

15th October, 2001

To: Permanent Secretaries
Directors General
Directors

**GOVERNMENT ACCRUAL ACCOUNTING:
PROCEDURES FOR THE CONTROL OF DEBTORS AND CREDITORS**

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.

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.

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:

- 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.

J.Scicluna
Permanent Secretary

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

Analysis of Debtors by Age as at end (day-month-year)									
Type of Debtor	Total	Not Yet Due	Days Overdue					Remarks in terms of Financial Reg.	
			01-30	31-60	61-90	91-180	181-360		Over 360
Grand Total:									
Per Cent of Grand Total:									
Percentage Uncollectable									
Provision for Bad Debts:									

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.

- (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).

3.2 Responsibility of Directors Corporate Services

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.

3.3 Responsibility of Accountant General

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.

ANNEX 1

The itemized list below provides an indication of the current major different types of debtors by Ministry and Department.

<p>Office of the Prime Minister</p> <p>Oil Division</p> <p>Information</p> <p>Government Printing Press</p> <p>Armed Forces</p> <p>Various Departments</p>	<p><i>Licenses, Taxes and Fines</i> Oil Rental Licenses, Fines, Etc. Others</p> <p><i>Sales of Printed Matter and Services</i> Sale of Government Gazette Sale of publications/reproductions Photocopying and other services Others Jobbing Others</p> <p>Services to third parties Others</p> <p><i>Miscellaneous</i></p>
<p>Ministry of Social Policy</p> <p>Housing</p> <p>Social Security</p> <p>Social Policy</p>	<p><i>Refund of Subsidies</i> Refund of Subsidies relating to previous years Others</p> <p><i>Refund of Benefits</i> Refund of Social Security Benefits relating to previous years Others</p> <p><i>Social Security Contributions</i></p> <p><i>Class I Employed</i></p> <p><i>Government Employees</i> Salaries Staff Malta & Gozo MFA Mission Staff</p> <p><i>Private Sector Employees</i> Private Sector Employees (Malta) Private Sector Employees (Gozo)</p> <p><i>Parastatal Bodies Employees</i> Malta Shipbuilding Malta Drydocks</p> <p><i>Others</i></p>

<p>Ministry of Finance (Continued....)</p>	<p>Excise Duties Excise Duties (Machine made cigarettes) Excise Duties (Spirits) Excise Duties (Petroleum) Excise Duties (Tabacco) Others</p> <p>Licenses, Taxes and Fines Bonded Stores Licenses Proceeds from Sales of Goods at Customs Others</p> <p>Fees of Office Weighers' Fees Bunkering Throughput Fees Attestations, certificates, permits, etc. Others</p> <p>Administrative Charges On sales to Government Departments Refund of salaries of customs officials employed on behalf of Malta Dry-docks Removal of goods from verandahs to bonded stores Others</p> <p>Rental Charges Store Rent Others</p> <p>Payments by Merchants Services provided by Customs personnel. Others</p>
<p>VAT Department</p>	<p>Consumption Tax Value added tax Others</p>
<p>Inland Revenue Department</p>	<p>Inland Revenue Taxation Final Settlement System Provisional Tax Capital Gains Tax Settlement Tax Self assessment Tax at Source Penalties Withholding Tax Other</p>

<p>Ministry of Finance (Continued...)</p>	<p><i>Refund of Benefits</i> Refund of Social Security Benefits Others</p> <p><i>Licenses, Taxes and Fines</i> Duty on Documents Levy on Sale of Immovable Property Death and Donation Duty Other</p> <p><i>Fees of Office</i> Fees for permits for acquisition of immovable property by non residents (AIP) Other</p>
<p>Public Lotto</p>	<p><i>Licenses, Taxes and Fines</i> Tombola Duty Casino Charges Duty on Betting Others</p> <p><i>Lotteries</i> Lotto Profit Grand Lottery Numbers Game Tiritombla Others</p>
<p>Public Credit</p>	<p><i>Dividends on Investments</i> Malta Financial Services Centre Dividends from Public Limited Companies Sundry Dividends Others</p> <p><i>Repayment of Loans</i> Malta Development Corporation Malta Shipbuilding Company Limited</p> <p><i>Interest on Loans</i> Malta Development Corporation Malta Shipbuilding Company Limited</p> <p><i>Miscellaneous Receipts</i> Sale of shares/assets Bank interest Sinking Funds of converted loans</p>
<p>Various Departments</p>	<p><i>Licenses, Taxes and Fines</i> Miscellaneous Taxes, Duties & Levies</p>

Ministry of Transport & Comm. (Cont....)	
Wireless Telegraphy	Fees of Office Wireless Telegraphy Fees Wireless Licenses Royalties from Cable Television Licenses Others
Civil Aviation	Licenses, Taxes and Fines Miscellaneous licenses Airport Tax Others
Various Departments	Miscellaneous

Ministry for Economic Services	
Public Corporations	Interest Payable Enemalta Corporation Debentures Water Services Corporation Debentures Others
Commerce Division	Licenses, Taxes and Fines Levy on Imported Goods Others Fees of Office Patent and Trade Mark Fees Others
Various Departments	Miscellaneous

Ministry for Home Affairs	
Police	Licenses, Taxes and Fines Wines and Spirits Licenses Trading Licenses Sporting Licenses Traffic Offences Tickets Miscellaneous Licenses Miscellaneous Fines Others Fees of Office Attestations, certificates and permits Fees on Visas Fees for Deposits of Goods, etc. on wharves, streets Others

Ministry for Home Affairs (Continued...) Legal (Public Registry) Passport Office Notary to Government Government Property Division Joint Office Correctional Services Civil Protection Various Departments	Other Services Road Accident Reports Services to third parties Others Fees of Office Marriage Registry Fees Land Valuation Fees Public Registry Fees Land Registry Fees Others Fees of Office Passports Others Fees of Office Notarial Archives Fees Fees on contracts/notarial fees Others Rents Rent of rural tenements Perpetual Leases Rent of Residential Tenements Rent of Non-residential Tenements Rent of Commercial Tenements Rent of Property Occupied by Government Depts. Payments (Encroachments on Government Property) Sale of Government lands Rents Rent from Ex-Church Property Sale of Ex-Church Property Others Reimbursements Receipts from work carried out by inmates Others Reimbursements Services to third parties Others Fees of Office Fees on Contracts/Notarial Fees Others
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Ministry of Justice & Local Government	
Attorney General	Fees of Office Legal costs and fees Sale of CD-Rom Others
Local Councils	Miscellaneous Receipts Miscellaneous Receipts
Judicial	Licenses, Taxes and Fines Court Fines Others Fees of Office Court Fees Miscellaneous fees
Various Departments	Miscellaneous

Various Ministries and other Offices	
Licenses, Taxes and Fines	Miscellaneous Licenses Miscellaneous Fines
Fees of Office	Attestations, Certificates, Permits, Etc. Legal Costs and Fees Miscellaneous Fees
Loans	Repayment of Loans
Interest	Repayment of Interest
Provision of Services	Services to Third Parties
Miscellaneous Receipts	Sale of printed forms/plans, container security seals, books, plastic bags (Hidma Socjali), maps & survey sheets Miscellaneous receipts Sale of Publications & Reproductions Photocopying and other services
Miscellaneous Refund and Services	Refund of cost of books lost by pupils Refund of cost of ambulance use Refund of cost of funeral expenses
Reimbursements	Services Rendered to Local Councils Sale of tender documents, Charges for medical certification. Miscellaneous reimbursements

ANNEX 2 - DEBTORS RECORD

The information below should be viewed as a guide of the Debtors records that are to be maintained by Departments, however each Department must examine its own type of Debtors and hold the appropriate information accordingly. Debtor information, at minimum, should consist of:

- (a) Account Number (depending on nature of debt this number may be ID, Company No, VAT No., etc.)
- (b) Full name
- (c) Postal address
- (d) For Each Invoice:
 - (1) Invoice number (Reference and sub reference numbers)
 - (2) Invoice date
 - (3) Invoice due date
 - (4) Description
 - (5) Original amount due (Lm)
 - (6) Discount terms (%/days)
 - (7) Discount allowed (Lm)
 - (8) Accumulated interest on sums due (if applicable)
 - (9) Individual payments made
 - (10) Balance due
 - (11) Amount contested (if applicable)
 - (12) Action taken to collect amount due

ANNEX 3

The itemized list below provides an indication of the current major different types of creditors of the various Departments.

Trade Creditors and sundry creditors	<i>Contractual Commitments</i> Contractual obligations
Loans and borrowings	<i>Contractual Commitments</i> Contractual obligations
Accrual Liabilities	<i>Amounts not invoiced</i> Personal emoluments Utilities Purchases on credit of goods or services
Deferred Income	<i>Advance Payments</i> Subscriptions and memberships Rent

ANNEX 4 - CREDITORS RECORD

The information below should be viewed as a guide of the Creditors records that are to be maintained by Departments, however each Department must examine its own type of Creditors and hold the appropriate information accordingly. Creditor information, at minimum, should consist of:

- (e) Account Number (depending on nature of credit, this number may be ID, Company No, VAT No., etc.)
- (f) Full name
- (g) Postal address
- (h) For Each Invoice:
 - (1) Invoice number (Reference and sub reference numbers)
 - (2) Invoice date
 - (3) Invoice due date
 - (4) Description
 - (5) Original amount due (Lm)
 - (6) Discount terms (%/days)
 - (7) Discount allowed (Lm)
 - (8) Accumulated interest on sums due (if applicable)
 - (9) Individual payments made
 - (10) Balance due
 - (11) Amount contested