



AUDIT
OFFICE



REPUBLIC
OF CYPRUS

AUDIT OF THE MINISTRY OF FINANCE Executive Summary



**AUDIT OFFICE OF THE REPUBLIC
SPECIAL REPORT no. YO/04/2022**

23 December 2022



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Executive Summary

AUDITED ENTITY

Ministry of Finance

Executive Summary

In accordance with the provisions of article 116 of the Constitution of the Republic of Cyprus and of article 81 of the Fiscal Responsibility and the Fiscal Framework Law (L.20 (I)/2014), the Audit Office performed an audit on a sample of transactions of receipts and payments, as well as on a sample of salaries of the Ministry of Finance (MoF) for the year 2021, which was selected by using a specific methodology, for the purpose of expressing an audit opinion on the financial statements of the Republic. Additionally, we conducted a compliance audit for the year 2021, mainly for monitoring the findings and recommendations which arose from our previous audits of MoF and also for other matters.

The major findings of the audit are summarized below. We note that no findings have arisen from the financial audit of the Customs and Excise Department and also that the sample of transactions selected, did not include any transactions for the Printing Office. As for the Public Debt Management Office and the Directorate General Growth, our Office issued separate Special Reports, while a separate Special Report for the Tax Department will be issued at a later stage.

Administration

- ◆ We noted that the MoF does not perform any audit on receipts arising from the payments of the Central Bank of Cyprus's share of legal expenses, in relation to legal cases under trial, concerning the haircut of deposits which was carried out in 2013.

We recommended the creation of an appropriate Article of income in the Budget of the Law Office of the Republic, in which the Central Bank of Cyprus's remittances would be posted, as well as the checking of the correctness of the said remittances by the MoF, until the creation of the Article of income.

- ◆ We identified that, in several cases, the provisions of the MoF circular no. 1514, dated 12.3.2015, both in the case of the additional charge imposed and the remuneration calculations for services offered by "financial institutions" and "special funds" to other "financial institutions" and "special funds", are not applied.

We recommended the correct application of the above circular.

- ◆ The Statistical Service of the Republic includes in its income amounts from which no actual cash flow arises. This particular accounting treatment is inconsistent with the receipts and payments principle applied for the preparation of the Republic's financial statements.
- ◆ We identified an irregular sponsorship to a political party.

We recommended to the MoF to end illegal sponsorships to political parties.

- ◆ We identified weaknesses regarding compliance to the terms of the lease agreement, between the MoF and a Banking Institution, in relation to the collection of the lease fees and also the lack of a written calculation of the market rent by the Department of Land and Surveys.

We recommended the written determination of the market rent by the Department of Land and Surveys and also, the prospect of differentiating the terms of the next agreement with respect to the time frame for payment of the right of use.

- ◆ We identified weaknesses regarding compliance with the tender terms for the operation of the cafeteria of MoF, in relation to the renewal of the Payment Guarantee of the Right of Cafeteria Operation and the delayed payment of the rent.

We recommended the correct application of tender terms.

- ◆ The MoF rents warehouses from a private company within the Limassol Government Industrial Area for the needs of the Government Purchasing and Supply Services (GPSS). The warehouses were constructed on government land which the Ministry of Energy, Commerce and Industry (MECI) leased to the above mentioned private company for specific purposes, in return for a rental fee. We noticed that the rent paid by the State is significantly higher as compared to the rent paid by the private company to the State. Also, the company has not acquired all the legal licenses and certificates for the said premises. The company requested to take back a part of the rented space and the MoF consented to this request, in return for a rental fee reduction which, in percentage terms, is less than the reduction of the area of the rented premises.

We recommended that the MoF should not rent premises which were built by individuals on government land leased to them, for specific purposes, for a rent which is lower than the market value, in order to prevent mismanagement of public property and the speculation of private interests, to the detriment of the public interest. We also suggested that only licensed premises to be selected for the accommodation needs of Government Services and to intensify the search of finding a new place for accommodating the GPSS warehouses.

- ◆ The enactment of a relevant legislation regulating the organization, operation, conduct and management of betting organized by OPAP SA in Cyprus, was delayed, as the Specific Games of Chance Law was passed in June 2018. Since then, procedures were launched for selecting the appropriate provider in accordance to the provisions of the Law, which, despite the lapse of more than four years, due to unacceptable delay, have yet to be concluded. As a result, the onerous provisions of the interstate agreement and/or the wrong way of interpreting it continue to lead to the loss of significant revenues for the State.
 - ◆ The issuing of the financial statements of the Cooperative Asset Management Company for the years ended on 31.12.2017 and 31.12.2018 and of the Cyprus Asset Management Company (CyAMC) for the year ended on 31.12.2018, was significantly delayed, due to the fact that the private auditors required an irrevocable Letter of Financial Support, from the MoF, in order to issue an opinion on a going concern basis. Our Office, in its letter to the MoF and the CyAMC, dated 27.7.2022, mentioned that, due to the pending issue of the said financial statements the audit of the financial statements for the years ended 31.12.2019 and 31.12.2020 has not been possible. The CyAMC has informed us that the financial statements for the years 2017 and 2018 have been approved at the Annual General Meeting on 8.11.2022 and that there will be a complete normalization and compliance with the regulatory framework within 2023.
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- ◆ On 30.3.2022, the Council of Ministers decided the purchase of the Metropolitan building for an amount of €21.350.000 for housing the Administration of the Ministry of Labour and Social Insurance and of the Social Insurance Services. We estimated that the fair value of the building, together with the land, ranges between €15m και €17m, which is much less than the agreed price. We also identified problematic characteristics of the building in terms of the small area per floor and in terms of its position and a gross excess of urban development factors, which the Republic rewards by legitimizing and purchasing the building. Although we recommended to the Parliamentary Committee on Finance and Budget for rejecting the request to release the relevant funds, the said Committee has released the relevant funds in July 2022. We were informed by the MoF, that the relevant agreement has not been signed, yet.
- ◆ The Council of Ministers, based on its Decision no. 93.208, dated 8.6.2022, has approved the signing of the lease agreement of the building “Parthenagogio Faneromenis” by the Republic, for the purposes of housing the Department of Architecture of the University of Cyprus. Based on the same Decision, the Council of Ministers authorized the Minister of Finance to sign, on behalf of the Republic, the lease agreement with the Holy Archdiocese of Cyprus, making any changes deemed necessary, without bringing the matter back to the Council of Ministers. According to the Proposal to the Council of Ministers, the said lease is part of the Action Plan for the revitalization of Nicosia within the walls, for which a Memorandum of Understanding was signed between the MoF, the Municipality of Nicosia, the University of Cyprus and the Holy Archdiocese of Cyprus, based on a previous Decision of the Council of Ministers no. 91.147, dated 14.4.2021.

Our Office requested the submission of the signed lease agreement and is in the process of conducting the audit.

- ◆ We pointed out to the MoF and the Treasury of the Republic, that the preparation of the State Budget and the State Budget Execution Report, do not reflect, in all cases, the actual receipts and payments, contrary to the provisions of the relevant legislation.

Public Administration and Personnel Department (PAPD)

- ◆ We identified that the delay in relocating the Cyprus Academy of Public Administration (CAPA) causes problems associated with the requested increase in rent by the tenant, the lack of spaces for educational activities, which leads to the need for renting spaces to meet needs at an increased cost, as well as the storage of unused equipment.

We recommended the intensification and acceleration of actions towards the relocation of the CAPA and the clarification with the Law Office of the Republic as to whether the CAPA is obliged to pay the requested increase in rent for the premises presently subletting.