

24<sup>th</sup> October 2007

John Gatt  
 Permanent Secretary  
 Ministry for Investment, Industry and Information Technology  
 Palazzo Verdellin  
 Valletta

### Strengthening of the Finance Division of the Enemalta Corporation

Dear

I refer you to the discussion we had at your Office this month together with senior representatives of your Ministry and MIMCOL.

The Finance Division of the Corporation is currently constituted as follows (compared to 2004):

	2004	2007
Office of the Chief Financial Officer	2	4
Procurement Office	10	11
Credit Control (in liaison with WSC)	25	23
Finance Control Electricity and Gas Unit	23	19
Finance Control Petroleum Unit	8	8.

As I discussed with you the capacity within the two Finance Control Units at the Corporation is very weak – even considering the fact that two Divisions (Petroleum and Gas) are currently undergoing a commercialisation period.

It is pertinent to underline that the Electricity Division has a turnover of approximately Lm100million and accounts for 1,568 of the Corporation's employees. The Gas Division has 42 employees with a turnover of Lm3.5million (which is on the increase). The Petroleum Division has a turnover of Lm190million and has 182 employees. The commercialisation process will not significantly impact the Corporation.

This is for two primary reasons. First, the Corporation will continue to be responsible for the procurement of oil for its Electricity Division – which is currently carried out by the Petroleum Division and which constitutes approximately 55% of all oil purchases in any given year. Second, the Corporation is facing a new regulatory regime which will bring with it new demands for which the Corporation is not prepared: demands such as Emissions trading and auctioning; tariff accounting, et al.

In 2004, PriceWaterhouseCoopers, in a report dated 4<sup>th</sup> November 2004 and titled 'Finance Function Staff Resourcing' stated that 'one can note that there are only five qualified accountants in the Corporation. These include the recently recruited CFO and three long serving officers that occupy critical posts within the Finance Department. There is only one other qualified account at middle grade'.

It is worrying to underline that the situation, quasi three years later to the date, has hardly improved. The accountant capacity constitutes of 1 CFO, 2 Financial Controllers for the respective Units, and 2 accountants – that is an increase of 1 accounting officer. It is important for me to express that this state of play is not the consequence of lack of effort by the Corporation to rectify matters. In fact over time 4 new accountants were recruited, of whom only 1 continues to be employed by the Corporation. As you are aware we believe that this attrition is the result of the constraining employment package we offer in what constitutes one of the growing services sectors on the Island and that we have made representations through your Office with the Financial Management Monitoring Unit to redress the state of play.

Enemalta Corporation – an entity with a turnover of quasi US\$1billion should be expected to achieve the following functions as a basic minimum:

- timely and accurate management accounts;
- budget and estimate preparation;
- comprehensive performance analysis reports;
- perpetual cost measurement and cost reduction mechanisms;
- comprehensive analysis of expenditure, consumption of materials, and sub contracting works;
- ongoing and reliable vendor and inventory information to reduce wastage and to exercise better control over procurement, overstocking and stock obsolescence;
- analytical information to support business development initiatives and decision making.

The Corporation with its current capacity is struggling to meet these basic accounting functions. Management letters by our external auditors on an annual basis take the Corporation to task for failing to institutionalise such mechanisms. Further to this, our external auditors are seriously considering withdrawing their audit services as they are categorising the Corporation as a high risk audit entity.

Further to the above basic financial management functions, the Corporation as a utility requires strong capacity in terms of:

- regulatory reporting;
- tariff accounting design;
- procurement of oil;
- hedging on both oil stocks and foreign currency;
- alignment to new demands relating to Emissions accounting, trading and auction;
- alignment to the procurement of alternative energy power vis a vis benchmarks and penalties set by the European Commission.

With the exception of hedging and oil procurement, practically none of the above are being carried out by the Corporation. Tariff accounting design when demanded either by MRA or special circumstances such the commercialisation process has been outsourced at a high cost to the private sector.

Moreover, the Corporation which a high debt leverage requires excellent Treasury Management. There is no such function within the Corporation and whatever treasury management that is carried out is done to the best of ability by accounting staff over-stretched to meet basic financial management functions.

The current capacity framework does not permit me, as the Corporation's Chief Executive, to assure the shareholder that I can render any impact to improve the efficiency, efficacy, and effectiveness of the Corporation let alone to prepare the Corporation to face future challenges of what is, undoubtedly, a fast changing regulatory and operating environment.

In order to be in a position to take forward the Corporation, I require to strengthen the finance capacity of the Corporation as follows:

#### **Finance Control Electricity and Gas Unit**

Accountants	4
Head Accounts Officer	1 Accounts Section 1 Accounts Payable Section 1 Works and Claims Section
Senior / Accounts Officers	2 Accounts Section 1 Accounts Payable Section 1 Works and Claims Section.

#### **Finance Control Petroleum Unit**

Accountant	1.
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#### **Treasury and Regulatory Accounting Unit**

Accountant	3.
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In essence, 5 Accountants are requested to strengthen the financial management aspect of normal accounting of the business, 3 heads and 4 senior / accounts officers are requested to enable the organisation to work with greater efficacy in handling clients, paying contractors, and to expedite electricity infrastructure work that is dependent on works estimations. 3 accountants are being requested to set-up a new function to meet regulatory demands as well as to establish a proper treasury management capacity. The additional accountant at the Petroleum Division will act both as a buffer resource (given the high turnover rate) as well as strengthening of the said Division.

I appreciate if your Ministry gives the matter raised in this Memorandum the attention it deserves. I must underline that the parties concerned must understand the critical position that the Corporation is in, in terms of its ability to manage its current as well as emerging financial responsibilities. I sincerely ask that this request is not seen as a form of horse trading from my side. Without a strong financial capacity backbone and initiation of action to account for the new regulatory pressures I, or any future successor are primed for failure.

I would be pleased to answer any queries you may have.

David Spiteri Gingell  
Chief Executive Officer

cc: Chief Executive Officer, MIMCOL  
Programme Manager, Enemalta Corporation, MIIT

