OPERATIONAL REVIEW OF THE INSTITUTE FOR TOURISM STUDIES

Engagement carried out for the Ministry for Tourism and Consumer Protection – 2020

Table of Contents

List of Abbreviations

AIN	Asset Identification Number
CEO	Chief Executive Officer
COSO	Committee of Sponsoring Organisations of the Treadway Commission
DCS	Director for Corporate Services
HR	Human Resources
IAID	Internal Audit and Investigations Department
IPS	Institute for Public Services
IQAC	Internal Quality Assurance Committee
IT	Information Technology
ITS	Institute for Tourism Studies
KPI	Key Performance Indicator
LAN	Local Area Network
MC	Materials Control
MCAST	Malta College for Art, Science and Technology
MFSA	Malta Financial Services Authority
NAO	National Audit Office
NCFHE	National Commission for Further and Higher Education
PC	Personal Computer
PQVB	Program Quality Validation Board
RFID	Radio-Frequency Identification
SCB	Student Cases Board
SITS	Strategic Information Technology Systems
VLAN	Virtual Local Area Network
VLE	Virtual Learning Environment

List of Figures

List of Tables

1. Executive Summary

The Institute for Tourism Studies, hereinafter referred to as the ITS or the Institute, is an educational institution that was set up back in 1987 through the assistance of the World Tourism Organisation with the primary aim of providing tuition to and educating the future workers of the hospitality and tourism sector. Providing a myriad of part-time and full-time courses to local and international students alike, from diploma level up to a Masters level, the Institute nowadays has a staff complement of close to two hundred (200) employees and operates from its new Institute in Luqa to which it moved two (2) years ago.

The primary purpose of this report has been to carry out an operational review of the ITS, focusing specifically on its corporate governance structure as well as the efficiency and effectiveness of its controls with respect to project management, procurement, finance, operations and the recruitment and engagement of personnel, with the ultimate aim of providing recommendations on how the operations could improve through the introduction of changes to the current structure of the Institute. Hence, the focus of this report is not to provide a financial audit, giving reasonable assurance that the figures shown in the financial statements show a true and fair view of the operations of the ITS, nor is it to provide absolute assurance that the systems in place at the ITS are fool-proof or that the Institute adheres to all the requirements of the National Commission for Further and Higher Education (NCFHE) which would typically be the subject of an external audit performed by the aforementioned institution.

Based on the COSO Internal Control Integrated Framework, a thorough assessment of past reports from the NCFHE, the National Audit Office (NAO) and the Internal Audit and investigations Department (IAID) on the operations of the entity coupled with internal quality assurance reports as well as discussions held with senior management at the ITS and walkthrough substantive testing and observations were performed.

To this end, it was concluded that the control environment currently in place at the ITS is significantly strong with the Institute having a number of structures in place to ensure that it is kept on its toes and that recommendations for improvement are continuously made. The Institute is not only governed by a Board of Governors made up of non-executive directors hailing from the fields of education and tourism but it also has in place an Internal Quality Assurance Committee (IQAC) that continuously monitors and reports to the CEO and Board of Governors any shortcomings identified, especially through the submission of its annual report. A Scientific Committee is also in place to ensure that the curriculum and offer to the public of the ITS remains in line with industry trends while a number of internal committees regulate the functioning of the ITS and contribute to its strong communication system, both internally as well as with external stakeholders. Monitoring activities are also particularly strong.

Key Issues and Recommendations

With respect to the control activities in place at the ITS, particularly when considering the key focus areas identified by the Ministry for Tourism and Consumer Protection, we believe that, while a solid foundation is in place, with significant improvement in the IT control activities as well as the inventory control system for which deficiencies had been identified prior to the take over of the new management team five (5) years ago, some shortcomings were identified which we suggest that the ITS needs to consider and rectify in order to improve its operational efficiency even further:

1) Update policies and procedures available on the website to include signed and approved versions;

2) Rotation of Board Members on the Disciplinary Board every five (5) years to strengthen control risk;

3) Keeping a database of all conflicts of interest and breaches of independence arising;

4) Ensuring that a Finance function is in place to oversee the financial matters of the Institute;

5) Performing a training gap analysis and develop a training plan on a yearly basis to encourage a culture of competence;

6) Development of a fully-fledged performance measurement and management system to drive accountability further;

7) Carrying out a formal risk assessment of the operations at the ITS so as to adopt a more risk-based approach to the internal control system in place, more specifically an assessment of the risk of fraud;

8) Reassessment of the use of MC as an inventory control system for the procurement of food and beverage and its suitability in reaching objectives;

9) Introduction of reorder, minimum and maximum levels in the food and procurement section;

10) Developing a closer link between the inventory control and accounting system, especially once the move to accrual accounting from cash accounting is made;

11) A formalised updated procedure of the running of the food and beverage procurement section

12) Preparation and use of standardised requisition forms in the procurement in the Main Stores, with appropriate authorisations, even if electronically, obtained;

13) Updating of the policy and procedure of the Main Store procurement in line with latest information;

14) More segregation of duties to be implemented in the Finance section;

15) A standardised student file kept with a standardised list of documentation provided and collected for reach student;

16) Preparation and updating of a fixed asset register for all equipment held by the ITS especially once accrual accounting is introduced and the notion of depreciation needs to be considered;

17) Cash and cheques held, albeit in a safe, should be deposited to the Central Bank within the shortest feasible timeframe possible;

18) Amendments to the insurance policy in place to reflect the requirements of the rental contract held with the Malta Industrial Parks and general business practice to be considered;

19) The introduction of a centralised ERP system that links the application processing stage to the accounting system and digitising a number of HR-related forms;

20) The development of a fully-fledged and formal IT strategy rather than as a plug-in to the main ITS strategy; and

21) The introduction of a more centralised approach connecting all workstations and devices at the ITS with a centralised antivirus system.

All in all, it would seem that the management of the ITS has, over recent years, made considerable strides forward in introducing changes to the structure and operations of the Institute so as to ensure that it can focus on reaching its strategic objectives, especially following the notable deficiencies identified prior to the takeover of the new management five (5) years ago when the ITS seemed to be on the verge of closure. The recommendations made and discussed in this report are merely a sharing of best practices, based on our past experience in working with similar institutions as well as recommendations emanating from the COSO framework on which this report has been based, an internationally recognised frame of mind implemented in different institutions of various sizes and operating in different sectors.

Mr. Reece Delia
Certified Public Accountant
On behalf of KSi Malta
17th July 2020

2. Declaration by Certified Public Accountant

Our comments, views and valuations are limited to the conclusions specifically set forth herein and are based on the completeness and accuracy of the assumptions, facts, assertions and representations made to us as well as the documentation provided during the sampling exercises and walkthrough testing carried out. In rendering our comments, views and evaluations we are relying upon and assuming a normal course of business for the entity in question, and hence we are not considering any major changes in operations or controls that are a result of the current COVID-19 pandemic faced by most countries including Malta. We will not update our advice for subsequent changes or modifications to the assumptions, facts and representations made to us unless specifically requested in a separate engagement.

KSi Malta, their representatives and/or employees, will not be liable for any damages or loss resultant from the actions of any person in response to the information, assertions, representations, or recommendations contained in this study document.

Moreover, the findings detailed in this report are based on our professional opinion and experience in dealing with similar engagements in the past yet the comments and suggestions made are not be considered as providing absolute assurance that the operations are running smoothly and efficiently; rather they provide a reasonable assurance that, based on appropriate in-depth testing carried out, the conclusions and recommendations emerged.

Reece Delia

Certified Public Accountant for and on behalf of

KSi Malta

Certified Public Accountants

17 July 2020

3. Introduction and Background

Following the Ministry for Tourism and Consumer Protection's Request for Proposals, issued on 20th February 2020, KSi Malta was successfully awarded and assigned the task of offering its professional services to the Ministry, with the main objective of conducting an Operational Review on a number of entities falling under the Ministry's remit, the ITS being the entity that shall be considered for the scope of this report.

3.1. Scope of the Engagement at hand

As agreed, upon during the initial meeting held with Mr. Dolan Debattista, Director of Operations within the Office of the Permanent Secretary of the Ministry for Tourism, on Tuesday, 10th March, 2020 and the letter of engagement signed on 8th April, 2020, the primary objectives of this report shall be:

(i)   To **review** the work practices of the ITS with a special focus on:
   a. Corporate Governance
   b. Procurement procedures and processes
   c. Project management
   d. Financial and operational controls in place
   e. The engagement and remuneration process adopted for personnel engaged by the entity.

(ii)   To **report** on the findings gathered through the observations carried out;

(iii)   To **recommend** ways of improving the current modus operandi in terms of work practices and procedures adopted by the ITS so as to improve its efficiency.

In conducting the review of the work practices and procedures of the ITS, the main sub-objectives to reach primarily related to:

(i)   The **identification** of key risk factors based on the nature of operations and the business model adopted by the ITS as well its overall organisational structure;

(ii)   The **understanding** of internal controls and processes in place within the ITS's daily operations as well as the review of the entity's policies and procedures which a special focus on the Board minutes;

(iii)   The **evaluation** of the current system of internal controls in place to highlight any areas of key deficiency; and

(iv)   The **identification** of current methods, tools, systems, and work practices available to staff in order to carry out their duties accordingly.

Following the operational review carried out by performing tasks (i) to (iv) aforementioned, KSi Malta was expected to evaluate and form an opinion on the existing setup and make recommendations for improvement. Such recommendations included how any identified shortcomings in systems and work methods could be addressed. A report was then formulated and presented to the Ministry for Tourism and Consumer Protection, outlining the recommendations being proposed so that resources are directed, monitored, and measured in an effective manner.

To this effect, it is important to understand at this stage that the operational review exercise carried out was by no means a financial audit typically carried out to check that the financial statements of the entity provide a true and fair view of its operations and that the financial statements are free from material misstatement, whether due to fraud or error. Neither was the engagement an exercise providing absolute assurance that the systems operating with the ITS are fool-proof and that the controls are flawless. On the contrary, the engagement sought to assess the operational efficiency of the entity and assess whether the control environment in place and the corresponding control activities provide the necessary environment to allow the entity to operate efficiently and effectively.

Moreover, it is important to note that this review focuses particularly on the operational aspect of the ITS rather than its obligations in terms of the quality assurance framework developed by the NCFHE which are typically assessed in a separate external audit and hence discussing the eleven (11) standards identified by the NCFHE directly would defeat the scope of this review, although references to different elements of the principles and requirements of the NCFHE are indirectly made.

4. Operational Review of Key Internal Controls

The board of directors or governors of any organisation, whether it operates in the private or public sector and no matter its size, has the responsibility to maintain a system of internal controls that ultimately safeguard the assets of that very same organisation. Such an internal control system should encompass the appropriate policies, processes, tasks, behaviours and other aspects of a company that, in their ensemble not only facilitate the effective and efficient operation of the entity by keeping business, operational, financial and compliance risks at bay but also ascertain that the quality of external and internal reports is always of high quality and that the relevant laws and regulations are always upheld.

Moreover, all employees of the organisation should have some responsibility for internal control as part of their accountability for achieving objectives. They, collectively, should have the necessary knowledge, skills, information, and authority to establish, operate and monitor the system of internal control.

It is for this reason that it is often suggested by notable international organisation in the field of risk management and control to hold a review of the control system in place in order to ensure the effective of the internal controls, adopting a materiality concept based on a risk-based approach. This is precisely the aim of the engagement that KSi Malta has been entrusted with and which KSi Malta hopes will be carried out on an annual basis to ensure that the internal control system for the ITS remains one that is in check.

4.1. The COSO Framework

With the aim of reaching the objectives of this report, more specifically Objective (i) highlighted in the Scope of this Report, KSi Malta has opted to base its work on the guidelines and framework provided by an organisation of international repute in the sphere of operational reviews and assessment of internal controls – the **Committee of Sponsoring Organisations of the Treadway Commission** (**COSO**).

This gives the report more credibility given that it is based on an international tried-and-tested approach. More specifically, the operational review carried out has focused on the Internal Control Integrated Framework developed by the institution (hereinafter referred to as 'the Framework'), originally issued in 1992 and then further revised back in May 2013.

As per the Framework, which is applicable for the operations of all public and private entities, whatever sector they may operate in, there are five (5) main components of an organisation's system of internal control and procedures that need to be considered when carrying any operational review exercise, as summarised in Table 1 hereunder.

Components of the Framework	Description
Control Environment	This sets the tone for the organisation, influencing the control consciousness of its people. It describes a set of standards, processes, and structures that provide the foundation for carrying out internal control across the organisation.
	The board of directors and senior management establish the tone at the top regarding the importance of internal control including expected standards of conduct. Management reinforces expectations at the various levels of the organisation. The control environment hence comprises:
	(i) the integrity and ethical values of the organisation;
	(ii) the parameters enabling the board of directors to carry out its governance oversight responsibilities;
	(iii) the organisational structure and assignment of authority and responsibility;
	(iv) the process for attracting, developing, and retaining competent individuals; and
	(v) the rigour around performance measures, incentives, and rewards to drive accountability for performance.
Risk Assessment	The identification and analysis of relevant risks. Risk assessment requires management to consider the impact of possible changes in the internal and external environment and to potentially take action to manage the impact.
Control Activities	The policies and procedures that help ensure management directives are carried out. They may be preventive or detective in nature and may encompass a range of manual and automated activities such as authorisations and approvals, verifications, reconciliations, and business performance reviews. Segregation of duties is typically built into the selection and development of control activities.
Information & Communication	Systems or processes that support the identification, capture, and exchange of information in a form and time frame that enables people to carry out their responsibilities. The internal communication of information throughout an

		organisation also allows senior management to demonstrate to employees that control activities should be taken seriously.
Reporting	*&*	Periodic and ongoing procedures used to identify, monitor, and report the quality
Monitoring		of internal control performance or deficiencies in any components within the system's internal control system to appropriate levels. Findings are evaluated against criteria established by regulators, recognized standard-setting bodies or management and the board of directors, and deficiencies are communicated to management and the board of directors as appropriate.

Table 1: Components of the COSO Integrated Framework that shall be used as a foundation for this Study

In an effective internal control system, the five components described in Table 1 are then made up of a series of sub-components which work together to support the achievement of an entity's mission, strategies, and related business objectives. These sub-components have formed the basis of the discussions held with the management and personnel of the ITS and have provided the yardsticks to perform the necessary observation and testing activities.

The seventeen (17) principles are summarised in the diagram illustrated in Figure 1.

These components work to establish the foundation for sound internal control within the company through directed leadership, shared values and a culture that emphasizes accountability for control. The primary aim of the team at KSi Malta in carrying out this engagement was to provide reasonable assurance that the system of controls, processes and procedures in place at the ITS is one of an acceptable level such that each of the five (5) components of the Framework and the seventeen (17) principles are not only present on paper but also functioning such that evidence that they exist in the operations of the ITS can be substantiated and they work synchronously to achieve the ultimate objectives of the entity in question.

Control Environment	Demonstrates commitment to integrity and ethical values
	Exercises oversight and responsibility
	Establishes structures, authority and responsibility
	Demonstrates commitment to competence
	Enforces accountability
Risk Assessment	Specifies suitable objectives
	Identifies and analyses risk
	Assesses fraud risk
	Identifies and analyses significant change
Control Activities	Selects and develops control activities
	Selects and develops general controls over technology
	Deploys control activities through policies and procedures
Information and Communication	Uses relevant information
	Communicates internally
	Communicates externally
Monitoring Activities	Conducts ongoing and/or separate evaluations
	Evaluates and communicates deficiencies

Figure 1: Summary of the 17 Key Principles that form the basis of the COSO Framework tested during the operational review carried out

4.2. The Three Lines of Defence Model

Over and above the COSO Framework and its key components and principles, which have provided the basis of the methodology adopted in the analysis carried out within the ITS for the purposes of this engagement as well as the overall structure of the report, an important concept that we have considered in our work is the Three Lines of Defence Model, developed and promulgated by the Institute of Internal Auditors in line with its Framework. In brief, the idea of the Model is that, under the oversight and direction of senior management and the board of directors, three (3) separate groups (or lines of defence) within the organisation are necessary for effective management of risk and control, these being:

1. The first line of defence has the primary aim of creating and managing the risks that might impede an organisation from achieving its objectives, designing, and executing the organisation's system of internal controls.

2. The second line of defence then provides support to the management by bringing the necessary expertise, providing process excellence and monitoring management along the first line. They are separate from the first line but not completely separated from the control and direction of senior management. The second line is usually an oversight function.

3. The third line then, which is usually an external entity not involved in the management of the entity, provides the necessary objective assurance to the Board of Directors and senior management that the management function is performing in line with the controls in place.

Figure 2 hereunder summaries the Three Lines of Defence Model described above and adopted by KSi Malta in its analysis of the Governance structure and the overall management of the ITS.

Figure 2: Summary of the Three Lines of Defence Model used to analyse the Governance and Control Environment of the ITS

5. Methodology adopted by KSi Malta – Operational Review

Based on the COSO Framework and the concept of the Three Lines of Defence described in detail previously as well as the kick-off meeting held with the Ministry, which set the basis for our operational review with the ITS, KSi Malta commenced its engagement, following the introduction made by the Ministry, by setting an initial meeting with the senior management of the ITS which essentially involved a thorough discussion with the Chief Executive Officer (CEO) and Director for Corporate Services (DCS) of the entity.

5.1. Initial Meeting with Senior Management

The primary purpose of the initial meeting held with the senior management was to determine, first and foremost, the type of message and tone from the top that exists and to hence have an understanding as to whether the organisation seems to be committed to maintaining a strong control environment for its operations. The second important purpose of the meeting was to gain a thorough understanding of the structure of the entity and to determine whether there any committees or boards are in place to oversee the governance of the entity and ensure that the necessary internal controls are in place, in line with the three lines of defence principle.

The initial meeting also had the purpose of outlining the key **operational**, **reporting** and **compliance** objectives of the entity. Operational objectives pertain to effectiveness and efficiency of the entity's operations, including operational and financial performance goals, and safeguarding assets against loss. Reporting objectives pertain to internal and external financial and nonfinancial reporting. Compliance objectives, on the other hand, pertain to adherence to laws and regulations to which the entity is subject.

The discussion, based on a set on a semi-structured interview style which was carried out with the CEO and DCS, also sought to determine the key processes of the entity (these being mainly the revenue cycle, procurement, operations, human resources management and corporate governance of the entity) and hence highlight the significant risks associated with such processes and what extent of prioritisation they are given in the entity's risk management framework. The focus was getting a thorough understanding of how the key processes work prior to delving into detail through the appropriate testing.

5.2. Analysis of Board Minutes and Previous Auditors' Reports

In addition, given the key role of the auditor as a line of defence and given the fact that this entity usually has a comprehensive understanding of the entity's financial reporting structure as well as the controls it has in place which are tested during the audit exercise, following the initial meeting held, the senior management was also asked to forward any assessments carried out by NAO and IAID, two (2) main Government-based inspection and audit bodies, together with a copy of the audited financial statements. A copy of the board minutes of the last twelve (12) months was also requested to determine whether any key points relating to internal controls had been raised during the previous year of operations and hence assess how effective the control environment is in implementing any changes that are required to ensure a smooth workflow.

These documents were analysed in order to:
- Determine any weaknesses in the current internal control system that have been identified by bodies outside the organisation keeping the key areas in mind: the revenue cycle, procurement, human resource management, corporate governance, and project management; and
- Set these as priority areas for testing and assessment to be carried out so as to determine the efficiency and effectiveness of senior management in dealing with any problematic areas identified within the control environment and system in place.

5.3. Documentation of Current Processes and Controls in place

After carrying out the initial overview and analysis of the documents sent, identifying the processes that are relevant and significant to the control activities of the entity, the next step was to obtain a thorough understanding of each process in order to detect any pertinent control gaps. A five-stage process was used in order to gain an understanding of and test the processes involved, as outlined in Figure 3 hereunder. This process would be applied to five (5) main areas that have been selected, in line with the scope of the engagement:
- (i)   Corporate Governance;
- (ii)   Procurement;
- (iii)   Project management;
- (iv)   Financial and operational controls (focusing on revenue generation and collection); and
- (v)   The engagement and remuneration process adopted for personnel.

Identification of the scope of any existing documentation of the process identified

Interviews with staff/personnel involved

Documentation of any identified gaps

Review of existing documentation

Identification of risks and gaps in existing processes
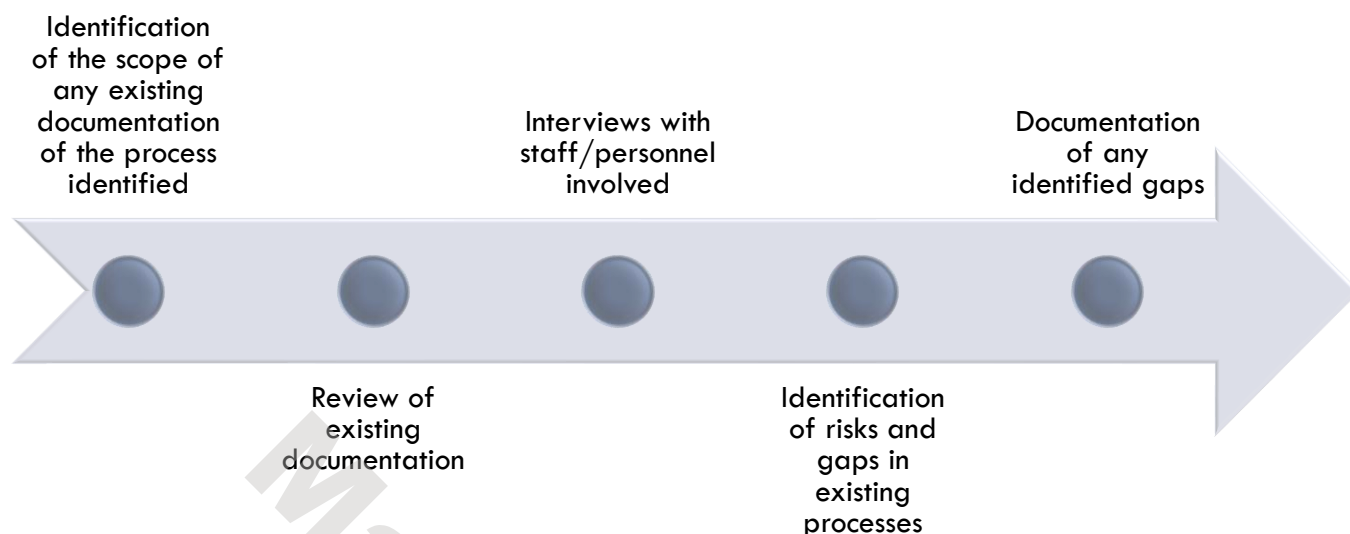
Figure 3: 5-Stage process adopted for the Identification, Analysis and Documentation of Key Internal Processes of the ITS

In order to demonstrate sufficient understanding of the process, the following points were discussed in detail with the appropriate responsible person within the ITS for the implementation of each relevant process:

(i)   A basic flow of the transactions from the initiation of the process up till its completion;

(ii)   Staff involved in the process flow;

(iii)   A description of controls in place for each process flow;

(iv)   An understanding of the personnel involved for carrying out the controls;

(v)   IT systems used in the process and typical reports generated; and

(vi)   The extent of segregation of duties (be they automated or manual).

In order to be able to have a thorough understanding of the controls mentioned in (iii) above, the idea was to get a description of each control including the objective of each control, the level of risk associated with such an objective, a control number/reference (if available and applicable), the frequency of each control, the control owner (his or her role and title), the nature of the control (whether it is IT-based or not) and whether this control relates to the prevention of fraud or not.

5.4. Walkthrough testing through Interviews with appropriate members of staff

Having obtained a thorough understanding of the key processes identified in Section 5.3, KSi Malta then liaised with the appropriate points of contact within the ITS to perform walkthrough testing of the key processes based on a risk prioritisation, that is, those processes that were identified to be most significant in terms of risk of fraud were given priority over other more basic processes for which risk was not deemed to be too high. A risk-based approach was hence adopted for the testing and observation carried out, in line with the COSO Framework itself.

Staff members of the ITS were then asked to simulate the process by providing the appropriate outputs from the systems used and reports that would be used to confirm that the process works in line with the expected outcomes and that the controls that should be in place were effectively made use of. A sample of transactions were selected each time depending on the materiality threshold of each process – the concept that was used, in this regard, is that the higher the perceived risk of a particular process, the more testing would be carried out. Observation of the process, inquiry and examination of the documents provided were the basic testing methods that were undertaken for this control testing to be performed.

5.5. Gap Assessment

The primary aim of the walkthrough testing was to perform a **gap assessment** with the aim of pinpointing areas where the current design of internal controls is lacking to achieve an appropriate control system. Based on professional judgement and experience, the gaps identified would be classified under three main categories:

(i) **Level of control exceeds perceived risk** – in which case there could be potential cost savings that could be benefitted from if the ITS were to relax the measures in place to a certain degree;

(ii) **Control needs fine tuning to lead to cost savings;**

(iii) **Control is adequate in line with perceived level of risk** – in such a case, if no remedial action is taken, this would potentially not lead to errors in financial reporting or a potential misallocation in the assets; and

5.6. Identification of remediations and suggestions for a way forward

Once the gap assessment has been finalised and the deficiencies in the current operations and systems in place have been identified and categorised as per the three sections mentioned in Section 5.5, KSi Malta then determined appropriate remediation actions that could be performed based essentially on the severity of each identified deficiency and the complexity of the remedial action involved. Each remedial action would involve:

(i)   An indication of the relevant area in the operations of the business that is impacted by the deficiency in the controls involved;

(ii)   A thorough description of the deficiency identified, including any IT element that contributes to such a deficiency;

(iii)   An indication of the staff members involved to be able to improve the deficiency;

(iv)   A suggestion on how the deficiency could be improved depending on the category identified in Section 5.5.; and

(v)   Appropriate follow-up that could be carried out in order to ensure that the remedial actions suggested have been implemented.

Successful and sustainable remediation efforts depend on input and commitment from process owners. Additionally, process owners will be able to assist in evaluating the effectiveness of the proposed remediation actions and provide valuable insights into the remediation process including the reasonableness of objectives, proposed milestones, and the timing of project completion. Once process owners provide input and confirm support, the remediation plans should be updated and verified.

6. Brief Background on the ITS

The ITS was established back in 1987 as one of Malta's institutes for higher education with the primary aim of serving the hospitality and tourism sector by providing for opportunities for students desiring to pursue a career in these sector to further enhance their knowledge and get formally qualified. The Institute aims to provide a myriad of full-time and part-time educational programmes to local and international students alike, from a diploma level up to a Master's degree, in various fields of the hospitality and tourism domains such as food and beverage, tourism operations, rooms division, food preparation and service, events management, tour guiding and heritage interpretations. Furthermore, it seeks to identify and monitor customer needs and is responsible for providing the Hospitality Industry with personnel trained who can guarantee an excellent standard of products and services with the Industry.

6.1. Administrative Structure of the ITS

From a more administrative viewpoint, the ITS is a Government entity falling under the remit of the Ministry for Tourism. As an entity, its structure and functioning is regulated through the Institute for Tourism Studies (ITS) Act, Chapter 566 of the Laws of Malta, enacted on 11th November 2016, together with all corresponding subsidiary legislation establishing certain bodies which are key to the day-to-day functioning of the Institute.

Its highest governing body of the Institute is the Board of Governors, composed of a Chairman, Deputy Chairperson and seven (7) Board Members, together with an appointed Secretary, all of whom act in their own personal capacity. The Board of Governors oversees the strategic direction of the Institute so as to ensure the smooth functioning of the Institute. Legal representation of the Institute is vested in the CEO.

The Institute does not run on its own steam per se, although it does generate income from the provision of courses as well as through its restaurants, receiving three (3) main line votes from the Government of Malta – one for recurrent expenditure, a minor one for capital expenditure and one for the distribution of student stipends to all local students.
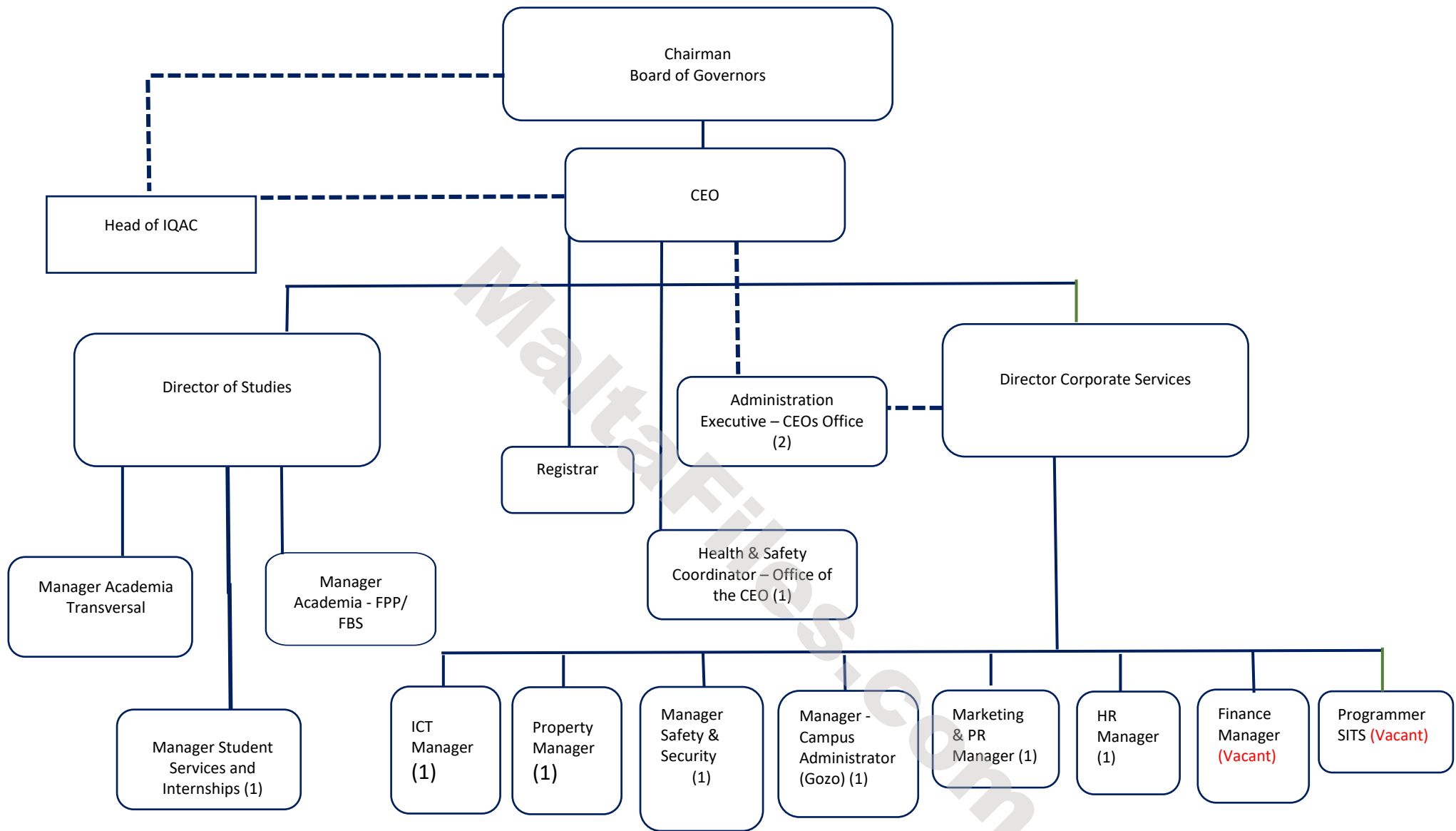
6.2. Organisational Structure of the ITS

The latest organisation structure of the ITS is provided in Figure 4 overleaf. As previously described, the ITS is governed by a Board of Governors made up a Chairman, Deputy Chairperson, Board Secretary and Directors, all being non-executives and hence not involved in the day-to-day management of the entity, save the CEO which sits on the Board but has no vote so that the strategic vision of the entity can be implemented through his involvement.

The day-to-day operation of the ITS is then divided into three (3) main sections: The Corporate Services Section, the Academic Studies Section, and the Registrar, as detailed below:

- The **Corporate Services Section** is headed by the DCS who oversees various aspects of the operation of the ITS, including Information and Communication Technologies, Property Management, Safety and Security, Gozo Campus Administration, Marketing and PR, Human Resources, Procurement, Payroll, ERASMUS Projects, International Office, Finance and SITS Programming. Each of these sections is then, in turn, headed by a manager or assistant manager who oversees the day-to-day management of the section, save the Finance and Strategic Information Technology Systems (SITS) Programming section as the posts remain vacant at the time of writing of this report and as per the organigram provided.

- The **Academic Studies Section** is headed by the Director of Studies who then controls and oversees three (3) main sections of the operations of the ITS – Library and Resource Management, Academia Student Support & Web-based Learning, Curriculum Development, Internships, and Academia and Lecturer Management. A number of managers run this section of the ITS's operations.

- The **Registrar** then acts as a third arm and reports directly to the CEO. The Registrar is specifically responsible for all documents from the application stage up until the student graduates while also taking care of all scheduling elements, including the preparation of annual timetables, as well as any disciplinary matters in conjunction with the Board of Discipline.

Finally, the IQAC, a body in its own right, set up through the enactment of the Internal Quality Assurance Committee Regulations, Subsidiary Legislation 566.01 of the Laws of Malta, is composed of two (2) persons working on a full-time basis to ensure that the quality of the ITS remains of the highest degree possible. This Committee is head by the Head of Committee plus a clerical member of staff. The unit reports directly to the Board of Governors and to the CEO and operates in an independent manner so as to ensure that no conflicts of interest arise.

Figure 4: Latest organisation structure of the ITS used for the purpose of this report (simplified version)

7. The Control Environment at the ITS and Corporate Governance

The control environment of an entity sets the tone for the entire organisation, influencing the control consciousness of the employees and all those within the organisation. It relates specifically to a set of standards, processes, and structures that provide the foundation for carrying out internal control across the organisation. In the case of the ITS, the Board of Governors, composed of a Chairperson, a Deputy Chairman, a Board Secretary and seven (7) other Members, together with the presence of the CEO who has no voting power, establishes the tone at the top with respect to the importance of internal control within the ITS, working in close collaboration with the extensive senior management team. The tone at the top established by any entity, including the ITS itself, is usually pivotal in ensuring that its operations are efficient and effective in reaching the objectives of that organisation. This aspect, however, is made up of a number of key components which work hand in hand to achieve the desired control environment, as discussed in detail hereunder.

7.1. The integrity and ethical values of the organisation

The general sentiment provided during the meetings and discussions held with the CEO and members of Senior Management was that the strictest levels of integrity and ethical values are adopted at the ITS, especially when taking into account the fact that the team on board nowadays faced at situation five (5) years ago in which no standards, policies or procedures were in place and in which the ITS faced a dire situation.

With respect to integrity and ethical values, the Policy of the Board of Governors is to have a code of ethics defining, guiding and facilitating decision making in relating to a number of behavioural standards amongst the Staff, Stakeholders and Partners of ITS including, but not restricted to, learners (students), lecturers, support staff and business partners. In fact, the ethics and code of conduct of the ITS is made available online for all stakeholders (staff, students, and external partners) to view, based on the principles of trust, honesty, and professionalism. **However, the copy of the policy made online is not dated, nor is it signed by the CEO and no indication is given as to when it was last revised. It is being recommended that such a document be replaced by a signed version so as to add to the credibility of the ITS as an Institute and give the policy more strength.** Moreover, it is important that such a policy, be communicated to all staff levels during their induction, and be monitored on a regular basis and updated in line with the exigencies of the entity.

Some committees are also appointed at an executive management level in cases related to conduct and ethics that do not specifically fit within the current established policies and procedures of the ITS. For instance, the Student Cases Board (SCB), in which two (2) representatives of the Board of Governors will assess a particular situation brought forward by a student relating to misconduct or an issue of an ethical nature and a decision, is then presented to the Board of Governors for its final seal of approval. Students also have the right to appeal.

A Disciplinary Board is also present at the ITS which is composed of an ex-judge as a Chairperson as well as two (2) non-executive members, one hailing from the legal field and another from the human resources sector with the Registrar acting as a prosecutor – such a structure also has the seal of approval of the Ministry. The Board evaluates a number of cases presented by the Registrar where misconduct is observed and a recommendation is made to the CEO on what the course of action should. The CEO, in such cases, has the final word and has to sign for his approval. Students have the right to be presented by a lawyer if they appeal a decision. **Such mechanisms, in our view, help to strengthen the control environment present at the ITS and improve further its environment promoting integrity and ethical behaviour. Nonetheless, having the Board members rotate ever five (5) years, for example, might help ensure that no situations where independence might be threatened arise and help avoid complacency.**

Nonetheless, we would like to remark to this effect that situations giving rise to a potential conflict of interest have seemingly occurred in the past and current practice seems to be such that any conflict of interest is declared up to a ministerial level, with members standing on particular bodies, such as the SCB, standing down from their position when issues of independence arise. **Codifying such situations where a breach of independence may arise and formalising the procedure involved will strengthen even further the existing control environment in place and keep the risk of control risk materialising at bay.**

7.2. *The parameters enabling the board of directors to carry out its governance oversight responsibilities*

The Board of Governors in the case of the ITS is appointed by the Government of Malta. Hence, out of the maximum nine (9) members that can be elected on the Board, three (3) need to be appointed by the Ministry for Education while six (6) need to be selected by the Ministry for Tourism. However, it is to be noted that the directors of the Board of Governors are all non-executive individuals, not involved directly in the day-to-day management of the operations and hence can observe the functioning of the KITS from an external viewpoint which hence helps to improve the corporate governance of the entity and strengthen the control environment.

This is in line with the recommendations of the first principle of the Principles of Good Corporate Governance for Public Interest Companies issued by the Malta Financial Services Authority (MFSA) which, although not applicable to an entity such as the ITS, provides important guidelines of what corporate governance principles entities which are important for the public interest should abide by. While the CEO also attends Board meetings, he is merely present in order to bring to the table pressing matters that require a decision from the Board and hence he has not voting power. The CEO, hence, obtains the necessary direction from the Board who then is in charge of implementing it and ensuring that it is carried out in the manner decided upon. Motions are presented to the Board by the CEO and are approved formally (or otherwise) by the said Board and resolutions are usually passed and signed.

One point to mention in this regard is that, given that the appointment of such Board members depends on the administration in Government, it usually changes every time that there is a change in Minister heading the Ministry of Tourism. A case in point is the recent appointment of the new Minister, Hon. Julia Portelli, in which case the then Board members were asked to resign back January and it was up to the new Minister to actually re-appoint or accept the resignation of the Board members. The new Board of Governors in fact commenced its work during the operational review performed on the ITS.

Given that the Board of Directors is hence based on political appointment, considering the commercial nature of the entity, it might introduce a certain level of instability in the management of the ITS, especially in times of political strife. Nonetheless, the handover process from one Board to the next seems to transition quite efficiently, with the CEO of the ITS and his team preparing voluntarily, without any obligation to do so, an end-of-term report which summarises the main achievements of the previous Board, the HR structure, the financial performance and position of the entity as well as some pending key matters so that the newly appointed board can take over from the previous in a smooth manner.

It is customary for the Board of Governors to meet once every six (6) months, although a quarterly meeting may be held should the need arise. Hence, while most of the executive day-to-day decisions are made by the CEO who is particularly responsible for implementing the direction selected by the Board for the ITS, all decisions made by the CEO are communicated to the Board of Governors, in an official manner, through the Board meetings held, and in an unofficial manner, through conversations held with various members of the Board in which they communicate on a regular basis on urgent matters that might not permit the scheduling of an official meeting within a short period of time. All activity carried out and decisions made by the Board of Governors are carefully minuted.

Moreover, a particular point which we believe is a major strength of the Institute and which adds a further layer of support to the control environment setting the tone at the top through the Board of Governors is that, other than the Board meetings held, an Executive Committee, composed of the CEO, Director of Corporate Service, Director of Studies, Head of the IQAC and Registrar, meets on a regular basis to implement strategies discussed at a Board level as well as discussing key elements of the operations of the Institute. For instance, during the time when the operational review was carried out, the Institute was working on a strategy and contingency plan for the upcoming academic year and analysing different scenarios in line with the COVID-19 outbreak.

7.3. The organisational structure and assignment of authority and responsibility

With reference to the organisation chart displayed in Figure 4 above, we believe that the current structure operates quite well and smoothly, with individuals having clearly defined roles and responsibilities and with lines of authority and responsibilities being well established and understood by members of staff at the ITS. Nonetheless, after our analysis of the chart itself and the discussions held with the various levels of management, **we particularly recommend that efforts should be made in securing a Financial Controller for the ITS as soon as possible, especially given the size of the Institute and its considerable financial transactions, although we do understand the Cost Controller in the structure present in Figure 4 above should have been appointed as Financial Controller during the course of the operational review.**

7.4. The process for attracting, developing, and retaining competent individuals

While it has been noted that the level of staff turnover at the ITS is close to none, with the ITS having good employee retention with very few terminations occurring during the year, when raising the point of attracting and developing new talent to better improve the quality of service of the ITS and smoothen its operations even further, it was highlighted that the remit of the Board of Governors is significantly limited. To this end, the Human Resource Manager explained that attracting new individuals to the entity is subject to the scrutiny of the People and Standards Division of the Government of Malta. Every addition to the headcount of the ITS requires the explicit approval of the said Division following the submission of an annual Human Resources Plan (through an annual allocation made to headcount by the said Division) and hence, even if the Board of Governors approves the engagement of a new person, this will not count without approval aforementioned.

Finally, in order to maintain a high level of competence amongst the members of staff, employees should be encouraged to carry out training, especially given that there is training available from the Institute for Public Services (IPS). To this end the Human Resources (HR) Manager explained that a number of academics have benefitted from getting their qualifications sponsored from ITS which has allowed them to progress their studies and knowledge further for the ultimate benefit of the students. However, the training offered to staff is usually on ad-hoc basis depending on either the initiative of the individual member of staff or else any identified need following the issuance of a course from the Institute for Public Services (IPS). To this end, **it is being recommended that a training gap assessment/analysis be performed on an annual basis, preferably in line with the performance appraisals performed, to identify any lacunae in staff knowledge and training and preparing an appropriate training plan for the subsequent year.**

7.5. *The rigour around performance measures, incentives, and rewards to drive accountability for performance*

In a discussion held with the CEO of the ITS, it clearly emerged that the associated performance incentives and rewards given to the senior management of the entity are ultimately dependent on the performance of the bottom line and hence, ultimately, how much profit is generated or how much loss is mitigated. To this end, the latest Directive 7 approved by the Board of Governors for the period 2017-2019, indicates that CEO and Directors may receive a performance bonus of up to 15%, with Mangers, the Registrar, the Gozo Campus Administrator and any Heads being entitled to a bonus of up to 10%.

However, when asked if some form of performance appraisal mechanism is in place in order to be able to compute the expected performance bonus of each member of senior management, it was identified that no such system exists and, hence, the suggestion of how much bonus each member of management may receive is proposed to the Board of Governors and subject to their approval. There is hence no formal mechanism or system in place that can back up the incentives given and act as a motivating factor in reaching targets set, as also confirmed with the Human Resources Manager who explained that the performance of lecturers and other academics is usually assessed through set forms yet in terms of all other personnel working for the ITS, performance is discussed informally through meetings held between the member of management and the employee.

It is hence being recommended that, in order to drive accountability for performance of the members of senior management of the ITS, a fully-fledged performance measurement and management system is introduced in order to highlight how much of the 10% or 15% each manager should be entitled to receive on an annual basis. Such a mechanism should essentially be based on the achievement and performance of each manager in achieving certain Key Performance Indicators (KPIs), determined by the Board before the end of each financial year in line with the strategy of the ITS, including not solely financial indicators but also non-financial indicators. These KPIs are then to be clearly communicated to the respective managers and meetings held throughout the year to assess the progress in attaining such KPIs so that constant and constructive feedback is provided. The performance management and measurement system in place, in addition, should also be approved by the Board of Governors once introduced and any changes to it are to require a unanimous vote.

Having such a system in place, in our view, would give more accountability and, although it is recognised that the current management has helped the ITS make considerable strides forward, especially since the appointment of new management team of the entity, a standardised performance measurement and management appraisal system would not only ensure fairness in the calculation of performance bonuses but motivate management even further to reach the targets set and hence improve even further the operational efficiency of the entity. This would be akin to the commercial nature of the ITS.

8. Risk Assessment at the ITS

Every entity faces a variety of risks from external and internal sources. Risk is defined as the possibility that an event will occur and adversely affect the achievement of objectives. Risk assessment involves a dynamic and iterative process for identifying and assessing risks to the achievement of objectives. Risks to the achievement of these objectives from across the entity are considered relative to established risk tolerances and hence risk assessment forms the basis for determining how risks will be managed. While the ITS does not have a specific function within its structure that specifically caters for the assessment of risks and their management, a number of the principles forming part of this fundamental overarching objective are catered for indirectly though not formally documented in appropriate policies and procedures.

8.1.   *Specification of suitable objectives*

The specification of suitable objectives lays the groundwork to do the risk assessment itself. Any entity is recommended to describe its operational, reporting (external financial, external nonfinancial, internal) and compliance objectives. While setting strategies and objectives is usually not part of the internal control process per se, objectives form the basis on which risk assessment approaches are implemented and performed and subsequent control activities are established and are usually divided into three (3) broad categories: operational, reporting and compliance objectives. In the case of the ITS:

- From an **operational** objective viewpoint, the strategy-setting organ at the ITS is the Board of Governors which regularly revises its strategic objectives in line with external forces impact the operations of the Institute together with the internal decision on which areas should be focused on. In particular, the strategy of the ITS for the period 2021-2026 is being devised through a collaboration of external expertise (through a commission of a study carried out to analyse the current key market trends), external stakeholders who have been invited to give their input, especially through their involvement in the Scientific Committee as well as internal stakeholders through regular meetings held at an executive level and regular feedback obtained from students through questionnaires prepared by the Curriculum and Research Office.

- In terms of **reporting** objectives, as identified by the guidelines of the COSO Framework, the ITS is largely governed by its requirements to present regular monthly reporting to the Ministry for Finance, largely in terms of how much of its line votes, provided each year during the announcement of the Government budget, has been used thus far and what it has been allocated to. Other than that, important internal reporting deadlines are also placed by the ITS itself, such as the preparation of monthly management accounts to reflect the position of the ITS on a regular

basis and adjust the strategy accordingly. These reporting mechanisms seem to be functioning well at the ITS as from evidence obtained during sampling carried out.

- Finally, from a **compliance** objective perspective, the ITS, as any other Government entity needs to comply with the various recommendations and guidelines issued by such entities as the Ministry for Finance (and its circulars on proper financial management), the Department of Contracts (for procurement purposes) as well as the People and Standards Division (for the recruitment and engagement of human resources). These are inherent to its operations as Government entity falling under the auspices of the Ministry for Tourism and Consumer Protection. Moreover, from a compliance viewpoint, the operations of the ITS are significantly impacted by the recommendations, guidelines and principles of the NCFHE, which requires the ITS to maintain a quality assurance framework that is in line with key principles established by the aforementioned entity. Hence, the IQAC plays a crucial role in setting the compliance objectives of the ITS.

8.2. *Identification and Analysis of Risks involved*

While the objective-setting process at the ITS is clearly delineated and functions adequately, we believe that more emphasis should be placed on the identification, assessment, and management of risks within the ITS. To this end, we suggest that based on the objectives of the entity, a thorough assessment of what potential risks could arise should be carried out and the expected likelihood of the risk materialising as well as the expected impact and severity of risk on the ITS if the risk were to materialise be determined, using an appropriate risk management tool such as a risk scorecard, risk matrix or a heatmap. Such a risk assessment should be regularly revisited to identify any pertinent changes. Engaging a competent individual in this regard would be strongly recommended or subcontracting the exercise to a third-party service provider which is an expert in the field.

8.3. *Assessment of Fraud Risk*

The risk of fraud could potentially act as a major stumbling block in the ITS's achievement of objectives as identified in Section 8.1. To this end, it is important for the ITS to specifically perform an assessment of the extent to which fraudulent reporting, possible loss of assets and corruption resulting from the various ways that fraud and misconduct, can occur and the assessed severity on the operations of the ITS. To this end, the executive management at the ITS should consider:

- The degree of estimates and judgments in external financial reporting
- Methodology for recording and calculating certain accounts, such as inventory and cash
- Fraud schemes and scenarios common to the public sector
- The geographic regions wherefrom the entity attracts clients

- Nature of automation

- Unusual and complex transactions subject to significant management influence

- Last-minute transactions

- Individuals that are in a position to circumvent and override fraud controls

- Review pressures and incentives in compensation programmes that would allow management and employees to consider fraud

Once a thorough assessment of the above is carried out, appropriate mitigation strategies should be devised to ensure that the risk of fraud materialising is minimal. **As alluded to further in this operational review, having the IQAC to act as a watchdog, to a certain extent, aids significantly in the assessment, identification, management and curtailment of risks which would keep the ITS on its toes and ensure that no abuse is carried out.**

8.4. *Identification and Analysis of significant change*

Once the risk assessment is carried out, it is not cast in stone. It is important for the organisation to continually monitor and assess change on an ongoing basis — both externally and internally —that could have an impact on the risks faced by the entity in reaching its strategic objectives. External changes include those in the economic, regulatory and physical environment as was, for instance, the recent COVID-19 outbreak which had a considerable impact on the operation of the ITS given that it relies heavy on attracting students from abroad while most courses involve a practical approach which require hands-on lectures. This major change was immediately tackled by the executive management team and a plan of action was determined, spearheaded by the CEO, to steer the focus of the ITS on devising a new way of operating by emphasising more the virtual environment and virtual methods of assessment while devising a contingency plan for the upcoming academic year that takes into account the current circumstances and the restrictions they bring about. Internal changes include those in company's business lines and operations, overseas markets and operations, new technologies, as well as changes in leadership and company philosophy.

9. Control Activities at the ITS

Control activities are the actions established through policies and procedures that help ensure that management's directives to mitigate risks to the achievement of objectives are carried out. Control activities are performed at all levels of the entity, at various stages within business processes, and over the technology environment. They may be preventive or detective in nature and may encompass a range of manual and automated activities such as authorisations and approvals, verifications, reconciliations, and business performance reviews. Segregation of duties is typically built into the selection and development of control activities.

More specifically, the control activities of an entity are typically analysed at three (3) main sub-levels:

(i)   the general control activities of the entity to reach objectives and minimise the exposure to risk,

(ii)   the control activities related to technology, and

(iii)   the control activities in terms of setting policies and procedures.

Each of these sub-levels shall now be considered within the context of the ITS – control activities shall be identified, and, based on the sampling activities and walkthroughs carried out, their effectiveness shall be assessed and recommendations made.

9.1.   *Selection and Development of Control Activities*

a. Control Activities with respect to procurement procedures and processes

The system of procurement at the ITS is divided into two main significant branches: the procurement of food and beverage as well as the procurement of all items other than food and beverage. Both sections are headed by a corresponding assistant manager to ensure that there is clear delineation between the procurement of both types of items.

A detailed analysis of the review performed for each forms of procurement is indicated in the two sections that follow.

The Procurement of Food and Beverages

The controls in the case of food and beverage inventory, which is central to the operations of the ITS, have improved significantly when compared to the weaknesses identified in the report issued by the IAID back in October 2012. In particular, we note the following improvements in light of the pertinent issues highlighted by the IAID back in 2012:

(i)   the Food and Procurement Store at the ITS is a segregated store headed by an Assistant Manager for Food and Beverage Procurement, reporting directly to the Director for Corporate Services, with experience in the field of hospitality and in the operation of kitchens, and composed nowadays of a team of circa twelve (12) members of staff (including the Manager), each carrying out a different aspect of the procurement process, from the administration work necessary to handling of food and distributing to the kitchens as per requisitions made. This helps to ensure that the necessary segregation of duties that was lacking in the past is nowadays strengthened. More specifically:

    a. The Assistant Manager oversees the overall procurement process from ordering to storing to distributing;

    b. One administrative clerk is associated with issuing product lists as well as summaries of requisitions which are introduced to the MC computerised system;

    c. One clerk takes care of all purchase orders and is in charge of the kitchen technicians to assign them to a particular kitchen;

    d. Three (3) storekeepers manage the stores;

    e. Six (6) individuals take from the stores and distribute to the kitchens.

(ii)   A standardised requisition form which cannot be tampered with by any user making use of it can be downloaded by lecturers so that they can indicate their details and the number of students/customers they are expecting for a particular week for which the form is being prepared. Details on the lecture and time are filled in and the form is sent to a specific email addresses dedicated solely to requisitions. The form is stored on Sharepoint and hence can be downloaded from the Cloud.

(iii)   In order to keep waste to a minimum and reduce the storage costs associated with keeping inventory, requisition forms are requested for batches of three (3) weeks so that a "shopping" list of required items is prepared well ahead of the planned lecture so that all materials are made available to students. In addition, the requisition forms are to be sent five (5) weeks prior to the scheduled lectures.

(iv)   The standardised requisition form does away with the need to require manual approval from the DCS or the CEO for each and order made which can significantly stall the process of procurement. The form is pre-authorised by the aforementioned individuals and cannot be amended by lecturers apart from where necessary. Any amendments to the requisition forms are generally not seen to except in emergency situations when the case is genuine – in such cases an email is required from the lecturer to explain the reason why additional ingredients are being requested.

(v)   Once all requisition forms are received, a list of ingredients by category (dry foods/meat/fish/poultry etc.) is prepared and sent to the database of suppliers that has been accumulated by the ITS over the years. In order to ensure that the cheapest price possible, in line with technical specifications, is obtained for particular goods, the ITS nowadays has a database of twelve to thirteen potential suppliers for each category (known as a market list) which receive the list of ingredients required from the procurement team and are invited to submit their quotations via email within five (5) working days from the receipt of the email for their quotation.

(vi)   Once the respective suppliers as per the quotations received are selected, then a purchase order is issued and signed by the Assistant Manager of the Food and Procurement Department.

(vii)   Once the delivery with the food or beverages arrives, the invoice is compared with the purchase order and the goods received. A storekeeper checks the material and signs the purchase order to certify that the supply has been made in good condition complying with the specifications specified in the purchase order. If the purchase order is not in line with the invoice, it is cancelled on the MC system and a new is issued and signed once it complies with the invoice. The invoice is also certified as correct by the Assistant Manager.

(viii)   A computerised system, known as Materials Control (or MC for short), was also introduced two (2) years ago so as to control the inventory levels at the ITS from a food and beverage perspective. A just-in-time system is adopted as much as possible, thanks to the introduction of the new system, especially given the nature of most goods procured which are of a perishable nature. Waste is hence kept to a minimum and little adjustments are made to the control system in this regard.

(ix)   Temperature-controlled chambers, in line with the requirements of the Hazard Analysis Critical Control Point, are also in place to ensure the least possible wastage. A freezer is in place to keep all meat and fish as well as a pre-chamber for cooling down and a cooling room while all the stores are airconditioned. All food handlers need to be certified and valid food handling licence to be able to work at the Stores.

(x)   A physical stock take is also carried out once a year with the presence of someone from the finance team.

Through observations and walkthrough testing performed on the inventory control system in place currently in the Food and Beverage Procurement section, while noticing the remarkable improvement as highlighted in the previous section, we note some weaknesses which we feel should be addressed so as to ensure that the processes in place run even smoother:

(i) While we do understand that, given the nature of stock held by the department is one of a perishable nature, a better control system should be in place to determine maximum, minimum and reorder levels for different items of inventory so as to ensure that waste is kept to a minimum.

(ii) The concept of net realisable value is not considered in terms of the valuation of stock albeit the fact that most items are of a perishable nature and hence their value might be well below their cost. This could mean that the value of inventory in the financial statements is higher than it actually should be, contrary to the concept of prudence which is often at the basis of financial statements. This will become particularly important once a system of accrual accounting is introduced away from the current system of cash accounting.

(iii) Related to the concept of control, it is to our understanding that the current inventory control system in place at the ITS which has been computerised does not specifically cater for issues of items from the system to the kitchens and hence an improved solution should be discovered that could also perform the necessary issues of stock, costed as should be, and record them on the system. If a reconsideration should be made of the software currently in use to provide a more holistic solution, then a cost-benefit analysis of introducing a new system should be performed.

(iv) Linking the inventory control system to the accounting software, especially once a new system catering for accrual accounting is introduced, should be considered.

(v) A formalised procedure manual for the processes to be followed in the procurement process of food and beverages at the ITS should be drafted, based on the procedure outlined by ITS back in 2015 in a management letter drafted by senior management in response to the comments of the IAID, revised for changes obviously.

(vi) It is also our opinion that while having a standardised locked requisition form is of benefit, preparing an order list on Excel based on the various requisition forms through manual entry can give rise to manual error, as per discrepancies noted in the documentation provided during the sampling process.

A final remark refers to the framework agreements that the IAID had suggested in its report with respect to the procurement of food and beverages but also extending to the procurement of other items. It has been clearly indicated by both the DCS as well as the Assistant Manager in the Procurement of the Main Stores that this process has been tried yet unfortunately it has proven time and time again that it does not work within the context of the ITS.

The Procurement of Non-Food and Beverage Items – Main Stores

In the case of the main stores, which deals with all aspects of procurement other than involving food and beverage, an Assisting Manager heads the section and oversees the process, reporting directly to the DCS. The team is also made up of a clerk and an office assistant who work purely on preparing the necessary documentation, following up all orders and issuing the necessary purchase orders, while a senior storekeeper is also within the team to take care of the stores. The section deals specifically with the tendering process for the procurement of items that are not considered to be micro purchases, as per the policy of the ITS (i.e. any purchases not below €500 which would usually require the approval of the DCS herself). In the case of the procurement of items of a value below €5,000, three (3) quotes are usually requested with the cheapest technically compliant bidder being selected, although this threshold is usually reduced internally to €2,000 so as to ensure that a standardised process and transparency are adopted. **Direct orders are kept to a minimum as much as possible to ensure that a system of transparency is always adopted.**

A physical stock take is carried out in conjunction with the accounting team on an annual basis with regular spot checks performed both by the Assistant Manager as well as the finance team. The same MC system used for the Food and beverage procurement department is also made use of by the Main Stores. A requisition is usually made directly from the Director of Studies or the DCS, **although no standardised requisition form seems to be in place which, in our opinion, should be prepared and signed by the issuing and receiving parties**. For each tender that needs to be issued, a list of technical specifications is issued so that a market list of potential bidders can be compiled whenever a request for proposals is issued (not through the online public procurement system).

Such bidders are then requested to submit their prices within five (5) working days and a suggestion is made to the Directors and the CEO on which bidder which was the cheapest technically compliant bidder. A purchase order is then issued to the successful bidder. All transfers made from the stores are sent through MC, with the Assistant Manager accepting the transfer and the receiving party having to sign once he or she collects the items as an acceptance that the goods have been given to him or her.

A strength observed in the procurement policy of the Main Stores was the fact that the value of the stores is kept to a minimum as holding inventory costs money. In approximately four and a half years, the value has gone down by circa €30,000 with a very few items being kept in the stores which are obsolete. It is recommended that such items are written off so as to ensure that the value of the inventory remains a true and fair representation of the operations.

Minimum stock levels as well as reorder levels and quantities should also be introduced for items that are procured on a frequent basis, an action that is in the plan until the relatively new storekeeper, coming from another department, acquires a good understanding. The introduction of the storekeeper, however, has introduced more control and oversight as the four-eyes principle can apply given that both the Assistant Manager of the Main Stores and the storekeeper have responsibility of the stock entering the stores. The Procurement team at the Main Stores is also looking at the possibility of controlling more the waste generated and quantifying its value, a limitation of the MC system which cannot provide such information.

A policy and procedure manual for the procurement process is also in place yet it is has not been updated for the past two (2) years or so and hence cycles of approval and procedures should be ideally updated to reflect the current modus operandi. The Assistant Manager is aware of this fact and will do his utmost to give this element a priority, especially given that this is one of the points that has been raised by the IQAC.

In the case of items beyond €10,000, a fully-fledged tender using the online public procurement system is drafted, with bids being evaluated by an appropriate evaluation Committee – this is usually made up of a chairman, three (3) evaluators and two (2) other staff with the Assistant Manager of the Procurement of the Main Stores, including individuals that will not be directly involved in the item or service to be procured (such as lecturer for example). A secretary also follows the process and ensures that all exclusion criteria are not present. A purchase order is then issued to the selected bidder in either case and any discrepancies from the purchase order are not accepted. This process, through appropriate sampling carried out and walkthrough testing, was observed to function appropriately with the necessary documentation (purchase order, invoice, tender documentation) being in place.

Following a sampling exercise of various items procured by the ITS, from repair and upkeep fees to travelling costs, utilities and contractual services, the system of internal control with respect to the procurement of goods and services was deemed to work particularly well, with a letter of acceptance, often signed by the CEO himself authorising the purchase, being issued and corresponding invoices (certified as true copies) as well as payment vouchers approved by the DCS being made available for all items procured that were tested.

b. **Control Activities with respect to project management**

An international office is in place at the ITS which seeks to promote the use of EU funds for the operations of the Institute and offer them to its stakeholders. To this end, the office is currently run by one Officer which coordinates primarily funds received from ERASMUS+ for internships which are held every year. A number of exchanges and job shadowing projects are offered to students through these funding opportunities, with the ITS recently also being awarded funds on a project related to quality assurance bearing the title LIFE.

While we strongly encourage the ITS to continue to apply for these opportunities and to give opportunities to its students emanating from such funds, it might be a good idea to increase the manpower of the office so that fuller use can be made of the funding available. It is to our understanding, nonetheless, as also indicated during discussions held with the DCS as well as the HR plan submitted for 2020, that the office will increase by two (2) more persons to further carry out its role effectively and efficiently. This would allow also for segregation of duties such that persons applying for funds can be distinguished from those managing any funded projects.

c. **Control Activities with respect to finance and operations**

With respect to the financial and operational aspect of the ITS, the control activities currently in place were deemed to be particularly effective, with a number of strengths identified:

(xi) **Management meetings are held on a frequent basis (roughly one meeting per month is held as per sampling carried out) between all managers of the Operations side of the ITS in which the heads of all departments meet to implement the Strategy devised at a Board level.** Any issues identified by the heads of department are raised and included in the agenda for the meeting. These meetings are carefully minuted and signed by the Director for Corporate Services, agenda items clearly explained so as to allow an outsider to understand carefully and individuals required to take action are highlighted so as to ensure that there is a level of responsibilisation. On a more micro level, department meetings are held on a more frequent basis, though informally, so as to allow for flexibility.

(xii) **The Finance team is well structured composed of an assistant manager, two (2) accounting officers and a senior clerk.** To this end, a particular strength in the control activities of the ITS is the recent introduction of a second accounting officer who's work is purely based on taking care and chasing debtors, making sure that there is a reconciliation between invoices issued and payments, issuing statements to send to clients and controlling funds collected.

This credit control function is particularly important so as to ensure that the ITS has the necessary working capital to run its operations. Moreover, it is to be noted that this individual has experience in the field of debtor management and hence this introduction to the finance function is definitely viewed as a positive aspect of the control activities in place.

(xiii)   **In terms of the cash reconciliation process carried out at the restaurants of the ITS, following a walkthrough exercise carried out with the DCS of the process, a sampling exercise was carried out on lunches and dinners held at the Voyage and Runway restaurants of the ITS.** To this end, we believe that the system currently in place is one that should be commended. Z-readings tallied to the cash reconciliation sheets prepared by the lecturers and students on almost all occasions, with only minor discrepancies noted. Moreover, a system of triple approval is in place, in line with the particular risk of fraud associated with the handling of cash, whereby signatures are obtained from the lecturer preparing the reconciliation sheet, the accounting officer counting the cash received and the accounting officer handling the cash and placing it in the safe held. This system is one that also follows the principle of segregation of duties.

(xiv)   **With respect to the cash system in place, we also particularly commend the system currently in place that ensures that all cash collected from the different restaurants and kept in the safe of the finance team is safely transferred to the Central Bank of Malta through the support of a professional cash handling agent that collects the funds and deposits them safely and securely to the Central Bank.** This system is much better than the previous one which saw members of staff physically taking the deposits to the bank, giving rise to significant risk of misappropriation and fraud. A cash reconciliation sheet with all the funds to be deposited is prepared by the finance team and a deposit slip is also provided, signed by the agent taking the funds to the Central Bank, which can then be compared to the entry made in the DAS accounting software.

(xv)   **A final point with respect to cash handling is that the ITS no longer handles a lot of cash and most of the payments nowadays are made online or via cheque making the risk of material misstatement due to fraud arising from cash handling and management slim.**

(xvi)   We do understand that the current management of the ITS inherited a system five (5) years back which had no policies, procedures or controls in place that would ensure the operational efficiency of the Institute. **To this end, with respect to the recording of assets held by the Institute, we do recognise that the Property department currently keeps stock of all equipment used in various kitchens and equipment in the equipment room,** in the case of the latter detailing shelf by shelf and row by row what assets are in place together with the associated quantities.

(xvii) **An effective petty cash system is in place which, although not made used of often given that all payments under €500 are usually approved by the Director for Corporate Services, with the appropriate authorisations being carried out and appropriate recording of entries.** One person from the Finance Team is assigned custodial responsibility for the funds associated with the petty cash system and the necessary oversight is carried out as all receipts are approved by the expected managers whenever members of staff require to purchase anything of a low-value. From a sample carried out, all cash disbursements were supported by original receipts which verify the amount disbursed and accompanied by the necessary authorisations.

(xviii) **All travel expenses tested for the purpose of the sampling exercise performed involved the necessary authorisations in duplicate from the DCS and the CEO of the Institute, approved also by the Treasury, with the corresponding treasury stamp in place and refund claim for expenses.**

(xix) **The rental agreement that the ITS has with Malta Industrial Parks is signed and correctly filed. Invoices for rent were issued on time and the correct amounts were invoiced to clients, following the necessary authorisations approved from the CEO and the Director for Corporate Services.**

(xx) **The use of the Institute's debit card was also assessed and the necessary controls and authorisations were in place.** In particular, debit card transactions are approved by the CEO when and as required and supporting documentation provided.

While the current control activities in place in terms of operations and finance were, on the whole, evaluated to be positive and to contribute to the operational efficiency, some weaknesses were identified, the remedy or rectification of which would, to our mind, significantly improve the operational efficiency of the Institute and contribute further to its success over recent years. Some of our recommendations to improve the control activities from an operational and financial perspective are the following:

(i) **The meeting minutes held between different heads of the Corporate Services arm of the ITS should ideally commence with the approval of previous minutes and a brief update on previous agenda items.** Moreover, all meeting minutes should be seconded by a member of the management team with a dual signature system being adopted so as to ensure that a representative from the management, other than the Director, has understood the courses of action to be taken and worked upon.

(ii) **While knowing how to carry out tasks within the entire cycle of a particular transaction is of benefit both the individuals as well as the Institute itself, we recommend more use of the four-eye principle to ensure that there is proper segregation of duties, lack of which could heighten the risk of material misstatement.** Hence, for example, the officer issuing the invoice should ideally be someone completely different from the person inputting it in the system – such division could actually help identify potential errors. This seems to be the case, in particular, of one of the accounting officers who is tasked with the issue of purchase orders, the processing of payment vouchers as well as the entire process from invoicing up to payment. She also takes care of the overtime and prepares the VAT return of the ITS. **Better segregation of duties through a redistribution of tasks should hence be considered in the case of the finance team.** All cash handling and management, however, is dealt specifically by the senior clerk who is not involved the invoice processing system per se.

(iii) It is our understanding that the student engagement and onboarding process at the ITS is made up of the following key essential steps, as per a walkthrough carried out with the Director for Corporate Services:

- Receipt of online or manual application
- Review of qualifications and applications received
- Acceptance and rejection of students
- Assistance with formalities with Identity Malta if students are third country nationals
- Issue of invoice in the case of non-Maltese full-time students
- Confirmation of fee payment with Registrar and Finance

Following a walkthrough of the process involved in engaging students at the ITS as well as a sampling exercise of a number of part-time and full-time students for whom documents were requested from application to acceptance, we are firmly of the opinion that the current system in place should be standardised and that a checklist of sorts is to be included to ascertain that all the necessary documents are in hand. To this end, it seems to be the case that student files kept are not structured in a standardised way, as per the documentation provided to us during our sampling exercise and hence we feel that control activities may be weak in this aspect especially since this is one of the revenue-generating activities of the ITS.

Therefore, it is our opinion that a **sequential unique identification number is to be assigned to each student arriving at the ITS with a corresponding physical file kept in a standardised fashion** which should include:

- A copy of the original application form, whether online or filled in manually, together with any initial correspondence with the student asking particular queries;
- A copy of all qualifications required for the course;
- A copy of English proficiency results, if required for the course;
- The acceptance (or rejection letter) once the student has been approved or rejected;
- A copy of the invoice as well as a corresponding receipt once student settles; and
- A copy of all initial forms and documents required from each student with the required stamps and signatures from the different departments.

(iv) **Authorisations to exempt certain students from the payment of fees and/or to allow different credit terms should be not solely recorded via an e-mail, as seems to be the current practice, but should be formally recorded through an appropriate approval form, signed, and approved by the CEO and with the student's signature.**

(v) **While we also recognise the efforts of the ITS in introducing a new clerk to take care of the chasing of debtors, we strongly emphasise the importance of chasing for payment for any dues as certain long timeframes were observed in the sampling exercise carried out of the new students for the academic year 2019/2020 of the ITS.** The role of new clerk should hence be given more prominence. In this regard, a closer link between SITS and DAS should be particularly explored, as discussed further on, to ensure that all dues are recouped and on a timely basis.

(vi) We acknowledge the fact that a lot of effort has been made by the ITS in the past five (5) years to ensure that the necessary controls, policies and procedures are in place to ensure a smooth-running of the Institute, **we strongly recommend that the ITS starts to prepare and update a fixed assets register,** in line with the recommendations issued by the Ministry of Finance through Circular No. 14/99, in order to pave the foundation for accrual accounting which shall eventually be adopted by the ITS and which will entail the need to record depreciation (currently not required due to the cash accounting concept introduced). To this effect, we believe that the fixed asset register should contain as a minimum the following details on each and every asset, be it kitchen equipment, office furniture or IT equipment that would fit the definition of a tangible fixed asset provided for in Circular No. 14/99[1]:

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[1] Tangible Fixed Assets are non-trading business assets that have the following characteristics: (a) a relatively permanent nature in that their useful life is expected to span over a number of years that is not normally less than three years, AND (b) a relatively material cost that is not less than fifty Maltese lira (Lm50) (equivalent to approximately €116.50)

a. A consecutive unique Asset Identification Number (AIN) n line with the guidelines proposed in the Circular. Departmental and section codes are to be considered in this regard in order to identify the location of the asset;

b. The dates when assets were acquired together with the acquisition cost;

c. Quantities of the asset held;

d. Room numbers indicating the location of different tangible assets;

e. The asset type and description;

Room inventory lists to be hung in each and every room as advised by guidelines of the Circular. The NAO should be informed whenever disposals or additions to the tangible assets (on a half-yearly basis via e-mail) as well as write offs are carried out. A certified copy of all inventory should be sent in hardcopy to the NAO at least once a year.

The database should be kept on a spreadsheet and backup security copies should be held in line with standard IT standards. Each department should ideally keep the records of the physical assets received by it in an appropriate store's ledger in the appropriate spreadsheet as specified above. The DCS should then ensure that all the Heads of Department comply with the stipulated procedures. Furthermore, an individual (ideally not below the grade of Executive Officer or equivalent) shall be selected by the Head of Department and entrusted with the responsibility for maintaining the Departmental inventory records and for ensuring that the rules established to safeguard government property are rigidly adhered to. If the inventory item is to be transferred from one room to another within the same Department then the Departmental Inventory Database is to be amended accordingly.

(vii) **In the sampling exercise performed on the cash handling procedures of the ITS, it was particularly noted that all cash sales and cheques received in the period of November 2019 were deposited to the Central Bank on the 11th December 2019. While we do recognise that these were stored in a safe, we strongly encouraged that deposits to the Central Bank to be more frequent given the significant risk of fraud and misappropriation associated with holding cash at the office.** In the remaining two cases, were deposited to the Central Bank within ten (10) to fifteen (15) days, however, which is a much more reasonable timeframe.

(viii) An analysis of the insurance policy in place at the ITS revealed that, while such a policy is indeed duly authorised and signed by respective parties, a number of shortcomings were noticed that should be ideally rectified as soon as possible (which the DCS has informed is the case as contact was established with the broker once the issues were flagged):

 a. The rental agreement states that the public liability insurance should be of €1,165,000 per occurrence (up to a maximum aggregate of €2,350,000) yet the public liability insurance is, as per the insurance policy provided at €600,000 per occurrence, an error that was carried out by the insurance broker who made use of the original incorrect terms that had been used prior to the change of insurance provider carried out with the change of premises.

 b. The rental agreement states that the insurance should be issued on the joint name of the ITS and the Malta Industrial Parks yet most of the insurance policies are addressed to the ITS.

 c. The Deterioration in Stock Policy covers a sum of €10,000 for chilled and frozen foodstuff which might deteriorate. Ideally this value should be updated on an annual basis to reflect an average of the preceding year's value of chilled and frozen foodstuff, although we do understand that the value fluctuates on a weekly basis and that the €10,000 mark is reflective more or less of the usual circumstances as per a physical stock take carried out in April 2020 for which documentation was provided.

 d. Finally, with respect to the policy kept by the ITS on the contents of the buildings, the thresholds should be revised annually based on the estimation of a certified architect in case the value of the buildings and their contents, especially since an estimation from the architect was not obtained.

d. Control Activities with respect to personnel engagement and remuneration

With respect to the control activities performed for the engagement of employees, it is to be noted the ITS does not have much control over the recruitment and engagement process given that the People and Standards Division is the one that oversees and regulates the process of each new recruit at the ITS. As previously explained, an HR Plan is submitted on a yearly basis to the People and Standards Division and an allocation is given in terms of headcount which the ITS then decides where to place such allocations depending on the needs of the Institute at the time (for instance, in the latest HR Plan submitted as at 31st December 2019, a total of sixteen (16) new recruits were requested to the Division).

Recruitment and engagement of employees is usually on the basis of a termination of a previous employee, secondment with replacement or else the retirement of an individual and a case needs to be built for each proposed recruitment, making hence the personnel engagement process somewhat rigid although this is beyond the control of the ITS itself. The process nonetheless is well controlled by a body external to the ITS and hence the control level is expected to be quite high in this regard. A file for each new recruit is also kept and may be requested upon inspection carried out. This process, however, is not applicable in the case of academics for whom recruitment can be carried out more flexibly.

In terms of the remuneration of employees, a sample collected from a recent payroll revealed that the wages and salaries reflected the conditions and stipulated increments and allowances laid out in the Collective Agreement issued for non-managerial (administrative) staff levels and the Directive 7 and approvals of the Board of Governors for managerial staff. A part-time employee is particularly employed with the ITS as an administrator of all payroll-related matters. Such a person monitors which members of staff need to receive progression and which members of staff should receive an increase in their salaries. This particular separation of the payroll function vested in the hands of one particular individual, who is segregated from HR personnel recruiting and engaging new employees and from the finance team responsible for the recording of overtime, is commended as it **allows for the necessary segregation of duties.**

All employees at the ITS are requested to punch in and punch out (through a face recognition software) through their staff card in order to be able to determine how many hours of work they carry out during the day. The administrative assistant checks these reports on a daily basis to identify who reported sick and if there was any lateness. He also sends the attendance first thing in the morning to the HR Manager and the DCS. Overtime schedules (although overtime is kept to a minimum) are prepared and pre-approved by the DCS whenever there is overtime required through the filling in of an appropriate pre-authorisation sheet. These are then checked against the face recognition system readings to see if the actual overtime was carried out. Leave is also booked using an appropriate form to be signed by the appropriate line manager. Vacation and sick leave also involve filling in a form and getting an approval from the manager, which is then sent to a processing clerk to input the data into the payroll system. While the aforementioned processes and procedures are to be encouraged, operational efficiency could be significantly be improved if these processes were to be computerised, reducing the risk of material misstatement due to fraud or error, and improving the remuneration process.

9.2. *Selection and Development of general controls through technology*

The use of technology is central to the operations of most modern organisations, no matter in which sector or industry they operate. The ITS is certainly no exception with a number of systems being used to manage the day-to-day functioning of the Institute, these being mainly an accounting software to keep the accounting up-to-date (DAS), a payroll system to prepare the monthly wages and salaries and associated FSS compliance (Dakar), a stock control system associated with the stores where all inventories are kept as well as SITS, a system that manages all student applications, enrolment and virtual learning environment that the ITS receives throughout the year.

While it was generally noted that the personnel make use of these systems in their own individual right, we believe that control risk and the risk of material misstatement due to error could be reduced significantly if the systems were linked and if a **centralised system** were developed to link the different departments and functions at the Institute. **The ITS should hence look into investing in a robust Enterprise Resource Planning (ERP) system that centralises all the departments' work and improves the efficiency of workflows.**

The booking system currently in place at the ITS for clients wishing to book a table at one of the restaurants operated by the lecturers and students of the ITS is one that is significantly manual, based essentially on a form that is kept on Microsoft Excel. **While we do understand that investing in yet another system would entail significant costs for the ITS, we believe that a computerised booking system for bookings should be kept** to keep statistics of number of clients while also keeping a control over guests visiting the restaurant and comparing to cash sales made to ensure that the expected sales are in line and that no major discrepancies arise that could signify an override of the current cash reconciliation system in place.

Moreover, it would be particularly more efficient if the accounting system were linked directly to the SITS system which takes care of all the student applications, enrolment and provides the platform for students and lecturers to interact. SITS is a very developed and advanced tool yet the ITS does not currently make use of its full potential albeit the system being in place for more than five (5) years now. At this stage, data on students applying for a course is received and stored on the system yet no automatic invoicing system is in place to automatically issue invoices based on corresponding fees and track payment accordingly. We understand, as per discussions held with the DCS, then this shall be considered once a new accounting system is in place that works on an accruals basis given the limitations of the DAS system which works on a cash accounting system.

In addition, a number of payroll-related tasks, such as the logging of overtime, vacation and sick leave and the logging of punch in/out is still based on a manual system as discussed in Section 9.1 (d), with a number of forms that need to be signed and with the manual input of data in an Excel system or the payroll system (Dakar) as carried out by an administrative assistant/clerk. **While having such systems in place is better than having no system at all, the operations of the Institute could definitely be far smoother is the logging of attendance, overtime and leave could be done through the use of technology, being fed eventually into the payroll software currently in use to ensure that no transcription or omission errors are made when shifting the data from one form to another.**

The IT Function at the ITS and its impact on Internal Controls

Following the Information Technology Audit issued by the Auditor General back in 2013, performed on the IT infrastructure of the ITS, we felt it was appropriate to also review this aspect of the operations of the ITS so as to provide our recommendations as to whether the recommendations made by the NAO have been truly and effectively implemented by the current management at the ITS. The table hereunder summarises the main comments raised by the NAO and our views as to whether these recommendations have been truly seen to.

Recommendation raised by the NAO in 2013 Report	Has the Recommendation been implemented?	Basis of Opinion
The unit should be headed by a qualified Head of IT. The Head of IT should extend the current IT operations to include IT management functions not just hardware support.	Yes	The current Head of IT at the ITS holds a Degree in Communications and Information Systems who is then assisted by two (2) IT officers. The remit of the department goes beyond just solving issues with the PABX telephone system, PCs, workstations, networks and printers (the main hardware of the ITS) but also extends to various new IT management functions such as fostering an environment of IT use at the ITS and the development of appropriate IT policies.

Formalisation of an IT Strategy needed.	Partially	While a fully-fledged IT Strategy in its own right was not developed by the ITS, a strategy that acts as a plug-in to the general ITS strategy and one that is based on a vision for the ITS in terms of ICT has been carried out. The main IT strategy centres on the concepts of increasing the level of IT use at the ITS, given that a lot of manual processes are involved, to encourage the concept of remote hosting, to make use fully of equipment available and to become as independent as possible in IT management to reduce dependency on the restrictions of MITA. Devising an IT Strategy based on these principles with established targets and KPIs should be given perhaps priority to make even greater strides forward.
Cost/benefit of its current IT and Information Systems investments.	Yes	A reconsideration of the entire IT infrastructure was carried out when the new management team took over five (5) years ago to determine which equipment should be kept and which should be removed as well as what further courses of action can be taken to get a greater return on existing systems which were not so much in use such as the SITS.
Quotations, tenders, and requisition forms used for the IT aspect.	Yes	The ITS, through its central procurement function, currently requests quotes, based on technical specifications of all equipment and software needed and the relevant tenders and requisition forms are implemented.

The ITS should segregate the administration and the academia by connecting them on separate virtual local area networks (VLANs).	Yes	With the change to the new premises in Luqa, part of the project of the move was to build a new network infrastructure. Nowadays, the ITS has Local Area Networks (LANs) with IDs which are separate for administration staff, academics, guests, CCTV cameras and printers — all ride on the main connection but there is a password-protected system to access each LAN.
Common set of security policies in place.	Partially	Albeit not formalised in a policy shared to all members of staff and students, the IT department has an internal informal policy in place on the use of emails and equipment. Nonetheless, the IT department has itself a set of Standard Operating Procedures on how to work on the security aspect of matters. Anyone wishing to install any software from the administration team needs to contact the IT department to do so. There is also limited access to material that can be accessed over the Net through the introduction of a firewall. To this end, ten (10) Personal Computers are available in a computer lab where students can access certain websites to gain access for their research but the remaining laptops and workstations have a security policy in place.
Importance of drives communicated to staff.	Not yet implemented	There is currently no centralised hard disk in place and workstations are pretty much standalone devices — this project is, however, in the pipeline and will be introduced over the summer

		period. In the case of staff requesting access to some servers, this can be granted through the involvement of the IT staff.
Wi-fi service should be of high performance. ITS implements an adequate web filtering solution on its Wi-Fi network through which gaming, video-on-demand, and other bandwidth hungry sites are only allowed in certain parts of the building.	Yes	The Wi-Fi system in place reflects the new network infrastructure introduced two (2) years down the line when the ITS shifted to its new premises. There are over 100 Wi-Fi access points on the ITS campus and their speed and performance are monitored on a daily basis by a member if the IT staff who receives warnings in case of any issues. If any of the access points is down, then two (2) adjacent access points converge to cover the area. Only ten (10) workstations provide access to the gaming and video-on-demand services requested for students needed to carry out research.
All servers are relocated into one room that is secure and adequate for this purpose.	Yes	The server room today hosts all servers and is only accessible by the members of staff of the IT department. While these servers take backups on a daily basis, a back hub is used on the premises of MITA for remote hosting.
Internal audits to verify authenticity of software applications and software licences on all existing PCs as part of its normal inventory process.	Yes	Only software owned by the ITS can be installed on the laptops of the staff and no one has the possibility to install any software other than that provided by the IT department. The IT department now keeps track of all user licences it has with a number of major service providers such as Microsoft and Adobe

		and any renewals are taken care of in a swift manner.
All software applications are to be hosted on the ITS servers and not on desktops.	Yes	Each user account nowadays has access to a 1 TB drive associated with the email account and operating system and hence a cloud solution is implemented to ensure that all data is saved automatically there.
Training multiple officers in operating each software application and thus remove any possible bottlenecks.	Partially	Although the IT department does not organise training sessions with all members of staff, in conjunction with the help of the HR department, a number of step-by-step manuals have been developed on how to use main software applications and video tutorials are available for members of staff on Sharepoint. One-on-one training has also provided when the inventory management system MC was introduced. Staff members are also encouraged to attend training hosted by the Institute for Public Services.
Use of the e-learning platform and training.	Yes	The Virtual Learning Environment (VLE) was implemented four (4) years now and is nowadays hosted externally with the supplier taking care of maintenance of software and the server while the ITS takes care of content and structure. Take-up by lecturers and students has nowadays increased and all make use of this system.
ITS considers purchasing and implementing a centrally managed anti-virus.	Not yet implemented	Every PC and workstation at the ITS is pretty much a standalone given that there is a cloud solution in place and

		each workstation makes use of Windows Defender which can be used as part of the licence available from Microsoft. The ITS, however, is still looking into introducing a centrally administered and managed anti-virus software once an active directory is built.
Back-ups are carried out daily, stored offsite, and test restores of backups are carried out on a daily basis. Back-up logs are kept. Storage offsite for the back-ups. ITS set-up an off-site storage facility where the weekly and monthly tapes can be stored.	Partially	Individual devices are connected to a cloud solution which carries out the back-up automatically to the Cloud. The server takes daily image backups while a back hub is presently installed at MITA where all backups are replicated. A manual check is performed on a daily basis to check that all data has been backed up. Testing of backups is not yet in place as the server would need to stop for the IT department to do so given that no parallel solution is in place. The smart backup system in place creates the necessary backup logs, however.
Physical security is improved in both the Institute's main building.	Partially	Each person visiting the ITS is given a visitor card as soon as he or she reaches reception and waits in reception until the respective manager comes to meet him or her. Security personnel patrol the grounds at all times and CCTV cameras are placed everywhere for added security. Bars are used at ground level as well as on the outside of the server room. Access to the server room is limited to the IT department and the security. Offices are always visited with a security guard whenever outsiders enter the premises. The use of RFID cards

	might be considered to further improve the physical security and access of the premises.

Table 2: A review of the IT control activities in place following IT audit performed by the NAO in 2013

9.3.   Deployment of control activities through policies and procedures

The COSO Framework is based on the understanding that, even though the previous principles are important, their objectives would not be fulfilled unless they are properly documented and implemented as policies. These policies, after being developed, can be cascaded throughout the organisation by leaders in various positions and departments or functions of the entity. The policies, apart from being assessed on a regular basis, should also be reviewed when there is a specific need for such. Following the analysis carried out of the operations of the ITS, it can be concluded that most procedures and policies of the Institute are documented and formalised due to the fact that the introduction of polices is one of the key standards and principles of the Quality Assurance Framework of the NCFHE. All policies of the ITS, moreover, are made available to members of the general public via the ITS's website and can be accessed by all who are interested. Most of these policies, however, are not updated or do not include the signature of approval of the CEO or Chairman. Effort should be made to rectify this situation as soon as possible to give more credibility to the policies and ascertain that the policies available online are the latest versions.

10. Information and Communication at the ITS

Information is necessary for the entity to carry out internal control responsibilities to support the achievement of its objectives. Management obtains or generates and uses relevant and quality information from both internal and external sources to support the functioning of internal control. Communication is the continual, iterative process of providing, sharing, and obtaining necessary information. Internal communication is the means by which information is disseminated throughout the organisation, flowing up, down, and across the entity. It enables personnel to receive a clear message from senior management that control responsibilities must be taken seriously. External communication is twofold: it enables inbound communication of relevant external information and provides information to external parties in response to requirements and expectations.

10.1. *Makes Use of Relevant Information*

The importance of information to the management of an organisation cannot be over-emphasised. Relevant information can be sourced both internally and externally and there could be new requirements by regulatory bodies on financial reporting or information to support the functioning of internal control. The management therefore has to make conscious efforts to obtain information on their internal control responsibilities. While it is generally observed that the ITS makes use of the right mechanisms to source the right information, resorting to external sources if need be to reach its objectives, approaches that can be taken to achieve the objective of this principle include creating an Inventory of Information Requirements, obtaining information from External Sources, obtaining information Non-Finance Management, Creating and maintaining Information Repositories, enhancing information quality through a Data Governance Program and identifying and securing collected financial data and information.

10.2. *Internal Information*

From discussions held with the senior management at the ITS as well as walkthroughs and sampling exercises carried out, it clearly emerged that the internal communication system of the ITS is one that seems to be working smoothly and efficiently so as to ensure the proper functioning of the Institute. In particular, there is constant informal communication between the various departments so as to ensure that pressing matters are deal with, particularly through the monthly meetings held of the Executive team as well as the informal meetings held at a departmental level on a constant basis. A number of internal committees are also in place to ensure an appropriate and constant flow of communication and information amongst different stakeholders.

The Board of Studies, for example, set up as per the ITS Act, involves academic managers, coordinators, lecturer representatives, student representatives, and two (2) members from the Board of Governors. These individuals regularly meet to carry out changes in curriculum and studies and programmes proposed, based also on changes received by the Scientific Committee. The Programme Quality Validation Board (PQVB) then focuses on vetting the changes proposed and making sure that they are feasible, especially from a financial viewpoint. It is only when these three (3) mechanisms work that the curriculum is presented to the Board of Governors for their approval and hence significant internal communication is carried out until arriving to a final decision, indicating a strong control environment.

The Board of Governors overseeing the strategy implementation of the entity also has in place an effective communication system that allows all non-executive directors to be abreast of any major changes in the operations of the ITS swiftly and in a timely manner. Although the Board is not involved per se in the day-to-day decisions of the ITS, the CEO makes it a premise to inform the Board of any notable changes in the running of the ITS, usually by forwarding them an informal e-mail. In addition, there is a constant line of communication between the CEO and the Chairman who keep each other updated about major happenings that each should be aware of. This was the case, for example, in the case of the change in assessment methods due to the COVID-19 outbreak, a decision which was made by the Executive team and then communicated to the Board during the following Board Meeting.

Agendas for meetings of the Board are prepared by the CEO and the Chairman one week prior to the scheduled meeting date and circulated to all Board members for their review – all Board members can add their own discussion points to the agenda as they deem fit and best. A quorum of 50% + 1 needs to be reached for all meetings to be carried out – meetings have been observed to be generally well-attended. Attendance of all Board members is taken and appropriate meeting minutes are prepared and signed once prepared. Members of the Executive might also be invited if decisions held during the meetings concern them in particular, such as the Director of Studies if anything related to the curriculum, for instance, is to be discussed. Meetings usually involve the discussion of points that remain pending from previous minutes. The Board is given an overview of the latest financial situation of the ITS through the presentation of the latest available management accounts while a debtor list is also provided so that the Board – any other pressing matters are also discussed and resolutions are prepared once a decision has been made by the Board.

In addition, an end-of-term report is prepared by the CEO and senior management whenever there is a change of administration or a newly elected Board, which normally leads to the appointment of new members in the Board of Governors and the resignation or removal of existing Board members. This end-of-term report is prepared voluntarily by the CEO and includes an overview of the financial performance and position of the ITS together with an update on major items such as the HR structure, upcoming capital projects and summary of achievements during that particular term.

10.3. External Information

With respect to external information, the ITS's key stakeholder is the Government of Malta itself, namely through the Ministry for Tourism and Consumer Protection, which remains, ultimately, its main "shareholder". To this end, a representative from the Ministry is invited to attend each and every Board meeting held while meetings which usually involve important decisions, which are also expected to have a significant impact on the operations of the Institute as well as the general operations of the Government, are normally attended by a representative from the Ministry so that a Board resolution can be made in his or her presence. Moreover, best practices are also shared and learned from other educational institutions such as Malta College for Arts, Science and Technology (MCAST) and the University of Malta and feedback from such institutes is often welcome by the Head of IQAC who carries out this process. The IQAC also meets the Students Council on a monthly basis such that a good rapport is kept with students. In the beginning of the year, when the academic year commences, an email is sent from the IQAC to all students inviting them to contribute as much as possible to the creation of a culture of quality by also being part of the Students Council. Moreover, a student questionnaire is sent on a frequent basis to gather feedback from students on what mechanisms can improve to give them a better quality of service.

A particular strength in the ITS's control environment is the introduction of the Scientific Committee, institutionalised and governed through Legal Notice 30 of 2017, a clear example of how the ITS externally communicates with the key stakeholders to review and shape its curriculum, service and vocational and educational programmes, offered to the general public in line with the latest trends. The Scientific Committee includes members from the Malta Hotels and Restaurant Association (MHRA), the Gozo Tourism Association, the Federated Association of Travel and Tourism Agents, Air Malta, the Malta Tourism Authority (MTA), the Malta Association of Hospitality Executives, the Malta Chef Society, the Malta Union of Tourist Guides, Valletta Cruise Port, and the Malta Bartenders Guilds. Sub-committees and focus groups are also held with different stakeholders, such as lecturers and students, to ensure that the curriculum is one that reflects the needs and requirements of all stakeholders involved.

In addition, it is to be noted and commended that the ITS has heavily involved external parties in the development of its strategy for the period 2021-2026 which is expected to be launched in September 2020 following approval of the Board of Governors and approval from a Ministerial Level. To this end, following discussions held with the CEO, it was observed that the strategy is one that reflects the realities of today, with the ITS conducting market research on what other institutes are currently doing and what emerging markets in the field of education and training are looking for. This exercise was performed by an external service provider so as to ensure that an external perspective is provided in line with the suggestions and comments of the personnel working at the ITS itself. Fresh new courses in new fields will be introduced to cater for a wider audience and a set of key performance indicators will also be implemented in line with the requirements and details of the new strategy.

11. Monitoring Activities at the ITS

Ongoing evaluations, separate evaluations, or some combination of the two are used to ascertain whether each of the five components of internal control, including controls to affect the principles within each component, is present and functioning. Ongoing evaluations, built into business processes at different levels of the entity, provide timely information. Separate evaluations, conducted periodically, will vary in scope and frequency depending on assessment of risks, effectiveness of ongoing evaluations, and other management considerations. Findings are evaluated against criteria established by regulators, standard-setting bodies, or management and the board of directors, and deficiencies are communicated to management and the board of directors as appropriate.

11.1. Carrying out of Ongoing and Separate Evaluation

In 2012, the Subsidiary Legislation No. 327.423 of the Laws of Malta provided the requested legal framework for ITS to function as an autonomous body in the field of further and higher education. Being therefore an entity that is governed by its own Act, the Institute for Tourism Studies (ITS) Act, Chapter 566 of the Laws of Malta, enacted in November 2016, its operations and functioning are governed by the requirements set forth in the Act.

As an Institute of Further and Higher Education, the Institute is, first and foremost, governed by the Requirements of the NCFHE, which regulates the operations of all educational institutions in Malta. Having been subject to its first external audit back from the NCFHE back in 2015 (given that the ITS is subject to an external audit from this body once every five years and hence its next audit is scheduled this year), a number of major deficiencies were identified in reaching the eleven (11) standards that govern the quality assurance of educational institutions such as the ITS. These major shortcomings were inherited by the new management which took over the reins back in 2015, inheriting a system of quality assurance that was weak with an ad-hoc committee for quality assurance purposes being set up.

To this end, it was one of the first decisions of the new management to institutionalise the quality assurance aspect of the ITS, and, to this end, subsidiary legislation 566.01 of the Laws of Malta establishes and regulates the functioning of the IQAC. This Committee has been set up and given legal force through Legal Notice 28 of 2017, in order to monitor the organisational performance of the ITS in accordance with the National Quality Assurance Framework for Further and Higher Education developed by the NCFHE. This Committee, composed of three (3) members with at least eight (8) years' experience working in a quality assurance as applied to education, and two (2) further external non-executive members, elected for a period of two (2) years, ae all appointed by the Board of Governors.

A Head of the IQAC is also appointed to work on a full-time basis to ensure that the entity functions in line with statutory requirements. In line with Article 4 of the Legal Notice governing the operations of the IQAC, the functions of the IQAC are to **perform a Quality Assurance Review of the organisational performance of the Institute and produce, in December of each administrative year, an annual institutional report covering the previous academic year and highlighting key strengths and weaknesses.** Periodic updates need to be communicated to the CEO and any major issues need to be reported as soon as possible. The IQAC Committee is expected also to meet at least once a week and is an autonomous, independent body.

Back in 2015, the first Quality Assurance Manual of the Institute was set up and this has been subsequently revised through thorough discussions held with different departments of the Institute to ensure that there is the necessary empowerment and so as to make the manual in line with the day-to-day practices of the Institute while ensuring that the statutory requirements are met. The IQAC seems to be functioning in line with its requirements as per the corresponding legal notice, submitting a report to the Board of Governors and the CEO once every month with important insights and **building these reports in line with the calendar of activities at the ITS i.e. processes and workflows that are relevant to a particular period of time of the year** are assessed by the IQAC and recommendations are made for improvement. For instance, in the months of July and August 2020, the application process for the following academic year is considered. This then helps build the annual report which is developed in stages in line with the events at the ITS throughout the year. Moreover, it is commended that **on a day-to-day basis the Head of IQAC carries out reviews of aspects occurring at the ITS at that point in time,** such as checking the website when applications were launched for example. Finally, the ITS is also, from time to time, subject to the scrutiny of the NAO and the IAID who carry out studies on various aspects of the operations of government entities.

11.2. *Evaluation and Communication of Results*

The results of the any audit exercises performed by the NAO or the IAID are normally summarised in a management letter addressed to those charged with the governance of the entity i.e. the Board of Governors during Board meetings held and an action plan to implement the changes suggested in the management letter is devised and rolled out. In addition, the CEO regularly provides feedback the Board of Governors, the decision-making arm of the entity, on any key matters.

An Annual General Meeting of the entity is not held given that there is no requirement to do so yet having an annual meeting to convey the results of the operations to interested bodies could potentially be an interesting option to consider in the future. In terms of the reviews of the IQAC, recommendations are made available to different departments so as to promote the idea that quality is shared and is not of the Committee per se but all should feel responsible to adopt the principles of quality stipulated in the quality assurance manual.

12.   Concluding Remarks

In conclusion, this operational review has sought to carry out a thorough assessment of the internal controls in place at the ITS in terms of its corporate governance structure, project management, procurement, finance and operations as well as the engagement and remuneration of staff. A summary of the main findings obtained through observations, walkthrough tests and sampling carried out is provided in Table 3 hereunder, which identifies the assessed control deficiency, indicates the area of operation which is mostly impacted, highlights the key deficiencies and suggests remedial actions to lead to an improvement in the operations.

COSO Framework Component	COSO Framework Principle	Level of Control Exceeds Perceived Risk	Control needs fine tuning to lead to cost savings	Control is adequate in line with perceived risk	Area of Operations impacted	Deficiencies identified	Remedial Actions that can be adopted
Control Environment	*Demonstrates commitment to integrity and ethical values*			X	Entire organisation, focusing on the Board of Governors and Executive Level of Management	A code of ethics and conduct is defined clearly and established through a policy that is also communicated to the general public via the website of the ITS. A Disciplinary Board as well as a Student Cases Board is also in place, made up of professionals external to the day-to-day operation, that review cases of potential threats to the ethical and integral well-being of the ITS.	The ITS should ideally upload the signed and approved version on the website to give more credibility.
	Exercises oversight and responsibility			X	Board of Governors/Executive Level of Management	A Board of Governors actively exercises the necessary oversight to ensure that all checks and balances	No notable recommendations to be made in this regard.

					are in place. Regularly meetings are held and constant flow of communication between the CEO and the Board is maintained. Executive Committee meetings as well as department meetings are held frequently and minuted.	
	Establishes structures, authority, and responsibility			X	Entire Organisation	The structure in place is one that ensures that all lines of responsibility and authority are clearly defined and that ample human resources are kept to tackle the important functions of the ITS.	The Cost Controller should be promoted to Financial Controller as soon as possible given the strategic role the finance function plays. We understand that this should have been done during the operational review process.
	Demonstrates commitment to competence		X		Human Resources	Competence is given great importance to in the structure of the organisation and employees are strongly encouraged to attend courses, especially those organised for the public service by the IPS. In addition, the ITS regularly	A formal training gap analysis and training plan should be developed on an annual basis to check what skills are linking among the workforce, as perhaps identified in performance appraisals, and to devise a training programme for the following year.

					sponsors its employees wishing to further their studies.	
	Enforces accountability		X		Human Resources	While a system of performance bonus and incentive schemes are in place to management, it might be a good idea to drive accountability further by developing in further detail a performance measurement and management system.	A standard performance appraisal mechanism to be carried out at least once a year and to include the achievement of KPIs that ultimately allow staff members to reach the goals and objectives of the ITS should be devised to drive accountability even further.
Risk Assessment	*Specifies suitable objectives*			X	Board of Governors/Executive Level of Management	Operational, reporting and compliance objectives of the ITS are clearly defined in its mission statement and various policies and procedures and these are communicated to the general public.	No notable recommendations to make in this regard.
	Identifies and analyses risk			X	IQAC / Board of Governors / CEO	While some informal risk assessment might probably be carried out by the IQAC in its day-to-day operation, a formal risk assessment and risk management strategy is not in place at the ITS.	We recommend that a formal assessment of risks, in line with the objectives of the ITS, and a risk management strategy be devised by the ITS, with the help of the IQAC, to adopt a risk-

							based approach to its internal controls.
	Assesses fraud risk		X			IQAC / Board of Governors / CEO	The assessment of risk of fraud should be considered seriously especially given that the ITS deals considerably with cash in its restaurants and inventory in its stores.	A fraud risk assessment should be performed, either internally or through the help of an external service provider, to analyse the extent to which the ITS is exposed to this risk and appropriate mitigation strategies devised.
	Identifies and analyses significant change			X		Board of Governors/ Scientific Committee / Executive Management	The ITS is already quite open to internal and external forces that shape its day-to-day operations and regularly consults with various internal and external stakeholders.	A more risk-based approach to tackling internal and external significant changes should be considered in line with the recommendations above.
Control Activities	*Selects and develops control activities*		X			Finance / Procurement / Human Resources / IT / Registrar	The system of internal controls has improved significantly since the deficiencies reported five (5) years ago when the ITS was under a different management, more specifically in the case of IT and inventory controls. Some weaknesses were noted.	More segregation of duties in the case of the Finance department. A more standardised approach to keeping application records of students. Amendments to the insurance policies in place. Faster cash deposit times. Formalised procurement procedures and policies.

	Selects and develops general controls over technology		X		IT / Finance / Registrar / Human Resources	While a significant improvement has been noted in the take-up of the use of IT by members of staff, the individual systems seem to be quite disjointed with a lack of link between the different systems that would help avoid the risk of error.	A centralised IT system that connects various departments, such as the registrar in the application and enrolment process and the finance department, might help facilitate workflows and reduce the incidence of error. Verification and validation checks could also eventually be in traduced if such an ERP system were in place.
	Deploys control activities through policies and procedures			X	Entire Organisation	A number of policies and procedures have been prepared and formalised, largely due to the fact that the ITS is subject to the continuous scrutiny of the IQAC and made available to the general public on the website of the ITS.	Signed and revised version of policies and procedures should be uploaded on the website of the ITS. Moreover, some policies and procedures need to also be revised or prepared such as those relating to procurement. Preparing an accounting manual would also be an important consideration.
Information and communication	*Uses relevant information*			X	Entire Organisation	All relevant information for the operations of the ITS is collected through various mechanisms in place internally	No notable recommendations required in this case.

						and through the sharing of best practices with other education institutions.	
	Communicates internally			X	Entire Organisation	Through the proper functioning of various committees as well as regular meetings held within departments and at an Executive level, an effective internal communication system seems to be in place.	No notable recommendations required in this case.
	Communicates externally			X	Entire Organisation	The ITS is open to dialogue with all external stakeholders that impact its operations, with the Scientific Committee being an example par excellence of effective communication with external stakeholders in the tourism and hospitality sector.	No notable recommendations required in this case.
Monitoring Activities	*Conducts ongoing and/or separate evaluations*			X	IQAC / Board of Governors / Executive Level of Management	The ITS is not only subject to a continuous separate evaluation from the IQAC, a separate independent and autonomous body working on a full-time basis but it is also	No notable recommendations required in this case.

						subject to the review of entities such as the NAO, the IAID, the Ministry for Tourism and Consumer Protection and the NCFHE which carries out an external audit every five (5) years.	
	Evaluates and communicates deficiencies			X	Board of Governors / IQAC / Executive Management	The IQAC carries out a day-to-day assessment of the activities of the ITS, according to its calendar, and regularly reports any deficiencies to the CEO and the Board of Governors. Frequent Board Meetings are also held to discuss findings of inspections and reports carried out.	No notable recommendations in this regard.

Table 3: Internal Control Gap Assessment, Identification of Key Deficiencies and Proposed Remedial Actions following Operational Review performed

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