermore, testing carried out on another debit balance of €1,145, revealed that the invoice for the purchase of a CCTV camera, for which payment was effected during 2012, was not recorded in the books of account. An audit adjustment was approved to recognise the respective invoice and the related depreciation charge in the accounting records.

Included with Payables is an amount of €1,646 payable to 'Santa Venera Boççi Club'. This has been due since 2010, upon the closing down of the public convenience in the locality, after the Council made an allegation that the former was tampering with water and electricity of the public conveniences. All invoices pending as at that date had not yet been settled. In addition, instances were encountered whereby a number of other Creditors, totalling €999, have been outstanding for some years.

Despite that it is in the suppliers' interest to provide the Council with statements disclosing any outstanding balances, the latter will do its utmost and increase its efforts in obtaining Suppliers' Statements to reflect end-of-year balances. Furthermore, the Council will investigate any balances that have been due from previous years and a decision on the way forward will be taken.

The final set of Financial Statements failed to disclose a Contingent Liability of €3,007 in favour of third parties. On the other hand, despite that a Bank Guarantee of €1,260 issued in favour of MEPA was released on 5 June 2012, this was still included in the Council's draft Financial Statements. However, following LGA's recommendation, the Council amended the Financial Statements to remove such Contingent Liability.

The Council will be investigating the Contingent Liability in favour of third parties.

In the absence of the Financial Budget for 2013, LGA was unable to determine if the Council made full and proper disclosure of Capital Commitments. Furthermore, whilst Authorised Capital Commitments as per Financial Statements amounted to €122,172, the Council's minutes and tenders issued, indicate a much higher amount. For example a tender for the total amount of €550,000 was issued during 2012 with respect to the purchase of administration buildings. The said contract was then signed on 14 January 2013. Other Capital Commitments relating to PPP, which the Council is anticipating, totals around €600,000, out of which the amount of €63,000 was undertaken in 2012.

The Council's Accountants were not in a position to prepare a proper budget on time, since they were not given any form of handover from the previous Accountants. However, following discussions and meetings held with the Mayor and the Executive Secretary, the current Accountants managed to present a draft budget including Capital Commitments. In fact the latter drafted also separate workings with respect to Capital Commitments in relation to the resurfacing of various roads that fall under the PPP Scheme. Whilst it is understood that these projects will amount to a much higher amount than €122,172, this figure was based on the total amount that will

be paid over a period of four years as indicated by the Council.

Siggiewi

With regard to the supply of a pedestal for a monument, a difference of €2,031 (*i.e.* 32%) was noted between the original quote of €6,353 submitted by the winning bidder and the actual invoice of €8,384. There is no indication in the Council's minutes that such significant variation was approved by the Council.

Furthermore, trenching and cable works on the new monument costing €5,251 were contracted by direct order, despite that the amount involved merited a call for tenders.

The Council approved the payment of expenses amounting to €24,798. These were incurred on three social activities namely 'Wirja Agrarja' (€11,083), 'Mixgħela Salib tal-Għolja' (€8,177) and 'Festa Gheneb' (€5,538). Considering that in its reply to the previous Management Letter, the Council stated that 'Mixgħela Salib tal-Għolja' is not held during the locality day but is a separate cultural event, clarification in writing is to be sought from DLG as to whether the aforementioned events are governed by Memo 8/2011, which limits the cost of the locality day to €3,500 or 0.5% of the allocation, whichever is higher.

Points not addressed.

Notwithstanding prior year's recommendation, bills pertaining to the Executive Secretary's mobile phone were still being paid entirely by the Council, despite that these were not covered by an expense claim form. Thus, it could not be verified that the mobile was utilised for Council duties only. During the current year the amount of €704 was paid in this respect.

The Council took note of the points mentioned by LGA and will resolve the issue during 2013. The Executive Secretary will start preparing the expense claim forms and duly submit them for approval by the Council in accordance with Memo 7/2002.

In 2012, the Council paid the amount of €3,779 towards the 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 the previous years' Management Letters, LGA had recommended that the Council obtains approval from DLG for this Scheme, considering the substantial amount incurred for the benefit of the Councillors and employees. In its reply the Council had stated that it had 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. However, no written approval was traced in this regard.

Moreover, as highlighted in **Appendix J**, this Scheme was provided by direct order and is not supported by a minimum of three quotations as required by the applicable Procedures and Memos. In addition, the Council should also assess if the provision of the Health Insurance Scheme constitutes a fringe benefit under the Fringe Benefit Rules of the Income Tax Act.

As already stated in last year's reply to the Management Letter, following LGA's recommendation in 2011, the Executive Secretary contacted DLG, whereby he was advised that the Council should abide by Article 35 (4-5) of the Local Councils (Financial) Regulations. Thus, it is inappropriate to state that the Council did not contact DLG to obtain guidance or approval on this issue.

The Council did not keep proper records to support deposits made into the bank account. Consequently, LGA was unable to perform any procedures to ascertain that all income received was actually deposited. Thus, a qualified audit opinion was issued in this respect.

After last year's recommendation put forward by LGA, the Council started preparing bank deposit sheets, aimed at keeping record of what amounts have been deposited in the bank account. Regretfully, the former did not ask for these deposit sheets during the field work carried out and has assumed that these were not available. The Council's administration has taken note of this and will also ensure that such deposit sheets are provided to LGA in the next audit.

A discrepancy of €8,192 was noted between NBV as disclosed in FAR and that reported in the unaudited Financial Statements. Whilst NBV for Urban Improvement in FAR is understated by €155,206, that for Special Programmes and Office Furniture are overstated by €160,031 and €3,367 respectively, when compared to the books of account.

The Council has taken note of the discrepancies identified between FAR and the books of account and will investigate accordingly to reconcile any differences.

Included with the Fixed Assets additions for the year, are patching works amounting to €52,365. Since these works are of a maintenance nature, they do not meet the definition of a Fixed Asset and thus the Council agreed to expense the full amount.

The adjustment proposed by LGA has been incorporated in the books of account.

Under an initiative of LCA called 'egov4u', during the year under review, the Council received a contribution comprising the cost of a public access terminal amounting to €4,215, and a two-year maintenance agreement worth €785. Testing carried out revealed that this transaction was completely omitted from the accounting records and therefore the necessary audit adjustments were proposed to recognise the Grant, the asset and the depreciation charge thereon.

The adjustments proposed by LGA have been incorporated in the books of account.

As already reported in the preceding years, the Council has written off from the books of account, Fixed Assets having a book value of €271,887, through a prior year adjustment. However, the Council has still not provided a detailed list substantiating this write-off. Consequently, LGA could not ascertain 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.

Point not addressed.

The Financial Statements indicate that during the year under review, the Council disposed of

assets with a NBV of €7,944, comprising mainly of equipment, furniture as well as fittings in the old office. However, the respective approval for the disposal of these assets was not traced in the Council's minutes. In addition, this loss was incorrectly included in FAR, whilst in the unaudited Financial Statements the same loss was disclosed both under Administrative Expenses as well as in the Statement of Changes in Equity. These errors were then rectified in the final set of accounts.

On the other hand, the Council did not account for the disposal of two inverters of the photovoltaic system with an estimated cost of €3,682, which were reported as stolen. These inverters were replaced at a cost of €3,315, which was also capitalised with the carrying value of the photovoltaic system. Thus, the Council approved an adjustment to account for disposal of the stolen items and the loss of €1,602 incurred thereon. Up to the time of audit, the Council was still waiting for the police report to be concluded so that it can submit the claim to the insurance broker.

The Council discussed and approved the assets which were struck off from its books since these were fixed equipment, furniture and fittings, which were left in the property previously used as the Council's offices.

In the prior year's Management Letter, it was highlighted that the Council had accrued for capital expenditure of €440,983 on the Civic Centre. By the end of the current year, only the passenger elevator costing €22,800, as well as alterations and finishing of €250,431 were certified by the project manager. The remaining accrual of €167,752 was not certified because of variations from the tender agreement, which the contractor agreed to rectify.

Furthermore, only the balance of €372,122 was traced to tender agreements. The resulting balance of €68,861 relates to additional works over and above the contracted value, in respect of which no substantiating documentation was provided. As this capital expenditure was still not certified by the project manager, no audit assurance could be obtained to confirm the completeness and existence of the asset and corresponding liability. As a result, LGA had no option other than qualifying the audit opinion.

Moreover, besides that the assets making up this 'Civic Centre' project were not separately identified, these were not allocated under the appropriate asset category according to their nature.

The Council will address this matter. All other comments have been noted.

An increase of €1,055 in pre-regional LES Debtors was noted during the year under review. However, from the audit verifications carried out it transpired that this amount related to contraventions issued in Siggiewi during the current year and thus this amount is due to the Southern Regional Committee. Therefore, an audit adjustment was made to reverse this income against LES Debtors.

Meanwhile, the amount of €6,275 received in respect of pre-regional contraventions was incorrectly recorded as income rather than set-off against LES Debtors. This error was rectified through the approval of the necessary audit adjustments proposed by LGA. Furthermore, due to the lack of details of pre-regional contraventions paid during the year, such as issue date, LGA was unable to ascertain if the respective receipts related to LES Debtors for which a provision had been created in the past. Thus, it could not be determined if part of the Provision for Doubtful LES Debtors needed to be reversed at year-end.

A discrepancy of €828 was noted between LES Debtors in the revised accounting records and Tribunal Pending Payments as generated from the LOQUS system. This discrepancy was not reconciled.

Provision for LES Debtors was also understated by €5,865. This was adjusted by means of an audit adjustment that was approved by the Council.

These shortcomings indicate that the Council does not prepare a reconciliation between the LES reports generated from the IT system and actual cash received, Debtors outstanding at the end of the period, cash received on behalf of other Councils, and amounts owed to other Councils. Consequently, the necessary audit procedures to ascertain the existence and completeness of LES Debtors, and Creditors and the valuation of LES Debtors at 31 December 2012, could not be performed. Thus, a qualified audit opinion was issued in this respect.

Erroneously, the Council has increased the Provision for LES Debtors and recognised the amount received in respect of pre-regional committees as income during the current financial year. These shortcomings have been reversed following the audit adjustments proposed by LGA. All other comments were noted.

In the unaudited Financial Statements, no provision was made for Accrued Income of €12,350. This amount is receivable from WSC in view of re-instatement works carried out by the Council, on behalf of the former, during the year under review. This was only accounted for following LGA's recommendation.

Likewise, the Council failed to accrue for €5,055, which amount will be financed by DLG. The aforementioned balance represents 30% of the total cost (€16,850) incurred in respect of WSC civil works as part of the PPP resurfacing project that was carried out during 2012. An audit adjustment to accrue for these Grants receivable was incorporated in the final set of Financial Statements.

The related adjustments proposed by LGA to provide for the income from re-instatement works were approved by the Council.

Still included with 'Other Debtors' is an overpayment of €2,358 that was made to CIR in 2009. However, the FS5 submitted to the latter indicate that €1,389 was set-off during the current year. Thus, an audit adjustment to transfer this amount from Other Debtors to payroll expenditure was made in the books of account.

Disclosed in the Financial Statements there was also a refundable deposit of €1,165 placed with LES Joint Committee, despite that the latter ceased operations on 31 August 2011.

The balances mentioned in the Management Letter will be investigated. The books of account will be adjusted accordingly to remove any unrecoverable amounts.

The Council's accounts still included prepayments of €6,239 which were brought forward from the previous period, but which were not substantiated by any related documentation.

Furthermore, whilst the opening prepaid insurance of €2,582 was not reversed, prepayments in respect of the football ground rent and membership fee with 'Majjstral Action Group' were understated by €997 and €933 respectively. These errors were rectified through audit adjustments that were correctly incorporated in the final set of accounts.

Adjustments proposed by LGA were approved by the Council. The latter will further investigate the opening balances for prepayments brought forward and adjust accordingly in the books of account.

Monthly Suppliers' Statements to confirm year-end balances were not obtained from all service providers. This resulted in discrepancies between the amounts payable as recorded in the accounting records, and the balances disclosed in the respective statements. As an example, whilst an invoice of €510, for which payment was issued in July 2012, was completely omitted from the books of account, the Council erroneously recorded a contract management fee of €2,729 which was not due for payment. In another instance, the confirmation reply submitted by a supplier revealed that two Creditor balances at year-end were understated by €145 and €2,280 respectively. In addition, the amount of €20,520 paid to one of the contractors was recorded as Fixed Asset addition, despite that this was already accrued for during the prior year. The necessary audit adjustments prepared by LGA were approved by the Council.

LGA's recommendation was noted and the Council will make sure to obtain statements from the suppliers to confirm the year-end balances. Further remarks have been noted and will be looked into.

The Council was still unable to distinguish between Accruals and Trade Payables. The amount of €17,277 was included with Payables when the balance in question should have been accrued for, as this represented invoices that were issued after year-end. Such issue was already highlighted in prior year's Management Letter.

LGA's comments were noted and the Council will make sure that this fault will not be repeated.

Further testing revealed that only €11,584 of the €15,286 opening accruals was reversed.

Moreover, these were reversed against the wrong account, thus creating various discrepancies in expenditure. On the other hand, accrued Councillors' Allowances covering the period July to December 2012 were recorded net of tax, thus resulting in an understatement of €880. These errors were corrected by means of audit adjustments proposed by LGA.

The Council approved and posted the adjustments proposed by LGA. All other comments were noted.

The Creditors' List also included balances of €3,050 which have been outstanding for a number of years.

Since the Creditor in question has never sent the invoice to the Council, the latter never issued the payment. The Council will again contact the creditor and urge him to send the invoice in order to make the necessary payment for services rendered to date.

A cheque of €2,173 issued in January 2013 was recorded as paid on 31 December 2012. An audit adjustment was made to reclassify the said amount to Other Creditors, since this was still outstanding at year-end. Furthermore, LGA was unable to trace LES deposits of €542 in the Council's bank statements, to the books of account.

Following LGA's recommendation, the Council reversed the cheque, which has been recorded in 2012 in error. All other comments were noted.

No rental agreement was in place, in respect of a garage rented from a third party, covering the annual rent payable of €466.

Following LGA's recommendation, the Council decided to terminate the rent agreement.

Testing carried out revealed that income received was not classified under the correct category. For example, a partial refund of €4,226 of a penalty incurred in 2011, was recorded as Income from Central Government in the unaudited Financial Statements. Meanwhile, the receipt of €5,000 for the National Enterprise Award was classified with General Income. The related reclassifications were effected by the Council. The latter also approved an audit adjustment of €2,969 to correct the release of Deferred Grants to Income.

The Council accepted the recommendation put forward by LGA and has incorporated the audit adjustments and reclassifications proposed by LGA in the final set of Financial Statements.

Notwithstanding that as at year-end the Council was projecting total additional Capital Expenditure of €183,000, these were completely omitted from the Financial Statements.

LGA's comment was noted.

Long-term Payables totalling €25,330 were disclosed under Current Liabilities in the Financial Statements. No adjustments were undertaken by the Council to correct this error.

Most of the points mentioned in the Management Letter have been complied with in the final set of Financial Statements as approved by the Council. The latter will do its utmost in order to ensure that its Financial Statements will be in full compliance with IFRSs.

Sliema

Three instances were encountered, whereby payments totalling €15,165 were effected on expired contracts. The services provided related to the cleaning and maintenance of soft gardens, provision of road markings and signs and collection of mixed household waste. During 2012 the Council issued a new call for tenders for the provision of these services with the exception of the latter. The new agreements were then signed on 17 October 2012 and 5 February 2013 respectively. A call for tenders for the collection of mixed household waste was made in 2013. However, by the time of audit, this was not yet awarded.

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, road signs and maintenance of soft areas are considered fundamental and could not be terminated abruptly. In view of this, given that the current Council during 2012 has been 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 could be issued in due

course. In fact, by now, all referred contracts have been re-issued for a public call for tenders.

During the course of the audit, LGA was provided with the signed contract agreement signed by the contractual parties on 4 February 2013, in respect of construction works at 'Qui-si-Sana' that the Council commissioned during 2011, on behalf of Transport Malta (TM). The respective contract stipulates that the work carried out by the respective contractor and that was certified by TM amounted to €375,320. However, this is subject to remedial works totalling €89,571 which, as at audit date, were still being carried out by the contractor and thus were not yet certified. The contract also clarifies that an amount of €285,759 was paid to the contractor by a public limited company on behalf of the Council. However, the signed receipt from the contractor evidencing payment was dated 4 February 2013, thus implying that at year-end the Council still owed the contractor the said amount. The following shortcomings were also noted:

- a. At year-end the Council incorrectly omitted the amount of €285,759 from the Creditor's balance. This amount was incorporated in the books of account following an audit adjustment proposed by LGA.
- b. Notwithstanding that the remedial works, amounting to €89,571, were still ongoing after year-end, and thus had not yet been certified at balance sheet date, these were still capitalised and depreciation was charged thereon. The Council approved the necessary audit adjustments to reverse both the asset and the Creditor's balance. Furthermore, since depreciation on the remedial works was reversed, an additional adjustment to reverse the release of Grant from Deferred Income to Other Government Income, was also passed.
- c. The Council failed to account for the difference of €9,378¹⁴, that is to be forwarded from TM once the remedial works in 'Qui Si Sana' are conducted to its satisfaction. Following LGA's recommendation, the Council approved an adjustment to debit Accrued Income and credit Deferred Income by the respective amount.

The Council is not fully in agreement with this statement. The project in question was complete by the end of the current financial year and was already being utilised. Thus, its useful economic life had already started. The remedial works carried out by the contractor did not involve the Council into further financial commitments and therefore the value of the project could be measured reliably in terms of IAS 16. The amount of €89,571 has become eventually payable in the first few months of 2013. So, as a matter of prudence, the Council felt that the recognition presentation as originally approved could have been left as it is. Yet, in order to avoid an unnecessary qualification in its audit report, the Council has decided to take up the adjustments suggested by LGA. However, the Council agrees that the set-off adjustment should have been dated at the date of the agreement, that is 4 February 2013 and this is why even in this case it has taken up and approved LGA's suggested adjustments. Overall, these adjustments leave the financial position of the Council unchanged as it is just a matter of displacing one value from a financial period to another. Hopefully, the 'Qui-Si-Sana' saga has to date been concluded.

The Council's accounts still include long overdue Creditors' balances of €174,434, which were brought forward from previous accounting periods.

The Council feels that there is nothing to investigate about these balances. Its legal advisor states that in terms of the law the Council needs to wait until there are any moves or developments from either of the parties. In other cases, it is the contractor/supplier who is dragging its feet to come to terms with the Council on certain amounts due.

During 2011, the Council decided to reverse Creditor balances, amounting to €44,586, mainly due to the fact that these were either carried out without the approval of the Council, or the procurement procedure applied was not in line with standing regulations. However, it was noted that the Council failed to disclose any of the reversed amounts as disputed amounts in case the respective suppliers initiate Court proceedings to recover such balances.

¹⁴ This amounts to the difference between the total value of works (€375,320) as certified by TM and the grant of €365,942 approved to the Council.

LGA's comments are appreciated. Nonetheless, it should be ascertained that the Council has decided to write back these amounts payable with utmost due diligence after legal assistance was sought on this 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 or services were ordered by the Council, then the latter 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 is not in favour of disclosing a Contingent Liability note in the Financial Statements, since the amounts payable in question are not due by it. Nonetheless, it will still consider LGA's recommendations for next year's Financial Report.

The amount of €18,000, payable to a contractor for works carried out on the footpaths of 'St. Helen Street', had been reversed and deducted from the Creditor's balance and Assets under Construction during the year under review, as the Council's Accountant believes that this amount had been erroneously included in the books of account during preceding years. The latter claimed that the amount of €16,554, which was recorded during 2010, reflects the true value of the works performed. An additional amount of €2,416 was also reversed from Assets under Construction and Accrued Expenditure, due to the fact that the extra work claimed was carried out during the installation of the photovoltaic panels, and was not approved by the Council. However, since an Architect's certification of the value of the works carried out, and/or supporting documentation backing up this reversal were not made available, LGA was unable to ascertain whether the amounts disclosed in the Council's Financial Statements are not materially misstated. In view of this a qualified audit opinion was issued.

This is an unfair comment for the Council since it has been chasing its Architect for certifications for a number of years. The Council will be discussing with the Architect why the certifications for this project are taking so long to be produced and finalised. From a financial recognition and disclosure point of view, the Council believes

that this is temporarily beyond control until it solves the problem with its Architect. The Council regrets that it had its audit report qualified due to negligence by third parties. It will also be conducting a reconciliatory meeting with the contractor which carried out the infrastructural works for this project to ensure that the outstanding balance is fully and finally settled. As regard the capital expenditure of €2,416 written-off, the Council feels it was justified in its action because truly the supplier was not authorised to carry out these extra works. Yet, it will take legal advice to determine whether this amount should be disclosed as a Contingent Liability or not.

During 2012, the Council reclassified several assets, amounting to €483,566, from Assets under Construction to their respective class of assets. Included with these reclassifications is an amount of €5,310 representing mobilisation works carried out on 'Sir George Borg Street' during 2010. Notwithstanding that this expenditure was originally incurred by the Council in prior years, it is not backed up by an Architect's certification.

The mobilisation works in 'Sir George Borg Street' as mentioned in LGA's Management Letter, were carried out early in 2010. The Council feels that it is not to be blamed for any administrative blunders carried out at the time and for which it was not responsible. Despite these limitations, the Council has made effort to obtain information on the issue but which information is not reliable enough to publish in this official reply. It is the Council's policy that no expenditure is paid unless backed up by an Architect's certification.

For the second consecutive year, the Council accrued the amount of €3,000 in respect of legal services rendered during 2011, which expense is not supported by any documentation, but only by verbal confirmation.

The Council has chased its legal advisor hundreds of times for her bills. It will be making further attempts in the coming months.

During the year under review, the total amount of €3,480 was advanced to three local band clubs. However, since these institutions organised activities in collaboration with the Council, it is unclear as to whether the said payments

were made in the form of a donation or not. Furthermore, the amount of €1,165 paid out to one of the aforementioned bands, namely 'Soċjeta Filarmonika Stella Maris', was posted twice in the books of account. The Council approved an adjustment to decrease both Creditors and the related expenditure by the foregoing amount.

Regretfully, the Council feels that LGA have misinterpreted these payments. These are absolutely not donations but payment for musical concerts carried out by the Council in collaboration with local talented band clubs during the summer months. So the term 'donations' in this respect tends to be incorrect. By the term 'donation' the Council understands a payment of money without getting anything in return. In the cases identified by LGA, the Council is getting a musical service in return for a payment, and thus this is not a donation. As regard the double payment, the Council notes the matter and as correctly stated by LGA, an adjustment was approved accordingly to rectify the situation.

Swieqi

During the year under review, the Council paid the amount of €12,098 for the provision of Architect services. Despite the fact that the said amount exceeded the set procurement threshold, such services were still acquired by a direct order, rather than a call for tenders.

The Council would like to clarify that it has a contract with the respective individual who is the Council's Architect to provide such services as requested.

The Executive Secretary was reimbursed the amount of €666 in respect of fuel expenses incurred while carrying out Council's operations. Although a proper claim form is being raised to support such reimbursement, the Council did not maintain 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 which include date, location and destinations and kilometres covered for each trip. These are eventually totalled and multiplied with the prescribed rate per kilometre.

A discrepancy of €377,000 was noted between Capital Commitments as disclosed in the Financial Statements (€406,000) and those reported in the annual Budget for 2013 (€29,000) approved by the Council.

The discrepancy is due to the fact that the Budget was prepared earlier than the Financial Statements and due to uncertainty on some expenditure amounts. Furthermore, certain Capital Commitments that were not yet approved by the Council were omitted.

As already highlighted in the preceding year, the names and lists of the categories of assets in FAR do not reconcile to the respective Nominal Accounts. From samples analysed, it resulted that the category titled 'Construction Works', with cost value of €742,177, was not included in the General Ledger, when according to the official chart of accounts for Local Councils this should feature separately in another Nominal Account. In another instance, the categories titled 'Road Signs', 'Street Mirrors' and 'Traffic Signs', which in FAR have an aggregate cost value of €57,217, do not agree with the balance in the Nominal Account amounting to €55,070. This implies that FAR is not being maintained in the appropriate manner as stipulated by the Local Councils (Financial) Procedures. Furthermore, the description of assets in FAR is limited, besides that there is no common reference in the assets as disclosed in the latter document and the related transaction in the Nominal Ledger.

The Council would like to clarify that, in line with LGA's recommendations in the previous Management Letter, it has reviewed the categories in FAR and ensured that all categories are in line with the Council's Fixed Assets and depreciation policy. It might be the case that there are a few general items in FAR shown as different categories which in the Nominal Ledger would be grouped under one account. Obviously, such categories would be related and have the same depreciation policy. The Council is correctly using FAR Module for maintaining a proper FAR as per Local Councils (Financial) Procedures. In fact all assets are correctly inputted in FAR, depreciation correctly generated on a monthly basis according to the Council's depreciation policy and reconciled with the Nominal Ledger. Notwithstanding this,

the Council has noted LGA's comment and will make the necessary adjustments to FAR to improve the details contained therein.

Notwithstanding that two mobile phones, which had been acquired in 2002 for €604, were scrapped in 2010, the Council failed to reflect such disposal in both the FAR and the Financial Statements. Meanwhile, a new handrail costing €519 was recorded as Revenue Expenditure when this should have been accounted for as an item of Capital Expenditure. Following LGA's recommendation the Council approved to capitalise the cost of such item.

LGA's observation was noted and the Council will review FAR to assess whether any item has been disposed of and hence make the necessary adjustments. Furthermore, the Council would like to point out that the procurement of the handrail was a one-off case and such expense was treated as repairs.

During the preceding years, the Council reversed all Receivables covering LES contraventions, relating to the pre-pooling period, by means of a prior year adjustment. Two years later, the Council still did not adopt a proper accounting treatment to reinstate the amounts due, and provide a full provision for Doubtful Debts.

In this regard, the Council is applying the Prudence Concept as the possibility of recovering the said amounts is highly unlikely.

At year-end, the Council had a positive bank balance of €95,758 in its current bank account. However, no interest is receivable by the Council on positive balances running through this account. Hence, the latter is not maximising bank interest receivable which could be achieved by allocating the majority of funds in its e-saving account held with the same financial institution, and earning interest of 1% on the positive running balance. On a daily average balance of €100,000, the Council could potentially have received €1,000 more in annual interest. On the other hand, during the year under review, the Council incurred a final withholding tax of €76 on interest earned from its fixed bank account. In line with the Income Tax Act, the Council is exempt from tax and therefore the latter was not legally obliged to deduct withholding tax from its investment income.

The Council would like to confirm that it is currently keeping funds in the e-savings account and it is clearing cheque payments through an automatic transfer to the bank's current account. As regard the withholding tax, the Council became aware of such transaction during the preparation of the 2012 accounts, and it immediately instructed the bank to stop withholding tax on the fixed account.

Accruals as accounted for by the Council were not complete. In fact instances were encountered whereby accrued expenditure totalling €1,702 has been omitted from the accounting records. Furthermore, it was noted that invoices amounting to €1,143 remained unaccounted for, with the consequence that Trade Payables were understated by the same amount. Likewise, accrued income, receivable from the Regional Committees for the period January to December 2012, as recorded by the Council was understated by €503. An overstatement of €444 was also identified in the Pre-Regional Committee LES Income as disclosed in the Nominal Ledger. The Financial Statements were amended accordingly by means of an audit adjustment. In addition, included in the Creditors' List are three debit balances aggregating to €1,004.

It is the Council's practice to review invoices received after year-end so as to be in a position to account for the necessary accrued expenditure. However, since accounts have to be submitted in February, certain invoices would not have been received at the time of the accounts preparation.

An analysis of the payroll workings revealed a number of shortcomings. For example, the FSS and NI contributions deducted were not correctly calculated, in line with the relevant tax bracket rates and NI contribution rates as stipulated by the Income Tax Act and the Social Security Act. Furthermore, NI contributions were deducted on the basis of 52 weeks, despite that in 2012 these should have been deducted on the basis of 53 weeks. In addition, the calculation of arrears in respect of the new Collective Agreement were not worked out correctly, with the consequence that the amount paid to the Executive Secretary was understated by €395.

As from 2013, the Council will be using Technosoft Payroll Software which was installed and programmed according to the employee's scales and with the latest tax brackets as announced in the

last Budget. Hence payroll calculation has been automated and this will improve its calculation, reduce human errors and enhance reporting.

Ta' Xbiex

The contract covering the procurement of accountancy services at the rate of €767 per quarter, plus an additional fee of €472 for the preparation of the Financial Statements at year-end, was not signed.

The Council will ensure that all contracts will be signed in line with the Local Councils Tendering Procedures.

Discrepancies were noted between FAR and the accounting records. NBV of assets as recorded in the books of account is overstated by €154,614 when compared to the amounts disclosed in FAR which, contrary to the applicable regulations, is being maintained on a spreadsheet.

The Council accepts the recommendation put forward by LGA, and will ensure that FAR is maintained on a software package rather than on a spreadsheet. It will also be updated to reflect the Nominal Ledger as presented in the Financial Statements.

In addition, upon reconciling depreciation charge as recalculated by LGA with that disclosed in the books of account, a difference of €2,028 was encountered. This resulted from the fact that no depreciation was charged on Special Programmes, despite that as per LGA's calculation, the Council should have charged a depreciation of €2,603 on such assets. Moreover, the latter is computing depreciation using an annual basis instead of on a monthly basis. The necessary audit adjustment was approved by the Council.

The Council has adjusted the depreciation charge calculation according to the adjustment proposed by LGA.

During 2009 the Council bought four laptops for the price of €1,796, whilst another one costing €495 was procured in 2010. However, a request raised by LGA to physically inspect the respective laptops, revealed that these electronic devices were not in the Council's premises but with Councillors. Moreover, it was noted that the four

laptops procured in 2009 were no longer included in FAR.

During a past Council meeting it was agreed that the Councillors can take the laptops home with them so they could work from their premises.

Included in the Debtors' List are balances amounting to €89,390, making up 97% of Trade Debtors, which have been outstanding for more than two years. In respect of these Trade Debtors, the Council has provided a 50% Provision for Doubtful Debts. Likewise, disclosed under Other Creditors is the amount of €198 which has been due for many years.

LGA's recommendation was noted and the Council will provide for a provision for Doubtful Debts instead of netting-off the amount receivable from Trade Debtors.

The Council did not obtain a statement from almost all its suppliers, with the result that certain Creditors' balances were incorrect. For example, a cheque payment of €1,652 issued to a service provider was not recorded in the books of account.

The Council took note of the comments made by LGA, and will ensure to reconcile all the Creditors' balances, to the year-end statements provided by the suppliers, even for the trivial amounts identified during the audit.

It was also noted that two invoices totalling €1,239, which were received prior to year-end, were recorded with accrued expenditure rather than in the respective Creditor Account.

Comments and recommendations made by LGA were noted.

Capital Commitments disclosed in the unaudited Financial Statements, included an amount of €125,000 relating to the maintenance of Housing Estate blocks, despite that this is not part of the Council's assets. On the other hand, a tender for the supply and installation of a photovoltaic panel system for the total cost of €156,140, which was authorised by the Council but had not yet been contracted for, was completely omitted from the respective note. Following LGA's recommendation the Council amended the note accordingly.

Points mentioned in the Management Letter have been complied with in the final set of Financial Statements as approved by the Council members. The Council will do its utmost to ensure that its Financial Statements will be in full compliance with the IFRSs.

Tarxien

Upon the expiration of the contract for accountancy services, until the issue and awardance of a new offer, such services were procured through a direct order of €1,150 per quarter. It was also noted that whilst the letter of acceptance was issued on 28 May 2012, the Performance Guarantee is dated 25 June 2012, which is almost a month later. Furthermore, the new contract was dated 28 June 2012, despite that the respective service commenced four weeks before, *i.e.* on 1 June 2012.

During 2010, the Council issued and awarded a tender in relation to the PPP Scheme. However, the contractor informed the Council that he was not in a position to honour the respective commitments. Since the Council did not have a valid Performance Guarantee, it could not withhold such money from the contractor. The Performance Guarantee that was originally provided by the contractor, having a value of €5,823, expired on 7 July 2011.

The Council wanted to keep on using the service of an Architect even though the contract period had elapsed. A special agreement, with a value of €3,355, was made with the said Architect covering services being undertaken on a specific project.

The Council has noted all comments and it will ensure that in the future all tenders are in compliance with the Local Councils Tendering Procedures.

As already reported in the preceding years, 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 company, for the management and operation of a 5-a-side football ground in the locality, namely ‘Kunsill Lokali Tarxien’. 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. In the absence of an audited Annual Report as at 31 December 2012, LGA could not rely on the financial information as provided by the Council to obtain reasonable assurance on the amount of assets and liabilities recorded in this Joint Venture. Thus a qualified audit opinion was issued in this respect.

Comments have been noted and during the coming financial year, the Council will make sure that the agreement is revised accordingly after seeking proper legal advice.

As at year-end, the Council recognised 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 €86,738, implying that both LES Debtors and the respective provision for Doubtful Debts were understated by €17,217. Following LGA’s recommendation, the Financial Statements were adjusted accordingly.

LGA’s observation was noted and the Financial Statements were adjusted accordingly.

Testing carried out revealed that expenditure was not always supported by a Payment Voucher, proper invoice, and fiscal receipt in terms of the VAT Act. For example, four instances were encountered whereby expenses, totalling €42,061, were not covered by an invoice. In another three occasions, Payment Vouchers covering total expenditure of €5,202 were missing. Likewise, a Credit Note, amounting to €1,917, in respect of electrical installation labour was also not traced. It was also noted that two invoices, one dated 19 May 2011 and the other one dated 30 December 2011, were incorrectly accounted for during the year under review.

LGA’s comments were noted.

From an analysis of FAR, as prepared and maintained by the Council, it transpired that the Joint Venture sports equipment, bearing a total cost of €68,125¹⁵, was not included in the

register. It was also noted that the calculation of depreciation is not in line with the policy disclosed in the Financial Statements. In addition, litter bins were classified as capital expenditure instead of being accounted for on Replacement Basis. Some Office Equipment was included under the category of Plant and Machinery. Following LGA's recommendation, the Council approved an audit adjustment to re-allocate the amounts paid on litter bins to the Statement of Comprehensive Income.

LGA's comments were noted and the Council will undertake an exercise in 2013 to integrate the Joint Venture Fixed Assets into the Council's FAR. The comments on the depreciation rates used for street signs and litter bins were communicated to the Council and these were adjusted accordingly. However, the Council was not informed or asked to adjust the deprecation on trees. As regard the Computer Software, the Council does not agree with the amortisation rate indicated in the Management Letter. Whilst this rate does not emanate from the Local Councils Procedures, it is consistent to the Council's Accounting Policy for Computer Software as clearly stipulated in the Financial Statements. Comments made with respect to assets on Replacement Basis were noted and the Financial Statements were adjusted accordingly.

During a physical inspection, a discrepancy between the number of photocopiers listed in FAR and those actually available at the Council's premises was encountered. One of the photocopiers with a value of €2,213 was no longer in use and should have therefore been written off. Moreover, notwithstanding that part of the playing field equipment was removed during the year, no disposals were accounted for in the Financial Statements. As evidenced from the Council's minutes, the list of disposals was neither included nor approved during Council meetings.

LGA's observation was noted and the appropriate action was taken.

Three payments totalling €146,010, which were advanced to a particular contractor were not covered by a certification of works by the contract manager and/or by a professional Architect.

The Council has noted these points and it will ensure that in the future all works are certified before effecting payment.

Included in the Financial Statements are Capital Commitments of €287,398. Since the annual Budget for 2013 was not provided for audit purposes, LGA could not ascertain that such disclosure is correct.

The Council has noted LGA's comments and will ensure that in the future, it will abide by the recommendations made. Capital Commitments will be properly assessed and disclosed. A proper reconciliation will be provided to ensure that commitments as disclosed in the Council's Budget and Business Plan would be in line with those being disclosed in the Financial Statements.

Although bank reconciliations were carried out on a regular basis, the reconciliation report as at 31 December 2012 was not retained by the Council. Despite that the difference between the balance as per Ledger and the respective bank statement as at 31 December 2012 amounted to €8,963, as per reconciliation report provided for audit purposes, unrepresented cheques at year-end amounted only to €4,083, resulting in a discrepancy of €4,880.

Bank reconciliations are performed every month and reconciliation reports are printed accordingly. These were made available to LGA. The Council was not aware of this issue, which could have easily been clarified since a reconciliation detailing the difference of €8,963 is available at the Council premises.

Included in the Creditors' List is a balance of €2,183 in relation to the provision of Architect's services, which balance dates back to 2003. During the previous years, the Council claimed that this amount had been outstanding because the service provider passed away and his heirs never claimed the balance due. Then, during the preceding year, the Council stated that the balance is in dispute. However, during the year under review, LGA obtained a confirmation from the service provider that the balance payable amounts to €3,835 and this includes additional invoices dating between 1997 and 2004.

¹⁵ This represents the amount recorded in the PPE Schedule that was disclosed with the audited Financial Statements. However, in the absence of the Joint Venture audited Annual Report as at 31 December 2012, LGA could not obtain reasonable assurance on the cost of assets recorded in this Joint Venture.

The Council will be taking LGA's recommendation and will be seeing through its Creditors' List to ensure that all balances recognised as payable are appropriate.

As reported in previous years, the Council had recognised an amount of €2,899 as Other Payables. This balance consists of amounts overpaid to the Council related to Youth Exchange Programmes, amounting to €2,200. The remaining amount of €699, covers reimbursable amounts made during 2008 that were never claimed by the other party.

The Council has noted LGA's comments and will adjust as recommended.

The calculation of the Grant income released to the Statement of Comprehensive Income, amounting to €8,709, was not in accordance with the Income Approach as detailed in IAS 20. A qualified audit opinion was issued in this respect. Furthermore, although a number of roads were completed by year-end, no income was released to the Statement of Comprehensive Income in respect to the Grant received for such purpose.

The Council was not made aware during the course of the audit that LGA was not in agreement with Grant income released calculations and PPP. The Council only learned about this issue from the Management Letter and further clarifications were requested from LGA. The Council has rechecked its working and does not agree with differences raised by LGA, particularly for the Public Convenience Embellishment. LGA failed to take into consideration the fact that this particular project was completed in 2010, but the Grant was allocated in 2012. Therefore, during the current financial year, three years of depreciation were released from the Grant income.

The amount of €11,571, relating to contracts management fees, was incorrectly accounted for under General Income rather than netted-off against the cost of the respective assets. Thus, the necessary audit adjustments were approved by the Council to rectify this error. Furthermore, an analysis of the payroll workings revealed

that the amount of €3,840, that was refunded by the previous Mayor in view of the overpayment effected during the preceding years, was recorded as income rather than deducted from the Mayor's FS3.

It was also noted that included with Other Government Income are the balances of €4,500 and €1,000 receivable under 'EPOKA'¹⁶ and Cultural Activity Scheme respectively, both relating to 2011. On the other hand, accrued income of €466 receivable during 2012 in respect of the Library Scheme, was only recognised in the books of account through an audit adjustment.

LGA's observation was noted and the Council adjusted the Financial Statements accordingly.

Out of its funds, the Council financed the procurement of Poinsettias and 'Figolli' costing €90 and €263, which were given as gifts. The latter also provided a sponsor of €1,000 for the Passion Pageant.

The Council is very vigilant on these issues and has noted the respective comments made by LGA.

Valletta

The contract 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 terms and conditions of the expired contract. The amount of €3,316 was paid up to 19 July 2012, when the Council terminated the said lease agreement and issued a new tender for the purchase of a motor van.

The issue is now resolved as a new tender for the purchase of a motor van was issued in August 2012. The Council stopped using the van under the expired contract as from that date.

Instances were encountered whereby expenditure incurred, amounting to €25,321, was not covered by a purchase invoice, notwithstanding that, the said amount was recognised as a creditor.

Point not addressed.

¹⁶ This is an annual event that showcases the traditional Malta feast. This event which is held at the end of the feast season in September, gathers the most renowned feasts competing together with their best street decorations along with band marches and a mechanical ground fireworks competition.

The Council does not have a proper system of official receipts for income flowing in its favour. Furthermore, the Council is issuing its sales invoices manually, without maintaining a proper sequential invoice numbering. For example, on 21 February 2012, a sales invoice for €16,217 was issued to TM for Controlled Vehicular Access (CVA) fees, covering the period October 2010 to December 2012. Since the amount billed was not correct, a revised invoice of €25,817 was issued on the same day. It was noted that on both invoices the Council did not include any invoice number, and no Credit Note was issued to reverse the original invoice issued. Moreover, the Council only recorded the original invoice and no adjustment was made to reflect the amended invoice. The amount of €25,817 was eventually paid by TM during 2013. This indicates that there is no system in place to control and authorise the issuance of the sales invoices. Following LGA's recommendation, the Council has undertaken the necessary adjustments in its Financial Statements for the CVA income variance.

The Council aims to introduce LGA's recommendation of issuing a formal sales invoice when income is due and a fiscal receipt for all income received.

LGA was not provided with necessary certifications to be able to verify whether maintenance works, carried out on common areas in Government Housing Blocks, against which a Grant of €73,610 is being released to income at 10% *per annum*, are of a capital or revenue nature. Likewise, the Council failed to provide certification of road works claimed to be completed during 2012, and in respect of which the amount of €8,264 Deferred Income was released to the Statement of Comprehensive Income.

The Grant of €73,610 was used for the refurbishment of 'Mattia Preti Square', thus being of a capital nature and released to income over a period of 10 years. For capital projects finalised during the coming year the Council will do its utmost to obtain the required certification to determine the date of completion.

Included under Other Income is the amount of €13,061, out of which €7,700 relates to Other Government Income, whilst the remaining €5,361 represents contraventions income. These were

thus required to be shown under their respective heading. The necessary audit adjustments were passed to correctly reclassify the amounts in question.

In another case, a Journal Entry of €36,277 was passed at year-end, by debiting 'Cash to be Deposited' whilst crediting Other Income. No supporting documentation was presented to support this transaction, but LGA was given to understand that this was a write-off of the credit balance in the 'Cash to be Deposited' account.

Furthermore, in view of the fact that the information and evidence provided by the Council was not sufficient to ensure that Other Income (€36,278), Contraventions Income (€42,917) and Grants released to income (€88,036) are not materially misstated, a qualified audit opinion was issued in this respect.

More attention will given to classify income properly during the coming financial year. By introducing a proper sales invoice system, the Council hopes that all income transactions will be supported by proper invoices or documents.

The Council recognised an amount of €36,109 as contraventions income received from LES pre-regional fees. The balance of €7,615 was accounted for as receivable from other Local Councils in respect of tickets having the 'Place of incident' Valletta, but which were paid in other Local Councils. Meanwhile, the amount of €7,923 was recorded as receivable from LES fines paid online during November and December 2011. However, further testing revealed that a bank receipt of €7,352, which could relate to the aforementioned fines, was received on 6 February 2012. Since the Council failed to provide the relevant documentation supporting such balances, a qualified audit opinion was issued in this respect.

From the confirmations obtained from the South Eastern Regional Committee on the amounts due by the latter to the Council, it transpired that the amount of €3,380 as recorded in the Council's books of account was overstated by €1,603.

The Council noted LGA's recommendation to reconcile the amounts due from other Local Councils with the appropriate reports. In fact, during 2013, the Council is reconciling the

contraventions income to the LES system reports. Moreover, the Council will properly reconcile the balance with the South Eastern Regional Committee and adjust accordingly.

During the year under review the Council received a Grant of €25,000 for the 'Peacock Garden' project. An additional €25,000 for the same project was also accrued for at year-end. The full Grant of €50,000 was recognised as Deferred Income since the project was not yet capitalised. However, this was incorrectly recorded as a short-term liability. It was also noted that during the same year, out of the amount received, the Council refunded back to the Treasury the amount of €9,784. This sheds doubt on the recoverability of the remaining accrued income. Following LGA's recommendation, the Council approved the necessary audit adjustments to reverse accrued income of €25,000.

The Council accrued for an amount of €16,200 as CVA income for 2012, which balance was estimated on the original invoice issued for the preceding year. LGA's request for the report from the CVA computerised system, to substantiate the amount accrued, was not acceded to.

The Council expects the additional €25,000 for the 'Peacock Garden' project to be received in the future. Part of the Grant received is already being used to affect any payments related to the project. Despite this, the Council made the necessary adjustments proposed by LGA. The Accountant noticed the mistake that long-term payables were classified as short-term payables, after the Financial Statements were signed, and notified LGA to reclassify this amount. More attention will be given not to repeat such mistake.

Testing carried out on Trade Payables, totalling €358,604, revealed a significant number of misstatements arising out of the lack or proper accounting and recording of Payables, including accrued expenditure. The lack of proper Creditors' reconciliations also resulted in balances in the Creditors' List being misstated. In one case, the balance of a particular supplier was overstated by €7,248. In another case, although in the Schedule of Payments for September to December 2012 there were payments of €4,112 to a particular supplier, the respective cheques were not actually issued in 2012. Furthermore, the Council did not

provide any Creditors' reconciliations, statements, or evidence that balances totalling €13,989 shown as due to four different service providers, were actually payable as at year-end.

During the year under review, the Council has also written off Payables, amounting to €51,392, without a proper reconciliation with the Suppliers' Statements. Furthermore, no legal advice was sought in order to determine if the amounts written off were still legally due. Moreover, no reference was found in the Council's minutes for the approval of these write-offs from the Council's books.

In view of the above shortcomings, no reasonable assurance could be obtained that the Trade Payables recorded in the Financial Statements are not materially misstated. Thus, a qualified audit opinion was issued in this respect.

Statements are being received regularly from suppliers as the Council makes every effort to obtain statements from its suppliers. Those suppliers who submit their statements are regularly reconciled with the Council's records. However, not all suppliers have an efficient accounting system to provide a statement on a monthly basis. The Council cannot impose on a supplier to provide it with a statement, especially when transactions are isolated. The Council has also collaborated with LGA in preparing a request for confirmation to be sent to the suppliers selected by LGA.

Included in the Creditor's List as at 31 December 2012, is a debit balance of €10,780. Furthermore, accrued performance bonus for 2012 as recognised in the books of account was understated by €1,743. Hence, an audit adjustment was approved to correct this error.

The Council will do its utmost not to have such situation repeating itself.

Although it was agreed with the contractor for PPP projects, that the total due balances were to be paid over a period of eight years, the Council settled the full amount, with the detriment to its Cash Flow position and to the Financial Situation Indicator.

LGA did not note that PPP amounts were much higher than those budgeted.

It was noted that a number of payments amounting to €54,795, issued to suppliers whose Payment Vouchers indicate that these were approved during a particular Council meeting, were not included in the Schedule of Payments approved during the said meeting. Furthermore, four cheques totalling €8,000, that were issued to another supplier, were also not included in the Schedule of Payments. Another cheque of €300, issued in December 2012, was recorded in the Schedule of Payments approved in January 2013.

Point not addressed.

A FAR in relation to Fixed Assets acquired by the Council was not provided to LGA for audit purposes. 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 having a NBV of €1,077,140, as well as on the completeness of depreciation charged thereupon. Furthermore, the depreciation and amortisation, totalling €76,461, were not calculated and posted through the accounting software on a monthly basis as required by the Financial Procedures. It was also noted that the depreciation charged on computer equipment was not in line with the Council's Accounting Policy. A qualified audit opinion was therefore issued in this respect.

In addition, upon comparing the PPE categories as per Financial Statements with those recorded in the Nominal Ledger, certain differences were identified. Although, the net effect of these variances is nil, the Council is to ensure that all categories are allocated against the proper cost of assets in the Financial Statements and in line with the Accounting Policy of the Council.

This matter is being given its importance and FAR should be updated during the coming year. Since FAR is not updated, an accurate depreciation charge could not be calculated. This matter will be resolved as soon as FAR is updated. The necessary adjustments will also be effected in the Nominal Ledger to ensure that Fixed Assets are properly allocated.

The Council has failed to record the procurement of bollards worth €33,040, that were acquired in

December 2012. This transaction as well as the related depreciation were recognised by means of an audit adjustment as proposed by LGA.

Invoices were received after the Financial Statements were prepared. The Council informed LGA about these invoices and approved the necessary adjustments in order not to give misleading information to the users of the Financial Statements.

As noted from the Council's minutes of meeting 65, the Council agreed to provide the Council's hall free of charge to a local club in order to organise an activity.

Whenever the Council gave the Council Hall free of charge, it was always agreed during the Council meetings.

From the bank certificates provided for audit purposes, it transpired that the former Executive Secretary as well as the former Mayor were still listed as bank representatives of the Council for a particular bank account.

The bank will be informed accordingly.

Contingent Liabilities covering two Garnishee Orders amounting to €11,544, and other claims filed by a number of suppliers against the Council, totalling €40,875, were only disclosed in the Financial Statements following LGA's recommendation.

The Council has undertaken the necessary adjustments to appropriately disclose all Contingent Liabilities.

Xaghra

No tender was issued for the provision of architectural services, amounting to €16,225. The Council confirmed that it has always used the same Architect, and no tender has ever been issued in this respect.

Point not addressed.

Notwithstanding that the 'Belvedere' project was fully completed in January 2012, the related costs, amounting to €59,040, remained classified

as Assets under Construction. Hence, no depreciation was charged thereon. The same issue arose with respect to architect fees charged during the year, amounting to €9,554. Furthermore, upon reconciling the respective Bill of Quantities issued by the Architect, with the amounts capitalised, it was noted that several expenses relating to this project were not accounted for. Thus, an audit adjustment amounting to €421 was passed to ensure that all relevant costs have been recorded.

The necessary adjustment was made to show the 'Belvedere' project as a completed project and the depreciation on this asset was posted.

The Council failed to account for several works carried out in relation to PPP resurfacing. For example, the 5% contract management fee, amounting to €5,477, has been omitted from the books of account. Meanwhile, only 40% of the respective works, representing the first payment which was invoiced, were capitalised. The remaining balance of €78,083, covering works carried out by year-end but which were not yet invoiced, were then accounted for by means of an audit adjustment.

Previous years' Management Letters 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 10 years no longer existed. An annual exercise was to be carried out by the latter to check for impaired assets or assets no longer in use, whilst applying the necessary procedures to write them off. However, testing carried out revealed that the situation did not change. Moreover, during the year, the same situation arose with respect to a printer, whereby a new one was added to FAR whilst the old one was still featuring in the Register, despite being damaged.

During the coming year the Council will go through FAR and write off any assets that are no longer in use, after this has been approved during a Council meeting.

From audit verifications carried out on a sample of PPE additions for the year, it transpired that the Council was accounting for all the purchases of such assets as expenses for the year through the Statement of Comprehensive Income and then

reclassifying these assets to the Statement of Financial Position on 31 December 2012. Due to this accounting treatment no depreciation was being charged on these assets, as the date of capitalisation is being taken as 31 December 2012. Furthermore, this method may result in not reclassifying all the Fixed Assets and therefore leaving certain assets as revenue expenditure. In fact, an adjustment of €1,826 was passed to capitalise assets that were left in the expense accounts.

The expenditure relating to capital projects will be recorded immediately in the capital accounts. The adjustments recommended by LGA have been carried out and reflected in the audited Financial Statements.

On the other hand, instances were encountered whereby expenses of a revenue nature, such as repairs and maintenance have been capitalised and depreciation was charged thereon. Following LGA's recommendation the Council approved an adjustment of €2,798 to reclassify these expenses to the Statement of Comprehensive Income.

In view of the above shortcomings, the depreciation charge as calculated by the Council was understated by €11,486.

All the points mentioned by LGA have been noted and the necessary audit adjustments were reflected in the audited Financial Statements.

Upon verification of Accrued Income, it was noted that at the beginning of the year the Council reversed the amount of €65,000 despite that the respective income was not yet received from MEPA. Furthermore, amounts receivable by the Council were being accounted for on a Cash Basis. For example, an audit adjustment of €2,229 was approved to record amounts invoiced to Regional Committees that were not received as at year-end. On the other hand, part payment of €51,586, received in respect of projects falling under UIF, was added to the already existing Deferred Income instead of being netted-off against the opening Accrued Income. In addition, it was noted that a Journal Entry, amounting to €23,000, was passed by the Council in the Accrued Income account. Whilst no supporting documentation was provided in this respect, the Council's Accountant claimed that he was unaware of this transaction

and the reason behind it. Thus, following LGA's recommendation the Council approved the necessary audit adjustments to rectify these errors.

The invoices relating to Regional Committees will be issued regularly and entered as Debtors in the accounting package. The adjustments recommended by LGA were reflected in the audited Financial Statements.

The funds due to the Council as Government Grants were adjusted as recommended by LGA. The Executive Secretary will keep record of the various funds due on the different projects undertaken by the Council.

Testing carried out revealed that the recoverability of various funds relating to the 'Figs Festival', which were agreed upon in previous years, were either doubtful or else will not be received. At the beginning of the year, the opening Accrued Income relating to this activity amounted to €9,000 out of which only €1,996 were received during the year under review. The Council confirmed that the receipt was part of €4,000 promised by Central Government, and that the resulting difference of €2,004 was not paid due to ineligibility criteria, such as not presenting supplier's fiscal receipts. The other €5,000 was receivable under an EU Scheme. The Council has been chasing for these funds to be settled but is now very unsure about their recoverability. Whilst the amount of €2,004 was written off to the Statement of Comprehensive Income, the balance of €5,000 was provided for as Doubtful Debts.

Upon the signing of the contract in 2011, in relation to the 'Eco Gozo' project, the Council received €21,000 (being 30% of the total fund of €70,000) whilst during the current year the final payment of €45,609 was received. The amounts received were capped to the total actual costs incurred, and the resulting difference of €3,391 was written off to the Statement of Comprehensive Income by means of an audit adjustment.

The points made by LGA were noted and the recommended adjustments were reflected in the audited Financial Statements.

A number of invoices totalling €14,981, which were issued in 2013 but related to services provided in 2012, were not accrued for, hence resulting in

unrecorded liabilities. Moreover, it was noted that invoices amounting to €12,132, which were dated in 2012, but received by the Council in 2013, were also omitted from the accounting records. The necessary audit adjustments were passed to record these expenses in the books of account.

The invoices mentioned by LGA were received by the Council after the preparation of the unaudited Financial Statements. The audit adjustments recommended by the former were made and reflected in the audited Financial Statements.

When testing Deferred Income and the release there from of the portion relating to 2012, it transpired that no Deferred Income was being amortised during the year, despite the fact that some of the projects were either completed in the previous years or in the year under review. LGA established that the amortisation for the year should have amounted to €12,867. This has been adjusted to reflect the income portion relating to 2012.

The Deferred Income calculation did not agree with that of LGA due to the audit adjustments carried out during the audit. The necessary adjustments were made and these were reflected in the audited Financial Statements.

Disclosed under Other Payables is an amount of €1,021, representing the unresolved difference that arose in the Trial Balance of the year 2009, following a corruption in the accounting software.

Point noted.

During the year, the Council applied to be a partner in an EU funded project called 'NeMo'. The amount of €5,500 received for the holding of a conference in Malta in March 2013 was incorrectly accounted for as income for 2012, despite that no expenses were incurred during the year to match such income. An adjustment of €5,500 was approved by the Council to recognise the income received as Deferred Income.

Other instances were encountered whereby costs were posted in the related income account to net them off. Following LGA's recommendation the Council approved an adjustment of €10,542 to account for such transactions separately in the Financial Statements.

It was also noted that a Journal Entry of €5,000 was passed by the Council between the 'Other Government Income' account and the 'Sponsorship' account. No supporting documentation was provided in this respect and the Council's Accountant claimed that he was unaware of this transaction and the possible reason behind it. An audit adjustment was approved to reverse this transaction.

The various points made by LGA have been noted. Further attention will be given to the mentioned matters, in particular to account for income on an Accruals Basis rather than on a Cash Basis, when the receivable is known. All the adjustments recommended by LGA were reflected in the audited Financial Statements.

Certain payroll transactions were posted in the wrong account. For example, the amount of €3,032 paid for support services to the Agent Secretary, who was not on the FSS system of the Council, was accounted for in the payroll accounts. The amount of €700 earned by an employee for the participation in the NSO Census exercise was erroneously credited in a payroll account. The opening performance bonus of €2,236 relating to the Council's employees was reversed in the Executive Secretary's bonuses Nominal Account. Included in the employer's NI Contributions account was an amount of €7,036 relating to tax payments of the Executive Secretary, Local Council employees and the Mayor. These errors were rectified through audit adjustments proposed by LGA.

The points raised by LGA have been noted and the Executive Secretary will do his utmost to ensure that these errors do not repeat themselves. The posting of expenditure headings under Personal Emoluments have been clarified and the correct accounts will be used in the future.

Petty cash transactions were not being accounted for and only the transfers from the bank account were being recorded. An audit adjustment of €574 was approved to account for petty cash expenses that were omitted from the books of account. Furthermore, income of €600 relating to 2012 was debited to Cash in hand account, when in fact the income had not yet been received by the end of the year. Meanwhile, an adjustment of €620, was passed to reverse an entry made by the

Council covering income received during 2011, since this transaction was already recorded during the preceding year, through an audit adjustment. The necessary adjustments were approved by the Council. It was also noted that cheques amounting to €418 which were technically stale by the end of the year, were still included in the bank reconciliation.

The points raised by LGA about the petty cash transactions have been noted and the Council is now recording all petty cash transactions. On the other hand, the stale cheques mentioned by LGA will be looked into by the Executive Secretary and the necessary adjustments will be made. All audit adjustments recommended by LGA were reflected in the audited Financial Statements.

Total expenditure falling within the Transport category exceeded the respective budget by €2,760.

The Budget will be revised from time to time when the Quarterly Reports are prepared in order to bring the budget closer to the actual expenditure, and to avoid over spending the available funds.

Notwithstanding that Article 63A of the Local Councils Act prohibits the Council from providing any donations, whether monetary or in kind, during the year under review the latter handed gifts to the elderly people and kids in the locality. From the audit sample tested, it transpired that the amount of €369 was expended in this respect.

LGA's comments were noted.

Xewkija

Road patching works, amounting to €8,062, were only covered by a call for quotations, despite that the amount incurred merited a call for tenders. Following queries raised by LGA the Council claimed that it had no idea that the amount of such works would have aggregated to such an amount.

In the future, if amount of patching works is to exceed quotation limit, a tender will be issued.

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 €847,266 and total accumulated depreciation overstated by €544,114, leading to a NBV that was expected to be understated by €303,152. However, this figure in FAR was actually understated by €395,310.

By the conclusion of the audit, the Council decided to update the FAR found on the old accounting package, and subsequently provided LGA with an updated list that agreed with the Financial Statements. However, updating the old accounting package and not the one currently being used was not the proper approach unless the register may be transferred onto the new package.

As explained during the audit, the exercise on the FAR was carried out and will be implemented on the current accounting software in use by the Council, during the current year. A full exercise will be carried out, to take into consideration the audit adjustments recommended by LGA that are reflected in the audited Financial Statements.

During the year under review, under an initiative of LCA called 'egov4u', the Council received a total Grant of €5,000, for an outdoor public access terminal. The related assets additions (€4,215), the two-year maintenance agreement (€785), as well as the respective Grant (€5,000) were completely omitted from the books of account. Thus, the necessary audit adjustments were passed to capitalise this asset and to account for the depreciation charged thereon. Additional adjustments were posted to recognise amortisation of the related Deferred Income and the respective expense, part of which was deferred for the coming year.

On the other hand, included under Special Programmes, is a Fixed Asset addition of €10,935. Verifications carried out on the invoice submitted by the respective service provider revealed that this expenditure was of a revenue nature rather than of a capital nature. Following LGA's recommendation, the Council approved to expense this amount and to reverse the depreciation already charged on this item.

It was also noted that the Council erroneously charged depreciation on assets that were still under construction. A full year's depreciation was also charged on a particular project that was

only finalised in May 2012. This resulted in an additional depreciation charge of €1,117, which was then reversed through an audit adjustment.

Meanwhile, upon reconciling the accounting records, with the statement obtained from the contractor who carried out the road resurfacing works under the PPP Scheme, it was noted that two invoices were not properly accounted for in the books of account. Whilst an invoice of €180,096 which was completed by year-end, was not accounted for, another invoice of €133,102, which had started in 2011 and was completed in 2012, was not fully recorded in the accounting records. Only the part that was accrued for in the prior year was recognised. The Council approved the necessary audit adjustments to account for the amounts payable, increase PPE costs and the related depreciation charge, as well as reverse the amount that was accrued for during the preceding year.

Another adjustment of €33,946 was approved to reclassify the costs incurred on works carried out on 'Triq San Duminku', to the correct asset category, as these were still being disclosed under Assets under Construction. This project was completed in 2012. The depreciation of €3,243 relating to this asset was also reclassified to the correct Nominal Account.

Whilst verifying the reversals of Accruals brought forward relating to the resurfacing of roads under the PPP Scheme, it was noted that the Architect's valuations, on which prior year's Accruals were based, was overstated by €34,997, when compared to the final bills of quantities. Thus, an audit adjustment was passed to correct this over-accrual and to adjust for the related depreciation charge.

Points raised by LGA with respect to Fixed Assets and depreciation have been noted and the necessary audit adjustments have been reflected in the audited Financial Statements. Moreover, the invoice referred to by LGA, in respect of resurfacing works carried out during 2012, was received after the presentation of the Financial Statements. The adjustments recommended by LGA have been made and reflected in the audited Financial Statements.

The insurance policy, which had expired in 2011, was not renewed, with the consequence that the

assets held by the Council were not insured. This implies that in case of theft, fire or any other accident, the latter will not be in a position to recover all the losses incurred.

The Council will consider LGA's recommendation regarding the issuance of an insurance policy to have adequate cover on the Local Council's PPE, and the necessary action will be taken.

Funds received in relation to 'Ġnien ta' Blankas' project, were being amortised, despite that the respective project was not yet completed, and works were still in process at year-end. Thus, an audit adjustment of €2,004 was passed to reverse the amount already amortised.

The adjustment in respect of the amortised income for 'Ġnien ta' Blankas' project was made. The percentage completion of the projects will need to be established at the end of the year by the Council's Architect so that this will be clear for everyone involved in the calculations.

A case was encountered whereby funds relating to works of a revenue nature, completed during the year under review, were being amortised on a monthly basis at the rate of 10%, rather than recognised directly in the Statement of Comprehensive Income. The amortisation of €1,472 was reversed and the total related funds of €12,900 were instead transferred to the Statement of Comprehensive Income.

The adjustments recommended by LGA in respect of Deferred Income calculations have been made and reflected in the audited Financial Statements.

In another instance, the VAT refunded on the expenditure incurred on 'Measure 313' project, was netted off against the cost rather than treated as an additional Government Grant received. Consequently, an adjustment of €1,968 was made to gross up the costs and reflect the Deferred Income arising from these funds.

The recommendation made by LGA regarding the VAT refunds on capital projects has been noted. This was not clear at the time of posting, since VAT is usually not considered as part of the cost of a supply, especially if this is refunded to the end user. The Council has made the adjustment as recommended by LGA.

The Council failed to account for accrued income of €7,000 and €7,200, receivable for the 'Fiori D'Argenta' activity held in 2012, and the installation of photovoltaic panels respectively. Likewise, no accrual was provided for street lighting maintenance carried out during 2012, but for which no invoices were received by year-end. Invoices amounting to €1,355 were then received during 2013. Following LGA's recommendation, the necessary audit adjustments were approved.

In addition, verifications performed on Accrued Income, relating to the roads resurfacing projects carried out under the PPP Scheme, revealed several omissions. For example, two audit adjustments totalling €85,531, that were approved during the prior year, to account for Accrued Income against Deferred Income, were not reflected in the Nominal Ledger. Further adjustments amounting to €40,982 were also passed to accrue for income receivable in respect of road resurfacing works completed during the year under review.

Recommendations put forward by LGA regarding the Accrued Income at year-end have been noted and will be taken into consideration. The related adjustments proposed by LGA have been made and reflected in the audited Financial Statements. Furthermore, the street lighting contractor is never in a position to produce invoices relating to the previous year when the unaudited Financial Statements are prepared. This makes it very difficult to calculate the accrual at year-end. This service provider only produces invoices and statements when these are requested by LGA. Therefore an adjustment on this item will always be necessary.

Through a circularisation letter, WSC confirmed that the balance due to the Council amounted to €7,993. However, the amount receivable as per books of account totalled €9,156, thus resulting in a discrepancy of €1,163. From testing carried out, it transpired that trenching permits as from the second half of 2011 were omitted from the accounting records of WSC.

This matter will be looked into by the Executive Secretary, so as to reconcile the amounts receivable from the Corporation. The necessary adjustments will then be made to reflect the correct amount.

Following the appointment of the new Executive Secretary on 10 January 2012, the Council kept on using the services of the previous Acting Executive Secretary up to 13 July 2012, to assist the former in her general duties, particularly in maintaining the Council's accounts and the working of payroll. For such services, the former was paid a gross amount of €6,814, in line with the emoluments paid to a Government official in Scale 10. Besides that the respective services were being provided without an employment contract, DLG was not notified of this situation, implying that the necessary approvals for such employment were not in place. Eventually, when the Department became aware of this matter, the Council was instructed to ask the respective individual to resign from his position with immediate effect.

The respective individual is no longer engaged with the Council.

Budgeted expenditure for Contractual Services was exceeded by €31,580. On the other hand, whilst the Council forecasted a surplus after capital expenditure of €12,600, the actual surplus generated during the year under review, as illustrated in the Statement of Comprehensive Income amounted to €20,453.

In the coming year the Council will monitor the budgeted expenditure with the actual expenditure so that in the case of any variation, the Budget will be adjusted accordingly and be presented for approval by the Council.

A verbal agreement was made between the Xewkija and Sannat Local Councils, to cover works made on 'Mgarr ix-Xini Park', relating to archaeological findings. Notwithstanding that all procedures and written documents were followed, these were only issued to the Sannat Local Council. Furthermore, no formal agreement was then entered into between the two Councils. During the year under review, the Council incurred the amount of €4,075 in respect of such project.

In addition, the overtime charges invoiced by Cultural Heritage in relation to the aforementioned project, were not accounted for. An audit adjustment of €1,990 was passed to rectify this omission.

A written formal agreement with the Council of Sannat regarding the 'Mgarr ix-Xini' project is not in place. The Council is in the process of signing such an agreement.

Instances were noted whereby income and expenditure were posted in the wrong account. For example, an expense was posted by mistake in an income account, whilst the reversal of accrued income was posted in a different account from that in which the receipt of that particular accrued income was actually posted. Another amount of €2,000 received from Government was posted as Other Income, instead of accounting for it within Income received from Government. Several other entries in relation to Personal Emoluments were also posted to the wrong Nominal Account. The necessary reclassification adjustments were approved by the Council.

The amount of €2,000 was not received from Government but was received from MEPA as a sponsorship for the car free day activity. The Council correctly posted this to General Income. However, since it is the opinion of LGA that this should be recorded otherwise, the Council has made the adjustment as recommended by LGA.

All the minutes and Schedules of Payments pertaining to 2012 were only signed in 2013 and not during the following respective Council meeting. It was also noted that the minutes of meetings held on 6 June 2012, 9 October 2012 and 16 November 2012 respectively, were adjusted, during the signing, without evidence that the added paragraphs were approved during a Council meeting, thus confirming that there were no objections to these changes. The added paragraphs were made since several important points were left out from the minutes when they were originally drafted.

The Council points out that minutes and Schedules of Payments were always presented and approved during Council meetings, sometimes not the immediate following one. Moreover, no additions were made upon the signing which were not discussed and approved in Council meetings. It was noted that some minutes were not detailed according to the first notes taken during the Council meeting by the Secretary and thus these details were included.

Żabbar

During the year under review, the Council recognised an estimate of €51,000 on account, in relation to Grants receivable under the PPP Scheme. However, from verifications and additional documentation provided by DLG, it transpired that the total amount receivable was only €33,658. Consequently, Receivables, Deferred Income as well as Grants released to the Statement of Comprehensive Income, as originally recognised in the accounting records, were overstated by €17,342, €16,716 and €626 respectively. To rectify these errors, the Council approved the adjustments proposed by LGA and amended the Financial Statements accordingly.

The matter was discussed during the audit and the necessary adjustments were made.

Under the pre-regional LES system, 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 particular traffic fines the deposited amount refers to. 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 €4,396 (2011: €7,159) recorded under Receivables and categorised as 'Amounts due from Other Local Councils'. However, no such item of receivable has been recorded in the General Ledger, implying that the Council has not maintained an adequate system of LES income reconciliation.

The Council is continuously asking for the missing bank receipts from other Local Councils who have failed to produce them. In addition, during the year under review the Council has cleared a number of Unidentified Deposits. This has brought down the amount from €7,159 to €4,396 as acknowledged by LGA.

The Council recognised the amount of €16,850 as contraventions received. However, as per LES financial reports, total receipts amounted to €17,524, thus resulting in a discrepancy of €674,

mainly due to a reversal of an overstated accounting estimate recognised in 2011. Furthermore, included in the Financial Statements is a negative movement of €18,614 in Income raised under LES, as well as LES Debtors, reflecting a reduction in the amount of cases adjudicated in the Council's favour by the Local Tribunal, but not yet paid as on 31 December 2012. No explanations were provided in view of the resulting difference of €1,090 between the movement of €18,614 and the respective cash receipts of €17,524.

The Council will be checking the variances indicated by LGA and will carry out the necessary adjustments in 2013.

Notwithstanding that the Council is carrying out regular reconciliation exercises between its records in the Supplier Ledger and the actual Suppliers' Statements, an unexplained variance of €1,535 was noted in the amount payable to a particular supplier. Furthermore, from the necessary audit verifications carried out, it transpired that accrued expenditure, as recognised by the Council, was understated by €1,918. The necessary audit adjustments were made in this respect.

Comments made by LGA were noted. Furthermore, the necessary adjustments were approved.

Accumulated depreciation recognised in FAR was overstated by €3,560 when compared to the amount of depreciation accounted for in the Nominal Ledger. Further testing carried out revealed that the posting of depreciation from the FAR to the Nominal Ledger was not properly accounted for. Following LGA's recommendation, the Council rectified the matter by means of an audit adjustment.

The matter was brought to LGA's attention by the Council's Accountant and following agreement between the parties the relative adjustment was taken up.

Contrary to that laid down in Memo 150/2010, the Council capitalised the amount of €2,630 and €1,559 as street signs and litter bins respectively. Whilst the cost of street signs was immediately written off to the Statement of Comprehensive Income by way of depreciation, litter bins are being depreciated at the rate of 10%. Consequently, cost and the related depreciation in the PPE Schedule

were both overstated, whilst sundry materials and supplies were understated by €1,559. However, following LGA's recommendation, the Council approved the necessary audit adjustments to reverse the related depreciation and to recognise such costs as revenue expenditure for the year.

A discrepancy of €59,384 resulted between the amount of capital expenditure committed for the financial year ending 31 December 2013, as disclosed in the Financial Statements (€344,200), and that recorded in the annual Budget document (€284,816).

LGA's comment is noted for future reference.

Zebbuġ (Malta)

As provided for in the books of account, during 2012 the Council has further increased its costs for social events and cultural activities to over €140,000 (2011: €80,000). Notwithstanding that this issue was already highlighted in the prior year's Management Letter, the Council did not exercise any cost cutting over its expenditure. This has resulted in a further deterioration of the Council's financial position since a loss of €219,177 has been recorded.

Whilst the Council's minutes state that the Council will receive sponsorships of €70,000 to finance the expenditure on social and cultural events, included in the accounting records is only the amount of €33,220 as income from sponsorships. Furthermore, despite that in a meeting held on 5 July 2012, the Executive Secretary informed the Council that he will be preparing a summary of sponsorships receivable in relation to these activities, such information was neither prepared nor provided for audit purposes.

Notwithstanding prior year's recommendations, excessive overtime was still being paid to the contract manager employed by the Council. During 2012, the total overtime paid to the former was approximately €10,400, which is relatively high compared to the annual salary of €16,237 paid to this employee.

At the end of the year, the Council owed the amount of €39,000 to IRD, in respect of FSS tax and NI contributions, covering the period November 2011 to December 2012. The Council

did not prepare and failed to submit FS5s and an FS7 to IRD in 2012. According to the Executive Secretary, no FSS and NI was payable, also stating that the Department never claimed any payments.

Three instances were encountered, whereby payments, totalling €15,873, were effected on European Forum for Urban Safety (EFUS) seminar, Night Fest 2012 – Medieval market event, and bronze casting for bust. For these instances, procurement was not covered by a call for tenders. In addition, it was noted that although a public tender was issued for the procurement of a hard stone monument costing €27,831, certain items amounting to €10,589 were not included in the respective tender.

Moreover, the amount of €4,000, paid to the local football club for the rental of the football pitch for social activities, is not covered by a rental agreement, which lays down the rights and obligations of both parties. It was also noted that the contract for the services of Christmas decorations, which expired on 21 December 2011, was extended by another year. The total amount of €6,500 was financed out of the Council's funds in this respect.

Contrary to that specified in Memo 109/2010, the Council reimbursed a total of €260 in respect of mobile phone top-up cards used by the contract manager. Furthermore, no claim forms in respect of such reimbursements were traced.

The personal accident insurance financed by the Council is not limited only to Malta but it is on a worldwide basis.

Drinks provided to the musicians taking part in the 'Malta International Band Festival', as well as to those individuals carrying the relic of St. Philip, amounting to €215 and €101 respectively, were fully paid out from the Council's funds.

The Council is computing depreciation on an annual rather than a monthly basis. Furthermore, in the absence of a FAR, the computation is being carried out manually using spreadsheets. This resulted in the depreciation charge for the year being overstated by €7,947. However, since this charge is an accounting estimate based on the useful life of the assets, no audit adjustment was proposed to correct this discrepancy.

Architect fees of €38,299, incurred in respect of construction works carried out, were erroneously expensed instead of added to the cost of the Fixed Asset. Likewise, the purchase of a bus shelter costing €3,200 was also expensed in the Statement of Comprehensive Income. Thus, the necessary audit adjustments were passed to capitalise this expenditure.

On the other hand, included with Urban Improvements were additions of €24,427, relating to the 'Housing Estate' project, which works were carried out under an agreement with the Housing Authority 'Programm ta' Manutenzjoni fil-Binjjet tal-Gvern'. Since all the work was carried out on Government property and will be fully financed by the Authority, an adjustment was proposed to expense the cost of these works, and to reverse the depreciation charged on these assets.

Included in the Council's Financial Statements are resurfacing works carried out under the PPP Scheme. Since the certifications provided for works completed in the current year were dated up to 11 October 2012, LGA was unable to determine the value of works performed during the remaining three months of the year. It was also noted that the Architect's certifications were issued when the work was completed and not when the work was certified as satisfactorily carried out. Furthermore, in a number of instances, following the issue of the certification, a snag list¹⁷ was issued, implying that the work was not fully completed to the Council's satisfaction. However, the Council still paid the Architect for the respective professional fees invoiced.

For example, during 2012, the Council recorded road resurfacing works of €210,799 despite that the work performed was not in accordance to the tender and standard specification, and thus was subject to a snag list.

Two certificates, both dated 13 September 2012, were issued for the same work carried out in 'Vjal il-Helsien', one amounting to €210,799 and the other €182,299. Whilst the Council recorded the certification of €210,799, no explanation was provided as to whether the discrepancy of €28,500 between the two amounts related to latent defects in the work.

The bill of quantities issued by the contract manager, in respect of the reconstruction of 'Freedom Square', lists the amount of €224,648 as variations from the tender contract. However, it transpired that out of the aforementioned balance, €131,994 were additional works specifically ordered by the Council. Notwithstanding this, the minutes of the Council do not state that any additional work was approved by the latter.

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 account.

A reclassification of €4,452, from 'Assets in the Course of Construction' to 'Urban Improvements' in the Fixed Asset Schedule, was incorrectly included with additions for the year.

The Council determined LES Debtors at the end of the year (net of provision), on the basis of the Tribunal Pending Payments for the period 1 January 2011 to 31 August 2011. However, verifications carried out on the reports for Tribunal Pending Payments as at 31 August 2011, less those outstanding as at 31 December 2010, revealed a difference in net LES Debtors of €35,658 from that reported in the Council's books of account.

Furthermore, the Council did not prepare a reconciliation of LES income and Debtors for the current year. In addition, the Council's provision for Doubtful LES Debtors was decreased by €48,260 during the year and credited to the Statement of Comprehensive Income. This was done so that the carrying amounts of net LES Debtors agree to the Tribunal Pending Payments report issued by the Council. In view of these discrepancies, LGA had no option other than to issue a qualified audit opinion in this respect.

During the year under review, the Council recognised a full Provision for Doubtful Debts for the balance of €160,089 due from the Housing Authority which had been outstanding for many years, despite that on 14 June 2011, the Chief Executive Officer of the Authority at the time, assured the Council that it will be forwarding the money when funds are available. Moreover, the

¹⁷ A Snag List is a list which includes work that was either not performed properly by the contractor, that diverges from the terms of the contract or that includes latent defects and therefore need to be rectified by the contractor.

minutes do not indicate that the Council approved to provide for this balance in full.

Included in the Debtors' List provided by the Council is another amount of €25,573 receivable from the Housing Authority in respect of maintenance works to be done on housing estates. This amount was also recorded as income for 2012. However, the Council had not carried out the necessary works by the end of the year, in order to be able to claim any part of this amount as refund from the Authority. Thus, an audit adjustment was approved by the Council to reverse this amount.

The Debtors' List also included the amount of €23,750 receivable from sponsors of cultural activities. Out of the aforementioned balance, the amount of €20,250 is due from one particular sponsor. However, it was noted that only €15,000 was committed by means of a letter from the Director of the company concerned. The Executive Secretary claimed that the remaining balance of €5,250 is receivable under clause A.29 of the tender agreement which provides that *'the Local Council reserves the right to advertise and market the project... and such advertisement ... will be deducted directly from the final bill'*. However, the contract does not specify the value of this sponsorship, and the Executive Secretary was unable to substantiate the sponsor with documentary evidence. Consequently the related amount could not be verified.

Notwithstanding that in the prior year's Management Letter LGA highlighted the fact that stock of books held by the Council, amounting to €4,521, was slow moving, during the current year the latter purchased a stock of new books for €1,733, which was added to inventories in the books of account. Inventories held by the Council at year-end totalled €5,291, although most of these books are not for resale but are held for free distribution and/or to be donated during prize days and social activities.

A cancelled cheque of €4,354, issued in 2011 to WasteServ Malta Limited, was incorrectly reversed against the expense account rather than the Creditor Account, thus leading to a discrepancy. This was then adjusted by the Council at year-end when reconciling the Creditor balance to the statement.

Monthly statements were not being requested from all of the Council's suppliers. This led to discrepancies between amounts recognised in the Financial Statements and the balances actually due to the respective service providers. For example, upon reconciling the Creditor balance of a particular contractor with the respective Supplier's Statement, it was noted that the latter claimed an additional amount of €20,942. Of this difference, €14,351 related to the 5% contracts management fee, which is deductible from the invoice. Though such fees are not payable to the contractor, these were erroneously included in the statement. The remaining difference of €6,591 represented variances between the amounts certified by the Council's Architect and those billed by the supplier. Furthermore, no explanation was provided by the Executive Secretary, in another two instances for unreconciled discrepancies of €37,867 and €3,293 respectively in the creditors' account.

Moreover, the Council's Creditors' List at the end of the year includes debit balances of €46,535, many of which pertain to prior years. The Executive Secretary claimed that these balances relate to payments issued to suppliers, but which were not covered by the respective invoice, as this was never received. The latter also stated that a corresponding amount has been recorded in accruals to accrue for this expenditure. Following LGA's recommendation, the Council reclassified these debit balances to be set-off against the amounts accrued for in the final set of accounts, so that financial liabilities are properly disclosed.

No provision for accrued expenditure, amounting to €12,844, was provided in the Financial Statements, in respect of tipping fees and street cleaning, which services were rendered to the Council during the month of December, as well as catering provided for EFUS reception. This resulted in unrecorded liabilities, which were then recognised in the accounting records through an audit adjustment.

Included with Current Liabilities under Payables is an amount of €841,736 due to Capital Creditors, out of which the balance of €699,872 falls due after more than one year. A qualified audit opinion was issued in this respect.

From an analytical review carried out by LGA, it transpired that expenditure on tipping fees

decreased by €8,966 over the previous year. Further testing revealed that the Council reversed an opening accrual of €16,595 instead of €6,418. However, since the difference could not be traced in the Nominal Ledger, no audit adjustments could be proposed.

The Southern Regional Committee is claiming the amount of €6,445 from the Council, being post-regional contraventions which LTD inadvertently remitted to the Council. However, whilst according to the latter this amount has already been remitted, the Committee is insisting that the aforementioned balance is still due. Up to the time of audit, this matter was not yet resolved. The Council approved to record this liability through an audit adjustment.

A discrepancy of €1,831 was noted in the prepaid Mayor's honorarium of €3,112 as recorded in the books of accounts and the amount of €1,281 indicated in the schedule circulated by the Monitoring Unit at DLG. Upon enquiry, the Council's Accountant provided LGA with a number of adjustments, reducing the discrepancy to €708.

A prior year adjustment of €12,250 was passed by the Council for the value of trenching works performed in 2011, following a confirmation received from WSC on 18 December 2012. However, in line with IAS 8, the transaction should have been passed through the Statement of Comprehensive Income of the current year. Furthermore, the presentation of the said prior year adjustment was not made in accordance with the requirement of the aforementioned Standard. Thus a qualified audit opinion was issued in this respect.

No disclosure was made in the Financial Statements, to highlight the fact that the Council was drawn into a court case by a local resident, who claimed for damages sustained on his property during works carried out by a contractor engaged by the Council. The initial claim was for the amount of €42,150 but was later reduced to €27,000.

In its reply to a parliamentary question, requesting the Council to furnish Parliament with further information as the total cost incurred on all activities relating to twinning with the community of 'Acireale', the former stated that it has no

twinning agreement with the latter. The Council added that only an agreement of cooperation is in place between the two authorities, whereby the parties obliged themselves to work closely for the good of both localities. The Council further claimed that it was invited to send a delegation of 60 band members to participate in the opening of the carnival in 'Acireale'.

However, in respect of this activity, a substantial expense of €21,264, comprising €16,160 for accommodation in a four-star hotel and €5,104 for the cost of the ferry, was borne by the Council. This contradicts the Council's reply to the parliamentary question, which said that the ferry costs, with the exception of port charges of €960, were waived. Furthermore, LGA was not provided with the related agreement. Thus, the sponsorship of €12,275, which was also included in the Council's reply, could neither be verified nor traced in the books of account.

During 2012, the Council paid the total amount of €3,591, on behalf of certain Council members, for the attendance to the general EFUS conference, held in Paris. The following shortcomings were noted in relation to this matter.

- a. As per Council's minutes, the persons who travelled for such meeting were the Mayor, two Councillors and the Events and Marketing Co-ordinator. However, this could not be confirmed as the respective flight itinerary was not provided for audit purposes.
- b. No approval was sought from DLG to confirm whether the Events and Marketing Co-ordinator, who is neither a Councillor nor an employee of the Council, was allowed to attend this meeting at the Council's expense.
- c. On 11 December 2012, the Council advanced the sum of €2,154 to the Mayor, in respect of accommodation costs totalling €2,146. However, only €1,610 was actually paid from the Mayor's credit card. The remaining balance was paid by a different credit card.

Up to year-end, the Council received Grants of €300,828 for the resurfacing of 'Freedom Avenue', of which €248,000 were forwarded to the contractor. Despite that as at 31 December 2012, the Council should have had a remaining

balance of €52,828 to be utilised on such project, net Cash and Cash Equivalents at year-end amounted only to €41,717. This indicates that part of the Grants received for this project had already been spent for other purposes. Furthermore, LGA was not provided with a copy of DLG's letter of commitment for PPP. Thus, it was impracticable to determine which roads are included in the Scheme which qualified for the Grant from the Department. In addition, upon recalculating the short-term and long-term portion of Deferred Income, a discrepancy of €5,248 was encountered. Notwithstanding that a reclassification adjustment was proposed by LGA, the Council did not pass the related adjustment in the final set of Financial Statements.

Testing carried out revealed that payments totalling €240,414 were not included in the Schedule of Payments, thus implying that these were not officially approved by the Council.

Instances were noted whereby the Council did not deposit its general income, as well as custodial receipts, on a regular basis. By way of example, the amount of €3,924 received on 11 September 2012 was only deposited on 22 September 2012, almost a fortnight after its receipt.

The Council failed to provide its response to the Management Letter.

Zebbuġ (Gozo)

Amounts included in FAR did not agree with those disclosed in the Financial Statements, even before taking into 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 €907,128. 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 the adoption of a different accounting treatment.

A discrepancy was also noted in the resulting NBV as reported in FAR, which stood at €1,177,444, when compared to that as illustrated in the Financial Statements amounting to €998,870.

The cost of assets at year-end as per FAR, totalling €1,906,002, did not agree to the amount

of €1,841,346 as disclosed in the same register, with the latter being the summation of NBV of €1,177,444 and the accumulated depreciation of €663,902.

In view of these errors, which were already highlighted in preceding years, the depreciation for the year was not computed through FAR but was calculated manually. Moreover, instances were encountered whereby depreciation was not taken from the date when the project was actually finalised, thus resulting in variances in the depreciation charged.

In addition, a number of items of PPE in the asset categories, of Special Programmes, Construction Works, Street Paving and Urban Improvements 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.

Furthermore, whilst testing Fixed Asset additions, it was noted that during the year under review, additions amounting to €61,995 were categorised as Urban Improvements when these should have been recorded as Assets under Construction since the project was not yet finalised by year-end. Adjustments were passed to reclassify these additions as well as to reverse the depreciation of €5,452 charged thereon.

Decorative luminaries costing €8,752 were included in the Special Programmes category and charged a depreciation rate of 10%, instead of 100% as laid down in pertinent regulations. Thus, the Council approved an audit adjustment to reflect the difference in the depreciation charge.

A discrepancy of €9,138 was noted between the actual cost incurred on works carried out at 'Triq Daħlet il-Meržuq', amounting to €54,841, and the budgeted amount as per tender of €45,703. Following queries raised by LGA on this matter, the Council claimed that the Architect had informed them that further works were needed in addition to what was initially projected. According to the Council minutes, no approval was given for these extra works and an investigation had to take place. Notwithstanding this, up to the time of the audit, no investigation was made, despite that the invoice has been settled.

A physical inspection carried out on items of PPE revealed that the previous Mayor did not return the mobile phone which was originally given to him by the Council. However, when the Council raised such issue with the ex-Mayor, he claimed that the mobile had been stolen and thus it could not be returned to the Council.

The points made by LGA 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. Furthermore, assets that have been replaced after obtaining Council approval will also be removed. Meanwhile, the reclassification of assets and adjustments recommended by LGA were made and reflected in the audited Financial Statements.

LGA was informed by the Executive Secretary that a fund, amounting to €34,278, was not included in the books of account. This was due to the fact that the application for this fund was raised by the acting Executive Secretary that replaced the former during her maternity leave and thus she was not aware whether these funds were going to be actually received or not. Therefore, for prudence such income was not accrued for. However, since the respective funds were then received during 2013, an audit adjustment was made to recognise this amount in the Financial Statements.

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, the Council did not actually carry out the reinstatement of roads with hot asphalt, for which work it was issuing the mentioned bills. During the preceding year, it was then decided to remove such income from the Statement of Comprehensive Income and reallocate it to Deferred Income until the works are eventually carried out. Meanwhile, during the year under review, the Executive Secretary confirmed that the respective works were still not carried out and that there were no intentions that these would be carried out in the future. In view of this, the Council agreed to reverse the amount of €10,300 from the accounts, bringing the Deferred Income

relating to WSC to nil and decreasing the amount receivable accordingly.

Points not addressed.

A variance of €8,877 was noted between the amount of €8,933 receivable from WSC, as recorded in the Council's books of account, and the balance of €56 confirmed by the former through a circularisation letter. From the audit verifications carried out it transpired that part of the discrepancy arose due to timing differences. A payment of €8,250 that was received by the Council in 2013 was included in the Corporation's records as paid in 2012. The remaining difference of €627 related to trenching permits mid-2011 onwards that were not included in the accounting records of the Corporation.

The recommendation made by LGA regarding the income due from WSC will be followed up and copies of invoices will be sent to the Corporation.

As outlined hereunder, instances were noted whereby Deferred Income was not amortised properly.

- a. The date when the amortisation of Deferred Income, relating to three projects, namely 'Triq il-Merzuq', 'Triq il-Qbajjar' and 'Triq Santa Marija', commenced was not the date when the project was finalised. Whilst in two instances the respective Deferred Income was understated by €7,862, on another occasion this was overstated by €345. The necessary audit adjustments were approved by the Council and were incorporated in the final set of Financial Statements.
- b. When analysing the deferred funds for the 'Eco Gozo' project, it transpired that the amount taken was more than that stipulated in the original agreement. This was also confirmed with the amount that was eventually received in 2013. Consequently, an adjustment was passed to reverse the amount of €5,038 from Accrued Income and to adjust the Deferred Income accordingly.
- c. Upon checking the rates taken for the Deferred Income amortisation, it was noted that the percentage rate applied in relation to the street lighting funds was of 10%, rather than 100% as stipulated by the regulations, thus

resulting in a difference of €5,795. This error was rectified through the audit adjustments proposed by LGA.

- d. Last year, the Council capitalised the construction of rubble walls in accordance to the stages of completion and in line with IAS 16. Due to the fact that during the preceding year the costs were capitalised as per Architect's certificate, the amortisation was also calculated proportionately. However, when checking the amortisation workings, it was noted that the balance brought forward was reversed and only amortised with the addition of the last bill of the contractor, rather than from the start of the year, including the last bill as per Architect's certificate.

The points made by LGA about the amortisation of Deferred Income with respect to capital projects financed or partly financed by Government Grants have been noted. Efforts will be made in the future to avoid such situations.

Unbilled jobs relating to maintenance works on street lights amounting to €3,505, Christmas expenses incurred totalling €2,075, Professional Services of €8,782, as well as Engineering Services amounting to €4,183, were not accrued for. The aforementioned expenses were all incurred during 2012. The respective invoices were issued during 2013. These liabilities were recognised in the books of account through audit adjustments.

The invoices relating to street lighting, and other expenses not accrued for were not yet received by the Council at the date of preparation of the unaudited Financial Statements, even though the Council had requested the invoices from the suppliers. This was adjusted for in the audited Financial Statements.

The Council exceeded the budgeted expenditure for Hospitality and Community Services by €7,689, as well as Contractual Services by €6,495. Notwithstanding this, the Council ended the year with a surplus of €45,998, i.e. €43,766 more than that originally estimated.

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.

Żejtun

Notwithstanding the fact that the Council maintains a FAR, this is not up-to-date and reconciled with the Nominal Ledger. In fact, depreciation and Grants as recorded in the Nominal Ledger are overstated by €71,609, thus resulting in an understated NBV by the same amount. Further analysis of this discrepancy revealed that the Financial Statements included an overstated depreciation on an asset item of Urban Improvement, marked in the FAR as 'ZLC00847 – Playing Field Equipment at Ġebel San Martin Zone', which was already fully depreciated. In view of this, the Council approved the necessary audit adjustments to rectify this error.

Furthermore, following an analysis of the content of the FAR, it was noted that in the past years certain items, such as patching works and hot tarmac, were capitalised as items of PPE, despite that these related to revenue expenditure and thus should have been expensed in the Statement of Comprehensive Income.

The Council has the practice of reviewing and updating the FAR periodically, at least once a year. However, this does not mean that certain items are not missed out during this process. The Council will continue in its task to maintain the FAR and particular items will be written off. The Council noticed the variance mentioned by LGA, after the finalisation of the Financial Statements on 21 February 2013. Thus, it was brought to LGA's attention during the audit, where the Council requested that an adjustment be passed in order to correct an error emanating from the accounting system. The adjustment was passed accordingly.

Testing carried out on Accruals as well as Accrued and Deferred Income revealed that the Council is not always adhering to the Fundamental Concept of Accrual Accounting. For instance, the Council failed to recognise an Accrued Income provision for a Grant amounting to €10,000 specifically awarded by Central Government to subsidise the organisation of the activity 'Żejt iz-Żejtun 2012'. Likewise, expenditure totalling €8,824, incurred during the year under review related to the same activity (€1,451), a Christmas concert (€417), an activity in the form of a week-end break at a local hotel (€3,290) and the cleaning of

parcs and gardens (€3,666), were not accounted for. In the latter case, the Council was not in a position to confirm whether the respective invoice was received or not. Following LGA's recommendation the necessary audit adjustments were approved by the Council.

LGA's comment regarding non-adherence to the Fundamental Concept of Accrual Accounting is not appropriate. The Accruals Concept is embraced by the Council. Errors, leading to certain costs being left out of the accounting system by mistake does not mean that the Council is neglecting to account in line with the said concept. The total under-accrued cost of €8,824 effectively does not make or break off the results for the year. The Council ended up with a surplus of €80,893 and considering the costs mentioned would have ended up with a surplus of €72,069. Thus, the position of surplus would have still been reported. Having said that, the Council has noted the remarks made by LGA and will seek further efforts to account for all the costs incurred during the year.

As already highlighted in the prior year's Management Letter, the balance due to WSC as per Council's records, as at 31 December 2011, amounted to €8,638. This, however, does not reconcile to 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. This also implies that the Council is not undertaking regular suppliers' balances reconciliation exercises, which is fundamental to the internal control procedures in every accounting system.

The documents regarding the issue have been traced and the relative adjustment will be made in 2013. With regard to the remark that the Council is not undertaking regular supplier balances' reconciliation exercises, the Council begs to differ. The Suppliers' Statements are being reconciled to the Ledgers upon receipt. It must however be appreciated that not all suppliers send in a statement. Furthermore, since the statements are not being signed by the officer making the said reconciliation, clear instructions were issued to sign the statements which are reconciled, and to

attach to the statement a printout of the Ledger at the time of reconciliation.

Whilst a receivable of €75,000, representing a Grant earned through the Housing Authority Scheme, was classified with Current Assets, the respective Deferred Income was recognised as a long-term liability to be released after more than five years. This is not in accordance with the Matching Concept of accounting. The Council confirmed that all the related maintenance work will be completed by 2013, thus the latter will receive the entire Grant within one year and it will be fully released to income immediately. Consequently, a reclassification adjustment, to recognise the related Deferred Income as a short-term liability, was passed.

At the time of finalising the Financial Statements, the Council was still unsure of the timeframe during which the expenditure would be incurred, thus Deferred Income fell to be categorised as 'to be released' in the long-term. Eventually, between the period when the Financial Statements were finalised on 20 February 2013 and LGA's visit, the works required proceeded at a swift rate and were concluded by the date the Council's reply to the Management Letter was submitted. In the light of the above circumstances, the Deferred Income will be released during 2013.

The Council is grouping up different income items in one Nominal Account in the General Ledger. Items such as Income from Tenders (€300), Contributions received from Cultural Events (€6,248) and Rental Income (€454), were all posted in one Nominal Account with the description 'General'. Such practice distorts the scope of properly analysing income sources available for the Council, for the users and readers of its reports, both those issued on a quarterly basis as well as those prepared on an annual basis for audit purposes. The Council agreed to approve the reclassification adjustments proposed by LGA.

The transaction 'Income from Tenders (€300)' was a transaction which was erroneously posted since all transactions of this nature are posted in 'Document/Info Charges' account. As regard Rental Income and Income from Cultural Events, the Council will take LGA's recommendation and create respective accounts for such income categories.

During 2012, the Council received income of €110 for the hire of classrooms at 'Ċentru San Girgor' and €450 from a third party for the use of 'San Girgor Gardens', despite that it does not have the necessary Bye-Laws in place to cover such income sources.

Although property rental is not a common occurrence, the Council will take LGA's recommendation and draft a Bye-Law in this regard.

Żurrieq

Included in petty cash expenditure were petrol allowances to three ETC workers. As from April 2012, the Council prepaid a petrol station, €2 per day (based on 5-day week) at the beginning of each month, for each of these ETC workers, who then went directly to the station to top up the fuel with a key. Testing carried out revealed that total payments effected from the petty cash during the year under review in this respect amounted to €643. However, additional payments cannot be excluded.

As agreed and instructed by the Council, €2 per diem per worker is due as petrol allowance to ETC provided labour, for using one's own vehicle and carrying equipment and paint, while travelling from one place to another either in Żurrieq or outside. This is a very minimal allowance when one bears in mind that no wear and tear expenses are then compensated. Carrying of such equipment and material is at their own discretion. Relevant correspondence pertaining to such authorisation can be traced in the Council's records.

A net discrepancy of €440,005 was encountered between NBV as disclosed in FAR and that reported in the unaudited Financial Statements. Differences were also identified between NBV of certain asset categories as disclosed in the adjusted Financial Statements, against that recorded in the Nominal Ledger. These variances resulted due to the following shortcomings:

a. For previous accounting periods, income from Government Grants was accounted for using the Capital Approach. Thus, to calculate the depreciation charge, the opening balance of Grants, amounting to €360,281, should

have been deducted from the purchase price in FAR. Notwithstanding this, it was noted that both the purchase price and the revalued price amounts to €2,392,633, implying that no deductions were made.

- b. Following a physical inspection carried out by the Council during the year under review, assets costing €355,125, which were no longer in use, were scrapped. Whilst in accordance with the Fixed Asset schedule as reported in the Financial Statements, these assets were fully depreciated, the same assets had a NBV of €296,733 in FAR as at end of 2012. Furthermore, the decision, as well as the respective reasons for the writing-off of such assets, was not minuted during the Council's meetings.
- c. It could not be ascertained if part of the Grant, amounting to €360,281, was released on the scrapping of these assets. This Grant was brought forward from previous years, and the Council could not deduce to which asset in Special Programmes this Grant pertains.
- d. Upon testing for reasonableness of the depreciation charge, it transpired that this was overstated by €28,079 (2011: €34,673). The depreciation charge in the Financial Statements amounts to €107,028, and is calculated automatically by the software provided. The major part of this difference is due to the Grant amounting to €360,281 referred to above.
- e. Assets under Construction, amounting to €300,476, were not included in the Plant Register.
- f. With regard to roads resurfacing under the PPP Scheme, the Council is recording the amount paid to the contractor, *i.e.* 40% of the total amount certified by the Council's Architect, as Fixed Assets. Since resurfacing works on the three roads in question were completed and certified by the end of 2012, LGA proposed an adjustment of €326,592 to record the total cost incurred on the three roads as assets. However, no depreciation was charged on this adjustment since, as already explained, depreciation on Special

Programmes was overstated by €27,224. Thus, such overstatement compensates for the depreciation charge on the adjustment proposed.

In view of the matters explained above, LGA could not ascertain the existence, completeness and valuation of the carrying amount of PPE as at 31 December 2012, amounting to €1,621,114. Thus LGA had no other option than to qualify the audit opinion.

The Council is already aware of the necessary adjustments, however the software precludes changes to the acquisition price unless the asset is scrapped and re-entered, which will in return affect depreciation. Furthermore, the system's integrity does not allow us to input assets with a negative amount to offset a higher value in another asset. Certain categories of assets such as signs are no longer considered as expenditure of a capital nature. However, the FAR still includes assets in these categories which were fully depreciated in previous accounting periods. These reasons explain the discrepancies and differences highlighted above, which can only be adjusted in the Financial Statements. Additionally, in the future the Council shall ascertain that any write-offs are notified to the Council prior to adjustment and carried out only with signed authorisation and consent. The Council is in the process of trying to identify the assets which had originally benefitted from Grants.

Included with Trade Payables of €449,998 is the amount of €326,592 payable to the PPP contractor, out of which the balance of €217,728 is due to be paid after more than one year. Notwithstanding this, the full amount was disclosed as a Current Liability. A qualified audit opinion was issued in this respect.

Point not addressed.

During the year review, upon completion of works at 'Triq Goswalda Calleja', a Grant totalling €19,320 was wholly recorded as income, rather than recognised on a systematic basis, in accordance to the depreciation rate, over the useful life of the asset. On the other hand, the proportion of the allocation received, attributable to a number of assets that were completed, was not released to

the Statement of Comprehensive Income in line with the depreciation charged thereon. Moreover, the Council failed to record €8,776 as Accrued Income receivable from three different Schemes, which Grants were already approved by the end of the year. Meanwhile, through a Journal Entry, the Council recognised Accrued Income as well as Deferred Income of €139,166, which transaction was then reversed upon LGA's recommendation. Additional adjustments proposed by LGA, to correctly reflect the Accrued Income at year-end, were recognised by the Council accordingly.

Points were noted and agreed to. Furthermore, upon request, LGA provided the Council with a list of those assets which should be systematically adjusted. This will ensure that these errors will not be repeated.

Debtors amounting to €12,839, representing 47% of the total Trade Debtors at year-end, have been outstanding for more than 120 days. Furthermore, the Customer Detailed Ledger did not agree to the Debtors balance as disclosed in the Financial Statements by €380. These receivables were provided for during 2011, whilst during the current year the Council reversed the provision and wrote off these amounts.

The majority of such overdue amounts are receivable from LES Regional Committees. The Council sends out reminders and chases the Committees. However, it is then up to the Regions to pay the respective administration fees. As regard the discrepancy of €380, the Council still needs to adjust the individual customer's accounts.

It was also noted that the Provision for Doubtful Debts, to cover LES Debtors older than two years, was understated by €18,301. Proposed audit adjustments were correctly included in the Financial Statements.

Agreed, however the Accountant had pointed them out during a time when the clerical staff entrusted with postings was on vacation leave. It was therefore computed and pointed out to LGA after the Financial Statements had already been prepared. A hard-copy of the communication between the Accountant and the Council on this issue was provided to LGA during the time of audit.

Tax deductions on Personal Emoluments, amounting to €2,600, which were actually paid to IRD during 2013, were not accounted for.

The accrual as at 31 December 2013 will be processed prior to the finalisation of the Financial Statements.

As was the case in previous years, the bank reconciliations prepared for a current and savings accounts did not reconcile with the bank balance as at year-end by €332 and €114 respectively. The Executive Secretary claimed that these differences were coming from previous years.

Notwithstanding that the Council had asked LGA for these adjustments to be included within the audit adjustments list, this request was not acceded to. However, the Council intends to carry out both adjustments forthwith and the transactions shall be dated 1 January 2013 so as to be easily recognisable. Moreover, this will facilitate the exact matching of the bank reconciliation of these accounts. As regard petty cash transactions, only instances where the petty cash balance is either increased or decreased are included in the Petty Cash account. To differentiate between old petty cash transactions and new ones, the Council is taking the initiative to open a new Petty Cash account in the General Ledger so as to ensure that any reconciliation problems found in the old account are not inherited by the new one.

The disclosures in respect of a Contingent Liability as recorded in the Financial Statements are not correct. A service provider has issued a Garnishee Order, amounting to €64,705, which is shown under Receivables in the Financial Statements. On the other hand, the Council recognised an accrual of €24,506 in respect of invoices payable to the aforementioned supplier and a Contingent Liability of €60,947. However, the Council should not record this Contingent Liability since part of the amount is already shown as a creditor. The case is still pending.

The amount of €64,705 has been blocked by the bank since 2009 and has been recognised in the Financial Statements since then. The Council felt that it would be more prudent if the full amount blocked is considered as a Contingent Liability.

Gozo Regional Committee

Following LGA's request for the annual Budget, in order to compare actual expenditure with the budgeted expenditure, it was noted that such Budgets were not yet prepared. The Committee stated that since it does not have a fixed Central Government Allocation Fund, it is difficult to estimate the income that will be generated mainly from LES contraventions. Thus, the respective Budgets were not prepared.

The Committee does not have an annual allocation from Central Government and thus it is very difficult to budget income. The only income is from contraventions. Since last year was the first full year of the Gozo Regional Committee, it was not possible to prepare the Budget for 2012. Now that the audit for 2012 has been finalised and the income figure has now been audited, a Budget for 2013 will be prepared.

Upon reconciling the petty cash count by adding back payments issued during 2013 as well as cashed cheques, the resulting figure did not tally to the amount disclosed in the accounting records. Eventually, LGA ended up with a negative cash balance, when taking into consideration that a cheque issued in February 2013 was recorded in the books of account as cashed in December 2012. The Council stated that the Executive Secretary was paying the expenses from his own pocket and he would then aggregate these amounts and take back the money, when a cheque is cashed.

Point noted.

Northern Regional Committee

The Committee has taken over a number of contracts which were previously issued and awarded by the Joint Committee. However, the former had not yet awarded a number of tender offers which had expired, such as the provision of Prosecution Services and the provision of Authorised Officer services. In the latter case, the Committee issued a tender offer during the year under review, which however was not awarded due to the filing of an appeal. The total amounts of €7,642 and €81,850 respectively were incurred for such services during the year under review, under expired contracts.

Notwithstanding that the contract for the rental of premises, that was entered into by the Joint Committee way back in March 2008, and which was valid for ten years, stipulated that the tenant had the option to cease the rental of such premises by providing a three month notice, the Regional Committee opted to continue with the said agreement. In fact, a contract was signed with the landlord for a rental of €5,823 *per annum*.

In addition, during the year under review, the Committee requested the company who is currently providing the services of the Authorised Officer, to provide also clerical services. Such services were previously catered for by an employee seconded by St. Paul's Bay Local Council, and which secondment was terminated by the latter in May 2012. Considering that the annual fees paid for such service exceed €4,659, the Regional Committee should have either issued a proper tender or else engaged a staff member.

Upon reconciling revenue as recorded in the Financial Statements, with the reports extracted from the system in relation to balances paid, or paid but not yet transferred, together with the amount of contraventions adjudicated but not yet settled, a variance of €9,166 was encountered. No reconciliation was provided in relation to this variance, which may have arisen due to contraventions received, which were accounted for net of bank charges and LCA Management Fees.

It is understood that the Committee is experiencing certain difficulties with the collection of fines adjudicated in its favour by the Local Enforcement Tribunal. In fact, LES Debtors outstanding as at 31 December 2012 amounted to €390,617. However, the Committee has not established a proper policy and methodology to evaluate and provide for impairment in relation to adjudicated tickets, which, based on experience and trend analysis, would be deemed that will remain unrecoverable. Since the information provided to LGA in this regard was not sufficient to determine the extent of the provision required to be recognised in line with the requirements of IAS 36, a qualified audit opinion was issued.

This implies that the previous difficulties that used to arise at both Councils' and Joint Committees' levels are recurring at Regional Committees level.

The Committee 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 Committee. Such misstatements included invoices, totalling €2,020, omitted from the financial records, and certain invoices totalling €205, dated in 2013, that were accounted for during the year under review. In addition, material variances were encountered between the balances payable as recorded in the accounting records and the respective Suppliers' Statements and/or confirmations provided to LGA. The main discrepancies noted related to the balances payable for the provision of warden services as well as the operation of the LES and the technical support of the same system, which were understated by €851 and €68,934 respectively. Following LGA's recommendation, the Committee adjusted the Financial Statements accordingly.

Errors were also noted in accounting for accrued expenditure, whereby this was understated by €29,263, since the Committee failed to provide for expenses incurred during the year, but in respect of which an invoice was not yet received by year-end. During the year under review, the Committee partly reversed the performance bonus that was accrued for in the preceding year, against a prior year adjustment, despite that the accrual was still valid. In addition, a Receivable of €390,617 was recognised in relation to contraventions issued and adjudicated by a Tribunal up to 31 December 2012. However, the Committee did not reflect an equivalent obligation arising from the settlement of these Receivables in the form of service charge payable to the service provider operating the LES, in line with new contract requirements. Consequently, LGA was not in a position to quantify the accrual that should have been recognised and thus, a qualified audit opinion was issued in this respect.

Testing carried out revealed that petty cash transactions were not being recorded correctly. Total cash reimbursed was being expensed against General Expenses, instead of being accounted for in the proper expenditure account. Furthermore, from the explanations provided, it is understood that the Committee only started maintaining a proper petty cash system in 2013. During the year under review, petty cash expenses were being paid

personally by the Executive Secretary who was later reimbursed directly.

In addition, the Committee failed to carry out the necessary bank reconciliations. In fact a discrepancy of €13,123 was identified between the bank balance as per accounting records and the respective bank statement, out of which the amount of €12,773 related to unrepresented cheques. No further explanations were provided for the unreconciled balance of €350.

The contract of employment of the current Executive Secretary provided for audit purposes is not appropriately dated and signed.

It was noted that payments issued were not always being substantiated by the respective Payment Vouchers. For example, a Payment Voucher was not traced in respect of payments for Warden Services for the month of July 2012, as well as part of the rent of the Regional Committee premises for 2012, amounting to €28,932 and €5,823 respectively. Furthermore, the amount of €4,207 disclosed in the approved Schedule of Payments, in respect of Malta Information Technology Agency (MITA) connectivity services, did not tally to the amount of €4,151 that was actually paid. In addition, the total amount of €11,648 paid for rent of office premises was not covered by a proper invoice.

The Christmas staff party organised by the Committee catered for 20 persons, although the Committee members and staff, total only to 14 persons. The amount of €550 was incurred for the organisation of this activity, implying that the maximum threshold of €15 per person, as laid down in Memo 8/2011, was exceeded.

No disclosure of Capital Commitments was made in the Financial Statements. However, from both the after year-end Schedule of Payments, as well as from the list of tenders provided by the Committee, LGA noted that Capital Expenditure was undertaken by the Committee in 2013.

The Northern Regional Committee failed to provide its response to the Management Letter.

South Eastern Regional Committee

The Committee has taken over a number of contracts, including warden services, prosecutor services, Authorised Officer services as well as the agreement, with the supplier operating the LES and providing technical support to the system, which were previously issued and awarded by the then Joint Committee. It was also noted that in certain instances the Regional Committee did not manage to obtain the contracts and tender documentation relating to a number of such contracts. On the other hand, where the contract was acquired, this was not signed.

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 property is accessible in terms of the 'Accessible for All' guidelines issued by the National Commission for Persons with a Disability. Notwithstanding this, the Committee still accepted both offers. Eventually the tender was awarded in 2012 to a particular bidder after he applied and obtained the necessary MEPA permit.

The Committee has improved its liquidity position considerably when compared to the preceding year. It has also managed to attain a healthy net current asset position of €271,650. However, it was noted that Receivables are mainly made up of amounts due from LES contraventions. Despite that the Committee has provided a Provision for Doubtful Debts in respect of these outstanding amounts, these still add up to 71% of Current Assets.

The previous difficulties arising at both Councils and Joint Committees are likely to be recurring at Regional Committees level. The latter is experiencing certain difficulties with the collection of fines adjudicated in its favour by the Local Enforcement Tribunal. In fact, according to a report issued from the respective system, the amount of LES Debtors outstanding as at 31 December 2012 amounted to €730,889. The Committee has taken prudent steps in this context and is recognising part of this amount as Provision for Doubtful LES Receivables, amounting to €281,977. However, by the end of the financial year 2012 there were

no contraventions that have been adjudicated by a Tribunal which have been outstanding for more than a year. The Committee's policy in this regard states that an impairment loss shall be recognised on the higher of adjudicated tickets not paid over one year, or 38.58% of the adjudicated tickets based on a trend analysis of the average number of tickets unpaid over the last five years. Whilst the methodology applied may be considered reasonable, it poses a number of assumptions.

The Committee was not obtaining monthly statements from its suppliers, as required by Memo 8/2002. Consequently, certain suppliers' balances in the Creditors' List were not agreeing to the Suppliers' Statements provided. For example, an invoice amounting to €337, submitted by the Fgura Local Council was omitted from the accounting records. Moreover, the Committee failed to recognise accrued expenses of €408 in relation to plumbing services.

Assets falling under the responsibility of the Regional Committee are not covered by an insurance policy.

No bank reconciliation was provided with respect to a savings account. From the necessary verifications carried out, it transpired that a number of deposits, totalling €626, were not accounted for. In addition, included in the bank reconciliation of a current account are three cheque payments, amounting to €123, that have become stale. Furthermore, the amount of €4,857 arising from LES Cash Control account was disclosed as Cash at Bank rather than as Cash in Transit.

Testing carried out revealed that the Committee has set up its Chart of Accounts based on a specimen template found in the accounting software, rather than the specific Chart of Accounts for Local Councils, as detailed in the Appendix to the Local Councils (Financial) Procedures. This was then customised to reflect the Nominal Accounts used by the Committee. It was also noted that the Accounting Ledger provided for the audit included both transactions of 2011 as well as transactions of 2013. Consequently this was not in agreement to the Financial Statements approved by the Committee.

The South-Eastern Regional Committee failed to provide its response to the Management Letter.

Southern Regional Committee

At the end of the financial year, the Committee had a significant receivable balance of €879,749 due from LES. Out of this amount, €594,836 related to Tribunal Pending Payments, €136,260 were paid but were not yet remitted to the Committee, whilst €148,653 related to pending contraventions that had not yet been referred to Tribunal. Notwithstanding this, LES Debtors recognised in the Financial Statements amounted to €865,364, thus resulting in a discrepancy of €14,385. Out of this difference, €13,290 is related to discrepancies in LES receipts during the year. The remaining difference of €1,095 is unexplained.

As per report generated from the current system, paid contraventions remitted by all Local Councils and LCA during the period under review amounted to €895,917. However, only €835,396 was actually transferred to the Regional Committee; thus a discrepancy of €60,521. The latter claimed that €47,231 of the said difference relates to LES deposits from LTD that were not yet reflected in the respective report.

The Committee agrees with LGA's comments, however such reconciliations and variances are sometimes beyond the Committee's control. During the year under review this office did its utmost to avoid such discrepancies, by regularly communicating with the personnel in charge of the administration of the LES system when variances were noticed.

The Committee's role is very much restricted since its LES Debtors and income are based on the information generated by the LOQUS system, which is managed, maintained and controlled by third parties outside the parameter of the Committee.

The Creditors List still included an outstanding balance of €11,518 payable to the Joint Committee. Notwithstanding that the Executive Secretary claimed that this amount is not payable, the Committee had not yet approved the writing-off of such amount from its books of account.

Following the conclusion of the audit, the Committee had obtained confirmation that this balance is not due to the Joint Committee. Thus,

during 2013 this would be reversed from the Creditors' Ledger and posted as Other Income.

Included in the Accruals List was €5,540 worth of Credit Notes received from service providers, which have been reclassified to Other Debtors in the final set of Financial Statements.

The Credit Notes were requested at year end but were not yet received. The Committee found no objection to the reclassification adjustment proposed by LGA, and it will ensure that in the future any awaiting Credit Notes would be presented with Other Debtors.

Following the awardance of the tender for the services of an Authorised Officer, to the bidder who submitted the most economic and advantageous offer, another bidder filed an appeal at the Public Contracts Review Board to contest the adjudication. However, the Board subsequently cancelled the tender, after finding out that the tender document was circulated amongst all the Local Councils in the Region, rather than to the Regional Executive Secretary only. Consequently, both bidders filed a claim for judicial redress at the Courts, but up to the time of audit, none of them was heard. Following LGA's recommendation, the Committee included a note in the Financial Statements stating that it had an open legal case at the balance sheet date, and that it is not anticipating any costs from litigation.

Reference is made to note 12 of the Financial Statements, whereby this issue was disclosed under Contingent Liabilities. Furthermore, the Committee confirms that it is monitoring the situation.

Whilst reviewing the minutes of the Committee, it was noted that a number of members did not attend meetings regularly. Moreover, the quorum necessary for three out of 15 meetings was not reached.

The Committee does its utmost to ensure that minutes of meetings are as accurate as possible. Furthermore, it insists with its members who fail to attend meetings to send an excuse letter to justify their absence.

Local Councils Association

Instances were noted whereby goods and services were bought from the direct market without the issuance of a call for tender/quotation as required. For example, no tender has been issued for the provision of the group health policy for the Local Councils members, Regions' members and the Associations' employees, which expense amounted to €23,673. During the preceding year, four quotes were obtained from the insurance brokers and the Association selected the lowest premium. However, the same insurance policy was renewed in 2012 without asking for new quotes. As per explanations provided, the low premium rates could only be obtained if the Association took the same insurance policy for 2012 as well. The major part of this expense is refundable from the Local Councils and Regions.

The Association has provided documented evidence that the group health policy for 2012, was contracted in 2011 when the latter was on the market through its appointed insurance brokers for the period 1 May 2011 to 31 December 2012. Hence, the 2012 period was covered by the purchase contract of 2011.

No call for quotations was made for a local event in relation to the 'WIN Project Conference', held between 10 and 13 April 2012, which amounted to €3,123. This included accommodation for three nights for 11 participants, lunches, dinners and coffee breaks. The Executive Secretary claimed that based on past experience the chosen hotel offered the best package for these types of events.

The procurement of hotel services is carried out by obtaining quotations from various hotels that have delivered in the past. Hotels that have provided horrendous services and/or are not flexible in their operational attitude, are not considered, as the Association wants to offer its customers the best of service. The Association previously had an experience in a five star deluxe hotel whereby the person in charge did not issue the works order, and nothing was prepared for the meeting. The matter had only been resolved when the Executive Secretary went very early to the hotel to commence preparations, and could fix the issue before the delegates arrived. Another experience was when the hall for the meeting was only prepared half

an hour before the meeting commenced and thus there was no time to test equipment, projectors and sound.

Similarly, no tenders were issued for the hire of conference equipment, stand as well as translation equipment and services, relating to another EU project event costing €11,670. The Executive Secretary claimed that since this is not an expense of the Association but is fully refundable from the project, it does not fall under Local Councils Procedures.

The cost of €7,550 incurred for the hire of another conference room and equipment, together with the related catering services, to hold the Mayors' meeting in May as well as the Plenary meeting of Local Councillors in November, was again not supported by a call for quotations. As explained by the Executive Secretary, following the Committee's approval, a three-year agreement was entered into in June, with the chosen hotel, since the latter offered very competitive rates. Whilst the Association charged the Councils a fee for the attendance of the respective Mayor and Councillors to these meetings, part of the expenses on these events was allocated to an EU project.

Meanwhile, a separate conference organised in November in connection with an EU project was also held in the same hotel. The total expense of this activity amounted to €4,706, which was fully refunded by the EU.

Explanations have been provided in these cases and there is no need for further comments. The Association has a track record of obtaining from its suppliers the best conditions that meet the specifications of the end customer. The Association is not prepared to undergo a process that can be easily flawed and manipulated and it has learned from its own experience that direct supplier contracts yield the best financial and quality results. Following every meeting, the Association receives emails from all attendees about the high quality of services provided and in the end this is what matters in these kind of events. Furthermore, with specific reference to the last point mentioned above, LGA has bundled the costs together as otherwise this would not be eligible for reimbursement under EU funds rules.

Over a period of four months, a particular supplier, who provided various services relating to the network changeover of the Association, was paid the total amount of €5,232. Whilst it is understood that these types of services are ideally carried out by the same service provider, a tender should have been issued in line with Local Councils Procedures.

This issue has been replied upon many times, and any further comments are frivolous.

Three instances have been encountered whereby accrued income, receivable at year-end in respect of EU projects that were completed during the same year, was omitted from the accounting records. Following LGA's recommendation, the Council approved the necessary audit adjustments totalling €173,480, to recognise such income in the books of account.

In one of the instances, the Association feels that it cannot accrue the income from the co-financing fund since it has written confirmation that the funds have been exhausted and that there is no guarantee that these will be forthcoming. The prudence concept has to be applied and this is what the Association did. On the other hand, the Association perceives the audit adjustments passed in the other two instances as transactions of a cosmetic nature since these do not change the performance of the latter. In such projects, the most prudent method is to accrue for the income on its receipt. The procedures adopted by the EU are more complex than those described by LGA. Claims for EU funds re-imbursement are first vetted by an Auditor appointed by the Association, then by the First Level Controller (PPCD). Then there are other various stages of evaluation. Thus, the Association cannot assume that the other institutions will approve a claim accepted by the First Level Controller. Hence, the policy adopted by the Association is that income is posted to the various accounts when it is received from the Lead Partner.

By means of an audit adjustment proposed by LGA, the Council recognised a provision for impairment of €30,000 against a refundable expenditure forming part of the Association's receivables. This non-recoverable amount represents the co-financing that the Association will contribute out

of its own budget, in respect of EU projects that were completed by the end of the year.

The Association had presented the workings for the provision of such re-imburement on EU projects. This impairment represents the co-financing part that is provided by the LCA. On the other hand, it should be stated that this provision is being recovered since the Association is recovering part of salaries paid as part of the staff costs of the various projects.

Following a review of the FAR by the Executive Secretary it was noted that a number of assets bearing a total cost of €10,275 and accumulated depreciation of €7,928 were still included in the register despite that these were obsolete and no longer in use. The Council approved the necessary audit adjustments to write off these assets from the accounting records. Consequently, a loss on disposal of €2,347 was recognised in the Statement of Comprehensive Income.

The write-off of these assets was approved by the Executive Committee and the normal procedure was adopted. All the work in connection with this write-off was carried out by the Association after the year-end process, and hence the audit adjustment was agreed between the latter and LGA.

The interest received on the Association's LES bank accounts aggregating to €560, was not transferred to its savings account in line with past practice. Upon queries raised by LGA, the Executive Secretary stated that the interest of €80 earned on one of the bank accounts, is planned to be kept in the same bank account to compensate for the bank charges incurred. Furthermore, payments of €5,085 forwarded to Local Councils in respect of LES during the month of December were erroneously effected from the Association's bank overdraft account. Thus, the necessary audit adjustments were made to transfer these amounts back to the savings account, in order to ensure that the correct bank balances are matched against LES Payables.

Explanations are included in the Management Letter and the Association does not need to report on such petty issues.

A discrepancy of €2,098 was noted between the balance held in the bank account where LES money is deposited and the receipts account maintained by the Association.

Further testing revealed a variance of €21,164 between the balance of €201,913 held in the LES bank account at year-end and the respective payments advanced to Local Councils and Regional Committees, by the Association during the first two months of 2013, in respect of 2012 LES fines paid online, aggregating to €223,078. This implied that at year-end there were not enough funds in the bank accounts to effect the necessary payments to Local Councils and Regional Committees.

There are no discrepancies in these accounts. The system is verified by MITA and LOQUS who provide the operational backup of these transactions. The difference that is being mentioned arises due to the cut-offs for receipts and payments. The balances are under review and the Association has requested LGA's workings so that this review is carried out. There has never been a case that funds were not available and hence a detailed review is required.

Expenses incurred, as well as refunds received from the EU in respect of the 'ALDA' projects, were disclosed in the same account. To simplify disclosure of Deferred Income and refundable expenditure, in the presentation of Financial Statements, reclassification adjustments totalling €40,561 were proposed by LGA. Likewise, the income and expenses relating to the EU projects concluded during the year were netted off in the accounts. Thus, in order to maintain a consistent presentation in the Financial Statements, another audit reclassification adjustment of €7,913 was made in order to disclose separately the income from the losses on EU projects that were completed during the year. An additional reclassification adjustment of €164,483 was approved to separately disclose income received from refundable air tickets and the related expenses, which were initially recorded in the same account.

Testing on Creditors' cut-off revealed that three invoices, amounting to €6,300 and which were dated in 2012, were recognised in the books of account during 2013. Despite that the recording

of such invoices did not have a direct impact on the Statement of Comprehensive Income, as these related to an EU project which was not yet completed by year-end, an audit adjustment was still approved by the Association to recognise such costs in the correct accounting period. The Executive Secretary stated that the amounts due to this service provider were being disputed and an agreement was only reached after the accounts were closed.

Explanations have been provided and the Accruals Concept is totally being applied by LCA. Any deviations are based on valid reasons.

Upon the checking of Personal Emoluments paid by the Association during the year under review, the following shortcomings were noted:

- a. The Association failed to pay the NI contributions payable for November 2012, on behalf of one of its employees.
- b. The NI contributions of another employee for the same year were not calculated correctly, resulting in an overpayment in contributions paid by the employee and employer of a total amount of €385.
- c. An understatement of €107 was noted in the NI contributions paid by the employer on behalf of a part-time employee. Despite that the Executive Secretary claimed that the amount paid was calculated as per guidance provided by IRD, evidence of such correspondence was not provided.
- d. The number of NI contributions for 2012 made by the Association amounted to 52 payments. However, given that 2012 was a leap year, this included 53 Mondays, thus payments should have been made accordingly.
- e. No tax was deducted on the 2011 bonus paid to two employees during 2012, as well as on the salary increase of a particular employee, the President's honoraria and the members' allowances.
- f. The bonus payable to the Executive Secretary and another two employees, as calculated by the Association, was overstated by a total balance of €172.
- g. The salaries of the Association's employees other than the Executive Secretary, were not calculated correctly in accordance with the new Government Pay Scales for 2012, with the consequence that the gross salary of three employees for the year was understated by a total amount of €444.
- h. FSS forms were incorrectly filled in.
- i. Upon approval obtained from the Association's Committee, the Executive Secretary and another employee of the Association were paid €5,972 and €2,674 respectively for time spent during 2011 and 2012 on managing a particular EU project named 'Life+ Sun Eagle'. These amounts, which were fully refunded through EU funding, were calculated by multiplying the hours worked on this project with the hourly rate allowed to be used when making EU projects claims. These payments were effected despite that the Executive Secretary, who is a public officer within DLG, is at a grade that precludes additional payments other than the basic salary, allowances and bonuses, in accordance with the Human Resources Regulations. Similarly, the entitlement of the other employee to receive additional payments, which do not seem to be overtime payments, is not clear.

Kindly note that guidance was obtained on these issues from DSS. Furthermore, NI contributions are calculated at 10% of gross basic salary.

The payment of all bonus is included in the FSS returns and hence employees are accounting for tax in their annual return.

The collective agreement being referred to is only applicable to public officers and does not apply to Local Councils clerical employees. The Association believes that LGA was misguided by DLG. Furthermore, despite that the Association has requested a clarification from DLG, no response was provided. The Association finds it unethical that LGA raises issues with DLG without its knowledge, and this is also a breach of the confidentiality principle since the LCA and DLG are two separate institutions.

All payments are approved by the Executive Committee and are in line with normal operating

procedures in cases where entities enter into a large number of EU funded projects. LCA has been implementing EU projects since 2007, and has a recovery rate of about 98%, indicating that all expenditure is being done in accordance with EU and local legislation. The Association has built a very good reputation for project delivery and is constantly being requested to join in EU funded projects.

Any miscalculations have been corrected.

Joint Committees

As already highlighted further up in the report, the nine Joint Committees were to be liquidated a year following the inception of the Regional Committees, which were officially set up on 1 September 2011. However, during a meeting held at NAO on 17 January 2013, Director (DLG) claimed that this issue is still pending. Moreover, so far NAO has not been informed on any developments to this effect.

It is pertinent that the Department acknowledges the importance of such issue, especially when considering that, while the Joint Committees were in operation, there was no monitoring whatsoever on the responsibilities falling under the latter's remit. Furthermore, the longer this issue drags on, the less money will be recoverable, as after two years, amounts receivable are likely to become statute-barred.

In addition, none of the nine Joint Committees submitted the respective Financial Statements covering the financial year 2012. Furthermore, both the Central Joint Committee and the North Joint Committee also failed to file the 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, the lack of audited Financial Statements 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 a number of times in previous years, followed by various meetings held with

the pertinent authorities responsible for Local Councils, the situation still prevails.

During the preceding years, 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. Furthermore, since the respective Committee has never owned funds relating to its operation, the administration of the said Committee, did not consider it 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

DLG's decision to start enforcing the provisions of Article 55(3) of the Local Councils Act, which Grants the power to retain provisionally part of the allocation until such documents are timely submitted, was fruitful as a substantial number of Councils and Regional Committees 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 for those Councils and Committees where the Financial Statements are not up to the expected standard.

Performance Indicators

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 have not yet been 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

In line with the Local Councils (Audit) Regulations, whenever there is a change in the position of the Executive Secretary within a particular Local Council, 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, as already reiterated in the preceding year's report, these regulations fail to address certain anomalies as indicated hereafter;

- a. 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.

- b. The minimum time span that the Executive Secretary should be in office, before a mid-term audit is conducted following his termination.
- c. 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 that no benefits are derived.

During the year under review, a number of Local Councils and Regional Committees changed their Executive Secretaries and thus, in terms of the standing regulations were obliged to carry out a mid-term audit. **Appendix K** refers. Notwithstanding this requirement, only three Local Councils, namely Gzira, Mosta and Qormi, adhered to the legislation cited above and performed the required exercise.

However, in the case of Gzira, whilst as per information provided by DLG, the outgoing Executive Secretary left on 30 September 2012, the Financial Statements prepared for the mid-term audit covered the period 1 January to 31 October 2012. These were then approved during a Council meeting held on 10 December 2012. Moreover, the Council took more than six months¹⁸ to approve the adjusted Financial Statements, which were then delivered to the Auditor General on 9 September 2013, *i.e.* almost a year later.

Despite that this non-adherence is becoming the norm, the Department is not taking any stand *vis-à-vis* the respective Councils. This lenient approach, lessens the importance that the mid-term audits are expected to be given.

¹⁸ The audit was performed during January 2013 and on 20 February 2013, LGA forwarded to the Council the list of proposed audit adjustments. However, the adjusted Financial Statements were submitted back to LGA on 4 September 2013.

Appendix A – Financial Allocation

Table 1 – Income received by Local Councils

Local Council	Government Allocation 1 January – 31 December 2012	Other supplementary income received from Central Government	Other income generated by Local Council	Totals
	€	€	€	€
Attard	581,339	35,901	50,936	668,176
Balzan	255,544	540	9,557	265,641
Birgu	263,764	13,746	70,424	347,934
Birkirkara	1,146,794	197,082	249,652	1,593,528
Birzebbuga	642,859	34,594	126,645	804,098
Bormla	424,609	4,874	80,796	510,279
Dingli	304,547	15,802	21,997	342,346
Fgura	529,384	24,990	147,128	701,502
Floriana	327,106	11,274	78,660	417,040
Fontana	133,185	14,301	7,768	155,254
Gudja	256,478	79,733	21,484	357,695
Gzira	485,780	13,974	53,268	553,022
Ghajnsielem	301,195	7,258	30,347	338,800
Gharb	207,443	57,653	524,880	789,976
Gharghur	220,694	19,464	13,749	253,907
Ghasri	159,880	466	4,038	164,384
Ghaxaq	307,582	14,836	12,865	335,283
Hamrun	606,343	6,894	31,028	644,265
Iklin	224,589	9,324	27,512	261,425
Isla	266,161	16,281	60,949	343,391
Kalkara	237,279 ¹⁹	-	-	-
Kerċem	240,443	21,316	8,765	270,524
Kirkop	188,157 ²⁰	33,712	28,307	250,176
Lija	235,941	16,590	14,637	267,168
Luqa	364,244 ²¹	7,704	21,045	392,993
Marsa	480,703	29,938	20,163	530,804
Marsascala	707,534	123,346	84,762	915,642
Marsaxlokk	330,659	9,691	14,259	354,609
Mdina	183,668	12,787	60,693	257,148
Mellieha	990,928	143,290	50,835	1,185,053
Mgarr	396,708 ²⁰	25,384	90,519	512,611
Mosta	1,026,473 ²⁰	19,286	15,873	1,061,632
Mqabba	246,666	62,625	11,929	321,220
Msida	461,520	18,751	41,804	522,075
Mtarfa	238,125	2,909	17,820	258,854
Munxar	212,183	16,648	3,873	232,704
Nadur	414,002	16,420	29,431	459,853
Naxxar	842,704	29,503	66,165	938,372
Paola	636,721 ²⁰	29,795	27,765	694,281
Pembroke	358,699	1,489	161,123	521,311
Pieta`	275,889	17,972	66,904	360,765

Appendix A – Financial Allocation *cont./*

Table 1 – Income received by Local Councils

Local Council	Government Allocation 1 January – 31 December 2012	Other supplementary income received from Central Government	Other income generated by Local Council	Totals
	€	€	€	€
Qala	255,967	38,299	7,101	301,367
Qormi	1,023,841	148,979	88,530	1,261,350
Qrendi	318,497	6,238	7,710	332,445
Rabat (Malta)	976,075 ²⁰	52,069	83,311	1,111,455
Rabat (Gozo)	496,485	48,858	42,956	588,299
Safi	222,933	9,461	32,191	264,585
San Ġiljan	622,756	69,553	237,600	929,909
San Ġwann	675,758	15,067	77,155	767,980
San Lawrenz	145,134	3,634	30,447	179,215
Sannat	207,382	28,977	6,005	242,364
San Pawl il-Bahar	1,251,265	90,932	134,667	1,476,864
Santa Luċija	301,254	36,976	22,758	360,988
Santa Venera	381,767	372	39,021	421,160
Sigġiewi	713,520	29,459	45,812	788,791
Sliema	960,741	10,008	339,272	1,310,021
Swieqi	539,078	76,003	43,047	658,128
Ta' Xbiex	198,636	1,364	90,947	290,947
Tarxien	459,061	34,521	38,008	531,590
Valletta	689,226	120,736	182,382	992,344
Xaghra	483,612	21,065	18,637	523,314
Xewkija	319,037	39,728	9,049	367,814
Xghajra	166,817 ¹⁹	-	-	-
Żabbar	759,685	92,387	20,276	872,348
Żebbuġ (Malta)	733,878	36,130	57,221	827,229
Żebbuġ (Gozo)	409,571	31,688	8,173	449,432
Żejtun	756,579	117,496	142,893	1,016,968
Żurrieq	716,924	35,644	52,337	804,905
Totals	31,500,001	2,413,787	4,317,861	38,231,649

Source: - 'Government Allocation' – as per report provided by DLG.

'Other supplementary income received from Central Government' and 'Other income generated by Local Council' – 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 those recognised in the Final Account.

'Other income generated by Local Council' also includes finance income, such as interest earned on bank balances.

¹⁹ In the case of Kalkara and Xghajra only, the Government Allocation was included, since the audited Financial Statements were still not submitted by the time of finalising this report.

²⁰ Government Allocation as recorded in the Financial Statements differs from that disclosed in the 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 an expense.

²¹ Amount does not reconcile to balance disclosed in the Financial Statements (€366,752) due to an unexplained difference of €2,508. This issue was also highlighted further up in the report.

Appendix A – Financial Allocation *cont./*

Table 2 – Income received by Regional Committees

Regional Committee²²	Other income generated by Regional Committee
	€
Gozo	335,431
Northern	1,239,238
South Eastern	1,944,222
Southern	1,505,907
Total	5,024,798

Regional Committees were provided with a Government Allocation only during their first year of operation. From then on, their main source of income is the money generated from LES.

²² Amounts generated by the Central Regional Committee were not included in the above table, since the respective audited Financial Statements were still not received by the time the report was finalised.

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 the Financial Statements included LES income that was 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 2012 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		
Fgura		X	X		
Floriana		X	X		
Gudja	X	X			
Gzira	X	X	X		
Ghajnsielem			X		
Gharghur	X	X			
Ghaxaq	X	X			
Hamrun		X	X		
Iklin	X	X			
Isla		X			
Kirkop		X	X		X
Lija	X	X			
Luqa		X	X		
Marsa		X	X		
Marsascala		X	X		

Appendix B – Reports that were 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	
Mellieha	X	X	X		
Mġarr	X	X	X		
Mqabba		X	X		X
Msida		X			
Mtarfa	X	X	X		
Nadur					X
Naxxar	X	X	X		
Paola	X	X	X		
Pembroke	X	X	X		
Pietà		X	X		
Qormi		X	X		X
Qrendi		X	X		
Rabat (Malta)	X	X	X		X
Rabat (Gozo)			X		X
Safi		X	X		
San Ġiljan	X	X	X		
San Ġwann	X	X	X		X
San Lawrenz			X		
San Pawl il-Bahar	X	X			
Sannat			X		X
Santa Luċija	X	X			
Santa Venera	X	X			
Sigġiewi		X	X		X
Sliema	X		X		
Swieqi	X	X			
Ta’ Xbiex	X	X			
Tarxien	X		X		
Valletta			X	X	
Xaghra					X
Żabbar		X			
Żebbuġ (Malta)		X	X		X
Żejtun	X	X			
Żurrieq		X	X		
Gozo Regional Committee		X	X		X
Northern Regional Committee		X	X		
South Eastern Regional Committee		X	X		
Southern Regional Committee			X		

Note: Since no opinion was provided for Mosta, this has not been included in the table above.

Appendix C – Delayed Submission of Audited Financial Statements

Date when the Audited Financial Statements of Local Councils/Regional Committees were submitted			
3 May 2013 (within the same week)	A week after the deadline	14 May 2013 (almost a fortnight after the deadline)	Mid-September 2013
Lija	Siggiewi	Ta' Xbiex	Northern Regional Committee
	Żebbuġ (Malta)		

The list does not include the Local Councils/Regional Committees that have submitted the Audited Financial Statements by the deadline, *i.e.* 2 May 2013.

Appendix D – Amounts in dispute with WasteServ Malta Limited

Local Council	Total amount in dispute as at 31 December 2012 given that invoices are higher than the actual allocation
	€
Attard	58,410
Balzan	13,567
Birgu	32,120
Birkirkara	265,129
Birżebbuġa	46,406
Fgura	55,710
Floriana	6,488
Fontana	2,493
Gudja	3,157
Gżira	26,824
Ghajnsielem	13,021
Ghaxaq	22,975
Hamrun	22,184
Iklin	20,874
Isla	6,122
Kerċem	10,047
Kirkop	8,402
Lija	12,299
Luqa	46,023
Marsascala	34,490
Mdina	419
Mgarr	14,880
Mosta	139,326
Mqabba	15,913
Msida	26,438
Mtarfa	16,419
Munxar	3,981
Nadur	15,355
Naxxar	57,044
Pembroke	15,994
Pieta`	19,784
Qala	5,193
Qormi ²³	73,526
Qrendi	5,430
Rabat (Malta)	44,860
Rabat (Gozo) ²⁴	3,956
Safi	13,622
San Ġiljan	26,199

Appendix D – Amounts in dispute with WasteServ Malta Limited *cont./*

Local Council	Total amount in dispute as at 31 December 2012 given that invoices are higher than the actual allocation
	€
San Ġwann	84,285
San Lawrenz	4,064
Sannat	3,423
Santa Luċija	14,124
San Pawl il-Baħar	39,550
Santa Venera	10,559
Sigġiewi	43,584
Sliema	11,487
Swieqi	32,285
Tarxien	32,267
Ta' Xbiex	8,497
Valletta	16,003
Xaghra	7,401
Xewkija	13,106
Żabbar	57,190
Żebbuġ (Malta) ²⁵	138,114
Żejtun	50,446
Żurrieq	37,631
Total	1,809,096

Note: Dingli Local Council did not provide the respective Supplier's Statement to LGA and thus the latter could not calculate the amount in dispute at year-end.

Source: The figures disclosed in the **Appendix D** were provided by the respective LGAs, as per information illustrated in the related Supplier's Statements.

²³ This amount was not provided for in the Financial Statements, as the Council was not recording the full invoices, but only the amount equivalent to the sum allocated by Central Government. However, a contingent liability note in respect of such balance was disclosed in the Financial Statements. A qualified audit opinion was issued.

²⁴ During audit testing it was noted that there was a variance between the amounts payable as disclosed in the books of account and those as per Supplier's Statement. The amount in dispute post 2010 totals €3,956. However, LGA was not in a position to quantify the amount in dispute pre-2010. The Council does not carry out reconciliations with the Supplier's Statement whilst LGA's effort to carry out such reconciliation was rendered futile due to the limited details provided in the respective Supplier's Statement.

²⁵ Testing carried out revealed that the Council did not pay WasteServ Malta Limited the allocated amount and thus the resulting shortfall of €49,255 was directly deducted from the fourth tranche of Government allocation.

Appendix E – Membership Fees paid to Local Action Groups

Local Council	Total Amount Paid	No. of years covered	Payment effected to	Details of Programme
	€			
Birżebbuġa	7,000	2007-2015	Gal Xlokk	Leader Programme (2007-2013)
Għajnsielem	200	2011-2012	Gozo Action Group	Leader Programme (2007-2013)
Għarb	100	2012	Gozo Action Group	Leader Programme (2007-2013)
Għasri	300	2010-2012	Gozo Action Group	Leader Programme (2007-2013)
Għaxaq	5,000	2011-2015	Gal Xlokk	Leader Programme (2007-2013)
Kerċem	200	2011-2012	Gozo Action Group	Leader Programme (2007-2013)
Kirkop ²⁶	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)
Luqa	5,000	2007-2013	Gal Xlokk	Leader Programme (2007-2013)
Marsaxlokk	5,000	2011-2015	Gal Xlokk	Leader Programme (2007-2013)
Mtarfa	2,000	3 year period ending June 2013	Majjistral Action Group	Information not provided
Munxar	200	2011-2012	Gozo Action Group	Leader Programme (2007-2013)
Qala	300	2009, 2011-2012	Gozo Action Group	Leader Programme (2007-2013)
Qormi	11,000	5 years but no information was provided by the Council	Gal Xlokk	Leader Programme (2007-2013)
	6,874	2007-2013	Kirkop Local Council	Co-Financing Project Leader
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)
Rabat (Gozo)	100	2012	Gozo Action Group	Leader Programme (2007-2013)
Safi	5,000	2011-2015	Gal Xlokk	Leader Programme (2007-2013)
	6,874	2007-2013	Kirkop Local Council	Co-Financing Project Leader

Appendix E – Membership Fees paid to Local Action Groups *cont./*

Local Council	Total Amount Paid	No. of years covered	Payment effected to	Details of Programme
	€			
San Ġwann	3,600	2007-2013	Majjistral Action Group	Leader Programme (2007-2013)
San Lawrenz	200	2011-2012	Gozo Action Group	Leader Programme (2007-2013)
Sannat	100	2012	Gozo Action Group	Leader Programme (2007-2013)
Siggiewi	2,800	2010-2013	Majjistral Action Group	Majjistral Action Group (2007-2013)
Xaghra ²⁷	200	2011-2012	Gozo Action Group	Leader Programme (2007-2013)
Xewkija	200 ²⁸	2011-2012	Gozo Action Group	Leader Programme (2007-2013)
Żabbar	9,000	2011-2015	Gal Xlokk	Leader Programme (2007-2013)
Żebbuġ (Malta) ²⁹	6,874	2007-2013	Kirkop Local Council	Co-Financing Project Leader
Żebbuġ (Gozo)	200	2011-2012	Gozo Action Group	Leader Programme (2007-2013)
Żejtun	9,000	2011-2015	Gal Xlokk	Leader Programme (2007-2013)
Żurrieq	9,000	2011-2015	Gal Xlokk	Leader Programme (2007-2013)
	6,874	2007-2013	Kirkop Local Council	Co-Financing Project Leader
Total	118,796			

Source: The figures and information disclosed in the Table above, were provided by the respective LGAs.

²⁶ On 1 December 2010 the Kirkop Council was approved by the then Parliamentary Secretary to act as a leader partner for the project entitled 'Empowering Pyrotechnicians for Longevity and a Safer Quality of Workplace'. Eighty-five percent of this project was to be financed from ESF.

²⁷ The Council was also part of the project entitled 'Empowering Pyrotechnicians for Longevity and a Safer Quality of Workplace'. However, the fees of €6,874 paid in this respect have been written off during the year as it was deemed to be of an expenditure nature (fireworks safety workshop).

²⁸ This amount was paid on 7 January 2013.

²⁹ The partnership agreement provided by the Council is not dated and is signed only by the Mayor of Żebbuġ (Malta).

Appendix F – Assets falling under the Council’s responsibility not properly insured

Local Council	Fixed Asset	Cost of Assets	Amount insured
		€	€
Birgu	Premises and contents	-	95,000
	Furniture and fittings	106,711	25,800 (including also plant and equipment)
	Property in the open	-	11,500
	Urban improvements	440,995	-
	Construction	661,496	-
	Street signs	7,762	-
	Motor vehicles	11,181	-
Birkirkara	Buildings of standard construction including fire-fighting equipment and air conditioners	Leased	2,329,373 (replacement basis)
	Plant and machinery	171,783	-
	Child care centre	114,369	-
	Fixtures and fittings	50,089	39,843 (replacement basis)
	Office equipment	44,367	34,941 (replacement basis)
Bormla	Furniture and fittings	60,441	66,000
	Computer and office equipment	26,635	27,000
	Property in the open	-	40,000
	Motor vehicles	8,269	8,269
	Plant and machinery	5,530	-
	Urban improvements	194,230	-
Dingli	Council premises	161,169	70,000
	Urban improvements	131,105	116,468
	Computer equipment	49,175	13,052
	Furniture and fittings	66,315	170,500
	Plant and machinery	9,423	-
	Stock	654	-
Fgura	Furniture and fittings, office equipment and plant and machinery	73,942	65,673
	Council’s buildings	-	564,173
	Motor vehicles	11,586	11,586
	Urban improvements	335,560	-
	Property	676,402	-
	Construction	1,165,667	-
Floriana	Office furniture and fittings, plant and machinery, office equipment and stock	104,662	98,000 (insured as internal assets excluding IT)
	Computer equipment	8,275	8,275
	Urban improvements	444,361	200,329 (included under external assets)

Appendix F – Assets falling under the Council’s responsibility not properly insured cont./

Local Council	Fixed Asset	Cost of Assets	Amount insured
		€	€
Fontana	Buildings	-	100,000
	Property	-	90,000
	Urban improvements/construction	281,067	-
	Furniture and fittings, computer and office equipment, plant and machinery and street signs	19,904	12,000 (amount insured under the category all other contents)
Gżira	Buildings	179,001	316,684
	Trade contents (fixtures and fittings)	65,982	73,953
	Computer and office equipment	50,761	23,616
Għajnsielem	Office furniture and fittings	26,743	11,000
	Computer and office equipment	51,050	-
	Buildings, assets under construction, urban improvements and special programmes/construction ³⁰	913,883	249,000
Għaxaq	Property and contents	87,224	112,277
	Electronic equipment	16,396	7,000
Iklin	Property – Premises A	-	46,587
	Property – Premises B	-	34,940
	Stock	-	233
	Office furniture, fittings and fixtures	22,994	11,172
	Plant and machinery and electronic equipment – Premise A	26,346	5,000
	Property in the open	-	2,330
	Fixed glass	-	582
	Rented property	10,659	10,986
Isla	Furniture and fittings	65,091	32,220
	Construction	105,659	163,200
	Football ground	58,836	31,402
	Office equipment, computer equipment and machinery	33,323	16,313
Kerċem	Asset under construction	378,325	116,000 (in relation to the Civic Centre)
	Urban Improvements	555,219	-
	New street signs	4,554	-
	Computer and office equipment	18,612	-
	Office furniture and fittings	10,290	-
	Special programmes and construction	436,289	-
Kirkop	Buildings	165,688	40,000
	Office furniture and fittings including plant and machinery	47,031	10,000
Lija	Fixtures and fittings	16,849	8,700
	Electronic equipment	36,288	4,500

Appendix F – Assets falling under the Council’s responsibility not properly insured cont./

Local Council	Fixed Asset	Cost of Assets	Amount insured
		€	€
Luqa	Buildings	179,426	136,462
	General contents and assets including machinery (but not limited) situated at Council premises	41,562	22,565
	Outside property	24,812	864
	Electronic equipment	9,487	9,825
Marsa	Furniture and fittings	18,450	15,000
	Computer and office equipment and machinery	19,333	21,000
	Buildings	-	19,000
	Property in the open	-	57,302
	Urban improvements	546,586	-
	Construction	188,472	-
	Special Programmes	948,242	-
Marsascula	Furniture and fittings	19,864	15,000
	Office equipment	21,031	11,215
	Plant and machinery	2,412	-
	Urban improvements	486,883	-
Marsaxlokk	Furniture and fittings, plant and machinery	29,093	65,500
	Computer and office equipment	34,646	22,598
	Buildings	-	81,500
	Urban Improvements	226,384	-
	Construction	746,218	-
Mdina	Property	-	232,937
	Street furniture	164,118	46,284
	Office furniture and fittings	22,275	16,800
	Computer and office equipment	12,344	11,367
	Plant and machinery	2,668	2,329
Mellieha	Furniture and fittings	54,310	30,628
	Computer and office equipment	32,139 (including also machinery)	18,821
	Buildings	93,840	97,175
	Property in the open	-	1,587,954
	Urban improvements and construction	198,106	-
	Special programmes and projects	4,834,679	-
Mgarr	Special programmes	708,023	66,600
	Council premises	399,673	444,700
	Construction	675,706	-
	Furniture and fittings, equipment and machinery	95,057	30,792
	Street signs	63,775	-
	Motor vehicles	12,346	6,200

Appendix F – Assets falling under the Council’s responsibility not properly insured cont./

Local Council	Fixed Asset	Cost of Assets	Amount insured
		€	€
Mosta	Urban improvements	316,941	132,000
	Furniture and fittings	155,179	47,700
	Computer and office equipment	131,039	-
	Plant and machinery	52,544	59,700
Mqabba	Office furniture and equipment	38,484	7,291
Msida	Buildings	465,835	380,200
	Furniture and fittings	68,510	27,952
	Street furniture	50,440	20,000
	Urban improvements	173,475	65,000
Mtarfa	Premises and contents	-	100,000
	Furniture and fittings	36,750	17,000
	Office and computer equipment	18,095	8,000
	Public convenience	-	12,000
	Street furniture/urban improvements	249,192	69,333
	Construction	6,159	-
	Plant and machinery	7,434	-
	Christmas decorations	-	7,300
Nadur ³¹	Office furniture and fittings	30,046	11,647
	Office and computer equipment	21,331	-
	Plant and machinery	32,867	-
	Urban Improvements	472,853	-
	Construction	1,747,137	-
	Special Programmes	137,928	-
	Assets under construction	138,150	-
	Trees and plants	5,840	-
	Street signs	13,942	-
	Elevator	-	20,964
	Buildings including debris removal costs	-	158,397
Naxxar	Construction and Council premises	488,156	70,000
	Acquisition of garage	23,296	-
	Furniture and fittings, equipment and machinery	89,769	41,000
	Computer and electronic equipment	60,034	38,000
Paola ³²	Land and buildings	97,834	35,000
	Furniture and fittings, equipment, computer system and plant and machinery	93,721	47,000
	Construction and urban improvements	1,474,927	13,600
Pembroke	Furniture and fittings	26,314	28,601
	Property in the open	-	81,000
	Computer and office equipment	62,870	62,276
	Buildings	-	70,000
	Plant and machinery	7,666	-
	Construction	550,796	-
	Urban Improvements	332,872	-

Appendix F – Assets falling under the Council’s responsibility not properly insured cont./

Local Council	Fixed Asset	Cost of Assets	Amount insured
		€	€
Pieta`	Buildings including furniture and fittings	142,331	175,000
	Trade furniture, fixtures and fittings (including office equipment, plant and machinery)	96,223	50,000
	Police station	14,750	-
Qala	Buildings	-	11,600
	Trees and plants	2,264	n/a
	Office furniture and fittings	20,745	16,600 (including fixtures and fittings, plant and machinery as well as all other trade contents)
	Plant and machinery	5,040	
	Computer equipment	12,014	
	Office equipment	7,645	
	New street signs	11,537	-
	Urban improvements	40,760	-
	Construction	622,123	-
	Special programmes	512,830	-
	Assets under construction	43,411	-
Qormi	Property	532,368	515,000
	Office furniture, fittings and equipment	107,299	90,000
	Plant and machinery	122,686	55,000
Qrendi	Buildings	127,998	23,766
	Office contents and electronic equipment	58,370	20,765
Rabat (Malta)	Furniture and fittings	39,938	42,114
	Computer and office equipment	73,427	79,249
	Plant and machinery	1,628	-
	Street signs	64,685	-
	Urban Improvements	2,239,908	-
	Special Programmes	1,210,321	-
Rabat (Gozo)	Office furniture	36,877	59,713
	Office equipment	20,822	
	Computers	-	
	Construction works	1,324,946	-
	Street signs	11,784	-
	Trees	5,073	-
	Urban improvements	494,345	-
	Motor vehicle	2,273	-
	Plant and machinery	170	-
	Special programmes	252,614	-
	Public convenience at ‘Independence Square’, ‘Main Gate Street’ and ‘Enrico Mizzi Street’	-	27,720
Safi	Buildings	253,460	350,000
	Office furniture, fittings and fixtures	38,736	35,000
	Electronic equipment	9,102	7,000
	Photovoltaic system	6,278	7,000

Appendix F – Assets falling under the Council’s responsibility not properly insured cont./

Local Council	Fixed Asset	Cost of Assets	Amount insured
		€	€
San Ġiljan	Property	185,798	204,448
	Office furniture, fittings and others	105,627	43,143
San Ġwann	Property	246,865	139,758
	Furniture, fixtures & fittings	40,186	16,338
	Electronic equipment	36,846	11,647
	Street furniture consist of street mirrors, park benches, playing equipment and safer surfacing street furniture and garden lights	Since LGA was not provided with a FAR, the cost of these assets could not be determined	34,940
	Public convenience		34,940
Sannat	Office furniture	30,953	9,400
	Office and computer equipment	14,513	7,000
	Construction	473,838	-
	Urban improvement	45,638	-
	Plant and machinery	1,511	-
	Special Programmes/Assets under construction	335,680	-
	Street signs	9,735	-
	Property in the open	-	25,000
	Buildings	-	23,300
	Glass	-	1,200
	Public liability including roads	-	1,175,000
San Pawl il-Baħar	Urban improvements	1,012,377	102,502
	Council premises	764,544	885,000
	Furniture and fittings, equipment and machinery	167,167	47,800
Santa Luċija	Buildings	31,447	41,459
	Agricultural equipment	45,541	26,000
	Property in the open	170,813	90,000
	Electronic equipment	33,996	25,000
Santa Venera	Furniture, fixtures and fittings	31,298	25,735
	Office equipment	16,764	-
	Computer equipment	20,980	-
	Plant and machinery	3,859	-
Sigġiewi	Administrative building and contents	540,066	919,035
Sliema	Buildings	186,515	46,587
	Furniture, fixtures and fittings	46,258	27,110
	Computer and electronic equipment	42,503	23,118

Appendix F – Assets falling under the Council’s responsibility not properly insured *cont./*

Local Council	Fixed Asset	Cost of Assets	Amount insured
		€	€
Swieqi	Furniture and fittings	19,562	12,870
	Computer and office equipment	25,857	16,188
	Property	-	68,058
	Street Signs	55,070	19,800
	Street lights, playground equipment and street mirrors	64,244	50,832
	Urban improvements	11,883	-
	Motor vehicles	11,644	-
	Special programmes	1,569,388	-
Ta' Xbiex	Property	165,125	170,000
	Office furniture, fittings and others	29,693	14,000
	Electronic equipment	14,395	13,274
Tarxien	Land and Buildings	156,118	82,000
	Furniture and fittings	20,392	18,000
	Equipment	28,366	5,000
	Urban Improvements	67,504	100,000
Valletta	Urban improvements	1,350,167	14,442
	Office furniture and fittings	40,448	7,687
	Plant, machinery equipment	43,059	30,398
Xagħra	Special programmes	1,914,982	10,842
	Buildings	-	18,634
	Urban improvements	303,841	-
	Plant and equipment	5,956	-
	Assets under construction	39,489	-
	Street signs	42,145	-
	Computer and office equipment	24,212	6,382
	Office furniture and fittings	21,079	23,293
Żabbar	Furniture and fittings, office equipment and machinery	134,732	69,906
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

Appendix F – Assets falling under the Council’s responsibility not properly insured cont./

Local Council	Fixed Asset	Cost of Assets	Amount insured
		€	€
Żebbuġ (Gozo)	Office fixtures and fittings	26,112	-
	Computer equipment	22,590	19,395 (all other trade contents including but not limited to electronic equipment)
	Plant and machinery	5,620	-
	Assets under construction	61,995	-
	Urban improvements	179,294	22,130
	Construction/special programmes	1,551,469	-
Żejtun	Plant and machinery	4,395	-
Żurrieq	Office furniture and fittings	46,704	75,400
	Property	725,000	477,747
	Property in the open	22,500	26,167

Note: Details in the above Table are in line with the amounts highlighted in the respective Management Letters. However, certain discrepancies were noted between the Cost of Assets disclosed in the related Management Letter and that recorded in the Fixed Asset Schedule included in the Financial Statements. This is due to the fact that Local Councils’ capital expenditure is an ongoing process and so changes continuously. Thus, it could very well be the case that on the day LGAs carried out their audit visit, the latest list of Fixed Assets registered with the insurers may not be up to date. If this had to be done, Local Councils would have to inform the insurance company every time it purchases an insurable item of capital expenditure. Although technically this should be the correct way to do it, it is not considered practical in real life.

³⁰ The cost as per Financial Statements includes construction whilst the amount as per insurance policy covers buildings including debris removal costs. However, ES confirmed that this covers all the respective assets mentioned in this category *i.e.* any buildings.

³¹ Amounts insured were extracted from the insurance policy covering the period 16 June 2013 to 15 June 2014. Upon enquiry LGA stated that an insurance coverage document covering 2012 was not available. However, the latter confirmed that the insurance premium remained the same as in the previous year. Through after year-end insurance documents, it was also confirmed that the coverage did not change.

³² Figures were taken from the unaudited Financial Statements.

Appendix G – Expenditure in respect of which a proper fiscal receipt was not provided for audit purposes

Local Council	Amount ³³	Council's reply
	€	
Balzan	2,703 ³⁴	Council shall comply in the future.
Birgu	22,577	The Council would like to point out that it has adopted a more vigilant approach as regards the submission of VAT receipts. In case of default by suppliers a letter is being sent out, asking the contractor to send it at his earliest. This control measure is being done once a month.
Bormla	29,145 ³⁵	The Council will ensure that in the future, all expenditure is accompanied with the appropriate tax invoice and will continue to request a VAT fiscal receipt for every payment effected.
Dingli	9,917	The Council has always asked for proper fiscal receipts from all its suppliers. The great majority of suppliers do forward fiscal receipts and those mentioned by LGA are a minority. The Council will in the future continue to ask for fiscal receipts whenever this is required. Defaulters shall be reported to the VAT Department.
Floriana ³⁶	6,900	<p>One of the payments not supported by a fiscal receipt related to retention money paid to a limited liability company, upon certification provided by the Architect dated 7 February 2011. In another case, although there is an invoice, it is not fully compliant with the VAT Act; however, it is supported by a fiscal receipt.</p> <p>The Council has little control over documents forwarded by other persons. As regards the missing fiscal receipts, all suppliers are formally informed to forward these documents, but some of these fail to abide. With respect to the exemption form, the Council does its best to request complete forms. This is also remarked by LGA, acknowledging the fact that the Council is persistent in chasing such suppliers.</p>
Gzira	6,497	Copies of fiscal receipts for the computer generated invoices mentioned by LGA were made available by the respective service providers late during the audit. As much as the Council strives to unconditionally abide with the Financial Regulations, the latter cannot be held liable for delays by the suppliers.
Ghajnsielem	305	The Council noted LGA's recommendation with respect to VAT fiscal receipts, and the administrative staff at the Council will do its utmost to request such fiscal receipts upon payment.
Gharb	5,363	Point not addressed.
Gharghur	9,074	Certain fiscal receipts were provided and are available.
Ghaxaq ³⁷	5,703	The Council shall ensure that all payments are supported by proper invoices and VAT receipts.
Isla	3,030 ³⁸	Action will be taken to implement LGA's recommendation.
Lija	1,392	The Council will be reviewing its procurement procedures to comply with the requirements.

Appendix G – Expenditure in respect of which a proper fiscal receipt was not provided for audit purposes *cont./*

Local Council	Amount ³³	Council's reply
	€	
Luqa	112,416	The recommendation made by LGA has been noted and in future the Council will ensure that all suppliers provide a proper tax invoice.
Marsascula	12,216 ³⁹	The Council will endeavour to ensure that the mentioned suppliers will send the necessary VAT receipt or the exemption form, in the case that the service provider is not VAT registered. The Council always indicates in the Payment Voucher that all clients should furnish a VAT receipt upon payment.
Marsaxlokk	25,718	Point not properly addressed.
Mdina	8,943	The Council is committed to keep proper supporting documentation, in fact it is the Council's practice to ask for proper invoices and VAT receipts for all purchases and all effort has been made to obtain such documentation and include it with the respective Payment Vouchers. The Council agrees that some suppliers do not always issue a fiscal receipt. However, it does not agree that some companies which insist on this attitude should be blacklisted, given that this goes against the Council's regulations.
Mġarr	27,952	It should be noted that a number of the suppliers mentioned by LGA were governed by a contract and/or tender agreement. Other suppliers failed to give a fiscal receipt even though these were followed up by the Council.
Mosta	49,852	LGA's observations were noted.
Mtarfa	13,963	Although the Council always asks for proper tax invoices and relevant VAT fiscal receipts, suppliers do not always comply. The request for VAT receipts is written clearly and in bold letters on the Payment Vouchers and is always followed by e-mails and telephone calls.
Nadur	2,360	The Council always chases fiscal receipts from suppliers.
Naxxar	6,856	As was correctly noted by LGA, the Council's administration was very persistent in chasing VAT receipts. For three out of the five mentioned instances, the receipt was later traced since it had been misplaced. Only two remain without the necessary receipt. The Council will also avoid doing business with suppliers who regularly avoid issuing fiscal receipts.
Paola	148,940 ⁴⁰	The Council is doing its utmost to control this anomaly, and will continue to insist with its suppliers, to provide fiscal receipts.
Pembroke	2,244 ⁴¹	The respective invoices were issued late in December 2012, so it's normal to receive such receipts in early 2013.
Qala	758	With every cheque issued, the Council prepares a Payment Voucher, a copy of which is sent to the supplier. Included on the Payment Voucher is a request for the supplier to issue a fiscal receipt upon receipt of payment.
Qrendi	1,364	Point not addressed.
San Pawl il-Baħar	181,604	LGA's recommendation has been noted, however as per LN 524 of 2010 from the Department of VAT, the Council is not in a position to insist on VAT fiscal receipts when the Suppliers or Service Providers fall under Article 11 of the VAT Act.
Santa Luċija	9,339	The Council noted the comments regarding some cheque payments which were not supported by a VAT receipt. The Council will be giving greater attention to the matter.

Appendix G – Expenditure in respect of which a proper fiscal receipt was not provided for audit purposes cont./

Local Council	Amount ³³	Council's reply
	€	
Santa Venera	25,270	The Council strongly believes that such responsibility falls within the supplier issuing such invoice, however the new Accountants will do their best to avoid these shortcomings.
Siggiewi	22,978	Point not addressed.
Sliema	883	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 reports the matter to the VAT Department accordingly.
Swieqi	16,876	The Council is committed to keep proper supporting documentation. It is the Council's practice to ask for proper invoices and VAT receipts for all purchases and all effort is made to obtain such documentation and include it with the respective Payment Vouchers. This was also acknowledged in the Auditor's report. Also upon verification by the Council of the list provided by LGA, it was noted that most of the suppliers listed are exempt persons and some others sent the fiscal receipt later during 2013.
Ta' Xbiex	8,480	The Council already emphasises with all suppliers that a formal fiscal receipt should be issued once payment has been done.
Tarxien	47,721	LGA's comments were noted. The Council will ensure that it will halt business with those suppliers who will not submit VAT receipts.
Valletta	201,051	The Council has been chasing suppliers to submit fiscal receipts. Letters or emails are sent to suppliers in the event that no receipts are received. Included in the list provided by LGA are cases where the invoice was still not paid at the date of the audit work. Thus the Council could not have a receipt for a payment not yet effected. The Council took LGA's advice not to consider suppliers that do not send a fiscal receipt for future procurements.
Xagħra	142	Point not addressed.
Żebbuġ (Malta)	2,893	The Council failed to submit its reply to the Management Letter.
Żabbar	26,902	The Council always requests fiscal receipts in line with the VAT legislation but unfortunately not all suppliers submit such a receipt.
Żurrieq	1,100	The Council has taken the necessary measures to communicate the request to the service provider within a reasonable time after payment. Such correspondence has been shown to the auditor. For the time being, the only other action which the Council can take is to send the supplier a request through registered mail.
Rabat (Malta)	134,890	The Council took note of the observation made and will tackle this issue although this is beyond the Council's control as it is the responsibility of the supplier to provide such documentation.
Rabat (Gozo)	51,814	As already mentioned in last year's reply, the Council always informs the suppliers to issue fiscal receipts and stamps all Payment Vouchers with the statement saying 'Victoria Local Council – Please issue Fiscal Receipt'.

Appendix G – Expenditure in respect of which a proper fiscal receipt was not provided for audit purposes *cont./*

Local Council	Amount ³³	Council's reply
	€	
Safi	2,831	The Council always requires that a purchase invoice and fiscal receipt is given to the Council, however in certain cases, due to one party or the other forgetting, this might slip through our hands once in a while. For example purchases of water are made frequently, hence the one time payment of €12.70 was one slip. In another case, the respective service provider sent a request for payment after all these years and the Council accepted to pay after the ex-Mayor confirmed that these payments were never handed out. Also these payments were not registered in the accounting records and with neither the Mayor nor the Executive Secretary holding their respective roles when the work was done, the word of the ex-Mayor was acknowledged.
San Ġiljan	37,387	The Council requests a statement of outstanding invoices and a VAT receipt from all suppliers with every payment issued. Suppliers will also be informed to issue proper invoices and fiscal receipts as recommended by LGA.
San Ġwann	2,975	The payment of €2,098 was due to a court case lost in Tribunal. The Council paid the amount due to the Lawyer, who won the case against the Council. No further comments were provided for the remaining balances.
San Lawrenz	1,141	LGA's comments have been noted and the necessary action will be taken by the Council and the Executive Secretary.
Sannat	2,184	As noted by LGA, the Council makes every possible effort to request fiscal receipts from suppliers.
Local Council Association	4,433	The Payment Voucher which is sent out with all payments, clearly states that suppliers must send their VAT receipt when they receive the payment. The Association went through a very tough process to ensure that this is done. Most of the payments are related to EU funding and in such cases the VAT receipt has to be included in the claim files. LGA does not quantify the quantity or percentage of payments made and not supported by a VAT receipt to verify the level of occurrences, but from LCA's own assessment the occurrence is negligible.
Northern Regional Committee	45,983	The Committee failed to submit its reply to the Management Letter.
South Eastern Regional Committee	13,084	The Committee failed to submit its reply to the Management Letter.

³³ Data included in the above Table is not exhaustive as this highlights only the instances encountered by the Auditors whilst carrying out sample-testing.

³⁴ The only documentary evidence of these payments was a quotation.

³⁵ Receipts were obtained following LGA's request and were dated 2013.

³⁶ Another two instances were encountered whereby the respective service provider declared that he is outside the scope of VAT, in line with the provisions of Memo 77/2011. However, the exemption form was incomplete.

³⁷ The service providers for waste collection and cleaning services not always issued a fiscal receipt for the payments effected to them.

³⁸ An additional VAT receipt, amounting to €5,000, covering expenditure for refurbishment of public convenience, was addressed to the 'Senglea Regatta Club' instead of Isla Local Council.

³⁹ Included in this figure is the amount of €7,626 in relation to pavement works in various roads. However, the respective invoice issued totalled €7,717, thus resulting in a discrepancy of €91 between the amount invoiced and that recorded in the Nominal Ledger. The fiscal receipt covering another payment of €3,340 was only provided in April 2013, upon LGA's request, when the respective payment was effected on 19 December 2012.

⁴⁰ This includes the amount of €137,639 that, as already highlighted in the report, was not substantiated by any documentation.

⁴¹ Despite the fact that the Council has asked the respective suppliers to provide the fiscal receipts these were never produced. Following the request raised by LGA during the audit, the receipts were obtained but were dated in 2013.

Appendix H – Inconsistency in Payroll Reconciliation⁴²

Local Council/ Regional Committee	Gross Personal Emoluments including employer's share of National Insurance as per		
	Accounting records ⁴³	Payer's Annual Reconciliation Statement (FS7)	Payer's Monthly Payment Advice (FS5s)
	€	€	€
Balzan	61,909	60,884	58,139
Dingli	65,293	64,878	64,880
Fgura	117,430	117,430	117,790
Floriana	91,801	91,260	91,261
Fontana	35,050	35,555	35,555
Gudja	60,773	60,283	60,283
Gharb	66,991	67,491	67,019
Gharghur	57,808	57,364	58,242
Ghaxaq	61,715	61,187	61,189
Kerċem ⁴⁴	63,389	63,416	60,809
Kirkop	73,556	69,247	69,249
Lija	96,548	96,548	97,139
Luqa	89,321	88,912	83,268
Marsascula	148,740	148,754	148,816
Marsaxlokk ⁴⁵	79,569	81,550	63,363
Mdina	55,519	51,078	55,418
Mġarr ⁴⁶	71,148	71,148	71,931
Mosta	143,028	143,843	143,843
Mqabba	74,608	74,435	74,433
Mtarfa	52,303	51,471	51,468
Munxar	61,356	61,877	61,877
Nadur	64,898	64,824	64,895
Naxxar ⁴⁷	134,062	131,493	131,493
Paola	119,323	110,433	104,551
Pieta` ⁴⁸	81,189	78,150	78,922
Qrendi	70,080	70,693	70,559
Rabat (Malta) ⁴⁹	136,591	136,592	146,214
Rabat (Gozo)	83,117	83,116	84,018

Appendix H – Inconsistency in Payroll Reconciliation⁴² cont./

Local Council/ Regional Committee	Gross Personal Emoluments including employer's share of National Insurance as per		
	Accounting records ⁴³	Payer's Annual Reconciliation Statement (FS7)	Payer's Monthly Payment Advice (FS5s)
	€	€	€
San Ġiljan	134,429	134,892	136,087
San Lawrenz ⁵⁰	54,891	56,112	56,109
San Pawl il-Baħar	173,582	178,372	166,559
Santa Venera	75,635	73,771	73,771
Sigġiewi	100,925	100,117	100,117
Swieqi	101,097	97,578	97,101
Ta' Xbiex	67,447	65,044	65,215
Valletta	119,157	116,468	116,469
Xaġhra ⁵¹	69,097	69,106	67,211
Żabbar	122,869	122,871	125,805
Żebbuġ (Malta) ⁵²	121,442	121,477	-
Żurrieq ⁵³	111,685	99,058	99,058
Gozo Regional Committee	34,339	34,215	34,147
Northern Regional Committee	20,873	20,078	24,411
South Eastern Regional Committee	33,537	33,004	33,542

Source: Figures as disclosed in the Table above were in line with details provided by the respective LGA.

⁴² In certain instances, FSS and NI as disclosed in FS5, FS7 and accounting records also do not reconcile. Instances were also noted whereby amounts disclosed in the FS7 do not reconcile to those recorded in the respective FS3s.

⁴³ These figures were stated after taking into consideration any audit adjustments passed during the course of the audit, as well as after adjusting for any opening/closing accruals and prepayments.

⁴⁴ Part of the difference is due to the fact that the amount included in December's FS5 with respect to NI, was understated by €503 as the amount payable by either the employees or the employer was totally omitted from this form.

⁴⁵ Discrepancy between the Nominal Ledger and FS7 resulted from the fact that one of the FS3s was counted twice when compiling FS7. Variance between FS7 and FS5 resulted from the fact that FS5 for the first three months were not provided for audit purposes.

⁴⁶ Notwithstanding that at face value amounts recorded in the Nominal Ledger reconcile to those disclosed in the FS7, it was noted that FS5 December payments amounting to €2,606 which were not accrued for, were eventually paid in 2013. Thus, this renders the amounts disclosed in the Nominal Ledger as incorrect.

⁴⁷ The discrepancy of €2,567 represents the refund made by the Mayor's in respect of the overpaid Honoraria in preceding years, which balance was added to the payroll costs in the Nominal Ledger.

⁴⁸ The discrepancy of €2,300 between wages actually paid and the amounts declared in the FSS forms, represents emoluments erroneously not declared in the FSS forms and which shall be included in the FSS forms for 2013.

⁴⁹ The variance between FS5 and FS7 of €9,622 relates to the over declaration of the Mayor's Honoraria. The Council has sent a letter to IRD whereby this discrepancy was explained and also informed the Local Council's Department and entered into an agreement with the Mayor in February 2013 for the repayment of this amount over forty-eight months.

⁵⁰ Variance between amounts recorded in the books of account and those disclosed in the FS7 represents an approximate amount of €1,200 that was deducted from the Clerk's net salary in relation to funds received directly by the latter from Central Government for rendering library services. Whilst these funds were being declared under the Council's FSS system, these were not accounted for in the Nominal Ledger.

⁵¹ The variance arose due to the fact that when preparing the July 2012 FSS, by mistake the Executive Secretary salary was not included.

⁵² The Council did not provide LGA with the respective FS5s. Furthermore, as already highlighted further up in the report, the Council has not paid any NI and FSS for the past two years.

⁵³ Part of the discrepancy resulted from the fact that during both 2011 and 2012, the Council failed to accrue for approved tax deductions on Councillors' allowances of €2,240 and €2,600 respectively, which were then paid in the subsequent year. Furthermore, it was noted that allowances, amounting to €13,000, paid to the Mayors and Councillors, were not included in the FSS forms.

Appendix I – Management Letter Weaknesses

Local Council	1	2	3	4	5	6	7	8	9	10
Attard	X			X		X	X			X
Balzan	X	X				X	X			X
Birgu		X		X	X		X	X	X	X
Birkirkara	X	X		X			X	X		X
Birżebbuġa	X									X
Bormla			X	X	X		X			X
Dingli		X		X	X		X	X	X	X
Fgura	X			X	X					X
Floriana	X	X		X	X		X	X		X
Fontana		X	X	X	X					
Gudja	X	X	X	X	X					X
Gzira	X	X	X	X	X	X				X
Ghajnsielem				X	X					
Gharb		X		X	X	X				
Gharghur	X	X		X	X	X	X	X	X	X
Ghasri		X				X	X	X		
Ghaxaq		X	X	X	X		X	X		X
Hamrun	X	X		X	X		X	X		
Iklin	X	X	X			X	X	X		X
Isla		X		X		X		X		X
Kerċem		X	X	X				X		
Kirkop	X	X	X	X	X	X	X		X	X
Lija	X	X		X	X		X			X
Luqa	X	X	X	X	X		X	X		X
Marsa	X				X			X		X
Marsascala		X		X	X	X	X	X		X
Marsaxlokk				X	X			X		X
Mdina	X	X	X	X	X		X	X	X	X
Mellieħa	X	X	X	X	X		X	X		X
Mġarr	X	X		X	X				X	X
Mosta	X	X		X	X	X	X	X	X	X
Mqabba		X	X	X	X		X	X		X
Msida	X						X	X		X
Mtarfa	X	X		X	X		X	X	X	X
Munxar	X	X		X			X			X
Nadur				X	X	X				
Naxxar	X	X		X	X	X	X	X		X
Paola	X	X	X	X	X		X	X		X
Pembroke		X		X	X		X	X		
Pietà	X	X		X	X		X	X	X	X
Qala				X	X	X	X	X		
Qormi				X			X			X
Qrendi	X	X		X		X	X			X

Appendix I – Management Letter Weaknesses cont./

Local Council	1	2	3	4	5	6	7	8	9	10
Rabat (Malta)		X	X	X	X		X		X	X
Rabat (Gozo)		X			X					X
Safi	X	X	X	X		X	X	X		X
San Ġiljan	X	X		X			X	X	X	X
San Ġwann		X	X	X	X			X		X
San Lawrenz	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
Santa Luċija	X	X				X	X	X		X
Santa Venera	X	X	X		X			X		X
Siggiewi	X	X	X	X	X		X	X		X
Sliema	X		X				X			X
Swieqi		X		X	X		X		X	X
Ta' Xbiex	X	X	X	X	X	X	X	X		X
Tarxien	X	X		X	X				X	X
Valletta	X			X	X				X	X
Xagħra		X		X	X		X	X		X
Xewkija				X	X			X		X
Żabbar	X			X	X			X		
Żebbuġ (Malta)	X	X		X	X	X	X	X		X
Żebbuġ (Gozo)	X	X		X	X					X
Żejtun				X	X					X
Żurrieq	X	X	X	X		X	X	X		X
Regional Committee										
Gozo		X		X	X	X				X
Northern		X		X	X	X				X
Southern Eastern		X		X	X				X	X
Southern	X	X		X						X
Local Council Association	X	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 J – Procurement not carried out in line with Pertinent Regulations

Table 1 – No public call for quotations was issued prior to procurement

Local Council	Amount	Details	No. of quotations provided for audit purposes	Council's reply
	€			
Attard	4,123	Insurance coverage	-	The Council will be issuing a tender for the insurance coverage.
Balzan	3,593	Instant road repairs	-	The Council shall comply in the future.
	2,214	Maintenance of gardens	-	The Council, in conjunction with the Birkirkara Local Council, entered into an agreement with ELC for the provision of these services up to 1 February 2014.
	2,102	Insurance coverage	-	The Council reiterates that with regard to the insurance coverage an agreement was entered into until 30 April 2014 whereby a 7.5% discount is being applied yearly.
	1,394	Sound and light for ' <i>Lejla Interkulturali</i> '	2 ⁵⁴	Point noted.
	1,764	Survey of ' <i>Bertu Fenech Square</i> '	1	A public call for offers was issued. However, this service was required urgently in order for the Council to continue with works in connection with an EU project.
Birgu	2,950	Lighting services	No proper call for quotations	All comments were duly noted. The Council would like to point out that, for the majority of instances mentioned, although a call for quotations was not issued, the Council acquired quotations from other suppliers. Moreover, in certain instances, for example in the case of books purchased, the Council had to go directly to the selected supplier, being the only company which publishes the required book. A quotation was provided and confirmed by a Council's decision. The majority of expenses listed relate to works being carried out at ' <i>Auberge de France</i> ', which currently hosts the administration office of the Birgu Local Council. Works had to be done urgently as the Council had to move offices by September 2012. Moreover, all these costs, were financed by the Office of the Prime Minister, through DLG, upon presentation of the invoices. The Council will make sure to adopt further control.
	2,893	Electrical installations		
	2,450	Equipment rental for Birgufest		
	2,482	Tents		
	2,095	Publishing services		
	1,750	Cleaning		
	1,425	Supply and installation of road humps		
1,351	Hotel accommodation			
Birkirkara	3,634	Car hire	-	The Council will terminate this contract immediately, if it is in breach of law. It shall also look forward to adhere to the relevant procurement procedures accordingly.

Appendix J – Procurement not carried out in line with Pertinent Regulations cont./

Table 1 – No public call for quotations was issued prior to procurement

Local Council	Amount	Details	No. of quotations provided for audit purposes	Council's reply
	€			
Birżebbuġa	1,300	PA system	-	Points noted and the Council will issue a call for quotations for all purchases that exceed €1,165.
	1,200	Parking barrier	-	
Bormla	2,060	Legal services	-	The amount covers legal services rendered on different matters, and over a period of one year.
	1,770	Removal of tiles	-	The service provider was awarded a contract by the Grand Harbour Regeneration Corporation to carry out the Dock No. 1 project. Part of the contractor's work was to remove the floor tiles from 'Pjazza Paolino Vassallo'. Since the Council required the tiles being removed, it had no option but to pay the service provider already entrusted with the work by the aforementioned Corporation. This matter was explained to LGA during audit fieldwork.
	1,416	Cleaning and maintenance of parks and gardens	-	The amount was paid for palm trees treatment against the red weevil carried out between March 2010 and July 2012 (a period of 29 months).
	1,186	Hosting of events	-	The service provider was appointed as the official co-ordinator of a cultural activity which was held in May 2012. For such service, the latter charged the amount of €600. There was another charge of €237 for six hours of Maltese Traditional Games and a refund of €350, which the service provider had to pay in cash to a local artist on the same day of the activity. Therefore, the invoice from the service provider should have totalled €837.
Dingli	3,055	Accountancy services	-	The Council abided with laws and regulations, since it discussed and approved the payments. The amount of €1,165 was issued four months apart of each payment, <i>i.e.</i> three times, during the period January and December 2012.
Gudja	2,415	Printing of map	-	The Council agrees that the quotation requirement for purchases between €23.29 and €4,658 is to be followed. Given the costs for the publication of quotation, the Council also seeks guidance as to when it is a requirement for the quotation to be published, rather than obtaining quotations from established/known suppliers.
	1,895	Aluminium railings	-	
	1,638	Various works	-	
	1,204	Accounting system	-	

Appendix J – Procurement not carried out in line with Pertinent Regulations cont./

Table 1 – No public call for quotations was issued prior to procurement

Local Council	Amount	Details	No. of quotations provided for audit purposes	Council's reply
	€			
Hamrun	2,787	Accounting services	-	The Council will be issuing a tender for accounting services in line with Local Councils (Financial) Procedures 1996.
Iklin	2,111	Lunch in a hotel relating to Gozo outing	-	The expenses incurred were refunded by attendees. However note of LGA's recommendation was taken. In the meantime, the Council will write to DLG for guidance.
Isla	2,415	Accommodation Zarasai delegation	-	Due to the urgency of the said expenditure, quotes were sought through e-mail and the cheapest offers were chosen.
	1,950	Purchase of oranges	-	
	1,740	Accommodation Fara delegation	-	
	1,357	Adverts LED screen	-	
Kerċem	4,200	Road works	The Executive Secretary claimed that three quotations were obtained, however these were not provided for audit purposes.	Point not addressed.
Lija	3,790	Road works: ramps	-	The Council will be reviewing its procurement procedures to comply with the requirement.
	3,712	Ornamental lanterns	-	
	2,607	Telecommunication	-	
	2,313	Professional fees	-	
	1,973	Insurance coverage	-	
	1,392	Professional fees	-	
Luqa	1,770	Cleaning Services	-	The Council shall ensure that call for quotations shall be published in the newspapers and issued at the stipulated threshold.
Marsaxlokk	1,829	Insurance coverage	-	Although it's mostly true that the mentioned services were procured from the indicated suppliers without request for quotations, the Council would like to point out that the highlighted services were procured during Financial year 2010. Although this does not justify the shortcoming, the current administration had no control over the matter. Given that it was verified that the services or supplies were effectively procured, the amounts due had to be settled.
	1,362	Parts for poles	-	
	1,311	Security services	-	
	1,180	Architect services	-	

Appendix J – Procurement not carried out in line with Pertinent Regulations cont./

Table 1 – No public call for quotations was issued prior to procurement

Local Council	Amount	Details	No. of quotations provided for audit purposes	Council's reply
	€			
Mdina	4,100	Repairs to canons	-	In general, the Council abides by the requirements of the procurement and tendering procedures. However, there are circumstances where, due to the urgency and nature of the goods/services required, a direct order is issued. The Council would like to point out that for most of the items identified by LGA there was a call for quotations. On the other hand, the remaining items were either of a nature that cannot be quantified ahead and had to be purchased at the last minute, or are still being disputed.
	3,389	Hospitality costs	-	
	2,880	Provision for a dinner service	-	
	1,750	Provision for Medieval Festival coordinator	-	
	1,482	Sundry repairs and materials	-	
	1,220	Provision for materials and supplies	-	
Mġarr	2,740 ⁵⁵	Landscaping services	-	This supply is covered by an agreement.
	2,208	Supply of materials	-	Point not addressed.
	1,369	Office chairs	-	The purchasing of chairs was covered by a call for quotations which was issued in October-November 2011 (code no. K3/2011).
	1,359	Transport services	-	The provision for transport services was for a Youth Exchange Programme which is covered by EUPA procurement procedures and not by Cap.363 of the Laws of Malta.
Mosta	1,652	Five notice boards	-	LGA's observation was noted.
Mqabba	3,585 ⁵⁶	Maintenance of gardens	-	Point not addressed.
	2,647	Photocopy machine	1	The Council issued a call for quotation in the Government Gazette and nobody showed any interest except for one bidder who produced his reasonable bid.
	1,848	Cleaning of Valletta Road	-	This resulted in excess of the stipulated threshold of €1,165 as the volume of the rubble being dumped overnight in this area could not be left. Furthermore, Central Government is giving short deadlines for the Council to clean up rural areas where dumping is taking place with no time at all to issue a call for quotation/tender.
	1,257	Warden Services	-	There was a running contract managed by the Joint Committee.
Msida	2,390	Insurance coverage	-	The Council has taken note of this remark and is to adhere to the financial procedures as well as Memo 1/2010.
Mtarfa	2,300	Re-enactment services	-	The Council is to issue calls for quotations for any provision of any services exceeding €1,165.

Appendix J – Procurement not carried out in line with Pertinent Regulations cont./

Table 1 – No public call for quotations was issued prior to procurement

Local Council	Amount	Details	No. of quotations provided for audit purposes	Council's reply
	€			
Nadur	2,360	Local band	-	The Council will ensure that call for quotations will be issued in line with the Local Councils (Financial) Procedures.
Naxxar	2,798	Transport services	1 quotation obtained during 2011	The Council has taken note of this comment and will comply accordingly.
	1,805	Photographic services	-	
Pieta'	2,283	Medical services	-	The Local Councils Procedures are being strictly adhered to and calls for quotations are being published in the Government Gazette. As regards the insurance policy, a new call for quotations will be issued as soon as the present policy expires.
	1,640	Insurance coverage	-	
	1,180	Architect services	-	
Qala	2,732 ⁵⁷	Contract management services	-	The Council's administration will continue to do its best to adhere to the procedures in all its aspects and continue building on the recommendations made by LGA.
Qrendi	1,364	Performance by a local band during cultural activity	-	The band performed an unplugged live session during the 'Potato and Agrarian Festival 2012'. Qrendi Local Council tried its utmost to keep the expense as low as possible and in cases like this it's quite difficult to call for quotations in the Government Gazette.
Rabat (Malta)	1,848	Grass cutting	-	Issue noted and more effective internal controls will be put in place.
	1,800	Grass cutting	-	The service provider submitted an invoice and a quotation for the same works and for the same amount.
	1,242	Cleaning and maintenance of country non-urban areas	-	The said supplier had offered his services to the Council, amounting to €192 in January 2012, and then in July of the same year for €1,050. This does not contravene the Financial Regulations.
Sannat	1,180	Creation and setting up of a website	-	Point not addressed.
Santa Venera	1,165	Trimming of trees	-	Whilst acknowledging the importance of adhering to the Local Councils (Financial) Procedures, it is understood that the Council shall issue direct orders for amounts less than €1,165.

Appendix J – Procurement not carried out in line with Pertinent Regulations cont./

Table 1 – No public call for quotations was issued prior to procurement

Local Council	Amount	Details	No. of quotations provided for audit purposes	Council's reply
	€			
Siggiewi	4,560	12 gazebos for 'Wirja Agrarja'	At least three quotations were not obtained.	Point not addressed.
	3,894	Hire of tent		
	3,779	Health Insurance Scheme		
	2,578	Patching works		
	2,100	Printing of Polo Shirts		
	1,503	Three cameras and accessories		
	1,462	Cold asphalt		
	1,180	Concert CD album		
Tarxien	2,032	Hire of mobile toilet	-	The Council has noted the comment and will ensure that in the future all purchases over €1,165 will have at least three quotations as per Local Councils (Tendering) Procedures.
	1,936	Hot water power HDS	-	
	1,500	Band service at Christmas activities	-	
	1,200	Repairs of war monument	-	
Valletta	2,080	Reception at the Palace	-	Point not addressed.
	1,977	IT consultancy	-	The service provider was awarded a tender.
	1,829	Purchase of laptops	-	Point not addressed.
	1,770	Works by Valletta feast committee	-	The Council is just forwarding the payments to the two feast committees as received from Government entities such as the Malta Council for Culture and the Arts. So there is no need to issue a quotation for this service.
	1,200	Works by Valletta feast committee	-	
	1,747	Setting up of two stages	-	Point not addressed.
	1,400	Band service	-	Point not addressed.
Żebbuġ (Malta)	4,350	Shuttle service	Quotations were obtained directly from the suppliers rather than through a public call for quotations.	Council failed to submit its reply to the Management Letter.
	3,200	Bus Shelter		
	2,745	Insurance coverage	The Council did not obtain a minimum of three quotations.	
	2,738	Cold asphalt		
	2,670	Digital design artwork for advertising		
	1,442	Parking barrier		
Żejtun	2,620	Billboard space	No request for quotations or tenders have been issued.	As explained to LGA during the audit process of the previous year, the amount of €2,620 includes the rental, artwork and printing of multiple billboards.
	2,112	Lighting equipment for 'Żejt iż-Żejtun 2012'		The Council will take LGA's recommendation and will issue a public call for all expenses related to this annual cultural event.
	1,775	Maintenance of the Council's office balcony		Point not addressed.

Appendix J – Procurement not carried out in line with Pertinent Regulations cont./

Table 1 – No public call for quotations was issued prior to procurement

Regional Committee	Amount	Details	No. of quotations provided for audit purposes	Council's reply
	€			
Local Councils Association	4,433 ⁵⁸	Printing of booklet with respect to Egov4u	-	Explanations have been provided in these cases and there is no need for further comments. LCA has a track record of obtaining the best conditions from its suppliers that meet the specifications of the end customers. LCA is not prepared to undergo a process that can be easily flawed, and manipulated and from its own experience it has learned that direct supplier contracts yield the best financial quality results.
	2,891 ⁵⁹	EU Projects database software	-	
	2,718	Air conditioner	-	
	2,625	Printing of booklet	2	
Gozo Regional Committee	3,564	Accommodation	-	Point not addressed.
Northern Regional Committee	2,862	Cleaning Services	-	The Committee failed to submit its reply to the Management Letter.
South Eastern Regional Committee	2,120	Lawyer services	-	The Committee failed to submit its reply to the Management Letter.

Note: 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 Council (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 it only comprises instances that were noted by the Auditors whilst carrying out sample-testing. Furthermore, certain Councils listed in the Table above had other items of expenditure that were not covered by a call for quotations. Such goods/services were not highlighted, simply because their cost did not exceed €1,165.

⁵⁴ No public call for quotations was issued.

⁵⁵ Out of this balance, the amount of €1,146 was paid in respect of services provided within a consecutive four-month period.

⁵⁶ The Council has a contract with Environmental Landscape Consortium for the maintenance of gardens, however the work was not awarded by a call for quotations in accordance with the Local Councils (Financial) Procedures.

⁵⁷ An additional professional fee amounting to €330 was paid in relation to MEPA application.

⁵⁸ This expense was eventually allocated to an EU project.

⁵⁹ The Executive Secretary claimed that he had contacted various suppliers however they were not interested in creating such software.

Appendix J – 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	Council's reply
	€		
Attard	5,522	Lease of motor vehicle	The Council will regularise the hire of its self-drive car.
	3,495	Cleaning and repair of culvert	Points not addressed.
	2,409	Transport for elderly	
	2,148	Instant road repair	
	1,298	Toners and stationery	
Birgu	4,643	Lighting services	All comments were duly noted.
	3,000	Stationery	
Mosta	3,587	IT services	No feedback was received by the Council.
Ta' Xbiex ⁶⁰	4,400	Eight doors for the Council's premises	Point not addressed.
Żejtun	1,403	Transport services	Points not addressed.
	1,390	Cleaning services	

⁶⁰ The Council obtained a direct quotation from the supplier for one door only. This purchase was spread on four payments of €1,100 each effected between March and October 2012.

Appendix K – Change in Executive Secretary

Local Council/ Regional Committee	Office Term of the outgoing Secretary		Position	Remarks
	From	To		
Fontana	19/12/2011	15/06/2012	Acting Executive Secretary	Transferred to another Government Department.
	15/06/2012	09/09/2012	Acting Executive Secretary	Transferred to another Government Department.
	10/09/2012	17/09/2012	Acting Executive Secretary	Appointed whilst Acting Executive Secretary was out of office.
Gżira	15/05/2000	30/09/2012	Executive Secretary	Transferred to a Government Department.
Għargħur	05/10/2011	17/09/2012	Acting Executive Secretary	Appointed Executive Secretary at Qormi Local Council.
	01/01/2008	21/09/2012	Executive Secretary	
Għaxaq ⁶¹	22/09/2012	30/11/2012	Deputy Executive Secretary	Appointed whilst Executive Secretary was on long absenteeism.
	01/04/2006	11/07/2012	Acting Executive Secretary	Appointed as Executive Secretary at Xgħajra Local Council.
Kirkop	12/07/2012	09/10/2012	Acting Executive Secretary	Resigned as he is an Executive Secretary in another Local Council.
Lġja	01/08/2011	26/11/2012	Acting Executive Secretary	Reached pensionable age.
Mosta	20/06/2011	21/05/2012	Executive Secretary	Reached pensionable age.
Msida	01/03/2007	26/08/2012	Executive Secretary	Appointed Executive Secretary at Sliema Local Council.
Qormi	23/03/1999	31/03/2012	Executive Secretary	Reached pensionable age.
San Pawl il-Baħar	16/07/2010	30/05/2012	Acting Executive Secretary	Appointed Acting Executive Secretary at Mosta Local Council
	31/05/2012	09/10/2012	Acting Executive Secretary	Appointed Executive Secretary at Northern Regional Committee.
Sliema	07/11/2011	26/08/2012	Acting Executive Secretary	An Executive Secretary was appointed.
Tarxien	27/09/2011	18/05/2012	Acting Executive Secretary	An Executive Secretary was appointed. The respective individual was then appointed as an Executive Secretary with the same Council as from 10 October 2012.
	07/02/2012	09/10/2012	Acting Executive Secretary	Appointed Executive Secretary at San Pawl il-Baħar Local Council.
Ta' Xbiex	01/04/2000	13/11/2012	Acting Executive Secretary	Transferred to another Government Department.
Xgħira	07/02/2012	20/06/2012	Acting Executive Secretary	Transferred to another Government Department.
	19/02/2005	01/07/2012	Executive Secretary	The Executive Secretary was on long leave and sick leave.
Żabbar	02/07/2012	11/11/2012	Deputy Executive Secretary	The Executive Secretary resumed back to work.
	01/09/2010	24/05/2012	Executive Secretary	Transferred to another Government Department.
Central Regional Committee	13/05/2012	24/05/2012	Acting Executive Secretary	Resigned immediately.
	10/10/2011	24/05/2012	Executive Secretary	Resigned to work in the private sector.
Northern Regional Committee	25/05/2012	01/06/2012	Acting Executive Secretary	Transferred to a Government Department.
	15/06/2012	09/10/2012	Acting Executive Secretary	Appointed Executive Secretary at Tarxien Local Council.

Source: - Information disclosed in the Table above was provided by the Department for Local Government.

⁶¹ As per information provided by the respective LGA, the Executive Secretary was absent for two months, however during this period she was still involved in the Council's administration and the newly appointed Deputy Executive Secretary acted only on the former's instructions.

The following is a list of Memos issued by the Department for Local Government during the years, which were referred to throughout the report.

List of Memos	
Memo 11/2013	Flas ta' Taxxa u tal-Bolla tas-Sigurta' Soċjali
Memo 59/2012	Gheluq tas-Sena Finanzjarja
Memo 121/2011	Gheluq tas-Sena Finanzjarja
Memo 120/2011	Għajnuna lill-Kunsilli Lokali li Għandhom ir-Responsabbilta' ta' Librerija Lokali
Memo 106/2011	Kuntratti fuq il-manutenzjoni tad-dawl fit-toroq - tabella
Memo 90/2011	Skema dwar inizzjattivi sportivi fil-lokalitajiet 2012 – applikazzjoni - linji gwida
Memo 89/2011	Attivitajiet fil-lokalitajiet b'risq il-Malta Community Chest fund
Memo 77/2011	Frug ta' riċevuta fiskali mill-Kunsilli Lokali
Memo 65/2011	Skema dwar Inizzjattivi ta' Attivitajiet 2012 - Linji gwida - applikazzjoni Kunsilli Lokali - applikazzjoni Kumitati Reġjonali
Memo 8/2011	Emenda għal Memo 122/2010 - Ikliet/riċevimenti organizzati mill-Kunsilli Lokali
Memo 7/2011	Revizjoni fl-Onorarja
Memo 150/2010	Gheluq tas-Sena Finanzjarja
Memo 148/2010	Tibdil fl-Onorarja tas-Sindki u Presidenti tal-Kumitati Reġjonali
Memo 122/2010	Ikliet/ riċevimenti organizzati mill-Kunsilli Lokali
Memo 109/2010	Użu tal-Mobile Phones
Memo 45/2010	Kuntratti Godda dwar <i>Resurfacing</i> ta' toroq b'sistema ta' Public Private Partnership
Memo 26/2010	Taxxa fuq l-Allowance lill-Kunsillieri
Memo 7/2010	Skema dwar Aċċessibilita' Aħjar fil-Lokalitajiet - linji gwida - applikazzjoni
Memo 1/2010	Tqassim ta' dokumenti lill-Kunsilliera
Memo 8/2002	Laqgħa Annwali mal-Awditur Ġenerali
Memo 7/2002	Proċedura għal Flas lura ta' spejjeż minn xi Kunsilliera
Memo 42/1999	<i>L-Accounting Treatment</i> tal-Fondi għal Htigiet Speċjali
Memo 29/1998	Tnaqqis fuq il-Valur tal-Assi Permanenti

Included in the table hereunder, is a list of IASs and IFRSs that were referred to, throughout the report.

International Accounting Standards	
IAS 1	Presentation of Financial Statements
IAS 2	Inventories
IAS 7	Statement of Cash Flows
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
IAS 16	Property, Plant and Equipment
IAS 20	Accounting for Government Grants and Disclosure of Government Assistance
IAS 24	Related Party Disclosure
IAS 36	Impairment of Assets
IAS 37	Provisions, Contingent Liabilities and Contingent Assets
IAS 38	Intangible Assets
IAS 39	Financial Instruments: Recognition and Measurement
International Financial Reporting Standards	
IFRS 7	Financial Instruments Disclosure

Ministry of Foreign Affairs

Maltese Mission in Brussels

Background

Contrary to other countries where Maltese Embassies are situated, apart from the Maltese Embassy, Brussels also hosts the Permanent Representation of Malta to the European Union (PREU).

The main functions of the Maltese Embassy include representing the country in bilateral and multilateral *fora*; promoting Malta's relations with other countries, thus ensuring the former's active role as a member of the international community; servicing needs of Maltese nationals abroad; and the provision of consular services.

On the other hand, the role of the PREU is that of officially representing Malta in all negotiations that take place within the European Union (EU) structures, with other Member States, the European Commission and members of the European Parliament. All interaction between the Maltese administration and EU Institutions is channelled through the Permanent Representation.

As at 31 December 2012, both the Embassy and the PREU were part of the portfolio of the Ministry of Foreign Affairs (MFA). Although the two entities were deemed to be separate, in terms of work and human resources, only one budget was prepared to cater for the needs of both. However, with effect from April 2013, the PREU was shifted under the responsibility of the Ministry for European Affairs and Implementation of the Electoral Manifesto. The two entities now have separate budgets, with the PREU retaining the bank account in force and a new one opened for the Embassy. Separate financial records will also be drawn up.

Unless mentioned specifically in this Report, any reference to the Mission will mean to include both the PREU and the Embassy.

Financial Resources

The Mission's original budget for 2012 from the Consolidated Fund amounted to €5,058,800, of which €4,324,800 was allocated to Personal Emoluments. This represented an increase of 3.1% over the 2011 revised budget. However, during the year under review, the budget was revised down by 1.5% to €4,984,800. Although expenditure was contained within this revised amount, expenditure on a number of specific line items exceeded the original budget by as much as 140%.

Human Resources

The employment of all staff within the PREU and Embassy is regulated by the respective employment contracts, as well as by the Work Rules – Permanent Representation of Malta in certain cases, which document is a legal requirement under Belgian employment legislation.

During the period under review, the Embassy was run by two officers, namely a Bilateral Ambassador, who is the Head of Mission and is therefore in charge of the overall running of the Embassy, and another officer in the grade of Counsellor.

On the other hand, as at 31 December 2012, the PREU, led by the Permanent Representative (PR), comprised 40 staff members, 10 of which

commenced their posting during the foregoing year. These staff members include MFA diplomatic staff, as well as other officers, referred to as Technical Attachés (TAs), specialised in different areas and coming from both Government entities and outside the public service.

In addition, as at 31 December 2012, 15¹ Locally Engaged Personnel (LEPs) were providing administrative, driving and housekeeping duties at the PREU and Embassy. On 1 January 2012, new employment contracts came into force, bringing them in line with the requirements of the Belgian employment legislation. The salaries and conditions were also revised and brought closer to those applicable in similar entities in Brussels.

Physical Resources

The PREU and the Embassy operate from different floors in Malta House; the 5th floor is occupied by the Embassy, while the PREU is situated on four floors, *i.e.* from the 6th to the 9th floor. The remaining four floors in Malta House are intended for leasing, three of which are already occupied by third parties. Both the PREU and Embassy are also considered as tenants, and thus are not responsible for the administration of the building. This task falls under the responsibility of the Malta Investment Management Company Limited.

During 2012, the Mission incurred an expense of €140,001, including indexation as issued by the Belgian authorities, relating to the rental of two premises, used as residences by the PR and Bilateral Ambassador respectively. The amount paid in 2012 for the former fully furnished residence, totalling €84,348, included other costs such as heating, water and electricity.

In addition to the above, the Mission also paid for the rental of a storage space, as well as the leasing of three cars used as official vehicles by the PREU and Bilateral Embassy.

Audit Scope and Methodology

The main objectives of the audit were to ensure the efficient administration of public funds, in line with standing laws, regulations, policies and procedures, as well as to ascertain that resources

are being used judiciously. Other aims were to assess the reliability and adequacy of information available for decision-making and accountability purposes, and make recommendations, where warranted, based on best practices.

The focus and extent of audit work was based on an assessment of materiality and related risk. This was achieved mainly through a review of the monthly accounts, registry files and other records kept by the Mission. During audit testing, National Audit Office (NAO) examiners also communicated with Head Office (HO), mostly through the Desk Officer responsible for the particular Mission. Recurring issues were also analysed.

During the assignment, audit concerns were further refined, through information gathered and interviews with staff at the Mission.

Limitation on Scope of Audit

Attendance Records

In line with the provisions of clause 10 of the Work Rules document, LEPs are entitled to one meal voucher, of a value of €7 per effective working day. The Mission contributes €5.91 to the voucher, while the remaining €1.09 is borne by the employee.

Since no attendance records were kept by the Mission in respect of both the Malta Based Officers (MBOs) and LEPs, in order to confirm the actual number of days worked by the latter, related testing carried out was based on Vacation Leave (VL) and Sick Leave (SL) records. The exercise revealed various discrepancies in these records, as reported further on, and thus they were not deemed to be reliable. Consequently, the correctness of meal vouchers paid to LEPs could not be ascertained.

Control Issues

Outdated and Ineffective Manual

The Conditions of Service for Officers Serving Overseas (CSOSO) is the official manual stipulating benefits and allowances payable to

¹ Including one LEP who was on long sick leave as at 31 December 2012.

MBOs, as well as other provisions related to the operations of Embassies. This manual was drawn up in 1994, but as remarked by NAO in previous Reports, it has never been updated since. Therefore, it does not incorporate the full benefits currently enjoyed by Head of Missions and other high ranking officials. Although office circulars were issued from time to time, these were not incorporated in the CSOSO.

Salaries and Wages

Attendance Records not kept

Attendance records are not kept in respect of both LEPs and MBOs. Auditors were verbally informed that it is difficult to keep attendance records for MBOs, since TAs, which constitute the majority of MBOs, are travelling most of the time.

Locally Engaged Personnel

Increase in Salaries of Locally Engaged Personnel for the period before the Agreement came into force

As mentioned previously, the new contracts for all LEPs came into force on 1 January 2012. However, arrears were paid to LEPs to cover the difference emanating from the revised salaries with effect from 1 July 2011, *i.e.* six months earlier, this being the planned date for the introduction of the new salaries. It was established that this payment, amounting to €10,788, had actually been effected in December 2011.

According to the then PR, given the delay in the negotiations with the authorities, and the expectations of the LEPs, it was inevitable for the difference in salaries to be paid as from July 2011.

Unverified purchase of Literature

In line with clause 9 of the Work Rules document, LEPs who are members of the support and administrative staff, receive a fixed monthly allowance of €15, as reimbursement for the purchase of professional literature and information. Although the Mission was instructed to pay this allowance according to the conditions stipulated in the employment contracts, *i.e.* that the LEPs indeed buy literature and relevant information,

no evidence of checks carried out, to ensure that such literature is actually being bought, was noted during the audit.

Meal Vouchers

Background

As already highlighted, LEPs are entitled to one meal voucher for every effective working day, which vouchers are received on a monthly basis, in proportion to the number of actual working days during the month. Since no attendance records were kept, in order to ensure correctness of the number of vouchers received during a sample of four months, NAO examiners had to refer to the VL and SL records.

Discrepancies between Number of Days worked and Vouchers received

Various discrepancies were noted between the number of days actually worked by LEPs and the number of vouchers that they received.

Inadequate Stock Records

The records that were being kept only evidence the number of meal vouchers distributed to each LEP, the serial number thereof, the date of distribution and the signature of recipient, while they fail to indicate the amount purchased and the actual balance. As a result, it was not possible to ensure the accuracy of the stock in hand.

Furthermore, in the absence of adequate stock records enabling identification of unused vouchers, it could not be determined that refunds received for returned unused vouchers were accurate.

Overtime

Background

As per the provisions of the official Work Rules, the maximum working time at the Mission is fixed at 38 hours per week. All employees working more than the established hours are entitled to time-off *in lieu*, which has to be availed of within a four-month period subsequent to the performance of the additional duties. If this is not possible,

overtime payment at 100%, for hours worked between 17:36 and 22:00, and at 200% for any other hours outside the official time-table, will be granted.

During the audit, overtime records kept in respect of work performed by one of the drivers, who received the amount of €10,077 in overtime remuneration during 2012, were reviewed.

No Written Justification and Approval for Overtime

Overtime records maintained by the Mission failed to indicate the reasons for the overtime work. Only the hours worked and the rate at which such hours are to be remunerated, *i.e.* 100% or 200%, are evidenced. Furthermore, although NAO auditors were informed that these records are verified by the Head of Administration, in the majority of cases, they were not endorsed accordingly, to evidence that checks were carried out and that details were correct.

Internal Policies disregarded

An analysis of overtime records kept by the Mission revealed that overtime payments were at times effected before the lapse of the four-month period, sometimes in the month following that when overtime was performed, thus breaching the Mission's internal policy on overtime work.

Ineffective Overtime Records

Various records related to overtime were identified during the testing, including attendance records evidencing hours worked prepared by the driver, a record of overtime hours worked by the driver and respective number of hours paid, prepared by administrative staff, and another separate record, also prepared by the latter, showing dates when the officer concerned was on *recuperation*, *i.e.* time-off.

- While all information recorded is useful, the documents are not user-friendly. For example, a record linking the overtime payments or *recuperation*, to

the respective actual hours paid and the applicable rates, was not available. Thus, the necessary verifications were hindered. The record kept by the administrative staff included only the paid hours, while it failed to include any reference to those hours remunerated through *recuperation*, as these were covered by a separate record. Likewise, this latter record also does not evidence the number of overtime hours covered by *recuperation*. As a result, outstanding overtime hours could not be validated, and correctness of those paid for could not be ascertained.

- According to an internal note, the balance of extra hours for this LEP as at 31 March 2012 stood at 50.8 hours. However, this balance could not be tallied to the hours indicated in any of the overtime records kept by the Mission.

Lack of Supporting Documentation

Whilst overtime remuneration is included with the salary payment, no documentation was traced in support of the respective amounts paid, indicating the number of hours covered and the applicable rates. As a result, such payments bypass the Desk Officer's controls at HO, intended to identify any shortcomings failing to come to the attention of Mission staff. In view of these shortcomings, the correctness of the €10,077 overtime payments, effected in 2012 to the officer in the audit sample, could not be ascertained.

Discrepancies between Overtime and Other Related Records

On several instances, discrepancies were noted between the details of overtime as recorded by the driver, and other related documents obtained during the audit, *i.e.* VL, SL, and *recuperation* records. In certain instances, overtime was paid when according to other records the officer was on VL or SL. This indicates that checking between the different records was not being carried out. Similar discrepancies were also noted in the case of another LEP, also falling within the audit sample.

Computational Errors in Overtime Records and Discrepancies with Actual Payment

- In addition to the above, several computational errors were noted in the total number of overtime hours recorded by the driver. Discrepancies were also identified between such records and those maintained by Mission staff. Furthermore, instances were encountered where the total number of hours was recorded without indicating the actual time worked.
- In March 2012, unlike other instances, the overtime hours covered by remuneration effected to this driver, were indicated on the Payment Voucher (PV), thus enabling verification against substantiating records kept by the Mission. Although 59 overtime hours were actually paid for during this period, according to the Mission's record, payment was effected for 56.6 hours in the period concerned.
- Similarly, in February 2012, the Desk Officer enquired about the overtime payment effected to this driver. The Head of Administration stated in her reply that the LEP was paid for 34.2 extra hours worked, in addition to his basic salary. However, on verifying this number of hours with the overtime record kept by the Mission, NAO auditors noted that the driver was paid for 37.2 extra hours.

Hours unaccounted for

On 13 instances, according to the record prepared by the driver, hours worked were from 09:00 till 12:48. The remaining hours, *i.e.* till 17:36, could not be traced in any of the records provided, namely VL, SL and *recuperation*. In her reply to NAO queries about the matter, the Mission's Head of Administration stated that all indicated dates were considered as *recuperation*. However, none of these dates could be traced to the *recuperation* record provided by the Mission.

Different Overtime Records covering the Same Period

Two different records showing hours worked by the driver were traced for June, September, October and November. Since most of these records were neither endorsed nor dated, NAO could not confirm which version was correct.

Social Security Contribution Payments

- As from 2012, the computation of LEPs' salaries was outsourced to a private contractor, in line with legal advice obtained by the Mission. On a monthly basis, the contractor invoices the Mission for tax (*precompte professionnel*) and Social Security Contributions (SSC) (ONSS) paid on behalf of LEPs. During 2012, the Mission paid, through this contractor, the amount of €78,650 in tax contributions, and €157,087 in respect of SSC payments and provisions.
- Notwithstanding the significant amounts paid in tax and SSC, the Mission was not in possession of documentation from the official authorities in Belgium, confirming that the respective amounts were paid to the latter. As a result, it could not be confirmed that such monies were eventually forwarded to the respective authorities.
- Following a request for the aforementioned documentation, the Head of Administration provided NAO auditors with a document drawn up by the same contractor receiving the payments in question, showing extracts of the amounts paid by the Mission in view of the said expenses. As part of audit testing, auditors attempted to reconcile payments effected by the Mission to the company concerned during the year under review, to those recorded in the said document. Whilst with the exception of a payment amounting to €2,310, issued to the company concerned in December 2012, payments effected

by the Mission covering LEPs' tax were reconciled, only four of the amounts paid in respect of SSC could be tallied to the record provided.

- Two PVs, amounting to €4,387 and €53,040, were issued by the Mission in January and February 2012 respectively, covering LEPs' SSC. The former payment was supported by an official request for payment from the National Office of Social Security, showing outstanding amounts for period ending December 2011. However, the second payment, which according to the PV covered contributions for period October to December 2011, was not covered by the relevant documentation, but only by what appears to be a statement. As a result, it could not be ascertained to what period this amount relates and whether it was actually due.

Disturbance Allowance to Secretary

Background

In June 2012, the then PR wrote to HO requesting that one of the LEPs be paid a monthly payment of €650 in return for a maximum of 50 hours of overtime per month. Subsequently, MFA requested approval from the Ministry of Finance, the Economy and Investment (MFEI) for the said payment. However, in order to streamline benchmarks, the latter approved the payment of a monthly disturbance allowance of 0-15% of the basic salary, rising to 25% in exceptional circumstances, as compensation for extra duties.

Subsequently, in December 2012, MFA approved the payment of the monthly disturbance allowance, provided that the LEP concerned has a backlog of time-off *in lieu* which cannot be availed of within the period prescribed by her employment contract. That same month, in addition to her salary, the LEP in question was paid €2,592 in retrospect, covering the period July to December 2012, being 15% of her basic salary.

Allowance not in line with Set Policies

The payment of overtime is regulated by provisions stipulated in the Work Rules document. However, this new allowance, referred to as Disturbance Allowance, was introduced, in the case of this LEP. Such anomaly was also questioned by the Ministry of Finance (MFIN), to which MFA replied that the officer “*has hardly ever made claims for compensation as time-off or in overtime*”.

Maximum Amount paid in the Absence of Set Policies

There is no policy in place indicating the basis and respective rate of the disturbance allowance. Since the approval of this allowance, paid from July up to December 2012, being within the period under review, the LEP concerned received the maximum percentage of 15% every month. Except for MFA's claim referred to in the previous observation, no other proper justification was traced in connection with the decision to pay the maximum rate. Thus, in the absence of established policies, the basis of the 15% rate paid from July onwards could not be determined, while it could also not be ascertained that such rate was justifiable.

Furthermore, the documentation available only indicated that the allowance will be paid from July onwards, while it failed to specify after which period it was expected that the situation will be reassessed.

Lack of Documentation

Although the prevailing condition for the payment of the disturbance allowance was the backlog of time-off *in lieu* not availed of, overtime records enabling independent verification were not attached to the PV. As a result, NAO auditors were not in a position to confirm that the said condition, *i.e.* the backlog of time-off *in lieu* not availed of, was met, and that therefore the payment of the allowance was due.

Agreement filed at Head Office not reflecting Actual Payment

During the audit, the Desk Officer provided NAO auditors with a copy of an agreement between the Mission's Head of Administration

and the aforementioned LEP, wherein the latter was appointed as Assistant to the Head of Administration with effect from 8 June 2012. This agreement stipulated that the LEP “*will receive a monthly gross sum of €650 in addition to the current salary, and she will be required to perform up to a maximum of fifty hours of overtime per month*”.

Notwithstanding the above, no payments reflecting the amount of €650 stipulated in the agreement, were traced by auditors for 2012. Following queries about this matter, the Head of Administration stated that there was a typing error in the agreement, whereby the amount should have read €432, *i.e.* 15% on basic salary, and not €650. This revised amount is the equivalent of 25 hours of overtime. A corrigendum to the document was effected in February 2013. However, revised copies were not traced in MFA files.

Disturbance Allowance converted into a Fixed Monthly Payment

The new monthly allowance of 0-15% of basic salary, equivalent to a maximum of €432, approved by MFEI, was intended to be paid according to the amount of overtime performed in a particular month. However, subsequent to the new appointment, the LEP is in receipt of the said remuneration, irrespective of the number of overtime hours worked, as per the provisions of the aforementioned agreement.

Required Overtime Hours

- The request for approval of the €650 allowance submitted to MFEI, indicated that the LEP concerned regularly works 50 hours of overtime per month. However, according to the corrigendum drawn up in February 2013, the LEP is now required to work up to a maximum of 25 overtime hours per month, in return for a monthly allowance of €432.
- Notwithstanding the above, from the records provided, it was noted that the maximum threshold of 25 hours was only reached once during the period June to December 2012, where 25.25 overtime hours were recorded. On the other hand,

in August 2012, only 15.25 of overtime hours were performed.

- The payment of this fixed allowance resulted in an additional amount of €465 during the period June to December 2012, when compared with the remuneration as per the Mission’s standing overtime policy.
- The records provided show only the total number of overtime hours worked, without indicating the actual time. This hindered verifications to ensure the correctness of the recorded information.

Temporary Housekeeper

Background

In addition to the two housekeepers engaged as LEPs, the Mission employs another temporary housekeeper through an agency of ‘*titre services*’, referred to as the service company, which provides personnel to private individuals for ‘household cleaning help’. The contract with the service company was signed by the Bilateral Ambassador, and according to the agreement, the service was to be provided at the Bilateral Residence, for 15 hours a week. The housekeeper is given a service voucher of €8.50, by the Mission, for each hour worked. The vouchers are then redeemed by the service company, from the company which issues the same service vouchers.

The housekeeper’s attendance sheets for periods January to December 2012 were reviewed, and the following observations were noted.

Non-observance of Contract Provisions

Although Article 2 of the said agreement expressly prohibits the cleaning of professional premises, in addition to the duties performed at the Bilateral Residence, the housekeeper was regularly performing cleaning duties at the PREU and Embassy, thus breaching the provisions of this Article. No written authorisation from the service company, covering this additional work, was traced. Furthermore, Article 4 of the same agreement stipulates that “*the User shall call on the Service Company for 15 hours of service*”.

per week". Between the hours performed at the Bilateral Residence as well as those at the PREU and Embassy, this threshold was regularly being exceeded. The excess hours were paid for by the Mission, directly to the housekeeper, at €10 per hour.

Incorrect Computations and Payments

- In May 2012, the housekeeper worked for 74 hours, 50 of which were to be paid by vouchers. Due to insufficient vouchers in hand, only 10 were provided in May, while the remaining 40 were given to the housekeeper in June. Notwithstanding the balance of 24 hours, the latter received a payment of €340, equivalent to 34 hours, resulting in an overpayment of €100.
- In June, a total of 93 hours were paid for; 65 hours in vouchers and the remaining 28 in cash. However, as per attendance records, only a total of 89 hours of service were provided; thus resulting in another overpayment.
- According to attendance records, payment for 92 hours was due to the housekeeper in July. While 61 were paid through vouchers, another 32.5 hours were paid for by cash, resulting in an additional overpayment.
- In November, while 60 of the 100 hours due for payment were paid through vouchers, only 36.5 hours were paid by cash. This resulted in an underpayment of 3.5 hours.
- Similarly, in December, out of 89 hours, 64 were paid through vouchers and another 24 hours paid by cash. Therefore, the housekeeper was underpaid the equivalent of one hour.
- The payments paid by cash through PVs are accompanied by a request for payment from the housekeeper, wherein a specific number of hours and the applicable rate is

stipulated. This request is endorsed by the housekeeper herself and also by the Head of Administration. Notwithstanding that the latter is also certifying the correctness of the request, the errors highlighted above were not detected.

Incomplete Documentation submitted to Head Office

PVs for cleaning service submitted to HO were only supported by the request for payment. This request, indicating the total hours and amount payable, was endorsed by the housekeeper, as well as the Head of Administration. Timesheets supporting the claims made were not provided to HO. Neither was the Desk Officer informed of the number of hours paid through the vouchers. As a result, checks carried out by the latter were limited to those aimed at ensuring that the payment tallied with the request, without confirming whether the amount requested was correct.

Malta Based Officers

Significant Arrears paid to Malta Based Officers

Upon renewal of their agreements for a second term, five TAs changed their status contract-wise, to conform to the Model 1 type Agreement for Public Officers². The salary option selected by these TAs provided that, for the duration of the Agreement, the latter shall receive the global emoluments attached to the scale that the respective officers would be linked to when posted overseas, supplemented by the addition of an amount equivalent to 15% of the said global emoluments.

- In April 2012, five MBOs were collectively paid €55,535 as arrears for the period 2009/2010 to 2012, with each payment ranging from €12,921 to €7,558. Although these amounts fell due upon renewal of the respective contracts and were clearly stipulated, arrears were only paid in April 2012, after payments were authorised by the Office of the Prime Minister on 10 October 2011.

² Model Agreement No. 1 is applicable in the case of officers who have a permanent employment with the Government (Public Service).

- Similarly, in August 2012, the former PR received €12,758, being arrears covering a salary review for the period January 2011 to July 2012.

Vacation Leave Records

Vacation Leave not deducted from the Respective Record

- Errors were detected in six out of a sample of nine forms reviewed, resulting in at least 20 unrecorded VL days.
- Other errors, including computational and omission errors, were noted during a review of these records. Furthermore, while some records show VL in days, others were reported in hours.
- According to the Mission, one LEP worked for one week during the summer shutdown held between 6 and 17 August 2012. However, although she was not working during the second week of the period in question, no VL was deducted from her entitlement, resulting in an overstated balance of VL to be availed of.

Telephone Refunds

Background

As part of the salary package, MBOs, including TAs, are provided with free telephone installation and maintenance at their private residence. They are also refunded for all the telephone rental payments, plus a standard amount of 20% of the remainder of their regular bill, as per CSOSO.

VAT Element refunded twice

In order to receive the refund for telephone rental and calls, officers raise a claim, in which they eliminate the non-refundable elements, such as internet and television from the total bill. Some officers were recording prices net of the Value Added Tax (VAT) and then adding VAT at the end of the computation. However, other officers were recording prices inclusive of VAT, as quoted in bills, and then added VAT again on the total claim.

The Mission overlooked this shortcoming and refunded amounts requested, resulting in double refund of the VAT element. During the period under review, this triggered additional payments of at least €523.

Photocopies of Bills presented for Refund resulting in Double Payment

NAO auditors noted that at times, photocopies of the original bills were presented with the refund request form. This practice, which was accepted by the Mission, led to two payments of €131 each, both covering October and November 2012, being issued to an officer in December 2012, as refund for telephone expenses.

Procurement

Leasing of Storage Space

Since 30 April 2009, the Mission has been renting storage space of 87 cubic metres, for an annual cost of €4,784, to store donated furniture.

Notwithstanding that a whole floor at 'Dar Malta' was not being utilised, the Mission opted to lease storage space rather than using this empty floor. While auditors were informed, and acknowledge, that this floor will be used in the coming year for the preparations of the Maltese Presidency, the significant leasing costs, which to-date amount to over €18,000, cannot be ignored.

Pricing Option selected not in the best Interest of the Mission

As per an email attached to the contract, initially the service provider offered the said storage space at either a monthly charge of €4.30 per cubic metre, or at a fixed cost of €258 per month. Following further negotiations, the €4.30 rate was reduced to €4 per cubic metre per month.

From the invoices reviewed, it transpired that the Mission opted for this latter offer, notwithstanding that this would result in a monthly charge of €348, *i.e.* €90 more than the fixed monthly offer. Consequently, the Mission paid an additional €3,960 over the period 1 May 2009 to 31 December 2012.

Payments to Service Provider

Background

As already highlighted in the Report, as from 1 January 2012, the Mission outsourced the salaries computation function to a private firm. This service provider is in charge of all salary computations, as well as SSC and taxation issues related to LEPs.

The contract entered into with the contractor stipulated that, once affiliated, the Mission would have to pay a statutory provision of €300, which corresponds to three months management fees (*frais de gestion*). In addition, management fees of €17.07 per worker and per computation of salary are also applicable.

Unclear Basis of Computation for Administrative Payments to Contractor

Notwithstanding the agreed applicable charge, the management fee quoted on the invoices reviewed was indicated as 21%. However, the basis of this percentage could not be determined. As a result, correctness of the amount paid for management fees, which totalled €8,168 in 2012 could not be ascertained. Furthermore, no comparison could be made between one monthly charge and another.

When queried about the management fee payable to the service provider, the Mission staff were not knowledgeable on the basis of such fee. NAO auditors were only provided with a copy of the agreement with the contractor stipulating the above.

Revenue

Revenue not remitted to Bank

Revenue received in cash, which in 2012 amounted to €8,916, was not remitted to bank in line with the provisions of the General Financial Regulations. Following queries on the matter, auditors were verbally informed that such revenue is kept as cash-in-hand for the everyday running of the Embassy and the Permanent Representation.

Proper Cashbook not kept at Embassy

- A proper pre-numbered cashbook to record consular revenue received at the Embassy was not kept. Instead, the latter maintained a record that it refers to as 'cheque book'. This record only contains a copy of receipts issued for consular revenue. Cash revenue is handed over to the Head of Administration on a monthly basis, together with copies of relevant receipts and related details on a spreadsheet, which document started being drawn up as from April 2012. Revenue is then keyed into the Embassies' Cash Management System (ECMS) cashbook.
- No receipts were issued as acknowledgement when money was handed over from the Embassy to the Head of Administration. Following queries raised about this matter, NAO auditors were informed that this is due to the fact that the Embassy, the Administration Unit and the PREU were all considered as one office.

Cancelled Receipts not supported by Original

From a physical check of receipts, it transpired that at least eight receipts, which were cancelled, were not supported with the original one, as confirmation that the amount was not actually received.

In several instances, the justification noted on the copy of the receipt, presumably the reason for cancellation, suggests that receipts were being issued prior to the actual provision of service. As an example, on one occasion, a receipt of €15, covering an oath for a lost passport, was cancelled, with the copy of the receipt indicating 'passport found'. Another receipt, amounting to €18, and covering an Emergency Travel Document, was also cancelled, the reason being 'travelled with ID'. Other similar instances included a receipt of €15 cancelled indicating 'done in Malta'; another receipt covering registered mail cancelled as it was 'picked up by hand'; and another one was cancelled as it was 'done in MT', presumably meaning Malta.

Revenue recorded in Cashbook after a Considerable Time Lapse

During the audit it was noted that, at times, the Mission recorded the money received in the cashbook after a considerable time lapse. A review covering a sample of three months, namely April, July and September 2012, revealed that revenue was sometimes recorded in the ECMS cashbook, two and even three months after the money was actually received.

Control through Request for Service not adequate

Following various observations on other Missions about the lack of control over completeness of income in previous NAO reports, the Mission in Brussels is using a Request for Service form, which indicates a date, presumably being the date when the form is filled, the nature of the service being provided, the name of applicant, the date service is rendered, the receipt number, the fee charged, as well as the signature of officer. Although the form contains all the required details, control is still lacking due to the following shortcomings.

- Notwithstanding that the form requires a serial number, this is not being filled in, thus hindering assurance of completeness of income.
- The form is filled in by the officer collecting the money and it is not endorsed by the person requesting the service. Therefore, acknowledgement that the service has actually been given is not evidenced.
- In contrast to the issue highlighted previously, where receipts were issued in advance, in one instance, for income received in February and recorded in April, it was noted that a receipt, dated 10 February 2012, was issued a day after the Request for Service form was raised. On another occasion during the same period, according to the receipt, the service was rendered on 17 February 2012, while the Request for Service form was dated 21 February 2012. This may imply that the receipt is not being issued when income

is received, which is usually when the service is requested.

No Reference to Substantiating Documentation

The Request for Service form does not have any field indicating a reference to other supporting documentation, for example the respective passport number. In addition, the name of applicant indicated on the form reflects the person effecting the payment, rather than the person in whose name the passport will be issued.

This observation was already included in previous audit reports. This renders difficult any attempt of reconciliation between the records of the Mission and those of other entities, such as Departments responsible for Passports and Citizenship.

Revenue not substantiated

During 2012, the Mission disposed of a vehicle for which it received refunds of €1,498 and €834, relating to car mileage and insurance respectively. No documentation was traced in support of these amounts. Following queries about the matter, auditors were informed that this was “*an unexpected refund related to mileage*”. However, following a review of the lease agreement provided to this Office later during the audit, it transpired that this refund was specified in the contract. In fact, it was stipulated that should the threshold of 80,000 kilometres not be met during the contract period, the difference between this threshold and the actual car mileage will be refunded at €0.0416 per kilometre.

The audit further revealed that, since logbooks have only been kept as from 2012, the mileage on the car could only be confirmed through an email submitted by a surveyor, who carried out an inspection on the car and gave an estimated cost. According to this email, the mileage as at June 2011 was 140,250 kilometres, exceeding the stipulated threshold. Thus, according to the contract, no refund was due.

In view of the above, and the lack of documentation provided, correctness of the amount of refund received could not be determined.

Inventory

Discrepancies in Inventory Returns

An exercise was undertaken by NAO wherein inventory returns for 2011 and 2012 were compared, to verify whether there were any discrepancies. The following came to the auditors' attention:

- items included in 2011 return but not traced in the return for 2012;
- items with different identification numbers in the two returns;
- assets held or acquired during 2011, included in the 2012 return, but not in that of the preceding year;
- different quantities for same asset noted in 2011 and 2012 returns; and
- asset number not unique.

Discrepancies between Items traced on Location and those in Records

A physical inspection covering a sample of 69 assets located in 16 different locations was also carried out by the auditors, accompanied by the Head of Administration. The following were noted:

- a. Two vehicles were included in the inventory records for 2012 at a value of €31,999 and €27,895 respectively, notwithstanding that one was disposed in August 2011 and the other in December of the same year.
- b. Two television tables with a total value of €1,012, as well as 14 chairs valued €1,424, which according to the inventory records should have been in the garage, were not traced in this location. According to the Head of Administration, the chairs were "*moved upstairs*".
- c. A stone ornament, marked as a heritage item, which as per the inventory records was in the Deputy PR's office, was not found on site.
- d. A printer valued €303, was not traced in the office of the Head of Administration as indicated in the records. On the other hand, another printer found in the same office, was not traced in the inventory records.
- e. A fax machine acquired in June 2011, having a value of €350, as well as another fax machine acquired in 1998, with a value of €345, were located in the garage according to the inventory records. However, the two fax machines traced in this location during the physical check, were not of the same brand as that indicated in the database.
- f. Two Central Processing Units, each with a value of €675, were located in the office of the Head of Administration according to the inventory records. However, they were not found on site during the physical check carried out by NAO auditors. Following verifications carried out by Mission staff, it transpired that one of this equipment was located in the office of the Deputy PR, while the other was in another office.

Assets procured in 2012 not included in Inventory Records

Notwithstanding that six laptops and four desktops were acquired in December 2012, these were still not recorded in the inventory records by June 2013.

Laptops in the Office of the Head of Administration

According to the inventory records, 12 laptops acquired between 2003 and 2011, and each with a value ranging between €710 and €2,218, were located in the office of the Head of Administration. During the inspection, NAO auditors were informed by the Head of Administration that these laptops were all in need of repair, some waiting to be sent to Malta for possible repairs, while others needed to be replaced. In order to confirm this last statement, the auditors were led to another room, which, amongst others that were recently purchased, held three laptops, all brand new, still in their boxes. Auditors were informed that these were acquired in December 2012, but had not been dispatched to the respective officers yet. Thus, six months, from the guarantee provided for such

equipment, had already been exhausted as at time of audit, while the computers in question were still unutilised.

Recommendations

Control Issues

Outdated and Ineffective Manual

As already recommended in previous audits carried out by the NAO, an in-depth review of the CSOSO is to be given priority. All benefits currently enjoyed by officers are to be identified, ideally with the help of Desk Officers, since they have first-hand knowledge of the prevailing issues. If the benefits in question are justified and approved by HO, further approval is to be sought from MFIN, and duly incorporated in the CSOSO.

Once in place, the CSOSO is to be reviewed and updated on a regular basis, to reflect established entitlements. Any circulars issued in the interim are also to be included. All parties involved are to be provided with the latest version of the CSOSO, which is to also clearly indicate the date of review.

Salaries and Wages

Attendance Records not kept

Attendance records increase the efficiency of the workforce administration, whilst providing fairness amongst employees. While it is acknowledged that MBOs spend a lot of time travelling, attendance records are still considered necessary. ‘Duty abroad’ can be evidenced on attendance records whenever the respective officer is overseas on official duty. Ideally, the reason for the visit is also indicated.

Locally Engaged Personnel

Increase in Salaries of Local Engaged Personnel for the period before the Agreement came into force

In similar circumstances, the Mission is to refrain from raising expectations, and wait until formal agreements are in place, stipulating what is actually due and when.

Unverified purchase of Literature

The Mission is expected to request proof of purchase of literature on a monthly basis. Receipts are to be filed for future reference, as well as to enable further verification, when necessary.

Meal Vouchers

Discrepancies between Number of Days worked and Vouchers received

Management is to keep a proper record of the number of days worked by each LEP. Vouchers are to be provided only after such records are duly vetted and authorised by the Head of Administration, with the records being endorsed as confirmation that they have been verified. Copies of such records are to be attached to the voucher distribution document, as evidence of days worked. Both records are then to be attached to the PV for the necessary verifications by the Desk Officer at HO.

Inadequate Stock Records

The Mission is encouraged to draw up a stock record, based on the Stock Ledger Card attached to Treasury Circular No. 6/2004 – ‘Stock Control Procedures’. This record shows continuous timely information of vouchers received and issued, as well as the ending balance. It thus provides updated information which can be subsequently double-checked through physical counts.

Overtime

No Written Justification and Approval for Overtime

The form currently in use by the Mission could be amended to include the reasons for the performance of overtime. Furthermore, each overtime entry is expected to be endorsed by the Head of Administration, or by the PR, if the overtime was related to an activity attended by the latter, as confirmation that hours recorded therein are correct.

Internal Policies disregarded

Policies and procedures are to be applied in a consistent manner and followed by all officers.

Ineffective Overtime Records

The larger the number of different records maintained, the higher is the risk of errors and discrepancies. Thus, the Mission may consider keeping only one overtime record, clearly indicating the number of hours worked, those paid for and applicable rates, the number of hours availed of as *recuperation*, as well as any outstanding balance. This will facilitate the exercise of proper control over remuneration for overtime.

Lack of Supporting Documentation

Overtime payments are to be accompanied by a statement, indicating the number of hours being paid for, when the said hours were performed, as well as the applicable rates, enabling easy verification of payment. Other records related to overtime are also to be submitted to the Desk Officer for regular verifications.

Discrepancies between Overtime and Other Related Records

Management is encouraged to immediately introduce attendance records, showing hours worked by all employees, which are to be approved by the Head of Administration on a regular basis. Cases of absence are to be recorded on this document in advance by Administration staff, where applicable. Related records are then to be verified with these attendance sheets on a regular basis, to ensure that they all show the same details. This enables divergences to be tackled in a timely manner prior to payment.

Computational Errors in Overtime Records and Discrepancies with Actual Payment

The maintenance of proper records is fundamental for a sound system of internal control as well as a reliable audit trail. Such records are expected to generate a flow of timely, relevant and reliable information, from both within and outside the Mission, as well as help to ensure the quality of

internal and external reporting. Moreover, as far as possible, segregation of duties is to be established, so as to include independent checking of records.

Hours unaccounted for

Accurate attendance records are beneficial for the Mission as these enhance accountability, while providing evidence to support any claims, if and where necessary.

Different Overtime Records covering the Same Period

Superseded records are to be removed, or at least indicated as such. Ideally, only the latest copy is filed for future reference.

Social Security Contribution Payments

It is recommended that, at least on an annual basis, the Mission requests a statement from the pertinent authorities showing the amounts paid in tax and SSC. Reconciliations are then to be carried out between the amounts advanced to the contractor and those shown as paid to the respective authorities.

*Disturbance Allowance paid to Secretary**Allowance not in line with Set Policies*

It is recommended that the Mission follows established policies in all instances, thus ensuring fairness and transparency.

Maximum Amount paid in the Absence of Set Policies

The Mission is encouraged to draw up clear guidelines, stipulating the applicable rates payable in different circumstances. These would be useful to both the officers within the Mission approving and authorising the payments, as well as to other officers carrying out verifications on the same payments.

Lack of Documentation

Overtime and time-off *in lieu* records, certified by the Head of Administration, are to be submitted to

HO on a monthly basis, enabling verification of the recorded hours and those paid, as applicable.

Agreement filed at Head Office not reflecting Actual Payment

In order for the Desk Officer's role to be effective, she is to be made aware of developments in a timely manner.

Disturbance Allowance converted into a Fixed Monthly Payment

This type of agreement entered into may give rise to an unnecessary financial burden, and absorb funds which could be utilised more effectively, thus it is to be avoided.

Required Overtime Hours

It is recommended that a detailed review of the administrative tasks is carried out. It is only after such an exercise that the Mission will be in a position to assess its overtime requirement, and whether the current remuneration method is the most cost-effective. Furthermore, the upkeep of records is expected to be enhanced.

Temporary Housekeeper

Non-observance of Contract Provisions

The Mission is encouraged to regularise its position in line with the provisions of the agreement, as well as to obtain the necessary covering approvals with respect to services carried out at the Embassy and PREU.

Incorrect Computations and Payments

Where possible, checks are to be carried out by two different individuals, thus increasing the possibility that errors are detected before payments are effected.

Incomplete Documentation submitted to Head Office

The Desk Officer is to be provided with all the documentation related to any particular payment, to enable proper verification, and thus ensure adequate internal control.

Malta Based Officers

Significant Arrears paid to Malta Based Officers

Timely action is to be taken to ensure that, as far as possible, all outstanding amounts are paid when they fall due.

Vacation Leave Records

Vacation Leave not deducted from the Respective Record

Regular reconciliations between approved VL applications and the Mission's VL records are to be carried out, with the officer carrying out such verifications endorsing the respective documents. Only in this way can discrepancies be identified and verified in a timely manner.

Telephone Refunds

VAT Element refunded twice

One standard form for telephone refunds is to be drawn up by the Mission and used by all staff members. Administrative staff are expected to check the correctness of claims, and endorse the records as evidence that verifications have been carried out prior to effecting payment.

Photocopies of Bills presented for Refund resulting in Double Payment

The Mission is to accept only original bills for reimbursement. Furthermore, such bills are to be endorsed, confirming correctness of details recorded therein, as has already been recommended by the respective Desk Officer. It is also suggested that detailed spreadsheet records are kept, indicating bills reimbursed. This will enable easy verifications in case of doubt on particular payments.

Procurement

Leasing of Storage Space

The Mission is to identify the value of the furniture in question and then decide whether it is financially viable to keep the furniture in this storage space.

Pricing Option selected not in the best Interest of the Mission

Due caution is to be exercised in such situations and decisions are only to be taken after all financial options have been evaluated.

*Payments to Service Provider**Unclear Basis of Computation for Administrative Payments to Contractor*

The Mission is to rectify the matter with the contractor, and confirm the basis of computation of the management fee. Once the former is fully aware what is due to the service provider, it is recommended that invoices are verified in accordance with such computational basis prior to effecting payments.

*Revenue**Revenue not remitted to Bank*

Revenue collected is to be remitted to bank in line with the provisions of the General Financial Regulations. The balance is also to be taken into consideration when replenishing the bi-monthly allocation of funds.

Proper Cashbook not kept at Embassy

A pre-numbered register is to be immediately set up as a cashbook, wherein all cash transactions are to be recorded as soon as they take place, to ensure completeness. Such a system would also enable the verification of cash-in-hand at any time through the cashbook balance, while any errors recorded therein would easily be detected at the time of verification of cash.

Furthermore, since now the PREU and Embassy are deemed as separate entities, the Embassy is recommended to deposit money received on a regular basis, and file copy of deposit slips for future reference.

Cancelled Receipts not supported by Original

Receipts are only to be issued following the provision of service. Furthermore, all cancelled

receipts are to be attached to their original, as confirmation, ideally indicating the reason for cancellation.

Revenue recorded in Cashbook after a Considerable Time Lapse

The Mission is to review its revenue handling policy. Money is expected to be handed over to Administration on a frequent basis, thus enabling timely recording in the cashbook.

Control through Request for Service not adequate

The Ministry is encouraged to include a serial number on the form, and keep a record of the forms dispatched to the various Embassies. It is recommended that the forms are filled in and endorsed by the applicant, following which the officer issues the receipt on the basis of the application. This will provide adequate segregation of duties, as well as a reliable audit trail, thus enhancing controls over income.

No Reference to Substantiating Documentation

The Request for Service form is to indicate the name of the person for whom the passport or any other official documentation will be issued when the application is being filled, or at least, it is updated with the passport number and/or reference number when this is available. This should enable the Mission to reconcile the records easily. Such recommendation is applicable to all Missions, rather than just the one covered by this Report.

Revenue not substantiated

Transactions are to be verified with supporting documentation, to ensure correctness prior to posting in the accounts.

*Inventory**Discrepancies in Inventory Returns*

It is recommended that tests are carried out regularly on inventory to ensure that any discrepancies are identified, and they can be rectified before such return is officially submitted.

Discrepancies between Items traced on Location and those in Records

Movement of assets is to be recorded immediately. Moreover, regular inspections are to be carried out, in order to keep control over Government-owned assets.

Assets procured in 2012 not included in Inventory Records

Every PV covering fixed assets purchases is to be immediately forwarded to the officer in charge of inventory for eventual recording in the respective records, to safeguard assets owned by Government.

Laptops in the Office of the Head of Administration

While it is acknowledged that a small number of extra computers is required, the ones repaired could be kept as spares. It is strongly recommended that new computers are only acquired when the need arises, and dispatched to officers once these are available.

Management Comments

Management accepted most of the recommendations, some of which have already been implemented, while others have been referred to MFA for the necessary action. Internal controls will be strengthened through a number of new control procedures, which are either already in place or will be in force as from beginning December 2013.

MFA confirmed that a full revision of the Conditions of Service has not been adopted yet. However, during 2013, a knowledgeable Government official was entrusted to review the latest draft document proposed by an Inter Ministerial Committee which was set up in 2010 with a view to launch the revision of the CSOSO. It is now planned to introduce the latter by early 2014.

With respect to the upkeep of attendance sheets Management stated that timesheets for all LEPs will be kept. It was however maintained that it is not practical to have them for MBOs due to the

nature of their work, and who at times are working away from the office in Brussels. Management contended that there are other means to verify absenteeism should the need arises, including camera tapes, electronic data generated through swipe cards, as well as meeting reports which officers file in the same day of the meeting, besides travel forms drawn up for each mission, giving the respective details, objective, as well as indicative costs.

The increase in LEPs' salaries potentially saved Government thousands of Euro in legal action and legal fees. In 2011, the Permanent Representation faced a very difficult situation when it was discovered that in the management of LEPs, the local employment law was not being observed in its entirety. This was largely due to changes in local legislation and lack of expertise with regard to complex Belgian employment laws and the extent to which these apply to diplomatic missions, particularly issues related to tax. Some LEPs also brought their case before local trade unions, increasing the pressure on the Permanent Representation. The new rules resulted in a sharp decrease of the salaries of LEPs since all allowances started to be taxed. Thus, in order to ensure a fair outcome of the situation, not to mention losing the employees, an agreement was reached with the latter, that the new salaries would come into effect by July 2011.

Management made reservations on the unverified purchase of literature, maintaining that it is the LEPs who are expected to keep the receipts to support these expenses, as contracts at no point state that for the monthly fixed allowance to be given, the LEPs have to present their receipts. On the other hand it states that receipts should be kept (by the LEPs) in order to support those expenses, should these receipts be demanded by the (Belgian) authorities.

Due diligence will be employed to address the discrepancies between the number of days worked and meal vouchers received. The PR will also strive to ensure that the validation of this information is made easier in the future, to enable more frequent reconciliations. Notwithstanding this, Management remarked that according to a record they send to the service provider responsible for the computation of LEPs salaries, only in four of the reported instances did the Mission issue an

incorrect number of meal vouchers, where one additional voucher was issued in each case.

In reply to NAO's remark about the lack of supporting documentation for overtime payments, it was stated that in every salary slip there would be indicated the number of hours the driver would be paid for as extra hours, as well as the applicable rates, *i.e.* 100% or 200%. It was also specified that overtime payments are based on the records compiled by the Administration, after checks are carried out by the latter. This record does not always tally with the record drawn up by the LEP, since the latter has the habit of claiming that no break has been taken.

The amounts included under the title 'Social Security Payments', consist of payments relating to the 3rd and 4th trimester of 2011, where, up to the said period, the estimate payment for SSC used to be made on internet. The Mission would later receive from the *Office National de Sécurité Sociale* the exact calculations and pay the difference. It was also stated that a meeting with the contractor, now in charge of LEPs salary computations, has been scheduled to discuss an efficient way forward.

Disturbance Allowance to Secretary, related to the duties and responsibilities of Assistant to the Head of Administration to which this LEP was assigned, and to date, amount paid has been generally justified. Meanwhile, the corrigendum has also been amended to reflect a proportionate increase in the number of extra hours expected. The Administration will also monitor the hours of overtime worked, and should there be a discrepancy between the allowance paid and the actual hours of overtime worked, the situation will be reviewed.

The Mission declared that work carried out at the Embassy and/or PREU by the Temporary Housekeeper, is covered by a separate distinct agreement, and thus, the latter is not deemed to be doing work under the '*titre de service*' agreement. Furthermore, the Mission stated that the discrepancies highlighted by NAO were then corrected in subsequent months.

With respect to the discrepancies identified during the audit in the upkeep of VL records, Management

replied that this is mainly due to officers having to cancel VL at a very short notice. This was often being done verbally over the phone, resulting in late recording of facts. A system has now been implemented whereby cancellation of VL has to be done in writing through electronic mail to the Head of Administration. This allows for a timely conciliation of records. Management also stated that the discrepancies identified during the audit included cases where officers would have asked for the leave in Malta and then not avail themselves of the leave once in Brussels, as well as cases where an officer would not necessarily be asking for leave, but would be seeking the Ambassador's approval to leave Belgium after office hours.

It was pointed out that some of the officers receive their phone bills *via* the internet, and once it is printed, it does not look like an original one. The Mission is considering a process of recovery to recoup overpaid amounts concerning the VAT element of phone bills. The double payment of €131 has been refunded.

The Mission reiterated that the third floor in '*Dar Malta*' is used by the Permanent Representation, as well as the Bilateral Embassy, for working lunches, breakfasts, receptions, conferences, exhibitions and meetings. This is a critical component of the work of any overseas mission, and it is not, therefore, wasted space. However, the Administration Unit has taken the necessary action to cancel rental storage space.

According to Mission's reply, the Bilateral Embassy does not normally receive more than €300 to €400 in cash per month. There could also be months where this amount is less, or nothing at all. For practical reasons, these are normally kept for the day-to-day expenses of the office. NAO's recommendation will however be considered.

The Mission has embarked on an exercise to update inventory records accordingly by December 2013. Amendments concerning the discrepancies in quantity have already been effected. Location of assets has also been updated and reflected in inventory records. It was also stated that the stone ornament indicated by the auditors is situated in the office of the Deputy PR, however, it was behind a sofa, and thus it was not visible.





Ministry for Gozo

Expenditure on services rendered

Follow-up

Extract from the Report by the Auditor General – Public Accounts 2010

Electrical and Mechanical Engineering Services

Background

In June 2005, a tender was issued by the Department of Projects and Development within the Ministry for Gozo for the provision of electrical and mechanical engineering consultancy services. Tenderers were asked to quote for all or any of the following:

- a. Electrical engineering services only.
- b. Mechanical engineering services only.
- c. Electrical and Mechanical engineering services jointly.

Unclear Interpretation of Contract Terms

No clear definitions were traced in the tender document, especially as to the ‘Electrical and Mechanical engineering services jointly’ option listed above. Notwithstanding that the winning bidder provided both electrical and mechanical services, the joint rates, which were quoted cheaper, were not applied. Instead, electrical and mechanical services were charged separately at the applicable tendered rates, resulting in significant higher costs amounting to €37,619.

Apart from this, the rates quoted in the bid were not considered to be logical, since one would expect the joint rate to somehow average the fees

for electrical and mechanical services separately. However, the disparity for the joint rate quoted ranged from 33% (on the services mainly provided) to 250% when compared to the separate rates given in the tender offer. No evidence was found that this anomaly was queried by the Adjudication Board.

Management Comments

The Ministry highlighted that the tender for electrical and mechanical engineering services was intended to cover situations in which separate treatment was possible and also where this was not the case. Thus, the individual rates were applied in those instances where electrical and mechanical services were identifiable.

Public Accounts Committee

This topic was on the agenda of the Public Accounts Committee’s (PAC) meeting of 29 February 2012.

During this sitting, the PAC determined that legal advice on the interpretation of the contract is to be sought by the Ministry for Gozo, and in the case that the claim by the supplier was overstated, the excess is to be recouped.

Thus, advice was sought from the Attorney General, and was presented to the PAC on the session held on 9 May 2012. The guidance obtained confirmed that the clause in question was open to various interpretations as it did not specify the circumstances when the separate and joint rates are applicable. The Attorney General however maintained that, in the circumstance, the most legally qualified interpretation would be that,

where the contractor provides both electrical and mechanical engineering services, payment should be based on the joint rates.

Based on this feedback, a follow-up on this matter was requested by the PAC on the sitting of 9 May 2012. A reply was provided by the Ministry for Gozo, during a subsequent session held on 30 May 2012, wherein it was stated that two meetings were held with the contractor in March and April 2012 respectively.

However, no further communication was forthcoming from the Ministry for Gozo, thus in November 2012, the National Audit Office enquired about any registered progress to recoup the reported overpayment. The Ministry replied in December 2012, stating that communications are underway with the Ministry of Finance, the Economy and Investment, to reach a compromise for the recovery of the said amount.

Enquiries about any developments were again raised by the National Audit Office on 6 March 2013, to which a reply was only provided by the Ministry on 30 April. This stated that, in view of the difficult legal position, with the approval of the Ministry for Finance, the Ministry for Gozo sought to reach an agreement with the contractor, whereby the latter would reimburse half the overpaid amount by providing the Ministry with services in kind. However, the contractor was adamant to accept this proposal and thus he was sent a formal communication in an attempt to reach an amicable settlement before considering other courses of action.

By end November 2013, no further communication was received to this effect.





**Ministry for Infrastructure, Transport
and Communications**

Transport Malta

Land Transport Directorate

Background

Transport Malta (TM) commenced its operations on 1 January 2010, following the enactment of the Authority for Transport in Malta Act (Act XV) of 2009. As a Government Authority, TM was set up to assume the functions previously exercised by the Malta Maritime Authority, the Malta Transport Authority and the Department of Civil Aviation. Presently TM is composed of nine Directorates, including the Land Transport Directorate (LTD).

LTD has the responsibility to provide an efficient, integrated and sustainable public transport service which meets the travellers' needs and expectations, together with an effective regulatory framework for land transport.

A total of €12,970,000 was allocated to TM for the year 2012, through the then Ministry for Infrastructure, Transport and Communications (MITC) Recurrent Vote 16 under Programmes and Initiatives. As reported in TM's Management Accounts available at time of audit, i.e. for the period January to September 2012, the amount of €7,251,788 was allocated to LTD from the Authority's total funds available.

Audit Scope and Methodology

The main scope of the audit was to determine the level of existing internal controls over the procurement and related expenditure incurred by TM in relation to LTD. Testing focused on marketing, as well as on administrative and

operating expenditure effected during the period January to September 2012.

The audit also aimed to ascertain the efficient administration of public funds in line with existing laws, regulations, policies and procedures, including the prudent and judicious use of public resources. Audit fieldwork was carried out during the period December 2012 to February 2013.

The audit was conducted in accordance with generally accepted auditing standards. An introductory meeting was held with TM officials, to obtain an understanding of relevant policies and procedures adopted by the Authority, in relation to procurement of different items of expenditure. Further discussions were subsequently held to elaborate on matters encountered during the course of the audit. Detailed substantive testing was carried out to confirm the existence and the correct application of procedures and relevant controls.

Individual transactions included in the audit sample were selected on the basis of their nature and materiality. A total of 88 transactions, collectively amounting to €1,526,543 and representing 56% of the amounts expensed from the sampled accounts, were reviewed. Where necessary, reference was made to ledger postings for the period October to December 2012.

Audit testing consisted of ensuring compliance with Article 20 of the Public Procurement Regulations through Legal Notice 296 of 2010

and TM Standard Operating Procedure. Selected payments were traced to Request Forms, Purchase Orders, invoices and fiscal receipts, in order to determine whether Purchase Orders were raised prior to the date of the invoice, and that each acquisition was duly authorised and correctly computed. Furthermore, the selected sample was also tested against existing Contract Agreements and documentation supporting the procurement.

Three Remittance Advices relating to travel were also checked to verify that the subsistence allowance entitlement was in accordance with the rates issued by the then Ministry of Finance, the Economy and Investment (MFEI), as well as in compliance with the Public Service Management Code.

Key Issues

Shortcomings in the Procurement of Services

Testing revealed that the engagement of a number of individuals and companies, who provided repetitive services to LTD, was not carried out in accordance with procurement regulations. As outlined below, services exceeding the threshold of €6,000 were procured directly from the open market, without a public call for quotations or tenders, and on occasions, without the necessary approval from MFEI. This failure to abide by procurement regulations creates a lack of transparency that could lead to overspending.

Details of such instances follow:

Monitoring of the Service given by Arriva Malta Ltd

A former employee of the Authority was directly engaged to assist with the monitoring of the service being given by Arriva Malta Ltd., by conducting surveys, at a rate of €14 per hour. The related invoices also revealed that this person was reimbursed for mobile and fuel expenses. In total, during 2012, the latter was paid an aggregate amount of €21,422 (including VAT), for the period covering November 2011 to November 2012. In this regard, appropriate approval from MFEI to

cover this engagement was not obtained, and a contract for service was also not in place.

Cleaning and Maintenance Services at a Number of Public Transport Sites

Another individual was also engaged directly from the open market, to provide cleaning services at a number of sites falling under the responsibility of TM, at a rate of €86.14 per day, besides an additional €116 monthly for the cleaning of ditch. Further analysis of transaction listings showed that total payments to this supplier for cleaning and upkeep of the sites in question, carried out during the end of 2011 and throughout 2012, amounted to €28,885.

Similarly a private company provided cleaning services at the Valletta Bus Terminus from August 2011 to September 2012, charging a total of €27,776; all paid in 2012 under a direct order. Four sampled invoices out of the foregoing amount, totalling €13,995, were initially invoiced to MITC and subsequently paid by LTD.

Legal Services

During the period under review, two law firms were paid €9,574 and €19,014 (including VAT) respectively, for legal services rendered to the Authority in relation to LTD. A formal agreement with these lawyers was not available at the time of the audit. TM officials verbally confirmed that these services have been availed of for years by the former *Awtorità Dwar it-Transport* (ADT) and that TM continued to use their services, thus bypassing the Procurement Regulations.

Professional Services

Another case related to an architect who provided his services, mostly for the upgrade of various bus shelters. During the year 2012, this service provider was paid a total amount of €19,639 for services rendered to the Authority. TM confirmed that the rates used were established following a request for quotations issued in 2009 by the then ADT, however such statement was not substantiated.

Surveying Works in relation to Public Transport

Whilst examining surveying works provided by two service providers, to gather data relating to public transport trips, evidence revealed that instead of issuing a call for tender in the Government gazette, TM approached five potential suppliers who could provide this service at the established rate of €8 per hour, excluding VAT. Eventually, the Authority used the services of two from the above-mentioned service providers, for which payments amounted to €59,033 and €60,563 respectively during 2012.

Road Safety Campaign

In view of a delay associated with the issue of a tender for the Road Safety Campaign, a decision was taken in 2009 by the then Chairman of the Roads Directorate, to appoint a particular supplier direct from the open market, to provide banners and bollards promoting and enhancing road safety. The total amount paid to this supplier during the year under review amounted to €14,172. Besides not obtaining MFEI approval for direct order, one of the payments that fell in the audit sample, amounting to €4,720, was not authorised by TM Procurement and Outsourcing Committee, as required by the Authority's Standard Operating Procedure.

Dismantle and Installation of Bus Shelters

In 2001, the Local Councils Association entered into an agreement with a local supplier for the installation of 250 bus shelters, whereby the latter was the owner of such bus shelters, and therefore responsible for their maintenance, repair and replacement. It transpired that in October 2006, the then ADT engaged the same supplier, under the same terms and conditions of the existing agreement, for the installation of an additional 50 bus shelters. However, the said agreement fails to mention the relative costs for the dismantling and installation of bus shelters.

The audit revealed that there were requests from TM to dismantle and install various bus shelters due to road works in the year 2012, and engaged the same service provider, with total

costs amounting to €42,649. As stated above, the related costs are not covered by the agreement in force; thus TM had to accept the invoiced price of €2,714 for each bus shelter.

Hire of Barriers at the Valletta Bus Terminus

As part of the Public Transport Reform, TM had to erect a total of 37 barriers at the Valletta Bus Terminus for public safety. Two different suppliers were selected directly from the open market, and paid €11,308 and €13,269 respectively. However, no approval from MFEI, in line with the procurement regulations, was obtained.

Newspaper Adverts

The Authority paid two local newspapers the amounts of €3,098 and €3,280 respectively, to advertise bus routes to *Mater Dei* hospital, during the months of September, October and November 2011. These payments were also not covered by the relative approval of TM Procurement and Outsourcing Committee, in accordance with the Authority's documented procurement procedures. This committee was expected to indicate its approval on the relative documentation during a committee meeting.

Control Issues

Procurement Requisition Form not raised

Six payments, representing 7% of the total sample selected, and amounting to €45,952, were not covered by a Requisition Form, duly approved prior to acquiring services. Hence, it could not be ascertained whether prior authorisation was sought from the right level of authority to cover this expenditure.

Request Forms/Purchase Orders dated after Suppliers' Invoices and not properly authorised

In 14 cases tested, representing 16% of the sampled transactions, and amounting to €64,424, the respective Request Form and/or Purchase Order were issued following receipt of the related invoice. NAO further noted that in one of these cases, the Contract Agreement was signed by

MITC and a particular contractor on 4 May 2012 and 29 March 2012 respectively; well after the invoice dated 27 January 2012.

Apart from not being issued on time, eight Purchase Orders, totalling €33,418 and representing 9% of the selected sample, were not signed by an authorised officer. This approach is indicative that sufficient authority was not obtained prior to the purchase.

No clear evidence of Certification

It was also noted that the lower part of the Purchase Order was very often not endorsed by TM officials, to indicate that services were adequately received. This was the case in 34 instances (39% of the sample) with an aggregate cost of €841,725. In the circumstances, it could not be ascertained whether the respective signatures on the related invoices were actually endorsing this certification.

Compliance Issues

Non-Submission of Fiscal Receipts

An amount of 17 transactions, representing 19% of the audit sample, and collectively amounting to €69,727, were not supported by a valid fiscal receipt. None of these defaulters were reported to the VAT Department as required by the relevant standing Circulars issued by MFEI. In fact, TM also failed to submit the quarterly returns during 2012 as required in terms of the same Circulars.

Lack of Compliance with Standing Travel Regulations

In two out of three visits abroad that were reviewed, a detailed programme of the relative event could not be traced. Such visits related to a 'CARE/RSPI Meeting and Training' organised by the European Commission in Brussels between 18 and 19 June 2012, and the 'CORTE Working Groups and Plenary Meeting', hosted by the Cyprus Presidency between 30 and 31 October

2012. Only an agenda for the second conference, listing the items to be discussed during the meeting, was provided.

As a result, the accuracy of the actual subsistence allowance paid by the Authority to the two officers attending these meetings could not be verified, since it could not be ascertained whether any free meals were provided by the host organisation.

Moreover, in two of the cases reviewed, the travelling officers did not submit boarding card stubs, as well as a report on the event to substantiate their visit, as required by the Public Service Management Code.

Recommendations

Key Issues

Shortcomings in the Procurement of Services

Procurement regulations are to be invariably followed in order to ensure transparency, provide equal opportunity to all interested parties, and obtain the most competitive prices for goods and services.

TM has to regularise the position of those companies and individuals not engaged according to standing procurement regulations. It is also recommended that sufficient internal controls be implemented with immediate effect to avoid similar shortcomings from re-occurring.

Control Issues

Procurement Requisition Form not raised

Management is to ascertain that effective control is exercised on payments. A procurement requisition is to be drawn up by all officers who may require any works or services, including justification therein for the purchase being requested. These forms are to be endorsed by authorised officers,

according to their level of authority, prior to the commitment is entered into.

Request Forms/Purchase Orders dated after Suppliers' Invoices and not properly authorised

Whenever possible, a Purchase Requisition Form is to be raised, followed by the official Purchase Order before placing an order for works or services. This will ensure that proper authorisation for the purchase is obtained and adequate funds are committed to cover the expense.

No clear evidence of Certification

Both the Procurement and Finance Departments are to insist that certifications that goods and services were adequately received, are properly endorsed by the officer concerned.

Compliance Issues

Non-submission of Fiscal Receipts

In cases where VAT is applicable, TM is to ensure that it is invariably issued with a fiscal receipt by all suppliers. Management is to ensure that pertinent regulations are adhered to and complete returns are submitted to the VAT Department on a regular basis.

Lack of Compliance with Standing Travel Regulations

Officers entrusted with the responsibility of official visits are expected to adhere to the pertinent regulations, to ascertain full accountability of the expenditure incurred out of public funds.

Management Comments

Although acknowledging that improvements are required to be made to the administrative processes, TM reiterated that the overall deficiencies mentioned in the report, are not considered to be major. Management stressed that there has been a significant drive to strengthen controls relating to procurement across the organisation,

by implementing an automated procurement system that provides a full audit trail of every step of the approval process. In fact, during 2012, the Authority was still in the process of fully implementing this system.

The following comments were also submitted:

Shortcomings in the Procurement of Services

- **Cleaning and Maintenance Services:** Management stated that the services provided have since been stopped, and confirmed that relating costs were charged back to the bus operator. To this effect, TM provided evidence of invoices being recharged to the bus operator, amounting in total to €44,554.
- **Legal Services:** TM provided a copy of an agreement pertaining to one of the legal firms, which although had expired in 2010, it was verified that the same rates were applied during 2012. Other letters of engagement of the second legal firm were also provided, a closer inspection of which revealed, that TM was mistakenly invoiced at a higher rate of €65 per hour, instead of €55. Hence, a request was made to the legal firm to be issued with a credit note for the difference.
- **Professional Services:** Management again confirmed that the architect involved was selected following a request for quotations in 2009, but could only forward, as evidence, the relative quotation submitted by the architect in question. TM also stated that though the actual engagement provided had long expired, the same rates were applied. A new tender has since been issued and subsequently awarded in June 2012.
- **Surveying Works in relation to Public Transport:** TM acknowledged that no call for tender was issued, claiming that this was due to the urgency at the time. It was also claimed that the process was carried out transparently, and in a cost effective

manner. Since then, a new tender was issued and awarded in November 2012, with services starting in December 2012.

- Road Safety Campaign: Management acknowledged that no approval was sought from MFEI at the time, but that this one-off service was eventually replaced after a new tender was awarded during 2011.
- Dismantle and Installation of Bus Shelters: Management confirmed that since there were no specific costs in the contract, TM had to pay the amounts quoted by the supplier.
- Hire of Barriers at the Valletta Bus Terminus: Whilst maintaining that MFEI approval was not sought due to the urgency involved, TM pointed out that services were stopped since 27 March 2012, due to permanent barriers that were eventually put up through normal procurement procedures.

Procurement Requisition Form not raised

TM claimed that the fact that a Request Form is not raised, does not mean that the service or supply being procured is not approved. Management further commented that in those cases where a contract is in place, these are superfluous for purpose of controls, and are only raised internally for administrative purposes.

A retrospective approval was obtained by the Chief Officer, in the six instances referred to in this report.

Request Forms/Purchase Orders dated after Suppliers' Invoices and not properly authorised

In the cases mentioned, TM reiterated that all services were appropriately approved retrospectively. With regards to the case where the contract was signed well after the invoice date, Management claimed that the contract was entered into by MITC, and TM was then instructed to pay the supplier.

No clear evidence of Certification

TM confirmed that it makes use of the invoice itself to certify the receipt of services. In order to avoid this ambiguity, the internal procedure is being changed, to accept either a signed Purchase Order or a signed invoice, as evidence for such certification.

Non-submission of Fiscal Receipts

Although, by the end of July 2013, Management was still in the process of confirming the Directorate's VAT status with their advisors, it was maintained that if there is a tax invoice with proper details therein, there is no need to request and obtain a tax receipt.

Lack of Compliance with Standing Travel Regulations

Notwithstanding Management's statement that the necessary procedures relating to overseas travel were followed, the relevant reports were not presented for verification. TM declared that it will be ensuring that all boarding passes are provided to the Corporate Services Directorate for future travel.





Ministry for Resources and
Rural Affairs

Upgrading works at Main Touristic Areas Capital Expenditure

Background

The Works and Services Department (WSD) within the Ministry for Resources and Rural Affairs (MRRA), was established to provide a comprehensive quality service to Government, in the design and implementation of public infrastructural works and projects.

The Financial Estimates for Line Item 7052 – ‘Upgrading works at Main Touristic Areas - Expenditure’, under Capital Vote V, show that the approved budget for 2012 was €2,400,000, whereas actual expenditure as per the Departmental Accounting System (DAS) amounted to €2,403,321.

Audit Scope and Methodology

The objectives of the audit were to verify that, during financial year 2012, 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 WSD with the Director General - WSD, the Director General - Support Services, the Assistant Director and the Clerk in charge at the Financial Management Directorate. A sample of 30 transactions, for a total value of €918,929, was selected for testing, covering operating materials and supplies, contractual services – lease of equipment as well as contractual services – others.

Key Issues

Substantial Cost Variations in Capital Projects

The majority of capital projects expensed from the Line Item in question, experienced unplanned changes and additional work after the issue and adjudication of the tenders, thus defining the planning as inadequate. This caused substantial cost variations to the budgeted tendered amounts, which could also trigger lack of transparency and unfair competition for the amounts in question. Table 1 depicts a list of these capital projects from the audit sample:

Table 1: A list of Capital Projects with Substantial Cost Variations

Tender	Value of Contract/ Direct Order	Extra Works and Variations	Percentage
	€	€	%
Construction of a Water Park in St. Paul's Bay	123,739	37,122	30.00
Natural paving material at <i>Triq Bisazza</i> and <i>ix-Xatt ta' Tigné</i> , Sliema	306,100	49,561	16.19
Supply and laying of natural paving material at St. Julian's, Paceville Area	193,297	64,624	33.43
Supply and laying of natural paving material at part of <i>Triq ix-Xatt</i> , Sliema	84,643	48,163	56.90
Road surfacing works at Sliema	49,125	7,082	14.42
Supply and installation of stainless steel and glass guards at Sliema	20,850	7,784	37.34
Supply, delivery and laying of paving materials at Marsaxlokk	1,192,690	2,319	0.19
Provision of a pre-paid dispensing system at Marsaxlokk	34,292	1,704	4.97

Supply and installation of Stainless Steel and Glass Guards at Tigné in Sliema

Amount approved by Direct Order exceeded

Financial procurement limits, for the supply and installation of stainless steel and glass guards for *Tigné* in Sliema, were overlooked, since the approved direct order cost of €20,850, acquired from the then Ministry of Finance, the Economy and Investment (MFEI), was exceeded by 37%, translating to a variation of €7,784.

Work carried out prior to the necessary approvals

The above-mentioned variation of €7,784 was only covered by the necessary approvals retrospectively, *i.e.* subsequent to works carried out. Furthermore, the formal approval from MFEI was not available in the file, up to date of audit testing in December 2012.

Ministry not covered in case of delays and/or bad workmanship

Although MFEI approved the direct order on the condition that payment should be effected after completion of works satisfactory to MRRA, with penalties being imposed in event of bad workmanship or delays, a list of applicable penalties was not specified. The absence of adequate provisions will render the Ministry more vulnerable to risks inherent from the performance of the contractor, and at the same time limiting corrective actions that may be taken in case of default.

Commitment Request Form not raised

MRRA confirmed that the commitment request form was not raised for the procurement of these stainless steel and glass guards, in order to verify whether such material was available at Mrieħel Stores.

Construction of Water Park in St. Paul's Bay

Additional Work not within the Scope of the Tender

A tender for works, in connection with the construction of the Water Park in St. Paul's Bay, was awarded at a contract value of €123,739. However, following objections made by the owners of boathouses in the vicinity, the layout of the project was revised, resulting in a variance of 30%, translating to additional costs of €37,122. Furthermore, since the costs of variations were not included in the tender document, these bypassed the procurement procedures. Consequently, the risk exists that related costs might have not been competitive.

Retrospective approval

The actual amount of expenditure covered by the tender was €95,338 instead of €123,739. However, since MRRA erroneously considered the former amount in order to calculate the total variations, only approval for variations of €8,721 was sought. Furthermore, approval for the latter by the Permanent Secretary (PS), was only obtained subsequent to works carried out.

One of the Certificates supporting payment not available

The breakdown of quantities measured on site by the quantity surveyor is covered by a certificate for payment issued by the Quantity Surveying Section. Subsequently, a payment certificate is endorsed by the architect, quantity surveyor and the director prior to effecting each payment. However, copy of the initial certificate for the third payment of €43,664, issued by the Quantity Surveying Section, was not filed to support the amount in question.

Significance of Certification disregarded

Although payment certificates were authorised by three persons, namely the architect, quantity surveyor and director, MRRA confirmed that the figure quoted in the third interim payment

certificate was erroneously computed, implying that proper verification was not performed.

Supply and laying of Natural Paving Material at St. Julian's, Paceville Area

Finance approval for Direct Order obtained for variations not approved by the Department of Contracts

A tender for the supply and laying of natural paving material at St. Julian's, Paceville Area, was awarded at a total cost of €193,297. Following a request made by the commercial operators in order to extend such works to other areas within the vicinity, the Department of Contracts (DC) was requested to approve variations of €60,536, *i.e.* 31% of the contract value. However, DC did not approve such variations, stating that these consisted of a change in the scope of the tender, for which the Ministry was required to seek a separate procurement procedure. Notwithstanding this, MRRA obtained a direct order approval from MFEI, even though additional works were neither urgent nor unforeseen.

Supply and laying of Natural Paving Material at Triq Bisazza and ix-Xatt ta' Tigné in Sliema

Changes subsequent to Award of Tender

A tender for the supply and laying of natural paving material at *Triq Bisazza* and *ix-Xatt ta' Tigné* in Sliema, was awarded for a contract value of €306,100. However, extra works and variations amounted to €49,561, *i.e.* 16% of the contract value. As claimed by MRRA, this was due to alterations to the pavement alignment required by Transport Malta, as well as the inclusion of an additional area resulting from change in plans. This implies that lack of coordination with other Government entities and interested stakeholders resulted in substantial increases in cost.

Variations not covered by the necessary Approval

Approval from DC to cover cumulative variations of €49,561 was still not acquired up to date of audit testing in December 2012, even though works were completed prior to summer of that year. Failure

by MRRA to ask for approval from DC, before giving its consent to carry out additional works, could lead to unauthorised tasks. Furthermore, PS approved variations of €14,440, translating in an amount of €35,121 not yet approved, out of which MRRA confirmed that €29,239 were not paid up to December 2012.

Supply and laying of Natural Paving Material at part of Triq ix-Xatt, Sliema

Substantial Variations

A departmental tender for the supply and laying of natural paving material at part of *Triq ix-Xatt Sliema*, was awarded for a contract value of €84,643. However, PS approved additional works to upgrade public pavement and variations, amounting collectively to €48,163, resulting in substantial cost variation of 57% of the contract value.

Breakdown of Quantities not provided

As per first certificate for payment issued by the quantity surveyor, dated 4 April 2012, the value of works carried out to that date amounted to €85,000. However, the relevant breakdown of quantities measured on site by the quantity surveyor was not provided. Thus, prices charged could not be corroborated with those quoted in the tender submitted. Despite this, the architect, quantity surveyor and director still certified the correctness of the total value of works.

Invoice incorrectly addressed

The relevant invoice, amounting to €80,750 (excluding 5% retention) and paid by MRRA on 5 April 2012, was incorrectly addressed to Transport Malta, when supply and laying paving material was provided to MRRA, and thus had to be charged accordingly. Nevertheless, the supplier was not requested to amend the invoice as necessary.

Mathematical Errors not corrected

One of the suppliers bidding for this tender submitted two schedule of rates, one of which the total amount was incorrectly recorded by the incumbent. Although this did not have an effect on the selection process, the Tender Evaluation Committee confirmed that all offers were mathematically checked and found correct; thus this error remained unnoticed.

Period Contract for Ready Mix Concrete Grade C25

Discount Receivable overlooked

A supplier was awarded a tender for the supply of concrete grade C25, at a rate of €52.38 per cubic metre, including 3% discount. However, the internal memo addressed to all Directors, Engineers and Section Heads within MRRA, quoted the rate of €54 per cubic metre, for a period contract valid from 2 January 2012 to 3 April 2012. MRRA claimed that the total quantity supplied and paid for the period in question amounted to 814.5 cubic metres. Given that the supplier was charging at the rate of €54, this resulted in an overpayment of €1,319.

Negligible Penalties incurred for High Volume of Inferior Quality Material

A supply of 129.5 cubic metres of concrete grade C25 was to be utilised for a project in Gzira. From a sample of 38 cubic metres selected for quality testing, it resulted that 30 cubic metres, representing 79% of the sample, failed the compressive strength testing. Notwithstanding the high percentage of failure, no further testing was carried out. Furthermore, with the exception of a relatively minor deduction of €162, this item was accepted by MRRA and paid in full, risking that the supplier may be encouraged to use low quality material to make more profits. This may also eventually result in future additional costs to MRRA, due to inferior raw material used. In addition, copies of the results from the test certificates were not available in the respective file.

Control Issues

Items for the Inauguration of the Water Park procured prior to Approval

The purchase of various items in connection with the inauguration of the Water Park, amounting to €4,691, was made directly from the open market without the necessary authorisation from PS. The request for approval was only raised more than two months after the inauguration. Though eventually approved, the necessary control over procurement was not exercised.

Road surfacing works at Sliema

A departmental tender for road surfacing works at Sliema was awarded for a contract value of €49,125. Subsequently, MRRA was technically advised to use 'imported aggregate' for a better surface finish. An estimated variation of €7,130, representing an increase of 15% over the contract value, was approved by PS to this effect.

Whilst the actual cost of the variation referred to above amounted to €5,818, another variation of €1,265 was required for sweeping and carting away. However, since each variation was considered on its own merit, MRRA confirmed that no formal request was made to PS for approval of this new variation, bypassing the respective embedded internal controls.

Excavation works in connection with the proposed Civic Centre and Recreational Area at Swieqi

Excavation works, amounting to €75,911, were to be completed within four weeks. Although MRRA claimed that a penalty of 10 days should apply for delays in the implementation of the contract for excavation works, no such fines were reflected in the final payment certificate. Article 8.2.1 of the tender document provided for a penalty of €250 per day, which penalty costs would be more difficult to recoup from the supplier, once all tasks are completed and respective payments made.

As per first certificate for payment issued by the quantity surveyor, the value of works carried out on this project, up to 12 September 2012, amounted to €32,000. The relevant breakdown of quantities measured on site by the same quantity surveyor was not available; thus the payment in question could not be validated. Notwithstanding this, correctness of the value of works was still certified by three persons, namely the architect, quantity surveyor and director.

Order to Start Works issued late or not issued

From the 30 transactions selected for testing, 11 required an Order to Start Works. It was noted that for five out of the 11 transactions, in aggregate having a total contract value of €974,743, this document was dated subsequent to the date to be reckoned as commencement date; in one particular case it was dated more than two months later. Similar instructions were not even issued for two contracts, in aggregate amounting to €1,241,814. In the circumstances, it could not be confirmed whether the contractor was officially given the approval to commence works, and if the particular task was carried out within the stipulated period.

File not traced

Testing of a payment of €6,955, recorded in DAS as 'Oleoldro Repellent', could not be concluded by the National Audit Office (NAO), as the related file could not be traced.

Funds not committed when order is placed

In four out of 29 transactions tested, amounting collectively to €14,895, the Local Purchase Orders or Letters of Acceptance were dated subsequent to the invoice date. This could imply that the controls embedded in the procurement process are at times being bypassed, which could eventually result in not having enough funds to honour the actual expense.

Compliance Issues

Public Procurement Regulations bypassed

The procedures indicated in the cases hereafter may indicate attempts to bypass PPR, risking the possibility of more favourable offers being missed.

Octagonal Bollards

As per quotation and request form issued by Mriehel Stores, 60 octagonal bollards were required for Marina Street, Msida. However, MRRA confirmed that the quantity actually procured was intentionally lowered to 50 bollards, in order not to exceed the departmental threshold of €6,000 (VAT excl.) stipulated by PPR, in which case approval would be in the limits of PS.

Moulds for casting Concrete Plinth

On 12 April 2012, an amount of €5,800 was incurred on moulds for casting concrete plinths at Ta' Xbiex project. Whilst checking similar payments made to the respective supplier, it was noted that two other payments, one for €1,225 and another for €960 were made on 16 March 2012 and 13 September 2012 respectively for the same project. This resulted in a total expense of €7,985, which amount exceeded the €6,000 (VAT excl.) threshold established by PPR, thus requiring a departmental call for quotations or tenders.

Adverts, Media Bookings, Printing and Artwork

An amount of €7,023 was incurred for adverts, media bookings, printing and artwork, following approval by PS. Whilst acknowledging that procurement not exceeding €6,000 (VAT excl.) may be obtained direct from the open market following the required approval, PPR Article 20 (1b) states that for such practice one should take into consideration the amount involved, the urgency attached to the procurement and restrictions of choice and availability. It also transpired that during 2012, 14 other payments were made to the same supplier for similar jobs, which in aggregate amounted to another €13,419.

Soil and Rock Investigation

On 31 January 2012, an amount of €2,872 was incurred for soil and rock investigation at Marsaxlokk Bay. Although during 2012, MRRA paid a total amount of €37,025 to the same supplier, covering similar services in different locations, the former did not have any contract in place for this service. This could imply that such procurement is being habitually obtained from the open market. Furthermore, although the direct order of €2,872 in the audit sample was approved both by the Director General and PS, the respective request was sought subsequent to work carried out.

Delegation of Authority not valid

A document dated 21 April 2008, indicated the delegation of authority for the approval of variations, however quoting PPR S.L. 174.04 Article 20 (1d) (paragraph 3), which was only applicable as from 1 June 2010. This implies that the letter minute was only provided by the respective Ministry retrospectively. Since the letter was not available for the year under review, variations cannot be considered as formally approved from the appropriate level of authority. The letter also stated that PS was to approve variations up to €6,000 (VAT excl.), which limit at times was exceeded.

Water and Electricity Bills

Late Payment Charges

A commitment of €44,564 was only settled on 15 February 2012, covering a total of seven water and electricity bills dated August 2011. In fact, these bills revealed an accumulated interest charge of €427, which expense could have been avoided if settled in due time.

Utility Bills paid from Capital Vote

Although the above-mentioned expenses were ongoing costs, these were incorrectly recorded in account 2210 'Operating Materials and Supplies' under Capital Vote Line Item 7052 – 'Upgrading works at Main Touristic Areas - Expenditure',

rather than ‘Utilities’ under Recurrent Vote. Such postings may lead to unauthorised virements, encroaching on funds for capital projects.

Expenditure recorded under the wrong Responsibility Centre

The highlighted bills, amounting to €44,564, were paid from the responsibility centre SLM¹. However, only €4,613 pertained to this responsibility centre; the remaining related to projects in Floriana, Birkirkara and Żurrieq, which should have been recorded either as VCS² or STH³.

Insufficient Details on Payment Vouchers

In the seven Payment Vouchers (PVs) issued in order to cover water and electricity bills for various locations, the item description was vague and did not indicate the specific locations covered, to correspond with the respective bills. This resulted in non-compliance with the General Financial Regulations (GFR), stating that all vouchers should contain full particulars to enable them to be checked without reference to any other documents.

Other Misallocation of Expenditure

Several other incorrect postings, which may lead to inaccurate information for reporting purposes, as well as non-compliance with GFR, were also noted.

VAT Receipts not available

Nineteen out of 29 payments reviewed, amounting collectively to €533,052, were not covered by VAT fiscal receipts as per VAT regulations. Officers in charge may not be well-versed with VAT regulations and cannot determine which documents should be received from suppliers in support of payments made. This can also have further financial implications, including the possibility of undeclared fiscal revenue by defaulters.

¹ SLM refers to Sliema, St. Julian’s, Paceville, Ta’ Xbiex and other close areas.

² VCS refers to village cores, such as church parvis pavement, recreational area, civic centres and playing fields.

³ STH refers to sites in the south of Malta.

Recommendations

Key Issues

Substantial Cost Variations in Capital Projects

Prior to awarding tenders, proper planning, inspections and designs are to be carried out by MRRA, in order to minimise any substantial changes which may be required.

Supply and installation of Stainless Steel and Glass Guards at *Tigné* in Sliema

The total cost approved is to reflect the actual amount involved, so that the limits stipulated by MFEI are not exceeded. Furthermore, work is not to be carried out unless appropriate authorisation is obtained. Management is also expected to include adequate penalty clauses to safeguard the interest of Government.

Construction of Water Park in St. Paul’s Bay

Adequate planning, inspection visits, consultative meetings and designs are to be carried out by MRRA prior to issuing tenders, in order to decrease the amount of potential variations. In addition, a reasonable contingency amount is to be included in the estimates, to cover items that experience shows will likely result in additional costs. MRRA is also to ensure that variations are not absorbed in the adjusted contract value. Furthermore, before endorsing documents, the responsible officers are expected to ensure that all amounts and details quoted therein are correct.

Supply and laying of Natural Paving Material at St. Julian’s, Paceville Area

For the sake of transparency, adherence to PPR is imperative, especially given the fact that work was not urgent and the variation was not approved by DC. In the circumstances, if the additional work was justified and given that the amount involved

was material, a fresh call for tender was expected to be issued.

Supply and laying of Natural Paving Material at *Triq Bisazza* and *ix-Xatt ta' Tigné* in Sliema

It is important to plan and coordinate with other Government entities and all relevant stakeholders prior to issuing tenders to avoid substantial changes. In addition, approval from DC is to be sought before the actual commitment for additional works; otherwise this may result in undue pressure on DC to approve changes when tasks would have already been carried out.

Supply and laying of Natural Paving Material at part of *Triq ix-Xatt*, Sliema

As already reiterated, proper planning is to be carried out prior to awarding the tender. Moreover, each payment is to be adequately substantiated with source documentation and duly checked prior to authorisation thereof. Offers submitted are to be duly verified, while invoices payable by MRRA are expected to be addressed accordingly.

Period Contract for Ready Mix Concrete Grade C25

MRRA is to ensure that rates charged are as stipulated in the awarded tender, in order to avoid unnecessary payments being made. Furthermore, NAO recommends that any overpayments made are to be recouped from the supplier without any delay. It is also to be ensured that the amount of penalty imposed is a detriment to the vendor. Copies of the test results are to be kept in the relevant file so that decisions are taken more objectively.

Control Issues

Items for the Inauguration of the Water Park procured prior to Approval

MRRA is to ensure that the relevant approval is obtained prior to procurement.

Road surfacing works at Sliema

Technical advice is to be sought prior to issuing the tender. The cumulative value of the variations is to be taken into consideration, rather than treating variations separately.

Excavation works in connection with the proposed Civic Centre and Recreational Area at Swieqi

MRRA is to ensure that any penalties imposed are reflected in the amount actually due on the certificate for payments and settled accordingly. In addition, relevant documents to substantiate certificates are to be filed in the relative project file, in order to provide sufficient audit trail and supporting evidence.

Order to Start Works issued late or not issued

Management is to ensure that a formal Order to Start Works is invariably issued prior to commencement of works.

File not traced

Controls over transfers of files are to be strengthened and efforts are to be made to trace the file in question.

Funds not committed when order is placed

Efforts are also to be made by MRRA in order to, whenever possible, issue Local Purchase Orders or Letters of Acceptance as applicable at the earliest, in line with Government's policies and best practices.

Compliance Issues

Public Procurement Regulations bypassed

Proper planning is to be carried out in order to ensure that the method of purchase is compliant with applicable regulations, thus ensuring that the most economic and advantageous prices within the market are benefited from. Furthermore, where applicable, MRRA is encouraged to issue calls for tenders and to award period contracts

covering various Departments within its Ministry, for the provision of works or services which are of a common nature.

Delegation of Authority not valid

MRRA is to ensure that variations are duly authorised by the delegated officer.

Water and Electricity Bills

Although the amount of late payment interests can be considered immaterial, bills are to be settled on time in order to avoid extra charges. As also stated in MF Circular No. 2/2007, deferred payments from one year to the other are to be kept at the absolute minimum.

Other Misallocation of Expenditure

Expenditure is to be invariably posted in the correct account to provide accurate financial information. If funds are not available in the relevant account, proper virement procedures should be followed including the granting of the necessary approvals. 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.

VAT Receipts not available

Every effort is to be made to enforce the principle that VAT receipts are invariably obtained from suppliers for every purchase of goods and/or services.

Management Comments

Management concurred with most of the recommendations put forward by NAO and action has already been taken to address certain areas. The comments hereunder were also submitted:

- Following NAO's remark, the approval for a variation of €7,784, for the supply and installation of extra rails and glass guards at *Tigné* in Sliema, was requested from MFEI and received on 25 April 2013.
- Although payment certificates, in connection with the construction of the Water Park, were authorised by three persons, MRRA confirmed that the responsible quantity surveyor had erroneously compiled the amounts quoted in the certificates.
- Though no evidence was provided, Management claimed that subsequent to the audit, DC approval for variations, in connection with the tender for the supply and laying of natural paving material at *Triq Bisazza* and *ix-Xatt ta' Tigné* in Sliema, has been received and payments to contractor settled accordingly.
- The incorrect amount recorded in the schedule of rates remained unnoticed, since an offer for the supply and laying of natural paving material at part of *Triq ix-Xatt*, Sliema, did not qualify to be evaluated financially, as it was administratively non-compliant.
- MRRA admitted that the rate of €54 per cubic metre was erroneously quoted on the memo and any overpayments are to be offset from amounts due to the contractor.
- Missing file still cannot be traced.
- Management acknowledges that more training, knowledge, checks and balances are required to ensure strict compliance with PPR.

The following reservations were also made:

- Management stated that DC does not accept, in principle, that a contingency amount be included in the tenders' schedules of quantities and rates. However, this statement was not substantiated.
- The contractor of excavation works was eventually penalised for the delay. However, the former protested that the delay was justified and the Ministry decided that any penalties are to be waived.

- Management claimed that the three items of moulds, for casting concrete plinths at Ta' Xbiex project, are deemed to be different from each other.
- Although MRRA requests enough funds to cover all water and electricity expenses, restricted funds are made available via Government Budgetary Estimates, resulting in late payments.
- Payments of water and electricity bills from the wrong responsibility centre, namely SLM, were due to funds availability therein.
- The detail showing on PVs is that permissible with the current central Government system.
- Management is of the opinion that a tax invoice is sufficient, even though expenses were not incurred in the furtherance of an economic activity.
- Supply and installation of Stainless Steel and Glass Guards at *Tigné* in Sliema
 - Ministry not covered in case of delays and/or bad workmanship
- Supply and laying of Natural Paving Material at St. Julian's, Paceville Area
- Supply and laying of Natural Paving Material at part of *Triq ix-Xatt*, Sliema
 - Breakdown of Quantities not provided
 - Invoice incorrectly addressed
- Period Contract for Ready Mix Concrete Grade C25
 - Negligible Penalties incurred for High Volume of Inferior Quality Material
- Order to Start Works issued late or not issued
- Delegation of Authority not valid
- Other Misallocation of Expenditure

Furthermore, Management comments either did not properly address NAO's concerns, or made no reference to shortcomings raised under the following titles and sub-headings:

Malta Resources Authority

Background

The Malta Resources Authority (MRA) is a public corporate body with regulatory responsibilities relating to water, energy and mineral resources in the Maltese Islands. During 2012, the Authority employed approximately 53 officials.

The Audited Accounts for the year ending 31 December 2012 show that the net income, which is mainly derived from licences and contributions from utility organisations and other operators, amounted to €2,002,922, out of which, €1,138,834 was used for personal emoluments.

Audit Scope and Methodology

The objectives of the audit were to verify that, during financial year 2012, expenditure incurred was in line with the General Financial Regulations, as well as to ensure that adopted procedures in procurement were in adherence to the Public Procurement Regulations (PPR) S.L. 174.04 and other relevant circulars. Salaries paid to employees, in particular overtime and allowances were also reviewed. In addition, ensured that, subsistence allowances, flight tickets and other expenses in connection with official overseas visits were in line with standing regulations.

The following audit work was performed:

- An introductory meeting was held at MRA with the Chief Executive Officer (CEO) and the Financial Controller, in order to obtain an overview of the operations of the entity, relevant to the audit.

- Various documents, relating to a sample of 30 transactions selected for review, were obtained and examined against the National Audit Office (NAO) expenditure checklist.
- A sample of 12 employees was selected for the testing of salaries. From this sample, four employees were paid overtime, and therefore the payment was also verified.
- Documents relating to the 15 official visits selected for testing were obtained and examined.
- In all cases, when information provided was deemed to be insufficient or unclear, enquired further in order to obtain other supporting evidence as deemed appropriate.

Key Issues

Chauffeur Driven Vehicle used by the Chairman not covered by Agreement

In an email dated 13 August 2012, CEO confirmed that on his appointment, the Chairman was entitled to the use of a motor vehicle and the service of a driver. However, MRA confirmed that such benefits were not covered by an agreement but only provided in line with past practice. In fact, as from its date of purchase in 2001, the vehicle has been used by previous Chairmen. The absence of an agreement covering the use of MRA's vehicle is indicative of lack of control. Furthermore, although MRA claimed that this vehicle is sometimes available for general use, no log books are kept in line with standing regulations.

Invoices for the Purchase of Fuel not verified resulting in Overpayments

An invoice amounting to €1,147, referring to fuel purchases for five vehicles during the month of November 2012, was not signed as certified correct but still processed for payment. Subsequently, MRA realised that this amount was abnormal and an internal exercise revealed that as from July 2010 to January 2013, an amount of €3,502 was overpaid to the supplier due to fictitious transactions charged by the latter. Unless fuel requisition forms are raised for the necessary approval and all invoices are duly verified prior to processing for payment, both intentional as well as unintentional errors would pass by unnoticed.

Control Issues

Car Cash Allowance not specified

As per letter of appointment dated 10 May 2005, an Analyst was to be paid €2,329 as ‘other allowance’. However, MRA stated that this was intended, and had always been considered, as a car cash allowance. Thus, even though not duly entitled, the employee is benefiting from the non-taxable allowance of €1,170.

Fringe Benefits incorrectly deducted

From 12 employees selected for testing, two officers were entitled to a vehicle for personal use. However, the taxable fringe benefit for 2012, recorded in their FS3 returns, was understated.

Lack of Segregation of Duties

The Financial Controller is a ‘key person’, being the only officer experienced and competent in keeping the accounts up-to-date. Thus, there is the risk that if the incumbent is absent from work for a relatively long period, there is no other officer to perform his duties. Furthermore, due to the lack of segregation of duties, effective internal controls are very limited.

Payment for Unutilised Vacation Leave

As per Financial Controller’s contract of employment, any unutilised vacation leave could

be carried forward to the first six months of the following year. In fact, in January 2012, CEO approved the transfer of 96 hours that were not availed of in 2011, on the condition that leave of 2012 is utilised. However, in December 2012, CEO approved for payment 183 hours accumulated leave as at end 2012, amounting to €3,018. Considering that the Financial Controller was regularly requested by CEO to take the minimum leave possible to be able to meet the exigencies of the Department, payment of accumulated leave, which is against Government standing practice, may become a regular occurrence.

Shortcomings related to Overtime Payments

Prior request not made

Four out of the 12 employees selected for testing, namely two Clerks, a Messenger/Driver and a Project Officer, were paid overtime during the year under review, collectively amounting to €6,402. Thus, a number of related payrolls, comprising 46 instances, were selected for the verification of overtime payments. From this sample, it was evident that prior written requests to perform overtime were never made to the responsible officer/s. Therefore, since the relevant approvals were not obtained prior to working extra hours, control over the respective cost is hindered.

Details of overtime performed prepared by a Clerk

Subsequent to overtime performed, one of these two Clerks prepares and send emails to a Senior Analyst, specifying the total overtime hours worked by both Clerks during a particular period. As a result, five emails covering six instances, included overtime hours worked by her good self.

Reason for the need of overtime not specified

In 33 out of the 46 instances selected for testing, explanations as to the nature of the event for which the officers were required to perform such overtime were not available, either because they were not indicated on the relevant overtime form or not covered by any correspondence.

Date not included

From the 46 sampled instances, 37 did not include the date when the documents were endorsed by the supervisor certifying their correctness.

Lack of Controls over Fuel Expenditure

As already highlighted in Key Issue titled ‘Chauffeur Driven Vehicle used by the Chairman not covered by Agreement’, a car, which is at the disposal of the Chairman, is sometimes used for office purposes. Similarly, as per contract of employment, CEO is entitled to the personal use of a vehicle, which is also used as required by MRA. Furthermore, one of the hired vehicles is used by the compliance officers for on-site inspections. MRA confirmed that no log books are being kept, thus NAO could not confirm whether the vehicles were used solely for official purposes.

It was also observed that six employees were entitled to unlimited fuel reimbursements as per respective contracts of employment, even though standing regulations establish a capping according to one’s grade. Besides such entitlement, two of them were also entitled to the personal use of a vehicle, while the remaining four were each granted a car cash allowance, ranging from €3,028 to €4,251.

Furthermore, MRA stated that there is no exclusive contract with any one supplier for the provision of fuel. This can be supplied from various suppliers, resulting in weak controls over such expenditure.

Claim for Allowances exceeding entitlement

As per respective contract of employment, two officers in the audit sample, were to be reimbursed for a ‘mobile phone and other expenses’ up to a maximum of €1,200 *per annum*. It transpired that these limits were very often not being respected. Furthermore, relevant receipts, mainly covering fuel, telephone and ferry amounting collectively to €1,587, were claimed retrospectively, at times even one year later, thus distorting the entitlement in question. Unless officers claim the relevant expense before the close of the respective financial year, control over such expenditure can be hindered.

Cleaning and Laundry Services not covered by Agreement

Total payments made to a particular supplier for cleaning services, as from commencement in 2002 till March 2012, *i.e.* up to when services were provided, amounted to €41,889. However, no contract was ever in place; thus rates and services offered could only be checked to a quotation dated 7 November 2002, being the sole relevant document. It further transpired that cleaning services were initially scheduled on a Monday, Wednesday and Friday. However, from timesheets prepared, it was noted that services were provided during all working days.

In the circumstances, it could not be ensured that the service was acquired in line with PPR and that rates were correctly being charged. In the absence of a contract, the terms and conditions underlying the provision of service were also not legally provided for.

Purchase Orders not raised or issued late

Although a Purchase Order was required in 30 instances in the audit sample, this document was not raised in eight cases, in aggregate amounting to €4,761. This could imply that expenditure incurred is not formally approved beforehand.

Invoices processed for payment but not certified correct

During audit testing it was noted that 25 invoices, mostly relating to the purchase of flight tickets and car rentals, in aggregate amounting to €16,520, were not signed as certified correct, but still processed for payment. Lack of verification of invoices, imply weak internal controls and in the event of overcharging, it would be difficult to recoup the amounts invoiced.

Compliance Issues

Public Procurement Regulations bypassed

In the following instances, quotations were not obtained and procurement was made by direct order from the open market, indicating attempts to bypass PPR, also risking the possibility of more favourable offers being missed:

- a. An amount of €5,192 was paid to a particular supplier, covering the hire of a motor vehicle during 2012. Notwithstanding the duration of at least one year, MRA confirmed that no agreement was signed with the supplier and that the service in question was originally incepted when employees were seconded with the Authority in 2002. MRA also stated that since arrangements for the hiring of motor vehicles were, at that stage, already in place with the supplier, the Authority continued to make use of such services. Further payments for the period from 2002 until end 2011 amounted to €49,344.
- b. In 2012, several payments, in aggregate amounting to €8,281, were made to another supplier for the hire of vehicles, at times for short periods. It was also noted that, in one particular instance, a vehicle was retained by MRA uninterruptedly from 1 January 2012 till at least the end of the year. However, no contract to this effect was in place to outline the terms and conditions covering the leasing agreement. MRA again opted to continue to make use of the car hiring services which were already in place in 2002. Such payments, made over a 10-year period, *i.e.* from 2002 to 2011, amounted to €100,923.

Potential Competitive Suppliers for Telecommunication Services overlooked

Years back, Government had entered into an agreement with the then sole service provider for telecommunication services. Although nowadays there are other suppliers within the market and the current service provider is no longer controlled by Government, MRA continued to follow the same agreement. As a result, no comparisons were made for competitiveness with other service providers to establish best prices offered in the market.

Analyst working on Reduced Hours

Bonus not paid *pro rata*

In a letter dated 1 October 2007, an Analyst who commenced working with MRA the following week, requested to work on a 30-hour per week schedule. However, as from employment date in 2007, the bonus was only paid proportionately

in 2009. Following audit enquiries, MRA stated that this shortcoming was noted in December 2012, and the bonus paid in that period was in fact corrected accordingly.

Expense allowance greater than that specified in contract

The Analyst was to be paid an annual allowance of €3,145, which nature of allowance was not specified in the contract. Since the Public Service Management Code (PSMC) allows telephone and car allowances to be paid in full, even to employees on reduced hours, the Analyst requested a review of this allowance. Whilst MRA was not in a position to split the allowance to meet the officer's request, on 11 March 2011, CEO approved an increase in the allowance to €4,309.

Following another request by the Analyst on 4 January 2013, CEO decided to split the allowance into cash allowance of €2,753 and car cash allowance of €1,556. This enabled the officer to start benefiting from a non-taxable fringe benefit. Furthermore, two months later, the split was again revised to €1,203 cash allowance and €3,106 car cash allowance. Presumably, the latter was increased in order to benefit from the maximum annual tax exemption of €1,170 on such allowance, which capping is established by law.

Allowance paid not justifiable

On 14 January 2011, CEO authorised a Clerk to receive an annual allowance of €3,700 for performing duties of a higher grade, that of an Administrator. MRA claimed that this Clerk was assigned this role, not because the position was declared vacant following a promotion, retirement or resignation, but only further to the completion of a Diploma in Management. In fact, since MRA at that time did not employ any administrators, a list of the relevant roles and responsibilities was not provided to substantiate duties of this new post and identify any non-compliance.

In addition, the allowance together with the basic pay, translated approximately to the maximum of the next higher grade, that of salary scale 11. However, both PSMC and the collective agreement covering clerks, state that employees working in higher grade are to be paid the difference between

the officer's present salary and the minimum of the next higher grade. Furthermore, in view of PSMC stating that an allowance is only to be paid for carrying out higher duties in key positions in salary scales 1 to 10 and if the position has been declared vacant, one cannot even justify the allowance paid to this employee.

Overpayments of Subsistence Allowance

MRA officials are required to fill in an Overseas Travel Allowance Computation form, in order to claim for subsistence allowances. This document is duly signed by the travelling official, who thereby confirms that the claimed costs were actually incurred. The officers are also obliged to avail themselves of any facilities being provided free. From audit testing, it transpired that free meals provided by the organisers were not always deducted from their allowance. Unless computation of subsistence allowances are duly verified by the Finance Department, errors may remain unnoticed.

Approval to travel obtained late and Cheapest Offer not selected

An officer attended a meeting in Denmark in October 2012. Whilst quotations for flights, the Purchase Order and the relative invoice, were all dated 4 July 2012, the respective approval from CEO was only obtained on 18 July 2012.

Since this officer preferred flights through Munich, the cheapest offer, which was *via* Frankfurt, was not selected. It transpired that the selected quote amounted to €532, *i.e.* €116 higher than the cheapest bid, which excess was disbursed from taxpayers' money.

Fresh Quotes to change Flight Ticket not obtained

Subsequent to booking a flight ticket at a cost of €349, MRA was informed by the organiser that a general strike was planned on the departure date. In this case, the supplier was contacted to change

the flight to depart a day earlier, resulting in an additional expense of €499. MRA made no effort to obtain fresh quotations from different suppliers, thus the risk that alternative cheaper offers were available, cannot be excluded.

No Quotation obtained from the Local Airline

In 11 out of 15 flight tickets selected for testing, quotations from the local airline were not obtained, even though required by standing regulations. Furthermore, in one instance, quotes were not even obtained from other travel agencies.

No Formal Programme/Agenda

Formal detailed agendas were not available for eight visits out of a sample of 15. Only registration forms, invitations and/or draft copies were provided. As a result, correctness of amounts paid as subsistence allowance could not be verified to an official programme.

Errors noted subsequent to Audit Sample Selected

On 1 April 2013, NAO requested documentation related to a sample of 15 official overseas visits. From the sample selected, it was evident that the respective files were reviewed by MRA prior to providing such documents on 9 April 2013, since three shortcomings were noted. For example, in one particular instance, a request to the travel agency, for reimbursement of a double payment, amounting to €298, was only made on 9 April 2013. Therefore, the highlighted shortcomings, which might have remained unnoticed and thus not corrected, are not exhaustive, since testing was limited to 15 transactions. Thus, the risk that similar problems were not corrected cannot be excluded.

Expenditure not covered by VAT Receipts

Four payments amounting collectively to €4,693 were not covered by VAT fiscal receipts, risking the possibility of undeclared fiscal revenue by defaulters.

Recommendations

Key Issues

Chauffeur Driven Vehicle used by the Chairman not covered by Agreement

An agreement is expected to be in place to outline the terms and conditions of the person concerned. Furthermore, the Authority is to ascertain that a log book is maintained for such vehicles.

Invoices for the Purchase of Fuel not verified resulting in Overpayments

NAO acknowledges that certain controls are now in place and refund was received from the supplier. However, an accounting officer is to verify the amounts invoiced, and ensure that bills are certified as correct for their accuracy, before processed for payment. For control purposes, the raising of fuel requisition forms is also recommended.

Control Issues

Car Cash Allowance not specified

Reference is to be made to the fringe benefit rules stating that, unless the car cash allowance is specified in the contract of employment, the full cash allowance is to be taxable.

Fringe Benefits incorrectly deducted

Workings and supporting documentation are to be duly verified for correctness.

Lack of Segregation of Duties

Whilst appreciating the size of this entity, MRA is to step up internal controls and address the issue of lack of segregation of duties. Continuation of the key process is thus to be ensured at all times.

Payment for Unutilised Vacation Leave

The Authority is to ensure strict adherence to Government standing practice.

Shortcomings related to Overtime Payments

In line with standing regulations, formal authorisation is to be obtained prior to working overtime. Furthermore, the actual extra hours worked are to be checked to supporting records prior to approval of payment thereof, and the relevant claim duly endorsed.

Lack of Controls over Fuel Expenditure

For general use vehicles, log books are to be kept and fuel requisition forms are to be raised, in order to enable proper control over fuel consumption. Furthermore, MRA is to consider specifying fuel limits in the respective contracts of employment, in order to strengthen controls over the amount of fuel reimbursed. In addition, a contract is to be in place with specified suppliers and payment only made against invoices received, indicating the number of litres being paid for, the cost per litre and the vehicles that have been refueled.

Claim for Allowances exceeding entitlement

Controls are to be enhanced to ensure that the limits imposed by the contract of employments are not exceeded. In addition, effort is to be made to submit the relevant claims for reimbursement of a particular period before the close of the respective financial year.

Cleaning and Laundry Services not covered by Agreement

MRA is to ensure that PPR are invariably followed and a formal contract is entered into, outlining the terms and conditions binding the contractual agreement prior to incurring the actual expense.

Purchase Orders not raised or issued late

Management is to ensure that Purchase Orders are issued prior to invoices.

Invoices processed for payment but not certified correct

All invoices are to be invariably certified as correct in order to confirm their accuracy before processed for payment.

Compliance Issues

Public Procurement Regulations bypassed

MRA is to strive to ensure that the method of purchase is compliant with the applicable regulations, thus ascertaining that the most competitive prices are obtained. As far as possible, all suppliers are to be given equal opportunity to submit their quote.

Potential Competitive Suppliers for Telecommunication Services overlooked

It is to be ensured that the best conditions, as well as the most advantageous and economic prices within the market, are benefited from.

Analyst working on Reduced Hours

MRA is to ensure that officers on reduced hours are invariably paid bonus *pro rata*. It is also expected that, unless the car cash allowance was specified in the contract of employment, the full allowance is taxable.

Allowance paid not justifiable

MRA is to be guided by PSMC, indicating that the carrying out of higher duties does not, as a rule, qualify for the payment of an allowance.

Overpayments of Subsistence Allowance

MRA is to enforce the current control of checking over travelling claims submitted, to ensure that these are calculated according to standing regulations. Officers are not to be granted a full subsistence allowance, if meals are provided free of charge as part of their participation.

Approval to travel obtained late and Cheapest Offer not selected

All official travel is to be invariably approved by CEO prior to committing funds with third parties. In addition, unless duly justified and documented, officers are to select the cheapest offers. Otherwise, management is to request the officer in question to fork out the difference.

Fresh Quotes to change Flight Ticket not obtained

For future similar instances, quotes are to be obtained from different suppliers to ensure that, as far as possible, the cheapest offer is selected.

No Quotation obtained from the Local Airline

When flight arrangements are not made directly through the local airline, MRA is still expected to obtain the necessary quotations from the former to keep in line with the regulations.

No Formal Programme/Agenda

All visits are to be supported by adequate documentation, including the respective official agenda, in order to enable audit trail and proper verifications, both by MRA and by third parties.

Errors noted subsequent to Audit Sample Selected

Proper verifications are to be carried out, and adequate controls are to be in place, so that any mistakes are noted and rectified immediately.

Expenditure not covered by VAT Receipts

Every effort is to be made to enforce the principle that VAT receipts are invariably obtained from suppliers for every purchase of goods and/or services.

Management Comments

Management concurred with a number of recommendations put forward by NAO and action has already been taken to address certain areas. The following comments were also submitted:

- Management claimed that specific Ministerial directions were given to CEO on the applicable conditions and benefits related to the Chairman's appointment in question.
- During the exit meeting, MRA stated that, in general, overtime is verbally approved by the superiors.

- Although not substantiated, Management claimed that various requests for quotes were submitted to the local airline. However, no response was received from the latter.

In addition, the following reservations were made:

- The Authority maintained that although Government policies, such as PSMC, are generally followed by MRA, due to the autonomous exercise of its function, these may not necessarily be obligatory or directly applicable.
- MRA disagrees with the introduction of fuel requisition forms and retention of log books, since only two vehicles are used for office purposes. Hence, administrative

burden would increase substantially and unnecessarily. Furthermore, capping fuel entitlement would eliminate existing flexibility in using vehicles for general office purposes.

- MRA stated that the Clerk was assigned the role of Administrator since the relevant responsibilities were taken over, and not due to the completion of a Diploma in Management. Furthermore, the work arrangement and remuneration was set in agreement with the Union.
- Management remarked that payment of each claim for allowance is calculated on a running basis commencing from employment date, rather than per calendar year.





**Ministry of Education, Employment
and the Family**

Refund of Overpaid Students' Maintenance Grants

Background

The Students' Maintenance Grants (SMG) are regulated by Legal Notice (LN) 372 of 2005, as amended by LN 424 of 2007. These grants are applicable to full-time post-secondary, vocational and tertiary students. The amount of grant to which the students are entitled depends on the course being undertaken. Furthermore, students who have proven hardship may qualify for a supplementary maintenance grant. The amount of this grant also depends on the type of course followed by the eligible student.

The SMG Section, forming part of the Ministry for Education and Employment (MEDE), is responsible for making timely and accurate stipend payments to Junior College and Higher Secondary students. University of Malta (UoM) and Malta College of Arts, Science and Technology (MCAST) students are catered for by two Stipends Offices situated at the respective locations.

After noticing early terminations or unjustified absenteeism, the necessary steps are taken to calculate the pro-rated amount to be refunded

by the students concerned. Notifications and subsequent reminders are sent by the Students' Maintenance Grants Board to the students, and the respective payments are received at the foregoing offices in cash and cheques.

All the money collected by UoM's stipend office is handed over to the clerk at the SMG section. On the other hand, only cheques received at MCAST's stipends office are forwarded to the SMG section together with a copy of the bank deposit slip. Cash received at MCAST, is deposited directly at the Central Bank of Malta (CBM) by the officer-in-charge at the Stipends Office. The Departmental Accounting System (DAS) inputting process is carried out by the clerk at the SMG Section.

For financial years 2011 up till August 2013, according to the DAS reports, the total amount of overpaid maintenance grants actually refunded by cheques or cash, from students attending MCAST, UoM, the Junior College and Higher Secondary, amounted to €192,716, as indicated in **Table 1**, hereunder. This amount was deposited into account 5506-5364 – Stipends paid to Individuals – Students' Maintenance Grants.

Table 1: Receipts of Refunds deposited in Account 5506-5364 – Stipends paid to Individuals – Students' Maintenance Grants

Financial Year	Amount
	€
2011	51,692
2012	82,982
Up till August 2013	58,042
Total	192,716

Audit Scope and Methodology

This audit focused mainly on the refunds paid by students attending the Junior College, Higher Secondary, and UoM.

The objectives of this audit were to:

- a. identify concerns with the procedures used by the SMG Section for receiving, handling, safeguarding, and depositing refunds of overpaid maintenance grants;
- b. ascertain that controls are exercised by MEDE on the collection of these refunds; and
- c. determine the degree of compliance with existing rules and regulations.

A surprise cash inspection at SMG Section was conducted on 10 July 2013 to ascertain the actual cash position, *i.e.* to determine if the count was in agreement with supporting accounting records and other relevant documents. A number of irregularities and cash mismanagement were noted and therefore further audit testing was carried out on the revenue collection system in place, to determine the level of reliability and internal control.

Limitation on Scope of Audit

Missing Receipt Books

Whilst verifying the serial number of the receipts in hand against those procured from the Government Printing Press (GPP), three receipt books, containing in aggregate 150 receipts, were found missing.

Moreover, only 11 receipt entries of one of these receipt books could be traced in the cashbook.

Lack of Sufficient Details in Cashbook Entries

SMG Section uses a manual cashbook system. However, transactions were not cross-referenced to supporting documents. The lack of details, such as receipt dates and receipt numbers resulted in lost audit trail. Consequently, it was impossible to substantiate and verify most of the transactions

recorded therein, as well as the cash and cheques in hand found during the inspection.

Further examination on the cashbooks and the receipt books provided revealed that, in fact, in the year of assessment, *i.e.* 2013, manual receipts were either not issued, or the receipt books bearing these receipts were not presented to NAO for audit purposes, as indicated in detail hereafter.

Cash Payments not recorded in Cashbook nor deposited at Bank

During the cash verification that was carried out, it was noted that at the time of inspection the Head of Section had the total amount of €809.11 in cash, in an envelope, together with a bank deposit slip which was still not processed through DAS. This envelope was held in a money-box on the officer's desk. The respective amount could neither be traced against a receipt, nor to an entry in the cashbook. However, a few minutes later, this officer brought to the attention of NAO's auditor, a student's refund claim file, from where a photocopy of a receipt for the entire amount in question was traced. Yet, the receipt booklet, from where this receipt was originally issued, was not provided for audit purposes, as it was missing.

This amount was deposited at CBM on 12 July 2013, *i.e.* two days after the cash inspection.

Official Receipts not issued and Cheque Payments not deposited at Bank

Apart from the cash mentioned in the previous observation, six cheques amounting to €861.16, dated between 27 June and 1 July 2013, were also presented during the inspection. Details of these cheques were traced in the cashbook. However, no receipt number, receipt date and cheque number were recorded near these entries. Further testing revealed that except for one instance, an official receipt could not be traced to cover these cheques, in the receipt booklets provided for audit.

These cheques were eventually recorded in DAS on 11 July 2013, and the following day they were deposited at CBM.

Proper Key to open Safe not provided during Cash Inspection

During the inspection, NAO officer requested the Head of SMG Section to open the safe. The latter verbally declared that this was impossible since it does not unlock and hence they do not make use of it. In the presence of NAO, Director General Support Services (DGSS) also attempted to open the safe with the key provided by the Head of Section, but to no avail.

A couple of days later, it was brought to the attention of the NAO auditor, that MEDE management were informed that the safe was opened by the employees of SMG Section. It was also stated that more than €600 were found there.

In a letter addressed to DGSS, dated 18 July 2013, SMG Section declared that they opened the safe and some cash was found, which could have been placed there when they were relocating offices¹. They claimed that the safe could not open during the cash inspection because they were using the wrong key.

Several Cash and Cheques not presented during the Surprise Cash Inspection

Deposits at bank just two days after the inspection revealed that a number of cheques, as well as cash, were not presented for verification during the cash inspection.

In fact, in an email sent to the said Director General on 18 July 2013, SMG Section declared that a further cash amount of €500 was found in the base of a drawer of one of the employees' desk.

Following testing on the deposits at CBM it also transpired that just after the cash inspection, between 11 and 18 July 2013 (both days included), apart from the cash and cheques presented during the inspection, a further amount of €10,062 in cash and cheques were deposited.

Due to lack of audit trail, this Office was not able to ascertain the date when SMG Section actually

received these refunds. However, from further testing on the cashbook, it was noted that some of the cash was received even back in February 2012.

Key Issues

Lack of Audit Trail and Weak Internal Control

The audit revealed that the internal control structure over cash received, both by SMG Section and UoM's Stipends Office, is inadequate and of considerable concern to NAO. This was also evidenced during the cash inspection carried out, where it was clear that no monitoring is in place to ensure that controls are properly designed, executed and effective.

For refund purposes, UoM's Stipend Office generates a computerised unofficial receipt, whereby the receipt number is handwritten. No cashbook was held, except for an Excel datasheet with relevant details. Moreover, cheques and cash received were just forwarded over to SMG Section, without any proof of cash handover.

NAO noted that these spreadsheets, maintained by UoM's Stipends Office, were poorly organised and the cash-based accounting system falls well short of professional norms. There was also a general absence of internal controls to identify inconsistencies and irregularities in transactions related to SMG, coupled with a general lack of transparency and accountability.

No Segregation of Duties

The cash and cheques received by SMG Section were not being remitted to the Ministry's Accounts Section to be deposited at bank. At SMG Section, all the employees can issue a general manual receipt, and input the entries in the manual cashbooks. However, only one of the clerks, has access to DAS. The latter at times performs all the cash receipt and cash handling functions, *i.e.* issues a receipt, carries out the inputting process in DAS, prepares the Cash and Cheques Analysis on the Bank Deposit slip and the actual deposit of the cash at bank. Furthermore, this same officer is the person responsible to collect the cash and cheques from UoM for the depositing process.

¹ SMG Section relocated their office approximately a year earlier, *i.e.*, mid-2012.

Control Issues

Procurement of Receipt Books by-passing the Officer in Charge

SMG Section did not obtain the manual general receipts from the officer-in-charge at the Ministry's Accounts Section. During the meeting held on 10 July 2013, the Head of Section verbally claimed that she does not know from where she can get the receipt books. It was also stated that those in hand were found in a cabinet in the office, years back. Furthermore, a Stock Register, indicating the Counterfoil Receipt Books procured and issued, has not been maintained by the foregoing Section. Consequently, it could not be ascertained whether all the receipt books were presented for audit purposes.

From further enquiries made by this Office with GPP it transpired that, in March 2011, 20 receipt books, containing 50 receipts each, were procured by the then MEEF. The messenger, who signed for the collection of these receipt books from GPP, verbally claimed that he was instructed by the Head of SMG Section. However, the latter maintained that she does not remember this event.

This Office enquired also MCAST's officer-in-charge of stipends' refunds, to indicate who furnished him with the stock of receipt books he had in hand. He also claimed that these were obtained from the Head of SMG Section.

Refunds not deposited in Bank

Whilst verifying the limited receipts' duplicates that were provided, against the cashbook and the deposit slips, 24 receipts, in aggregate amounting to €3,947, could not be trailed as deposited at bank.

Several instances were even encountered whereby the respective transactions were also not recorded in the cashbook.

However, on 12 and 18 July 2013, as stated earlier, following the cash inspection carried out by this Office, SMG Section deposited a considerable amount of cash and cheques. Thus, it cannot be excluded that some of the cash, noted as not found to be deposited under this observation,

was eventually deposited following NAO's audit enquiries. If this is the case, as indicated earlier, some of the cash was deposited even up to one and a half years later.

Untimely recording of Transactions and Deposits into Bank

SMG Section was not abiding by the General Financial Regulations wherein the frequency of cash and cheque deposits is stipulated. Amounts exceeding the established limits were being deposited at long intervals.

By way of example, a deposit of €339.41 in cash on 6 July 2012 represented six refunds, the earliest dating back to 22 February 2012 for the amount of €113.58. This implies that refunds received in cash were kept at SMG Section for more than 19 weeks, as against the required daily deposits.

Another example relates to a cheque payment, noted on cashbook as 'misplaced'. Receipt date recorded on cashbook was 27 May 2011 whilst the deposit dates 7 October 2011.

A further concern is the sequence of entries in the cashbook; example, cash transactions between February and May 2012 were recorded in the cashbook after a transaction dated 15 June 2012.

Void Receipts – Original not attached with Duplicate

Three cancelled receipts, in aggregate amounting to €225, were found to have the original not attached with the duplicate. Respective entries were also not traced in the cashbook.

Receipts issued twice for Same Payment

Five occasions were encountered whereby two different receipts were issued for the same payment on different dates. It was also noted that in all instances, the first receipt issued was not recorded in the cashbook, but the transaction of the second receipt was entered. For example, on one of these occasions, the student settled the amount of €197.88 by cash, on 30 August 2012. However, this transaction was not recorded in the cashbook and the relative deposit into bank could not be traced. On 12 July 2013, *i.e.* nearly a year

later, and just two days after the cash inspection, the Head of Section issued another receipt for the same student, covering the same amount.

Debtor's Ledger not maintained

Both SMG Section and UoM's Stipends Office did not maintain a debtors' ledger, registering all amounts of stipend overpayments, that are expected to be refunded by the students. A list for 2012 was only prepared by SMG Section following a request by this Office.

Compliance Issues

Recovery of Overpayments deposited in the Wrong Bank Account

Contrary to what is stipulated in the General Financial Regulations, from the DAS records it was noted that SMG Section were allocating and depositing all the recouped overpayments of maintenance grants into the current year's DAS account no. 5506-5364, namely 'Stipends – Paid to Individuals – Students' Maintenance Grants', irrespective of the financial year in which they were recovered.

Authorised Signatories

Notwithstanding that at least four employees at SMG Section administer the Students' Maintenance Grants Account, *i.e.*, they issue the stipends and refund back into account the overpayments, none of these officers was amongst the list provided to NAO in December 2012 in line with Treasury Circular No. 5/2008, indicating those employees within MEDE, who are entrusted with the receipt and custody of public monies.

Recommendations

Limitation on Scope of Audit

Missing Receipt Books

Management was advised to seriously consider carrying out an intensive internal audit exercise, to establish whether there was any misuse of public funds.

Lack of Sufficient Details in Cashbook Entries

The Cash Receipts journal or cashbook is the source document where the incoming cash is being recorded. Thus, each entry must indicate the receipt number and date, the student's name that is refunding the overpaid stipend, the amount and the method of payment, *i.e.*, if paid by cash or cheque. Entries of cheque payments must also include the cheque number and its date.

Cash Payments not recorded in Cashbook nor deposited at Bank

For better control and accountability of public funds, Management is to ensure that the General Financial Regulations are invariably followed by all employees responsible for handling cash. Action is to be taken against those employees who do not comply with standing regulations.

Official Receipts not issued and Cheque Payments not deposited at Bank

As stipulated in the General Financial Regulations, SMG Section must give a receipt from official books of forms bearing printed consecutive numbers, for every payment received by them.

Proper Key to open Safe not provided during Cash Inspection

Management is to ascertain that proper safekeeping facilities are available to safeguard public funds until they are appropriately remitted to the Accounts Section and later deposited at the bank.

Furthermore, Management should have access to the device in the event that the primary person responsible is absent. However, employees with access to these locked devices should be kept at a minimum.

Refunds collected are expected to be remitted to the Accounts Section at the end of each day.

Abidance with these policies reduces the risk of loss, to say the least, and ensures more accurate financial records.

Several Cash and Cheques not presented during the Surprise Cash Inspection

Management is bound to ensure that a reliable revenue collecting system is in place with immediate effect. All receipts issued should be verified against the cashbook by an independent officer. Employees in receipt of public funds, are to forward to the Accounts Section all collections every end of day, whereby the latter is to ensure and certify correct all transactions prior to depositing them at bank. Any discrepancies are to be dealt with immediately, and the officer in receipt of monies is to be kept responsible for any loss/discrepancy.

Key Issues

Lack of Audit Trail and Weak Internal Controls

Management is expected to urgently review and strengthen the internal control systems. It should also rigidly enforce the provisions of the General Financial Regulations and any other related instructions, as issued from time to time by the Treasury Department in order to ensure sound financial management. In line with Article 34(1) of the General Financial Regulations, accounting officers must issue receipts from books of forms bearing consecutive numbers, for every amount paid to them. Furthermore, Treasury Circular No. 3/2001 also requires that manual general receipts are only obtained from GPP, to ensure that strict control is maintained. Prior to issue any other forms of receipts, authorisation from the Treasury Department is to be sought.

Cash handed over from UoM's Stipend Office (payee) to SMG Section must be recorded in a proper cashbook, endorsed by both signatures and the date, with a copy given to the latter as proof of cash receipt.

Moreover, Management is to ensure that appropriate procedures are in place without further delay. All officers responsible for the collection and custody of public funds are to be properly trained, well conversant with established policies, and held accountable for compliance.

This Office also recommends that, if possible, the collection of refunds is centralised, *i.e.*, the cash collection function is allocated at the Ministry, whereby all students irrelevant in which Institute they attend, shall settle their refunds by cheque or by credit card. Fewer locations, and fewer employees collecting cash, reduce opportunities for irregularities to occur and provide better accountability over cash collections.

No Segregation of Duties

Segregation of duties, especially where cash is involved, is critical to effective internal control because it reduces the risk of mistakes whether intentional or not. Segregating the duties of cash management, recording thereof, authorisations, and reconciliations, prevents an employee from taking over all phases of the accounting function. No one person should issue a receipt, record transaction in cashbook, reconcile the cashbook balances, process the DAS reports, and handle the cash deposits. In all instances, the process of cash management should be segregated as much as possible.

Furthermore, bank reconciliations should be performed by an independent employee who does not have custody or access to cash, and who does not record cash receipt, cash disbursement, or journal entry transactions.

On the other hand, for control purposes the inputting process into DAS is not to be limited to one person only.

Control Issues

Procurement of Receipt Books by-passing the Officer-in-Charge

Management is to make sure that every Section, entrusted to handle public funds, makes use of general receipt books obtained from the officer-in-charge at the Accounts Section within the Ministry. This ensures that strict control on the use of official receipts and distribution thereof is maintained.

Refunds not deposited in Bank

At the end of day, the relevant receipts of refunds collected are to be reconciled to the cashbook and the amount of cash/cheques in hand by an independent officer. Daily cash-out procedures help to uncover discrepancies between actual cash collected and recorded amounts in a timely manner. Those responsible for collecting cash and preparing bank deposits should not be the same employees to record cash transactions in the accounting records.

As already emphasised, segregation of duties is important in the depositing process.

Untimely recording of Transactions and Deposits into Bank

At the end of each day, SMG Section is to remit the refunds collected at the Accounts Section. The latter is to comply with the General Financial Regulations, and deposit cheques daily. If amounts are insignificant then deposits are to be made at least every Friday.

Void Receipts – Original not attached with Duplicate

When cancelling a receipt, both the original and its duplicate should be retained, as stipulated in Part C, Article 34(3) of the General Financial Regulations, and marked cancelled on both the original and copy. These are to be properly filed as evidence that the money was not collected.

Receipts issued twice for Same Payment

A receipt is to be issued immediately when cash is received and the respective amount is to be recorded in the accounting records without delay.

Debtor's Ledger not maintained

Adequate control mechanisms towards debt recovery are to be in place to ensure timely recovery of public funds. An updated Debtor's Ledger is expected to be maintained. This is to include details, such as name of debtor, amount due, claim number, date of claim, receipt number and the respective date.

Conclusion

It was concluded that the Ministry did not have a reliable system in place to reconcile the balances of SMG refunds, against that actually deposited at CBM. The absence of effective internal controls pose a serious risk that funds could have been lost, either due to accounting errors or to cash misappropriation.

This is amplified by the lack of audit trail, which did not enable practical identification of the possibility for misappropriation of funds.

It was also highly recommended that the Ministry pursues the recovery of the cash that was found to be not deposited, and improve upon its supervisory controls over accounting duties.

Moreover, a Board of Inquiry was proposed to be appointed in terms of Section 3 (a) of the Inquiries Act XIX of 1977, with the aim to investigate into the circumstances leading to the irregularities at SMG Section.

Management Comments

Management accepted all the recommendations put forward by NAO and action was taken to address certain areas. MEDE stated that it is willing to request an intensive audit exercise, to establish *inter alia* whether there was any misuse of public funds. The Ministry will also take steps to request the appointment of a Board of Inquiry, with the aim of investigating the circumstances leading to the irregularities at SMG section. NAO's recommendation, that the collection of refunds will be centralised will also be taken on board, provided that such a shift in operations and responsibility for the collection of stipend refunds would not be in violation of the Students' Maintenance Grants Regulations (S.L.327.178).

The Ministry stated the SMG section reports directly to the SMG Management Board on all its matters and its *modus operandi*, and therefore it falls under its direct instruction and supervision, in terms of the above-mentioned regulations. Thus, the Board will be requested to prepare a Standard Operational Procedure Manual.

In order to segregate duties, Management will transfer the collection of refunds from students, from the Maintenance Grants Section to the DCS Finance Section with immediate effect. The SMG Section will continue to be responsible for reconciling the actual payments effected at the Finance Section against the Debtors Ledger. All manual recording procedures will be replaced by the DAS system. In the meantime, the Ministry will endeavour to trace the missing receipt books.

Action will be taken against those employees who do not comply with standing regulations.

G. F. Abela Junior College

Background

The Junior College is regulated by the G. F. Abela Junior College Regulations, 1995, and is incorporated within the University of Malta (UoM). It aims at initiating young men and women, who have completed their secondary schooling, in the methods of study appropriate to tertiary education, while assisting them generally in their personal development.

The governance of the Junior College is entrusted to a Board, which is expected to meet at least once every three months. The functions of this Board include proposing regulations to the Senate, making bye-laws as may be required to attain the College's aim, considering the annual budget for submission to the University Council, as well as monitoring the general and financial administration of the Junior College. Recommending nominees for the posts of Principal, Vice-Principal and Area Co-ordinators to University Council, also falls within the remit of the College Board.

For financial purposes, the Junior College is considered as a Faculty of UoM. In fact, the College's financial position is incorporated in the University's Financial Statements (having 30 September as its year-end). No separate Income and Expenditure Statement, identifying the College's performance during the financial year, is drawn up.

The Junior College's budget allocation for 2011 amounted to €8,500,000, with the funds transferred in full to a bank account in the name of UoM. According to the Financial Estimates, the College was allocated €8,600,000 for 2012. However, following a budget review by the then Ministry of Finance, the Economy and Investment, the amount actually made available to the Junior College during the foregoing year was reduced to €8,170,000.

In order to gain sight of the Junior College's performance during the year under review, an Income and Expenditure Statement, based on the College's Trial Balance as at 30 September 2012, was drawn up by the National Audit Office (NAO). According to this Statement, the College registered a surplus of over €263,451¹ during this financial year.

As expected, a significant majority of expenditure amounting to €7,335,761, *i.e.* almost 92%, related to personal emoluments, namely salaries, allowances and overtime paid to academic, support and administrative staff. Although income is generated by the Junior College, mainly through registration fees paid by students and the renting of premises, almost 98% of the College's funds during the foregoing financial year were attributable to the Government financial allocation, which amounted to €8,252,488.

¹ Water and electricity expenditure, amounting to €103,549, which was not allocated to the Junior College, has been netted-off. Other expenditure pertaining to the College, posted to other University Faculties, cannot be excluded.

Audit Scope and Methodology

The scope of the audit was to ensure that income and expenditure, incurred by the Junior College during the financial year ended 30 September 2012, was appropriately recorded and processed according to pertinent Regulations, Circulars and Manual of Procedures. The completeness, accuracy and reliability of records bearing information relating to the College, as well as whether Government Funds allocated were utilised in an efficient and effective manner, was also verified.

Since all financial transactions were executed by UoM, and documentation kept at the Junior College was very limited, the majority of testing had to be carried out at the University.

Audit work performed covered a sample of income and expenditure transactions attributable to the Junior College, and recorded in UoM's accounting system during the foregoing financial year. Testing on revenue was mainly focused on income received from tuition fees, rental of premises and sponsorships. Apart from verifications on payments for overtime, allowances and the Academic Resources Fund (ARF), a sample of transactions included in the General Expenses, Cleaning and Sanitation, Stationery, as well as Materials accounts, were also reviewed.

Limitation on Scope of Audit

- a. According to information obtained during the audit, no bank accounts were held in the name of the Junior College in the year under review. In order to confirm this claim, NAO requested authorisation from the College Principal to obtain details on bank accounts held in the College's name, if any, as well as the respective bank balances as at 31 December 2012.

In the absence of feedback to NAO's request, both the Junior College Principal and UoM's Finance Office were contacted. While the College Principal verbally claimed that the signed bank authorisation letter was forwarded

to the Finance Office, no reply was received from the latter, in spite of the various phone calls made and emails sent. Neither the signed bank authorisation letter, nor an explanation of what was hindering the mailing of such letter, was received by time of writing of this Report. This sheds doubt on whether the original claim, that no bank accounts are held by the Junior College, was in fact correct.

- b. During the audit, the Finance Office claimed that audit checks were performed on ARF expenditure. NAO enquired on whether such checks revealed instances of non-submission of expenditure reports by academics or similar irregularities, and what corrective action was taken. However, no feedback was received.
- c. Junior College academic staff members were at times required to perform duties over and above their normal work timetable. The rate at which these additional duties were paid depended on the nature of the extra duty performed. Payments issued to four academics, for extra duties performed during financial year ended 30 September 2012, were chosen in the audit sample, in order to verify the correctness of amounts paid. Thus, the respective notifications issued by the College Principal to the Director of the Human Resource Management and Development (HRMD) Office, indicating the arrangement for replacement of lectures², were requested for audit purposes.

However, although several reminders were sent to the HRMD Office, only one such notification was made available. This document was not sufficient to enable the tallying of the additional hours selected in the sample, with number of hours approved to be replaced, and the relevant payment. It also could not be ascertained whether the respective extra hours performed were duly authorised.

- d. UoM also failed to make available the ARF termination form, expenditure reports and bank statements, relating to an academic who terminated employment during 2012³.

² These notifications included the names of the academics who were required to carry out additional duties, as well as number of hours to be performed.

³ Originally, NAO requested information on a sample of five academics who terminated employment during 2012. However, according to the Director of Finance, only one of these staff members was entitled to the ARF.

This documentation was required to enable verification of whether the ARF allocation, in this case, was calculated pro-rata in the year of termination, as well as to ensure that the respective debit card was deactivated and the ARF bank account closed.

Key Issues

Delayed Responses from the University of Malta

Besides the lack of information provided, reported upon in the preceding observation, instances of delayed response from UoM to NAO queries were also encountered, as explained below. This hindered the course of the audit, since a number of audit tests could not be adequately performed due to lack of information, while other tests could not be completed. The following relate:

- a. During the audit for the financial year under review, NAO requested information from UoM's Finance Office and the HRMD Office, to enable verification on whether income and expenditure incurred by the Junior College was appropriately recorded and processed according to pertinent regulations.

However, the required information was not always made available within a reasonable acceptable timeframe. Some documentation reached NAO eight weeks from the date it was originally requested, in spite of the various reminders sent. On other instances, the information required for audit purposes was still unavailable by the time of writing of this Report. Queries arising during the course of the audit were also untimely dealt with by UoM officials.

- b. NAO also requested copies of the ARF bank accounts' statements, in order to perform testing on the expenditure reports compiled by the sample of nine academics. In its reply, the HRMD Office claimed that statements were not retained at their end and these had to be ordered directly from the bank. However, later on during the audit, it transpired that the same Office enjoys internet banking facility, and thus had access to all bank accounts. This was also confirmed by the Director of

Finance, who stated that bank statements were readily accessible through internet banking.

Once again, various reminders were sent to the HRMD and Finance Offices. However, required bank statements were only delivered to NAO almost a month after the request was made. Whilst some bank statements were received in original, others were forwarded as a printout from internet banking. The delay in forwarding the required documents was not justified, since a number of bank statements were already available at the HRMD Office two days after they were requested by NAO.

Inadequate Procedure in place for rental of Junior College Premises

As already indicated earlier on in this Report, the financial administration of the Junior College falls under the remit of UoM. In fact, the College is considered as another University Faculty and, as a procedure, invoices are issued by the University. The majority of contracts reviewed during the audit were also signed by the University Rector.

However, testing revealed an instance whereby an agreement for the use of Junior College premises was entered into by the College itself and only endorsed by its Principal. Although UoM's Finance Office verbally claimed that it was aware of the existence of the agreement entered into by the Junior College, other similar contracts could be in place without the University's knowledge.

Furthermore, from information obtained during the audit, it transpired that individuals who require the use of premises usually phone or email the College administration, with the Vice-Principal normally following the request. UoM's Finance Office is then asked to issue the respective invoices and subsequently also the receipts. In case of cash payments, a fiscal receipt is issued by the Junior College and records of such payments are forwarded to the Finance Office at the University for reconciliation. Therefore, income received or receivable by the College is recorded in the Financial Statements, and money deposited in UoM's bank accounts, only if the Junior College informs the Finance Office to issue the respective invoice or forwards the fiscal receipts.

Control Issues

Income

Value Added Tax payable on renting of Premises overlooked

In 2011, UoM entered into an agreement, whereby it granted the full use of the Health and Fitness Centre (including the furnishings, equipment and machinery therein), situated at the Junior College, to a third party. This operation agreement, covering a three-year period and having a total value of €118,797, failed to include the Value Added Tax (VAT) element.

The Finance Office claimed that the income received from the rental of the Health and Fitness Centre is exempted by the VAT Act, on the premise that it classifies as a sporting activity.

However, according to Part Two of the Fifth Schedule of this Act, only sporting activities provided by non-profit making organisations, taking part in sport or physical recreation, and provided to persons taking part in sport as may be approved by the Minister, are considered as exempt without credit. Since the third party concerned does not classify as a non-profit making organisation, VAT should have been paid on the income received from the rental of the Health and Fitness Centre, and duly recorded in UoM's VAT return.

Rate charged for use of Premises not official

The 'gym' of the Junior College was also rented out to a third party, at the rate of €15 plus VAT per hour. The College Principal claimed that this rate was arrived at after taking into consideration market rates at which these types of gyms are rented. However, no agreement or other official documentation was made available supporting the rate charged, and thus, completeness of income received could not be ascertained.

Incorrect invoicing for rental of Premises

During 2012, UoM issued an invoice to the then Ministry of Education, Employment and the Family, for a total of €3,495, in respect of

the rental of 375 rooms utilised for MATSEC examinations. However, according to the supporting documentation to this invoice, the number of rooms rented out totalled 384. This resulted in loss of revenue.

The Junior College became aware of this error only when the supporting documentation was forwarded to NAO. The fact that this incorrect invoicing almost went by undetected, raises doubts on the effectiveness of verification carried out, if any, prior to the issue of invoices.

Incorrect classification of Income received

a. According to the Trial Balance as at 30 September 2012, the Junior College received sponsorships, totalling €18,025, during the foregoing year. This figure included income, amounting to €17,500, received from a local commercial bank for the granting of space to be utilised for the purposes of maintaining an automated teller machine.

Upon enquiry on the accounting treatment of this income, the Finance Office claimed that, since in previous years it was customary for the Junior College to grant the above-mentioned space to the bank giving a sponsor to the College, the transaction was recorded as sponsorship income.

However, in NAO's opinion, given that the agreement with the bank does not mention the provision of sponsorships, the transaction would have been more appropriately classified as rental income.

b. Out of the audit sample of six transactions recorded as 'other income', four invoices, totalling €21,147, related to income received from rental of Junior College premises. As in (a) above, this income could have been better classified as rental income.

Academic Resources Fund

Background

The Junior College academic staff members are eligible to effect certain purchases from the

Academic Resources Fund (ARF) to support their teaching, activities related to curriculum development, and the promotion of their subject in schools. Eligible expenses covered from this Fund include:

- books and other literature;
- activities related to curriculum development;
- attendance at academic conferences in Malta and overseas; and
- other academic expenses, including computers⁴, software and IT accessories.

The annual⁵ allocation in the ARF for Junior College staff members, irrespective of their grade, amounts to €1,863.50. Each academic is assigned a bank account, held in the name of UoM, and the respective allocation is deposited in this account. Staff members are provided with a personalised debit card with which they can effect payments, both locally and abroad. A detailed report of expenditure, together with the relevant supporting documentation, is to be submitted by each academic on a biannual basis.

During the financial year ended 30 September 2012, ARF expenditure by Junior College academic staff amounted to over €438,000, *i.e.* almost 5.5% of the total expenditure incurred by the same College.

Reports substantiating Expenditure not available

In order to perform testing on ARF expenditure, NAO requested the respective reports for 2011 and 2012, compiled biannually by the nine staff members chosen in the audit sample.

However, it transpired that out of the 36 reports expected to be submitted to the Office of Human Resource Management and Development, by

academics in the audit sample during the mentioned two years, only 17 reports were made available for audit purposes. Originally, the HRMD Office confirmed that no reports were submitted by three sampled academics. However, at a later stage during the audit, four reports⁶, covering purchases effected during 2011 and 2012 by one staff member, were forwarded to NAO. Whilst verification to ensure that purchases made out of the Academic Resources Fund were in accordance with UoM's Manual of Conduct and Procedures was hindered, the non-submission of expenditure reports also implies that the necessary monitoring on such expenditure was not being performed.

Ineligible Items purchased from the Academic Resources Fund

The Manual of Conduct and Procedures requires UoM Finance Office to carry out audits on a random and regular basis, to ensure that expenditure effected from the ARF is in compliance with the policies and procedures set out in the same Manual. Moreover, each expenditure report has to be inspected for completeness of data and for evidence supporting the purchases effected.

Although the Director of Finance claimed that spot checks have been performed on 2011 ARF expenditure, these were not formally documented. The following observations, identified during audit testing, shed doubt on the validity of such claim.

- a. According to the Manual of Conduct and Procedures, only resident academic members of staff, with TR4⁷ appointments and above, are eligible to utilise the ARF to purchase computer equipment. Upon enquiry, officials from both the HRMD and Finance Offices confirmed that TR4 appointments are not applicable in the case of Junior College staff members, since such appointments are exclusively for University.

⁴ According to the University of Malta's Manual of Conduct and Procedures, only resident academic members of staff with TR4 appointments and above are eligible to purchase computer equipment.

⁵ The ARF is allocated on a calendar year basis.

⁶ The 17 reports made available for audit purposes include these four reports.

⁷ Resident academics, that is professional academics who dedicate the most significant portion of their professional career to teaching, research and administrative activities at the University, are required to conduct duties at the University for a minimum of four half days per week. Such academics are referred to as being contracted on a TR4 basis.

However, testing revealed that six out of the nine academics selected in the audit sample bought computer equipment during 2011 and 2012. The equipment ranged from a full personal computer system to computer tablets, for a total value of €6,689. Two of these staff members purchased computer equipment in each of the calendar years under review.

Upon reviewing the ARF bank statements pertaining to the same sample of academics, NAO also noted other purchases of relatively considerable value, effected from outlets selling computer equipment. However, since the expenditure reports which were supposed to record these transactions were not forwarded to NAO auditors (as indicated in the previous observation), the items' descriptions were not known. Thus, it could not be confirmed whether the respective purchases, which totalled over €5,700, were also ineligible according to ARF regulations.

- b. Items expensed from the ARF bank accounts, allocated to the College academics falling within the audit sample, included also electronic equipment and computer accessories, such as mini-recorders, external hard disks and speakers, as well as books classified as children's literature. The eligibility of this expenditure is doubtful since, according to the Manual of Conduct and Procedures, the purchase of electronic equipment and computer accessories is allowable only on the premise that it will directly assist staff members in the fulfilment of their academic work. Books and literature purchased from the ARF should also be related to the respective staff member's area of teaching or research.

Shortcomings in Expenditure Reports

UoM's Manual of Conduct and Procedures requires staff members to submit the expenditure reports, both electronically and in hard copy format, to the HRMD Office within the month subsequent to the end of period (*i.e.* by end July and January). These

reports are to include a description of the items purchased, their cost, supplier details, as well as the date of purchase. However, audit testing revealed the following shortcomings.

- a. A number of expenditure reports forwarded to NAO lacked necessary details, for example, the titles of books acquired and the nature of computer accessories purchased. In one instance, the report even failed to indicate both the name and the identity card number of the academic incurring the expenditure and compiling the report.
- b. With the exception of one report, all expenditure reports required for audit purposes, which were made available to NAO electronically, evidenced an incorrect submission date, since the actual date is overwritten when the reports are printed.
- c. None of the expenditure reports reviewed indicated the rate of exchange utilised by the individual to convert the cost of foreign purchases in Euro.

Expenditure Reports not reconciled to Bank Statements

As part of audit testing on the ARF, NAO tried to reconcile the purchases recorded in the expenditure reports, with the transactions featuring in the bank statements during the same period. Out of the 17 instances where this test could be performed⁸, the purchases included in the expenditure reports tallied with the bank statement transactions only on two occasions. Discrepancies were noted in the remaining 15 cases. While seven bank statements reported more purchasing than the respective expenditure reports, the opposite situation was encountered in eight instances.

Lack of Documentation supporting Purchases from the Academic Resources Fund

Cases were encountered whereby no documentation was provided by academics, supporting the purchases recorded in the respective expenditure reports. On other occasions, although

⁸ As mentioned previously, only 17 expenditure reports were made available for audit purposes.

the documentation was provided, this failed to indicate the cost of the item or the nature of the expense incurred. As a result, from the sampled reports available, purchases totalling €1,815 could not be verified by audit examiners.

Apart from the above-mentioned cases, supporting documentation was also not presented for those purchases featuring in the bank statements, but not recorded in the expenditure reports, as identified in the previous observation. This hindered verification to ensure that items purchased were eligible under the ARF.

Maximum Allowable Balances carried forward exceeded

According to the Manual of Conduct and Procedures, academics may carry forward unspent amounts from their annual allocation at the end of each calendar year, provided that the monies being rolled over do not exceed the value of their annual allocation.

However, a review of the ARF bank accounts, pertaining to the nine academics selected in the audit sample, revealed that the balances as at 31 December for 2011 and 2012 exceeded the €1,863.50 allocation on four and five instances respectively, since the entire unspent amount was rolled over to the subsequent period. In such cases, the allocation made available to the academics is considered excessive, particularly if such balances continue to increase from one year to the next.

Maintenance Works

No Quotations sought for Regular Maintenance Works

As part of audit testing, all Purchase Orders for ‘the regular/daily purchase for maintenance’ issued during the financial year ended 30 September 2012 were reviewed. The periods covered by these Purchase Orders, each for an estimate cost of approximately €500, varied from two to three months, and were issued in favour of two suppliers. The invoices for the respective maintenance works carried out during the year under review totalled €5,550. No quotations were sought by UoM to cover this expenditure, and therefore, it could not

be ensured that these purchases were provided at the most favourable prices.

Overtime

Background

During the financial year under review, 38 support staff engaged with the Junior College, performed overtime duties, for a total payment of almost €40,000. Overtime was mainly required for the opening and closing of the College, to provide support and security after five o’clock in the afternoon, and for the performance of maintenance work.

Retrospective Approval obtained for Overtime performed

Testing on overtime payment effected to a sample of seven support staff revealed that, on all instances where the extra work was carried out, the request for overtime was approved by the Finance Department subsequent to the performance of the additional hours.

Inventory

No Fixed Asset Register in place

A copy of the fixed asset register, covering items pertaining to the Junior College, was requested for audit purposes. However, the Director of Finance claimed that, although inventory records were kept, a proper register was not in place, but it was in the process of being implemented. However, notwithstanding this statement, no type of inventory records was made available. Thus, no testing could be performed to ensure that there is adequate control over Government-owned assets at the disposal of the Junior College.

Recommendations

Limitation on Scope of Audit

All documentation and information required for audit purposes is to be made available to NAO within a reasonable time frame. Auditees are also reminded that according to state audit legislation, NAO auditors are to have free access

to all documents and other information that may be required for the carrying out of their duties. Thus, whilst documentation required by NAO examiners is to be forwarded the moment it is available, unnecessary delays are to be avoided, so that the audit is performed as smoothly as possible and within the established timeframes.

UoM is further expected to explain why it failed to authorise this Office to obtain the required information from the bank.

Key Issues

Delayed Responses from the University of Malta

Besides keeping guard on the taxpayers' money, NAO audits also aim to help entities improve their operation and management of Government Funds, by identifying weaknesses and inefficiencies. Therefore, co-operation from entities when such audits are carried out is a critical requirement.

Inadequate Procedure in place for rental of Junior College Premises

The current procedures in place for renting of Junior College premises are to be reviewed and all identified weaknesses dealt with. Since UoM is ultimately responsible for the administration of Junior College funds, ideally, all requests for rental of the respective premises are to be placed with the University itself. A template could be uploaded on the College's website and interested parties will be required to make their request online.

Control Issues

Income

Value Added Tax payable on renting of Premises overlooked

UoM is to ensure that agreements entered into with third parties include the VAT element, where applicable.

Rate charged for use of Premises not official

The rates for the use of gym are to be formally established and approved by the College Board,

as well as by UoM, after taking into consideration various factors, for example, the area being rented, market rates, and any other direct costs emanating from the use of the premises in question.

Incorrect invoicing for rental of Premises

Thorough independent verification is to be carried out by the Junior College to ensure accuracy and completeness of amounts charged to third parties.

Incorrect classification of Income received

Income is to be accounted for in the category that best suits its nature. Classifying revenue as 'other income' is to be limited to income received from one-off circumstances.

Academic Resources Fund

Reports substantiating Expenditure not available

The HRMD Office is to ensure that all academics invariably submit their biannual report by the stipulated deadlines, while timely action is to be taken against defaulters.

Ineligible Items purchased from the Academic Resources Fund

Whilst academics are to be reminded of the regulations setting up what is to be considered as eligible expenditure from the ARF, the Finance Office is to ensure that the allocation is strictly utilised for the purpose it was intended. On the other hand, the HRMD Office is to insist on the timely submission of expenditure reports by academics.

Furthermore, considering the shortcomings revealed by audit testing, all expenditure reports are to be verified, whilst action is to be taken against those academics who repeatedly fail to abide with the ARF regulations. The results are to be retained for future reference, as well as for possible verification by third parties.

Shortcomings in Expenditure Reports

Whilst all expenditure reports are to clearly evidence the name, identity card number, the

grade of the academic compiling it, as well as the submission date, the HRMD Office is to ensure that the information included therein is detailed enough, to enable verification just by referring to these reports. No reports are to be accepted if the information contained therein is not complete. Furthermore, all expenditure reports are to be submitted on time.

Expenditure Reports not reconciled to Bank Statements

The Finance Office is to ensure that expenditure reports accurately reflect the transactions featuring in the bank statements. Any discrepancies noted are to be brought to the respective academic's attention and the situation rectified.

Lack of Documentation supporting Purchases from the Academic Resources Fund

The HRMD Office is to ensure that all expenditure is adequately substantiated by proof of purchase (including fiscal receipts and invoices), as stipulated by the Manual of Conduct and Procedures.

Maximum Allowable Balances carried forward exceeded

The Finance Office is to review all ARF bank accounts and withdraw excessive amounts in line with the applicable procedures. Furthermore, prior to depositing the annual allocation, it is to be ensured that the maximum balance, rolled over in each account as at year-end, is in accordance with the provisions of Manual of the Conduct and Procedures.

Maintenance Works

No Quotations sought for Regular Maintenance Works

Being a contracting authority, UoM is to strictly adhere to the Public Procurement Regulations when procuring goods and services. Purchasing direct from the open market is to be resorted to only in real cases of urgency, and where there are restrictions in the choice and availability of the required goods or services.

As much as possible, the need for regular maintenance works is to be established at the beginning of the financial year, to ensure that the respective procurement is carried out in a fair and transparent manner.

Overtime

Retrospective Approval obtained for Overtime performed

Requests for overtime are to be timely raised and duly approved by the respective Head of Department. Availability of funds is also to be ascertained by the Finance Department before payments actually fall due.

Inventory

No Fixed Asset Register in place

While UoM is to continue its exercise of compiling the fixed asset register without further delay, it is also to ensure that assets pertaining to the Junior College are easily identifiable from this register.

Management Comments

In its reply, which reached NAO almost three weeks after the stipulated deadline, Management expressed its reservations on the majority of NAO's observations. According to Management, NAO's queries were addressed to the wrong persons, while it justified the delay in making the information available by stating that it was due to the limitations of NAO's personnel mailboxes. Management also claimed that some of the information was not made available for audit purposes because it was never requested. Other information required for audit purposes was available, but Management failed to transmit it to NAO examiners.

NAO questioned Management's response through a counter-reply dated 10 July 2013, whereby it provided evidence of all the instances where information was requested. Management was also asked to indicate who were the appropriate persons to whom the queries were to be directed, since during the audit, all information was requested from the Managers/Directors of the respective Sections (mainly HRMD and Finance Offices). Furthermore, Management was once

again invited to forward the information claimed to be available, in particular the bank authorisation letter, which was essential to confirm that no bank accounts were held by the Junior College.

However, no further communication from Management reached NAO by time of publishing of this Report.

Employment and Training Corporation

Background

The Employment and Training Corporation (ETC) is a body corporate having a distinct legal personality established by the Employment and Training Services Act, 1990. Its purpose is to enhance employability by recommending policies and implementing initiatives aimed at empowering, assisting and training jobseekers to facilitate their entry or re-entry into the active employment market. The Corporation also assists employers to find suitable employees, as well as in their training needs.

The affairs and business of ETC are entrusted in the Board of Directors, while the Chief Executive Officer, who heads the Corporation, is responsible for its executive conduct, administration and organisation.

Apart from its *Hal Far* Head Office, ETC has six job centres situated around Malta, a Registration Unit in Valletta, as well as an office in Gozo.

According to the Financial Estimates, ETC's budget allocation for 2012 amounted to €5,750,000, under the then Ministry of Education, Employment and the Family, recurrent vote 19; €3,250,000 were budgeted under Contributions to Government Entities and the remaining €2,500,000 allocated for Programmes and Initiatives. However, following a budget review by the Ministry of

Finance, the Corporation's aggregate budget was reduced by €213,000, thus resulting in a total allocation of €5,537,000; a reduction of €913,000 in funds available to ETC, when compared to the previous year.

ETC's audited Financial Statements for the year ended 31 December 2012 indicated that the Corporation registered a deficit of €325,893, which was absorbed by its retained earnings. This contrasts with the surplus of €778,628 registered in the preceding year, as per re-instated Financial Statements. However, this can be largely attributable to the reduction in the budget allocation.

During the year under review, ETC generated income amounting to €1,026,184, the majority of which, *i.e.* almost 92%, pertained to income from employment licences. This remained fairly the same when compared to the previous year. Recurrent expenditure for the year totalled €6,889,077, with operational expenditure amounting to €2,178,472 and administrative expenditure of €4,710,605; an increase of approximately €180,000 over the preceding period. As expected, the majority of expenditure, *i.e.* almost 55%¹, related to salaries paid to the 185² ETC employees. Other significant expenditure included employment and training initiatives, staff and other costs³, transport expenses, postage and telecommunications, as well as repairs and maintenance.

¹ Excluding directors' fees and the costs relating to the European Social Fund projects.

² The monthly average number of employees as reported in the Financial Statements for the year ended 2012.

³ These costs related to the Employment Aid Programme and the Training Aid Framework Schemes.

Audit Scope and Methodology

The scope of the audit was to ensure that income and expenditure incurred by ETC during the financial year ended 31 December 2012 was appropriately recorded and processed according to pertinent Regulations and Manuals of Procedure. The completeness, accuracy and reliability of records bearing information relating to the Corporation, as well as whether the Government Funds allocated were utilised in an efficient and effective manner, was also verified.

Audit testing was performed on a sample of transactions, selected on materiality basis, recorded in ETC's accounting system during the foregoing financial year. The areas covered by the audit included income generated from Employment Licences and Training Services, as well as expenditure relating to transport, repairs and maintenance, rent, cleaning and consultancy services. Testing was also carried out on a sample of basic salaries, allowances and overtime paid to ETC employees.

Control Issues

Invalid Agreement covering the Provision of Staff Transport

The contract covering the provision of transport to ETC staff, trainees and the general public, made available for audit purposes, was dated 10 August 1995, and covered a period of one year.

During 2012, 16 years later, ETC was still making use of the services provided by the same company. The substantial amount of €51,903 was paid to this service provider, in the year under review, for the provision of staff transport. Furthermore, whilst the agreement stipulated that the company was to be paid the equivalent of €97.83⁴ (Lm42) per working day for staff transport, the sampled invoice, covering October 2012, indicated the rate charged as €120 per trip, *i.e.* €240 for the whole day.

Upon enquiry, ETC's Finance Department confirmed that the above-mentioned agreement

was the latest one available. Documentation in support of the current rate being charged by the service provider, as well as a formal valid agreement, was not forwarded to the National Audit Office (NAO). Thus, the amounts paid in this respect could not be validated.

The absence of a renewed contract, awarded after a departmental call for tenders or the publishing of a call for quotations in the Government Gazette, also suggests that the provision of staff transport was procured through direct order.

Procurement Regulations not followed for the Provision of Maintenance Services

On 1 March 2003, ETC entered into an agreement for the provision of maintenance services to the Fingerprint Recognition hardware and software. The original agreement stipulated that ETC was to pay the service provider the equivalent of €11,412 (Lm4,899) (excluding VAT) on a half-yearly basis. However, on 1 February 2005, the yearly charge was increased by €3,795, resulting in a revised annual expenditure of €26,618 (excluding VAT).

The maintenance agreement further stipulated that it covered the period from 1 December 2002 to 30 November 2004, and was to continue thereafter, unless extended for a fixed period by mutual written agreement of both parties, or terminated by either party.

When enquired on whether these maintenance services were procured following the issue of a Departmental tender, and whether approval was obtained for the extension of the contract from 2004 to-date, ETC's Procurement and Purchasing Unit iterated that only records from 2006 onwards were available, while confirmed that no approval regarding the extension of the Maintenance Agreement was traced.

Therefore, since no documentation was made available for audit purposes, evidencing that Procurement Regulations were abided with, in this case, NAO concluded that after the expiry of the original contract in 2004, the maintenance agreement was awarded through a direct order, for which no approval was obtained.

⁴ This rate covered a total of six routes.

Rent of Head Office not covered by an Agreement

No agreement was in place, covering the rental of ETC's Head Office building in *Hal Far*. Since 1996, ETC was never invoiced for rent due on this Government-owned property, and thus, no payment was ever effected in this regard. However, every year, the Corporation accrues for an expense of €33,776 in its Financial Statements. This resulted in a total rental accrual of €548,859 by the end of financial year 2012, covering approximately rent due for 16 years.

Upon NAO's request for documentation supporting the yearly accrued amount, the Corporation's Finance Department claimed that the amount, equivalent to €33,776 (Lm14,500), was established in 1996 by the external auditors. However, basis of the calculations to this effect was not available.

Without a legal document supporting the yearly rental amount accrued, the accuracy of this liability cannot be ensured. Furthermore, in the event that the rental liability materialises, this could have a substantial negative impact on the Corporation's cashflow.

No Formal Agreement for Woodwork Services

The payment for woodwork services was not covered by a formal agreement. ETC confirmed that this procurement, amounting to €3,122⁵, was made by direct order. It was also claimed that, given the limited timeframes to complete works at the Pembroke Job Bridge Centre, it was decided to utilise the services of the person who was already contracted on other occasions to undertake training in carpentry works at ETC. Although no evidence was provided, it was further stated that the previous Board of Directors established the hourly rate at which this service provider was paid.

Shortcomings related to Payment of Allowances

- a. Although approval was granted for an Executive (Casual Substitute) to be paid a qualification allowance as from his

engagement with ETC, the University of Malta transcript, presented by the officer in support of his qualification, confirmed that the Degree was officially awarded six months later. Therefore, allowance of €954 paid to the officer was not actually due.

- b. Neither a copy of the qualification held, nor an official transcript issued from the University of Malta, was submitted by one of the seven officers, who were granted a qualification allowance during 2012, selected in the audit sample. Only an unofficial transcript issued from the University, which failed to indicate the date of award of the Degree, was traced in the officer's personal file. Notwithstanding the lack of information, approval was granted for allowances to be paid as from the officer's date of engagement with ETC.
- c. According to the contracts of service covering the engagement of a Senior Manager and a Department Manager, the respective officers were entitled to the use of a fully expensed vehicle or an annual cash allowance of €4,659. Although both officers were paid vehicle cash benefits in the year under review, no documentation was traced to the respective officers' personal files indicating their option.

Students attending Courses before the Respective Payment is effected

According to the letter sent to applicants, attendance to one of the training services offered by ETC, namely the 'Living and Working in Malta' course, was only to be confirmed through payment, which was to be effected two weeks prior to the course starting date. However, the audit revealed that in spite of attending for the first three lectures of this course, a participant failed to submit payment, and in fact, no receipt was traced. From the attendance sheets it also transpired that the participant eventually dropped out of the course, thus resulting in loss of income for ETC. Another person attending the same course submitted her payment after attending for five lectures.

⁵ This figure includes both labour charge and reimbursement for materials purchased.

Recommendations

Control Issues

Invalid Agreement covering the Provision of Staff Transport

ETC is to issue a departmental call for tenders, or publish a call for quotations in the Government Gazette, for the provision of transport for ETC staff and clients, as well as the general public, without delay. After selecting the most favourable offer, the Corporation is to ensure that the services are covered by an agreement, which is to clearly state the applicable rates and conditions.

Procurement Regulations not followed for the Provision of Maintenance Services

Whilst Public Procurement Regulations are to be strictly abided with, ETC is also to ensure that all documentation relating to procurement is retained and adequately filed for future reference.

Furthermore, the Corporation is to refrain from entering into contracts for an indefinite period of time, or which can be extended indefinitely, even though the terms are agreed upon by all the interested parties, as this could negatively impact the competitiveness in procuring services and their cost.

Rent of Head Office not covered by an Agreement

ETC is to enter into discussions with the Government entity responsible for this property and an agreement, covering the rental of ETC's Head Office, entered into between both parties. This is to be followed by a valid contract, which is to include proper terms and conditions, besides the amount due and period covered.

No Formal Agreement for Woodwork Services

The terms of engagement, as well as the hourly rate at which a service provider is to be paid, are to be agreed upon by both parties, and formalised through a service contract beforehand. It is also to be ensured that the rate charged is fair and reasonable.

Shortcomings related to Payment of Allowances

The Corporation is to refrain from approving payments of qualification allowances, unless the respective officers submit a copy of the qualification held. Furthermore, when the contracts of service present an option for either receiving a cash benefit or making use of a fully-expensed vehicle, the respective officers are to formalise their selection, and the document retained for future reference.

More attention is also to be given when calculating allowances due to officers, to ensure accurate payments.

Students attending Courses before the Respective Payment is effected

ETC is to ensure that participants are not allowed to attend the training sessions, unless the full course fees are settled in advance.

Management Comments

Whilst thanking NAO for the compilation of the Report, Management stated that it will be doing its utmost to implement the recommendations presented, in order to address the weaknesses identified, as well as to continue consolidating ETC's internal control procedures.

Furthermore, Management confirmed that the tendering procedures regarding the provision of staff transport have been re-activated, and a tender was expected to be published through the Department of Contracts within a few weeks following the submission of ETC's response to NAO.

Management also stated that, in the last years, the Corporation made various attempts to acquire a new system for registering jobseekers, since problems were being encountered with the fingerprint maintenance system currently being used. However, the latest tender issued to this effect was cancelled, as the economic and technical parameters were fundamentally altered. In view of the fact that Government is expected to implement the National ID Management System shortly, ETC's Board considered it more appropriate to invest in a system that is compatible with the ID system in use by Central Government.

Social Security Department

Overpayment of Social Security Benefits

Background

The Department of Social Security (DSS) is responsible for the administration of the Social Security Act 1987 (SSA), which provides for the payment of benefits under the contributory and the non-contributory schemes.

The applicable schemes are available to all those who, in some way or other, are entitled to one or more benefits. The Department is mainly involved in ensuring that financial support is given to those sections of the community which are mostly in need, namely those with a low income, the sick, the elderly and the unemployed.¹

Each year, the Department's newly accrued revenue result from the recognition of overpayment of benefits. These mainly arise as a consequence of incorrect or inaccurate declarations made by claimants, failure to report changes in circumstances by beneficiaries, or errors made by the Department's officers during the assessment process.

It is estimated that the total actual expenditure on such benefits during 2012 was €791,333,789. However, the following table portrays the overpayments created over the last three years when compared to the total actual benefit payments:

Table 1: Analysis of Expenditure and Newly Accrued Amounts

Year	Benefits Expenditure	Overpayments Created	Percentage
	€	€	%
2010	734,966,991 ²	4,206,133 ³	0.57
2011	737,557,340 ⁴	3,516,897 ⁵	0.48
2012	791,333,789 ⁶	4,634,055 ⁷	0.59

¹ Source: Department of Social Security Malta - An Overview (Department's website).

² Source: Communication received from Director Corporate Services dated 12 February 2013.

³ Source: 2010 DSS Arrears of Revenue Return.

⁴ Source: Communication received from Director Corporate Services dated 12 February 2013.

⁵ Source: 2011 DSS Arrears of Revenue Return.

⁶ Source: Communication received from Director Corporate Services dated 25 April 2013.

⁷ Source: Communication received from Director Corporate Services dated 25 April 2013.

Table 2: Breakdown of Newly Accrued Amounts

Type of Benefit	Newly Accrued Amount	Percentage
	€	%
Social Assistance and Unemployment Assistance	2,054,447	44.34
Age, Carer's, Blind, Disability Pensions and Disability Child Allowance	470,437	10.15
Sickness Assistance	360,057	7.77
Short Term Benefits	48,797	1.05
Bonuses	49,517	1.07
Children's Allowance	261,912	5.65
Supplementary Allowance	34,717	0.75
Retirement, Two-Thirds, National Minimum, Early Survivor's, Widow's, Survivor's, Invalidity, Disablement Pensions, Orphan's Allowance and Widow's Remarriage Grant	1,314,579	28.37
Energy Benefit	37,190	0.80
Senior Citizen Grant	2,402	0.05
Totals	4,634,055	100

A breakdown of the newly accrued amount for 2012 by category of benefits, as given by DSS, is shown in Table 2 above.

It is evident that most overpayments were registered within Social Assistance and Unemployment Assistance. The probability of overpayments in respect of this category of benefits is higher as they are means tested and, in assessing the veracity of a claim for such benefits, the Department has to rely to a large degree on declarations made by claimants.

Audit Scope and Methodology

The objectives of the audit were to assess the reason for the creation of overpayments, evaluate whether such overpayments could have reasonably been avoided and analyse their collection and recoverability. Besides considering control issues which may impede on the Department's efficiency, the aim of the audit was to verify whether adopted procedures were in compliance with SSA Cap. 318 and the Civil Code Cap.16.

A meeting was held with the Department's officials and with the respective Project Manager at Malta Information Technology Agency (MITA) to acquire knowledge about the extraction of data covering revenue in arrears, procedures in place, internal controls adopted and other issues particular to the Department's overpayments. Issues raised during this meeting were documented and confirmed by the auditee. Subsequent meetings were also held throughout the fieldwork in order to clarify audit issues encountered.

A request was submitted for data concerning newly accrued arrears, up to end October 2012, to be extracted from the Social Assistance and Benefits System (SABS). The report contained a list of 7,151 entries with a collective original overpayment amounting to €4,850,636. The balance still due as at that date amounted to €4,321,561.

A sample of 30 claimants from the most significant overpaid amounts was selected for audit testing. The financial assistance in question encompassed a

variety of both contributory and non-contributory benefits. The original overpayment of the sample selected amounted collectively to €560,218, of which €553,386 was still outstanding as at end of October 2012.

An examination of all the relevant documents in the personal files was carried out. Personal details, as well as payments made by the Department to the respective claimant, were verified with SABS. The Employment and Training Corporation (ETC) database was also accessed to confirm any gainful occupation.

Measures taken by the Department to avoid overpayments and its effectiveness in their recognition and administration, including efforts to ensure their eventual recoverability, were analysed. Additionally, the National Audit Office (NAO) was instantly made aware, by the Department, of concerns related to overpayments generated on the admission of elderly claimants to state-financed residential institutions. A list of the residents which were benefitting from such residential services at any point during 2012, which included 3,001 individuals, was already made available by DSS in connection with another audit. In this regard, a sample of 10% of the 214 admissions in January 2012, amounting to 21 residents, was chosen to analyse the overpayment created and the duration taken to take corrective action.

Key Issues

Limitation of Scope

Files not made available

Requested files of three claimants, making up 10% of the sample selected, were not made available by the Department, notwithstanding two reminders sent. As a result, testing of the relevant documentation pertaining to these claimants, whose collective overpayment amounted to €49,109 could not be performed. This posed a limitation on the scope of the audit.

Report not made available

During an introductory meeting held at DSS on 19 November 2012, NAO requested information relating to overpaid claimants residing in state-financed institutions. Three reminders to this effect were sent by this Office. Although according to MITA such report was delivered to DSS, this was not made available to NAO, hindering the scope of the audit. In the absence of such report, NAO could not assess the materiality of overpayments generated in connection with such residents.

General Queries

NAO also raised a number of generic queries which, despite a reminder sent, remained pending, hindering the objectives and the completeness of the audit examination. These queries were as follows:

Procedures Manuals/Instructions

On 24 January 2013, NAO enquired whether there were any departmental files containing manuals, directives, memos or other instructions regarding the assessment of the various types of social benefits. DSS was requested to make the relative documents available for audit purposes, but no reply was received in this respect.

Pension Application Form

It was noted that the application for Retirement Pension requests the applicant to declare whether he is receiving or expecting to receive a pension or allowance for a “... *service rendered to a person or company ...*” from previous employment. The applications for Widow’s Pension as well as for Invalidity Pension also contain similar wording. This could be interpreted to exclude a Treasury service pension relating to previous employment within the public service and was brought to the attention of DSS, since such income could remain undeclared. However, the Department’s feedback was never received.

Training

DSS's claim that staff is given the necessary training was never corroborated. Thus, NAO could not confirm this statement.

Capital and Interest Uploads

According to the Department, the latter receives information on securities held by its claimants, from a number of commercial banks as well as the Malta Stock Exchange. However, the upload of this information and generation of relevant reports could not be substantiated as the respective documentation was not presented for review. Moreover, it could not be confirmed that such information was being requested by DSS from all commercial banks.

Overpayments Section (Gozo)

No reply was received when NAO enquired about the terms of reference for the setting up of the Overpayments Section within DSS in Gozo, and the targets achieved to date.

Information from Third Parties

NAO enquired whether the Tax Compliance Unit (TCU) profiles contain only information on transferred property, and further questioned why the Department does not make use of proper searches to include also properties, owned by beneficiaries, but which have not been subject to transfers. This information is necessary to accurately compute certain financial assistance and the respective overpayments. However, no reply was forthcoming.

The possibility of having online access to TCU profiles and Inland Revenue tax returns was also not commented upon.

Responsibility for overpayments

The Department failed to disclose how the respective officers within DSS are notified, and whether disciplinary action is taken, when considerable overpayments are created due to improper assessment and review of cases.

Prescription of Amounts Overpaid

Article 1027 of the Civil Code states that action for recovery for "... *what has been unduly given*" may be taken within two years, before it becomes prescribed, as follows:

"The action for the recovery of that which may have been unduly given, unless prescribed under any of the provisions contained in the title relating to prescription, shall be prescribed by the lapse of two years from the day on which the person to whom the action is competent shall have discovered the mistake".

Legal advice obtained by NAO also corroborated the same prescription period of two years. However, when this matter was brought to the attention of the Department, the Director (Contributory Benefits) claimed that the Attorney General advised that the applicable prescription period is of five years. However, although requested, no evidence to support this statement was submitted.

A prescription period of two years would necessitate the Department to write off considerable balances that are likely to amount to a couple of million/s and which, to date, are still considered by the latter as recoverable.

Contributions due for State-financed Residential Services

Background

DSS officials informed NAO that considerable overpayments are created every year, in relation to senior citizens in receipt of a pension from the Department, upon being admitted to a home or hospital offering state-financed residential services. These residents are obliged to contribute to their care, an amount in accordance with the provisions of Legal Notice 259/2004.

Generation of Arrears of Revenue

According to DSS, until such time that it is notified by the Director (Elderly), of the contribution

payable by each resident, the latter continues to receive the respective benefit at the full rate. Following notification, the rates of the resident's subsequent social benefit is adjusted accordingly. DSS also calculates the overpayment to be recouped from the resident, based on the weekly contribution due, and the number of weeks for which no contribution was paid. The following issues warrant mention in this respect:

- SSA stipulates that the responsibility for calculating the contribution is vested within the Director (Elderly). DSS confirmed that although at times the Department is immediately informed by third parties about an admission, it still cannot effect any deductions prior to official notification from the said Director.
- Each admission generally creates an overpayment due to the fact that DSS receives the official notification several weeks, and sometimes even months, following admittance. It is a fact that, the longer it takes for such notification to be received, the greater the overpayment created.
- According to information made available by DSS, 1,521 residents were institutionalised during 2012. Although it is understood that the collective overpayment created in this respect is considerable, such amount could not be quantified as a report containing the requested information was not made available to NAO.
- Regardless of the income sources of the resident, the latter is to retain a minimum of €1,398 *per annum* for his disposal, as per Article 3 of Legal Notice 259 of 2004, after deduction of the respective contribution. Very often, DSS attempts to recoup the overpayment by withholding a percentage of the net amount of the social benefit due, after deducting the relative four-weekly

contribution. Consequently, the repayment is generally insignificant, with the result that the overpayment may only be recouped after a considerable number of years. The fact that these claimants are elderly citizens, who might not live to the age required to fully refund the amount due, is also a concern; thus the need to avoid overpayments.

- Although the delay in notification might create negative implications on DSS, the Elderly Department is not affected, as it is reimbursed in full by DSS to cover the contribution due from each resident.
- Besides the overpayments in social benefits that are created following admission, additional arrears of revenue are generally created annually, when the contribution is adjusted to take into account changes in the beneficiaries' income. The revision of such contribution also falls within the remit of the Director (Elderly).

Evaluation of the creation of Overpayments

The database made available by DSS classified institutions for the elderly in three categories, namely state hospitals and homes as well as private homes. The latter category consisted of homes which are privately-owned and Government homes which are operated by private companies under a Public Private Partnership agreement. Twenty-one residents admitted in January 2012, out of a population of 214 admittances in the same month, were selected from all of mentioned categories for audit purposes. The collective overpayment triggered by the admission in connection with this sample amounted to €33,946.

Testing revealed that the average time taken to create an overpayment on SABS following admission⁸ of an elderly resident was approximately slightly more than four months. It was further noted that overpayments took much longer to be created on SABS for residents admitted in the 'private'

⁸ The residents' admission date was obtained from the database made available by DSS.

homes category. In fact, the actual time taken to create overpayments for residents falling in the latter category ranged between two and a half months and one year.

Control Issues

Treasury Pension

Three individuals in the audit sample collectively received an amount of €105,465 as overpayment in their Retirement Pension. The overpayments were created in identical circumstances, in that, the three claimants had failed to declare income from Treasury Pension in their respective Retirement Pension application. However, although it transpired that the Department was still notified by the Treasury Department about the receipt of such pension and the document was duly filed in all instances, no action to this effect was taken. The following was also noted:

Overpayments waived

- Audit testing further revealed that a substantial part of this amount, totalling €62,001 was waived by DSS, and only €43,464 was accounted for as revenue in arrears due from these three persons, covering just the last two years in retrospect.
- It is also evident that communication between DSS and the Treasury Department is not on a regular basis, as information by the latter is only submitted “... *on demand* ...”.
- It is the Department’s practice not to recognise the total actual overpayments in similar instances. This means that the Department does not have a real picture of the actual overpaid amounts.

Prolonged and Unrealistic Collection Period for the remaining balance

- Notwithstanding that it was also the claimants’ fault that triggered the respective overpayments, no attempt was made by DSS to request these individuals to repay the amount, or at least a substantial part, of the

overpayments in question. The Department maintained that the balance was being recouped at 5%, in line with Article 102 of the Act.

- At the current repayment rates, one of the pending amounts will be repaid after 56 years, while the other two will be paid back after 61 years. Thus, given that all three claimants are already in their 70’s, the recoverability of such amounts could be more difficult.
- It is unclear why the Department assumed responsibility for the overpayments in question and so willingly limited the recoverability of the said amounts.

Foreign Pension received by Beneficiary retired in Malta

Background

The conditions to be satisfied for a claimant to qualify for Age Pension are set out in Article 66 of SSA. One such condition for eligibility is that a person’s weekly means cannot exceed the highest rate of such pension.

The Department not notified about Foreign Pensions received in Malta

An overpayment, amounting to €27,728, was created by DSS because Claimant A received the local Age Pension and a United Kingdom (UK) pension concurrently for more than eight years. The amount of UK pension received already exceeded the applicable maximum rate of Age Pension, making the claimant automatically ineligible for such pension during that period.

The claimant’s file clearly indicated that he was employed in UK between 1961 and 1995. However, it was only following DSS review of the file in January 2012, that the entitlement to this foreign pension was confirmed after an enquiry was raised with the relevant Pensions Office. According to the Department, when the claimant applied for Age Pension in 1999, he was entitled

to neither a Maltese nor a foreign contributory pension, as he was only aged 60. However, he failed to inform DSS when he started to receive the UK pension in February 2004.

DSS confirmed that it does not have agreements with countries like UK, Australia and Canada in order to be notified about foreign pensions received in Malta. The British Pensions Office in Malta used to forward data until 2011, however this practice stopped when such Office was closed. DSS informed NAO that subsequently, an official request to the Office in the UK remained unanswered to date.

Department's Lack of Action leading to Overpayment Recovery Concerns

In October 2012, the same claimant had requested to settle the overpayment by increasing the deduction rate from his pension from 5% to 30%. However, DSS only amended this rate following audit enquiry in January 2013, when NAO noted that the deduction rate was still set at 5%, also highlighting that unless action is taken, it would take over 300 years to settle the overpayment.

Maltese Pension Payments Abroad

Claimant B, who lived in Australia, was paid a Maltese pension for over eight years after he passed away, resulting in an overpayment of €6,997. Another overpayment, amounting to €2,162, was created when Claimant C, who lived in UK, continued to be paid for over two years after her demise.

Following enquiry, DSS informed NAO that a procedure introduced during 2011 requires all beneficiaries residing abroad to renew their entitlement annually through a Renewal of Declaration of Entitlement Form. Payment should now be suspended unless such information is received within the stipulated timeframe.

Recovery of Overpayments

Background

SSA provides the guidelines regarding the repayment of benefit, pension, allowance or assistance that was unduly received. Amongst others, it states that when an overpayment has resulted from a non-disclosure or misrepresentation of a material fact on the part of the claimant, the deduction rate is not to be less than 10% of any benefit entitlement. On the other hand, when an overpayment has resulted due to a fault by DSS, only 104 weeks retrospectively can be collected, and the repayment rate cannot exceed 5% of any benefit due to the individual.

Concerns about Recoverability

An examination of overpayments revealed that in most cases the amounts being withheld at source from claimants' benefits, and/or the installments being paid, are not sufficient, resulting in lengthy collection periods. This increases the possibility that claimants may not settle the full amounts within their lifetime. Moreover, errors made by the Department are triggering a lengthy overpayment recovery process due to the applicable legislative provisions. The 27 overpayments that could be reviewed⁹ can be analysed in detail as follows:

- In seven cases (26%) making up an aggregate overpayment of €64,234, deductions at a rate of 5% were being made at source from 'live' benefits. Four of these overpayments, totalling €54,479, which relate to claimants aged between 69 and 71 years, require a collection period ranging from 56 to 223 years.
- Six overpayments (22%) amounting collectively to €121,923 were inactive. Four of these, amounting to €99,439, related to claimants who had no 'live' benefits, whilst in the other two cases, deductions were only being withheld to recoup other previous overpayments.

⁹ As noted in the finding titled 'Limitation of Scope' under the sub-heading 'Files not made available', the files of three out of 30 sampled overpayments were not made available by the Department.

- Five overpayments (18%) amounting in total to €97,791, related to deceased claimants. Only one of these with an outstanding balance of €2,162 was active as the heir was refunding the amount due in monthly installments.
- Four claimants (15%) having a collective overpayment of €139,596 lodged an appeal against the overpayment decisions. Meanwhile, deductions at source were being made in respect of three of these overpayments but with regard to the other, the claimant who had an outstanding balance of €34,740, had no 'live' benefits.
- Four overpayments (15%) collectively amounting to €100,195 were being recovered from source with a deduction rate ranging between 15% to 30%. In another case (4%), the claimant, whose overpayment amounted to €19,921, had no 'live' benefits and was effecting monthly installments. The recovery period in these five cases spanned between 10 and 56 years and the claimants' ages ranged between 34 and 77 years.

Overpayments created unnecessarily

The examination of files revealed instances where the creation of overpayments was either due to a lack of attention, or due to failure to take timely action. The following cases merit particular mention:

Two-Thirds Pension – Overpayment of €16,620

Claimant D started to receive a Two-Thirds Pension from 19 September 2009. On 31 May 2010, her eligibility to Treasury Pension was unclear as her case was still pending following referral to the Attorney General. Since ineligibility to Treasury Pension would have made the Department pay an additional Two-Thirds Pension of €143 weekly, it was originally decided to wait for a definite reply from the Attorney General before issuing this additional amount.

However, in June 2010, the claimant signed a declaration stating that she will refund any

overpayment which may result in the event that she is granted a service pension from the Treasury Department and the pension rate was revised accordingly with effect from 19 September 2009.

In May 2012, the Treasury Department informed DSS that claimant had been paid the Treasury Pension, comprising gratuity and arrears, amounting collectively to €83,209. Consequently, an overpayment amounting to €16,620, which was initially being collected at the rate of 5%, was acknowledged by the Department on the instructions of the then Director (Benefits). At this rate, it would have taken 72 years to recoup the overpayment and claimant was already 63 years old. DSS subsequently changed the repayment rate to 30%, following an audit query in January 2013.

Widow's Pension – Overpayment of €1,715

SSA stipulates the instances when the Widow's Pension flat rate is increased by an extra allowance due to the claimant's care and custody of the late husband's child. One of the instances mentioned in Article 32 relates to children under the age of 18 years who are still undergoing full time education or training.

On 29 July 2008, Claimant E submitted an application for a Widow's Pension which, amongst other details, included her step-daughter's date of birth, being 6 January 1994. An overpayment of €1,715, covering a period of 27 weeks between 6 January and 13 July 2012, resulted as the claimant was only entitled to receive the flat rate Widow's Pension once the child turned 18 years of age, but in actual fact was also receiving the extra allowance.

Survivor's Pension – Overpayment of €3,845

On 6 September 2011, Claimant F, who was receiving Survivor's Pension, informed DSS that she had remarried on 27 August 2011. Thus, from this date, claimant became entitled to a Married Person's Widow's Pension which is payable at a lower rate. Notwithstanding the notification, the claimant still received seven consecutive payments at the higher Survivor's Pension rate.

An overpayment amounting to €3,845, covering the period 27 August 2011 to 23 March 2012, was eventually acknowledged to this effect.

However, instead of just accounting for the difference in rates, *i.e.* Survivor's Pension less Married Person's Widow's Pension, being the amount overpaid, on 24 March 2012, the claimant was paid the full Married Person's Widow's Pension, amounting to €3,791, again covering the period from 27 August 2011, now up to 20 April 2012.

DSS confirmed the shortcoming and admitted that this was either due to negligence or human error. Furthermore, since the mistake was made from DSS's end, there is no repayment agreement to settle the amount in question. Thus, at a 5% repayment rate, it will take approximately another six years to refund the overpayment balance.

Unemployment Assistance – Overpayment of €19,921

On 28 May 2008, one day after turning 56 years of age, Claimant G submitted an application for Social Assistance in which he declared his participation in an early retirement scheme from the Malta Drydocks. On 5 June 2008, he produced a document issued by Industrial Projects and Services Limited, indicating the amount received from the voluntary retirement scheme, and that he was entitled to a pension from the age of 56.

The claimant was ineligible for Unemployment Assistance due to the pension he was receiving. However, this issue was only followed up when the claimant enquired about Age Pension in February 2012. As a result, an overpayment of €19,921 was acknowledged for all Unemployment Assistance issued, *i.e.* from 28 May 2008 to 24 February 2012, after the claimant produced FS3s confirming the pension received up to 31 December 2011.

Given that the overpayment is being recouped at the rate of €50 monthly, it will take approximately

another 33 years to recover the amount, and claimant is now already 60 years old. DSS claimed that, at age 61, this individual will qualify for Retirement Pension and the rate could be eventually substantially increased, and possibly revised upwards every year.

Overpayments detected after a Considerable Time Lapse

In five cases¹⁰ in the audit sample, referred to hereafter, collectively amounting to €201,121, according to DSS, overpayments resulted because claimants did not communicate a change in their financial circumstances. Such change made these claimants ineligible to receive the benefits which were being granted in terms of SSA. These overpayments, covering periods spanning approximately between six and eleven years, were detected by the Department after a considerable time lapse. Consequently, the amounts to be recouped are relatively substantial.

Social Assistance – Overpayment of €60,580

In February 2012, DSS obtained Claimant H's profile from TCU, which indicated that her family had sold property on 25 September 2001 and two pieces of land on 30 January 2003. Claimant's aggregate share from property sales amounted to €167,327. Although in May 2012 she declared that the money had all been used up, she failed to provide the relative receipts substantiating the expenditure.

From the claimant's tax profile, it transpired that on both the foregoing dates, this individual's capital exceeded the €14,000 threshold stipulated in Part VI of the Second Schedule to the Act and she did not notify DSS, as obliged in terms of the respective application submitted. This resulted in an overpayment amounting to €60,580, covering the period 29 September 2001 to 6 July 2012, which was to be recouped at the rate of 10% from 'live' benefits. Claimant appealed the overpayment.

¹⁰ In one of these cases, the overpayment of €32,554 was acknowledged by DSS on 5 December 2012, *i.e.* after the original sample was selected.

Unemployment Assistance and Sickness Assistance – Overpayment of €46,456

Capital upload by the Information Management Unit indicated that, on 30 November 2011, Claimant I's capital had exceeded the limit of €23,300, as stipulated in the Second Schedule of the Act. This meant that the individual was ineligible to receive the respective benefit. A TCU profile eventually also revealed his wife's share from the sale of two separate properties in March 2004, amounting to €46,005, which had not been declared to DSS.

This resulted in a Sickness Assistance overpayment of €13,902 covering the period 3 April 2004 to 30 December 2011, as well as another overpayment of €32,554 for the period 20 March 2004 to 16 December 2011 in Unemployment Assistance.

DSS confirmed that claimant is required to make regular payments at District Office since currently the individual has no 'live' benefits, so deductions at source are not possible. However, SABS records confirmed that since the overpayments were identified, *i.e.* October and December 2012 respectively, claimant had not effected any payments as at audit date, *i.e.* February 2013.

Carer's Pension – Overpayment of €40,243

In June 1998, Claimant J applied for a Carer's Pension in terms of Article 68 of SSA. A welfare officer report dated September 1998 confirmed that claimant's grandmother was bedridden and dependant on care. The beneficiary was granted the financial assistance but was duty bound to inform DSS of any change in circumstances.

On 14 February 2011, the same claimant submitted an application for Social Assistance and declared his part-time employment. Since claimant had not informed DSS of such employment¹¹, which started as from 1 January 2003, this triggered an overpayment amounting to €40,243 up to 11 March 2011. It transpired that ETC records,

which are available to DSS and indicate claimant's part-time employment from 1 January 2003, were overlooked.

The overpayment, which is now required to be refunded at the rate of 15% from 'live' benefits, will take approximately 50 years to be recouped. Although according to DSS, apart from deductions at source, the claimant agreed to refund an additional €40 monthly, yet he failed to comply. DSS also declared that the claimant will be reminded about his obligations and that failure to comply may lead to judicial action through the District Office.

Social Assistance – Overpayment of €33,437

Claimant K submitted an application, dated 15 September 2003, for Social Assistance and declared that she owned inherited property (apartment), that she would be moving into from her present residence (maisonette). The latter property, which she also owned, was to be sold and part of the proceeds would be utilised to refurbish the former.

A DSS case review, early in 2012, raised questions about the claimant's transfers of property, which were revealed as a result of a TCU profile. On 27 March 2012, the claimant declared that her maisonette was sold and moved into the inherited property, which had been rebuilt into two flats. One of these flats was also sold. Further declarations, that the proceeds from sales of properties had been used to rebuild the inherited property and finish her new residence, were not adequately substantiated.

In the absence of evidence provided by the claimant, an overpayment amounting to €33,437, to be refunded at the rate of 30%, was acknowledged by DSS, for the period 7 January 2006 to 28 September 2012. This was on the basis that claimant's resources exceeded the €14,000 capital limit stipulated in Part VI of the Second Schedule to the Act, making her ineligible to receive Social Assistance. 'Live' benefit of this beneficiary,

¹¹ On 21 December 2011 claimant produced all FS3s confirming claimant's earnings were as follows: 2003 - €6,883, 2004 - €6,946, 2005 - €7,370, 2006 - €5,788, 2007 - €6,729, 2008 - €5,444, 2009 - €2,201, 2010 - €1,491.

namely the Supplementary Allowance, ended on 5 July 2013, thus only €36 from the overpayment could be recouped at source. Moreover, according to DSS records, claimant intended to lodge an appeal on this case.

Social Assistance – Overpayment of €20,405

On 30 November 1999, Claimant L submitted an application for Social Assistance. At the time, this person was a single parent, without any resources and living with her parents. Thus, she started to be paid benefits as from 8 January 2000.

An overpayment amounting to €20,405 was acknowledged for the period 25 July 2002 to 8 May 2010, since the claimant did not inform DSS about her various full/part-time employments during that period. According to DSS, the latter became aware of claimant's employments on 15 October 2010 through the investigation held by the Benefits Fraud Investigation Directorate, following an anonymous report. Again, ETC records, which, as reported upon earlier on are available to the Department, indicated claimant's employment history between 1993 and 2008, but were overlooked.

On 17 January 2012 the claimant was informed that deductions would be made at the rate of 5%. On 7 March 2012, the beneficiary herself requested that the overpayment be deducted at the rate of 30%. The repayment rate was later increased to 50%, after DSS reached an agreement with the claimant on 16 October 2012 to this effect.

Overpayment created due to Technical Issue

Claimant M, who up till 4 February 2005 was receiving Survivor's Pension, was later awarded Two-Thirds Pension as this was more beneficial.

However, instead of just paying the difference of €1,085, DSS acknowledged a Survivor's Pension overpayment of €4,679, to be repaid at the rate of 5%, whilst at the same time effected the

entire Two-Thirds Pension payment of €5,764¹² to the claimant. Moreover, the claimant passed away during 2005 and the overpayment was still outstanding as at audit date, *i.e.* January 2013. DSS claimed that *"Offset was not possible due to SABS technical issue through which the retirement pension had to be issued in full"*.

NAO also noted that the relevant application submitted in 1999 was unsigned and undated. Director (Contributory Benefits) confirmed that such application *"... should have been invalidated"*.

Notification Letter

Following an audit performed in 2011, NAO reported that overpaid claimants are informed, by DSS, of overpayments through notifications sent by post. This letter in question notified the claimant of the amount overpaid and that it will be deducted from current and future DSS payments. However, it did not specifically request a refund for the amount overpaid. In view of this, it was recommended that the Department redraft the overpayment notification letter, to include a specific request for the claimant to visit the respective area office, and discuss the necessary arrangements for the repayment of the amount due. This recommendation was accepted by DSS at the time.

However, the Department now claimed that *"... this recommendation would be futile given that the majority of overpayments are due by persons who rely solely on the benefits earned from DSS"*. It also transpired that such notification is only being sent to those persons who do not have any 'live' benefits.

The absence of a specific request attempting to recoup the amount overpaid in all instances, particularly when overpayments are generated due to the claimants' fault, may be interpreted as leniency on DSS's part to collect amounts overpaid.

¹² The actual amount paid to the claimant was €4,035, as a deduction of 30% of the gross amount, relating to another previous overpayment, was effected.

Recommendations

Key Issues

Limitation of Scope

Attention is drawn to the Auditor General and National Audit Office Act 1997, which specifies that NAO auditors are to have free access to all documents and other information that may be required for the carrying out of their duties.

Prescription of Amounts Overpaid

The Department is to consider obtaining legal advice in writing to confirm the prescription period and subsequently identify the necessary approach to be taken in this regard. Once this is confirmed, DSS is recommended to conduct a comprehensive exercise to assess all overpayments and to determine a realistic amount of receivable debtors. The administration of overpayment collection is then expected to be revised accordingly, to avoid other amounts from becoming statute barred, thus resulting in the permanent loss of public funds.

Contributions due for State-financed Residential Services

All arrears of revenue carry considerable burden and the particular characteristics of these overpayments make their recoverability increasingly difficult. In this regard, action is to be taken in order to drastically minimise the creation of such dues to Government relating to state-financed residential care. Moreover, emphasis is made on the need to prevent such dues in the first place.

This problem could be eased if, upon admission to a long-term state-financed institution, an interim contribution rate is established, based upon known income details. This would imply that the resident will start paying a contribution much earlier, thus limiting the materiality of the overpayment.

The longer it takes to start deducting the respective amount from social benefits, the more considerable the amount due by residents and the greater the difficulty to recover it. In view of the

fact that overpayments to residents admitted in the 'private' homes category took considerably longer to be recorded on SABS, this matter is to be given priority and discussed with the Director (Elderly) to find an adequate solution.

Control Issues

Treasury Pension

Unless communication with the Treasury Department is enhanced, or access is given to DSS to confirm information on claimants' Treasury Pension, substantial overpayments will continue to be made. In the circumstances, given the age of the beneficiaries, as well as the repayment rate quoted by the Act, the recoverability of such amounts is questionable, leading to possible loss of public funds.

The Department is thus encouraged to take immediate action to obtain direct access to information regarding Treasury Pension beneficiaries, preferably by periodically uploading such data automatically on SABS, to limit the amount of overpayments to the barest minimum.

Foreign Pension received by Beneficiary retired in Malta

The inexistence of agreements to corroborate the receipt of foreign pensions makes the Department vulnerable to overpayments due to the total reliance on the integrity of claimants to submit a correct declaration.

The Department is to consider establishing agreements with other countries to facilitate the exchange of information and thus minimising overpayments as much as possible. Countries like UK, Australia and Canada are of particular importance due to the mass emigration of Maltese citizens in the sixties, who have now reached pensionable age and decided to retire in Malta.

Maltese Pension Payments Abroad

NAO satisfactorily noted that a procedure to control the issue of benefits and limit overpayments to claimants residing abroad has been introduced

through an annual Life Certification. In this respect, DSS is encouraged to follow up this process in order to ensure its effectiveness.

Recovery of Overpayments

DSS is to pursue recovery by carrying out periodical reviews and, where possible, increasing repayment rates and/or installments, depending on the circumstances. Immediate action is to be taken to draw up realistic repayment agreements with claimants identified during the audit. Furthermore, it is to be ensured that the correct repayment rate is entered on SABS from the outset.

During the audit, NAO was informed that in January 2012 an Overpayments Section was set up in Gozo. This Office is manned by six officers, all formerly employed within DSS. Investing in ongoing training and the professional development of these employees, to ensure that they are aware and kept abreast with the objectives of debt recovery, is recommended. This will assist in strengthening the collection system.

Overpayments created unnecessarily

Information that is overlooked, coupled with delays in implementing the necessary action, indicate weaknesses in the internal control system. Furthermore, although claimants are legally bound to disclose and/or report changes in their financial and social circumstances to DSS, total reliance on their integrity increases the risk of overpayments. Additionally, errors or negligence by DSS is implying a repayment rate restricted to 5%. This is resulting in an unrealistic timeframe to recoup the overpayment and lowers the chances of recoverability.

In this regard, the internal control mechanism needs to be enhanced so that readily available information is used effectively and in a timely manner for each application received. Assessors and checkers are to be encouraged to take a more proactive approach and to corroborate information provided by the claimant prior to the award of any social benefits. Although this will not completely

eliminate the incidence of inaccuracies that lead to overpayments, it will minimise the eventual loss of revenue to Government. Such measures will assist in reducing the challenges faced by DSS in the creation, recovery and administration of overpaid amounts.

Overpayments detected after a Considerable Time Lapse

NAO acknowledges the difficulty in administering a complex benefits system in a cost effective way. However, the Department needs to analyse the patterns and trends of beneficiaries reporting deficiencies, and enhance existing procedures and/or develop initiatives that effectively increase awareness regarding which changes in social and financial circumstances have to be reported.

The Department is recommended to make optimal use of information which is already available, such as ETC records and bank uploads. Additionally, it is also expected to step up communication with other Government entities, such that declarations made by claimants may be corroborated prior to authorising the issue of any benefit.

Furthermore, DSS is encouraged to increase its scrutiny over protracted benefit payments, whereby these are identified and files earmarked for periodical reviews at least annually. Routine checking of relevant data will contribute to timely interventions, thus reducing the possibility of substantial overpayments occurring. This will also minimise potential loss of public funds. Additionally, the Department may consider amending SSA to include the possibility of penalties as a deterrent.

Overpayment created due to Technical Issue

Besides running the risk that amounts due may remain uncollected, overpayments are also costly to the Department from an administrative point of view, and thus every effort is to be made to be avoided. The Department is thus encouraged to find a solution to set-off overpayments with amounts due to the claimants. Discussions with

MITA are recommended to exploit the possibility of taking corrective measures on SABS in this respect.

Notification Letter

DSS is expected to adopt a more proactive approach towards the recovery of overpayments. In this regard, NAO again recommends that all overpaid claimants are requested to repay the amount overpaid, irrespective of whether they are in receipt of 'live' benefits or otherwise, to instill a change in culture. Although this approach may not always be successful, it will at least make claimants aware that overpaid amounts are expected to be repaid within an agreed time period.

Management Comments

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 were also submitted:

- DSS informed NAO that the files which were not previously presented for review were misplaced but will be made available by the end of June 2013. However, no further communication was received to this effect.
- The reply indicated that the MITA report, in connection with overpaid claimants residing in state-financed institutions, was to be made available to NAO immediately. However, such report was still not provided by the time this Report was drawn up.
- In reaction to one of NAO's unanswered queries featuring under '*Limitation of Scope*', DSS claimed that TCU profiles contain the entire history of the person concerned, thus any properties owned by the beneficiaries are also included. However, this statement was not corroborated.
- The possibility of having online access to TCU profiles and Inland Revenue tax

returns entails complex discussion due to the legislation by which they are regulated.

- The Department was at fault when overpayments were made to beneficiaries in receipt of Treasury Pension, thus the relative amounts were not waived capriciously.
- DSS constantly updates employees with additional information pertaining to the particular assessments. The Information Technology system is also being enhanced in order to avoid overpayments.
- Contrary to previous declarations, Management later informed NAO that notification letters are sent to all overpaid beneficiaries. Such letters inform the claimant of the overpayment due and the relative deduction from 'live' benefits. The individual is also being requested to reach an agreement with the Department for the settlement of the overpayment.

Management comments also included replies which were not backed by documented evidence as follows:

- DSS officers are regularly informed and guided to ensure that adequate controls are in place for the timely detection and prevention of errors.
- Ongoing training is given to all the Department's employees.
- Twenty-eight financial institutions were requested to discuss the possibility of sharing information with the Department in terms of article 133 of the Act. These requests are being followed up and the Information Management Unit was to map a way forward.
- Overpayments are monitored daily by the relative Section in Gozo. This triggers the detection of the demise of beneficiaries and the work in relation to searches and the establishment of heirs. Monitoring also

leads to the suspension of benefits, followed by the issue of intimation letters and judicial action, as necessary. A lawyer has also been engaged in this respect.

- The Department reiterated that legal advice obtained by the Attorney General confirmed the prescription period of five years, as per Article 2156 (f) of the Civil Code. DSS was in the process of issuing judicial letters.
- DSS maintained that it receives information on Maltese beneficiaries in receipt of a foreign pension from both UK and Australia. The necessary requirements are being finalised for data from the UK to be transferred *via* e-mail to DSS. Negotiations with Canada for the provision of such data was planned to start shortly.

Housing Authority

Background

The Housing Authority (HA) has been contributing to the strengthening of Maltese societies ever since its establishment in 1976. The Authority promotes and finances the development of housing estates and other residential and commercial accommodation, in efforts to promote home ownership, as well as improve the housing conditions. It takes a holistic approach through the provision of various schemes and initiatives, targeting those who are most in need of its assistance.

The Management Accounts for the year ending 31 December 2012 showed income amounting to €9,671,536, which mainly derived from ‘Sales of Property’ (42%) and ‘Contribution from Consolidated Fund’ (38%). An expenditure of €11,156,496 was incurred, thus resulting in a shortfall of €1,484,960.

Audit Scope and Methodology

The objectives of the audit were to verify that during financial year 2012, public funds were used efficiently, in line with standing laws and regulations, as well as to ensure that procedures adopted in procurement were in adherence to the Public Procurement Regulations (PPR) S.L. 174.04 and other relevant circulars. Scheme R, which refers to subsidies given to tenants for a period up to five years, on rents paid for ordinary residences leased from the private sector, was also reviewed, in line with established criteria.

The following audit work was performed:

- A meeting was held in order to obtain an overview of HA’s operations.
- Various documents relating to the 30 transactions selected for testing were obtained and examined against the National Audit Office (NAO) expenditure checklist.
- Another sample of 15 transactions under Scheme R was selected for verification of subsidy paid, which is calculated on the income of the applicants and the rent being paid, up to a maximum of €1,000 per year.
- In all cases, when information provided was deemed to be insufficient or unclear, enquired further in order to obtain other supporting evidence as deemed appropriate.

Key Issues

Scheme R – Rent Subsidisation Scheme on Privately Owned Dwellings

During 2012, the Authority had 1,258 applicants benefiting from Scheme R, namely Rent Subsidisation Scheme on Privately Owned Dwellings, at a total cost of €669,221. From the 15 beneficiaries selected for testing, in aggregate totalling €8,551, various shortcomings were noted in several aspects relating to the

granting of the scheme, which will be discussed in detail throughout the Report. The highlighted shortcomings are not exhaustive, since testing was limited to 15 transactions. Furthermore, since the Authority is not strictly following the stipulated conditions in assessing applications, the possibility that ineligible applicants are benefiting from such scheme cannot be excluded.

Hire of Vehicles bypassing the Procurement Regulations

In the following instances, quotations were not obtained and procurement was made by direct order from the open market, indicating attempts to bypass PPR, also risking the possibility of more favourable offers being missed. Furthermore, the continuation of services under expired contracts, poses the risk that in the eventuality of default by any of the parties, terms and conditions underlying the provision of service would not be legally provided for.

- a. A tender for the hire of three self-drive saloon cars was issued by the ex-Housing Construction and Maintenance Department, and awarded on 31 January 2007 for period of three years. Therefore, 35 payments amounting to €24,511, covering the period from 1 February 2010 till end December 2012, were made by direct order. Approval from the Ministry of Finance, the Economy and Investment (MFEI) to this effect was not sought. Moreover, HA confirmed that no hire agreement is available.
- b. On 20 February 2008, a tender for the hire of another three self-drive saloon cars was awarded by the same Department to a different supplier. Although the contract period was for three years, 44 payments amounting to €18,268, covering the period from 1 March 2011 till end December 2012, was again procured by direct order without the necessary approval from MFEI. Furthermore, a formal hire agreement was not in place.
- c. Subsequent to obtaining quotations, a lease agreement was signed for a Ford Fiesta, covering the period from 26 January 2011 to 30 June 2011. However, a vehicle was rented up to 6 November 2012, resulting in total payments of €9,756. Therefore, a call for

quotations was expected to be published in the Government Gazette, but instead the service was procured from the open market without Finance approval. Furthermore, payments of €7,499, covering the period from 1 July 2011 to 6 November 2012, were also not covered by an agreement.

In addition, during March 2012, the Ford Fiesta previously rented at €440 per month, was replaced by a Hyundai I30 at €500 per month, resulting in an additional monthly cost. No fresh official quotes for the latter model were obtained.

Shortcomings with regard to Services of Public Notaries

The Authority requires the services of public Notaries in order to ensure impartiality in all its dealings and contracts. Such services are engaged on an hourly basis, according to the volume of work, which may vary from time to time.

a. Finance Approval not sought

Whilst HA discussed funding issues with MFEI, the actual approval to outsource the services of public Notaries was not obtained in line with the Public Service Management Code and OPM Circular No. 20/2006. This negatively impacted the controls that should have been in place prior to such engagement.

b. Extensions not provided for in the Contracts

Following approval for direct order from MFEI, two Notaries were appointed and the respective contracts were signed, both for a period of 12 months commencing on 1 December 2010. However, up to date of audit testing in August 2013, although the contracts did not include the option of extensions, these were extended twice for a period of one year each, following approval from MFEI Direct Orders Office. Thus, up to date of writing this Report in September 2013, such extensions resulted in 42 payments, amounting collectively to €48,785. Extending contracts for subsequent periods might result in such extensions occurring perpetually, without giving the opportunity to other service

providers, possibly at more advantageous rates.

c. **Awarded Contracts not published**

The lack of awareness of circulars issued by relevant authorities, resulted in HA not being compliant with PPR and MFEI Circular No. 11/2011, specifying that a list of departmental contracts awarded, including those effected through direct orders procedure, is to be published in the Government Gazette every six months.

Departmental Call for Tenders or Quotations not issued

From the audit sample, two other instances were encountered where procurement regulations were overlooked, triggering lack of transparency and unfair competition. Furthermore, the lack of justification for variances, resulted in amounts not being validated.

a. **Advertising ‘Skema Kiri’ Campaign**

Three companies were contacted in order to give a presentation on the possibility of marketing the ‘Skema Kiri’ campaign within HA’s budget of €50,000, excluding Value Added Tax (VAT). Subsequently, even though the foregoing amount requires either a departmental call for tenders or call for quotations in the Government Gazette, one of the companies was selected by direct order to brand and market this new scheme. Furthermore, the total amount paid to the supplier with regard to ‘Skema Kiri’ campaign was €51,917 (VAT excl.), thus exceeding the budget for this purpose.

b. **Printing of 168,000 Booklets ‘More than just a roof’**

Originally, it was the intention to circulate 3,500 booklets titled ‘More than just a roof’. The related costs for publication was around €2,400 and although not substantiated, HA stated that a quotation was obtained from the supplier, who was eventually entrusted with the job.

According to the Authority, a Ministerial decision was later taken to increase the circulation of these booklets to all households, entailing the printing of a total of 168,000 booklets. Although the Financial Controller recommended that a fresh call for quotation or tender is to be issued, it was decided to use the same supplier, maintaining that besides time constraints, the latter already had the template for printing. Finance approval to cover this direct order was not sought.

Furthermore, although the supplier quoted the price of €34,335, the actual amount incurred was €41,197, *i.e.* exceeding the quoted cost by €6,862. HA claimed that the original quotation did not include the front and back cover. However, collected evidence proved otherwise.

Control Issues

Lack of Control over Fuel Expenditure

a. **Agreement with Fuel Supplier not formalised**

Although officers entitled for fuel reimbursements are bound by their contract of employment to use a particular petrol station, an agreement with the latter is not in place. One would expect such agreement in order to control fuel expenditure, indicating the registration numbers of those vehicles that could be refueled at HA’s expense. During the year under review, total payments made to the supplier in question amounted to €28,922.

b. **Inadequate System to control Fuel Purchases**

As per MFIN Circular No. 4/2007, Government recommended the implementation of the Fleet Management System (FMS), in order to control fuel purchases. A principal function of FMS is the issuance of automated fuel chits generated by the computerised application. In the absence of such system at HA, the latter claimed that fuel purchases are being controlled by a Datatrak system. However, since this system is deemed to be more appropriate to track vehicles rather than controlling fuel purchases, limited control

can be exercised by HA in order to ensure efficiency on fuel expenditure. Furthermore, the four rented vehicles installed with the Datatrak system, were being replaced on regular basis by other vehicles not installed with the said system.

c. Lack of thorough checking before paying for Fuel

From the 63 chits issued during the month examined, namely May 2012, it was noted that 10, amounting collectively to €451, were not approved by an independent officer of higher grade; 19 totalling €957 were endorsed as approved and received by the same officer; and nine, for the amount of €475, did not include the signature of the person receiving fuel. Insufficient details and inappropriate endorsements provide no comfort of adequate verification and approval in support of the amounts paid.

Unutilised Private Parking Spaces

On 18 August 2011, an agreement was reached by the Authority, in a joint venture with another organisation, in order for the respective employees to make use of 30 private parking spaces, at an annual charge of €1,800 (VAT excl.). Whilst the employees making use of such facility have to pay accordingly, the costs of any vacant spaces are being borne by HA, due to the agreement not specifying separate amounts of rent to be paid by both parties. In fact, during the year under review, an amount of €180 was paid by HA for the remaining three vacant spaces.

Lack of Control on Payments covering Doctor's Services

On 2 August 1996, an agreement was entered into between HA and a Doctor, in order to provide medical services to the Authority when employees reported sick. This agreement was to be renewed automatically after a period of one year. Testing of an invoice in the audit sample, amounting to €859, covering the period between 9 February to 16 March 2012, revealed the following shortcomings:

- a. NAO requested written reports, covering the respective house calls, which were to be submitted by the Doctor on a weekly basis as per applicable agreement. HA claimed that the Doctor only provided verbal daily reports by means of a phone call. Since no formal reports were provided, substantiating the house calls carried out by the Doctor, correctness and details of the visits invoiced¹ could not be warranted.
- b. HA admitted that from the 72 visits carried out during the highlighted period, copies of six certificates relating to the same employee could not be traced. The lack of checking prior to effecting payment resulted in an overpayment, which may be difficult to recoup in view that the Doctor in question resigned in August 2012. Moreover, the risk that similar problems were not corrected cannot be excluded, since testing in this area was limited to one invoice.

Completion Dates and Invoices not available

Completion dates of external decoration works at HA offices and construction works at a garage owned by HA, were not recorded. In the circumstance, NAO could not confirm whether such works were carried out during the stipulated period. Furthermore, since the payments of €7,492 and €5,387 respectively were only effected against a certificate of payment, without the presentation of an invoice, adequate controls cannot be exercised.

Invoices processed for Payment but not certified correct

During audit testing it was noted that 12 sampled invoices, in aggregate amounting to €59,613, were not signed as certified correct, but still processed for payment. Furthermore, although 10 of these 12 invoices included a rubber stamp stating checked, a signature of the officer certifying such invoice was not available. Non-endorsement of documents and lack of scrutiny of invoices received indicate a poor control environment.

¹ In 2012, up till August when the Doctor in question resigned, the latter was paid the amount of €3,706.

Purchase Orders not raised

From the 30 transactions selected for testing, a Purchase Order was required in 13 instances, in aggregate amounting to €68,552. However, this document was not raised in all 13 cases. Due to lack of documentation, expenditure incurred cannot be considered as formally approved from the appropriate level of authority.

Valid Contracts of Lease not available

- a. As specified in the application form of Scheme R, unless the required documents are provided, including a copy of the contract of lease, applications are not to be accepted. However, in four instances, receiving a total subsidy of €2,712 during 2012, a copy of the contract of lease was not available in the relevant file. Tenants were in fact only asked to provide rent receipts. In the absence of adequate supporting documentation, HA may not be able to carry out appropriate checks and controls, in order to ensure that the applicable conditions of the scheme are satisfied and that correct subsidies are being claimed.
- b. In another six cases, receiving a total subsidy of €3,953 during 2012, although the duration of the contract of lease did not cover the year under review, subsidy payments were still made for 2012. HA confirmed that renewed lease agreements are not requested and if applicant continues providing updated rent receipts, payments are still issued.
- c. In three out of the six cases mentioned above, the annual rent as per assessment sheet prepared by HA and the respective receipts, was different from the amount specified in the expired contract. In the circumstances, accuracy and validity of rent paid could not be confirmed, since a renewed lease agreement indicating such change was not available.

Relationship between the Lessor and Lessee

One of the conditions of Scheme R is that, “*the lessor is not a direct descendant or ascendant or otherwise related to the applicant’s up to two degrees even collateral or a co-owner with the*

lessee/s”. However, the lack of thorough checking by HA may result in subsidies being made to applicants who are related to the lessor.

- a. A declaration signed by the witness, stating that the owner is not a direct descendant or ascendant of the applicant, showed a different name from the one indicated in the respective contract. In fact, from the receipts traced in file, only one was signed by the owner indicated in the contract, whilst the rest were signed by the person recorded in the declaration. However, from the birth certificate and the Common Database System, it was concluded that it is very likely that the incumbent is the father of the applicant. Thus, being a direct descendant, this applicant, receiving *circa* €3,915 as subsidy since 2007, was not entitled to it.
- b. In another case, HA confirmed that a declaration was filled with applicant’s details by mistake rather than that of the owner. As a result, it could not be confirmed whether the lessee is related to the owner. Furthermore, some of the receipts were not being signed by the lessor as expected.
- c. As per InterOffice Memo, a person may lease from close relatives, if it is established without doubt that the case is a genuine one, such as cases of disabled persons or applicants in the process of getting legally separated. However, approval whereby a particular case was treated as a genuine one was not evident, but only a minute requesting such approval was available. Justification supporting the case was also not filed.

Architect Reports not available

Another condition to qualify for Scheme R, is that the property in question is in a good state of repair and habitable condition. Although this is ascertained through an Architect report, this report was not provided in four of the cases reviewed. Since HA confirmed that premises are not always physically inspected, subsidies may still be paid when one of the conditions of the scheme is not met.

Annual Income incorrectly calculated

Annual income of the beneficiaries was incorrectly recorded in five assessment sheets, indicating deficiencies in controls, which may result in overpayments of subsidy. Whilst in three of these instances the subsidy paid was not affected, in another case, income of the applicant could not be determined since the relevant payslip was not requested by HA.

In the remaining case, in one of the assessment sheets, gross income was erroneously recorded as €9,000, being the agreed basic income as per contract of employment dated February 2011. However, as per FS3 dated 2010, *i.e.* the basic year preceding date of application in 2011, annual income was €13,729. This resulted in an overstated annual subsidy paid to the applicant.

Revisions of Means Tests incorrectly carried out

As per Scheme R conditions, a proper means testing is to be carried out every two years, *i.e.* in each revision year. However, although a person shall not qualify if he possesses any immovable property suitable for habitation purposes, and/or holdings/shares and capital assets exceeding €9,317, in nine cases requiring 15 revisions, only the income of the applicants was taken into consideration for such revisions. Thus, applicants may still receive a rent subsidy when no longer eligible.

Fees incorrectly charged

In order to seek relevant information from the commercial banks, HA is to charge a nominal fee of €12 per applicant. However, in two joint applications, the Authority erroneously charged this fee per application rather than per applicant, resulting in an undercharge. These inaccuracies indicate lack of checking over fees being charged.

Subsidy paid in advance

As required by the conditions of Scheme R, subsidy is paid to applicants only after submission to HA, the receipt of payment for rent to the lessor. However, whilst reviewing one of the sampled files, it was noted that in 11 instances, amounting

to €1,264, payments were made prior to submitting evidence of receipts covering rent paid. In the event of non-submission of the relevant receipts, it would be difficult to recoup the subsidy if need be, once payments are made.

Declaration Forms not filled in or not available

In order for HA to carry out the required means testing, seven declaration forms had to be filled in and signed by each applicant, to be submitted by the latter together with the application. However, from the 15 applications selected for testing, comprising 21 applicants, *i.e.* requiring 147 declaration forms, two shortcomings were noted. A total of 32 declaration forms were not duly filled in, but only the signatures of the applicants were evident. Furthermore, nine copies of the declaration forms could not be traced, even though HA claimed these were in the relevant file. In the absence of declaration forms or when these are incomplete, the Authority would not be legally authorised to carry out the necessary verifications required for the means testing.

Application Forms not filled in or details incorrectly recorded

Although all details should be included in the application form in order to be accepted, complete and correct details were not specified in various instances. As a result, proper means testing cannot be performed. These comprised:

- annual income not recorded in 12 out of the 15 applications tested;
- annual rent payable not specified in four cases;
- the number of children under 18 years not recorded in four cases;
- in two instances, the category was incorrectly recorded as single parent rather than two persons living together as per assessment sheets;
- personal details of one of the joint applicants were not recorded, and the application form was not signed by the incumbent;

- the type of unit, *i.e.* whether a house, maisonette or flat, was not recorded in another application; and
- in one case, the type of unit recorded in the application form was different from the one indicated in the Standard Housing Verification Report, which is filled in upon inspection.

Insufficient Details recorded in the Nominal Accounts

From the 3,454, out of the 3,939 (88%) transactions for a total value of €1,043,825, recorded in account number 504010 – ‘Scheme R’, did not include details of the beneficiary receiving the subsidy. Thus, subsidies paid are not supported by proper audit trail, rendering such records unreliable.

Compliance Issues

Shortcomings in the Procurement of Goods and Services

As per PPR, where the estimated value does not exceed €2,500 (VAT excl.), procurement may be made departmentally, “... *either after obtaining quotations or direct from the open market at the discretion of the Head of Department taking into consideration the amount involved, the urgency attached to the procurement and restrictions of choice and availability*”. However, in 16 purchases, whose value was below the €2,500 (VAT excl.) threshold, the highlighted provisions were not followed, thus risking the possibility of more favourable offers being missed. Furthermore, in the absence of quotations or relevant agreements, rates charged and services offered could not be verified.

Delegation of Authority

According to PPR, purchases between €2,500 and €6,000 (both VAT excl.) may be procured direct from the open market subject to the approval by the Minister concerned, or by the member authorised by the same Minister. However, this responsibility lies within the role of the Chief Executive Officer, only due to past practices and not by an official delegation. As a result, such procurement cannot

be considered as approved from the appropriate level of authority.

Expenses incurred on Christmas Parties

During 2011, the Authority, which employs approximately 124 officials, organised two Christmas parties, one for its employees and the other one for their children. The total expenses incurred by HA from public funds amounted to €1,703. Similarly, during 2012, the Authority contributed the amount of €498 from public funds in connection with the Christmas party for HA staff. The fact that the Authority is not compliant with OPM Circular No. 19/2009, indicating that “*staff parties and staff lunches can be organised as long as these are not paid out of, or partly sponsored by, public funds*”, results in undue expenses incurred by HA from public funds.

Reimbursement not supported by a Fiscal Receipt

As per contract of employment, an officer is entitled to a maximum of €1,200 annually, payable against fiscal receipts, including car insurance, maintenance and servicing cost. However, an amount of €543 in the audit sample, for the service of the said officer’s car, was only covered by a handwritten invoice. HA confirmed that, as a general rule, the Authority does not ask for fiscal receipts to support reimbursements.

VAT Receipts or Declarations not readily available or not provided

On 13 May 2013, NAO requested fiscal receipts related to the sample of 30 transactions. However, 11 copies, covering an aggregate expenditure of €93,385, were only provided in July 2013. In the circumstance, the fact that fiscal receipts were obtained from the suppliers subsequent to audit queries cannot be excluded. Furthermore, since the respective documents were not readily available, this caused undue delays in audit testing.

Furthermore, a declaration from the supplier for the hiring of sound systems amounting to €480, stating that he is exempt from registering for VAT under Article 11 as per MFEI Circular No. 7/2011, was not provided. In addition, a fiscal receipt covering court fees of €5,923 was never provided.

Recommendations

Key Issues

Scheme R – Rent Subsidisation Scheme on Privately Owned Dwellings

Proper verifications and assessments are to be carried out by HA, and adequate controls are to be in place, so that any mistakes are noted and rectified immediately.

Hire of Vehicles bypassing the Procurement Regulations

HA is to ensure that services are covered by valid contracts at all times. Such measures would reduce the potential of disagreements and litigation in case of default, and also ensure that all services rendered and payments made are legally backed up. In addition, new calls for quotations or tenders are to be published in the Government Gazette, so as to ascertain that the most advantageous offers within the market are taken and also ensuring compliance with PPR.

Shortcomings with regard to Services of Public Notaries

Approval is to be obtained from MFEI before entering a contract for service. In addition, extensions to existing contracts are only to be granted if a relative clause was already incorporated in the contracts. Otherwise, a fresh call for tenders or expression of interest is to be issued, in order to ensure that the best rates and conditions are obtained. Furthermore, officers in charge are to be fully aware of any relevant circulars to ensure adherence at all times.

Departmental Call for Tenders or Quotations not issued

HA is to ensure adherence to PPR. Furthermore, it is expected to provide to NAO a proper explanation to justify the variance mentioned in the observation, from the budgeted or quoted amount to actual payment.

Control Issues

Lack of Control over Fuel Expenditure

PPR are to be invariably followed and a subsequent formal contract is to be entered into. Furthermore, payment is only to be made against invoices received, indicating the number of litres being paid for, the cost per litre and the vehicles that have been refueled. FMS is to be implemented without further delay for control purposes. In addition, officers in charge are to ensure that fuel chits are endorsed properly by the required signatories before processed for payment.

Unutilised Private Parking Spaces

HA is encouraged to clearly specify the number of parking spaces it requires, by a side-letter to the agreement.

Lack of Control on Payments covering Doctor's Services

HA is to ascertain that the conditions stipulated in any agreements are followed and proper verifications are carried out, so that any errors are identified prior to payment. The Authority is to obtain and maintain a copy of each certificate to which invoices are to be corroborated.

Completion Dates and Invoices not available

Whilst acknowledging that subsequent to audit enquires the Procurement Section gave instructions to the project leaders to indicate the date of completion, HA is to ensure that such details are invariably recorded. Furthermore, invoices are to be requested from the suppliers prior to effecting payments, and filed for future reference.

Invoices processed for Payment but not certified correct

All invoices are to be invariably certified as correct, after confirming their accuracy, before processed for payment.

Purchase Orders not raised

Purchase Orders are expected to be issued prior to invoices, after being approved from the required level of authority.

Valid Contracts of Lease not available

Officers in charge are to ensure that, as requested in the application form, the contract of lease is submitted together with the application in support of each claim.

Relationship between the Lessor and Lessee

The Authority is to ensure that except for genuine cases, in which case proof is to be provided accordingly, claims are not accepted if the lessor is a direct descendant or ascendant, or otherwise related to the applicant's up to two degrees even collateral or a co-owner with the lessee/s.

Architect Reports not available

Controls over verification of eligibility criteria are to be strengthened. At least the Authority is expected to obtain adequate backing documentation to support the condition of the leased premises. As far as possible, physical inspections are also recommended.

Annual Income incorrectly calculated

Annual income is to be correctly calculated as required by the relevant provisions of Scheme R, based on the basic year, *i.e.* the year immediately preceding the period in which an application is made. Independent verification is highly recommended.

Revisions of Means Tests incorrectly carried out

During reassessment of applications, which is to be held every two years, HA is to carry out a full means testing, also taking into consideration the relevant assets that may no longer make the applicant eligible to subsidy.

Fees incorrectly charged

The Authority is to ascertain that appropriate controls are in place to ensure that accurate fees are charged.

Subsidy paid in advance

Prior to paying rent subsidy, rent receipts are expected to be submitted by the clients.

Declaration Forms not filled in or not available

The Authority is to ensure that all declaration forms are duly filled in and filed for future reference.

Application Forms not filled in or details incorrectly recorded

Although the amount of subsidy paid to applicants may not be affected, complete and correct information is to be recorded in the applications.

Insufficient Details recorded in the Nominal Accounts

Adequate information is to be recorded in the nominal accounts, in order to enable audit trail for proper verification by third parties without reference to any other document.

Compliance Issues

Shortcomings in the Procurement of Goods and Services

HA is to ensure that the method of purchase is compliant with the applicable regulations, thus ascertaining that the most economic and advantageous prices within the market are benefited from. Furthermore, relevant approvals are to be obtained prior to procurement. Contracts are expected to be in place to outline the terms and conditions binding the contractual agreement prior to incurring the actual expense.

Delegation of Authority

Adopted procedures are to be in accordance with all relevant regulations so that procurement is duly authorised.

Expenses incurred on Christmas Parties

Adherence to the applicable circulars is expected at all times.

Reimbursement not supported by a Fiscal Receipt

The Authority is not expected to refund any claims, if the employee fails to provide the relevant fiscal receipts, as required in terms of the respective contract of employment.

VAT Receipts or Declarations not readily available or not provided

Every effort is to be made to enforce the principle that VAT receipts are invariably obtained from suppliers for every purchase of goods and/or services. Furthermore, all documents are to be kept in the relevant file, in order to ensure that the requested information is always available in a timely manner, and to enable verification by third parties.

Management Comments

Management concurred with a number of recommendations put forward by NAO and action has already been taken to address certain areas. The following comments and reservations were also submitted:

- The Authority has already sought Finance approval to purchase three new vehicles to replace the rented cars.
- Although not substantiated, Management claimed that it sought MFEI's approval to outsource the services of public Notaries. When not provided for in the contracts, these agreements are extended following the necessary approvals.
- The process to introduce FMS as from January 2014 has already started. In addition, the Authority will formulate an agreement which will incorporate instructions and provisions required.
- The issue of unutilised private parking spaces will be continued to be followed,

so as to ensure that none of the car spaces are kept unutilised unnecessarily and any spaces which are not required by either party be removed from the agreement.

- The Authority is working on an independent call for offers for medical services.
- HA only requests copies of rent receipts and does not insist that a contract is to be submitted with each application, since landlords do not always accept to sign a contract with lessee and otherwise most of the clients will not be able to benefit from Scheme R. However, a paper regarding this issue is being prepared in order for the Board to review such policy.
- It is not always the case that HA can ascertain whether the owner is related to the applicants, unless the latter declare this in the application, which declaration is signed in front and by a witness.
- Management stated that Scheme R has been replaced with a new scheme and various shortcomings have already been rectified.
- Procurement of goods and services below €2,500 is now being approved by the Chief Executive Officer and Chairman. However, it was not stated whether in such cases, quotations will be obtained, to ensure that the most economic and advantageous prices within the market are benefited from.

Management comments made no reference to shortcomings raised under the following titles and sub-headings:

- Shortcomings with regard to Services of Public Notaries – Awarded Contracts not published
- Relationship between the Lessor and Lessee (point c)

**Ministry of Finance, the Economy and
Investment**

Malta Enterprise

Background

Malta Enterprise (ME) was established in 2004 following the amalgamation of the Malta Development Corporation, the Malta External Trade Corporation and the Institute for the Promotion of Small Enterprise. The entity was made responsible for economic development in Malta, and since 2010 has taken over responsibility for the management of Malta Industrial Parks Limited. At present, ME develops, implements and monitors a wide range of services, incentive schemes and projects.

A total of €6,200,000 were allocated to ME for the year 2012, through the then Ministry of Finance, the Economy and Investment's (MFEI) recurrent vote. An additional subvention of €14,180,000 was also allocated for Investment Incentives out of MFEI's capital vote.

Audit Scope and Methodology

The main scope of the audit was to evaluate the level of existing internal controls over the procurement and payment of expenditure incurred by ME during the period January to September 2012. The audit also aimed to ascertain the efficient administration of public funds in line with existing laws and regulations, in particular Article 20 of the Public Procurement Regulations (PPR) through Legal Notice 296 of 2010. Reference was also made to ME's procurement standard operating procedures, outlining the overall procedures to be applied to procure goods and services.

An introductory meeting was held with ME officials on 16 November 2012, with the aim of discussing the audit objectives and obtaining a general understanding of relevant policies and procedures adopted by the entity, in relation to procurement and payment of different items of expenditure. Further discussions were subsequently held with the relevant officials to elaborate on matters encountered during the course of the audit.

The initial sample of 93 transactions was selected from a transaction listing provided by the Enterprise for the period January to September 2012¹. During the course of the audit, the sample was increased to 109 transactions to ensure that classes of transactions meriting a more in-depth analysis were thoroughly covered. These transactions amounted to €672,023, which represents 37% of the total operating expenses featuring in the list of transactions provided by ME. Particular consideration was given to the materiality of amounts and nature of expense when selecting the audit sample.

Key Issues

Non-Adherence to Public Procurement Regulations

A general lack of internal control procedures in the area of procurement of goods and services within ME was noted, which is conducive to an inefficient use of Government funding. The instances outlined below, refer to services exceeding the threshold of €6,000, which were procured directly from the

¹ This cut-off date was established on the basis that the audit commenced during November 2012.

open market, without a public call for quotations or tenders, and also lacking MFEI approval.

Professional Services

A retrospective approval for Direct Order, for the amount of €21,230, was requested from MFEI on 29 September 2012, for professional services rendered by an audit firm, in connection with suspected irregularities in the procurement processes undertaken by beneficiaries of the Energy Grant Scheme. No quotations were traced in relation to this expense prior to placing the Direct Order. The following was further noted:

- a. MFEI did not give its approval for this purchase direct from the open market, pointing out that ME should have taken measures to obtain the necessary authorisation before the supplier was engaged, irrespective of the urgency for the service.
- b. Amounts of €22,125 and €2,926 were paid to the supplier on 22 June and 20 August respectively. Both payments were made before 29 September 2012, when the request for Direct Order approval was submitted to MFEI.
- c. The payments made to the audit firm also exceeded the maximum amount of €22,125, which was agreed upon in the terms of reference presented by the supplier, dated 2 May 2012; thus also dated much before the request for approval.

Advertising Services: Business First

ME incurred several advertising expenses, in relation to a communications campaign for its new brand, namely Business First, for which five payments made to a supplier, totalling €31,601, were tested during the audit.

- a. It was noted that, as required by Article 20(1)(d) of the PPR, no calls for quotations in the Government Gazette or departmental call for tenders were issued by ME in relation to these services, which in 2012 amounted to €99,091.

- b. It further transpired, that a retrospective Direct Order approval, for the amount of €99,091 payable to the service provider, was requested from MFEI on 5 July 2012, on the premise that due to the urgency to meet strict deadlines, the Procurement Unit was not informed earlier to seek this approval. This request was declined by MFEI the day after. However, the entire amount was still paid in full in three instalments, made on 4 May (€59,018), 23 May (€10,622) and 10 July 2012 (€29,451) respectively, implying that a total of €69,640 was paid prior to the request for Direct Order approval.
- c. No agreement between the supplier and ME, covering these services was made available for audit purposes.

Advertising Services: Graphic Design and Audiovisual Production

An expression of interest, whose closing date was 17 May 2011, was issued by ME in connection with the provision of services related to graphic design and audiovisual production. This was followed by a request for proposals, for which three bids were received. The Evaluation Committee, responsible for the award of this contract, recommended award to the highest-ranking supplier meeting the eligibility criteria. The tender was at the value of €110,000 excluding VAT, over a period of two years.

However, correspondence from the Departmental Contracts Committee stated that, in spite of the fact that the award criteria was on a 'Most Economically Advantageous Tender' basis, ME failed to publish a pre-established threshold in the tender document, as required by this awarding approach. As a result, the Evaluation Committee could not proceed with the finalisation of the adjudication. ME acknowledged this tender rejection in a procurement Committee meeting held on 6 June 2012.

In spite of all this, documentation traced during the audit revealed that ME had already allocated a number of assignments to the supplier, and received invoices amounting to €12,703 between end April and May 2012, out of which the amount of €8,726 was already endorsed by the then Executive Chairman.

Internal correspondence addressed to the Chief Executive Officer, maintained that, according to Article 20(1)(c) of PPR, the supplier may still be engaged as long as invoices do not exceed the established threshold of €25,000 within a six-month period. However, NAO reiterates that the above-mentioned Article is applicable only to the procurement of store items, and is not extended to the purchase of services, as in this case.

Business Delegation Expenses

Besides bypassing procurement regulations, no approval for Direct Order from MFEI was obtained in relation to an amount of €7,075, in settlement of venue and catering expenses for a business delegation organised by ME, which was held in Israel between 24 and 28 March 2012.

Another two business delegations were organised by ME; one to South Africa between 17 and 25 February 2012, and another in Cologne and Munich between 2 and 6 July 2012, for an aggregate value of €19,000. In both instances, the contract with the foreign event organisers was signed before the respective approvals were obtained from MFEI.

Moreover, with regards to the business delegation to Germany, NAO also noted that the invoice amounting to €12,000, and issued by the event organiser on 14 June 2012, also preceded the date of approval for Direct Order which was given one week later.

Telecommunication Services

Whilst examining remittances in relation to telecommunication services, NAO traced payments of €34,324 and €28,577 to the same supplier, which related to internet and mobile expenses respectively, incurred in 2012. Although a contract is in place for these services, no evidence of quotations or approval for Direct Order, in line with the Procurement Regulations, was provided.

Consultancy Services

Testing revealed that an invoice dated 31 July 2012, for €5,000, which was settled in favour of a service provider for consultancy services in the digital gaming field, was received by ME before the respective approval for Direct Order

was obtained from MFEI. The foregoing invoice, together with another invoice of €5,000 dated 21 August 2012, clearly indicate that the supplier had already been entrusted with the job, well before ME requested the relative approval on 13 August 2012.

Irregular Contracts for Service

Regional Leaders

During the conduct of its activities in 2012, ME availed itself of the services of 15 individuals, referred to as regional leaders, who represented the entity outside Malta. ME provided NAO with 14 contracts related to these services, which were then assessed as part of the audit. However, the remaining contract, pertaining to one individual, was never provided. The following shortcomings were also noted:

- a. Ten of the regional leaders, for whom a contract was traced, had a contract of employment with ME, whilst the remaining four had a contract for service. This contradicts the relevant provisions of the Public Service Management Code (PSMC), which states that contracts for service can be used in those exceptional circumstances where a specialised service can best be acquired by purchasing/procurement, rather than by employing someone on a definite contract of employment. Given these provisions, NAO fails to see the need for ME to have four regional leaders on a contract for service, whilst at the same time having another 10 individuals employed as regional leaders.
- b. Three out of the four regional leaders on a contract for service, were on a definite three-year contract, which goes against ME's operating procedure, stipulating a contract covering a period from three months to a maximum of one year.
- c. NAO carried out a review of the contract for service pertaining to an individual, who was assigned the role of regional leader for China and Asia. The contract stipulated a remuneration of €30,000 per annum, excluding VAT, rent of €500 per month, the reimbursement of pre-approved flights, and

an incentive allowance of a maximum of €15,000, spread over a five-year period.

- In spite of the value of this contract, a departmental call for tenders or the publishing of a call for quotations in the Government Gazette, as required by Article 20(1)(d) of the PPR, was not made. Instead, a call for application for the engagement of this regional leader was issued through an advertisement in a local newspaper.
- Following NAO enquiry, it was confirmed that ME did not seek MFEI clearance, as required by Section 1.4.1.1 of the PSMC, before entering into a contract for service with this regional leader.
- A number of reimbursements, for which this regional leader was not entitled, were also identified. From payments verified, which amounted in total to €9,445, amounts of €1,455 relating to flights that were not pre-approved, and €2,490 for other reimbursements that did not fall under the provisions of his contract, were traced.
- From the transaction list provided by ME for the period under review, a number of additional payments made to this regional leader were traced. Of these, payments for a total of €10,911, which related amongst others to hospitality, freight, stationery and promotional expenses, were not covered by the applicable contract.

It also transpired that the reimbursement of these expenses contradicts ME's established operating procedures, which state that, *"When engaging professional services, a comprehensive fee which covers all of the services and expenses must be negotiated"*. This document further confirms that the reimbursement of costs, such as air travel, hotel, telephone and meals to a contractor, should be limited to employees.

- d. Another contract for the services of the regional leader for India and Asia Pacific, was subject to NAO testing. This contract was valid for one year until June 2012. However, it transpired that:

- three payments of €2,340 each for services rendered during the months of July, August and September 2012 were made to the supplier, even though they were not covered by the applicable contract; and
- following NAO enquiry, ME stated in an email on 18 February 2013, that the contract with this regional leader was under discussion, and soon to be finalised. This could imply that the services were still ongoing beyond September 2012.

Consultants

Two consultants provided Business and Investment consultancy services to ME, and were engaged on a three-year contract valued at €40,000 and €32,000 per annum respectively, both excluding VAT.

In both cases, procurement regulations were not followed since a departmental call for tenders, or a call for quotations in the Government Gazette, was not issued in accordance with Article 20(1)(d) of the PPR. Moreover, no evidence of obtaining an approval from MFEI for this Direct Order could be traced. Email correspondence later revealed, that one of these consultants was engaged following an advert in a local newspaper.

Furthermore, the necessary MFEI clearance required in terms of the PSMC was not obtained prior to the engagement of these consultants on a contract for service. An email, dated 9 May 2013, stated that whilst one consultant was no longer employed with ME, in the case of the other, an action plan was in place to remedy the situation. A public call was intended to be issued shortly.

The commitment for a three-year contract also goes against the established operating procedures of the entity, stipulating a maximum contract of one year.

Cleaning Services

During the review of contracts with two individuals providing cleaning services, NAO noted that once again, adherence to PPR prior to the engagement of these services was lacking.

The two contracts were signed in 2004 and 2007 respectively, but did not contain a termination date or duration of the agreement. This not only implies non-adherence with the relative provisions of the PSMC, necessitating contracts to be given a timeframe, but also result in lack of compliance with ME's established operating procedure, establishing a maximum period of one year for these types of contracts.

It was further noted that invoices were not being raised in relation to these services, and monthly payments were being effected on the basis of the cleaners' timesheets.

Board Secretary

An examination of a contract for service, appointing the Board Secretary to ME and Malta Industrial Parks Limited, revealed that, although this contract had expired on 31 March 2012, ME still processed payments, totalling €8,850, for the months of April till June 2012, these being outside of the contract period.

Imprudent expenditure on Entertainment Costs

It was confirmed that in 2012, ME had an intended budget of €15,000, which was allocated out of its Government subvention, for the purpose of staff entertainment.

According to information provided by ME, during the year, the Enterprise incurred the sum of €6,045 in staff entertainment expenses, of which €1,295 was reimbursed by participants. The remaining amount of €4,750 was expensed from a staff entertainment account held by the entity. Staff entertainment expenses consisted, amongst others, of a day trip to Sicily, the hiring of a vessel for a boat party, and the purchase of food items related to a several dress-down days. NAO opines that this type of expenditure constitutes an imprudent use of the taxpayers' money.

Purchase Requisition Forms not raised or incomplete

Out of 109 transactions tested, Purchase Requisition Forms were not traced in 26 instances, in aggregate amounting to €96,318, and representing 14% of the total amount tested.

It also transpired that seven Requisition Forms raised, totalling €8,481, were undated by the approver. Of these, six were also unsigned by the approver, and two unsigned by the originator. This practice not only goes against ME's established operating procedures, but also increases the risk of unauthorised procurement.

Purchase Orders not raised

No Purchase Order was raised in relation to 55 sampled transactions, for a total of €462,895, and representing 69% of the total amount tested, which again contradicts the requirements of ME's established operating procedure. In the absence of this document, the audit trail of the respective purchase may be hindered, possibly resulting in a lack of control over the amount procured and the corresponding amounts paid.

Purchase Requisition Forms or Purchase Orders issued after the Invoice

In 17 of the transactions tested, amounting in total to €65,802 (10% of the sample), the date of the invoice preceded the date of the Requisition Form, or that of the Purchase Order, again implying that the proper authority was not obtained prior to making the purchase.

No Certification of Goods received

According to ME's procurement operating procedure, the Ordering Unit or the respective project manager is expected to inspect all deliverables, and make a declaration stating that the right quantities, at the correct specifications, were received.

This certification of goods received was not traced in 13 sampled instances, amounting to €32,176, and representing 5% of the total value tested. As a result, it could not be ascertained whether the quantity and quality of the goods received were up to ME's requirements and specifications.

Lack of control on the use of Government-owned Vehicles and Fuel Consumption

Audit testing revealed lack of control over Government-owned vehicles. Log books were only kept for two out of five general-use cars

at the disposal of ME. Whilst testing² whether these two log books were adequately kept, as per the requirements of the PSMC, the following shortcomings were noted:

- The purpose of journeys was not being recorded in both log books.
- The signature of the officer making the journey was missing in all entries of one of the log books.
- Issues of petrol for both vehicles were not recorded.
- The certification of the log book at the end of the month was not carried out in both instances.

Lack of control on fuel consumption was also evidenced. The following relate:

- From information provided during the audit, NAO noted that a total of €5,814 was paid in respect of fuel for the period under review. However, no fuel requisition notes were traced in respect of the sample selected, which amounted to €725.
- Four of the sampled transactions, totalling €555, related to the fuelling of general-use cars. In this regard, it was noted that these were billed through the 'iButton' fuelling system, as opposed to the issue of fuel chits, which were also used during the year under review.

The 'iButton' is a gadget that once attached to the appropriate interface at the fuelling station, permits the holder to fuel his vehicle. Details of all fuel procured using this method are then extracted by the fuel supplier and a monthly bill is issued to the customer. ME claims that the 'iButtons' for general-use cars are kept by the Administration Department, and are only collected when fuelling is required. However, it could not be ascertained whether any cross-checking is carried out

between the monthly bill, receipts issued by the station upon fuelling, and related log books.

NAO maintains that without the implementation of adequate checks that are expected to accompany the use of the 'iButton' system, the risk that fuel consumption is being abused of is increased. This may happen both with regards to re-fuelling general-use cars as well as personal cars, especially in those cases where employees are in collusion with the supplier.

Non-Submission of Fiscal Receipts

Although as stated by ME, it is a general practice that they pay only if they have a valid fiscal invoice, 15 transactions, representing 34% of the audit sample, and collectively amounting to €227,341, were not supported by a valid fiscal receipt, in accordance with MFEI Circular No. 2/2012.

In addition, ME did not submit the quarterly returns reporting fiscal receipt defaulters, which it should be forwarding to the VAT Department in accordance with MFEI Circular No. 2/2012.

Compliance Issues

Lack of Compliance with Car Lease Regulations

NAO examined a payment for €920, in relation to a car lease contract for two general-use cars that was signed in 2002, and renewed in 2007 by means of an addendum, whose termination date was unclearly set to either 2009 or 2010. Another payment for €576, for the lease of a car used by the Chairman, the contract for which commenced in 2009, was also tested. The audit revealed the following:

- a. The necessary MFEI approval, when buying, leasing, renting or otherwise obtaining use of any additional cars, was not traced in relation to both contracts mentioned above.
- b. The required evidence, of the rationale that should be presented to MFEI, showing how

² For testing purposes, both general-use vehicles' log books for the month of August 2012 were tested.

a lease would be preferred over buying a car, was not made available in relation to both leases.

- c. When explanations of the method of procurement of the lease contracts were requested from ME, it was confirmed on 10 May 2013 that ME *“...have a verbal confirmation that the contract followed a public call for tenders. However getting the supporting documentation will be time consuming due to the period that elapsed.”* Thus, no evidence was provided to support this claim.
- d. Since the contract for the lease of the general-use cars had expired before 2012, the total payment of €8,280, covering the lease of general-use cars for the period January to September 2012, were definitely made outside the contract period.
- e. The cars listed on the invoice did not agree to those listed in the agreement and/or the addendum to the original contract, signed in 2004.

This lack of compliance, with the applicable directives given on car leases, implies that ME might not have taken the most economic option.

Non-Adherence to Travel Regulations

During the examination of a sample of four payments relating to the purchase of seven air tickets, totalling €10,682, it transpired that no quotations were obtained from Air Malta, as required by the relative Sections of the PSMC.

Recommendations

Control Issues

Non-Adherence to Public Procurement Regulations

ME is to invariably adhere to the requirements of the PPR, to ensure fairness and provide equal opportunity to all interested parties in the provision of services. Approvals from the Ministry for Finance, to purchase direct from

the open market, are only to be requested in exceptional cases. Moreover, the Enterprise is to refrain from requesting retrospective approvals for such practise.

ME is also to ensure that the established operating procedures are properly followed, and that these are updated to include a clear interpretation of relevant Articles of the PPR, in particular, that of Article 20(1)(c), with reference to store items.

Irregular Contracts for Service

ME is encouraged to abide by Government regulations, as well as its own procedures. This will allow the Enterprise to maximise its value for money, and to enhance its transparency in the use of public funds.

Furthermore, ME is to ensure that all contracts contain comprehensive provisions, to bind both parties to the agreement. Management is also to consider implementing effective controls that monitor contract terms, and review their conditions prior to effecting payments.

Imprudent expenditure on Entertainment Costs

ME is to discontinue utilising Government funds for entertainment purpose. Attention is drawn to Circular No. 19/2009 issued by the Office of the Prime Minister which states that, *“staff parties and staff lunches can be organised as long as these are not paid out of, or partly sponsored by, public funds”*. Even though this Circular mainly relates to Christmas staff parties, NAO feels that the same principle is applicable to other staff-related entertainment expenses.

Purchase Requisition Forms not raised or incomplete

A Purchase Requisition Form is to be invariably raised and properly authorised before procurement is made.

In the event that such a document is not issued, ME is expected to reinforce the provisions of its procurement operating procedures, which maintain that unauthorised purchases will become the personal obligation of the individual making the purchase.

Purchase Orders not raised

The provisions of the applicable operating procedures are to be rigidly followed. Thus, a Purchase Order is to be raised in relation to all purchases made by ME, following approval of the respective Requisition Forms.

Purchase Requisition Forms or Purchase Orders issued after the Invoice

Requisition forms and Purchase Orders are to be duly raised and approved prior to placing a commitment for any purchases, to ensure that proper authorisation from the right level is obtained.

No Certification of Goods received

It is highly recommended that ME follows its own established operating procedures more rigidly, thus ensuring that all deliverables are duly certified upon receipt, before the respective invoices are forwarded to the Accounts Section for payment.

Lack of control on the use of Government-owned Vehicles

ME is expected to maintain proper log books for all its general-use vehicles, in line with Government standing regulations. Specifically, an officer is to be held responsible for the certification of log books on a monthly basis which, amongst other reasons, will help in ensuring that proper controls are exercised over the purchase and consumption of fuel.

Moreover, the Enterprise is to seriously consider the introduction of the Fleet Management System, which is widely used across Government departments and includes more stringent controls on fuel procurement.

Non-Submission of Fiscal Receipts

Management should make every effort to secure compliance from suppliers to abide by their fiscal obligations, through the issue of the relative receipt.

Compliance Issues

Lack of Compliance with Car Lease Regulations

NAO strongly recommends that ME follows the Circulars in force, and adopts the policy whereby new or replacement vehicles are purchased rather than leased. In the eventuality that a lease would be more economically advantageous, ME is expected to submit to the Ministry for Finance adequate workings, showing that the benefits of the lease outweigh those associated with purchase. Proper authorisation from the Ministry is invariably also to be sought, irrespective of whether a car is purchased or leased.

If such services are still required, the provisions of the PPR are to be properly followed before entering new lease agreements, to replace the expired ones.

Non-Adherence to Travel Regulations

In accordance with the PSMC, ME is expected to conduct all travel arrangements through Air Malta, and if not feasible to do so, quotations from the latter should invariably be obtained.

Management Comments

Management comments were received from the ME Chief Executive Officer and from the Permanent Secretary of the Ministry for the Economy, Investment and Small Business. A brief outline of the feedback received, together with actions taken to address the shortcomings outlined in this report, are detailed below.

Comments from Malta Enterprise

ME stated that most of the expenditure commitments, referred to in the report, were entered into during the years preceding 2012, and remedial action has since been taken. However, Management still acknowledged that adherence to internal controls needs to be improved, especially in those cases where procurement was deemed urgent. To this effect, ME forwarded to this Office a detailed action plan, outlining 20 points to address the issues raised in this report. The following refer:

Non-Adherence to Public Procurement Regulations: Management will reinforce awareness of and compliance with procurement policies and procedures, through a number of internal group sessions between July and September 2013. Disciplinary action will be taken when such procedures are not followed, whereas the purchase by Direct Orders will be restricted and closely monitored.

With regards to the interpretation of Article 20(1)(c) of PPR, ME contended that this provision is not restricted to store items alone. To this effect, the Enterprise was requested to seek further clarification from the Department of Contracts. During October 2013, ME confirmed NAO's interpretation.

Irregular Contracts: With reference to the contract pertaining to a regional leader, which was not made available for review during the audit, ME confirmed that through oversight, the said contract expired in August 2011, and was not renewed. This individual had been on a contract with the former Malta Development Corporation, and subsequently with ME, for the past ten years. Management will consult with PAHRO in this respect.

The Enterprise also acknowledged that a number of regional leaders had a three-year contract for service, unlike their peers who had a contract of employment for the same period. Management confirmed that these contracts for service have since ended, and that it is no longer ME's policy to issue such contracts for regional leaders. The only regional leaders remaining are those on a contract of employment.

To address the issue of the reimbursements to a regional leader without pre-approval, ME is introducing a policy and procedure on overseas travel.

The use of the regional leader's services for India and Asia Pacific has been regularised, by substituting the expired contract for service with a one-year multiplier agreement, entitling the individual to a 'success fee' on attracting projects to Malta.

ME also stated that one of the two consultants, engaged on a three-year contract for service, has since terminated the contract, whilst the other, whose contract ends in October 2013, will not be renewed in the current format. Management also confirmed that, to ensure that no payments are made outside the duration of a contract, the Procurement Unit is now monitoring the expiry dates of all contracts, in order to alert the contractor at least three months in advance of expiry, or upon 65% consumption of the contract, whichever comes first.

Imprudent expenditure on Entertainment Costs: Management declared that no further use of public funds for such events will be made in the future.

Purchase Requisition Forms, Purchase Orders and Certification of goods received: To address these issues, ME stated that the relating forms are being amended to ensure the proper documentation of all authorisations. In addition, purchases made without the necessary approvals are to be made the responsibility of the defaulting individual. Management will also ensure that clear evidence of goods received is consistently confirmed on all invoices prior to settlement.

ME will be implementing NAO's recommendations, as stipulated in the action plan, to cover the remaining findings highlighted in the report.

Comments from the Permanent Secretary

In reply to the concerns outlined by NAO, the Permanent Secretary has issued a series of directives to ME, these being:

- the immediate setting-up and functioning of the Audit Committee, as required by the Malta Enterprise Act;
- the recovery of any payments made erroneously, or those effected towards expired contracts;
- that all decisions taken by the Board are formally written down;

- that ME carries out an extensive exercise to identify shortcomings similar to the ones identified by NAO, so that the respective payments may be withheld with immediate effect;
- a more professional approach by the Chief Executive Officer, with the aim of establishing proper lines of accountability; and
- the constant updating of the manual of procedures.

The Permanent Secretary maintained that it is still the Board's responsibility to ensure that sufficient internal controls are in place to prevent and detect fraud and error. To this effect, the present Board Secretary has been requested to clarify actions taken as highlighted in this report.

Malta Statistics Authority

Background

The Malta Statistics Authority (MSA) was established through the MSA Act, which came into force on 1 March 2001. Its function is to act as the regulator on the collection, compilation and publishing of official statistics. The Authority has a distinct legal framework and the National Statistics Office is the executive arm of the former, operating with an average number of 146 employees during 2012.

A total of €4,320,000 were budgeted for MSA for the year 2012, through the then Ministry of Finance, the Economy and Investment's (MFEI) recurrent Vote 24, out of which €1,000,000 was targeted for the Census of Housing and Population, €150,000 to finance a Survey on Income and Living Conditions, and another €70,000 to cover expenses for Continuous Labour Force Survey; all under Programmes and Initiatives. The Authority also received additional grants of €236,523, of which €161,538 consisted of EU grant agreements. During 2012, MSA generated a further amount of €129,500 from sale of publications and surveys, besides other income of €61,030, the majority of which related to reimbursement for travel expenses from the European Commission.

Total expenditure incurred by MSA during 2012 amounted to €4,936,740, of which €3,281,839¹ related to salaries.

Audit Scope and Methodology

The main scope of the audit was to evaluate the level of existing internal controls over the procurement and payment of expenditure incurred by MSA during the year 2012. To ensure a prudent and judicious use of Government resources, the audit also aimed to ascertain that standing laws, regulations, policies and procedures were followed.

An introductory meeting was held with MSA officials, with the aim of discussing the audit objectives, and obtaining a general understanding of the entity.

A sample of 95 transactions, totalling €118,373 and representing 7% of expenditure (€1,654,901), net of salaries, was selected for audit purposes. An additional five overtime payments, amounting to €9,248, covering various individuals were verified. This consisted of 22% of total overtime amounting to €42,488 paid during the year.

A reasonableness test was carried out on the entity's gross salaries, which amounted to €2,833,659. This was performed by obtaining a list of MSA employees and their relative grades, and recalculating the employees' average annual salaries. The resulting approximate global salaries figure obtained was deemed reasonable when compared to MSA's actual expenditure.

Furthermore, a walkthrough test was carried out on two revenue accounts held by MSA, namely, 'Sales of Publications and Surveys' and 'Other Income',

¹ This includes an aggregate balance of €448,180 relating to national insurance, income supplement, bonus, overtime and interviewing payments.

which, in 2012, totalled €129,000 and €61,030 respectively. Four different agreements with three separate Government entities, representing total sales of €108,704, were tested.

Key Issue

No valid Contract for Cleaning Services

This audit identified only one key issue. During 2012, MSA availed itself of several cleaning services from the same supplier, amounting in aggregate to €26,616. Through correspondence traced between the service provider and MSA, it was noted that these services were paid at a pre-established rate, which was agreed upon as early as 2006.

However, it transpired that no contract for service was in place, indicating the terms and conditions, as well as the duration of this service. It could also not be verified, whether this procurement was acquired in accordance with the applicable regulations. Failure to abide by the Public Procurement Regulations, could ultimately lead to higher costs for MSA, besides the implications of unfair competition.

Control Issues

Purchases not formally approved

Most of the procurement is approved verbally by the Manager, Personnel and Budgetary Matters, together with the Financial Controller, and a formal Purchase Requisition Form is not raised. On the other hand, for those purchases exceeding €1,000, approval is normally sought by email, from the Director General or the Chairman.

The present system of verbally approving purchases increases the risk that supplies are procured without proper authorisation, which could lead to inefficient use of public funds, besides hindering audit trail.

Expenditure not substantiated by Fiscal Receipts

Testing revealed that 11 transactions, representing 22% of the audit sample, and collectively

amounting to €10,249, were not supported by a valid fiscal receipt, in accordance with the standing MFEI circular.

In addition, MSA confirmed that it was not furnishing the VAT Department with quarterly returns, illustrating VAT defaulters, in accordance with the same circular.

Insufficient Control over Log Books of General-Use vehicles

MSA makes use of two general-use vehicles whose re-fuelling is operated through the Fleet Management System. An exercise was carried out, in order to confirm that their respective log books were adequately kept, as per the requirements of the Public Service Management Code (PSMC). The following shortcomings were noted:

- The purpose of the journey was not being recorded in both log books.
- The exact mileage covering each journey performed was not recorded and not endorsed by the officer making the journey.
- No evidence was traced to confirm that log books were being inspected periodically by a responsible officer in both instances.

This situation indicates that the control for which the log book is intended, mainly to control fuel consumption, as well as proper authorised use of vehicles, is lacking.

Compliance Issues

Lack of Compliance with Standing Travel Regulations

Travel declaration forms not properly filled-in/incomplete

Whilst examining records relating to six visits on official business, it transpired that travel declaration forms were still processed by MSA, even though they were not completed accordingly. The following shortcomings relate:

- a. In one case, the necessary declaration by the travelling officer, stating that the latter is not receiving any compensation in kind, including disbursement for accommodation such as meals, transport, and subsistence allowance, from the host organisation or any other entity, was completely left out.
- b. In another three cases, the expense amount of the official visit abroad, as well as the amount advanced to the travelling officer, were left blank, even though they were endorsed by the respective officers. Moreover, the breakdown of expenditure of the official visits for these three instances, found in the final part of the declaration form, indicated only the travel insurance as an expense.
- c. Signatures required by the Chairman were undated in all declaration forms tested. Thus, NAO was unable to verify whether visits were approved at least one week before the departure date, as required by the PSMC.

Quotations from Local Airline not sought

In three cases, only two flight quotations were sought for each visit, one of which was from Air Malta, even though the PSMC clearly states, that three quotations must always be obtained.

Rates for Customised Requests not formalised

The Authority's pricing policy lays down the minimum and hourly rates of €10 and €20 respectively, in order to recover labour costs when providing customised services to clients. However, such rates have not been formalised as required by the pertinent legislation, namely the Fees' Ordinance, which requires fees to be transcribed by law, and laid on the table of the House of Representatives.

Recommendations

Key Issue

No valid Contract for Cleaning Services

MSA should strive to abide by Government regulations, in order to maximise its value for

money, and enhance its transparency in the use of public funds. Rules governing Public Contracts, as well as the relative provisions of the PSMC, necessitating contracts to be given a timeframe, must be strictly adhered to.

Furthermore, procurement is to be duly made in line with the standing regulations covered by a comprehensive formal agreement, indicating the applicable terms and conditions binding the contracting parties.

Control Issues

Purchases not formally approved

Management is to ascertain that effective control is exercised on payments from public funds. NAO recommends that a Requisition Form and a Purchase Order are drawn up whenever supplies are required, including justification therein for the purchase being requested. These forms are to be endorsed by authorised officers, according to their level of authority, before the purchase is made.

Apart from ensuring that proper approval for the purchase is obtained, and an adequate audit trail is established, this enhances the internal control over the utilisation of public funds.

Expenditure not substantiated by Fiscal Receipts

Management is to ensure that pertinent regulations are adhered to and complete returns are submitted on a timely and consistent manner. Moreover, a copy of the returns reporting defaulters to the VAT authorities is also to be kept for future reference.

Insufficient Control over Log Books of General-Use vehicles

MSA is expected to maintain proper log books for its general-use vehicles, in line with Government standing regulations. These guidelines stipulate that a log book should be kept to record the exact mileage covered during each journey performed, together with the journey details. Specifically, an officer is to be held responsible for the certification of log books on a monthly basis which, amongst other reasons, will help in ensuring that proper controls, especially that on fuel expenditure, are exercised.

Compliance Issues

Lack of Compliance with Standing Travel Regulations

The responsibility and accountability for the proper control and efficient use of funds allocated for travel abroad, rest both with the authorising officers, as well as on the travelling officers availing themselves of the said funds.

As required by the relative provisions of the PSMC, whenever the services of Air Malta are not used for some permissible reason, alternative air travel arrangements should only be authorised on the presentation of at least three quotes, one of which must always be from Air Malta.

Rates for Customised Requests not formalised

MSA is to regularise its position, so that the fees it charges are adequately authorised in line with the Fees Ordinance.

Management Comments

Management concurred with the majority of findings, and will be implementing the proposed recommendations. The Authority provided these additional explanations:

No valid Contract for Cleaning Services: Although it was not provided, MSA claimed that a service contract has been in place between the then Statistics Department and the company in question since 1995, with terms and conditions being revised periodically. The agreement will be formalised in line with standing regulations. Applicable rules governing public contracts will be adhered to, once the existing arrangement expires.

Purchases not formally approved: Purchase Orders are duly endorsed by authorised officers, after obtaining the necessary quotations and justifications.

Expenditure not substantiated by Fiscal Receipts: The missing fiscal receipts outlined in this report were submitted to NAO, after the Authority chased the suppliers in question.

Lack of Compliance with Standing Travel Regulations: It is common practice to obtain three quotations for each visit abroad.

Rates for Customised Requests not formalised: The Authority's position will be regularised as soon as technically possible, and until this happens, existing rates have been suspended.

Expenditure Reporting Schemes

Background

A total of €7,200,000 were allocated to Programme and Initiative: Expenditure Reporting Schemes (ERS) for the year 2012, through the then Ministry of Finance, the Economy and Investment (MFEI) Recurrent Vote 24. Out of this amount, Government paid out a total of €4,994,768 in respect of 7,501 grants, pertaining to 11 different schemes operated by various entities.

The Corporate Services Directorate within the Ministry for Finance is responsible for the final processing of all related payments pertaining to ERS, following requests for payments from the entity operating the scheme. During 2012, Government grants were disbursed in relation to the following schemes:

- a. Grant covering Value Added Tax (VAT) on schemes administered by the VAT Department for:
 - expenditure related to weddings, funerals and priesthood;
 - the purchase of musical instruments and bicycles; and
 - capital expenditure incurred by church/independent schools and sports associations.
- b. Grant on the purchase of more environment-friendly cars, administered by Transport Malta.
- c. Exemption of payment of Customs Duty,

VAT or Licence on imported vehicles by persons with special needs, which scheme was administered by the Customs Department and the National Commission Persons with Disability.

- d. The 20/20 Sport Training Leave Scheme for Private Sector Employees, administered by the then Ministry of Education, Employment and the Family, through the *Kunsill Malti għall-Isport*.
- e. Grant for Collective Accommodation Establishments, administered by the Ministry for Finance.

Audit Scope and Methodology

The scope of this audit was to verify that the related funds for ERS in 2012 were appropriately disbursed, in accordance with the conditions laid down in the respective Government Notices.

The audit was conducted in accordance with generally accepted auditing standards. An introductory meeting was held with the Ministry for Finance officials, to obtain an understanding of the various schemes and procedures adopted by the Ministry, in relation to the relevant payments effected. Further discussions were subsequently held with a number of officials from the various Government Departments and Entities administering the respective schemes, in order to elaborate on procedures adopted in the management of such grants.

Walk-through tests and detailed substantive testing were carried out to confirm the existence

and the correct application of controls. Individual transactions were selected on the basis of their nature and materiality. A completeness test was initially carried out on all disbursements, to ensure that no payments were made out of the related line item, other than for the schemes in question.

Out of 92 transactions included in the Departmental Accounting System report for the year under review, NAO focused on 19 transactions, collectively amounting to €2,482,061. Sampled grant payments were analysed and tested as outlined below:

Grant on Weddings, Funerals, Musical Instruments, Bicycles and Priesthood

In relation to grants for weddings, funerals, musical instruments, bicycles and priesthood, 11 payments were issued by MFEI to the VAT Department to refund beneficiaries accordingly. NAO randomly selected three of these payments, totalling €26,492, each of which represented a significant number of grants paid by the VAT Department to individual applicants. From these lists, NAO selected and tested 15 individual grants, each relating to weddings and funerals, as well as six grants, each related to musical instruments and bicycles respectively. The only grant relating to the priesthood scheme paid during the year was also verified.

Grants to Church and Independent Schools

During the year 2012, MFEI issued two payments to the VAT Department, in respect of grants to church and independent schools, amounting in total to €724,100. These payments included seven individual refunds to schools, all of which were verified.

Grants to Sports Associations

In the year under review, MFEI made four payments to the VAT Department, in respect of grants to sports associations, in aggregate amounting to €407,790. NAO selected two of these payments, which included nine individual applications, for an aggregate value of €321,155.

Grant on the purchase of more Environment-Friendly Cars

Monthly payments were issued by MFEI to Transport Malta, in aggregate totalling €1,680,796. Three of such payments, representing a total of 647 grants paid by the latter to individual applicants were randomly selected, out of which 21 separate grants, totalling €19,303, were reviewed.

A total of 11 grants, amounting to €9,800, were refunded back to Government, by those applicants transferring the new car on which the grant had been provided, before 36 months from the date of first registration. Two of these refunds totalling €1,812 were tested.

Exemption of payment of Customs Duty on imported vehicles by persons with special needs

In 2012, MFEI made eight individual payments, amounting to €6,720, to the Customs Department, to cover claims in respect of the exemption of duty on imported vehicles by persons with special needs. Two of these refunds were selected, in aggregate amounting to €2,000.

20/20 Sport Training Leave Scheme

During the year under review, six payments, totalling €22,321, were issued by MFEI to the Ministry of Education, Employment and the Family in respect of grants to athletes. Two of such payments were selected for testing, which included grants paid to four different applicants, totalling €16,503.

Grant for Collective Accommodation Establishments

The Ministry made 34 individual payments, amounting to €419,131, to different establishments, in respect of grants for accommodation covered by pre-budget contracts. Six of these grants, in aggregate totalling €116,779, were tested during the audit.

Payments verified represented a sample from each individual scheme forming part of ERS, which collectively amounted to €1,226,312. This represented 25% of the total amount paid by Government during 2012.

Limitation on Scope of Audit

In all nine cases reviewed under the scheme related to sports associations, verifications that applications were submitted on time were hindered. This was due to the lack of recording of the date when the application forms were received at the VAT Department. Moreover, in six of these instances, the date of completion of the application form to be duly filled in by the applicant, was also missing.

Control Issues

Deadline for Submission of Application overlooked

In accordance with the applicable Government Gazette Notices, applications under the funerals, priesthood and bicycles schemes, including supporting documents, are to be submitted to the VAT Department within three months from date of death, ordination and purchase of bicycle respectively. However,

- a. four grants relating to funerals, representing 27% of 15 payments tested, were paid, even though the respective applications were submitted after the three-month deadline, i.e. between 26 to 71 days beyond the time period allowed;
- b. the only grant relating to the priesthood scheme was paid to the beneficiary, even though the application was submitted 71 days after the prescribed closing date following the ordination day; and

- c. out of six cases tested, relating to the purchase of a bicycle, one grant was paid to the beneficiary, notwithstanding that the respective application was submitted 26 days after the established deadline.

Acknowledging late applications may be to the detriment of other eligible individuals, who consciously do not apply beyond the respective closing date.

Payments issued not in Order of Application Receipt Date

- a. During the testing of the 15 wedding grants, it was noted that whilst an application received by the VAT Department on 3 October 2011 was paid on 13 February 2012, two other applications received earlier, on 14 and 16 September 2011 respectively, were paid much later, on 15 May 2012.
- b. An examination of the 15 grants on funerals revealed that an individual who submitted an application on 27 December 2011, received the grant on 17 May 2012, whilst another applicant who submitted a request earlier on 22 December 2011, received payment much later on 16 July 2012. In relation to the same scheme, it was also noted that another individual who submitted an application on 16 January 2012 was paid the grant on 16 July 2012. On the other hand, an applicant who submitted a request one week later on 23 January 2012 received the payment at an earlier date, in this case on 17 May 2012.
- c. Out of six cases tested in relation to the scheme for the purchase of a bicycle, an individual who submitted an application on 4 January 2012 received the grant on 16 April 2012, whilst another applicant who applied earlier on 22 December 2011, was paid nearly a month later on 15 May 2012.

Failure by the VAT Department to process applications by order of receipt, could diminish the Department's transparency, on the basis that individuals may not be treated with fairness.

Compliance Issue

Non-Submission of Fiscal Receipts

It was confirmed that five applications, out of the sample of 21, relating to the grant on the purchase of more environment-friendly cars, were not supported by a valid fiscal receipt. These represented 24% of the audit sample under this scheme, in aggregate amounting to a grant equivalent to €4,866. Such applications were to be accompanied with a copy of the original fiscal receipt issued by the agent or dealer to the purchaser, detailing the full name and identity number of the purchaser, together with the chassis number.

Recommendations

Control Issues

Deadline for submission of Application overlooked

Unless duly amended, the VAT Department is to enforce established deadlines to the various schemes, to ensure fairness and provide equal opportunity to all applicants when applying for grants. Thus, it is expected to refrain from processing late applications. The Department is also to ensure that all application forms are completely filled-in.

Payments issued not in order of Application receipt date

To ensure a fair approach, the VAT Department is to process applications in the order they are received, as long as it has all the necessary documentation in hand.

Compliance Issue

Non-Submission of Fiscal Receipts

Transport Malta is expected to comply with this requirement in all instances, to ensure that all necessary documents relating to the application are submitted and verified, with any irregularities followed-up.

Management Comments

The VAT Department agreed with NAO's recommendation to address the findings in this report. The following additional comments were also submitted.

The related Government Notices stop short of indicating how late applications are to be treated. To this effect, on 28 May 2013, a query was made to the Attorney General, to which no reply was yet received. It is foreseen that the grants' Notices will be redrafted to ensure transparency and fair treatment.

The VAT Department is planning to introduce an electronic system, subject to MITA clearance, that issues a unique consecutive number upon application for the relative grant. It is proposed that such number would be linked to the issue of the refund, in order to ensure that these are dealt with in order of receipt of application, unless the latter cannot be processed for a valid reason.

Transport Malta will also be discussing the lack of fiscal receipts with the vehicle importers, to ensure that these are submitted before the transaction is completed. The missing receipts in question were obtained, after contacting the respective car agents.

Government Property Department

Background

The Government Property Department (GPD) is responsible for the management of Government's immovable estate. Its mission is to promote and maintain the best use of Government's immovable property, and to ensure an equitable process for any acquisition, as may be required for public purposes. It also acts as the coordinator of all operations within its four Directorates, namely Land Directorate; Estate Management Directorate; Joint Office; and Finance and Administration Directorate.

This audit focused on rent on Government properties falling in arrears, as well as revenue from rent of commercial tenements which, for 2012, were estimated to amount to €17,000,000, whilst the actual rent received during the year as per the Departmental Accounting System (DAS), totalled €12,233,369.

Audit Scope and Methodology

The main scope of the audit was to evaluate the level of existing internal controls over the collection of revenue due to Government, from rent on commercial tenements. The audit also assessed whether adequate procedures were in place for the collection of revenue from rent on all types of Government property, which were still in arrears as at the end of December 2012.

An introductory meeting, followed by a walkthrough test, was conducted to gain an understanding of the procedures and systems in use within GPD for the invoicing and collection of rents. The Department originally made use of

the Land Management System to record details and transactions in relation to property owned by Government. Towards the end of 2011, this system was phased out and replaced by the Land and Estate Management Information System (LEMIS), which was used during 2012 for the day-to-day activities. Amongst others, these included the issue of 'rent runs', as well as the recording of rents collected. During the audit, NAO was informed that GPD was working on the implementation of LEMIS v2, which is an updated version of LEMIS.

The Department is responsible for rent collection on an array of tenements, however, as indicated earlier, testing was specifically conducted on rent from commercial properties. The rationale behind this scope rests with the substantial amount of €9,451,187 due to GPD, which represented 50% of the total arrears reported in the Arrears of Revenue Return (ARR) for the year ended 31 December 2012.

A list of 'rent runs' generated during 2012, showing all invoices issued for rents on commercial tenements, was provided by GPD. Twenty-two 'rent runs', with a total of 2,840 invoices amounting to €12,572,073, were issued during the year in relation to 1,465 commercial tenements. It transpired that a total of €2,348,800, representing 19% of the total amount invoiced for commercial tenements, was billed to Government Entities and Local Councils, whilst the remaining €10,223,273 (81%) was billed to private tenants.

From the available data, a sample of 45 commercial tenements, in relation to which 75 invoices amounting to €6,990,488 were issued,

was selected for the purposes of audit testing, representing 56% of the total population value. The materiality of the amount due was taken into consideration when selecting these transactions.

The relevant files were requested and testing on the information traced therein was conducted accordingly. NAO assessed whether the relevant documentation, concerning the inception of the lease, billing and payment of rent, and where applicable, the chasing of arrears, were duly maintained. Payments made by the tenants in settlement of the tested invoices were also traced to the income deposits recorded in DAS.

In those cases where payments due for 2012 were not fully settled, NAO also verified that the balances still outstanding were shown in the list of debtors provided by GPD as at year-end.

NAO has based its sample selection of rent on commercial tenements on the list of 'rent runs' extracted from LEMIS, as provided by GPD, for the purpose of the audit. Thus, property not included therein, if any, was not subject to form part of the population.

Arrears of Revenue due by Government Departments, Parastatal Entities and Local Councils

An exercise was also carried out on all the revenue in general, falling in arrears. To understand the figures presented by GPD in its ARR, a walkthrough test was conducted, followed by other meetings with officials responsible for the compilation of the Return.

It transpired that the main area of concern, in relation to the amount of revenue falling in arrears, consists of amounts due to GPD from other Government Departments, Parastatal Entities and Local Councils. According to GPD records, these dues totalled a gross balance of €11,458,542.

Third party confirmations

NAO selected a sample of 14 tenants, representing nine Government Departments, two Parastatal Entities and three Local Councils, which,

according to GPD records, rent a total of 119 properties. Net collectable arrears due on these tenements amounted to €8,229,663, representing 72% of all arrears outstanding of €11,458,542.

Requests for information were sent by NAO to each of the tenants, asking them to provide a breakdown of all Government properties held on lease or emphyteusis, the annual rent thereon, as well as any pending rent as at 31 December 2012. The information received was then compared to the data provided by GPD, and observations were extracted accordingly.

Review of Departmental files

From the original sample of 119 properties, NAO assessed the relevant files for 16 tenements, that were either deemed to have a substantial amount of net collectable arrears due, or whose ledger history showed that little or no activity was recorded in relation to the tenement.

These properties¹ related to six Government Departments and two Parastatal Entities, with accumulated rent thereon amounting to €7,814,077, and represented 95% of the original sample selected of €8,229,663.

In addition to the above, an exercise specifically dealing with rent in arrears on property held by Parastatal Entities was conducted. The aim of this exercise, involving 284 properties for a total net collectable arrears of €2,134,363, was to ascertain whether a 'stop rent' was being imposed on the respective tenements.

Negative Balances featuring in the Arrears of Revenue Figures

From the list of debtors provided, it was noted that 1,014 tenements were showing a negative balance of net collectable arrears, amounting in total to €764,082.

NAO focused mainly on those amounts with a negative balance exceeding €1,000, which accounted for 93% of this total population. A sample of eight tenements, totalling €611,564, (80%) was selected for testing and the respective

¹ These form part of the original 14 tenants selected in NAO's sample.

files were requested to assess the accuracy of such amounts.

Limitation on Scope

The scope of the audit was limited by the fact that one of the files requested, which related to a tenement showing a negative balance of €1,419, was not made available by GPD.

Furthermore, during the exercise to obtain confirmations of rent due from a number of Government Departments, Parastatal Entities and Local Councils, replies from the Agriculture Department, Water Services Corporation and Pietà Local Council were not received, notwithstanding an extension of the deadline given by NAO.

Key Issues

Revenue due from Government Departments, Parastatal Entities and Local Councils

Unreconciled Balance

According to the 2012 ARR presented by GPD, the total amount of gross arrears due from Government Departments, Parastatal Entities and Local Councils amounted to €11,458,542. However, in its Return, the Department reported that, “...this figure might not be realistic since according to Treasury they record an amount of €2,000,000 due from Govt. Depts”, and that, “An exercise is being carried out by GPD to reconcile the correct figures.” In fact, during the course of the audit, GPD sent an e-mail to all Permanent Secretaries, requesting them to provide the details of properties held on lease by all entities falling under their responsibility.

Thus, the difference of €9,458,542 was recorded as ‘estimated as not collectable’ in the Return, leaving a balance of €2,000,000 as net arrears. Whilst the breakdown of debtors extracted from LEMIS tallied to the total gross arrears, no breakdown was available for the reported net amount. Up to the writing of this report, the Department’s debtors’ template as at end 2012, as uploaded on the Government’s Accrual Accounting Financial

Reporting System, did not reflect the provision of €9,458,542.

Intra-Governmental Transactions not updated in the System

It is normal procedure for Government Departments to effect their rent payments through DAS², via the Transfer Schedule of Payment facility. It is only since September 2012 that payments are updated in LEMIS, and prior to this date, the system was not updated. Consequently, debtors’ amounts remained pending, leading to unrealistic arrears of revenue figures in the ARR.

Arrears of Revenue from Government Departments not substantiated

No supporting documentation was traced to substantiate amounts for 11 out of 16 tenements leased to Government Departments and Parastatal Entities, a situation which could lead to a potential loss of revenue even though in actual fact transfer payments are involved. Rent in arrears, amounting to €6,511,045 and representing 83% of the sample selected for testing (€7,814,077), was reported in relation to these properties.

Four of these balances, pertaining to the Electoral Office, the Department for the Elderly and Community Care, and the Agriculture Department, with an aggregate of €609,802 in arrears, were created during 1993, and no further transactions in their respective ledger history were recorded since.

In a similar case relating to a property rented to the Health Department, a debit adjustment of €6,322,693 was also created in 1993, in relation to rent for year 1991. This was followed soon after, with another credit adjustment of €1,062,165 for the same period. The tenement’s ledger history shows no other movement since then, and is now still showing a balance of €5,260,528.

System not updated with Tenement History

Upon assessment of tenement history in the respective GPD files, NAO noted that in four cases out of the 16 tested, prescribed actions, which

² Payments made by Parastatal Entities and Local Councils are usually affected by cheque, with LEMIS being updated accordingly.

were either minuted or reflected in the available correspondence, were not recorded in LEMIS. This could not only effect balances in arrears, but also the Department's operations in the rent collection process. Further details are provided as follows:

- In a file relating to premises occupied by the Health Department, NAO identified a write-off approval by the Ministry of Finance, for €5,768,886, dated 1993. This adjustment was not traced in the LEMIS ledger history for this tenement, thus the outstanding balance due from this Department, amounting to €5,260,528 still featured under arrears of revenue up till end 2012.
- It transpired that the lease on a tenement held by Water Services Corporation was not to be renewed beyond 31 December 2009. Although a minute in the file shows that a 'stop rent' indicator was recorded in the system during 2009, the ledger history indicates that rent was still being invoiced, at least up till June 2013, accumulating a total of €122,292 incorrectly invoiced by GPD. As a result, the arrears of revenue as at December 2012 were overstated by another €104,822.
- According to GPD records, rent owed by the Electoral Office as at end 2012, with respect to two tenements, amounted to €135,266. It transpired that this was settled by means of two payments of €11,414 each, during 2004 and 2005 respectively, and another of €112,439 in 2006. However, these payments were not reflected in the respective ledger history of the aforementioned properties. This shortcoming again overstated the arrears of revenue balance.

Moreover, no documentation was traced in file to support the balance of €22,082 relating to another two tenements, both leased by the same entity.

- Premises were rented to the then Malta Transport Authority for an annual charge of €3,727. According to the ledger history in LEMIS, this amount was invoiced to

the respective tenant for a one-year period starting from 2008, and was paid during the same year.

However, it transpired that the premises were no longer used by the entity after the third week of August 2008. The Commissioner of Land ordered to close the respective account during 2009, as per minute traced in GPD file. However, another one-year rent of €3,727, for the period commencing 2009, was charged to the entity.

Unexplained 'Stop Rents' on Government Entities

'Stop rents' were effected on 14 tenements out of the 16 whose file was requested for testing purposes. Rent due on these tenements amounted to €7,228,734 and represented 93% of total transactions tested. No details were traced in the respective files, providing reasons why these 'stop rents' were effected and from when, increasing the risk that GPD might be erroneously refraining from issuing invoices in relation to property which is still being used by the respective tenants.

In a separate exercise, NAO also verified whether 'stop rents' were effected on the various tenements occupied by Parastatal Entities. Out of 284 properties which are rented out to 29 different entities, rent in arrears amounted to €2,134,363. It transpired that 'stop rents' were effected on 15 of these properties, pertaining to 10 entities, whose rent due totalled €946,350.

Third Party Confirmations

NAO requested third party confirmations from selected tenants, as part of an exercise to verify whether the list of properties on which rent was due as at 31 December 2012, as per GPD records, agrees to details submitted.

- In 11 instances out of the 14 requests made, property details according to GPD records could not be tallied with those listed by selected tenants. In the remaining three instances, replies were not received, as reported under the Section 'Limitation on Scope'. In fact, cases were encountered where the description of some properties is recorded as 'unknown' in LEMIS.

- The amount of rent payable to GPD as at 31 December 2012, as stated by the 11 respondents, differed from the amount as quoted by GPD. The total discrepancy amounted to €6,661,573, which was principally made up of €4,753,292 pertaining to the Health Department, and €1,907,781 in relation to nine replies that reported that no amount was due.
- A number of properties in use by Transport Malta were transferred from the Government to the former with effect from 1 January 2010, in accordance with relevant legislation. To this effect, the entity stated that no rents are due to GPD for any property currently in its use.

However, GPD is still listing the properties that were leased to the entity in its records, and invoicing the latter accordingly, well into 2013. This situation has led to a number of overpayments in favour of GPD, amounting to €185,723.

Negative Amounts distorting the Arrears of Revenue Balance

Delayed Procedure to Write-off Negative Balances

The list of Arrears of Revenue as at 31 December 2012, provided by GPD, included a total of 1,014 negative balances, amounting to €764,082. These balances are erroneously netting-off the amount of arrears due to the Department as at year-end.

From the sample of eight balances selected, NAO traced six instances, with an aggregate negative balance of €591,301, which resulted from delayed action by GPD to clear off these balances. Details of these cases are presented below.

- A negative balance of €159,698, pertaining to the Mediterranean Conference Centre, was reported as at 31 December 2012. Upon enquiry, the Department stated that the amount of €625,818 should be due from the entity concerned. This amount was derived after taking into consideration the annual rent of €62,567, that was due but not invoiced, for the period 1989 to 16 April 2002, after which no rent was chargeable. Up to the writing of this report, GPD had not yet taken any corrective action to update this tenement's ledger history.
- As at 31 December 2012, the negative balance shown under a private tenement, amounted to €409,750, which balance was eventually cleared only in 2013, except for the residual credit amount of €620. No action has been taken to-date on this balance.
- It transpired that during 2011, another private tenant converted his previous temporary emphyteusis into a perpetual one, at a cost of €10,629, which was partially set-off in 2012, with an invoice of €343, consisting of the annual ground rent due. The resulting negative balance of €10,286 still featured in this account during the audit, since an invoice for the entire amount was not raised, but was adjusted later in 2013.
- In the case of another private tenement, for which an unexplained negative amount of €4,729 was reported since end 2000, NAO traced a minute in the respective file, requesting the Director General's approval for the write-off of this credit balance. This approval was granted and processed during 2013.
- A negative balance of €4,589 in relation to a different private tenement, related to a prepayment of rent due. An invoice to cover this amount was only recorded on 1 January 2013, being the beginning of the rent period ('due date').
- The negative balance of €2,249 in relation to another tenement, pertained to court fees paid by a local bank, on behalf of the property's previous tenant. NAO noted that in spite of a recorded minute in file dated 2011, whereby the Commissioner of Land requested this amount to be refunded to the said bank, this refund was only processed during 2013.

Negative Balances not Substantiated

No supporting documentation was available to support the credit amounts of €18,845 and €1,419, pertaining to two tenements. In one case, the respective file was not made available for audit purposes (refer to 'Limitation on Scope'), whilst in the other case, no relevant documentation was available in file. Unless all amounts are substantiated, proper action cannot be taken to set-off the balance in question.

No Reminders traced in relation to Rent falling in Arrears

As stated by GPD, the practice is to manually issue reminder letters to those tenants who do not settle their rent balance within 45 to 60 days after the date of the invoice. However, the audit revealed that, in relation to commercial tenements, no reminders were traced in the case of 20 invoices, which represent 27% of all invoices (75) tested. These invoices, which relate to 18 tenements, and amount in total to €1,334,044, remained partly or fully unsettled after the maximum prescribed reminders' timeline, *i.e.* 60 days. Of these, 12 were eventually paid in full, and in three other cases, payments were made either in line with a settlement agreement or by instalments. The remaining five invoices, totalling €143,250, were not yet settled as at the date of testing, *i.e.* end September 2013.

The fact that reminders are triggered manually, increases the risk that those properties, whose rent is long overdue, are overlooked, and reminders thereon are either not sent or sent late.

Non-renewal of Expired Contracts

- a. NAO did not trace any renewals in relation to five expired lease contracts with private third parties between 1991 and 2011. In spite of this, rent on these tenements, totalling €68,240, was still charged during 2012.
- b. In the case of a tenement rented to one of the above-mentioned private tenants, a contract expiring during 1991 was traced in the respective file. Although a renewed contract could not be traced beyond 1991,

according to a letter issued by the Office of the Attorney General in 2011, it transpired that the contract was tacitly renewed in 1991 and 2001 for further periods of 10 years, in line with the original lease agreement. Thus, the lease contract was deemed to be automatically renewed in 2011 until 2021.

- c. An additional three contracts, relating to tenements rented to private individuals, had long expired, for periods ranging from 13 to 20 years. Another contract was identified as expired in 2011.

When expired contracts are not renewed, the Department is unable to update the contract conditions that bind the tenant, which increases the risk that contract conditions do not realistically reflect the current property and market conditions.

Failure to abide by Contract Conditions

During 2012, contracts were being revised manually in batches every three months, by issuing a list of tenements which were up for revision. Once the workings in relation to the revisions were completed, the necessary details were updated in LEMIS.

It transpired that in four cases reviewed, there was no revision of rent in line with the provisions of the respective contracts with private third parties, a situation which could result in loss of revenue to Government. Billed rent in relation to these tenements for 2012 amounted to €484,123, representing 7% of the sample selected (€6,990,488). Details of these cases are presented hereafter.

- A lease covering a prominent commercial property in Valletta was automatically renewed after its expiry in 1991, however, as stipulated in the original contract signed with a private entity in 1981, the rent due had to be reviewed every five years in accordance with the index of inflation. In spite of this clause, rent was only increased from €18,635 to €19,800 in 1987, and remained unchanged since.
- Similarly, a rent revision, which was due on a tenement rented to another private

company, was not effected. Temporary ground rent of €13,976 was imposed on this catering establishment in St. Julian's, in line with the lease agreement of 2007. However, the revision that was due in 2012, as stipulated in the same contract, was not carried out. In fact, rent for the one-year period commencing from 2012, as well as that for the subsequent year, were still invoiced at €13,976.

- In accordance with a contract dated 1999, granting a temporary emphyteusis of 99 years to another private company, rent that was originally set at €524,109, was revisable at 15% every 10 years. Following an upward revision in ground rent of 15% in 2009, rent chargeable on this property was revised to €499,750. However, the amount of €434,637 was erroneously billed for 2012, instead of the €499,750 that should have been charged, resulting in an under-charge of €65,113.

Correspondence further revealed that, in conformity with legal advice obtained by the tenant, the latter made two payments of €113,112 each for the years 2011 and 2012. However, GPD did not acknowledge this reduction in rent payment and continued to bill the amount of €499,750 annually, without drawing the attention of the lessee on the outstanding balance brought forward from previous years.

- In a separate case relating to another commercial rented property, an annual rent of €12,500 was imposed, in line with a lease agreement of 2011. Notwithstanding that rent was due to be revised beginning 2014, the rent invoiced on this tenement for 2012 amounted in total to €15,710. The revised rate was not substantiated with documentation to show whether the rent revision was official.

Control Issues

Upward and Downward Revisions in the Arrears of Revenue Return

It transpired that invoices are recognised within LEMIS on the commencement date of the related

rent period (the 'next due' date), rather than on the date when said invoices are issued (the 'transaction posted' date). Consequently, discrepancies arose whenever transactions that related to 2011 were posted in 2012, because this changed the closing 2011 balances, and consequently required a revision to the opening 2012 ARR balance in order to tally.

The upward and downward adjustments, amounting to €1,867,855, as reported in GPD's ARR, are therefore being used to reconcile the closing net collectable arrears as reported in the 2011 ARR, and the opening 2012 balance as reported by LEMIS.

The present reporting system of income recognition does not allow GPD records to reflect the Department's position in terms of amounts collectable at any point in time, besides hindering a proper audit trail.

Ageing of Amounts due

When the 2012 ARR was completed, GPD did not generate an ageing list of debtors. Subsequently, NAO was informed that due to the functionality issues within LEMIS (*i.e.* its use of the 'next due' date when issuing reports), if a debtors' ageing list is not generated when extracting the balances for the ARR, as explained earlier, but is generated at a later date, this would not agree to the closing balances.

Failure to analyse and deal with the ageing of GPD's debtors will not enable the Department to focus on the collection of long-overdue rent.

Misstated Balance for Below-the-Line Account

A review of the 2012 ARR revealed a discrepancy of €79,697 between the balance of €2,948,911, reported for a below-the-line Account, namely 'Land Acquisition on behalf of Third Parties', as against supporting documentation which is being kept manually, and showing a balance of €3,028,608.

This account consists of amounts due from various Government Departments, in relation to property expropriations conducted by GPD on their behalf. Since 2003, these expropriations were only carried out after the necessary funds were received from

the respective Departments, which were obliged to finance the expropriations themselves. However, GPD could not provide an explanation for this variation, indicating a lack of audit trail in the respective movements occurring during the years.

Recommendations

Key Issues

Revenue due from Government Departments, Parastatal Entities and Local Councils

Unreconciled Balance

The Department is to investigate any differences identified between its ARR and debtors' template, to ensure that such balances are properly reported. This would allow GPD to focus its collection efforts on the outstanding arrears of revenue balance.

Intra-Governmental Transactions not updated in the System

GPD is to ensure that all transfer payments received from other Government Departments are reflected accordingly in LEMIS, so that any possible revenue falling in arrears is duly recorded and chased.

Arrears of Revenue from Government Departments not substantiated

GPD is to take appropriate action to ensure that all tenement files properly reflect the history of said properties.

System not updated with Tenement History

Efforts are to be intensified for the continuous update of the system, to reflect all authorised decisions recorded manually. The system itself must be a useful source of data to be able to assist GPD officials to extract any information needed, and to generate specific reports as required.

Unexplained 'Stop Rents' on Government Entities

GPD is to ensure that any 'stop rents' effected on particular tenements are properly authorised and supported by the relevant documentation.

Third Party Confirmations

NAO recommends that the exercise initiated by GPD during the course of the audit, in pursuit of updating its records *vis-à-vis* property in use by Government tenants, is duly followed up so that it would have a realistic overview of amounts actually due.

Negative Amounts distorting the Arrears of Revenue Balance

Credit balances ought to be treated separately, both for reporting and control purposes. In those cases where a payment is made in advance, these are to be treated as deferred income, and reported accordingly to the Treasury Department. This would ensure that amounts featuring in the ARR are not affected by arising credit balances.

Such pending balances that have long been outstanding are to be investigated on a regular basis and, if possible, cleared off after it has been ascertained that they cannot be actually collected; thus ensuring that a more realistic picture is given.

Proper documentation is to be kept in file at all times, with LEMIS being updated accordingly as soon as the event arises.

No Reminders traced in relation to Rent falling in Arrears

GPD is to adhere to its procedure of issuing reminders whenever a payment is overdue by the prescribed number of days. An automated procedure to generate reminders may also be inbuilt within the new system, LEMIS v2. This would ensure that tenants are duly reminded of their rent falling in arrears and are prompted to pay accordingly, thereby assisting the Department in taking timely action.

Non-renewal of Expired Contracts

Lease contracts are to be renewed upon their expiry without any unjustified delays. The Department is to take the opportunity to revise the contract conditions, including rent due, if deemed necessary.

GPD can also consider introducing a module within its system, which would inform the user whenever a contract is about to expire. This would enable GPD to take timely action on expired contracts and revise such agreements accordingly. LEMIS should then be updated to reflect the new contract conditions.

Failure to abide by Contract Conditions

GPD is to ensure that rent revisions are carried out in a timely manner.

Control Issues

Upward and Downward Revisions in the Arrears of Revenue Return

NAO recommends that the ‘transaction posted’ date starts being used to compile the ARR. This would eliminate any discrepancies which may arise between the closing and opening balances of arrears.

Ageing of Amounts due

It is recommended that GPD starts to generate an ageing debtors’ analysis to assist it in its revenue collection efforts.

Misstated Balance for Below-the-Line Account

GPD is to ensure that appropriate data is maintained and updated through a computerised system, to ensure a sound audit trail. This would avoid any potential misstatements. It is further recommended that the discrepancy noted is investigated by GPD.

Management Comments

GPD agreed with NAO’s recommendations and is taking all the necessary action to resolve the issues highlighted in this report. Management also stated that a Revenue Manager was engaged in 2013, which resulted in a considerable improvement in the performance, output and collection of arrears within the Rents Section. Additional comments provided by the Department are mentioned below.

With regards to revenue due from Government Departments, Parastatal Entities and Local Councils, the Finance and Administration Directorate within GPD has circulated a property update form to all Permanent Secretaries, wherein each Department was requested to provide a list of properties which are being used or otherwise. This information will enable GPD to:

- identify vacant properties which can be allocated to Departments without the requirement to revert to property administered by the private sector; and
- calculate the amount required by each Department to cover the rent due.

Furthermore, it was stated that the difference that exists between the debtor’s template and the ARR, could be due to the fact that LEMIS operated on the ‘next due’ date basis and not by ‘transaction posted’ date. Management expects that this discrepancy would no longer materialise as from the new reporting system (LEMIS v2), introduced in October 2013, since this operates by ‘transaction posted’ date.

With the introduction of LEMIS v2, GPD is now in a better position to trace rent falling in arrears through an automated rather than a manual system.

Finally, with regards to the misstated balance identified for the below-the-line account, GPD confirmed that the payables module within LEMIS v2, will enable all amounts paid to third parties in relation to expropriation of land, to be effected through the system, and not through a manual procedure.

Ministry for Justice and Home Affairs

Department of Correctional Services

Background

The Department of Correctional Services is responsible for keeping prisoners in custody while offering rehabilitation programmes in line with a care plan prepared by the Care and Re-integration Unit¹.

Corradino Correctional Facility (CCF) is the main prison compound in Malta. Another three sites, namely the Substance Abuse Therapeutic Unit, the Valletta Lock-up and the Forensic Unit within Mount Carmel Hospital, are also considered by law as places of custody. The number of persons in custody during the year 2012 ranged between 562 and 629.

The audit covered Operational and Maintenance Expenditure as well as expenditure under Programmes and Initiatives made by the Department of Correctional Services during 2012. The Financial Estimates show that the approved budget² under recurrent vote 32 was €3,045,000, whereas actual expenditure³ as per Treasury Financial Report amounted to €2,892,675.

Audit Scope and Methodology

The objectives of the audit were to verify that, during financial year 2012, expenditure incurred and adopted procurement procedures were duly authorised and properly accounted for, and in adherence to the Public Procurement Regulations (PPR) S.L. 174.04, as well as other relevant

circulars. The level of internal control was also determined.

An overview was obtained through various meetings held with Management. A sample of 30 transactions covering consumables, utilities, fuel and contractual services, was chosen on the basis of materiality. This sample, which amounted collectively to €452,973, represented 16% of the actual aggregate recurrent expenditure of €2,892,675 incurred by the Department, excluding salaries.

Limitation on Scope of Audit

The objectives and the completeness of the audit examination were hindered as Management failed to present and/or clarify information in a number of instances as mentioned below:

List of Authorised Signatories provided falls short of the Period Under Review

Following audit enquiries to identify the authorised signatories covering the year 2012, only a list dated 27 September 2012 was made available. A document evidencing the signatories for the first three-quarters of the year was not available since the original file could not be traced.

Log Books not made available

The log books for the sample of four months, namely January, February, May and June 2012,

¹ The Care and Re-integration Unit is one of the departments operating within Corradino Correctional Facility.

² Source: Budgetary Estimates for the Year 2012 – Estimate 2012 (The Ministry of Finance, the Economy and Investment)

³ Source: Treasury Financial Report 2012 – Statement of Expenditure for 2012.

which were requested for audit testing, were not provided, claiming that it was due to “... *the special circumstances relating to the movement of Offices and transfer of personnel currently going on at CCF*”. As a result, testing to ascertain whether proper control was exercised over the issue of fuel to Government-owned vehicles could not be performed.

Records for Fuel purchased in Bulk

Notwithstanding that CCF maintained that the Substance Abuse Therapeutic Unit and Female Division ‘A’ each have separate records to log the purchase of fuel, these were not made available for audit purposes.

Key Issues

Stock Management

Background

The prison complex has a stationery store within the Administration Department and one large store for general provisions, including food. The latter is manned by three Correctional Officers, of whom two are officers-in-charge and are also responsible for procurement. Bin cards and the STORIT automated system are used to record stock movement.

Lack of transparency on the Procurement of Store Items

The National Audit Office (NAO) was informed that suppliers are selected by the officers-in-charge of procurement, after quotations are obtained over the phone. This implies that even the basic controls over procurement are lacking. Furthermore, the officers within the Accounts Section were not aware of the applicable agreements between the officers-in-charge of stores and the respective suppliers, with the result that the amounts invoiced could not be confirmed prior to payment. Consequently, the only checking performed within the Accounts Section is the confirmation of invoices against the respective Local Purchase Orders (LPOs).

Stocktaking not performed

Treasury Circular No. 6/2004 stipulates that the officer-in-charge of stock, together with a member from the Finance Section, is to ensure that stocktaking is carried out at least once a year, preferably at the end of the financial year. However, no stocktaking records were made available during the audit. Upon enquiry, CCF confirmed that regular stocktaking was not being performed.

Shortcomings in Stock Records

The audit sample included transactions with suppliers from whom various food items and consumables were purchased during 2012. A visit by NAO officers to the main store revealed the following shortcomings:

- a. Bin cards reflecting movements for such items, in respect of 2012, were not available. As a result, this Office could not confirm that such records were duly updated with purchases made during the year, thus hindering the objectives of the audit assignment.
- b. Comparison between the stock balances on bin cards and STORIT revealed material discrepancies in all five items tested as at audit date, indicating weak controls over stock.

Requisition of Food Provisions

Background

The main kitchen at CCF provides daily meals for approximately 400 inmates, representing 71%⁴ of the prison population. The others are catered for through a tender awarded to a private contractor. In-house meals are prepared by two Correctional Officers with the assistance of some inmates. An aggregate amount of €645,110⁵ was disbursed from nominal account 2210 -‘Food’ during 2012, as per Departmental Accounting System (DAS) records.

⁴ Working based on the number of inmates in each division as at 31 December 2012.

⁵ This amount excludes payments made to the private contractor for the supply of meals which is borne by the Ministry.

Menu not made available

Although the Operations Manager claimed that CCF has a periodical food menu, a copy was not made available for audit purposes, notwithstanding reminders sent. The existence of an official prison menu, which was also expected to indicate the portion measure that should be served to each inmate, was still being questioned by NAO when the audit was being concluded.

Requisitions for Provisions not drawn up systematically

There is no systematic procedure in place to ensure that the daily requisition of food store items is drawn up in relation to the ingredients required for the scheduled menu. This means that there is no control to confirm that items issued from stores are actually required, to cater for the number of inmates provided with in-house meals and in accordance with the day's menu. This lack of accountability makes the requisition of food provisions prone to abuse.

Provision of Nursing Services

Background

Following a call for tenders issued by the Department of Contracts, a private company was selected to provide nursing services at CCF for a period of two years, with the possibility of an extension of one year. An Acceptance of Tender notification, dated 13 March 2008, informed the service provider of the award of contract. During 2012, an aggregate amount of €131,632 was disbursed in this respect, as per DAS transaction listing.

Shortcomings related to Nursing Services

The following shortcomings were noted with respect to the provision of these services:

- a. A contractual agreement specifying the terms and conditions of the provision of this service was not available at CCF, limiting the management's effective control.

- b. Evidence confirming the one-year period extension was not made available. This may imply that this service has been provided under an expired agreement since 13 March 2010, putting the provision of such service at risk. Moreover, the provision of service from March 2011 onwards was not even provided for in the respective tender, thus constituting a direct order.
- c. One of the four invoices tested included a charge of €353 for the compilation of a Health and Safety Audit. Although NAO was informed that this exercise was performed by the service provider following an occupational accident, evidence formally authorising such expenditure was not made available.

Provision of Medical Services

Background

An agreement was entered into between the medical services provider at CCF and the then Director, Correctional Services on 16 February 2003. This agreement was valid for two years, commencing 1 January 2003, and was renewable thereafter subject to satisfactory performance.

On 14 June 2006, another agreement, which was valid from 1 June 2006, was entered into by the foregoing parties. This contract was valid for four years and was renewable automatically, unless notice for termination is given by either party, at least one month before the date of expiry. Subsequently, a retrospective⁶ but undated Addendum to this Agreement was signed by both parties with revised changes that came into effect on 17 May 2012.

DAS transaction listing showed that a collective amount of €69,668 was disbursed during 2012 for the provision of medical services. The salient provisions of the agreement and its Addendum are listed hereunder:

- A clinic was to be available every afternoon, from Monday to Friday, at CCF, to attend to the medical needs of inmates who require to be seen by a doctor. This

⁶ The Addendum revised the rates and fees as from 17 May 2012. However, correspondence indicates that the respective negotiations were still ongoing in July 2012.

service, which constituted the bulk of the amount payable to the firm, was to be provided at an annual fee, payable in monthly installments.

- Out-of-clinic visits conducted by the doctor were payable at a fee per visit. Such fee was not applicable when inmates were bound to their division because of health problems.
- A 24-hour on-call general practice service for medical emergencies, outside the agreed daily clinic, chargeable at different rates, depending on the particular day and/or time.
- Certification whether inmates were fit for court appearance, payable at a rate per call, when such service was provided beyond the agreed daily clinic session.
- House calls to verify sick leave of staff, to be carried out under the instructions of the Director, Correctional Services, payable at a specified rate per call.
- Court appearance payable at a rate per session of court attendance.

Shortcomings in the Management and Administration of Medical Service

- a. CCF initially claimed that the relative agreement with the service provider for medical services was entered into by the respective Ministry, following a call for tenders by the Department of Contracts. It further stated that a copy of such agreement was not made available to Management. However, NAO noted that the agreements and Addendum, which were subsequently traced and made available for audit purposes, were actually signed by the Director, Correctional Services and not by the Ministry, as previously claimed. Additionally, NAO found no audit trail with respect to the procurement procedure of this service. Audit requests and subsequent reminders to substantiate claims about the service provider selection process remained unanswered.

- b. The Addendum brought about a substantial increase of 33% in the annual retainer fee, together with a corresponding percentage increase in other charge rates. An 'out-of-clinic' fee was also introduced. Although the previous agreement was automatically renewable, it only catered for increases in fees until May 2010. Thus, failure by the Department to take earlier action to reassess the current contract conditions, coupled with the importance of the continuity of the service, may have constrained the Ministry to accede to most of the service provider's requests reflecting such increases.

Medical Services not covered by Valid Agreements

- a. Following the expiration of the first agreement on 31 December 2004, CCF confirmed that medical services continued to be provided by the same firm, up to 31 May 2006. However, no document or file minute was available, evidencing approval for the renewal, for another year and five months, before the second agreement came into effect.
- b. The above-mentioned Addendum revised the terms of reference and extended the agreement until 31 May 2013, *i.e.* covering almost another seven-year period. As mentioned earlier, audit trail with respect to the procurement procedure was not available. Thus, NAO could not confirm whether the original agreement provided for the possibility of renewal.

In August 2013, it was confirmed that although the contractual agreement had terminated, the service provider remained unchanged as at that date. The following month, a draft call for tender for the provision of medical services was still in progress.

Charge for Services rendered not corroborated

The following shortcomings were noted in the invoices for the months of May, June and July 2012, which were selected for audit purposes:

- a. Although the agreement stipulated that an annual fee, mentioned earlier, is payable in monthly installments, this could not be reconciled to the invoices. CCF was invoiced

at a rate per session instead. The invoices also contained a different rate for weekends, even though the agreement stated that clinics are to be held between Monday and Friday.

- b. CCF did not request breakdowns of calls from the service provider. It was however claimed that call-outs and out-of-clinic services are controlled, and are only effected on request. However, the relevant records maintained to substantiate the frequency of services requested could not be reconciled to the invoices as they were inadequate.
- c. All the invoices tested were not certified correct prior to payment.

Provision of Psychiatric Services

Background

A one-year contract⁷, to provide psychiatric services to the Department of Correctional Services, was entered into by the Ministry of Justice and Home Affairs and an individual, who according to Employment and Training Corporation records had been employed on a full-time basis with the then Ministry for Health, the Elderly and Community Care, since 2 July 2001. The service was to be provided in the capacity of Higher Psychiatric Trainee and Assistant to the Consultant Forensic Psychiatrist as from 1 June 2011.

A retainer fee of €18,000, the Value Added Tax (VAT) inclusive where applicable, was to be paid for the duration of the agreement, for working 129 weekly hours of on-call service, on alternate weeks, outside office hours⁸.

Retrospective Approval

On 31 May 2012, the then Director, Correctional Services, informed the service provider that the contract to provide psychiatric services was renewed for another 12 months as from that date. However, retrospective approval for direct order was only granted by the then Ministry of Finance, the Economy and Investment (MFEI) on 27 July 2012. This resulted in commitments made prior to the granting of the necessary approval.

⁷ This does not exclude the possibility that contracts with other service provider/s, also for psychiatric services, prevailed concurrently during 2012.

⁸ From 2.30pm till 8am the following day from Mondays to Fridays, and Saturdays from 2.30pm till Monday 8am.

Expired Contract for Service

The renewed contract for psychiatric services expired on 30 May 2013. However, a valid formal agreement covering the subsequent period was not available, notwithstanding that payments for June and July 2013 were effected.

Subsequently, it transpired that the provision of these services were withdrawn by the service provider with effect from 1 August 2013, on the grounds that the contract was not renewed despite several communications sent.

No Record of Attendances

An amount of €1,500 was paid monthly for on-call psychiatric services as per the above-mentioned agreement. However, attendance records were not kept by CCF, claiming that these were not considered necessary, given that the service is paid on the basis of a retainer fee. Due to the fact that the frequency of the provision of psychiatric services could not be established, its cost-effectiveness could not be ascertained.

Income from Psychiatric Services not declared by the Individual

The Inland Revenue Department (IRD) confirmed that Income Tax Return and Form TA22 usually filled in by part-time workers, relating to the psychiatric services in question for year of assessment 2013 (basis year 2012), was not filed. Thus, a non-filer statement was issued to the taxpayer. This implied that the additional income of €18,000, earned from CCF during 2012, was not declared by this service provider for income tax purposes. This resulted in loss of public funds due to tax evasion. Furthermore, the possibility that this was not an isolated case cannot be excluded.

VAT element included in an Exempt without Credit Service

The contract for service between CCF and the service provider stipulated that a retainer fee, inclusive of VAT where applicable, was payable during the period of service. It is to be noted

that this service falls within the scope of ‘Health and Welfare’ under Part Two of the VAT Act - Exemptions without credit, thus it should not have been subject to VAT.

Control Issues

Absence of a File Registry System

CCF does not have a Registry System to keep record of file movements. As the audit also coincided with a change of offices within the administration block and the transfer of personnel to other departments, this made the tracking of files extremely difficult.

Procurement and distribution of Phone Cards

Background

Both Maltese and foreign prison inmates are entitled to two free €5 phone cards monthly. The phone cards are purchased in bulk. Since each card has a specific code, this restricts use to the phones available within the prison confines, and in fact to the respective divisions housing the inmates.

The sampled transactions tested included a Payment Voucher (PV), amounting to €72,750, for the purchase of 15,000 phone cards. A total of €97,000 was disbursed for the procurement of such cards during 2012. CCF records indicate that 13,000 phone cards, equivalent to an average of 1,083 monthly, were distributed during the year.

Approval to purchase by Direct Order not sought

CCF claimed that these cards can only be obtained from this supplier. It was however also confirmed that the required direct order approval for this procurement was not obtained. Furthermore, “... *no written agreement was ever formulated*” between the two parties. As the cards were not purchased at nominal value, the price charged could not be corroborated.

Shortcomings in the distribution of Free Phone Cards

The Correctional Officer responsible for the distribution of free phone cards compiles a

schedule of the cards distributed, on a monthly basis, including details of the inmate, related division and phone card code. NAO noted that the current system does not provide sufficient control over the distribution of free phone cards, and thus may give rise to abuse due to the following shortcomings:

- a. The number sequence on the list, relating to cards distributed in June 2013, which was made available as an example, did not always follow in consecutive ascending order.
- b. A reconciliation of the inflow and outflow of the phone cards, with the resultant running balance, was not performed by CCF. The latter acknowledged that only a rudimentary record was kept, but following NAO’s suggestions it was stated that “... *a proper log will be introduced ...*”.
- c. An official documented policy, regarding the distribution of free cards to inmates, was not in place. However, it was stated that CCF is planning to take remedial action with the introduction of written Standard Office Procedures.

Closed Circuit Television Maintenance Agreement

Background

Maintenance service of the Closed Circuit Television (CCTV) System and Telephone Audio Recording System was provided as per agreement dated 1 October 2011 and valid for three years. The maintenance cost amounted to €13,197 *per annum*.

Shortcomings in Procurement and Relative Documentation

Maintenance Agreement not available

- a. Following a public call for tender, the service provider was originally awarded a tender in September 2007 for CCTV maintenance. This contract should have been valid for three years, commencing 1 October 2007. However, a copy of this maintenance agreement was not made available to NAO.

- b. The period between 1 October 2010 and 30 September 2011 was not covered by any maintenance agreement.

Procurement not in line with the regulations

- c. The prevailing CCTV agreement was signed on 1 October 2011, but the retrospective MFEI direct order approval was only dated 24 December 2011.
- d. The above-mentioned retrospective approval for a direct order for CCTV maintenance was granted for the three-year period covering 2011, 2012 and 2013. However, the agreement, which was in fact already entered into on 1 October 2011, was valid for three years, *i.e.* until 30 September 2014. This means that the nine-month period starting January 2014 was not covered by the direct order approval.

Maintenance Work performed not documented

The service provider is bound to provide the following services on the CCTV, as per Section 3 of the maintenance agreement:

- external cleaning of all ‘camera housings’ every two months;
- conduct bi-monthly meetings with the officer-in-charge at CCF, to discuss the system and to lay plans as necessary, depending on the outcome; and
- examination and adjustment of the equipment during routine maintenance.

Notwithstanding the above, it was confirmed that there is no fixed maintenance schedule. CCF just informs the service provider of areas needing particular attention, but a record of the maintenance, or other work performed, was not documented.

CCF’s claim that the meetings stipulated in the maintenance agreement are held with the service provider could also not be confirmed by NAO, as again documented evidence, such as minutes of meetings, were not available.

Telecommunication

Payments not supported by the Supplier’s Invoices

The Operations Manager within CCF authorised the settlement of at least €3,104⁹ for telephone bills on the basis of three reminders for payment, since the original invoices were missing. Besides the fact that the amounts charged were not verified prior to payment, this could have resulted in unnecessary problems with the service provider, such as an interrupted service.

Authorised Access to Mobile Phone Calls from Landlines not evidenced

NAO was informed that all personnel within the Administration Section have access to mobile phone calls from their respective landlines. However, proper authorisation to this effect was not available. As an example, one particular invoice relating to telephone expenditure of €7,451, contained 10,271 mobile phone calls made during the months of June and July 2012, for which a total disbursement of €4,124 was made from public funds to this effect.

Forensic Unit – Reimbursement of Utilities

CCF reimburses Mount Carmel Hospital for utilities consumed within the Forensic Unit located in the same hospital. However, no agreement was made available in this respect. Upon enquiry, NAO was informed that “... *if such documents were ever drawn up, any agreements were reached at the ministerial level and not at the department level*”. The fact that CCF confirmed that it was not aware of the rate per unit charged for reimbursements, raised questions on the scrutiny of invoiced amounts prior to payment. The validation of such invoices by NAO was also restricted.

Other Procurement Issues

Lack of Certification and Proper Authorisation

Ten PVs (33%) from the sample tested were issued in respect of invoices which were not certified correct before processed for payment. The collective value of the 14 invoices settled

⁹ The amount is not exhaustive but only represents bills that examiners came across during the audit.

through these PVs, which amounted to €268,768, represented 59% of the value of transactions tested.

Purchases from the Same Supplier

PPR S.L. 174.04, Article 20 (1c) stipulates that purchases of the same or closely similar material in different lots are not to exceed a total value of €25,000 during a period of six months. Audit testing was thus performed in order to analyse the value of purchases from suppliers over six-monthly periods, through DAS reports.

All suppliers paid through the vouchers selected in the original audit sample were tested. It was revealed that payments to three sampled suppliers, in aggregate amounting to €624,595, exceeded this threshold during 2012.

Hiring of Skip Services not in line with Requirements

CCF hired skips from a service provider since the 1990's. No agreement to this effect was ever drawn up between the two parties. An amount of €33,102 was paid for this service during 2012. Such procurement was made by direct order without obtaining the required approval as per PPR Article 20(4).

Purchase Requisition Forms not duly endorsed

CCF stated that since 2011, all purchases have to be made following proper completion of requisition forms. When purchases exceed the value of €2,500, approval is sought from the Director General, Strategy and Support, through the Permanent Secretary, as no officer at CCF was authorised to sign requisition forms beyond this amount.

During testing, the following shortcomings were noted with respect to purchase requisition forms:

- a. A PV was effected in respect of the purchase of 8,500 litres of diesel costing €11,390. Except for a signature by the requesting officer, the supporting requisition form raised was entirely unsigned, in particular sections

three and four, which were neither endorsed by the Accounts Officer nor approved by the Assistant Director respectively. The Director General, Strategy and Support's authorisation was also not evident in this instance, and also for the requisition form covering another PV, which was raised for the settlement of 8,000 litres of diesel costing €10,960.

- b. A duly signed requisition form issued by the Stores Section included two items, *i.e.* refuse and clear bags. However, the relative PV, amounting to €998, which was drawn up to settle the relative invoice, also covered charges for additional items which were not included in the requisition.

Bulk Purchase of Fuel

Background

CCF purchases both diesel and liquefied petroleum gas in bulk, mostly for industrial use. During 2012, €71,592 and €7,075 were disbursed for the procurement of diesel and gas respectively.

Diesel is stored on-site in two tanks, one holding 20,000 and the other 5,000 litres. The former is used to run the boilers to supply hot water to the administration block, new prison section and the main kitchen, and the latter feeds the generator.

CCF has a reserve of two gas cylinders with a capacity of 2,750 litres each, for the Substance Abuse Therapeutic Unit and the Young Offenders Unit Rehabilitation Section, besides another reserve of 500 litres for Female Division 'A'. This fuel is used for cooking purposes in the respective kitchens.

Shortcomings in Fuel Records

Two PVs included in the audit sample, which were both effected in respect of diesel purchases, had supporting invoices which indicated the quantity supplied and the fuel gauge¹⁰ pre and post delivery readings.

NAO enquired whether ledgers were kept to record fuel supplies, but was only provided with a

¹⁰ There are two gauges in the workshop interconnected with the two tanks storing diesel.

hand written spreadsheet, detailing gas orders for the Young Offenders Unit Rehabilitation Section. As already mentioned under the '*Limitation on Scope*', ledgers recording the supply of gas for the Substance Abuse Therapeutic Unit¹¹ and Female Division 'A' were not made available to NAO. Furthermore, CCF confirmed that diesel deliveries were not entered in a ledger, and that records are only kept by way of invoices and delivery notes.

Transport

Background

The supplier of fuel for Government-owned vehicles was paid an aggregate amount of €30,766 during 2012. CCF confirmed that there was no prevailing agreement to this effect, but did not exclude the probability that there may have been instructions by the previous administration to purchase fuel from this supplier.

Vehicle Enquiries not clarified

- a. CCF provided NAO with a report showing vehicles at its disposal, which in 2013 totalled 19. During testing, it was noted that three vehicles, namely GVN 044, GVN 271 and GVN 115, included in the Fuel Payment Sheets generated by CCF from the same system, were not on this report.
- b. Additionally, CCF was requested to confirm whether six vehicles, namely GVN 118, HBL 437, GVH 127, GVN 218, GVN 261 and GVN 541, were still in use since the vehicle report indicated an 'active' status, yet there were no fuel purchases in respect of these vehicles, on the payment sheets checked, covering the months of February and June 2012.

Notwithstanding a request for clarification, the reply obtained from the officer-in-charge did not address the above-mentioned concerns, thus hindering the objectives and the completeness of the audit examination.

Compliance Issues

Absence of Inventory Database

Notwithstanding the requirements of MF Circular No. 14/99, no inventory records were available at CCF, thus reducing the Department's control over Government-owned assets. It was claimed that this was attributed to the lack of adequate human resources.

Purchases not in compliance with Contracts Circular

Although in October 2012, a supplier was awarded a period contract for the supply of a consumable item, to cover Government Departments and Parastatal Bodies up till October 2014, as per Contracts Circular No. 18/2012, CCF was still purchasing it from a different supplier as at audit date, *i.e.* June 2013.

VAT Concerns

The following shortcomings were noted with respect to VAT requirements:

- a. Six out of 30 payments (20%), amounting collectively to €81,429, were not covered by VAT fiscal receipts.
- b. No evidence was made available to confirm that suppliers/service providers who failed to supply CCF with the necessary fiscal documentation, were reported to the VAT Department, in terms of MF Circular No. 5/2002 and MFEI Circular No. 2/2012.

This practice may result in VAT dues not being duly handed over to the VAT Department, and in the possible under-declaration of profit by defaulters for Income Tax purposes.

Funds not appropriately committed

- a. Twenty out of 30 (67%) transactions tested, amounting collectively to €177,975, were noted whereby invoices were dated prior to the LPOs or Letters of Acceptance.

¹¹ As at date of audit Substance Abuse premises were not operative and thus the kitchen was not being used.

- b. An LPO was not issued in respect of another PV, amounting to €1,500, included in the audit sample. The payment, which was for psychiatric services rendered during June 2012, was effected through Multi-Payment.

Recommendations

Key Issues

Stock Management

Lack of transparency on the Procurement of Store Items

All procurement is to be made in a fair and transparent manner, in accordance with the prevailing regulations, to ensure cost-effectiveness and transparency in the disbursement of public funds. Documentation supporting the supplier selection process is to be appropriately filed to ensure an adequate audit trail.

Stocktaking not performed

Adherence to the various requirements of Treasury Circular No. 6/2004, particularly the performance of the annual stocktaking, is solicited for better internal control and accountability. A report showing the balances of each stock quantity and value, together with write-offs during the first month of each financial year, is expected to be forwarded to the respective Permanent Secretary, Accountant General and the Auditor General as stipulated in the Circular.

Shortcomings in Stock Records

The officers assigned to CCF stores are responsible for maintaining and updating stock records which reflect accurate and precise details. It is to be ensured that both records, *i.e.* the bin cards and STORIT system, are invariably updated simultaneously in a timely manner, in order to strengthen the stock control system. Furthermore, Management is to ensure adherence to Treasury Circular No. 6/2004 for the proper administration of stocks, thus ascertaining accountability.

Requisition of Food Provisions

CCF is to ensure that meals are prepared according to standard recipes, to prevent variations in quality and quantity. The use of exact amounts of the various ingredients produces accurate yields, prevents leftovers and ascertains food cost control. Additionally, this system promotes internal control and accountability in the issue of food items from the store as it ensures that only ingredients needed for the day's menu are requisitioned.

Provision of Nursing Services

CCF is to take timely remedial action to ensure that the necessary arrangements are made in line with PPR, in order to guarantee the provision of nursing services. Once the service provider is selected in accordance with the provisions of the procurement regulations, it is to be ensured that invoice details are reconciled to the new agreement and certified correct accordingly, prior to payment. Additional expenditure is to be duly authorised.

Provision of Medical Services

CCF is to keep appropriate record of the applicable procurement procedures and ensure that valid agreements prevail to facilitate active follow-up. The respective tendering process is to be planned well in advance so that it is finalised before the expiration of the contract, thus avoiding the need to resort to direct orders for a period of time. This will optimise value for money, whilst ensuring a fair and transparent supplier selection process, in accordance with standing regulations.

Efforts are to be made to introduce a system which will enable adequate verification of medical services rendered, in addition to the regular clinic sessions held at CCF. Meanwhile, the service provider is to be requested to submit a detailed breakdown of calls with each invoice. No payments are to be effected unless the Manager, Care and Integration endorses the invoices to ensure their correctness.

Provision of Psychiatric Services

Retrospective Approval

Management is recommended to follow the PPR in order to ensure that all procurement is effected in the fairest and most transparent manner, thus limiting the need to resort to retrospective direct order approvals to exceptional circumstances. Furthermore, the attention of CCF is drawn to the directives outlined in MFEI Circular No. 3/12 which states that retrospective approvals are not tolerated and will not be approved.

Expired Contract for Service

All procurement involving the provision of services is to be covered by valid agreements with the service providers. Thus, in similar future instances, timely action, in line with the prevailing procurement regulations, is to be taken to ensure that the necessary agreements are formalised.

No Record of Attendances

NAO acknowledges that the provision of psychiatric services needs to be readily available to CCF. However, it is advisable that the Ministry and CCF jointly endeavour to explore the possibility of obtaining the same level of service more cost efficiently.

Income from Psychiatric Services not declared by the Individual

In similar circumstances when service providers hold a full-time employment within the Public Service, it is recommended that CCF seeks guidance from IRD about the possibility of deducting tax at source to safeguard the interest of Government. This will assist IRD in collecting the correct amount of tax due in a timely manner.

VAT element included in an Exempt without Credit Service

In order to prevent misinterpretation through the possible undue disbursement of public funds, it is to be ensured that no consideration is given to VAT when services required are exempt without credit. Guidance from the VAT Department in this regard is recommended.

Control Issues

Absence of a File Registry System

Management is advised to take prompt action to have in place an adequate and reliable file registry system. This improves efficiency, both in the administration and management functions, as it facilitates tracking the location of files and accessibility to records, as necessary.

Additionally, setting up this system will also be of crucial importance when monitoring the duration, terms and conditions of agreements drawn up with suppliers and service providers, thus facilitating the rectification of a number of shortcomings which are being brought to the attention of Management through this report. In this respect, files can be earmarked to be brought up for review on specific dates, which allow sufficient time for any necessary action to be taken.

Procurement and distribution of Phone Cards

Approval to purchase by Direct Order not sought

Commitments are not to be made unless the appropriate authorisation has been obtained. In this respect, attention is drawn to PPR S.L. 174.04, Article 20(4), which stipulates that direct contracts in excess of €6,000 may, in exceptional cases, be placed after obtaining the prior written approval of the Minister. Furthermore, MFEI Circular No. 3/2012, which regulates Public Procurement by Direct Order, states that written requests are to be lodged through the Direct Orders Office, before any commitment for the procurement of goods and/or services is entered into. It is recommended that CCF also makes reference to MFIN Circular No. 3/2013, which is related to procurement by direct orders, for further guidance.

Once procurement is authorised, Management is to ensure that a valid formal agreement is drawn up to establish the price and other terms and conditions regulating the purchase of such cards. Additionally, it is to be ensured that checks are in place to confirm that the agreement is strictly adhered to.

Shortcomings in the distribution of Free Phone Cards

CCF is expected to maintain a proper record, showing the inflows and outflows of cards, and the resultant running balance. In order to ensure transparency, a physical card count is to be performed monthly, reconciled to such records and confirmed sporadically by Management. Additionally, phone cards are to be distributed in an uninterrupted numerical sequence.

A document outlining the policies covering the distribution of phone cards is to be compiled, officially authorised and strictly adhered to.

*Closed Circuit Television Maintenance Agreement**Shortcomings in Procurement and Relative Documentation*

All the necessary maintenance agreements are to be valid, to avoid undue disputes emanating from misunderstandings. Additionally, documentation is to be appropriately filed for future reference.

As already recommended, the attention of CCF is drawn to MFEI Circular No. 3/12 'Public Procurement by Direct Order'. CCF is to ensure that procurement by direct order is used only as a last resort. Strict adherence to the terms and conditions under which direct order approvals are granted is commended.

Maintenance Work performed not documented

CCF is to enhance the current procedures, covering the service in question, by adequately documenting the outcome of meetings held and actual maintenance work performed for confirmation and control purposes.

*Telecommunication**Payments not supported by the Supplier's Invoices*

Invoices are to be appropriately verified prior to payment without exception or fail. These should be filed together with other relevant documentation for ease of reference and audit purposes.

Authorised Access to Mobile Phone Calls from Landlines not evidenced

Access to mobile calls from all landlines could trigger unnecessary higher phone bills and, unless these are controlled, the possibility of abuse of this facility increases significantly. Management is thus encouraged to reassess access to mobile phone calls from landlines in order to effect cost savings. Personnel requiring such access are to be identified and the respective authority duly documented.

Forensic Unit – Reimbursement of Utilities

Management is to ensure that a valid agreement regulating the terms and conditions of the set-up of the Forensic Unit, including the basis for the reimbursement of utilities, is drawn up, unless such agreement is made available by the Ministry. The computation of invoices is to be properly verified in accordance with such agreement and certified prior to payment.

*Other Procurement Issues**Lack of Certification and Proper Authorisation*

It is to be ensured that invoices are duly certified in order to confirm their correctness, both in terms of quality as well as quantity, prior to be processed for payment.

Purchases from the Same Supplier

Limiting purchases by direct order to the same supplier gives rise to a lack of transparency, since others are not given the opportunity to compete. In this respect, CCF is to adhere to prevailing regulations to ensure procurement proceedings are carried out fairly.

Hiring of Skip Services not in line with Requirements

Unless procurement is carried out in accordance with the prevailing procurement regulations, Management cannot ensure that the most economic and advantageous offer within the market is taken. Thus, as previously recommended, CCF is to ensure that all procurement is carried out in a fair

and transparent manner in accordance with the prevailing PPR. It is emphasised that direct order approvals are only to be requested in exceptional circumstances as outlined in MFIN Circular No. 3/2013.

Purchase Requisition Forms not duly endorsed

Management is to ensure that effective control is exercised over procurement. The requisition forms drawn up are to include the relative justification for the purchase, and are to be appropriately endorsed by authorised officers, as necessary.

Bulk Purchase of Fuel

Shortcomings in Fuel Records

In order to enhance control and monitoring of diesel stocks, all deliveries together with relevant details, particularly gauge readings, are to be invariably entered into a ledger by the officer-in-charge, immediately upon receipt. This will also ensure that a complete audit trail is available. Furthermore, ledgers must be kept available for verification as necessary.

Management is recommended to make sporadic checks upon delivery, in order to confirm that the volume of fuel invoiced is equivalent to the actual delivery and that stock records have been appropriately updated to reflect the physical amount.

Transport

Attention is drawn to the ‘Auditor General and National Audit Office Act, 1997’, which specifies that NAO auditors are to have free access to all documents and other information that may be required for the carrying out of their duties.

Compliance Issues

Absence of Inventory Database

It is recommended that an Inventory Database is compiled without further delay, in accordance with MF Circular No. 14/99, in order to reflect

precise and reliable data of assets at the disposal of CCF. Awareness of all the requirements outlined in this Circular, amongst which, the statutory information submissions to the Auditor General, is also to be ensured.

Purchases not in compliance with Contracts Circular

Besides that the product purchased under the period contract is marginally cheaper, bypassing standard procedures, as those relating to supplies by period contract, could result in other controls being missed. Thus, Management is to keep abreast with circulars issued by the Department of Contracts and ensure that procurement is carried out accordingly.

VAT Concerns

The attention of Management is drawn to MF Circular No. 5/2002 and MFEI Circulars No. 7/2011 and No. 2/2012. It is to be ensured that all suppliers, who have been paid for goods or services, invariably provide supporting 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.

Funds not appropriately committed

The issue of LPO is an important tool for ensuring that the relative cost falls within the approved budget. Non-adherence may result in not having enough funds to honour the actual expense. Thus, efforts are to be made by CCF in order to, whenever possible, issue LPOs prior to invoices as per Government’s policies. In the case of an individual who does not have a VAT number, this does not exclude issuing an LPO, since the identity number is to be used in the vendor number field instead.

Management Comments

Management concurred with most of NAO's findings. 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 were also submitted:

- The officer-in-charge of Transport has been given instructions to archive log books properly.
- A Senior Correctional Officer has been assigned to the stores to take over the management of procurement in line with prevailing procurement regulations.
- Instructions are being given to manage the stores in line with Treasury Circular No. 6/2004.
- A meeting to discuss the food menu, quality and quantity of ingredients, as well as the requisition and returns of food items from stores, will be held by the responsible officers during November. New procedures should be in place by mid-December.
- A new contract for the provision of nursing services was awarded in line with PPR following the audit.
- Instructions were given to verify and certify all invoices before being processed for payment.
- Management now claimed that "... *the original tender and negotiations ...*" for the provision of medical services were held at Ministry level and CCF was only called in to sign the contract.
- The contract for the provision of psychiatric services expired during a transitory period, which included the change of three Directors. When the attention of the Ministry was drawn to this effect, CCF was informed that discussions were underway as the service provider had requested an increase in the retainer fee.
- Plans to establish a proper file registry are currently on hold due to lack of personnel.
- Management is to carry out an exercise to establish the officers authorised to access mobile phone calls from landlines, in order to be in a better controlling position and curb abuse, if any.
- The Forensic Unit is to be transferred from Mount Carmel Hospital to CCF compound. It was confirmed that an agreement was not available, however it was claimed that sub-electricity and water meters were installed to determine the units consumed.
- Work is in progress to regularise the procurement of skip services and bulk purchase of fuel.
- The vehicle enquiries were not clarified as the post of the clerk in charge of the fleet is still vacant, hence the lack of information.
- Additional personnel would be required to create an inventory database in accordance with MF Circular No. 14/99 due to the size of CCF.
- Whilst noting that all purchases will be made in line with Contracts Circular No. 18/2012, personnel within the Accounts Section were requested to contact the Contracts Department to obtain all relative circulars.
- The officer who was responsible for collecting VAT fiscal receipts was transferred from the Department without any replacement. Instructions were given to the Accounts Section, to adhere to the circulars brought to CCF's attention through the Management Letter.





Ministry for Health, the Elderly and
Community Care

State-owned Residential Homes and Institutions for the Elderly Revenue

Background

The Ministry for Health, the Elderly and Community Care offers residential services for the care and welfare of the elderly in state-owned Homes and Institutions.

Elderly people residing in such Homes and Institutions are to contribute an amount to Government for their care and upkeep, in accordance with the provisions of S.L. 318.13 – State Financed Residential Services Rates Regulations. The contribution payable depends on the level of care provided, *i.e.* “*Level 1 care, where residential service with only minimal basic care is provided*” or “*Level 2 care, where the residential service provided includes such level of care that goes beyond minimal basic care ...*”.

For Level 1 and Level 2, contributions are 60% and 80% respectively, of any pension, social assistance and bonus receivable, net of income tax; plus 60% of any other income received during the calendar year immediately preceding the year in which the assessment of such other income is made, net of income tax.

The number of elderly people that, at some point in time during 2012, resided in a state-owned Home or Institution, amounted to approximately 3,000¹.

Audit Scope and Methodology

The main scope of the audit was to determine whether adequate controls were in place to assess residents’ contributions payable upon admission and yearly thereon. The period elapsing from residents’ admittance, until instructions² for payment of the respective contribution were issued, was particularly assessed.

The audit also focused on collection efforts by the Welfare Committee, especially since this process is entirely manual, increasing the probability of default, late payment, and the eventual possibility of not collecting the amounts due.

In addition to meetings held with officers within the Elderly and Community Care Department (ECCD), the Welfare Committee, Saint Vincent de Paul Residence (SVPR) and Mount Carmel Hospital (MCH), various reports and documentation were requested and obtained to perform testing, including specific reports from the Malta Information Technology Agency (MITA), as well as other internal reports.

Testing covered SVPR residents as well as MCH geriatric residents and psychiatric patients (considered as social cases). The relevant tests included new resident assessments, annual reassessments (where applicable) and transfers of individuals from a state-owned Home to SVPR during 2012.

¹ Source: report provided by the Malta Information Technology Agency.

² Upon assessment, the respective Home/Institution issues instructions stating the amounts payable by residents, to be collected through automatic deductions from their Social Security or Treasury pensions, or by cash/cheque payment to the Welfare Committee, as applicable.

Personal files were examined to ensure that necessary and correct documentation was provided, and any available correspondence analysed. Reasonableness of assessments carried out through the Elderly Contribution Determination System (ECDS) was assessed, and included review of the source of deduction, namely from the Department of Social Security (DSS), Treasury Department or Welfare Committee. Additional testing was also done on residents/patients paying contributions through the Welfare Committee. Individual accounts, invoicing, payments, and relevant follow-ups were scrutinised whilst the ageing of debtors and the risk of uncollectibility was also enquired upon.

Audit Disclaimer

- A list of residents and patients who pay contributions through the Welfare Committee was provided by the latter. As the list was manually compiled, the correctness and completeness of this list could not be ascertained.
- Pensions and other income as per DSS assessment were corroborated to the Social Assistance and Benefits System (SABS) during the audit, to identify the amount of contribution due. However, details as per SABS were taken as correct without any questioning or re-computation, since this was not part of the audit scope.
- Private Homes for the elderly, subsidised by Government through the Public Private Partnership, were not tested.
- Application forms of geriatric residents at MCH were not reviewed, since the residents' personal files at MCH only contained medical information, and were not relevant to the audit.
- The tax rate used to calculate additional contributions, payable when the assessments were not correct, are an approximate figure (*Control Issue – Errors and Inconsistencies noted upon Assessments, point a refers*).

Key Issues

Limitation of Audit Scope

Following assessment, upon resident's admission and upon annual reassessment, the Welfare Committee is instructed to collect contributions when these are not directly abated from DSS or Treasury Department pensions.

In view of certain risks associated with the Welfare Committee's manual collection process, a report was requested from the latter, listing details of the residents paying contributions to the said Committee. At the start of the audit, a report³ was provided showing balances covering up to December 2012. However, the accuracy of the amount of income collectable by the Welfare Committee as at that date, amounting to €277,509, as well as its ageing, could not be ascertained in view of the following:

- Even though the Sage accounting software is used by the Welfare Committee, the report was manually compiled onto a spreadsheet, in principle making it susceptible to risks of inaccuracy and incompleteness.
- The report listed 299 residents. However, this is incomplete as a total of six persons out of a sample of 22 (27%) tested, who contributed through the Welfare Committee (22 residents), were not included.
- Amounts reported also included those collectable by the Treasury Department as well as charges for the Home Care Help Service⁴. Such information was provided as a total monthly charge for each resident, and one amount of outstanding balance; thus it was not possible to extract the actual contribution due to the Welfare Committee.

As a result, arrears of revenue collectable specifically by the Welfare Committee could not be easily determined. Information presented may

³ The cut-off date set by the Welfare Committee for reporting purposes was as at end of October 2012.

⁴ Home Care Help Service is a different service offered by ECCD.

be misleading for monitoring purposes, resulting in lack of controls, which in fact was evidenced given that the mandatory arrears of revenue return was not submitted as indicated in *Compliance Issue – Regulations and Circulars not adhered to by the Welfare Committee, point b.*

Late Assessments and Collections of Amounts Due falling in Arrears

Assessments of resident's earnings are carried out upon admission and annually thereon, in view of any potential changes in income. The audit revealed the following:

a. Late Assessment following Admittance

From testing of a total of 16 geriatric residents at SVPR and MCH, it transpired that there were delays in the initial assessment upon admittance of 13 of these residents. In one particular case, the assessment was carried out five months following the resident's admittance. This gave rise to significant contribution payments to be collected in arrears, with the highest amount due from the foregoing resident totalling €9,563. Table 1 is a summary of the number of sampled residents and the period that elapsed from admission to assessment.

b. Delays in Yearly Reassessment

An analysis of yearly applicable reassessments, performed on 11 residents⁶ at SVPR and MCH, indicated that these were

also being carried out in delay. Once again, these resulted in the accumulation of arrears, due to a revised deduction rate to cover the respective contributions. The longest period prior to reassessment was 35 weeks, occurring in two cases. Even though in the majority of cases, arrears from late reassessments were not substantial relative to arrears upon initial assessment, in one instance, a late reassessment of 16 weeks resulted in €814 arrears.

c. Assessment following a Resident's Demise

In one case, where an elderly person was admitted to MCH geriatric in December 2010, the initial assessment upon admittance, as well as subsequent yearly reassessments, were only carried out in March 2012, following the resident's demise in February 2012. This resulted in unpaid contributions amounting to €9,906, which were never collected by DSS.

d. Further Delays prior to Collections

Following the issue of instructions to DSS and the Treasury Department, further time may elapse until actual deductions are initiated to cover dues from residents, in view of the respective Departments' administrative and processing procedures. As to the Welfare Committee, delays are created when the residents, or their agents, do not pay the cash contributions due instantly⁷, in which cases, follow-up action must be taken by the Welfare Committee.

Table 1: Period elapsed from admission to assessment for sampled residents

Weeks Prior to Assessment⁵	Residents
Above 20 weeks	1
Between 10 and 20 weeks	5
Between 5 and 10 weeks	3
Less than 5 weeks	4
Total	13

⁵ The number of weeks from residents' admission in the respective Home or Institution, up to the date instructions for collection were issued to DSS, the Treasury Department and the Welfare Committee, as applicable.

⁶ The other residents in the sample were admitted during the year under review and thus no reassessments were necessary in 2012.

⁷ Instructions following assessment are issued for a monthly contribution, but frequency of contribution payable in such instances is left at the discretion of the individual.

Welfare Committee Debtors – Deficiencies in Collections and Follow-up

It was claimed by the Welfare Committee that “When a reasonable time has elapsed and the client does not settle the outstanding amounts, legal letters are sent requesting the defaulters to settle the balance due within five days from the date of the lawyer’s letter”. It was also stated that “All correspondence is sent to the clients within one year in order that the debt does not become time-barred”. However, several shortcomings as indicated hereafter, were noted. Furthermore, the Committee’s policy to chase debtors within one year is considered too long, and is causing accumulation of outstanding revenue, eventually becoming noticeably overdue and material. In the circumstances, the risk of time-barred amounts is increased, potentially leading to a loss of revenue to Government.

Analysis of Follow-up Procedures

Notwithstanding the Welfare Committee’s claims above, testing of 14 Welfare Committee debtors revealed instances when several months, or years, had elapsed prior to any correspondence being sent to residents to settle balances outstanding.

- a. In four cases, 19 to 48 months had elapsed, prior to legal letters were sent to the respective debtors. Follow-up letters by the Welfare Committee or its legal advisor were sent a further 15 to 24 months later.
- b. In two cases, with outstanding debts of €9,492 and €2,036, accumulated over 12 and 20 months respectively, no correspondence was available, evidencing any follow-up action by the lawyer or the Welfare Committee.
- c. In two other cases, one where the resident had already accumulated debts of €4,266 after seven months of residence, and in another instance where a debtor, aged nine months, accumulated €1,385 debts as a result of omitted deductions by the Treasury Department⁸, no follow-up action was observed, notwithstanding the Welfare Committee’s claims above.
- d. In one case, even though follow-up by the Welfare Committee was made after nine months of the resident’s admission, debts amounting to €17,704 had already accumulated. Moreover, it was noted that follow-up was only made in January 2013, subsequent to communication from the National Audit Office (NAO) indicating the audit sample.
- e. An elderly, admitted at MCH geriatric in December 2009, was not charged any contributions by the Welfare Committee since admission up to year ended 2010. The Welfare Committee was unaware of the contributions payable during the 2009 period, since MCH failed to carry out an assessment and inform the former accordingly. On the other hand, an assessment was carried out by MCH for the 2010 period and, given MCH’s claims that copies of each assessment are sent to the Welfare Committee, it is not clear why no contributions were charged for that same year.

A letter requesting payment of outstanding debts, was only sent to the resident’s agent in November 2012, after attention was drawn by NAO to the Welfare Committee. Payment was received accordingly; however, it was noted that an amount of €1,662 covering the first 13 months was never charged to the resident’s account (*Control Issue – Errors and Inconsistencies noted upon Assessments, point b refers*).

- f. Another patient under psychiatric care at MCH was declared as a ‘social case’ with effect from January 2012 and an assessment was carried out in April 2012. However, no contributions were actually charged by the Welfare Committee up till the end of 2012, even though MCH again claimed that copies of each assessment, determining contributions payable, are sent to the former.
- g. An elderly couple residing at SVPR was sent a legal letter dated August 2011, requesting a total payment of €3,741, for a 13-month period from admission up to December 2010. It is

⁸ When contribution deductions by the Treasury Department are missed, the duty to collect such debts falls within the responsibilities of the Welfare Committee.

unclear why payment was not also requested for the other eight months up to date of correspondence, once additional arrears were accumulated. Furthermore, no payments were received and 15 months later, in November 2012, the second request for payment was made by the Welfare Committee, this time covering an accumulated amount of €10,869, up to end December 2012. However, the last communication was just by a normal letter.

- h. Monthly contributions of €139, due to the Welfare Committee, were not made by an individual in the four-month period of residence at SVPR. A request for total payment of €679 was only made in December 2012, one week after details of the audit sample was communicated to the Welfare Committee. However, it transpired that the resident had passed away in October 2012. Payment was thus requested from the next of kin. However, as at audit date (January 2013), no payment had yet been received by the Committee.
- i. A resident at SVPR was sent a legal letter dated July 2009, for the first time after two years from admittance, requesting payment of €3,299 covering year 2008 up to mid 2009. However, the amount of €1,388 relating to 2007, being the year when admitted, was excluded. Following settlement of the claimed amount in April 2010, a second legal letter dated July 2011 requested payment of €3,807, covering the 2007 period, the second half of 2009 and the full year 2010. Once again, it is not clear why the request did not cover the additional six-month period in 2011, up to the date of the letter.

Analysis of Older Cases

A random sample of six elderly people, who had been residing in Homes/Institutions for a number of years, were specifically selected with the scope of assessing the Welfare Committee's collection and follow-up efforts on older cases. The following relate:

- a. In August 2011, a legal letter requesting payment of €11,431 was sent to a debtor, covering Home Care Help Service during

2008 and 2009, as well as contributions payable for the period from February 2010 up to end of year 2011, while residing at SVPR.

- b. Even though two SVPR residents presented fairly regular payments to the Welfare Committee since 2007 and 2010 respectively, as at end December 2012, outstanding balances for the 2012 period amounted to €3,732 and €1,904 respectively.
- c. A resident at Gozo General Hospital always settled the yearly contributions since her admittance in 2009, up to 2011. However, no payments were ever presented during 2012, resulting in an outstanding balance of €7,534 by the year-end. No follow-up was made by the Welfare Committee during 2012 with respect to the accumulating balance.
- d. A resident, admitted at SVPR in November 2010, failed to present any payments from date of admission, up to October 2012. The first letter requesting payment was only sent in September 2011, covering the balance up to December 2010, rather than up to the date of the correspondence. Following communication of the audit sample to the Welfare Committee in January 2013, a letter was sent on the same day, requesting the outstanding balance of €13,146.

Contribution Payments by Patients categorised as 'Social Cases'

As affirmed by the then Permanent Secretary on 6 February 2013, the policy in all hospitals (*Control Issue – Dispersed Collection of Contributions and Retention thereof, refers*), namely Mater Dei Hospital, MCH, Rehabilitation Hospital Karin Grech and Gozo General Hospital, is that patients are flagged as 'social cases' requiring long-term care, when they are not in a position to live in the community due to a variety of circumstances. As from that date, patients are obliged to start paying a contribution as per S.L. 318.13 – State Financed Residential Services Rates Regulations.

The general practice at MCH is that psychiatric patients are termed as 'social cases' by the respective Consultant in charge, when they do not require hospitalisation but still need the hospital's services due to other circumstances. Like geriatric

cases residing at MCH, psychiatric patients declared as ‘social cases’ must pay a contribution for their residence, care and upkeep. Following clinical decisions by MCH Consultants, ‘social cases’ may also be released from the hospital on a short period of ‘hospital leave’. During the audit, the following was observed:

a. Limitations of the Information Systems

The Patient Administration System, as well as manual files and electronic spreadsheets, are utilised by MCH to maintain records of patients’ admittance and discharge. ECDS is also used by the Medical Records Section to determine contributions payable by both geriatric residents and psychiatric patients categorised as ‘social cases’. However, none of these systems is suitable to keep track of ‘hospital leave’ periods availed of by the ‘social cases’.

b. Changes in Procedures

Pursuant to a change in policy in January 2012, all psychiatric patients⁹ residing at MCH for over four months were instantaneously declared as ‘social cases’, without the need for Consultants’ assessments. Complaints were then made by the ‘social cases’ patients that were paying a contribution whilst they were allowed to be on ‘hospital leave’. Consequently, it was decided that after over four days of such leave, MCH was to instruct DSS, the Treasury Department and Welfare Committee (as applicable) not to effect any deductions of contributions for the duration of ‘hospital leave’. This change complicated administrative procedures.

On 8 November 2012, top management decided that all contributions, collected under the new procedure implemented in 2012, were to be suspended and refunded; however, patients declared as ‘social cases’ prior to 2012 were to continue paying contributions. Subsequently, on 13 November 2012, the Welfare Committee was informed to temporarily suspend deductions; and action

was taken to cease all contribution payments for the 2012 new ‘social cases’. No reply was received when MCH was enquired to clarify whether any similar instructions were given to the Treasury Department.

c. Instructions for Refunds

On 28 November 2012, a list of patients, who were to be refunded accordingly following the change mentioned above, was sent to DSS and the Ministry’s Parliamentary Secretary Secretariat. However, up to date of audit fieldwork on 5 March 2013, no such instructions were given to the Welfare Committee. Such delays will increase the back log of payments to process, creating more complications to an already complex procedure. As noted above, the position taken *vis-à-vis* the Treasury Department is not known.

d. Unresolved Way Forward

NAO was informed by MCH that internal meetings were held, to discuss the way forward for determining psychiatric patients as ‘social cases’. In this respect, clinical guidelines for MCH were to be drafted. In the meantime, the procedure was reverted to Consultants determining ‘social cases’, upon assessing the patients after the lapse of six months. However, this current procedure does not guarantee that Consultants would visit each patient after the said period elapses; thus contributions are only due following the Consultant’s confirmation.

Control Issues

Dispersed Collection of Contributions and Retention thereof

Revenue from contributions paid by the elderly in state-owned residential Homes and Institutions, is collected and retained by various Departments and Sections as described below. In the circumstances, it was not possible to determine the exact amount

⁹ Psychiatric patients with the exception of those in need of severe mental health care.

of revenue during a particular period, since such revenue is not consolidated. This also is indicative of weak internal controls in this regard.

- DSS and the Treasury Department automatically collect contributions through direct deductions of a portion of the residents' pensions. Whilst DSS retains the amounts deducted, the Treasury Department transfers amounts collected to the Welfare Committee monthly.
- The Welfare Committee collects contribution portions payable in cash, which together with the Treasury Department's transfers, are deposited in a below-the-line account, namely '82038497-Other Deposits – Income from Individuals'. This revenue, together with the budget allocated by Government to the Welfare Committee, is utilised for the latter's general expenses. Amongst these are included the Committee's personal emoluments, as well as certain recurrent expenditure incurred at the residential Homes and Institutions.
- ECCD collects cash contributions payable by residents of private Homes, subsidised by Government through the Public Private Partnership. These funds are retained by the same Department.

Errors and Inconsistencies noted upon Assessments

a. Rental Income declared by Residents not corroborated

For assessment purposes, income from non-residential property is taken as either 5.5% of the value of the property if premises are not rented, or the value of rental income received if declared. However, NAO noted that rarely any documentation was provided to back up rental income declared, with the risk that such income is incomplete. Moreover, there was no corroboration, and neither were property searches carried out, to ascertain what other

property was held, if any, by the residents. This may result in inaccurate assessments leading to understated contribution demanded.

Three out of the 21 residents selected for testing were in receipt of rental income. The below observations were noted:

- Upon admittance in 2007, one resident at SVPR declared an annual rental income of €5,125, without any further corroborating evidence. Since admission until the latest assessment dated 2012, rental income was appropriately included for assessment purposes, with the exception of 2010 when it was completely omitted, resulting in an underpaid contribution of €2,621.
- Another elderly resident at SVPR declared an annual rental income of €416; however no corroborating evidence was provided in this regard.
- A psychiatric patient at MCH declared rental income of €186 in the 2007 declaration form, however this was not included in the respective year's assessment. An assessment for 2008 was not carried out, while for year 2009, rental income was taken as declared in 2007. Moreover, no rental income was considered in assessment for years 2010 and 2011, while for the subsequent year, it was included once again. No queries to this effect were raised by the Welfare Committee.

b. Geriatric Resident at Mount Carmel Hospital

- Following a short period of care at Rehabilitation Hospital Karin Grech¹⁰, an elderly was admitted as a geriatric resident at MCH in December 2009. An assessment, for the first 24-day period in 2009 following admittance, was not made and consequently, no contributions were accounted for by the Welfare Committee. Successively for year 2010, although an assessment was carried out, still no

¹⁰ During 2008, the resident was admitted for a short period of 21 days at Rehabilitation Hospital Karin Grech.

contributions were accounted for by the Welfare Committee (*Key Issue – Welfare Committee Debtors – Deficiencies in Collections and Follow-up, Analysis of Follow-up Procedures, point e refers*).

- From a monthly contribution of €261 payable by the resident in 2008, increased to €590 in 2009, the payable amount decreased over the subsequent three years, down to €11 in 2012.

According to the yearly ECDS assessments of this individual, the diminution in rates was a result of a decrease in bank interest earned by the resident. However, bank statements or other information were not available in the resident's file, as a means of determining the reason for such a reduction in bank savings, and thus in interest earned, which resulted in less contributions payable.

The fact that no enquiry was made, to determine the reason for such remarkable fluctuations in income, demonstrates a lack of control, and may give rise to contributions due not being claimed and collected.

- In July 2011, and again in March 2012, the officer in charge of contributions at MCH communicated with DSS, stating that at that time, the latter had no one to administer the payments due to the Welfare Committee, and consequently requesting that a bank transfer be arranged for the payment of the monthly contribution. However, such transfer could not be arranged since the resident had no DSS pension. As already indicated in *Key Issue – Welfare Committee Debtors – Deficiencies in Collections and Follow-up*, in November 2012, a request for payment was made by the Welfare Committee to the resident's agent. The requested balance of €1,801 was settled immediately, but this excluded the period from admission up to year 2010.

c. Psychiatric Patient at Mount Carmel Hospital

A psychiatric patient at MCH was declared as a 'social case' with effect from January 2007. Assessments carried out for the patient revealed the following shortcomings:

- Assessments were carried out consistently for all the years, except for year 2008 where no assessments at all were carried out, which consequently resulted in lack of payments to the Welfare Committee.
- Updated information on pensions, or other income, was available to MCH assessment team but still not taken into consideration for assessment purposes. Even though the patient declared the receipt of a foreign pension of €5,529 in 2007, this was omitted from that year's assessment, thus resulting in an undercharge¹¹ of the contributions due. Upon the next assessment in 2009, foreign pension was taken as per previous year's statements, even though more recent statements were available relating to the applicable year. Moreover, it could not be determined whether the annual amount taken as pension from the 2008 statement was correctly calculated by MCH, as the information provided was not clear. In contrast, the subsequent years, *i.e.* 2010 and 2011, foreign pension was taken as recorded on SABS.

Over the years, foreign pensions used for calculating contributions were taken from inconsistent sources and never supported by bank statements, except for year 2012, when the pension received as per bank statement was taken. However, pension for 2012 as per bank, amounting to €9,392, did not tally to pension as per SABS, amounting to €10,618.

- Several inconsistencies were also noted with regards to this individual's rental income, as detailed under the third point of observation in *Control Issue – Errors and Inconsistencies noted upon Assessments, point a refers*.

¹¹ Under charges of contributions were not calculated for audit purposes since declaration, SABS and evidence available were not consistent when compared to each other, thus information was deemed unreliable for calculation purposes.

d. Other Matters

- A geriatric resident, admitted at MCH in February 2012, was not paying any contribution at all since, except for a minimal bank interest of €37, no pension or other income was earned by the resident.
- A couple residing at SVPR was in receipt of a foreign pension, for which evidence, indicating pension amount, is received the following year. The audit revealed that upon receipt of the updated information, reassessments were not being carried out to determine whether pension claimed and assessed was reasonable. Assessment recalculations carried out during the audit in fact resulted in an underpayment of contributions, for both assessment years¹² 2010 and 2011.

Incomplete or Lack of Declaration Forms denoting the Revenue of Residents

Upon initial assessment and every reassessment in the following years, residents are given a form to declare their income sources for contribution purposes. This comprises income earned in the previous year, mainly from interests and rents, any local and/or foreign pensions receivable in the year of assessment, as well as the value of any non-residential property held, in which case, as indicated earlier, 5.5% of the value is considered. Declaration forms must be dated and signed by the resident, or an agent acting on the latter's behalf.

However, such declaration forms are not being given the necessary importance for assessment purposes. A sample of 10 SVPR residents and their assessment for year 2012 were reviewed. Testing in fact revealed that in four of these cases, declarations were not dated, whereas in two other cases, no declaration form at all was available in the resident's personal file.

All assessments performed throughout the years of residence, of a sample of six geriatric residents and three psychiatric patients¹³ at MCH, were also tested. For geriatric cases, it was revealed that three out of 15 declarations reviewed were filed blank whilst the rest were not even available. As regards psychiatric cases, results showed that only one out of seven declarations reviewed was properly filled in. One declaration was filed blank and another one was not dated, whilst the remaining four were not even available.

Foreign Pensions

a. Lack of Information

Details of foreign pensions received by residents are only recorded on SABS for certain Australian and British pensions; thus only these are automatically uploaded on ECDS for assessment. Nine foreign pensions, received by eight elderly residents, were analysed based on 2012 assessments.

In the four foreign pensions recorded on SABS, written declarations, supported by hard copy evidence as requested in the declaration forms, were not always provided to substantiate related information uploaded on SABS. In the remaining five foreign pensions not recorded on SABS, three were supported by evidence against the amounts declared, whilst the other two were either supported by evidence or by a declaration.

This approach does not ensure completeness of foreign pension/s received by an individual. If receipt of these pensions remains unknown, this will result in an understated contribution payable.

b. Assessment Errors and Limitations of the Elderly Contribution Determination System

When foreign pensions are not recorded on SABS, but are declared on declaration forms or evidenced by supporting statements, officers carrying out assessments must

¹² Information on assessment year 2012 was not yet available during the audit.

¹³ Two other MCH psychiatric patients were chosen for testing but could not be tested as no documentation was made available.

manually input the respective information in ECDS for assessment purposes. This information is more prone to human error as ECDS does not automatically translate the foreign pension into Euro currency.

An SVPR resident in receipt of an American pension was assessed in April 2012, based on the latest available information of September 2011. Erroneously, the foreign pension of USD24,408 was manually keyed in as 'British' and, moreover, assigned a Euro currency. Consequently, the necessary conversion from USD to Euro was not made by ECDS, resulting in the assessment being worked out on an erroneous pension of €24,408. This triggered a weekly deduction rate of €316, which in fact was overstated. A revised declaration was made by the resident in May 2012, in the light of an updated pension in 2012; however, this revised figure was not taken into consideration. Once again this shows that declaration forms are not being given the due importance, leading to available updated information not being considered. This also resulted in inaccurate contributions.

Following audit testing, attention was drawn to this effect to the officer in charge, and a revised assessment was made accordingly, where the weekly deduction rate was decreased to €267.

c. Irregular Updating of Foreign Currencies

When details of foreign pensions are available on SABS, and thus automatically uploaded in ECDS for assessment, conversion to Euro currency is done automatically by the system. An enquiry on the frequency of foreign currencies updates in the system revealed that exchange rates are manually updated on SABS only twice yearly, in January and July. NAO does not consider this as sufficient, as assessments for contribution are carried out at any time throughout a calendar year, and may result in inaccurate conversions of foreign pension.

Incomplete Electronic Data

Data maintained electronically upon assessment, which may be used for analytical or statistical purposes, or in the eventuality of a parliamentary question, or for budget purposes, is incomplete. Although data could be retrieved from 'hard copy' evidence, this would not be easily compiled and can lead to a loss of audit trail.

Compliance Issues

Regulations and Guidelines not reflecting Levels of Care offered by Homes

Guidelines issued by ECCD, also referring to S.L. 318.13 – State Financed Residential Services Rates Regulations, stipulate that residential service is offered in the following state-owned Homes and Institutions:

- Residential Level 1 care, for which residents contribute 60% of pensions and other income, is offered in the Community residential Homes at Bormla, Floriana, Gżira¹⁴, Mellieha, Mosta, Msida, Mtarfa, Żejtun and Zammit Clapp Hospital, and in the private Homes subsidised by Government through the Public Private Partnership.
- Complete Level 2 care, for which residents contribute 80% of pensions and 60% of other income, is offered at SVPR. NAO was informed that Level 2 care is also offered at MCH and Gozo General Hospital as long-term care, and at Mater Dei Hospital and Rehabilitation Hospital Karin Grech on a temporary basis, until eventual transfer to a permanent Home or Institution.

The audit revealed the following:

- a. Ever since the levels of care were included in the regulations dated 2004, the dependency level of elderly residents has increased. In fact, besides SVPR, residential Homes at Mellieha, Mtarfa and Zammit Clapp Hospital

¹⁴ Gżira home closed down during 2012.

offer a higher level residential service that goes beyond minimal basic care, in view of a 24-hour per day per week nursing coverage.

- b. Notwithstanding the above, the rate of contribution paid by residents at these three Homes is that of Level 1 care, *i.e.* at 60% of pensions and income, even though Level 2 type of care is provided; thus resulting in a loss of revenue to Government.

NAO was also informed that the difference between the rates, of 60% and 80% for Level 1 and 2 care respectively, is due to the difference between services provided at SVPR and those provided in the other Homes. In the former, besides 24-hour nursing coverage, there are also various other higher level care services being provided.

Regulations and Circulars not adhered to by the Welfare Committee

- a. **Arrears of Revenue Return not prepared and submitted**

In accordance to section 49 (1) of the General Financial Regulations, *“All officers charged with the supervision of the collection or other moneys due to the Government shall furnish to the Accountant General for transmission to the Auditor General annual returns in duplicate showing the state of the arrears in the collection of such sums, together with reasons for non-collection.”*

Treasury Circular No. 3/2012 – ‘End of Year (2011) Statements of Account Arrears of Revenue – (Amounts due to Government)’ also spells out this requirement. However, even though this return had been submitted by the Welfare Committee for the first time in year 2010, the officer in charge stated that he was not aware of this circular; thus the return was not prepared.

- b. **Formal Plans to reduce Revenue in Arrears not prepared and submitted**

MFEI Circular No. 8/2010 – ‘Arrears of Revenue Plans – Budget Speech 2011’ states that, in relation to the reporting of Arrears of Revenue, Government departments and

entities were to *“Work towards the reduction of 10 percent in Government arrears”* in the course of 2011, and submit strategic plans to the Ministry of Finance, the Economy and Investment. However, notwithstanding the substantial revenue in arrears, the officer in charge confirmed that no such plans were prepared by the Welfare Committee. This hinders the periodical monitoring and reviews, envisaged to be undertaken through the preparation and subsequent submission of the aforementioned information.

The Welfare Committee and its Functions not in Compliance with the Social Security Act

Even though the Social Security Act states that *“There shall be established a Committee, to be known as Welfare Committee consisting of a Chairman and of not less than eight other members appointed by the Minister ...”*, NAO was informed that, for the past five years, the Welfare Committee has been operating without a Chairman and Board.

In the absence of the mandatory set up, the functions of the Welfare Committee as provided for in the Regulations have been carried out by a Senior Principal, under the responsibility of the Director Elderly.

The absence of a Welfare Committee Chairman and Board may weaken the controls intended to be exercised over the administration and functions of the Welfare Committee, as evidenced through the various shortcomings identified in this write-up.

Recommendations

Key Issues

Limitation of Audit Scope

The facility of issuing ageing reports is highly recommended and is to be addressed without delay, so that overdue debtors are followed up in a timely manner on a regular basis.

Management is also to consider acquiring a bespoke accounting system to address the

limitations commented upon in this write-up, enabling and facilitating reporting whilst ensuring reliability, correctness and completeness.

Late Assessments and Collections of Amounts Due falling in Arrears

An analysis, determining whether the respective Sections in charge are adequately staffed to perform regular assessments of all residents in good time, is encouraged to be undertaken.

These Sections are also expected to be duly informed in time about new admissions, so that the timely assessments are prepared. At least, a yearly control check is recommended, whereby the number of residents actually residing in the respective Homes and Institutions is cross checked to assessments carried out.

All Departments and Sections involved in the process of assessment and collection of contributions are expected to work together in a coordinated manner, as one central unit, so that the whole process is performed more efficiently and without delays.

Welfare Committee Debtors – Deficiencies in Collections and Follow-up

In all cases, follow-up action is to be taken on time, irrespective of admittance dates and materiality, so as to avoid accumulation of revenue falling in arrears which may become problematic to collect, the further the period of time elapses.

Contribution Payments by Patients categorised as ‘Social Cases’

The information system at MCH is to be upgraded to record ‘leave’ availed of by the patients. The practicability and feasibility of suspending contribution payments during the patients’ periods of short ‘leave’ is to be scrutinised by MCH to ensure that the current administrative procedures are not complicated any further.

The proposed internal clinical guidelines are to be issued by MCH without further delay, especially indicating circumstances and factors determining when patients are declared as ‘social cases’.

Records of the frequency of visits by Consultants to patients is to be maintained and reviewed by MCH Management to ensure that all patients are assessed every six months, so as to determine whether they should be flagged as ‘social cases’, or not.

As directions were given to DSS to effect refunds of contributions, paid by 2012 new ‘social cases’, MCH is to similarly instruct the Welfare Committee and the Treasury Department, if applicable to the latter, so as to ensure that all patients are treated alike and receive any refund due.

Control Issues

Dispersed Collection of Contributions and Retention thereof

The current process of administering the collection of contributions is to be reviewed by Management. Ideally, this is to be managed by one central unit, or at least consolidated, to enable better monitoring and strengthen controls.

Errors and Inconsistencies noted upon Assessments

Evidence, with respect to rental income declared, is to be sought upon assessment so as to ensure reliability of declarations made by residents. ECCD is recommended to liaise with the Public Registry in order to obtain property searches and ensure completeness of declarations made with regard to owned property.

Assessments are not to be overlooked. These are to be carried out with due diligence and attentiveness. Information is to be appropriately taken account of upon declaration, and updates duly recorded for reassessment purposes, to ensure that deduction rates reflect actual pensions and income earned by residents.

Incomplete or Lack of Declaration Forms denoting the Revenue of Residents

Declaration forms, dated and signed by the resident, must be obtained upon admission, as well as on each following yearly reassessment; as at times these may be the only source of information for assessment.

Foreign Pensions

Written declarations, corroborated with statements, are to be obtained to ensure completeness of information about foreign pensions, as well as other information, upon assessment. Any updated information available is also to be taken into account for assessment in order to minimise the risk of inaccurate contribution payments.

ECDS is expected to be programmed, to have predetermined foreign sources of pensions automatically linked, and to convert the manually inputted amount of pension into Euro currency, without the involvement of manual calculations.

Foreign exchange rates are to be updated on SABS on a more frequent basis, ensuring a more accurate conversion of foreign pensions for assessment purposes.

Incomplete Electronic Data

The issue of incomplete data has been discussed during the audit with both MITA and DSS Management, who stated that this matter will be rectified with the new release of ECDS since “... *the details of the workings will automatically be saved (irrespective of the option chosen by the assessor) ...*”.

Compliance Issues

Regulations and Guidelines not reflecting Levels of Care offered by Homes

It is recommended that contribution rates are revised, taking into consideration the different care levels offered in state-owned Homes. These revisions are to be legally backed up by effecting changes to the relative legislation accordingly.

Regulations and Circulars not adhered to by the Welfare Committee

It is to be ensured that complete returns are submitted regularly as set out in the relevant Regulations and Circulars.

The Welfare Committee and its Functions not in Compliance with the Social Security Act

If the pertinent authorities determine that a Welfare Committee Board is still relevant, a Board and the respective Chairman, as required by the Social Security Act, are to be appointed without further delay, to work towards the strengthening of controls and monitoring required for the proper functioning of the Welfare Committee. Otherwise, operations of the Welfare Committee are to be integrated as part of ECCD and the respective Line Item abolished from the Financial Estimates.

Management Comments

Management concurred with the majority of observations put forward and will be commencing implementation of the relevant recommendations. Whilst action has already been taken to address certain areas, a series of meetings will be held for related employees to address various shortcomings. The following comments and reservations were submitted:

- ECCD agreed that a new accounting system is required. This will ensure correct and timely identification of arrears of revenue as well as ageing of debtors, and support proper reporting and internal control. Until such a new system is installed, new invoicing procedures will be identified and implemented.
- ECCD is of the opinion that there is a greater workload in the initial months of the calendar year, rather than inadequate staffing, and will be analysing the distribution of tasks along the year to identify bottleneck areas. It was also agreed that all Contributions Sections are to work in a more coordinated manner as one central unit, to ensure efficiency and timeliness.

On the other hand, it was claimed that a substantial part of the delay lies at DSS, rather than the Department’s Contributions Section. It was also maintained that DSS

procedures are to be examined to gain a holistic perspective on the whole process.

MCH attributed the delays to the manual internal communication system, and lack of a robust Information Technology infrastructure; leading to weak internal controls and subject to human error.

Referring to the assessment following a resident's demise, MCH commented that the resident was in fact not registered as an inpatient with the Medical Records Section until January 2012. Once this error was noted, the process was immediately initiated. However, given that the charging system is primarily dependant on the uploading of patient's income by DSS, this had to eventually materialise before MCH could proceed.

- Management also acknowledged that the Welfare Committee's current administration is rather weak, and is already seeking ways to improve the present delays to follow up defaulters. To this effect, it was suggested that new standard operating procedures for collection of revenue are drawn up, whilst increasing Management supervision.
- MCH acknowledged that, in line with management's plans, the information system is to be upgraded. However, this will depend on either the implementation of the Integrated Health Information System across the Ministry for Health, or the procurement of a dedicated stand alone clinical system, itself subject to approval by the Office of the Permanent Secretary. In the absence of an online patient information system, automatically flagging 'hospital leave', staff are doing their best, making use of the only tools available to them; particularly since 'hospital leave' information is only recorded in the patient's file, making it even more difficult and bureaucratic to retrieve.

Referring to the Internal Clinical Guidelines, Management, in concurrence with NAO's recommendation, will be

issuing a circular to all Consultants informing them of the protocol to be followed, in indicating circumstances and factors determining when patients are declared 'social cases'.

Management will be setting up a process to ensure that reviews by Consultants are documented, and records maintained will be forwarded to MCH Administration Division for the essential review.

MCH stated that it communicated with DSS in 2012 in order to effect refunds on contributions paid by new 'social cases', and remains committed to henceforth start informing both the Treasury Department and the Welfare Committee, so as to ensure that all refunds due are issued to patients in a timely manner.

As a way forward, MCH concluded that it had reverted back to procedures adopted in 2011, *i.e.* until such time an electronic system is in place.

- Management concurred that the current process of administering contributions and collections is fragmented and unnecessary complicated, and the whole system needs to be managed by one central unit to increase efficiency and strengthen monitoring and control.
- To adopt more diligence in carrying out assessments, Management suggested that an officer be appointed in charge of all Contributions Sections, and assigned the responsibility of liaising with the Public Registry for property ownership searches and rental income verification.
- The Department will be carrying out its own ongoing internal audit to ensure that declaration forms, properly filled in, are available for each resident. It was also considering the individual's income tax return, provided by the resident or supplied by the Inland Revenue Department, as another source of information.
- Management took on board NAO's recommendations in relation to foreign

pensions. Monitoring and regular internal audits on this matter will be under the responsibility of the officer in charge of all Contributions Sections, who may demand third party documented evidence to support the declarations. However, this will still depend on individuals' willingness to comply.

- The issue of data not saved electronically will be addressed with a new release of ECDS. In the meantime, the Contributions Sections' employees will be alerted; highlighting the importance of saving assessments until this is automatic.
- The Department stated that the rate of dependency is slowly increasing in all Government Homes. Whilst concurring that care offered at Homes in Mtarfa, Mellieħa, and Zammit Clapp Hospital comprises 24-hour nursing care that is not available in the remaining Government Homes, this is not on the same level as that offered at SVPR, which is more in line with that of a geriatric hospital with continuous medical coverage. Moreover, not all medication available free of charge at SVPR is provided to Government Home residents.

ECCD concluded that these factors should be taken in consideration in a revision of the rate of contribution payable by long term care residents.

- The Welfare Committee claimed that as per information provided by the Treasury Department and the Ministry of Finance, the submission of a return of Arrears of Revenue was not applicable to the former as monies are deposited in a below-the-line account. However, the Welfare Committee has been directed to prepare these returns.
- The relevance of the Welfare Committee and its functions is being discussed at Ministerial level to decide upon the way forward.

Management comments put forward by MCH, did not properly address NAO's concerns in the following areas:

- Late Assessments and Collections of Amounts Due falling in Arrears – Late Assessment following Admittance
- Welfare Committee Debtors – Deficiencies in Collections and Follow-up – Analysis of Follow-up Procedures (points e to i refer)

Welfare Committee

Recurrent Expenditure

Background

The Welfare Committee is established as per the ‘Social Security Act – Cap. 318’ and is composed of a specific Board appointed by the Minister, consisting of a Chairman and eight other members. The functions of this Committee, as outlined by this Act, are mainly to administer funds for the benefit of elderly residents of state-financed institutions for medical care, and those in state-owned hostels for the care and welfare for the elderly.

Funds allocated to the Committee are currently used for the benefit of residents in all Government homes and institutions for the elderly in Malta, and geriatric wards at the Gozo General Hospital. The expenditure mainly relates to the payment for incontinence supplies¹, sub-contracted nursing services and care workers, wages to its employees, and costs for entertainment for the elderly².

For financial year 2012, a budget³ of €3,800,000 was allocated through ‘Line Item 5266 – Welfare Committee’, under Programmes and Initiatives recurrent expenditure, Vote 42 – Elderly and Community Care Department (ECCD). Actual expenditure⁴ incurred amounted to €3,789,550. The accounts of the Committee are prepared and audited by an independent audit firm.

Audit Scope and Methodology

The principal objective of the audit was to verify the validity of expenses incurred. It was

also ascertained that procedures adopted for procurement of goods and services, as well as the management and stock control were adequate and in compliance with the Public Procurement Regulations (PPR) S.L. 174.04, the related provisions of the Social Security Act, and other relevant regulations, policies and procedures.

In addition to meetings held with the Senior Principal in charge of the Welfare Committee, further discussions were held with respective officers-in-charge, particularly for the ‘Incontinence Service’ offered in the community, those responsible for stock control procedures at Saint Vincent de Paul Residence (SVPR), and control procedures at the CommCare Assessment Unit within ECCD, for the domiciliary nursing, carers and midwifery services. Based on information gathered, a systems overview was prepared outlining areas of concern and other risks within the current system.

Using the Departmental Accounting System (DAS), all recurrent expenditure transactions pertaining to the Welfare Committee control account 5266, for financial year 2012, were extracted and a sample of 30 transactions, based on materiality, also taking into consideration the nature of the expense, was selected for testing. The sample transactions, with a total value of €1,029,896, amounted to 27% of total expenditure incurred during the period reviewed.

¹ Incontinence supplies comprise bed under-pads/incontinence sheets and adult diapers/nappies.

² Entertainment mainly consists of soft drinks, occasional gifts, Christmas parties and outings for the elderly.

³ Source: Budgetary Estimates for the Year 2012 – Approved Estimate 2011 (The Ministry of Finance, the Economy and Investment).

⁴ Source: Departmental Accounting System transactions as at end of Financial Year 2012.

Audit Disclaimer

In view of time constraints and other limitations encountered during the audit, testing was neither comprehensive nor exhaustive in the following areas:

- Financial Statements, which in the absence of a Welfare Committee Board, have neither been approved nor endorsed since 2007.
- Internal statistical data provided by ECCD, concerning total periodic amounts disbursed for the procurement of incontinence supplies, and for drinks. This data was not tested, and where applicable, was quoted as given.
- Engagement of the current auditors, in the absence of a Welfare Committee Board, the latest official engagement letter presented by the auditors, dated 1 December 2008, was still unsigned. Moreover, the tender documentation and the Letter of Acceptance (LA) were claimed to be misplaced. Thus, their correctness could not be assured.
- Expenditure which was disbursed from below-the-line account no. 82038497, Other Deposits – Income from Individuals, used for depositing income in respect of contributions collected from residents of Homes and Residences for the Elderly, was not included in the scope of this audit since these were not considered material.⁵
- Stock control systems and procedures was limited to SVPR. Other Residential Homes and Institutions for the Elderly were not tested.
- Audit verification covering expenditure incurred on the provision of domiciliary nursing and midwifery services was limited to the testing on whether the conditions within the contract were being observed. The operations of the Association as a Voluntary Organisation were not examined.

- The contract between the Government and the Association states that the audited accounts of the latter should clearly distinguish the costs. Thus, it was assumed that the related expenditure borne by the Association and confirmed by the external auditors is correct.

Key Issues

The Welfare Committee

Welfare Committee Chairman and Board not appointed

Article 130 of the Act specifically states that “*There shall be established a Committee, to be known as Welfare Committee consisting of a Chairman and of not less than eight other members appointed by the Minister ...*”. The Chairman and the other members “*... shall be appointed for a period not exceeding one year, but shall be eligible for re-appointment*”. However, NAO was informed by the Senior Principal in charge that, for the past five years, the Welfare Committee has been operating without a Chairman and Board members. The latest appointed Committee’s authorised term expired on 31 December 2007.

The non-existence of a Welfare Committee Board for such a relatively long period of time implies that all decisions taken on its behalf are highly questionable and its absence seriously weakens the controls intended to be exercised over the administration of the Welfare Committee and its functions.

Financial Statements not yet approved

Financial Statements of the Welfare Committee from 2007 to 2011, although prepared, have not been approved, thus limiting their validity.

Moreover, due to the absence of a Board and a Secretary, a report on the activities of the previous calendar year, as per Article 131 (6) of the Act, has not been prepared nor submitted to the Minister, as required by the same legislation. Following enquiry as to when the last report was submitted, and a copy of the same report, no

⁵ As per Departmental Accounting System, 2012 Vote 42, Account 82038497, total expenditure was €4,311, posted as Transfers and Adjustments.

further information was provided. The officer-in-charge claimed that the activities are included in the Financial Report.

Funds allocated to the Welfare Committee used by the Elderly and Community Care Department

In the absence of the mandatory setup, the Welfare Committee has been 'integrated' within ECCD, and its functions, as provided for in the legislation, are actually being carried out by a Senior Principal, under the direct responsibility of the Director Elderly. Procurement is managed by either the Committee itself or ECCD, depending on the nature of the purchase.

NAO was informed that since the Committee's financial allocation was intended to be used to aid the elderly and for community care, these funds were also utilised by ECCD Management for its own recurrent or capital purchases as necessary, when the latter's funds are not sufficient, or have been depleted. In this regard, in July 2010, a request was made by the Permanent Secretary, in accordance with relevant legislation, for the utilisation of the Welfare Committee's funds, for the payment of ECCD expenses, amounting to €1,279,000, and approved by the Minister for Health, the Elderly and Community Care (MHEC), in August 2010. NAO's enquiries as to whether further similar requests were made and/or granted in the following years, was not entertained. The continual use of the Committee's funds by ECCD may imply that the Welfare Committee's original purpose has become obsolete and effectively taken over by the respective Department.

Concerns raised by the External Auditors

It is pertinent to point out that the Welfare Committee's external auditors, in their Management Letter on the Financial Statements for year ending December 2011, have also pointed out the main shortcomings identified above.

Provision of Care Workers

Background

A contract for the provision of care workers for service at SVPR and other State Residential Homes, for a period of three years, was signed by

the Department of Contracts (DC) on behalf of ECCD and the service provider on 17 March 2011. The amount charged for such services provided during 2012 amounted to €1,951,157.

Contradictions within the Contract for the Provision of Care Workers

The contract with the service provider stipulated that a performance guarantee, amounting to €470,022, was to be submitted concurrently with the signing of the contract. However, the special conditions to the contract stipulated that the performance guarantee was to be set at €40,000, and to be submitted within 15 days of receipt of notification of award. Contradictions between different sections of an agreement can create anomalies and could be subject to conflicting interpretation by the different parties.

A proper Bank Guarantee not in place

DC confirmed that the conditions imposed by the contract had precedence over the Special Conditions, and the bank guarantee of €470,000 was to apply. However, the Contractor submitted a guarantee of only €40,000 on 8 November 2011, *i.e.* more than nine months after the effective date of the contract, instantly giving rise to non-compliance and exposing the entity to potential losses. Moreover, this guarantee was only valid for one year with no evidence of its renewal being provided.

Although DC instructed ECCD, at least twice in 2012, not to effect any payments until a valid performance guarantee for the sum of €470,022 was in place, the latter ignored these instructions and from March 2011 up till January 2013, the contractor was already paid €3,472,953.

Through a letter dated 3 September 2012, the Contractor contended that since 18 months had already passed from the commencement of the contract, a guarantee of €156,674, covering 10% of the value of the contract for one year, should be adequate, thus two-thirds reduction from the necessary amount.

Although beyond the delegated powers of both the Contracting Authority and DC, Addendum 1 to the contract, signed on 20 June 2013, agreed to

the contractor's proposal. Moreover, a copy of the new bank guarantee was still not available as at 8 July 2013.

Maximum Amount of Weekly Hours allowed by Contract exceeded

Though the contract established that the Department required the equivalent of 120 full-time employees providing care working support services per week, and which could be increased or decreased by 15% to 20% up to a maximum of 144, a letter from the contractor, dated 4 May 2013, claimed that the company was providing approximately 176 'employees equivalent' per week. Workings obtained from ECCD confirmed that the average full-time 'employees equivalent' for 2012 was 149.19 per week, increasing to an average of 168 during the first quarter of 2013, both of which exceeded the maximum amount allowed as per contract without having the necessary approval. This also indicates lack of planning.

Eventually, Addendum 2 to the contract was signed on 20 June 2013, whereby additional hours exceeding the original maximum of 1,152 hours per day, up to a maximum of 1,450 hours, were to be allowed and paid at a rate of €7.80 per hour, instead of €5.74 as per contract. This Addendum was applicable for a limited period up to 31 August 2013.

Given that the contract stipulates that an overtime rate is paid to those employees working more than 40 hours per week, the extra hours can imply additional cost to Government, with no benefit to the employees in question as the Contractor could increase the number of employees to avoid paying overtime rates.

Insurance Cover not provided for the Initial Period of the Contract

The Special Conditions to the contract specified that full indemnity insurance was to be provided within 20 days from signing of the contract, and proof of regular payment of premium is to be sent whenever required to do so by the Contracting Authority. However, the only copy of insurance cover presented to ECCD indicates that this was only covering a period of one year, applicable as

from 7 November 2011, exposing the Department to unwarranted risks.

Cost of Living Adjustment

The General Conditions of the contract stipulated an hourly rate of €5.74 from Monday to Saturday, while that for Sundays and Public Holidays was established at €9.32 per hour.

Both invoices selected for testing, relating to services provided in June 2012, were overcharged by the Cost of Living Adjustment (COLA), which were claimed additionally by the contractor, and amounting collectively to €3,694. Though testing on this sampled month showed that ECCD only paid for the amounts allowed as per contract, invoices from commencement of the service up to May 2012 was previously being paid as billed, without confirming the charge rate to the contract. Credit notes relating to this period, amounting to €7,250 for 2011 and €12,750 for 2012, were requested. DC reaffirmed that such increases were not contemplated for in the contract which explicitly prohibited any increase in rates, also stating that tenders are always submitted on fixed prices.

However, in contradiction to the previous statement, DC issued a Circular dated 21 January 2013, stating that contracting authorities should consider favourably, all requests by economic operators still executing public service contracts, to adjust the rate of payment in view of COLA. Thus, following an official request made by the Contractor dated 14 May 2013, Addendum 3 was signed by both parties on 18 July 2013, approving the payment of all COLA increases for the whole duration of the contract.

Limitation to competitive tendering conditions

Following the award of the tender, the Contractor was informed by the General Workers Union that it was obliged to retain those persons employed by the previous contractor, as it constituted a transfer of undertakings under the Transfer of Business Regulations. An agreement to this effect was eventually reached on 12 April 2011, following the intervention of the Director of Industrial Relations.

The latter confirmed that after a transfer of business, the contract of employment of each person employed by the transferor shall continue with the transferee, and shall have effect as if originally made between the person so employed and the transferee.

This implies that a contractor could be submitting a tender, without having the knowledge of the number of employees already employed by the previous contractor and at what rate they are being paid. Furthermore, the requirement to retain an unknown number of employees at unspecified contracted rates may make it difficult for a potential contractor to submit his bid.

Lack of control over Attendance Records

At present, there is no electronic automated verifications system available at the sites managed by ECCD. This weakens the necessary control over attendance records which is also prone to human error whilst inputting details into the system.

The sub-contracted employees in fact only mark and sign the time they enter and when they leave, on a 'health care service' attendance sheet, which is kept and eventually checked by Government employees. It was noted that from the sample of the 19 sub-contracted employees working at the *Mtarfa* Residence during the sampled month of June 2012, all the 17 day timings of an employee and four out of 17 day timings relating to another employee were not marked as checked by at least one of the officers-in-charge. However, they were still approved by the Departmental Nursing Manager and processed for payment.

Provision of a Free Domiciliary Nursing, Carer and Midwifery Service to eligible persons in Malta and Gozo

Background

A non-governmental organisation was set up in 1947, to offer domiciliary nursing services. In 1990, the Association entered into a contract with Government, to provide home nursing and midwifery services throughout the Maltese Islands on the latter's behalf, to persons entitled to free health services. This was formalised into

an agreement in 1992 and further renewals were made in 2000 and in 2007.

No Request to extend Yearly Agreements for a Period of Four Years

The one-year contract, covering the provision of services by the Association for year ending 31 December 2007, signed on 31 January 2007, stipulated that the contract can be extended or renewed if the Government makes such request in writing, at least six months prior to its termination. However, both ECCD and Financial Monitoring Control Unit within MHEC were not aware that such request was made, for any of the four years, between 1 January 2008 up to 31 December 2011. In fact, only an expired contract was available throughout this period.

Another one-year contract between MHEC and the Association, for services to be rendered with effect from 1 January 2012, was only signed on 26 April 2012 retrospectively.

Intention to renew contract

The contract stipulated that the intention to renew, or otherwise, was to be done three months prior to the expiry date in December 2012. However, though on 8 July 2013, ECCD claimed that the Association was informed of the former's intention to continue with the service, email from the Association, dated 18 December 2012, revealed that there was no communication in this regard.

The contract for 2013 between the Association and the Government was not yet signed as at end August 2013, *i.e.* by the time this audit was concluded.

Direct Order and Contracts signed retrospectively

A belated request to DC, for the approval of a Negotiated Procedure with the Association, with an estimated value of *circa* €2 million for 2012, was made by CEO Procurement and Supplies MHEC, as per email dated 22 January 2012, and approved on 27 January 2012, when the previous approval had expired end 2011.

Another late request for 2013, for approval of similar Direct Order for services by the

Association, amounting to *circa* €2.2 million, was made to DC for 2013, on 8 March 2013, and approved by the latter on 8 April 2013. This implies that the services provided were not duly authorised for the periods in question.

Deadlines stipulated by the Contracts not respected

The contract in force for 2012 established the rate charged by the Association per visit, depending on the type of service provided. It also required Financial Monitoring Control Unit to verify whether a gain is earned, or a loss is incurred by the Association in connection with the service, within one month from receipt of the audited accounts.

In the case of a gain registered in the year-end Financial Statements, this should be set-off against reimbursement still due, whilst if a loss is incurred, it is compensated for by Government within two months of verification.

Though the audited accounts, relating to year ending 31 December 2012, were presented to the Financial Monitoring Control Unit in May 2013, the necessary financial review by the Ministry was still not performed, more than three months later, *i.e.* by end August 2013 when the audit was finalised.

Furthermore, though the contract applicable for 2011 stipulated that on presentation of the audited accounts, any loss shall be set-off in the subsequent reimbursement, an email dated 29 August 2013 confirmed that, notwithstanding that the related audited accounts were presented in May 2012, payment to the Association was still outstanding.

Breaches of Contract by the Association

The contract specified that the Association was required to take out a performance guarantee, amounting to 10% of contract value, as well as appropriate insurance cover. Though the contract was signed on 24 April 2012, the bank guarantee was only issued on 17 July 2012.

Furthermore, although the audited accounts of the Association should be presented to MHEC within three months from the financial year end, the Financial Statements relating to 2011 and 2012 were both received in May of the respective following year, rather than by the end of March.

Government-owned Assets not identified

The last two contracts signed with the Association state that any purchase and disposal of material capital expenditure is to be approved by Government. Furthermore, all assets on which depreciation shall be charged by the Association and reimbursed by Government, shall result in the transfer of the ownership of the proportion of the asset to the Government, on which depreciation has been written off in the accounts.

The statute of the Association also states that upon its liquidation and the eventual dissolution, and after the satisfaction of all its debts and liabilities, any assets whatsoever shall be given or transferred to similar organisations or to governmental health care.

According to the Financial Controller of ECCD, approval is sought from the Department for the purchase or disposal of assets. However, though the Association also provided an updated detailed list of fixed assets as at 31 December 2012, the assets which are actually owned by Government could not be identified.

Attendance of Meetings by Government Representatives

The contract allows Government to nominate two persons on the Council of Management of the Association. The Financial Controller of ECCD claimed that the representatives attend some of the meetings. However, it was noted that both representatives were absent during the last Annual General Meeting which took place on 30 April 2013. This weakens the Government's potential influence to certain decisions, especially those where consensus was required, such as the appointment of auditors.

Limitations within the CommCare Assessment Unit

Background

The CommCare Assessment Unit within ECCD was set up in 2005, to provide a reference point for patients requiring the service provided by the Association. Requests for service, normally received by this Unit by telephone, are followed by

a home visit and the relevant medical information and work programme are inputted in the computer system.

The programme prepared by CommCare, which also includes the amount of visits required and the termination date, is directed to the Association by email, with the ID Card Number being the case reference point.

The Association is then responsible to organise a timetable with the planned visits for patients, and a blue card with the required details is signed by personnel on each visit. The system is only monitored randomly by CommCare as more emphasis is based on regulatory assessments through telephone reviews.

The Association sends interim daily reports, referring to the amount of visits, generated from its computer system in spreadsheet format to CommCare.

A sample of three invoices from the Association, covering the months of July, August and October 2012, and amounting collectively to €542,949, representing 34% of the total amount of €1,632,209 invoiced during the same year, were chosen for audit testing.

Verification of Invoices mostly based on Information supplied by the Association

Reports provided by the Association do not distinguish between patients covered by the agreement and other patients. Furthermore, patients are not identified by their ID Number. Checking by the Department, which NAO concluded is rather superfluous, is only limited to verification against information provided by the same Association, and not with any related records maintained by the Department. This limits the effectiveness of verification since it is based on the same source of information.

CommCare stated that due to the limitations on verification of the bill, and in view of the compensation agreement if losses were incurred in connection with these services, minor variances in favour of either party are not challenged and hence the bill is processed for payment.

In fact, the audit revealed a net adverse discrepancy between the amount of visits invoiced and the monthly reports compiled by CommCare for the sampled months of July and August, amounting to €714 and €124 respectively.

Following further inquiry on this discrepancy, CommCare declared that the 37 post-natal midwifery visits (€240) relating to 31 August had been omitted from their side. Its inclusion meant that the respective invoice was actually undercharged by another €116.

During testing, it was also noted that it was not possible to filter between the different rates charged for nurses and that for care workers, as these were not identified on the list that was being sent.

Services rendered by the Association to Armed Forces of Malta charged to the Department

The three sampled invoices referred to earlier, also included amounts of €852, €982 and €1,131 respectively, relating to services rendered for the Armed Forces of Malta (AFM). Though CommCare is not directly involved to assess each case in line with standing procedure, it is being billed for such service without having the means to confirm that the number of visits invoiced were actually made. Such costs were not recharged to AFM.

Limitations of the Information Technology System

The computer system in use by CommCare is rather limited in its relevance. CommCare officials stated that the system, which was implemented in 2009, has become overloaded and considered to be obsolete for reporting and statistical purposes. At present, its use is limited to being a source of information on the patients' records, rather than to confirm the information provided by the Contractor.

Control Issues

Incontinence supplies for various Government Institutions and Residential Homes for the Elderly

Background

Payments for incontinence supplies during the period under review originated both through a specific contract, covering period November 2011 to November 2014, and enacted following a call for tenders; as well as from procurements through requests for quotations direct from the open market, which procurement took place between August 2010 and November 2011.

Procurement following Expired Contract

As per letter dated 16 July 2007, from the Welfare Committee to DC, it was stated that despite the original tender expiring in September 2005, the Committee continued to utilise the same contract to procure the required supplies. Through the same letter, it was also stated that the Committee had submitted for publication the new call for tenders in October 2005, and even though the closing date was 21 February 2006, and an Adjudicating Board appointed within weeks, the tender was not yet awarded “... *due to unforeseen circumstances*”. It was also stated that an appeal had been lodged against DC in relation to this tender⁶. Furthermore, in the same letter, a request was made to the latter to approve the continued use of the expired contract.

However, due to lack of details provided, in its letter dated 10 August 2007, DC could not endorse this request, thus further information on the estimated extension cost and period was demanded. Nonetheless, no further communication was traced for a whole year, and in the meantime the Committee continued to acquire the incontinence supplies through the expired contract.

On 5 August 2008, the Welfare Committee again asked DC for permission to continue using the expired contract, without providing further details.

In its prompt reply dated 14 August 2008, DC stated that it could not issue an open ended approval and recommended the Welfare Committee to initiate new procurement procedures to address their immediate needs, until outcome of pending tender was finalised.

Notwithstanding this, procurement based on the expired contract proceeded up to August 2010, at a total cost of €2,136,904⁷, in breach of PPR. Furthermore, it transpired that one of the two suppliers, whose contract had expired, was the same supplier who had lodged the appeal against DC through the Law Courts, which had stalled completely the award of the tender.

Subsequently, procurement based on requests for quotations, selected direct from the open market to a number of suppliers, was eventually used in the period between August 2010 to November 2011, which in aggregate amounted to €798,624⁷. Notwithstanding that the thresholds were exceeded, and thus required approval from the Ministry of Finance, the Economy and Investment (MFEI) or DC as applicable, no such evidence was available, despite various requests by NAO.

Procurement through Contract following Call for Tenders

The new contract, awarded in November 2011 and valid for a three year period (*referred to above*) has an estimated value of €857,795 per annum, *i.e.* a total estimated cost of €2,573,385 over three years.

Notwithstanding its materiality, the contract agreement fails to specify the total estimated cost over the whole three year duration of the contract. The only details stated are the estimated annual consumption in quantity, the prices per unit of each item, and the estimated cost for one year only; whilst indicating that it is for a three-year period.

Moreover, the contract agreement states that “*The Contractor hereby agrees to submit a performance guarantee amounting to €85,789.00... .. equivalent to 10% of the contract value together*

⁶ During the audit it was stated by the Committee that, as a result of a prohibitory injunction against DC, on 14 April 2008 the Law Courts blocked the award of the new tender and issuance of the respective LA, and this call was eventually withdrawn.

⁷ As per information provided by the Welfare Committee and the Elderly and Community Care Department.

with the signed contract". However, the quoted amount represents merely 10% of the contract value based on one year's consumption of €857,795, rather than the entire three-year period equivalent to €2,573,385, covered by the contract which was signed and agreed upon by both DC and supplier. This is still not in line with the requirements of the contract.

Other Matters

From an analysis of a sample of three payments procured through quotations obtained direct from the open market, in aggregate amounting to €39,947, it transpired that:

- all three invoices included additional items purchased, which were not included in the call for quotes; thus such costs could not be validated; and
- the new contract was effective 9 November 2011 and valid for three years. However, two invoices, each valued at €11,070, for purchases made from another supplier through the call for quotes, were dated 2 April 2012 and 28 September 2012 respectively. This may imply that orders could have been placed through quotes with a supplier when an agreement was already in place with another supplier. Such procurement may also not be in line with PPR and may be unauthorised.

A sample of four payments procured through the new contract was also reviewed. It was observed that none of the four invoices, amounting to €31,453, €32,407, €31,412 and €31,392 respectively, detail the unit cost of the items procured. Only the total amount payable is indicated; although for example, in two of these invoices, two different types of nappies were procured. The price per unit was only handwritten by an SVPR Stores Officer on one of the latter invoices mentioned. As a result, it was not always possible to corroborate the prices to the contract.

Soft Drinks and Table Water for Residents of Homes and Institutions for the Elderly

Background

The Welfare Committee is responsible for the procurement and provision of soft drinks and table water bottles consumed every Sunday, besides those provided during social activities administered by the Entertainment Section at SVPR.

Unauthorised Extension to Expired Contract

A contract for the supply and delivery of soft drinks and table water was entered into by DC, on behalf of the Welfare Committee, and the supplier on 20 February 2009. The contract was valid for a period of one year, with the possibility of extending it for another year; and was valued at €113,437 inclusive of all charges and taxes.

As the contract expired on 19 February 2011, following the extension of one year which was availed of, on 2 March 2011 the Welfare Committee sought approval from DC to extend the period up to 31 December 2011, at an estimated additional cost of €60,000. Even though on 10 March 2011, DC asked for further clarifications and endorsements prior to consider the possibility to approve such request, on 23 March 2011 the Welfare Committee renewed and extended the agreement with the contractor, to retain the same terms and conditions of the expired contract up to the end of 2011. No approval for this extension was ever granted by DC. This indicates non-compliance with PPR – S.L. 174.04, with the risk that approvals are bypassed. Notwithstanding this, the Welfare Committee continued to make use of such contract for an additional period of more than two years, up to the time of audit. Total payments⁸ made to this supplier since the expiry of the old contract amounted to €83,889, €77,753 and €20,829 for 2011, 2012 and mid-2013 respectively, *i.e.* an aggregate of at least €182,471 over a period of 29 months.

⁸ As per information provided by the Welfare Committee. Cut-off for 2013 payments taken at July 2013.

Charges outside the Terms and Conditions of Contract

Although the Welfare Committee continued to place orders with the same supplier, no request was made to the latter, seeking the extension of the expired contract under the same terms and conditions, beyond 2011. This may lead to an increase in the rates being charged.

Furthermore, a review of a sample of three invoices, comprising various deliveries, were selected for testing. The invoices, valued €8,504, €15,381 and €8,067 respectively, revealed the following discrepancies upon reconciliation with the original contract:

- The invoices included various drinks and/or bottle sizes which were not specified in the agreement.
- The rates charged per bottle do not tally with the contract, leading to variances in the invoiced prices. The total adverse variances on the three sampled invoices amounted to €2,784. These variances were claimed to be the ‘eco-contribution’. However, as per articles 3.2 and 3.4 of the contract, prices are “...*firm and not subject to revision*”. It also specifically states that prices are inclusive of “...*all duties and taxes*...”, implying that VAT and eco-contribution, if applicable, are included.

Contradictions within Contract Clauses and/or Conditions

A review of the documentation related to the (expired) contract provided for audit purposes also highlighted inconsistencies between some clauses and/or conditions. Whilst Article 19 – Period of Executions of the Special Conditions, states that the contract may be extended for another year, paragraph 6 of Annex II states that the contract may be extended for a period of two months.

Moreover, Article 1 of the contract defines the subject as ‘toilet ware hampers’ rather than ‘soft drinks and table water’. All Articles were endorsed with the signing of the contract.

Such contradictions within the same contract may be subject to interpretation and increase the possibility of disputes.

Delays in Issue and Adjudication of New Tender

In the letter dated 2 March 2011, the officer-in-charge at the Welfare Committee claimed that since the contract had expired (on 23 February 2011), a new tender, for the supply and delivery of soft drinks and table water, was prepared and submitted for vetting to ECCD. However, due to various delays, the tender was only published on 14 August 2012, with the closing date being 9 October 2012.

The same officer also claimed that there were delays by MHEC before the required endorsement of the Director General (Finance), as well as in awarding the new tender, since the recommended tender price exceeded the projected budget allocation. Thus, the financial bid had to be amended to reflect the budgeted amount which, as verbally declared, was initially understated.

As at time of audit (23 May 2013), the Evaluation Committee was still in the process of sending the Evaluation Report to DC.

Supplies in relation to Incontinence Service in the Community

Background

Government, through ECCD and *Ċentru Servizz Anzjan*, offers an ‘Incontinence Service’ to support and encourage incontinent disabled persons to continue living within their community. The service consists of the provision of adult diapers and incontinence pads, free of charge to individuals with a disability, referred to as Scheme A, and supplies at a subsidised cost to Senior Citizens aged over 60, referred to as Scheme B.

For 2012, invoices from the two suppliers supplying such goods amounted to €456,441.

Delays in finalisation of Tenders

- a. The two original contracts with the two suppliers in question, covering both Scheme A and B, had actually expired in December

2010, following the utilisation of a six-month extension that had been provided for in the contract. However, these were both extended repeatedly for five times, over a period of 22 months, up to October 2012, with the respective approvals in place, until new DC calls for tenders for Scheme A was awarded. The cost of these extensions totalled €566,191⁹.

- b. During this period, starting in February 2012 and continuing up to the time of the audit (mid-July 2013), six requests for quotations direct from the open market, duly approved by DC/MFEI as applicable, were also utilised to cater for procurement of separate supplies for the two Schemes. Following the requests for quotes, two suppliers were selected (not concurrently), at a total cost of €191,149.
- c. Enquiry regarding these extensions and requests for quotations revealed that these were always approved on the basis of various delays encountered in awarding the new tenders. In the circumstances, the Department tried to ensure continuation of this essential service without interruptions. ECCD also claimed that the new tender for Scheme B, with closing date 18 December 2012, had been adjudicated, but the result was objected to by two bidders and was still in the objection stage as at audit date, *i.e.* May 2013.

Whilst it is understood that the tender process may be held back by difficulties encountered during adjudication, or objections thereafter, it is not clear why these triggered such excessive delays since the expiry of the original contract in December 2010. In fact, one was finalised in September 2012 and the other was not yet finalised.

Such delays may also result in additional expenditure incurred by Government as it would have to opt for short-term alternatives rather than procurement through public calls for tenders to take advantage of the most competitive prices.

Concerns relating to Entitlement to the Service

Upon reviewing current entitlement of beneficiaries and payment procedures in place, the following

matters were noted, which indicate limitations in internal controls at ECCD:

- Whilst the procedure sets a maximum limit of 120 (per month) on the number of diapers/pads provided to beneficiaries under Scheme A, there is no limit for the number of such items subsidised by Government under Scheme B.
- Following the initial application endorsed by the applicant's general practitioner, the number of diapers/pads one is entitled to is never reassessed and revised on ECCD's initiative, but automatically renewed. This applies to both Schemes A and B.
- Even though Scheme A Entitlement Vouchers are endorsed by the beneficiary or his/her agent as proof of collection, a list of approved signatories does not exist at ECCD in order to verify validity of signatory upon reconciliation.
- Green Cards issued in respect of Scheme B are neither stamped by the Department, nor endorsed by the officer-in-charge, to confirm validity of the card upon delivery.
- Reconciliation of Vouchers redeemed with those issued under Scheme A, and of quantities in the delivery notes endorsed by the beneficiary with Green Card entitlement quantities, for Scheme B, are never carried out by ECCD.

As a result, beneficiaries may claim more items than actually required, resulting in unnecessary and undue expenditure by Government.

Hospital Beds in use within Residences for the Elderly

Background

In September 2009, DC, on behalf of the Welfare Committee, entered into a contract for the purchase of electrically operated hospital beds and accessories. The contract was divided into three lots, together with a provision for preventive

⁹ As per information provided by Elderly and Community Care Department, as at audit date (18 July 2013).

maintenance, with the total overall cost of €1,044,235.

Full Bank Guarantee not in place

The provisions of the contract required that a performance guarantee, equivalent to 10% of the contracted price, be furnished for the full and proper performance of the contract. On 9 March 2011, prior to the expiry of the two guarantees covering part of the required amount, Director General Contracts noted that these were about to expire. It was advised by the latter that the guarantees be extended and that no payments were to be effected until these are in place. However, notwithstanding that the contract had not yet been fully executed, it was observed that a valid bank guarantee was not available after March 2011. The final invoices settled under this contract were dated 26 October 2011 and 14 March 2012, for €301,224 and €5,331 respectively.

Testing also revealed that for a particular period in 2010, and up to expiry of the respective bank guarantees in March 2011, both guarantees were reduced to a total of €73,641, which amount fell short of that required as per contract awarded (*as stated above*).

These inadequacies could have limited the possibility of the Committee to make a full claim, if the contractor failed to meet the required obligations.

Additional costs due to delays in completing the refurbishment at Zammit Clapp Hospital

From audit testing performed it further transpired that, in relation to this contract, the final invoice received by the Welfare Committee (as noted above), for the amount of €5,331, was for the hire and insurance of containers, used for storage of beds to be supplied to Zammit Clapp Hospital. Though the contract (General Conditions) allowed for the possibility of additional costs in the event that the contractor is instructed to suspend the delivery of supplies, the rates charged were not detailed on the invoice. Furthermore, no evidence was available to corroborate whether the amount

in question had been discussed by both parties prior to the issue and settlement of the invoice.

Following enquiry, it emerged that these were additional expenses incurred, as the hospital/residence was not in a position to accept delivery of the third lot of new beds on site, due to major refurbishment works not yet completed. In fact, it was stated that the project timelines had been delayed considerably. Thus, in the circumstances, the delivery of beds to "...an almost "construction site"..." was not feasible, as this could have risked damage to the beds, due to additional handling and inadequate storage. Furthermore, if the delivery was postponed, the supplier could no longer guarantee the same prices as quoted in the tender.

Service and Repairs of 'Variable Height Beds'

Background

In 2008, a departmental tender was issued by the Welfare Committee for the maintenance of 'variable height beds' for a period of three years. Payments made by the Welfare Committee to this contractor during 2012 amounted to €44,263¹⁰.

Procurement not in line with the Regulations in force

An estimation of cost of the maintenance required for the 'variable height beds', to guide the Committee as to which procurement process they were bound to follow, was not available. This constitutes a deficiency in planning and budgeting for the project itself, and as a result, procurement may be made through the wrong procedure, in breach of the applicable regulations, as in this case.

As per technical specifications, it was envisaged that all 2,000 beds at SVPR, Mount Carmel Hospital (MCH) and Gozo General Hospital, would go through at least one maintenance schedule over a span of 18 months. Based on the contracted rate of €33.00 (excluding VAT) per bed, and the quantity of beds as per tender, total estimated cost of services amounted to €66,000 (excluding VAT)¹¹, which amount exceeds the

¹⁰ Payments to supplier as per 2012 Departmental Accounting System, Vote 42, Item 5266.

¹¹ Total contract valued as: €33/bed x 2,000 beds/18mths contract duration = €66,000 excluding VAT.

threshold of a departmental tender, as per S.L. 174.04 – Public Contracts Regulations, at the time (pre-June 2010).

Formal Contract not entered into

A formal contract for the maintenance of the ‘variable height beds’ was not available as the Welfare Committee considered the LA issued to the contractor as sufficient. The LA, which was issued in May 2008, specified the rate per bed, but did not specify the total contract value. This could have resulted in potential disputes between the contractor and the Department, since the terms and conditions binding both parties will not be clearly spelled out. Thus, in case of default by the supplier, no penalties can be imposed.

Bank Guarantee not in place

A proper bank guarantee was also not in place as it had long expired, since June 2009, even though the agreement was valid up to May 2011.

Additionally, this bank guarantee that had been presented by the contractor, dated June 2008, was for €4,700. This was in accordance with the amount specified in the LA issued, and was based on the departmental tender limit value at the time (pre-June 2010) of €47,000. However, this amount guaranteed did not cover 10% of the total estimated cost of services amounting to €66,000 (excluding VAT) (*as noted above*).

Works carried out post expiry of Contract

The €44,263¹² paid by the Welfare Committee to this contractor during 2012 related to works carried out after the expiry of the agreement in May 2011. In fact, job cards attached to an invoice, valued €7,861, selected for testing, were dated October 2011.

Further to the issue that no extension to the agreement was available, the additional costs were not even approved by the respective Permanent Secretary. This practice has resulted in unauthorised transactions taking place. Upon enquiry, it was claimed by the officer-in-charge

that these works had been commissioned to be carried out in March 2011, within the tenure of the tender.

Engagement of Auditors

Engagement of Auditors not formalised

The tendering documentation, and ensuing LA awarding the tender for the provision of auditing services¹³, were not made available for audit purposes. It was claimed that the originals had been misplaced. It was also stated that unless a three months notice is given in writing prior to expiry, by any one of the two parties, the appointment of the auditors is automatically renewed.

Engagement letters, officially appointing the auditors, were in fact not issued and endorsed for the past years, also due to the absence of a constituted Board (*as referred to under Key Issues*). The latest available engagement letter was dated 1 December 2008, and was not even signed. This letter substantiates the audit fee of €1,237 actually paid in 2012. The officer in charge also stated that no other signed engagement letter or other correspondence on this matter were traced, except for a letter dated 28 May 1999.

In light of the above, even though the current engagement may theoretically still be valid, the agreed terms and conditions cannot be verified or scrutinised. Furthermore, auditing services provided are currently not officially authorised.

Other Matters

Rent for Telephone at Former Office

A fixed telephone line located at the Committee’s former office at Floriana was still active at the end of 2012, even though this premises was only being used occasionally. Consequently, rent charge is still incurred on a regular basis. This results in unnecessary disbursement of funds especially keeping in view the fact that the Welfare Committee ceased to operate from there in August 2011 and has since relocated to St. Venera.

¹² Payments to supplier as per 2012 Departmental Accounting System, Vote 42, Item 5266.

¹³ Tender for auditing services awarded in 2000. The audit fee has remained fixed.

Hire of Transport

A sampled invoice for the amount of €1,723 (24% of total ECCD payments to the respective supplier), for the provision of transport services to elderly citizens in receipt of Home Care Help Service, covering various locations during a half-day outing, did not specify the rate charged. Thus, the Committee was unable to verify the correctness of the invoice at hand, which may have led to incorrect payments being made. Applicable rates were only detailed in a separate quote provided for another event.

Review Process of Invoices and Payment thereof

Detailed examination of a sample of 30 transactions revealed the following common shortcomings, which are indicative of insufficient internal control procedures:

- Invoices were not always signed and certified as proof of verification, in spite of the fact that the officer-in-charge claimed that these are vetted for correctness, by the entity receiving the goods and by the former prior to effecting payment. This shortcoming was encountered in eight instances during testing, with a total value of €197,481.
- Two instances were noted where payments made were not posted to the account that better reflects the nature of the transaction. Consequently, accounts may not show an accurate picture of annual expenditure for a given line item at the end of the year.
- Invoice dates preceded respective LPO in 15 cases, *i.e.* 50% of the sampled transactions, implying that the respective expenditure was not properly authorised prior to effecting the actual procurement.
- In two instances, despite that the supplier was obliged to issue a VAT fiscal receipt, such receipts, to the aggregate value of €9,584, were not provided for examination

during audit testing. This results in non-adherence to the pertinent provisions of the ‘VAT Act – Cap. 406’.

Transfer and Adjustment Endorsement

A DAS Transfer and Adjustment of funds between the Welfare Committee and ECCD, provided for testing purposes, was not signed and authorised by the responsible officer. This signifies a lack of control since the appropriate channels of approvals may be bypassed, and may also lead to unapproved transactions.

Compliance Issues

Stock Control Procedures

Background

A review of the stock control procedures in place at SVPR included two stockable items, namely soft drinks and table water, consumed solely by SVPR residents¹⁴ and administered by the Entertainment Section, as well as various incontinence supplies, for use at SVPR wards and other homes/residences for the Elderly, which are under the responsibility of the Main Stores.

Total expenditure incurred by the Welfare Committee during the year under review for drinks and incontinence supplies for SVPR was *circa* €33,453 and €418,821 respectively¹⁵.

Lack of Control over Store Items

The following shortcomings, indicating lack of control, were observed with respect to the stock control system in place at SVPR:

- The stock control system of the respective stores is not computerised, and the records maintained are not linked to the computer network at the Administration Block. Reliance is made on computerised spreadsheets.

¹⁴ Testing refers to drinks consumed on weekends and during special events, managed by the Entertainment Section. Water dispensers, for normal daily consumption by residents is administered by the Provisions Stores, whilst bottled water is also distributed to SVPR offices. However, these are both excluded from the scope of this review. Procurement is made separately.

¹⁵ As per information provided by Welfare Committee.

- A manual stock control system is maintained, relying on bin cards for the majority of items held. However, the two items sampled, namely drinks and incontinence supplies, are excluded from the bin card system. Upon enquiry, it was claimed that due to the bulky size of incontinence supplies (packs), it is impractical to adopt such a system for these items.
- Records held on spreadsheets, for both drinks and incontinence supplies, only consist of details of store items issued to wards. No records, except for email correspondence, are held for issues of incontinence supplies to other homes/residences. Moreover, records of quantities of new stock delivered, for both drinks and incontinence supplies, are not held. Such information can only be obtained from supplier invoices and delivery notes.
- A detailed reconciliation of stock balances and issues from stores with quantities procured was not available, neither for drinks nor for incontinence supplies. In fact, this is difficult to carry out in view of lack of available records (*as noted above*) and an incomplete audit trail. Additionally, it was stated that the different types and/or sizes of incontinence supplies are at times grouped together as one item; thus confirming that a reconciliation is practically impossible.
- There is no automated system in place, identifying actual stock balances, minimum reorder levels and reorder quantities, for drinks and incontinence supplies. These are only based on the officer/s experience and knowledge in this area.

Stock level and orders of drinks are based on full wards' compliment and estimated consumption during special activities; whilst incontinence supplies depend on

orders received from wards as well as other homes/residences.

Besides that the current stock management is considered insufficient, the manual stock control system in place is prone to the risk of human errors.

Statutory Reports not submitted

Referring to the other requirements set out in Treasury Circular No. 6/2004, the officer in charge at SVPR was not aware of specific reporting requirements set out in this Circular, thus the respective provisions were not followed. In addition to the lack of Stock Bin Cards, for drinks and/or incontinence supplies as noted above, periodic reports were not submitted, as follows:

- Annual stock take reports, signed by the Head of Department, which are to be sent to Permanent Secretary Finance, Director Internal Audit and Auditor General¹⁶.
- A valuation of stock which is to be submitted to the Accountant General within 10 working days after the end of each quarter.
- Electronic or printed copies of these reports, which are to be submitted in accordance to specific templates to MFEI.

This non-submission hinders the potential monitoring that is expected to be carried out by the relevant authorities.

Payroll

Shortcomings in Payroll Procedures

Audit testing performed included an overview of payroll procedures in place, and an examination of a one month salary payment to an officer, receiving an annual salary of €24,972¹⁷, from the five officers currently on the Welfare Committee's payroll. The following matters transpired:

¹⁶ SVPR stated that an annual stock take is carried out. A copy of the last stock take report was only provided to NAO during the audit.

¹⁷ Annual Gross Emoluments for year ending 2012, as per employee's Payee Statement of Earnings (FS3).

- No official documentation was available to substantiate the appointment or progression of the officer in his current grade and salary scale. At time of audit, the officer's position was pegged at the maximum of salary scale 11, but the latest available documentation was dated 22 March 2001, and referred to a prior appointment (position) at the minimum of scale 12.
- Requests (application forms) for approval of overtime work, by the respective Permanent Secretary, as per Public Service Management Code, were never prepared during 2012. Overtime paid to this employee during the year under review amounted to €3,991, of which, as stated by the officer-in-charge, €1,489 was incurred on behalf of ECCD, but was not reimbursed accordingly.

Furthermore, overtime work, which had been requested by ECCD, was officially endorsed by a higher authority at the Department only after the work was carried out and backed up by the relevant timesheets, but before payment was effected. It was also noted that in one particular month, 115 hours of overtime were performed by this officer at a total cost of €1,432, which number of hours were deemed rather excessive. No claims for overtime were made for prior months.

Recommendations

Key Issues

The Welfare Committee

If the pertinent authorities determine that a Welfare Committee is still relevant, a Board and the respective Chairman, as required by the Social Security Act, are to be appointed without further delay, to work towards the strengthening of controls and monitoring required for the proper functioning of the Committee. Otherwise, operations of the latter are to be transferred as part of ECCD and the respective Line Item abolished. In the meantime, any use of the Committee's financial allocation for settlement of third party expenditure, including

ECCD expenditure, is to be officially authorised by the Ministry for Finance (MFIN), as required by the applicable regulations.

Provision of Care Workers

It is important to ensure that provisions within a contract are clearly defined and consistent, thus avoiding problems of interpretation, and that all conditions set by the contract are adhered to without exception or fail. The amount allowed as per contract is not expected to be exceeded. If justified and inevitable, ECCD should eventually seek the necessary approval since this is considered a variation. Checks need to be in place to ensure that the higher rates are paid to the contractor on proof that corresponding overtime rates are being given to the employees. Furthermore, insurance cover is to be given due importance to ensure that potential liabilities are adequately covered. Invoices are to be checked with the contract's provisions before processed for payment.

In the tender document, it is important to indicate the number of sub-contracted employees that are expected to be taken over, as well as the working conditions and rate paid per hour by the previous contractor, to ensure fair and transparent competition between prospective contractors. Management is also encouraged to introduce an automated verification system, within sites managed by ECCD, to improve control and facilitate eventual checking, especially on attendance by sub-contracted employees.

Provision of a Free Domiciliary Nursing, Carer and Midwifery Service to eligible persons in Malta and Gozo

Services provided are to be covered by a proper agreement to safeguard Government interest. The Association is to be informed of the intention to renew the contract within the timeframe established by the agreement. The necessary approvals are also to be obtained in time to ensure that agreements are signed prior to their commencement. Conditions within the contract are to be abided with by both parties.

Government-owned assets should be identified and the list regularly updated. Government representatives are expected to be present during

Council of Management meetings and during General Meetings, to ensure that Government's interests are duly safeguarded.

Limitations within the CommCare Assessment Unit

CommCare are to have the necessary tools from independent sources in order to enable proper verification of invoices. Attendance forms endorsed by patients should also be provided to support claim for payment. The computer system is also to be enhanced to enable the Unit to provide the necessary reports, as well as to verify information supplied by the contractor.

An agreement can be reached with AFM, to recover the costs in question as applicable. Moreover, such visits are to be substantiated before the respective payment is made.

Control Issues

Incontinence supplies for various Government Institutions and Residential Homes for the Elderly

Procurement following expired Contract

PPR are to be invariably followed. Thus, procurement, depending on the value planned to be disbursed, is to be made through the appropriate channels. Management is to ensure that in exceptional cases, if circumstances necessitate or favour the temporary extension of a contract about to expire, this should only be done with the appropriate authorisation of MFIN or DC, as applicable. Similarly, when obtaining quotations, these should at least be obtained through a public call.

Procurement through Contract following Call for Tenders

Prior to endorsing a contract, this is to be scrutinized thoroughly, such that all specifications, conditions and obligations, pertaining to both parties, are detailed within the agreement and correctly stated. All contract clauses are meant to be adhered to. Performance guarantees are to be proportionate to the full contract value, over its entire duration, in line with the contract's provision, as this could be required as a compensation for damages.

Other Matters

When obtaining quotations direct from the open market it is to be ensured that all items intended to be procured are included in the call. When a contract is in place following a proper call for tenders, the respective purchases are to be made solely through such contract. Invoices are to include full information covering the items being purchased.

Soft Drinks and Table Water for Residents of Homes and Institutions for the Elderly

Unauthorised Extension to Expired Contract

PPR are to be invariably adhered to. In exceptional circumstances when procurement is made direct from the open market, prior authorisation is to be sought as applicable by the same legislation, provided such approach is justified.

Charges outside the Terms and Conditions of Contract

Any changes in the terms and conditions of a contract, duly authorised, are to be covered by a formal agreement. Proper planning should ensure that all required products are included when issuing a call for tenders.

Contradictions within Contract Clauses and/or Conditions

Contracts are to be scrutinised and examined in detail prior to being presented for endorsement. This will ensure that any inaccurate, misleading or contradicting details are rectified beforehand.

Delays in Issue and Adjudication of New Tender

Preparation of tender documents should be made at a reasonable time prior to the expiry of a contract, to ensure a smooth transmission and to avoid potential bottlenecks.

Supplies in relation to Incontinence Service in the Community

Management is to prioritise and plan its procurement requirements. Timely action is to

be taken to ensure that delays in the tendering process are avoided, such that, if possible, a new tender would be finalised by the time the previous one expires.

For control purposes, a maximum entitlement limit is to be introduced, even for Scheme B beneficiaries. Periodic revisions by way of assessments are also expected to be carried out regularly. The Department is encouraged to prepare a list of approved signatories for Scheme A beneficiaries, to be tallied with those on redeemed vouchers. Green cards for Scheme B can be authenticated by a rubber stamp. Periodical reconciliation is also recommended to identify any discrepancies.

Hospital Beds in use within Residences for the Elderly

Management is to ensure that an adequate bank guarantee, in line with tender conditions, is invariably provided by the contractor for the whole duration of the contract.

Through better planning, the possibilities of delays are to be minimised as much as possible, so as to avoid incurring additional and unnecessary costs from public funds.

Service and Repairs of 'Variable Height Beds'

Management is to strive to ensure that all procurement is carried out in line with PPR. A proper estimation of costs, covering the whole duration of an agreement/contract, is to be prepared prior to any procurement, particularly before the start of the tendering process.

Contracts for services are to be invariably covered by a formal agreement, between the contractor and Government, clearly demonstrating their consent and acceptance of the conditions and obligations therein. The total contract value is to be included in any agreement.

Provisions are also to be made for adequate performance guarantees to be provided by contractors for the whole duration of the respective agreement. When a contract expires, a formal agreement for an extension is to be entered into, duly approved from the right level of authority.

Engagement of Auditors

Ensuing from recommendations outlined under the first Key Issue, if it is deemed that the Welfare Committee is to be sanctioned as per current applicable regulations, the newly appointed Board is to ensure that the appointment of the auditors is formalised without further delay. Thus, the engagement letter is to be endorsed by both parties and properly filed with other relevant documentation for future reference.

Other Matters

Rent for Telephone at Former Office

The need for a telephone line at the former office is to be assessed, with the aim of avoiding unnecessary expenses.

Hire of Transport

Management is to draw the attention of suppliers to the importance of properly detailed invoices, which are to clearly specify the rates charged.

Review Process of Invoices and Payment thereof

Purchases are to be prepared and vetted through the appropriate channels, such that these are approved by the authorised individual/s, through the LPO, prior to the actual purchase. Invoices are to be vetted for correctness and endorsed as proof of such verification. Payments are to be invariably posted to the appropriate account depending on the nature of the transaction. Full compliance with the relative provisions of the VAT Act is also required, particularly by ensuring that appropriate VAT documentation is obtained with every purchase.

Transfer and Adjustment Endorsement

Management is to ensure that all control procedures in place are followed rigorously. All transactions are to be duly approved by the authorised officials.

Compliance Issues

Stock Control Procedures

Management is to introduce a suitable and reliable computerised stock control system, linked with

the current network at SVPR. This will reduce reliance on human input and substantially lessen the risk of human errors. Internal controls will also be strengthened through a complete audit trail, whilst reporting abilities for management are enhanced. In any case, detailed records of all store items are to be invariably held, also comprising quantities received in store. Regular physical checks are encouraged in order to reconcile the actual quantities in hand with the respective records.

In managing store items and administering a stock control system, full compliance with all provisions of Treasury Circular No. 6/2004 is highly recommended.

Payroll

Management is to ascertain compliance with relevant sections of the Public Service Management Code, as well as all applicable policies, rules and regulations. In particular, as far as possible, all overtime requests are to be approved by the relative Permanent Secretary before it is actually performed.

Management Comments

Management concurred with most of the recommendations put forward by NAO and has taken, or will be taking, action to address a number of the shortcomings identified during this audit. The following comments and reservations were also submitted:

The Welfare Committee

In 2009, the service from the Association providing nursing services was transferred from the Primary Care Department to ECCD. However, the corresponding funds for this service were never transferred to the Department's vote and in order not to disrupt the service, Management had to turn to the Welfare Committee for funding.

Provision of Care Workers

Although ECCD was the contracting authority responsible for the Provision of Care Workers, this was a tender issued through DC, and the contract was prepared and signed by the latter.

Management confirmed that the lack of effective communication between ECCD and DC led to payments being made to the contractor despite the bank guarantee being in breach of the contract. It was only following clarification by DC in April 2013 that payments were eventually stopped until the supplier came in line with the contract provisions.

Planning for the required sub-contracted personnel is hindered, due to Union demands, as well as continual changes in the occupancy level of beds, thus making long-term planning difficult.

New tenders for the provision of services are now being cleared with the Department of Industrial and Employment Relations, to ascertain if Transfer of Business Regulations apply and to note this on the tender dossier. However, the Department is not in a position to verify how many employees the contractor has on his payroll or the rate they are being paid. There are implications on which the Department is seeking legal advice.

The installation of automated systems within the various sites will be evaluated, subject to availability of funds. The engagement of a Procurement Manager, planned to be in place by mid-2014, will also increase the level of control.

Provision of Free Domiciliary Nursing, Carer and Midwifery Service to eligible persons in Malta and Gozo

The free domiciliary nursing carer and midwifery facility is a fundamental service to the community. Thus, it cannot be interrupted due to delays because of long negotiation periods. Furthermore, due to the number of other priorities and tasks for which the Financial Management and Control Unit is responsible, the review of the accounts is too ambitious and should be extended. The Department will also seek to identify assets purchased by the Association but owned by Government. Government representatives shall strive to attend meetings more regularly.

Limitations within the CommCare Assessment Unit

ECCD is aware of the limitations of resources (IT and employee) within the CommCare

Assessment Unit. A programme was installed but its development was halted. The procedure for acquiring and installing software is not conducive to encourage development and ECCD will seek to replace existing software. The verification carried out by CommCare is to ensure that the services requested were carried out and charged at the correct rate. However, until the contract remains with the compensation clause for the resulting losses/gains after the completion of the audited operational costs, this verification of invoices remains superfluous. Attendance forms endorsed by patients will be introduced by the end of this year.

The contract does list ‘Open Centres, Detention Centres, Refugee Homes in the Community’ as part of the service. The Department will ensure that AFM will, as a minimum, be asked to verify calls. Political direction regarding the possibility as to whether they should be charged for the services will be sought.

Incontinence supplies for various Government Institutions and Residential Homes for the Elderly

The Department has taken note of the recommendations regarding procurement of incontinence supplies for Government institutions and homes for the elderly. It was also claimed that the process has been brought in line with applicable regulations. Referring to the appeal against DC through the Law Courts, the Department added that heavy competition exists in the diapers market and suppliers use various tactics to gain a competitive advantage.

Soft Drinks and Table Water for Residents of Homes and Institutions for the Elderly

With regard to the procurement of drinks for residents of homes and institutions for the elderly, Management committed itself to better planning for future requirements of goods, thus ensuring timeliness in the issue of tenders by the end of the year. Officers were instructed to observe the terms and conditions of contract. The Department is hoping to address the shortcomings in procurement through the engagement of a Procurement Officer.

Supplies in relation to Incontinence Service in the Community

The Department is committed to take action in order to address the shortcomings in the procurement of incontinence supplies for the community by the end of the year. ECCD is working to introduce a different scheme to the present one. However, the recommendation concerning the entitlement of service will be taken on board by end of this year.

Hospital Beds in use within Residences for the Elderly

Management claimed that ECCD had little or no control over additional costs incurred due to delays in completing the refurbishment at Zammit Clapp Hospital.

Other Matters

ECCD reiterated that the Floriana office is still used occasionally, but added that it will check if this line is still necessary.

Stock Control Procedures

In response to observations made in relation to lack of control over store items, Management stated that network connectivity at SVPR is a problem due to the sprawling size of the hospital, but added that this issue is being addressed with the help of the Malta Information Technology Agency. Moreover, Management declared that a computerised stock control system has been purchased and will be installed at SVPR next year.

Payroll

As an explanation for the overtime paid in one particular month, ECCD stated that this was for the distribution of nappies, which had not been provided by the interim supplier. This was a temporary measure undertaken by the Department until the new tender was awarded.

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