

Preliminary review:
NAO's role in reviewing Government's
measures relating to the COVID-19 pandemic

May 2021



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Government's measures relating to the
COVID-19 pandemic

Report by the Auditor General
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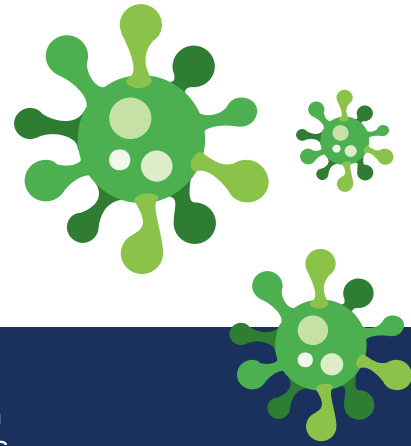
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List of Abbreviations

CfR	Commissioner for Revenue
CGS	COVID-19 Guarantee Scheme
ECA	European Court of Auditors
EU	European Union
GDP	Gross Domestic Product
GVA	Gross Value Added
INTOSAI	International Organisation of Supreme Audit Institutions
ISSAI	International Standards of Supreme Audit Institutions
MDB	Malta Development Bank
MIMCOL	Malta Investment Management Company Limited
MITA	Malta Information Technology Agency
NAO	National Audit Office
NSO	National Statistics Office
SARS	Severe Acute Respiratory Syndrome
WHO	World Health Organisation

Key Facts

The COVID-19 pandemic



The pandemic put national health systems under severe strain, disrupting global supply chains, causing volatility in financial markets and triggering consumer demand shocks.

Key Facts

Economic impact

Threats to economic growth and unemployment.



In the first half of 2020, economic growth declined by **7.9** per cent in real terms.

By August 2020, public finances registered a deficit of **€34** million.



Governmental institutions had to reshape internal work practices to ascertain business continuity and the safety of employees.

Executive Summary

Chapter 1

Type of Measure	Amount provided up to September 2020 (€)
Expenditure Measures	283,532,338
Revenue Measures	36,587,174
Health Measures	62,692,629
Tax Payment Measures (Tax Deferrals)	134,910,086
Sub-Total	517,722,228
Guarantees	74,531,982
Total	592,254,210

Government's financial stimulus

The COVID-19 pandemic required Government to quickly adapt its arrangements in respect of governance and decision making to ensure timely action was taken to respond to the COVID-19 emergency.

Chapter 2

Chapter 3

Role of Supreme Audit Institutions



The role of Supreme Audit Institutions (SAIs) including the National Audit Office intensifies during emergency situations.

The International Standards of Supreme Audit Institutions (ISSAIs), particularly ISSAI 5530 focus on the phase following disasters, when procedures and controls might not function as they may normally be expected to do.



Appendix

Executive Summary

Introduction

1. The pandemic put national health systems under severe strain, disrupting global supply chains, causing volatility in financial markets, triggering consumer demand shocks and having negative effects across various sectors. As can be expected, Government had to act urgently to minimise the impact of the COVID-19 pandemic on Maltese livelihoods and businesses. Evidence-based studies in other countries related to similar situations note that the state of emergency in which Governments had to operate to deal with the immediate crisis increased the risks related to good governance.
2. Within this context, this Review sought to determine the institutional risks connected with the pandemic. Moreover, this Review aims to provide the context as well as present the measures undertaken by Government to mitigate the socio-economic effects of the pandemic with the final aim of presenting the NAO's approach towards auditing Government's COVID-19-related expenditure. This Preliminary Review provides an overview of the fiscal measures in place up to September 2020. This Review will eventually be followed by a more in-depth analysis of Government's COVID-19 mitigating measures.

The role of SAIs

3. One of the roles of Supreme Audit Institutions (SAIs) is to safeguard public funds by holding governments accountable in terms of their expenditure. This objective intensifies especially during emergency situations that require urgent action and large disbursements of public funds. In this regard, the International Standards of Supreme Audit Institutions (ISSAI) 5500 series guide SAIs to respond decisively in times of crises, disasters and emergencies. The National Audit Office (NAO) has closely followed COVID-19-related work of other audit institutions such as the European Court of Auditors (ECA), United Kingdom NAO and the Audit Office of Wales. Moreover, this Office is also actively participating in a European working group tasked with preparing and publishing audit compendia on national governments' responses to COVID-19.

The introduction of COVID-19 fiscal measures

4. Government's COVID-19 mitigating measures were initially launched between March and October 2020. Further fiscal measures were subsequently launched. Apart from these fiscal measures announced with the specific aim of alleviating the socio-economic effect of the pandemic, Government also announced a number of health measures to bolster the healthcare sector's preparedness.

5. For the purpose of this exercise, this Office adopted the measure classification devised by the ECA to categorise COVID-19-related measures according to the amount disbursed up to September 2020. Table 1 refers.

Table 1: COVID-19 financial assistance provided per type of measure up to September 2020

Type of Measure	Amount provided up to September 2020 (€)
Expenditure Measures	283,532,338
Revenue Measures	36,587,174
Health Measures	62,692,629
Tax Payment Measures (Tax Deferrals)	134,910,086
Sub-Total	517,722,228
Guarantees	74,531,982
Total	592,254,210

6. Table 1 shows that by the end of September 2020, Government provided €592,254,210 in total financial assistance which included disbursed funds, deferred revenue and bank guarantees. These measures aimed to increase consumption which declined significantly in some economic sectors, most particularly in the industry sector pertaining to retail, tourism and food services (G - I). In this regard, the Gross Value Added (GVA) for this industry sector registered the most significant percentage change between the second quarter of 2019 and 2020, with a negative 51.7 per cent. Similarly, unemployment levels registered the sharpest increase in this industry sector.

Overall conclusion

7. As expected, the COVID-19 pandemic brought a slowdown in the economy. This resulted in a contraction of GVA and an increase in unemployment. The mitigating fiscal measures introduced by Government, with the European Commission’s approval, cushioned and regenerated the economy from the effects of the pandemic.
8. Aside from the financial impact on Government, the pandemic also had a two-pronged effect on the NAO. Firstly, on the NAO’s own internal business continuity. Secondly, the NAO had to extend its work programme by auditing public funds directed through measures to deal with the effects of the COVID-19 pandemic.

Lessons learned

9. Although the NAO is still in the very early stages of reviewing Government’s response to the pandemic, this Office has already learned some important lessons. The following refers:
 - Significant spending over relatively short time frames could create a heightened level of value-for-money risks.

- Auditors will need to adjust their audit plans and approaches to focus on comprehensive reviews of government responses.
- Beyond the crisis, SAs will play a key role in reviewing economic recovery efforts, financial management and governance systems, as well as government preparedness for future disasters.

Chapter 1 | Terms of reference

1.1. Introduction

1.1.1. The emergence of infectious diseases is amongst one of the greatest risks faced by any society. On 11 March 2020, the World Health Organisation (WHO) officially declared the COVID-19 outbreak a global pandemic that is, a severe public health emergency for citizens, societies, and economies. The pandemic put national health systems under severe strain, disrupting global supply chains, causing volatility in financial markets, triggering consumer demand shocks and having negative effects across various sectors. It is threatening people’s jobs, their incomes and companies’ business. It has delivered a major economic shock that is already having serious repercussions in the European Union and beyond. The only logical comparisons that economists and historians could attempt is the Great Depression of the 1920s.

1.1.2. Malta was not immune to the aforementioned situation. It registered the first COVID-19 case on 7 March 2020, and, in the subsequent days and months, it registered an increase in the number of new infected cases. Up to 26 April 2021, there were 30,189 cases, which resulted in 413 deaths.

1.1.3. Government declared a public health emergency on 1 April 2020 which was lifted on 30 June 2020. This state of affairs resulted in the closure of retail outlets and a travel ban. Moreover, from 1 July 2020 onwards, Government introduced a phased approach to several transition measures relating to the use of face masks and visors, public gatherings, mass events, closure of nightclubs and bars as well as a ban on boat parties. Moreover, Government’s response also extended to ensure the public service’s business continuity and the introduction of a number of fiscal measures to alleviate the economic pressure from businesses and citizens.

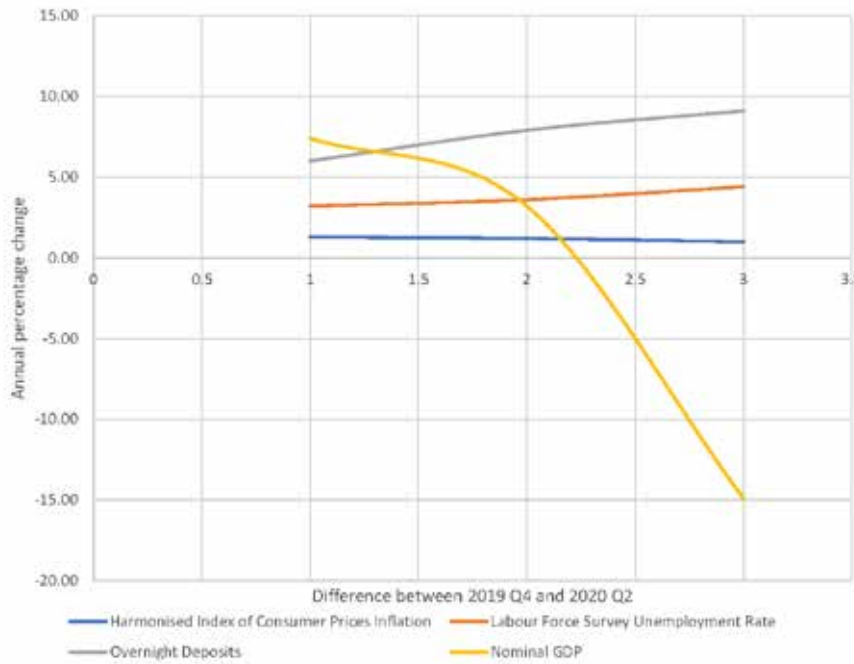
1.1.4. Within this context, this Review sought to provide the context and present the measures undertaken by Government to mitigate the socio-economic effects of the pandemic with the final aim of presenting the National Audit Office’s (NAO’s) approach towards auditing Government’s COVID-19-related expenditure. Against this backdrop, this Chapter discusses:

- key economic indicators;
- challenges faced by Government;
- Government’s response; and
- Supreme Audit Institutions’ (SAIs) responsibilities.

1.2. Key indicators

1.2.1. The pandemic caused an economic decline in various sectors. To various degrees, the public health containment measures adopted to prevent the spread of the virus restricted the free movement of goods and people. A decrease in the demand and supply chains have been highly disruptive and affected the country’s economy and Government’s financial position. Figure 1 refers.

Figure 1: A snapshot of the pandemic’s effects on Malta’s economic and financial position



Source: Central Bank of Malta

1.2.2. Figure 1 shows that Malta’s economy, similar to that of other countries, was affected by the pandemic. The robust economic growth and low unemployment driven by buoyant domestic demand and structural rebalancing towards high value activities contracted as a result of the pandemic, thus resulting in a decrease of 7.9 per cent in real terms of the economic growth in the first half of 2020. Moreover, public finances were also severely affected. Figure 1 shows that in August 2020, public finances registered a deficit of €34 million.¹ This contrasts sharply with the situation in the previous year, where the consolidated fund had registered a surplus of €210 million. This situation materialised in view that Government launched a number of fiscal measures to mitigate the effects of the pandemic on households and businesses. Moreover, Government, as an institution, had to reshape internal work practices to ensure business continuity. Nevertheless, Government faced a number of challenges on the national and international levels.

¹ NSO News Release 071/2021 issued on 20 April 2021 reported that by the end of 2020 Government registered a deficit of €1,300.2 million, equivalent to 10.1 per cent of GDP.

1.3. Challenges faced by Government

- 1.3.1. The pandemic put all Governments worldwide to the test. The challenges faced by Governments related to the procurement of goods, intervention in a market-based economy and maximising social welfare.
- 1.3.2. At the start of the pandemic, practically every country was competing at the same time for essential goods such as healthcare equipment and materials. However, microstates such as Malta faced greater struggles in view that these countries do not have the infrastructure to produce the goods and have limited capacity to access the available stocks. A case in point relates to the shipment of 50,000 medical suits that were ransacked in a Turkish shipping warehouse.² To a considerable extent, Malta mitigated its limitations as a microstate through discussions, agreements and the joining of forces with other European Union (EU) Member States.
- 1.3.3. Malta has a market-based economy. However, in the face of market failure brought about by the pandemic, Government's role was to intervene to enable the continuation of essential services through both the public and private sectors. To mitigate the socio-economic effects of the pandemic, Government introduced a set of fiscal measures. Section 1.6 and Chapter 3 will provide a snapshot and further details.

1.4. Government's response to the pandemic

- 1.4.1. Government launched its strategy for the local public health sector in the early stages of the pandemic. The health system response plan is based upon a command and control structure whereby the Superintendent of Public Health holds legislative authority and makes recommendations to an Inter-ministerial Committee, chaired by the Deputy Prime Minister and Minister for Health.
- 1.4.2. The health sector also benefitted from diplomatic relationships between countries including Member States of the EU. A case in point relates to the advice from Chinese medical experts which was considered as priceless for the prevention, diagnosis and treatment of COVID-19 in Malta. Such an approach enabled the Maltese Authorities to have a head start on the procurement of medicines including COVID-19 vaccines and medical equipment.
- 1.4.3. Apart from public health issues, Government's response to the pandemic included ensuring continuity of service within the public sector and introducing fiscal measures to alleviate economic pressures. The former entailed ensuring business continuity within the public service and triggering the necessary legislative provisions to bolster Government's response to the pandemic. The latter related to the launching of fiscal initiatives addressing businesses and households' economic situations.

² <https://timesofmalta.com/articles/view/covid-19-protective-gear-for-malta-stolen-in-turkey.783878>, as at 24 November 2020.

1.4.4. In recent months, Government established a new Ministry portfolio to lead the post pandemic strategy. The foregoing necessitates that the Ministry for Research, Innovation and Post-COVID-19 Strategy would be monitoring the outcomes and impacts of the COVID-19 measures. These would serve as a major input towards the post COVID-19 strategy.

1.5. Public service business continuity

1.5.1. The starting point was the contingency plan drawn up a few years ago to address the Severe Acute Respiratory Syndrome (SARS) pandemic. The public service was constrained to adapt this plan to the current context and circumstances brought about by the COVID-19 pandemic. This plan mainly related to public health issues. Consequently, the public service had to expediently implement measures to ensure business continuity with respect to various services provided. This was mainly complemented by the establishment of two committees, one relating to health matters and the other one relating to strategic and operational issues.

1.5.2. Moreover, on an EU level, on 13 March 2020, the EU Commission adopted a Communication³ calling for a coordinated economic response to the crisis, involving all actors at national and EU-level. The Union has already amended the relevant legislative frameworks⁴ to allow Member States to mobilise all unused resources from the European Structural and Investment Funds so that they can address the exceptional effects of the COVID-19 pandemic. Those amendments provide additional flexibility, as well as simplified and streamlined procedures. To alleviate cash flow pressures, Member States can benefit from a 100 per cent co-financing rate from the Union budget in the 2020-2021 accounting year. EU measures also included the temporary revision of state aid.

1.6. The introduction of fiscal measures

1.6.1. In response to the COVID-19 pandemic, and as part of a coordinated Union approach, Malta has adopted budgetary measures to increase the capacity of its health system, contain the pandemic, and provide relief to those individuals and sectors that have been particularly affected. These budgetary measures considered for this Review amounted to around a tenth of the Gross Domestic Product (GDP) in 2019. The measures include wage supplements for distressed sectors, increasing healthcare capacity, and COVID-19-related social measures. In addition, the Maltese Government announced measures that, while not having a direct budgetary impact, will contribute to support liquidity to businesses.

³ COM (2020) 112 final, Communication from the Commission on the Coordinated economic response to the COVID-19 Outbreak.

⁴ Regulation (EU) 2020/460 of the European Parliament and of the Council of 30 March 2020 amending Regulations (EU) No 1301/2013, (EU) No 1303/2013 and (EU) No 508/2014 as regards specific measures to mobilise investments in the healthcare systems of Member States and in other sectors of their economies in response to the COVID-19 outbreak (Coronavirus Response Investment Initiative) (OJ L 99, 31.3.2020, p. 5) and Regulation (EU) 2020/558 of the European Parliament and of the Council of 23 April 2020 amending Regulations (EU) No 1301/2013 and (EU) No 1303/2013 as regards specific measures to provide exceptional flexibility for the use of the European Structural and Investments Funds in response to the COVID-19 outbreak (OJ L 130, 24.4.2020, p. 1).

1.6.2 It is acknowledged that Government’s response to the COVID-19 pandemic was unparalleled, particularly in terms of financial materiality. From an audit point of view, it is to be noted that the size of the financial package does not necessarily relate to the effectiveness of measures, which depends also on factors in the external environment beyond anyone’s control such as the number of COVID-19 waves.

1.7. Supreme Audit Institutions’ responsibilities

1.7.1. Governments around the world have responded to the COVID-19 pandemic with huge fiscal stimuli and emergency rescue packages designed to prevent economic catastrophe. The vast amount of resources allocated and the speed at which they are being disbursed inevitably increase possible risks for irregularities and corrupt practices. United Nations literature, in collaboration with the Chartered Institute of Public Finance and Accountancy, highlights that a balance between the expedient implementation of measures and the appropriate level of controls to safeguard good governance may not always be attained. Furthermore, when auditing emergency activities in the aftermath of disaster, auditors can consider risks arising due to the urgency of the situation: risks to efficiency when large amounts of aid arrive rapidly and must be managed and distributed quickly to save lives and limit losses; risks of irregularity when internal control systems are not in place or are not appropriately adapted to the activities; audit risks if ex ante controls are disregarded in the interests of acting quickly and not compensated for by ex post controls; risks to economy and the risk of irregularity when emergency procedures are introduced and operational and procedural controls are frequently circumvented or simply ignored in the interest of speed.

1.7.2. In view of the foregoing, various studies on and experience dealing with natural and human-made disasters show that the role of SAIs is crucial to support governments’ response mechanisms by ensuring accountability and transparency. The role of SAIs is seen to be broad and to cover both the emergency that is (in this case, during the pandemic) and post-emergency stage.

1.7.3. The systems, processes, and structures in place to maintain good governance are often placed under pressure when public bodies are reacting and responding to a crisis. This is understandable, as those systems, processes, and structures are largely designed to support and maintain good governance in normal times. In times of crisis, the challenge for public bodies is to adapt their systems, processes, and structures to ensure good governance is maintained and not weakened or overlooked in any way. Indeed, it could be argued that maintaining good governance is more necessary than ever during a time of crisis.

1.7.4. Within this context, the National Audit Office (NAO) sought to continue to manage its audit work, namely the execution of the 2020 audit plan. However, this Office had to carry out some changes that were generally brought about by logistical necessities, such as the new priorities of some auditees, namely those related to the provision of health services. In this regard, a

number of audits were rescheduled or postponed, giving way to embark on work related to the pandemic. The new circumstances also needed to be managed and placed into a business continuity context. This situation was facilitated as the NAO had already embarked on a journey to becoming more digital, and the increasing investment in digital capability.

1.8. Audit focus

1.8.1. The aim of this Review is two-fold. Firstly, this Report aims to provide the context and present the measures undertaken by Government to mitigate the socio-economic effects of the pandemic. In turn, the Report seeks to present the NAO's approach to audit Government's expenditure to mitigate the effects of the pandemic. In this regard, the audit objectives aimed to determine:

- a. the institutional risks connected with the pandemic; and
- b. the measures undertaken to mitigate the socio-economic impact of the pandemic.

1.8.2. This Report is the first of a programme of work to be undertaken by the NAO in its scrutiny of the Maltese Government's response to COVID-19. It provides a summary of Government's actions to date. It does not assess the value for money of the measures adopted by Government or the effectiveness of its response.

1.9. Audit methodology

1.9.1. The attainment of the aforementioned objectives entailed a number of methodological approaches. These involved the following:

- a. **Adherence to ISSAIs** - The audit was carried out using as guidelines the International Standards of Supreme Audit Institutions (ISSAIs) 3000, 5510, 5520 and 5530. These related to Performance Auditing and auditing of Disaster-related matters.
- b. **Documentation review** – This included a thorough analysis of official as well as local and international sources available on the subject matter. This related to press releases issued by Government departments, research papers published by various academic, health, financial and governance institutions.
- c. **Semi-structured interviews** – These interviews enabled the collation of qualitative data, which in turn was used to corroborate information arising from other sources and approaches. To this end, the NAO interviewed amongst others key officials within the Office of the Prime Minister, the Ministry for Finance and Employment and the Ministry for the Economy and Industry. Within this context, OPM also delivered two presentations regarding public service initiatives to mitigate the effects of the pandemic.

- d. **Data analysis** – This approach was required to determine the amount of financial resources Government allocated per financial scheme.

1.9.2. Furthermore, all issues and conclusions presented in this Report, unless otherwise indicated, reflect the situation up to September 2020.

1.10. Report structure

1.10.1. Following this introductory Chapter, the Report proceeds to discuss the following:

- a. Chapter 2 discusses the inherent risk factors emanating from the implementation of measures. These include risks associated with ensuring good governance in times of crisis.
- b. Chapter 3 outlines the set of measures that Government launched to mitigate the socio-economic impact of the pandemic. The Chapter presents and evaluates the estimated costs of these measures.

1.10.2. The overall conclusions and lessons learnt through this performance audit are presented in this Report's Executive Summary from page 6 to 8.

Chapter 2 | NAO's oversight role during the COVID-19 pandemic

2.1. Introduction

- 2.1.1. Government has introduced a number of fiscal measures to alleviate the economic pressure during the COVID-19 pandemic. Government established eligibility criteria for potential beneficiaries of the proposed measures. In about a quarter of the cases, the eligibility criteria enabled beneficiaries to apply for a number of complementary measures, namely related to business activities and social benefits. On the other hand, the remaining fiscal measures were ad hoc initiatives specifically aimed to assist those economic sectors mostly hit by the pandemic.
- 2.1.2. In times of crisis, the challenge for all public bodies is to adapt their structures and processes to ensure that good governance is maintained – an aspect of administration which emerges in emergency situations. The challenge for public bodies is to maintain a sense of urgency and common purpose created during the crisis to establish and embed new approaches to governance both during and in the post-pandemic period.
- 2.1.3. In the case of the COVID-19 pandemic, the European Union's (EU's) reaction was to allow Member States flexibility to design appropriate responses to the specific health and economic situations. In this regard, on an EU level, a series of decisions were taken to address various key economic policy aspects. This meant allowing for:
- more flexible application of key EU economic rules or coordination processes;
 - the adoption of ad-hoc recommendations to limit the impact of emergency national measures on the functioning of the single market.
- 2.1.4. The foregoing, coupled with the expediency and materiality of measures involved, imply a heightened risk profile for national entities. Generally, these include the following:
- Financial adequacy risks;
 - Implementation risks;
 - Monitoring risks;
 - Accountability risks; and
 - Challenges for financial risk management.
- 2.1.5. As worldwide disasters, such as the COVID-19 pandemic, create unique and unprecedented situations with complex aid flows involving multiple sectors, Supreme Audit Institutions (SAIs) become duty bound to thoroughly examine how these publicly funded financial schemes are managed. Moreover, in view of the urgency and expedient action undertaken, the public

governance environment faces a range of risks.⁵ These circumstances call for a stronger role of SAIs during and after the natural disasters or crises such as the COVID-19 pandemic.

2.1.6. To this effect, ISSAI 5520 outline the critical importance that SAIs should report on whether the intentions of donors, in this case Government, and the interests of aid recipients are being met. These guidelines, furthermore, outline that special consideration should be given by SAIs to post-disaster emergency activities, which compound various risk factors.

2.1.7. Against the foregoing, this Chapter seeks to discuss the critical importance relating to the following:

- a. The degree to which Government Ministries and Departments mitigated the operational risks relating to the identification and application of fiscal measures;
- b. The role of the NAO to implement oversight procedures; and
- c. The NAO's programme in relation to the fiscal measures intended to mitigate the socio-economic effects of the pandemic.

2.1.8. In view that this is a Preliminary Review aiming to provide a snapshot of Government's response to COVID-19, the information provided in this Chapter is based on desk research. Subsequent audits will delve deeper into the implementation of specific fiscal measures.

2.1.9. As the COVID-19 pandemic is an unprecedented crisis, whereby its duration cannot be determined in view of the various factors influencing its spread, Government launched a number of fiscal measures at different stages of the pandemic. Thus, for the purpose of this audit, the measures discussed within this Chapter relate to those launched up to the end of September 2020.

2.2. National Authorities have sought to mitigate COVID-19 fiscal measures operational risks

2.2.1. National Authorities were appropriately aware of the risks involved in launching ad hoc measures to mitigate the effects of the COVID-19 pandemic. As generally was the case with other countries, Malta did not have a contingency plan to deal with such matters. As a consequence, national authorities were constrained to adapt rapidly the contingency plan that had been drawn up to deal with the Severe Acute Respiratory Syndrome (SARS) pandemic, first identified at the end of February 2003.⁶

⁵ ISSAI 5520. Audit of Disaster-related Aid.

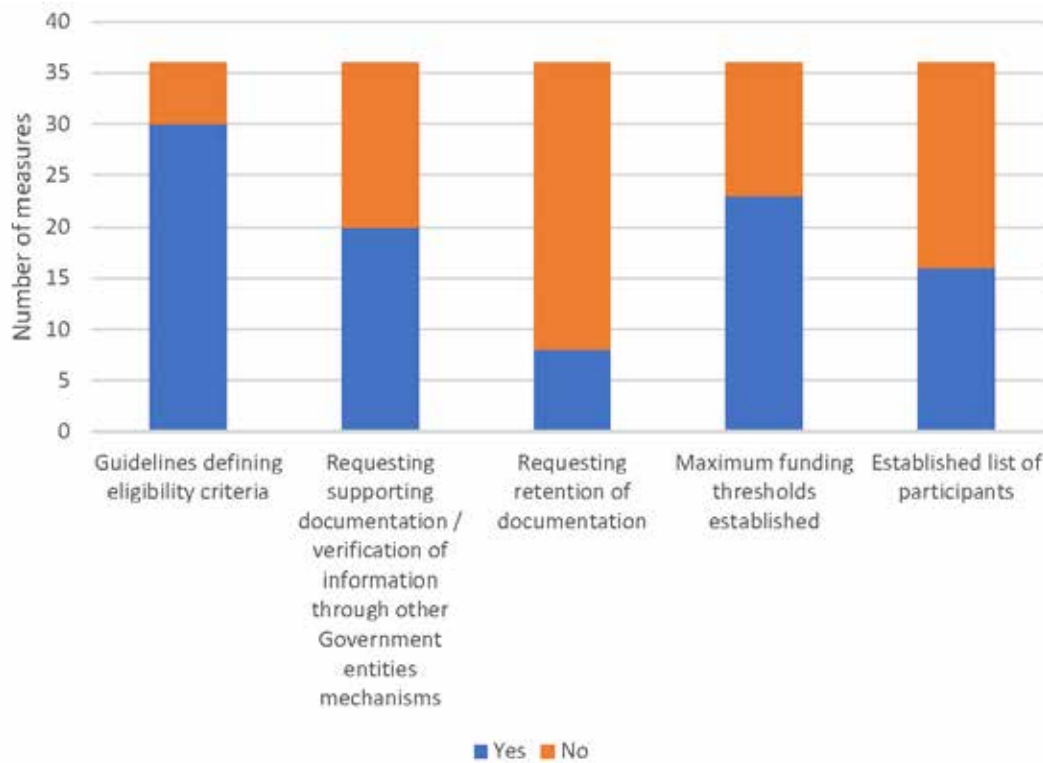
⁶ https://www.who.int/health-topics/severe-acute-respiratory-syndrome#tab=tab_1, as at 25 February 2021.

- 2.2.2. Moreover, the urgency brought about by the increasing socio-economic impact of the pandemic, necessitated prompt intervention by Government mostly through health-related measures and fiscal initiatives to address the ensuing economic repercussions. These circumstances did not always permit national authorities to compile in-depth studies on specific issues. Nonetheless, at the Office of the Prime Minister (OPM) level, expertise was drafted into two main committees namely a strategic and an operational one. The strategic committee chaired by the Deputy Prime Minister and Minister for Health focused on health-related matters. The second committee, which is responsible for medium to long-term planning, is chaired by the Principal Permanent Secretary and is composed of a number of ministerial representatives and entities. From this committee stem a number of working groups which are meeting on a regular basis to tackle issues ranging from communication, economic and commercial activity, to essential services, transport, and others. Moreover, at the strategic level, Malta has been engaging in bi-lateral and multi-lateral discussions, predominantly with the EU and its Member States. These discussions not only contributed towards the compilation of strategic measures relating to the pandemic but also led to the co-financing of various COVID-19 mitigating measures.
- 2.2.3. At the Ministerial level, the effects of the pandemic on the respective Ministries' business was consistently monitored to enable mitigating measures to be implemented. A major mechanism used to enable business continuity within the public service was teleworking. This entailed that the Malta Information Technology Agency (MITA) and Information Technology specialists within Government were required to support the new working arrangements. This situation continued to evolve during the pandemic, whereby Government launched remote working spaces to facilitate business continuity without the need for employees to work from their respective offices.
- 2.2.4. In part, Malta's legislative framework facilitated business continuity initiatives within the public service. To this effect, the legislative framework enabled emergency public health measures to be implemented, expediated procurement of essential provisions and provided for additional fiscal measures to be introduced through a supplementary budget.
- 2.2.5. The foregoing emphasises the importance that public bodies manage the heightened operational risks that have surfaced due to the pandemic. Within this context, operational risk is defined as the risk faced by public entities within their internal practices, policies and systems which may not stand up to current circumstances and consequently impact the attainment of good governance.
- 2.2.6. Moreover, the COVID-19 pandemic has exacerbated operational risks as Government entities were required to respond and react to changing circumstances rapidly to minimise economic losses and to continue to safeguard the health and social well-being of citizens. Operational risks are generally within the control of public entities by carrying out risk assessments and risk management practices, including internal control. Identification is one of the most important

areas of managing risk. Failure to identify risk will certainly mean that no action is taken to manage that risk. Operational risks are largely based on procedures and processes, so this lends itself to the use of audit for risk identification purposes.

2.2.7. Within this context, this Office carried out a desk analysis of each fiscal measure introduced by Government up to September 2020. This entailed reviewing the respective application forms pertaining to the 38 measures announced by that time in terms of audit trails ensuring the eligibility criteria. These fiscal measures, when announced, amounted to €350,000,000 in guarantees, €1,013,375,000 as expenditure measures, €74,080,000 as revenue measures and €200,000,000 in tax payment measures. This Office is still to perform substantive testing to ascertain the effectiveness of these internal controls. Nonetheless, this approach provided this Office with a snapshot of the situation regarding the level of internal controls in conjunction with the implementation of fiscal measures. Figure 2 refers.

Figure 2: Criteria for minimisation of operational risk



2.2.8. Figure 2 shows that Government tried to mitigate operational risk through various mechanisms. The most common approach adopted was the publication of guidelines defining the eligibility criteria. Information in this regard was available for more than 70 per cent of the measures announced covering approximately 69 per cent of the €1.8 billion financial package allocated for such purposes. Through such an approach Government is, on the one hand, providing guidelines to the public and industry on who is eligible, whilst, on the other hand, it is also setting the criteria for public service employees when vetting application forms. Such a state of affairs minimises bias and ensures consistency as well as confirms that an audit trail is in place with respect to the award of the fiscal measure grant.

2.2.9. Setting maximum funding thresholds was another mechanism adopted to mitigate the risk of overspending. This applied to the majority of the measures such as the Electricity Bill Refund, Quarantine leave and Aid to Pharmacies schemes. Such an approach avoids that available budgets are absorbed by single beneficiaries.

2.2.10. This Section has shown that at application stage, Government tried to mitigate the major operational risks.

2.3. The role of the NAO to implement oversight procedures

2.3.1. International Standards of Supreme Audit Institutions (ISSAI) 5520 outline the critical importance that SAIs should report on whether the intentions of donors - in this case Government, and the interests of aid recipients are being met. These guidelines, furthermore, outline that special consideration should be given by SAIs to post-disaster emergency activities, which compound various risk factors.

2.3.2. ISSAI 5520 maintain that in a disaster situation, individuals, communities, governments and international agencies act very quickly. Assistance and aid flow toward the affected area. The emphasis is on saving lives, alleviating poverty and hardship and maintaining human dignity. Within this context this standard also applies to the COVID-19 pandemic.

2.3.3. Throughout the emergency response, relief, rehabilitation and reconstruction activities of the post-disaster phase, order has to be maintained and normality has to be regained. SAIs have a vital contribution to make in keeping governments and others managing disaster-related aid accountable to parliaments and citizens for the use of resources. The issue of accountability is fundamental to the legitimacy of the state and the continued operation of the political system. This has been recognised in recent years, for example, by the Inter-Agency Standing Committee Transformative Agenda. International Organisation of Supreme Audit Institutions (INTOSAI) is part of the worldwide movement for greater transparency and accountability.

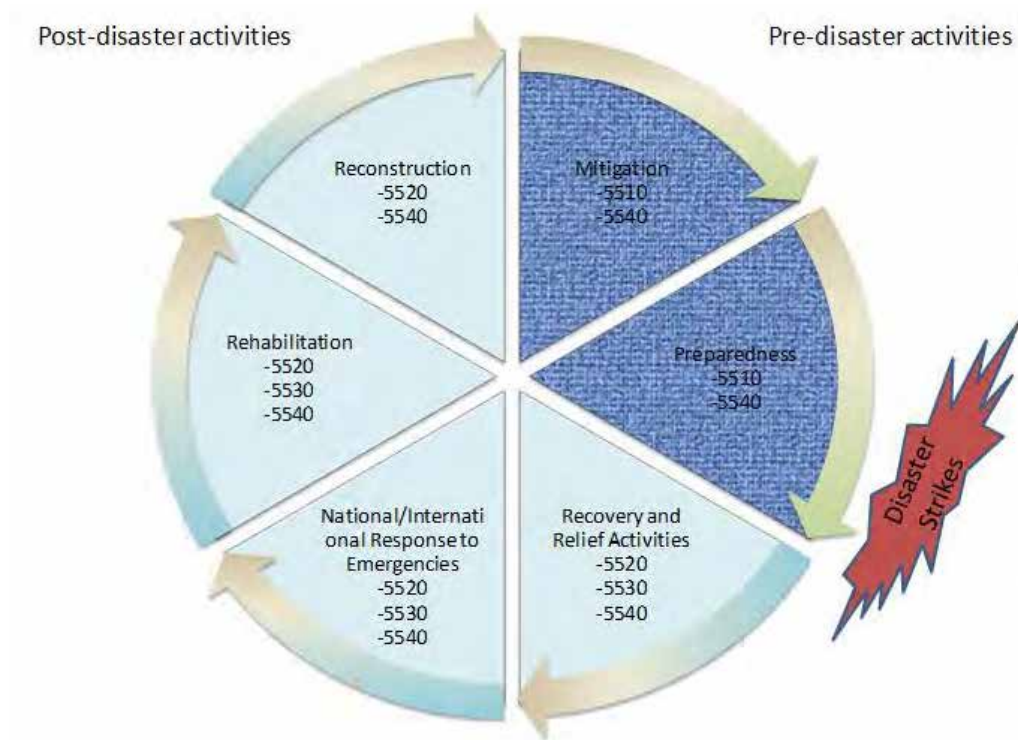
2.3.4. INTOSAI research based on previous pandemics shows that emergency situations can lead to basic control systems being suspended or bypassed, combined with the weakening of accountability systems and oversight. This can cause increased levels of waste, mismanagement and corruption at a time when government resources are under pressure.

2.3.5. The ISSAI 5500 series guide SAIs to respond decisively in times of crises, disasters and emergencies by:

- Being a “critical friend” and remind key actors about basic rules and regulations that must be adhered to even during an emergency;
- Maintaining dialogue with stakeholders in and outside of government on the potential role of the SAI;
- Embarking on audits that can add value as the crisis unfolds and carrying out real-time audits on critical functions, such as procurement;
- Reporting in time and taking any new developments into account; and
- Protecting staff and adopting innovative ways of working.

2.3.6. Figure 3 shows the ISSAIs under the ISSAI 5500 series and which are applicable to the COVID-19 pandemic.

Figure 3: ISSAIs under the ISSAI 5500



Source: INTOSAI, Geospatial information for auditing disaster management, p. 6

2.3.7. It is within this spirit that the NAO is compiling this Report as a precursor to other audit work related to the pandemic. To this end, the NAO has already shared knowledge and followed up on the work being performed by other SAIs. In part, this necessitated that the NAO forms part of a EUROSAI project group whose terms of reference include auditing the response to the COVID-19 pandemic experiences.

2.3.8. In accordance with INTOSAI standards, SAIs, including the National Audit Office, need to ensure that the application and implementation of fiscal measures revolve around systems, processes, and structures aimed at maintaining good governance. As noted, these elements are often placed under pressure when public bodies are reacting or responding to a crisis. It can be argued that maintaining good governance is more necessary than ever before for the following reasons:

- Sustaining public confidence and trust;
- Ensuring the right decisions are made in the right way and at the right time;
- Providing continued assurance; and
- Supporting public bodies to build back better.

2.4. The NAO’s programme in relation to the fiscal measures intended to mitigate the socio-economic effects of the pandemic

2.4.1. NAO’s audit scope on reviewing Government’s spending is limited by its own resources and the wider aspect of audit work. Consequently, the audit focus on COVID-19 related programmes

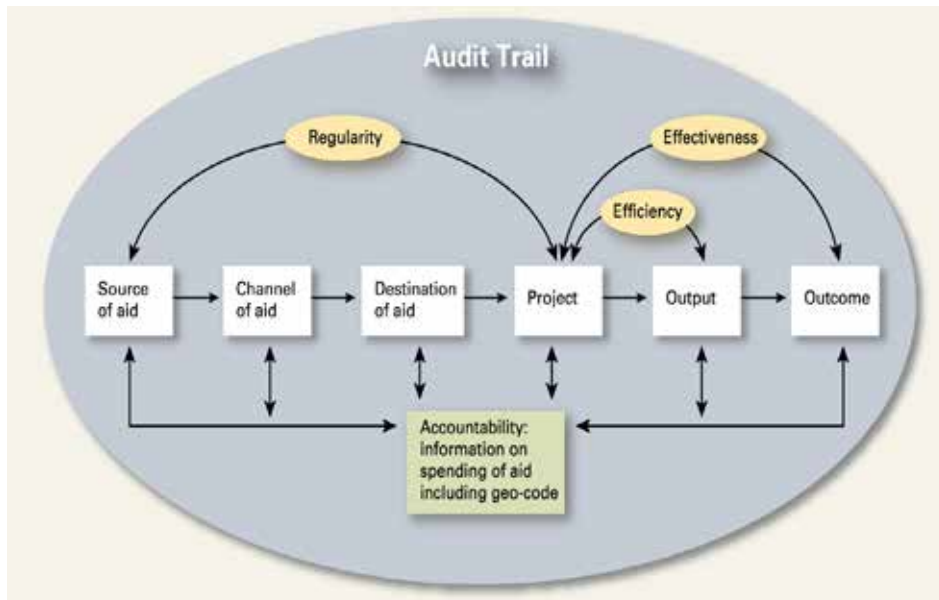
and measures is to be determined through a risk analysis approach.

2.4.2. This approach will enable the NAO to evaluate individual programmes, measures or operations on the basis of:

- Materiality – how costly is the measure/programme/operation?
- Control environment and vulnerability – to what extent are mechanisms in place to ensure control and minimise the risk of irregularities?
- Sensitivity – what will be the fall-out if the programme/measure fails?
- Management concerns – has the implementation of the measure been subject to recurring errors?

2.4.3. Figure 4 shows the various stages of Government’s response. The source of funding, the channels used to ensure funds go to the intended beneficiary and the measure/project itself are subject to regularity audits. On the other hand, the measure/project and its outputs and outcomes can be reviewed through performance audits in terms of efficiency and cost-effectiveness reviews. This approach seeks to ascertain that the principles of accountability and transparency prevail throughout the life cycle of funds directed to mitigate the effects of the pandemic.

Figure 4: NAO’s response to Government spending - the approach



Source: INTOSAI, Geospatial information for auditing disaster management, p. 13

2.4.4. On the basis of our preliminary research, the NAO will be adopting the following approach to review Government’s response to the pandemic:

- **Phase 1** - Business continuity of operations within the public sector (Performance audit)

- **Phase 2** – Financial and compliance aspects of Government’s measures
- **Phase 3** – Impact of Government’s measures (Performance audit)

2.4.5. The logistics concerning phases 2 and 3 will be developed in due course and will be integrated in subsequent annual audit plans.

2.4.6. Following this Preliminary Review, this Office will embark on phase 1 of the COVID-19-related audit. This will be a performance audit which seeks to determine the extent to which the Public Service coped efficiently and in a cost-effective manner to continue with its delivery of public services and take on the new responsibilities to mitigate the socio-economic effects of the pandemic. This implies that the public service business continuity will be the initial focus of the NAO’s oversight work.

2.4.7. Business continuity is a proactive way to ensure mission-critical operations proceed during a disruption. The NAO’s initial focus on business continuity is considered as a robust starting point since it enabled us to determine the extent to which:

- Management systems, including control mechanisms, were operating at the ministerial and departmental levels; and
- Ministries and Departments were in an appropriate position to implement COVID-19-related measures and programmes.

2.4.8. This Office is currently in the audit planning phase of this project.

2.5. Conclusions

2.5.1. In concluding, we can say that the pandemic had a two-pronged effect on the NAO. Firstly, its own internal business continuity. Secondly, the auditing of public funds directed through measures and programmes to deal with the effects of the COVID-19 pandemic. After implementing internal measures to ascertain the safety of NAO staff, this Office embarked on auditing fiscal measures in line with the ISSAI 5500 series and methodologies employed by other SAIs. Naturally, a major limitation which will be encountered during the implementation of this audit approach is the constantly evolving circumstances. A case in point relates to the developments occurring after the September 2020 cut-off dates of this Report.

2.5.2. The NAO’s own resources constraints stress the critical importance of employing risk analysis techniques to identify auditable areas which yield the highest value added. Risk-based audit can be used as a tool to identify risks, as well as a method of reporting on the effectiveness of the Public Service’s management framework during the pandemic. The result or impact of a risk materialising within the Public Service during its implementation of pandemic-related measures may be financial loss, damage to reputation, process change or a combination of these.⁷

⁷ CIMA, 2008. *Operational Risk, Topic Gateway series No. 51.*

Chapter 3 | The introduction of COVID-19 measures

3.1. Introduction

3.1.1. The Maltese Government is implementing an extensive range of fiscal measures in response to the COVID-19 pandemic. Six initial measures were launched in March 2020, followed by another six measures in April 2020, covering the period March to June 2020. These were then followed by an Economic Recovery Plan launched on 8 June 2020, which introduced a further 24 new measures. A number of measures were subsequently renewed in the 2021 Annual Budget announced in October 2020. Moreover, Government announced a number of health-focused measures amounting to €130 million.

3.1.2. This Chapter provides an overview of the fiscal measures in place up to September 2020. It is not intended to provide a value for money evaluation of these initiatives within this Preliminary Review. Consequently, the discussion herein focuses on:

- a. A brief overview of the economic impact of the pandemic per quarter on Malta's industry sectors, in comparison with 2019;
- b. Government's COVID-19 mitigating measures launched by the end of September 2020; and
- c. The distribution of measures by economic sector and the number of beneficiaries.

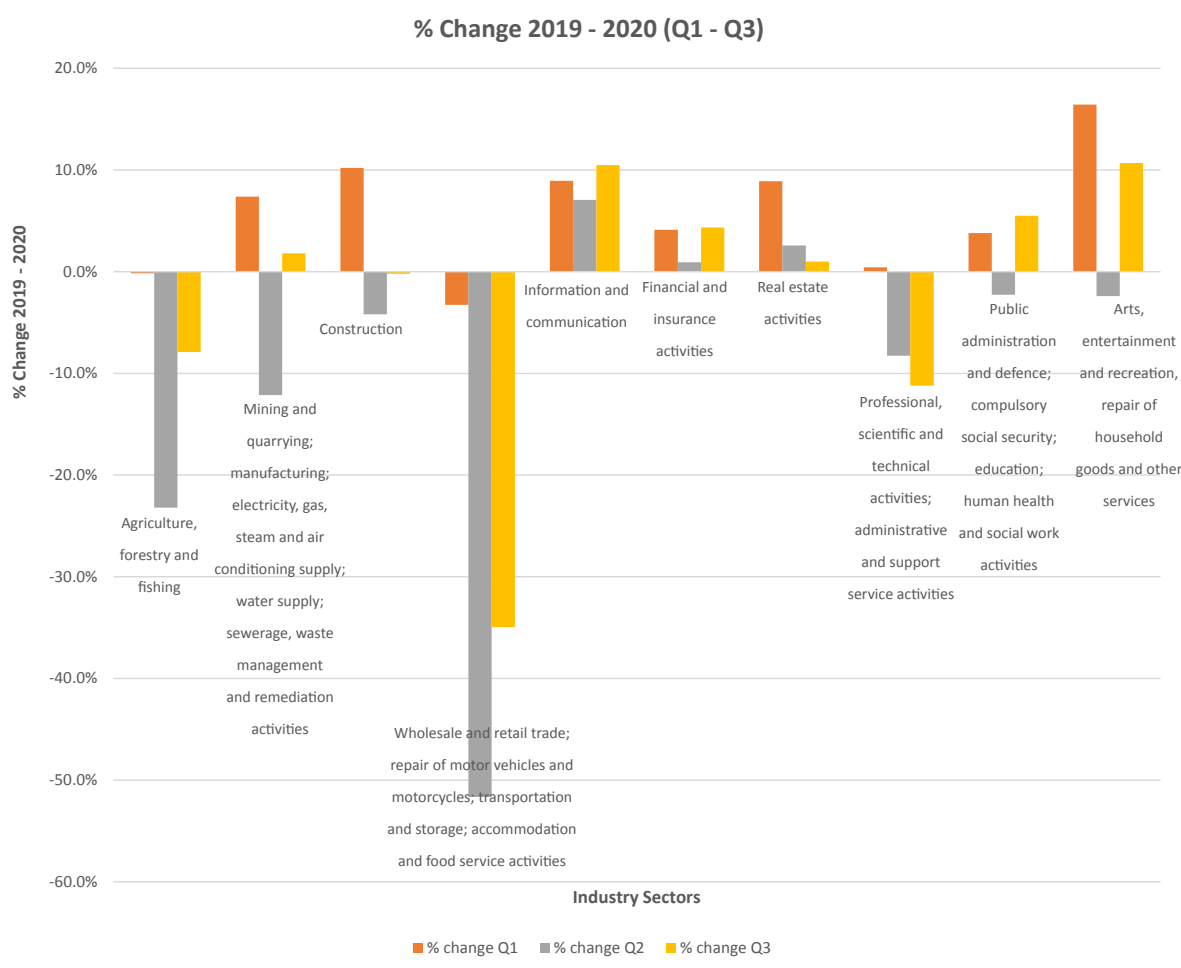
3.2. Industry sector comprising retail, tourism and food services amongst worst hit by the COVID-19 pandemic

3.2.1. This Office carried out a comparative analysis of the Gross Value Added (GVA) per Industry Sector for the first three quarters of 2020 (Q1-Q3) to assess the extent of the impact of the COVID-19 pandemic on the industry when compared to the previous year. GVA is the measure of the value of goods and services produced in an area, industry or sector of an economy. Such analysis constitutes an input of the risk analysis mechanism to be undertaken by the National Audit Office (NAO) when formulating its COVID-19 fiscal measures audit programme as discussed in paragraph 2.4.4.

3.2.2. The total Gross Value Added in the first quarter of 2020 registered a percentage increase of 4.3 per cent over the first quarter of 2019. This is understandable because the first COVID-19 cases emerged locally in March 2020 that is, at the end of the first quarter of 2020. The most significant GVA percentage change occurred from the second quarter of 2019 to the same

period of 2020, whereby the Gross Value Added of all Industry Sectors combined declined by 13.7 per cent. The total percentage change between the third quarter of 2019 and 2020 recovered after that, by moving from a negative 13.7 per cent to a negative 7 per cent. This Office carried out further in-depth analysis by reviewing the first three quarters of 2020 and compared the registered figures for GVA with the equivalent period in 2019. Figure 5 refers

Figure 5: Percentage change in Gross Added Value per Industry Sector (Q1 - Q3 of 2019 - 2020)



Source: National Statistics Office (NSO)

3.2.3. Figure 5 shows that the most significant quarterly percentage change of 2019 and 2020 was registered in the Industry Sector grouping wholesale and retail trade; repair of motor vehicles and motorcycles; transportation and storage; accommodation and food service activities. The percentage change in this Industry Sector between the second quarter of 2019 and 2020 was a negative 51.7 per cent, decreasing to a negative 35 per cent between the third quarter of 2019 and 2020.

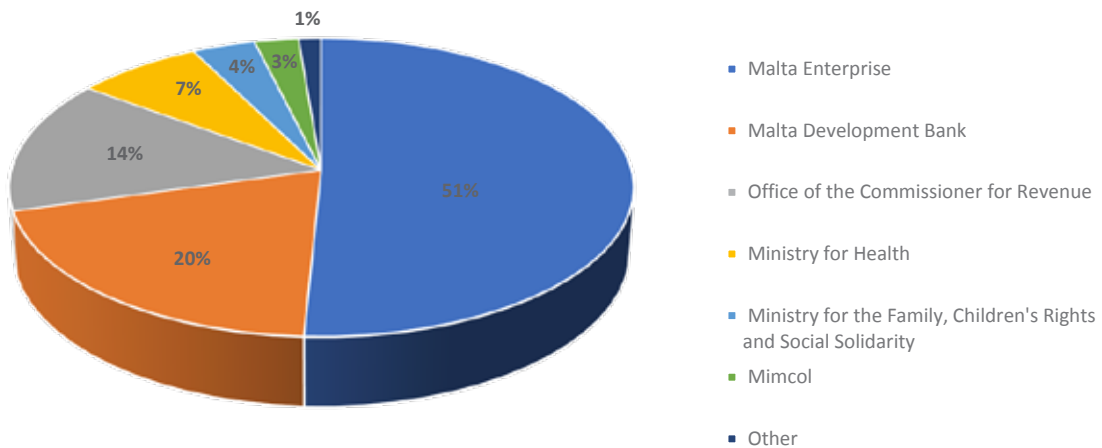
3.3. As at end of September 2020, Government announced a COVID-19 financial package amounting to around €1.8 billion

3.3.1. Following the emergence of the COVID-19 pandemic, in March and April 2020, Government announced the financial package of €262.5 million and €751.6 million respectively to mitigate

the devastating financial, economic and social effects of the COVID-19 pandemic. In June 2020, Government announced a further €753.4 million to help alleviate some of the long-lasting effects of the pandemic, which by then, it became clear that normalcy would not be fully restored for several more months or possibly for years to come. Appendix I lists the measures announced in March, April and June 2020.

3.3.2. Responsibility for COVID-19 mitigating measures is shared between various Ministries. Malta Enterprise was entrusted to manage the largest financial package constituting 51 per cent of the total amount announced by Government. The Malta Development Bank (MDB) and the Office of the Commissioner for Revenue (CfR) were respectively responsible for the second and third largest financial package. Figure 6 refers.

Figure 6: Responsibility for measures announced in 2020 (€)



Source: Ministry for Finance and Employment

3.3.3. For the purpose of this exercise, this Office adopted the measure classification devised by the European Court of Auditors (ECA) to classify COVID-19 related measures into six categories, namely:

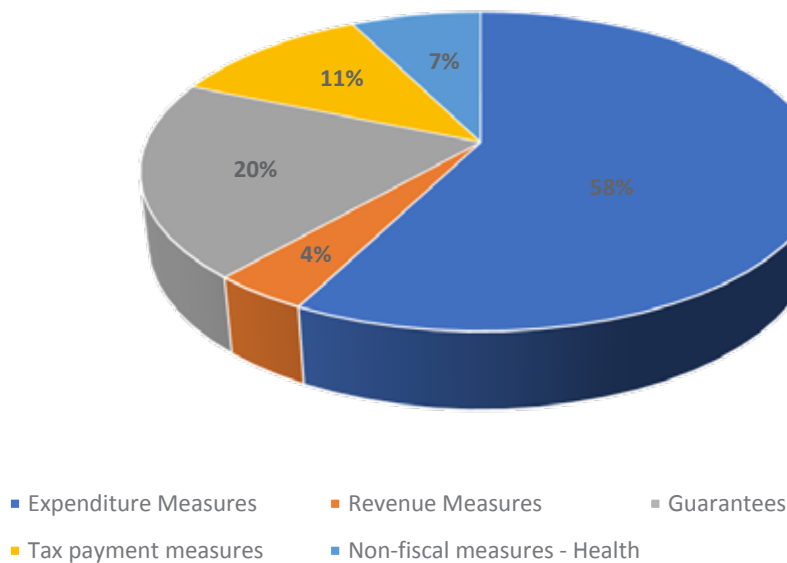
- **Expenditure measures** have a direct budgetary impact. These measures include subsidies to support incomes of businesses or households, measures to support employment, such as furlough schemes, and exceptional spending on healthcare costs, capital investment and research as well as interest subsidies, provisions for credit losses and other discretionary expenditure measures.
- **Revenue measures** also have a direct budgetary impact. These measures include tax payment reliefs, tax rate cuts and other revenue measures.
- **Guarantees** aim to support the liquidity position of enterprises through a promise from the government to repay the guaranteed debt granted by a financial institution in case

of default. These measures have an indirect budgetary impact if the guaranteed financial instruments are not repaid in full.

- **Tax payment measures** aim to temporarily increase the liquidity position of enterprises through postponing tax or social contribution payments, which have no budgetary impact if the amount due is paid at a later point in time during the year. These measures include, in particular, tax deferrals and early tax refunds.
- **Non-fiscal measures related to the health sector** – These measures relate to the assistance provided to the medical sector for the supply of Personal Protective Equipment (PPE), accommodation and capital equipment.
- **Financial instruments** aim to support the liquidity or solvency position of enterprises through loans or equity injections, which have an indirect budgetary impact if they are ultimately not repaid in full.

3.3.4. As Government did not allocate any funds or guarantees for loan moratoria and bond underwritings, their financial impact was not considered for the purpose of this exercise. Although there is no immediate financial impact, loan moratoria and bond underwritings are indeed contingent liabilities which may have a future impact on government finances. Moreover, the implementation of the latter two measures fell under the responsibility of credit and financial institutions. Consequently, the category pertaining to financial instruments has been excluded from this analysis. Figure 7 classifies the COVID-19 measures into the remaining categories.

Figure 7: Classification of announced COVID-19 measures by type (March - December 2020)



Source: Ministry for Finance and Employment

3.3.5. Figure 7 shows that Government's financial package mainly dealt with expenditure measures and guarantees. These two categories constituted 78 per cent of the financial package.

3.3.6. The discussion herein revolves around:

- a. Carrying out a comparative analysis of the COVID-19 measures as classified in the six categories with other European countries;
- b. Amount spent by Government on COVID-19 measures up to September 2020 by NACE codes; and
- c. Identifying fluctuations in the job market and which industry sectors experienced the heaviest losses.

EU Member States adopted a wide range of fiscal measures to deal with the socio-economic impact of COVID-19

3.3.7. European Union (EU) Member States adopted a mix of fiscal measures, which can be categorised as shown in Figure 8. Nevertheless, by April 2020, the majority of EU Member States responded to the COVID-19 pandemic by adopting various guarantee schemes. The stress in financial markets in March/April 2020 was one of the reasons why certain governments swiftly adopted large packages of guarantees and emergency loan schemes to support businesses' liquidity and overall investors' confidence at that time.

3.3.8. Within the EU, other types of measures were spread more evenly across the crisis period. The hike in the amounts of expenditure measures in June 2020 reflected the renewal of certain temporary measures as well as the adoption of the recovery plan in Germany. The relative size of the fiscal measures varied across countries based on their own Gross Domestic Product (GDP). In this regard, Figure 8 outlines the size of the fiscal measure as a share of the respective GDP within EU Member States.

Figure 8: Size of fiscal measures across EU Member States as a share of respective GDP



Source: European Court of Auditors, Review No 6 / 2020, Risks, Challenges and Opportunities in the EU's economic policy response to the COVID-19 crisis.

3.3.9. Figure 8 shows that countries with relatively lower GDP per capita adopted smaller fiscal packages per capita and have perceptibly limited response options, while countries with GDP per capita above the EU average adopted more varied fiscal reactions that did not appear to depend on the size of GDP. The higher the GDP per capita, the larger the fiscal packages but this linear relationship, which might indicate a fiscal constraint, disappears for countries with GDP per capita above the EU average. Hence, the size and composition of the adopted measures reflect the relative wealth, and economic indicators such as the level of employment and inflation of the Member States, rather than how badly the crisis was forecasted to affect them.

3.3.10. The size of Malta's fiscal measures when compared to its GDP ranks amongst the highest of EU Member States. According to Figure 8, Government deemed it necessary to mitigate Malta's specific circumstances by predominantly focusing on expenditure measures and tax payment measures. The former mainly comprised the measures pertaining to the Wage Supplement and the investment in industrial infrastructure. The latter included the tax deferrals measure.

On the other hand, as a percentage of respective GDP, EU Member States tend to focus more on guarantees and similar to Malta applied expenditure measures.

Industry sectors pertaining to retail, tourism and food services benefitted 46 per cent out of the €592 million in financial assistance provided by Government up to September 2020

3.3.11. Up to September 2020, Government provided a total financial assistance of €592 million, both in the form of fiscal and non-fiscal (health) measures to deal with the COVID-19 pandemic. As outlined in Paragraph 3.2.3, industry sectors comprising retail, tourism and food services were the most affected by the pandemic. Consequently, Government allocated 46 per cent of the total financial assistance in place up to September 2020 to this industry. For statistical purposes, the National Statistics Office (NSO) groups the retail, tourism and food services industry sectors together and refers to them as the G to I industry sector.

3.3.12. This Section proceeds to discuss fiscal measures which targeted individuals - which comprises employees or recipients of grants - and businesses. Measures pertaining to these industry sectors mainly related to the Wage Supplement and the Voucher Scheme, which in some cases benefitted both individuals and businesses.

3.3.13. Table 2 outlines the total number of beneficiaries for the main schemes pertaining to industry sectors G to I where both individuals and businesses benefitted from Government's assistance.

Table 2: Main measures pertaining to industry sectors G to I addressing both individuals and businesses

COVID-19 Measure		No of Beneficiaries		Amount disbursed
		Individuals	Businesses	up to September 2020 (€)
Wage Supplement	Sectors G to I	43,159	8,694	129,436,290
	Total Industry Sectors	82,279	16,675	221,564,944
Vouchers Scheme	Sectors G to I	450,000	4,648	40,499,520
	Total Industry Sectors	450,000	4,648	40,499,520

Source: Malta Enterprise / MIMCOL

3.3.14. Table 2 shows that 58 per cent of the amount disbursed for the Wage Supplement scheme up to September 2020 pertained to industry sector G to I. On the other hand, the Voucher Scheme was fully directed to address difficulties faced by these industry sectors.

3.3.15. As the aforementioned industry sectors faced the most financial difficulties during the pandemic, Government also announced other measures which were specifically addressed to these businesses. These mainly included tax deferrals, bank guarantees and commercial licences. Table 3 refers.

Table 3: Main measures pertaining to industry sectors G to I addressing businesses only

COVID-19 Measure	Type of measure		No of Beneficiaries	Amount up to September 2020 (€)
Commercial Licences	Revenue measure	Sectors G to I	14,353	4,380,696
		Total Industry Sectors	14,353	4,380,696
Tax Deferrals	Tax Payment measure	Sectors G to I	3,006	55,701,519
		Total Industry Sectors	7,275	134,910,086
Bank Guarantees	Guarantees	Sectors G to I	245	41,693,146
		Total Industry Sectors	436	74,531,982

Source: Malta Tourism Authority, Commerce Department, Office of the Commissioner for Revenue and Malta Development Bank

3.3.16. Table 3 compares the assistance provided to industry sectors G to I with the remaining businesses. The assistance provided through these measures can be grouped into three different types of measures – revenue measure, tax payment measure and guarantees.

3.3.17. **Commercial Licences** – The rationale behind this revenue measure was to alleviate cash flow problems for businesses. This measure entailed that businesses were to be provided reimbursement for their business licence for 2020. The eligibility criteria for this measure only entitled businesses within the G to I industry sector. Up to September 2020, it is estimated that the cost of this measure amounted to €4,380,696.

3.3.18. **Tax deferrals** – Tax deferrals was another measure intended to alleviate cash flow problems for businesses. All business sectors were eligible to benefit from this measure. Up to September 2020, tax deferrals with respect to industry sector G to I amounted to around 41 per cent of the total benefits approved by the Commissioner for Revenue for all industry categories. By definition, a tax deferral does not imply that such revenue will not eventually be due to Government. Nonetheless, such a measure entails that in the short-term Government forfeits a substantial source of revenue. On the 14 July 2020 it was announced that eligible taxes were to be settled by the 31 May 2021. Furthermore, on 30 March 2021, this was extended to May 2022.

3.3.19. **Bank Guarantees** – All businesses within all industry sectors and which were holding loans were eligible to apply for this measure. The Malta Development Bank's COVID-19 Guarantee Scheme (CGS) provides guarantees to commercial banks in order to enhance access to bank financing for the working capital requirements of businesses in Malta facing a sudden acute liquidity shortage as a result of the COVID-19 outbreak. Similarly to the other categories of measures, as at end of September 2020, industry sector G to I benefitted from guarantees amounting to €41,693,146 which constituted 56 per cent of the total approved guarantees.

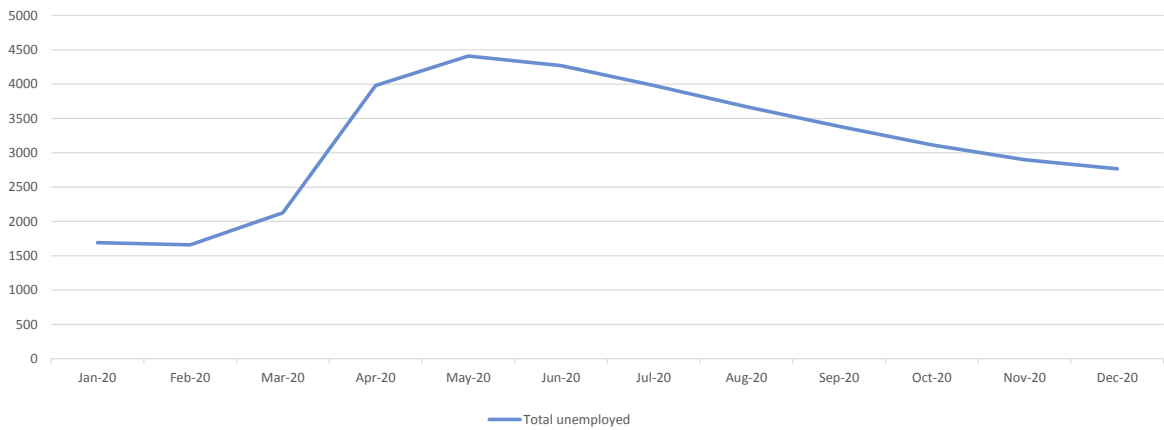
3.3.20. The foregoing emphasises the prevailing economic trends during the period March to September 2020. To this end, industry sectors G to I, which were the most negatively affected by the

pandemic, received the highest share of benefits through the announced measures. Moreover, as discussed in the previous chapters of this Preliminary Review, the implementation of these measures is subject to a heightened risk profile due to the materiality involved, the urgency of implementation and the regressive business environment which evolved during the pandemic.

Industry sectors pertaining to retail, tourism and food services experienced the highest unemployment rate during the pandemic

3.3.21. One of the economic indicators affected by the COVID-19 pandemic was the unemployment rate in Malta. Unemployment levels increased between March and July 2020 in view of the partial lockdown announced by Government in early March 2020. The rate of unemployment stood at the highest level during May 2020, with 4,409 unemployed persons. Figure 9 refers.

Figure 9: Unemployment levels (January - December 2020)



Source: Jobsplus

3.3.22. Figure 9 shows that from June 2020, the unemployment rate started a decreasing trend and reached 2,765 by the end of the year. While this figure is significantly higher than that of December 2019, it shows that Government's fiscal measures positively impacted employment levels.

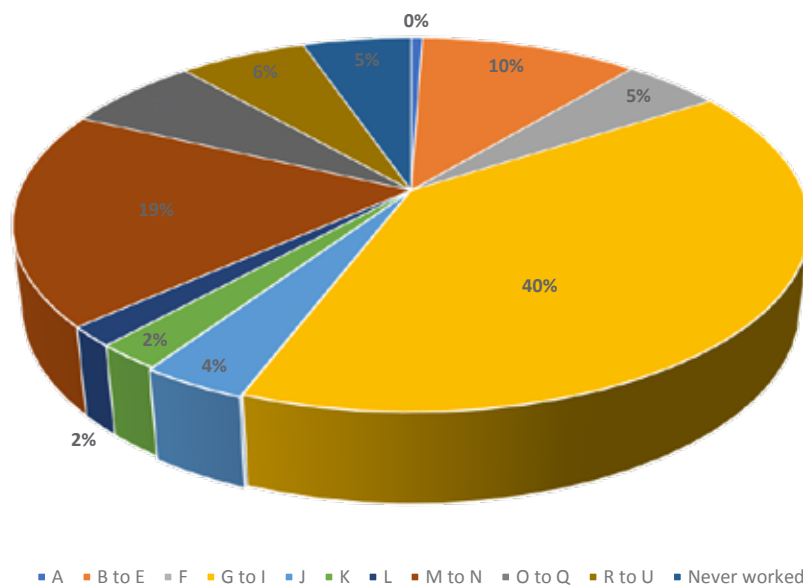
3.3.23. Such a situation also reflects the circumstances at an EU-level whereby an ECA Report, published in December 2020, showed that the short-time work schemes and state aid schemes made available by Governments in EU Member States have supported businesses to cope with their liquidity needs and hence mitigated massive layoffs. The Report indicates that, in the EU, unemployment rose much less than in the United States where public authorities did not incentivise generalised job retention schemes, but rather prolonged unemployment benefits.

3.3.24. The fiscal measures across EU Member States have played a key role in the stabilisation of disposable incomes. Consumer surveys by the EU Commission indicate a significant amassing of involuntary savings, which is a direct consequence of the confinement measures, fiscal measures and high uncertainty – all characteristics of the COVID-19 pandemic. To varying

degrees, Malta’s situation exhibited such characteristics. Consequently, the Wage Supplement measure contained the unemployment rate from increasing exponentially. Moreover, at the same time, this measure enabled businesses to keep their staff complement on their payroll irrespective of output levels and stabilise households’ incomes.

3.3.25. Further analysis of Malta’s unemployment levels indicates that industry sector G to I, pertaining to retail, tourism and food services, were the businesses most affected by the pandemic, particularly during the partial lockdown between March and June 2020. In this regard, an analysis of the unemployment levels during May 2020, show that unemployment levels pertaining to this industry sector constituted 40 per cent of the total unemployment. Figure 10 refers.

Figure 10: Unemployment levels by sector (May 2020)



Source: Jobsplus

3.3.26. Figure 10 shows that unemployment levels were the highest in industry sector G to I and were followed by industry sectors M to N and B to E. Unemployment statistics for Malta show that in the immediate pre-pandemic period, the unemployment rate within industry sector G to I was still the highest category. However, by May 2020, the unemployment rate in this category increased from 528 to 1,761, which amounts to a rise of 234 per cent. Following the relaxation of restrictive measures and the introduction of fiscal measures by the end of Q4 of 2020, the unemployment levels within the industry sector G to I decreased to 989.

3.3.27. This is similar to the unemployment levels for all industry sectors which during the period from May to December 2020 decreased from 4,409 to 2,765. This is still 68 per cent higher than the unemployment rate recorded in December 2019.

3.4. Conclusion

- 3.4.1.** The COVID-19 pandemic brought a slowdown in the economy. This resulted in a contraction of GDP and employment rates. The mitigating fiscal measures introduced by Government was intended to cushion and regenerate the socio-economic effects of the pandemic. This Chapter illustrated that the fiscal measures could be categorised into six main groups where these sought to increase business liquidity, safeguard employment and stabilise households' income. These measures aimed to increase consumption which declined significantly in some economic sectors, most particularly industry sector G to I.
- 3.4.2.** The Government initiatives introduced constitute high materiality which is an element impinging on risks to public governance. While national statistics show that the mitigating measures are yielding a positive effect, other risks still emanate from the urgency and expedient implementation of measures required. The data and information presented in this Chapter provides the initial foundations for the National Audit Office to map out its audit programme relating to these fiscal measures.

Appendix I | Initiatives introduced by Government to deal with the COVID-19 pandemic

Type of fiscal measure	Measure	Date announced	Description	Responsibility	Estimated cost when announced - Yearly Total (Mar - Dec 2020) (€)	Amount spent up to Sep 2020 (€)	Key Facts
Tax payment measure	Tax deferrals	20.03.20, updated on 30.04.20, updated on 14.07.20.	Deferral from payment by businesses of Provisional Tax, VAT and National Insurance Contributions as well as Employee Taxes, Maternity Fund payments and Social Security contributions.	Office of the Commissioner for Revenue	200,000,000	134,910,086	Executive Summary
Guarantees	Bank guarantees	03.04.20	€350 million Bank Guarantees from the Malta Development Bank (to total €780 million) on loans, together with interest rate subsidy up to a maximum 2.5% for 2 years.	Malta Development Bank	350,000,000	74,531,982	Chapter 1
Revenue measure	Stamp Duty	08.06.20	Stamp Duty reduction from 5% to 1.5% on signed contracts between 09.06.20 and 30.09.20, on the first €400,000 value.	Office of the Commissioner for Revenue	32,000,000	20,221,681	Chapter 2
Revenue measure	Property Tax	08.06.20	Tax on Property transfers down from 8% or 10% to 5% between 09.06.20 and 30.09.20.	Office of the Commissioner for Revenue	23,000,000	11,984,797	Chapter 3
Revenue measure	Fuel Costs	08.06.20	7 cent Reduction in the tax on petrol (to sell at €1.34 per litre) and diesel (to sell at €1.21 per litre).	Customs Department	7,000,000	NA	Appendix

Type of fiscal measure	Measure	Date announced	Description	Responsibility	Estimated cost when announced - Yearly Total (Mar - Dec 2020) (€)	Amount spent up to Sep 2020 (€)
Revenue measure	Commercial Licences	08.06.20	Reimbursement of Commercial Licences.	Malta Tourism Authority	5,000,000	Licenses: 2,262,995 Contributions: 2,055,947
				Commerce Department		61,754
Revenue measure	Refund of port charges - Scheme A	08.06.20	Adjustment of port, pilotage and mooring.	Ministry for Transport, Infrastructure and Capital Projects	995,420	-
Revenue measure	Refund of port charges - Scheme B	08.06.20	Adjustment of container and trailer charges.	Ministry for Transport, Infrastructure and Capital Projects	1,084,580	-
Expenditure measure	Wage supplement	13.04.20 (extended in June 2020)	€800 per month per FT employee and €500 per PT Employee for affected businesses in selected sectors, classified under Annex A and Annex B. Measure first applied up to June 2020, then on 08.06.20 extended up to September 2020, then on 19.10.20 extended up to March 2021). On 08.06.20, a shift occurred between Annexes and certain economic activities in Annex A were either re-classified under Annex B or re-classified under Annex C, with a benefit of €600 per month per FT employee and €350 per PT Employee.	Malta Enterprise	400,000,000	221,564,944
Expenditure measure	Quarantine leave	13.04.20	Payment for Quarantine Leave to receive a lump sum of €350 per applicant.	Malta Enterprise	1,500,000	1,381,450

Type of fiscal measure	Measure	Date announced	Description	Responsibility	Estimated cost when announced - Yearly Total (Mar - Dec 2020) (€)	Amount spent up to Sep 2020 (€)	
Expenditure measure	Teleworking expenses	19.03.20	50% Refund on expenses incurred to adopt Teleworking Arrangements.	Malta Enterprise	2,000,000	900,000	Key Facts
Expenditure measure	Parent benefit	19.03.20	For working parents of children under 16 who cannot go to work, to take care of children. €720 per month if full-time and €450 per month if part time.	Ministry for Social Justice and Solidarity, the Family and Children's Rights	28,000,000	9,343,408	Executive Summary
Expenditure measure	Medical benefit	19.03.20	For workers who need to stay at home after 27th March 2020 as ordered by the Superintendence of Public Health. €720 per month if full-time and €450 per month if part time.	Ministry for Social Justice and Solidarity, the Family and Children's Rights	11,000,000	2,506,640	Chapter 1
Expenditure measure	Disability benefit	19.03.20	Persons with Disability who opt to stay at home. €720 per month if full-time and €450 per month if part time. Social Security Contribution will be considered as having been paid.	Ministry for Social Justice and Solidarity, the Family and Children's Rights	2,500,000	530,274	Chapter 2
Expenditure measure	Unemployment benefit	19.03.20	Employees who had their full-time employment terminated as of 9th March 2020. Benefit will be topped up to €720 per month if full time and €450 per month if part time.	Ministry for Social Justice and Solidarity, the Family and Children's Rights	19,000,000	2,120,584	Chapter 3
Expenditure measure	Wedding ceremonies	08.06.20	Assistance for Additional Costs incurred due to Postponement of Wedding Ceremonies, up to a maximum of €2,000 per applicant.	Ministry for Finance and Employment	2,000,000	-	Appendix

Type of fiscal measure	Measure	Date announced	Description	Responsibility	Estimated cost when announced - Yearly Total (Mar - Dec 2020) (€)	Amount spent up to Sep 2020 (€)
Expenditure measure	Electricity Bill Refund	08.06.20	50% Electricity Bill refund, capped according to the number of employees in receipt of a wage supplement, with such capping between €1,500 and €7,500 per applicant, to business benefitting from wage supplement, from July - September 2020.	Malta Enterprise	30,000,000	-
Expenditure measure	Rent Subsidy	08.06.20	Subsidy on Rent for Businesses benefitting from wage supplement, capped according to the number of employees in receipt of a wage supplement, with such capping between €2,500 and €7,500 per applicant.	Malta Enterprise	50,000,000	-
Expenditure measure	Cash conversions	08.06.20	Microinvest Conversion of Credits to Cash Grants in respect of 30% of businesses who invested in 2019.	Malta Enterprise	5,000,000	-
Expenditure measure	Business Plan Re-engineering	08.06.20	Assistance to businesses for the Compilation of Business Plans, up to a maximum €5,000 per applicant.	Malta Enterprise	2,500,000	-
Expenditure measure	Investment aid – COVID products	Apr-20		Malta Enterprise		Not yet implemented
Expenditure measure	Investment in machinery	08.06.20	Investment in Machinery for Construction Sector, up to a maximum €200,000 per applicant.	Malta Enterprise	4,000,000	Not yet implemented







Type of fiscal measure	Measure	Date announced	Description	Responsibility	Estimated cost when announced - Yearly Total (Mar - Dec 2020) (€)	Amount spent up to Sep 2020 (€)	
Expenditure measure	Industrial infrastructure	08.06.20	Investment in Industrial Infrastructure, including Life Sciences Park, Kordin Business Incubation Centre, ex-Landfill at Marsa and other projects by Malta Industrial Parks Ltd.	Malta Enterprise	400,000,000	Not yet implemented	Key Facts
Expenditure measure	Voucher scheme	08.06.20	€100 Voucher for 16-year olds and above, to be used on holiday accommodation, restaurants and other businesses.	MIMCOL	45,000,000	34,400,000	Executive Summary
Expenditure measure	In-work benefit	08.06.20	Various Improvements of In-Work Benefit Rates / €250 Supplement for those receiving In-Work Benefit.	Ministry for Social Justice and Solidarity, the Family and Children's Rights	4,000,000	818,500	Chapter 1
Expenditure measure	Homes of the elderly	08.06.20	Assistance to Homes for the Elderly on additional costs incurred due to the pandemic.	Ministry for Senior Citizens and Active Ageing	2,000,000	1,748,304	Chapter 2
Expenditure measure	Rent subsidy	08.06.20	Increase in Rent Subsidy for individuals who have their job terminated.	Housing Authority	670,000	249,519	Chapter 2
Expenditure measure	Assistance to business	08.06.20	Assistance to Businesses carrying out Digital Promotion and International Events, up to 50% of costs capped at €10,000.	Trade Malta	400,000	6,327	Chapter 3
Expenditure measure	Voluntary Organisation	08.06.20	Assistance to Voluntary Organisations on specific eligible costs.	Malta Council for Voluntary Organisations	3,000,000	1,801,354	Appendix
Expenditure measure	Covid-19 Mask Subsidy Scheme - Aid to pharmacies	08.06.20	To aid pharmacies in alleviating wholesale cost-induced losses borne by the introduction of the capping whilst securing the wider public interest.	MIMCOL	NA	-	

Type of fiscal measure	Measure	Date announced	Description	Responsibility	Estimated cost when announced - Yearly Total (Mar - Dec 2020) (€)	Amount spent up to Sep 2020 (€)
Expenditure measure	COVID-19 Grant Scheme for BlueFin Tuna (BFT) Fishers	On the 20th of July 2020, the European Commission approved the aid scheme (SA.57984). The Scheme was officially launched by Hon. Refalo on the 9th of September 2020.	The measure aimed at preserving employment by compensating fishers for a loss of income resulting from measures adopted at national level to respond to the COVID-19 outbreak. The aid scheme provided financial assistance in the form of direct financial grant based on a rate of €2/kg of assigned bluefin tuna quota in 2020. No assistance was provided to quota allocated by the Department of Fisheries and Aquaculture for by catch, recreational and contingency purposes. Aid was only provided to fishers that have a vessel registered with the DFA as MFA or MFB and were assigned a quota by the DFA to fish for BFT in 2020.	Ministry for Agriculture, Fisheries, Food and Animal Rights (MAFA)	720,000	-
Expenditure measure	Animal Welfare Fund Grant Support Scheme	29th April 2020	The measure aimed to support non-Government, non-for-profit voluntary organisations to undertake projects to ensure the welfare of animals during the ongoing COVID-19 situation	Ministry for Agriculture, Fisheries, Food and Animal Rights (MAFA)	85,000	61,515

Type of fiscal measure	Measure	Date announced	Description	Responsibility	Estimated cost when announced - Yearly Total (Mar - Dec 2020) (€)	Amount spent up to Sep 2020 (€)
Financial instrument	Bond underwriting	08.06.20	Underwriting Bonds issued by enterprises and closing in 2020.	Malta Development Bank	-	-
Financial instrument	Loan moratoriums	03.04.20 (extension announced in January 2021)	Six-month moratorium from banks on loans, up to the end of April, for families and businesses.	Malta Development Bank	NA	NA
Non fiscal measures - Health	Assistance to medical sector	08.06.20	Supply of PPE, Accommodation and Capital Equipment.	Ministry for Health	130,000,000	62,692,629

Key Facts

Executive Summary

-  Tax payment measure
-  Guarantees
-  Revenue measure
-  Expenditure measure
-  Financial measure
-  Non fiscal measures - Health

Chapter 1

Chapter 2

Chapter 3

Appendix

2020-2021 (to date) Reports issued by NAO

NAO Annual Report and Financial Statements

May 2020 National Audit Office Annual Report and Financial Statements 2019

NAO Audit Reports

May 2020 Performance Audit: Tackling Child Abuse

June 2020 Follow-up Reports by the National Audit Office 2020 Volume I

June 2020 Performance Audit: A Follow-Up on the 2016 Analysis on OHSAs Operations - A Case Study on the Construction Industry

July 2020 An audit of matters relating to the concession awarded to Vitals Global Healthcare by Government Part 1 - A review of the tender process.

Juy 2020 An audit of matters relating to the concession awarded to Vitals Global Healthcare by Government Part 1 - Addendum

October 2020 Follow-up Reports by the National Audit Office 2020 Volume II

November 2020 Information Technology Audit: Planning Authority

November 2020 Performance Audit: An analysis of Malta Medicines Authority recruitment process

November 2020 Information Technology Audit: Malta Industrial Parks Ltd

November 2020 Report by the Auditor General on the Workings of Local Government for the year 2019

December 2020 Report by the Auditor General on the Public Accounts 2019

December 2020 A review of implementation of Sustainable Development Goal 1 - Malta's efforts at alleviating poverty

January 2021 Performance Audit: Is LESA suitably geared to perform its traffic enforcement function adequately?

February 2021 Performance Audit: The effectiveness of plastic waste management in Malta

April 2021 The contract awarded to the JCL and MHC Consortium by the St Vincent de Paul Residence for the management of four residential blocks through a negotiated procedure