Enquiry and Report on the Operations of the "Voice of the Mediterreanean" Radio Station

Report by the Auditor General

July 2006

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Executive Summary

The Public Accounts Committee requested the Auditor General in terms of Para 9 (a) of the first schedule of the *"Auditor General and the National Audit Act"* to enquire into and report on the operations of the Voice of the Mediterranean (VOM) radio station.

Terms of Reference

The terms of reference specifically included whether:

- Standing financial regulations governing public finances were adhered to;
- The procurement of goods and services was made in accordance with prevailing regulations; and
- The provisions of the Code of Ethics for the Directors in the Public Sector were complied with.

Background

VOM was set up in 1984 between the Government of Malta and the Socialist People's Libyan Arab Jamaharija with the main aim of continuing bilateral co-operation in the field of regional broadcasting.

The capital and procurement expenditure incurred during the last six years of operations were funded by the Malta Government as the Libyan Government fell in arrears in paying the annual contributions as stipulated in the agreement.

Methodology

The extensive inquiry involved the audit of approximately 4,000 transactions covering the period under review. The Board also held 29 interviews including almost all personnel engaged with VOM, councillors, Permanent Secretary and the Director Corporate Services Foreign Affairs. The Board also conducted telephone interviews with persons who since have left Malta.

Findings

Internal Control Systems

Internal control systems were lacking or ineffective. The Board of Councillors, whose task it was to oversee operations of the Radio Station failed to take decisive action against certain practices by Management.

Procurement and Recruitment Procedures

Management awarded major contracts related to the expansion and refurbishment of the Radio Station by direct order. Some staff within the last three years of operations were approached by VOM's Managing Director directly and asked to apply for certain posts within VOM.

Excessive Expenditure on Capital Outlay

Excessive amounts were expensed on furniture and fittings, wiring of studios, internet related equipment and security and fire detection systems.

Expenses in relation to internet radio

A Contractor engaged to provide an internet radio service was given two consecutive contracts by direct order within the span of three years. The first contract which should have run for three years was terminated after eight months without a valid reason. VOM's management subsequently entered into a second contract with same Contractor covering nearly the same services but at a much higher annual fee.

Quality of Soundproofing Works

Inadequate soundproofing works were carried out at VOM's studios at the new premises in Birkirkara.

Purchase of Motor Vehicles

The value of motor vehicles purchased for both the Managing Director and Deputy Managing Director was in excess of their entitlement according to standing regulations based on salary scale levels within the public sector.

Hospitality expenses

Hospitality expenses claimed by the Managing Director during the last three years of operation were in excess of his contract of employment entitlement.

Terminal Benefits

VOM's accountant was awarded terminal benefits upon closure of the Radio station despite the fact that he was only employed on a part time basis and had another full time job.

Post closure events

No procedure for the proper winding up of the Radio station was put in place and no administrator was appointed to administer VOM's assets.

Ministry of Foreign Affairs

Ministry of Foreign Affairs was duty bound, but failed to ensure that VOM complied with standing financial regulations and any other policies that may have regulated the VOM in the procurement of various services.

The claim by the Managing Director that he was not bound by Government Procurement and Financial Regulations failed to ensure a transparent and cost effective management of the radio station.

Recommendations

Prior to setting up structures similar to VOM and embarking on joint ventures or other forms of agencies or foundations, a proper framework incorporating legal, administrative procedures and financial regulations should be set up.

The code of ethics applicable to Directors of Boards and Managing Directors in which Government has a shareholding interest should be brought to the attention of all concerned and incorporated as part of their obligations in their letter of appointment.

Ministry of Foreign Affairs should re-coup payments which were not directly due or which were adjusted to give higher payment advantages to certain service providers or part time employees.

Any VOM assets still in the hands of third parties should be recalled.

The Permanent Secretary should appoint an administrator for VOM as suggested by the Minister of Foreign Affairs on 23rd July 2004 or set up an ad hoc board in conjunction with the Libyan authorities until a decision is taken on the future of the Radio Station and its assets.

1.1 Terms of Reference

The National Audit Office (NAO) was requested by the Public Accounts Committee to enquire and report into the operations of the Voice of the Mediterranean (VOM) radio station. The terms of reference included whether:

- Standing financial regulations governing public finances were adhered to.
- The procurement of goods and services was made in accordance with prevailing procurement regulations; and
- The provisions of the Code of Ethics for the Directors in the Public Sector were complied with.

2.1 Introduction

2.1.1 History

The VOM was established on 10th August 1984 between the Government of Malta and the Socialist People's Libyan Arab Jamaharija (referred to hereinafter as "the other party"), with the aim to continue their bilateral co-operation in the field of regional broadcasting. The agreement provided for setting up of a Council composed of four high level representatives two from each country to administer the running of VOM. The Council was to be responsible for:

- Drawing up of the over-all policy of VOM and its internal regulations within the framework of its agreement;
- Providing its Programme schedule;
- Approving its annual budget; and
- Controlling all its operations

A second agreement was signed by the two Governments on 19th August 2002, with basically the same setup, and the same rights and obligations given to the Council. Of particular interest is Article 5 which stipulates that "*The Managing Director and his deputy shall submit for the approval of the Council the programme schedule, the financial estimates and other proposals related to the functioning of the service.*"

Article four, penultimate paragraph, specifically states: "*...The approval of the appointment of executive personnel to fill appropriate positions, and the approval of the recruitment of technical personnel as required to service the operations of the station and the engagement of minor staff in support of the different functions. If circumstances so require the Council shall have the right to terminate the services of members of the staff compliment recruited by it in accordance with Legislation in force in Malta.*"

2.1.2 Financing

VOM was to be financed jointly by the Maltese and the other party on an equal basis. The aim of the Radio Station as stipulated in the first agreement was to, "*broadcast programmes on current events that concern all areas of human activity in a manner as to contribute to the emerging Euro-Mediterranean relationship. Thereby to promote regional understanding by encouraging closer relations and mutual co- operation among the peoples of the Mediterranean.*"

2.1.3 Re-allocation of Radio Station

Initially the Radio Station operated from offices in Floriana. It was transferred to Birkirkara during 2003.The move to Birkirkara was forced upon VOM by Malta Environment and Planning Authority as the latter required more office space. An agreement was reached by the two parties whereby MEPA agreed to rent out a premises in Birkirkara for use by VOM.

2.1.4 Closure of Radio Station

The expenses incurred in the move of VOM's activities to Birkirkara between 2002 and 2003 amounted to over Lm300,000 at a time when the other party's contributions had fallen in arrears by a number of years. Lack of liquidity was the contributing factor which led to the closure of the radio station.

3.1 Code of Ethics

Directors in the public sector are enjoined to follow the code of ethics which provides a framework of standards for correct behaviour expected of persons engaged in different walks of public life.

The code of ethics for employees in the Public Sector which is complimentary to the code of ethics for Ministers and Directors defines "public officer" as follows:

The term "public officer" is intended to include full time, casual and part-time male and female employees engaged directly whether on a definite or indefinite contract, or on secondment/loan with Government and local councils as well as those employed with public corporations, public authorities, and with limited liability companies in which Government is the majority shareholder and which are directly involved in a public service function.

Under the heading "Personal and Professional Behaviour" the code of ethics for directors and that of emplyees require that in the performance of their duties board directors and public officers should strive to obtain value for money spent and avoid waste and extravagance in the use of public resources.

The VOM during the last three years of operations was financed by the subvention given by the Maltese Government. The subvention was funded from the one- line- item under the estimates of the Ministry of Foreign Affairs for the years under review.

In both agreements signed between Foreign Affairs and Managing Director two clauses respectively dated 1st July 2002 and 1st July 2003 exclusively state that:

1. "The Managing Director" will be responsible for the operations of the services in accordance with the decisions of the Board of Directors who in turn will be responsible to the Ministry of Foreign Affairs for the realisations of the objectives."

2. "The Managing Director will *inter alia* be responsible for the operations of the services in accordance with the decisions of the Board of Councillors, who in turn will be responsible to the Ministry of Foreign Affairs".

Since the Ministry of Foreign Affairs is part of the Government's administration, the same Ministry was duty bound to monitor VOM's activities and ensure that all Government financial regulations and procedures were being followed.

4.1 Methodology

NAO concentrated on the last three years of operations of the entity in question [2001 to 2003] All documentation in respect of about 4,000 transactions deemed relevant to the operation of the VOM was examined. Documents included supplier invoices, payment vouchers, accounting records, audited financial statements, and certification of works amongst others. Several on site visits were held. An extensive inventory check was carried out. Minutes of all Council meetings were requested but those presented were few and lacked details.

Interviews were held with ex employees, ex Council Members, VOM's accountant and auditors, the Managing Director, major suppliers and contractors, as well as the former Permanent Secretary and Director Corporate Services at the Ministry of Foreign Affairs.

The Auditor General appointed an ad hoc board composed of a chairman and two members to carry out this assignment. The assistance of a technical advisor was also sought.

5.1 Structure

5.1.1 Management

The Voice of the Mediterranean was managed by a joint Maltese-Libyan team composed of a Managing Director and a Deputy Managing Director respectively.

5.1.2 Board of Councillors

A Board of Councillors was also appointed. The Board did not have terms of reference stipulating rights and obligations of its members other than the wording of the original agreement. The Board was composed of two representatives from the Maltese Government and two members from the Libyan Government. In the last years of operations the Maltese Government appointed another two councillors on the Board.

5.1.3 Financing

The Radio Station was financed jointly by the two parties in equal proportions by way of financial contributions amounting to Lm180,000 each per annum.

The capital and recurrent expenditure incurred by VOM during the last three years of its operations were mainly funded by the Malta Government. The Managing Director continued to refurbish the station and expand its activities on his understanding that the funds from the other party would be forthcoming. However this did not materialize and VOM entered into substantial commitments which could not be sustained from the funds that were allocated by the Maltese party.

6.1 Internal Controls and Systems

6.1.1 Board Councillors

Internal control procedures necessary to ensure an efficient and effective management system were lacking, or ineffective.The Board of Councillors should have been an instrumental control tool within the VOM's set up.

NAO requested all minutes of council meetings. Records of minutes that were made available were rare and lacked details, especially those covering the last years of operation when the Board did not meet regularly. During the last three years in the majority of meetings, the other party's representatives were often listed as being "unavailable". The Board of Councillors was often not notified of key decisions especially in the procurement of material items prior to the commitment being made.

The fact that Members of VOM's Board did not have clear guidelines as to their rights and obligations, contributed towards the lack of desired effectiveness that such a Board would be expected to have over the operation.

However NAO is of the opinion that Board Members could have been more proactive in seeking to inform themselves on the entity's operations. This opinion is further strengthened when one considers the fact that certain members of the Board used to be regularly present on the premises.

6.1.2 Incomplete Details of Payment

In many instances internal payment vouchers did not include sufficient information as to the nature and detail of the payment. Furthermore payment vouchers were generally not backed up by a supplier's invoice.

6.1.3 Flawed Procurement Procedures

The procurement process was initiated by the Managing Director and no purchase orders were raised. The procedure of obtaining three or more quotations was not followed.

6.1.4 Direct Orders

Direct orders were drawn up for various procurement services without approval from the Ministry of Foreign Affairs or the Ministry of Finance, as standing financial regulations stipulate. Funds were passed to the Station by Director of Corporate Services of Foreign Affairs in equal tranches at different periods of the year, after being given the assurance that such funds were needed by one of the Councillors sitting on VOM's Board and employed at the Ministry of Foreign Affairs.

6.1.5 Lack of Segregation of Duties

All accounting matters including the preparation of books of accounts, pay lists and settlement of payments for goods and services procured by the Station were handled by a part time qualified accountant. The accountant signed all cheques in the absence of the Deputy Managing Director. This lack of segregation of duties further weakened internal controls.

6.1.6 Management's Comments

When questioned about the method used for procurement of goods and services, the Managing Director pleaded that he was not bound by Government Procurement Procedures. In NAO's opinion such a plea is not justified.

NAO's opinion is further consolidated by the fact that one of the councillors from the Maltese side when interviewed stated that he drew VOM's Managing Director's attention that the procurement procedures applicable to all Government entities should invariably be followed.

In 2003 some days before the closure of the station the Permanent Secretary and the Director of Corporate Services sought advice from the Office of the Attorney General as to whether VOM was obliged to follow procedures applicable to Government departments and public corporations. Attorney's General advice was that "*Given that VOM was not set up by Law it would therefore only be by virtue of a specific condition attached to the making available of public funds that the issue of the Public Service Procurement Regulations applicability to VOM could arise.*"

6.1.7 NAO Comments

a) Since the entity in question was being partly financed directly by the Maltese Government, (as a line item under the vote for the Ministry of Foreign Affairs), and from funds laid aside in past years. Management was duty bound to ensure a transparent and cost effective management of these funds and to ensure that such funds are subject to the Public Service Provision Regulations.

b) Moreover it should be noted that legal advice obtained from Attorney General by the Ministry of Foreign Affairs was only sought in December 2003, just a few days before closure of VOM. Management had operated for three years without comfort that their actions did not constitute a breach of Government Regulations. In the event of doubt the Ministry of Foreign Affairs should have sought the legal advice at an earlier stage.

c) The Permanent Secretary, the Director of Corporate Services, the Councillors appointed by the Maltese Government and the Managing Director who was appointed by the Permanent Secretary are all public officers and are thus bound to follow Government Regulations and Procedures at all times in the administration of public funds. Their duties include the management of financial resources, economically, efficiently and effectively to secure value for money. The Ministry of Foreign Affairs was duty bound to ensure compliance with the Ministry of Finance and Treasury standing regulations and any policies that may have regulated such an entity.

d) Obtaining quotations and issuing a public call for tenders should be part of any enterprise's procurement procedure and good governance, in order to ensure a transparent and cost effective management of resources.

6.1.8 Financial Audit

A Firm of Certified Public Accountants and Auditors audited the financial statements of the Station since its inception. The Firm regularly issued a clean report and did not issue any management letter. The auditors did not have a contract or an engagement letter from VOM or Ministry of Foreign Affairs specifying their terms of engagement.

6.1.9 NAO Comments

a) A compliance audit which should have included comments as to what extent the Station had followed Government financial regulations and procedures did not fall within the auditor's brief. Such a brief should have been drawn up and/or requested from the audit firm by the Ministry of Foreign Affairs.

b) An adequate provision for bad or doubtful debts should have been provided for in the accounts, in view of the fact that the other party to the agreement was in arrears by some years. Table 1.1 shows this in more detail.

Table 1.1[Source: VOM's Books]

Year	Due From G.S.L.P.L.A.J	Paid	Outstanding
	Lm	Lm	Lm
Bal B/F	1,717	0	1,717
1998	180,000	0	181,717
1999	180,000	0	361,717
2000	180,000	0	541,717
2001	180,000	0	721,717
2002	180,000	0	901,717
2003	135,000	0	1,036,717

Note 1: According to records traced by NAO, the last payment effected by the other party was made in 2002 in respect of amount due for 1997. Amounts due for the last six years of operations were not paid together with Lm 1,717 outstanding from previous years. Total amount of debtors as per financial statement for the period ended 31.12.2003 stands at Lm991,046. Thus showing a discrepancy of Lm 45,671

c) If adequate provisions had been made in a timely manner, this might have had a strong bearing on Management's decision to embark on projects which the enterprise's precarious financial situation could not sustain. Whilst in 2001 the financial statements showed a surplus of Lm84,712 down from Lm 95,183 in 2000, in 2001 and 2002 the Radio Station was owed Lm787,780 and Lm964,174 respectively. An adequate provision covering even part of these outstanding funds would have shown a more realistic picture of the financial situation, by turning annual surpluses into deficits thereby discouraging Management from further involvement in capital or any other expenditure.

7.1 Fixed Assets

7.1.1 Composition of Fixed Assets

According to the audited accounts of 2003 the total cost of fixed assets amounted to Lm638,486 [of which the Lm394,362 were assets acquired in the period under review] with a written down value of Lm 319,337. Table 2.1 shows a breakdown of this capital expenditure.

Table 2.1- Fixed Assets

Furniture & Fittings	Motor Vehicles	Equipment	Computers	Airconditioning	Imp To Premises	Total
Lm	**Lm**	**Lm**	**Lm**	**Lm**	**Lm**	**Lm**
85,926	31,931	322,287	84,999	16,073	97,270	638,486

7.1.2 Inventory

NAO attempted to reconcile the figure for fixed assets featured in the financial statements to the physical inventory on site at the time of VOM's closure. However, this task could not be completed as no fixed assets register was maintained. Futhermore, the books of accounts did not include details of the assets. The only document made available was an inventory list prepared in December 2003 by VOM staff prior to station's closure. This list did not include any inventory values.

An inventory count was carried out by NAO in the presence of a Ministry of Foreign affairs representative. The physical count was then matched with the provided inventory list. A number of items were missing. This included the following:

- 1 laptop computer
- 1 fax machine
- 1 machine transcription system, complete with recorder, foot pedal, earphones and transformer
- 1 computer system complete with monitor flat screen, speakers and printer
- 1 computer system complete with 2 monitors and CD rom.

7.1.3 Management Comments

The Ministry of Foreign Affairs confirmed that the transcription system was being used by the ministry whilst the two computer systems together with the laptop were taken on charge by the Ministry of Foreign Affairs for use at the Malta Embassy in Ireland. However these items were not physically checked and NAO relies on Ministry of Foreign Affairs' verbal declaration.

8.1 Capital Expenditure

8.1.1 Main Categories

The main items of capital expenditure procured during the period under review can be grouped as follows:

	Lm
Furniture and fittings	61,000
Security, fire fighting and soundproofing equipment	56,000
Technical equipment & wiring	83,000
Internet radio	140,000
Motor vehicles	31,900
	371,900

8.1.2 Key Issues

The key issues were:

- No tenders or quotations issued for purchases of material items.
- Selection of contractors was directly made by Managing Director, or on recommendations by third parties.
- Disposal of furniture to individuals and organisations by direct sale or donation.
- Excessive reliance on subcontractor for internet services and other unrelated services.
- Excessive fees to subcontractors.
- Replacing of contract by a more expensive contract with the same contractor without any valid reason.

- Expenditure considered excessive for the purchase of :
    - Furniture
    - Radio and IT related equipment
    - Security and fire fighting equipment

8.2.1 Furniture and Fittings

According to audited accounts for 2003, office furniture and fittings amounted to Lm85,926 with a written down value of Lm45,049. During the period under review total cost of furniture, fixtures and fittings totalled Lm61,104 including an amount of over Lm39,000 spent on office furniture. The Furniture for VOM's Managing Director's office was replaced twice within the space of one year, soon after taking up the post in

September 2001 whilst still in Floriana and again just over one year later when VOM was relocated to Birkirkara at a cost of Lm6,000.

8.2.2 Sale and Donation of Furniture

Whilst still in Floriana certain items of furniture were sold to third parties at low prices. From examination of the entity's books of accounts, it does not result that any records of these transactions were kept. Moreover, according to Ministry of Foreign Affairs, other items of furniture were donated to a voluntary foundation, however items donated could not be evidenced in any way and no inventory list of such items could be traced.

A report submitted by the Ministry of Foreign Affairs mentions that the sale of furniture previously mentioned realised not more than Lm300.

8.2.3 NAO Comments

The sale of furniture was made to individuals on an ad hoc basis without advertising in the press . This procedure goes against procedures established to safeguard public assets.

8.3.1 Security, Fire Fighting and Soundproofing Equipment

A capital expenditure of Lm56,000 covered the cost of a fire detection system, fire doors, acoustic windows, etc. Supply and installation were carried out by a local supplier of security equipment, without Management seeking quotations or issuing a call for tenders. Nor was Finance authority sought to award the works on a direct order basis.

8.3.2 Management's Comments

The Managing Director explained that the chosen supplier was the only one who could supply all requirements.

8.3.3 Discrepancy Between Quotes

A reconciliation execise of the amounts as quoted for by the supplier, with the actual items delivered and installed on site was carried out. From documentation traced it results that the supplier on 12th July 2002 quoted a price of Lm13,550 excluding VAT for security and fire fighting equipment. A second revised quote dated 30th August 2002 was sent by the same supplier amounting to Lm39,290 excluding VAT, but included additional items. Some prices quoted in the first quotation were higher in the second quotation.

On 12th December 2002 a third quote for security doors, fire doors and acoustic doors and windows was traced from documentation held by VOM. Subsequently a fourth quote dated 23rd December 2002 for same items but including quantities was presented.

No invoices were found and only quotations bearing the Managing Director's signature could be traced. No explanation was given for the increase from the first and second quotes.

Table 3.1 shows details and comparison with the actual final works carried out and prices thereof.

Table 3.1

	1st Quote Lm	2nd Quote Lm	3rd & 4th Quote Lm	Final Bill Lm
Fire Detection	2,685	2,685		2,714
Extinguishers	200	420		420
Fire Suppression System	3,900	9,600		5,197
VESDA System	*1550	**4800		4,320
Emergency Lights	595	595		595
Intruder Alarm	1,360	1,360		1,360
Security Doors	990	990		10,064
Surge Protection	2,270	2,270		NIL
CCTV		4,880		4,590
Hall Porter		795		795
Compartamentation[fire doors]		7,900		
Acoustic windows and doors			8,157	
Fire Doors and acoustic windows				18,930
Escape ladder		2,995		
	13,550	39,290	8,157	48,985

*Originally only one Vesda system was quoted for at Lm1,550 per system

** In second quote two Vesda systems were quoted at Lm2,400 per system

It is observed that the Vesda system was originally quoted at Lm1,550 per system. In the second quote it was quoted at Lm2,400 per system [Lm4,800 for two systems] but was finally reduced to Lm2,160 per system in the final bill [Lm4,320 for two systems found to be installed on site].

The acoustic studio windows are quoted at Lm625, i.e.: at a price of Lm166 per square metre. According to a quote dated 12th December 2002 acoustic windows were to be 2500mm x 1300mm and constructed with two double glazed panels mounted on an oak frame. Correspondence dated 23rd December 2002 the same windows were quoted as ***single*** double glazed panels mounted on an oak frame for the price of Lm229 per square metre.

8.3.4 NAO Comments

The sum spent on security and fire fighting equipment is considered to be rather excessive. This view is upheld by the technical report commissioned by NAO. There were three different fire detection systems and two different fire suppression systems. The premises were equipped with a conventional smoke detection system, which included a fire alarm in case of smoke or fire. Besides this system there were also two separate FM 200 fire suppression systems. The scope of the suppression systems was to operate another fire alarm and automatically spray a special gas mixture to extinguish any flames.

The third system is more sensitive to smoke and would in theory be set off earlier. There were two separate similiar systems installed. Suppression systems such as those installed at VOM premises are usually only found in high risk areas such as in the server rooms of banks and financial institutions where highly sensitive and critical information is kept. VOM does not apparently have such sensitive data. Moreover fire risk at a radio station is rather minimal. A normal fire detection system coupled with fire extinguishers placed in strategic positions would have sufficed. The technical report observes that it would have been much more cost effective to install specialised lighting that does not emit electrical energy sparks further reducing the risk of fire. The system according to the NAO appointed expert report would have cost in the region of Lm200. The report further states that no other radio station in Malta has a similar suppression system in operation.

The technical advisor commissioned by NAO reported that a normal fire alarm system together with a procedure in place which ensures a daily backup of all data, stored in a different location as well an adequate insurance policy cover would have been sufficient to safeguard against any inherent risks.

8.3.5 Maintenance and Service Agreement

A maintenance and service agreement, which stipulated a bi- annual inspection and maintenance fee at a cost of Lm1,500 per annum excl VAT also was concluded giving a breakdown of the cost of the items to be inspected with itemised cost:- eg: Lm750 per annum in respect of the inspection of fire doors was to be paid.

8.3.6 Amount Due for Security, Fire fighting and Soundproofing Equipment

Only one payment of Lm9,822 could be traced this being the initial deposit paid prior to commencement of works. According to the creditors list made available to NAO the amount outstanding to supplier amounted to Lm37,688.

The Supplier was asked by NAO to confirm the balance due as at 31 December 2003. He confirmed a balance of Lm47,890 and the bill confirmation is being reproduced in Table 3.2 hereunder.

Table 3.2

Description	Value Lm
Fire Detection System	2,714
Fire Extinguishers	420
FM 200Server	5,197
Vesda System	4,320
Emergency Lights	595
Intruder Alarm	1,360
Access control	10,064
CCTV	4,590
Hall Porter	795
Fire Doors & Soundproof windows	18,930
Total	**50,185**
VAT	7,527
	57,712
Less deposit received	(9,822)
Balance Due	**47,890**

Notes:

1. *Bill total is incorrect. Correct total should read Lm48,985*
2. *Consequently VAT and Balance Due should read Lm7,347 and Lm46,510 respectively.*
3. *According to creditors list drawn up by VOM's accountant, the balance on this account amounts to Lm37,688.*

8.3.7 Access Control Systems

The access control system consisted of swipe cards to control entry to almost each and every room within the premises. NAO is of the opinion that such security was not necessary considering that the nature of the work did not consititute a high inherent risk. Moreover it was also highly impractical for staff having to use swipe cards whenever they move from one room to another within the premises.

8.3.8 NAO Comments

The technical advisor commissioned by NAO comments that, at the most, the system of access control should have been limited to the two main front doors and the archives and computer room which would have amounted to about Lm4,000 rather than a system costing around Lm10,000

Notwithstanding all the "high" security measures installed it results that access to the premises was still unsecured after working hours. There were no locks on the front doors leading to the premises. Any person could walk right into the corridors of the radio station although the individual rooms were secure.

8.3.9 Soundproofing

From tests carried out by the technical expert on site, it results that the quality of workmanship with regards to the installation of the acoustic panels, windows and doors left much to be desired. The acoustic windows and doors installed did not make the studios soundproof. The defect was also mentioned by ex VOM staff during interviews.

8.4.1 Technical Equipment and Wiring

8.4.2 Commissioned Report

Whilst still in Floriana the Managing Director commissioned a report to quantify the cost to convert to a digital system, as well as to specify the requirements for the move of the station to Birkirkara. The estimate was to include cost of new hardware, relocation costs , new furniture for studios, studio doors, soundproofing material, carpeting of studios and cost of wiring and installation The report listed the requirements as amounting to Lm34,800 excluding VAT..

However actual cost of studios, excluding items such as furniture for studios, studio doors, soundproofing material and carpeting of studios, totalled approximately Lm83,000

8.4.3 NAO Comments

No recourse was made to issue a call for tenders for the works involved. It is not understood why Management agreed to pay the amount of Lm64,000 out of the Lm83,000 to the Contractor who was also commissioned to prepare the report, the same person who had estimated the total cost of the requirements to change to a digital system and move to Birkirkara at around Lm34,800.

8.4.4 Wiring of Premises

The Contractor was initially requested to re-wire the Floriana premises before Management was aware that the station had to move elsewhere. Subsequently the same Contractor was also requested to wire the new premises in Birkirkara.

From traced documents it results that about 15,500 feet of cables were purchased. At a cost of LM3,800 exclusive of VAT. Around 1,500 feet of cables were found to be still in stock at the end of 2003,

NAO was advised that length of cable required for the Floriana station was about 1,000 feet whilst the utilisation of the balance of 13,000 feet (15,500 feet less 1,000 feet utilised less 1,500 feet found to be still in stock) was considered excessive for the Birkirkara studios.

The Contractor who submitted proposals, before being commissioned by Management, confirmed during one of the meetings with NAO, the minimal footage for Floriana but opined that cable requirements for Birkirkara would be in the region of 5,800 feet.

No information was given to NAO on the utilisation, disposal or storage of the residual footage.

8.4.5 Software Network License

A quotation dated 23rd May 2002 for a software network licence from the contractor who was commissioned to give estimates of requirements and cost to convert to digital. provided a licence for 10 users at a cost of Lm700 per user. The quotation was confirmed by VOM's Managing Director, and a deposit of Lm2,000 was paid in advance. On the 29th July 2002, the invoice raised by the same contractor covered a licence for 15 users at a price of Lm1,100 per user, subsequently bringing the total cost of the software license up from Lm7,000 to Lm16,500.

8.4.6 NAO Comments

When interviewed, the Contractor could not explain or justify the fifty seven per cent (57%) increase in price and the higher number of users.

Technical advice given to NAO opined that once such a programme was only required by the technical staff the network would not have required more than seven users.

8.4.7 Uplink

The Contractor commissioned with the said report was also requested to repair a TWT uplink that was used for audio transmission at a cost of Lm7,935. According to the Contractor another brand new TWT uplink was ordered from abroad by Management at a cost of Lm9,253 so as to enable the station to make both audio and video transmissions. The order was placed on 20th March 2002 and payment effected on 9th April 2002.

NAO's technical advisor considers that this equipment was not needed as the radio station had similar equipment which had been repaired and was functioning to station's satisfaction. This equipment never reached Malta. During an interview, the Contractor informed NAO that, the Managing Director abruptly decided that there was no longer any need for the uplink ordered. The Contractor offered to take over and pay VOM for the equipment in question so long as the foreign supplier agrees to swap the TWT uplink with items that were to be indicated by him. An amount of Lm9,300 was deducted from Contractor's invoice issued to VOM on 29th July 2002.

8.4.8 Price of Software License

NAO Board remarked during an interview with the Contractor that the high increase in the price of the software referred to at para 8.4.5 was apparently intended to make up for the Lm9,300 which was deducted from the invoice dated 29th July 2002

8.4.9 Management's Comments

The Managing Director when asked to clarify the matter regarding the increase in price of the software network licence stated that as he could not remember the details of the case ,a reply in writing will follow.Reply was received on 26th September 2005, salient points of which are the following:

Number and Price of Network Licence:

"...The price per license stood at Lm1,500 for a basic license. VOM set out to purchase five licences. In the end VOM purchased 15 licences for the agreed price. Although there is an increase in the price per license between the first quotation and the pro forma, there were other pending issues which had to be settled with supplier. These included the transmission wiring and the uplink antenna structure which was going to be made moveable for logistical reasons. Material for the latter had already been purchased by supplier and because of the uncertainty of the move works could not be continued. The final invoice was drafted together with the agreement annexed to settle all issues."

Salient points in this agreement included the following:

1. Fifteen licences for an effective price of Lm1,100 per license(VOM reserved the right to return unused licences within two years).
2. Transmission room wiring was to be charged for a total of Lm200, against Lm2,300 as originally agreed.
3. Contractor will accept a barter of Lm9,300 being the sum paid for the MPEG video recorder and modulator on the condition that the foreign suppliers will issue a credit note not binding contractor to the equipment purchased by VOM.

Managing Director further explained that in the first quotation the price per license agreed was of Lm700 plus an extra Lm200 for the plug-ins ie: a total of Lm900 per license. In the last invoice the price per license was increased to Lm1,100 for 15 users or Lm16,500 in all. According to Managing Director this is still less than the normal price of Lm1,500 per license, Moreover Lm2,100 were saved for the transmission wiring of the studios.

TWT Uplink

Regarding the TWT uplink ordered by VOM but not delivered and eventually taken by contractor, Managing Director gave the following explanation: "....*There was a crying demand for its use; management's idea eventually was to use the uplink on a commercial basis. For this purpose the antenna had to be made rotatable and a new modulator had to be purchased. Several quotes were obtained and the cheapest one was accepted . There was an initial delay by the suppliers in delivering the unit. However once again the uncertainty of the move, over which VOM had no control, made it difficult to have the unit delivered, installed and commissioned. Initially the suppliers agreed to stall delivery however due to warranty they soon wanted to have it delivered. The suppliers refused to refund the money. Delivery without installation and commissioning would have invalidated the warranty. At this point VOM had no alternative but to try and find a solution. The contractor was approached and was asked if it was interested in purchasing the modulator. Contractor agreed after the suppliers agreed to issue a credit note as indicated in the agreement.*"

8.5.0 NAO Comments

The original agreement was not traced from VOM records. A copy of the agreement that was sent under cover of the written submission dated 26th September 2005 made by the Managing Director following the meeting with NAO, was drawn up by the Contractor himself, a few days following the meeting between the NAO and the Managing Director.

Furthermore the Contractor did not make any references to this agreement during two separate meetings held on the 9th June and the 11th July respectively. These meetings were held prior to that between the Managing Director and NAO.

NAO would also like to comment that it did not find any evidence to indicate a standard cost of Lm1,500 per license. Indicated costs were only that of Lm700 and Lm1,100 as stated earlier. (Vide para 8.4.5)

Regarding Managing Director's comments on the TWT uplink NAO would like to point out that the equipment in question was taken over by the contractor on the 29th July 2002 whilst the move took place early in 2003. Moreover the move to the new premises should not in any way have affected the need for the TWT uplink. As Management wanted to have an uplink enabling the station to transmit TV signals for future development as stated in Managing Director's written submission. NAO sees no reason for renouncing to such an idea simply because of the move to a larger and much better equipped radio station.

8.5.1 Specialised Software

On 11th December 2001 a specialised software from an Italian company was purchased for Lm4,687 . This software was recommended by one of VOM contractors. The software was paid for before delivery, however it was not put to use as the foreign company never supplied the necessary passwords inspite of several attempts. Moreover VOM was informed that the company ceased operation and could not be traced.

The Contractor who offered to refund in full money advanced, explained to the Board that the Italian company was recommended on the strength that other radio stations were making use of the software.It does not appear that the Contractor's offer to refund the cost of the software was taken up by Management.

8.5.2 __Internet Radio__

VOM transmitted on short wave as well as through the internet, enabling listeners to download pre-recorded programmes. Following the change of management in July 2001, live audio streaming was introduced. This facility enabled listeners to hear a limited number of programmes live on the internet and to communicate with the presenter of the programme via e-mail.

8.5.3 Internet Radio Operators – First Contract

In September 2001 a contract to provide the above mentioned services was awarded on a direct order basis to a local company. The contract was for a period of three years commencing on 14th September 2001 for a one time cost of Lm7,540, it included the following services:

- Website Design
- Installation of virtual server
- Encoding hardware
- Installation charges

Contract was also subject to a yearly fee of Lm11,620 for the following services:

- Leasing of VOM web server
- Live Audio Streaming (encoding audio signals)
- Maintenance agreement

8.5.4 Servers

The September contract was intended to provide a turnkey solution to the requirements of VOM. However three months after the signature of the contract five servers were purchased from the same contractor by direct order at a total cost of Lm26,715 inclusive of VAT.

8.5.5 NAO Comments

- *Lack of Planning*

The Contractor did not deliver the turnkey solution for the Station to introduce live audio streaming either because he did not make the necessary in depth study of the Station's requirements or management failed to provide clear specifications.

Three months after the signing of the contract, management placed a direct order with the same Contractor for five servers at a cost of Lm26,715, without seeking ministerial approval.

- *Servers above Market Price*

Management did not issue a call for tenders or sought to obtain quotations from local agents. When Contractor was asked to comment on such a decision he stated that VOM left the decision as to what was required in his hands. From enquires made it results that Contractor ordered direct from abroad even though there are local agents representing that brand of computers.

According to expert advise given to NAO the cost of the servers, (some with accessories) at Lm5,343 per unit inclusive of VAT, were in excess of market prices at the time of purchase

- *Tendering/Quotation Process*

When the NAO Board asked Contractor to explain the utility of such equipment, he stated that VOM parted from the original plan in order to provide an internet radio furnishing up to seven separate radio stations following a positive response from listeners on the internet.

It was noted that by the time of VOM's closure, and almost two years after the purchase of the computers, only one radio streaming was in operation. According to advice given to NAO this could have been carried out by an ordinary computer at a much lower cost.

Management's decision to subrogate key decisions to contractors, goes against the quotation/tendering procedure that ensures best price and value for money.

- *Use of the Five Servers*

Contractor explained that the use for the 5 Servers was:

- 1 for website streaming
- 1 for music archives
- 1 for studio operations
- 1 for website design
- 1 for daily operations

NAO's technical advise concluded that two servers,- One for radio and website streaming and one for office operations would have sufficed.

After the purchase of the five servers it came to light that one was not needed and that client's needs would be better serviced with two normal tower computers instead. Contractor eventually swapped one of the five computers with two computers of the type that suited VOM.

Comments

1. The fact that it was only realized upon arrival of the servers that one of them was not adequate for the task originally earmarked casts doubt on the type of evaluation exercise that was carried out prior to the decision of purchasing such equipment.

2. The server worth circa Lm5,300 including VAT was swapped at par with two tower computers costing VOM Lm2,650 including VAT each. Even if these were to be of very high specifications. NAO is advised that the cost of each computer swapped does not exceed Lm1,000. NAO notes that for an expense of Lm2,000 [being estimated cost of two tower computers] VOM swapped them at par with a server costing circa Lm5,300.

- *Management Advised Against Purchase of Servers*

VOM Managing Director's attention was drawn by another contractor to the fact that the five servers were not suitable to the Station's requirements and that the transaction would result in a waste of money.

During interviews the Contractor further stated that he took possession of one of the servers after the station's closure without informing the Ministry of Foreign Affairs or anyone else.

8.5.6 Internet Radio - Second Contract

On 7th May 2002 VOM's management terminated the first contract and entered into another contract with the same Contractor. The contract stipulated a retainer fee of Lm36,000 per annum.

8.5.7 NAO Comments

- *Termination of First Contract*

Observations:

1. There appears to have been no justification for the termination of the first contract dated 14th September 2001 that contract was valid for three years but ran for only eight months.

2. The second contract does not list additional duties and/or services justifying the increase in fee from Lm11,620 per annum to Lm36,000 per annum. The second contract is less detailed than the first, and does not give a breakdown of the tasks to be performed and/or the fees chargeable for every particular task.

3. All the services and equipment needed to transmit live audio streaming on the internet as required by VOM management were covered by the terms stipulated in the first contract once the first contract included the following services :

    - Live Audio Streaming- 24hrs a day and no bandwidth limitations
    - Lease of VOM Web Server
    - Design of Interactive VOM website
    - Maintenance Agreement

- *No Difference Between First and Second Contract*

The Contractor explained that the increase in price was due to the great deal of unforeseen additional work involved in the preparation of features for both audio and visual programmes which were subsequently up-streamed on to the website [a task which was not stipulated in the contract]. The Contractor further stated that when he originally agreed to update the programmes and features on the internet he did not forsee that he would end up preparing the programmes himself. The increase in the price of the second contract was to make good for these additional tasks and in part to higher leasing rates of the web server. However the Contractor admitted that there existed no difference in the terms and conditions of the first and second contract except for the higher fee charged.

NAO Comments on Difference Between the two Contracts:

1. Considering that he was VOM advisor turned contractor it was his responsibility to make sure that the terms of reference in first contract were clear and unequivocal to satisfy Management's expectations / requirements

2. If the Contractor was to be given the benefit of the doubt, he had every opportunity to clarify his obligations in the new contract that followed the one terminated after only eight months in operation.

3. It was Management's duty and obligation to make sure that the additional fee charged was justified by specifying clearly the new tasks and obligations of both parties in the new contract.

4. A contract worth Lm36,000 per annum was awaded by direct order to the same Contractor.

- *Items Charged for Separately*

Airfreight expenses of the five servers, as well as anti-virus software were separately charged even though this software was included in the first contract as agreed.

The Contractor explained that airfreight was charged as extra due to the fact that the computers were dispatched by special mail as VOM's Managing Director emphasized that these were urgently needed.

- *Increase in Charges*

In January 2003 an additonal agreement between Contractor and VOM was reached, whereby the maintenance fee was increased by a further Lm150 per month. This was due to higher bandwidth requirements and an increase in operating expenses. The additional expenses were incurred after the signing of two contracts that should have covered all VOM's requirements.

8.5.8 Other Matters

NAO noted that besides its contractual obiligations, other services were carried out, unrelated to the two contracts in respect of which Contractor was paid separately and additionally These duties amongst others included:

- Plotting on ACAD
- Printing of newsletter
- Hotel bookings of foreign guests in relation to certain functions.

It appears that Contractor was acting as an agent but since payments were made en bloc it could not be ascertained whether these included any commission. The argument is more sustained when Contractor made reservations in a local hotel for a VOM function involving foreign guests and participants and invoiced VOM directly for such payment.

8.5.9 Employment of VOM's Managing Director's Family Member with Contractor.

Contractor engaged by VOM confirmed that Managing Director's son was engaged by him just before the award of the contract and terminated that same employment soon after the closure of the station.

8.6.0 Contract Awarded on Basis of Personal Trust

When queried on what criteria was the Contractor chosen NAO was informed that VOM's Managing Director declared that he employed him "*solely on mutual trust*".

8.6.1 Motor Vehicles

In 2002 the audited financial statements showed the proceeds from the disposal of three motor vehicles amounting to Lm5,272 and an expense of Lm31,930 to purchase three new ones as replacements, according to VOM Managing Director. One was sold for Lm800 and another car was traded in for a new one. A car used by the deputy Managing Director was traded in for a new vehicle.

8.6.2 *Disposal/Replacement of Vehicles*

The Director Corporate Servics, Ministry of Foreign Affairs informed NAO that whilst two of the cars were taken over on Ministry's books the one allocated to the Deputy Managing Director of VOM could not be traced, NAO on its own initiative succeeded in finding the vehicle. Director (Corporate) agreed to take possession thereof.

The value of the fully expensed motor vehicles- one for the Managing Director at Lm10,000 and the other for Lm15,000 for the Deputy was far in excess of that allowed in similar ranks in the public sector.

8.6.3 *NAO Observations and Comments*:

The decision to sell the motor vehicles by direct order goes against standing rules regulating the purchase and disposal out of public funds.

One of the vehicles was registered in the name of the Deputy Managing Director and not of the VOM.

No plausible explanation was given for the departure from MFC Circular 5/98 that established the expense allowed for cars for use by different ranks in the public sector.

No action has yet been taken by Ministry to recall the vehicle that forms part of the VOM assets.

9.1 Premises

9.1.1 Re-allocation

In 2003 VOM moved from their Floriana premises to Birkirkara. The move was necessitated by MEPA's request to take back the premises for its own use. A deal was agreed upon between the two parties whereby MEPA was to pay a rental fee worked out on the proportion of floor area utilized by VOM whilst at Floriana. VOM was to pay the difference in the rent that resulted from the larger floor area in Birkirkara.

9.1.2 Call for Tenders

A call for tenders was issued by MEPA after which a short list was drawn of premises on offer. The final selection of the premises was arrived at through the proper channels and established procedure.

9.1.3 Terms and Conditions of Lease

The new premises were 150 square metres larger than the previous site, and was leased for Lm18,000 per annum for five years, subject to a 10% increase every three year period . Agreement had an option for a renewal for a further 5 years.

Landlord was to hand over the premises with all basic finishes completed at his expense. A list of items to be finalized by Landlord was included in an addendum to the contract.

9.1.4 NAO Comments

- *Cost Effectiveness of Transaction*

NAO is not aware that Ministry of Foreign Affairs considered the option of being granted a vacant Government premises instead of entering into an Lm18,000 lease per annum.

10.1 Hospitality Expenses

10.1.1 Entitlement

VOM's Managing Director's contract of employment provided for a hospitality allowance payable against receipts of Lm500 for 2001. For the years 2002 and 2003 in the second contract, allowance was raised to Lm700.

Reimbursement of expenses claimed and paid in excess of hospitality allowance stipulated in the original and the revised contract of employment of VOM's Managing Director for the years 2001, 2002 and 2003 were Lm750, Lm846 and Lm2,043 to the amounts in both contracts.

11.1 Ancillary Events

In 2003 two separate activities were held. One of them was the DX Conference which hosted short wave enthusiasts from all over the Mediterranean, whilst the other was known as "Project Odyssey". The latter involved a ship which toured different countries with the aim of promoting peace. The cost to host these two activities amounted to about Lm18,000. Both activities were held towards the end of 2003 when VOM's closing down was imminent. When questioned about the go ahead with these two activities the Managing Director stated that commitment to host these activities had been made as early as 2002 and that there was no option but to go ahead.

11.1.1 NAO Comments

Included in the cost of Lm18,000 is an amount of Lm8,278 forked out for pyrotechnics in relation to the project Odyssey.The NAO Board was informed during interviews held that the cost of Lm8,278 could have been averted by Management as the expense was originally to be borne by the foreign organisers of this activity.

12.1 Recruitment

During the period under examination, NAO noted that all employees engaged during this particular period were directly approached by the Managing Director to join VOM. One of the Councillors interviewed stated that he drew the Managing Director's attention about the recruitment method and emphasised that it was an unacceptable practice that goes against all recruitment regulations.

13.1. Terminal Benefits

The Station ceased transmission during December 2003 The last salaries together with the terminal benefits due according to their union's collective agreement were paid.

13.1.1 Employment and Benefits to Part-Time Accountant

VOM hired the service of an accountant (employed full time elsewhere and part time with another company) on a part time basis for Lm4,400 per annum. Attendance at the station was when requested as work was often carried out at home. There was no contract of employment neither with Ministry of Foreign affairs nor with VOM.

The accountant included himself as full time employee in the list of employees who stood to benefit from the compensation and as a result VOM paid him Lm7,616 terminal benefits and Lm1,015 as notice money.

Legal Notice 427 of 2002 regulates part time employees, particularly paragraph 6 sub para1 providing as follows:

> ***Para 6 (1): " Those part-time employees, whose part-time employment is their principal employment, and who are employed in such part-time employment for not less than twenty hours a week , shall be entitled pro rata to:***
>
> ***(b) any entitlement to statutory bonuses and other income supplements to which comparable whole-time employees on similar duties with the same employer are entitled in terms of the recognised conditions of employment applicable to them."***

13.1.2 NAO Views and Comments

Once the accountant was not employed for a minimum of 20 hours per week and the part time job with VOM was not his sole employment he was not entitled for the benefit contemplated by the collective agreement covering VOM employees.

14.1 Post Closure Events

14.1.1 Blank Cheques

Blank cheques in the possession of the accountant bearing the signature of the Managing Director were used to settle outstanding payments by the part-time accountant months after closure of the Station against Government's procedures and standing financial regulations

14.1.2 Transactions Effected After Closure

The accountant had also access to the bank accounts of VOM. He liquidated Lm10,000 Government Bonds to settle a number of VOM's creditors, by means of blank cheques bearing the Managing Director's signature [who eventually signed a number of blank cheques after the closure of the Station] and by the counter-signature of the ex part-time accountant.

NAO noted that no public call was made for creditors to present claims against VOM for payment prior to making payments.

14.1.3 No Ranking of Creditors

Ministry of Foreign Affairs was aware that certain payments to creditors were being effected. Verbal consent was given on the plea that creditors were threatening to sue Government for outstanding dues." Director of Corporate Services however stated that the method being adopted [ie:blank cheques bearing the signature of Managing Director] was not brought to his attention for a number of months.

14.1.4 NAO Comments

The practise adopted is considered to be irregular. The Ministry of Foreign Affairs should have informed the bank to cease recognizing signatures after the closure and should have appointed an *ad hoc* board, to administer necessary transactions.

It had to be the Ministry of Foreign Affairs to address the issue when on the 23th July 2004 he called a meeting to enquire into the state of affairs of VOM during which he gave specific instructions to immediately:

1. Instruct the bank to freeze VOM's accounts
2. Contact the ex accountant and retrieve all cheque books, cards and keys from his possession.
3. Appoint an independent administrator to carry out the necessary functions.

15.1 Weaknesses Detected

15.1.1 Procurement of Goods and Services

Throughout the course of the enquiry, the whole matter assumed the characteristics of procurement of goods and services by VOM Managing Director on a direct order basis on the wrong assumption that standing financial regulations did not apply to the VOM.

NAO is of the opinion that it was a lack of proper distinction between public service procurement and the parting from such principles, coupled with a general unfamiliarity with Government accounting and procurement procedures, which lay at the root and core of the matter and which gave rise to the problems and irregularities that evolved and ensued.

15.1.2 Planning and Internal Control

NAO strongly believes in the importance of planning, and is very concerned to find that VOM did not carry out serious project evaluations. On the grounds of real or perceived urgency VOM failed to apply a monitoring and control procedure which would have checked foreseeable risks and weaknesses.

Among the main factors that are known to contribute to possible consequent escalation in costs are;

- lack of planning and under-estimation of technical difficulties,
- weaknesses in contract management,
- non compliance with control procedures, and
- inability to control service providers' works and costs.

These elements were identified as some of the major weaknesses during the period under review.

15.1.3 Segregation of Duties

Government Financial Regulations and Directives clearly specify how public moneys are to be spent. The lack of segregation of duties and the poor, administrative set-up within the VOM raises serious issues. The Ministry of Foreign Affairs, Permanent Secretary and Director Corporate Services should have known and drew the attention of both the Managing Director and the appointed Councillors that these two main elements in the running of VOM were missing.

Pursuant to the above the following conclusions can be drawn:

- There were strong failures to comply with laid- down procurement procedures.
- There was lack of competitive tendering and requirements were poorly specified.

- There was lack of proper and efficient liaison between the Ministry of Foreign Affairs, the Managing Director, the VOM councillors and the other partner which eventually resulted in unclear ideas as to their respective roles.

16.1 Recommendations

The case does, in our view, represent a serious failure in the proper conduct of public business.

It is NAO's opinion that there was an obligation on the permanent secretary to ensure that the consideration of any policy proposal takes account of all relevant financial considerations and risks and, where sums of a certain order are involved was to provide the Minister concerned in writing with a complete financial appraisal set in the context of wider considerations including contingent risks.

16.1.1 Proper Framework Needed

In setting up structures similar to VOM or other forms of agencies under whatsoever form, the Government should in the first place set out a proper framework incorporating legal, administrative, procurement procedures and standing financial regulations so that board members would clearly know their duties and responsibilities and ensure that financial and other activities are monitored to guarantee good goverenance, in the use of public funds.

16.1.2 Letter of Appointment

The code of ethics should be brought to the attention of all concerned and be incorporated as part of appointees obligations when presented with the letter of appointment.

16.1.3 Responsibilities of Permanent Secretaries

Although ignorance of laws, regulations and responsibilities pertaining to the post does not exonerate any official, Permanent Secretaries and heads of department should invariably bring to the attention of all concerned the responsibilities highlighted in the previous two paragraphs.

16.1.4 Control Weaknesses

The NAO inquiry identified a number of control weaknesses that have been allowed to occur and remain undetected for a long time. The main factors amongst others that led to such weaknesses were:

- The dominating influence that the Managing Director exercised when procuring services on the presumption that standing financial regulations did not apply to VOM

- The role of the part time accountant who as a warrant holder did not exercise the duties expected of the profession.

- No management letter outlining any of the weaknesses that came to light during the course of the investigation was presented by the VOM's appointed Auditors to Management.

When an external auditor is engaged to report on financial statements of an entity or agency, management should ensure that auditors sign an appropriate engagement letter detailing duties and that he/she should report on the financial performance, and compliance aspect when carrying out such an audit Throughout the period of engagement the external auditor was never asked to perform a compliance audit.

16.1.5 Actions to Recover Undue Payments

In the light of these findings and advice given by the technical expert, NAO strongly recommends that the Ministry take all necessary actions, to recoup any monies which were not due or amounts on contracts which were adjusted in favour of service providers.

These are:

A. Terminal benefits amounting to Lm7,616 and Lm1,015.44 notice money paid to the part time accountant were not due [para 13.1.1]

B. Amount of Lm4,687 for the purchase of a specialised software from an Italian company[which software never functioned]is to be refunded by the local Contractor who already expressed willingness to effect such refund . [para 8.5.1]

C. The Contractor mentioned in (B) increased the price for software from Lm7,000 to Lm16,500, The difference in such payment seems "prima facie" to have been made as an increase solely to make up for the Lm9,500 which were to be deducted for the supply of a TWT uplink. [para 8.4.5]

D. The two contracts entered-into with Contractor for Lm11,620 per annum which had to run for three years but was increased after the lapse of only eight months to Lm36,000 per annum. In the context of our findings NAO does not see any justifications for the granting of higher fees from the first to the second contract.[Para 8.5.7]

E. VOM assets that are still with third parties are to be retreived [para 8.5.5 and para 8.6.3]

F. It is up to the Ministry of Foreign Affairs to approve or otherwise the hospitality expenses claimed and paid in excess of what was provided for in the contracts of employment [para 10.1.1]

16.1.6 Setting up of an ad hoc Board

The Permanent Secretary should appoint an administrator for VOM as suggested by the Minister of Foreign Affairs on 23rd July 2004 (unless already appointed) or set up an ad hoc board in conjunction with the other partner until a decision is taken on the future of the Radio Station and its assets