Report of the

Auditor General

Public Accounts 1999

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 2000

Mr. Speaker,

As required by Sub-Section 108 (5) of the Constitution of Malta and 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 1999.

Yours sincerely,

J. G. Galea
Auditor General

The Hon. Speaker
House of Representatives
Valletta

NATIONAL AUDIT OFFICE

Table of Contents

Preface

Part 1 - Audit opinion on the audits and examinations carried out during 1999.

Part 2 - Main issues of the Report.

Part 3 - Synopsis and examination of the 1999 Government Financial Report together with appropriate audit comments and views, where warranted.

Part 4 - Corporate issues of a common concern throughout central government departments and offices.

Part 5 - Findings of a material nature discovered during audits in specific Ministries and Departments.

Part 6 - The role and duties of the Auditor General and reports upon the work and activities of the National Audit Office during 1999.

Part 1 – 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 1999. Also examined were the accounts and/or activities of such other bodies administering, holding, or using funds belonging directly or indirectly to the Government of Malta, as decided by the undersigned or 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 a report thereon to the House of Representatives, in terms of Section 108 subsection 5 of the Constitution and Section 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.

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 misstatements, whether caused by fraud or other irregularity or error.

In terms of the Act, the National Audit 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.

Apart from the statutory Regularity audit, the Audit Report also includes a number of investigations and Value for Money reports carried out in terms of paragraphs 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.

Opinion

In my opinion, proper application of internal controls and 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 internal controls and accounting operations and ensure full compliance with appropriate rules and regulations. This is necessary for financial control, financial management and budgetary purposes.

Audit examinations carried out have revealed the following issues of particular concern for 1999:

- the level of Public Debt and Public Deficit in relation to GDP;

- large amount of arrears of revenue due to government;

- Government's Public Account still not formally reconciled with the Central Bank account since June 1992;

- departments generally lack clearly defined quantitative objectives and lack performance indicators to monitor control on their operations;

- revenue realised from withholding tax on bank deposits and duty on credit cards issued by commercial banks and on insurance policies lack audit trail;

- deficiencies in the control of government transport;

- lack of adherence to regulations governing travel advances;

- substantial number of telephone lines with direct overseas dialing facility without the necessary approval from relative Permanent Secretaries;

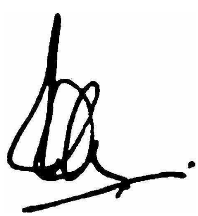
- large amounts of Advances made through the Treasury Clearance Fund have remained outstanding for several years;

- the non-inclusion of all government assets and liabilities in the Government Financial Report due to the government accounting system still being cash-based.

Part II of the Report gives a brief overview of the most significant findings.

Except for the above qualifications, 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 and the results of its operations for the year ended 31 December 1999.

In terms of paragraph 5(ii) of the First Schedule of the Act, I am to report that, subject to instances referred to in the findings of the Report, I received all the information and explanations required for the carrying out of my duties.



J. G. Galea
Auditor General

December 2000

Part 2 – Executive Summary of Findings

This part is intended to act as a quick reference to the Report. It could 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

The analysis of the **Financial Report 1999** covers the Consolidated Fund, highlighting variances in ordinary revenue and expenditure, and Government assets and liabilities with emphasis on outstanding advances and loan repayments, investments and public debt. (page 11)

A comprehensive **Bank Reconciliation of the Public Account** is still not being carried out by the Treasury Department irrespective of firm and repeated commitments by the Accountant General to address this critical shortcoming. (page 94)

An Audit of **Government Payroll** revealed that the number of errors in amendments to salaries arising out of resignations and retirements, unpaid leave and new appointments are considered to be on the high side. (page 96)

Lack of co-ordination between the Treasury Pensions Section, the Treasury Salaries Section and the Department of Social Security is leading to a number of overpayments in **Treasury Pensions**. (page 101)

There is a serious lack of audit trail on revenue arising out of the **15% Withholding Tax** and **duty on credit cards** collected on behalf of the Inland Revenue by commercial banks and **duty on insurance policies** collected by Insurance Companies. Revenue from these three sources amounted to over Lm12.75 million in 1999. (pages 108, 111, 113)

Fast moving items (e.g. paper products) required by Ministries/Departments and Public Entities are purchased through **Period Contracts**. However, purchases at cheaper prices but not in terms of Period Contracts specifications have been made from other suppliers not covered by such contracts. (page 83)

Returns on Arrears of Revenue for 1999 show an amount of Lm379,961,359 outstanding on 31 December 1999, an increase of Lm 93,872,100 on the previous year end balance. Details on arrears of certain Ministries/ Departments were either not submitted or were incomplete. Only Lm 20.5 million or 7.1 per cent out of Lm 286.1 million outstanding on 31 December 1998 were collected during 1999. (page 54)

Regulations governing **advances for travel abroad** are still being breached notwithstanding repeated mention in NAO reports and subsequent reminder through an *ad hoc* Ministry of Finance circular. (page 71)

Lack of information on **transport expenditure** incurred on capital projects and programmes and initiatives and through contributions to Government entities (but not clearly accounted for by the Treasury Accounting System) may be contributing to a distorted picture of transport costs. (page 77)

Recommendations on rules and regulations regarding **hospitality** expenses as laid down in Estacode are still being awaited following the setting up in 1999 of a working group to discuss this issue on the instructions of the Public Accounts Committee. (page 75)

Out of 675 **telephone lines with overseas dialing** facility within Ministries and Government Departments, only slightly more than half are covered by an approval from the relative Permanent Secretary. (page 51)

Ministry of Justice and Local Government

Expenditure incurred by nine L**ocal Councils** during financial year 1999/2000 was in excess of revenue realized during the same period. Eighteen Councils reported negative working capital balances at the end of the same financial year. (page 121)

Gross irregularities in the revenue accounts of the **Law Courts** would have been detected if sound internal controls were in place. Recommendations on the matter by a Board of Enquiry included further investigations by Police. (page 126)

Ministry of Education

Excessive cash is being held at museums and other heritage sites and also at the Head Office of the **Museums Department** in breach of Financial Regulations. (page 129)

Expenditure which should have been charged to the Recurrent Vote of the **Department of Culture** was being charged to a Below the Line Account held to finance cultural activities. This malpractice is inflating the Department's expenditure over that allocated by Parliament in the Estimates. (page 132)

Ministry of Foreign Affairs

The United Nations Development Programme (UNDP) sponsored seven projects through a grant of $814,000 of which $90,000 were still outstanding by end 1999. Financial statements on all projects benefiting from the UNDP programme were properly presented. (page 115)

Ministry for Transport and Communications

Misallocation of expenditure, wrong purchasing procedures, shortcomings in the computer system, inappropriate stock control on logbooks, number plates and VRT receipts and lack of an inventory of furniture and equipment owned by the Department were registered following an audit of the **Licensing and Testing Department**. (page 135)

Office of the Prime Minister

Government Ministries and Departments cannot monitor the efficiency and effectiveness of their operations or programmes unless they have clearly defined objectives, **benchmarks and performance indicators** in place. (page 86)

PART 3 - FINANCIAL REPORT, 1999

Introduction

The 1999 Financial Report statements and accounts were submitted to this Office by the Accountant General in terms of Section 67 of the Financial Administration and Audit Act, 1962. These were examined 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 1998 and 1999, and the receipts and payments of funds created by law were published in Government Gazette No. 16941 of the 5 May 2000 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 1999 Financial Report.

Consolidated Fund Statement - 1999

The Consolidated Fund incorporates all moneys belonging to Government. All disbursements out of this Fund are authorised by means of Appropriation Acts of Parliament, which include the Supplementary Estimates.

The following Statement comprises the aggregate annual receipts and payments administered by Government and comparative estimates for 1999.

The Budget presented to Parliament estimated that Revenue (inclusive of loans) was to exceed Expenditure (warrant No. 1) by Lm3,905,998. However, with the issue of the Supplementary Estimates Warrant No. 2 amounting to Lm28,876,002 and following the winding up of the 1999 Accounts, it resulted that Revenue had actually exceeded Expenditure by Lm30,885,817.

Consolidated Fund - 1999

	Estimated (Original & Supplementary)		**Actual**	
	Lm	***Lm***	***Lm***	***Lm***
Opening Deficit Balance				35,752,405
Revenue				
Ordinary	549,199,000		554,878,587	
Sale of Shares/Assets	60,000,000		73,290,583	
Grants	11,013,000		9,682,878	
Loans	103,500,000		84,000,000	
		723,712,000		721,852,048
Expenditure				
Recurrent	(544,081,000)		(520,042,342)	
Public Debt Servicing	(65,272,000)		(64,793,266)[b]	
Capital	(110,453,002)		(106,130,623)	
		(719,806,002)[a]		(690,966,231)
Excess 1999		3,905,998		30,885,817
Closing balance As on 31/12/99				**(4,866,588)**

a Lm690,930,000 appropriated by Warrant No. 1
Lm28,876,002 appropriated by Warrant No. 2 (Supplementary)

b This excludes Lm2,481,647 relating to charges on property transferred from the Church and contribution to sinking fund in connection with ex-Church property loan. This amount was paid out of Recurrent Vote 49 - Joint Office.

A detailed breakdown of the Consolidated Fund as compared with the approved Budget and the 1998 figures is given in the Financial Report 1999.

Revenue

Details of Revenue collected during 1999, classified by heads and subheads, as compared with the Estimates, are shown in the Financial Report. Major sources of revenue for Years 1997 - 1999 are given in the table below.

Government Ordinary Revenues by Major Sources Lm(000's)

Year	Tax Revenue						Non-Tax Revenue *
	Income Tax	National Insurance Contrib.	V.A.T./ C.E.T.	Licenses, Taxes & Fines	Customs & Excise	Total	
	Lm	*Lm*	*Lm*	*Lm*	*Lm*	*Lm*	*Lm*
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
1999	128,356	144,274	85,023	67,958	55,426	481,037	147,132

*Non-Tax Revenue for 1999 includes such items as Sale of Assets (Lm73,291), Central Bank of Malta profit (Lm30,182), Rents (Lm8,001) and Lotteries (Lm7,331).

Budgeted ordinary revenue for 1999 was Lm609,199,000 (against actual ordinary revenue of Lm539,069,017 for 1998). Actual ordinary revenue for 1999, however, amounted to Lm628,169,170, an increase of Lm18,970,170.

Foreign Loans and Grants

Foreign grants received by Government in 1999 amounted to Lm9,682,878. No foreign loans were availed of during 1999.

Actual revenue derived from the reimbursement of expenditure on projects financed by foreign loans and grants shows a variation from the 1999 approved Estimates as shown below.

Grant/Loan	Budget 1999	Actual Revenue 1999	Variation
	Lm	*Lm*	*Lm*
GRANTS: E.U. Second Financial Protocol	30,000	16,587	(13,413)
E.U. Third Financial Protocol	1,243,000	158,602	(1,084,398)
Italy - Fourth Financial Protocol	9,680,000	9,507,689	(172,311)
E.U. Fourth Financial Protocol	60,000	-	(60,000)
LOANS: C.O.E. - S.D.F. (Tal-Qroqq Hospital Project)	3,000,000	-	(3,000,000)
E.I.B. - (Sewerage Project II)	500,000	-	(500,000)

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

To explain the shortfall in foreign grants and loans, the Ministry of Finance gave this Office the following reasons:

Foreign Grants

EU - Second Financial Protocol - Actual cost of Technical Assistance Study in Economic Reforms (Ramboll Report) was lower than expected and as a result reimbursed funds were lower. The Report was finalised and the total funds reimbursed reflect actual amount paid.

EU - Third Financial Protocol - The main shortfalls were attributable to the following reasons:

- The implementation of Upgrading of Standards, Metrology, Testing and Quality Assurance Sectors being undertaken by the Malta Standardisation Authority did not progress as originally anticipated mainly because of the EU's delay in giving its concurrence to the award of tender. The shortfall of Lm900,000 is expected to be reimbursed in 2000/2001.

- A shortfall of Lm71,000 resulted under the Project relating to the training of Radiology personnel due to two factors:-

(a) some of the funds were reimbursed during 2000, that is later than anticipated.

(b) Part of the funds could not be utilised since no applicants with the right qualifications were forthcoming to undertake the course.

- Efforts to utilise residual funds in connection with other expenditure related to the project were not accepted by the EU Commission. The implementation date for the project was December 1999.

EU - Fourth Financial Protocol - The amount of Lm60,000 appearing in the estimates was included as a token figure since discussions on the Fourth EU Financial Protocol were still ongoing at the time. Following lengthy discussions with the EU Commission a revised indicative programme was drawn up and it was only in the year 2000 that the relative Agreements were signed and started being implemented.

Italy - Fourth Financial Protocol - All funds due under this Protocol were claimed and reimbursed. Resulting shortfall in revenue was brought about by an adverse exchange rate of the Italian liri in relation to the Maltese lira.

Foreign Loans

COE-SDF (Tal-Qroqq Hospital Project) - Due to changes in hospital plans, including the design plans, works progressed at a slower pace than anticipated. Meanwhile the Council of Europe Social Development Fund requested fresh information on the new plans. Government is still awaiting a decision by COE on when the next funds may be disbursed.

EIB Sewerage Project II - For various technical reasons the Works Division in the Ministry for the Environment was unable to implement the project and as a result no disbursements could be effected. The Loan had eventually to be cancelled in mid-1999 on the advice of EIB as the Finance Contract was due to expire and no material time was left to implement such a huge project. This was due to the fact that the master plan had not even been endorsed by the EIB a few months before the deadline by which date tenders had to be awarded.

Variances in Revenue Projections

The most substantive variances in relative and/or absolute terms, together with an explanatory note which was given by the Ministry of Finance at the request of NAO, are shown on the table opposite.

MAJOR POSITIVE VARIANCES IN REVENUE FOR FINANCIAL YEAR 1999

A.C. No.	Revenue Head Details	Actual 1998 Lm	Estimate 1999 Lm	Actual 1999 Lm	Variance Lm	Variation
0120	I. Import Duties Misc. (14.4%)	5,483,823	6,500,000	7,439,376	939,376	The original estimate was on the low side. Imports from outside the EU surpassed original expectations.
0232	II. Duty on Documents (7.2%)	13,810,025	14,600,000	15,652,628	1,052,628	Increase was essentially due both to a substantially larger recourse to the finalisation of deeds of transfers in the last quarter of the year, and to higher values of property transacted.
0242	II. Motor Vehicle Registration Tax (24%)	20,674,144	19,000,000	23,570,263	4,570,263	There was a substantial increase in the number of vehicles imported over that of the preceding year. The number of new vehicles registered in 1998 was 14,233 while the number of new vehicles registered in 1999 was 16,566.
0171	III. Income Tax (3.5%)	110,562,264	124,000,000	128,355,808	4,355,808	Increase was mainly due to greater efficiency in tax collection following (i) the introduction of the Final Settlement System; (ii) enforcement and collection of dues arising from agreements with tax payers on the settlement of arrears; and (iii) new procedures and enforcement in respect of the Provisional Tax System.

A.C. No.	Revenue Head Details	Actual 1998 Lm	Estimate 1999 Lm	Actual 1999 Lm	Variance Lm	Variation
0162	IV. CET (131.6%)	72,629,619	5,000,000	11,582,308	6,582,308	The budgeted amount of Lm5m was on the low side. Gross receipts from CET were Lm13.6m, of which Lm2m were paid out as refunds leaving a net balance of Lm11.6m.
0903	XIV. Sale of Shares/Assets (22.2%)	35,385,854	60,000,000	73,290,583	13,290,583	Receipts from the sale of Government shares in Mid-Med Bank netted more than the projected figure of Lm60m.
0139	I. Wines (8215.5%)	149,937	1,000	83,155	82,155	The introduction of excise duty on wines announced in the 1998 Budget was withdrawn in January, 1999. The actual receipts against this item cover full and final payments during 1999 of excise duty levied on local wines during the latter half of 1998.
0304	V. Legal Costs and Fees (1224.9%)	3,464	4,500	59,622	55,122	Increase due to the recoupment of legal dues in respect of one particular court case.
0525	XV. Other Charges (556.8%)	1,516,468	30,000	197,043	167,043	The original estimate of sundry receipts by the Civil Aviation Department was on the low side.
0999	XIV. Misc. Receipts (674.5%)	4,005,166	215,000	1,665,102	1,450,102	Increase is mostly due to gain (Lm1.4m) from auction sale of Treasury Bills during 1999.

MAJOR NEGATIVE VARIANCES IN REVENUE FOR FINANCIAL YEAR 1999

A.C. No.	Revenue Head Details	Actual 1998 Lm	Estimate 1999 Lm	Actual 1999 Lm	Variance Lm	Variation
0132	I. Excise Duties: Machine made cigarettes (-13.1%)	14,444,424	16,400,000	14,250,456	(2,149,544)	Projections were on the high side. Following the increase of excise duty on cigarettes in Budget 1999, a corresponding increase in revenue was expected. However, this increase did not materialise.
0163	IV. VAT (-8.2%)	-	80,000,000	73,440,858	(6,559,142)	In the first year of VAT II operations, gross receipts amounted to Lm93.2m, of which Lm17.5 m was paid out as excess credit refunds and import duty refunds, while another Lm2.3 m was credited to a B/L account for refund purposes in the year 2000.
0441	VI. Adm. Charges for testing of Motor Vehicles - (87.7%)	-	428,000	52,756	(375,244)	The VRT was introduced on 1 October 1999 and not as originally planned in March 1999.
0615	IX. Rent of Commercial Tenements (-25.9%)	1,390,086	1,560,000	1,155,813	(404,187)	Original projections were on the high side.
0631	X. Dividends from PLCs (-47%)	-	4,040,000	2,127,080	(1,912,920)	Original estimate was on the high side. Amount actually received includes final dividend from Mid-Med Bank. Part of dividend received from Bank of Valletta (part dividend from BOV was credited to the sinking fund which owned approx. 2/3 of BOV shares), and dividends received from Maltacom.

Expenditure

The appropriations for expenditure during 1999 were effected by the issue of Warrants 1 and 2 by the Minister of Finance. These were appropriated under the following Statutes:

	Lm
(i) Appropriation Act (Voted Services)	445,565,154
(ii) In terms of Special Laws	262,786,880
(iii) In terms of the Constitution	11,453,968
	719,806,002

Analysis of Appropriations

Appropriation Act (Voted Services)

	Lm
Appropriated by Act XXI of 1998	422,061,152
Appropriated by Act XXII of 1999 (Second Appropriation Act)	23,504,002
	445,565,154

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	15,670
The Attorney General	9,582
Judges and Magistrates	295,234
The Public Service Commission	20,482
	340,968
In terms of Section 106 as applied to the Public Debt	11,113,000
	11,453,968

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).	280,000
b)	Expenses of the Broadcasting Authority - Broadcasting Act, 1992 (Act XII of 1991).	300,000
c)	Expenses of the Tribunal for the Investigation of Injustices - Act VIII of 1997.	46,300
d)	Expenses under Re-letting of Urban Property Ordinance (Cap. 69) and Agriculture Leases (Re-letting) (Cap. 199).	3,000
e)	Land Acquisition (Public Purposes) Ordinance (Cap. 88).	53,200
f)	Social Security Act, 1987 (Act X of 1987)	84,176,000
g)	Pensions Ordinance (Cap. 93)	19,800,000
h)	Widows' and Orphans' Pensions Act (Cap. 58)	160,000
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).	270,000
k)	Expenses of the Office of the Ombudsman, Ombudsman Act, 1995.	144,000
l)	Expenses of the Permanent Commission Against Corruption (Act XXII of 1988).	36,000
m)	Interest plus contribution to the Sinking Funds i.r.o Local Government Stock - Registered Stock and Security Ordinance 1959 (Cap 161).	56,638,380

n)	Malta Arbitration Centre (Act II of 1996).	150,000
o)	Expenses of the National Audit Office, Act XVI of 1997.	*700,000
		262,786,880

* The salary and allowances of the Auditor General and the Deputy Auditor General are included in these expenses. These salaries and allowances should have actually been shown as permanently appropriated under Section 107 (2) of the Constitution.

Excess of Expenditure over Estimates

Supplementary Estimates for 1999 which amounted to Lm28,876,002 were approved by the House of Representatives on 17 December 1999 (explanations for excesses are found in the said Estimates).

There was other overspending on items as shown in the Revised Estimates, 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 original/revised estimates exceeding Lm200,000 occurred in the following instances shown in the Table opposite.

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"*.

Excess of Expenditure over Revised Estimates

Vote, Item	Actual 1998	Revised Estimates 1999	Actual 1999	Variation Actual 1999/ Revised Estimates 1999
	Lm	*Lm*	*Lm*	*Lm*
Vote 33: Ministry for the Environment				
Item 16 Allowances	1,035,508	804,000	1,011,082	207,082
Item 27 Transport	1,197,043	799,000	1,056,823	257,823
Vote 54: Ministry of Health				
Item 30 Contractual Services	787,739	532,000	799,672	267,672
Capital VI: Ministry for the Environment				
Item7: Improvements to Buildings	66,883	120,000	793,231	673,231
Capital VIII: Ministry for Transport and Communications				
Item 9: Sundry Road Improvements	1,041,094	650,000	1,087,537	437,537
Item 10: Hot and cold asphalt Programme	597,486	650,000	1,103,755	453,755
Capital IX: Ministry for Economic Services				
Item 4: Construction of Factories	1,525,383	2,300,000	3,702,827	1,402,827
Item 18: Malta Drydocks	5,426,730	7,500,000	7,735,362	235,362
Item 19: Malta Shipbuilding Subvention	8,000,000	5,650,000	6,438,484	788,484
Capital X: Ministry for Home Affairs				
Item 9: Acquisition of property for Public purposes	599,999	600,000	1,199,824	599,824

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 arrears of revenue due to government, 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 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.

Assets

Statement of Assets reproduced below features as Appendix I in the Financial Report.

Statement of Assets

Assets		1999 Lm(000's)		1998 Lm(000's)
Public Credit				
Share Holding	210,547		144,538	
Loans	175,073	**385,620**	150,106	**294,644**
Investments held on behalf of				
Sinking Funds (Local)	85,402		58,789	
Sinking Funds (Foreign)	12,106		11,789	
Trust Funds	230		222	
Court and Other Deposits	180	**97,918**	168	**70,968**
Advances				
Unallocated Stores	2,249		3,170	
Advances	83,191		62,952	
Loans	1	**85,441**	34	**66,156**
Bank and Cash				
Banks	381		305	
Cash at Treasury	-		80	
C.B.M-PublicAccount	21,170	**21,551**	5,864	**6,249**
TOTAL ASSETS		**590,530**		**438,017**

Source: Financial Report 1999

Loans made by Government and Repayments thereof

Loans

Balances and other details of all loans issued by government as on 31 December 1999, are summarised as follows:

		Lm
i)	Loans under Act II of 1956	9,917
ii)	Loans under Act VI of 1957	720
iii)	Loans under Act XI of 1988 (Ex-Posterity Fund Loans)	17,356,000
iv)	Other Loans	157,707,452
		175,074,089

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	10,573,765
(ii) Malta Shipbuilding Co. Ltd.	101,881,411
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.	11,777,952
Water Services Corporation	4,500,000
Malta Drydocks Corporation 1999	1,890,382

New loans issued by government during 1999 amounted to Lm27,719,735. These loans were made to Gozo Ferries Ltd. (Lm6,277,952), Kalaxlokk Co. Ltd. (Lm5,978,323), Malta Shipbuilding Co. Ltd. (Lm9,073,078), Water Services Corporation (Lm4,500,000) and Malta Drydocks Corporation (Lm1,890,382). After deducting Lm2,785,702 loan repayments, the balance of loans as at 31 December 1999 stood at Lm175,074,089 against Lm150,140,056 on 31 December 1998, resulting in a net increase of Lm24,934,033.

Observations

- According to a return submitted by MGI Ltd. two loans of Lm38,811 and Lm480,168 were also made to Bahhar u Sewwi and Malta Win Cargo Containers Ltd. respectively. These are not recorded by the Treasury.

- The Treasury was never advised about these loans neither by the respective department nor by the Ministry of Finance.

- The Accountant General was requested to make further enquiries about these two loans. If they are to be deemed as loans made by Government, necessary action will be taken by Treasury to record them in the Treasury books during the current year.

Loan Repayments

Loan repayments amounting to Lm2,785,702 were made during 1999.

An amount of Lm2,752,699 was repaid by Gozo Ferries Ltd. On behalf of Malta Shipbuilding Company in respect of a 3 per cent loan made by Government to the latter. This amount represented refunds of wages owed by Gozo Ferries Ltd to Malta Shipbuilding Co. in respect of work made by Malta Shipbuilding employees on Gozo ferries.

However the other amounts shown as repayments (Agricultural Loan Lm3,299 and Fisheries Loans Lm29,704) were actually repaid from savings made from Recurrent Vote 52 item 34 and Capital Vote XI item 2.

Observations

- These last two loans should not have been repaid from the Consolidated Fund but should have been written off through the established procedure as laid down in the General Financial Regulations.

- No terms for repayment were indicated in the Treasury Books in the case of certain loans to Industries made through the Malta Development Corporation.

- In December 1990, The Secretary, Ministry of Finance stated that it was not considered opportune at the time to stipulate terms of repayment. However, the Secretary also contended that action was to be taken through MIMCOL for the eventual collection of these loans. To date, this Office is still not in a position to report any progress regarding this issue.

- In the opinion of this Office the Ministry of Finance should consider examining those loans not covered by terms and conditions and negotiate an agreement on modalities.

Outstanding Loan Repayments

Outstanding loan repayments and interest stood at Lm48,704,262 (of which Lm36,508,013 are outstanding interest payments) as on 31 December, 1999. A breakdown of this figure is shown hereunder:

Outstanding Loan Repayments and Interest

Beneficiaries	Loan	Interest	Total
	Lm	*Lm*	*Lm*
Hotels	6,672	3,368	10,040
Industries	2,517,650	31,939,295	34,456,945
Malta Drydocks Corporation	-	859,194	859,194
Ex-Posterity Fund	9,550,000	3,633,000	13,183,000
M'Xlokk Fishing Co. Ltd.	121,927	73,156	195,083

Investments

The estimated market value of investments as shown in the Financial Report as at 31 December 1999 was Lm308,464,873 as against Lm215,506,270 as at 31 December 1998. These investments are as listed below:

	Lm
Share holding	210,546,862
Court & Other Deposits	167,313
Custodian of Enemy Property	13,023
Sinking Funds	97,508,325
Trust Funds	229,350

The major changes in the investments during 1999 which explain the net increase in the market value by Lm92,958,603 were the following:

i) Maltacom plc shareholding increased from Lm54,707,659 in December 1998 to Lm148,440,115 in December 1999, an appreciation of Lm93,732,456.

ii) The market value of Bank of Valletta Ltd. shareholding increased from Lm19,749,462 as at 31 December 1998 to Lm54,494,533 in December 1999, an increase of Lm34,745,071.

iii) Market value of shareholding in Maltapost plc increased from Lm200,000 to Lm537,500 as in 1999 Government bought 225,000 additional shares at Lm1.50 per share.

iv) Sale of Mid-Med Bank plc shares which on 31 December 1998 had a market value of Lm51,407,991.

v) Sale of shares in Lohombus Corporation Ltd. which on 31 December 1998 had a market value of Lm856,250.

vi) Sinking Funds investments increased from Lm70,578,550 in December 1998 to Lm97,508,325 in December 1999, an increase of Lm26,929,775.

Observations

- Amounts in respect of Book Value and appreciation/depreciation where applicable are not shown, contrary to the presentation of such statement in previous years. The details given and the way the Financial Statements are presented are the prerogative of the Accountant General as long as he satisfies his obligations as laid down in the Financial Administration and Audit Act, 1962. However, in order to enable users to have a better understanding of the Financial Report, all available details should preferably be included in the Financial Statements.

- Interests accrued on some Trust Funds amounting to Lm19,975 are not being re-invested but are being credited directly to the Public Account.

- Savings Accounts of the following Trust Funds are somewhat in excess of the liquidity needed. Proper management of these funds requires investing part of the funds in Fixed deposit accounts or elsewhere to earn higher returns.

Trust Fund	**Balance in Savings Accounts**
	Lm
Papaffy - Emigration Fund	29,081
Miss Zammit Bequest	21,914
Refalo Marriage Legacy Fund	7,374
William England - Emigration Fund	6,138
Prof. Salvatore Borg - Scholarship Fund	3,814

The Accountant General during the current year will be investing in Government stock moneys held in trust to obtain a better yield during the current financial year.

Other Investments

Other investments of a permanent nature, some of which earn revenue, are shown separately in the Statement of Other Investments. It is not understood why all investments forming part of the Statement of Other Investments are not included with the Assets featuring in the Statement of Assets and Liabilities for 1999. At the end of 1999, the total of these investments amounted to Lm67,682,988 as against Lm31,788,030 on 31 December 1998, an increase of Lm35,894,958 over the previous year. This is due to the fact that two of the investments have been quantified. These are now featuring in this appendix, namely:

	Lm
Permanent Debenture in respect of the value of the assets taken over by the Electricity Division	4,362,461
Permanent Debenture in terms of Act XXIII of 1991(Water Services Corporation)	31,400,000

Investments in Industry, an item in the Statement of Other Investments, amounting to Lm30,420,527 comprise government share-holding in eighty one (81) different companies according to Treasury Books. Some of these are entirely financed by government while others are joint ventures with the private sector.

New Investments made during 1999 - The following is a breakdown of additional investments recorded in Treasury Books for the year ended 31 December 1999:

Company	**Additional Investment**	**Details**
	Lm	
Gozo Channel Co. Ltd.	840,000	Purchase of 400,000 Ordinary Shares in September 1997
Malpro Two Ltd	1	Details not available
MDD - Dock 1 Ltd.	100	Investment returned from MGI dated 3 June 1999
MDD - Manoel Island Ltd	100	Investment returned from MGI dated 3 June 1999
Maltacom plc	1	Details not available
Malta Desalination Services	1	Purchase of 1 share dated 5 February 1999
Malta National Laboratory	199,999	Purchase of shares dated 3 December 1999
Maltese Falcon Production	100,000	Investment returned from MGI dated 3 June 1999
Metalfond Co. Ltd	1	Purchase of 1 share
Tug Malta Ltd.	350,411	Acquisition of 144,000 shares from Malta Drydocks

Companies Struck Off - During 1999 companies that were struck off from the Register of Companies of the MFSC and from Treasury Books were the following:

Company	**Amount Invested Lm**
Boulders Co. Ltd	510
Brown and Root Malta Ltd.	20.000
Comino Pig Development Co. Ltd	88.000
Commodities Valletta Ltd.	2.500
Gozo Agricultural Products	52.500
Libma Maintenance Co. Ltd.	40.000
Mosta Spinning Ltd.	100.000
Xlokk Construction (Kalaxlokk)	999.999
Miaco Aviation 86	56.796
Waste Management Co. Ltd	10.000
Total	**1,370.305**

Action is being taken by Treasury to obtain covering write-off approval.

Companies Sold: -The following is a list of companies which were sold prior to 1999. However, the following adjustments were made in 1999:

Company	**Investment Lm**	**Proceeds Lm**
Beef Fattening and Marketing Co. Ltd.	25,000	26,338
Belt-il Hazna Containers Ltd.	7,600	21,420
Coflex Ltd.	50,958	17,835
Leisure Clothing Ltd.	45,000	14,400
Malta University Services Ltd.	67,000	100,500
Med. Trading and Tech Services Co. Ltd.	12,500	1
Moenninghoff Metals (Malta) Ltd.	70,000	40,000
Zrar Co. Ltd.	57,340	188,000

Investment through MGI: 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 the company to the Accountant General showed that the total investment in seventy two (72) companies amounted to Lm29,880,689 as at 31 December 1999.

However it was estimated that the net book value of these companies only amounted to Lm9,199,843, after a provisional loss of Lm20,680,846 was carried forward. The return also pointed out that thirty (30) of these companies are undergoing liquidation procedures, five (5) have ceased operation, ten (10) are just awaiting tax clearance before they can be struck off and two (2) never commenced operations.

Observations

There are discrepancies between Treasury records showing Investment in Industry and MGI records. The Treasury records of Investments and those of Malta Government Investments Ltd. should be reconciled. Moreover a true and fair view of the value of the investments should also be given.

The Treasury agrees and is to carry out such an exercise as soon as possible.

Inspection of Securities/Investments

Board of Securities

On the 19 May 2000, the Accountant General was requested to make the necessary arrangements so that an inspection of securities/investments is carried out as stipulated under Paragraph 1 (b) of the First Schedule of the Auditor General and National Audit Office Act, 1997.

The Accountant General reported that the Board of Securities entrusted with the custody of securities had not been constituted. In view of this constraint, our request to inspect the securities could not be acceded to.

Board of Survey

A Board of Survey was appointed in terms of Reg. 98 of the General Financial Regulations 1966 in order to take account of moneys, deposits and other valuables at the Treasury as at 31 December 1999.

The Board of Survey did not carry out the terms of reference outlined in their letter of appointment and did not submit any reports.

The Accountant General was requested to explain why this situation was allowed to happen. A reply from the Accountant General is still awaited.

Advances

Accounting of Advances

Regulation 89 of the General Financial Regulations, 1966 stipulates that *"it shall be the duty of the Accounting Officers to see that such accounts 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"*.

Appendix L of the Financial Report incorporates a detailed statement of balances remaining outstanding as on the 31 December 1999, in respect of advances made to various

Government Departments, agencies and organisations as well as to Government delegations proceeding abroad.

Following comments made in the Reports of the Auditor General for financial years 1997 and 1998 on long outstanding advances made by government from the Treasury Clearance Fund, progress was registered and action was initiated to recoup some of the outstanding advances.

Pending advances totalled Lm83,191,553 as on 31 December 1999, as against Lm62,952,132 outstanding on the 31 December 1998.

The main outstanding advances were the following:

Outstanding Advances

Description	***Lm***
Government delegations in connection with visits abroad prior to January, 1993	141,500
Malta Development Corporation on 24 July, 1984 for the purchase of Verdala Hotel	1,015,150
Permanent Secretary, Ministry of Finance to provide bridging finance facilities to Malta Drydocks Corporation during 1996	4,650,583
Director of Industry to meet expenditure in connection with the construction of ships at Malta Shipbuilding in 1991	9,291,722
Works Division in the Ministry for the Environment to meet expenditure in connection with the construction of the new Air Terminal building in 1991	224,167
Commissioner of Land to enable the Land Department to pay compensation to Tigne residents in 1994	951,078
Ministry of Finance to the Bank of Valletta Employees Foundation for the purchase by the Foundation of 1,385,406 ordinary shares in Bank of Valletta Ltd. in 1995	1,558,582

Ministry of Finance to meet expenses in connection with the holding of the Mediterranean Crans-Montana Forum Conference held in Malta in October 1995	531,583
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
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
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
Commissioner of Inland Revenue to meet loans in terms of Section 4 of the Monte Di Pieta` Act (No. XXXIX) of 1976	562,081
Permanent Secretary, Ministry of Industry to effect payments required by the Malta Development Corporation for the construction of a new factory intended for Brandt International in 1991	345,000
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 in 1998	2,735,383
Permanent Secretary, Office of the Prime Minister to provide bridging finance facilities to Malta Drydocks Corporation during 1998.	11,428,404
Permanent Secretary, Ministry for Economic Services to provide bridging finance facilities to Malta Drydocks Corporation during 1999	7,999,646
Permanent Secretary, Ministry for Economic Services for the purpose of settling during 1999 servicing costs of Malta Freeport loans	7,275,553

Permanent Secretary, Ministry for the Environment, being Government's contribution required to be made by government in connection with the Manoel Island/Tigne Point Project in 1999	162,029
Accountant General for the purchase of Middle Sea Insurance shares from HSBC Malta plc in 1999.	5,987,626
Accountant General for the purchase of Maltapost shares from HSBC Malta plc. in 1999	337,500
Accountant General for the Purchase of Medigrain shares from HSBC Malta plc. in 1999	865,008

Observations

The following advances from those listed above should already have been repaid to Treasury Clearance Fund:

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 to repay these advances when the Russian customer paid his dues or else when the ships were sold to third parties. However, when these ships were sold the proceeds were used to repay part of the Bank overdraft facilities granted to Malta shipbuilding Co. Ltd. for the construction of the Russian vessels.

Mediterranean Crans Montana Forum - Lm531,583: an advance of Lm220,000 and another of Lm402,587 were made in 1995 and 1996 respectively. These advances should have been repaid out of proceeds from participants at the Conference. Only Lm91,004 were repaid leaving an amount of Lm531,583 still outstanding.

New Air Terminal - Lm224,167: This advance of Lm934,167 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. During 1999, an amount of Lm710,000 was repaid leaving a balance of Lm224,167.

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. 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. No repayments have 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. It had to be repaid from funds received from the sale of the Hotel. In March 1997 the hotel was sold for Lm2.75 million but an amount of Lm1.5 million was still due from the purchaser. MDC informed the Ministry of Finance that the advance will be repaid when all the proceeds on sale are received.

Audit Comments

- Although it is primarily the responsibility of the Head of Department to timely account for these warrants, the Treasury, in conjunction with the Ministry of Finance, should monitor these advance warrants to ensure that the Financial Regulations and the directives issued by the Minister of Finance are followed.

- This Office contends that if for any reason these advances cannot be repaid, the monies advanced are to be written-off and funds be provided for in the Estimates of Expenditure to repay these outstanding advances into the Treasury Clearance Fund.

- The Permanent Secretary, Ministry of Finance, stated that several outstanding advances which cannot be repaid as laid down in the warrants (including a number which were indicated in our report) will start being repaid out of the Consolidated Fund monies provided under the related Votes. It is to be noted that this will entail additional expenditure to Government.

Unallocated Stores

The total book value of the unallocated stores stood at Lm2,249,446. These were held by:

- the Ministry for the Environment - Lm770,984;
- Department of Information (Government Printing Press) - Lm290,106; and
- Contracts Department (Central Supplies) - Lm1,188,356.

Since these stores form part of Government Assets, they are also included in the Statement of Assets and Liabilities.

During Sitting Number 28 of the Public Accounts Committee held on the 16 June 1999, it was agreed that a Board of Survey was to be appointed by the Permanent Secretary, Ministry of Finance. On the 26 June 2000 a board was appointed with the following terms of reference:

- To establish and determine the value of the *"unallocated stores"* held in the Suspense Account on 30 June 2000 by category and type;
- To establish and determine the value of the stock held on 30 June 2000, i.e. the actual stock on hand, amount of debtors and works in progress where applicable;

- To determine any resulting discrepancies between the two values and provide explanations for them;
- To ascertain debt arrears and what action is being taken in regard to the collection of such debt balances;
- To analyse the accounts held by the former Ministry of Public Works and Construction;
- To recommend, on the basis of the findings, particularly as regards moving items, what action should be taken to dispose of such stores expediently and economically in terms of the General Financial Regulations.
- Submit an interim report to the Permanent Secretary, Ministry of Finance, by not later than the 29 September 2000 with a final report by the 29 December 2000.

The interim report was submitted. It is expected that when the final report is concluded, follow-up action is taken to address the findings and recommendations of the Board.

Bank and Cash Year End Balances

The Financial Report shows that on 31 December 1999 the Cash-in-hand element at the Treasury amounted to Lm330. This however, could not be verified from the certificate that should have been issued by the Board of Survey in terms of its Letter of Appointment. As indicated earlier, the Board did not submit any report (cfr page 34).

The Cash at Bank as shown in Treasury Books amounted to Lm21,170,460 whilst the Central Bank's certificate showed a balance of Lm30,880,182 in the Public Account. 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, 1999.

Observation

- The Accountant General, for the seventh consecutive year, did not draw up a bank reconciliation statement and NAO could therefore not verify the correctness of the Treasury Books balance.

Liabilities

Statement of Liabilities is reproduced below:

	1999 Lm(000's)		1998 Lm(000's)	
Public Debt		**756,370**		**679,882**
Treasury Bills		**80,637**		**81,710**
Deposits				
Court and Other Deposits	29,975		24,898	
Other	27	**30,002**	26	**24,924**
Funds				
Sinking Funds	97,508		70,578	
Public Lotto	881		1,181	
Contingencies Fund	500		500	
Trust Funds	249	**99,138**	232	**72,419**
Accumulated Fund				
Consolidated Fund at year end	(4,867)		(35,752)	
Net Public Debt/Credit	**(370,750)**	**(375,617)**	**(385,238)**	**(420,990)**
TOTAL LIABILITIES		**590,530**		**438,017**

Source: Financial Report 1999

Public Debt

On 31 December, 1999, the Public Debt (inclusive of Treasury Bills outstanding at year end) amounted to Lm837,007,026. This amount represents an increase of Lm75,415,319 over the corresponding figure for 1998.

This increase works out as follows:

	Lm
Total of New Loans	483,642,924
Total Repayment of Loans	(410,017,079)
Currency Adjustments	1,789,474
Net Increase of the Public Debt	75,415,319

The following payments in connection with the Public Debt were made out of the Consolidated Fund. (Vote 55 - Public Debt Servicing and Vote 49 - Joint Office).

Payments from Consolidated Fund

		Vote 55 Public Debt Servicing	**Vote 49 Joint Office**	**Total**
		Lm	***Lm***	***Lm***
i)	Interest on loans	44,929,407	1,978,647	46,908,054
ii)	Interest on short term borrowing (Treasury Bills)	5,163,319	-	5,163,319
iii)	Contribution to Sinking Funds	13,800,540	503,000	14,303,540
iv)	Loan repayment 'Sumitomo Bank'	900,000	-	900,000
		64,793,266	2,481,647	67,274,913

The amount of Lm900,000 in respect of Sumitomo Bank Ltd. shown as "*loan repayment*" was made directly from recurrent expenditure

The amount of Lm11,847,152 shown as payment made out of the Sinking Fund is made up of:

Payments from Sinking Funds

		Lm
i)	Payment of Local Loans	8,215,573
ii)	Payments of Foreign Loans	4,116,279
iii)	Gain on currency adjustments	(484,700)
		11,847,152

Adjustments in Treasury Books

Italian Loan 1985 - although this loan is denominated in USD, when the value of this loan was converted to Maltese currency on the 31 December 1999, it was erroneously calculated on the rate of the Euro in lieu of the USD. As a result appreciation should read Lm20,742 instead of Lm21,920 and balance on 31 December 1999 should read Lm203,013 instead of Lm204,193.

Italian Loan 1986 - as in the case of the previous loan, the closing exchange rate used was that of the Euro instead of the USD. Thus, the closing balance should read Lm9,385,347 instead of Lm9,439,845. On the other hand, appreciation should read Lm836,819 instead of Lm891,317.

European Union - Loan E - the figures of this loan were not correctly reproduced from the Treasury Books to Appendix E. Thus, the closing balance should therefore read Lm2,979,271 instead of Lm2,759,761. The currency adjustment should have been an appreciation of Lm191,072 instead of a depreciation of Lm28,438.

The Accountant General adjusted the Treasury Books to correct these discrepancies on 15 June 2000.

Public Debt since 1983

The Table overleaf presents the Public Debt (Local Loans, inclusive of Treasury Bills balances at end of year, and Foreign Loans), total Gross Domestic Product, and change of Public Debt over preceding year for the period 1983 to 1999.

Public Debt since 1983

Year	Local Loans (i) (ii)	Foreign Loans	Total	G.D.P. (iii)	Total Debt/ GDP	Total Debt Change over preceding year
	Lm000's	Lm000's	Lm000's	Lm000's	%	Lm000's
1983	27,463	42,409	69,872	457,556	15.27	(+) 9,850
1984	27,463	45,308	72,771	461,052	15.78	(+) 2,899
1985	27,463	42,524	69,987	475,982	14.70	(-) 2,784
1986	27,463	35,439	62,902	511,869	12.29	(-) 7,085
1987	56,739	29,842	86,581	549,171	15.77	(+) 23,679
1988	82,306	28,137	110,443	606,451	18.21	(+) 23,862
1989	92,454	26,889	119,343	670,139	17.81	(+) 8,900
1990	136,530	37,495	174,025	734,745	23.69	(+) 54,682
1991	166,928	44,707	211,635	806,875	26.23	(+) 37,610
1992	197,423	48,398	245,821	874,750	28.10	(+) 34,186
1993	254,290	50,480	304,770	940,034	32.42	(+) 58,949
1994	283,013	56,264	339,277	1,028,534	32.99	(+) 34,507
1995	355,820	53,433	409,253	1,145,524	35.73	(+) 69,976
1996	462,738	51,789	514,527	1,201,286	42.83	(+) 105,274
1997	610,956	50,449	661,405	1,288,219	51.34	(+) 146,878
1998	715,079	46,513	761,592	1,362,324	55.90	(+) 100,187
1999	792,821	44,186	837,007	(iv)1,446,738	57.85	(+) 75,415

(i) Source: Treasury Books and Financial Report.
(ii) Inclusive of Treasury Bills balances at year end.
(iii) Source: Central Bank of Malta, Quarterly Review Publication.
(iv) Provisional, Central Bank of Malta, Quarterly Review Publications.

Letters of Comfort/Bank Guarantees

In Part I of the Financial Report, 1999 the Accountant General for the first time features a Table showing the position of "Contingent Liabilities". The component parts are made up of a) Government Guarantees, (b) Letters of Comfort, and (c) Letters of undertaking as follows:

Contingent Liabilities - 1999

	Lm	***Lm***
Government Guarantees:		
Local	251,964,179	
Foreign	174,688,304	
		426,652,483
Letters of Comfort		31,987,058
Letters of Undertaking		42,506,859
		501,146,400

Besides the canceling of some guarantees and decrease or increase in existing guarantees, during 1999 three (3) new Guarantees/Letters of Comfort were issued.

A detailed list of Letters of Comfort/Bank Guarantees submitted to this Office by the Ministry of Finance showed a balance of Lm501,146,400 as on 31 December 1999 (against Lm513,034,618 as on 31 December 1998 and Lm518,213,921 on 31 December 1997). The total amount for 1999 tallies with that given by the Accountant General.

Letters of Comforts/Bank Guarantees

Beneficiary	31.12.99	31.12.98	31.12.97
	Lm	*Lm*	*Lm*
Air Malta Co. Ltd (Foreign)	42,506,860	49,141,984	55,856,687
Air Malta Co. Ltd (Local)	8,100,000	8,100,000	8,100,000
Malta Counter Trade Co. Ltd.	3,099,762	2,839,788	3,064,521
Malta Drydocks Corporation	40,408,961	40,379,746	51,626,095
Enemalta Corporation	58,538,235	62,116,582	80,195,569
Malta Gantry Manufacturing Ltd.	13,498,832	11,361,851	9,561,017
Housing Authority	18,725,522	21,019,753	21,301,990
Malta International Airport Ltd.	-	6,411,313	7,566,238
HSBC Home Loans (Malta) Ltd*	60,000,000	60,000,000	60,000,000
Master Antenna Ltd.	-	-	145,856
Malta Development Corporation	4,944,618	4,433,186	4,033,298
METCO Ltd.	2,789,883	2,789,862	2,890,878
Malta Government Investment Ltd.	10,068,036	10,618,276	11,843,873
Public Broadcasting Services Ltd.	1,201,672	1,400,000	1,500,000
ST Microelectronics (Malta) Ltd.	2,800,000	2,800,000	6,799,097
San Lucian Oil Co. Ltd.	131,920	288,124	597,046
Self Employment Scheme	7,600	30,000	50,000
Malta Shipbuilding Co. Ltd.	3,112,607	4,140,350	7,620,935
VAT Fiscal Registers Co. Ltd.	-	-	1,229,122
Water Services Corporation	33,624,763	30,271,602	27,665,949
Telemalta Corporation	-	-	1,331,703
Malta Win Cargo Containers Ltd.	3,923,277	3,872,557	3,977,720
Youth Specialisation Studies Scheme	-	8,678	9,078
Gozo Channel Co. Ltd.	-	-	492,761
Kordin Grain Terminal Co. Ltd.	527,922	635,913	735,704
Freeport Industrial Storage Malta Ltd.	-	837,105	913,450
Freeport Investments Ltd.	-	815,299	904,239
Freeport Terminal (Malta) Ltd.	-	101,621,405	82,893,746
Malta Freeport Corporation	124,188,290	14,501,807	18,011,285
Malta Government Loans	16,693,224	19,927,310	21,404,616
Gozo Ferries Co. Ltd.	47,132,053	47,700,619	22,314,836
Medigrain Ltd.	15,000	516,285	-
Malta Desalination Services Ltd.	1,986,525	2,342,863	1,504,967
Rotos Zirayia Pumps	-	-	56,000
Tripoli Sewage Treatment Plant	735,871	773,510	816,424
I.B.R.D.	1,308,160	1,308,160	1,167,412
M.I.G.A.	33,464	30,690	31,809
Malta Tourism Authority	1,034,920	-	-
YSSS - Jean Paul Mifsud	3,836	-	-
YSSS - Nikolai Cassar	4,587	-	-
TOTAL	**501,146,400**	**513,034,618**	**518,213,921**

* Previously shown as Lohombus Corporation

Comments

The publishing of the table showing in broad categories the guarantees undertaken by Government is a welcome addition to the Financial Report and improves the presentation thereof. NAO is still of the opinion that a detailed list should be published as has been done in the Audit Reports since 1995.

Statement of Abandoned Claims, Cash Losses and Stores Written Off

The following Statement of Abandoned Claims, Cash Losses and Stores Written Off for 1999 is reproduced from the Financial Report.

Statement of Write Offs - 1999

Department	Abandoned Claims	Stores Written Off	Cash Losses	Total
	Lm	*Lm*	*Lm*	*Lm*
Armed Forces of Malta	-	133	-	133
Customs	465		10	475
Government Property Division (Land and Construction)	400,691	-	-	400,691
Inland Revenue	1,821	-	47	1,868
Joint Office	-	-	26	26
Ministry for Tourism		150		150
Ministry for Transport and Communications	*208,121	-	475	208,596
Ministry of Agriculture and Fisheries	-	30	10,195	10,225
Ministry of Foreign Affairs	-	-	30	30
Ministry of Health	-	714	5,446	6,160
Police	-	372	10	382
Public Lotto	-	-	76	76
TOTALS	**611,098**	**1,399**	**16,315**	**628,812**

* Wireless Telegraphy

As observed in previous Audit Annual Reports, besides details of the extent, an explanation on the nature of the write-offs should also be included in the Financial Report.

Observations

i) The amount of Lm400,691 is shown as having been written off under the **Department of Government Property Division (Land and Construction).** This amount comprises the sum of Lm400,000 being rent due for the year 1998 in respect of Dock no. 6 in terms of the 1989 agreement between Government and Malta Drydocks: the balance of Lm691 is in respect of rent due by third parties;

ii) Lm208,121 abandoned claims shown under **Ministry for Transport and Communications** are in respect of amounts due by users to Master Antenna Ltd. up to the end of March 1999.

iii) The amount of Lm10,195 cash losses shown under **Ministry of Agriculture and Fisheries** covers loss of Lm10,135 during a holdup of Pitkali clerks and Lm60 are in respect of two (2) counterfeit notes (Lm15) and a cash loss of Lm45;

iv) Lm5,446 cash losses shown under **Ministry of Health** are made up of Lm4,986 hospital fees and Lm460 ambulance fees. As these are claims and not cash losses, the amount of Lm5,446 should have been shown under abandoned claims;

v) The amount of Lm1,821 abandoned claims shown under **Inland Revenue** is in respect of claims under Lm5 (Lm143) and claims over Lm5 (Lm1,678) that were written off.

The details are not all-inclusive. Contrary to Financial Regulations, fifteen (15) Departments/Ministries shown hereunder failed to submit a return of write-offs to the Treasury.

- House of Representatives
- Justice
- Judicial
- Social Security
- Social Security Benefits
- Ministry of Education
- Libraries and Archives
- Youth and Sport
- Roads
- Licensing and Testing
- Ministry for Economic Services: Economic Planning
- Industry
- Statistics
- Ministry for Home Affairs
- Legal: Public Registry

This Office was informed by the Accountant General that a list of defaulting Departments/Ministries will, in future, feature in the Financial Report.

Cost Centres

The Estimates 1999 analyses the aggregate of the funds budgeted to each Ministry/Department into the respective cost centres, where applicable. However, the 1999 Financial Report fails to subdivide the total amounts reported in relation to the respective cost centres.

Observations

The budgeted and actual amounts for each of the 145 cost centres within 28 Ministries/Departments can neither be compared nor variances calculated.

NAO recommends that Financial Statements should include actual expenditure by cost centres, as was done in previous years' reporting.

Part 4 – Corporate Issues

Telephone lines with overseas dialing facility

Background

A preliminary survey on the prevailing situation regarding the debar (‘00’) facility of telephone lines in Ministries and Departments has been conducted. On 30 March 1998 the Permanent Secretary, Ministry of Finance issued a letter circular to all Permanent Secretaries (Ref MFC 167/89/2) delegating the authority over the control of all office communication facilities to Directors, Corporate Service within Ministries. An OPM Circular (12/84) issued in February 1984 stated that Heads of Department, or their assistants, are to certify on the telephone bill that the overseas calls charged for, if any, were made on official business.

A questionnaire submitted to Directors Corporate Service revealed that a total of 675 lines with the overseas dialing facility are spread within Ministries and Government Departments.

NAO is concerned that control on debarred telephone lines in Ministries and departments is limited.

Objectives

The objective of this audit is to address the degree of control being exercised on such debarred telephone lines.

Findings

Ministries

The 14 Ministries have 138 lines between them and another 26 lines are within the 5 Parliamentary Secretariats for a total of 164 lines. Of these the location of 13 lines was not indicated. Only 126 officers (including Ministers and Parliamentary Secretaries) were identified with a direct telephone line out of the total of 164. Lines made use of as a fax machine are 31. One hundred and eight (108) lines were approved by the respective Permanent Secretary but only in 58 cases the reason for approval was given.

Out of the 21 lines at the Ministry of Education, 6 are said to be general lines at the reception desk. Ministry of Justice has also reported 2 general lines.

Departments

Of the five hundred and eleven (511) telephone lines with the ‘00’ dialing facility available in Government Departments, the location of 478 cases was established. Only 375 of these lines could be identified to particular officers.

51 per cent (261) of the total lines have no approval of the Permanent Secretary. Only in 198 of the cases has a reason for approval been given, and their motives are not necessarily valid.

149 lines, i.e. 29 per cent of the 511, are used in connection with fax machines which offer the possibility of making normal calls.

A breakdown of the information covering Ministries and Departments is given in the Table opposite.

DISTRIBUTION OF TELEPHONE LINES WITH OVERSEAS DIALLING FACILITY													
Ministry	No. of Lines			Location Identified		Officer Identified		Approval				Fax	
								No Approval		Reason for Approval			
	Total	Ministry	Depts.	Ministry	Depts	Ministry	Depts.	Ministry	Depts.	Ministry	Depts.	Ministry	Depts
OPM	98	10	88	10	75	1	46	9	58	1	26	3	9
Social Policy	37	7	27	7	27	7	27	0	0	0	0	2	9
Social Policy P.S.		3		3		3		0		0		0	
Education	81	21	50	21	50	15	45	11	49	0	2	4	8
Education P.S.		10		10		7		0		0		2	
Finance	62	17	45	17	45	17	30	0	12	17	22	4	18
Environment	43	11	32	11	32	11	28	0	0	11	32	2	17
Tourism	38	14	24	14	24	14	23	0	14	14	10	2	11
Transport & Comm.	25	8	17	8	14	8	12	0	22	0	2	1	9
Economic Services	46	9	29	0	31	9	20	0	5	9	17	3	12
Economic Services P.S.		3		3		3		0		3		0	
Economic Services P.S.		5		5		5		5		0		1	
Home Affairs	94	5	84	5	75	5	52	4	24	1	57	1	28
Home Affairs P.S.		5		2		2		0		0		1	
Agriculture & Fisheries	19	6	13	6	13	3	10	6	13	0	0	1	5
Gozo	11	4	7	4	7	4	6	4	1	0	5	2	2
Health	58	9	49	9	49	7	48	0	20	2	25	2	15
Justice & Local Govt.	29	6	23	5	17	4	18	6	20	0	0	0	6
Foreign Affairs	34	11	23	11	19	1	10	11	23	0	0	0	0
Total:	675	164	511	151	478	126	375	56	261	58	198	31	149

P.S. = Parliamentary Secretary

Source: Replies to Questionnaire

Conclusion

The provisions of OPM Circular 12/84 which are meant to enhance control on overseas calls are not being adhered to. The information gathered, which cannot be considered comprehensive, indicates that internal control mechanisms need to be strengthened. Cases have already been identified where telephone numbers have not been included in the lists submitted by Directors Corporate Services.

It is NAO's opinion that a review of all such lines within departments is to be carried out by the DCS. Furthermore, all ‘00’ facility lines should be identified with a specific officer whether the line is within a Ministry or Department.

Arrears of Revenue 1999

Background

The timely collection of revenue and control over the extent of arrears of revenue is the responsibility of the Accounting Officers.

Heads of Department are 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 stipulated in Reg. 49 (i) of the General Financial Regulations, 1966.

It should however be pointed out that the onus of the actual monitoring of the submission of returns is repeatedly falling on the National Audit Office. In fact the NAO has to draw the attention of the Accountant General regarding those departments which fail to submit returns.

Returns

The total amount of arrears for the year ending 31 December 1999 identified by NAO was Lm379,961,359. This amount does not represent the actual arrears due considering that some returns were incomplete or incorrect, whilst some others include outstanding bills based on assessments which are being challenged. Moreover, it includes arrears that could be statute-barred. Part of the arrears, amounting to Lm63,882,162, is due from Government Departments and Parastatal Bodies.

Statements compiled by NAO giving details on arrears due for the year 1999 feature in Table on page 56. The Table was compiled from returns received by the first week of September 2000. Rate of collection, changes in the level of arrears and arrears due by Government Departments and Parastatal Bodies are included in the Table.

NAO is concerned with cases of low rate of collection and large increases in arrears without valid reasons given.

Notwithstanding the 31 March 2000 deadline, by August 2000 not all agencies submitted completed returns. A large number of the returns were not submitted in time. This non-compliance with Financial Regulations was reported to the defaulting departments and also to the relative Permanent Secretaries.

With the exception of the Joint Office, all departments/ministries submitted their return of arrears of revenue for 1999. The Joint Office informed NAO that it was not in a position to forward any meaningful estimate of arrears as in the case of 1998. The I.T. system of the department collapsed and management is working on a stopgap solution.

Ministry/Department	Outstanding on 31/12/98	Collected during 1999	% Rate of Collection	Written off or not due 1999	Arrears 1999	Outstanding on 31/12/99	Net Variation	% Change in Arrears	Due from Govt. Depts. & Parastatal Bodies
	Lm	*Lm*		*Lm*	*Lm*	*Lm*	*Lm*		*Lm*
AFM	32,030 ***(c)***	2,164	6.8	3,598	6,072	32,340	310	1.0	21,214
Courts	5,070,320 ***(c)***	153,536 ***(b)***	3.0	26,299	477,477 ***(b)***	5,367,962 ***(b)***	297,642	5.9	***(a)***
Information/Govt. Printing Press	735,301 ***(c)***	19,639	2.7	19,175	100,189	796,676	61,375	8.3	795,247
Social Security	1,086,168 ***(c)***	182,879	16.8	31,849	422,754	1,294,194	208,026	19.2	***(a)***
Industrial and Employ. Relations	381,532	223	0.1	-	2,061	383,370	1,838	0.5	-
Education	72,016	2,644	3.7	7,522	8,623	70,473	-1,543	-2.1	-
Youth and Sport	-	-	-	-	63,000	63,000	63,000	-	-
Mediterranean Conference Centre	160,419	90,992	56.7	105	118,122	187,444	27,025	16.8	59,705
CET/VAT	30,033,618 ***(c)***	2,122,797	7.1	6,740,505	20,571,877	41,742,193	11,708,575	39.0	***(a)***
Contracts	371,142	22,516	6.1	-	111,895	460,521	89,379	24.1	247,683
Customs	3,265,923 ***(c)***	2,740,477	83.9	2,726	8,568,673	9,091,393	5,825,470	178.4	8,330,828
Inland Revenue:									
Income Tax	161,689,725	12,770,364	7.9	11,519,096	91,693,535	229,093,800 ***(f)***	67,404,075	41.7	***(a)***
Duty on Docs. and Transfers	12,805,106	296,138	2.3	2,870,562	5,554,399	15,192,805	2,387,699	18.6	-
Death and Donation Duties	3,962,109	54,334	1.4	645,345	248,017	3,510,447	-451,662	-11.4	-
Treasury	44,033,925	213	0.0	63,000	4,739,261	48,709,973	4,676,048	10.6	48,499,139
Ministry for the Environment	6,182,505 ***(c)***	394,134	6.4	153,461	1,400,410	7,035,320	852,815	13.8	2,212,716
Tourism	186,819 ***(c)***	21,746	11.6	1,616	25,700	189,157	2,338	1.3	121,591
Licensing and Testing	2,628,224 ***(c)***	223,992	8.5	1,645	780,309	3,182,896	554,672	21.1	-
Roads	886,160 ***(d)***	-	-	-	-	886,160	-	-	595,748
Wireless Telegraphy	1,726,609	***(a)***	0.0	***(a)***	***(a)***	1,726,633	24	0.0	-
Industry	25,869	54	0.2	52	110	25,873	4	0.0	13,095
M.D.C.	4,850,557	602,628	12.4	257,102	743,275	4,734,102	-116,455	-2.4	274,729
Government Property Division	4,097,804	479,024	11.7	839	833,064	4,451,005	353,201	8.6	2,291,901
Police	631,849	94,368	14.9	39,868	107,839	605,452	-26,397	-4.2	298,746
Joint Office	***(a)***	***(a)***		***(a)***	***(a)***	***(a)***	-	-	-
Agriculture and Fisheries	207,310	573	0.3	45	3,260	209,952	2,642	1.3	96,519
Gozo	108,242 ***(c)***	25,547	23.6	-	43,922	126,617	18,375	17.0	18,262
Health	821,717	210,010	25.6	6,659	155,166	760,214	-61,503	-7.5	-
Others	36,260	9,504	26.2	2,021	6,652	31,387	-4,873	-13.4	5,039
TOTALS	**286,089,259 (e)**	**20,520,496**	**7.2**		**136,785,662**	**379,961,359**	**93,872,100**	**32.8**	**63,882,162**

a) Details not submitted. **b)** Details incomplete. **c)** Opening balance does not agree with 1998 closing balance. **d)** Opening balance is 1996 figures as returns for 1997 and 1998 were not submitted. **e)** Figure adjusted from Lm282,626,797 reported as outstanding balance on 31.12.98 in last year's Audit Report.
f) Outstanding balance consists of the net debit balances for years of assessment up to 1998 (Lm156,270,989) and for year of assessment 1999 (Lm70,984,310), the negative debit balances added back (Lm1,839,222) and an immaterial adjustment.

Notes and Comments on Arrears in excess of Lm200,000

Courts Lm5,367,962

		Lm
i)	Court Fees	418,335
ii)	Criminal Fines	2,065,146
iii)	Judicial (Magistrate Fines)	1,148,687
iv)	Traffic Fines	1,723,275
v)	Notarial Fees	438
vi)	Gozo Court Fines	12,081

The returns covering Court Fees, Judicial/Magistrate Fines and Traffic Fines were submitted incomplete.

The Court department did not submit the requested breakdown regarding arrears due from private individuals and Government Departments/Parastatal Organisations.

Information/Government Printing Press Lm796,676

		Lm
i)	Photographic works	15,410
ii)	Publications	5,339
iii)	Government Gazette	4,667
iv)	Standing Orders	3,607
v)	Jobbing Orders	743,706
vi)	Stationery	23,947

Part of these arrears of revenue, amounting to Lm178,160, are in respect of amounts due to the Below-the-Line Account - Unallocated Stores which is commented upon under Part 3 of the Report.

VAT/CET Lm41,742,193

		Lm
i)	Expenditure Levy	99,083
ii)	Refunds to Government on 1997 Stocks	549,076
iii)	VAT 1994	17,353,444
iv)	Customs and Excise Tax (CET)	10,453,628
v)	VAT 1998	13,286,962

The opening balance for 1999 has been adjusted from Lm26,035,726 to Lm30,033,618 as indicated in table on page 56, an increase of Lm3,997,892. The amount of Lm3,997,892, shown as a negative balance in the return of arrears for VAT 1994, represented estimated refunds due to four (4) taxpayers inadvertently generated automatically by the system during the changeover from VAT 1994 to CET in July 1997. Thus, after removing this negative amount, the correct figure should read Lm30,033,618.

A verification of arrears newly accrued during 1999 could not be carried out because of I.T. technical reasons. Hopefully, MITTS will be able to overcome the VAT Department's problem and enable the Department to comply with NAO's request for a detailed breakdown in next year's return of arrears of revenue.

Arrears outstanding on 31 December 1999 are inclusive of estimated assessments issued and interests due as shown hereunder:

	Arrears 1999	**Estimated Assessments**	**Interests**
	Lm	***Lm***	***Lm***
VAT 1994	17,353,444	1,686,744	5,778,323
CET 1997	10,453,628	5,914,801	1,572,642
VAT 1998	13,286,962	11,907,206	572,803

These assessments and interests are automatically cancelled and replaced, if applicable, by the actual tax due once the relevant late tax returns are submitted.

It is also pertinent to point out that taxpayers' credit (refunds) of input tax still due amounted to Lm14,269,924 as at 31 December 1999.

Social Security Lm1,294,194 (overpayments)

	Lm
i) Children Allowance (old records)	11,697
ii) Children Allowance (SABS - new records)	43,427
iii) Social Security (Area Offices)	454,604
iv) National Assistance/Children Allowance	44,291
v) Pensions	505,020
vi) Social Assistance Benefit Scheme (SABS)	173,878
vii) At source	60,485
viii) Bonus	792

The return of arrears for N.I. Contributions was not submitted by the Social Security Department. As from 1998 collection of N.I. contributions became the responsibility of Inland Revenue. Pre 1998 arrears however, remain the responsibility of the Social Security Department. NAO is following procedures regarding N.I. contributions and may eventually report on the matter.

Industrial and Employment Relations Lm383,370

These arrears are monies due by defaulters as repayments under the self-employment scheme which was introduced in 1989 but was discontinued in 1992. There is nothing to add to the report on these arrears which featured in NAO Report 1998 except that on 11 July 2000, the Director of Industrial and Employment Relations requested Finance authority to write-off the amount of Lm198,288 in respect of 78 claims which are time-barred.

Contracts Lm460,521

		Lm
i)	Issue of stores made by Central Supplies	248,563
ii)	Penalties and damages due to Government	211,958

The arrears in respect of issues of stores made by Central Supplies are due to the Below-the-Line Account - Unallocated Stores.

Customs Lm9,091,393

		Lm
i)	Unpaid reimbursement and administration charges i.r.o. Services by Customs Officials at Merchants' request	764,440
ii)	Post Entries (Custom duty paid after release of Merchandise)	8,111,602
iii)	Weighing Fees	2,909
iv)	VAT on weighing fees	84
v)	Sale of cable seals	1,954
vi)	Legal Fees	115
vii)	Guarding Fees	100
viii)	Fines and Penalties	210,189

The Customs Department estimate that Lm138,674 of these arrears are considered as statute-barred.

Arrears under item (i) shows an increase of Lm37,454 over the previous year, from Lm726,987 on 31 December 1998 to Lm764,441 on 31 December 1999.

Arrears in respect of item (ii) increased from Lm2,530,227 on 31 December 1998 to Lm8,111,602 on 31 December 1999, an increase of Lm5,581,375. This increase is attributable to unpaid duty by EneMalta Corporation. In fact arrears due from EneMalta increased from Lm2,469,074 on 31 December 1998 to Lm8,057,064 on 31 December 1999, a difference of Lm5,587,990.

In August 2000, the Ministry of Finance exempted EneMalta from paying Lm1,982,566 excise duty on gas oil consumed by the Power Station in terms of Section 14 (2) of the Excise Duty Act, Cap. 382. The arrears were thereby reduced from Lm8,057,064 to Lm6,074,498.

When the Customs Department was asked to give an explanation regarding the increase in arrears due from EneMalta, NAO was informed that EneMalta delay payments approximately by three months notwithstanding repeated requests to effect regular monthly payments. Cash flow problems is the reason given by the Corporation. Customs further stated that the Ministry of Finance is aware of the situation.

Inland Revenue Lm247,797,052

i) Income Tax Lm229,093,800

The figure of Lm229,093,800 represents gross arrears due as at 31 December 1999[1] against Lm161,689,725 net arrears due for the previous year[2]. Further breakdown of the former amount is provided in Table on page 63.

The outstanding book balance fluctuates following the issue of assessments, tax payments in settlement and revision of assessments under objection following agreement. As

[1] Gross arrears due: aggregate of debit (positive) balances. This is the actual amount due from taxpayers.

[2] Net arrears due: gross arrears due less aggregate of negative debit balances. The latter arise due to instances where taxpayers forward payments in excess of the amount due, amounting to Lm1,839,222 as at end of financial year 1999.

opposed to previous years, the 1999 year-end balance is to be analysed under two headings - the book balance for Years of Assessment (Y/A) 1949 up to 1998 and the book balance for Y/A 1999. This was brought about by the implementation of the self-assessment system and the Year-by-Year Accounting System, the latter applicable with effect from Y/A 1999 onwards.

The 1999 Annual Departmental Report analysed the two net balances as follows:

Book Balance for Years of Assessment up to 1998

The net debit balance for *"year of assessment 1998 as on 31st December 1999 was Lm156,270,989. This figure represents the total outstanding balance of all claims issued since 1949 less all payments of PAYE/FSS and Provisional Tax for the years of assessment for which assessments have been raised, less settlement tax. Against this book balance of Lm156.27 million, one has yet to set-off any overpayments of PAYE/FSS and Provisional Tax held in Suspense in respect of which assessments have not as yet been raised, claims for settlement of tax not legally due, and the difference resulting from the revision of 'best of judgement' assessments following settlement of objections."*

Book Balance for Year of Assessment 1999

The year-end net debit balance for year of assessment 1999 *"stood at Lm70,984,310 of which Lm67,965,967 represents estimated tax charged to 27,798 taxpayers who did not submit any form of Tax Document. This book balance will be reduced by the difference between the value of self-assessment returns submitted after 31 December 1999 and the estimated tax charged".*

Gross income Tax Arrears Due by Category	
Category	*Amount Due as on 31.12.1999*
	Lm
Government Employees	7,589,706
Parastatal Employees	2,726,953
Drydocks Employees	617,105
Private Employees	22,993,572
Outside Malta Employees	403,817
Self-employed	33,130,507
Not to be shown to Husband	1,369
Shareholders	5,055,966
Rentiers / Pensioners	10,612,473
Temp Residents-Work Permit	5,561,495
Temp Residents – Entertainers	72,381
Temp Residents –Settlers	1,284,191
Non-Residents	2,230,461
Partners	94,320
Estates	23,498
Partnerships en nom Collectif	270
Partnership not registered with Trade Department	1,125
Companies Anonyme	127,577,997
Companies en commandite	1,692,132
Companies Foreign Owned	5,031,428
Companies – Overseas	1,060,737
Clubs, Associations etc.	711,224
Church (Commercial)	438,396
Church (Entities)	182,661
Not Categorized	*16*
Total for all Categories	**229,093,800**

Source: Commissioner of Inland Revenue

ii) Duty on Documents and Transfers Lm15,192,805

- Monies due in respect of Inter Vivos Lm14,605,654
- Monies due in respect of Causa Mortis Lm 587,151

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

The 1999 closing balance, as against that of 1998, increased by Lm2,387,700.

The amount of Lm14,605,654 due in respect of Inter Vivos is subdivided into Lm13,756,245 for Malta and Lm849,409 for Gozo.

The Capital Transfer Duty branch (Malta) estimates that out of a total arrears of Lm13,756,245, only Lm2,751,249 (20%) are expected to be collected, since Lm11,004,995 (80%) are considered amounts subject to contestation. Likewise, Lm679,527 are also considered subject to contestation by the Gozo branch.

iii) Death and Donation Duties Lm3,510,447

▪ Death and Donation Duties	Lm3,492,466
▪ Entertainment Tax	Lm 17,981

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

The amount due in respect of entertainment tax (Lm17,981) was written off in March 2000.

Treasury Lm48,709,973

		Lm
i)	Bearer Tax Levy (ex-BICAL)	3,979
ii)	Loans to Hotels including interests	10,040
iii)	Loan and Interests to M' Xlokk Fishing Co. Ltd.	195,083
iv)	Loans under Act XI of 1988 (ex-Posterity Fund) to Malta Shipbuilding Co. Ltd. and interests due on these loans	13,183,000
v)	Loans to Industry including interests	34,456,945
vi)	Interests due on loan to Malta Drydocks Corporation	859,194
vii)	Miscellaneous	1,732

The arrears went up from Lm44,033,925 on 31 December 1998 to Lm48,709,973 on 31 December 1999, an increase of Lm4,676,048. The difference is mainly attributable to:

- increase of Lm4,049,163 in respect of interest payments on loans to industries made through MDC/MGI, mainly due from Malta Shipbuilding Co. Ltd.

- loans amounting to Lm375,000, made under Act XI of 1988 (ex-Posterity Fund) which should have been repaid during 1999 plus Lm309,000 interests on Lm10,300,000 loans made under Act XI of 1988. These arrears are due from Malta Shipbuilding Co. Ltd.

The bulk of these monies (Lm48,499,139 out of Lm48,709,973) are due from companies fully owned by government - Malta Shipbuilding Co. Ltd. (Lm43,353,837) and Malta Drydocks Corporation (Lm859,194) - or companies in which government holds a majority shareholding (Lm4,286,108).

No action whatsoever is taken by the Accountant General to collect these arrears in view of the fact that most of these debtors are in financial difficulties.

Ministry for the Environment Lm7,035,320

		Lm
i)	Works Division	1,614,676
ii)	Central Districts Office	886,190
iii)	Waste Management Strategy Implementation Dept.	683,205
iv)	Manufacturing and Services Department (Carpentry, metal works, motor mechanical works)	3,851,249

The opening balance in respect of this Ministry was amended as arrears for Roads Department are shown separately under Roads.

The Manufacturing and Services Department has for the second year running submitted the return too late to be audited. Departments had to submit their respective returns by end of March of each year. Returns for 1996 and 1997 had not been submitted (a note to this effect was entered in the respective NAO Annual Reports). The 1998 return was submitted on 7 October 1999 whereas the 1999 return was received on 5 September 2000. Besides, the returns submitted in respect of 1998 and 1999 did not give details regarding the arrears collected and new arrears accrued. Only global figures were quoted.

Works Department (Works, Central Districts Office and Waste Management Strategy Implementation Department) considers that Lm1,650,655 out of the total amount due, i.e. Lm3,184,071, are not likely to be collected as they are statute-barred.

Licenses and Testing Lm3,182,896

		Lm
i)	Motor Vehicle Road Licenses	3,177,046
ii)	Motor Car Dealers	4,700
iii)	Motoring Schools	1,000
iv)	Driving Instructors	110
v)	Car Park Attendants	40

The department, in its effort to monitor and collect arrears:

- is sending requests for payments to Vehicle License holders who are in arrears;

- is utilising the services of the Credit Control Unit of the Department of Corporate Services within the Ministry of Transport and Communications; and

- uses Local Wardens for enforcement purposes.

The department added that eventually the whole exercise of arrears' collection has to be sustained by Court action. In the meantime the Department is initiating procedures to write off arrears that are statute-barred. This department estimated that Lm2,433,572 of arrears can be considered as statute-barred/unrecoverable.

Roads Lm886,160

These arrears are in respect of hiring of signages, encroachment area charges and other services rendered by the Roads Department. These arrears are due as follows:

		Lm
i)	Corporations	595,748
ii)	Contractors	289,814
iii)	Third Parties	598

Wireless Telegraphy Lm1,726,633

		Lm
i)	T.V. Licences	1,445,268
ii)	Wireless Licences and Inspection Fees	127,865
iii)	Marine Licences	153,500

Arrears in respect of Marine Licences were not included in the 1998 return.

M.D.C. Lm4,734,102

		Lm
i)	Rent of Factory Premises	3,204,130
ii)	Loans - Aids to Industries Scheme (repayments due)	1,529,972

Government Property Division Lm4,451,005

		Lm
i)	Rural	35,276
ii)	Perpetual	51,687
iii)	Residential	270,673
iv)	Non-Residential	419,412
v)	Commercial	3,661,053
vi)	Encroachment	12,904

Lm2,159,104 of the total are due from private individuals and companies, Lm2,287,520 from parastatal and government owned entities, while Lm4,381 are due from departments.

Police Lm605,452

		Lm
i)	Trading Licences	127,931
ii)	Wines and Spirits Licences	30,762
iii)	Weapons Licences	148,013
iv)	Court Expert Fees	162,244
v)	Court Photo Materials	136,502

Figures at iv) and v) are as at 31 December 1996 as return of arrears for these two items were not submitted. The amount of arrears at i), ii) and iii) could not be examined as computerised records are not reliable. The transfer of manual records of weapons licenses to a computerised system was not reliably carried out. Moreover, payments of trading licenses effected at Local Councils cannot be updated by the department as the system is not on-line.

Agriculture Lm209,952

		Lm
i)	Pitkali Markets	24,526
ii)	Loans and Advances to Farmers (repayments due)	53,708
iii)	Loans to Fishermen (repayments due)	23,006
iv)	Sundry Revenue	5,707
v)	Sundry Services (Spraying of Trees etc)	11,492
vi)	D.D.P. Personnel	4,466
vii)	Services related to Local Councils	87,047

Figures re: ii), v), and vii) are 1998 closing balance since they were not submitted for 1999.

Health Lm760,214

		Lm
i)	Hospital Bills	545,656
ii)	Refunds (Payroll overpayments)	183,225
iii)	Miscellaneous Fines	208
iv)	Hospital Tests Fees	31,125

Conclusion

Various attempts, as illustrated in previous NAO Reports, were made in the past by the Ministry of Finance to monitor and control arrears of revenue. In spite of these initiatives, there is no evidence of significant improvements.

This is supported by the fact that, out of an amount of Lm286.1 million outstanding as on 31 December 1998, only around Lm20.5 million or 7.1 per cent were collected during 1999. On the other hand, there were additional amounts of around Lm136.8 million in new arrears arising during 1999 (refer to Table on page 56).

Statute barring is being taken too lightly though millions are involved. The recommendations which have been featuring in this Office's Audit Reports in order to achieve a better return in the collection of arrears of revenue still stand. These include:

- 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; and

Travel Abroad on Official Government Business

Background

Total expenditure on Travel abroad during 1999 amounted to Lm 1,100,071 which is Lm 85,721 higher than the estimated amount for the year. Expenditure on Travel in 1999 included settlement of expenses (amounting to Lm 18,997) 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 of Finance.

A breakdown of how these funds were utilised is shown hereunder.

	Lm
Tickets	438,670
Overseas Subsistence/Accommodation	601,601
Overseas Hospitality	13,799
Removal and Relocation Expenses (MFA)	46,001
TOTAL	1,100,071

A breakdown of major excess expenditure by Ministry/Department during 1999 is given in the Table overleaf.

Increase in the number of travel advances and related expenditure in 1999 as compared to 1998 is shown hereunder:

No of Advances			**Expenditure**		
1998	**1999**	**Increase**	**1998**	**1999**	**Increase**
			Lm	**Lm**	**Lm**
633	1,144	511	749,568	1,100,071	350,503

Major Contributors to Excess Expenditure

Ministry/Department	Approved Lm	Actual Lm	Variance Lm
Civil Aviation	8,700	24,473	15,773
Ministry of Foreign Affairs	290,000	328,304	38,304
Ministry of Education	18,000	28,406	10,406
Ministry for the Environment	20,000	37,444	17,444
Environment	20,000	30,958	10,958
Ministry for Tourism	10,000	23,607	13,607
Ministry for Agriculture and Fisheries	15,000	39,903	24,903
Ministry for Gozo	7,000	15,517	8,517
Ministry for Health	59,000	74,952	15,952

Findings

Outstanding Advances for 1999

NAO recorded a total of 1144 advances availed of during 1999 in connection with official travel abroad on government business. As on the 7 September 2000, documents for verification in respect of 103 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 54,109 (i.e. 4.9 per cent of the total expenditure in 1999) and make up 9 per cent of the 1144 advances for the year. Defaulters are shown in the table opposite.

Apart from the 103 outstanding advances disclosed above, another 451 advances covering period 1980 to 1998 and showing a face value of Lm 365,828 are also outstanding due to non-submission of documents or failure to satisfy in full related audit queries.

Outstanding Travel Advances for 1999

Department/Ministry	No. of Outstanding Advances	Sums Advanced
		Lm
Attorney General	4	2,465
Culture and the Arts	6	4,772
EU Directorate	1	600
Foreign Affairs	5	2,910
Ministry for Economic Services	1	521
Ministry for the Environment	1	4,000
Ministry of Health	29	13,759
Ministry for Home Affairs	1	205
House of Representatives	16	8,333
Inland Revenue	1	800
Ministry of Justice and Local Government	1	540
Law Courts	2	1,130
Licensing and Testing	4	794
Museums	7	2,975
Works	3	1,472
Ministry of Education	13	6,609
Youth and Sport	8	2,224
TOTAL	**103**	**54,109**

Non-adherence to regulations on Travel

Permanent Secretaries, in terms of OPM Circular PS/6/94, are responsible to ensure that:

- Officials in receipt of travel advances draw up a statement of expenses and present it to the respective Permanent Secretary for approval as early as possible and in any case by not later than one month after their return to Malta , and

- Subsequently the form GA 27 or GA 27A duly filled in, accompanied by originals of all documents and receipts, is to be forwarded to the Auditor General.

- Overseas subsistence/accommodation and overseas hospitality are initially given to officials travelling abroad in the form of Travel Advances. On their return to Malta officials have to submit a statement of expenses supported by receipted bills (unless they opt to be paid full subsistence allowance) and refund the unspent balances.

Following the issue of circular MF 12/99 dated 18 November 1999 by the Ministry of Finance, highlighting and clarifying the regulations governing the accounting of Travel Advances, NAO undertook an exercise to establish whether the instructions contained in the relative circular were being observed.

There were 115 advances issued during the period 18 November to 31 December 1999. By the end of April 2000, only documents for 33 advances were submitted to NAO. When these 33 advances were verified, the following findings were observed:

i) The signature of the Head/Director Corporate Services was missing in Section A of Form GA 27 in respect of 18 advances.

ii) Officials in receipt of 11 advances did not state whether they were receiving any compensation for accommodation/meals/transport/subsistence from the host organisation or other entity.

iii) All or part of the documents of 24 travel advances forwarded to NAO for verification were copies instead of original.

iv) Receipted bills for expenses incurred were not submitted in respect of 5 advances.

Conclusion

These results indicate that the provisions of Circular MF/12/99 are still not being adhered to.

Hospitality Expenses

Background

The Estimates define hospitality as a Standard Object of Expenditure connected with:

- the hosting of foreign delegations;
- organising international meetings in Malta;
- gifts to foreign personalities;
- accommodation, food, transportation, secretarial and other amenities provided to individuals other than civil servants; and
- other official entertainment.

An allocation for every cost centre features in the Approved Expenditure on a yearly basis. These funds can be augmented by provisions from savings of other items of expenditure within the same Vote.

Findings

During 1999 expenditure under hospitality totalled Lm333,732 as against Lm298,593 in 1998, an increase of

Lm35,139 (11.7 per cent). Savings on the budgetary allocation for 1999 amounted to Lm16,618.

A breakdown of hospitality expenses as indicated in the Treasury Books is given below:

	Lm
Entertainment	122,765
Conference Expenses	20,123
Visits by Foreign Dignitaries	29,042
Other Hospitality Expenses	161,802
	333,732

Audit Concerns

NAO encounters difficulties to establish whether some of these expenses are fair and reasonable as the regulations do not indicate any parameters about these expenses.

Conclusion

During meeting No. 35 of the Public Accounts Committee held on the 17 November 1999, it was decided to set up a working group with representatives from the Office of the Prime Minister and the Ministries of Finance and Foreign Affairs to examine the rules as laid down in Estacode regarding Government hospitality and make proposals so that the rules will be clarified.

The working group met seven times but a report has still not been submitted to the PAC. A representative of the Auditor General attends meetings in an observer capacity.

Transport Expenditure

Background

In 1999 the total expenditure on transport that was charged to the recurrent expenditure Item 27 (Transport), amounted to Lm5,122,598, a decrease of Lm271,364 over 1998. The components of the expenditure are presented in the Table hereunder:

Components of Transport Expenditure

	1998 Lm	1999 Lm	Variation Lm
Maintenance of vehicles	282,586	267,381	(15,205)
Hire of Transport	1,590,576	1,438,223	(152,353)
Hire of self-drive cars	472,595	451,627	(20,968)
Hire of Imprest vehicles	1,547,341	1,556,999	9,658
Fuel	1,206,322	1,135,012	(71,310)
Payment for personal use} Transportation of goods } Malta / Gozo Expenses }	294,542	273,356	(21,186)
TOTAL	5,393,962	5,122,598	(271,364)

Breakdown of transport expenses incurred by Ministries and Departments during 1999 is given in the Table on pages 78 to 80.

Breakdown of Transport Expenditure by Ministry / Department – 1999

Ministry / Department	Voted In Estimates	Actual							Variance
		Maintenance Of Vehicles	Hire of :			Fuel	Others*	Total	
			Transport	Self Drive Cars	Imprest				
	Lm	Lm	Lm	Lm	Lm	Lm	Lm	Lm	Lm
Armed Forces of Malta	320,000	3,548	4,383	-	6,687	258,373	-	272,991	-47,009
Attorney General	5,500	1,300	158	1,700	-	1,694	-	4,852	-648
Care of the Elderly	34,000	3,603	-	7,878	11,195	13,868	2,290	38,834	4,834
Civil Aviation	6,000	1,396	632	-	-	2,027	-	4,055	-1,945
Contracts	4,000	747	-	166	-	1,648	2	2,563	-1,437
Correctional Services	18,000	4,177	-	670	-	7,571	-	12,418	-5,582
Culture & The Arts	10,000	788	-	7,466	-	3,236	-	11,490	1,490
Customs	24,000	15,882	-	-	-	9,402	9,922	35,206	11,206
Dept. of Public Lotto	12,500	2,024	-	-	2,630	1,811	1,443	7,908	-4,592
Economic Planning	2,000	633	-	102	-	829	52	1,616	-384
Education	1,224,000	19,411	1,012,463	23,241	120,526	30,898	14,010	1,220,549	-3,451
Environment	85,000	737	-	30,860	54,822	14,490	3,647	104,556	19,556
Family & Social Welfare	23,000	1,166	744	7,300	10,709	4,886	777	25,582	2,582
Gaming Board	15,000	112	-	-	-	222	13,014	13,348	-1,652
House of Representatives	6,000	6,178	-	1060	-	3,554	-	10,792	4,792
Housing	17,000	110	-	1,616	10,717	1,674	230	14,347	-2,653
Industry	13,000	1,946	-	3,220	7,104	2,551	581	15,402	2,402
Information	19,000	1,208	2,934	5,662	-	3,417	2,874	16,095	-2,905
Inland Revenue	20,000	3,345	434	24	-	4,477	7,020	15,300	-4,700

Breakdown of Transport Expenditure by Ministry / Department – 1999

Ministry / Department	Voted In Estimates	Actual							Variance
		Maintenance Of Vehicles	Hire of :			Fuel	Others*	Total	
			Transport	Self Drive Cars	Imprest				
	Lm	Lm	Lm	Lm	Lm	Lm	Lm	Lm	Lm
Joint Office	11,000	336	-	7,131	-	1,219	409	9,095	-1,905
Judicial	230,000	1,167	177,827	-	-	8,971	-	187,965	-42,035
Justice	16,700	1,240	-	5,688	213	1,613	-	8,754	-7,946
Labour	19,500	-	-	-	10,709	1,562	3,294	15,565	-3,935
Land and Construction	28,000	323	-	8,433	17,026	6,339	1,395	33,516	5,516
Land Registry	1,000	-	-	-	-	708	71	779	-221
Legal Public Registry	2,000	-	1,956	-	-	-	404	2,360	360
Legal-Notary to Govt.	2,000	160	46	-	-	542	-	748	-1,252
Libraries & Archives	1,000	517	-	868	-	704	332	2,421	1,421
Licensing & Testing	5,500	-	-	3,542	-	1,115	-	4,657	-843
Local Councils	24,000	942	-	14,388	-	4,233	1,502	21,065	-2,935
Min. for Gozo	252,000	8,086	57,469	11,468	205,180	33,104	32,921	348,228	96,228
Min. for Econ. Services	67,500	8,093	-	28,064	3,515	15,481	959	56,112	-11,388
Min. for Home Affairs	74,000	9,127	8,272	24,387	-	29,739	83	71,608	-2,392
Min. for Social Policy	148,000	10,582	90,205	12,561	6,972	15,063	5,410	140,793	-7,207
Min. for The Environment	799,000	1,100	-	96,770	683,614	209,817	65,522	1,056,823	257,823
Min. for Tourism	140,000	3,395	-	22,584	110,961	10,420	161	147,521	7,521

Breakdown of Transport Expenditure by Ministry / Department – 1999

Ministry / Department	Voted In Estimates	Actual							Variance
		Maintenance Of Vehicles	Hire of :			Fuel	Others*	Total	
			Transport	Self Drive Cars	Imprest				
	Lm	Lm	Lm	Lm	Lm	Lm	Lm	Lm	Lm
Min. for Trans. & Comm.	16,000	3,848	-171	4,432	-	5,591	-	13,700	-2,300
Min. of Agric. & Fish.	330,000	25,492	15,720	29,526	172,607	48,447	7,924	299,716	-30,284
Min. of Education	35,000	4,287	772	18,213	-	12,643	436	36,351	1,351
Min. of Finance	22,000	6,373	-	9,482	-	8,441	263	24,559	2,559
Min. of Foreign Affairs	108,000	23,713	18,566	9,735	9,464	21,166	13,178	95,822	-12,178
Min. of Health	295,000	40,940	32,876	5,810	80,732	82,281	48,003	290,642	-4,358
Museums	11,000	45	-	6,187	-	1,450	921	8,603	-2,397
O.P.M	74,000	17,815	691	13,322	7,395	17,444	408	57,075	-16,925
Office of The President	17,000	9,496	-	979	-	6,999	-	17,474	474
Police	230,000	16,347	-	1,947	-	203,444	4,529	226,267	-3,733
Public Service Comm.	1,000	140	-	-	-	575	-	715	-285
Roads	55,000	-	-	17,981	-	4,040	3,369	25,390	-29,610
Social Security	46,000	1,024	12,097	8	21,800	5,846	3,394	44,169	-1,831
Statistics	8,000	-	-	981	2,421	1,097	1,089	5,588	-2,412
Trade	8,000	1,074	-	949	-	1,497	461	3,981	-4,019
Treasury	2,000	539	149	210	-	793	-	1,691	-309
V.A.T.	30,000	2,516	-	-	-	2,261	21,056	25,833	-4,167
Youth & Sport	3,000	353	-	5,016	-	3,739	-	9,108	6,108
TOTALS	**4,970,200**	**267,381**	**1,438,223**	**451,627**	**1,556,999**	**1,135,012**	**273,356**	**5,122,598**	**152,398**

*Re-imbursement for use of personal vehicles, transportation of goods, and Malta/Gozo transport expenses.

Source: Treasury Books

Audit Concerns

Transport Expenses charged to Other Items of Expenditure - although transport expenses charged to the recurrent votes indicate a decrease over the previous year and savings on the amount approved by the House of Representatives were also recorded, it could not be confirmed that there had been an overall decrease in transport expenses. The reason is that additional transport costs are charged to funds allocated to Programmes and Initiatives, Contributions to Government Entities and Capital Votes. This practice was reported upon in the NAO Report for 1998.

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

The NAO's concern is that this lack of information in the Treasury Accounting System is giving a distorted picture of the Financial Statements published in the Treasury Financial Report.

Log-Books - in terms of Estacode a log-book is to be kept for vehicles used by government officials. Only officials who are entitled to a fully expensed car are not obliged to keep a log-book.

Audits carried out during 1999 have revealed the following shortcomings:

- cases where no log-books were kept;
- cases where log-books were kept but issues of petrol were not recorded;

- mileage and purpose of journeys not stated;
- no monthly certifications by Officers-in-charge transport stating that journeys were performed on official business.

The NAO has to register its concern that in cases where log-books are not kept or were not properly kept, departments could not exercise proper controls over the issues of fuel which should be related to actual mileage registered. Moreover the use of vehicles on journeys not performed on official business could not be identified.

Garaging of Vehicles - when departments were asked to state where government owned/hired vehicles are garaged in the evenings and over the weekends, it was stated that on the plea of lack of parking facilities and/or garages and for security reasons, employees using these vehicles in connection with their official duties are also allowed to take the vehicles home.

The unauthorised use of these vehicles during the weekend is evident from the number of cars with a "GVN" registration on the roads.

This irregular practice, besides resulting in increased expenditure as regards consumption of petrol, is against Estacode Provisions. Only officials entitled to a fully expensed car are allowed to use their vehicles for personal use. If only 5 per cent of petrol is consumed on journeys not connected with official business, the extra cost to Government is estimated to be over Lm50,000.

Fully Expensed Vehicles - during the course of sample checking, three cases were encountered where officials entitled to a fully expensed car regularly used another departmental vehicle instead of making use of their fully expensed car. This practice, besides being against regulations, was indirectly costing an additional expense to Government.

There were four other cases involving employees who, with the approval of their Heads of Department, were allowed the use of a fully expensed car. This is against regulations as only directors on a performance agreement are entitled to a fully expensed car.

Conclusion

The irregularities in the use of government owned/hired vehicles have been reported upon repeatedly.

Period Contracts

Background

Items that are commonly required by several government Ministries, Departments and certain public entities are purchased through Period Contracts. These include items such as Xerographic Paper, Duplicator Paper, Computer Continuous Paper, Envelopes, Towels, types of wood, clothing for industrial staff, etc.

A Department of Contracts Circular is yearly issued to request all government Ministries, Departments and public entities to submit their yearly needs for specific items of a common nature. A Department of Contracts Tender is then issued for the purchase and supply of the items in question so that a supplier is chosen for each item. The quantity of items required in the Tender is based on the projected requirements submitted to the Contracts Department. In the letter of acceptance of tender, the supplier is requested to abide by certain specifications and conditions. These include, *inter alia*, price, quality of product and, where applicable, watermarking.

The Contracts Department then periodically issues a circular requesting Heads of Department and Accounting Officers to note that period contracts for various items have been placed with particular suppliers. The name of the supplier, price of product, period of contract and other specifications and conditions would be stated in this circular. Ministries and Departments are then obliged to purchase relative items from the Period Contractors in question.

Objectives

The purpose of this exercise was to verify whether Ministries and Departments were effectively purchasing items of a common nature from the suppliers who were awarded the Period Contracts, as required by the Contracts Department's circulars.

During the year 2000, three Ministries and six Departments (out of 54 Votes) were asked to submit a return of the actual quantities of xerographic paper, duplicator paper and towels purchased during 1999. Information requested included name of supplier, unit price of product, quantity purchased and date of purchase.

Findings

All nine Ministries and Departments submitted the information requested. In general, the returns submitted did not show material errors or irregularities. Items were largely purchased from the supplier who won the Period Contract and at the price stated in the contract. However, in a significant number of instances, it was found that two

Ministries purchased xerographic paper without watermark from a different supplier from that mentioned in the relative Period Contract, albeit at a cheaper price and in relatively small quantities.

Comments

The Department of Contracts monitors compliance by requesting returns of purchases made by Ministries and Departments from the suppliers of the period contracts. Departments which do not effect purchases according to their requirements are queried by the Contracts Department.

Failure to purchase items from suppliers other than authorised contractors, apart from being against standing regulations, also entails certain risks - xerographic or other types of paper not being watermarked “GM” or “MG”; technical specifications (opacity, size, tendency of paper to curl, suitability of paper for printing and strong packing paper) not being in conformity with those stipulated in the relevant Contracts Circulars. Moreover, items of such stock held by period contractors have to be used up.

Although most instances of items not purchased from the Period Contractor were actually of a lower price, this does not justify the purchase of the items from different suppliers. For instance, the watermark on the papers allows a certain control so that individuals are not encouraged to make use of such papers for private needs. Purchase of items from different suppliers may also mean that items are bought with different specifications that could be of an inferior quality.

Conclusion

It was suggested to the Director of Contracts to issue a circular enjoining Ministries and Departments and others concerned to strictly abide by the Contracts circulars relating to Period Contracts. Items were to be purchased from the Period Contractors indicated or named in the circulars and to adhere to the specifications listed in the Period Contracts.

Contracts circular No. 45/2000 dated 23 October 2000 was issued enjoining Heads of Department and other concerned public bodies not to resort to irregular procurement, failing which disciplinary action would be taken against defaulting officials.

Benchmarks/Performance Indicators as Guidance to the Public Service

The Report of the Auditor General for 1996, 1997 and 1998 raised the subject of performance indicators for the operations of Ministries and Government Departments. In the 1998 Report, NAO promised to make another effort to encourage Ministries and Departments to introduce and develop benchmarks and performance indicators for their operations.

Benchmarks/performance indicators, apart from being effective management control tools, facilitate value for money/performance audits which constitute an element of the NAO mandate.

The objectives of this report are to:

- explain the concept of value for money audits and why they are essential;

- explain the importance of benchmarks/performance indicators as management control tools essential for value for money audits;

- emphasise the mandate of NAO in carrying out value for money audits and urge the introduction of benchmarks/performance indicators in the Public Service; and

- report progress realized by the public sector in introducing and developing benchmarks/performance indicators.

Value for Money Audit (What is it? and Why?)

To understand better what value for money audit is all about, one can compare and contrast in simple terms the difference between value for money and compliance audits. While compliance audit verifies whether the right salary has been paid to the right man, value for money audit verifies whether that man has produced as required and as planned in order for the objectives of his department be realized.

Value for money audits discuss:

i) the **economy** underlying the audited entity – that is about ensuring whether the least cost combination of input/resources is being applied to the operation under audit;

ii) the **efficiency** with which the audited entity carries out its operations – that is concerned with relationship (or ratios) between the output of goods and services and the resources used to produce these. The audit is concerned with identifying low returns to resources employed; and

iii) the **effectiveness** of the plan of action adopted by the audited entity – that is about determining whether the ultimate goals of the audited entity have been realized through its actual output.

In a market economy only those operations which are economically (least cost) structured and which operate with efficiency (optimal output) and effectiveness survive. This competitive environment is lacking where operations of the public sector are concerned. Value for money audits endeavour to make up for the lack of a competitive environment in which Government carries out its activities.

Moreover value for money audits also try to establish and assure the authorities that policies are being implemented, performance statements issued by audited entities are reliable, weak performances are identified and best practices propagated.

Benchmarks and performance indicators are essential building blocks that facilitate value for money audits. If the former are missing, the latter are weak.

Benchmarks/Performance Indicators

Benchmarks and indicators help the organisation identify where it stands in performance and which objectives need to be addressed.

It is not enough to have quantitative objectives embedded in the business plans. These should be complemented by performance measurement systems, which generate periodical output indicators about the operations being carried out. Measurement systems should be developed by management of Ministries and Departments and should generate quantitative information about productivity, resource utilization, unit cost and similar other inputs and outputs.

In the absence of measurement systems one can hardly substantiate which operation or department has contributed most or least to the realisation of objectives. Moreover, systems that are not measured are not likely to get improved.

The critical importance of performance indicators for good and effective management is demonstrated by two quotations from a report by the Comptroller and Auditor General of the United Kingdom on 'Good Practice in Performance Reporting' published in March 2000 (Reference HC272).

'Output and performance measurement is intrinsic to the whole process of management, including planning, monitoring, evaluation and public accountability'; and

'It is essential that all public sector organizations … are transparent, responsive and accountable. The public are entitled to know whether their money is being well spent and what is being achieved with it. Consistent, clear reports of performance and publication of results, are important to record progress and exert pressure for improvement'.

Legislation and audit standards regarding benchmarks

Legislation governing the public sector audit institutions and international audit standards adopted by the Malta National Audit Office determine that it is the duty of NAO to carry out value for money audits of operations carried out by Government Departments. These documents also establish the critical importance of having benchmarks/performance indicators in place so that the results from value for money audits could be maximised.

Section 5 paragraph 3 of the Auditor General and National Audit Act (XVI) 1997, states that '*The Auditor General may examine whether the department, office or other body whose accounts are being audited by him has used the funds and resources available to it effectively, efficiently, and economically without incurring expenditure which is unnecessary'*.

Moreover, paragraph 6 of Section 5 of the same Act states that the Auditor General shall call attention of the House of Representatives of cases where '*satisfactory procedures have not been established (by departments) to measure and report the effectiveness of expenditure programmes, where such procedures should reasonably have been established*'.

Section 46 of the INTOSAI (International Supreme Audit Institutions) Standards, to which NAO fully subscribes, establishes that *'the expanding audit role of the auditors will require them to improve and develop new techniques and methodologies to assess whether reasonable and valid performance measures are used by the audited entity'*.

The quotes from legislation and audit standards prove that there is ample awareness of the importance of benchmarking public sector operations or, put otherwise, the need to measure these operations through the use of performance indicators.

Notwithstanding, there is no hard evidence that the concept of benchmarks and performance indicators is being introduced and/or developed satisfactorily in Government departments and offices.

Introducing benchmarks/performance indicators in the Public Sector

During 1996 NAO embarked unsuccessfully on a project to promote awareness on these concepts. This was mainly due to an apparent lack of knowledge on the subject. However, it is pertinent to discuss at this stage the degree of awareness of the concepts of value for money reports and benchmarks/performance indicators as management tools within the Public Service.

First, the concepts of value for money audit and/or performance indicators have been included in Legal Notice 156 of the Local Councils (Audit) Regulations (1993). Local Councils were legally bound to have operational indicators/benchmarks in place so that Local Council Government auditors could carry out their legal obligation to submit annually a Value for Money report on the Councils’ operations.

The reports have not been carried out to the expected standards due to absence of reliable and meaningful benchmarks and performance indicators against which the value for money reports can be construed. During the current year NAO has collaborated with the Department of Local Councils to introduce benchmarks/indicators, which appropriately define the economy, efficiency and effectiveness of Local Council operations according to INTOSAI standards. With benchmarks/indicators in place, it is hoped that sound value for money reports covering Local Councils' operations will be carried out as from the next financial year.

Secondly, there are 23 Departments or Offices whose operations are covered by Quality Service Charters. These Charters include benchmarks/indicators within which the Departments concerned have to operate. However, the benchmarks included in the Charters are customers' oriented and can mostly be used to assess customer satisfaction and issues of effectiveness. They have limited scope to assess the economy and efficiency of the Departments' concerned.

Thirdly, it has been established that the introduction of benchmarks/performance indicators strongly feature on the Government's agenda. In Section 3.9.2 (Financial and Budgetary Matters) of the National Programme for the Adoption of the Acquis (NPAA) published in February 2000 by the Malta-EU Information Centre, the following statement is found:

'A more performance-related approach in public financial management, where predetermined outcomes will determine the extent of input resource requirement, is currently being studied to be in the first instance applied in relation to social security, education and health'.

The updated National Programme for the Adoption of the Acquis published in September 2000 indicates as a medium term priority the identification and application of *'appropriate public management output performance systems in different government departments and agencies'*.

The Departments of Social Security, Education and Health were requested to report on progress in generating Management Output Performance Systems as defined in the February 2000 NPAA. Only a short reply from Education and a list of changes planned by Health were received. Social Security did not reply at all. There were no clear indications that the concept of Management Output Performance Systems as defined by the NPAA was being implemented.

Early this year, another effort was made to embark on the project in conjunction with the Management Efficiency

Unit who recommended a project brief containing a design on how Departments can be coached to introduce benchmarks or performance indicators to their operations. However, the question of ownership and implementation thereof has to be addressed before the project can be launched. On the other hand, the Office of the Prime Minister informed NAO that initiatives relating to performance management have been and are being taken.

Conclusion

The NPAA published in September 2000 indicated the setting up of Offices of Review in all government Ministries as a medium term priority.

Offices of Review are being established as new Units within Ministries to drive forward the Public Sector Change Programme. These Offices will also be responsible to design and implement management output performance systems enabling the generation of benchmarks/performance indicators and facilitating better value for money reports.

The process of filling the headship positions to manage the recommended Offices of Review has been initiated (OPM Circular No. 37/2000 dated 6 October 2000).

Part 5 – Departmental Issues

MINISTRY OF FINANCE

Treasury

Bank Reconciliation Statements

Background

All revenue, loans, money received in trust and other monies received or held by or on account of the Government of Malta is processed through the Public Account as required by Section 15 of the Financial Administration and Audit Act, 1962. The Public Account is kept with the Central Bank of Malta.

The Public Account records at the Treasury opened the year 1999 with a book balance of Lm5,864,286. During the year, receipts and payments amounted to Lm1,323,776,431 and Lm1,308,470,257 respectively, resulting in an end-of-year balance of Lm21,170,460. However, the Public Account held at the Central Bank of Malta showed a balance of Lm30,880,182 as at 31 December, 1999.

The balance shown on the Bank Statement rarely reconciles with the balance as shown in the Treasury books. This is often due to a timing difference in the recording of transactions. Therefore, a bank reconciliation exercise should be carried out to verify and explain the difference between the closing balance as shown in the Treasury books and that shown on the Bank Statement. The elements constituting the reconciliation exercise of the Public Account with the Central Bank of Malta are:

i) Debit Notes

ii) Credit Notes

iii) Remittance Statements (including dishonoured cheques)

iv) Cheque Reconciliation (includes cancelled and unpresented drafts)

The Treasury has not carried out reconciliation exercises of the Public Account since June 1992. Since 1993 NAO has been reporting on the necessity to update the reconciliation exercises of the Public Account.

Developments

The only development since the Audit Report for 1998 has been the submission of a report by MITTS on the implementation of a computerised bank reconciliation system. However, due to other more important work commitments, no further action was taken by the Treasury to implement the new system as outlined by MITTS.

Comments

NAO considers it essential that Treasury book balance should agree with that of the Bank. It will continue to follow up this issue until such time as this matter is addressed and settled. Bank reconciliation of the Public Account is a crucial element of good management of Government finances.

Audit of Government Payroll

Background

The Salaries Section at the Treasury is responsible for the overall management of the Government Payroll. Critical functions of this section are:

i) to fix closing dates for the collection of data to be processed in time for the current payroll;

ii) to effect changes in basic pay as required; and

iii) to issue circulars to Payroll Officers explaining new budgetary measures and changes resulting from collective agreements and other regulations effecting government employees' salary.

The payroll master file held at the Section comprises the records of 30,172 government salaried employees and students as at end of December 1999. Of these, 27,900 were salaried employees. Salaries paid during 1999 amounted to Lm138.9 million.

A comprehensive audit of salaries paid during 1999 (including allowances and deductions) was carried out. The main areas examined were adjustments to payroll resulting from:

- Resignations and Retirements;
- Unpaid Leave;
- Partial payments of Bonus and Collective Agreement Award for December 1999;
- Appointments;
- Reduced Hours Scheme; and
- Social Security Contributions of Government Employees and Students.

Objectives of Audit

The purpose of this exercise was to ascertain that:

- Salary adjustments were timely;
- The system's controls were adequate; and
- Overpayments were recouped.

Methodology

Except where otherwise specified the verification was based on a sample check of 5 per cent.

The information needed to carry out the audit was obtained from:

- Documents submitted to NAO as in the cases of appointments, resignations, unpaid leave etc.;
- List of new pensioners compiled by the Pension Section at the Treasury ; and
- Data on salaries, allowances, etc. from the payroll master file and transaction files.

Findings

Resignations and Retirements: The number of cases checked were 45, that is approximately 5 per cent of all full time monthly paid employees who left the service in 1999.

The result was that out of the 45 cases verified, there were 12 (27 per cent) employees who retired on pension or resigned from government service and for some time continued to be paid their salary, bonuses and collective agreement award. These 12 employees were altogether overpaid an amount of Lm2,336.

Employees on Unpaid Leave: In this exercise a sample of 33 (15 per cent) out of 220 cases of employees on unpaid leave were checked. In 2 instances (6 per cent) employees on unpaid leave continued to receive their salary in full. Overpayment to these two officers amounted to Lm352 in 1999.

There were also 6 cases out of the same sample of 33 where deductions were delayed because the Salaries Section at the Treasury were informed late or even after the employees had already availed themselves of unpaid leave. In these 6 cases overpayments were recouped.

Partial Payments of Bonus and Collective Agreement Award for December 1999: This exercise revealed that 43 (7 per cent) out of total population of 596 employees were overpaid various amounts when they received partial payments of bonus and collective agreement award for December 1999. Total overpayments amounted to Lm983.

It appears that some of the overpayments occurred because the input in the payroll system was made twice - by the respective department and by the Salaries Section. Other overpayments were made because of wrong calculations when computing the payments.

Appointments

Permanent: After checking 127 letters of appointments/promotions (5 per cent of 2,554) issued in 1999, it resulted that 18 employees, 14.2 per cent of the sample, were erroneously placed in the wrong step of their respective salary scale. As a result, up to December 1999, they have altogether been overpaid the amount of Lm1,319.

Appointments on definite contract:All such appointments for 1999 were verified. Only one error was detected. An official employed on a definite contract in March 1999, besides his salary, was also being paid a monthly allowance of Lm115. As, according to his Engagement Agreement with Government, this official is entitled to receive only a salary, the monthly allowance should not have been paid. Up to December 1999, this official was approximately overpaid an amount of Lm1,035.

Appointments on Performance Contract: All such appointments were verified. Two directors on a performance contract were paid Lm35 and Lm115 monthly allowance respectively which, it appears, they were not entitled to receive.

The director receiving the monthly allowance of Lm115 was entitled to this allowance in his previous post but continued to receive it even after his new appointment.

Reduced Hours Scheme: In 1999 Government introduced a scheme whereby employees can opt to work on a reduced time table subject to the conditions laid down in OPM Circular 25/99. Employees can choose to work either 20 or 30 hours per week. Salary and other benefits are paid pro rata and no employees working reduced hours can perform overtime.

All cases under the scheme were tested to ensure that the correct adjustments were made in the salaries and the Social Security Contributions of the employees.

No discrepancies were observed.

Social Security Contributions: The payroll masterfile was queried to ascertain that deductions for Social Security Contributions paid by employees were correct. The result was that only 102 (3.2 per cent) employees were found who were not paying the correct weekly rate. Altogether these employees had underpaid an amount of Lm8,938 up to December 1999.

The short payment of some of these employees goes back to 1994, 1995, 1996 and 1998, the years they received their appointment with Government.

These employees were mainly former university students who subsequently jointed the Public Service. The code regulating the class of Social Security Contribution was not adjusted and as a result they continued to pay the rate applicable to students.

The Accountant General was requested to review these cases further.

NAO Concerns

This Office has to register its concerns on the Government payroll as follows :

- The number of errors found in the payroll regarding resignations and retirements, employees on unpaid leave and permanent appointments are considered on the high side and are not acceptable from an audit point of view.

- Most of the errors registered on adjustments to social security contributions related to the Health Department, some of which date back to a number of years indicating that internal controls are weak both at the Treasury and at the employing agency.

- There is lack of liaison between departments and the Treasury Salaries Section. Overpayments in respect of unpaid leave, allowances etc. could be avoided.

- Lack of liaison between the Treasury Pension Section and the Treasury Salaries Section leads to overpayments when employees retire on pension.

- More scrutiny should be exercised when manual intervention is required.

Conclusion

In May 2000, the above report was forwarded to the Accountant General for his consideration and comments. The Accountant General was requested to investigate and collect overpayments due.

Audit Of The Treasury Pensions Section

Background

The Treasury Pensions Section is responsible for the computation and payment of pensions to entitled beneficiaries. These pensions are computed and paid as provided for and in terms of specific legislation covering service pensions viz.:

- The Pensions Ordinance (Cap 93)

- Widows and Orphans Pensions Act (Cap 58)

- Pensions and Allowances under the Personal Injuries Act (Cap 111)

- Allowances under Act XVII of 1966 and Act XXVI of 1979 as amended by Act XIII of 1981 (Members of Parliament)

During financial year 1999 a total of Lm20,737,694 was paid under the various provisions to 12,531 pensioners.

Purpose of Audit

The areas examined and the purpose of carrying out the audit were :

- to check the return of arrears of revenue for 1999 (overpayment);
- to determine correctness of payment of pensions and gratuities made in 1999;
- to ascertain that an amount equivalent to 6 per cent of the amount of the gratuity paid to re-instated officers is deducted from the salary;
- to ascertain that June and December bonuses and income supplements are paid from one source only;
- to assess existing controls in place to monitor deceased pensioners and re-married widow pensioners.

Overpayments in Pensions

An exercise was carried out by the Pension Section to verify any overpayments made over the years in contravention of Section 18 (Act 8) of the Pensions Ordinance. The exercise revealed that a number of pensioners were overpaid. In April and September 2000 the

Accountant General was requested to submit a report on the exercise giving:

i) a breakdown of these overpayments ;
ii) the amount refunded during 1999 ;
iii) the amount outstanding on December 1999 ; and
iv) what steps were taken so that similar overpayments in Pensions will not be repeated.

The information requested has still not been submitted. Moreover, outstanding refunds could not be included in the Treasury Return of Arrears of Revenue for 1999.

Payment of Pensions/Gratuities

During 1999 the number of pensions processed by the Pensions Section was 553. Out of these, 59 pension files were selected at random and an audit was carried out to verify that the required documents were submitted and the computation of the pensions and gratuities was correct.

No discrepancies were found in the files examined.

NAO however, recommended two measures in order to strengthen internal controls, namely that:

i) Chief Salaries Officer should include the scale number and salary point when certifying the Terminal Salary of would- be-pensioners. These will then be counterchecked against the same details provided by the department concerned.

ii) A payroll enquiry screen should be installed at the Pensions Section in order to confirm that new pensioners are deleted from the payroll.

The Treasury has since implemented recommendation at (i) while that at (ii) is still under consideration.

Re-instated officers

An audit of remuneration to 146 re-instated officers as per list dated February 2000 provided by the Management and Personnel Office at the office of the Prime Minister was carried out.

The list of re-instated officers was checked against the computerised data-base of pensioners in order to verify that the pensions of re-instated officers were stopped.

Moreover, the refunding on a monthly basis of a sum equivalent to 6 per cent per annum of the gratuity paid to re-instated officers when they were pensioned off, as per circular MPO B1/6/95, was also verified.

Findings

i) The MPO list was not up-to-date. Some of the re-instated officers shown on the list had since again retired or were deceased.

ii) In the case of one pension, deduction being made amounts to Lm1.49 per month when it should be Lm17.80 per month.

iii) The 6 per cent deduction from salary was not being made in the case of two re-instated officers.

iv) There were another 17 pensioners who, according to the list submitted by MPO, were also re-instated in Government service. However no deductions equivalent to 6 per cent per annum of the gratuity are being made from their salary. It could not be established whether these pensioners had been paid a gratuity when they were originally pensioned off as the relative files of all 17 pensioners could not be traced.

The Pensions Section has been advised to investigate these cases to ensure that the correct deductions are being made in the salary of all re-instated employees and also to follow-up the collection of all monies that should have been refunded by these employees.

Bonus and Income Supplement paid to Treasury Pensioners

All pensioners are entitled to two thirds of June and December bonuses and income supplements paid in March and September. Pre 1979 government employees who were boarded out receive such bonuses and supplements from the Treasury Pensions Section until they qualify for a National Insurance pension when bonuses and supplements start being paid by the Social Security Department. Bonuses and income supplements paid to pre 1979 Treasury pensioners amounted to Lm68,642 during 1999.

An exercise was carried out to verify that :

- Bonuses are paid from one source only
- Calculations of partial bonuses are correct

Bonuses paid from one source only - The list of pensioners (342) benefiting from the December 1999 Treasury bonus was compared against those pensioners receiving a bonus from the Social Security Department. There were five (5) cases or 1.5 per cent of pensioners receiving double payments. The five pensioners were overpaid Lm464 in respect of the December 1999 bonus. It transpired that there is no liaison between the Pension Section and the Social Security Department to ensure that the bonuses are paid from one source.

Miscalculation of bonuses - An audit of income supplements and bonuses issued to service pensioners in September and December 1999 revealed that 45 out of 342 pensioners were shortpaid or overpaid. The net overpayment amounted to Lm1,308. Errors of 13.2 per cent of all partial bonuses and supplements paid for the two periods are not considered acceptable.

The Accountant General was advised to introduce and strengthen controls to avoid overpayments.

Monitoring of deceased pensioners/re-married widows pensioners

This audit was undertaken to establish what controls were in place to ensure that payments in the name of deceased pensioners and widows who re-marry are withheld with immediate effect on the occurrence of these eventualities.

Until 1996 pensioners had to make a bi-annual witnessed declaration to Treasury that they had received their pension regularly and if applicable, whether the pensioner was to retain the same power of attorney; widows had to state whether they had re-married.

This practice was admittedly rather cumbersome and time consuming but at least the Treasury Pension Section could exert some controls on whether a pensioner was still alive or not and whether a widow had re-married. No alternative controls have since been introduced.

NAO recommended that the Pensions Section should update its records on a regular basis by using the Central

Data Base (CDB) of the Public Registry. The issue of payments in the name of pensioners who passed away, or to those who contracted marriage would become less probable.

The Accountant General has since been provided with a monthly download of deaths information. However similar action has not been taken to be provided with monthly download of marriages to verify any widow pensioners who had re-married.

Conclusion

The report about this Audit was submitted to the Accountant General on the 30 June 1999. Although some of the recommendations have been implemented, not all the issues raised have as yet been addressed.

The number of Pension files which could not be traced is of serious concern.

The number of overpayments revealed and the lack of co-ordination between the Pensions Section on one hand and the Treasury Salaries Section and Department of Social Security on the other, indicate that necessary controls need to be in place in order to minimise the incidence of overpayments and possible loss of public funds.

Inland Revenue

15 per cent Withholding Tax

Background

The Income Tax Act was amended to incorporate, amongst others, provisions regulating the ‘15% Withholding Tax’ by means of the Income Tax Act (Amendment) No 2 – Act No XVII of 1994. In terms of Sections 33, 34 and 35 of the said Act, an individual is to declare the gross investment income with other income earned, unless the taxpayer instructs the payor to deduct the 15 per cent ‘Withholding Tax’.

Withholding Tax collected by the Inland Revenue amounted to Lm6,260,854, Lm5,730,483, Lm9,770,874 and Lm8,845,943 for years 1996, 1997, 1998 and 1999 respectively.

Purpose of Audit

Section 33(2) of the Act makes it incumbent upon Commercial Banks and other Financial Institutions to forward to the Commissioner of Inland Revenue all Withholding Tax collected. Section 33(2) specifically states that:

“*A payor shall render an account to the Commissioner of all amounts so deducted, but shall not specify the identity of the recipient and, subject to the provisions of subsection (3) of this section, every amount deducted shall be a debt due from such payor to the Commissioner payable not later than the fourteenth day following the end of the month in which the payment was made and shall be recoverable as such*”.

The audit was aimed to examine whether adequate internal controls exist to ensure that all the Withholding Tax collected on behalf of Government, by Commercial Banks and other Financial Institutions, is forwarded to inland Revenue.

Audit Findings

Lack of Internal Controls

No apparent feasible system is in force whereby the Department can ascertain that all tax withheld is being paid in full to the CIR with the least delay possible. Banks forward tax withheld through their Head office. The current practice is for the Department to accept the payments as and when forwarded.

NAO was informed that the lack of internal controls is due to the following reasons:

- Bank deposit accounts are highly confidential and the CIR is not in a position to either inspect or request information on such transactions. At a meeting held between the department and the Central Bank of Malta, it resulted that the CBM is actually in the same position since its inspectors are not allowed to analyse the interest accruing to account holders, both of individuals and companies.

- The only information available is the audited Financial Statements and the Profit and Loss Accounts submitted annually by Commercial Banks in terms of the Companies Act 1995 Part 5 (Chapter 10) and related provisions in the Banking Act.

Verification through audited accounts is not possible due to:

(i) the way related items are presented in the Profit and Loss Account and notes to the Financial Statements are disclosed;

(ii) interest paid out by banks is invariably shown as one amount and includes interest paid net as well as gross to all depositors, both residents and non-residents;

(iii) information contained in the Cash Flow Statement shows only the adjustment for any increase/decrease in interest payable and accruals; and

(iv) Financial Statements are prepared in respect of a financial year end which is at variance with the Government's financial year end.

Developments

Considering that 84 per cent of Withholding Tax revenue received at the Inland Revenue was collected by commercial banks, the CBM advised the CIR to implement controls and facilitate verification by requesting a quarterly or annual return from commercial banks. This return is to show the total interest paid by the Banks and the amount of 15 per cent Withholding Tax being paid on such interest. When cross-checked with the annual return filed by banks in respect of the gross interest paid to depositors opting not to have withholding tax deducted, this information should allow a measure of control on the amount of tax actually due. Preferably, returns forwarded to the CIR should be audited by external auditors prior to submission.

The CIR accepted the advice and intends to legally regularize this requirement by proposing the issue of a Legal Notice.

Conclusion

The amount of tax deducted at source is considerable. It is crucial that a "robust" audit trail is in place.

Duty collected by Commercial Banks (Credit Cards) and Insurance Companies (Insurance Policies)

Background

The Duty on Documents and Transfers Act, 1993 repealed the Duty on Documents Act, 1981 in order to incorporate provisions regulating the imposition of duty on certain documents and transfer of immovable property. The Duty on Documents and Transfers (Amendment) Act No 1 of 1998 introduced provisions regulating duty charged on banking credit cards.

Section 52A of Act 1 of 1998 and Section 30 (1) of the Duty on Documents and Transfers Act, 1993 legalize the responsibility upon insurance companies and commercial banks to forward all duty collected. The above mentioned sections state that:

Section 52A: *"There shall be charged on banking credit cards issued by any bank in Malta, a duty of seven liri for each year or part thereof during which the facility of a banking credit card is operative in respect of an account held with that bank; such duty shall be paid on the issue of the first banking credit card by the bank in respect of each account held with the bank providing such facility, and on each anniversary date thereafter during the continuance of such facility."*

Section 30(1): *"Any person issuing or signing any policy of insurance referred to in the foregoing sections, shall pay duty thereon in accordance with the provisions of this Act or of any regulations made thereunder."*

Section 27 of the Principal Act, as amended by Act I of 1998, stipulates the duty chargeable on every policy of insurance, other than duty on the policy of life insurance. The latter is regulated by Section 25 of the 1993 Act.

The former section states that duty is to be charged at *"ten cents for every lira or part thereof of the agreed yearly premium, or, if a compounded premium is agreed upon as a lump sum payment, then of that agreed consideration:*

Provided that the minimum duty chargeable under this section shall be five liri."

On the other hand, a minimum duty is not imposed on life insurance policies. According to Section 25, duty is chargeable at *"ten cents for every one hundred liri or part thereof of the sum assured"*.

Purpose of Audit

The audit was aimed to examine whether adequate internal controls exist to ensure that the aggregate amount of Lm3,650,389 Duty collected on behalf of Government by Insurance Companies and Commercial Banks represents the true and correct figure of Duty collected during 1999.

The aggregate amount is made up as follows:

	Lm
Duty collected by Commercial Banks	325,109
Duty collected by Insurance Companies	3,325,280
Total	*3,650,389*

Audit Findings and Developments

Duty Collected by Commercial Banks

The current procedure adopted by the department was to accept the duty forwarded as given. Payments of duty collected by commercial banks were not accompanied by any type of breakdown (by branch, number of credit card holders, etc.) of the amount stated in the covering letter.

The Banking Credit Cards (Compounding of Duty) Regulations, 1998 - L.N. 22 - does not specifically state the time within which commercial banks are to forward the duty collected. However, the department's lack of effective control measures in this respect, as required by Section 3 of the said L.N., resulted in payments of duty being effected later than the month following collection. There was no authority for the compounding of duty in respect of late payments.

Following this Office's concern regarding the lack of proper control procedures, the CIR requested the banks concerned to give a breakdown of all the credit cards on which duty was levied. These details are to feature in the covering letter accompanying payments.

The department authorized banks to effect payment of duty collected on credit cards by means of compounding at intervals not exceeding two months, in terms of the Banking Credit Cards (Compounding of Duty) Regulations, 1998. The department will also be monitoring adherence to regulations by all commercial banks.

The implementation of the initiatives taken by the department, as mentioned in the two preceding paragraphs, would facilitate control on this type of revenue.

Duty collected by Insurance Companies

Lack of controls was observed as regards duty collected from various classes of insurance. The department used to carry out inspections on this source of revenue. However, this practice was discontinued approximately two years ago, due both to the increase in volume of work and reduction of staff. It was also observed that duty is not being forwarded in the month following collection.

In order to implement controls and safeguard against any possible loss of revenue, the department intends to issue a circular to all insurance companies whereby they will be requested to adhere to the Compounding Regulations and will be enjoined to be more prompt in their payments. The circular will also emphasise that payments should be effected within fifteen days from the stated interval date authorised by the Commissioner. Moreover, an *ad hoc* inspectorate team will be revamped.

MINISTRY OF FOREIGN AFFAIRS

UNDP Sponsored Projects

Introduction

Within the UN system, United Nations Development Programme (UNDP) is the central organisation for the provision of development assistance to countries throughout the world. Its main goal is to help countries build their own national capacity to achieve sustainable human development, that is, to improve people's lives on an enduring basis: their work, their education, their health, their surroundings and their use of natural resources.

The United Nations Development Programme signed a number of technical cooperation programmes to be executed by competent Maltese Entities and Government departments in the various fields.

A complete list of the projects (sponsored by UNDP in collaboration with the Ministry of Foreign Affairs) together with the project title and the respective executing agent is given overleaf.

An agreement on financing was entered between UNDP, the Ministry of Finance and the respective Executing Agency that defines the amount to be contributed by UNDP and the amount to be provided by Government in each project. Each project carried a document specifying, *inter alia*, objectives, duration, budgets, outputs and activities and project reviews.

Project No.	Project Title	Executing Agency
MAT/90/001 & MAT/90/501	Assistance to Management Systems Unit (MSU) in Malta	Management Systems Unit/ M.I.T.T.S.
MAT/96/002	Capacity Building of the Central Office of Statistics	Central Office of Statistics
MAT/97/001	Institute for the Promotion of Small Enterprises	Malta Development Corporation
MAT/97/002	Strengthening the Environment Protection Department	Environment Protection Department
MAT/97/003	Strengthening the Machinery for Women's Advancement	Department for Women in Society
MAT/97/004	Support to Public Sector Reform	Government Printing Press

Projects' Objectives

MAT/90/001- The objectives of this project were to strengthen the management capability of the Management Systems Unit and introduce a computerised financial management system and a stricter and more efficient budget planning procedure. A feasibility study for the computerisation of the tax administration system and a number of training courses in the area of public sector management were also included in the project.

MAT/90/501- The project's objectives were the funding of an 'Overseas Study Tour' on Income Tax Policy and Management, the formulation of a 'Case Study' of good practice in administration reform in respect of the Revenue 2000 project and the co-ordination of an International Tax Reform Seminar to be held in Malta on Tax reform initiatives and experience.

MAT/96/002 – The objective of this project was to upgrade the statistics sector in Malta in order to better correspond with needs of the users, and to comply with the statistical requirements of international organisations.

MAT/97/001 – The aim of the project was to support the Government's efforts in developing the domestic micro and small manufacturing enterprise sector by assisting in the establishment and running of the Institute for the Promotion of Small Enterprises.

MAT/97/002 – The objective of the project was to contribute to Malta's efforts to protect the environment by enhancing the capabilities of the Environment Protection Department.

MAT/97/003 – The aim of the project was to enhance the Department for the Advancement of Women by conducting a review of existing and planned legislation on gender equality and by strengthening the professional capabilities of the staff.

MAT/97/004 – The objective of this project was to strengthen the capacity and streamline the operations of the Government Printing Press in order to serve the Government Departments more efficiently.

Following discussions between NAO and UNDP representatives, NAO agreed to audit the UNDP funded projects. Meetings were held with the departments and entities concerned in order to discuss all the requisites to carry out the audit in question.

Audit Objectives

The objectives of the audit were to determine whether:

- the objectives of each project have been realised;

- time frames have been kept; and
- any balances remained unspent in the cases of matured projects.

Furthermore the Office requested the respective Executing Agency to prepare yearly financial statements for the years up to 31 December 1999.

Methodology

Since the number of transaction on each project was limited, these transactions were practically all verified by this Office. Each transaction was checked for its correctness, fairness and materiality. Meetings were organised with each agency to analyse the systems used for the recording of transactions as well as the management of the project itself. The financial audit was conducted in conformity with Malta Government Financial Regulations and the provisions of auditing standards, principles and procedures prescribed by the United Nations with respect to the funds obtained from UNDP. The audit included such tests of the accounting records and internal controls as were essential for due performance of such audit.

Findings

Table opposite shows the starting date, duration, amount allocated by UNDP, remaining balances and progress reached on each project.

Except for projects MAT/96/002 and MAT/97/003, all projects were completed within the stipulated time frames. Projects MAT/96/002 and MAT/97/003 were not completed at the time of the audit, the reasons being that:

Project No:	Started	Duration	Amount $	Balance $	Stage
MAT/90/001	1992	24 months	228,798	nil	disrupted
MAT/90/501	1997	24 months	81,269	26,452	completed
MAT/96/002	1996	18 months	271,784	52,353	2000
MAT/97/001	1998	24 months	58,546	91	completed
MAT/97/002	1998	18 months	133,200	5,045	completed
MAT/97/003	1998	18 months	12,000	6,409	2000
MAT/97/004	1997	7 months	28,500	319	completed

- Project MAT/96/002 – The Central Office of Statistics felt the need to find an alternative premises to operate from. The works started during 1997 and finished in the beginning of 1999. This exercise, which included a refurbishment of an old office block and the setting in place of equipment, caused some delays in the implementation of the project.

  The change in Government in 1996 affected the implementation of the project since the policy of the Government regarding European Union has changed. This affected the operation of the Central Office of Statistics regarding the production of statistical data.

- Project MAT/97/003 – The project for the strengthening of the machinery for women's advancement encountered its first problem in early 1998, when difficulties to contract a foreign consultant cropped up. The fees requested by the consultant were higher than the available budget causing the negotiations to stop. An approval for an extension in the time frame was given by UNDP.

Furthermore Project MAT/90/001 regarding assistance to MSU was disrupted in 1997. The remaining balance on this project was transferred to the project (MAT/90/501) related to MITTS/Inland Revenue Department – Revenue 2000 project. The last phase of this project, which was the organisation of an international seminar by the Inland Revenue Department to discuss the reforms to the Income Tax, did not materialise due to heavy commitment of work by the Inland Revenue Department.

At the time of the audit, an agreement with the Ministry of Foreign Affairs is still to be reached with UNDP to transfer the remaining balances of the terminated projects.

Conclusions

In our opinion the objectives of the project were achieved except where specified. Furthermore the financial statements of all projects give a true and fair view of the state of affairs. The audit opinion is limited to funds received and expenditure incurred from those funds on the projects. The opinion does not cover any expenditure incurred by United Nations Organisation.

Ministry of Justice and Local Government

Local Councils

Background

In terms of Section 65 (1) of the Local Councils Act 1993 the examination of the accounts of the 67 local councils was carried out on behalf of this Office by 8 private audit firms who were appointed as Local Government Auditors after a call for application.

The financial year under review runs from April 1, 1999 to March 31, 2000. The Government allocated Lm6.5m. in ordinary funds and Lm2.5m. in funds for Special Needs.

According to Local Councils legislation the Local Government Auditors were to submit an audit report and the financial statements on each local council by June 30, 2000.

Financial statements

Only 28 reports were submitted by the stipulated date. Another 33 were submitted by July 31. Although this is a noticeable improvement over past years there is still room for further improvement. The improvement was registered because the Local Government Auditors were requested by NAO to submit an update every fortnight between April and June, stating the progress made in their audits and difficulties encountered. On receipt of the reports the Local Councils Department was informed of those Councils that were not co-operating with the Local Government Auditors to adhere with the June 30 deadline. In turn the Department took up the matter with those Councils enjoining them to co-operate with the Local Government Auditors.

Notwithstanding efforts made, the accounts of the Mosta Local Council have still not been submitted. Following representations by NAO, a 'Notice of Warning' by the Minister was served on the Council on 21 November 2000.

Requests have been received by NAO in the case of Attard, Ghasri, Kalkara, San Lawrenz and Zejtun for permission to be granted to the Local Government Auditor to carry out extensive accountancy work. This had to be acceded to as the audited accounts could otherwise not be proceeded with. In the case of Ghasri, the Council considered the fee for this service to be too high and opted to seek the assistance of third parties to carry out the necessary accounting adjustments. This resulted in a considerable delay in the presentation of the accounts.

Deficits

The financial statements of the Local Councils listed below revealed instances where the amount of expenditure exceeded income. This excess expenditure was not covered by savings from previous years.

The following is the list of Councils and the amount of excess expenditure over income:

	Lm		***Lm***		***Lm***
Birgu	(33,451)	Bormla*	(8,222)	Rabat (G)	(362)
Gzira*	(3,053)	Msida*	(7,629)	Paola	(4,099)
Pieta*	(9,078)	Rabat	(86,052)	Swieqi*	(24,778)

Those Councils marked (*) were already noted for their excess expenditure last year. In the case of Paola, this Council also operated with an excess expenditure over income last year but was not reported because the audited accounts were not received by the time the report was drawn up.

The audited financial statements of the following Local Councils also indicate a negative working capital (current assets less current liabilities). The comparative figures for 1998 are also included.

Local councils with negative working Capital balances

Local Council	1999-2000 Lm	1998-1999 Lm
Birgu	(34,428)	10,472
Isla	(153)	(4,414)
Bormla	(35,806)	(61,729)
Zejtun	(16,139)	(38,425)
Rabat (G)	(5,324)	13,549
B'Kara	(25,252)	(19,918)
Gzira	(8,727)	(7,609)
Iklin	(224)	21,652
Lija	(1,413)	20,467
Msida	(36,023)	(26,671)
M'Skala	(58,468)	(26,621)
Naxxar	(12,542)	(28,345)
Paola	(96,533)	(63,758)
Pieta	(35,913)	(33,804)
Rabat	(19,876)	135,688
Swieqi	(28,739)	(10,019)
Ta' Xbiex	(17,456)	(21,549)
Xaghra	(6,192)	6,200

The Councils listed above, with the exception of Isla, Bormla, Zejtun, Naxxar and Ta’ Xbiex, reported higher negative working capital balances than the previous financial year.

Furthermore in the case of Paola and Ta' Xbiex the audited accounts also indicated an accumulated deficit of Lm19,797 and Lm10,977 respectively in the retained funds (fixed and current assets less current liabilities). The figures for 1998-99 were Lm15,698 and Lm14,720 respectively.

Management Letters

The audit report and financial statements are accompanied by management letters highlighting shortcomings encountered by the Local Government Auditors during the course of their duties. There were instances where the mayors' response were submitted late.

Up to the end of September 30, 2000, 34 responses to the management letters were not received. The Local Councils Department was informed and necessary action had to be taken from their end. Notwithstanding this the remainder have still not been submitted.

The following are the more serious matters (some of which were already reported upon in the 1998 Report) raised in the Auditors' Management Letters:

- The fixed Assets register is not properly updated and reconciled by category with the nominal ledger in order that assets could be effectively managed and controlled.

- Overspending resulting in shortage of liquid funds should not be resorted to. Measures need to be undertaken to curb recurrent expenditure as much as possible. Furthermore capital expenditure should be limited solely to funds made available for special needs.

- All purchases are to be supported by an invoice and every payment is to be covered by a fiscal receipt.

- Creditor balances are to be invariably accounted for and invoices recorded in date order when received. In this manner it could be ensured that the records are free from any material omissions.

- Bank reconciliations are not carried out correctly.

- Revenue should be deposited daily at the bank as stipulated in the Local Councils (Financial) Procedures. Payments are to be recorded individually either on spreadsheet or on a daily cash sheet. This is more important now in view of the increase in the amounts of cash being handled daily.

- Personal emoluments are to be declared on a monthly basis on the FSS return and reconciled with the gross amounts paid. Payments of income tax and NI contributions are to be forwarded to the Inland Revenue Department when due.

- Special Needs Funds are being used to finance expenditure of a recurrent nature in breach of regulations. Furthermore, such funds are to be deposited in an account separate from funds granted for recurrent expenditure.

- The present software of the Local Enforcement System does not cater for the generation of reports to establish income derived from all sources and the amount of debtors.

- In one Council the person contracted by the Council to perform accounting work lacked a professional background. Notwithstanding guidance on how to conclude accounts, entries which could materially effect the financial statements still had to be adjusted.

- In one Council no electronic back ups of the accounts are being kept and no copies of adjustments effected are available on the premises.

Law Courts

Irregularities at the Cash Office

Background

The main function of the Cash Office at the Law Courts is the collection of fines inflicted by the Magistrates Courts and by the Commissioners of Justice.

Recording and collection of Magistrates Court Fines are carried out manually. Standard procedures and regulations in the issuing of general receipts, recording takings and eventual depositing of the daily takings with the Accounts Section are to be followed.

Fines imposed by the Commissioners for Justice for traffic offences committed against the Traffic Ordinance Regulations were likewise accounted for manually until early 1999. A computerised system delivered by MITTS has since been introduced. The system met the requirements of the Law Courts and the Licensing and Testing Department. One of the print outs generated by the system is the daily taking report.

The totals of the four subsidiary cash books covering the fines collected from both the above sources are entered in the Main Cash Book on a daily basis. The total amount is remitted to the Accounts Section.

Findings

During the course of examining the accounts of this section it has transpired that the situation prevailing at the Cash Office was far from satisfactory. The findings may be classified under eight (8) main headings, namely:

- destruction of various pages from the Main Cash Book, the pages of which were not enumerated;
- missing pages from subsidiary cash books;
- receipts not entered in the subsidiary cash books and consequently relative amounts not remitted to accounts;
- missing original and duplicate counterfoil receipts;
- total amount of receipts and relative entries in the subsidiary cash books do not always tally;
- tampering with computer records in the case of traffic fines;
- no reconciliation between the daily taking and actual amount passed on to the Accounts. This holds good also for other cash points at the Law Courts;
- no security at the Cash Office.

Most of the above points constitute lack of internal controls and checks which are so essential to carry on the business of an entity in an orderly and efficient manner, to ensure adherence to government policies and standing regulations, to safeguard the assets and to secure as far as possible the completeness and accuracy of the records.

Developments

In its communication to the Director General, Law Courts, N.A.O. had recommended that an investigation should be carried out especially since some of the irregularities may be fraudulent. A Board of Inquiry was, in March 2000, appointed in terms of Section 3 (a) of the Inquiries Act XIX of 1977 with the aim to investigate into the circumstances leading to the irregularities at the Cash office.

In its final report, submitted to the Permanent Secretary, Ministry of Justice and Local Government, the Board stated that *'the irregularities reported upon by the N.A.O. were entirely confirmed'*. The Board recommended that:

- further *'ad hoc'* investigations be carried out by the Police;
- reconstruct the subsidiary and main cash books; and
- reactivate cancelled traffic fines.

The matter is still being investigated by the Police and the other points are being looked into by Court personnel.

Furthermore, the Department has now introduced internal controls at all cash points. All receipts issued are being verified against cash books before cash takings are deposited with the Accounts Section for eventual deposit to bank.

MINISTRY OF EDUCATION

Museums

Excessive cash held at Museum sites and Head Office

Background

The holding of amounts of cash well over the limit set by the General Financial Regulations has been of concern to the National Audit Office for some time. This issue has been reported upon in the 1996 and 1997 Annual Reports. The practice of officials from the Administration Section going round the fourteen (14) Museum sites (Malta) to collect whatever cash has accumulated since the last visit is still being resorted to.

The position has worsened since remittances to Bank by the Head Office are being effected once or twice a week only irrespective of amounts in hand. Remittances cover cash takings from sites, sale of tickets from Head Office to tour operators who in the majority pay by cheque and other miscellaneous takings. Remittances ranging from Lm1,550 to Lm36,174 were recorded during the period January 1999 to June 2000.

Development

During the Public Accounts Committee meeting held on the 17th February, 1999 (Sitting No 8) the Permanent Secretary Ministry of Education, when commenting on the 1997 Report, stated that once Museum officers are appointed the problem of excessive cash at sites would be solved since these officers would deposit the money in the bank nearest to the sites.

Museum officers were appointed in December 1999. The duties of Museum Officers include the controlling and safeguarding revenue collected at museum and sites and transferring such revenue to appropriate depository.

Deposits into Bank by Head Office are not being effected as stipulated by the General Financial Regulations both as regards the amounts involved and frequency of cheque deposits. The Regulations indicate the maximum amount that can be held before being deposited but also specifies that cheques are to be deposited on the same day these are received.

A check was carried out on all deposits effected in Malta during 8 months selected between January 1999 and June 2000. Deposits of over Lm10,000 are a very common occurrence.

As illustrated in the Table on page 131, deposits as high as Lm36,174 effected on 5 May 2000 are being made. This sum was made up of Lm8,900 pertaining to sites and retrieved by Head Office personnel between the 2 and 4 May, and 15 cheques to the value of Lm27,264 covering takings at Head Office. Revenue totaling Lm92,876.71 effected during May 2000 involved only 4 deposits.

<table>
<tr><th></th><th></th><th colspan="4">Source of Total Amount Remitted</th></tr>
<tr><th>Date of Remittance</th><th>Total Amount Remitted</th><th>Sites</th><th colspan="2">Head Office</th><th></th></tr>
<tr><th></th><th></th><th></th><th>Cash</th><th>Cheques</th><th>No. of Cheques</th></tr>
<tr><th></th><th>Lm</th><th>Lm</th><th>Lm</th><th>Lm</th><th></th></tr>
<tr><td>04.01.1999</td><td>4,720.00</td><td>850.00</td><td colspan="2">3,570.00</td><td></td></tr>
<tr><td>06.01.1999</td><td>2,850.00</td><td>2,850.00</td><td></td><td></td><td></td></tr>
<tr><td>07.01.1999</td><td>1,550.00</td><td>1,550.00</td><td></td><td></td><td></td></tr>
<tr><td>11.01.1999</td><td>2,300.00</td><td>600.00</td><td colspan="2">1,700.00</td><td></td></tr>
<tr><td>15.01.1999</td><td>5,894.00</td><td>2,800.00</td><td colspan="2">3,104.00</td><td></td></tr>
<tr><td>29.01.1999</td><td>12,890.00</td><td>5,000.00</td><td colspan="2">7,890.00</td><td></td></tr>
</table>

		Source of Total Amount Remitted			
Date of Remittance	**Total Amount Remitted**	**Sites**	**Head Office**		
			Cash	**Cheques**	**No. of Cheques**
	Lm	**Lm**	**Lm**	**Lm**	
06.04.1999	13,387.00	4,050.00	90.60	9,246.40	7
09.04.1999	8,512.63	3,850.00		4,662.63	7
13.04.1999	18,503.15	5,650.00	94.05	12,759.10	9
16.04.1999	15,341.00	3,350.00	149.30	11,841.70	9
21.04.1999	11,265.00	6,394.00		4,871.00	7
27.04.1999	21,078.00	5,150.00	80.00	15,848.00	6
30.04.1999	14,858.00	3,000.00		11,845.00	6
02.07.1999	6,147.80	6,094.50	53.30		
10.07.1999	13,978.15	6,050.00	175.95	7,752.20	9
15.07.1999	9,399.20	2,600.00		6,799.20	4
23.07.1999	18,947.05	7,300.00		11,647.05	6
30.07.1999	8,281.70	4,100.00	15.70	4,166.00	5
09.08.1999	19,318.55	7,300.00	423.85	11,594.70	9
13.08.1999	25,682.20	5,550.00		19,997.20	10
20.08.1999	14,003.43	6,300.00	367.29	7,336.14	11
27.08.1999	10,412.50	7,400.00	5.00	3,007.50	3
03.12.1999	15,013.44	2,900.00	2,327.00	9,786.44	11
23.12.1999	5,692.90	3,000.00	40.85	2,652.05	4
24.12.1999	4,846.42	3,900.00	4.42	942.00	4
30.12.1999	3,630.00	2,500.00	80.00	1,050.00	2
10.03.2000	4,074.00	4,074.00			
17.03.2000	19,557.90	4,700.00	231.35	14,626.55	13
24.03.2000	10,183.65	5,000.00	249.00	4,934.65	7
30.03.2000	27,000.70	5,000.00	355.45	21,645.25	14
05.05.2000	36,174.95	8,900.00	10.50	27,264.45	15
16.05.2000	32,301.90	8,400.00	383.40	23,518.50	18
19.05.2000	8,313.00	4,100.00	120.00	4,093.00	5
26.05.2000	16,086.86	5,400.00	39.00	10,647.56	16
02.06.2000	14,578.45	6,700.00	38.50	7,839.95	10
09.06.2000	23,558.20	6,100.00	240.60	17,217.60	10
16.06.2000	18,668.06	6,700.00	145.50	11,822.56	10
23.06.2000	15,183.80	3,800.00	328.80	11,055.00	5

Conclusion

Cash Management at the Museums Department, in so far as revenue is concerned, has been a weak spot for quite a time. Two site break-ins and the hold-up that took place during the recent past are of grave concern. Besides putting life or limb of Museums employees at risk, public revenue is endangered.

The rule that cash inflows collected and deposited as quickly as possible is not being adhered to. Effective cash management requires that officials at all levels in an organisation understand the concept of the time value of money and the impact of accelerating collections and deposits.

It is earnestly hoped that the system proposed by the Permanent Secretary of expeditiously depositing money received by the Museums Department is implemented as a matter of priority.

Department of Culture and the Arts

Background

The department played a significant role in the year leading to the new millennium. Expenditure for year 1999 amounted to Lm1,367,585 while revenue realised from cultural activities through a below-the-line account amounted to Lm81,355.

The Income and Expenditure accounts of the 23 activities held by the Department during 1999 were requested by

NAO. These were received too late to be audited. However, tests were still carried out on revenue and expenditure items of the Department.

Findings

Revenue

Desk officers in charge of cultural activities were holding considerable amounts of cash for long periods of time before takings were passed on to the Accounts Section.

Remittances (cash and cheques) to bank by the Accounts Section were not being effected in accordance with the financial regulations. Any bank drafts and amounts in cash in excess of Lm30 are to be paid into an authorised bank on a daily basis. During 1999 there were only 12 deposits into bank which together totalled Lm65,340.98.

Expenditure

The department operates a Below-the-line Account meant to cover expenses relating to cultural activities. Twenty payments amounting to Lm4,060 which have no relation to cultural activities and which should have been paid from the Recurrent Vote were charged to this Account, thereby inflating the expenditure amount approved by Parliament in the estimates for the department.

Jazz Festival 1999

The cost for an advertisement in favour of a public liability company appearing both on the Festival brochure and on the souvenir book was meant to be covered by a sponsorship fee of Lm3,000. No written agreement was entered into binding the company to pay for the sponsorship. The company is refusing to effect the payment on the plea that there were no contractual obligations.

Department's response

The Department acknowledged all the points raised by the NAO regarding the non-adherence to standing government rules and regulations. The Department stated that action was being taken to address all shortcomings.

MINISTRY FOR TRANSPORT AND COMMUNICATIONS

Licensing and Testing Department

Compliance Audit for the Year 1999

Background

A compliance audit for the year 1999 at the Licensing and Testing Department examined:

- Recurrent Expenditure
- The Computer System
- Inventory and Stores.

The purpose of this audit was to establish that:

- the financial operations were carried out in compliance with Financial Rules and Regulations
- internal controls are in place to ensure compliance.

Findings

Expenditure (Lm509,769)

Misallocation of Expenditure: a random check on 10 per cent of Expenditure vouchers was carried out. Out of 55 payment vouchers examined, 15 cases (27 per cent) resulted in expenditure being charged to the wrong item of expenditure.

Purchasing Procedure: the procurements of stores and services have to be authorised through a Local Purchase

Order (LPO). In 13 per cent of cases sampled the LPO was issued after the receipt of the invoice.

The computer system

An examination of the VERA (Vehicle Registration and Administration) computer system in place for the collection of revenue was carried out. After going through the whole system, including the registration of new vehicles, payment of Registration and Road License Tax and the issue of computer generated receipts, the shortcomings listed below were observed:

- Receipts with zero amount are issued when a newly registered vehicle is exempted from Registration Tax;

- Transactions can be cancelled or reversed without leaving an audit trail and the computer generated receipt number remains unused;

- Data Input for the registration of new vehicles is not validated. Thus if the wrong code for the capacity and category of the vehicle is inserted at the initial stage, the registration tax and road license tax would be erroneously calculated.

Stocks of Logbooks, Number Plates and VRT Receipts

No proper control is kept on the quantity of stocks of log books, number plates and VRT receipts. Receipts and issues are not recorded in Store Ledgers. Issues are not made against an authorised issue note.

Records of damaged logbooks/number plates are not kept. These are bundled in the Stores without being properly recorded and accounted for in a Ledger for damaged items.

When a new logbook is issued following a change in any of the vehicle details (colour, engine or personal details) the old logbook together with the Road License are not surrendered. This results with the owner having more than one road license and logbook for the same vehicle valid for the current year.

The department was advised to introduce a proper Stores Accounting System in order to exercise full control of receipts and issues of these store items and avoid the possibilities of these items being mislaid.

Inventory

An inventory of furniture and equipment is not kept by the department. Only room inventory lists are presently being kept. Unless an inventory is kept where valuable items of a permanent nature are taken on charge, the department would not have any control over the safeguarding of Government assets.

Conclusion

All the issues raised in this audit indicate lack of compliance with Financial Rules and Regulations. Internal controls are not in place to ensure compliance.

The Department was requested to submit its comments on the shortcomings noted above. NAO was informed that the Department has addressed all shortcomings mentioned above and that corrective action is being taken accordingly.

Part 6 - Work and Activities of NAO

Role of the National Audit Office (NAO)

This Part of the report is in compliance with the requirements of sub-paragraph 5 (i) of the First Schedule of the Auditor General and National Audit Office Act (Act XVI of 1997) in terms of which the Auditor General has to report annually on the workings of the National Audit Office.

The external audit function of public funds is exercised by the NAO. The Office, which is autonomous from the executive branch of government, was established with the coming into force on 25 July 1997 of Section 108 of the Constitution and the Auditor General and National Audit Office Act.

The independence of the NAO, which is entrenched in the Constitution, is a vital factor in the value and credibility that taxpayers can place on the Office's work.

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 may also carry out audits of public entities and other bodies administering, using or holding public funds.

The mandatory and primary objective of the NAO, in terms of the Constitution and the Auditor General and National Audit Office Act, is to provide independent information, assurance and advice to Parliament on the way Treasury, government departments and certain non-central government entities (particularly Local Councils) account for and use public funds.

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 NAO. Any funds received or administered by Government, from whatever source, are within the extent of the mandate 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 Public Accounts Committee 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), private sector auditors are engaged by the entities themselves to carry out regularity/certification audits.

The audit field for 1999 included central government receipts and payments totaling around Lm1,412.8 million (against Lm1,325.1 million for the previous year). These encompassed revenue of Lm721.9 million (including Lm84 million loans), recurrent expenditure of Lm584.8 million (including Lm64.8 million public debt servicing) and capital expenditure of Lm106.1 million.

Regularity Audits

These audits, also referred to as Certification or Financial and Compliance audits, are carried out in terms of the First Schedule of the Act. They aim at ensuring that the Government Financial Report, including the financial statements of ministries and departments, is being properly presented, that transactions comply with financial rules and regulations and that proper internal controls are in place. Audits are also made on corporate issues of a common concern, such as travel abroad by senior officials, arrears of revenue due to government, transport expenses, salaries, overseas non-barred telephone lines, etc. Regularity audit provides independent assurance that the government departments and other audited bodies account properly for the money that Parliament has approved and that they have spent it as Parliament intended.

Value for Money Audits

These audits, carried out in terms of the First Schedule of the Act, are intended to address the economy, efficiency and effectiveness of programmes and operations of Ministries, Departments or public sector entities.

During the current year Value for Money audit reports have been published on:

- Internal Audit (presented to the House of Representatives in January 2000)
- VAT Department Inspectorate Unit (presented to the House of Representatives in October 2000)

Audits of non-central government organisations

The National Audit Office every year carries out audits of certain non-central government organisations. The main purpose of such audits is to ensure that public funds donated by government are used for the specific purpose for which these funds are handed out to the various organisations.

These audits are carried out also to ensure that these organisations adhere to government legislation and regulations such as the Income Tax Final Settlement System and the Value Added Tax and that they keep proper records and control over their expenditure.

There is as yet no *ad hoc* legislation to govern the establishment and regulation of non-government organisations. These bodies are set up under various forms i.e. foundations, church or private agencies and entities, voluntary associations, philanthropic institutions and societies.

These bodies have their own accounting systems and although they are directly or partly financed by Government through subsidies, grants or subventions, they are not bound to follow Government Financial Regulations.

The accounts of the bodies listed below were examined and subjected to a limited financial and compliance audit for the period ending 31 December 1999.

Education

- Manoel Theatre (Grant - Lm130,000)
- Society of Arts, Manufacture and Commerce (Grant - Lm30,000)
- St Patrick's School (Grant _ Lm270,000 + Lm15,486 premises upkeep)

- Marquis Scicluna Trust Fund
- Captain O.F. Gollcher Foundation
- Malta Cultural Institute (Grant - Lm350)

Social Policy

- Co-Operatives Board (Grant - Lm70,000)
- Marriage Advisory Council - Cana Movement (Grant - Lm30,500 + Lm14,000 one-off grant from the Director of Lotto)
- Conservatorio Vincenzo Bugeja
- (Grant Fejda - Lm77,000, Jeanne Antide Lm25,000, Istituto Feminile Lm5,000)

Agriculture and Fisheries

- Agrarian Society (Grant Lm1,500)
- Horticulture Society (Grant Lm300)
- Gozo Agricultural, industrial and Cultural Society (Grant Lm1,000 Agriculture & Fisheries) (Grant - Lm412.35 Ministry for Gozo)

Environment

- GAIA Foundation 1998 & 1999 (Grant - Lm10,000)

Health

- Titta Strickland - Trust Fund 1998 & 1999

Transport and Communications

- Pilotage and Mooring Funds established under the Pilotage and Mooring Regulations, 1975

Audits carried out did not reveal any material errors or irregularities. Where shortcomings were detected these were brought to the attention of management of the bodies concerned, through management letters, and action was taken to rectify matters.

Special Audits

Audits or investigations, which may be of a financial or value for money nature, are carried out in terms of Section 8(a) and Section 9(a) of the First Schedule of the Act. These audits may be carried out on the initiative of the Auditor General, at the request of the Minister of Finance or at the request of the Public Accounts Committee of the House of Representatives. They may relate to revenue, expenditure and resources belonging directly or indirectly to government.

The following Special Audits and Investigations have been carried out:

Ta' Qali National Park Committee Concerts follow-up audit (report presented to the House of Representatives in February 2000)

Alleged non-adherence to contractual obligations by contractors relating to Cottonera Project (report presented to the House of Representatives in June 2000)

Outsourcing of Audits and other Professional Work during 2000

In terms of Local Government legislation, audit tasks 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 Value for Money Audits.

A Certified Public Accountant and Auditor was engaged on a consultancy basis to assist in the carrying out of investigations and in the audits of a number of non-central government organisations which were subject to audit.

A lawyer was engaged to provide legal advice to the Office whenever required. Another lawyer is assisting in investigative work on a consultancy basis.

National Audit Office's relationship with Parliament

The Public Accounts Committee (PAC)

The Auditor General submits his annual Audit Report to the Speaker of the House of Representatives who lays the Report on the table of the House. This Report is subsequently referred to the Public Accounts Committee which in turn may review the Report and holds meetings to discuss its contents. It is empowered to take evidence from senior officials of ministries and departments or other government related bodies. Apart from the Audit Report, the PAC also reviews the activities of non-central government organisations, the accounts of which are presented to Parliament.

While the mission of the National Audit Office is to act as a watchdog to government 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 totaled 55 up to 30 November 2000, out of which 19 were held this year. A number of sittings held during the year 2000 focused on issues raised in the 1998 Audit Report.

The National Audit Office Accounts Committee

The costs of the NAO are fully funded by Parliament. The National Audit Office Accounts Committee of the House of Representatives, established in 1998, 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 the estimates prepared by the Auditor General.

The revised budgeted financial statements and management accounts for 1999 and budgeted financial statements for 2000 were presented and discussed by the Committee on 30 May 2000. These were approved by the Committee.

The accounts of the NAO for 1999 were audited and certified by private sector auditors who were appointed by the Committee. These accounts will be presented to the House, together with any comment thereon, by the Committee. The same audit firm has been re-appointed to audit NAO's financial statements for the year ending 31 December 2000.

The accounts of the National Audit Office have been drawn up on an accruals based system since 1998.

International Relations

NAO has been participating more actively in international fora. NAO regularly submits its comments on studies of public sector auditing and accounting nature carried out by INTOSAI, EUROSAI, IFAC and other organisations. It is also involving itself more in international activities.

A senior officer from the NAO has been appointed as the sub-coordinator of SAIs from the Mediterranean region on audits and studies relating to Environmental Audit. One other officer is participating in the Working Group Meetings for Liaison Officers of EU candidate countries and was appointed as co-rapporteur on a theme related to audit manuals. This Office is also a member of the INTOSAI Committee on Accounting Standards.

Furthermore, the NAO has locally held a number of meetings with foreign visitors to exchange views on the National Audit Office and discuss issues of an audit nature as well as technical assistance.

During the year 2000 this Office participated in the following events that related to meetings, seminars, working group committees and familiarization visits with foreign counterparts:

1. Fourteenth UN/INTOSAI Seminar in Vienna (Austria) held between 27 to 31 March attended by one senior official. The main theme chosen for the seminar was the audit of public health-care systems by Supreme Audit Institutions. A country paper was presented by the Malta delegate. Other issues discussed during the seminar included the selection and scope of audits related to health-care systems, criteria to be established, methodology to be used, skills, experience and training required, reporting and ensuing results.

2. First Working Group Meeting for liaison officers of EU candidate countries on the follow-up of the implementation of the recommendations and strategies adopted by the Presidents of the SAIs of EU candidate countries on 4 and 5 April held in Riga (Latvia). This was attended by a senior official from the NAO.

The following priority areas were discussed:

- Implementation of the recommendations of the Meeting of Presidents of SAIs of EU candidate countries (held in Prague in October 1999) on the functioning of SAIs in the context of European integration;
- Implementation of audit manuals;

- The active role of SAIs in the process of EU enlargement;
- Assessment of needs of SAIs for cooperation with Member States SAIs as well as Technical Assistance.

Co-rapporteurs were appointed for each theme to prepare a report thereon. The officer from the NAO was nominated as one of the two co-rapporteurs on the theme of the implementation of audit manuals. A report on this theme was submitted to the Working Group in June.

3. Familiarisation visit by two senior officials from the European Court of Auditors (ECA) at the NAO (Malta) on 25 and 26 April. Senior Management Staff at the NAO actively participated during the various meetings which took place. The role and functions of the NAO, compatibility of NAO with best European practices, role of the ECA in the audit of EU funds and implications of the *Acquis Communautaire* on NAO were discussed. The objective of this meeting was also for the ECA to obtain information on NAO in line with information obtained on other EU candidate countries.

4. INTOSAI International Conference on Internal Control held in Budapest (Hungary) from 8 to 11 May attended by the Deputy Auditor General and one senior official. The main themes discussed were:

- Management responsibilities in establishing and maintaining adequate internal control systems;
- The role of internal and external auditing in the assessment and evaluation of internal controls, as well as management methods and techniques;
- Follow-up on external and internal audit recommendations;
- The evaluation of control risks in administrative decentralization processes;
- Revising INTOSAI internal control guidelines.

5. Familiarisation visit by the Auditor General and Assistant Auditor General at the ECA on 10 and 11 July in Luxembourg. This visit was a follow-up to the visit conducted earlier during the year by ECA representatives in Malta. During this meeting, ECA officials gave a general presentation of the development, responsibilities, structure and working methods of the ECA. Also discussed was the cooperation in the field of audit of EU funds for Malta as well as possible cooperation in the field of training for NAO staff.

6. Meeting of the Coordinator and Sub-Coordinator for the Mediterranean Region of the EUROSAI Working Group on Environment Auditing held at the NAO (Malta) on 24 and 25 July. This was attended by three members from the Polish Supreme Chamber of Control (as coordinators of the Working Group) and by a number of NAO senior management staff, including the Deputy Auditor General. The purpose of this meeting was to discuss the activities undertaken by the coordinator and the sub-coordinators in the European regions, and to identify the initiatives that the Malta SAI can involve itself as sub-coordinator of SAIs from the Mediterranean region in the activities of the Working Group.

7. Meeting at European Commission in Brussels (Belgium) held on 3 October and attended by a senior officer from the NAO, together with representatives from Ministry of Finance and other government bodies. The purpose of this meeting was to discuss *"Extended Decentralisation"* of managing Pre-Accession Funds to Malta with representatives of DG Enlargement and DG Budget of the European Commission.

8. First Meeting of the EUROSAI Working Group on Environmental Auditing held in Warsaw (Poland) during 23 and 25 October. This was attended by the Auditor General and one senior official from the NAO. This meeting addressed the draft workplan on Environmental Audit to be carried out by EUROSAI countries, including the preparation of the Working Group Plan for 2002, promotion of the Working Group within EUROSAI structures, methodology of environmental auditing and exchange of information on environmental audits.

9. Second Working Group Meeting held in Prague (Czech Republic) on the 26 and 27 October on the follow-up of the implementation of the recommendations referred to earlier on. A senior officer from the NAO attended this meeting. Reports prepared by the Working Group and by the co-rapporteurs on the priority areas identified in the previous meeting were discussed. Furthermore an agenda for the Meeting of SAIs of EU candidate countries to be held in Sofia (Bulgaria) in December was prepared and approved.

10. Meeting with TAIEX (EU Technical Assistance and Exchange Programme Organisation) expert at the NAO (Malta) on the 22 and 23 November. The Auditor General, Deputy Auditor General and senior members of the staff participated in the meetings. The objectives were to discuss the state of affairs of the National Audit Office and identify needs and training requirements, including sources where such requirements may be obtained.

11. A meeting for the Presidents of SAIs of EU candidate countries was held in Sofia on the 7 and 8 December. This was attended by the Auditor General and another senior official. The purpose of this meeting was to discuss the consolidated report and recommendations prepared by the Working Group and liaison officers on the themes mentioned in 2 above and to set up other Working Groups to prepare reports on issues relating to exchange of technical information on audit manuals, pilot audits and training relevant to SAIs of EU candidate countries.

Overseas training

The Finance and Human Resources Manager attended a three-week course in the UK organised by the Royal Institute of Public Administration on Change Management and Human Resources. The aim of this course was to examine practical ways for managers in the public service to manage, develop and support human resources in changing organisations against a background of world-wide change in the structures and methods of the public services.

Local Conferences and Seminars

To further enhance the competencies of employees, senior officials from the NAO attended the following local conferences and seminars during the year 2000:

Effective Business Auditing: The seminar was organised by the Malta Institute of Accountants. The seminar consisted of the viewing of various segments of a training video sponsored by the CPE Division of the American Institute of Certified Public Accountants. Each segment was explained and discussed by a panel of practitioners. The seminar afforded those who attended with valuable techniques applicable to specific situations.

New Provisional Tax Rules and the New Companies' Income Tax Return: The seminar was organised by the Malta Institute of Accountants and consisted of presentations by a panel of senior speakers from the Inland Revenue Department, together with discussion between the panel and audience.

EURO-FORUM: This was organised by the Malta Institute of Taxation and focused on the new Tax Compliance Unit, Finance Leasing in a European Background, VAT and the EU Directives and the Use of Technology in tax administration and in Professional Practice.

Equal Rights and Opportunities for Women and Men in the European Union - The Impact and implications for HR Practitioners: The seminar was organised by the Foundation for Human Resources Development. The seminar discussed the main Directives concerning Equal Rights and Opportunities for women and men in the European Union, particularly in relation to Equal Pay for Equal Work and for work of equal value; Equal treatment in the workplace; Rights for working women relating to childbirth; Parental leave and time off for urgent family reasons; and how rights are recognised and enforced.

e-Engineering: A conference organised by the Chamber of Professional Engineers and covering the following topics: e-Business is Business, e-Government and the IT Legislative Framework; e-Technology Integration in the Wireless World, the Broadband Future - Fat Pipes and Multimedia, Megabyte Access/the ADSL Potential, the Technologies beyond the e-nabled business model, Managing the World of e-Services and Electronic Data Management for Water System Control.

International Accounting Standards - Update: The seminar was organised by the Malta Institute of Accountants. It addressed issues underlying these standards, together with the applicable Interpretation of the Standing Interpretations Committee (SIC). The seminar consisted of presentations by a panel of speakers involved in the application of IASs in practice and in the training of students in the use of these standards.

The New Cyberlaws and Your Business: A one-day conference which examined the new proposed legislation on e-Commerce, Data Protection and Computer Misuse.

EURO-FORUM: This was organised by the Malta Institute of Taxation. The topics covered during the conference included Employer's Involvement in the Final Settlement System, the Practical side of FSS, Customs Procedures in the EU and Social Security Directives and the EU.

Malta and the EU Employment Guidelines: Seminar organised by the Employment and Training Corporation and covered topics on National Employment and Training Issues - The case of Malta. A EU Commission Speaker delivered a speech on Best Practices in Europe.

The Challenges Facing Management in an Enlarged Europe: A seminar organised by the Malta Institute of Management dealing with different types of problems management needs to handle and adapt to in the process to EU membership.

EU Structural Funds: A workshop organised by TAIEX (EU Technical Assistance and Exchange Programme) explaining the type of structural funds which exist.

NAO Staff Complement

In the year 2000, the National Audit Office continued with its recruitment process. Staff complement as on 1 November 2000 consisted of 58 audit and support staff. The following is a breakdown of the staff position:

Staff Profile (as on 1 November 2000)

Grade Description	Number
Auditor General	1
Deputy Auditor General	1
Assistant Auditor General	1
Managers – Support Services	4
Managers – Audit	5
Staff – Audit	29
Staff – Support Services	10
Staff – Messengerial	7
Total	**58**

New recruits, who satisfied entry requirements, were successful after interviews were held following internal and external calls for applications for the filling of vacant posts at the Office. The new recruits include employees who hold Degrees in Public Administration, Accountancy and Engineering.

38 (65.5 per cent) members of the staff are male and 20 (34.5 per cent) are female (against 73.3 per cent for males and 26.7 percent for females in October last year).

Training

In its endeavour to promote and achieve professionalism, the National Audit Office accomplished an ambitious training programme during the last part of 1999/beginning of 2000. Specific high calibre training sessions complimented on-the-job training and helped managers to give their new employees, recruited in November 1999, additional information on general administrative matters and on the more technical aspects of the Office's auditing approach. Training was also provided to more experienced staff on themes related to their audit tasks such as statistical sampling and Government Departmental Accounting System (DAS).

Sponsorships

The NAO is determined to have a core of qualified personnel and has therefore decided to sponsor those employees willing to undertake courses to degree and diploma levels. These sponsorships currently include:

1. Malta Institute of Accountants – 5 employees are presently following a five-year course leading to MIA Accountancy professional qualification.

2. Diploma in Managerial Principles – 3 employees are undertaking a two-year course leading to a Diploma in Managerial Principles. The course is organised by the Chamber of Commerce;

3. Diploma in Business Studies – Another employee is currently attending a part-time course leading to a Diploma in Business Studies. The course is organised by the Chamber of Commerce and is of a 1 year duration;

4. UK National Computer Centre International Higher Diploma Course in Computer Studies – a member of the I.T. Unit is also pursuing a Higher Diploma Course in Computer Studies. The Higher Diploma is designed to prepare students for a career in Computing and Information Technology;

5. Masters Degree in Business Administration – A manager is currently reading for an Executive MBA degree;

6. Windows NT 4.0 Systems Administrator – 2 officers of the I.T. Unit are attending a course in Windows 4.0 System Administrator. This course is oriented towards the Microsoft certified professional examination in Windows NT 4.0. The course is organised by the ETC in conjunction with a private computer training institution.

Information Technology

During the year the IT function at the Office had to be augmented in order to cater for the increase in staff. Further new equipment such as computers, laser printers and scanners were purchased whilst a programme to upgrade all existing equipment and software to the latest standards was also undertaken.

An important milestone was the launching of an Office Intranet whereby information of a common nature started being shared by all NAO staff. The intranet which was developed by the Information Technology Unit will be updated and enhanced as an ongoing project.

The launching of an internet web site in the near future is expected to enhance the image of the NAO.

Conclusion

The year under review has indeed been a challenging one for me and for the NAO. During 1999 and 2000 action was taken to increase substantially the staff complement. In fact, this was increased from 29 in October 1999 to 58 in November 2000, practically a doubling of the staff complement. The increase in staff was followed by an intensive training programme for the new recruits.

In spite of the necessary learning process that had to be acquired by the new staff, I can safely state that significant progress has been registered by the Office both as regards the quality as well as the coverage of audit work carried out. More in-depth audits have been carried out and further emphasis has been made on Value for Money Audits and other audits of a special nature. Financial compliance audits on a much wider span of central government activities were also carried out.

The ever changing public administration environment, together with changes instigated directly or indirectly by Malta's application for EU membership, will present additional challenges on this Office to continue striving to achieve higher standards in its work and to adapt to changing circumstances.

I wish to thank the Deputy Auditor General and all audit staff for their effort in assisting me in the execution of my duties particularly in the compilation of this Audit Report. I would also like to acknowledge the cooperation afforded by the auditees which, in most cases, has been readily forthcoming.