Report of the

Auditor General

Public Accounts 1998

The Auditor General is head of the National Audit Office, Malta. He and the National Audit Office are totally independent of Government. He examines the accounts of all Government Ministries and Departments and may also examine other public sector bodies. He also has statutory authority to report to the House of Representatives on the economy, efficiency and effectiveness with which Departments and other bodies have used the resources voted annually to them in the Estimates.

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December 1999

Mr. Speaker,

As required by Sub-Section 108 (5) of the Constitution of Malta and para. 7 and sub-para. 5(ii) of the First Schedule of the Auditor General and National Audit Office Act, 1997, I submit my report on the accounts of the Government of Malta and the work and activities of the National Audit Office for the year ended 31 December, 1998.

Yours sincerely,

J. G. Galea
Auditor General

The Hon. Speaker
House of Representatives
Valletta

NATIONAL AUDIT OFFICE

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PREFACE

Part I of the Report provides an opinion on the audits and examinations carried out during 1999 in respect of financial year ending 31 December, 1998.

Part II highlights the main issues contained in the report.

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Part IV reveals findings of a material nature discovered during audits in specific Ministries and Departments.

Part V contains a synopsis and examination of the 1997 Government Financial Report together with appropriate audit comments and views, where warranted.

Part VI includes reports relating to value for money or other special audits carried out by this Office.

Part VII of the report outlines the role and duties of the Auditor General and reports upon the activities and developments at the National Audit Office during 1999, in terms of sub-para. 5 (i) of the First Schedule of the Auditor General and National Audit Office Act.

PART I - AUDIT OPINION

Audit Opinion on the Public Accounts of the Government of Malta to the House of Representatives

Audit Mandate

I have examined the accounts of the Departments and Offices of the Government of Malta and the Financial Report of the Accountant General for the year ended 31 December, 1998. Also examined were the accounts of such other public authorities or other bodies administering, holding, or using funds belonging directly or indirectly to the Government of Malta, where prescribed by or under any law for the time being in force in Malta .

Respective Responsibilities of the Accountant General, Accounting Officers and the Auditor General

As determined by the Financial Administration and Audit Act, 1962, the onus for the proper discharge of financial administration and the preparation of financial statements rests with the Accountant General and the Accounting Officers. It is the Auditor General's responsibility to form an independent opinion on these statements, based on the audits carried out by this Office, and to submit reports thereon to the House of Representatives, in terms of Section 108 of the Constitution and para. 7 of the First Schedule of the Auditor General and National Audit Office Act, 1997.

Basis of Opinion

I have carried out the audit referred to above in accordance with the provisions of the Auditor General and National Audit Office

Act, 1997. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the statements as well as a critical assessment thereof. The International Organisation of Supreme Audit Institutions' (INTOSAI) Auditing Standards were used as guidelines of procedures and practices to be followed in the conduct of the audits.

Within the capacity of this Office, I have planned and performed audits so as to obtain as much information and explanations as necessary in order to provide me with relevant and reliable evidence to give reasonable assurance that financial statements are free from material misstatement, whether caused by fraud or other irregularity or error.

In terms of the Act, this Office is empowered to carry out audits, reviews and inspections so as to provide assurance that:

A. adequate safeguards exist for the collection of public moneys, and that the laws, directions or instructions relating to them have been duly observed;

B. expenditure is properly controlled, is made in accordance with standing rules and regulations, and has been properly authorised and made for the purposes for which the funds have been appropriated by the House of Representatives;

C. immovable and movable property are properly procured, recorded, controlled and appropriately disposed of;

D. public monies are expended economically, efficiently and effectively;

E. procedures exist for the proper measurement and recording of expenditure programmes; and

F. the figures contained in the annual Government of Malta Financial Report are correctly and properly stated.

Examination of accounts was carried out on a test basis. The emphasis of Regularity Audits this year was on Corporate Issues and on Revenue.

Apart from the statutory Regularity Audit, the Audit Report also includes a number of examinations carried out in terms of paras. 8 and 9 of the First Schedule of the Auditor General and National Audit Office Act, 1997.

The Audit Report covers only matters which have been examined to some extent by the National Audit Office. The opinion does not cover or draw conclusions upon matters not examined by it.

Opinion

In my opinion, compliance with a number of regulations and procedures again need to be addressed by the government through its senior officers. In particular, consistency needs to be applied throughout government operations for the purpose of ensuring that financial statements are being properly presented. Management needs to instill more discipline within accounting operations and ensure full compliance with appropriate regulations. This is necessary for financial control and budgetary purposes.

Audit examinations carried out by this Office have revealed the following issues of particular concern for 1998:

- substantial arrears of revenue. The question again arises as to whether the Financial Report should start including a statement of arrears of revenue;
- whether Letters of Comfort/Bank Guarantees, which amount to *circa* Lm500 million and are considered to constitute contingent liabilities, should start being included for information purposes in the Financial Report;
- recurrent and capital expenditure items not always being properly classified;

- the Government's Public Account still not formally reconciled with the Central Bank bank account since June 1992;
- weaknesses in the Internal Control and Internal Audit functions within Ministries and Departments;
- deficiencies in the control of government transport;
- continuing difficulties in the settlement of long standing Advances made to officers travelling abroad and the need to consider revising regulations relating to these Advances;
- continued discrepancies in Unallocated Stores;
- fiscal VAT receipts not always being given to Government Departments;
- inventory control often not kept strictly in accordance with Government regulations;

Part II, a new addition to the Report, gives a brief overview of the most significant findings.

Except for the above qualifications, a number of which are long-standing issues, I am of the opinion that the Government Financial Report and statements included therein present fairly, in all material respects, the financial position of the Government of Malta for the year ended 31 December, 1998.

In terms of sub-para. 5(ii) of the First Schedule of the Act, this Office reports that, subject to instances referred to in the findings of the Report, all the information and explanations required for the carrying out of its duties were obtained.

J. G. Galea
Auditor General

December 1999

PART II - EXECUTIVE SUMMARY OF MAIN FINDINGS

This Part is intended to give a brief summary of the main findings included in the report. It is also intended to facilitate the work of the Public Accounts Committee, Ministries and Departments concerned and other interested parties when referring to the contents of the report.

MINISTRY OF FINANCE AND COMMERCE

Main issues mentioned in the analyses of the **Financial Report** cover the fiscal deficit, shortfall in ordinary revenue against estimates, excess of expenditure over estimates, outstanding loan repayments and interest on loans made by Government, repayment of special advances, public debt, Letters of Comfort and write-offs. (page 86)

Returns of Arrears for 1998 show an amount of Lm282,626,797 outstanding on 31 December, 1998. Certain Ministries/ Departments have submitted erratic and/or incomplete returns. (page 31)

Notwithstanding substantial cancellations of income tax due, which as yet have not been explained by the Department, **arrears of income tax** have remained consistently high at Lm161.7 million. While 13% of all taxpayers owe 83% of income tax arrears, there is as yet no strategy in place for an effective targeting of tax defaulters. (page 120)

The **Investigation/Research Section at the Inland Revenue Department**, responsible for the full investigation of taxpayers suspected of under-declaring their income, operates at a very low efficiency level. The Section lacks planning and policies on how to combat tax evasion effectively. (page 132)

Fleet Management within the Public Service is not conducive to an efficient, economic and effective provision of transport to Government Ministries and Departments. Moreover, a general lack of enforcement of existing regulations prevails. (page 163)

The effectiveness of the **Internal Audit** function has diminished through lack of staff and inadequate central co-ordination and institutional support for this function. (page 167)

The Treasury Department has not carried out a comprehensive **Bank Reconciliation of the Public Account** since June 1992. (page 56)

Advances for travel abroad are not being properly accounted for especially where transport expenses, hotel bills and Ministerial delegations are concerned. (page 42)

A number of Ministries/Departments has failed to abide by **Treasury Regulations** on the procedures to be adopted where **VAT invoices or fiscal receipts** are not submitted to them by suppliers of goods and services. (page 20)

Following a comprehensive study on the state of **inventories** held by Ministries and Departments, a number of recommendations on the subject were made in the 1997 NAO report. No action has yet been taken on these recommendations. (page 19)

On 16 June, 1999 the Public Accounts Committee endorsed the recommendations made by the NAO for the Ministry of Finance and Commerce to set up a Board to look into the management of **unallocated stores**. To date the NAO has no confirmation that the Board has been set up. (page 29)

The extent of transport expenses charged to other accounts, instead of the relevant vote, could not be determined. The

Ministry of Finance has still to support its decision taken regarding the **leasing instead of purchasing of vehicles**. (page 24)

MINISTRY FOR TRANSPORT AND PORTS

Delay and uncertainty surrounding the official **transfer of immovable property** from the Department of Civil Aviation to MIA plc, following the transfer of operations of the former to the latter, may restrict Government's flexibility in pursuing its privatisation policy. (page 71)

There is a serious lack of audit trail on revenue realised by the Civil Aviation Department from **Passenger Service Charges**. Revenue from this source amounts to about Lm1.5 million per annum. (page 73)

MINISTRY OF PUBLIC WORKS AND CONSTRUCTION

Internal control weaknesses in respect of the collection of fees relating to the depositing of waste and rubble in landfills could potentially result in distortion of information on the critical subject of **Waste Management** and loss of revenue to Government. (page 150)

Project Management weaknesses have contributed to increased cost of works relating to the **upgrading of Republic Street, Valletta**. (page 158)

Misclassification of expenditure by the Works Division, where Personal Emoluments are concerned, may be conducive to distorted reports on the final cost of capital projects and current expenditure requirements. (page 83)

MINISTRY FOR JUSTICE AND LOCAL COUNCILS

Three (3) **Local Councils** have to date failed to submit their **audited accounts** for the year ending 31 March, 1999. Management letters from the Local Government auditors highlighted a number of shortcomings in financial management and accounting procedures. (page 66)

A consolidated audit report for **Local Councils** on the handling of **road resurfacing and maintenance** revealed that 24 out of the 67 local councils failed to meet good practice criteria. (page 146)

Thousands of Maltese Liri in **court fines have become statute barred**. The Public Accounts Committee took up the subject on 27 January, 1999. The Ministry of Justice has recently discussed the matter and concrete proposals on the matter are being studied. (page 62)

NAO requested the **Law Courts** to submit details of **payments received by experts** appointed in court cases so as to ascertain whether all payments are being covered by fiscal receipts and reported to Commissioner of Inland Revenue. (page 63)

A review of **fixed allowances received by deputy registrars at the Courts** revealed that a number of these officials were receiving allowances which were not due to them following their attainment of a determined salary level. (page 65)

MINISTRY FOR SOCIAL WELFARE

The Department of Labour was prompted by NAO to take action to collect Lm381,532 owed by 164 defaulters who failed to refund the **loan issued** to them **under the self employed scheme** adopted between 1989 and 1992. (page 74)

MINISTRY OF HEALTH, CARE OF THE ELDERLY AND FAMILY AFFAIRS

Introducing a fully functional **computerised system at the Medical Stores** has been on the agenda since the early eighties. A consultancy firm engaged to upgrade the system was paid Lm96,404 over the approved limit of Lm31,500. (page 76)

In spite of previous NAO reports, clear and legally binding guidelines and procedures in safeguarding **valuables and other items belonging to patients and residents in Hospitals and Homes for the Elderly** have still not been drawn up. (page 77)

Notwithstanding repeated audit reports on the lack of control on the issue of **food provisions from stores at St. Vincent de Paule Residence**, adequate controls are still not in place. (page 80)

MINISTRY OF EDUCATION AND NATIONAL CULTURE

The Manoel Theatre Management Committee does not budget for its performances which, in certain cases, have resulted in substantial losses. (page 58)

The subject of missing **items of antique or artistic value** from certain Ministries appeared in the 1997 NAO report and was discussed by the Public Accounts Committee on 17 February, 1999. Notwithstanding recommendations forwarded by the Committee, the issue has not yet been resolved. (page 60)

OFFICE OF THE PRIME MINISTER

A deposit of Lm13,750 being 25% of the cost for the **"Malta/Europe" publication**, a special book on Malta in 5 languages, has not yet been refunded by the publishers who had failed to produce the book within the stipulated time. (page 52)

Different rates of **subsistence allowance,** in contravention of MPO Circular 58/98, are being applied to public servants undergoing **studies or training in the U.K.** (page 48)

A court case relating to an **overpayment of salaries** to a medically boarded out **AFM** official was dismissed by court in favour of the official as the AFM failed to attend the court case on the day of the hearing. (page 53)

PART III - CORPORATE ISSUES

This Part identifies issues of a common concern throughout central Government Departments and Offices.

Inventories

Background

Past Annual Audit Reports have consistently commented on the lack of attention that management was giving to the maintenance of records of moveable assets notwithstanding the high investment that was being made in these assets. A comprehensive study on the state of inventories in Ministries and Departments was included in last year's Audit Report.

This Office had recommended that:

(i) the provisions of standing regulations as outlined in MFCPFI Circular No 15 of 1977 be strictly adhered to and enforced by Heads of Department in the absence of more up-to-date regulations;

(ii) inventory officers be appointed in every Department and be given co-operation to execute such duties effectively;

(iii) policy regarding the computerisation of furniture and equipment inventories be formulated;

(iv) inventory records be linked with the Departmental Accounting System which has now been adopted in several Departments;

(v) an official of the Department, other than the officer in charge inventory, is to conduct an annual stocktaking of inventory items;

(vi) newly purchased items should have reference to their value in preparation for the introduction of accrual-based accounting;

(vii) the time frame between the recommendations of the Boards of Survey to write-off condemned items and the respective Finance authority for the write-offs be shortened.

Developments

The write-off of stores and other unserviceable items has, since May 1999, been entrusted to the Permanent Secretaries as per Legal Notice No. 83/99. This should facilitate procedures relating to the disposal and striking off of unserviceable items from inventory records.

Apart from this development, no remedial action was taken on the other points raised in last year's Report. It is highly recommended that the Administration tackles this issue seriously without further delay, particularly in view of Government's undertaking to adopt the accruals-based system accounting.

Non submission of Fiscal Receipts to Government Departments

Background

Following the introduction of Value Added Tax in 1995, the Accountant General had, in June, 1995, issued a circular to Heads of Department and other accounting officers regarding the obligation of suppliers to submit tax invoices or fiscal receipts, as the case may be, for every purchase effected. A similar circular was issued in November 1997 following the introduction of the Customs and Excise Regulations.

Most of the provisions relating to the requisites and usage of tax invoices and fiscal receipts appear in the three legislations, namely Value Added Tax Act 1994, Customs and Excise Tax Act 1997 and the Value Added Tax Act 1998.

In practice, the emphasis is on the obligation of suppliers to issue fiscal documentation every time they make such supplies.

Treasury circulars 11/95 and 12/97 instructed Heads of Department to ensure that they were issued with Tax Invoices/Fiscal Receipts (as the case may be) by every taxable person who makes a taxable supply of goods or services to their Department.

Furthermore accounting officers were instructed to:

- submit monthly returns (including NIL returns) of defaulters to the Treasury;
- discontinue to purchase stores and services from these defaulters until they regularise their situation.

The Treasury was not to process payments to these defaulters.

Audit Findings

An exercise was carried out by this office to verify whether Departments and the Treasury itself were adhering to instructions contained in the Circulars.

Submission of returns of defaulters to Treasury

It has resulted that the following Ministries/Departments have not submitted returns during 1998 and 1999 (end August):

1998	***1999***
Police Department	Information Department
Ministry of Foreign Affairs	Judicial Department
Environment Department	Ministry of Foreign Affairs
Museums Department	Libraries
Ministry of Finance and Commerce	Museums Department
Treasury	Ministry of Finance
Judicial Department	Treasury
Ministry of Economic Affairs and Industry	Ministry of Transport
Ministry for Transport and Ports	Roads Department
Ministry of Public Works and Construction	Ministry of Economic Services
Land and Construction Department	Police Department
Social Security Department	Joint Office
Family Welfare Department	

The Treasury had on its part sent a reminder to defaulting Ministries/Departments on their obligation to send the returns. However, no further action was taken.

Certain returns which were submitted to Treasury did not contain complete and accurate information. NAO came across instances where:

i.) defaulters existed but a NIL return was submitted to Treasury;

ii.) not all defaulters were included in the return; and

iii.) receipts and invoices supplied to Departments did not comply with the legal format or lacked details required by the relative legislation. In spite of this, they are still being considered as official tax invoices or fiscal receipts by Departments.

It has been the practice of the Treasury to send copies of returns received to the Director General, VAT Department *“for any action you (VAT Department) may consider necessary from your end”*.

Developments

This office has, in early August 1999, presented the findings outlined above to the Accountant General and to the Permanent Secretary, Ministry of Finance. No communication has, up to time of writing, been received either from the Accountant General or from the Ministry of Finance.

Furthermore Director General, VAT Department, informed this Office that the Department has, since October 1999, been requesting updated returns so that the information on defaulters be referred to the Inspectorate Section for further investigation.

Audit Comments

It is felt that accounts personnel and procurement officers in all Ministries and Departments are to be well aware of the provisions of VAT regulations and are to have a sound knowledge of what constitutes a tax invoice and a fiscal receipt and as to when and under what circumstances a Department is to be served with one document and not the other.

The circulars mentioned above stipulate that *"Departments should immediately discontinue to purchase stores and services from these defaulters until the matter is rectified and Treasury informed accordingly"* and that *"until then, no payments to these defaulters will be processed by the Treasury"*. There is no evidence that these two preventive measures have been enforced.

The steps that were envisaged to be taken as stated in the Treasury Circulars were meant to act as a deterrent to defaulters and should be enforced. However, Treasury Circular No. 9/99 dated 11 November, 1999 has since been issued wherein it was stated that as from 3 January, 2000 the returns are to be channelled directly to the VAT Department. Departments were again reminded to discontinue procuring stores and services from defaulters until the matter has been rectified.

Transport Expenditure

Background

In 1998 the total expenditure on transport that was charged to the recurrent expenditure item 27 - Transport, amounted to Lm5,393,962, an increase of Lm246,267 over 1997. A breakdown of the component expenditure is presented in the table hereunder:

Components of Transport Expenditure

	1997	1998	Variation
	Lm	*Lm*	*Lm*
Maintenance of vehicles	360,811	282,586	(78,225)
Hire of Transport	1,387,328	1,590,576	203,248
Hire of self-drive cars	504,792	472,595	(32,197)
Hire of Impressed vehicles	1,435,997	1,547,341	111,344
Fuel	1,178,831	1,206,322	27,491
Payment for personal use) Transportation of goods) Malta/Gozo Expenses)	279,936	294,542	14,606
Total	**5,147,695**	**5,393,962**	**246,267**

Breakdown of transport expenses incurred by Ministries and Departments during 1998 are given in the Table on page 27.

Audit Concerns

Lease of vehicles

The Ministry of Finance and the Ministry for Economic Services have each leased a brand new vehicle for a period of 5 years.

Both the Ministry for Economic Services and the Ministry of Finance asked for quotations. In both cases the cheapest quotation was accepted. Both vehicles were leased from the same firm.

Since it has always been the practice to provide Ministers and Parliamentary Secretaries with government owned cars and as the total cost for the lease of each car is going to amount to Lm35,678 over the five year period, NAO requested the following information from the Ministry of Finance:

- whether there was a change of policy in favour of leasing instead of purchasing cars for Ministers and Parliamentary Secretaries;
- a comparative cost analysis of leasing versus purchasing;
- whether a decision was taken in favour of leasing on the basis of such an analysis;
- why a public call for tenders was not issued for the lease of the vehicles required, which could have resulted in a cheaper lease; and
- why only four or five leasing firms were asked to submit quotations to the exclusion of other firms.

Without this information it is very difficult for the NAO to form an opinion on whether it was cheaper to lease the cars instead of resorting to outright purchase. Up to the time of writing this report, no reply was received from the Ministry of Finance.

Transport costs charged to Programmes and Initiatives, Contribution to Government Entities and Capital Votes

As already pointed out, the amount of Lm5,393,962 represents transport expenditure that was charged to the recurrent expenditure item 27 - Transport. It should however be pointed out that other transport expenses, running into thousands of Maltese liri, are also incurred by Government and charged to Programmes and Initiatives, Contributions to Government Entities and Capital Votes.

It was not possible for this Office to determine these additional transport costs as no breakdown of expenditure charged to Capital Projects, Programmes and Initiatives and Government Entities is given in the Treasury Books or in the Treasury Financial Report.

As an example NAO requested the Works Division of the Ministry for the Environment to submit a return showing the amount of transport expenses that were charged to Capital Projects in 1998. This is reproduced hereunder:

Works Division Transport Expenses incurred on Capital Projects

	Hire of Impressed Vehicles	**Fuel**	**Hire of Transport**
	Lm	***Lm***	***Lm***
Capital Vote IX - Item 2 - Extension of Sewerage System	121,154	27,537	-
Capital Vote IX - Item 3 - Improvements to Sewers Mains/Network	24,240	-	-
Capital Vote IX - Item 4 - Sewer Treatment and Reclamation	25,678	-	-
Capital Vote IX - Item 18 - Upgrading of Main Touristic Areas	7,335	-	4,629
Totals	**178,407**	**27,537**	**4,629**

The NAO's concern is that this lack of information in the Treasury Accounting Systems (both the original accounting system and the Departmental Accounting System) is giving a distorted picture of the financial statements published in the Treasury Financial Report.

Breakdown of Transport Expenditure by Ministry/Department - 1998

Department/Ministry	Voted In Estimates	Maint. of Vehicles	Hire of: Transport	Hire of: Cars	Hire of: Impressed	Fuel	Others
	Lm	*Lm*	*Lm*	*Lm*	*Lm*	*Lm*	*Lm*
Office of the President	17000	6468	-	1546	-	8757	-
House of Representatives	5500	2595	-	-	-	3011	-
Office of the Prime Minister	72000	17476	2172	5001	5815	18452	2415
Public Service Commission	710	140	-	-	-	444	-
Armed Forces	180000	1100	3169	-	6297	353808	-
Information	19000	1849	3109	4778	-	3480	2135
Home Affairs	20000	7410	2064	5439	-	8460	326
Police	230000	18833	-	117	-	201994	5871
Correctional Services	6000	4046	-	2776	-	7694	-
Gozo	361000	14447	38936	9721	192567	39393	43375
Foreign Aff. & Environment	100000	22993	19454	3083	7130	18092	25325
Environment	75000	2404	-	28437	53035	14501	3108
Min. of Educ. & Nat. Culture	36500	2540	1248	16026	2410	9752	412
Education	1200000	19625	1062835	29867	118420	31071	15936
Libraries and Archives	1370	856	-	8	-	646	448
Museums	11000	-	-	7870	-	1073	748
Youth, Sport and Culture	12000	1295	-	8707	3804	7052	-
Min. for Finance & Comm.	24000	7698	-	1128	-	8881	267
Treasury	2000	357	-	-	-	571	-
Inland Revenue	21000	2497	178	247	-	4215	4403
Customs	28000	10361	-	-	-	7929	9484
V.A.T (C.E.T.)	30000	1875	-	-	-	1940	25248
Statistics	8000	-	-	74	3333	1221	2985
Contracts	3200	546	-	84	-	1452	-
Commerce	34300	1671	-	11997	3269	4587	329
Imports and Domestic Comm.	8000	1127	-	1880	-	1938	235
Ministry for Tourism	140000	4646	-	14561	111000	10868	139
Min. of Just.& Local Councils	20000	2151	-	8833	2430	4632	2077
Local Councils	20000	471	-	19039	-	2195	1337
Legal	8800	1231	4109	1589	-	1999	713
Judicial	280000	-	228500	-	-	12441	-
Land Registry	910	-	-	-	-	637	191
Min. of Econ. Aff. & Industry	20000	4147	-	8410	6374	6368	999
Ministry for Transport & Ports	11000	2129	2467	2787	-	3801	-
Civil Aviation	56000	19982	735	27	-	6604	45
Licensing & Testing	5800	-	-	3083	-	1091	50
Min. of Public Works & Const.	1066000	2219	88470	161461	687041	195687	62165
Land & Construction	40500	-	-	12849	15788	6581	1651
Min. of Health, Care of the Elderly & Fam. Aff.	295000	39907	8761	46811	84169	90461	47822
Care of the Elderly	34000	5207	-	11330	11277	12122	2313
Ministry for Social Welfare	115000	9212	83790	2822	-	9575	5076
Social Security	55000	664	15185	2463	27510	8116	9572
Labour	17000	-	-	-	13763	2166	3431
Family Welfare	22500	1256	1408	4476	9965	4759	523
Ministry for Housing	34000	2085	-	12188	12171	6115	1662
Min. of Agriculture & Fisheries	330000	36124	23986	21080	166234	57700	6405
Lotto & L:otteries	21500	946	-	-	3539	1990	5321
TOTALS:	**5098590**	**282586**	**1590576**	**472595**	**1547341**	**1206322**	**294542**

Reform of Private Secretariats

Background

Government had, in October 1998, defined a standard organisational set up for private secretariats within Ministries. Appropriate staffing levels for the Prime Minister, Ministers and Parliamentary Secretaries were established and conditions of employment defined.

On being assigned to a Private Secretariat every public officer is to be covered by a Private Secretariat Agreement whereas individuals from parastatal organisations and those recruited externally are to be additionally covered by an appropriate contract of engagement. Allowances and other benefits paid to the different categories within the Secretariats have also been established.

In April 1999 it was approved that the President of Malta should also have his own Private Secretariat. A Secretariat structure was therefore set up accordingly.

Audit Enquiry

Permanent Secretaries and the Secretary to the Presidency were requested, in May 1999, to furnish the National Audit Office with updated lists of the officers engaged with the Private Secretariat relating to their Ministry. Information requested included position, scale of pay, allowance and other benefits earned. All Permanent Secretaries responded to NAO's request with the exception of the Ministry of Foreign Affairs.

Although a few points arising out of the replies received still need to be clarified and details submitted need to be verified with Treasury (Salaries) records it can be stated that, according to the replies submitted, Ministries are abiding by the directives issued.

Unallocated Stores

Background

The stock value of the Unallocated Stores held by the Ministry of Public Works and Construction, the Department of Information (Government Printing Press) and the Department of Contracts forms part of the Assets of Government and is shown in the Statement of Assets and Liabilities in the Government Financial Report. The Departments holding such stores are bound by a Treasury Circular to submit statements showing:

- The value of the stores held in the Suspense Account at the end of the financial year. The figure should agree with that shown in the Treasury books, and

- The value of the closing stock held at the end of the year i.e. actual stock on hand, amount of debtors and work-in-progress where applicable.

The two amounts reported in the above quoted statements by the Departments should, in principle, reconcile. Any resulting discrepancy should be investigated by the Department concerned and reported to Treasury.

Developments

This subject has been comprehensively treated in the 1997 Audit Report and was discussed by the Public Accounts Committee on the 16 June 1999 at Sitting No 28.

It is of concern to this Office that the Treasury, in its 1998 Financial Report, showed that the Ministry of Public Works and Construction held Lm1.6 million in unallocated stores. This figure reflects the last return of actual stock holding in May 1992 covering year ending 1991.

The Department of Contracts has this year reported a discrepancy of Lm 48,115 between the book balance and the actual stock on hand, thus increasing the discrepancy by Lm 6,884 over last year.

The Government Printing Press carried out a full scale exercise and established discrepancies amounting to Lm87,107.

The Departments were unable to explain the discrepancies.

Discrepancies in Unallocated Stores, including those of the two Departments mentioned above, may be the result of:

- receipts from sales not credited to the respective Suspense Account;
- funds voted to cover unallocated stores purchases expended on unrelated procurements;
- unaccounted for wastage (normal or otherwise, including pilferage);
- uncollected arrears;
- stores written-off without crediting the account with the cost of the *"deficient stores"*;
- arrears written off without providing the Suspense Account with an equivalent amount; and
- non issue of claims for jobs carried out or stores issued on credit;
- claims undercharged;
- *tale quale* sales, in the case of the Department of Contracts (Central Supplies Stores), to third parties being effected at prices which are substantially less than their book value.

In its 1997 Report the National Audit Office had recommended that Ministry of Finance appoints a Board to:

- assess the real value of the discrepancies reported by the Unallocated Stores holders;
- determine the reasons for such discrepancies;
- ascertain that debtors are being chased and the arrears can still be collected;
- analyse the five accounts held by the Ministry of Public Works and Construction.

These recommendations were agreed with and endorsed by all the members of the Public Accounts Committee during sitting 28. The Permanent Secretary, Ministry of Finance had also agreed during the sitting that the setting up of a Board was the first step to be taken.

This Office has, on the 1 September, 1999, asked the Permanent Secretary whether the Board was appointed and, if in the affirmative, its terms of reference. To date no reply has been received.

Arrears of Revenue 1998

Background

The timely collection of revenue and control over the extent of arrears of revenue is the responsibility of the Heads of Department who are also the Accounting Officers of their Department.

In terms of Reg. 46 (3) of the General Financial Regulations 1966, Heads of Department are to report to the Accountant General any case which might entail revenue falling unduly into arrears. A copy of this report is also to be forwarded to the Auditor General.

This Office has received no such reports.

Heads of Department are also required to submit an annual Return of Arrears of Revenue to the Accountant General by not later than the 31 March for onward transmission to the Auditor General as laid down in Reg. 49 (1) of the General Financial Regulations, 1966.

In January of each year, the Accountant General issues a circular requesting Departments to submit the return of arrears of revenue for the previous financial year. Copies of these returns are then forwarded to the NAO.

It should however be pointed out that the onus of the actual monitoring of the submission of these reports is repeatedly falling on this Office. In fact the NAO often has to draw the attention of the Accountant General regarding those Departments which fail to submit their returns.

Audit Findings

This Office has to report that many of the returns are not submitted in time. In fact some were submitted as late as September 1999. Besides reporting to the Accountant General those Departments which fail to submit their return in time, this Office also takes up the matter directly with the Departments concerned. This non-compliance with Financial Regulations is also reported to the relative Permanent Secretary.

All Departments submitted their return of arrears of revenue for 1998 (cfr. Table on page 33). Certain shortcomings are indicated in the footnotes to this table.

The total amount of arrears for the year ending 31 December, 1998 identified by this Office was Lm282,626,797. This amount does not represent the actual figure considering that some returns were not complete or correct whilst others gave estimated figures.

Arrears of Revenue 1998

Ministry/Department	Outstanding on 31.12.97	Collected during 1998	Written off or not due 1998	Arrears 1998	Outstanding on 31.12.98	Net Variation
	Lm	*Lm*	*Lm*	*Lm*	*Lm*	*Lm*
Agriculture & Fisheries	189,897 (c)	(e)	(e)	(e)	207,310	17,413
Civil Aviation	717,155 (f)	116	717,039 (b)	0	0	-717,155
Customs	5,966,081	5,585,077	1,896	2,886,670	3,265,788	-2,700,293
Transport & Ports	1,586,578	(a)	(a)	(a)	1,726,609	140,031
Education	86,812	14,062	1,791	1,057	72,016	-14,796
Inland Revenue:						
Income Tax	172,474,607	13,679,367	25,269,507	28,163,992	161,689,725	-10,784,882
Duty on Docs & Transfers	12,762,431	245,601	2,923,505	3,211,780	12,805,105	42,674
Death & Donation Duties	4,515,635	68,812	546,350	61,692	3,962,165	-553,470
Courts	3,157,747 (c)	495,730	117,789	2,504,903	5,049,131	1,891,384
Social Security	875,648 (e)	166,337	16,556	394,133	1,086,888	211,240 (e)
Land	4,298,116 (c)	1,007,509	6,605	813,802	4,097,804	-200,312
Health	691,832	68,486	25,269	223,641	821,718	129,886
Police	542,662 (c)	81,230	17,043	180,279	624,668	82,006
Public Works & Construction	6,904,673 (c)	1,164,196	46,114	1,342,618	7,036,981	132,308
M.D.C.	4,817,878	575,298	0	607,977	4,850,557	32,679
Treasury	38,756,230	320	0	5,278,016	44,033,926	5,277,696
Tourism	205,250	48,860	3,396	34,141	187,135	-18,115
M.C.C.	186,991	129,647	0	103,075	160,419	-26,572
Gozo Secretariat	30,380	(e)	(e)	(e)	30,380 (d)	0
Industry	25,676	87	142	421	25,868	192
Information/Govt. Printing Press	1,382,637 (c)	47,418	631,954	30,209	733,474	-649,163
A.F.M.	48,558	2,364	17,149	2,756	31,801	-16,757
Joint Office	614,133	(a)	(a)	(a)	675,633 (b)	61,500
CET/VAT	29,325,466 (c)	(e)	(e)	(e)	26,034,552	-3,290,914
Licensing and Testing	2,074,226	317,173	2,847	874,123	2,628,329	554,103
Contracts	242,927	42,839	149	171,204	371,143	128,216
Labour	377,713	922	0	4,741	381,532	3,819
Others	46,805	11,282	7,083	7,700	36,140	-10,665
TOTAL	292,904,744 (g)				282,626,797	-10,277,947

(a) Details not submitted
(b) Estimated
(c) Opening balance for 1998 does not agree with previous year's closing balance for 1997
(d) Incorrect return submitted - 1998 opening balance reproduced as 1998 closing balance
(e) Details submitted incomplete
(f) Taken over by MIA plc.
(g) Figure adjusted from Lm 266,307,024 reported as outstanding balance on 31.12.97 in last year's Audit Report

Breakdown of Arrears over Lm200,000

Inland Revenue: Lm 178,456,995

i.) Income Tax: Lm 161,689,725

An analysis of Income Tax arrears is given in a special report on page 120.

ii.) Duty on Documents and Transfers: Lm 12,805,105

- Monies due in respect of *Inter Vivos* – Lm 12,371,529
- Monies due in respect of *Causa Mortis* – Lm 433,576

These amounts refer largely to the issue of numerous claims incorporating substantial additional duty and penalties that have been objected to.

iii.) Death and Donation Duties: Lm 3,962,165

- Death and Donation Duties – Lm 3,944,184
- Entertainment Tax – Lm 17,981

This amount includes the imposition of large amounts of additional duty (in respect of Death and Donation Duty) against which objections have been lodged.

VAT/CET: Lm 26,034,552

i.)	Expenditure levy	Lm 113,240
ii.)	Refunds to Government on 1997 Stocks	Lm 1,040,751
iii.)	VAT 1994	Lm 13,338,408
iv.)	Customs and Excise Tax (CET)	Lm 11,542,153

VAT 1994 figures include Lm3,759,340 estimated assessments and Lm4,396,029 interest thereon.

Customs and Excise Tax figures include Lm8,716,170 estimated assessments and Lm737,580 interest thereon.

In the case of VAT and CET, the opening balances for 1998 (*vide* Arrears of Revenue Table on page 33) are different from the closing balances for 1997 appearing in last year's Audit Report.

This is because last year's figures were quoted on the "received date" records whilst this year they are quoted on the "time stamp" records.

The "received date" records contain data according to the effective date of a transaction. The "time stamp" records contain data according to the date a transaction is actually entered in the system. Arrears of Revenue reports generated on a "received date" basis would give the same figures as reports generated on a "time stamp" basis only if both reports are generated on the same date.

Such differences should not recur next year when the reports based on "received date" or "time stamp" are generated on real time.

Customs: Lm 3,265,788

i.)	Unpaid reimbursement and administration charges in respect of services by Customs officials at Merchants' request	Lm	726,987
ii.)	Post entries (Custom duty paid after release of Merchandise)	Lm	2,530,227
iii.)	Weighing Fees	Lm	4,745
iv.)	VAT on weighing fee	Lm	86
v.)	Sale of Cable seals	Lm	3,487
vi.)	Legal fees	Lm	146
vii.)	Guarding fees	Lm	100

Health: Lm 821,718

i.)	Unpaid Hospital Bills	Lm	456,669
ii.)	Refunds (Resignations)	Lm	172,521
iii.)	Refunds (Overpayments)	Lm	8,144
iv.)	Hospital Fees (Tests)	Lm	183,783
v.)	Miscellaneous Fees	Lm	601

Police: Lm 624,668

i.)	General Licenses	Lm	129,775
ii.)	Wines & Spirits	Lm	49,983
iii.)	Weapons Licenses	Lm	146,163
iv.)	Court Investigations – Expert Fees (as on 31.12.96)	Lm	162,244
v.)	Court Investigations – Photo Material (as on 31.12.96)	Lm	136,502

Computerisation of records revealed a number of Trading and Wines and Spirits licenses not previously reported upon. This resulted in upward adjustments in opening balances of arrears.

Ministry of Agriculture and Fisheries: Lm207,310

i.)	Pitkali Markets	Lm	24,526
ii.)	Loans to Farmers	Lm	53,708
iii.)	Loans to Fishermen	Lm	23,006
iv.)	Sundry Revenue	Lm	5,707
v.)	Sundry Services (Spraying of trees, etc.)	Lm	8,850
vi.)	DDP Personnel	Lm	4,466
vii.)	Services related to Local Councils	Lm	87,047

Details on arrears relating to loans to fishermen and sundry revenue have not been submitted.

Arrears on loans to farmers were estimated as a proper return was not submitted.

Lm87,047 due for services rendered to Local Councils by the Urban and Rural Landscaping Division do not appear in the Ministry's arrears of revenue return.

All sources of arrears of revenue should be included in the Ministry's return and certified correct prior to submission to this Office.

A query by NAO dating back to 1998 concerning issues relating to arrears of revenue remains unanswered by the Ministry.

Joint Office: Lm 675,633

These arrears are monies due in respect of church property transferred to Government under the Ecclesiastical Entities (Properties) Act IV of 1992.

The amount of arrears outstanding on 31 December, 1998 are estimated as the Joint Office cannot arrive at the exact figure since the information forwarded by the Ecclesiastical Entities on property transferred to government is still being validated.

Labour: Lm 381,532

These arrears are monies due by defaulters as repayments under the self-employment scheme. A report on this issue is given on page 74.

Social Security: Lm 1,086,888

i.)	Parental Allowance	Lm	98
ii.)	Children Allowance	Lm	12,298
iii.)	Social Security (Area Offices)	Lm	432,634
iv.)	National Assistance/Children Allowance	Lm	37,227
v.)	Pensions	Lm	395,012
vi.)	Social Assistance Benefit Scheme (SABS)	Lm	149,618
vii.)	At Source	Lm	58,997
viii.)	Bonus	Lm	1,004

The returns of arrears for National Insurance contributions were not submitted to this Office.

Pre-1998 arrears owed to Social Security are estimated to exceed Lm6 million.

The responsibility for the collection of National Insurance arrears fell on the Inland Revenue Department with effect from 1998.

Courts: Lm 5,049,131

i.)	Court fees	Lm 386,701
ii.)	Criminal fines	Lm 2,077,075
iii.)	Judicial Police Fines	Lm 956,963
iv.)	Traffic and Education fines	Lm 1,617,152
v.)	Notarial fees	Lm 433
vi.)	Gozo Court fines	Lm 10,807

Contracts: Lm 371,143

i.)	Monies due in respect of issue of stores made by Central Supplies Section	Lm 170,638
ii.)	Monies due in respect of penalties and damages due to government	Lm 200,505

Transport and Ports: Lm 1,726,609

i.)	Unpaid television licenses (arrears collected being retained by PBS Ltd.)	Lm 1,630,753
ii.)	Monies due to Wireless Telegraphy Branch in Respect of Licenses and Inspection fees and for License fees due by foreign vessels	Lm 95,856

These arrears used to be shown under the Office of the Prime Minister.

Malta Development Corporation: Lm 4,850,557

i.)	Rent on Factory Premises	Lm 3,320,585
ii.)	Loans – Aids to Industries Scheme	Lm 1,529,972

Public Works and Construction: Lm 7,036,981

i.)	Works	Lm 1,680,145
ii.)	Central District Office (formerly LCCU)	Lm 899,373
iii.)	Waste Management Strategy Implementation Dept	Lm 399,975
iv.)	Manufacturing and Servicing Dept	Lm 3,171,328
v.)	Roads (as on 31.12.97)	Lm 886,160

Information/Government Printing Press: Lm 733,474

i.)	Photographic Works	Lm 18,641
ii.)	Publications	Lm 5,598
iii.)	Government Gazette	Lm 4,320
iv.)	Standing Orders	Lm 26,998
v.)	Jobbing Works	Lm 653,972
vi.)	Stationery	Lm 23,945

Part of these arrears of revenue, amounting to Lm 181,322, are in respect of amounts due to the Below-the-line Account – Unallocated Stores.

Licensing and Testing: Lm 2,628,329

i.)	Motor Car Dealers	Lm 5,000
ii.)	Motoring Schools	Lm 800
iii.)	Driving Instructors	Lm 85
iv.)	Car Park Attendants	Lm 45
v.)	Motor Vehicle Road Licenses	Lm 2,622,399

Treasury: Lm 44,033,926

i.)	Bearer Tax Levy (ex-BICAL)	Lm 3,979
ii.)	Loans to Hotels	Lm 10,040
iii.)	Loan and Interests to M'Xlokk Fishing Co. Ltd.	Lm 188,986
iv.)	Loans under Act XI of 1988 (ex-Posterity Fund) to Malta Shipbuilding Co. Ltd. and interests due on these loans	Lm 12,499,000
v.)	Loans to Industries including interests	Lm 30,407,781
vi.)	Loan to Marsa Race Course	Lm 63,000
vii.)	Interests due on loan to Malta Drydocks Corporation	Lm 859,194
viii.)	Miscellaneous	Lm 1,946

Land: Lm 4,097,804

i.)	Rural	Lm	32,595
ii.)	Perpetual	Lm	70,511
iii.)	Residential	Lm	233,267
iv.)	Non-residential	Lm	354,769
v.)	Commercial	Lm	3,395,640
vi.)	Encroachments	Lm	11,022

Conclusion

The following attempts have been made in the past by the Ministry of Finance to monitor and control arrears of revenue:

i.) Permanent Boards of Arrears were established with responsibility for the settlement of arrears of particular Departments. These Boards, which ended up as one-man Boards, were apparently more involved in the write-off requests by Departments rather than monitoring Departments' performance in terms of recovery of arrears;

ii.) In 1993, an Arrears Unit was established at the Finance Ministry to deal specifically with revenue arrears matters. In the Budget Speech for 1997 the then Minister for Economic Affairs and Finance announced the setting up of a Revenue Enforcement Unit in the Ministry;

iii.) In order that recovery and prevention of arrears be given due importance by all Departments concerned, the Ministry of Finance even recommended that arrears recovery and/or prevention targets should be considered when determining performance bonuses for senior officials.

In spite of these initiatives, there is no evidence of significant improvement.

This is supported by the fact that, out of an amount of Lm263.6 million (i.e. total arrears of Lm292.9 million less CET/VAT of Lm29.3 million) outstanding as on 31 December 1997, only around Lm 24 million or 9% were collected during 1998. On the other hand, there were additional amounts of around Lm47 million in new arrears (excluding CET/VAT) during 1998.

The recommendations made on the subject in the Audit Report of 1996 still stand, namely:

- The transfer of staff from other duties to concentrate directly on the collection of arrears;
- A strategy or system to address inter-Departmental arrears of revenue;
- The update of information to write-off bad debts;
- Timely invoicing by Departments of amounts due, especially in view of the chances that claims may become time-barred;
- The timely issue of legal letters and institution of court action. Major attention should be given to ensure that long-standing arrears do not risk becoming statute-barred;
- Withholding of other services/assistance to debtors;
- Follow-up procedure and adequate computerisation of records;
- The collection of arrears by deducting at source other payments due to defaulters;
- More control and attention by assessors when computing claims;
- Imposition of penalties for late payments in terms of relevant legislation;
- Further enforcement action by taking appropriate and timely legal action.

Travel abroad on official Government Business

1998 Expenditure on Travel Abroad

Total actual expenditure amounted to Lm 749,568 which is Lm158,592 lower than the estimated amount for the year. Details of estimated and actual expenditure by Ministry/Department are given in Table on page 43.

A breakdown of how these funds were utilised is shown in the table hereunder. Overseas subsistence/accommodation and overseas Hospitality are initially given to officials travelling abroad in the form of Travel Advances. Parts of these advances are eventually refunded by the officials concerned following their return from the visit abroad.

Components of Expenditure on Travel Abroad – 1998

	Lm
Tickets	247,494
Overseas subsistence/Accommodation	466,127
Overseas Hospitality	568
Removal & Relocation Expenses (MFA)	35,379
TOTAL	749,568

Expenditure on Travel in 1998 included settlement of expenses (amounting to Lm 107,363) relating to advances incurred prior to 1 January 1993 when advances were made from a Below-the-Line Account held at the Treasury Department and controlled by the Ministry responsible for Finance.

Breakdown of Expenditure on Travel by Ministry/Department
(January - December 1998)

Ministry/Department	Approved	Actual	Variance
	Lm	*Lm*	*Lm*
Office of the President	20,000	6,617	-13,383
House of Representatives	65,000	36,961	-28,039
OPM	78,000	34,314	-43,686
AFM	8,000	8,383	383
Information	4,700	4,263	-437
Home Affairs	15,000	14,223	-777
Police	15,000	12,343	-2,657
Gozo	5,000	4,296	-704
Foreign Affairs	290,000	350,490	60,490
Environment	20,000	11,797	-8,203
Education and National Culture	16,000	13,361	-2,639
Education	14,000	8,985	-5,015
Libraries & Archives	760	337	-423
Museums	5,000	3,483	-1,517
Youth, Sport & Culture	4,500	2,802	-1,698
Finance & Commerce	35,000	38,408	3,408
Treasury	3,000	856	-2,144
Inland Revenue	24,000	5,910	-18,090
Customs	7,500	5,398	-2,102
Customs & Excise Tax (VAT)	5,000	469	-4,531
Statistics	8,000	1,559	-6,441
Contracts	1,200	12	-1,188
Commerce	18,200	14,481	-3,719
Imports & Domestic Commerce	5,500	3,116	-2,384
Tourism	10,000	2,735	-7,265
Justice & Local Councils	10,000	10,070	70
Local Councils	5,000	1,907	-3,093
Legal	6,000	4,846	-1,154
Judicial	6,500	7,372	872
Economic Affairs & Industry	9,300	5,753	-3,547
Transport & Ports	11,500	5,261	-6,239
Civil Aviation	25,000	18,969	-6,031
Licensing & Testing	2,000	584	-1,416
Public Works & Construction	20,000	20,615	615
Land & Construction	5,000	1,167	-3,833
Health, Care of the Elderly & Family Affairs	59,000	48,881	-10,119
Care of the Elderly	1,000	58	-942
Social Welfare	7,500	4,753	-2,747
Social Security	3,000	2,987	-13
Labour	15,000	11,271	-3,729
Family Welfare	3,000	1,768	-1,232
Housing	3,000	64	-2,936
Agriculture & Fisheries	30,000	15,064	-14,936
Public Lotto	8,000	2,579	-5,421
Total	[illegible]	[illegible]	[illegible]

Outstanding Advances

This Office recorded a total of 633 advances availed of during 1998 in connection with official travel abroad on government business. As on 15 October 1999, documents for verification in respect of 104 of these Travel Advances had still to be submitted to this Office as required by standing regulations. These Advances carry a face value of Lm 56,934 (i.e. 7.6 % of the total expenditure in 1998 for Travel Abroad) and make up 16.4 % of the 633 Advances identified by this Office. Defaulters are shown in the following table:

Outstanding Travel Advances for 1998

Department/Ministry	No. of outstanding advances	Sums advanced
		Lm
Police	1	354
Ministry of Finance	4	1,012
Home Affairs	11	5,716
Foreign Affairs	6	7,776
Health	45	17,407
Museums	5	1,900
Law Courts	6	2,049
House of Representatives	4	5,368
Civil Aviation	1	184
Education	3	4,592
Ministry of Social Welfare	1	200
Labour	1	1,750
Works	1	704
Ministry of Justice	3	1,953
Environment Protection	5	2,830
Culture	4	2,004
Office of Fair Competition	1	620
Attorney General	1	250
Customs	1	265
TOTAL	**104**	**56,934**

Apart from the 104 outstanding advances disclosed above, another 462 advances covering period 1980 to 1997, and showing a face value of Lm 367,704, are also outstanding with this Office due to non-submission of documents to this Office or failure to satisfy in full related audit queries.

Audit Findings

A sample review of Travel Advances revealed the following areas of concern:

Non-submission of documents

This Office was not able to verify and certify all Travel Advances as Departments did not forward all the relative documents, or did not forward any documents at all, as required by standing regulations.

The main defaulter is the Health Department. Out of 56 advances made during 1998, 45 advances amounting to Lm17,407 still have to be submitted to this Office. Moreover, there are 42 advances for Lm16,290 made in 1996 and 20 advances for Lm7,792 made in 1997 which are similarly outstanding and not verified by NAO.

Hotel Bills

Estacode para 8.5.2.8 lays down that Class A Officers are entitled to stay in a hotel not of a higher class than Superior I and Class B Officers in a hotel not of a higher class than Superior II.

This Office is finding it very difficult to establish whether class of hotels used by officials travelling abroad is in conformity with the regulations. It has been noted that London hotel bills range roughly form 80 GBP to over 150 GBP on bed and breakfast basis.

Moreover, it was observed that hotels booked through Air Malta are substantially cheaper. Government officials who stayed at a particular hotel in London were charged 90 GBP per night when booking was made through Air Malta while other officials who made their own booking were charged 145 GBP.

Ministerial Delegations

Expenses incurred on Ministerial delegations abroad are to be actual-based against receipts and officials forming part of these delegations are not allowed the option to claim any subsistence allowance – *vide* Estacode Section 8.5.2.12.

A number of queries were however raised by this Office where payment of subsistence allowance was made to officials forming part of Ministerial delegations. This Office has been contending that the Departments/Ministries concerned insist on collecting the amounts overpaid.

Travelling Abroad Expenses Charged to other Accounts

Expenditure in connection with travel abroad is not always charged to item 28 Travel. There were Advances that were instead charged to Below-the-Line Accounts, to Programmes and Initiatives or to Capital Votes.

As a result, the Treasury Financial Report is not showing the exact expenditure that was incurred on travel abroad.

Action taken by NAO

Ministries/Departments were requested to submit statements of expenses and related documents as required by Financial Regulations so that outstanding advances would be accounted for, examined and verified by this Office.

NAO concerns about Travel Advances were brought to the attention of the Finance Ministry and the Office of the Prime Minister. They were asked to address the problems highlighted by NAO in order to formulate clear guidelines on the concerns raised by this Office.

The lack of accountability for advances made for travelling abroad has been featuring regularly in the NAO Annual Report since 1990.

Developments

Ministry of Finance has issued a circular (MF 12/99) dated 18 November, 1999 addressing the issues raised by NAO.

The Year 2000 Problem

Background

The millennium bug potentially affects everyone - citizens, business and the public sector. It is not just an information technology problem. As measures were initiated to tackle this problem it was realised that it is a business wide problem affecting equipment not traditionally thought of as computers, such as telecommunication, security and other equipment dependent on a micro chip calendar.

In addition, organisations have also had to consider how their suppliers and customers are addressing the problem and plan how to maintain business continuity if any failures do arise.

This item has featured in the Annual Audit Reports for the last couple of years. NAO's main aim has been to alert Departments to the problem and to ensure that appropriate action is being taken to guarantee as little disruption as possible on the turn of the millennium.

Developments

Early in 1997 MITTS was entrusted with the task of checking all computer systems and equipment for Y2K compliance. In March 1998 a Task Force (Challenge 2000) was also set up to view the problem on a nation wide basis. This office has been informed that MITTS have concluded their task and that, with minor exceptions, all systems are now compliant while equipment has been upgraded or will be manually rectified. It is estimated that the cost of this exercise has amounted to Lm1.5 million.

Recommendations

This Office has also urged Departments to test or obtain assurance that other non-IT related equipment dependent on a micro chip calendar is year 2000 compliant and to ensure that contingency plans are in place should failure by other organisations jeopardise the smooth functioning of their Departments.

Public Service Training

Background

Public Service Training is one of the most important functions performed by the Staff Development Organisation. Over the years it has facilitated and supported hundreds of training programmes for all grades in the Public Service.

Training of Public Service officers is undertaken both locally and abroad. During 1998, SDO organised 311 courses that were attended by 4,020 participants.

On the other hand, 489 officials have participated in overseas training sponsored by Government and supported by SDO (Source: The SDO Training Review 1998).

Total expenditure during 1998 for Training, which is a charge against recurrent vote item 32, amounted to Lm 556,293. Expenditure incurred during the last 5 years is shown hereunder:

1994	Lm 647,728
1995	Lm 559,699
1996	Lm 721,235
1997	Lm 638,364
1998	Lm 556,293

Expenses for Training abroad includes course fees, a book and clothing allowance and also a daily subsistence allowance which is paid in terms of Estacode Section 10.5.1.3 and as laid down in MPO Circulars. Air fares are charged to expenditure item 28 - Travel.

Audit Findings

An examination of expenses paid to officials undergoing courses in U.K. revealed that the majority of officials were paid 31 GBP per day subsistence allowance as laid down in MPO Circular 58/98 which covered board, lodging and other incidental expenses.

It was however noted that some officials who complained that the standard rate of subsistence allowance of 31 GBP was not enough to cover all their expenses were given the option of claiming hotel expenses and 2/3 of 31 GBP subsistence allowance. As an example, the end result meant that one official was paid 68.46 GBP per day and another 95.66 GBP per day instead of 31 GBP per day.

There was also an official from the OPM (MEU) who attended a training course in U.K. and was paid the daily subsistence allowance for duty travel abroad (103.3 GBP) instead of the subsistence allowance for overseas training applicable to the U.K. (31 GBP).

When the Departments concerned were asked to explain why the officials were not paid the approved rate of 31 GBP per day as laid down in MPO Circular 58/98 and to collect the amount overpaid, they informed this Office that they had the approval of SDO.

In the case of the official from OPM, this Office was informed that since the official concerned insisted that the daily training allowance of 31 GBP per day would not have covered the costs of accommodation, meals and other expenses, the payment of the Official Travel rate Class B of 103.3 GBP per day was justified.

As the payment of 3 different rates for training in the U.K. does not appear to be transparent or acceptable to NAO, and since it was difficult to check and certify the expenditure, the matter was referred to SDO for an explanation. It was also pointed out to SDO that the option given to some officials to claim hotel expenses and 2/3 subsistence allowance was not in terms of Section 10.4.1.5 of Estacode.

MPO/SDO Response

MPO did not agree with the way this Office was interpreting Estacode and contended that the option of claiming hotel expenses and 2/3 subsistence allowance was as provided for in Estacode.

MPO and SDO contended that due to the difficulties of providing the selected officer with suitable board and lodging arrangements because of the low rate of subsistence allowance, there are instances when the officer's Department may itself provide the officer with adequate accommodation during the course and pay him/her one third or two thirds of the allowance at the approved rates. SDO added that, in fact, Section 10.4.15 does not specifically stipulate that this provision should apply only when board and/or lodging are provided by foreign governments and organisations as stated by NAO.

MPO also referred the matter to the Ministry of Finance pointing out the disagreement between SDO and NAO as to the interpretation given to the Estacode. In view of the low rate of subsistence allowance, particularly that applicable to the U.K., SDO suggested to Finance that the allowance be raised to 50% of the Class B allowance for duty travel overseas. This would cater for board and lodging as well as other incidental expenses.

Conclusion

In a recent communication on the subject forwarded to SDO, NAO re-affirmed its position regarding the interpretation of Section 10.4.1.5 of Estacode. Scholarship holders going to the

U.K. were always paid the subsistence allowance as stipulated in OPM Circulars and only in the last 2 years were a few officers given the option to claim hotel expenses and 2/3 subsistence allowance.

This Office contends that the same rate of subsistence allowance for training in U.K. should apply and be paid to all officers by issuing clear guidelines regarding the interpretation of Estacode.

The Finance Ministry and MPO are trying to reach agreement. Until relevant regulations are changed, NAO will continue to report to Parliament instances of non-compliance.

PART IV - DEPARTMENTAL ISSUES

Introduction

Ministries, their constituent Departments and Local Councils have been subjected to a number of Regularity (financial and compliance) audits. This chapter highlights the most salient findings.

OFFICE OF THE PRIME MINISTER

"Malta/Europe" Publication

Background

In November, 1992, the Permanent Secretary, Ministry of Finance authorised the Office of the Prime Minister to place a direct order valued Lm 55,000 for the production of a special book entitled "Malta/Europe". The cost for 4,500 copies in 5 languages was covered by a quotation dated October, 1992. The Office of the Prime Minister had to pay a deposit of 25% of the quoted amount to the publishing firm as per terms of the quotation. This deposit, amounting to Lm 13,750, was effected in December 1992. The finished manuscript of the publication had to be delivered by September 1996 but this date was not met. The Office of the Prime Minister had, in July 1997, instructed the publishers to stop from processing further the publication and requested the refund of the advance payment of Lm 13,750.

Developments

On 26 November, 1997, the Attorney General issued a judicial letter to the publishing company requesting the refund for the amount in question, failing which legal action would be taken. In

March 1998, and in subsequent reminders, the National Audit Office requested OPM to state whether any further action had been taken since the company did not respond to the Attorney General's judicial letter. Correspondence by OPM to the Attorney General (copied to NAO) shows that the latter has still to give instructions to OPM for the recoupment of the funds in question.

Armed Forces of Malta

AFM Personnel discharged on Medical Grounds

Background

The Audit Office had in 1993 carried out a review of a number of cases regarding Armed Forces of Malta personnel who were declared to be permanently unfit for military service by a Medical Board. From the investigation it had resulted, *inter alia*, that nine non-pensionable officers were overpaid a total of 446 man-days amounting to an excess of Lm3,193 in salaries between them.

Developments

A court case was instituted against one of the non-pensionable individuals, mainly to test the *"reaction"* of the court before further action could be taken against the other non-pensionable personnel.

In October 1998 the National Audit Office was informed by the Armed Forces that the case against the non-pensionable officer had been dismissed as the Armed Forces failed to attend in Court on the date of the hearing.

On its part, Armed Forces contend that they were not notified to appear in Court and, in this regard, the Department has asked the Attorney General to re-institute the case.

Since the Department did not receive any reaction to its request, this Office has, in April 1999, requested the Attorney General to state what led to the dismissal of the case. No reply has been received up to the time of writing.

Parliamentary Secretariat for Gozo

Inspection of medical equipment inventory – Gozo General Hospital

Background

An audit carried out in 1996 revealed that no inventory records were being kept on medical instruments and equipment used at the Gozo General Hospital.

In 1997 lists of all inventory items physically found on site were compiled, although not in the required format of standing regulations.

The lists of inventory items were in respect of the Operating Theatre, X-ray, Physiotherapy, Maternity, Occupational Therapy, Male (general), Female (general), Geriatrics, ECG, Pediatrics, Blood Transfusion and Outpatients Departments, as well as for the Laboratory, Mortuary and Pharmacy.

Developments

Since 1997, however, inventory records have again not been updated. This Office was misled as to the reason for this lack of updating.

In 1999 hospital management undertook to resolve this issue and to report progress to NAO by September. No communication has however been received to date.

VAT Department

Snowball Lottery System

Background

When the Customs and Excise Tax regime replaced the Value Added Tax system in mid 1997 Government decided to hold a monthly lottery for manual receipts with a prize fund of Lm5,000 and a fortnightly lottery for cash register receipts with a prize fund of Lm10,000.

The reason for this was to create a culture of fiscal morality in the sense that if the goods or service provider fails to give customers a receipt in an attempt to evade tax, the customer will have an inducement to ask for the receipt.

When in January 1999 the CET system was replaced with a modified VAT system, the lottery was retained.

Findings

In one of the meetings of the VAT Lotto Board, whose functions include the verification of the validity of the winning receipts, it transpired that amongst the winning receipts were two which were in the name of the wife of the businessman whose VAT registration number was selected by computer to form part of the winning combination.

The Board was of the opinion that, in view of the reason behind the introduction of the lottery and in the absence of a legal notice stating procedures and guidelines to be used, the receipts in question were to be invalidated. Legal advice sought by the Board, and independently by NAO, differed with the Board's opinion.

It was also noted during draws that the number of non *bona fide* manual receipts were increasing gradually and steadily. This practice may also be prevailing in cash register receipts but cannot be detected through the system.

In such cases the lottery may not be serving its full intended purpose because the beneficiary is not the customer but the supplier.

Treasury

Bank Reconciliation Statements

Background

The Public Account (where all receipts and payments of public monies are accounted for, as required by Section 15 of the Financial Administration and Audit Act, 1962) is kept with the Central Bank of Malta. The term "public monies" is defined as all revenue, loan, trust and other monies received or held by, or on account of, the Government of Malta.

The Public Account started the year 1998 with a book balance of Lm 12,584,697 and closed with a book balance of Lm 5,864,286 as on 31 December, 1998. Deposits and withdrawals during the year amounted to Lm 1,067,843,035 and Lm 1,074,563,446 respectively (the figures shown in the Financial Report 1998 – Appendix A – Statement of the Public Account page 1 are incorrect – see Audit comments on page 86).

All transactions made by Government are processed through the Public Account. These transactions effect the Consolidated Fund as well as the other Funds and Accounts held/administered by the Treasury.

Departments remit/account to the Treasury all end-of-year cash balances. The year-end cash-in-hand element at the Treasury amounted to Lm 79,530.

Audit Issues

As already pointed out in previous Audit Reports since 1993, this Office has been insisting with Treasury Department to update the reconciliation exercise of the Public Account. In order for the Treasury to reconcile and certify the bank balance as per Treasury Cash Book with the bank balance as submitted by the Central Bank of Malta, all parts constituting the reconciliation exercise have to be completed. The last time this has been carried out was in June 1992.

The parts constituting the reconciliation exercise and the dates on which the last reconciliation was carried out in each case, as on the 19 October 1999, are shown below:

i)	Debit Notes	August 1998
ii)	Credit Notes	June 1992
iii)	Remittance Statement	July 1997
iv)	Cheque Reconciliation	September 1994
v)	Cancelled Drafts	August 1999
vi)	Unpresented Drafts.	September 1994

Developments

In July 1998 the Accountant General informed this Office that a task group has been set up between MITTS and the Treasury to prepare an in-depth systems analysis of the whole bank reconciliation process with the aim of streamlining, improving and further computerising the system.

Furthermore, the Accountant General stated that the task group would be commencing work immediately and it was expected that a new bank reconciliation process should have become effective as from 1 January 1999.

When the matter was discussed by the Public Accounts Committee, the Accountant General informed the committee that the effective date for implementing the exercise would be June and not January 1999.

As already indicated this new target date has not been reached and a reconciliation of the Public Account is still not being carried out.

In September 1999, the Accountant General informed NAO that a systems analysis was carried out and completed by the end of 1998. Specifications for the system are in an advanced stage and a document outlining the processes involved has been drawn up. Sample data is now being gathered with a view to determine further requirements. When this is completed, the specification will be handed over to the contractor for programming.

The Accountant General finally stated that they are currently in the process of reviewing the project plan and a more detailed status report will be forthcoming when completed.

NAO will continue to follow up this issue and if necessary report annually upon it until such time as this matter is settled. Bank reconciliation of Public Account balances is essential to good management of government finances.

MINISTRY OF EDUCATION AND NATIONAL CULTURE

Youth, Sport and Culture

Manoel Theatre

Background

The Financial Statements presented for the year ending 31 August 1998 were examined and found to be properly presented.

The results for the financial year showed a surplus of Lm9,332 and the amount voted as government subsidy for the calendar year 1998 was Lm130, 000.

Audit Issue

Performances

In examining the accounts and results for the year, this Office commented on the losses incurred on certain Manoel Theatre Management Committee organised performances

It was recommended that budgets for performances should be prepared and resulting variances between actual and budgeted expenditure should be documented to serve as benchmarks for expenditure on future performances.

The Committee agreed with this recommendation.

Foreign Travel

Queries on foreign travel by Committee members were raised. This Office suggested that subsistence allowances in this respect should be based on the rates applicable to Government delegations on official business.

Inventory of Costumes

It was reported in the audit report for 1996 that this long outstanding issue was drawing to a satisfactory conclusion.

However, following two inspections carried out by this Office in October 1997 and January 1998, it resulted that the inventory records were still not being properly kept.

The Manoel Theatre Management Committee failed to submit a satisfactory reply.

The Department of Culture and the Permanent Secretary of the Ministry of Education are being kept informed of the matter.

Museums

Items of antique or artistic value

Background

In the 1997 Audit Report this Office reported a number of items of antique or artistic value which were found to have gone missing from Ministries and Departments.

The discrepancies came to light following on site inspections by personnel from the Museum of Fine Arts where such items were held on charge and catalogued, and from where they were officially issued on loan to Ministries and Departments against receipt.

The matter was taken up by the Public Accounts Committee during a meeting held on 19 February 1999. The Permanent Secretary, Ministry of Education and National Culture took part in the hearing.

A member of the Committee suggested that Director of Museums is to liason with Permanent Secretaries to hold stock takings of works of art in their respective Ministries/Departments.

Developments

Since the publication of the 1997 Audit Report, there were no fresh developments regarding Ministry of Tourism and Ministry of Justice and Local Councils, which have two and six items missing respectively.

On the other hand four out of the seven items reported to have gone missing from Girgenti Palace have been traced and the remaining three items have now been written off following an internal Board of Investigation.

Ministry of Education and National Culture had informed this Office in 1999 that out of the eight items reported as missing two items, namely a glazed vase and a mahogany table, had been traced. No explanation has to date been submitted regarding the six remaining missing items.

The Permanent Secretary, Ministry of Education and National Culture was queried whether he had taken any action on the suggestion made by a member of the Public Accounts Committee referred to above. The Permanent Secretary had stated that Director of Museums had submitted a draft correspondence proposed for circulation to all Permanent Secretaries.

The Director was to discuss its contents with the Permanent Secretary, Office of the Prime Minister, prior to issuing a circular to all Ministries and Departments.

This office is still awaiting a reply on whether this meeting did take place and, if in the affirmative, the result of the outcome. NAO will continue to pursue this matter as these items constitute national heritage.

MINISTRY FOR TOURISM

Mediterranean Conference Centre - 1998 Financial Statements

Background

During 1998, the Mediterranean Conference Centre received Lm150,000 government contribution towards the running costs of the Centre and a further Lm24,734 as a capital contribution.

Audit Concerns

Financial statements for 1998 of the Mediterranean Conference Centre prepared by a private firm of auditors were sent to this Office unsigned.

The reason given was that the financial statements for 1997 were not signed by the previous Board.

The Permanent Secretary at the Ministry of Education was informed of this practice and was asked to intervene so that this matter could be resolved.

An in-depth investigation is being carried out by NAO to delve into the past performance and related financial matters of the Centre.

MINISTRY OF JUSTICE AND LOCAL COUNCILS

Courts

Unpaid Court Fines

Background

In April 1994 the Director General (Courts) had requested Ministry of Finance to authorise the writing off of arrears of revenue covering deceased defaulters. The Director General put the figure of these arrears at around Lm400,000.

Ministry of Finance has been insisting with the Courts that no writing off procedure could be initiated unless Court of Justice submits comprehensive lists of these deceased defaulters together with the relevant fine which was imposed on them by the Criminal and by the Civil Courts.

Similar records were being requested by Ministry of Finance regarding the writing off of fees and fines which became time barred.

Comments

This Office has been following this issue and communicating with Law Courts as to the steps being taken to settle the matter.

Director General (Courts) had always replied that the information requested by Ministry of Finance could not be supplied due to an acute shortage of staff.

The matter was raised by the Public Accounts Committee and it was recommended by the Committee that the matter needed to be settled so as not to show arrears which could never be collected.

Developments

The matter has recently been dealt with by the Ministry of Justice and Local Councils. It was proposed that once fines imposed up to December 1994 had remained unpaid these should be struck-off the Court books. The legal basis for this proposal was that such fines have become statute-barred. Fines imposed by the Criminal Courts would, however, not be considered for writing-off. The final decision on this proposal has still to be taken.

Court Experts

Background

The Courts of Justice has two lists of Court Experts namely:

- Experts appointed in terms of the Code of Organisation and Civil Procedure (Cap. 12). The appointments are published in the Government Gazette. None of these experts receive remuneration from the Courts Department but are paid by the parties to the suit;

- Experts appointed from time to time by the Courts for criminal cases. Payment to this category of experts is made from the Court's expenditure vote.

Findings

In 1998 this office had requested the Director General (Courts), to submit to the National Audit Office information regarding:

i. individual payments received by experts in civil cases

ii. disbursement made by the Courts to each expert appointed in criminal cases.

Details on payments effected by the Courts were readily available and submitted to this Office. Since no expenditure is incurred by the Department to experts in civil cases, the Courts had to compile the requested information from other sources.

The information submitted in both instances lacked details such as addresses, Identity Number and/or V.A.T. Registration Number. NAO insisted with the Courts for the submission of details regarding the experts as any audit assignment this Office may embark upon requires such information. The Director General stated that claims from experts who fail to furnish the requested details are not being settled.

Developments

A meeting was held in October 1998 between representatives of the Law Courts, M.I.T.T.S. Ltd. and NAO during which it was agreed that a computerised system be introduced for the issuing of claims in the case of civil cases. This Office has been informed that this project was being put on hold for the time being.

It is NAO's concern that earnings by both categories of experts are not communicated to the Commissioner of Inland Revenue. Moreover it could not be ascertained that fiscal receipts are in all instances being issued to the Courts or to the parties concerned in civil cases.

Payment of allowances to Deputy Registrars

Background

Public officers are appointed to serve as Deputy Registrars in the Courts of Justice following a call for applications issued by the Management and Personnel Office of the Office of the Prime Minister. During the time these public officers serve as Deputy Registrars, they receive a non-pensionable allowance besides their substantive salary. The global emoluments of salary and allowance are not to exceed the sum total of the maximum of the salary scale and allowance of the eligible officer in the highest grade i.e. Principal Grade. Letters of appointment establish at what scale of salary the allowance should cease to be paid.

Findings

The National Audit Office conducted a review of these fixed allowances which in December 1998, the month when the audit was carried out, amounted to Lm372 annually to each Deputy Registrar. A number of officers were found not to be eligible for the allowance as they had superseded the global amount indicated in their letter of appointment.

This was confirmed by the Registrar, Courts of Justice, who stated that the decision to retain the allowance to those officers who had been appointed Senior Principals was aimed at ensuring continuity of service to members of the Judiciary since all the Senior Principals (about six in number) were performing Deputy Registrar duties.

However, while the Registrar had indicated 9 officers (6 Senior Principals plus 3 others) who were overpaid, this Office was querying 18 officers.

Developments

In July 1999 Director General (Courts) obtained covering MPO approval for these six Senior Principals to continue performing their present duty of Deputy Registrars and to be paid the allowance (standing at Lm600 per annum since 9 July, 1999) on a personal basis. However, they were to be gradually replaced by Principals to be recruited following a call for applications.

Director General (Courts) has confirmed that nine other officers were being overpaid. Of these, two have now left the service on reaching retiring age whereas two others had their allowance terminated on being appointed Assistant Registrars. The Courts are now seeking Management and Personnel Office's covering approval in respect of these other nine officers.

Local Councils

Regularity Audits

Background

Funds allocated to Local Councils for year ending 31 March 1999 amounted to Lm5.8 millions in ordinary funds and Lm2.4 millions in special needs funds.

In terms of Sub-section 65 (1) of The Local Councils Act, 1993 the accounts of the sixty-seven local councils were audited on behalf of this office by seven private sector audit firms. The Audit Reports covered financial year ended 31 March 1999.

Findings

Submission of Audit Reports

Only 10 audited reports were submitted within the established deadline of 30 June, 1999. To date 3 reports still remain outstanding, namely those of Kirkop, Zurrieq and Paola.

According to the Local Government Auditors, a number of Local Councils delayed the submission of the audit reports and financial statements due to:

- delay in finalising the closing of the accounts;
- delay by the Local Government Auditors to commence their audit;
- failure on the part of the secretary to honour appointment dates with the Local Government Auditors;
- the late acceptance by management to amend the accounting procedure in dealing with special funds requested by the Local Government Auditors;
- not submitting the audit report and financial statements in the format previously agreed upon with the Local Government Auditors.

In an effort to reduce this delay NAO agreed with the Local Government Auditors to periodically update this Office on the progress made in their audits.

It is unfortunate that this procedure did not have the desired result. Further efforts are being made to enhance compliance on the timely submission of audited accounts.

Deficits

The submitted audited financial statements of the following Local Councils reveal:

(i) a deficit in the Income and Expenditure Account (Income less Expenditure);

(ii) an accumulated deficit in the Retained Funds (Fixed and Current Assets less Liabilities); and/or

(iii) a negative working capital (Current Assets less Current Liabilities)

for the year ended 31 March 1999.

Local Councils with Negative Balances

Local Council	Income and Expenditure A/C	Retained Funds	Working Capital
Mdina	13,007	14,395	(6,039)
Isla	(5,366)	25,802	(4,414)
Bormla	(6,446)	13,260	(61,729)
Zejtun	19,904	285,669	(38,425)
B'Kara	35,589	162,987	(19,918)
Dingli	(14,621)	46,319	5,051
Ghaxaq	8,854	69,149	(3,468)
Gzira	(14,545)	49,230	(7,609)
Hamrun	(9,130)	175,667	8,884
Marsa	17,771	(493)	(8,380)
Marsascala	5,694	60,898	(26,621)
Mosta	24,930	186,823	(207,870)
Msida	(8,663)	55,306	(26,671)
Naxxar	11,478	128,839	(28,345)
Pieta'	(13,284)	40,825	(33,804)
Qrendi	2,949	33,456	(1,153)
Rabat (Malta)	(55,446)	328,148	135,688
San Lawrenz	325	14,676	(2,119)
San Pawl il-Bahar	(46,096)	178,750	43,182
Sliema	9,795	69,776	(16,113)
Swieqi	(20,900)	70,709	(10,019)
Ta' Xbiex	3,720	(14,720)	(21,549)

These figures do not include those of the three Local Councils for which the audited financial statements remain outstanding, some of which may also have deficits.

Budgeted Figures

Local Councils were required to change their method of accounting from a cash-based system to an accrual-based system as from April 1996. Local Government Auditors argued that budgets compiled on a cash-based system cannot be compared to financial statements computed on an accrual-based system.

Consequently all reports submitted by auditors have excluded the budgeted figures from the financial statements for the year. This is not in accordance with the Local Councils (Financial) Procedures, 1996.

The current review of Local Councils (Audit) Procedures would exclude the requirement of budgeted figures from the forthcoming financial statements.

Management Letters

Management letters were submitted to the Mayors by the auditors highlighting audit findings and recommendations. There were instances where the Mayors' replies were submitted late.

Up to 31 October, 1999, 14 management letters had still to be received whilst 23 Mayors' response to the management letters were still being awaited.

The following are some of the more important issues which were raised in a number of the submitted letters:

- All purchases should be supported by a proper tax invoice addressed to a Council and every cash payment should be covered by a fiscal receipt;

- Payroll accounts in the Nominal Ledger should be regularly reconciled with the Final Settlement System return. The correct amount of tax should be deducted every month;

- At year end it should be ensured that all liabilities are accounted for through a careful study of validated invoices which are to be certified as correct by the contracts' manager;

- There is no internal control on cash-handling in the case of community social events. The sub-committee for such events should present a report to the Council, stating the number of tickets sold, revenue received and the approved expenses;

- Certain Councils do not have detailed inventory records identifying each asset by location, category, date of purchase and cost. The Assets Register has to be reconciled with the books of accounts to keep control over assets held by the Council;
- A number of Councils do not have sufficient funds to pay up all creditors, and monies allocated to special funds are being used to sustain deficits. This is against the purpose for which such funds were set up;
- Certain Councils' unspent balances appearing in the Schedule of Special Needs Fund accompanying the Financial Statements do not agree with the balances in the bank accounts allocated to Special Funds;
- Three quotations should be sought before acquiring goods and services costing between Lm 100 and Lm1000;
- Payments to the same contractor for similar items exceeding Lm1,000, should invariably be covered by a tender;
- Receipts should be issued for all incoming money as soon as it is received and the Council should ensure that such income is deposited on a daily basis in terms of Local Councils Financial Procedures, 1996.

Paola Local Council

In terms of Regulation 5 (2) (b) of the Local Councils Financial Regulations, the then Parliamentary Secretary within the Office of the Prime Minister had requested this Office, through a letter dated 17 March 1999, to carry out an investigation on the financial management of the Paola Local Council.

The results of the investigation were presented to the Minister of Justice and Local Councils on the 21 October 1999.

Ministry of Agriculture and Fisheries

Pitkali Markets

Background

During 1995 an audit review revealed that there was the need to update the Agriculture Produce (Marketing) Regulations and to introduce more control on the sales process of the Pitkali Markets.

Developments reported in the audit report for 1997 included a preliminary report by MEU regarding a strategic review of the Pitkali Markets. This review had to address a new management structure, the required IT infrastructure and a rewrite of the Agriculture Produce (Marketing) Regulations. The latter was to be given top priority.

Developments

Recently, following repeated correspondence and several reminders, the Department of Agriculture informed this Office that further development on issues mentioned above was being postponed to next year pending the outcome of the EU screening process currently in place.

Ministry for Transport and Ports

Civil Aviation

Transfer of immovable assets of the Civil Aviation Department to MIA plc.

Background

In May 1998, Malta International Airport plc. took over the operations of the Civil Aviation Department. Lm4.9 million worth of moveable items, mainly equipment, was transferred from the Civil Aviation Department to the MIA plc. as per an agreement signed on 13 August, 1998.

Issue

In January, 1999 this Office queried the Department of Civil Aviation, Ministry for Transport and Communication, and the Government Property Division, Ministry for Home Affairs, on the list and valuation of immovable assets officially transferred to the MIA plc.

The Department of Civil Aviation submitted a list of 51 items of immovable property made up of land and buildings which were passed on,occupied and controlled by the staff of the MIA plc. as from 1 May, 1998.

On the other hand, the Property Management Division informed this Office that, with the exception of the present Terminal at Gudja, no other property had been officially transferred to the MIA plc. The Division added that no decision had yet been reached on which property was to be transferred to the MIA plc.

Developments

The Property Management Division informed this Office that an exercise was being carried out to establish ownership and root of title of the property involved since various properties handed over from the British Services were either occupied by Air Malta Company Ltd, the Armed Forces of Malta, Maltacom plc., the Health Department and the Department of Agriculture amongst others.

It continued that it was not in a position to indicate which properties were proving problematic in determining ownership and root of title and that it would take further action as soon as a final decision was made as to which property was to be officially transferred to MIA plc.

Comments

MIA plc. is a candidate for privatisation in line with Government's policy. The delay and uncertainty surrounding the transfer of immovable property to MIA plc. may restrict Government's flexibility in pursuing its privatisation policy.

Revenue from Passenger Service Charge

Background

A Lm 10 fee is payable by passengers on flights originating in Malta, except for flights which depart and return within 24 hours, such as 1 day trips.

The fee is collected by the airlines themselves on behalf of the Department of Civil Aviation. Revenue from this source amounted to Lm 1,464,856 in 1998.

The Revenue is received by the Department of Civil Aviation from the airlines accompanied by a chit showing the total number of passengers and revenue thereof.

At the end of each month, the Civil Aviation Department compiles a schedule which includes a list of airlines and revenue transferred from each airline.

Comments

This documentation is not sufficient for the Civil Aviation Department to verify the number of passengers liable to this fee and/or to carry out an audit trail.

This Office requested the Ministry of Finance to state whether verification of information on the number of flights and passengers originating from Malta as submitted by the airlines is being carried out.

The Ministry of Finance confirmed the concern of this Office and requested the Department of Civil Aviation to forward proposals on how revenue received through airlines can be spot checked and/or audited.

MINISTRY FOR SOCIAL WELFARE

Labour Office

Self Employed Scheme - Defaulters on Loans

Background

In 1996 this Office had drawn the attention of the Director of Labour that amounts due by defaulters in connection with the Self-Employed Scheme were not being reported as arrears of revenue. An amount of Lm372,122 eventually appeared in the list of arrears submitted by the Department (cfr. Annual Report 1996) as being arrears outstanding on 31 December, 1996.

The Self Employed scheme, which came into operation in 1989 but was discontinued in 1992, had the following main targets:

(i) reduction of the number of registered unemployed;

(ii) reduction of the number of government employees in industrial groups;

(iii) provision of alternative work for personnel in temporary government employment; and

(iv) promotion of self-employment.

The benefits under the Scheme included cash grants and soft loans, repayable in six years' time, issued to beneficiaries by the Bank of Valletta. A Letter of Comfort issued on the 3 March, 1989 guaranteed that should the Bank of Valletta fail to obtain repayment of any loan advanced under the scheme, Government would repay the outstanding balance of such loan, including interest, upon demand by the Bank.

Developments

By the end of 1998, there were 164 defaulters who had the amounts due to the Bank made good for by the Department of Labour as per Letter of Comfort. Between them they owed the Department Lm381,532. The highest single amount due was Lm3,438 while the lowest was Lm147. On average the sum works out to Lm2,326 per defaulter. During the period January 1997 and December 1998 only Lm2,062 were refunded while Lm11,472 were registered as new arrears.

In 1994, on the advise of the Attorney General, the Director of Labour requested Bank of Valletta to subrogate the Director of Labour, thereby giving him the right to proceed for recovery of the amounts still due.

Consequently defaulters were notified by the Director of Labour that the outstanding balances were now due to the Director of Labour and not any longer to Bank of Valletta. In the absence of response from these debtors, the defaulters were to be served with Judicial Letters. This step, however, does not seem to have had the desired effect.

Following the receipt of the 1998 Return of Arrears, this office enquired with the Department of Labour what action was being taken to collect the amounts due and what steps were taken to ascertain that the amounts due do not become statute barred. This office was informed that in May 1999 the Department of Labour held a meeting with an official of the Attorney General's Office to determine the:

- situation of defaulters as regards to period of prescription; and

- ways of collecting the arrears through legal channels.

In November, 1999 the NAO was informed that a fresh attempt would be made by the Attorney General to recover the funds by first filing judicial letters to be followed by court action against those individuals who still fail to respond.

MINISTRY OF HEALTH, CARE OF THE ELDERLY AND FAMILY AFFAIRS

Government Pharmaceutical Services - Stores

Background

In June 1997, the Director (Corporate services) at the Ministry of Health requested Finance approval for the payment of fees in connection with a consultancy agreement entered into with a private consultancy firm. The firm had to carry out an analysis of the operational situation at the medical stores and recommend potential improvements, including computerisation, that would enhance the existing state of affairs, particularly in the short term. It was stated that fees due to the consultancy company were to amount to Lm7,000 monthly and consultancy work was expected to finish by end August 1997.

Audit Concerns

NAO noted that the consultancy firm was already engaged by the Health authorities way back in mid-April 1997 - even before the initial request for Finance approval was made. It was also noted that neither a public call for tenders nor a selective call for quotations was made prior to contracting the firm in question.

Notwithstanding the above, in July 1997, the Ministry of Finance gave the necessary approval on condition that payment amounting to Lm31,500 was to be effected for the period mid-April 1997 to end August 1997 only.

During a test check on stock carried out at the Medical Stores in August 1998, NAO noted that employees of the private consultancy firm were still supervising the system introduced in April/May 1997. Consequently, this Office requested the Government Pharmaceutical Services to state what amounts - and a breakdown thereof - had been paid to the company to date.

In July 1998, NAO was informed that, till then, payments totalled Lm100,435. Since August 1998, the Foundation for Medical Sciences and Services took over the project and made further payments to the company of Lm27,469 covering period September 1998 to May 1999. From perusal of the relative Ministry of Finance file, it was noted that no request was made by the Health authorities to cover the extra costs incurred over the Lm31,500 limit initially approved by Finance. Health authorities also stated that the draft agreement was never formally signed by the parties concerned.

The issue of introducing an adequate computerised system for the Medical Stores has been pending since the early eighties and has featured repeatedly in recent Annual Audit Reports.

Valuables and Other Items Belonging to Patients/ Residents in Hospitals/Homes for the Elderly

Background

NAO is concerned by the lack of safeguards in connection with the proper safekeeping of valuables and other personal items belonging to patients and residents in government hospitals and homes for the elderly. This issue was first brought up by this Office's Annual Report for 1997. Although some positive steps have since then been taken, concrete measures which address the weaknesses highlighted are still lacking.

Developments

The Ministry of Health appointed a committee to submit recommendations on a clearly defined procedure for the proper safeguarding of patients' assets in government hospitals. NAO would like to remark that although the committee was set up in December 1998, to date the report has not yet been submitted by the appointed committee.

With regard to the homes for the elderly, the Department had, way back in November 1998, sought the advice of the Attorney General so as to be in a position to legally issue regulations through the Minister for Social Policy on the retention of valuables and other items belonging to residents in homes and St. Vincent de Paule Residence.

In April 1999 Director, Welfare of the Elderly informed this Office that, if the Ministry for Social Policy issues such regulations, these would not have any legal force. Advice was given that these would only be legally binding if incorporated in an Act which would deal with the Department for the Welfare of the Elderly.

Currently, the guidelines listed below are being implemented:

- When an elderly person enters a government home or residence, the officer-in-charge shall list any personal furniture, or other inventory items, which are brought into the elderly person's room.
- The officer-in-charge shall also take over the safe custody of any other valuables or money that the elderly person wishes to entrust to him. The valuables have to be listed in an appropriate Register and appraised. A receipt should be given to the elderly person for any valuables or money taken on charge.
- The officer-in-charge shall deposit all valuables and money entrusted to him in an appropriate safe. He can only return these items to the owner. In the event of the owner's demise, the officer-in-charge shall continue to keep in safe custody

the items on charge until the Department's almoner is in a position to distribute these items to the heirs.

- In case that an elderly person develops senility or any other mental infirmity during his residence in a home or residence, the officer-in-charge shall not issue any valuables or monies until a legal procurator is appointed by the Courts to represent the elderly person.
- When valuables or monies are issued by the officer-in-charge, he is to ensure that the authorised person receiving such items signs a receipt on taking over these items.
- The officer-in-charge shall ensure that with regard to cash taken on charge, he is to act according to the Financial Regulations, 1962 and to other MFC circulars.
- Substantial amounts of money shall be deposited immediately in a Below-the-Line account with the Treasury. Other amounts are kept in a safe by the officer in charge.

The system of appraisal of valuables that are declared and kept under the charge of homes is still being studied. With regard to regulations on the above-mentioned guidelines, this Office is informed that discussions are being held with the Parliamentary Secretary to formulate a policy that has legal force.

In the prevailing circumstances, NAO would like to remark that immediate steps are to be taken to rectify the present situation as this may be detrimental to residents in both homes and hospitals as already mentioned in this Office's annual report for 1997.

Catering in Hospitals and Homes for the Elderly

The provision of food to patients in hospitals and homes for the elderly has many complex features which present a major challenge for the Health and Social Policy authorities.

Primary responsibility for securing good quality catering at a reasonable cost lies with the catering units of individual hospitals and homes.

A NAO assignment, currently underway, examines the standard of the catering services provided to patients, the hygienic environment and cost control on catering. The report on this assignment will be issued early next year.

Food Provisions at St Vincent de Paule Residence (SVPR)

Background

In 1997 NAO reported that a Departmental Board of Inquiry had been appointed to investigate NAO’s findings in connection with the catering system at SVPR. A copy of this report was presented to this Office in January 1999.

Developments

The Board’s main findings confirmed NAO’s previous concerns regarding the lack of proper controls and safeguards which left the system open to abuse. The issues highlighted by the Board were:

(a) Lay administrators at SVPR stated that prior to NAO's visit, no discrepancies were detected for the simple reason that figures used to be adjusted at the end of the week in order to balance the books.

(b) Since January 1998 an alarming amount of missing items has been reported due to the fact that *"adjustments"* were no longer being made, not even at the end of the week, to reconcile discrepancies.

(c) The Board of Inquiry categorically stated that the system for the procurement, keeping and issue of food from stores was, and had always been insecure, unsafe and wide open to abuse. Although the lay administrators were aware of the situation, they failed to take corrective measures to curb such abuses.

This Office had already brought the above shortcomings to the attention of the Department

The Board of Inquiry recommended that a complete stocktaking exercise should be carried out *"to start a completely new leaf"*. NAO however remarked that such a stocktaking exercise has already been carried out in March/April 1998. The Department cannot simply decide to carry out a stocktaking exercise whenever it is convenient to start new ledgers ignoring previous balances as in this case very considerable discrepancies were detected.

The Board of Inquiry had limited its findings as from January 1998. However, this Office contended that the practice of excess stock issue to requirements made in 1996 and 1997 were not addressed by the Board. For this reason agreement was reached with the Department concerned to review expenditure incurred on food provisions for the years 1996 and 1997.

The main aim of this exercise was to test check and establish whether the Department had in return value for money on such expenditure. For this purpose the Department engaged the services of a consultant who presented his findings in October 1999.

The consultant commissioned to carry out the assignment in question quoted the cost per meal as 75c and 74c for 1996 and 1997 respectively. However, no comments were made on whether the cost of meals was reasonable. NAO also considers overhead costs included in valuing meals, amounting to around Lm69,000, as rather on the high side.

Conclusion

Despite the reports presented by the consultant, no clear indications were given of whether the Department had value-for-money for the expenditure incurred on foodstuffs.

Moreover, no recommendations were forthcoming on how to curtail overhead costs.

Regrettably, after the lapse of almost two years, the practice of excess issues of food provisions to requirements still prevails at SVPR.

The Welfare Committee Accounts

Background

During January 1999, the NAO commenced a performance review of the Welfare Committee primarily to ensure that the Committee is complying with the provisions of Section 131 of the Social Security Act, 1987.

This Office took particular note of Section 131(c) of the Act which states that:

"In administering funds entrusted to it, the Committee shall keep such system of accounts and shall adopt such procedures for the custody and disbursement of moneys entrusted to it as shall be approved by the Accountant General and all books, receipts and records kept for this purpose shall, at all times, be open to inspection by the Director, Accountant General, the Director of Audit and any other public officer whom the Minister appoints for this purpose".

Audit Objectives

The main objectives of this audit are:

- the transparency and accountability in the award of tenders;
- the expenditure incurred on the modernisation works at the Mtarfa Home for the Elderly; and
- other expenditure incurred by the Committee.

The findings of the assignment in question will be presented early next year.

MINISTRY OF PUBLIC WORKS AND CONSTRUCTION

Works Division

Misclassification of items related to Capital Expenditure

Background

The National Audit Office has conducted a preliminary survey on the use of capital funds by Government Departments. This assignment was undertaken following the discussions held by the Parliamentary Public Accounts Committee during meetings 2 and 3 held on the 17 November 1998 and 1 December 1998. These meetings had discussed, among other things, the issue of misclassification of recurrent and capital expenditure items, which was mentioned in the 1996 and 1997 Audit Reports.

The objectives for this audit were to establish whether capital funds were being utilised for their intended purpose and whether present accounting practices in use by Government provide Parliament with a true and fair appraisal of Government finance.

For the purpose of this exercise, capital expenditure incurred by the Works Division within the Ministry of the Environment during 1998 was reviewed. The Works Division was requested to submit a return indicating if any capital expenditure covered payments in respect of personal emoluments, the use of transport or any other costs usually classified as recurrent.

Audit Concerns

Following the review of the information submitted, the following issues arose:

(i) During 1998, the Works Division charged transport expenses, as well as other items and services procured for use in capital projects, to the Capital Vote. Such expenses amounted to over Lm230,000. However, the Estimates did not provide for funds, other than personal emoluments, to be used for capital projects.

(ii) The total amount of Personal Emoluments charged to the capital vote exceeded the Lm1 million allocated for financial year 1998 by Lm868,287

(iii) According to information submitted by the Works Division, wages and salaries charged to the Capital Vote IX in 1998 amounted to Lm1,237,369. However, according to the Financial Report issued by the Treasury, the amount for all the projects included in Capital Vote IX totals Lm970,268 (cfr. Financial Report 1998 page 138).

(iv) Further to the preceding paragraph, overtime performed during 1998 on capital works and charged to Capital Vote IX amounted to Lm630,918 but the Financial Report states that Lm44,262 were charged to capital.

Such a state of affairs resulted through misclassification of accounts. The Works Division did not always adjust the relative item head in the recurrent vote through transfer vouchers raised. Consequently, the Treasury processed such vouchers as indicated by the Works Division.

Management Comments

The Works Division at the Ministry of the Environment stated that the above practices had been adopted by the Division not only in 1998 but also throughout many past years. Works Division Management stated that the above procedures are allowable once the expenditure incurred bears a direct relation to the relative project.

Moreover, the Works Division stated that the excess of personal emoluments charged to the capital votes was directly and wholly related to capital projects. The Works Division stated that an excess on the budget allocation is permissible if unexpended funds are recorded on the capital vote.

Conclusion

Inconsistent classification of expenditure items raises a potential situation whereby figures quoted in the Treasury compiled Financial Report do not appropriately reflect the actual expenditure incurred on a particular project. Relative balances in the Treasury Report in fact do not illustrate the total amount of personal emoluments expended on capital projects. Moreover, the same Report makes no reference that personal emoluments allocation for capital projects was exceeded.

PART V - ANALYSIS OF THE FINANCIAL REPORT, 1998

Introduction

This Part consists of an examination of the 1998 Financial Report statements and accounts. These were submitted to this Office by the Accountant General in terms of Section 67 of the Financial Administration and Audit Act, 1962 and examined by the Auditor General in terms of Sub-para. 1(e) of the First Schedule of the Auditor General and National Audit Office Act, 1997.

Statements of the Consolidated Fund Account, showing the comparative positions in 1997 and 1998, and the receipts and payments of funds created by law were published in Government Gazette No. 16782 of the 27 April 1999 after being reconciled with Treasury Books by this Office in accordance with Sub-para. 1 (c) of the First Schedule of the Auditor General and National Audit Office Act, 1997.

To attain a comprehensive view of the government financial operations, reference should be made to both this Audit Report and the 1998 Financial Report.

Abstract of Receipts and Payments of the Public Account for 1998

The receipts and payments should read Lm1,067,843,035 instead of Lm1,424,379,492 and Lm1,074,563,446 instead of Lm1,431,099,903 respectively. The opening and closing balances are correct.

The difference is due to a manual intervention which had to be undertaken when compiling this statement.

This discrepancy was actually pointed out to NAO by the Treasury but it was too late to carry out a correction as the Financial Report was already published.

Consolidated Fund Statement - 1998

The following Consolidated Fund Statement comprises the aggregate annual receipts and payments belonging to Government and comparative estimates for 1998.

The Budget presented to Parliament envisaged that Expenditure (Warrant No. 1) was to exceed Revenue (inclusive of loans) by Lm76,115,000. However, with the issue of the Supplementary Estimates Warrant No. 4 amounting to Lm58,319,000 and following the winding up of the 1998 Accounts, it resulted that Expenditure had actually exceeded Revenue by Lm6,885,672.

Consolidated Fund - 1998

	Estimated		Actual	
	Lm	*Lm*	*Lm*	*Lm*
Opening deficit balance				**(28,866,733)**
Revenue				
Ordinary	549,118,000		539,069,017	
Grants	10,427,000		10,043,452	
Loans	62,225,000		110,000,000	
		621,770,000		659,112,469
Expenditure				
Recurrent	(534,620,000)		(516,392,853)	
Public Debt Servicing	(55,076,000)		(52,758,375)[b]	
Capital:	(108,189,000)		(96,846,913)	
		(697,885,000)[a]		(665,998,141)
Excess 1998		(76,115,000)		(6,885,672)
Closing balance as on 31/12/98				**(35,752,405)**

[a] Lm639,566,000 appropriated by Warrant No. 1
Lm58,319,000 appropriated by Warrant No. 4 (Supplementary)

[b] Does not include Lm 2,476,389 paid out of Recurrent Vote 50 – Ministry for Housing Cost Centre 4 Joint Office.

The Consolidated Fund closing deficit balance increased from Lm28,866,733 in 1997 to Lm35,752,405 in 1998.

Revenue

Details of Revenue collected during 1998, classified by heads and subheads, as compared with the Estimates, are shown in Appendix C of the Financial Report.

Variances are not explained in the Financial Report. The importance of additional explanatory comments, where warranted, is once again stressed by NAO.

Government Ordinary Revenues by Major Sources

Lm (000's)

Period	Tax Revenue						Non-Tax Revenue
	Income Tax	National Insurance Contrib.	V.A.T./ C.E.T	Licences, Taxes & Fines	Customs & Excise	Total	
1996	93,308	126,173	78,633	51,682	31,981	381,777	65,699
1997	110,539	142,184	84,606	54,281	43,197	434,807	69,605
1998	110,562	135,655	72,630	60,677	52,696	432,220	106,849

Shortfall in Ordinary Revenue

Budgeted ordinary revenue for 1998 was Lm 549,118,000 (against actual ordinary revenue of Lm 504,412,034 for 1997). Actual ordinary revenue for 1998, however, amounted to Lm 539,069,017, a decrease of Lm 10,048,983.

The following table shows the main items which contributed to this shortfall in 1998:

Shortfall in Ordinary Revenue

Revenue Head	ACTUAL 1997 Lm	BUDGET 1998 Lm	ACTUAL 1998 Lm	Variation Actual 1998-Budget 1998 Lm
05 OPM				
Public Corporations				
0693 Contribution by Telemalta	100,000	400,000	-	(400,000)
0694 Receipts out of Telemalta profits	2,000,002	2,250,000	-	(2,250,000)
20 Min. of Finance and Commerce				
0999 Miscellaneous Receipts	3,794	4,500,00	251,794	(4,248,206)
23 Inland Revenue				
Licences, Taxes and Fines				
0232 Duty on Documents	12,379,466	14,600,000	13,810,025	(789,975)
0240 Levy on sale of Immovable Property	548,115	850,000	334,330	(515,670)
Income Tax				
0171 Income Tax	110,539,303	112,000,000	110,562,264	(1,437,736)
24 Customs				
Ad Valorem:				
0120 Miscellaneous Excise Duty	5,867,638	6,000,000	5,483,823	(516,177)
0132 Machine-made Cigarettes	11,772,713	15,000,000	14,444,424	(555,576)
0139 Wines	-	430,000	149,937	(280,063)
25 Value Added Tax and Customs and Excise Tax				
0161/0162 VAT/CET	84,606,370	78,000,000	72,629,619	(5,370,381)
52 Public Credit				
0639 Sundry Dividends	417,750	380,000	79,258	(300,742)
90 Public Lotto				
Lotteries				
0681 Lotto Profit	3,458,177	3,500,000	3,186,617	(313,383)
38 Civil Aviation				
0522 Passenger service charge - retained portion	1,969,694	2,030,000	1,654,377	(375,623)
0523 Landing fees	1,516,677	1,550,000	347,824	(1,202,176)
0524 Route air navigation charges	3,109,770	4,020,000	1,065,698	(2,954,302)

Revenue Head	ACTUAL 1997 Lm	BUDGET 1998 Lm	ACTUAL 1998 Lm	Variation Actual 1998-Budget 1998 Lm
39 Licensing & Testing				
Licences, Taxes and Fines				
0204 Motor vehicle licences	6,989,498	9,982,000	9,604,214	(377,786)
40 Min. of Public Works & Construction				
Fees of Office				
0335 Sewage fees	-	2,500,000	-	(2,500,000)
Reimbursements				
0465 Services rendered to Local Councils	1,197,451	1,200,000	827,880	(372,120)
0999 Miscellaneous Receipts	12,499	11,207,000	27,153	(11,179,847)
41 Land and Construction				
Rents				
0615 Rent of commercial tenements	1,760,749	1,520,000	1,390,086	(129,914)
43 Min. of Health, Elderly and Family Affairs				
Reimbursements				
0432 Sale of medicines	21,468	1,320,000	111,383	(1,208,617)
47 Social Security				
0191 Social Security Contributions	142,183,590	137,016,000	135,654,765	(1,361,235)
50 Ministry for Housing				
Miscellaneous Receipts				
0911 Sale of ex-Church property	-	1,000,000	197,216	(802,784)

Expenditure

The appropriations for expenditure during 1998 were effected through two Warrants - Number 1 and 4. Warrant No 2 issued on the 23 March, 1998 was withdrawn in October, 1998 whereas Warrant No 3 was superseded by the issue of Warrant No 4. Warrants No 1 and 4 were appropriated under the following Laws:

	Lm
(i) Appropriation Act (Voted Services)	441,552,774
(ii) In terms of Special Laws	243,647,822
(iii) In terms of the Constitution	12,684,404
	697,885,000

Analysis of Appropriations

Appropriation Act (Voted Services)

	Lm
Appropriated by Act XXVII of 1997	391,406,774
Appropriated by Act XXII of 1998 (Second Appropriation Act)	50,146,000
	441,552,774

Special Laws

The following amounts were appropriated in terms of the various laws as indicated:

		Lm
a)	Electoral (Franchise Method of Election, and Registration of Voters) Ordinance (Cap. 99); and the Electoral (Polling) Ordinance (Chapter 102).	980,000
b)	Expenses of the Broadcasting Authority - Broadcasting Act, 1992 (Act XII of 1991) Section 24 (1) (a).	250,000
c)	Expenses of the Commission for Investigation of Injustices - Act XV of 1987, as amended by Act XVIII of 1989.	48,872
d)	Expenses under Re-letting of Urban Property Ordinance (Cap. 69) and Agriculture Leases (Re-letting) (Cap.199).	3,000

		Lm
e)	Land Acquisition (Public Purposes) Ordinance (Cap. 88).	53,200
f)	Social Security Act, 1987(Act X of 1987) Section 117.	170,838,000
g)	Pensions Ordinance (Cap. 93).	18,890,000
h)	Widows' and Orphans' Pensions Act (Cap. 58).	162,000
i)	Personal Injuries (Emergency Provisions) Ordinance (Cap. 111).	30,000
j)	Members of Parliament (Retiring Allowances) (Act XVII of 1966), Members of Parliament Pensions Act (Act XXVI of 1979) as amended by Act VII of 1989 and XIII of 1981 (Cap. 280).	250,000
k)	Expenses of the Office of the Ombudsman, Ombudsman Act, 1995 Sec 10(4).	160,000
l)	Net refunds on VAT (VAT Act, 1994).	6,000,000
m)	Interest plus contribution to the Fund i.c.w. ex-Church property loan, Registered Stock and Security Ordnance 1959 (Cap 161).	2,477,000
n)	Interest plus contribution to the Sinking Fund i.r.o. Local Stock - Registered Stock and Security Ordnance 1959 (Cap 161).	2,062,000
o)	Interest plus contribution to the Sinking Fund i.r.o. Government Stock - Registered Stock and Security Ordnance 1959 (Cap 161).	40,657,750
p)	Expenses of the Permanent Commission against Corruption (Act XXII of 1988).	36,000
q)	Expenses of the National Audit Office, Act XVI of 1997.	750,000
		243,647,822

In terms of the Constitution

In terms of sub-Section 107(2) of the Constitution, the following amounts were appropriated in respect of:

	Lm
The President of Malta	15,579
The Attorney General	9,491
Judges and Magistrates	282,602
The Public Service Commission	20,482
	328,154
In terms of Section 106 as applied to the Public Debt	12,356,250
	12,684,404

Excess of Expenditure over Estimates

Supplementary Estimates for 1998 amounted to Lm58,319,000 (explanations for excesses are found in the said Estimates). These were approved by the House of Representatives in December 1998.

There was also other overspending on items which, however, was offset by savings from items within the same Department or Ministry through the normal procedure of virements in terms of Sub-section 24(1) of the Financial Administration and Audit Act.

Excess expenditure over revised estimates exceeding Lm120,000 occurred in the following instances:

Excess of Expenditure over Revised Estimates

Vote, Item	Actual 1997	Revised Estimates 1998	Actual 1998	Variation Actual 1998/ Estim. 1998
	Lm	*Lm*	*Lm*	*Lm*
Vote 5: OPM				
Item 5042 Expenses of the Broadcasting Authority	400,000	250,000	410,317	160,317
Item 5161 Electoral Commission	305,321	980,000	1,330,512	350,512
Vote 7: AFM				
Item 21 Utilities	136,800	140,000	262,084	122,084
Item 22 Materials and Supplies	640,422	300,000	470,630	170,630
Item 23 Repair and Upkeep	181,763	150,000	476,971	326,971
Item 27 Transport	326,288	180,000	364,374	184,374
Vote 10: Police				
Item 16 Allowances	1,640,959	1,338,000	1,735,280	397,280
Vote 12: Gozo				
Item 16 Allowances	1,114,370	968,000	1,153,204	185,204
Vote 15: Ministry of Education and National Culture				
Item 4010 Stipends to University Students	4,257,982	3,600,000	3,862,544	262,544
Item 4024 Contribution towards the financing of Church Schools	7,909,000	6,685,000	6,853,747	168,747
Vote 16: Education				
Item 16 Allowances	1,115,687	963,000	1,360,072	397,072
Item 4027 Technician Apprenticeship Scheme	394,104	300,000	418,369	118,369
Vote 20: Ministry of Finance				
Item 34 Incidental Expenses	768	3,000	129,882	126,882
Vote 21: Treasury				
Item 18 Public Service Reform	1,455,080	3,530,000	7,469,634	3,939,634
Vote 40: Ministry of Public Works and Construction				
Item 27 Transport	1,022,993	1,066,000	1,197,043	131,043

Vote 43: Ministry of Health, Care of the Elderly and Family Affairs				
Item 16 Allowances	6,213,559	6,574,640	6,901,084	326,444
Item 17 Overtime	1,454,597	1,108,720	1,435,057	326,337
Item 21 Utilities	563,301	586,000	1,549,150	963,150
Vote 44: Care of the Elderly				
Item 4064 Home Care/Help Services Scheme	793,518	714,000	907,141	193,141
CAPITAL I: Prime Minister				
Gozo – Roads				
Item 29 Hot asphalt programme	99,928	100,000	221,923	121,923
CAPITAL III: Ministry of Education and National Culture				
Item 2 Ministry: University of Malta	3,236,472	2,500,000	2,816,994	316,994
Item 6 Education: Refurbishment and Maintenance of Government Schools	799,790	550,000	938,109	388,109
CAPITAL V: Ministry of Tourism				
Ministry				
Item 4 Restoration of the Auberge d'Italie	9,562	50,000	183,779	133,779
CAPITAL IX: Ministry of Public Works and Construction				
Ministry				
Item 4 Sewage treatment and reclamation	803,540	200,000	409,999	209,999
Item 12 Public Bldgs, Plant, Equipment: Restoration of forts, fortifications and historical places	123,297	150,000	300,000	150,000
Item 17 Qawra/Bugibba Project	1,973,983	500,000	750,000	250,000
Item 23 Roads: Sundry road improvements	399,984	800,000	1,041,094	241,094
Item 34 Land and Construction: Rehabilitation projects	-	400,000	655,933	255,933
CAPITAL XII: Ministry for Housing				
Item 3 Housing: Road formation and extension of water and sewer mains in H.O.S. areas	109,967	250,000	399,840	149,840
Item 4 Housing: Major repairs to Government tenements	679,889	400,000	549,360	149,360

Assets and Liabilities

According to Sub-section 67(j) of the Financial Administration and Audit Act the Accountant General *"shall prepare a statement of assets and liabilities of the government at the end of the financial year"*.

Not all government assets and liabilities are included in this Statement. The government accounting system is cash based and not accrual based. Assets such as immovable property, inventory, stock and debtors, and liabilities are consequently not included in the Statement. Furthermore, the net worth of Corporations and similar public institutions is not considered in this Statement.

The statement of Assets and Liabilities (*vide* Appendix I on page 236 of the Financial Report) may therefore be looked upon as a statement of end-of-year balances in the Treasury books which results from cash transactions in the public account during the year.

Loans made by Government

Balances and other details of all loans issued by government as on 31 December, 1998 (*vide* Appendix E on page 216 of the Financial Report) are summarised as follows:

		Lm
i)	Loans under Act II of 1956	9,937
ii)	Loans under Act VI of 1957	33,703
iii)	Loans under Act XI of 1988 (Ex-Posterity Fund Loans)	17,356,000
iv)	Other Loans	132,740,416
		150,140,056

Loans at (iii) were transferred to government on the winding up of the Posterity Fund in accordance with the provisions of the Central Bank of Malta Act, 1967 as amended by Act No. XI of 1988. The Fund was wound up on 31 May, 1988. A breakdown of these loans is shown hereunder:

	Lm
Malta Drydocks Corporation	7,056,000
Malta Shipbuilding Company Ltd.	10,300,000

Other Loans at (iv) include the following:

	Lm
Housing Scheme	64,003
Aids to Industries Scheme	188,788
MGI - (i) MDC - Investment in Industry	4,595,442
(ii) Malta Shipbuilding Co. Ltd	95,561,032
Malta Drydocks Corporation	1,039,711
Marsaxlokk Fishing Company Ltd.	121,927
Security in favour of Malpro Ltd.	1,000,000
Malta Drydocks Corporation	24,600,000
Gozo Ferries Ltd.	5,500,000

New loans issued by Government during 1998 amounted to Lm15,248,909. These loans were made to Gozo Ferries Ltd. (Lm5,500,000), Kalaxlokk Co. Ltd. (Lm375,000) and Malta Shipbuilding Co. Ltd. (Lm9,373,909). After deducting Lm2,450,141 loan repayments, the balance of loans as at 31 December, 1998 was Lm150,140,056 against Lm137,341,290 on 31 December, 1997, a net increase of Lm12,798,766.

It is to be noted that the above-mentioned balance of Lm95,561,032 in respect of loans made to Malta Shipbuilding Co. Ltd is in addition to the of Lm10,300,000 shown in respect of loans to the same Company under Act XI of 1988 (Ex-Posterity Fund). Interests outstanding on these loans as on 31 December, 1998 amounted to Lm29,466,463.

Moreover, up to December, 1998 an outstanding balance of Lm9,291,722 is shown under the Statement of Advances in Appendix L, page 261 of the 1998 Financial Report. This amount is in respect of a special advance made through the Director of Industry to Malta Shipbuilding Co. Ltd. in connection with the construction of ships.

Government also invested an amount of Lm 12,200,000 as share capital in respect of 12,200 shares (61%) in Malta Shipbuilding Co. Ltd.

In the case of certain loans to Industries through the Malta Development Corporation, no terms for repayment were stipulated in the Treasury Books. In December, 1990 the Secretary, Ministry of Finance informed this Office that it was not considered propitious at the time that terms of payment be stipulated and that action be taken through MIMCOL for the eventual collection of these loans. This Office is not in a position to report any progress being registered regarding the collection of these loans.

It was observed, however, that no repayments have been effected for a number of years in respect of the loans shown hereunder:

	Outstanding Balance ***Lm***	**Year of last Repayment**
Aids to Industries Scheme	188,789	1992
Tourism - Loans to Hotels	6,672	1991
Agriculture-Assistance to Co-operatives	41,600	1988

In the case of the loan amounting to Lm121,972 made to M'Xlokk Fishing Co. Ltd. in June 1987, it was noted that no repayments were ever made by the company. Efforts made by the Accountant General to collect this loan have to date proved fruitless.

Outstanding loan repayments and interest stood at Lm43,965,001 (of which Lm32,140,386 are outstanding interest payments) as on 31 December, 1998. A breakdown of this figure is shown hereunder:

	Lm
1. Loans to hotels	10,040
2. Loans to Industries	30,407,781
3. Malta Drydocks Corporation	859,194
4. Loan under Act XI of 1988 (Posterity Fund Loans)	12,499,000
5. Loan/Interest to M'Xlokk Fishing Co. Ltd.	188,986

Loan repayments amounting to Lm2,450,141 were made during 1998 by Maltacom (Lm303,555) and Malta Shipbuilding Co. Ltd. (Lm2,076,506). Moreover a loan of Lm70,000 made to Cross Continental Ltd. is also included under repayments as this loan was converted into share capital in the same company. This amount is shown under Investment in Industry in Appendix H1 - Statement of Other Investments - Financial Report 1998 page 235.

Investments

In the Statement showing investments held (Appendix H on page 226 of the Financial Report), the market value as on 31 December, 1998 is estimated at Lm201,584,374 as against Lm130,999,575 on 31 December 1997. This increase is due primarily to the privatisation of Maltacom plc. (Lm54,403,728) and the appreciation of shares in Bank of Valletta Ltd. (Lm4,136,318) and Mid-Med Bank plc. (Lm10,109,969).

When this appendix was verified against Treasury Books, the following discrepancies were observed:

- CBM USD Deposit Account (Courts): Book value and depreciation should read Lm139,967 instead of Lm265,398 and Lm4,946 instead of Lm130,377 respectively.
- E.U. Loan 'E': Nominal value should read 804,444 ECU instead of 901,060 ECU.
- Saudi Fund for Development Loan 1987: Book value should read Lm311,590 instead of Lm254,632. An amount of Lm14,031 should have been shown as depreciation instead of an appreciation of Lm43,013.

Other Investments

Other investments of a permanent nature, some of which earn revenue, are shown separately in the Statement of Other Investments (*vide* Appendix H (1) on page 235 of the Financial Report). At the end of 1998, the total of these investments is given as Lm31,788,030, inclusive of Lm30,288,030 invested in Industry through the Malta Development Corporation.

It should however be pointed out that a permanent debenture stock bearing interest at 6% per annum in respect of valuation of net assets passed by Government to the Water Services Corporation as on 20 January 1992 has not been issued in favour of Government by the end of the Financial Year 1998 in terms of Section 35 of the Water Services Corporation Act XXIII of 1991.

As this debenture stock has not been quantified, it could not be properly accounted for in the Treasury Books and shown under the Statement of Other Investments. As a result, the total shown as Other Investments as on 31 December, 1998 is short of the investment in the WSC.

The matter was brought to the attention of the Permanent Secretary, Ministry of Finance on 2 July 1998 in order to regularise the position. NAO was informed that the Debenture Stock Certificate was issued on 11 August 1999.

As agreed between the Water Services Corporation and the Government, the total net value of the assets that were transferred to the Corporation were valued at Lm31.4 million bearing interest at 6% per annum. This investment will feature in the Financial Report for 1999.

Investments in Industry amounting to Lm30,288,030 comprise government share-holding in eighty nine (89) different companies, some entirely financed by government, others are joint ventures with the private sector.

In 1988, the bulk of the investments made over the years through the Malta Development Corporation were transferred to Malta Government Investments Limited (M.G.I). A return submitted by this company to the Accountant General showed the total investment in seventy three (73) companies amounted to Lm29,579,390 on 31 December, 1998.

However it was estimated that the net book value of these companies only amounted to Lm9,216,442, after a provisional loss of Lm20,362,948 (value of companies under liquidation) was carried forward. The return also pointed out that thirty one (31) of these companies are undergoing liquidation procedures, five (5) have ceased operation, eleven (11) are just awaiting tax clearance before they can be struck off and two (2) never commenced operations.

The Statement of Other Investments also shows, under Enemalta Corporation, the titles of two holdings but omits their relative values (cfr. page 235 of the 1998 Financial Report). One of the holdings is in the form of a permanent debenture in respect of the value of assets taken over by the Electricity Division under Act XXIV of 1963 (Lm 5,309,382), while the other is a permanent capital contribution (Lm 524,999).

The investment certificates were inspected in terms of Para. 1 (b) of the First Schedule of the Auditor General and National Audit Office Act, 1997 and verified with:

- the Statement of the Board of Trustees appointed in terms of Section 42 of the Financial Administration and Audit Act, 1962;
- the Statement of Foreign Securities held at the Central Bank of Malta;
- the Treasury Allotment Register as regards the Local Development Registered Stock ; and
- the report dated 10 June 1999 by the Board of Survey appointed in terms of Reg. 98 of the General Financial Regulations, 1966.

Dividends on investments

According to a letter dated 12 April 1999 forwarded by M.G.I. Ltd. to the Accountant General, the dividends received for 1998 in respect of Investments in Industry amounted to Lm849,686. The dividends were received in respect of the companies shown hereunder:

Casma Ltd.	Lm100,000
Medigrain Ltd.	Lm710,410
Tug Malta Ltd.	Lm 39,276

However the amount of dividends received was inadvertently shown as Lm814,686 in lieu of Lm849,686 - *vide* Appendix H1 of the Financial Report page 235.

Moreover, although Lm849,686 were received as dividends, the amount passed to revenue as sundry dividends is shown as Lm79,258 - *vide* Appendix C of the Financial Report page 11.

This matter was brought to the attention of the Permanent Secretary, Ministry of Finance, who was requested to give the following information:

- A breakdown of the amount of Lm79,258 which was credited to revenue indicating the companies that paid these dividends;
- Whether the amount of Lm849,686 was credited to revenue and, if not, to give the reason why;
- If these dividends (Lm849,686) were retained by M.G.I. Ltd, whether prior approval was obtained from the Ministry of Finance;
- If the dividends were retained by M.G.I. Ltd. to be re-invested, whether certificates of this additional investment were issued and forwarded to the Accountant General.

To date, NAO is still awaiting a reply from the Ministry of Finance.

Advances

Appendix L on pages 260 and 261 of the Financial Report incorporates a detailed statement of balances remaining outstanding as on the 31 December, 1998 in respect of advances made to various Government Departments, agencies and organisations as well as to Government delegations proceeding abroad.

These assets (excluding unallocated stores and loans under Act VI of 1957) totalled Lm62,952,132 as on 31 December, 1998 as against Lm55,352,236 still outstanding on the 31 December 1997.

However when the contents of this appendix were verified against Treasury Books it transpired that total issues and repayments should read Lm33,246,377 and Lm25,646,481 respectively. The discrepancies in each case amounts to Lm6,486,231 which represents the issues and repayments in respect of Refund of Excess Credit shown under the C. & E. Tax Department. This amount was inadvertently excluded from the computations carried out.

The main outstanding advances were the following:

		Lm
i)	various advances made to government delegations in connection with visits abroad prior to January, 1993.	160,497
ii)	advance made to the Malta Development Corporation on 24 July, 1984 for the purchase of Verdala Hotel.	1,015,150
iii)	advance made to Permanent Secretary, Ministry of Finance to provide bridging finance facilities to Malta Drydocks Corporation during 1996.	4,650,583
iv)	advance made to the Director of Industry to meet expenditure in connection with the construction of ships at Malta Shipbuilding.	9,291,722
v)	advance made to the Works Division in the Ministry for the Environment to meet expenditure in connection with the construction of the new Air Terminal building.	934,167
vi)	advance made to Commissioner of Land to enable the Land Department to pay compensation to Tigne residents.	951,078

vii)	advance made to Ministry of Finance to enable him to advance to the Bank of Valletta Employees Foundation, the amount required for the purchase by the Foundation of 1,385,406 ordinary shares in Bank of Valletta Ltd.	1,558,582
viii)	advance made to the Ministry of Finance to meet expenses in preparation for and in connection with the holding of the Mediterranean Crans-Montana Forum Conference held in Malta in October 1995.	562,213
ix)	advance made to Ministry of Finance to provide the Malta Drydocks Corporation with the necessary funds for the settling of the Social Security Contributions due by the Corporation during 1995 as employer and in respect of employees, and also to provide bridging finance facilities to M.D.C. during 1995.	1,990,245
x)	four (4) advances made to Permanent Secretary, Office of the Prime Minister to provide bridging finance facilities to Malta Drydocks Corporation during 1997.	15,402,775
xi)	two (2) advances made to Permanent Secretary, Ministry of Finance and Commerce to enable him to support the operational cost of Enemalta Corporation during 1997.	9,590,000
xii)	Advance made to Commissioner of Inland Revenue to meet loans in terms of Section 4 of the Monte di Pieta' Act (No. XXXIX) of 1976.	518,598
xiii)	Advance made to Permanent Secretary, Ministry of Industry to enable him to effect payments required by the Malta Development Corporation for the construction of a new factory intended for Brandt International.	100,000

xiv)	Advance made to the Director of Agriculture to meet expenditure in connection with the importation of seed potatoes.	170,259
xv)	Advance made to Permanent Secretary, Ministry of Finance and Commerce to be utilised as a loan facility by the Maltacom Employee Foundation i.c.w. the purchase of ordinary shares in Maltacom plc on the lines of the Agreement dated 10 June 1998 entered into between the Government of Malta and the Maltacom Employee Foundation.	2,735,383
xvi)	Advance made to the Accountant General in order to be in a position to reimburse to revenue in the proper financial year the value of payments late received by way of proceeds from foreign sources in the form of grant funds in respect of 1998.	1,636,642
xvii)	Advance made to the Permanent Secretary, Office of the Prime Minister to provide bridging finance facilities to Malta Drydocks Corporation during 1998.	11,428,404

Notes on Advances made by Government

In the Report of the Auditor General of 1997 comments were made about outstanding advances made by Government from the Treasury Clearance Fund in terms of Section 37 of the Financial Administration and Audit Act, 1962.

Following our comments progress was registered and action was initiated to recoup some of the outstanding advances as stipulated by Reg. 89 of the General Financial Regulations, 1966.

However there are still some advances which as directed by the Minister of Finance, should have also been repaid. A list of these advances is reproduced hereunder:

Exported Potatoes 1992 - Lm59,799: this advance was made in 1992 and the Ministry for Food, Agriculture and Fisheries was instructed to account for and repay this advance out of proceeds from exports of potatoes during the subsequent seasons.

Construction of Ships at Malta Shipbuilding Co. Ltd. - Lm9,291,722: several advances were made for this purpose, the first one in 1991. The Director of Industry was directed to repay these advances when the Russian customer pays his dues or else when the ships are sold to third parties. Although the ships were sold, to-date these advances have still not been repaid.

Mediterranean Crans Montana Forum - Lm562,213: an advance of Lm220,000 and another of Lm402,587 were made in 1995 and 1996 respectively for the purpose. These advances should have been repaid out of proceeds from participants at the conference. To-date only Lm60,374 were repaid leaving an amount of Lm562,213 still outstanding.

Purchase of surplus locally caught fish for export - Lm35,786: when this advance was made in 1988, the Director of Agriculture was directed to repay this advance in due course out of Below-the-Line Account No. 8393, Fish Marketing Scheme. To-date this advance is still outstanding.

Conversion Works at Fort St. Angelo - Lm37,817: this advance, made in two payments effected in 1982 and 1983, should have been repaid out of monies recouped from Cottonera Properties Ltd. This company has since ceased operations and to-date this advance is still outstanding.

New Air Terminal - Lm934,167: when this advance was made in 1991, the Minister of Finance directed that the monies advanced are to be repaid by the Director of Works out of repayments made by Malta International Airport Co. Ltd. To-date it is still outstanding.

Public Broadcasting Services Ltd. - Lm13,958: this advance should have been repaid either out of funds that were being paid at that time to Telemalta Corporation or out of funds which will eventually be provided by Government. Although this advance was made in 1992, to-date it is still outstanding.

Euro Mediterranean Conference 1997 - Lm80,000: this advance was made to Ministry for Foreign Affairs to meet expenditure in connection with the holding of the Conference. Repayment had to be effected by funds emanating from European Union Contribution towards the financing of the Conference. To-date no repayments have been effected.

Enemalta Corporation 1997 - Lm9,590,000: this advance was to be repaid by Enemalta Corporation over a period of 2 years starting on 1 January 1998. To date, no repayments has been effected.

Purchase of Verdala Hotel - Lm1,015,150: this advance was made to the Malta Development Corporation on 24 July 1984 for the purchase of Verdala Hotel. This advance had to be repaid from funds received from the sale of the Hotel. Although this Hotel has since been sold, no repayments were received to repay this advance which to date is still outstanding.

Regulations Governing Advances

Regulation 89 of the General Financial Regulations, 1966 states that it shall be the duty of the Accounting Officers to see that such special advances are repaid as early as possible in the manner specified in the warrant.

In M.F. Circular No. 9/92, the Minister of Finance directed that *"in the case of Advance Warrants, the amounts advanced by the Treasury may not always be repaid by the end of the financial year in which the warrants are issued. However, the accounts* *have to be closed according to the repayment schedule stipulated in the warrants".*

This Office regrets to state that the Financial Regulations and the directives issued by the Minister of Finance are not always being followed as illustrated by the "Notes on Advances" already mentioned above.

Although it is primarily the responsibility of the Head of Department to timely account for these warrants, this Office feels that the Treasury, in conjunction with the Ministry of Finance, should monitor these advance warrants to ensure that they are accounted for and repaid as stipulated by the Minister of Finance.

It should finally be pointed out that, if for any reason these advances could not be repaid as directed in the warrants, the monies advanced would have to be written-off and funds be provided for in the Estimates of Expenditure to repay these outstanding advances.

The Permanent Secretary, Ministry of Finance, informed NAO that several outstanding advances, including some which were indicated in our report, will start being repaid out of the Consolidated Fund monies provided under the related Votes and through other sources.

Unallocated Stores

The book value of the unallocated stores held by:

(i) the Ministry of Public Works and Construction - Lm1,596,771;

(ii) Department of Information (Government Printing Press) - Lm320,209; and

(iii) Contracts Department (Central Supplies) - Lm1,253,1765.

are shown at Appendix M of the Financial Report and since they form part of the Assets of Government, are also included in the Statement of Assets and Liabilities.

Bank and Cash Year End Balances

The Cash in hand of the Public Account and other values held at the Treasury as at 31 December, 1998, were verified from the certificates given by the Board of Survey appointed for the purpose, who certified that the cash at night safe at the Central Bank of Malta amounted to Lm79,530. This balance agrees with the amount of cash in hand at the Treasury shown on page (i) of the Financial Report.

The Cash at Bank as shown in Treasury Books amounted to Lm5,864,286 (*vide* page (i) of the Financial Report). This could not, however, be verified as correct as a bank reconciliation statement was not drawn up by the Accountant General to confirm that the Treasury Books' bank balance agrees with the Central Bank's certificate dated 31 December, 1998. The Central Bank's certificate showed a balance of Lm15,087,157 in the Public Account (*vide* page (i) of the Financial Report).

Further audit comments on Treasury Reconciliation are made on pages 56 and 57.

Public Debt

On 31 December, 1998 the Public Debt (inclusive of Treasury Bills outstanding at year end) amounted to Lm761,591,707 (*vide* Appendix F on pages 217 to 220 of the Financial Report). This amount represents an increase of Lm100,186,859 over the corresponding figure for 1997.

This increase works out as follows:

	Lm
Total of New Loans	403,815,437
Total Repayment of Loans	(303,653,404)
Currency Adjustments	24,826
Net Increase of the Public Debt	100,186,859

The following payments in connection with the Public Debt were made out of the Consolidated Fund. (Vote 52 - Public Debt Servicing and Vote 50 - Ministry for Housing - Joint Office).

		Vote 52 - Public Debt Servicing	***Vote 50 - Ministry for Housing - Joint Office***	***Total***
		Lm	***Lm***	***Lm***
i)	Interest on loans	35,951,549	1,976,389	37,927,938
ii)	Interest on short term borrowing (Treasury Bills)	4,586,655	-	4,586,655
iii)	Contribution to Sinking Funds	11,318,500	500,000	11,818,500
iv)	Loan repayment: *'Massa Frumentaria' - Lm1,671* *'Sumitomo Bank' - Lm900,000*	901,671	-	901,671
		52,758,375	2,476,389	55,234,764

The amount of Lm900,000 in respect of Item 12 - Sumitomo Bank Ltd. is shown as *"loan repayment"* (*vide* Appendix D of the Financial Report, page 192). The repayment of this loan should therefore have been made directly from expenditure. Instead, the amount voted for *"loan repayment"* was transferred to the

Sinking Fund of this loan and the repayment was made from the Sinking Fund.

The amount of Lm21,252,771 shown as payment made out of the Sinking Fund (*vide* Appendix K of the Financial Report, page 250) is made up of:

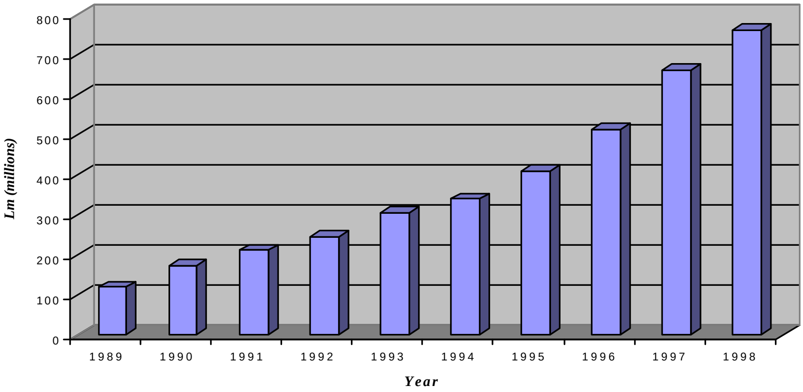
		Lm
i)	Payment of Local Loans	17,114,924
ii)	Payments of Foreign Loans	3,960,598
iii)	Loss on currency adjustments	177,249
		21,252,771

Changes in Public Debt since 1983

Year	Local Loans *	Foreign Loans	Total	Change over preceding year
	Lm	***Lm***	***Lm***	***Lm***
1983	27,463,168	42,408,837	69,872,005	(+) 9,849,857
1984	27,463,168	45,307,673	72,770,841	(+) 2,898,836
1985	27,463,168	42,523,931	69,987,099	(-) 2,783,742
1986	27,463,168	35,438,845	62,902,013	(-) 7,085,086
1987	56,739,332	29,841,496	86,580,828	(+) 23,678,815
1988	82,305,970	28,137,320	110,443,290	(+) 23,862,462
1989	92,453,568	26,889,039	119,342,607	(+) 8,899,317
1990	36,530,342	37,494,731	174,025,073	(+) 54,682,466
1991	166,927,555	44,706,884	211,634,439	(+) 37,609,366
1992	197,422,988	48,397,851	245,820,839	(+) 34,186,400
1993	254,289,976	50,479,865	304,769,841	(+) 58,949,002
1994	283,012,722	56,264,165	339,276,887	(+) 34,507,046
1995	355,820,170	53,432,607	409,252,777	(+) 69,975,890
1996	462,737,905	51,789,313	514,527,218	(+) 105,274,441
1997	610,956,313	50,448,535	661,404,848	(+) 146,877,630
1998	715,078,944	46,512,763	761,591,707	(+) 100,186,859

* Inclusive of Treasury Bills balances at year end

Public Debt (1989 - 1998)



Letters of Comfort/Bank Guarantees

The contents of the Financial Report are compiled in terms of Sub-sections 67(a) to 67(o) of the Financial Administration and Audit Act, 1962. These are shown as Appendices A to N in the 1997 Financial Report. Sub-section 67(j) of the said Act stipulates that a statement of assets and liabilities is to be drawn up.

No reference is made to Letters of Comfort/Bank Guarantees in the Act. These are neither mentioned in the Financial Report.

Although the Financial Administration and Audit Act does not refer to Letters of Comfort/Bank Guarantees, NAO contends that, being a form of contingent liabilities, these guarantees should still be included in the Financial Report, preferably as a note to the Statement of Assets and Liabilities.

In 1998 the Minister of Finance and Commerce issued a directive whereby no new Guarantees/Letters of Comfort were to be issued in the near future.

A detailed list of Letters of Comfort/ Bank Guarantees submitted to this Office by the Ministry of Finance and Commerce showed a balance of Lm513,034,618 as on 31 December, 1998 (against Lm518,213,921 as on 31 December 1997 and Lm 519,324,133 as on 31 December 1996). This amount was made up as shown in the Table on page 114.

Letters of Comforts/Bank Guarantees

Beneficiary	31.12.98	31.12.97	31.12.96*
	Lm	*Lm*	*Lm*
Air Malta Co. Ltd (Foreign)	49,141,984	55,856,687	61,282,040
Air Malta Co. Ltd (Local)	8,100,000	8,100,000	0
Malta Counter trade Co. Ltd	2,839,788	3,064,521	2,808,308
Malta Drydocks Corporation	40,379,746	51,626,095	56,479,404
Enemalta Corporation	62,116,582	80,195,569	73,866,977
Malta Gantry Manufacturing Ltd	11,361,851	9,561,017	7,695,347
Housing Authority	21,019,753	21,301,990	24,294,215
Malta International Airport Ltd	6,411,313	7,566,238	10,021,863
Lohombus Corporation	60,000,000	60,000,000	60,000,000
Master Antenna Ltd	0	145,856	142,809
Malta Development Corporation	4,433,186	4,033,298	4,003,783
METCO Ltd	2,789,862	2,890,878	2,789,862
Malta Government Investment Ltd	10,618,276	11,843,873	12,084,991
Pitkali Crates Ltd	0	0	977
Public Broadcasting Services Ltd	1,400,000	1,500,000	1,600,000
SGS Thomson Microelectronics (Malta) Ltd	2,800,000	6,799,097	9,460,755
San Lucian Oil Co. Ltd	288,124	597,046	903,682
Self Employment Scheme	30,000	50,000	206,000
Malta Shipbuilding Co. Ltd	4,140,350	7,620,935	5,249,071
VAT Fiscal Registers Co. Ltd	0	1,229,122	2,519,728
Water Services Corporation	30,271,602	27,665,949	28,330,783
Telemalta Corporation**	0	1,331,703	22,292,293
Win Cargo Containers Ltd	3,872,557	3,977,720	3,217,346
Youth Specialisation Studies Scheme	8,678	9,078	10,354
Gozo Channel Co. Ltd	0	492,761	3,044,888
Grand Hotel Verdala Ltd	0	0	124,344
Kordin Grain Terminal Co. Ltd	635,913	735,704	828,714
Freeport Industrial Storage Malta Ltd	837,105	913,450	1,018,673
Freeport Investments Ltd	815,299	904,239	1,032,792
Freeport Terminal (Malta) Ltd	101,621,405	82,893,746	77,212,183
Malta Freeport Corporation	14,501,807	18,011,285	21,094,777
Malta Government	19,927,310	21,404,616	24,510,529
Gozo Ferries Co. Ltd	47,700,619	22,314,836	0
Medigrain Ltd	516,285	0	0
Malta Desalination Services	2,342,863	1,504,967	0
Rotos Ziravia Pumps	0	56,000	0
Tripoli Sewage Treatment Plant	773,510	816,424	0
I.B.R.D.	1,308,160	1,167,412	1,167,412
M.I.G.A.	30,690	31,809	29,233
TOTAL	**513,034,618**	**518,213,921**	**519,324,133**

* Figures for 31.12.96 have been updated and amended.
** Since Telemalta has been privatised, all Guarantees have been cancelled.

Foreign Loans and Grants

Foreign grants received by Government in 1998 amounted to Lm10,043,452. No foreign loans were received during 1998 (*vide* Appendix C on page 14 of the Financial Report).

Revenue through reimbursement of expenditure on projects financed from foreign loans and grants shows a variation from the 1998 approved Estimates for the following reasons:

	Grant/Loan	**Budget 1998**	**Actual Revenue 1998**	**Variation**	**Explanations**
A	**GRANTS:**	***Lm***	***Lm***	***Lm***	
i.	E.U. Second Financial Protocol	327,000	206,804	(120,196)	Shortfall resulted due to slow implementation of Management of Natural Water Resources Project. Project was stalled since Government awaited an extension of the Financing Agreement from Brussels which was only granted recently.
ii.	E.U. Third Financial Protocol	350,000	208,315	(141,667)	Shortfall resulted mainly due to slow down in implementation of the projects relating to the Standards Laboratory and that of the Valletta Telephone Network which remains a non-starter. As for the latter project it has bow been confirmed that this could not be implemented for reasons beyond control.
iii.	Italy - Fourth Financial Protocol	9,700,000	9,628,333	(71,667)	The shortfall was brought about by adverse movements in the exchange rate. Around Lm93,000 which were expected to be re-imbursed in 1998 were actually disbursed by the Italian Authorities in April 1999. This, in spite of the fact that claims were submitted on time (i.e. by September 1998).
iv.	E.U. Fourth Financial Protocol	50,000	-	(50,000)	The amount of Lm50,000 appearing in the Estimates was included as a token figure since discussions on the Fourth E.U. Financial Protocol were still ongoing at the time. Contrary to what had been expected, no such agreements were in fact signed in 1998. As a result no expenditure can in fact be undertaken unless it is backed by the relative financing agreement.

B	**LOANS:**				
i.	C.O.E. - S.D.F. (Tal-Qroqq Hospital Project)	5,000,000	-	(5,000,000)	The total Loan facility provided by the SDF amounts to Lm26 million representing 26% of the estimated value of the project. In December 1998 SDF informed the Ministry of Finance that "in view of the delays in the implementation of the project and taking into account that with total disbursement so far of Lm5 million, i.e. about 33.7% of total expenditure incurred, the fund is currently over-stretching its financial participation, the disbursement of the third tranche would be premature". Hence the loan facility could not be availed of during 1998.
ii.	E.U. Third Financial Protocol (Sewerage Project)	75,000	-	(75,000)	The amount of Lm75,000 indicated in the Estimates were actually received at the end of 1997 when the whole loan facility was availed of.
iii.	E.U. Third Financial Protocol (Air Traffic Services)	1.300,000	-	(1.300,000)	A slow down in implementation of the project by Civil Aviation led to the project not being carried out by the deadline indicated in the loan agreement. In May 1998 most of the operations of the Civil Aviation were transferred to MIA. As this project did not feature high in the priority list of MIA and the deadline to implement the project (June 1998) was fast approaching, the loan facility had to be cancelled. However an equivalent savings of Lm1.3 million were made under the Civil Aviation expenditure vote so there was no adverse effect on the overall deficit.
iv	E.I.B. - (Sewerage Project II)	50,000	-	(50,000)	For various technical reasons the implementing Department was unable to carry out the project and so no disbursement could be effected.
v.	Other Foreign Sources (Tal-Qroqq Hospital Project)	5,000,000	-	(5,000,000)	In view of the delays in the implementation of the project which resulted in a substantial decrease in expenditure, there was no need to raise loans amounting to Lm5 million from "Other Foreign Sources"

Statement of Abandoned Claims, Cash Losses and Stores Written Off

Appendix N on page 263 of the Financial Report, 1998, reproduced hereunder, is a Statement of Abandoned Claims, Cash Losses and Stores Written Off for 1998.

Statement of Write Offs - 1998

Department	Abandoned Claims	Stores Written Off	Cash Losses	Total
	Lm	*Lm*	*Lm*	*Lm*
Armed Forces of Malta	17,136	74	-	17,210
Customs	-	2,318	37	2,355
Customs and Excise Tax	69	-	30	99
Education	58	1,354	-	1,412
Gozo	-	84	-	84
Imports and Domestic Commerce	7,083	-	-	7,083
Information	631,930	-	-	631,930
Inland Revenue	602	-	149	751
Land and Construction	503,703	-	30	503,733
Min. for Housing (Joint Office)	-	-	10	10
Ministry for Social Welfare	60	-	-	60
Ministry for Agric. & Fish.	-	723	20	743
Min. of Foreign Affairs & Env.	75	-	22	97
Ministry of Health, Elderly & Family Affairs	-	342	-	342
Min. of Public Works & Const.	2,378	309	-	2,687
Museums	-	-	1,334	1,334
Police	-	-	60	60
Public Lotto	-	-	24	24
TOTALS	**1,163,094**	**5,204**	**1,716**	**1,170,014**

No explanations or details on the entries are given in the Statement of Write-Offs.

It has been remarked by this Office in previous Audit Annual Reports that besides details of the extent, an explanation on the nature of the write-offs should also be included in the Financial Report.

From examinations carried out it resulted that:

a) the amount of Lm 17,210 under the **Armed Forces of Malta** covers mainly 110,858 litres of fuel costing Lm 17,136 supplied to the then Ports Department during the years 1984 and 1986;

b) Claims amounting to Lm 7,083 against five student workers who did not comply with their contract obligations with the **Department of Imports and Domestic Commerce (Trade)** were written-off since the amounts became prescription barred;

c) Lm 631,930 shown under the **Department of Information** covers claims issued by the Government Printing Press, a Cost Centre of the Department of Information, on the Department itself for jobbing charges related to the printing of the Government Gazette. The amount written off covers the period 1994 to 1997;

d) The amount of Lm 503,733 is shown as having been written off under the **Department of Land and Construction.** This amount comprises a sum of Lm 97,230 which was due as rent by Ministry of Agriculture and Fisheries for the years 1990 to 1998; Lm 400,000 being rent due for the year 1997 in respect of Dock No. 6 in terms of the 1989 agreement between Government and Malta Drydocks; and an amount of Lm 4,364 representing rent of a shop to a company in City Gate, Valletta, for period July 1982 to May 1984;

PART VI - VALUE FOR MONEY AUDITS & OTHER REPORTS

This Part consists of Value for Money audits and other reports in terms of Sub-paras. 8(a) and 9(a) of the First Schedule of the Auditor General and National Audit Office Act, 1997. These reports relate to specific functions or results obtained by an entity under review.

Performance Indicators

Para. 3, sub-paras. 6(iv), 6(v) and 8(i) of the First Schedule of the Auditor General and National Audit Office Act refer to value for money audits and satisfactory procedures in place which facilitate such audits.

Value for Money audits, in most cases, rely considerably on the use of benchmarks and other performance indicators of activities carried out by the audited bodies.

In countries with developed public sector management systems, Supreme Audit Institutions are in the stage of auditing and challenging existing benchmarks within central government organisations. Locally, such benchmarks or other relevant indicators are usually lacking. When carrying out Value for Money audits NAO often has to compute benchmarks and other relevant indicators on behalf of auditee.

The 1996 and 1997 Audit Reports have already referred to the lack of, or insufficient, performance indicators within government Departments. In those reports it was stated that Ministries and Departments should start adopting performance indicators at their various levels of their organisations as these would serve as a strong management tool in planning and controlling their activities.

An effort will be made during the coming year so that government Ministries and Departments would be encouraged to generate and uphold their own performance measures.

Inland Revenue Department

An analysis of income tax arrears as at end December 1998

Executive Summary

The official level of tax arrears as on end December, 1998 stood at Lm161.7 million of which only Lm50 million are considered recoverable by the Inland Revenue Department. Even so, the level of arrears is untenable and costly.

There are thousands of taxpayers who have not had their income tax assessed for several years even though returns were submitted. On the other hand, thousands of objections to best of judgement assessments still have to be addressed. These two conditions render the outstanding arrears as provisional.

Cancellation of Lm69 million worth of tax arrears made during the three years, 1996 to 1998, had little significant impact on the level of arrears. NAO awaits explanations concerning these cancellations.

The Department lacks established policies and criteria for effective targeting of arrears and objections. According to the Department, its only policy is to keep the safeguard of revenue as a priority in dealing with objections in general. However, prioritising arrears in terms of practicality of enforcement and size of debt should increase the rate of return for the Department and reduce arrears expeditiously.

The information system in place at the Inland Revenue Department has serious limitation in generating adequate

analyses and management reports on tax arrears. This restricts the Department's ability in formulating and implementing an adequate policy aimed at addressing tax arrears more effectively.

107,577 or 46% of all taxpayers have a debit balance with the Inland Revenue Department as on end December, 1998. However, 13% of all taxpayers owe 83% of total arrears due. This audit work has identified major defaulters in tax settlement.

There are 256 companies and 83 self employed who have debit balances exceeding Lm50,000 when the average debit balances for these categories are Lm8,353 and Lm2,410 respectively. The Department should be in a position to know the reasons behind these relatively excessive debit balances in order to uphold fair competition and the principle of equity where collection of taxes is concerned.

It was recommended that the Inland Revenue Department should update and rationalise tax arrears and upgrade the information system on arrears currently in place. The Department should have a better insight on the source and structure of arrears. Following this, the Department should formulate and implement policies for targeting arrears more effectively. It should also plan its operations by determining quantitative objectives with a final aim of reaching an acceptable tax arrears to tax revenue ratio. Furthermore, it should start informing the public of its endeavour to promote equitable tax collection.

Introduction

One area of concern regarding the operations of the Inland Revenue Department is the current level of tax revenue arrears.

Previous audit reports on the subject have focused on the changing levels of the arrears and objections raised by the taxpayers against their debit balances. It has been felt that income tax arrears, which make up 66% of all current revenue arrears due to Government, should be analysed further in order to give a deeper insight on the matter.

Recent legislative and administrative thrusts have led to a new interest aimed at reengineering the Inland Revenue Department in order to render it more efficient in its core function, tax collection.

The introduction of the withholding tax at source on bank savings, dividends and overtime work, the introduction of the Final Settlement System, self assessment and effective penalties for non compliance are bound to have a positive effect on the level of arrears in the future. This should become more evident after the backlog of assessments for years prior to 1998 is cleared and tax due from these is collected. With the new thrusts in place the Department could be in a position to focus more intensely on clearing arrears.

This audit work is an investigation of income tax arrears designed to analyse their source and structure and to draw attention to weaknesses in their control. Improvements in this regard are recommended.

Collection of income tax arrears

The collection of income tax and the administrative machinery for such collection is regulated by the Income Tax Management Act, 1994. Critical sections of this Act, which may have direct adverse effect on arrears in tax revenue if diligence is not constant, are Sections 31 (1) and 47. These Sections impose an eight year time bar during which the Commissioner of Inland Revenue can recoup outstanding tax balances which are final and conclusive and which are not under objection or appeal.

However, the recent legislative and administrative thrusts on tax collection mentioned above have rendered costly any delay in tax settlement as from year of assessment 1999.

The Collection and the FSS Sections falling under the responsibility of the Director Administration and Enforcement are directly responsible for the collection of arrears. While the former's responsibility is to chase taxpayers for settlement of arrears, the latter is after tax which, although paid by employees, is withheld by the employers.

When chasing debtors, the Sections issue demand notices, judicial letters and garnishee orders depending on the response of the defaulter**.**

The Department informed this Office that there is no established criteria applied to the selection of objections (to best of judgement assessments) to be addressed. The unofficial criterion is the first in first out basis. However, this criterion is not adhered to as most objections are addressed on request by taxpayer. The Department said however, that it always keeps the safeguard of revenue as a priority in dealing with objections in general. This Office is of the opinion that safeguards are best ensured when clear criteria on the matter are in place.

Tax arrears collected between 1994 and 1998 were as follows:

1994	Lm5.3 million	4.1% of outstanding debt
1995	Lm7.4 million	4.8% of outstanding debt
1996	Lm12.3 million	7.7% of outstanding debt
1997	Lm15.1 million	8.9% of outstanding debt
1998	Lm13.7 million	7.9% of outstanding debt

Arrears collected have more than doubled in absolute terms over these five years. Although the rate of recovery has also doubled from 4.1% to 7.9%, it is still considered low.

The level of tax revenue arrears

The Department explains these arrears as all income tax still due for assessments raised since 1949. Yet this is not a straightforward figure. It needs further qualification.
The first is that not all taxpayers have had their income assessed for tax purposes up to December, 1998. There are tens of thousands of taxpayers who, for various reasons, have not yet had their income tax assessed for several years even though they had

submitted their income declarations. These assessments, when carried out, are bound to inflate the tax debit balance.

Secondly, against the book balance of Lm161.7 million one has yet to set off any overpayments of tax held in suspense for years in respect of which assessments have not yet been raised. Thirdly, claims of settlement tax not legally due and the difference resulting from the revision of best of judgement assessment following the settlement of objections are bound to reduce the book balance mentioned above.

In the NAO Report for 1997 it was reported that according to an exercise carried out by the Department of Inland Revenue, the actual amount of outstanding arrears could amount to around Lm50 million against the assumed book debit balance of Lm166 million as on end December, 1997.

This Office is not in a position to challenge this guesstimate. However, it can refer to the level of tax reductions arising out of tax reassessments following objections conceded over the last ten years. The results are given in Table 1.

These results highlight two issues. The first is that tax arrears revised during these last four years have been reduced by more than 50%, reaching 80% and 72% in years 1996 and 1998 respectively. The Department failed to submit information to support and explain these large tax cancellations which, if left unexplained, raise serious concern.

Secondly, high tax reductions amounting to Lm69 million in the last three years did not have any significant impact on the level of tax arrears. These remained at a high Lm161.7 million at end 1998. This proves that there is an internal structural problem which keeps bloating tax arrears. However, the new legislative and administrative thrusts in place are bound to reduce pressure on the level of tax arrears.

Table 1: Tax assessments revised for the last ten years

Year	Tax Arrears as at the end of the year	Tax Arrears Revised during the year	Tax reduced during the year by	Tax reduced as a % of Value of Tax Revised
	Lm	*Lm*	*Lm*	
1989	108,169,865	2,159,423	1,151,024	53%
1990	112,725,033	10,568,861	3,073,669	29%
1991	117,526,828	10,591,636	4,209,524	40%
1992	122,597,073	6,277,066	2,031,746	32%
1993	129,298,365	6,823,145	3,478,969	51%
1994	152,646,258	13,671,367	5,187,986	38%
1995	160,777,286	14,811,251	8,003,888	54%
1996	167,963,403	26,729,735	21,422,109	80%
1997	172,474,607	41,321,279	22,404,962	54%
1998	161,689,725	35,031,500	25,269,507	72%

The problem of trying to arrive at a more realistic figure of tax revenue arrears is further compounded by the fact that the data collection system in place is limited in scope and restricts the level and type of management reports on arrears that can be generated. The system does not allow one to differentiate between arrears not in dispute and those under objection, arrears arising out of declarations and those from ex officio assessments and arrears due from employers and those from employers on behalf of the employees. Other relevant information on the taxpayer is also not readily available.

Trying to elicit the actual amount or a realistic figure of arrears due is highly elusive.

In order to simplify matters and enable one to get at some conclusions on the source and structure of the tax arrears, this audit work will consider the level of income tax arrears as that given by the Department for year ending December, 1998.

Following the interrogation of electronic tax data supplied by the Inland Revenue Department, the ensuing findings were realised.

Findings

Who owes what

Table 2 below gives a bird's eye view of tax arrears by major categories of taxpayers. Clubs, church entities, non residents and temporary residents were not included in this exercise. The categories of taxpayers in Table 2 account for 91% of all taxpayers and for 96% of total tax arrears. The number of taxpayers in each category with a debit tax balance and the average debit per taxpayer are the central themes in this Table.

TABLE 2: Comparative analysis of average tax due per taxpayer for the major categories of taxpayers.

Category of Taxpayer	No. of Taxpayers	No. of Taxpayers with Debit Balance	% Taxpayers with Debit Balance	Total Debt	Average Debit for Taxpayers with Debit balances
				Lm	*Lm*
Public Sector Employees	57,104	30,092	53%	12,071,617	401
Private Sector Employees	83,014	38,115	46%	20,994,228	551
Pensioners	50,091	13,880	28%	8,416,695	606
Self Employed	26,968	16,590	61%	39,988,414	2,410
Companies	15,208	8,900	59%	74,342,962	8,353
TOTAL	**232,385**	**107,577**	**46%**	**155,813,916**	**1,448**

46% or 107,577 taxpayers in these categories have a debit balance with the Inland Revenue Department. Those categories which have more than 50% of the taxpayers in their fold with an outstanding tax balance include the public sector employees (53%), the self employed (61%), and companies (59%). On the other hand, only 28% of pensioners are in arrears.

The average tax due by self employed and companies with debit balances stands at over Lm2,000 and Lm8,000 respectively.

Focusing on major defaulters

The audit continued to focus on the findings exhibited in Table 2 above. The aim was to identify those taxpayers in each of the major categories who carry the bulk of tax arrears. The first step was to extract those taxpayers with a net debit balance that is, those taxpayers whose debit balance for years for which they have been assessed is larger than their credit balances or tax paid for years for which they have not yet been assessed. The second step was to apply debit thresholds to these net debtors as follows: a debit balance of Lm250 and over in the case of employees and pensioners, Lm500 in the case of self employed and shareholders and Lm1,000 in the case of companies. The results are given in Table 3 below.

TABLE 3: The source of the bulk of tax arrears

CATEGORY OF TAXPAYER	Net debtors with debit >Lm250	Net debtors with debit >Lm500	Net debtors with debit >Lm1000	Debit value Lm
Public Sector Employees	8,764			8,282,938
Private Sector Employees	9,457			16,529,899
Pensioners	3,990			7,420,150
Self Employed		7,352		36,064,216
Companies			4,649	65,184,082
Total	**22,211**	**7,352**	**4,649**	**133,481,285**

The results show that there are 34,212 taxpayers in the main categories with debit balances amounting to Lm133.5 million. In other words 13.4% of all taxpayers in all categories (254,225 taxpayers, end 1998) owe the Inland Revenue 83% of all tax arrears accruing since 1949 (Lm 161.7 million, end 1998).

Table 3 also shows that 22,211 or 11.7% of employees and pensioners owe Lm32.2 million or 20% of total tax arrears. On the other hand, 7,352 or 27.3% of self employed owe Lm36.1 million or 22% of arrears, while 4,649 or 52% of companies owe Lm65.2 million or 40% of all tax debits as at end 1998.

Tax arrears arising out of business activities (self employed and companies) amount to Lm101.2 million out of Lm133.5 million due by major defaulters as per Table 3.

The business sector

The business sector is being defined as self employed and companies. To study further this sector we extracted those taxpayers falling within these two categories who were net debtors to the Inland Revenue and with a debit balance greater than Lm50,000.

The results from this exercise show that there are 256 companies with a debit balance greater than Lm50,000. The debit balances of these 256 companies range from a minimum of Lm50,000 to a maximum of Lm337,119. On average, these companies owe the Department Lm95,140 each in tax arrears.

As for self employed, there were 83 taxpayers with debit balances ranging from Lm 50,000 to Lm325,062. The average tax due by these taxpayers stood at Lm99,210.

The number of companies and self-employed with these relatively large debit balances, much larger than the average debit balances for their categories as seen in Table 2, is small when related to the number of taxpayers in their respective categories. However, it is large enough to generate some concern.

It is true that, as already explained, these balances may eventually be drastically reduced by reassessments following pending objections. In fact, the 256 companies in this exercise have collectively more than 1500 years of assessments under objection.

On the other hand, these large average debit balances could be of normal magnitude when correlated to the size of operations of the relative businesses. They may also be the result of astute business units taking advantage of the slack, real or imaginary, that exists in the collection of income tax to the detriment of fair competition.

However, they may also reflect economic and/or financial difficulties being faced by the units concerned.

Whatever the case, NAO is of the opinion that the Inland Revenue Department should be in a position to understand the behaviour or reasons underlying these seemingly excessive taxes due by business units.

Conclusions

The Inland Revenue Department considers a large portion of the income tax arrears as fictitious due to various reasons which range from unrealistic best of judgement or ex-officio assessments to errors committed during data entry.

The actual income tax due, given the qualifications discussed earlier in this report, lies somewhere between Lm50 and Lm161 million. Whatever the amount, this constitutes an excessive tax arrears to tax revenue ratio.

An annual recurring tax arrears amounting to Lm50 million is untenable. Even at this conservative estimate, Government is foregoing Lm3 million per annum in interests at the rate of 6% per annum.

Notwithstanding a cancellation of tax arrears amounting to Lm69 million during the last three years, the outstanding tax arrears remained excessively high. The Department should explain the approach and techniques applied to the cancellation of tax arrears.

This audit work has identified the taxpayers that carry the bulk of income tax arrears; 13% of the taxpayers owe the Inland Revenue Department 83% of arrears.

The Department lacks a clear policy on targeting appropriate clusters of arrears and/or objections. One of the reasons for this shortcoming may be the limitations found in the information system in place.

The information system on tax arrears at the Inland Revenue Department is limited in scope. One glaring shortcoming is its inability to identify tax arrears not in dispute. However, appropriate use of the information system currently in place can still allow the Department to formulate a policy, however basic, aimed at a more effective collection of arrears.

There are relatively large debit balances attributed to a relatively small number of business units. The Department should be in a position to know the reasons behind these relatively excessive debit balances. This will enable the Department uphold fair competition and the principle of equity where collection of taxes is concerned.

Recommendations

1. The Inland Revenue Department should update and rationalise its arrears by:

- clearing its backlog of thousands of taxpayers who have not had their income assessed for several years;
- classifying its arrears by tax not in dispute and that under objection;

- rank arrears under objection according to probabilities of recouping such arrears.

These measures are bound to provide a clearer assessment of the actual amount due.

2. The Department should update and upgrade its management information system to enable it to generate adequate analyses and management reports on tax arrears.

3. With an adequate information system in place, the Department should formulate and implement policies and criteria for effective targeting of arrears and objections: i.e. prioritise debts on the basis of size and amenability to practical enforcement action.

4. The Department should plan its operations by setting quantitative targets for arrears collection. The long term objective of such a plan should be an acceptable tax arrears to tax revenue ratio.

5. The Department should be in a position to understand the reasons behind large tax debits and should act according to policies in place while applying the principle of equity where tax collection is concerned.

6. The initiatives and achievements realised by the Enforcement Directorate at the Inland Revenue Department should be given adequate publicity for the benefit of society, the Department and the debtors themselves.

MINISTRY OF FINANCE AND COMMERCE

Inland Revenue Department

Investigation/Research Section

Executive Summary

Tax evasion is a social concern. The Investigation/Research Section at the Inland Revenue Department carries out investigations of taxpayers to determine whether there are cases of under-declared income and reassess tax due accordingly. The objective of this audit is to determine the efficiency and effectiveness of the Investigation/Research Section in combating tax evasion.

Investigating taxpayers for tax compliance has been carried out regularly over the years. However, for a number of years the Inland Revenue Department gave low priority to investigations. In January 1998 a small Section was again formally set up to investigate and research tax evasion.

Notwithstanding official statements on the restructuring and strengthening of the Investigation Section, no other significant improvement was recorded during the last two years.

The Section lacks a strategy. It lacks planning, adequate and trained staff, policies on targeting tax at risk and methodology on how to identify tax evasion and reassess tax due. The Section is reactive by design and lacks direction.

During the 19 month period, January 1998 to July 1999, the Section carried out a full investigation on 48 taxpayers, 45 of which proved positive; i.e. under-declared their income. 24 of these were settled with an agreement with the relative taxpayers and Lm241,373 additional tax revenue was recouped uncontested. The other 21 successful investigations were concluded with a best of judgement assessment, which can be objected to by the taxpayers concerned. There was no case of under-declared income in the other 3 cases.

The Section takes roughly slightly less than 2 man months to finalise an investigation and its rate of return is Lm1 additional tax revenue for every 18 cents spent on its operations. By UK standards, the labour output rate of the Section is low while its cost efficiency on successful investigations is satisfactory. The satisfactory cost efficiency level may have been due to an optimal choice of taxpayers investigated and/or that tax evasion in Malta is wider and deeper than in the UK. It is doubtful whether the Section was effective in increasing tax compliance and in addressing tax evasion.

The Department never carried out research to determine the type and extent of tax evasion in Malta. Statements on tax evasion are speculative and not based on researched data.

There is room for expanding the operations of the Section. The Department has to determine a strategy on how to combat tax evasion while an Investigation Section must have clear policies and techniques on how to carry out investigations.

The Section should upgrade and build on the benchmarks/indicators included in this report in order to start controlling its output. It should also start organising a database on the results of its operations. This will eventually enable it to identify tax at risk with ease and combat tax evasion more efficiently and effectively.

Introduction

A specific function of the Inland Revenue Department is investigating taxpayers for tax evasion. This function is the responsibility of the Investigation/Research Section which carries out investigations referred to as ***full investigations***.

Our society is concerned with tax evasion. Government endorses this concern. The fact that there is a relatively small number of taxpayers who declare income above certain income thresholds annoys both the authorities as well as society at large.

The Minister of Finance was quoted in Parliament that since the operations of the Department of Inland Revenue are not considered to be as effective as desired, he preferred to speak of re-engineering targets, concepts and even staff. (House of Representatives, S.49 – 13.1.99)

On page 127 of the Audit Report for 1997, it was reported that *"The (Inland Revenue) Department has recently informed this Office that more personnel were being deployed on audit and investigative work. Cases for investigation are now being selected under different criteria, and a new approach to audit and investigative techniques is being adopted. The Department is also making use of data available to the CET (now VAT) Department through direct access to the latter's network"*

In business plans covering 1998/2001 it was stated that the Inland Revenue Department would deploy experienced staff on investigative audits aimed at a more equitable collection of tax from high revenue earning taxpayers.

On page 166 of the 1999 Estimates, it was stated that the Inland Revenue Department 'will continue to develop systems aimed at ensuring a more effective collection of revenue and at combating tax evasion' and 'to deploy experienced staff into investigative audit to tap new sources of revenue and combat tax evasion'.

The Scope and Methodology of the Audit

Tax evasion can be the result of various factors. It may be due to the general belief that there is slack in the operations of tax collecting, due to lack of enforcement or due to ineffective legislation against evaders. Whatever, tax evasion can be defined as non-compliance with tax legislation.

The broad audit problem that should be addressed is to determine the effectiveness of the Inland Revenue Department in increasing the level of compliance by taxpayers in declaring realistic non-salaried taxable income. However, the specific audit problem addressed by this work is to determine the efficiency and effectiveness of the Investigation Section in combating tax evasion on non-salaried income.

This report will also attempt to evaluate whether the strategies, policies and objectives, quoted in official statements mentioned above, have been realised or not.

The audit was targeted on the planning, structure, policies and output of the Section. Quantitative data on input and output for the period January 1998 to July 1999 was utilised where available. Most of the information for this audit was gathered through interviews and correspondence with the top management of the Inland Revenue Department, the manager and the two most senior investigators at the Section. Plans and reports on the Inland Revenue Department were also referred to.

The Investigation/Research Section

The Inland Revenue Department identifies three types of investigations. These are *full investigations* which are slow moving processes involving the collating of information from various sources on taxpayers under review, *partial enquiries* on business statements of sole traders and *verification of trade records* of Companies and Partnerships. While the Investigation/Research Section carries out ***full investigations*** on taxpayers, there is no evidence that the Section, as its name implies, carries out any research related to income taxation and evasion.

In an organisation chart dated 1995, the Investigation Section was assumed to consist of a manager, 6 assessors/investigators and 10 research and supporting staff. However, for a number of years the role of the Investigation Section was diminished and it consisted of only one investigator. Eventually, in January, 1998 the Section was strengthened and given a structure similar, albeit smaller, to that shown on the Department's organisation chart.

The legal provisions for investigations on taxpayers are provided by various Sections of the Income Tax Management Act. Sections 13 and 14 deal with information which can be requested from the taxpayer himself. Section 16 deals with information on the individual taxpayer which can be requested and obtained from other government Departments while section 24 deals with information on the individual taxpayer obtained from the Social Security Department. Section 20 allows the Commissioner of Inland Revenue to go in business premises and observe proceedings but cannot directly check books of account and elevate any information.

It is pertinent to point out that, with the exception regarding income earned from investment (Income Tax Act, Section 34), collective information, as different from information on the individual taxpayer, cannot be obtained from government Departments or other sources due to the Professional Secrecy Act. For example, the Inland Revenue Department cannot request the Licensing and Testing Department at the Ministry for Transport and Communications to supply it with the names of the owners of expensive and luxury cars imported during a particular year. This restriction is bound to limit the focusing on tax evaders.

Penalties on under declaration of income for income tax purposes are regulated by section 56 (12) of the Income Tax Act. Under this provision the taxpayer is charged to pay the shortfall in tax due and an additional penalty which when combined amounts to a maximum of 300% of income tax due from under-declared income. However, the discretion of the Commissioner of Inland Revenue to re-consider objections and reduce penalties renders this provision ineffective. As from year of assessment 1999, through the newly introduced self-assessment regulations, penalties for non-compliance are regulated by the Act itself and are not revisable.

Findings

The structure and staff of the Section

The Section consists of a manager, 5 assessors/investigators and 3 research and supporting staff. Another two investigators were temporarily employed for a few months during the period under review, January 1998 to July, 1999. Between them, the 5 investigators currently in place have 80 years work experience at the Inland Revenue Department. Only one of the investigators has been employed the full period covered by this report.

The staff was never given training on investigating tax evasion. Moreover, the investigators lack official and formal guidelines and/or methodology on how to carry out an investigation. Their basic tool or approach is the analysis of the capital assets accumulated over time by the taxpayers under investigation.

On the other hand, they have to deal with qualified and professional auditors who challenge their conclusions on behalf of their clients. Motivation is very low and *esprit de corps* is completely missing.

Intensive high level discussions on the reengineering of the Inland Revenue Department are in process. This Office was informed that the Investigation Section was being considered as a critical aspect of this reengineering exercise. To date no additional information was received from the Department on any new developments envisaged for the Section.

Planning and Control

The Investigation Section does not plan its work. It does not set any quantitative objectives on how many taxpayers from each category should be investigated over a time period. It neither adopts any policies in determining the parameters against which to select the taxpayers to be investigated. The Section lacks direction.

The Section is reactive in its approach to work. In the large majority of cases, the Section awaits for a trigger from its external environment in order to start an investigation. In fact, an investigation is initiated when any of the following occurs:

- anonymous information (letter or phone calls)
- newspaper reports
- information from other sections of the Inland Revenue/Ministry of Finance
- information from other investigations
- a direct request by the Commissioner of Inland Revenue

Two outcomes can arise following a successful investigation of a taxpayer. The first is that an agreement is reached with the investigated taxpayer on tax excess to be paid over and above that arising out of the originally declared income. The second is when a best of judgement assessment is issued. This arises when additional information requested from the taxpayer is not submitted within a reasonable time. However, there are cases when the taxpayer co-operates and produces all information required but then refuses to come to an agreement on the resulting amount of tax evaded. In either case the taxpayer can submit an objection to these best of judgement assessments.

The Investigation Section does not follow up the settlement of tax excess arising out of an investigation. This remains a function of another section referred to as the Collection Section within the Administration and Enforcement Directorate. However, the Investigation Section itself pursues the objections received against best of judgement assessments arising out of its own investigations.

The Section lacks adequate information on the extent and type of tax evasion. The Section does not collect and organise data from historical successful investigations for eventual use in other investigations. It lacks methodology and risk assessment techniques on how to identify and quantify tax evasion. It lacks benchmarks against which it can evaluate its output. Given these characteristics, the Section cannot control its output.

The output for period January 1998 to end July 1999

It has been on the insistence of this Office that operating results for the nineteen-month period, January 1998 to July 1999, were compiled. It emerged that there was a demand for 105 investigations since the beginning of 1998. As on July 1999, 48 of these were finalised during the period under audit, 32 cases were in hand and 25 were awaiting their turn when work on them could be initiated. The results for the 48 concluded investigations are given in the following Table.

Results of investigations for period January 1998 and July 1999

	Number of cases	Chargeable income in excess of income declared	Tax (inc. additional tax) in excess of tax declared
		Lm	*Lm*
Concluded with an agreement with the taxpayer	24	724,663	241,373
Concluded with a best of judgement assessment	21	2,988,801	2,214,853
No case	3	-	-
Total	**48**	**3,713,464**	**2,456,226**

The 48 taxpayers fully investigated consisted of 7 (out of 15,000) companies, 35 (out of 27,000) self employed, 4 (out of 140,000) employees and 2 (out of 50,000) pensioners. The results show that an additional Lm2.45 million in tax revenue could be realised following these investigations. However, only Lm241,373 of this additional tax revenue is uncontested and based on agreements reached between the Department and 24 of the taxpayers which were successfully investigated. Another 21 cases were concluded with a best of judgement assessment which can be objected to by the taxpayers concerned. To date only one objection was received from these taxpayers. There was no case of under-declared income in the other 3 cases.

As stated elsewhere in this report, tax excess charged to taxpayers and concluded with a best of judgement assessment can reach up to 300% of tax due from under-declared income. This explains the large amount of tax excess claimed by the Section following its best of judgement assessments. However, up to year of assessment 1998, the discretion of the Commissioner of Inland Revenue to review tax excess charged, including penalties, renders the final and actual tax excess due from best of judgement assessments much lower than that determined in the first place.

Since the number of investigations carried out by the Section is small and was not randomly selected, one cannot elicit a picture of the type and extent of tax evasion in Malta. It would be futile to try to analyse further the information on the tax evaders listed above. This Office is concerned that the Investigation Section or/and the Department does not have adequate data and information on tax evasion which will enable it to focus its efforts more effectively and efficiently on high risk areas of tax evasion.

Efficiency and Effectiveness of the Section

As stated above, the specific audit problem for this work is to determine the efficiency and effectiveness of the Investigation Section of the Inland Revenue Department in combating tax evasion on non-salaried income.

Efficiency of the Section

Labour Efficiency: It took the Section 85 man months to carry out and conclude the 48 investigations listed in the Table above. This roughly means that, on average, a full investigation took slightly less than 2 man months to conclude. Opening and closing work in progress is being assumed constant.

Whilst the most efficient investigator concluded, on average, 1.3 investigations per month, the least efficient investigator did not conclude any investigation at all during the whole period. This Office was informed that no action was taken to determine the reason for the nil return of the particular investigator. The average output rate of the other investigators, including those temporarily employed during the period, ranged from 1 to 0.25 investigations per month and reads 1, 0.7, 0.6, 0.3 and 0.25 investigations per month respectively.

It is pertinent to point out that the output of 1.3 investigations per month by the most efficient investigator compares favourably with similar U.K. experience. Otherwise the output of the other investigators below the rate of 1 investigation per month should be considered as inefficient.

Given an acceptable labour output rate of 1.3 investigations per man month for the 85 man months available during the period under review then, the Section should have carried out 110 investigations if it operated at 100% efficiency level. The final output of 48 investigations for the period suggests operations at 44% efficiency level, assuming opening and closing work in progress constant.

Cost Efficiency: The expenditure incurred by this cost centre for the 19 month period under review amounted to Lm87,160. This expenditure includes salaries, telephone, water and electricity bills and rent. As reported above, the Department realised Lm241,373 additional undisputed tax revenue from the 24 cases successfully concluded with an agreement with the investigated taxpayers.

Basing on the 24 successful and undisputed cases:

Additional tax revenue from the 24 successful and undisputed cases	*Lm241,373*
Assumed half cost incurred during the period (24 out of 48 cases for the period)	*Lm 43,580*
Cost Efficiency/Rate of Return:	*Lm1 additional tax realised for every 18 cents spent by the Section i.e. a factor of 5.5*

No benchmarks were available against which this cost efficiency ratio could be assessed. However, U.K. experience indicates that a minimum factor of 4 is acceptable.

Labour and cost efficiency indicators do not prove much when taken in isolation. Indicators and benchmarks can be highly useful when consistently compared with other indices arising out of similar operations elsewhere. On the other hand, if the Section generates similar indicators on an annual basis, it can assess its efficiency rate over time and control it accordingly.

With the exception of information on U.K. experience, this Office was not successful in getting benchmarks for other similar investigation departments operating elsewhere in order to carry out a more reliable comparative analysis. On the other hand, the Section's past experience has never been logged.

At this stage it is being recommended that one should be cautious when referring to the efficiency indices mentioned above.

Effectiveness of the Section

An effectiveness index compares the Section's output with its own set of objectives. It has proved problematic to determine the effectiveness of the Section.

First, as already noted, the Section lacks planning and clearly defined and/or quantitative targets or objectives. One cannot measure effectiveness in the absence of clearly defined objectives.

Secondly, problems are even encountered when one tries to assess, even argumentatively, the effectiveness of the Section in increasing compliance amongst the Maltese taxpayers. The simple fact that no publicity is given to the operations and results of the Section is enough for one to doubt any effectiveness that the operations and output of the Section might have had on the behaviour of the taxpayer.

The problem is compounded by the fact that the Department lacks adequate knowledge of the type and extent of tax evasion and any statements made in this regard are speculative.

Conclusions

The Inland Revenue Department does not seem to have an adequate knowledge of the type and extent of tax evasion. The Department lacks adequate information on the areas and level of tax at risk. Obviously, the Department has its views on tax evasion but these are speculative. Adequate information on the subject should have been collected and organised over time through investigations of a representative cross section of taxpayers.

The Investigation Section lacks planning, proper structure and adequate staff. It also lacks control on its output. The reasons behind this situation may include the fact that the Section is reactive by design in that it has no strategies and/or policies of its own on how to target and maximise return from investigations.

The labour output rate is considered as very low at an average of 1 investigation per slightly less than 2 man months. The average output of the investigators in place during the period ranged from an acceptable 1.3 to a totally unacceptable 0 investigations per month. The lack of management reaction to the wide variation in the output of its employees is a cause of concern.

The staff employed at the Section, although with long years of experience in Inland Revenue matters, lacks professional training and has limited experience in carrying out full investigations. This is bound to effect negatively the final output.

The Section's cost efficiency index for successful investigations is relatively satisfactory at Lm1 of additional tax revenue for every 18 cents spent on operations. This seems to be an acceptable rate of return by U.K. standards. Given that the Section is not operating under ideal conditions, the relatively positive cost efficiency can be explained either because the choice of taxpayers for investigation has been optimal and/or because tax evasion is more rampant than in U.K., the country of origin of our benchmark.

There is little or no public knowledge on the output of the Investigation Section. The effectiveness of the Section on the behaviour of the taxpayer where compliance is concerned is doubtful, if at all.

There is scope for increasing the operations of the Section. This can broadly be based on the economic concept of relating marginal tax revenue to cost incurred by the Section.

Recommendations

The Inland Revenue Department should draw up comprehensive strategic and tactical plans to combat tax evasion. The Investigation/Research Section or any other similar structure should be made responsible to implement the plans.

A proactive Investigation Section should have:

- An operational plan with quantitative objectives for the various tax risk areas, where and when these are identified. The quantitative objectives should include how many and from which categories taxpayers should be selected. A target for additional tax revenue to be recouped from investigations could help the Section increase further its efficiency and effectiveness.

- A methodology on how to select taxpayers to be investigated. The random sample technique is ideal however, the current system of allowing third parties to recommend taxpayers to be investigated should be upheld.

- Techniques which will guide the investigator to identify and quantify tax evasion. Business ratios, capital growth and other information elicited from the history of various classes of taxpayers should be considered when determining these techniques.

- An organised database of information from successful investigations. This will increase the knowledge of the Section on the type, extent and areas of tax at risk. This information will enable the Section to focus on tax evasion more effectively.

The Investigation/Research Section should be adequately staffed with trained and motivated staff. There is room for a better rate of return from the Investigation Section and for expanding its operations.

The Section should control its output through the use of adequate and updated benchmarks and other indicators. Benchmarks would enable the Section to assess its efficiency and effectiveness.

The operations and results obtained by the Investigation Section should be given adequate publicity. An effective and positive publicity will increase the credibility of the Department in its fight against evasion. It should also increase the degree of compliance by taxpayers.

MINISTRY OF JUSTICE AND LOCAL COUNCILS

Local Councils

Consolidated Report on Management practices in relation to resurfacing and maintenance of roads

In terms of the Local Councils (Audit) Regulations, 1993 the Auditor General had requested Local Government Auditors to carry out an audit assignment on the *"Resurfacing and Maintenance of Roads including Pavements"* for each of the 67 Local Councils in Malta and Gozo for the three years ended 31 March 1997. The purpose of the consolidated report is that of summarising the collective findings and recommendations.

In evaluating the quality of service received by the Councils the auditors relied on performance indicators, other technical data and documentation availed of by the Field Services Branch of the Local Councils Department.

The emphasis of the report was on the existence of good management practice.

The consolidated report was presented to the Minister of Justice and Local Councils in terms of Local Councils legislation and laid down on the table of the House of Representatives on 28 July 1999.

The results indicate that Local Councils, in general, complied with the requirements of the Act and supplementary legislation in securing good management practice. However, one out of every three Councils need to improve their internal system to ensure that the required arrangements are put in place.

Recommendations made by the auditors on any shortcomings and control weaknesses that came to their notice include the following:

1. **Organisation Structure:** It is essential that the formation of sub-committees is encouraged irrespective of the size of the locality. The need to have a Finance sub-committee is of great importance and value for money considerations should be discussed within this committee.

2. **Policies and Practices:** Residents are not particularly interested in attending Council meetings and therefore Council should research public opinion on a number of issues by way of questionnaires, interviews etc to make them more participative and thus more effective in policy setting.

3. **Planning and Budgeting:** Regular refresher courses should be organised for Mayors and Secretaries. Reports required in terms of Local Councils Financial Procedures need to be submitted in full and on time. Council Secretary should be conversant in financial matters.

4. **Monitoring and Control:** An asset management system should be utilised in order that Council will have the right information for conducting and monitoring their operations. The Quarterly Performance Financial Reports should be properly finalised and timely presented to identify problems and weakness at an early stage.

5. **Human Resources:** Job descriptions for all permanent/part time staff of the Councils must be completed. Training should be delivered on areas such as general office procedure and filing methods. The selection of Secretaries should be based amongst others on the applicants' managerial skills.

6. **Operations Management:** The remuneration of the Contracts Manager should not be linked to the performance of the contractor and to the value of the contract. Moreover the

Councils are to ensure that relevant information regarding all projects should be kept and recorded.

7. **Quality Control:** Studies and plans are to be prepared in advance and roads should be categorised to reflect their importance and the frequency of maintenance to be carried out. It is desirable that the contracts' manager's role is effective all the time and the selected person should be qualified for the task. Council would need to ensure that he fulfills his obligations so as to contribute to the attainment of value for money.

8. **Financial Management:** Training in this area is of great importance and it should be ensured that participants gain the necessary skills to conduct this function properly. Attention should also be given to the Act and Procedures in relation to this topic. The Local Councils Department should have internal audit teams to conduct regular audits and to highlight weaknesses at an early stage.

9. **Procurement and Tendering:** Plans regarding capital projects need to be more realistic and within the resources available to the Council. As regards tenders, the one-month notice period stipulated in the Financial Regulations should be observed at all times and tenders submitted with missing information should be refused.

10. **Office Practice:** Training in basic office procedures including filing of manual and computerised records should be held. Introduction of improved software is recommended and such software should be upgraded regularly to ensure that the benefits of state of the art technology are enjoyed.

11. **Cost Control and Economies of Scale:** Collaboration between Councils should be encouraged further. The areas where cost savings can be realised include refuse collection, maintenance of roads and pavements and street cleaning.

12. **Complaints Handling and Customer Service:** A proper system for the recording of complaints should be implemented uniformly across all Councils and the Councils should ensure that persons lodging complaints are kept informed of any progress made.

13. **Measuring and Controlling Performance:** The Field Services Branch of the Local Councils Department, which conduct inspections on various areas, is invaluable because the inspection work is carried out by a body independent of the Councils. This renders possible the comparison of results of all Councils in each area inspected. However, all Councils should individually also have an asset management system in operation which would account for and facilitate control over assets which are being financed from public funds.

The consolidated report revealed that 24 out of 67 Local Councils failed the test of ensuring good management practice in their locality in the resurfacing and maintenance of roads and pavements.

MINISTRY OF PUBLIC WORKS AND CONSTRUCTION

Waste Management Strategy Implementation Department

Waste Management

Introduction

During 1999, the National Audit Office performed a preliminary Survey of activities connected with the Waste Management strategy and the collection of revenue in respect of the deposit of wastes and rubble in landfills at Malta and Gozo.

The objectives for this assignment included ascertaining whether:

- revenue due to government is being collected in terms of Legal Notice No. 128/97 which regulates dumping of all types of waste and establishes fees due to government in respect of dumping;
- revenue collected is being accounted for in terms of the General Financial Regulations, 1966;
- Departmental operations connected with such activities are contributing towards a more effective Waste Management strategy.

In order to attain the above objectives NAO carried out interviews with the Directors and Staff at Waste Management Strategy Implementation Department (WMSI) and Projects and Development Department within the Ministry of Gozo, performed a revenue audit of moneys collected during 1998 and made site visits at the Maghtab and Tal-Qortin (Gozo) landfills.

Background

The principal objective of WMSI is to implement wastes management policy and guidelines established by the Environment Protection Department within the Ministry of the Environment in line with Government policy to strengthen the protection of the environment.

Section 3.11 of the European's Opinion on Malta's Application for Membership also highlights the fact that environmental monitoring mechanisms must be strengthened.

WMSI is responsible for the management of landfills in Malta and Gozo. WMSI is also responsible for the collection of revenue in respect of dumping at these sites.

Estimated revenue for 1999 will exceed Lm100,000. Such an estimate can be considered as conservative since WMSI raised invoices amounting to over Lm305,000 during 1998.

Legal Notice No. 128/97, which came into effect on 1 October, 1997, can be interpreted as an expression of government's *"polluter pays"* policy. The implementation of this Legal Notice also enables the Department to collate statistics relative to waste management and to nurture and regulate the local "waste collection" industry.

The Directorate for Projects and Development within the Ministry for Gozo has been delegated by WMSI to carry out these responsibilities in Gozo.

Audit Concerns

Revenue

The Legal Notice establishes:

- the fees for dumping in landfills or at the Sant' Antnin treatment plant;

- controls the registration of vehicles authorised to enter dumping sites and bank guarantees issued in favour of WSMI made in respect of all registered vehicles;

- establishes the procedures and fees due to government in respect of private dumping site operators.

NAO is preoccupied that the Department is not fully adhering to and enforcing all provisions in the Legal Notice with the result that not all potential revenue is being collected. Furthermore, statistics on waste collection may be incomplete and unreliable if not all the data is being compiled.

The following observations have resulted from the audit examination:

1. During 1998, the Department invoiced LM305,330. However at year end 1998, only Lm66,116 were collected.

The total amount of waste deposited at the Maghtab Landfill in Malta amounted to 894,398 metric tonnes. According to the provisions of the legal notice such an amount of waste deposited, charged at thirty five cents per metric tonne, should have yielded LM313,039 of revenue. WMSI explained that such a discrepancy arose since:

(i) the Department did not charge a fee, in terms of the Legal Notice, to the Armed Forces of Malta.

(ii) The Department is not invoicing users whose charge for using the landfill amounts to less than Lm1 per trip. It appears that such a policy deviates from the provisions of the Legal Notice. The amount of such potential revenue during1998 is still to be established by the Department.

2. Data entered at Maghtab in respect of revenue is not transferred *'on line'* to the Department for processing but is

recorded on diskettes. WMSI informed NAO that the Department encountered technical problems to transfer the data via a modem to the processing unit at Marsa.

Such a procedure is not compliant to the practice which ensures that data processed is that which is being collected directly at source. The procedure adopted by WMSI severs the audit trail between the data processed and information collected.

3. Records collated during 1998 from the Tal-Qortin landfill have not been processed by the Department. Consequently, users utilising the Gozo landfill have not been invoiced.

Registration of Vehicles

The Legal Notice stipulates that *"Any person who deposits rubble, waste or hazardous waste must register every vehicle with the WMSI and renew the registration annually…"*. Paragraph 13 of the Legal Notice establishes the Registration at Lm10 per annum.

Furthermore, the Legal Notice stipulates that *"the applicant for any number of vehicles to be registered in his name must be in possession of a bank guarantee of five hundred Maltese liri in favour of the Department, for each vehicle to be licensed in his name prior to the acceptance of his registration….."*

It has been however observed that:

(i) generally, although registered and entering landfills, users are not in possession of bank guarantee in terms of the Legal Notice;

(ii) in other cases the Department has adopted a policy whereby the value of the bank guarantee has been modified in accordance with the number of vehicles registered in the name of an applicant. NAO considers the implementation of such a policy as a deviation from the provisions of the Legal Notice and, therefore, *ultra vires*;

(iii) generally, registration fees for Gozo applicants have not been renewed: this situation is not only in breach of the Legal Notice but also leads to loss of revenue due to government.

Establishing weight and fees due in respect of waste deposited in Official Sites

The Legal Notice stipulates that a fee of thirty five cents per metric tonne or, in the absence of establishing the actual weight, a fee of seventy cents per cubic metre is due for waste deposited in landfills or the Sant' Antnin Treatment Plant. The weight of waste deposited in Malta is established by means of weighing equipment. At Tal-Qortin landfill volume is only being estimated as there is no weighbridge.

Maghtab Landfill - During a site inspection at Maghtab it was observed that staff input relative data on users and type of waste deposited for revenue collection and statistical purposes. The following internal control weaknesses related to this activity at this site have been observed:

(i) Vehicles entering the Maghtab landfill are not automatically recorded by the computerised system in use. Data is only recorded on the directive of the Department's data entry operators;

(ii) Access controls regulating, protecting and controlling the computerised system were found to be inoperative. At the time of inspection all operators had access to most system menus. Furthermore, all operators can 'manually' enter the weight of vehicle haul when this exceeds weigh bridge limits;

(iii) Data in respect of the same vehicle and load provided through weighbridges at the Maghtab landfill and the Sant' Antnin recycling plants does not reconcile. It appears that either or both the weighbridges could be in need of calibration;

(iv) The computerised system in use by the Department was not year 2000 compliant.

Tal-Qortin Landfill - The Tal-Qortin landfill has reached the stage where building material waste is only allowed to be deposited to control landfill combustion. In the absence of a weighbridge the amount of waste deposited is calculated by staff using a methodology in contravention to legal provisions.

An on site inspection at Tal-Qortin Landfill raised the following concerns:

(i) Statistics collected in respect of this landfill are not reliable. During the NAO on site visit, a vehicle was deemed by staff at the landfill to be depositing 10 tonnes of building rubble and thus a fee of LM3.50 was due to government. However, when NAO used the method stipulated by the legal notice, it was conservatively established that the vehicle was depositing around 17.5 cubic metres of rubble resulting in a fee of over Lm12;

(ii) Staff at Tal-Qortin have no official instructions as to where to redirect vehicles loaded with building material waste. Upon enquiry, the Directorate for Projects and Development informed NAO that the Tal-Qattara quarry, a privately operated site, is used as a dumping site for building material waste;

(iii) A system to collate statistics regarding the amount of rubble deposited at privately operated sites has not been adopted by the Ministry for Gozo.

Conclusions and Recommendations

NAO is preoccupied that the issues highlighted in this Report are hindering the attainment of objectives established by the Legal Notice. The potential loss of revenue to government is not only disturbing for its own sake but also because the principle of the *"polluter pays"* principle is not being applied in all instances.

The lack of internal controls at the data capture stage of operations is also disturbing since a sound policy on waste management cannot be based on incomplete data and information.

The lack of reliable statistics impedes investment plans for environmental related sectors from being clearly channeled in accordance with E.U. *'acquis'* requirements.

In view of the above, the National Audit Office recommends that WMSI:

(i) seeks Ministry of Finance approval and advice from the relevant authorities to regularise its position on issues where it is deviating from the provisions of the Legal Notice;

(ii) considers the upgrading of its computerised system to ensure data integrity and reliability;

(iii) takes immediate action to ensure that the computerised system is year 2000 compliant;

(iv) together with the Department for Projects and Development within the Ministry for Gozo, take immediate action to regularise and rationalise the situation in Gozo.

Management Comments

Both the Waste Management Strategy Implementation Department and the Directorate for Projects and Development have informed this Office that they are taking positive steps to rectify the prevailing situation. Moreover action is being taken to invoice all moneys due to the Department in respect of waste deposited at the Maghtab and Tal-Qortin Landfills during 1998.

The Department is also proceeding with legal action to enforce payments in respect of old invoices. In fact the total amount collected in respect of 1998 as at end September 1999 amounted to Lm112,450.

Following the installation of Y2K compliant software, in July 1999, the Department has taken the opportunity to ensure that internal controls relating to the inputting , transfer and processing of data collected at the Maghtab Landfill are operative. The Department is considering the upgrading of its current recording system to enhance its databases. This line of action will entail that a weighbridge be installed at Tal-Qortin Landfill.

MINISTRY OF PUBLIC WORKS AND CONSTRUCTION

Department of Land and Construction

Upgrading of Republic Street Valletta

Background

An audit assignment regarding the paving of Republic Street, Valletta was carried out during 1999.

The paving of Republic Street, was one of the projects carried out by the Valletta Rehabilitation Committee (VRC) which at the time of this project fell under the responsibility of the former Department of Land and Construction. The project mainly consisted of:

- Scarifying of existing tarmac surface and removal of kerbs;

- Upgrading and renewal of utility services such as telephone and electrical network cables and water services;

- Making up levels and casting of a concrete sub-base; and

- Paving works and other works related to street furniture and finishing.

These works formed part of the Government's policy to embellish Malta's capital city, which is declared as a UNESCO World Heritage Site. Valletta was nominated as the cultural city of Europe for June 1998.

During late 1997, a design competition for the resurfacing of Republic Street was launched. The finalist was chosen during December of the same year and was also entrusted with providing consultancy services for the project.

By the end of January 1998, the Ministry of Public Works and Construction directed VRC to finish the paving of Republic Street by June 1998.

Objectives

This exercise was aimed to establish whether regulations and other generally accepted principles relating to accounting and project management were adhered to.

Scope and Methodology

To attain the above objectives, interviews with the Executive Co-ordinator and personnel attached to the Valletta Rehabilitation Project were carried out. Further interviews were held with Works Division personnel who managed the project. Furthermore, files and documentation related to the project were examined.

Breakdown of costs

Although the paving design was selected late in December 1997, there was no established date for the commencement of the project. Nevertheless, works related to utilities were already in hand in 1997.

Budgeting

There was no formal documented estimate prior to the commencement of the project. In fact, Lm500,000 in the 1998 Estimates under Items 11 and 12 of "Government Construction Projects" (in the Capital vote of the Ministry) were not specifically intended for the paving of Republic Street.

Costs incurred on Project (excluding areas earmarked for further development)

Item	Lm
Competition fees	3,312
Scarifying and levelling	37,396
Concrete sub base and casting	11,346
Supply of porphyry	211,952
Supply of hard stone	23,298
Paving works	77,228
Lighting preparatory works	6,400
Cast iron pollards, gratings and covers	18,055
Consultancy fees	23,593
Other related expenses	13,338
Total	**425,918**

The expenditure illustrated above shows that 85% of the allocated funds has been utilised to complete 63% of the project as a whole.

Consequently, if the outstanding 37% of the project were to be completed using the 1998 rates and a commitment of Lm98,000 in respect of lighting were to be honoured, the budget allocation would be exceeded by 22%

Scarifying - Scarifying works to be carried out between Old Theatre Street and Santa Lucia Street amounting to Lm2,699 were awarded through a direct order**.** Such order was made to avoid time consuming procedures related to issuing a call for quotations since the project was already delayed.

It was also noted that a subsequent call for tenders regarding the scarifying works only had one bidder. The tendered price of Lm18,434 was 83% above the Works Department estimate which stood at Lm 10,065. Since the works were urgently required, VRC had no choice but to accept the tendered price.

Supply of porphyry - An advert for a *"selective call"* for tenders for the supply of porphyry appeared in the Government Gazette of the 24 February, 1998, and VRC also contacted Italian suppliers for the supply of porphyry paving slabs. This type of slab was pre selected at the design stage and it is not available from Maltese quarries. Ministry of Finance approved the purchase of the required porphyry. The paving slabs were procured from an Italian company who engaged a local contractor as its representative. Scientific tests on the porphyry slabs offered, carried out by the Quality Control Section of the Works Division on behalf of VRC, proved to be satisfactory.

Paving - Relative documentation revealed that in spite of prior instructions from the Ministry of Finance and Commerce, VRC entered into an agreement with the local representative regarding the laying of the aforementioned slabs. In fact, letter from Ministry of Finance and Commerce dated 20 May, 1998 categorically stated that this direct order could not be approved. However, it transpired that VRC proceeded with the contract upon directives from the Ministry for Public Works and Construction and without covering approval from the Ministry of Finance and Commerce.

Hard Stone - An amount of hardstone pattern slabs, chosen following a local call for quotations, were not up to the required standards. Such a situation arose since the works were proceeding at a quick pace and the supplier could not cope with the demand. He therefore resorted to supplying slabs of an inferior quality. In view of the restricted time frame VRC had to make use of the substandard slabs. These slabs, valued at Lm1,628, are to be replaced by VRC. However, the matter is still pending with the contractor.

Cast iron Gratings - Cast iron gratings which were ordered locally were not supplied by the stipulated contract date in August 1998. It was observed that a verbal agreement was reached to extend the delivery date to December 1998. In spite of the aforementioned extension, the contractor still did not adhere to the delivery date and it was only during March 1999 that the gratings were supplied.

NAO is concerned at the fact that Republic Street had remained for a considerable period without these gratings. Furthermore, no documentation was submitted regarding the extension of the contract duration. NAO questioned the grounds for granting such an extension.

Comments

Shortcomings highlighted in this report may be attributable to lack of sufficient planning of the project. Both financial and technical planning form part of sound project co-ordination. In this regard, VRC managed to complete most of the planned work required without giving due attention to the financial aspect of the project. The lack of effective project management has on occasion diminished the quality of the finished product and constrained VRC to resort to direct orders, which on occasions were not approved by Ministry of Finance. Furthermore, given the number of direct orders issued, considerations should have been given to perform the works on a turnkey basis

This report has outlined various aspects of one of the major projects undertaken by the VRC. This Committee has endeavoured to keep up with expectations, which at times were considered excessive given VRC's administrative constraints.

Recommendations

The NAO contends that:

- prior to such projects being undertaken, detailed estimates and time frames are to be drawn up. This would ensure the planning and controlling of the project.

- any penalties for delay of delivery stipulated in the contract documents should be duly enforced.

MINISTRY OF FINANCE AND COMMERCE

Government Transport

Background

During the past year the National Audit Office has carried out an assignment to further evaluate the use of Government Transport.

Government currently engages in four different parallel practices in the use of vehicles for its purposes namely;

- Fully Expensed Vehicles;
- General Utility Vehicles;
- Impressed Vehicles; and
- Hired Cars.

The costs incurred by Government on Transport are illustrated on page 27 of this Report.

Government operated a fleet which, according to records at the Licensing and Testing Department, on 31 December, 1997 totalled 1447 Government owned vehicles. These comprised 123 Fully Expensed Cars, 896 General Utility Vehicles and 428 other vehicles which included heavy plant, fire engines, ambulances, motorcycles and other types of motorised vehicles deployed in various Ministries and Departments.

Government's fleet is further supplemented with 510 impressed vehicles and around 250 hired vehicles.

The objectives for this assignment were to:

(i) analyse the current system of Government Transport;

(ii) audit the procedures used for its procurement;

(iii) assess the condition of the fleet;

(iv) audit current recording and control systems;

(v) assess whether savings can be made within the current system of fleet management; and

(vi) examine alternative options for consideration by Government to meet its transport requirements.

The scope of this study covered transport provided through Departmental Owned Vehicles, the Impressed System and Hired Vehicles. Annual expenditure incurred in respect of the foregoing exceeded Lm3 million which is around 55% of the transport allocation for 1998.

For the purpose of this study, the National Audit Office contracted outside consultancy services and commissioned physical and mechanical inspection of randomly selected Government-owned vehicles. Data in respect of vehicles in Departments was collated through a questionnaire issued by the NAO in March 1998. A 10% variation sample validation exercise of information received was also performed.

Audit Issues

This Assignment has revealed that a number of independent but interrelated issues are impinging on the efficiency, economy and effectiveness of Government Transport. These include:

(i) ***Multiplicity of Structures*** - Non-standardisation was noted in areas related to record keeping, maintenance practices, use of vehicles after official hours, procurement, fuel replenishment and fleet management in general.

(ii) ***Condition of Government owned Vehicles*** - The non-existence of a policy relating to the period a vehicle is retained in the fleet (except for cars designated as Fully Expensed Vehicles) is resulting in increased costs through extra maintenance and operational inefficiency. Moreover, 15% of Utility Vehicles are considered to be beyond economic repair. It is to be noted that such vehicles are at least ten years old.

(iii) ***Compliance Issues*** – Lack of enforcement of regulations is not only diminishing internal controls and thus giving rise to improper use of Government Transport but also minimising management information through inadequate record keeping which in turn results in a lack of accountability of transport providers and users.

(iv) ***Vehicle Utilisation*** – The utilisation rates of vehicles is considered as rather low. On average cars, vans, jeeps and trucks perform daily 2.68 trips of 25.5 km each.

(v) ***Transport Overheads*** - It is estimated that labour costs on maintenance of vehicles and rent of premises in respect of six major Departmental fleets (which total 69% of Government's General Utility and Fully Expensed vehicles) amount to Lm0.5 million and Lm4,039 respectively. The apportionment of such costs on a per vehicle basis raises issues relating to the cost-effectiveness of in-house maintenance.

(vi) ***Government Garage (MSD), Kirkop*** - Apart from the Works Division itself, only a handful of other Departments are making use of Government's central maintenance unit, housed at the Manufacturing and Servicing Department of the Works Division. During 1997, Departments declared that most of their maintenance and repair work on their fleet was being outsourced to the private sector.

(vii) ***Hired Vehicles*** - The lack of a centrally issued period contract has resulted in the loss of savings opportunities arising out of economies of scale advantages associated with central tendering.

(viii) ***Impressed Vehicles*** – Current practices relating to the management of the Impressed vehicle system are considered to be unsustainable for both service providers and Government.

It is envisaged that the full report relating to this study will be published shortly.

MINISTRY OF FINANCE AND COMMERCE

Internal Audit function within Government Ministries

Background

An audit of the Internal Audit function within Ministries was undertaken by the National Audit Office. The NAO intends to publish the full Report concerning this study in the near future.

The objectives of this review were to evaluate the Internal Audit function and to make recommendations as to its future role.

The Internal Audit function, which was established within Ministries in 1994, is currently being carried out by sixteen Internal Auditors. These are deployed within twelve Ministries and are recompensed with an allowance of Lm600 per annum. Internal Auditors report directly to the Permanent Secretary on all audit matters and to the Director of Corporate Services on administrative issues. Such a structure is intended to conform with the principle of increased delegation levels and the introduction of decentralised accountability structures.

The Audit Policy Monitoring Unit (APMU) within the Ministry of Finance has been established to assist in the effective implementation of Internal Audit Policy. It was also intended to generally fulfil the role of a centre of expertise and leadership in all matters relating to internal audit across Government. Audit Committees were also to be established to add further impetus to the Internal Audit function.

Audit Concerns

It was observed that the Internal Audit function fell short of the required level of effectiveness. It was not in a position to respond to current developments such as the demands for improved financial control in an evolving modern economy, the adoption of quality service charters and challenges posed by the increased role demanded by Government's policy vis-à-vis the European Union.

The ineffectiveness of Internal Audit was mostly due to:

Inadequate central co-ordination: the APMU, as a one-man unit, was clearly not adequately resourced to monitor effectively the development of Internal Audit and to ensure the harmonisation of auditing standards and quality within the various Ministries. To-date, APMU technical reviews of individual Internal Audit units were highly limited. Moreover, the effectiveness of the APMU, as a central co-ordinator, would probably have significantly improved to-date had there been a functioning Internal Auditing Monitoring Committee (IAMC) which was to maintain and monitor consistency of standards, discuss the performance of each Ministry's unit at least once a year and monitor the overall performance of Internal Audit.

Limitations to independence within Ministries: Audit Committees, as contemplated in the Audit Manual published in 1998, were not functioning in any of the Ministries. Such Committees were meant to strengthen the independence of Internal Audit and contribute significantly towards financial control in the Public Sector. These Committees were meant to be a focal point for reviewing plans and audit reports, monitor action on audit findings and improve auditor/management communications.

Most of the Internal Auditors posted within Ministries stated they were involved in non-audit activities. Instances were noted where Internal Auditors spent up to 50% of their time on such activities which can potentially jeopardise their Internal Audit independence.

Moreover, audit plans were not compiled in some Ministries. Tasks were merely communicated down the line from the Permanent

Secretary in the form of a memo. This restriction in programming independence stifled the Internal Audit initiative and often narrowed its scope for investigations.

Independence in programming and reporting was diminished where the Internal Auditor reported directly to the Head of Department rather than to the Permanent Secretary since the former is also the Department's accounting officer. Such a situation was conducive to increasing conflict of interests. Such instances occurred where the Internal Auditor was stationed in a line Department within the Ministry, rather than directly attached to the Permanent Secretary.

In addition, follow-up of most report findings was only conducted if requested by the Permanent Secretary. Furthermore, some Internal Auditors remarked that they would appreciate more feedback from Permanent Secretaries following the completion of a task.

Lack of Management Support: The fact that Audit Committees within most Ministries had not yet functioned or been established also showed that management support for Internal Audit was not totally forthcoming. Moreover, the non-functioning to-date of the IAMC at the Ministry of Finance was a reflection of the low priority allotted to the function by that Ministry.

Deficiencies in Recruitment and Training Practices: The Internal Audit function was seriously understaffed. In this respect, most Permanent Secretaries stated that if the current lack of personnel recruitment persisted, then Internal Audit would not be in a position to consolidate and improve its contribution to the Public Service. Moreover, attracting public officers to join the Internal Audit cadre proved to be problematic. Allowances payable to Internal Auditors were perceived not to be adequately attractive for prospective applicants. Furthermore, the current organisation structure does not provide Internal Auditors with a career path within the set-up.

Recommendations

The National Audit Office recommends:

A stronger central co-ordination set-up - Consideration needs to be given to relocating the IAMC outside the Ministry of Finance to render it and the APMU more independent. The reporting structure may be changed to a more centralised one where a Head of Internal Audit assumes responsibility for all internal audit reports across Government. However, the clear need for stronger central co-ordination has to be counterbalanced with the other requirement for Internal Audit to remain sufficiently decentralised and emerge as an effective management tool. The degree of centralisation of the Internal Audit function is considered as a matter of policy.

It is also recommended to amend the Financial Administration and Audit Act, 1962 to encompass the Internal Audit mandate and powers of the APMU. Such an initiative will enhance APMU's enforcement powers and provide Internal Audit with a legal operational framework.

The Enhancement of Auditor Independence: It is envisaged that Audit Committees, when established in individual Ministries, are meant to plan, analyse and interpret detailed audit activities as outlined in the Internal Audit Manual. Members of these Committees should ideally not include officials in line management structures within the Ministries.

Increasing Management Support: In order to further encourage such support, adequate steps need to be taken to inform senior management (by various means, including seminars and circulars) of the role and advantages that internal auditing offers to the Administration. In addition, regular meetings held between Permanent Secretaries and Internal Auditors will also be helpful. The opportunity also exists to evaluate whether the inclusion of the Internal Audit function in the Performance Agreement of Permanent Secretaries would enhance management support.

Recruitment, Retention and Training of Human Resources: In order to develop the Internal Audit structure, it is recommended that the 'allowance system' for Internal Auditors be replaced by an organisation structure that provides Internal Auditors with a career path.

Conditions of contracts for recruitment should be sufficiently binding to reduce as far as possible staff turnover.

Moreover, training and development programmes organised by the APMU need to reflect the current needs and aspirations of Internal Auditors. The APMU may also initiate a programme to encourage Internal Auditors to attain recognised internal auditing related qualifications.

Developments

The need for Government Ministries to have a strong Internal Audit structure is essential in order to consolidate financial control within government Ministries and Departments. Government has undertaken to reform the Internal Audit process.

INVESTIGATIONS REQUESTED BY PAC

During 1999, NAO was requested to carry out the following investigations:

Concerts organised by "Ta' Qali National Park Committee"

PAC meeting No. 31/99 held on 21 July 1999 discussed a report concerning the Ta' Qali National Park Committee which was included in the 1997 Audit Report. At this meeting the PAC requested the NAO to carry out an investigation on the concerts organised by the Committee to ascertain whether public funds utilised by the Committee were adequately accounted for and whether they constituted value for money.

The investigation is in an advanced stage and a separate report on it will be issued shortly.

National Acquaculture Centre (NAC)

In the 1997 Audit Report, this Office stated that no accountability and audit trail existed at the National Acquaculture Centre in respect of revenue and expenditure effected by the Malta University Services Ltd. (MUS) on behalf of the Centre.

This issue was picked up by the PAC during 1999. Following hearings of a number of individuals connected with the NAC, as well as specific accusations on alleged irregularities made by the Permanent Secretary of the Ministry of Agriculture and Fisheries, the PAC decided, on 17 February 1999, to request the NAO to carry out an investigation and review on the workings of the NAC.

In February the NAO set up a strategy paper on how to carry out this investigation. As a first step, in March, the Office requested both the Ministry of Agriculture and Fisheries and the MUS to submit certified copies of all records and documents relating to the NAC since the latter's inception. MUS complied with this request on 6 April while the Ministry complied on 13 April. The Office received several hundreds of files and other records from the two bodies, mainly from the Ministry.

In view of the seriousness of the allegations, it was considered necessary by this Office to review all documents received and to examine as much documented information as possible prior to carrying out the investigation proper. The review of most of these files by NAO (to properly address the terms of reference of the PAC) is still in progress.

The examination of MUS expenditure pertaining to the running of the NAC has been undertaken. The MUS was requested to submit comments on certain queries and observations relating to NAC expenditure. A reply was received and is now being studied by this Office.

The investigation on the alleged irregularities, which mobilised NAO's scarce resources for months, is planned to be completed and a report submitted by May, 2000. Another report on other issues relating to the workings of the NAC, in terms of the PAC request, will then be submitted later on during the year 2000.

PART VII - WORK AND ACTIVITIES OF THE NAO

Role of the National Audit Office

The National Audit Office, headed by the Auditor General, is responsible for the external audit of central and local Government on behalf of Parliament. It also carries out audits of certain non-central government entities.

The mandatory and primary objective of the Office, in terms of the Constitution and the Auditor General and National Audit Office Act, 1997 is to provide independent information, assurance and advice to Parliament on the way Treasury, government Departments and certain non-central government entities (including Local Government) account for and use taxpayers' money. Another objective, in terms of the Act, is to establish whether public moneys have been expended economically, efficiently and effectively.

Extent of Audit Work

All direct and indirect public funds fall under the scrutiny of the Office. Any funds received or administered by Government, from whatever source, are within the extent of the duties of this Office. However, direct central government receipts and payments, as well as Local Government revenue and expenditure, constitute the core responsibility of the NAO.

The operations of public bodies or bodies with government interest only fall under the scrutiny of the NAO if deemed necessary by the Auditor General or if requested by the PAC or by the Minister of Finance to carry out specific audits on such bodies. In terms of local company legislation (for companies with public interest) or statute (for entities set up by law) of the bodies in question, private sector auditors are engaged by the entities themselves for the carrying out of the regularity audit of their financial statements.

The audit field for 1998 included central government receipts and payments totalling around Lm1,325.1 million against Lm1,326.1 million for the previous year. These encompassed revenue of Lm659.1 million (including Lm110 million loans), recurrent expenditure of Lm569.2 million (including Lm52.8 million public debt servicing) and capital expenditure of Lm96.8 million.

Regularity Audits

These audits, also referred to as Certification or Financial and Compliance audits, are carried out in terms of para. 5 of the First Schedule of the Act. They aim to ensure that financial statements of government Ministries and Departments are being properly presented, that they are in agreement with financial rules and regulations, and that proper internal controls are in place.

Value for Money Audits

These audits, carried out in terms of sub-para. 8(a) (ii) of the First Schedule of the Act, are intended to address the economy, efficiency and effectiveness realised in the management of government operations. Additional focus will be given to this type of audit following the recent appointment of an Assistant Auditor General responsible for Value for Money Audits

Special Audits

These audits or investigations, which may be of a financial or value for money nature, are carried out in terms of sub-para. 8(a) (ii) and sub-para. 9(a) of the First Schedule of the Act. Such audits may be carried out on the own initiative of the Auditor General, at the request of the Minister responsible for Finance or at the request of the Public Accounts Committee of the House of Representatives. They relate to revenue, expenditure and resources belonging directly or indirectly to government in terms of Section 9(a) of the Act.

Outsourcing of Audits and other Professional Work during 1999

In terms of Local Government legislation, audit duties relating to local government were contracted out to private sector auditors. These auditors are engaged by the Auditor General to conduct yearly Regularity Audits and three-yearly Value for Money Audits.

A consultant was engaged to assist in the carrying out of audits of a number of non-central government organisations which were subject to audit in terms of the Auditor General and National Audit Office Act. Consultants were also contracted by this Office to provide quality assurance on a number of Audit Reports.

A lawyer was engaged to provide legal advice to the Office whenever required.

Independence of Auditor General and National Audit Office

The independence of this Office is engrained in Section 108 of the Constitution. Such independence is guaranteed by the following provisions:

- The Auditor General and his Deputy are appointed by the President acting in accordance with a resolution of the House of Representatives supported by votes of not less than two-thirds of all members in the House;

- They may only be removed by the President upon address from the House of Representatives supported by not less than two-thirds of all members in the House;

- They are officers of the House;

- They are empowered to audit all Ministries and Departments of the Government of Malta;

- They are entitled to audit all public authorities or other bodies administering, holding or using funds belonging directly or indirectly to the Government of Malta as may be prescribed by or under any law for the time being in force in Malta;

- The Annual Audit Report, and other audit reports, are presented to the Speaker of the House of Representatives;

- The Auditor General, his Deputy and other persons authorised by the Auditor General have access to all books, records, returns and other documents relating to those accounts;

- The Auditor General appoints his own staff and determines their numbers, grades, salaries and conditions of service;

- In the proper exercise of his functions, the Auditor General is not subject to the authority or control of any person.

This independence is a vital factor in the value and credibility taxpayers can place on the Office's work.

National Audit Office's relationship with Parliament

The Public Accounts Committee (PAC)

The Auditor General submits his annual Audit Report, as well as other audit reports, to the Speaker of the House of Representatives who lays the reports on the table of the House. These reports are automatically and permanently referred to the Public Accounts Committee which is entitled to review the reports and may hold hearings on their contents. It is also empowered to take evidence from senior officials of Ministries and Departments or other government related bodies. Apart from the audit reports, the PAC also reviews the activities of non-central government organisations, where their accounts are presented to Parliament.

The main function of the National Audit Office is to act as a watchdog over government's financial operations and activities. The Public Accounts Committee helps to ensure that findings of the NAO are given their due attention.

PAC meetings held during the ninth Parliament to date totalled 35, covering the period 3 November 1998 to 17 November 1999. These included several hearings concerning the 1996 and 1997 Audit Reports.

The National Audit Office Accounts Committee

The expenses of the NAO are fully funded by Parliament. The National Audit Office Accounts Committee of the House of Representatives, established in 1997, is required to submit to the House of Representatives, at least once a year, a report on the activities of the NAO and on the examination of any estimates prepared by the Auditor General in terms of para. 14 of Part IV of the Second Schedule of the Act. The proposed and revised estimated financial statements, management accounts and activities for 1999 and the budgeted financial statements and management accounts for 2000 are due to be discussed by the Committee in terms of Section 10 of Part III of the Second Schedule of the Act.

The accounts of the NAO are audited by private sector auditors appointed by the Committee in terms of Section 18 of Part V of the Act. These accounts are presented to the House, together with any comments by the Committee thereon, in terms of Section 21 of Part V of the Second Schedule of the Act. The certified accounts for 1998 were presented to the Committee on 26 July, 1999.

Information Technology

The I.T. function continued to be enhanced during 1999. All computers were upgraded and the latest Office computer software was installed.

It was found necessary to add to our software packages a desktop statistical application to enable the analysis of data captured from surveys conducted by the Office itself. Training in the use of these applications is necessary and selected candidates will be undergoing such training in the near future.

Preparatory work on the creation of an Internet Home Page is underway. It is planned to inaugurate this web site next year.

Change in NAO's Accounting Basis

The Office has been compiling its accounts on an accruals basis since January, 1998 (against the previous cash basis) and are being made to comply with International Accounting Standards (IASs).

Committee on Accruals Basis for Government Accounts

In the 1997 Audit Report it was stated that the cash-based accounting system used by Government had a number of limitations and that Government should explore the possibility of introducing an accruals-based public sector accounting system over a certain time-frame. The address of the President of Malta on the occasion of the opening of the ninth Parliament, on 24 October, 1998, had also mentioned this subject.

It is encouraging to note that a Committee has been set up by Government to explore the means of introducing accruals-based accounting. The Deputy Auditor General is a member of the Committee on an observer basis.

International Relations

During 1999 this Office was represented abroad at the following events, which related to meetings, seminars, working group committees and familiarisation visits:

1. Seminars attended by a manager between the 11 and 14 January in London. These seminars concerned the Year 2000

Problem, namely on how to test for Year 2000 Compliance and how to develop and audit Year 2000 Contingency Plans.

2. Familiarisation visit at the Office of the Auditor General (Canada) in Ottawa between the 7 and 9 April and the General Accounting Office (USA) in Washington between the 12 and 14 April by the Auditor General and a manager to enquire upon Value for Money Audit Methodology, Performance Information, Financial Management, Quality Control of audit work, relationship with Parliamentary Standing Committees, Strategies, Organisation Structures and Management of the SAIs;

3. International Meeting of the INTOSAI Working Group for Environmental Audit between 12 and 15 April attended by a manager. This Office is currently performing the role of sub-region co-ordinator for Mediterranean countries within Europe;

4. Multilateral Meeting in Brussels on 10 May attended by the Auditor General and two managers in connection with Chapter 28 - Financial Control of the EU Acquis Communautaire. Multilateral Meeting in Brussels on 29 June attended by two managers in connection with Chapter 29 of the Acquis - Financial and Budgetary Provisions. Bilateral Meeting in Brussels on 13 July attended by two managers in connection with Chapters 28 and 29 of the Acquis.

   The NAO delegates who attended these EU Meetings were part of larger delegations which mainly involved officials from the Ministry of Finance (who are in charge of these Chapters), as well as others from the EU Directorate, the Office of the Attorney General, VAT, Customs, Ministry of Agriculture and Fisheries and Central Bank.

5. Meeting for the SAIs of prospective EU applicant countries and the European Court of Auditors in Prague on 25 and 26 October attended by the Auditor General and two senior

managers. During this Meeting participants presented speeches on their experiences in various fields on the workings of their SAIs. Recommendations by Working Groups concerning the functioning and active role of SAI's (from EU candidate countries) in the context of European Integration were approved by all SAI Presidents.

NAO actively participated in the Conference and presented a paper on the historical development of the NAO.

NAO gives due importance to its relations with other Supreme Audit Institutions and views the participation in state auditing related events as a fundamental way of sharing and learning from the experiences of our international colleagues. The Office also contributes its views, whenever requested, on standards developed and studies undertaken by INTOSAI, EUROSAI, IFAC and other international bodies. During the current year, views were submitted by this Office on issues such as:

- the development of accounting standards on an accruals and cash basis for the public sector (to the International Federation of Accounting Committee);
- Guidelines for Internal Control Standards (to INTOSAI);
- SAI Independence (to EUROSAI);
- Financial Control in Malta (to the European Commission);
- Environmental Audit (to EUROSAI);
- Training needs of EUROSAI members (to EUROSAI)

Local Conferences and Seminars

During 1999 NAO senior officials attended local Conferences and Seminars on the following issues:

- Malta's EU Membership - The Economic Challenges Ahead;
- The Pensions Dilemma;

- Commercial and Financial Fraud;
- International Accounting Standards;
- E-Commerce - Positioning Corporate Malta in the Networked Economy;
- Year 2000 Contingency Planning;
- An exercise in gearing tax practice for Europe;
- The Impact of the EU on Financial Services in Malta;
- New Disciplinary Regulations within the Public Service.

Furthermore, the Auditor General gave a presentation on the basic principles of Government auditing as part of a series of talks held for AFM officers.

Collective Agreement with Employees' Union

During 1998 and 1999 negotiations were held between the National Audit Office and the employees' Union representatives on new conditions of work. Discussions with the Management and Personnel Office of the OPM were finalised in the early part of 1999.

The Collective Agreement was signed on 24 February 1999 by the Auditor General and the President of the Union. A Memorandum of Understanding was also signed by the Auditor General, Director - Policy and Planning (OPM) and by the President of the Union.

NAO staff who were previously Government employees with the Department of Audit were, in terms of the Memorandum of Understanding, assimilated into the new NAO grades and are now considered as being on leave without pay from Government service on grounds of public policy for a period of three years.

Staff and new recruitment

A new management structure was set up during 1999 where nine Managers and an Assistant Auditor General were appointed.

As on 31 October 1999 the NAO staff consisted of 30 audit and support staff. Certain posts were filled following an internal call for applications within the NAO, and were chosen through interviews. The following is a breakdown of the staff position as on that date:

Staff Profile (as on 31 October 1999)

Grade Description	Number
Auditor General	1
Deputy Auditor General	1
Audit Management	8
Audit Support Staff	4
Administration Management	2
Administrative Support Staff	6
Minor Staff	8

NAO recruited 28 additional staff with effect from 1 November 1999. These new recruits, who satisfied entry requirements, were successful after interviews were held following public calls of applications for the posts in question. The new recruitment consists of:

Grade Description	Number
Audit Support Staff	24
Administrative Support Staff	4

Training

During 1999, audit examiners attended a number of local training courses organised by the Staff Development Organisation. The

Office is currently also sponsoring three officers. One is attending a course leading to City and Guilds in General Engineering while another is attending a Diploma Course in Computing Studies. A Manager has recently started reading for an Executive MBA degree.

The Office is carrying out intensive training courses for the new recruits. These are being given an insight into the workings of the government administration and related rules and regulations. They will also be trained in financial and value for money audit and other topics relevant to audit duties.

Conclusion

I wish to thank all audit staff for their effort in assisting me in the compilation of this Audit Report. I would also like to acknowledge the co-operation afforded to me by the auditees which, in most cases, has been readily forthcoming.

Joseph G. Galea