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<p>MFIN Circular No 5/2007</p>	<p><b>Defining Ownership of Assets and Liabilities when new public sector organisations are established</b></p> <p>In the light of the ongoing restructuring taking place within the public service, it is considered necessary to give clear policy direction in regard to the ownership of assets and liabilities that may be subject to transfer from Government Departments to newly set up public organisations. This requirement is all the more essential in view of the increased relevance of balance sheet items within the context of the accruals accounting methodology, aspects of which are being increasingly resorted to.</p> <p>With immediate effect, therefore, whenever new public organisations are established to take over responsibilities, in part or otherwise, from Government Departments/Ministries, an official Memorandum of Understanding (MOU) shall be drawn up, as per Annex A, attached to this Circular, between the parties concerned, clearly identifying the assets (both tangible and financial) and liabilities, that will be taken over by the new organization, as well as those that will be retained by the respective Government Department/Ministry.</p> <p>This procedure will ensure that ownership of assets and responsibility for the collection of dues and the settlement of liabilities are clearly identified, whilst facilitating and speeding up the accruals accounting reporting process.</p> <p>A copy of the MOU is to be submitted to the Treasury Division and the Financial Management Monitoring Unit within the Ministry of Finance.</p>
<p>MFEI Circular No 8/2012</p>	<p><b>The Late Payment Directive (recast) and Commitments in Excess of Budgetary Provisions</b></p> <p>Your attention is drawn to Legal Notice 272 of 2012 that came into force on 14th August 2012, transposing Directive 2011/7/EU on combating late payment in commercial transactions. Although due importance has always been given to over-commitments on budgetary provisions, these occurrences now lead to additional consequences on account of the Late Payment Directive (recast). Any late settlement will put additional strain on Government's budgetary provisions and cash flows and on public sector entities' funds.</p> <p>The Legal Notice provides that in commercial transactions where the debtor is a public authority, the creditor is entitled to interest at the European Central Bank reference rate plus eight per cent (8%) upon expiry of the credit period allowed by law. This entitlement is subject to the following conditions:</p>

- a) the creditor has fulfilled its contractual and legal obligations;
- b) the creditor has not received the amount due on time, unless the debtor is not responsible for the delay; and
- c) a claim, which follows the established legal procedures, is made to contracting authorities.

In this instance commercial transactions refer to transactions between undertakings and public authorities, which lead to the delivery of goods or the provision of services for remuneration. The provisions of this Legal Notice applies to payments made as remuneration for commercial transactions as from 1st March, 2012.

In this respect undertakings refer to any organisation, other than a public authority, acting in the course of its independent economic or professional activity, even where that activity is carried out by a single person.

The provisions of this directive apply to “public authorities” which have the same meaning as “contracting authorities” as defined by the Public Procurement Regulations. A schedule of contracting authorities is contained in these Regulations. A copy is available through [www.justiceservices.gov.mt](http://www.justiceservices.gov.mt).

In addition to the claim for interest for late payment, the creditor is also entitled to obtain from the debtor compensation for recovery costs. Minimum recovery costs that may be claimed are €40. Similiar to late payment interest, for recovery cost to be legally enforceable the creditor has to undertake recovery procedures as referred to in point ‘c’ above. Consequently once a debt is uncontested and a creditor makes a claim, then it is legally guaranteed that the creditor will recover the interest element plus recovery costs as these are automatically due.

Contracting Authorities will not be able to set a lower interest rate for late payments than the one established by law. They are therefore enjoined to ensure that payments for procured goods and services are effected within 30 days with the exception of health services and economic activities carried out by public authorities of an industrial or commercial nature which have up to a maximum of 60 calendar days. It is thus of utmost importance that Contracting Authorities keep track of the invoice date, the date of the receipt of the goods or services, and of any discrepancy that there may be between the date when the invoice was raised and the date of receipt of invoice.

It is also important to emphasise compliance with MF Circular No 10/2001 dated 15th October 2001 – ‘Government Accrual Accounting: Procedures

	<p>for the Control of Debtors and Creditors’.</p> <p>As far as late payments are concerned, your attention is drawn to regulation 71 of the General Financial Regulations which states that, except with the specific authority of the Minister of Finance, no accounting officer may make any purchase, contract, agreement or arrangement involving expenditure either in excess of provided amounts or for a service not included in the Financial Estimates.</p> <p>Given the critical importance of adhering to the approved financial allocations and the avoidance of supplementary funding, it is appropriate to emphasize, even more than before, the serious implications of placing unbudgeted/unauthorized orders.</p>
<p>MFIN Circular No 3/2005 (updated by MFEI No 8/2012)</p>	<p><b>The Late Payment Directive and Commitments in Excess of Budgetary Provisions</b></p> <p>Legal Notice 233 of 2005 that came into force on 1 July 2005, provides that unless the period for payment and rate of interest are specified in the contract, interest at the Central Bank of Malta intervention rate plus seven per cent (7%), shall become payable automatically after 30 days following receipt of invoice or receipt of goods or services.</p> <p>Heads of Department and Public Entities are therefore enjoined to ensure that payments for procured goods and services are effected within 30 days. Alternatively, the conditions attached to public tenders should explicitly indicate the period for payment, as well as the rate of interest payable in the event of late payment. Close liaison should therefore be maintained with the Contracts Department, for the inclusion of the appropriate clauses during the preparation of the tender documents.</p> <p>As far as late payments are concerned, your attention is drawn to regulation 71 of the General Financial Regulations which states that, except with the specific authority of the Minister of Finance, no accounting officer may make any purchase, contract, agreement or arrangement involving expenditure either in excess of provided amounts or for a service not included in the Financial Estimates.</p> <p>Although, due importance has always been given to over-commitments on budgetary provisions, these occurrences now lead to additional consequences on account of the Late Payment Directive. Any retarded settlement will, in future, increase financial burdens and pressures on Government's budgetary provisions and public entities' funds.</p> <p>Given the critical importance of adhering to the approved financial allocations and the avoidance of supplementary funding, it is appropriate to emphasize, even more than before, the serious implications of placing unbudgeted/unauthorized orders.</p>

	<p>The officials involved in such commitments will be held personally responsible and financial sanctions and appropriate disciplinary action will be taken.</p>
<p>MF Circular No 7/2002</p>	<p><b>Payments to Government by Electronic Means</b></p> <p>As you are aware, one of the priorities of the current Public Service Change Programme is an improvement in the quality of the services that Ministries and Departments provide to the public. This commitment has manifested itself, inter alia, in the significant number of Quality Service Charters that have been launched over the past few years and, more recently, through the introduction of a programme of e-Government initiatives. The recent launching by the Prime Minister of the official portal to the electronic services of the Government of Malta should also be viewed in this context.</p> <p>In an effort to promote and to facilitate the development of initiatives involving schemes for payments to Government by electronic means, the Ministry of Finance has now introduced the following arrangements which Ministries and Departments should carefully take note of:</p> <p><b>(i) Banking Arrangements</b></p> <p>Following an invitation issued to all the local commercial banks, the Ministry of Finance has concluded an agreement with Bank of Valletta plc for the handling of the required banking arrangements associated with payments to Government by electronic means, i.e. for both on-line payments and for payments effected through Electronic Point of Sale (EPOS) systems. This agreement includes, inter alia, the following features:</p> <ul style="list-style-type: none"> <li>- all bank accounts to be opened by Government Ministries and Departments for the purpose are to be located at the BOV Floriana Branch. <b>The Bank will not accept applications for the opening of such accounts unless the specific prior approval of the Ministry of Finance has been obtained</b></li> <li>- all such accounts will be interest bearing and funds deposited in these accounts will be transferred to the Public Account of the Central Bank of Malta on a regular basis and on specified days. BOV has agreed to provide itemised statements (e.g. per EPOS machine) in respect of these accounts</li> <li>- the agreed commission structure in respect of the operation of these bank accounts ranges from 0.25% (irrespective of turnover) for Cashlink to APS Premier Cards to 0.5% (based on a turnover of up to Lm1 million) for BOV MasterCard and Visa Cards to 1.5% (irrespective of turnover) for non-BOV Cards. The Ministry of Finance is in a position to provide more detailed advice on these rates to interested Ministries and Departments.</li> </ul> <p><b>(ii) Treasury Accounting Guidelines</b></p> <p>Ministries and Departments who undertake to introduce arrangements for</p>

	<p>the receipt of payments by electronic means need to give particular attention to the ancillary accounting arrangements. The Treasury has, therefore, prepared a set of procedural and accounting guidelines for the purpose, <a href="#">a copy of which is being circulated as Appendix A to this Circular</a>. These Guidelines cater for the following situations:</p> <ul style="list-style-type: none"> <li>- Payments by Debit/Credit Card</li> <li>- Payments on-line through the Internet</li> <li>- Payments through Client Authorisation (Remittance Advice).</li> </ul> <p>In the context of this Circular, it is also pertinent to point out that, following discussions involving the Ministry of Justice and Local Government, the Central Information Management Unit of the Office of the Prime Minister, MITTS Ltd. and this Ministry, in March of this year the Government had entered into an agreement with the firm Terranet Ltd. for the provision of on-line payment gateway services. This payment gateway will enable on-line payments to Government in a secure environment and in a confidential manner.</p> <p><b>Finally, please note that the adoption by Ministries and Departments of arrangements for the receipt of payments by electronic means requires the prior approval of the Ministry of Finance. When such approval is granted, Ministries and Departments will be referred to the Treasury for advice on the appropriate accounting arrangements.</b></p>
<p>MF Circular No 10/2001</p>	<p><b>Government Accrual Accounting: Procedures for the Control of Debtors and Creditors</b></p> <p>As you are aware, the Government, and the Ministry of Finance in particular, is committed to a policy of upgrading financial management in the Public Service and, in this respect, inter alia, a decision had been taken to introduce a system of accrual accounting in the medium term. The introduction of accrual accounting, in fact, will constitute a major change in the way that the financial business of Government is conducted, a change which will affect all Ministries and Departments without exception.</p> <p>The introduction of accrual accounting will provide a number of benefits. It will provide more meaningful information and therefore enhance the quality of the financial decision making process in Government, it will provide a better and more comprehensive understanding of the overall Government financial situation and it will facilitate long-term financial planning in such areas as asset replacement planning and cash flow projections.</p> <p>The transition to an accrual accounting methodology will be carried out on a gradual basis and its actual adoption is currently envisaged in January 2005, following a period of preparatory activities. In fact a number of such activities have already or are currently being carried out:</p>



a set of asset management (inventory) procedures were issued in November 1999 and the Ministry of Finance has been providing advisory and training support to all Ministries and Departments to facilitate the implementation of these procedures. All Departments should now have a complete asset register of all items falling under their responsibility and should also have designated an officer to ensure that their asset register is kept updated. It has to be emphasised that the asset register is critical for the successful implementation of accrual accounting and Ministries and Departments must, therefore, ensure that the established asset management procedures (MF/14/99) are adhered to an extensive training programme in accrual accounting, providing courses to 'A' level standard, has just commenced. Departments have been requested, through SDO, to nominate participants for these courses and it is important that these courses are attended by employees who are actually or who are scheduled to be involved in the accounting function. These training courses have been so designed to ensure minimal disruption of Departmental operations and there is, therefore, no justification for participants not to be allowed to attend the training sessions. On the other hand, selected employees who are reluctant to participate must understand that lack of training in skills that will be a necessity in the near future could prejudice their career progression.

The main purpose of this Circular, however, is to introduce the next step in the road leading to the adoption of accrual accounting, namely the adoption of procedures for the proper management and control of debtors and creditors within each Ministry and their respective Departments.

The active management of debtors and creditors should enable Government to maximise the collection of revenue due in the shortest time possible and optimise its payments within acceptable timeframes. It is, therefore, imperative for Ministries and Departments to maintain, on an ongoing basis, complete, accurate and timely information on their debtors and creditors and, for this purpose, the Ministry of Finance has now prepared a set of procedures/guidelines which are attached as Appendix 'A' to this Circular.

The procedures/guidelines are intended to:

- standardise the contents of the debtors and creditors database in Ministries and Departments and provide guidelines for the attainment of this objective
- facilitate the task of maintaining an up to date debtors and creditors database, thereby ensuring that more effective control of debtors and creditors is maintained.

The exercise contemplated in the attached Procedures, leading to the Notification requested in paragraphs 1.9 and 2.7 of the Procedures, should be completed within a twelve-month period, although it is recognised that, in the case of the larger Departments, where the implementation of these procedures may be time-consuming, the exercise may need to be carried on

a phased basis and over a longer time-frame.

Finally, I want to point out the important and critical role that Directors of Corporate Services should play in the implementation of these procedures and the conduct of the ancillary exercise. Indeed, the introduction of accrual accounting in their respective Ministry and line Departments should be established as a key task in the Performance Agreement of these Directors.

#### APPENDIX "A"

#### DEBTORS AND CREDITORS CONTROL PROCEDURES

##### 1. Definitions

###### Creditors

Creditors are amounts payable by the Departments within the current and (or) previous financial years. Creditors are amounts owing to trade suppliers and other sundry creditors, payable within one year (current liabilities) and amounts falling due after more than one year including long term loans and other liabilities.

###### Debtors

Debtors are amounts receivable by the Department within the current and (or) previous financial years. Debtors should be stated at their net realizable value after the write off of bad debts.

###### Bad Debts

Bad Debts are unrecoverable debts that are determined as such within the current financial year and after formal legal action or other appropriate procedures would have been pursued to recoup these debts. Dissolution through voluntary liquidation do not give rise to bad debts as regulated by the Companies Act (Cap. 386). Bad Debts shall not accrue as a direct result of amalgamations, mergers, reconstruction or division and other voluntary redefinition of the legal personality of the body corporate.

###### Net realizable value

Net realizable value refers to the value of debtors after deducting any contingent estimated loss in value or expenditure still to be made, necessary for their realization, but before accounting for the write-off of bad debts.

###### Prudence Concept

The prudence concept is a policy of caution. It requires that values regarding debtors and creditors should not be overstated or understated. Where there is any doubt, any error should lie in the understatement rather than in the overstatement of these values. However, the use of the prudence concept should not distort the true and fair view of the state of affairs of the specific Department.

### 1.1 Categories of Debtors

A distinction should be made between the different categories of debtors. Annex 1 provides an indication of the current major Debtor types by Ministry and Department.

### 1.2 Analysis of Debtors by Age

A distinction should be drawn between amounts receivable within:

- (a) 1day to 30 days
- (b) 31 days to 60 days
- (c) 61 days to 90 days
- (d) 91 days to 180 days
- (e) 181 days to 360 days
- (f) Over 360 days

### 1.3 Matching process

The matching process consists of the one to one match of the receipts against the invoice or invoices being settled. When a partial payment on an account containing several invoices is made, the payee, in terms of the provisions of the Commercial Code, has a right to allocate the invoice to which the payment applies. However, if no allocation is made the payment should be applied to the oldest invoice. In the event that interest has accrued on amounts due, payments are to be first allocated to the interest element.

### 1.4 Offsetting

In situations where the same person or entity is both a debtor and a creditor, then the amounts, as a rule, should not be offset, but must be shown separately as part of the creditors and debtors, other than when the debtor is regarded as a bad debt and on the agreement of both parties or a court decision. Other than the accounting transactions for the setoff a note in the remarks of the credit and debit account is to be made.

### 1.5 Provision for Doubtful Debts

An estimate of possible doubtful debts is to be made as at the last working day of every month by the Head of Department or authorized delegate. This estimate will be based upon past experience, and modified as necessary in accordance with current business conditions and prevailing legal positions. In this regard Departments are to apply the prudence concept in estimating the amount of debts due and must be calculated on a consistent basis. The Provision for Doubtful debts should take into consideration the age of the debt, financial position of the Debtor and the prevailing economic/market environment.

Provision for doubtful debts normally takes the following forms:

- (a) Specific provision - such provision applies in relation to an invoice/invoices or to a specific debtor.
- (b) General provision - such provision applies to all debtors. In determining the Provision for Doubtful Debts, one is to estimate the percentage of probable loss for each age group of accounts receivable. This percentage

when applied to the amount in each age group, gives a probable loss for each group.

#### 1.6 Writing Off Uncollectible Bad Debts

Any Doubtful Debt that is determined to be uncollectible should be written off immediately as specified below. The Provision for Doubtful Debt account is reduced by the written off amount if the amount was specifically provided.

Authority for the writing off of any loss of public moneys may be given by the Permanent Secretary, Ministry of Finance or by such other officers as may be delegated by the Minister of Finance, provided that:

(1) Where the amount in any one case does not exceed Lm2500, the write off may be authorized by the Permanent Secretary responsible for the Department concerned;

(2) Where the amount in any one case does not exceed Lm500 write off may be authorized by the Head of the Department concerned. In all instances, recommendations for a write off shall state what remedial action has been taken to avoid future recurrences. Heads of Department shall be responsible to ensure that no amounts of money due to Government become time-barred. When a doubtful debt is considered to be a bad debt and is to be written off, the matter shall be referred to the Board as indicated below.

#### 1.7 Board for the Write Off of Bad Debts

When a bad debt exceeding Lm2,500 is to be written off, the Permanent Secretary of the Ministry concerned, is to appoint a Board consisting of at least three members (one member to be appointed by the Treasury) to:

(a) determine the circumstances that led to the doubtful debt being a bad debt;

(b) ascertain that the doubtful debt cannot be collected;

(c) recommend the appropriate action to be taken, including the writing off of the doubtful debt or any other legitimate action to be taken.

Authority shall be obtained from the Permanent Secretary, Ministry of Finance or by such other officers as may be delegated by the Minister of Finance, to take the actions deemed necessary on the recommendations made by the Board. The Accountant General is to be informed accordingly.

#### 1.8 Recovery of Written Off Bad Debts

Occasionally a debtor account that has been written off (or part there of) can later be collected in full or in part. Such collections are referred to as recoveries of bad debts. Therefore, a bad debt recovered account shall be opened under Miscellaneous Income. Any recovery of a debt is to be accounted for in the financial year in which the recovery occurs.

#### 1.9 Notification to Accountant General

A quarterly analysis of debtors in the format shown in Table 1 shall be submitted to the Accountant General within seven days after the end of the

specified monthly period. A yearly return of arrears is also to be submitted to the Accountant General in accordance with existing General Financial Regulations.

#### Table 1: Analysis of Debtors

### 2.0 CREDITORS AND ACCRUALS

Creditors are a liability and are classified under three types:

- (a) Trade creditors and sundry creditors, loans and borrowings: these are generally contractual obligations to transfer known amounts;
- (b) Accrued liabilities: these are obligations to pay for goods and services that have been received but which have not been invoiced;
- (c) Deferred income: an obligation to transfer economic benefits by providing goods or services for which payment has been received in advance (e.g. road contribution payments).

#### 2.1 Measurement and Valuation

Creditors are to be measured and valued as follows:

- (a) Trade creditors, sundry creditors, loans and borrowings should be recognized at the contractually agreed amounts.
- (b) Accrued liabilities should be measured at a realistic and prudent estimate of the amount to be paid for the goods and services received.
- (c) Deferred income is that proportion of payments received which relates to goods and services to be provided after an accounting period.

#### 2.2 Types of Creditors

A distinction should be made between the different types of creditors. Annex 3 provides an indication of the current major Creditor types by Ministry and Department.

#### 2.3 Analysis of Creditors by Age

A distinction should be drawn between amounts payable within:

- (a) 1 day to 30 days
- (b) 31 days to 60 days
- (c) 61 days to 90 days
- (d) 91 days to 180 days
- (e) 181 days to 360 days
- (f) Over 360 days

#### 2.4 Matching Process

The matching process consists of the one to one match of the payments against the invoice or invoices being settled. When a partial payment on an account containing several invoices is made, the Department, in terms of the provisions of the Commercial Code, has a right to allocate the invoice to which the payment applies. However, if no allocation is made the payment should be applied to the oldest invoice. In the event that interest has accrued on amounts due, payments are to be first allocated to the interest element.

### 2.5 Offsetting

In situations where the same person or entity is both a creditor and a debtor, then the amounts, as a rule, should not be offset, but must be shown separately as part of the creditors and debtors. Offsetting a credit against a debit should only be considered if the creditor has the legal right of offset. When an offset takes place this should be noted in the remarks of the creditor and debtor account.

### 2.6 Contestations

Amounts claimed by third parties, that are subject to contestation, are to be shown separately in the Analysis of Creditors by Age.

### 2.7 Notification to Accountant General

A quarterly analysis of creditors in the format shown in Table 2 shall be submitted to the Accountant General within seven days after the end of the specified monthly period. General Financial Regulations relating to payments due by Government are also to be adhered to.

Table 2: Analysis of Creditors

## 3. RESPONSIBILITIES

The sections below describe the responsibilities of Heads of Department, Directors Corporate Services and the Accountant General.

3.1 Responsibility of Heads of Department Heads of Departments shall ensure that:

(a) A suitable Officer within the Department is responsible for maintaining and updating Debtor and Creditor information.

(b) All amounts receivable and payable by the Department, no matter when they fall due for payment are to be shown in the Debtors and Creditors respective records of that Department.

(c) The Debtors and Creditors records are to be updated to reflect accurate and precise details of the amounts receivable and payable by the Department. Debtors and Creditors records are at minimum to be maintained in the prescribed format as shown in Annex 2 and 4.

(d) The records for each Debtor and Creditor must reflect each individual invoice, so that aging of each invoice is possible and the reports as shown in Table 1 and Table 2 above may be produced by the stipulated time frame.

(e) The Accountant General is to be notified on request of all specific Debtors and Creditors belonging to each Department.

(f) In the absence of a Head of Department or an Acting Head of Department, the next highest Officer in the Department is to assume the responsibilities as defined above (Responsibilities of Heads of Department).

	<p><b>3.2 Responsibility of Directors Corporate Services</b>  Directors Corporate Services has the responsibility to ensure that all Heads of Department falling under the responsibility of their respective Ministry comply with the procedures as stipulated in this document. It is their responsibility to ensure that the information regarding Debtors and Creditors is to be furnished as defined in this document by the stipulated time frame.</p> <p><b>3.3 Responsibility of Accountant General</b>  Accountant General should ensure that Heads of Department including Directors Corporate Services comply with these procedures, and that Debtors and Creditors information is received in a timely manner. The Accountant General is also responsible to ensure that the information supplied by the Departments is analysed.</p> <p><b>ANNEX 1</b>  The itemized list provides an indication of the current major different types of debtors by Ministry and Department.</p> <p><b>ANNEX 2 - DEBTORS RECORD</b></p> <p><b>ANNEX 3</b>  The itemized list below provides an indication of the current major different types of creditors of the various Departments.</p> <p><b>ANNEX 4 - CREDITORS RECORD</b></p>
<p>MF Circular  No 08/2002</p>	<p><b>Government Accrual Accounting: Procedures for the Management of Cash</b></p> <p>As you are aware, in the context of an ongoing programme for the upgrading of financial management in the Public Service, the Government has decided to replace, in the medium term, the existing system of cash accounting by a system of accrual accounting. The introduction of accrual accounting, in fact, will constitute a major change in the way that the financial business of Government is conducted, a change which will affect all Ministries and Departments without exception.</p> <p>The introduction of accrual accounting will provide a number of benefits. It will provide more meaningful information and, therefore, enhance the quality of the financial decision making process in Government, it will provide a better and more comprehensive understanding of the overall Government financial situation and it will facilitate long-term financial planning in such areas as asset replacement planning and cash flow projections.</p> <p>A number of preparatory steps for the introduction of accrual accounting have already been taken over the past few years. These include:</p> <p>(i) the introduction, in 1999, of revised inventory control regulations</p>

- (MF Circular No. 14/1999);
- (ii) the introduction, in 2001, of procedures for the control of debtors and creditors (MF Circular No. 10/2001);
  - (iii) the launching, also in 2001, of an extensive programme of training in accrual accounting for officers from all Ministries and Departments. This programme, in fact, is currently under implementation.

It is now necessary to take another important step in this ongoing process for the introduction of accrual accounting in the Public Service, namely the adoption of procedures related to the management of cash within each Ministry and the respective Departments. These procedures, which are outlined in Appendix A to this Circular, in effect have been developed around procedures already introduced by the Treasury and Ministries and Departments should, therefore, not find it unduly difficult to adopt them. Ministries and Departments are henceforth expected to follow these procedures as indicated in the [Appendix](#). Directors of Corporate Services, in particular, are expected to ensure that these procedures are introduced and maintained in the Departments of their respective Ministry.

Efficient cash management allows the Government to secure the maximum benefit from its flow of cash funds. The fundamental objective of cash management is having enough cash available as and when required at an optimum cost. Judicious cash management encompasses more appropriate timing of expenditure decisions, earlier collection and banking of revenue, and more accurate forecasts of cash flows. This process helps to minimise the cost of financing Government expenditure, in particular investment projects, thus achieving the best overall return.

I also want to take this opportunity to inform you that the Ministry of Finance has now commissioned the Management Efficiency Unit to carry out an exercise for the identification of those business processes in the current Government accounting function that would need to be re-engineered in virtue of the anticipated amendments to existing financial legislation, the introduction of accrual accounting and the adoption of new Government Accounting Standards. The revised business processes would then serve as a basis for the development of the information technology systems that would be required for the effective management of the accounting function in the Public Service. I would be grateful if you could extend your support so that this exercise can be conducted successfully.

## **MANAGEMENT OF CASH**

### **1. SCOPE OF DOCUMENT**

The purpose of this document is to provide a practical guide regarding cash management concerns. Efficient cash management allows the Government to secure the maximum benefit from its flow of cash funds. The



fundamental objective of cash management is having enough cash available as and when required. Judicious cash management encompasses more appropriate timing of expenditure decisions, earlier collection and banking of revenue, and more accurate forecasts of cash flows. This process aids to minimise the cost of financing Government expenditure, in particular investment projects, thus achieving the best overall return.

## **2. PARAMETERS**

There are principally three motives for holding cash:

**Transaction motive.** The transaction motive is the need for cash to meet payments arising in the ordinary course of business. These payments include such things as utilities, purchases, labour, refunds, social benefits, debt servicing and others.

**Precautionary motive.** The precautionary motive for holding cash is related to maintaining a buffer to meet contingencies and other unexpected cash flows. The more predictable the cash flows of the organisation, the less precautionary balances that are needed.

**Speculative motive.** The speculative motive relates to holding of cash in order to take advantage of expected changes in security prices.

The focus of this paper is on the transaction motive. The reasons for this are: (a) the Treasury Department has the necessary legislatively-backed borrowing power to meet emergency cash drains and therefore the need for the precautionary cash balance is significantly reduced; and (b) the Government does not speculate with public funds.

## **3. TRANSACTION MOTIVE INFLUENCES**

Influences on the amount of transaction balances held by Departments and the Government in general include:

The expected net cash flows of the Departments as determined by their cash budgets. These cash forecasts should encompass both the short-term operational expenditure and long term project plans and related cash needs;

Possible deviations from the expected net cash flows. Probability concepts may be applied to the cash budgets to determine the variation in cash flows under different circumstances. Every effort should be made to take into account the magnitude of possible dispersions by the use of mathematical tools, such as, Sensitivity Analysis;

The maturity structure of the Government's debt;

The Government's borrowing capacity to meet emergency needs beyond the projected requirements;

The efficiency of cash management.

#### **4. KEY CASH MANAGEMENT PRINCIPLES**

The efficiency of cash management will determine the appropriate level of total transaction cash balances for the Government and therefore Departments should give proper attention to the following key principles:

Proactive management of creditors, thus ensuring that payments are made only when they are due except where doing otherwise creates a net advantage to the Government;

Proactive management of debtors, thus ensuring that receipts are collected by due dates and banked promptly;

Preparing appropriate cash budgets which are flexible enough to react effectively to changing circumstances thus realistically forecasting cash receipts and payments;

Ascertaining that cash is available just in time to satisfy the realisation of the budgetary plans of the Departments, including its projected program goals;

Rationalising the number of bank accounts held by Departments. The authority for Departments to open and maintain bank accounts is currently vested in the Minister of Finance. In those instances where a department has the need to open a Bank Account, a request justifying the need, shall be made to the Ministry of Finance, through the Accountant General, who shall evaluate and recommend, or otherwise, such a request. When the Ministry of Finance authorises a department to hold bank accounts, the number of bank accounts as well as their balances should be kept to a minimum and departments are encouraged whenever and wherever possible to utilise electronic banking to speed transfers of receipts to the appropriate Treasury account.

#### **5. PROACTIVE MANAGEMENT OF CREDITORS**

Payments should be made only when they are due except where doing otherwise creates a net advantage to the Government. Accounts should be paid on the date specified in the agreement for payment with the supplier. Normal commercial terms are thirty days from the date of acceptance of goods or services and the receipt of a correctly rendered invoice. Such terms should not be improved unless savings may be achieved by:

Minimising inventory levels through the implementation of "just-in-time" delivery mechanisms.

Utilising effectively the national and/or ministerial asset register to define a Departmental asset replacement policy. This is achieved by conducting whole-of-life asset assessments for those assets that are approaching the predicted end of their useful life. Emphasis should be given to those items that have significant ongoing maintenance and other operating costs.

Timing purchases to obtain better value (avoiding emergency purchases).

Negotiating better contract payment terms.

Negotiating discount offerings for making prompt payments once goods and services are accepted.

Taking advantage of free credit periods without jeopardising discount offerings.

## **6. PROACTIVE MANAGEMENT OF DEBTORS**

Proactive management of debtors has the primary objective of ensuring that receipts are collected by due dates and that these receipts are banked promptly. Best management practices for better revenue collection may include:

Issuing claims (and assessments) with the due date for payment clearly specified.

Offering revenue payers a convenient range of cost-effective alternative ways to make their payments, in particular through electronic means. In this respect Officers are referred to MF Circular 7/2002 (Payments to Government by electronic means).

Identifying and adequately preparing for peak workloads and demands, ensuring that claims/amounts are issued in time and ascertaining that payments are made when due.

Recommending and introducing late payment penalties that could be really enforced.

Establishing mechanisms within the Department for taking the necessary steps to pursue outstanding debts, systematically and promptly.

Developing and implementing new ways of reducing the amount of government activities that create debtors, and increasing more those initiatives geared towards immediate cash payments.

### **6.1 Revenue Collection Mechanisms**

There are a number of revenue collection mechanisms that Departments are or should be utilising, these include:

Cheques and over the counter receipts. This method of revenue collection is the most popular mode for the general public to make their payments due to Government. Systems should be designed to ensure that as much as possible of what is received this way, is banked on same day. However, this method is expected to experience a decrease of use, as e-government will gather more and more popularity.

Payment by debit/credit card through the use of EPOS machines as well as the use of detachable remittance slips.

Payments on-line through the internet within the context of an approved system.

## **6.2 Managing debtors**

The Departments are to take all necessary measures to recover each debt falling under their responsibility unless:

The debt has been written off as authorised by the financial regulations. In this respect consideration could be given to the writing off of small amounts which are not economical to pursue;

The debt is not legally recoverable in spite of all necessary efforts being made by the Department.

The key success factors for effective management of debtors include:

The quality of the systems and staff training for dealing with debtors and debt collection;

The documentation that clearly define the procedures staff are required to follow;

Allocating adequate full time resources to actively pursue the debt.

The Ministry of Finance has already issued a circular (MF 10/2001) stipulating the procedures regarding the management of both debtors and creditors. It should be noted that the longer the debt is outstanding, the more difficult it is to collect. The following are critical in the management of debtors:

Early identification of overdue amounts or other outstanding payments;

Having an up-to-date debtors' ledger;

Contacting debtors within 10 days of the debt becoming overdue, by telephone or written notice offering a simple means of settling the debt;

Issuing further notices, with each notice becoming more assertive, following which a judicial letter is to be sent to defaulters;

Whenever authority to negotiate is provided this must be carried out within strictly and clearly defined guidelines as approved by the Head of Department;

Having clear guidelines regarding taking legal action to collect the outstanding debt;

Adhering strictly to relevant procedures regarding the writing off of debts, once it is ascertained that debts cannot be collected.

#### **PROACTIVE MANAGEMENT OF CASH**

The management of debtors and creditors will enable Departments to be in a better position to assess their ability to generate cash and estimate the level of cash required to fund their activities. This information would help to predict the amount, timing and certainty of cash. Cash comprises cash on hand and demand deposits with banks. Departments are to take all necessary measures to ensure that cash entrusted to them are used in the most appropriate manner. The following are important in the proper management of cash:

Ensuring that any expenditure made was in accordance with the approved budget and within the financial limits authorised,

Setting clear guidelines and authorisations for the use of bank accounts other than the public account,

Maintaining an up-to-date cash book for each bank account, reconciling monthly with bank statements received ensuring that any discrepancies are taken into account,

Monitoring petty cash expenditure to ensure that such cash is used as intended and that expenditure is not material in value,

Performing monthly cash counts to ensure that physical cash on hand equals balances as per records held for this purpose

#### **FORECASTING AND MANAGING CASH FLOWS**

Better cash flow forecasting provides departments with a greater understanding of their financial environment, leading to improved financial management. This ensures that the Treasury Department is continually

aware of the Department's monthly cash inflow and cash outflow, in particular of any monthly cash short falls.

Forecasting cash flows is an important planning tool for predicting cash requirements and for improving the financial efficiency of the Department. This requires:

Realistic and integrated budgets of operating activities and capital expenditures, together with significant cash receipts and payments, on a periodic basis and projected for 12 months.

Regular review and monitoring performance indicators of timeliness, cost, quality and effectiveness to identify and seek explanations for variations from projected expectations.

Understanding patterns of cash movements to identify the fixed or variable and seasonal or periodic components so that changing environments can be met with maximum flexibility.

In general, cash outflow of a capital nature is more difficult to forecast due to a number of factors. Some of these factors include the complexity of the project, contractual obligations and deliverables, payment terms and works acceptance criteria. It is therefore important for Departments to carefully plan their projects by using appropriate project management techniques and entering contracts that clearly define the deliverables and payment terms. Project variations should preferably be avoided and kept to a minimum where their avoidance is not possible.

### **8.1 Cash Flow Forecast Statements**

In the light of the above and in view of the forthcoming requirements of Accrual Accounting cash flow statements are to continue to be submitted to the Accountant General in the format and frequency as directed by the Accountant General from time to time (Reference is made to Treasury Circular TR 10/2001). Departments are required to submit to the Accountant General:

- (a) Annex 1. This Annex is to be submitted by all Departments.
- (b) Either Annex 2 or 3, depending on the group assigned to them in Annex 4.

Annex 4 indicates the specific Cash Flow statement and frequency a particular Department is to submit to the Accountant General. To facilitate the work of the Departments and ensure the accuracy of the cash flow forecast statements, each Department is required to utilise the EXCEL worksheet as shown in Annex 5.

(c) Hence for monitoring purposes, Annex 5 is to be submitted, both as hard and soft copy, to the Accountant General on a quarterly basis within the timeframes specified in the same Annex. The first submission for this year is to include the actuals as from January 2002.

These returns will show actual and projected cash flows for a particular Department. Hence at the beginning of a financial year the cash flow forecast will contain only projections. However, at the end of a specific month, the forecast for that month is replaced by the actual cash inflows and cash outflows for that month. Therefore the cash flow forecast statement will contain actual cash inflows and cash outflows for past months and projections for future months.

## **9. RESPONSIBILITIES**

The sections below describe the responsibilities of Heads of Department, Directors Corporate Services or the Directors, Finance and Administration, as the case may be and the Accountant General.

### **9.1 Responsibility of Heads of Department**

Heads of Departments shall ensure that:

A suitable Officer within the Department is responsible for maintaining and updating cash flow information and preparing the cash flow forecast statement as explained in paragraph 8.1 above.

The Department proactively manages its debtors and creditors as prescribed in MF circular MF 10/2001.

The cash flow forecast statement and supporting worksheet are to reach the Accountant General's office within the stipulated period as specified.

### **9.2 Responsibility of Directors Corporate Services/Directors, Finance and Administration**

Directors Corporate Services, or, wherever it is the case, Directors Finance and Administration, have the responsibility to ensure that all Heads of Department falling under the responsibility of their respective Ministry comply with the procedures as stipulated in this document. It is their responsibility to ensure that the information regarding cash flow forecast and supporting worksheet are to be furnished as defined in this document by the stipulated time frame.

### **9.3 Responsibility of the Accountant General**

The Accountant General should ensure that Heads of Department including

	<p>Directors Corporate Services or Directors Finance and Administration comply with these procedures, and that cash flow forecast information and supporting worksheets are received in a timely manner. The Accountant General is also responsible to ensure that the information supplied by the Departments is analysed and utilised for projecting cash needs of the Government.</p>
<p>MF Circular No 14/1999</p>	<p><b>Government Accrual Accounting: Revised Inventory Control Regulations</b></p> <p>The Government is committed to a policy of implementing modern financial methods in its management of public finance. This commitment stems from the desire to generate more meaningful financial information that will lead to a better understanding of the overall financial health of the Government, thereby providing the basis for constructive long term financial projections and planning.</p> <p>The Government's commitment to better financial management of public finance has resulted in the decision to implement accrual accounting in all the Ministries and their respective Departments. To transform Government's commitment into reality, a Task Force has been established to oversee the implementation process of accrual accounting. The accrual accounting process is scheduled to be implemented over a three year period. The introduction of accrual accounting will be a major change in the way the internal financial business of Government is conducted. This reform will cross Ministerial and Departmental organisational boundaries and have a major impact on the way each Department will conduct its day to day financial administration.</p> <p>One of the major tasks in the implementation of accrual accounting is to ensure that inventory records containing the Tangible Fixed Assets within each Ministry and their respective Departments are updated with complete, accurate and timely information. With this objective in mind, Government has decided to revise and streamline the existing inventory control regulations and procedures with the view to:</p> <ul style="list-style-type: none"> <li>(a) Standardising the procedural systems in all Ministries and Departments;</li> <li>(b) Standardising the contents of the inventory database;</li> <li>(c) Facilitating the task of maintaining an up to date Tangible Fixed Asset register;</li> <li>(d) Ensuring that more effective control is maintained;</li> <li>(e) Ensuring that continuous checks are made to detect losses and discrepancies in a timely manner.</li> </ul> <p>The new Inventory Control Regulations are contained in Appendix "A". In case of large departments where the changeover may be time-consuming the exercise may be carried out under a phased programme. However, it should be emphasised that the exercise should be completed within a twelve month timeframe. It is important that these new Inventory Control</p>



Regulations are strictly adhered to.

## **INVENTORY CONTROL REGULATIONS**

### **1. Tangible Fixed Assets**

The term Fixed Tangible Asset is used to describe long-lived assets acquired for use in the operation of the organization and not intended for resale. Common examples are land, buildings, machinery, furniture and fixtures, office equipment, and vehicles. A fixed tangible asset is an asset held for use on a continuous basis. With the exception of land and heritage assets, all types of tangible fixed assets have limited useful lives.

Tangible Fixed Assets are non-trading business assets that have the following characteristics:

- (a) a relatively permanent nature in that their useful life is expected to span over a number of years that is not normally less than three years, AND
- (b) a relatively material cost that is not less than fifty Maltese lira (Lm50).

To clarify the precise meaning of tangible fixed assets, a distinction must be made between tangible fixed assets and consumables. Consumables are perishable items that are purchased and used for the normal course of business operations such as stationery, printer ribbon, and duplication materials.

Consumables may include semi-durable items that have a life time of less than three years and have a value of less than fifty Maltese lira (Lm50), such as, low cost calculators, uniforms and similar clothing (in a production environment), and floppy disks (in an office environment). It should be emphasised that this document deals with the procedures regarding tangible fixed assets and Departments are expected to have specific procedures to control and monitor consumables through an appropriate stock control system.

It is appropriate at this stage to clarify the meaning of two Tangible Asset types that require particular attention, these are, donated and heritage assets.

#### **1.1 Donated Assets:**

Donated Assets are assets provided by third parties either by gift of the asset or by way of funds to buy the asset. There should be no consideration given in return for the asset provided. The following are examples of what will not qualify as Donated Asset:

- (a) An asset transferred between public authorities as a result of a transfer of functions (unless the asset was originally donated to the transferor body);
- (b) Government grants intended as a contribution towards expenditure on a fixed asset;

(c) Where a developer builds, say, a new factory and either builds or pays the cost of a connection access to a trunk road, or where a developer contributes to the cost of a transport scheme which will benefit the developer's business - the amount received will be treated as an adjustment to the cash requirement;

(d) Assets received in lieu of tax. If the donated asset is by way of funds then the value of the asset is recognized to be the value of the funds provided. However in cases where it is by gift the value of the donated asset should be its market cost value at the time it is donated.

#### 1.2 Heritage Assets:

Heritage assets are those assets which are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations. Heritage assets include historical buildings, archaeological sites, military and scientific equipment of historical importance, and works of art.

There are certain characteristics which are often displayed by heritage assets, these include:

- (a) Their value to government and the public in cultural, environmental, educational and historical terms is unlikely to be fully reflected in a financial value derived from a market mechanism or price;
- (b) Established tradition, primary statute and trustee obligations impose prohibitions or severe restrictions on disposal by sale;
- (c) They are often irreplaceable and their value may increase over time even if their physical condition deteriorates; nonetheless they may require maintenance so that they can continue to be enjoyed by future generations;
- (d) Their life is measured in hundreds of years.

All heritage assets are deemed to be held by the entity in pursuit of its overall objectives in relation to the maintenance of the heritage. *Non-operational* heritage assets are those which are held solely for this purpose and have no other use. *Operational* heritage assets are those which, in addition to being held for their characteristics as part of the nation's heritage, are also used by the entity for other activities or to provide other services for which it is responsible. An example is a historical building used for both ceremonial occasions and office accommodation.

## 2. Valuation of Tangible Fixed Assets

The valuation of tangible fixed assets is an important aspect in the maintenance of proper inventory records. The valuation of assets is relatively easy at the procurement stage where their cost and date of purchase are known. However, the value of heritage assets or assets that have been purchased some time ago may be difficult to ascertain. Nonetheless, all assets have to be included in the inventory and if it is practical, Departments are encouraged to at minimum ascertain the purchase date of the asset and its original cost. The following guidelines are suggested:

### 2.1 Land:

Since land has an unlimited life it is deemed to be non-depreciable asset and is normally carried on the books permanently at cost or at current market price if the original cost is not known.

## 2.2 Buildings:

Buildings have a long life but are deemed to be a depreciable asset. These are normally carried on the books permanently at cost or at current market price if the original cost is not known. It is recommended that buildings are re-valued at minimum every ten years.

## 2.3 Other Operational Assets:

Machinery, furniture and fixtures, office equipment, and vehicles have a relatively short life and are deemed to be depreciable assets. Since the current Government accounting system does not take into consideration depreciation it is recommended that the purchase date and original cost is recorded (if available and practical).

## 2.4 Heritage Assets:

In principle, there are the same benefits and advantages in valuing heritage assets as there are for other assets, namely:

- (a) To inform the public about the value of assets held on its behalf;
- (b) To encourage good stewardship of the assets by the owner entity;
- (c) To distinguish between capital and recurrent expenditure;
- (d) To make known decisions about how much to spend on maintaining the assets by ensuring that both value and deterioration in value are recognized.

There may be instances where, because of their special characteristics valuation of heritage assets is not practicable or appropriate. This would apply where:

- (a) The asset could be valued but the cost of obtaining that value is not warranted in terms of the benefits which the valuation would deliver. However, the cost of obtaining a valuation will normally be justified where the asset requires, or is likely to require, expenditure which would normally be regarded as capital expenditure to maintain it in good condition;
- (b) It is impossible to establish a sufficiently reliable valuation, for example for a work of art where no similar asset has recently changed hands in an arms' length transaction.

## **3. Responsibility of Heads of Department**

### 3.1 Heads of Departments shall ensure that:

- (a) Upon taking ownership, tangible fixed assets (with the exception of land and buildings) are to be physically treated as stores items and recorded in the Store Ledger.
- (b) Once tangible fixed assets are issued from stores or put in use, they are to become inventory items of the user Department.
- (c) All inventory items assigned to a Department are to be shown in the inventory records of that Department.
- (d) The inventory records are to be updated and reflect accurate and precise details of the items in question. Inventories are to be maintained in the

prescribed format as described in this document.

(e) All finished goods manufactured in the Departmental workshops are to be physically treated as stores items in a similar fashion as purchased goods.

(f) The Auditor General is to be notified on a half yearly basis of items being included in the Department's inventory.

#### **4. Responsibility of Directors Corporate Services**

4.1 Directors Corporate Services should ensure that:

(a) Directors Corporate Services should ensure that all Heads of Department falling under the responsibility of their respective Ministry comply with the procedures as stipulated in this document.

(b) In so far as the Ministry is concerned the Director Corporate Services is to assume the responsibilities as defined in 3 above (Responsibility of Heads of Department).

(c) In the absence of a Head of Department or an Acting Head of Department, the Director Corporate Services is to assume the responsibilities as defined in 3 above (Responsibilities of Heads of Department).

(d) In cases where a change in portfolios involves the fragmentation or assimilation or transfer of a Department, the Director Corporate Services is to ensure that the transfer of the inventory items is adequately recorded and responsibility for the inventory items identified.

#### **5. Notification to Auditor General**

5.1 Every six months a list of items added to the Departmental inventory whether purchased or manufactured during the previous month shall be submitted as a soft copy preferably through e-mail, to the Auditor General. This list shall include:

(a) Ministry and Department Name;

(b) Date when item was included in the inventory;

(c) Description of item;

(d) Cost of item;

(e) Internal item identification number;

(f) Purchase voucher number where applicable.

#### **6. Responsibility for Keeping the Inventory**

6.1 An individual (ideally not below the grade of Executive Officer or equivalent) shall be selected by the Head of Department and entrusted with the responsibility for maintaining the Departmental inventory records and for ensuring that the rules established to safeguard government property are rigidly adhered to.

6.2 The Head of Department shall notify the Auditor General of the individual selected and entrusted with the responsibility for keeping the inventory.

6.3 Officers shall be overall responsible for the items of inventory located in the premises under their control.

**7. Database of Inventory Information to be held**

7.1 A database in the form of a spreadsheet in line with Government IT Standards is to be maintained as shown in Appendix 'A'. The information contained in this database shall form the general inventory of the Department. As such the officer responsible for maintaining the inventory records shall also be responsible to take precautions in safeguarding (backup security copies) this database.

7.2 The Officer in charge inventory shall produce two certified hard copies (printed copies) of the database at least once a year. One copy is maintained for office purposes and the other copy provided to the Auditor General.

7.3 An electronic copy of the contents of the inventory database is to be lodged on a monthly basis to the Director Corporate Services. The version number and date of the electronic copy should be clearly indicated.

**8. Validity and Reliability of Information**

8.1 All purchased, donated and manufactured items are to be included in the Departmental Inventory Database. This database is to be maintained by the Officer in charge inventory.

8.2 The Officer in charge inventory shall check the goods supplied with the details on the covering invoice or any other supporting voucher relating to the items being placed in the inventory. At this stage this Officer is to allocate a unique identification number to the item entered in the inventory as per criteria in Appendix A.

8.3 Each item shall be physically marked with a consecutive identification number. This physical mark should be of a permanent nature. The identification number should be positioned in a manner that does not deface the item to be placed in the inventory. It should be emphasised that having a permanent identification that cannot be physically erased, is an important control procedure and as such should be adhered to, unless it is truly impracticable to do so.

8.4 The Officer in charge inventory shall ensure that the information entered into the Inventory Database is precise and accurate and reflects the information pertaining to the respective inventory item. Identical inventory items will be distinguished by the unique identification number. Therefore it is of utmost importance that inventory identification numbers are uniquely allocated and accurately entered.

**9. Room Inventory List**

9.1 A list of the items of inventory in respect of each room, section, stores, outstation or district office is to be generated by the Officer in charge inventory from the maintained inventory database.

9.2 The room inventory list is to be generated in duplicate, one copy of which shall be kept by the inventory holder and the other by the Officer in charge inventory. A new list shall be produced whenever items are added or removed, however the replaced room inventory list should be retained by the holder for possible checking by the Auditor General. The room inventory list shall be hung in the room containing the items. (Refer to Appendix 'B').

## **10. Heritage Assets**

10.1 Heritage Assets will be distinguished from normal inventory items by being classified as such on the Departmental Inventory Database.

Apart from being recorded in the Departmental Inventory Database, each Heritage Asset is to be separately catalogued by the entity entrusted with their care. The catalogue of Heritage Items is to contain a photograph of the item, a scrupulously detailed description by a Government appointed expert and endorsed by him on the printed copy of the catalogued sheet for that Heritage Asset. At minimum the catalogue of the Heritage Items is to contain the information as per Appendix 'C'.

## **11. Donated Assets**

11.1 Donated Assets will be distinguished from normal inventory items by being classified as such on the Departmental Inventory Database.

11.2 The Heads of Department are responsible to report to the Permanent Secretary any Donated Assets to their Department by any person or organization. The Auditor

General is to be informed of any receipt of Donated Assets through normal procedures.

## **12. Transfer of Inventory Items**

12.1 The following procedure shall be followed:

(a) Any transfer, loan or other change in the location of the item shall be duly supported by proper authorisation.

(b) The officer receiving the items shall acknowledge receipt in writing.

(c) If the inventory item is to be transferred from one room to another within the same Department then the Departmental Inventory Database is to be amended accordingly.

(d) If the inventory item is being transferred or loaned to another Department or another Ministry, the transferred Inventory Item is to be removed from the Departmental Inventory Database of the transferee Department and entered in the Departmental Inventory Database of the transferor Department. It should be noted that if the inventory item is being transferred or loaned to another

Department within another Ministry, then the asset identification number will need to be reallocated to conform with that Ministry's standard coding system.

In the case of Heritage Assets, the original catalogue sheet is to be physically transferred with the Heritage Asset being transferred, however a photostat copy of the catalogue sheet is to be kept by the transferee Department for record purposes. The Museums Department is to be invariably informed of any movement of heritage asset.

12.2 The Auditor General shall be informed of any loan, transfer or other movement of such items through normal procedures.

### **13. Missing Inventories**

13.1 When a physical inventory item cannot be traced, a Board shall be appointed to:

- (a) investigate and establish how it came to be missing;
- (b) who is to be held responsible for its loss;
- (c) recommend that the physical inventory item is to be written-off from the Departmental Inventory Database and any disciplinary and or legal action to be taken.

13.2 The Board shall request the Internal Auditor to test examine the inventory procedures including the physical inventory items within the Departmental Inventory Database of the Department or Section concerned to establish whether there are other physical inventory items missing in that Department or Section. If the Internal Auditor's examination establishes that there are shortcomings in the procedures and that other physical inventory items are found missing, the Board shall make recommendations regarding these matters.

13.3 Authority shall be obtained from the Permanent Secretary to execute the recommendations made by the Board and the Auditor General is informed accordingly.

### **14. Obsolete Inventory Items**

14.1 When a physical inventory item is considered to be obsolete, a Board shall be appointed to:

- (a) confirm and declare the obsolescence of the inventory item;
- (b) recommend that the obsolete inventory item is written-off from the Departmental Inventory Database.
- (c) recommend the method of disposal of the obsolete inventory item.

14.2 Authority shall be obtained from the Permanent Secretary to execute the recommendations made by the Board.

14.3 A copy of the Permanent Secretary's authority to write-off the obsolete inventory item shall be sent to the Auditor General for his information.

### **15. Inventory of Palaces, Churches and other Public Buildings**

15.1 Ministries that have the responsibility for palaces, churches and other public buildings, must ensure that a complete inventory of all furniture and effects is made and kept by an officer or officers designated for that purpose, as previously outlined in this document. In the case where more than one officer is appointed for this purpose, these officers shall be severally and jointly responsible.

15.2 Any loss or damage, otherwise than by fair wear and tear, of the property in such buildings, shall be reported to the Permanent Secretary and Auditor General.

### **16. Stocktaking of Inventory**

16.1 The Officer in charge Inventory shall carry out stocktaking on a perpetual basis covering items randomly selected, with particular emphasis on valuable or attractive items.

16.2 The Director Corporate Services shall request the Internal Auditor to

carry out an inventory of the Tangible Fixed Assets on an annual basis. The nature and extent of the audit shall be determined by the Internal Auditor. The Director Corporate Services must ensure that the recommendations made by the Internal Auditor are implemented.

16.3 The above arrangements shall not absolve the officer having charge of the items listed in the Room Inventory from making the necessary checks from time to time and reporting immediately any discrepancies discovered.

## **APPENDIX "A"**

### **Departmental Inventory Database**

A sample of the spreadsheet regarding the Departmental Inventory Database is attached to this Appendix. The Departmental Inventory Database will consist of the following minimum information:

#### **Database Particulars Number of Characters**

- (a) Ministry Description - 40
- (b) Asset Identification Number (AIN)
  - Asset Classification - 1
  - Sub Classification - 3
  - Sequence number - 4
- (c) Date asset was acquired - 8
- (d) Location of Asset:
  - Departmental Code - 2
  - Site/Room Number
    - Site Code - 2
    - Room Number - 3
- (e) Department Description - 25
- (f) Section Description - 25
- (g) Asset Description - 75
- (h) Quantity - 4
- (i) Total cost or value of asset - 9
- (j) Asset Type - 1

#### **1. Ministry Description**

This data field consists of the Ministry title, for example "Ministry of Finance".

The Ministry description should not be longer than forty characters.

#### **2. Asset Identification Number**

The Asset Identification Number is to contain a unique and sequential reference which can identify the fixed tangible asset from any other asset within that Department. Where Departments may already have implemented an inventory coding system this can be applied provided that a full sequential trail of such codes is possible.

The Asset Identification Number is to be the responsibility of each Department. The Officer in charge inventory shall be responsible in creating



and maintaining the Asset Identification Numbers of the respective Department. An Asset Identification Number is essential to enable proper identification of assets. The Asset Identification Number allows the hierarchical classification of assets and the recommended structure enables extensive classification options to all Ministries and Departments.

The Asset Identification Number structure is to be made up of three data fields as shown below:

(a) Asset Classification

(b) Sub Asset Classification

(c) Sequence number

The Asset Identification Number structure is to be approved by the Director of Corporate Services. The Asset Identification Number structure shall take into account the sub asset classification requirements of each Ministry and Department. The sub asset classifications are to be formulated after all Departments within that Ministry have had an input into the classification requirements of its own respective Department. Hence, a consolidation of all Departmental requirements are to be the end product that the Director of Corporate Services has to co-ordinate to ensure that such a structure is sanctioned by its Ministry. The Permanent Secretary, Ministry of Finance and the Auditor General are to be notified of the Asset Identification Number structure once it has been formalized.

***Asset Classification:***

The asset classification shall be determined in accordance to the following fixed assets classification as follows:

**Asset Classification Details Code**

Land - 1

Building - 2

Fixtures and Fittings - 3

Vehicles - 4

Office Furniture - 5

Plant - 6

Machinery - 7

Equipment - 8

Tools - 9

Any Ministry or Department that may have other assets not classifiable under the above list is to request the Ministry of Finance (copied to Auditor General) to allocate an asset classification code.

The definition of the various asset classifications is as follows:

[1] *Land*: Self-explanatory.

[2] *Buildings*: A building represents a permanent fixed structure forming an enclosure and providing protection from natural elements. This includes building for administrative, production and service provision purposes.

[3] *Plant and Machinery*: These are tangible assets that are held by an enterprise for use in the production or supply of goods or services, for

rental to others, or for administrative purposes, and are expected to be used during more than one period of time. Plant and machinery include the implements, machinery, and apparatus used in carrying on any industrial process for construction or production purposes. Plant and machinery normally falls under two classifications, (a) construction - heavy and light and (b) production - heavy and light.

The useful life of plant and machinery determines whether it is:

(a) Heavy - 10 years and over of useful life from date of commissioning; and

(b) Light -less than 10 years of useful life from date of commissioning.

[4] *Tools and equipment*: Include items which are portable but not mechanized and which have a life expectancy of about five (5) years. Amongst these items we find electrical power tools, hand-held tools, electronic tools, instruments and equipment.

[5] *Vehicles*: These instruments by which a person or any form of substance is conveyed or transmitted from one place to another. These include passenger and commercial vehicles, cycles, conveyors, sea crafts, air crafts and the like.

[6] *Furniture and Fittings*: The moveable parts within a building that provide utility to the persons using them. These include fittings and fixtures of a building which are fixed on a permanent nature.

[7] *Office Furniture*: Self explanatory.

***Sub Asset Classification:***

The sub asset classification shall provide a further sub-division of the nature of the fixed asset. Three characters are allocated to the sub asset classification code to provide a multi-level analytical structure.

***Sequence Number:***

The sequence number is a number between 0001 and 9999. The sequence number distinguishes between those assets that have the same Asset and Sub Asset code classification. For instance a Department may have a number of saloon passenger cars. An example of how the sub asset classification may be used is shown below:

4 102 0001

4 102 0002

4 102 0003

Assets with the above Asset identification Numbers would illustrate that they are:

(a) Vehicles - asset classification code 4

(b) Saloon passenger cars -sub asset classification code 102

(c) There are three saloon passenger cars with a sequence number ranging from 0001 to 0003.

Whenever fixed assets constitute a "set of items" a part numbering system is to be applied when physically labeling the assets. For instance a conference table may have six chairs. The Inventory Database would only contain one entry for the chairs (the quantity field would have the number six (6) entered), however on the physical label attached to the chairs one would have the asset identification number and the number of the chair

(i.e. 5 101 0001/1). Therefore the asset identification number (5 101 0001) would be followed by /1 to indicate it is the first of the six chairs, so on.

### **3. Date Asset Was Acquired**

This is the date that the asset was received. In case of heritage assets the date would represent the registration date of the asset in the inventory database.

The format of date is as follows (dd/mm/yyyy):

- (a) Day (two digits)
- (b) Month (two digits)
- (c) Year (four digits)

### **4. Location of Asset**

The location of the asset consists of two data fields as follows:

- (a) Department code (two digits)
- (b) Physical location
  - Site code (two digits)
  - Room number (three digits)

A list of Department codes is attached. For example: if a desk is located in one of the schools within the Ministry of Education, the location of the asset would be as follows:

Department Code (Ministry of Education) - 14

Site code (School) - 01

Room number - 001

Therefore the full location code would be 14 01 001.

### **5. Department Description**

This data field provides the description of the department where the asset is located. The description should not exceed twenty five characters.

### **6. Section Description**

This data field provides the description of the section within the department where the asset is located. The section description should not exceed twenty five characters.

### **7. Asset Description**

This data field provides the description of the asset. The description should be as precise and as detailed as possible, however, it should not exceed seventy five characters.

### **8. Quantity**

Whenever fixed assets constitute a "set of items", for instance a conference table may have six chairs. The Inventory Database would only contain one entry for the chairs. The quantity field would have the number six (6). It should be noted that the physical label attached to the chairs one would have the asset identification number and the chair number (i.e. 5 101 0001/1). Therefore the asset identification number (5 101 0001) would be followed by /1 to indicate it is the first of the six chairs, so on.

	<p><b>9. Total Cost or Value of Asset</b>  This data field contains the cost or value of the asset. If the asset was purchased then the cost of the asset would be entered. If the asset was donated outright (and not purchased by the Department) or item is a heritage asset then the value of the asset would be entered. Refer to the Inventory Control Regulations for further details regarding the valuation of tangible fixed assets.</p> <p><b>10. Asset Type</b>  The asset type indicates whether the asset is a heritage, donated or normal asset.  This data field consists of one character as follows:  Blank Normal asset  D Donated asset  H Heritage asset</p>
<p>MFCPFI Circular No 15/1977 (updated by MF Circular No 14/1999)</p>	<p><b>Revised Inventory Control Regulations</b></p> <p>In view of the rather unsatisfactory state of affairs in some departments with regard to Inventory Control, Government has decided to revise the existing regulations, procedures and systems with a view to:</p> <ol style="list-style-type: none"> <li>a) ensuring that a more effective control is maintained on items falling under inventory charge;</li> <li>b) facilitating the task of keeping inventories up to date;</li> <li>c) ensuring that checks are made regularly to detect losses or discrepancies in time;</li> <li>d) standardising the systems in all departments.</li> </ol> <ol style="list-style-type: none"> <li>1. The new Inventory Control Regulations can be seen at Appendix A.</li> <li>2. The new system will be based on loose-leaf records. The standing instructions relating to the supply and control of the Stores Ledger Sheets (Treas. Circular 50/72) will also apply to the new Inventory Forms.</li> <li>3. In the case of large departments where the changeover to the new system is likely to be complex and time-consuming the exercise may be carried out under a phased programme.</li> <li>4. Where inventories are out of date or where new inventories have to be compiled the provisions at paragraph 10 of the Regulations shall be scrupulously followed.</li> <li>5. The new binders, loose-leaf inventory ledger and distribution forms are available at the Treasury Central Supplies Section. The binders will be supplied against the presentation of Stores Requisition and Issue Voucher and the inventory ledger and distribution forms against General Form GA2.</li> <li>6. Since the stocks of binders and ledger forms are limited, priority will be given to departments which are in the process of compiling new inventories or updating existing ones.</li> <li>7. The Inventory Register, the Room Inventory List and the Ledger for special items have not yet been printed. Departments will be informed</li> </ol>

as soon as these forms are available. In the meantime, Departments should make use of stencilled copies of the Inventory Register and Room Inventory Lists.

8. Every effort should be made to ensure that the exercise is completed before the end of the current Financial Year.

## **Appendix A**

### **1. 'PERMANENT' ITEMS**

- 1.1 'Permanent' items are items of property of a moveable nature which are not expendable except by depreciation or wear and tear and which do not lose their identity or become integral parts of other equipment, plant or installations.

### **2. 'PERMANENT' ITEMS TO BE TAKEN ON CHARGE IN INVENTORY**

- 2.1 'Permanent' items shall in the first instance be taken on charge in the Store Ledger and treated in the same manner as 'expendable' items.
- 2.2 'Permanent' items shall be taken on charge in an Inventory as soon as they are issued for use.
- 2.3 Items entered into the same inventory sheet shall correspond in every detail. Different accounts shall be opened for similar items even if these differ only in the model, shape, make, type, size or any other distinguishing factor.

### **3. RESPONSIBILITY OF HEADS OF DEPARTMENT**

- 3.1 Heads of Department shall ensure that all items of furniture, equipment and other items falling under inventory charge are actually shown in the inventories of their Department, that the records are up-to-date and that fresh records are compiled where necessary.
- 3.2 Heads of Department shall also ensure that all inventories are kept scrupulously up-to-date on the prescribed form.

### **4. NOTIFICATION TO THE DIRECTOR OF AUDIT**

- 4.1 Every month a list of items purchased during the previous month which fall to be taken on charge in the departmental Inventory shall be submitted to the Director of Audit.
- 4.2 Heads of Department are to notify the Director of Audit of all new items of stores, furniture and similar articles manufactured at their workshops giving:
  - i. a full description of the item;
  - ii. the quantity manufactured and
  - iii. the department and/or departmental branch on whose behalf the goods have been manufactured.

The items so manufactured are to be taken on Store Ledger and/or

Inventory charge as appropriate by the departments concerned.

## **5. RESPONSIBILITY FOR KEEPING THE INVENTORY**

- 5.1 An officer not below the rank of Executive Officer or equivalent grade shall be entrusted with the responsibility for maintaining the Main Inventory Ledger of the department and for ensuring that the rules established to safeguard government property are strictly adhered to.
- 5.2 Where it is felt necessary to appoint an officer in charge of inventory below the rank of Executive Officer, the authority of the Accountant General, who shall satisfy himself of the circumstances, shall be obtained.
- 5.3 Heads of Sections, Schools, Sub-stations, Sub-stores or other units shall be overall responsible for the items of inventory located in the premises under their control.

## **6. FORMS OF RECORDS**

- 6.1 The forms to be kept for the recording of items in the inventory shall include the following:
  - a. Inventory Register - Appendix B
  - b. Inventory Ledger and Distribution Sheet - Appendices C/D
  - c. Room Inventory List - Appendix E
  - d. Ledger for Specific Items - Appendix F
- 6.2 The above mentioned records shall together form the General Inventory of the department. The ledgers shall be kept in a loose-leaf system in accordance with the standing instruction specified for their proper control.

## **7. INVENTORY REGISTER**

- 7.1 The Officer in charge Inventory shall check the goods supplied with the details on the covering invoice or any other supporting voucher relating to the items to be inventoried.
- 7.2 Each item, except where it is impracticable to do so, shall be marked, labelled or suitably identified with a consecutive number.
- 7.3 The Inventory Registration Number shall be recorded in the Register which shall include the Description of the item, its price, the details of the supporting voucher and the inventory ledger folio and code number. When the items received comprise a number of strictly identical items, the entry may be recorded in one line. However, even in such cases, each single item registered shall be marked or labelled by a separate registration number.

## **8. INVENTORY LEDGER**

- 8.1 Except for special items referred to in Section 8 all items shall be taken

on charge in the Inventory Ledger.

8.2 The Main Inventory Ledger shall be maintained centrally at the Head Office from where Inventory Control shall be exercised.

8.3 Subsidiary inventory ledgers shall be kept in the Section, Unit, School, Hospital or Stores as the case may be.

8.4 The Main and Subsidiary Inventory Ledgers which shall be kept in a loose-leaf binding system shall consist of a:

- a. Ledger Record and
- b. Distribution Record

## **9. ROOM INVENTORY LIST**

9.1 Heads of Sections shall, in addition to the subsidiary Inventory Ledger, draw up and maintain lists of items of inventory in respect of each room, section, stores, outstation or district office.

9.2 The room inventory list shall be prepared in duplicate, one of which shall be kept by the inventory holder and the other by the Officer in charge Inventory. All charges in the lists shall be entered on both copies. New items shall be entered at the end of the list. The Room Inventory List shall be hung in the room containing the items.

## **10. LEDGER FOR SPECIAL ITEMS**

10.1 Items of artistic or antique value and other valuable items having certain proprietary or special characteristics shall be recorded in a special ledger. In large departments with Sections keeping their own inventories a copy of the Ledger (Main Inventory) for special items shall be kept at Head Office.

10.2 Every item to be recorded in the Special Ledger shall have a scrupulously detailed description by a Government expert entered and signed under the description column. The item in question shall also be photographed and a copy pasted both to the Main and to the Subsidiary Inventory. The item will also be registered in the Inventory Register.

10.3 Any transfer, loan or other change in the location of the item shall be noted on the ledger account duly supported by properly authorised vouchers. The officer receiving the items under his charge shall acknowledge receipt by signing the ledger entry.

10.4 The Director of Audit shall be informed immediately of any loan, transfer or other movement of such items.

10.5 The item shall also be recorded on the Room Inventory Lists.

## **11. DONATIONS**

11.1 Accounting Officers shall report to the Minister any stores donated to their department by any person or organisation. A copy of such report shall be forwarded to the Director of Audit.

11.2 Any such donations shall invariably be taken on charge in the Ledger

Inventory.

## **12. PROCEDURE FOR THE COMPILATION OF NEW INVENTORIES**

### **12.1 Missing Inventories**

12.1.1 When the old inventory cannot be traced, a Board shall be appointed to investigate and establish how it came to be missing and who is to be held responsible for its loss.

12.1.2 An 'ad hoc' inventory shall be compiled from all items physically existing on site.

12.1.3 An 'ad hoc' inventory shall be subsequently tested and examined by a representative of the Director of Audit, who shall report on his findings to the Minister.

12.1.4 Authority shall be obtained from the Minister for the official recognition of the new inventory.

### **12.2 Out-of-date Inventories**

12.2.1 When an inventory is out-of-date an 'ad hoc' inventory shall be compiled from the items physically existing on site.

12.2.2 Any purchases made subsequent to the last audited items shall be added to the old inventory after scrutinising all the vouchers in respect of the period when no entries were made in the inventory.

12.2.3 The old inventory as amended shall be compared with the 'ad hoc' inventory. A list of the items unaccounted for shall be then drawn up.

12.2.4 The 'ad hoc' inventory shall subsequently be test examined by a representative of the Director of Audit who shall report his findings to the Minister.

12.2.5 The necessary authority shall be obtained from the Minister for the official recognition of the 'ad hoc' inventory as well as for the write off of any discrepancies that may have resulted.

## **13. INVENTORY OF PALACES, CHURCHES AND OTHER PUBLIC BUILDINGS**

13.1 A complete inventory of all furniture and effects in the palaces, churches and other public buildings shall be made and kept by an officer or officers designated by the Minister for that purpose. In the case more than one officer is appointed for this purpose, these officers shall be severally and jointly responsible.

13.2 Any loss or damage, otherwise than by fair wear and tear of the property in such public buildings shall be reported to the Minister.

## **14. STOCKTAKING BY THE OFFICER IN CHARGE OF THE INVENTORY**

The officer in charge Inventory shall carry out stocktaking on a perpetual basis covering all items from time to time with particular emphasis on valuable or attractive items. The above arrangements shall not absolve the



	<p>officer having charge of the items listed in the Room Inventory from making necessary checks from time to time and reporting immediately any discrepancies.</p>
<p>MF Circular No 9/1998</p>	<p><b>Inventory Control: Items of Antique or Artistic Value</b></p> <p>The Inventory Control Regulations were revised by virtue of MFCPFI Circular No. 15/77 of the 19th May, 1977, and procedures were established to ensure an effective control of inventory items.</p> <p>Special provisions were also made for the control of items of artistic or antique value and other valuable items. For ease of reference a copy of the relevant section of the said circular is being attached to this circular.</p> <p>Ministers and Parliamentary Secretaries are therefore enjoined to impress upon Heads of Department to see that the provisions of MFCPFI Circular 15/77 are strictly adhered to and with regard to items of artistic or antique value ascertain that these are kept in a special ledger as stipulated and that the photographs mentioned in paragraph 10.2 of the said circular should be in colour. If for any reason or other this ledger has not been drawn up Heads of Department are to ensure that it is produced before the 30th June 1988.</p> <p>A copy of this inventory is to be forwarded to Mr Lino Borg, Officer in Charge of Inventories at the Museums Department. This officer is to be notified whenever a change in the inventory is recorded.</p>
<p>MF Circular No 7/1998</p>	<p><b>Disposal of Surplus/Absolute and Unserviceable Stores and Equipment</b></p> <p>It has been decided by Cabinet Committee for Financial Monitoring that in order to reduce existing surplus/absolute and unserviceable stores and equipment, and at the same time affording departments wider financial resources, departments which dispose of all existing such stores and equipment will be allowed to retain 30% of the proceeds to be used in addition to their annual budgetary allocations.</p> <p>As you are aware the current provision for the disposal of such stores is Regulation 115 of the General Financial Regulations, 1966. The supporting procedures are being modified to facilitate and speed up the procedure for disposal. Directives in this regard will be communicated shortly.</p> <p>With the above in mind, Heads of Departments are to draw up lists of such surplus/absolute and unserviceable stores and equipment identifying the cost and indicating the estimated "tale quale" value of such stores/equipment.</p>

	<p>Such lists, which are to show the items under the different categories (surplus/obsolete and unserviceable), are to be prepared by the Heads of Departments and channelled to this Ministry through their respective directors Corporate Services and to reach this Office by not later than 5 May, 1998.</p>
<p>MFCPFI Circular No 25/1977</p>	<p><b>Recovery of Damages to Government Property</b></p> <p>All accounting officers are reminded that it is their duty to ensure that damages caused to Government property is duly and promptly recovered from the person or persons responsible. It is therefore necessary that in all cases where Government property is destroyed or in any way damaged as a result of some action whether voluntary or otherwise, by any person or persons, immediate steps are taken to recover the full costs involved.</p> <p>It is to be emphasised that irrespective of any other action which may have to be taken by other departments such as the Legal Office, it remains primarily the responsibility of the Department who owns the property, to ensure that full costs are recovered. The personal liability of the accounting officer concerned in similar instances is clearly laid down in Regulation 6 of the General Financial Regulations 1966 to which the attention of all officers concerned with such matters should be drawn.</p>
<p>MFCPFI Circular No 10/1999</p>	<p><b>Amendments to the General Financial Regulations – Delegation of Authority</b></p> <p>As part of the ongoing decentralisation process, certain authority which till now was vested in the Ministry of Finance is being delegated to Permanent Secretaries in other Ministries or to Heads of Department. For this purpose, further amendments to the General Financial Regulations have been made pursuant to L.N.83 of 1999 published in the Government Gazette of Friday 21 May 1999. These amendments relate to:</p> <ul style="list-style-type: none"> <li>- losses of public moneys and stores;</li> <li>- cash and stock discrepancies; and</li> <li>- donation and disposal of stores;</li> </ul> <p>These amended Regulations will also apply to and cover all those past cases which have not yet been concluded and on which correspondence also exists with this Ministry. Action is being taken by Finance for the formal handing over of these case files.</p> <p>Meanwhile, <b>the partial retention</b> of proceeds from the sale of surplus/obsolete and unserviceable stores already provided for under MFC Circular 7/98 of 1 April 1998, <b>is being extended to the complete retention</b> of such proceeds by the selling Ministry/Department. These proceeds are to</p>

	<p>be credited to a Below-line Account at the Treasury under the heading "Proceeds from Sales of Stores" that would belong to the individual Ministry/Department and are to be utilised by that Ministry/Department as extra-budgetary funds primarily for the procurement of stores similar in nature to those disposed of.</p> <p>In the case of stores at the former Central Supplies Section, all proceeds from the sale of such stores are to be utilised for the repayment of the Advance for Unallocated Stores issued from the Treasury Clearance Fund.</p> <p>It is appropriate that, where authority is vested in the Permanent Secretary responsible for the line-Department concerned or in the Permanent Secretary, Ministry of Finance, all relevant correspondence is channelled through the Director of Corporate Services within the respective Ministry. All Departments are requested to submit six-monthly returns to this Ministry, and copied to the Auditor General, providing an abstract of the cases processed and concluded. Separate returns should be drawn up in respect of different categories or subject-matter.</p> <p>I am sure you agree that such decentralisation and delegation of authority requires from all an added measure of accountability. Indeed, all precautionary measures and remedial action should be taken to avoid a repetition of such as those in the cases under review within these Regulations.</p> <p>The process of decentralisation and delegation of authority as provided by these amended regulations as well as in the prospects of future possible devolution will be discussed at the next Forum for Permanent Secretaries.</p>
<p>MF Circular No 2/2007</p>	<p><b>Amendments to the General Financial Regulations – Arrear Charges</b></p> <p>Pursuant to Legal Notice 43 of 2007, amending the General Financial Regulations, Regulation 74 of the General Financial Regulations has been deleted. Henceforth, Ministries and Departments need not seek the authority of the Ministry of Finance for the settlement, as arrear charges, of claims pertaining to a particular year, to be defrayed out of the Expenditure Votes of the subsequent year/s.</p> <p>It has been considered opportune to amend this Regulation in order that, through the lifting of the procedure followed hitherto, Ministries and Departments would be in a better position to settle pending claims expeditiously, provided conformity with the relevant legislative and administrative provisions applicable is followed, including the 2005 Public Contracts Regulations. It needs to be emphasised, however, that whilst it is to be ensured that claims spilling over from one year to the next are kept at the absolute minimum, limited to that which is unavoidable, it is the responsibility of the Ministry or Department concerned to ensure that no commitments are entered into before it is ascertained that funds are</p>

	<p>available. Any practices to the contrary would constitute a breach of Regulation 71 of the General Financial Regulations.</p>
<p>MF Circular No 2/2006</p>	<p><b>Stocktaking by the Officer in Charge of the Inventory</b></p> <p>The officer in charge Inventory shall carry out stocktaking on a perpetual basis covering all items from time to time with particular emphasis on valuable or attractive items. The above arrangements shall not absolve the officer having charge of the items listed in the Room Inventory from making necessary checks from time to time and reporting immediately any discrepancies.</p> <p><b>USE OF MOBILE PHONES</b></p> <p>In the light of the ever-increasing range of services that is on offer to users of mobile phones, it has been found necessary to consolidate the regulatory framework in force in terms of MF Circular 4/2002.</p> <p>Officers having access to mobile phone facilities for official use should note that only expenditure in respect of local calls and international ones that have been personally certified by users as having been made on official business will be settled by charge to public funds. Any other charges incurred in respect of other services will have to be borne by the beneficiary. In this regard it is important to ensure that only itemised bills are submitted by the service-providers in order that these requirements may be duly complied with.</p> <p>In view of the wide selection of mobile phones available and the correspondingly varying prices attached thereto, it is considered appropriate to establish a capping in regard to the cost that can be charged to public funds in relation to the purchase of new phones. To this effect, the retail price of mobile phones, inclusive of any accessories, purchased for official use should henceforth not exceed Lm80. Should an eventual beneficiary opt to purchase a phone costing more than this amount, he/she may be allowed to top up the capped amount out of pocket. However, the equipment shall still be considered an inventory item in the normal sense and the user would only claim any right to eventual retention, upon retirement, in accordance with the parameters laid down in MF Circular No 4/2001.</p> <p>The provisions of MF Circular Numbers 4/2001 and 4/2002 remain otherwise in force.</p>

IYIF Circular  
No 4/2002 (updated  
by MF Circular  
2/2006)

### **Regulation of the Use of Mobile Phones in the Public Service**

Although the use of mobile phones in the Public Service has grown significantly over the past few years, the existing regulatory framework for the use of mobile phones by public officers cannot be considered to be an adequate one.

In fact, the only directives on the matter were issued in the early 90's (OPM Circular 57/90 and OPM Circular 22/92), which stipulated that the use of mobile telephones had to be subject to the final authority of the then Chief Inspector of Wireless Telegraphy, and in 1993, when a letter-circular issued by the Permanent Secretary, OPM, had delegated to Permanent Secretaries the authority to approve the issue of mobile phones to public officers. That latter circular had also directed that the relevant bills should be itemised for control purposes and that the use of a mobile phone should be restricted to calls made on official business.

In the light of the above and following consultations with the Office of the Prime Minister, this Ministry has established the following regulatory framework for the use of mobile phones in the Public Service:

- (i) requests by public officers for the use of a mobile phone at Government expense should invariably be addressed to the respective Permanent Secretary, who will use his good judgement to determine whether the request is justified in the light of the nature of the officer's duties and of the availability of funds. Requests by officers in grades below that of Director should only be granted on an exceptional basis when the nature of the officer's duties specifically demands it (eg civil protection, security, field work);
- (ii) bills issued in relation to the use of mobile phones should be issued on an itemised basis, at least insofar as overseas calls are concerned;
- (iii) expenses incurred on overseas calls which are not made on official business are to be refunded by the beneficiary to the Department/Ministry concerned;
- (iv) in the case of all public officers who are entitled to the use of a mobile phone, the maximum expenditure to be covered by Government has been established at Lm350 per annum. Expenditures above this ceiling would have to be refunded. However, there may be exceptional situations where a higher expenditure may be allowed, subject to the specific approval of the responsible Permanent Secretary;
- (v) in those cases where it is considered necessary to provide the use of a mobile phone to a group of employees in virtue of special conditions of employment, the grant of such a benefit should be cleared a priori with the Ministry of Finance but should also be subject to the approval of the responsible Permanent Secretary.

These arrangements are to apply with immediate effect and it is the

	<p>specific responsibility of Directors of Corporate Services to ensure that this regulatory framework is adhered to in all the Departments of their Ministry.</p>												
<p>MF Circ No 4/2001 (updated by IYIF Circular No. 4/2002 &amp; MF Circular 2/2006)</p>	<p><b>Retention of Mobile Telephones on Retirement</b></p> <p>This Ministry has been informed that a number of public officers approaching retirement age have expressed their wish to be allowed to retain the mobile telephone provided to them by Government in virtue of the position they currently occupy.</p> <p>Given the ever-decreasing cost of this commodity on the market, this Ministry is not against allowing such retention provided that this is done against a nominal charge.</p> <p>Where such requests are raised, therefore, Directors of Corporate Services may duly authorise retention subject to the charges indicated hereunder:</p> <table border="1" data-bbox="586 1119 1295 1409"> <thead> <tr> <th data-bbox="586 1119 889 1262">Date of Purchase dates back</th> <th data-bbox="893 1119 1097 1262">CHARGE Purchase cost Less than Lm120</th> <th data-bbox="1101 1119 1295 1262">CHARGE Purchase cost Less than LM120</th> </tr> </thead> <tbody> <tr> <td data-bbox="586 1266 889 1304">More than 2 years</td> <td data-bbox="893 1266 1097 1304">15</td> <td data-bbox="1101 1266 1295 1304">18</td> </tr> <tr> <td data-bbox="586 1308 889 1367">More than 1 year but less than 2</td> <td data-bbox="893 1308 1097 1367">20</td> <td data-bbox="1101 1308 1295 1367">24</td> </tr> <tr> <td data-bbox="586 1371 889 1409">Less than 1 year</td> <td data-bbox="893 1371 1097 1409">25</td> <td data-bbox="1101 1371 1295 1409">30</td> </tr> </tbody> </table> <p>Of course, the purchase of a new mobile telephone close to the date of the entitled officer's retirement should be avoided and the relevant account at Government expense with the service provider should be immediately closed on the date of the Officer's retirement or on the date when the officer commences his / her pre-retirement leave.</p>	Date of Purchase dates back	CHARGE Purchase cost Less than Lm120	CHARGE Purchase cost Less than LM120	More than 2 years	15	18	More than 1 year but less than 2	20	24	Less than 1 year	25	30
Date of Purchase dates back	CHARGE Purchase cost Less than Lm120	CHARGE Purchase cost Less than LM120											
More than 2 years	15	18											
More than 1 year but less than 2	20	24											
Less than 1 year	25	30											
<p>MF Circular No 2/2012</p>	<p>Further to MF Circular No. 5/2002 and its subsequent updating MFEI Circular No. 7/2011 the attention of accounting officers is being drawn to the following facts:-</p> <p>(a) <b>Exemptions from issuing a fiscal receipt:-</b> Where a person is not required to issue a fiscal receipt being exempted in terms of Item 11 of the</p>												

13th Schedule of the VAT Act then any transactions concerning supplies by that person are NOT to be included in the submission required in terms of MF 5/2002. (For example, VAT registered establishments quoting an exemption number on the respective invoice - denoted by "EX####");

(b) **Procurement of fuel for Government vehicles:-** The transactions related to the sale of unleaded petrol and diesel from pumps are exempted from the issue of a fiscal receipt as per Item 6 of the 13th Schedule of the VAT Act;

(c) **Purchase of insurance policies for travelling purposes:-** The procurement of such insurance policies is defined as an exempt without credit supply as per Item 2, Part 2 of the 5th Schedule of the VAT Act. Therefore insurance companies making similar supplies are not to be included in the submission as a defaulting supplier.

It has also observed that certain Ministries and Departments have adopted different reporting strategies and information submissions to the VAT Department and which are not in line with the regulations stipulated in MF Circular No. 5/2002, resulting in a loss of time and resources especially where a defaulting supplier would have issued the required receipt. To this effect this Ministry would like to remind all designated officers responsible for the compliance to the circular in question that the monthly submission with details of defaulters was revised to quarterly submissions.

Henceforth, the obligation to report defaulters as regulated by MF Circular No. 5/2002 and its subsequent updating through MFEI Circular No. 7/2011 and this circular shall apply also to Public Sector Organisations.

As with regards to the submissions of data, Ministries/Departments/Public Sector Organisations are requested to furnish the following information to the VAT Department:-

- (i) name of Ministry/Department/Public Sector Organisation submitting report;
- (ii) date of payment voucher;
- (iii) the correct details of the supplier including the address and the VAT registration number;
- (iv) the correct amount of the transaction.

Such data, which is to be submitted by all Ministries/Departments/Public Sector Organisations on a quarterly basis to the email address vat@gov.mt, is to be submitted in electronic format as an excel file with the heading 'Fiscal Receipt Defaulters xls' as per **sample attached to this Circular. NIL returns are also to be submitted.**

In an effort to refresh and enhance adherence to MF 5/2002 requirements,

	<p>Directors responsible for Corporate Services, or analogous positions, are requested to submit a revised list containing new nominations where applicable, of designated officers responsible for the compliance to the circular in question, to the VAT Department <b>by not later than 30th March 2012</b>.</p> <p>This list should also include the Departments being accounted for by the designated officer. This will enable the VAT Department to direct any queries directly to the person in charge of the matter. It is to be emphasised that the VAT Department should be notified of any changes both with regard to nominated officers as well as changes in departments falling under the responsibility of the particular officer. Such notification should be sent to the VAT Department via e mail to vat@gov.mt.</p> <p>The provisions of this circular come into immediate effect.</p>
<p>OPM Circular No 15/2015</p>	<p><b>Communication Allowance</b></p> <p>As part of Government's initiative to reduce the amount of bureaucracy related to the payment of mobile, residential telephone and internet bills to Directors General and Directors in the Public Service an all-inclusive taxable communication allowance will be introduced to replace the current processes.</p> <p>The all-inclusive taxable allowance will amount to EUR 1,600 per annum and payments will be spread over the thirteen pay periods. This allowance will be introduced with effect from 1 January 2016.</p> <p>In those cases where the current mobile contract already entered into by Government lapses after the 31 December 2015, this will be retained until its expiry. Henceforth, after this date, all other mobile phone contracts will be entered into by officers directly with the service providers of their choice. Government will therefore not be entering into any new contracts directly with the service providers. On the other hand, contracts that will expire between the date of this Circular up to the end of 2015 will not be renewed by Government and consequently the above-mentioned allowance will come into effect to cover all the three services on a pro-rata basis.</p> <p>In view of the introduction of this new allowance, officers are expected to provide their mobile and landline phone numbers to the senior officers they report to.</p> <p>In exceptional circumstances, Permanent Secretaries may sanction any amount in excess of the established threshold on a case by case basis, when the situation merits so.</p> <p>As already stated, this new procedure is expected to significantly reduce the administrative burden across the Public Service and thereby simplifying the</p>



	relative accounting processes.
MFEI No. 7/2011 (updated by MF No 2/2012)	<p><b>Submission of Fiscal Receipts to Government Departments – Update to MF Circular No. 5/2002</b></p> <p>In view of Legal Notice 524 of 2010 – Value Added Tax (Exemption from Registration) Regulations, 2010 - and in order to clarify matters with respect to the issue of fiscal receipts and tax invoices section (i) of MF Circular No. 5/2002 is being amended as follows:-</p> <p>Heads of Department and other Accounting Officers are to ensure that they are invariably issued with a fiscal receipt by suppliers who have been paid for stores/services provided by them. Where a government department is identified with a VAT registration number under Article 10 of the Value Added Tax Act (Cap. 406), a tax invoice has to be furnished by suppliers who are also registered under Article 10 of the Act, and this in lieu of a fiscal receipt. In the case of suppliers who are registered under Article 11 of the Act and are therefore exempt from charging VAT, then a fiscal receipt has to be issued and furnished to the VAT-registered Departments.</p> <p>However, in the case of suppliers who are exempted from registering for VAT under Article 11 of the Act on the basis LN 524 of 2010, departments are only furnished with any other type of receipt and which is not a fiscal receipt or tax invoice. In such cases Heads of Department and other Accounting Officers are to request such suppliers to furnish a declaration with the issue of such receipts confirming that they, the suppliers, are exempt from registering for VAT on the basis of LN 524 of 2010 and that furthermore they are exempted from issuing fiscal receipts on the basis of regulation 5 of the same legal notice, and this as per specimen attached.</p> <p>This Ministry is highlighting the importance of the strict adherence to the rules and regulations stipulated in the above mentioned circular and in MF 40/02/A letter circular dated 27 July 2005.</p>
MF Circular No 5/2002 (updated by MFEI No 7/2011 & MF No 2/2012)	<p><b>Submission of Fiscal Receipts to Government Departments</b></p> <p>Successive annual Reports of the Auditor General have highlighted the fact that various Government Departments have not been complying with existing Treasury directives on the submission of fiscal receipts and, where appropriate, the issue of tax invoices to Government Departments. In this respect, the Report of the Auditor General for the year 2000 indicates that a compliance audit on 10 per cent of all payment vouchers issued by 26 Ministries / Departments during year 2000 revealed that 53 per cent of payments effected had no fiscal document attached to the relative payment voucher as required in terms of Treasury Circular 6/2000. This situation was discussed during a recent meeting of the Public Accounts Committee, when members of the Committee generally expressed their concern about this high and unacceptable rate of non-compliance.</p>

The existing directives on this subject are covered by a number of Treasury Circulars, namely Circulars No.11/95, No. 12/97, No. 9/99 and No. 6/2000 and provide for the following arrangements:

- (i) Heads of Department and other Accounting Officers are to ensure that they are invariably issued with a fiscal receipt by suppliers who have been paid for stores / services provided by them. In the case of VAT-registered Departments, a tax invoice has to be provided in lieu of a fiscal receipt;
- (ii) vouchers passed for payment through the Treasury are to contain a statement reminding the payee of his / her legal obligation to issue a fiscal receipt immediately on receiving payment. However, since a copy of the relative payment voucher is now no longer being forwarded to the payee, the Treasury will be taking alternative steps to remind the payee about this obligation;
- (iii) fiscal receipts received from suppliers are to be attached to the relative original Payment Voucher for ease of reference;
- (iv) monthly 'returns' with details of defaulters are to be sent by each Department to the Audit and Assurance Section of the VAT Department;
- (v) Departments should immediately discontinue to purchase stores and services from such defaulters until the matter is rectified.

In an effort to enhance the rate of compliance with these directives, this Ministry is now introducing the following additional / revised arrangements:

- (i) every Head of Department is to designate one or more officers who are to be assigned with the responsibility for Departmental compliance with these directives. The officers so designated will be held accountable for their performance and, in this respect, you are reminded that 'disregard of or failure to obey rules and regulations' and 'serious neglect or dereliction of duties' are specifically categorised as a minor and a serious offence respectively in the Schedule of Offences and Penalties attached to the Public Service Commission (Disciplinary Procedure) Regulations, 1999. Of course, the assignment of this responsibility to specific officers does not absolve the respective Head of Department from his / her responsibility to ensure that these directives are respected and the more general responsibility for sound financial management. Indeed, this latter responsibility is now entrenched as a standard task in Performance Plans for Heads of Department on a Performance Agreement;
- (ii) the frequency of the returns which Departments are expected to submit to the VAT Department in terms of the above-mentioned Treasury Circular No.9/99 is being revised from monthly to quarterly, as from the end of the forthcoming month. This should reduce the administrative demands arising from these procedures and make it easier for Departments to improve their level of compliance.

The names (including grade and designation) of the officers to be nominated in line with the requirements of sub-paragraph (i) above are to reach the Policy and Planning Department of this Ministry by not later than Friday, 15 March 2002. This information is to be submitted through the

	<p>respective Director of Corporate Services.</p>
<p>MFEI Circular No 10/2010</p>	<p><b>Efficiency Gains</b></p> <p>As part of the financial strategy being proposed by Government for 2011 (as per Budget Speech), all Government departments and entities are required to enhance their efficiency by at least 2%.</p> <p>The managements of departments and entities, together with their specialists, are the best placed to identify and propose measures through which the above-mentioned objective can be attained. However, enclosed you may find, as <b>Annex 1</b>, a list of possible areas where efficiency gains can potentially be had and wherein you are asked to identify those you intend to adopt. You are also encouraged to propose any other efficiency savings, as you may deem fit, for your department or entity and which you intend to implement.</p> <p>Duly filled in templates should be submitted to the Ministry of Finance, the Economy and Investment on email address: fmmu@gov.mt by <b>not later than 15th December 2010</b>.</p>
<p>MFEI Circular No 9/2010</p>	<p><b>Ministry of Finance, the Economy and Investment Arrears of Revenue Plans – Budget Speech 2011</b></p> <p>One of the main objectives of next year’s budget is to decrease the deficit to below three per cent in the course of 2011.</p> <p>In this regard, the Budget Speech states:</p> <p><i>For this reason, we are insisting that during the coming year, Government departments and entities:</i></p> <p><i>Work towards the reduction of 10 percent in Government arrears. Every department and entity will be requested to prepare a strategy for this purpose by the end of November.</i></p> <p>Government Departments and Public Entities are thus obliged to reduce their respective arrears of revenue during the coming year by 10% of the 2011 opening balance. In this regard, a strategic plan specifying the way forward to reach this objective is being requested from all Government departments and entities having arrears of revenue.</p> <p>The Financial Control Unit within this Ministry is currently in the process of analysing all arrears due to Government Departments and Public Entities to be in a position to effectively monitor the collection of outstanding dues on a continuous basis.</p>

	<p>The required strategic plans are to be submitted to this Ministry by the 30th November, 2010.</p>
<p>MFEI Circular No 8/2010</p>	<p><b>Expenses incurred following the Recommendations in Energy Audit Reports</b></p> <p>Reference is made to the energy audits currently being carried out in Ministries and Government Departments and line item '5423 – <i>Green Leaders Environmental Initiatives</i>', which was previously equally apportioned under Line Ministries and has now been consolidated under MRRRA for Corporate Green Initiatives.</p> <p>While it is expected that green criteria are continued to be given a priority when using public funds to buy equipment and services, it should be noted that any expenses made by individual Ministries for their own individual benefit are to be sustained by the Ministry involved.</p> <p>This should also be considered in the light of any expenses which will be incurred following the energy audit reports' recommendations for greening both our operations or the building itself.</p> <p>It should be noted that any investments made in this regard, similar to the previous investments made in energy-saving lighting, apart from helping the environment, will generate financial savings to the Ministry concerned.</p>
<p>MF Circular No 2/1995</p>	<p><b>Settling of dues to Government Departments and Public Corporations</b></p> <p>Persuant to MF Circular 16/94, the procedure regulating the settlement of water, electricity, postage and telephone charges has now been defined. Forms "A" and "B", specimens of which are attached herewith, will henceforth be used for the application of this procedure.</p> <p>On receipt of Form "A", which is to be submitted by Friday, 17 February 1995, this Ministry will raise a Transfer Voucher, and subsequently every quarter, with a copy to your office, debiting the sub-items of each Ministry/Department and crediting "ad hoc" Treasury Accounts which have been opened for each service, with an amount equal to one-fourth of the totals indicated.</p> <p>Subsequently, Form "B" is to be drawn up and submitted to Finance by the middle of March, June, September and December of each year so that this Ministry may process the actual amounts due. As a result of this new accounting procedure, payment/transfer vouchers in respect of normal consumption and rental charges due to the Corporations concerned are no longer necessary. However, vouchers in respect of specific works provided by the Corporations are to continue to be drawn up by the departments in the usual manner but are henceforth to be routed through this office.</p>

	<p>Whenever Public Corporations, Authorities etc. In receipt of a Government subvention fail to effect payment due by them to other Public Corporations or Government Department, the latter, namely the creditor entities, should report such instances to the Permanent Secretary of the Ministry/Head of Department effecting such subventions. Upon ascertaining that the amounts claimed are truly due, the Permanent Secretaries/Heads of Department concerned are hereby authorised to pay such amount directed to the creditor entity out of the subvention.</p>
<p>MEAF Circular No 2/1996</p>	<p><b>Sundry Creditors</b></p> <p>It has been considered appropriate to take stock of all Government liabilities in respect of works already carried out and supplies and services delivered and which are still due for payment.</p> <p>For this purpose, a comprehensive return of each Ministry's/ Department's bills which have been received for payment by 31 October 1996 is to be drawn up and submitted to this Ministry as per attached specimen form by not later than Monday 18<sup>th</sup> November 1996. Vouchers already passed to Treasury for payments by the 31 October 1996, as well as amounts below Lm1,000, should not be included.</p> <p>Strict adherence to the dateline given for the submission of these returns is being requested.</p>
<p>MF Circular No 5/1989</p>	<p><b>Delegation of Financial Authority</b></p> <p>The provision of the General Financial Regulations, 1996, as well as instructions contained in the Ministry's circulars numbered MFC 4/76 and MF 22/83, had set out limits on the spending authority of ministers and heads of department. With the steady rise in departmental expenditures, the system has come under a certain strain.</p> <p>During the first stage of the Operations Review, with which you are now familiar, the issue of financial authority has emerged as a matter deserving priority attention. For this reason, measures are being taken to</p> <ol style="list-style-type: none"> <li>i. Ease the pressures on the system of central authorisation and control;</li> <li>ii. Provide ministries and department with a greater degree of latitude in decisions relating to the procurement of stores, works and services; and</li> <li>iii. Create more accountability in ministries and departments in accordance with the Government's policy of "responsabilizzazzjoni".</li> </ol> <p>In line with these concepts, the General Financial Regulations, 1966 have</p>

	<p>been amended as per attached copy of L.N. 19/1989 providing for an increase in the financial authority that is already delegated to ministers and accounting officers, while leaving intact the framework of financial regulations. In addition, this Ministry's Circulars quoted above are hereby repealed.</p> <p>The authority of the Ministry of Finance will not be required any longer to undertake expenditure on the procurement of stores, works and services within the limits set out in the Legal Notice so long as an adequate provision for funds can be committed under the relevant item of a ministry's votes in the Financial Estimates.</p> <p>Departmental tenders should be administered by a departmental contracts committee, to be chaired by the Head of Department or his representative.</p> <p>In order to ensure that departmental tendering procedures conform to Treasury norms, the Treasury Accounting Officer in a department should henceforth be included as a member of the departmental contracts committee.</p> <p>The success or otherwise of Government's initiative in giving you greater authority over the funds that are allocated to you depends to a very great extent on the spirit in which it is implemented. The outcome will determine whether or not further initiatives are taken in the sphere of financial management. I am confident that you will exercise your authority within the letter and the spirit of the new regulations.</p>
<p>MF Circular No 10/1988</p>	<p>Since this Ministry is carrying out an exercise in connection with the monitoring of the various sources it must be ensured that the right Act, Legal Notice or authority in virtue of which revenue is being collected is readily at hand and that the correct Head/Item of Revenue is subsequently credited.</p> <p>For this purpose, you are requested to submit to this Ministry (attention Mr. S. Gauci, Revenue Section), within one month from the date of this circular, a detailed list of revenue sources for which the Department or Corporation is responsible and corresponding Item of Revenue affected, attaching as appendices a clearly legible copy of the relevant extract from the law or Legal Notice, or of the administrative authority, duly updated by any amendments thereof, where applicable.</p> <p>Finally, this Ministry would welcome any remarks which you may deem relevant to make regarding any particular source of revenue, such as, the feasibility of retaining or amending such fiscal measure, whether a tariff may be considered to be too high or too low in the circumstances obtaining today or whether expenses involved in the recouping of revenue are covered by the relative fees collected.</p> <p>Nil returns should be submitted where applicable.</p>

MF Circular  
No 1/1988

**The Auditing of Corporations and other Government-Controlled Companies (OPM 462/87)**

During Meeting No.28/87, Cabinet approved the policy which is henceforth to be adopted to regulate the auditing of Corporations and other Government-controlled companies and bodies. Furthermore the Ministry for Finance has been entrusted with the responsibility for implementing this policy.

Ministers are therefore requested to bring the above to the immediate attention of all Corporations and other Government-controlled companies and bodies which fall under their responsibility and to inform them on the new policies regarding auditing which are laid out in detail in Appendix I to this circular.

Ministers are also requested to take early steps to nominate their representative to sit on the Board to be appointed in terms of Memorandum No.195. Obviously nominations from Ministries with no responsibility for any Corporation or other Government-controlled companies and bodies will not be needed.

Early action is indicated as the majority of the Corporations/Companies covered have already held or will soon hold their Annual General Meeting at which shareholders are expected to nominate the Auditors for their coming financial year.

At Appendix II and III, Hon Ministers will find respectively:

- (1) a list of all the auditing firms which have replied to the questionnaire issued by the Central Bank through the Institute of accountants, classified into Categories A, B and C; and
- (2) a list of Government-controlled Corporations, Banks and other parastatal companies, institutions and firms classified in Categories I, II and III.

Ministers are enjoined to ensure the full cooperation of all concerned so that the Cabinet approved policy can be implemented smoothly for the benefit of the institutions involved and in the national interest.

APPENDIX I

**AUDITING OF CORPORATIONS, BANKS AND OTHER GOVERNMENT-CONTROLLED COMPANIES**

I. In line with developing international practice and to ensure an even distribution of the audit of parastatals and Government-controlled companies among audit firms, it has been decided that:

- (1) The audit of such bodies should henceforth be allocated
  - (a) By tender on the basis of price AND professional services offered; and
  - (b) In such a way that the work is spread as evenly as possible between the various audit firms;
- (2) An audit firm's appointment should be for not more than five years (on a yearly basis renewable up to 5 years) to encourage rotation, but the outgoing audit firm can be given the opportunity to tender the following five years;
- (3) No audit firm should have more than 50% of its work dependent on parastatals and Government-controlled companies.

An ad hoc Board shall be appointed by the Ministry of Finance composed of representatives of the Ministries under which parastatal bodies fall and a representative of the Institute of Accountants under an independent chairman appointed by the Minister of Finance.

## **II. AUDITORS**

For the purpose of the above, the various audit firms working in Malta have been classified (see Appendix II) into three categories (A, B and C) according to the following criteria:-

- (1) Number of fully qualified staff;
- (2) Support available from foreign firms; and
- (3) Spread of experience.

The classification has been based on information furnished by audit firms following a circular issued by the Institute of Accountants after an approach by the Central Bank.

## **III. Parastatals and Government-Controlled Companies**

Corporations, banks and other large parastatal bodies have been classified as a special Category I while all other parastatals/companies have been classified by the two broad categories (II and III) on the following criteria:-

- (a) Size of capital, loans and/or advances;
- (b) Number of employees.

Details of the above classification are given in Appendix III.

## **IV. Procedure**



	<p>All parastatals/companies are requested to invite tenders from Auditors for financial year ending some time in 1988 and onwards on the following basis:-</p> <ol style="list-style-type: none"> <li>(1) Only Category A audit firms will be eligible to tender to audit banks, corporation and large parastatals (Category I).</li> <li>(2) Only Category A and B audit firms will be allowed to tender for Category II parastatals/companies.</li> <li>(3) Category A, B and C will be able to audit the remaining Category III bodies.</li> </ol> <p>Four overriding principles should however be observed:</p> <ol style="list-style-type: none"> <li>(a) Category A audit firms will not be allowed to audit more than 4 in Category I and 4 in Category II and 6 in Category III.</li> <li>(b) Category B audit firms will not be allowed to audit more than 4 in Category II and 6 in Category III.</li> <li>(c) No audit firm should have in the aggregate more than 50% of its income coming from work connected with parastatals/companies.</li> <li>(d) Audit appointments should not exceed 5 years (i.e. Auditors will be appointed for 1 year subject to subsequent renewal but not exceeding 5 years).</li> </ol> <p>Each tendered in Category A and Category B shall give the necessary undertaking as in (a) – (c) above.</p> <p>The Board appointed under Section I of this Appendix shall be responsible to ensure compliance with the above. Issue and acceptance of tenders by any parastatal or company involved will have to be made through the Board. To make the task more manageable, the process shall be spread over two years, that is, half of the firms in each category will go to tender in the first year and the other half in the second. The choice of the first batch of firms shall be made in consultation with the Board.</p> <p>In the case of the major banks, the auditing firm chosen should have a foreign audit correspondent (as required in the listed categories), who would be required also to sign; this will ensure international recognition. Furthermore no audit firm should be entrusted with the audit of more than one bank.</p> <p>These rules may be amended by this Ministry in the light of experience gained by the Board appointed under Section I of this Appendix.</p>
MFC Circular No 9/1985	<p><b>Measures to Reduce Expenditure</b></p> <p>The Deputy Prime Minister and Minister of Finance and Customs has reviewed the results achieved so far in the exercise of stricter control over the use of petrol, diesel and other oils as well as the use of gas and electricity, which was the subject of a Circular issued by the Ministry of Finance on the 28<sup>th</sup> June 1985 (MFC Circular No 4/85).</p>

	<p>This Office has in consequence been asked to remind you once again of the directive given in para 3 of the above-mentioned Circular, viz to effect a saving of not less than 10% of the provision for energy consumption under each Vote.</p> <p>To this end the Treasury has already been directed to freeze certain amounts under a number of subheads of your Vote. You are, therefore, required to ensure that expenditure on fuel and energy will in fact be reduced by 10% and that corresponding savings will result at the end of the financial year.</p> <p>You are also requested to set in train immediate measures designed to curtail expenditure under other provisions of the Recurrent Vote/s under your charge and to keep such expenditure down to the barest minimum required for the functioning of your organization.</p> <p>Heads of Department are finally enjoined to follow scrupulously the directives indicated above in order that the present budgetary exigencies will be fully met.</p>
<p>MF Circular No 9/2000</p>	<p><b>Regulation of Overtime in the Public Service</b></p> <p>In his Budget Speech for the year 2000, the Minister of Finance had stated that during the current year a revision of the existing arrangements for the planning and control of overtime work would be made. Moreover, in the Collective Agreement for Public Service Employees, concluded in December 1998, the Government undertook to carry out 'a reassessment of the parameters at present in force for the payment of overtime' and also indicated that 'consideration will be given to mechanisms to curb excessive overtime'.</p> <p>In the light of the above and following consultations with the Office of the Prime Minister, the following additional arrangements for the regulation of overtime work in the Public Service are being introduced with effect from the 1<sup>st</sup> January, 2001:</p> <p>(i) the amounts to be allocated for overtime in the respective Votes of Recurrent Expenditure in the 2001 Estimates are to be frozen at the level shown in the 2000 Estimates;</p> <p>(ii) virements to the Budget line for overtime will no longer be allowed, except in special circumstances (e.g. severe shortage of staff) and with the specific approval of the Ministry of Finance;</p> <p>(iii) positive measures are being introduced to encourage Ministries and Departments to reduce the amount of overtime. Accordingly, with effect from the year 2001, 50% of any unspent balance on overtime during a budgetary year, will be re-allocated to</p>

	<p>the Ministry/Department in the subsequent year, to respective Ministry/Department will then be expected to maintain the reduced level of overtime expenditure;</p> <p>(iv) a more structured system for the approval of overtime work by Permanent Secretaries is being introduced. In this respect, approval for overtime work by Permanent Secretaries should not be granted for periods exceeding three (3 months) and, whenever possible, this should be linked to 'ad hoc' assignments with specific targets to be attained. This authority vested in Permanent Secretaries cannot be delegated. A pro-forma 'Application Form for the Approval of Overtime Work' by Permanent Secretaries is attached;</p> <p>(v) the practice of allowing public officers to perform overtime work for another Department is no longer allowed;</p> <p>(vi) the performance of paid overtime work by officers above the grade of Senior Principal (Scale 7) and analogous grades should not be allowed, especially now that officers appointed to the position of Assistant Director are on a Performance Agreement. The maximum rate for overtime payment, however, should continue to be pegged to Salary Scale 10.</p>
<p>MF Circular No15/1994</p>	<p><b>Cash Losses</b></p> <p>In virtue of Reg/ 101 of the General Financial Regulation, 1966 the Minister of Finance has authorised that henceforth Heads of department may approve refunds of cash losses not exceeding Lm5. Where the amount involved exceeds Lm5 and up to Lm15 refunds of such cash losses may be approved by the Permanent Secretary responsible for that department.</p> <p>This authority also covers all outstanding cases whether a submission has already been made to this Ministry.</p> <p>This delegation of authority is yet another step in the decentralisation process being effected following the, appointment of the directorship posts and should be exercised with the utmost responsibility. No refund should be authorised where the loss is due to negligence on the part of the officer concerned.</p> <p>Finally, Heads of department are reminded that each department should keep a register of cash losses wherein all such losses are recorded. The register should contain details of the date of the loss, amount, name of the officer concerned and the aggregate sums handled by the officer on the day when the loss occurred, as well as the circumstances relating to the Occurrence. An annual statement of all losses of cash is to be submitted to the Accountant General.</p>

<p>MFCPFI Circular No 10/1981</p>	<p><b>Regular Collection of Revenue</b></p> <p>The Minister of Finance is concerned about the fact that the collection of moneys due to the Government is being allowed to fall in arrear and that such moneys once collected, are not being promptly recorded in the accounts with consequent delays in the crediting of funds to Revenue.</p> <p>It is essential that regular and prompt accounting be made for money collected so that Revenue inflows during the financial year would be evened out. You are therefore requested: (1) to ensure that such a procedure is strictly followed and (U) to submit a monthly return showing the amount collected against each item of Revenue. Detailed explanations should be given in each case where the amount collected in any particular month falls short of one-twelfth of the provision on the approved estimate. Returns should reach this office by not later than the 6th of the month following the one in respect of which the return is made.</p>
<p>MFCPFI Circular No 4/1979</p>	<p><b>Duties, Functions and Responsibilities of Accounting Officers</b></p> <p>Ministers are aware that the Financial Administration and Audit Act 1962 (Act I of 1962) has now been amended by Act No III of 1979 in order to ensure that there is better financial control and rendering of accounts in departments.</p> <p>In terms of Section 2 of the said Financial Administration and Audit Act 1962 I have today issued directions whereby the duties, the functions and responsibilities of accounting officers as specified in the said directions shall vest exclusively in the Accountant General and, under his responsibility, supervision and control, in the public officers performing duties at the Treasury and in such other public officers as may be transferred to the Treasury but posted in the relevant departments. A copy of my directions as aforesaid is attached to this circular.</p> <p>The Heads of Departments to which Treasury public officers have been posted so far (ie Public Works, Agriculture and Fisheries, Education, Health and Water Works), have already been informed by the Establishments Secretary. Other departments may be brought under the new arrangements as may be necessary in due course and suitable directions will be made at the appropriate time.</p> <p>Further to the above directions in terms of Section 2 of the said Financial Administration and Audit Act 1962, I have also issued other directions in terms of Section 3 of the same Act so as to ensure that the Government accounting system runs smoothly and efficiently. A copy of these other directions is also attached.</p> <p>Ministers are requested to bring both directions to the attention of all staff concerned who should be enjoined to follow these directions in a</p>

	<p>responsible manner and to cooperate fully with the Treasury officials so as to increase efficiency in their departments. It should also be made clear that non-observance of these directions entails disciplinary action; however it should be looked upon as an aid to greater efficiency and to help all accounting officers whatever their rank and wherever they are posted to perform their work more effectively and expeditiously.</p>
<p>MFCPFI Circular No 13/1980</p>	<p><b>Duties, Functions and Responsibilities of Accounting Officers</b></p> <p>Please refer to MFCPFI Circular No 4/79 which introduced the system of position of Accounting Officers to certain departments under the direct responsibility of the Accountant General.</p> <p>It was realised at the outset that certain period of time had to elapse before the concept of the new system could be fully appreciated. With the issue in July 1979 of detailed instructions concerning the accounting duties properly pertaining to the departments and the functions and responsibilities of Treasury Accounting Officers certain difficulties were cleared and barring one or two exceptions, the system is now to a reasonable extent functioning smoothly.</p> <p>One difficulty which has not yet been completely solved is the excessive involvement of some accounting duties, which purely concerns the department where they are posted. The reason is that these officers although having been transferred to the Treasury, continued to remain physically in the same department where they had been working prior to their transfer with the result that they remained saddled with many of their old duties a number of which are unrelated to their new rule.</p> <p>Since the role of the Treasury Accounting Officers is quite different from that of auditors, this Ministry is not averse to a certain degree of involvement on the part of these accounting officers in the administrative work of the department where they are posted so long however as such involvement has a direct bearing on their primary function of accounting officers, and leave them enough time to carry out all the duties attaching to their post. If this balance is not kept some friction is bound to arise.</p> <p>Head of Department are therefore enjoined to ensure that Treasury Accounting Officers posted to their departments are afforded all the necessary facilities to carry out their duties properly and that they are not unduly burdened with certain jobs totally outside their range of duties. It will surely be appreciated that these officers are there to help departments keep proper accounts and to solve their financial problems within the framework of the Financial Regulation and not to find fault with any arrangements currently in operation.</p> <p>The importance given to the system of posting Treasury Accounting Officers</p>

	<p>to departments can be gauged by the fact that the Government has decided that the system is to be extended to cover a greater number of departments. It is hoped that, with all-round accounting operations in Government Departments will be run more efficiently compatibly with present requirements.</p>
<p>MFIN Circular No 3/2014</p>	<p><b>MFIN No 3/2014 - Guidelines regarding recoveries of irregular expenditure paid by Treasury on EU Funds under Shared Management</b></p> <p>It transpires that recovery of funds in respect of irregularity reports circulated by the competent Authorities of EU Funded Programmes under shared management is not being recovered notwithstanding established deadlines. It is pertinent to note that irrespective of the fact that recoveries remain pending the Certifying Authority takes immediate action and deducts the public eligible component from application claims submitted to the CION.</p> <p>With immediate effect all irregularity reports issued under Shared Management Funds establishing a financial recovery shall be subject to a three (3) month deadline for settlement by the Beneficiary.</p> <p>Once recovery is completed, the EU Funds Management (EUFM) within Treasury shall transfer the amount collected as per established procedures. The signed irregularity report shall continue to be communicated to the respective Permanent Secretaries and Directors Programme Implementation (DPIs). It is to be highlighted that DPIs are also responsible to ensure that recoveries are completed by the 3-month deadline.</p> <p>In cases where a recovery has not been concluded by the established deadline, the EUFM shall liaise with Budget Affairs (MFIN) to have the amount recovered from the Ministry/Department budgetary allocations or the Entity's subvention. Notwithstanding this, DPIs shall continue to pursue all possible means including legal action to recover funds from Beneficiaries. This also applies to Intermediate Bodies in case of Grant Schemes.</p> <p>The EUFM shall liaise with the DPIs and communicate the amount still to be recovered. The 3-month deadline in respect of the current pending recoveries for which the deadline for recovery has elapsed, will be triggered from the date of this circular.</p> <p>This Circular shall act as guidelines to ensure timely financial recoveries of ineligible expenditure paid by the EUFM.</p> <p>DPIs are solicited to bring this circular to the attention of all concerned.</p>

MFIN Circular  
No 4/2014

**MFIN No 4/2014 - EU Direct Centrally Managed Funds – National Financial Procedures**

**EU Direct Centrally Managed Funds –  
National Financial Procedures**

Apart from EU funds which are pre-allocated to each Member State (such as mainstream Structural and Cohesion Funds, and Home Affairs funding), there are a large number of other EU funded programmes, known as **direct centrally managed funds**, such as the Programme for the Environment and Climate Action (LIFE) and Creative Europe Programme. These EU funds are managed directly by the Commission, which receives the applications for projects, carries the selection process and awards grants directly to the beneficiaries. Thus, the Commission is in direct contact with the beneficiaries and makes payments directly to them.

Apart from their responsibility to verify that all EU procedures and processes are abided by without fail, Ministries and Departments are also reminded of their responsibilities towards observance of the national accounting processes applicable in such cases. Thus, Ministries and Departments, are to ensure that requests for all EU funded projects, including the above-mentioned funds, are captured through the budget process, in order to enable necessary financial allocations covering both EU as well as the national co-financing elements, (where applicable), as well as apposite expenditure and revenue items.

If by the deadline to submit the annual budgetary projections to the Ministry for Finance the Ministries and Departments are informed of applications which had been selected for EU funding by the Commission, they are requested to include the related requests for funding, distinguishing between EU and national co-financing elements (where applicable). Funding provision will then be granted due consideration as part of the budget process, through dedicated line items under the respective vote in the Financial Estimates.

With regards to Commission's notifications of successful applications after the above- mentioned deadline for submission to the Ministry for Finance, Ministries and Departments are requested to invariably inform the Ministry for Finance within 10 working days, clearly specifying the requests for funding, distinguishing between EU and national co-financing elements (where applicable). Concurrently, they should request approval from the Ministry for Finance to open a bank account at the Central Bank of Malta, in terms of the Financial Administration and Audit Act.

Any pre-financing amount which may be paid by the Commission, wherever this is the case, is to be deposited into a dedicated bank account at the Central Bank of Malta. This pre- financing amount received from the EU Commission and reflecting the sum to be paid by the Treasury on behalf of the beneficiary out of the EU Funds' item in the Financial Estimates, (as may subsequently be revised during the year), is to be transferred from the

	<p>dedicated Central Bank Account to the Public Account in the name of the Treasury as soon as possible. Any further reimbursements, which may be received from the Commission in response to claims made as the project progresses, should also be transferred from the Central Bank of Malta specific account to the Public Account in the name of the Treasury as soon as possible. Any accruals adjustments which may be necessary will be carried out separately. The Treasury should be copied in correspondence authorising transfer of funds to the Public Account for ultimate transfer to Government Revenue.</p> <p>It is reiterated that as the project progresses in line with EU and national regulations, any payments falling due are to be defrayed, in the first instance, out of the approved budgetary allocation/s featuring in the Financial Estimates, as may subsequently be revised during the year, in the EU and national funding proportions applicable. Furthermore, when all bank transactions are effected and duly accounted for, the bank account is to be closed off immediately, simultaneously informing the Ministry for Finance in the process.</p>
<p>MFIN Circular No 5/2014</p>	<p><b>MFIN No 5/2014 - European Territorial Cooperation Programmes and the ENI CBC Med Programme – National Financial Procedures</b></p> <p>This Circular is intended to offer guidance on particular national financial procedures to Ministries and Departments participating in European Territorial Cooperation Programmes, (which include the Italia-Malta Programmes, the Med Programmes and the Interreg Programmes) and to Ministries and Departments involved in the European Neighbourhood Instrument (ENI) Cross-Border Co-operation (CBC) Med Programmes<sup>[1]</sup>. In this regard, Ministries and Departments are reminded of their responsibilities to ensure that any projects selected for funding under the above-mentioned Programmes are to be included in the budgetary process so as to enable the necessary financial allocations, covering both EU and national co-financing elements, as well as apposite expenditure and revenue items. All Ministries and Departments are therefore being requested to follow the procedures outlined hereunder.</p> <p>If by the deadline to submit the budgetary returns as established by the Ministry for Finance, the Ministries and Departments are informed by the respective Programme Authorities of the selection of the respective projects for EU funding purposes, they are requested to inform the Ministry for Finance accordingly by including the related requests for funding for the subsequent years. Funding provision will then be given due consideration as part of the said budgetary process, through dedicated line items under the respective vote in the Financial Estimates. The EU and national co-financing elements should be distinguished clearly; it is important that the Ministry for Finance be informed of any co-financing which is envisaged to be met by means of staff costs and/or other in-kind contributions, as per the regulations governing the respective Programmes. With regard to the notifications of successful applications after the deadline set by the Ministry for Finance, Ministries and Departments are requested to inform the Ministry for Finance within 10 working days of such notification, clearly specifying the requests for</p>



	<p>funding, distinguishing between EU and national co-financing elements.</p> <p>In addition to the above, a request should also be made for the approval of the Ministry for Finance to open a specific bank account at the Central Bank of Malta, in terms of the Financial Administration and Audit Act. It is important to note that any pre-financing amount which may be paid by the Programme Authorities is to be deposited into such an account. Such pre-financing, which would reflect the sum to be paid by the Treasury on behalf of the beneficiary out of the EU Funds' item in the Financial Estimates, is to be transferred from the specific Central Bank Account to the Public Account in the name of the Treasury as soon as possible. Any further reimbursements which may be received in connection with claims made under the projects financed under the above mentioned Programmes should also be transferred from the specific account at the Central Bank of Malta to the Public Account in the name of the Treasury at the earliest. Any accrual adjustments which might be necessary will be carried out separately. The Treasury should be copied in any correspondence authorising the transfer of funds to the Public Account for ultimate transfer to Government Revenue.</p> <p>As the project progresses in line with EU and national regulations, any payments falling due are to be defrayed out of the approved budgetary allocation/s featuring in the Financial Estimates as per the respective EU and national funding proportions. When all bank transactions are effected and duly accounted for, the bank account should be closed off immediately, informing the Ministry for Finance accordingly.</p>
<p>MFIN Circular No 4/2016</p>	<p><b>MFIN No 4/2016 - Below-the-line Accounts and Bank Accounts</b></p> <p>This Ministry is regularly in receipt of requests from ministries and departments to open <b>Below-the-Line Accounts</b> and <b>Bank Accounts</b> to be used for specific purposes, within the parameters of the pertinent legislative framework. At this juncture, it is deemed necessary to restate the context within which such requests are to be considered.</p> <ol style="list-style-type: none"> <li>a. It is to be emphasised that instances where requests are made for the opening of such accounts are to be kept at a minimum and resorted to only in cases where the opening of accounts is an indispensable requirement for the smooth functioning of the ministry or department, which cannot be catered for through the existing mechanisms at the Treasury;</li> <li>b. As a general rule, revenues of Government are to be invariably deposited under the respective Revenue item in the Consolidated Fund and it is only in exceptional and duly justified cases that consideration should be given towards departure from the standard treatment. Even though covered by the respective legislative provisions, the earmarking or revenue streams for specific purposes, rather than depositing such revenues in the Consolidated Fund, lessens the overall flexibility for Government to utilise the revenues received by virtue of your respective offices, towards the realisation</li> </ol>

of fiscal consolidation or the application of expenditure programmes, according to its priorities;

- c. For enhanced control purposes, in an effort to reduce or mitigate the increase in the number of accounts opened and lessen the risks of fragmentation, henceforth, each request to open a new account is, up to the extent possible, to be accompanied by reference to at least one existing account which can be closed off, with correct treatment being applied to any deposits held therein. Should the request originate from a Directorate or other unit within a ministry, analysis of existing accounts should not be limited solely to the accounts under that Directorate or unit, but to all the accounts under the same Ministry's dataset;
- d. All accounts are to be monitored on a regular basis, to ensure that they do not hold deposit amounts which are not required and that any such unrequired balances are transferred to Government revenue in the Consolidated Fund without delay. Additionally, all such accounts should be kept fully reconciled regularly. Furthermore, it is to be ensured that use of the accounts respects the terms and the purposes for which they are approved and that such use follows the terms and conditions stipulated in the pertinent financial legislation;
- e. At the outset, when an account is opened, a date is to be set for its closure, in those cases where duration is intended for a definite period. This Ministry should invariably be informed of such closure;
- f. Whilst activity in the Below-the-Line Accounts is reflected in the Treasury Clearance Fund, it is to be ensured that all flows occurring in the Bank Accounts are simultaneously reported as applicable under the relevant expenditure and revenue items in the Consolidated Fund. In this regard, reference is also made to this Ministry's Circulars No 4/2014 and No 5/2014, which treat the opening of accounts required for categories of EU funded projects;
- g. By the last working day of April every year, each Ministry is to submit to this Ministry, copied to the Treasury, a list of existing Below-the-Line Accounts and Bank Accounts which can be closed off, with priority being given to those accounts which are either dormant or where their tenure is not justified by the level of activity registered.

You are requested to bring this circular to the attention of all officers concerned and ensure that its provisions are invariably complied with.