Report of the

Auditor General

Public Accounts 2000

OUR VISION

To provide a multidisciplinary professional service to parliament, to government and the taxpayer and to be an agent of change conducive to achieving excellence in the public sector.

OUR MISSION

To help promote accountability, propriety and best practices in government operations.

ACTIVITIES

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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Mr. Speaker,

As required by Sub-Section 108 (5) of the Constitution of Malta and para. 7 and sub-para. 5(ii) of the First Schedule of the Auditor General and National Audit Office Act, 1997, I submit my report on the accounts of the Government of Malta and the work and activities of the National Audit Office for the year ended 31 December 2000.

Yours sincerely,

J. G. Galea
Auditor General

The Hon. Speaker
House of Representatives
Valletta

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

Part 4 - Synopsis and examination of the 2000 Government Financial Report together with appropriate audit comments and views, where warranted.

Part 5 - Corporate issues of a common concern throughout central government departments and offices.

Part 6 – Findings of a material nature discovered during audits in specific Ministries and Departments.

Part 7 - Special Report on Auditing of Assessments issued to Self-Employed Taxpayers.

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;

- substantial amounts and poor control in arrears of revenue. In certain critical cases, the arrears accrued cannot be approximated with an adequate level of probability;

- information systems in place are proving to be inadequate, especially where management reporting systems are concerned;

- 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;

- widespread disregard by Ministries and Departments to the requirements laid down in the VAT Act for a valid fiscal receipt to accompany purchases effected.

- 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 2 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 2000.

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 2001

Part 2 – Executive Summary of Findings

This part is intended to be 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.

Issues and Audit Concerns

The analysis of the **Financial Report 2000**, covering the Consolidated Fund and the statements for assets and liabilities, highlights issues regarding variances in ordinary revenue and expenditure, outstanding advances, loan repayments, investments and public debt. (page 47)

Control on **Arrears of Revenue**, roughly estimated at Lm407 million as at end December 2000, is still an area where significant improvement could be registered. (page 85)

Notwithstanding formal instructions by Ministry of Finance on regulations governing **advances for travel abroad**, compliance is far from satisfactory. (page 103)

Expenditure on transport has increased by Lm0.45 million in 2000 over 1999. This variance was mainly due to additional expenditure in hire of self drive cars, fuel and transport between Malta and Gozo. (page 110)

Assessments for years of assessment 1997-2000 issued to **Self Employed for Income Tax purposes** were based on information submitted by this category of taxpayers without being challenged even though it was erratic, incomplete and incongruent with the Manual of Instructions to be followed in such assessments. (page 191)

There is widespread disregard by Ministries and Departments to the requirements laid down in the **VAT Act 1998** for a valid **fiscal receipt** to accompany purchases effected. (page 115)

Ministries and Departments have poor control over staff enjoying the facility of **debarred telephone lines**. (page 118)

Fifteen **Local Councils** recorded negative working capital as on 31 March 2001 while audit reports for sixteen councils were qualified. (page 155)

Procedures laid down in **Financial Rules and Regulations** governing revenue and expenditure transactions and management of assets have been grossly disregarded, thus facilitating abuse, in the following responsibility centres:

i. Inland Revenue (page 123)
ii. Contracts (page 130)
iii. Customs (page 133)
iv. Agriculture and Fisheries (page 141)
v. Tourism (page 145)
vi. Law Courts (page 151)
vii. Education (page 164)
viii. Museums (page 170)
ix. Government Property Division (page 176)
x. Police (page 178)
xi. Social Security (page 184)

Part 3 – Work and Activities of the 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 auditing 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 Office, in terms of the Constitution and the Auditor General and National Audit Office Act, 1997 is to provide independent information, assurance and advice to Parliament on the way Treasury, government departments and certain non-central government entities (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 the 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 2000 included central government receipts and payments totalling Lm1,358.6 million (against Lm1,412.8 million for the previous year). These encompassed revenue of Lm642.3 million, recurrent expenditure of Lm617.7 million (including Lm67.8 million Public Debt Servicing) and capital expenditure of Lm98.6 million.

Regularity Audits

These audits, also referred to as Financial and Compliance audits, are carried out in terms of Paras. 1 to 7 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, issue of VAT receipts, etc. Regularity audit provides independent assurance that government departments and other audited bodies properly account for the money that Parliament has approved and that such money has been spent as Parliament intended.

With effect from the year under review, NAO established the policy of having Exit Conferences with the management of relevant ministries and departments on all audit report write-ups that feature in the Annual Audit Report. The purpose is to definitely confirm all statements of fact mentioned in the audit reports with the auditee. Audit opinions, however, remain the sole prerogative of the Auditor General.

Value for Money Audits

These audits, carried out in terms of Paragraph 8(b) 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 the following Value for Money audit reports were published:

"Primary Health Care: The General Practitioners Function within Health Centres" published in January 2001. The objectives of this audit were to evaluate whether the General Practitioner services offered by health centre services were:

- in compliance with Ministry of Health objectives;
- provided in an efficient and effective manner;
- yielding an adequate level of customer satisfaction.

"Museums Department: Promoting Heritage Sites" published in February 2001. The main objectives of this audit were to establish whether activities by the Department related to the promotion and marketing of heritage sites were:

- in line with the overall cultural policy;
- contributing to increased awareness of the national patrimony.

"Department of Consumer Affairs" published in March 2001. The objectives of this audit included establishing whether:

- targets as set out by the Department were being met;
- the Department was functioning at acceptable levels of efficiency;
- operations undertaken were leading to increased consumer awareness.

"Government Transport" published in May 2001. The objectives of this study were to:

- analyse the current system of Government transport, as defined for the purpose of this study, as a system;
- audit the procedures used for its procurement;
- assess the condition of the fleet;
- audit current recording and control systems;
- see whether savings could be made within the current system of procurement and fleet management;

- present alternative options for consideration by Government to meet its transport requirements.

"Environment Protection Department: Countryside Section" published in July 2001. The objectives of this audit were to evaluate whether the cleaning and rubble wall building functions of the Countryside Section:

- were conducive to Government policy, i.e. effective; and that
- adequate planning was enabling the Section to attain its objectives;
- resources were employed in an optimal manner;
- internal controls aimed at ensuring cost-efficiency and sound project management of operations were enforced.

Audit of non-central government organisations

The National Audit Office yearly carries out a compliance and financial audit of a number of 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.

The audit is also carried out to examine whether these organisations adhere to government legislation and regulations and that they keep proper records and control over their revenue, expenditure, assets and liabilities.

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 such as foundations, church or private agencies and entities, voluntary associations, philanthropic institutions and societies.

These bodies have their own accounting systems and some of them submit audited accounts. Although they are directly or partly financed by Government through subsidies, grants or subventions, they are not bound to follow Government Financial Regulations.

The criteria, scope and extent concerning the examination of their accounts by the Auditor General may depend upon the amount of subsidy or donation that the Central Government gives them annually.

Audits carried out did not reveal 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.

The accounts of the bodies listed below were examined and subjected to a limited financial and compliance audit (unless otherwise stated) for the period ending 31 December 2000:

House of Representatives

Office of the Ombudsman (Grant - Lm162,000)

Education

Manoel Theatre (financial year 1/9/99-31/8/00)
(Grant – Lm130,000) (Capital Vote III(16) upgrading Lm20,000)

Society of Arts, Manufacture and Commerce (Grant – Lm30,000)

St Patrick's School (Grant – Lm322,323)

Marquis Scicluna Trust Fund

Captain O.F. Gollcher Foundation

Malta Cultural Institute (Grant – Lm350)

Social Policy

Co-Operatives Board (Grant – Lm65,000)

Marriage Advisory Council – Cana Movement (Grant – Lm30,500)

Conservatorio Vincenzo Bugeja (Grant Fejda – Lm78,000, Jeanne Antide Lm25,000, Istituto Feminile Lm5,000)

Agriculture and Fisheries

Agrarian Society (Grant - Lm1,500)

Horticulture Society (financial year 1/12/99 - 30/11/00)
(Grant - Lm300)
Gozo Agricultural, Industrial and Cultural Society (accounts not received)
(Grant - Lm1000 Agriculture & Fisheries) (Grant – Lm550 Ministry for Gozo)

SPCA (Grant - Lm11,000) (accounts not received)

Environment

GAIA Foundation (Grant – Lm29,000)

Health

Titta Strickland Trust Fund

Transport and Communications

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

Special Inquiry

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.

In terms of Paragraph 9(a) of the First Schedule of the Act, the Public Accounts Committee had requested the NAO to carry out an ***"Inquiry into the Administration of the National Aquaculture Centre (1992 – 1997)"*** with the following terms of reference:

- investigate the allegations made by the Permanent Secretary, Ministry of Agriculture and Fisheries as indicated in letter submitted to PAC in 1999;
- assess the administrative role of the Malta University Services Ltd. within the NAC;
- define the responsibility of the Ministry, the Consultant and other personnel with regards to the management of the NAC;
- assess the changes implemented within the NAC since the end of July 1997;
- make suggestions for the more efficient and accountable administration of the Centre;

while taking account of the Centre's developments as a technology centre.

The report of the investigation which was carried out in terms of Act XVII of 1997 was presented to Parliament in May, 2001.

Other NAO Audit Activities

The NAO has a representative (in an observer capacity) on the Accruals Accounting System Task Force. This Task Force was set up by Government to oversee the implementation process of accrual accounting in government accounts and financial reporting over the next few years.

The NAO, through its representative, also provides its views on draft legislation concerning the Public Finance and Management Act that is intended to eventually replace the Financial Administration and Audit Act of 1962.

A representative of the NAO also acts as a liaison officer in connection with Chapter 28 (Financial Control) of the *Acquis Communautaire* of the European Union with respect to issues relating to external financial control.

The Office also actively participates in overseas activities as indicated later on under *"International Activities"*.

Outsourcing of Audits and other Professional Work during 2000

In terms of Local Government legislation, private sector auditors are engaged on contract by the Auditor General to carry out yearly Regularity Audits and, on a three yearly basis, Value for Money Audits relating to Local Government.

A consultant was engaged with the NAO to assist in the review of audits carried out by the Local Government Auditors and help in ensuring that the financial administration of the Councils is carried out in accordance with Local Government primary and secondary legislation. He also assisted in the drawing up of the report on the NAC Investigation that was submitted to Parliament in May, 2001. Furthermore, the consultant gave his advice on the carrying out of the audit of other bodies, namely N.G.O.s and other entities benefiting from State subsidies and/or grants.

Another consultant engaged with the NAO is providing advice on Risk Assessment, carrying out quality control on Financial

Audit reports and reports on Capital Projects and conducts other *'ad hoc'* specific tasks as may be required by the Office.

A lawyer was engaged on a retainer basis to provide legal advice to the Office whenever required.

Another lawyer assisted in investigative work on a consultancy basis.

Code of Professional Conduct

The National Audit Office prepared a Code of Professional Conduct for its Office and staff and adopted it in May 2001. This Code outlines the philosophy, principles and rules regarding ethical and professional conduct within the Office. This Code applies to all those who perform work for the Office or assist the Auditor General in carrying out his functions.

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 hold meetings to discuss its contents. It is also empowered to take evidence from senior officials of ministries and departments or other government related bodies. Apart from NAO reports, 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 on government financial operations and activities, the Public Accounts Committee helps to ensure that findings of the NAO are given their due attention by the Executive.

The PAC held seventy sittings during the ninth Parliament from September 1998 up to 7 November 2001, twenty of which were held during 2000 and thirteen of which were held in 2001. A number of PAC meetings focused on issues raised in the NAO reports. The Auditor General is invited to attend all sittings.

The National Audit Office Accounts Committee

The National Audit Office Accounts Committee is appointed in terms of Part IV of the Second Schedule of the Auditor General and National Audit Office Act No. XVI of 1997.

The Committee is composed of: (a) the member of the House of Representative who is for the time being Chairman of the Public Accounts Committee of the House of Representatives, (b) the Leader of the House of Representatives and (c) two members from among members supporting the Government and another member from among the members in opposition.

The Committee shall from time to time, but not less often than once a year, present to the House of Representatives (through the Leader of the House of Representatives) a report of its activities and the report of its examination of any estimates prepared by the Auditor General.

The revised budgeted financial statements and management accounts for 2000 and budgeted financial statements for 2001 were presented and discussed by the Committee on 26 June 2001. These were agreed to by the Committee. It also recommended the budget for approval by the House.

The accounts of the National Audit Office for 2000 were audited by private sector auditors who were appointed by the Committee in terms of Part V of the Second Schedule of the said Act. These accounts will be presented to the House, together with any comments thereon, by the Committee. The same audit firm has been re-appointed to audit NAO’s financial statements for the year ending 31 December 2001.

International Relations

NAO is participating in the international sphere and actively involving itself in international activities. It also regularly submits its comments on reports, questionnaires and other studies related to public sector auditing carried out by INTOSAI, EUROSAI and other international organisations.

A senior officer acts as a EUROSAI joint sub-coordinator of SAIs from the Mediterranean region on Environmental Audit. He is also carrying out a concurrent audit with other Supreme Audit Institutions related to sea pollution caused by ships at seas and in ports.

Another officer is participating in the Working Group for Liaison Officers of EU candidate countries and was appointed as co-rapporteur on a theme related to Parliamentary Committees' Relationship with Supreme Audit Institutions in EU candidate countries.

The 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 and discuss issues of an audit nature relevant to the NAO. These meetings included distinguished guests, such as Mr. Jan O. Karlsson, President of the European Court of Auditors and Sir John Bourn, Comptroller and Auditor General, National Audit Office (UK).

During the year 2001 participation took place, locally or abroad, in the following conferences, meetings, seminars, working group committees and familiarisation visits with foreign colleagues:

1. On 18 January, Profs Richard Batley from the School of Public Policy, University of Birmingham, together with an international group of Masters students (in Governance and Development

Management) visited the National Audit Office for a half-day seminar. This was organised by senior management staff of the NAO. The professor and his students were briefed on:

- the 1997 Constitutional changes and the NAO Act;
- organizational changes and development (new NAO structure, introducing Value for Money Auditing, Performance Measurement at the NAO and the resulting new pressures and demands on staff);
- experiences of changes at the NAO through discussions with NAO managers;
- staffing and re-training issues.

2. The NAO, together with other EUROSAI members (namely the State Audit Institutions of Cyprus, France, Greece, Italy, the Netherlands, Turkey and the United Kingdom), participated in the Partners' Meeting of the concurrent audit *'Preventing and Dealing with Pollution from Ships at Seas and Ports'* in London on the 22 and 23 February. A senior NAO official participated in this meeting. This performance audit theme was proposed during the 1st EUROSAI Meeting of the Working Group on Environmental Audit since it is considered to be a topic of importance due to its environmental implications. Participating SAIs, including the NAO (Malta), are now undertaking this audit in their respective countries during the same period by adopting common audit objectives, scope and methodology. Some of the audit criteria to be used in this exercise were inspired by international agreements, such as the MARPOL 73/78 Convention.

3. A joint delegation from the Select Committee of the House of Representatives, viz. the Public Accounts Committee and the NAO visited London between the 28 February and 1 March on a familiarisation tour of the UK NAO and the UK Committee of

Public Accounts. The delegation, made of the seven PAC members and secretary and four senior NAO members, was led by the Chairman of the PAC and the Auditor General.

Meetings were held with NAO (UK) senior staff involved in NAO/PAC relations and members of the House of Commons and staff connected with the PAC. The objectives of the meetings were to provide an insight into the:

- workings of the UK Committee of Public Accounts;
- methodology of the UK NAO *vis-à-vis* audit reports presented to the PAC;
- relationship of the PAC with the National Audit Office;
- assistance and support provided by the UK NAO to the PAC.

4. A Seminar for officials of the National Control Institutions in Cyprus and Malta was held in Brussels on the 5 and 6 March. This was attended by 16 officials from Malta. The NAO was represented by a senior official. The Maltese and Cypriot delegations were briefed on the internal control and internal and external audit aspects in the management of the Structural and Cohesion Funds. Presentations were also made by two members of the Malta delegation relating to (i) the Public Financial Control systems in Malta and those structures that would support an extended decentralised implementation system for EU Pre-accession Aid and (ii) the internal control procedures to be adopted where EU funds are involved.

5. On 29 and 30 March, a four-man delegation from the European Court of Auditors (ECA) headed by Mr Jan O. Karlsson, President of the ECA, visited Malta to familiarise themselves with the activities of the various Maltese authorities concerned with external and internal financial control. During the visit, the delegation had meetings with the Minister of Finance, the Auditor General, the Permanent Secretary of the Ministry of Finance and several other senior government officials. The delegation also called upon the Speaker of the House of Representatives and the Chairman of the Public Accounts Committee.

6. Two senior officials attended a Seminar on *"Supreme Audit Institution's Information Policy and Contacts with the Media"* on the 25 to 27 April in Gotawice (Poland). Eighteen Supreme Audit Institutions participated in this Seminar. The topics discussed were:

- legal grounds for SAI's activity in the area of information provision;
- informing the media about audit findings: threats and opportunities;
- managing contacts with the media; and
- effectiveness of PR (evaluation).

7. The Auditor General and one other senior official visited Budapest (Hungary) on the 10 and 11 May, following an invitation by the Hungarian SAI to discuss audit issues of a common concern relating to the pre-accession process to EU membership.

8. The NAO participated in the 1st EUROSAI Environmental Auditing Seminar held in Oslo, Norway during the period 14 to 16 May. The Auditor General and one senior official attended the meeting in their capacity as joint sub-coordinator for the Mediterranean Region of the EUROSAI Working Group of Environmental Audit. The Seminar dealt with environmental areas that should be audited by Supreme Audit Institutions as well as the approach to be adopted in selecting audit scope and survey method. The seminar also discussed issues relating to the auditing of international conventions ratified by respective countries.

9. One senior official participated in a Working Group and Liaison Officers' meeting for SAIs of EU candidate countries that was held in Tallinn (Estonia) on the 28 and 29 June. The agenda for the meeting included progress reports of the Working Groups on *"Audit Activities" and "Audit Manuals"* and reports of the co-rapporteurs on *"Relations between SAIs and Parliamentary Committees"* and *"Procedures and evaluation criteria for self-assessment by SAIs"*. The Maltese participant was one of the co-rapporteurs on the *"Relations between SAIs and Parliamentary Committees"*. Other issues discussed were the EUROSAI Development Initiative (IDI) Training Programme for EU candidate countries, as well as assistance to EU candidate countries by SIGMA.

10. On 16 July, a delegation from the National Audit Office (UK), headed by Sir John Bourn, K.C.B., Comptroller and Auditor General paid courtesy visits on the Speaker of the House of Representatives, the Chairman of the Public Accounts Committee, the Auditor General and the Head of the Civil Service and Permanent Secretary, OPM. On the 17 July, Sir John Bourn was one of the distinguished speakers at the NAO 4^{th} Anniversary Conference held at the Mediterranean Conference Centre, Valletta.

11. A delegation from Malta held meetings at the UK National Audit Office and Treasury in London on the 26 and 27 July. The delegation was made up of representatives from the Accruals Accounting Taskforce in Malta, namely representatives from the Ministry of Finance, National Audit Office, Internal Audit Directorate and a private sector audit firm experienced in advising Government on Accruals Accounting. Subjects covered during the visit related to Accounting, Budgeting and Estimates, Heritage Assets, Infrastructure Assets, Reporting, Training, Role of Internal and External audit and difficulties encountered by the UK Government in the introduction of Resource/Accruals Accounting.

12. Between 25 and 27 September, the Auditor General and another senior official attended a EUROSAI Pre-Congress Seminar titled *"State Budget Execution Audit Performed with the*

Use of IT Tools". The Auditor General assumed the responsibility of Chairman of one of the Seminar's Working Sessions, namely *"The Issue of Access to Data".* A country paper for Malta*: "The Issue of Access to Data - The experience of a small nation"* was also prepared by the NAO senior official on this theme and presented at the Seminar.

13. On 2 and 3 October, two senior officials attended a Seminar in Maastricht (The Netherlands). This Seminar dealt with the Advances in the Public Management of Information and Control in EU member states and European institutions. The Seminar firstly focused on changes that have resulted from the increasing emphasis on evaluation, from the growing importance of performance auditing and from the new context and new methods of government auditing. Secondly, the seminar examined changes that are taking place in the Community institutions, as regards auditing, evaluation and inspection. Thirdly, institutional changes that are taking place in Supreme Audit Institutions and in other audit, evaluation and inspection organisations were considered.

14. On 11 and 12 October one senior member participated in another Working Group and Liaison Officers' Meeting of SAIs of EU candidate countries that was held in Sofia (Bulgaria). The themes discussed were an update of the work carried out to date by the Working Groups on *"Audit Manuals"* and *"Audit Activities"* and an update on the reports of the co-rapporteurs on *"Relations between SAIs and Parliamentary Committees"* and *"Procedures and Evaluation Criteria for self-assessment by SAIs".*

The Maltese participant has taken an active role as co-rapporteur on the study on *"Relations between SAIs and Parliamentary Committees".* In preparation of the report on this theme, meetings were held with the Polish co-rapporteur in Malta on the 8 to 10 June and in Warsaw on the 12 to 15 September.

15. The Auditor General and two other senior officials attended the XVII INTOSAI Congress that was held from the 22 to 27 October in Seoul (South Korea). The themes discussed were:

- the Audit of International and Supranational Institutions by SAIs;
- the Role of SAIs in Planning and Implementing Administrative and Government Reforms;
- the Role of SAIs in Auditing Administrative and Government Reforms.

During the visit in Seoul, the Malta delegates took part in the EUROSAI regional group meeting in which the activities of EUROSAI were explained. The Malta delegates also participated in a meeting of the Accounting Standards Standing Committee of INTOSAI, of which Malta is a member.

16. One Senior Official attended the *"Verstehen"* Conference organized by the Internal Audit Service of the European Commission. This was held on 8 and 9 November in Brussels (Belgium). The theme discussed was the search for reasonable assurance that European Union public funds are being used efficiently, effectively and for purposes intended.

17. The Auditor General and one other Senior Official attended the Meeting of Presidents of SAI's of prospective EU applicant countries and the European Court of Auditors on 26 and 27 November. During this meeting, Working Groups and Liaison Officers gave presentations on their experiences and reports in various audit fields.

A report prepared jointly with the Supreme Chamber of Control of Poland examining the relations between the participating Institutions and their respective Parliaments was given prominence. Dr. Michaele Schreyer, Member of the European Commission for the Budget, joining Mr. Jan O. Karlsson, President of the European Court of Auditors, in giving credit, promised to circulate the final version to all members of the Commission. Dr. Franz Fiedler, President of the Austrian Court of Auditors and Secretary General of the International Organisation of Supreme Audit Institutions, considered the study of interest and plans to make the findings known to all members of INTOSAI.

A resolution on these activities was adopted by the SAI Presidents. The Meeting of SAI Presidents also included speeches from several distinguished guests.

National Audit Office 4th Anniversary Conference 1997 - 2001

A Conference was organised on the 17 July 2001 to commemorate the 4th Anniversary of the constitutional and other legislative amendments relating to state auditing. These amendments established the Office of the Auditor General as an officer of the House of Representatives. The amendments also set up the National Audit Office as a body independent of Government. The constitutional amendments were supported by the relevant legislative changes in state auditing.

During the Conference, participants were briefed on:

- developments undertaken at the NAO subsequent to the 1997 legislative changes;
- views of the Administration on the NAO;
- PAC's relationship with the NAO and the PAC's Way Forward.

The experiences of the United Kingdom counterparts in State Audit and the Civil Service enriched the Conference.

The Conference was chaired by Dr Edward Warrington, Director, Institute of Public Administration and Management, University of Malta.

The local speakers were The Hon Anton Tabone, Speaker of the House of Representatives (topic: *"The Auditor General and Parliament"*); The Hon John Dalli, Minister of Finance (topic: *"NAO's role in Financial Control"*); The Hon Leo Brincat, Chairman, Public Accounts Committee (topic: *"The Role and Activities of the Public Accounts Committee and its relations with the NAO"*); Mr. Joseph G. Galea, Auditor General (topic: *"The National Audit Office 1997/2001: A Review and Appraisal"*); Mr. Joseph R. Grima, Head of the Public Service and Permanent Secretary, OPM (topic: *"Perception and role of the NAO in the eyes of the Public Service"*); and Dr. Godfrey Pirotta, Senior Lecturer and Designate Head, Department of Public Policy, University of Malta (topic: *"Historical Background of State Audit in Malta"*).

The distinguished foreign speakers were Sir John Bourn, K.C.B., Comptroller and Auditor General, National Audit Office, UK (topics: *"The Road to the NAO Act (UK), 1983 and progress achieved since the enactment of this Act"* and *" The Role of the NAO (UK) and its relationship with Parliament"*) and Sir Alan Bailey, former UK Permanent Secretary, Department of Transport (topic: "*Relations between a UK Permanent Secretary, NAO and PAC"*).

Launching of Publication on State Auditing in Malta entitled *"Guardian of the Public Purse"*

During the NAO 4th Anniversary Conference, a publication on the history of State Audit in Malta was launched. This book was co-authored by Dr Edward Warrington and Dr Godfrey A. Pirotta.

The book traces the historical development of state audit in Malta from the closing phase of the Knights' rule to the present. Among other things it explores the association between constitutional development and the reorganisation of state audit; the format, content and purposes of audit reports; recurring themes in audit reports and their usefulness as commentaries about governance in Malta, and the evolution of the powers and responsibilities vested in the head of this institution over the centuries.

The Finance and Administration Unit

The Finance and Administration Unit is primarily responsible for maintaining the Office payroll and the internal accounting system and for providing the support services necessary for the day-to-day running of the Office.

Training, recruitment, conditions of work, liaison with trade unions, procurement, inventory management, performance appraisals, job descriptions, performance contracts, etc., also fall within the Unit's remit.

The following is a breakdown of some of the activities currently being carried out by the Finance and Administration Unit:

Recruitment

During the year 2001, the National Audit Office continued with its recruitment process. Internal and external calls for application were issued for the filling of vacant positions in the grades of Principal Auditor, Senior Auditor and Assistant Auditor General.

Principal Auditor: On 6 February 2001 an internal call was issued for the filling of vacant positions in the grade of Principal Auditor. Applicants were required to be in possession of a Degree in Business Studies, Public Administration, Economics, Engineering or Accountancy or equivalent. Computer literacy and three years experience in work related to any of these disciplines was also required. Of the two members of the staff who applied, one qualified.

An external call for application was issued on 4 March 2001 for the filling of the remaining vacant positions. Thirteen candidates applied. Two out of the successful applicants were no longer interested and six did not make the grade. Two were engaged by the Office.

Senior Auditor: An internal call was issued on 25 April 2001 for the filling of vacant positions in the grade of Senior Auditor. Applicants were required to have at least 3 years experience in an accounting and/or auditing environment. A minimum of two “A” Levels, one of which had to be Accounts, and five “O” Levels, two of which had to be English and Mathematics, were required. Two applications were received from employees of the NAO but they did not meet the minimum qualifications required.

On the 3 June 2001 an external call for application was issued for the filling of the vacant positions in the grade of Senior Auditor. Applicants were required to be computer literate and in possession of a degree or equivalent in any of the following disciplines: Business Studies, Public Administration, Economics, Engineering or Accountancy. Three years experience in work related to any of these disciplines was also required.

Thirteen applicants were requested to attend an interview. Three of the applicants did not attend the interview, four did not possess the minimum qualifications required and two failed. Of the four candidates who passed the interview, one was no longer interested. The other three were engaged by the Office.

Assistant Auditor General: In June 2001, calls for application were issued for the filling of a vacancy in the post of Assistant Auditor General (Financial Audit). This is a very senior position within the NAO organisation structure. Applicants were required to be in possession of a recognised professional degree in Accountancy and a C.P.A. Warrant. The holding of a C.P.A.A. Warrant was considered an asset. Applicants were also required to be computer literate and to possess at least five years experience in an accounting, auditing or business environment.

There were twelve applicants and the candidate who placed first reported for duty in November.

Staff Profile

The table hereunder gives a breakdown of the staff position as on 1 November 2001.

Staff Profile as on 1 November 2001

Grade Description	Male	Female	Total
Senior Management			
Auditor General	1	-	1
Deputy Auditor General	-	-	-
Assistant Auditor General	2	-	2
Personal Staff			
Personal Assistant	1	-	1
Personal Secretary	-	1	1
Support Services			
Managers	3	-	3
Junior Manager	1	-	1
Technical Officer	-	-	-
Senior Executive	-	2	2
Executive	-	1	1
Clerks	2	2	4
Receptionist	-	1	1
Minor Staff	6	1	7
Auditing Grades			
Managers	5	1	6
Principal Auditors	2	2	4
Senior Auditors	4	2	6
Assistant Auditors	1	1	2
Audit Technician	1	1	2
Audit Clerk	7	7	14
Total	**36**	**22**	**58**

Sick Leave Administration

A company doctor scheme was introduced in the year 2000. A daily leave report is provided to line management to enable it to monitor the levels of sick leave of its staff and to take prompt follow-up action when necessary. During the years 2000/2001 there was a significant decrease in sick leave taken by staff.

Collective Agreement

The present Collective Agreement came into effect on 1 January 1999 and remains effective until 31 December 2001. Negotiations with the Union representing NAO employees for a new Collective Agreement covering period 2002 to 2004 are underway.

Training

In its effort to promote and achieve excellence and professionalism employees are continuously encouraged to acquire additional academic qualifications by attending part-time courses. This training complemented on-the-job training. Senior members of the staff are also encouraged to attend conferences and seminars both locally and abroad to keep up with the latest developments in areas related to their work.

Overseas Training

This year a Principal Auditor was sponsored to attend an International Training Course with the UK National Audit Office. This is a three-week training course organised for staff from overseas Supreme Audit Institutions. The inaugural course was held way back in 1993 and one other employee has since benefited from the course.

The course, besides the constitutional position of the National Audit Office, covers topics such as Financial Audit and Value for Money work.

Study Assistance

Employees who may be required to proceed on training abroad are given adequate subsistence allowances similar to those granted by the government.

Local Sponsorships

In its endeavor to improve performance and increase efficiency the NAO is sponsoring those employees willing to undertake courses leading to a diploma or to a degree. These sponsorships currently include:

1. *Malta Institute of Accountants* – 1 employee is 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 one-year duration.

4. *U.K. National Computer Centre International Higher Diploma Course in Computer Studies* – a Junior Manager of the I.T. Unit is also pursuing a Higher Diploma Course in Computer Studies.

5. *Master Degree in Business Administration* – An Audit Manager is currently reading for an Executive MBA degree at the University of Malta.

The Office will also sponsor four other employees who intend to follow a course leading to a Diploma in Management Studies.

Another Audit Manager will be attending a part-time course in Executive Masters of Business Administration, MBA.

Courses on part time basis or of short duration are being sponsored at this point in the evolution of the NAO.

Courses Organised by NAO during 2001

Course in Statistics

A course in sampling techniques and statistics of a twelve-week duration has been organised by the NAO in conjunction with the University of Malta. Members of the staff having the necessary qualifications and who are involved in the technical work of executing checks to test for adequacy and effectiveness of internal control compliance are attending the course.

The Department of Statistics of the University of Malta was asked to organise the course which was to:

a) incorporate a high degree of exposure to practical work which focuses on the type of data normally encountered by personnel working with the NAO, and

b) include an adequate theoretical level of mathematical statistics as to enable those attending to appreciate the power and limitations of the mathematical tools they would be using.

c) at the end of the course the Department will assess the seven staff members attending the course for progress achieved.

Training in the use of SPSS Software

This Office organised a comprehensive 24 hour introductory course in the use of SPSS Software Version 10 for Windows. This software is a powerful statistical and reporting tool for survey research, marketing and sales analysis, quality improvement and research of all types. Eight employees attended the course which was held at Swatar Training Centre.

SDO Courses

To-date, 24 members of the staff attended courses organised by the Staff Development Organisation. These courses, which are mostly I.T. related, train employees in the use of various Applications. The software applications are standard and used across government. The following is a breakdown of courses attended during the year:

Course Description	**No.**
MS Access 97	4
MS Excel as a Database	6
MS Excel Functions	11
MS Excel 97	1
Managing People	2
Total	**24**

Local Conferences and Seminars

To further enhance the competencies of its employees, senior members of the staff are encouraged to attend local conferences and seminars at NAO's expense, when subject to attendance fees. The following seminars and conferences were attended during the year 2001:

International Accounting Standard 12 – Deferred Taxation: The seminar was organised by the Malta Institute of Accountants. The seminar addressed the conceptual issues underlying the revised Standard and how it is applied in practice. It took the form of a practical workshop dealing with the mechanics of the computations involved. The seminar was addressed by a leading academic with years of experience on the subject and a practitioner involved in the application of the standard to a wide range of clients.

Seminar on EU Own Resources: The seminar was organised by the TAIEX Office of the Directorate-General Enlargement of the

European Commission in close co-operation with the Ministry of Finance, Malta. Some of the topics covered included: The economic and political history of the EU budget from the Treaty of Rome to the Berlin European Council, The current structure of the EU Budget, The Financial Perspectives of the Period 2000 and 2006 and the financing of the enlargement, Overview of own resources, Budgetary procedure, forecast procedure, etc., The seminar was of a two-day duration.

State of the Negotiations Conference: The conference was organised by the Malta-EU Information Centre. The following topics were discussed: Negotiations: The Technical Aspect, Negotiating with the EU: The Perspective of the Special-Interest Members, Negotiating with the EU: The Perspective of the Special-Interest Members and The Political Perspective. The aim of the conference was to bring together all those who are interested or involved in the ongoing accession negotiation in-order to update them with the developments that have taken place and to inform them on upcoming developments.

International Accounting Standards: The course was organised by PriceWaterHouseCoopers. The course covered most of the new standards with particular emphasis on Financial Instruments: Recognition and Measurement - IAS 39, in view of its complexity. The course also covered IAS 36 - Impairment of Assets, IAS 37 – Provisions, Contingent Liabilities and Contingent Assets and IAS 38 – Intangible Assets. The course was of a two-day duration.

Taxation and Fringe Benefits: The seminar was organised by PriceWaterHouseCoopers and covered the following topics: Car Benefits, Use of other Company Assets and Transfer of Assets, Other Benefits and Exemptions and Employers' Obligations. The seminar examined the new provisions in detail.

3rd Roundtable Conference – Media, EU Data & Information: The seminar was organised by the Malta-EU Information Centre.

The seminar included areas such as the role of the Technical Assistance Information Exchange Office (TAIEX) in the enlargement process and the role of the press in the public awareness on EU issues.

Seminar on Environmental Impact Assessment: The seminar was organised by the Planning Authority in conjunction with the International Environment Institute of the University of Malta. The seminar was organised for practitioners and other professions interested in this field.

Change Management Seminar: The seminar was organised by the Special Projects Office at the Ministry of Finance. The seminar highlighted the change process necessary for the implementation of the Accrual Accounting methodology throughout all ministries and government departments by the year 2003. Accrual Accounting will alter the manner by which public funds are controlled, providing a more accurate picture of the financial situation of the Government.

Marketing for Winning: The seminar was organised by the Economics and Management Consultancy Services Ltd. The seminar covered the following topics: Involving Market Trends, Developing Strategies and Application within the Maltese Environment. The speakers highlighted the necessity for businessmen, management and marketing professionals to evaluate the situation, take stock, sharpen their thinking process, review their direction and decide on their marketing strategy that will determine their future success.

The Best Possible service to the Public – the Options: The seminar was organised by the Head of the Civil Service, Office of the Prime Minister. The seminar provided participants with an opportunity to reflect upon the changes that are taking place within the Public Service, particularly with respect to improvements in vital public services and the role of senior officials in implementing these far-reaching changes.

Information Technology

The introduction of e-Government, as one of Government's initiatives, has put even greater emphasis on the use of information technology and for this reason IT at the National Audit Office was enhanced further during the past year. The provision of a modern environment and the right tools to carry out work efficiently and effectively is in itself a motivator to the staff.

The programme of upgrades of equipment and software was concluded with the result that all officers have now been provided with a desktop computer capable of accessing the local area network (LAN). Furthermore, a number of portable computers have been provided for outside use.

A strategy on the future use of Information Technology at NAO was drawn up in order to keep abreast of innovations in this constantly changing arena. This strategy is aimed at inducing staff to make more use of this medium by facilitating their work and increasing their potential and productivity. An agreement with MITTS has been negotiated for the procurement, installation and commissioning of a powerful new server which will facilitate the implementation of the new strategy.

The new server will also make possible the implementation of a mobile computing strategy. This approach will enable employees to access the full range of the Office's information systems without needing to be physically located at the NAO's building. For this plan to succeed, further investment in laptop computers and other ancillary equipment is planned.

The introduction of regulatory changes such as the Electronic Commerce Act and the Data Protection Bill presently before Parliament will necessitate a review of document management and will require the introduction of an electronic records management system in the near future.

E-mail facilities have also been extended to all audit staff. This medium of communication has always been advocated by the NAO and it is gratifying to note that its suggestion for the creation of generic e-mail accounts in all government departments has been implemented by the Administration.

Another important information technology milestone was the launching of the NAO website on the Internet in June 2001 – **www.nao.gov.mt**. Records in respect of the first four months of existence are very encouraging with 75 per cent of visitors coming from overseas. Numerous NAO publications which have been made available on the site were also downloaded. The site will be regularly updated and continually enhanced to provide the best information about the National Audit Office.

A modern information and communication technology strategy is essential if the NAO is to:

- continue to improve efficiencies in working practices;
- maintain awareness of the impact of technological changes on the way that organisations operate; and
- offer the flexibility of equipment used by auditors in the private sector and enhanced job satisfaction in public sector auditing thereby minimizing future possible turnover of staff.

Conclusion

This year has again been a challenging one for me and for all the staff at the National Audit Office. During 2001 the recruitment process continued by employing staff at graduate level, in line with the policy to engage highly qualified staff for posts of an intermediate or senior level. Although it has not been easy to recruit graduates in sufficient numbers so far, we will carry on with this policy. The various challenges and changes facing Government operations necessitate, more than ever before, that this Office be equipped with qualified and dedicated staff.

We will also continue to encourage employees at the Office to upgrade their status through appropriate training. We are pleased to note that a significant number of employees are undergoing University and other study courses outside office hours.

A reviewing process of the organisation structure is an ongoing task. We are committed to establish a more efficient and effective structure.

Democratic government demands accountability, propriety and value for money in public administration. Malta boasts a sound legal basis for state audit, as well as a National Audit Office that is better organised and equipped than it has ever been. However, change is an ongoing process. There is always room for improvement, or even rethinking of decisions taken in the recent past. We will endeavour to keep abreast of, and be prepared for, developments and changes taking place in the local sphere.

Our purpose is not just to identify and report upon shortcomings but also assist and advise managers throughout the public sector on how to improve performance and introduce best practices in government operations. This is the mission we are striving hard to accomplish.

I wish to thank 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 that, in most cases, has been readily forthcoming.

Part 4 – Financial Report 2000

Introduction

The Financial Report statements and accounts for year 2000 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 1999 and 2000, and the receipts and payments of funds created by law were published in Government Gazette No. 17095 of the 15 May 2001 after being reconciled with Treasury Books 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 the 2000 Financial Report published by the Accountant General while reading this report.

Consolidated Fund Statement – 2000

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 2000.

After the House of Representatives adopted the year 2000 Budget (Original Estimates) for an expenditure of Lm718,342,000 as authorized by Warrant No. 1 issued on 21 December 1999, and a further Lm21,849,200 as approved by Supplementary Estimates Warrant No. 2 dated 21 December 2000, it was estimated that Expenditure was to exceed Revenue by Lm59,893,200. Following the closure of the 2000 Accounts, it resulted that Expenditure had actually exceeded Revenue by Lm73,928,218.

Consolidated Fund - 2000

	Estimated (Original & Supplementary)		**Actual**	
	Lm	***Lm***	***Lm***	***Lm***
Opening Deficit Balance				**(4,866,588)**
Revenue				
Ordinary	605,311,000		620,753,419	
Sale of Shares/Assets	62,000,000		12,000,000	
Grants	9,987,000		9,548,852	
Loans	3,000,000		-	
		680,298,000		642,302,271
Expenditure				
Recurrent	(566,321,000)		(549,837,120)	
Public Debt Servicing	(69,608,200)[b]		(67,840,995)[b]	
Capital	(104,262,000)		(98,552,374)	
		(740,191,200)[a]		(716,230,489)
Deficit 2000		(59,893,200)		(73,928,218)
Closing Balance as on 31/12/00				**(78,794,806)**

a) Lm718,342,000 appropriated by Warrant No. 1
Lm21,849,200 appropriated by Warrant No. 2 (Supplementary)

b) This excludes Lm2.5 million 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 47 – Joint Office.

A detailed breakdown of the Consolidated Fund as compared with the approved Budget and the 1999 figures is given in Financial Report 2000 on pages 2 to 5.

Revenue

It is positive to note the provision of explanatory comments by Ministry of Finance regarding variations in revenue as detailed in the Financial Report Part 1 on pages xix/xx.

Major sources of revenue for Years 1998 – 2000 are given in the table below.

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

Year	Tax Revenue						Non-Tax Revenue*
	Income Tax	National Ins. Cont.	V.A.T./ C.E.T.	Licenses, Taxes & Fines	Customs & Excise	Total	
	Lm	*Lm*	*Lm*	*Lm*	*Lm*	*Lm*	*Lm*
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
2000	149,511	162,018	104,065	70,449	55,140	541,183	91,570

**Note: Non-Tax Revenue for 2000 includes such items as Sale of Assets (Lm12,000,000), Central Bank of Malta profit (Lm27,112,372), Rents (Lm8,498,129) and Lotteries (Lm6,439,236).*

Budgeted ordinary revenue for 2000 was Lm667,311,000 (against actual ordinary revenue of Lm628,169,170 for 1999). Actual ordinary revenue for 2000, however, amounted to Lm632,753,419, a decrease of Lm34,557,581 over the previous year.

Sale of Shares/Assets

The estimated revenue from sale of shares/assets was Lm62,000,000 against actual revenue of Lm12,000,000. This amount was in respect of further proceeds arising from the contract with HSBC for the sale of Mid-Med Bank plc. There was a shortfall of Lm50,000,000 in revenue as the planned privatisations did not materialise during 2000.

Foreign Loans and Grants

Foreign grants received by Government in 2000 amounted to Lm9,548,852 against an estimate of Lm9,987,000. No foreign loans were availed of during 2000.

Actual revenue derived from the reimbursement of expenditure on projects financed by foreign grants and loans shows Lm3,438,148 variation from the 2000 approved Estimates as shown below.

Grants / Loans	**Budget 2000**	**Actual Revenue 2000**	**Variation**
	Lm	***Lm***	***Lm***
GRANTS: E.U. Second Financial Protocol	10,000	-	(10,000)
E.U. Third Financial Protocol	187,000	291,494	104,494
E.U. Fourth Financial Protocol	230,000	132,485	(97,515)
Italy – Fourth Financial Protocol	9,560,000	9,124,873	(435,127)
	9,987,000	9,548,852	(438,148)
LOANS: C.O.E. – S.D.F. (Tal-Qroqq Hospital Project)	3,000,000	-	(3,000,000)

Expenditure

The appropriations for expenditure during 2000 were effected by the issue of Warrants 1 and 2 by the Minister of Finance. These were appropriated under the following Statutes:

		Lm
(i)	In terms of the Constitution	12,106,540
(ii)	Appropriation Acts (Voted Services)	459,892,060
(iii)	In terms of Special Laws	268,192,600
		740,191,200

Analysis of Appropriations

- ***In terms of the Constitution***

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

	Lm
The President of Malta	15,722
The Attorney General	9,634
Judges and Magistrates	377,002
The Public Service Commission	20,482
	422,840
In terms of Section 106 as applied to the Public Debt	11,683,700
	12,106,540

- ***Appropriation Acts (Voted Services)***

	Lm
Appropriated by Act XXI of 1999	441,844,060
Appropriated by Act XXX of 2000 (Second Appropriation Act)	18,048,000
	459,892,060

- ***Special Laws***

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

	Lm
Electoral (Franchise Method of Election, and Registration of Voters) Ordinance (Cap. 99); and the Electoral (Polling) Ordinance (Chapter 102)	328,000
Expenses of the Broadcasting Authority – Broadcasting Act, 1992 (Act XII of 1991)	250,000
Expenses of the Tribunal for the Investigation of Injustices – Act VIII of 1997	43,900
Expenses under Re-letting of Urban Property Ordinance (Cap. 69) and Agriculture Leases (Re-letting) (Cap. 199)	3,000
Land Acquisition (Public Purposes) Ordinance (Cap. 88)	53,200
Social Security Act, 1987 (Act X of 1987)	180,844,000
Pensions Ordinance (Cap. 93)	20,601,000
Widows' and Orphans' Pensions Act (Cap. 58)	165,000
Personal Injuries (Emergency Provisions) Ordinance (Cap. 111)	35,000
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)	290,000
Expenses of the Office of the Ombudsman, Ombudsman Act, 1995	162,000
Expenses of the Permanent Commission Against Corruption (Act XXII of 1988)	40,000
Interest plus contribution to the Sinking Funds i.r.o. Local Government Stock Registered Stock and Security Ordinance 1959 (Cap. 161)	60,381,300
Interest i.r.o. Foreign Loans (Development Loan Act, 1972)	46,200
Malta Arbitration Centre (Act II of 1996)	50,000
Expenses of the National Audit Office, Act XVI of 1997	* 600,000
Refunds under V.A.T. / C.E.T. Acts	4,300,000
	268,192,600

Note: * *The salary and allowances of the Auditor General and the Deputy Auditor General are included in these expenses. As reported upon in last year's Audit Report, these salaries and allowances should have actually been shown as permanently appropriated under Section 107 of the Constitution.*

Excess of Expenditure over Estimates

Supplementary Estimates for 2000 which amounted to Lm21,849,200 were approved, at Sitting No 459, by the House of Representatives on 12 December 2000, Act XXX of 2000 (explanations for excesses are found in the said Estimates).

Other overspending on various items under different Votes resulted, which, however, was offset by savings from items within the same Department or Ministry through the normal procedure of virements in terms of 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 hereunder.

Excess of Expenditure over Revised Estimates

Vote, Item	Actual 1999	Revised Estimates 2000	Actual 2000	Variation Actual 00/ Rev Est 00
	Lm	*Lm*	*Lm*	*Lm*
Vote 18: Education Item 16 Allowances	1,296,560	1,310,000	1,788,510	478,510
Vote 23: Ministry of Finance Item 34 Incidental Expenses	36,626	3,000	230,128	227,128
Vote 24: Treasury Item 22 Materials & Supplies	1,964	2,000	437,226	435,226
Vote 30: Ministry for the Environment Item 16 Allowances Item 27 Transport	1,011,082 1,056,823	806,000 1,000,000	1,167,972 1,323,140	361,972 323,140
Vote 51: Ministry of Health Item16 Allowances Item 17 Overtime	6,765,990 1,589,147	8,077,000 1,439,000	8,381,446 1,670,238	304,446 231,238
Capital I: Office of the Prime Minister Item 2 Improvements to buildings	275,863	450,000	783,644	333,644

(continued)

Capital III: Ministry of Education Item 3 Malta Centre for Restoration Item 9 Information Technology in Government Schools	253,949 1,191,309	400,000 1,000,000	853,870 1,349,924	453,870 349,924
Capital V: Ministry for the Environment Item 3 Improvements to sewer mains/network	1,615,496	1,600,000	1,887,996	287,996
Capital VII: Ministry for Transport & Communications Item 8 Sundry road improvements Item 10 Levelling and asphalting of private streets	1,087,537 620,459	800,000 750,000	1,089,757 1,002,873	289,757 252,873
Capital VIII: Ministry for Economic Services Item 19 Malta Drydocks Item 20 Malta Shipbuilding Subvention	7,735,362 6,438,484	5,000,000 4,400,000	5,633,605 5,141,154	633,605 741,154
Capital IX: Min for Home Affairs Item 7 Construction works and installation of electrical services	999,385	1,100,000	1,359,175	259,175
Capital X: Ministry of Agriculture and Fisheries Item 5 Pomology	109,088	140,000	402,512	262,512
Capital XI: Ministry for Gozo Item 9 Construction / widening / upgrading of roads	297,144	375,000	590,487	215,487

Assets and Liabilities

Section 67 (j) of the Financial Administration and Audit Act states that the Accountant General *"shall prepare a statement of assets and liabilities of the government at the end of the financial year"*.

Not all government's assets and liabilities are included in this statement due to government's current reporting system being cash based, as opposed to the accrual basis of accounting. Under cash accounting, the principal accounting policies are the definition of the reporting entity, the point of recognition for receipts and payments and the translation of amounts denominated in foreign currency. On the other hand, the accrual basis recognizes transactions and events when they occur rather than when cash is paid or received.

The categories of **assets** generally held in the public sector may be classified under the following headings:

- **Financial assets**
  Cash based reporting accounts for such items as cash in hand and in banks, loans due to government, advances, direct investments and investments held on behalf of Sinking and Trust Funds. Hence, items as revenues receivable and prepayments do not feature in the Statement.

- **Intangible assets**
  In private sector accounting practice, intangible assets are held to be recognizable rights to future economic benefits. Examples include patent rights, databases and goodwill arising on purchase. The scope of intangible assets is potentially much broader in the public sector due to the wide scope of the powers of government. Thus, where the state creates and delegates powers by creating rights (ex: to fishing quotas, rights to prospect for minerals, rights to use parts of the radio spectrum etc), it is creating assets which may be sold or transferred to other parties. However, the cash basis excludes reporting of these assets.

- **Physical assets**
  This term is used to classify assets other than financial or intangible assets. Physical assets, excluding inventory, are usually referred to as non-current assets or long-term assets unless they have been classified as *'current'* because of imminent disposal. Inventories are normally classified as

current physical assets. Long-term physical assets include property, plant and equipment, infrastructure assets, heritage assets, defense or military assets and natural resources. Reporting of long-term assets and inventory will commence upon the implementation of the accrual over the cash basis of accounting.

(Source: Government Financial Reporting May 2000, Study 11 paragraphs 198 and 230 respectively).

Under the accruals basis, an amount due by government is to be considered as a **liability** if it:

- meets the definition of a liability, being *"…a present obligation of the enterprise* (entity) *arising from past events, the settlement of which is expected to result in an outflow from the enterprise of resources embodying economic benefits* (or service potential)*"*

- and satisfies the recognition criteria that *" …it is probable that an outflow of resources embodying economic benefits* (or service potential) *will result from the settlement of a present obligation and the amount at which the settlement will take place can be measured reliably".*

(Source: IASC Framework for the Preparation and Presentation of Financial Statements – paragraphs 49 and 91 respectively).

Liabilities reported upon under the Cash basis include such items as Public Debt, Treasury Bills, Deposits (incl. Court and other deposits and Custodian of Enemy Property) and Funds. This system does not report items as outstanding payments arising from the purchases of goods and services, accrued interest payable, amounts payable under guarantees and environmental liabilities.

The statement of Assets and Liabilities may therefore be looked upon as a statement of end-of-year balances in the Treasury books which result from cash transactions in the public account during the year.

Assets

The Statement of Assets, as shown in Appendix I of the Financial Report 2000, is reproduced hereunder:

Statement of Assets

	2000 *Lm(000's)*		**1999** *Lm(000's)*	
Public Credit				
Share Holding	224,162		210,547	
Loans	185,202*	**409,364**	175,073	**385,620**
Investments held on behalf of				
Sinking Funds (Local)	83,266		85,402	
Sinking Funds (Foreign)	11,401		12,106	
Trust Funds	258		230	
Court and Other Deposits	190	**95,115**	180	**97,918**
Advances				
Unallocated Stores	1,580		2,249	
Advances	106,622		83,191	
Loans	-	**108,202**	1	**85,441**
Bank and Cash				
Banks	339		381	
Cash at Treasury	-		-	
C.B.M. – Public Account	17,881	**18,220**	21,170	**21,551**
TOTAL ASSETS		**630,901**		**590,530**

*During the audit, it transpired that the above-quoted figure for *'Loans'* should be adjusted to read Lm185,282,218. Further details as to this adjustment are provided under *'Loans'* on pags 58.

Throughout this report, analysis forwarded is based on amended figures (defined as '*adjusted amounts following corrections affected to figures featuring in the Financial Report 2000'*) for Financial Year 2000 as against 1999 figures featuring in Financial Report 1999.

Shareholding

Shareholding is being discussed under Investments on page 63.

Loans made by Government and Repayments thereof

Loans

The total amount of loans as shown in the Financial Report is being adjusted upward in this report by Lm80,218. This resulted from the fact that government's cash-based records were updated upon M.G.I.'s accrual-based records. Thus, Lm255,324 payment against 3 per cent Malta Shipbuilding Loan, actually received by government during 2001, were accounted for in Financial Year 2000 records. In addition, government's records accounted for Lm175,106 3 per cent Malta Shipbuilding Loan, actually advanced during February 2001, relating to December 2000 National Insurance Contributions and Income Tax.

Balances and other details of all loans issued by government as on 31 December 2000, are summarised as follows:

		Lm
I.	Loans under Act II of 1956	9,917
II.	Loans under Act VI of 1957	-
III.	Loans under Act XI of 1988 (Ex-Posterity Fund Loans)	17,356,000
IV.	Other Loans (*as amended*)	167,916,329
		185,282,246

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. No transactions were effected during the year ending 31 December 2000, thus resulting in an unchanged closing balance over the previous years, as 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	12,066,893
(ii) Malta Shipbuilding Co. Ltd. (*as amended)*	106,340,644
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.	16,055,709
Water Services Corporation	4,500,000
Malta Drydocks Corporation 1999	1,890,382

The Issues column of Appendix E of the Financial Report should have featured an aggregate of Lm11,632,475 instead of Lm11,807,581 as loans issued by government during 2000. This is to be analysed as follows:

- Adjustments in government's records re loans not accounted for in previous years:

  Bahhar u Sewwi (Lm38,811)

  Malta Win Cargo Containers Ltd (Lm480,168)

  Med Coral Fishing (Lm40,000)

  Equipment and Machinery Ltd (Lm70,720)

  Adjustments re. the first two loans were carried out following this Office comments in Audit Report (Public Accounts 1999). The latter two loans were included following an extensive exercise carried out at Treasury identifying and adjusting for any discrepancies between the separate loan accounts' records and the related control account held at Treasury.

- New Loans issued during 2000 amounted to Lm11,002,776. These loans were made to Gozo Ferries Ltd (Lm4,277,757), Malta Shipbuilding Co. Ltd (Lm6,511,350) and Malta Win Cargo Containers Ltd (Lm213,669).

After deducting Lm1,403,077 loan repayments (as amended) and Lm21,241 write-off of loan advanced to Migrants' Housing Scheme Australia, the adjusted balance of loans as at 31 December 2000 stood at Lm185,282,246. This resulted in a net increase of Lm10,208,157 over Lm175,074,089 closing balance as on 31 December 1999.

Loan Repayments

The adjusted figure of Loan Repayments amounting to Lm1,403,077 were made during 2000.

An amount of Lm1,402,357 was repaid by Gozo Ferries Ltd on behalf of Malta Shipbuilding Co Ltd in respect of the 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 Ltd in respect of work made by Malta Shipbuilding employees on Gozo Ferries.

However, the other amount of Lm720 shown as repayment was actually repaid out of Below-the-Line Account 8380 – Deposits in connection with Third Parties.

Observations

The same Observations as reported upon by this Office, in Audit Report for Financial Year 1999, are reproduced hereunder since last year's non-compliance to relevant General Financial Regulations was again noted and no terms for repayment of loans were negotiated. Thus,

- The loan of Lm720 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 repayments were indicated in the Treasury Books in the case of certain loans to Industries listed in Table hereunder made through the Malta Development Corporation.

- In December 1990, The Ministry of Finance stated that it was not considered opportune at the time to stipulate terms of repayment. However, the Ministry 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.

It is again recommended that Ministry of Finance should consider examining those loans not covered by terms and conditions and negotiate an agreement on modalities.

The table hereunder provides further details on loans advanced to companies lacking an agreement stipulating terms and conditions of repayment.

Company Name	***Loans Advanced as at 31 Dec 2000 Lm***	***Interests Due as at 31 Dec 2000 Lm***	***Total Lm***
Air Supplies & Catering Co. Ltd.	605	73,221	73,826
Quality Shoes Ltd. (C)	54,474 45,775	Interest Free 9,614	54,474 55,389
Libma International Construction Ltd.	39,530	Interest Free	39,530
Hannibal Civil and Mechanical Eng. Co. Ltd. (L)	36,695	Interest Free	36,695
Gozo Agricultural Products	167,500	Interest Free	167,500
Mediterranean Coral Fishing Co. Ltd. (L)	40,000	Interest Free	40,000
Miki Ltd.	50,000	47,377	97,377
Artcane Ltd. (L)	3,000	Interest Free	3,000
Handtools Ltd. (TC)	210,612	Interest Free	210,612
Lapsi Quarry Ltd.	40,000	12,896	52,896
Malta Decorative Glass Co. Ltd. (L)	(Loan Z) 77,386	Interest Free	77,386

(Continued)

Company Name	***Loans Advanced as at 31 Dec 2000 Lm***	***Interests Due as at 31 Dec 2000 Lm***	***Total Lm***
Melita Knitwear Ltd. (C)	(Loan C) 77,803 (Loan E) 50,000 (Purchase of Plant & Equip) 59,727 (Loan trf from MDC Bonus) 3,380	135,401 Interest Free Interest Free 1,449	213,204 50,000 59,727 4,829
Craft Glass Co. Ltd.	3,000	Interest Free	3,000
Malta Spinning & Weaving Co. Ltd.	(Loan W) 378,926	Interest Free	378,926
Marsa Water Fittings –trf from MDC Bonus	1,650	708	2,358
Kalaxlokk Co. Ltd.	6,353,323	Interest Free	6,353,323
Malta Drydocks Corp. 1999 Loan	1,890,382	Interest Free	1,890,382
Gozo Ferries Ltd. *	16,055,709	Interest Free	16,055,709
Water Services Corporation	4,500,000	Interest Free	4,500,000
Malta Shipbuilding Co. Ltd. 3% Loan 8% Loan	 82,132,086 24,208,559	 17,796,338 16,656,734	 99,928,424 40,865,293
Aids to Industries	188,788	Interest Free	188,788
TOTAL	**136,668,910**	**34,733,738**	**171,402,648**

*Note: * In a letter dated 8th March 1999, Ministry of Finance informed Treasury that "This Ministry is in the process of drafting a loan agreement (when the proper amounts are known) to be entered into between Government and the Gozo Ferries Company". However, no developments have to date been reported.*

C – Company ceased operations
L – Company undergoing liquidation procedures
TC – Company awaiting tax clearance before it can be struck off.

Outstanding Loan Repayments

Outstanding loan repayments and interest stood at Lm53,579,830 (of which Lm41,008,581 are outstanding interest payments) as on 31 December 2000. A breakdown of this figure is shown opposite:

Outstanding Loan Repayments and Interest

Beneficiaries	Outstanding Loan Repayment	Interest	Total
	Lm	*Lm*	*Lm*
Hotels	6,672	3,368	10,040
Industries	2,517,650	*36,124,766	38,642,416
Malta Drydocks Corp.	-	859,194	859,194
Ex-Posterity Fund	9,925,000	3,942,000	13,867,000
M'Xlokk Fishing Co. Ltd.	** 121,927	** 79,253	201,180

Note: * *Gross Interests accrued during FY 2000 amounted to Lm4,301,304. Deductions therefrom aggregately amounted to Lm115,833. These related to the waiving off of Lm110,673 interests due from Cross Continent Shipping (MFC 114/73) and an adjustment re an overstatement in interests due by Chinese Maltese Services of Lm5,160.*

Note: ** *During Financial Year 2001, Ministry of Finance approved the writing off of Loan, plus interest to date, due from M'Xlokk Fishing Co. Ltd. Treasury books for the Financial Year 2001 have been adjusted accordingly.*

No reply was received by Treasury requesting M.G.I. to verify whether loans advanced to Bahhar u Sewwi and Malta Win Cargo Containers Ltd are covered by agreements stipulating repayment terms and conditions for each loan. If agreements were entered into, then these loans are to feature in the Statement of Arrears due by Ministry of Economic Services and hence added with the above-quoted figures in relation to '*Industries*'. Loans outstanding as at 31 December 2000 amounted to Lm38,810 and Lm693,837 respectively.

Investments

The estimated market value of investments as shown in the Financial Report as at 31 December 2000 was Lm319,277,696 as against Lm308,464,873 as at 31 December 1999 i.e. an increase of Lm10,812,823.

These investments are as listed below:

	Lm
Share Holding	224,162,202
Court and Other Deposits	190,554
Sinking Funds	94,667,442
Trust Funds	257,498

The major changes in investments during 2000 which explain the net increase in the market value were the following:

- Off-market transfer of 7,666,000 Bank of Valletta plc Ordinary Shares, of 25c nominal value each, from the Sinking Fund. According to Malta Stock Exchange letter, dated 10 October 2000, the market value used to affect this transaction was the Trade Weighted Average Price (TWAP) in respect of the trading session held the day before. This stood at Lm4.860 per share.

- Off-market transfer of 13,049,654 Maltacom plc Ordinary Shares, of 25c nominal value each, to the Sinking Fund. As was commented upon above, the market value used to affect this transaction was the Trade Weighted Average Price (TWAP) in respect of the trading session held the day before. This stood at Lm2.855 per share.

  The market value of government's investment in Maltacom plc, held at year end, depreciated by Lm12,697,945.

- An appreciation of Lm1,296,750 resulted in the end of year market value of government's investment in Middle Sea Insurance Co Ltd. The market price per share as at 31 December 2000 stood at Lm3.812 as against Lm3.318 as at 31 December 1999.

- Purchase of 249,999 Malta Government Privatisation plc Ordinary Shares of Lm1 each fully paid.

- Writing-off, following Ministry of Finance's approval, of Government's Investment in Malta Containers Co Ltd (Maconte) amounting to Lm235,608. Following the finalisation of all liquidation procedures, the company was struck off the Register with effect from 2 August 2000.

- The payment of a third installment towards an increase of 2.875 per cent of the paid up share capital in the European Bank for Reconstruction and Development. This amounted to Euros 28,750, being equivalent to Lm11,731.

- Government's shareholding in Multilateral Investment Guarantee Agency increased with the investment of 57 additional shares worth $616,740, 17.65 per cent of which were to be paid in cash, while the rest was to be considered as capital on call. The payment of the cash portion was divided in two installments, falling due during Financial Years 2000 and 2001. Each share has a par value of SDR 10,000, with a fixed rate of 1 SDR = U$ 1.082 as per Article 5(A) of the Convention – as per Ministry of Finance's letter dated 16 February 2000.

- Sinking Funds investments experienced a reduction in market value of Lm2,840,883. The market value of Lm97,508,325 as at 31 December 1999 decreased to Lm94,667,442 as at 31 December 2000.

Observations

Action taken by the Accountant General during the current year conformed with observation made in 1999 Auditor General's Report. Trust Funds held in Fixed Accounts were transferred to related Savings Accounts in order to enable Treasury to better invest moneys held in trust in Government Stocks. Moreover, during Financial Year 2000, an amount was already invested in Government Stocks, leaving the rest to be invested in the current Financial Year, viz. during 2001.

The nominal value of total investments held in Maltese currency (Appendix H page 159) at year end should read Lm140,478,634 instead of Lm140,476,735. The discrepancy related to the nominal value quoted in respect of Trust Fund held on behalf of *'Miss Zammit Bequest – Cini Institute'* – Savings Account. It should read Lm3,574 instead of Lm1,675.

Other Investments

Other investments of a permanent nature, some of which earn revenue, are shown separately in the Statement of Other Investments as per appendix H1 of the Financial Report. Following this Office's concern as to why *'Other Investments'* are not included in the Statement of Assets and Liabilities, this Office was informed that Treasury intends to study the implication of including also *'Other Investments'* with effect from the current Financial Year.

At the end of 2000, the total of these investments amounted to Lm67,668,314 as against Lm67,682,988 on 31 December 1999. Investments in Industry comprises government shareholding in eighty six (86) 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 2000

The table opposite is a breakdown of additional investments recorded in Treasury Books for the year ended 31 December 2000.

Companies Sold during 2000

No sale of Indirect Investments was affected during 2000. However, the indirect investment of Lm1 held in Malprotwo Limited was written off Treasury Books. Treasury records were adjusted following MGI's instructions, that this company has ceased to exist as a consequence of its amalgamation with Malpro Limited during 2000.

Company	**Additional Investment *Lm***	**Details**
Malta Film Promotion and Development Limited	4,999	Registered on 5 January 2000 and having half of its authorised share capital (10,000 Ordinary Shares of Lm1 each) as fully paid issued share capital. Government's indirect investment amounted to 99.98 per cent of the issued share capital.
The Glorious Few Production Company Limited	9,999	Registered on 18 October 2000 and having issued 10 per cent of its authorised share capital (100,000 Ordinary Shares of Lm1 each). Government indirectly owns 9,999 Ordinary "A" shares of Lm1 each.
Sliema Point Company Limited	325	During December 2000, MGI Ltd acquired 325 shares of Lm1 each from Air Supplies Limited.
Malta Gantry Manufacturing Limited	1	On 17 July 2000, MGI Ltd acquired the shareholding of Mr. F. Basso and Mr. P. Nicolussi in the said company. This amounted to 45,000 Ordinary "B" shares for an aggregate nominal value of Lm1.
Malta Government Privatisation plc	1	Registered on 12 October 2000 and having 5 per cent of its authorised share capital (5,000,000 shares of Lm1 each) as fully paid issued share capital. Government's indirect investment amounted to 1 ordinary share.
Fort Chambray Management	1	Through a review of records held by the Malta Financial Services Centre, it transpired that this investment of one share was neither recorded in MGI records nor in Treasury Books.
Master Antenna	1	Through a review of records held by the Malta Financial Services Centre, it transpired that this investment of one share was neither recorded in MGI records nor in Treasury Books.

(Source: MGI letter dated 23rd March 2001)

Companies Struck Off

In letter dated 22 September 2000, Treasury informed Ministry of Finance on adjustments carried out, during Financial Year 1999, in Treasury Books regarding companies struck off the Register of Companies. The list was extracted following an exercise carried out with the MFSC and MGI to confirm whether companies listed in Treasury records as Indirect Government Investments are still in operation.

During Financial Year 2000, the Control account in Treasury Books was amended by deducting Lm30,000 shown as indirect investment held in Medigrain. This amount represented the value of 1 share held by MIMCOL. After this adjustment, the value of indirect investment in Medigrain, as per MGI and Treasury records, read Lm2,542,600.

Investments through MGI and MDC

(a) Investment through MGI

In 1988, the bulk of the investments made over the years through the Malta Development Corporation (MDC) were transferred to Malta Government Investments Limited (MGI). A return submitted by the company to the Accountant General showed that the total investment in seventy-six (76) companies amounted to Lm29,896,015 as at 31 December 2000.

However, it was estimated that the net book value of these companies only amounted to Lm9,214,844, after a provisional loss of Lm20,681,171 was carried forward. The return also pointed out that thirty-one (31) of these companies were undergoing liquidation procedures, six (6) have ceased operations, ten (10) are just awaiting tax clearance before they can be struck off and three (3) never commenced operations.

Observations

As commented upon above, Treasury took the necessary action as recommended by this Office in the 1999 Auditor General's Report. Following the reconciliation exercise with records of

Investments held by Malta Government Investments Ltd., a discrepancy of Lm50 remained at year end. This related to Lm50 investment in Malpro Ltd. shown in MGI records as opposed to Treasury Books. However, following MGI's letter dated 8 August 2001, Treasury adjusted its records by including this amount as a government investment in Malpro Ltd. of 250 Ordinary shares of Lm1 each (20 per cent paid up).

(b) Investments through MDC

Observations

Other discrepancies related to divergences between Treasury Books and MDC records. These related to investments in Libma International Construction and Libyan Maltese Agro Chemical Co, as shown in the table hereunder.

Company	**Treasury Records** ***Lm***	**MDC Records** ***Lm***	**Difference** ***Lm***	**Remarks**
Libma Int. Construction	87,070	44,479	42,591	The discrepancy related to the fact that Treasury Books recorded the whole of funds advanced to MDC for investment in the said company, even though Lm42,591 related to uncalled share capital.
Libyan Maltese Agro Chemical Co.	26,216	19,716	6,500	In letter dated 25 January 2001, MDC informed Ministry of Finance that the discrepancy related to the transfer to LAFICO of 20,000 shares in the said company at Lm6,500. MDC has to date not been paid.

Treasury is to inform Ministry of Finance and obtain approval to adjust its records accordingly.

Other Discrepancies

The following two other investments are shown in Treasury records, but are neither shown in MGI nor in MDC records:

- Industrial Warehouse Services amounting to Lm5,000
- Malta Government Investments amounting to Lm1.

Inspection of Securities / Investments

Board of Securities

Section 42 of the Financial Administration and Audit Act, 1962 provides *inter alia* the purposes of setting up the Government Securities Board. The Board is:

(a) to have custody of such securities on behalf of the Government of Malta; and

(b) to facilitate the sale, conversion, exchange or other disposition of such securities.

The Board was set up for a period of 3 years with effect from 1 September 2000. Its records and seat of meetings are at the Treasury.

The List of Securities as at 31 December 2000 was inspected, on 31 July 2001, against original certificates of holdings and related documents. No discrepancies were reported.

Board of Survey

A Board of Survey was appointed in terms of Section 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 2000.

A copy of the report drawn up by the Board of Survey was forwarded to NAO on 17 October 2001.

Unallocated Stores

The total book value of the unallocated stores stood at Lm1,580,160. These were held by:

- Ministry for the Environment – Lm748,835

- Department of Information (Government Printing Press) – Lm226,395, and

- Contracts Department (Central Supplies) – Lm604,930.

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

Amounts featuring under the 'Receipts' column of Appendix M of the Financial Report related to amounts transferred from Recurrent / Capital Items, amongst others, as detailed hereunder:

	Total 'Receipts' ***Lm***	**Amts trf. from Recurrent Items** ***Lm***	**Amts trf. from Capital Items** ***Lm***	**Amounts trf. from Below-the-Line** ***Lm***	**Payments from other Depts.** ***Lm***
Ministry for the Environment	22,149	14,665	7,484	NIL	NIL
Contracts – (C.S.S.)	583,426	25,986	NIL	120,462	436,978
Information – (G.P.P.)	63,711	35,107	NIL	1,104	27,500

As reported upon in 1999 Auditor General's Report, a Board of Survey was appointed on 26 June 2000 with specific terms of reference. A report dated 14 June 2001 from this Board is being evaluated by the NAO.

Advances

Accounting of Advances

Section 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 31 December 2000, in respect of advances made to various Government Departments, agencies and organisations as well as to Government delegations proceeding abroad.

Progress was again registered during Financial Year 2000. This is reflected in the increase in the rate of collection to 8.25 per cent in Financial Year 2000 from 6.45 per cent in the previous year. Pending advances totalled Lm106,621,458 as on 31 December 2000, as against Lm83,191,553 outstanding on 31 December 1999.

The main outstanding advances were the following:

Outstanding Advances

Description	***Lm***
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
Commissioner of Land to enable the Land Department to pay compensation to Tigne residents in 1994	751,078
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	301,583
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

(Continued)

Description	Lm
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	614,043
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	1,489,908
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	2,461,845
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 and further servicing costs of Malta Freeport loans	15,626,163
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
Three (3) Permanent Secretary, Ministry for Economic Services to provide bridging finance facilities to Malta Drydocks Corporation during 2000	11,000,000
Permanent Secretary, Ministry of Foreign Affairs to acquire premises by Government of Malta to serve as new Chancery in Canberra, Australia	124,226
Permanent Secretary, Ministry of Finance to finance works being carried out at the Garrison Church in Valletta to be used as new premises of Malta Stock Exchange	200,000
Permanent Secretary, Ministry for Economic Services to meet expenditure in connection with the privatisation process of the Malta Freeport operations	156,165
Permanent Secretary, Ministry for Economic Services, for the purpose of settling Malta Freeport equipment claims	3,500,000
Accountant General for the purpose of settling and accounting for payments urgently required to be effected prior to the closure of same financial year.	332,000

Observations

The following advances from those listed above should have already 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 – Lm301,583: 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. Lm91,004 were repaid up to year 1999. During the year 2000, Lm230,000 were repaid from the Consolidated Fund – Recurrent Item 34 (Sundry Minor Expenses). Repayments thereof amounted to Lm321,004 leaving an amount of Lm301,583 still outstanding on 31 December 2000.

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 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.

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 the Auditor Gerneral's 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.

Bank – C.B.M. Public Account

Monies held in trust, received or paid by the Government of Malta as at 31 December 2000, amounted to Lm17,881,384, as accounted for in Treasury Books. However, the Central Bank of Malta statement of the Public Account ended with a closing balance of Lm16,128,956 as on the same date.

The discrepancy of Lm1,752,428 cannot to date be explained due to the fact that Treasury has not carried out monthly reconciliation exercises of the Public Account since June 1992. The necessity to update the reconciliation exercises of the Public Account has repeatedly been reported upon since 1993.

Following the 1999 Auditor General's Report, the Public Accounts Committee (PAC) meeting dated 7 March 2001 discussed this issue. It was decided that by the end of April 2001 the Treasury would be in a position to give an indication when this problem will be addressed. On the 23 April 2001, the Chairman PAC was informed by the Ministry of Finance that the Treasury will be in a position to carry out monthly Bank Reconciliation exercises as from January 2002.

The Accountant General in *'The Statement by the Accountant General'* – Financial Report 2000 Part I stated that: "*With the objective of tackling this long outstanding problem, a systems analysis was carried out during 1999. The system that was intended to be developed and tested during 2000 had to be postponed due to other priorities and the lack of the required resources at Treasury and MITTS. It is now planned for implementation during the latter part of the current year*".

An essential element of effective management of Government finances necessitates the verification and explanation of any discrepancies between the closing balances through the preparation of a monthly Bank Reconciliation Statement.

Liabilities

The Statement of Liabilities, as featured in Appendix I of the Financial Report 2000, is reproduced hereunder:

Statement of Liabilities

		2000 *Lm(000's)*		**1999** *Lm(000's)*
Public Debt		**752,081***		**756,370**
Treasury Bills		**169,009**		**80,637**
Deposits				
Court and other deposits	35,386		29,975	
Other	28	**35,414**	27	**30,002**
Funds				
Sinking Funds	94,667		97,508	
Public Lotto	476		881	
Contingencies Fund	500		500	
Trust Funds	266	**95,909**	249	**99,138**
Accumulated Fund				
Cons. Fund at year end	(78,795)		(4,867)	
Net Public (Debt)/Credit	(342,717)*	**(421,512)**	(370,750)	**(375,617)**
TOTAL LIABILITIES		**630,901**		**590,530**

*During the audit, it transpired that the above-quoted figures for *'Public Debt'* and *'Net Public (Debt) / Credit'* should be adjusted to read Lm751,979,530 and Lm342,535,997 respectively. Further details as to the former adjustments are provided under *'Adjustments in Treasury Books'* on pages 78-79.

Throughout this report, analysis forwarded is based on amended figures (defined as *'adjusted amounts following corrections affected to figures featuring in the Financial Report 2000'*) for Financial Year 2000 as against 1999 figures featuring in Financial Report 1999.

Public Debt

On 31 December 2000, the amended Public Debt (inclusive of Treasury Bills outstanding at year end) amounted to Lm920,988,137. This amount represents an increase of Lm83,981,111 over the corresponding figure of 1999.

This increase works out as follows:

	Lm
Total of New Loans	479,833,945
Total Repayment of Loans *(vide comments on page 78)*	(396,616,956)
Currency Adjustments *(as amended)*	764,122
Net increase of the Public Debt *(as amended)*	83,981,111

The following payments in connection with the Public Debt were made out of the Consolidated Fund during year 2000 (Vote 56 – Public Debt Servicing and Vote 47 – Joint Office).

Payments from Consolidated Fund

		Vote 56 Public Debt Servicing	Vote 47 Joint Office	Total
		Lm	*Lm*	*Lm*
(i)	Interest on Loans	48,989,796	2,000,010	50,989,806
(ii)	Interest on Short-term borrowing (Treasury Bills)	5,451,211	-	5,451,211
(iii)	Contribution to Sinking Funds	12,252,040	503,000	12,755,040
(iv)	Loan repayment 'Sumitomo Bank'	1,147,948	-	1,147,948
		67,840,995	2,503,010	70,344,005

The amount of Lm1,147,948 in respect of Sumitomo Bank Ltd. shown as '*loan repayment*' was made directly from recurrent expenditure.

The following payments were made out of the Sinking Funds:

Payments from Sinking Funds

		Lm
(i)	Transfer to Vote XIV Miscellaneous Receipts item 0914	12,650,414
(ii)	Payment of Foreign Loans *(as amended)*	5,699,077
(iii)	Gain on currency adjustments *(as amended)*	(1,203,623)
		17,145,868

Details on amended figures are provided hereunder.

Adjustments in Treasury Books

European Union Loan F – During 2000, Treasury Books were adjusted by Euros 2000 (equivalent to Lm830). This Office has still to date not been forwarded with the explanation necessitating such adjustment in Treasury Books. NAO contends that no adjustments should have been affected once amounts were verified and found correct. As a result, depreciation should read Lm78,917 instead of Lm77,275 and amounts repaid should read Lm153,710 instead of Lm154,539. The balance as on 31 December 2000 should read Lm2,671,047 instead of Lm2,671,860.

<u>European Union Loan G</u> – The aggregate of loan repaid as at year end was understated due to the fact that loans repaid during 1999 were not taken into account. Hence, the closing balance should read Lm966,365 instead of Lm1,067,413. The currency adjustment should have shown a depreciation of Lm34,865 instead of an appreciation of Lm66,183.

Public Debt since 1984

Year	Local Loans (i) (ii)	Foreign Loans	Total	G.D.P. (iii)	Total Debt/ GDP	Total Debt Change over preceding year
	Lm 000's	*Lm 000's*	*Lm 000's*	*Lm 000's*	*%*	*Lm 000's*
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	1,455,002	57.53	(+) 75,415
2000	881,737	(iv)39,251	920,988	(v) 1,556,055	59.19	(+) 83,981

(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) *As amended.*
(v) *Provisional, Central Bank of Malta, Quarterly Review Publications*.

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 1984 to 2000.

Letters of Comfort / Bank Guarantees

The position of *"Contingent Liabilities"* as at 31 December 2000 is featured in Part I of the Financial Report, 2000. The component parts are made up of (a) Government Guarantees, (b) Letters of Comfort and (c) Letters of Undertaking as follows:

Contingent Liabilities – 2000

	Lm	*Lm*
Government Guarantees:		
Local	247,250,787	
Foreign	159,162,885	406,413,672
Letters of Comfort		32,036,421
Letters of Undertaking		32,287,369
		470,737,462

No further Guarantees/Letters of Comfort were issued during 2000. Variations against 1999 balances were due to the canceling of some guarantees and decrease or increase in existing guarantees.

A detailed list of Letters of Comfort / Bank Guarantees submitted to this Office by the Ministry of Finance showed a balance of Lm470,737,462 as on 31 December 2000 (against Lm501,146,400 as on 31 December 1999 and Lm513,034,618 on 31 December 1998). The total amount for 2000 tallies with that given by the Accountant General.

Letters of Comfort/Bank Guarantees

Beneficiary	31.12.98	31.12.99	31.12.00
	Lm	*Lm*	*Lm*
Air Malta Co. Ltd. (Foreign)	49,141,984	42,506,860	32,287,369
Air Malta Co. Ltd. (Local)	8,100,000	8,100,000	8,100,000
Malta Counter Trade Co. Ltd.	2,839,788	3,099,762	3,292,071
Malta Drydocks Corporation	40,379,746	40,408,961	41,031,491
Enemalta Corporation	62,116,582	58,538,235	57,419,511
Malta Gantry Manufacturing Ltd.	11,361,851	13,498,832	-
Housing Authority	21,019,753	18,725,522	18,319,385
Malta International Airport Ltd.	6,411,313	-	-
HSBC Home Loans (Malta) Ltd. (1)	60,000,000	60,000,000	60,000,000
Malta Development Corporation	4,433,186	4,944,618	4,520,791
METCO Ltd.	2,789,862	2,789,883	2,793,383
Malta Government Investment Ltd.	10,618,276	10,068,036	19,584,016
Public Broadcasting Services Ltd.	1,400,000	1,201,672	1,127,000
ST Microelectronics (Malta) Ltd.	2,800,000	2,800,000	2,800,000
San Lucian Oil Co. Ltd.	288,124	131,920	-
Self Employment Scheme	30,000	7,600	7,600
Malta Shipbuilding Co. Ltd.	4,140,350	3,112,607	2,566,537
Water Services Corporation	30,271,602	33,624,763	32,922,577
Malta Win Cargo Containers Ltd.	3,872,557	3,923,277	3,372,558
Youth Specialisation Studies Scheme	8,678	-	-
Kordin Grain Terminal Co. Ltd.	635,913	527,922	442,811
Freeport Industrial Storage Malta	837,105	-	-
Freeport Investments Ltd.	815,299	-	-
Freeport Terminal (Malta) Ltd.	101,621,405	-	-
Malta Freeport Corporation	14,501,807	124,188,290	130,928,684
Malta Government Loans	19,927,310	16,693,224	(2)
Gozo Ferries Co. Ltd.	47,700,619	47,132,053	43,936,090
Medigrain Ltd.	516,285	15,000	15,000
Malta Desalination Services Ltd.	2,342,863	1,986,525	1,841,540
Tripoli Sewage Treatment Plant	773,510	735,871	665,488
I.B.R.D.	1,308,160	1,308,160	(3)
M.I.G.A.	30,690	33,464	(3)
Malta Tourism Authority	-	1,034,920	2,757,032
YSSS - Jean Paul Mifsud	-	3,836	3,581
YSSS - Nikolai Cassar	-	4,587	2,947
TOTAL	**513,034,618**	**501,146,400**	**470,737,462**

Note: (1) Previously shown as Lohombus Corporation.
(2) MG Loans: These are loans appearing in the Public Debt Account.
(3) IBRD/MIGA: These are not loans but rather fees paid by the Central Bank.

Statement of Abandoned Claims, Cash Losses and Stores Written Off

The following Statement of Abandoned Claims, Cash Losses and Stores Written Off for 2000 is reproduced in Appendix N of the Financial Report.

Statement of Abandoned Claims, Cash Losses and Stores written off for 2000

Department	Abandoned Claims	Stores Written Off	Cash Losses	Total
	Lm	*Lm*	*Lm*	*Lm*
Armed Forces of Malta	-	425	-	**425**
Contracts	10,350	2,863	-	**13,213**
Customs	10,073	44,631	-	**54,704**
Government Property Division	13,285	-	-	**13,285**
Information	13,555	-	-	**13,555**
Inland Revenue	17,981	-	12	**17,993**
Licensing and Testing	-	4,128	-	**4,128**
Ministry for Economic Services	40,673	-	-	**40,673**
Ministry for Gozo	-	6,794	-	**6,794**
Ministry for the Environment	-	142	-	**142**
Ministry for Transport and Communications *	-	-	10	**10**
Ministry of Finance	562,213	-	-	**562,213**
Ministry of Health	-	-	59,651	**59,651**
Museums	2,135	-	2,384	**4,519**
Police	-	18	10	**28**
Social Security Department	2,827	-	-	**2,827**
Trade	-	-	14	**14**
TOTALS	**673,092**	**59,001**	**62,081**	**794,174**

* Wireless Telegraphy

Observations

I. The amount of Lm562,213 abandoned claims written off under Ministry of Finance are unrecovered expenses of the Crans Montana Conference held in 1995. As these funds were made in the form of an advance from the Treasury Clearance Fund, they will be repaid from the Consolidated Fund.

II. The amount of Lm59,651 cash losses shown as written off under Ministry of Health are in respect of unpaid hospital bills mainly due from foreigners. As these are claims and not cash losses, the amount of Lm59,651 should have been shown under abandoned claims.

III. The amount of Lm44,631 shown under Customs as stores written off should not have been included in Appendix N as these stores were obsolete Customs Forms that were destroyed in terms of Reg. 113 (1) of the General Financial Regulations 1966.

IV. Lm40,673 abandoned claims shown under Ministry for Economic Services should read Lm110,673. This amount represents interests written off due on loan to Cross Continent Shipping.

V. Lm17,981 abandoned claims shown under Inland Revenue are in respect of amounts due as entertainment tax.

VI. Lm13,555 abandoned claims written off shown under Information are in respect of amounts due for publications, photographs and government gazettes.

VII. Lm13,285 abandoned claims shown under Government Property Division are in respect of rents due from third parties.

VIII. The amount of Lm10,350 shown under Contracts are in respect of claims for the issue of stores to third parties.

The details given in Appendix N are not all-inclusive. Contrary to Financial Regulations, 6 departments shown hereunder failed to submit a return of write-offs to the Treasury.

Agriculture
Consumer Affairs
Fair Competition
Roads
Industry
Licensing and Testing

Part 5 – Corporate Issues

Arrears of Revenue 2000

Background

The timely collection of revenue and control over the extent of arrears of revenue is the responsibility of the Accounting Officers as defined in Section 2 of the Finance Administration and Audit Act 1962.

In terms of Reg. 49 (i) of the General Financial Regulations, 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. Copies of these returns are to be forwarded to the Auditor General.

The actual monitoring of the submission of return of arrears is the responsibility of the Accountant General.

Returns

Opening and closing balances of arrears of revenue for year 2000, as shown in Table on pages 101-102, are approximate figures collated by NAO on basis of returns of arrears received from departments.

The figures are approximate because:

a) not all revenue collecting sources submitted their returns;
b) some returns are incomplete or themselves made up of approximations.

The Table was compiled from returns received by the end of July 2001. Rate of collection, changes in the level of arrears, amounts due by Government Departments and Parastatal Bodies are included in the Table. The last column in the same Table shows amounts written off during 2000 due to being statute-barred and other amounts being currently considered also statute-barred.

The total amount of arrears for the year ending 31 December 2000 identified from the returns submitted was Lm407,496,518 out of which Lm79,792,314 are due from Government Departments and Parastatal Bodies.

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

Although returns of arrears had to be submitted by the 31 March 2001, a large number of returns were not submitted in time and some were submitted incomplete. The Departments shown hereunder did not submit returns of arrears:

- Social Security (Social Security Contributions up to December 1997)
- Inland Revenue (Social Security Contributions after December 1997)
- Joint Office
- Licensing and Testing
- Industry

The defaulting departments were listed in Part I of the Financial Report 2000. The Ministry for the Environment submitted the return of arrears after the Financial Report was published.

The Department of Social Security submitted an incomplete list of arrears due of Social Security Contributions up to 31 December 1997 pointing out that the amount indicated is only an approximate figure.

As from January 1998 the collection and enforcement of Social Security Contributions became the responsibility of the Inland Revenue. The Department however failed to submit returns of arrears for Social Security Contributions for 1999 and 2000. Further comments on this issue are on page 185.

In January 2001 the Joint Office informed this Office that the return of arrears 2000 cannot be submitted at this stage since the computer system *"failed"* and is unable to produce reports.

The same situation prevailed in 1999 as the return for that year was also not submitted for the same reason quoted above.

The Joint Office, however, stated that in order to remedy the situation, it has obtained data from the Archbishop's Curia and is making the necessary modifications to the system, through MITTS, to adapt it to Joint Office requirements.

NAO is concerned at the length of time that is being taken to modify and update the computer system. In fact this Office was informed that at the time of writing the Report, Joint Office is still in the process of inputting the data and could not give a target date when it will be in a position to submit a return of arrears of revenue.

The departments of Industry and Licensing and Testing did not submit a return of arrears for 2000. The returns submitted in 1999 showed that arrears outstanding for year ending December 1999 amounted to Lm25,873 and Lm3,182,896 respectively.

The Accountant General reported those departments which failed to comply with Financial Regulations to the Permanent Secretary concerned and also to the Permanent Secretary, Ministry of Finance.

Amounts Statute-Barred: NAO has to register its concern at the loss of public funds through prescription. As indicated on table at pages 101-102 arrears of revenue that were either written off or considered as statute-barred by the department totalled Lm3,045,108.

Notes and comments on Arrears in excess of Lm 200,000

Customs (Lm 7,172,915)

		Lm
i)	Unpaid reimbursements and administration charges i.r.o. services by Customs Officials at Merchants' request	602,444
ii)	Post entries (Customs duty paid after release of Merchandise)	6,290,895
iii)	Fines and Penalties	206,039
iv)	Maltapost Ltd	66,976
v)	Others	6,561

Arrears in respect of item (ii) include an amount of Lm6,075,087 for unpaid duty by EneMalta Corporation.

Inland Revenue Lm 258,410,681

i) Income Tax: Lm 237,443,563

The amount of Lm 237,443,563 is the gross arrears[1] due as at 31 December 2000 which represents an increase of Lm8,349,763 on the previous year. A breakdown of these arrears by category is provided in Table on page 89.

Arrears denominated in foreign currencies amounting approximately to Lm3,827,835 as at year end 2000 are also due from foreign owned companies and companies overseas. These arrears are not included in the amount quoted above.

These arrears represent outstanding book balances which fluctuate following the issue of assessments, tax payments in

[1] Gross arrears due: aggregate of debit (positive) balances.

settlement and revision of assessments under objection following agreement.

The 2000 year end balance is also analysed under two headings namely, the book balance for years of Assessment (Y/A) 1949 up to 1998 and the book balance for Y/A 1999 up to 2000. 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 1999 onwards. The breakdown is shown hereunder:

	Lm
a) Balance for Y/A 1949 up to 1998	155,291,002
b) Balance for Y/A 1999 to 2000	82,152,561
	237,443,563

Income Tax Arrears Due by Category	
Category	*Amount Due as on 31/12/2000*
	Lm (000's)
Government Employees	7,851
Parastatal Employees	2,600
Drydocks Employees	570
Private Employees	25,725
Outside Malta Employees	487
Temporary Residents – Work Permit	6,595
Self-Employed	33,971
Shareholders	5,167
Rentiers/Pensioners	11,066
Temporary Residents – Settlers	1,422
Non-Residents	1,629
Partnerships not registered with Trade Dept.	1,125
Companies *anonyme*	126,644
Companies *en commandite*	1,618
Companies foreign owned	9,652
Companies – overseas	939
Clubs, Associations, etc.	590
Church (Commercial)	435
Church (Entities)	266
Others	110
Total for all Categories	**237,444**

Source: Commissioner of Inland Revenue

ii) Duty on Documents and Transfers: Lm 17,995,714

		Lm
i)	Monies due in respect of *InterVivos*	17,168,829
ii)	Monies due in respect of *Causa Mortis*	826,885

These amounts in total show an increase of Lm2,802,909 as compared with the previous year.

These arrears refer largely to the issue of numerous claims incorporating substantial additional duty and penalties that have been objected to. The Department estimates a 20 per cent rate of collection. Thus, the probable amount collectable is calculated to be around Lm 3.6 million.

iii) Death and Donation Duties: Lm 2,971,404

The department declared that as these arrears include large amounts of additional duty against which objections have been lodged, it is estimated that only about Lm594,281 (20 per cent) is collectable.

Courts Lm 5,330,521

		Lm
i)	Court Fees	462,731
ii)	Criminal Fines	1,912,160
iii)	Judicial (Magistrate Fines)	1,313,898
iv)	Traffic Fines	1,627,585
v)	Notarial Fees	464
vi)	Gozo Court Fines	13,683

NAO cannot ascertain that the end 2000 figures re court Fees, Magistrates Fines and Traffic Fines as quoted by the department are correct since they cannot be supported by documentation. The amounts said to be due are being reproduced as submitted by the Courts.

Court Fees: complete debtors lists to account for the Lm462,731 quoted by Courts could not be produced. Debtors lists submitted cover only Lm156,236.

Magistrate Fines: debtors information is only available in respect of years 1997 to 2000.

Traffic Fines: data re debtors is only available for years 1995 to 2000.

NAO had in October 2000 recommended to the department to undertake a full scale exercise to arrive at the actual figure of arrears due. In its response the department stated that they would like to compile a correct record of arrears that accumulated over a long span of time but were more inclined to devote the limited resources *'on an exercise to add up and reconcile each book of arrears by way of amounts that are time barred and therefore unrecoverable, and amounts that may be followed up for collection of revenue due'*. The department believes that *'in this way a more realistic amount of arrears due is arrived at and the return is more meaningful to work on'*.

It is NAO's opinion that the amount of arrears of more than Lm3.4 million in Court Fees and Magistrate and Traffic fines should spur the Department to increase its effort to recoup what is due to the public purse.

Social Security Lm 6,967,234

		Lm
i)	Area officers (SA, SKA, SPA)	471,909
ii)	Area Officers (NI, CA-non-contributory)	39,864
iii)	Pensions	670,188
iv)	At source	39,071
v)	Children Allowance (Manual)	11,678
vi)	SABS (SKA, OAP, SPA, SA)	247,097
vii)	SABS (Children Allowance)	48,733
viii)	SABS (UB, SUB, IB, SB)	6,130
ix)	National Insurance Contributions	*5,432,565

**return submitted by the Department direct to NAO*

The abbreviations shown above stand for Social Assistance (SA), Sickness Allowance (SKA), Supplementary Allowance (SPA), National Insurance (NI), Children's Allowance (CA), Sistema għall-Beneficcji Socjali (SABS), Old Age Pension (OAP), Unemployment Benefit (UB), Special Unemployment Benefit (SUB), Injury Benefit (IB) and Sickness Benefit (SB).

The Department of Social Security submitted an incomplete return for National Insurance Contributions due prior to January 1998 and this Office was informed that the amount quoted was only an approximate figure.

As from 1998 the collection of NI Contributions became the responsibility of the Inland Revenue.

Government Property Division Lm 4,614,963

		Lm
i)	Rural	44,299
ii)	Perpetual	86,603
iii)	Residential	282,392
iv)	Non-Residential	448,612
v)	Commercial	3,739,378
vi)	Encroachments	13,679

The amount of Lm536,324 shown under *"written off or not due"* in Table on pages 101-102 includes an amount of Lm34,960 that was written off due to prescription.

Health Lm877,285

		Lm
i)	Hospital Bills	621,826
ii)	Hospital Fees Test	31,125
iii)	Refunds of Resignations	215,473
iv)	Overpayments	8,861

Out of an amount of Lm68,036 that was written off as *"not due"*, Lm52,775 were prescription barred.

Police Lm795,537

		Lm
i)	General Licences	247,127
ii)	Wines and Spirits	82,270
iii)	Weapons Licences	167,394
iv)	Court Expert Fees	162,244
v)	Court Photo Material	136,502

The amounts of arrears at i), ii) and iii) could not be verified as computerised records are not reliable. The transfer of manual records of weapons licences to a computerised system was not reliably carried out. Moreover, payments of trading licences (General and Wine and Spirits) collected at Local Councils cannot be updated by the department as the system is not on-line.

Figures at iv) and v) are as at 31 December 1996 as return of arrears for those two items were not submitted.

Ministry for the Environment Lm 7,082,880

		Lm
i)	Works Division	1,523,100
ii)	Central Districts Office	818,626
iii)	Waste Management Strategy Implementation Dept.	838,961
iv)	Manufacturing and Servicing Dept	3,902,193

Out of Lm3,180,687 arrears due in respect of items i), ii) and iii), Lm2,122,983 are considered by the Ministry as being statute-barred.

Regarding (iv), the Manufacturing and Servicing Department (MSD) within the Ministry for the Environment could only produce records of debtors covering the years 1999 and 2000 which amounts to Lm156,754. The remaining balance of Lm3,745,439 is said to be dues from the Works Division which

MSD feels should not have been claimed in the first instance since they refer to works and services carried out within the same Ministry.

Other claims pertaining other than to the Works Division, could not be identified as no supporting documents are available at the MSD. The amount due covering the latter claims, is being considered by the MSD as statute-barred and the department is seeking authority to write-off.

The NAO has stated in its Annual Report for 1999 that the 1996 and 1997 returns of the MSD had not been submitted whereas only global figures were reported in respect of 1998 and 1999. The Department has, since 2000, improved the computerised system. All claims are being recorded electronically and all unsettled claims could be extracted at any given time. This database which covers claims issued in the year 2000 is functioning satisfactorily and should ensure the timely collection of revenue..

MDC Lm 3,975,069

		Lm
i)	Rent of Factory premises	2,958,323
ii)	Loans – Aids to Industries Scheme (repayments due)	1,016,746

MDC informed the Ministry of Finance that out of Lm2,958,323 due for rent of factory premises, an amount of Lm1,054,463 relates to several companies which have ceased operations and there is no possibility of being recovered.

Factory rents amounting to Lm42,952 due from 4 companies and Lm513,225 being outstanding balances on loans made to 15 companies through the Aids to Industries Scheme were written off in 2000.

Treasury: Lm 53,593,139

		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	201,179
iv)	Loans under Act XI of 1988 (Ex-Posterity Fund to Malta Shipbuilding Co. Ltd. and interests due on those loans	13,867,000
v)	Loans to Industries including interests	38,642,417
vi)	Interests due on loan to Malta Drydocks Corporation	859,194
vii)	Overpayments in Pensions	9,330

These amounts in total show an increase of Lm4,877,469 over the previous year. Out of this amount Lm4,500,567 represents net increase in accumulated interest.

The bulk of arrears (Lm53,368,611 out of Lm53,593,139) are due from companies fully owned by government – Malta Shipbuilding Co. Ltd (Lm48,320,072) and Malta Drydocks Corporation (Lm859,194) – or companies in which government holds a majority shareholding (Lm4,189,345).

No action whatsoever is taken by the Treasury to collect these overdue loan repayments and interests thereof in view of the fact that most of these debtors are in financial difficulties.

Finance Lm 9,892,605

		Lm
i)	Outstanding advances	9,891,583
ii)	Other miscellaneous	1,022

The amount of Lm9,891,583 represents two advances made by the Ministry of Finance that should have been repaid to the Treasury Clearance Fund. One advance of Lm9,590,000 was made in 1997 to EneMalta Corporation. This advance should have been repaid over a period of 2 years starting on 1st January 1998. The other advance amounting to Lm301,583 was made to Ministry of Finance to meet expenses in connection with the holding of the Mediterranean Crans-Montana Forum Conference held in Malta in October 1995. This advance was to be closed out of proceeds from participants at the Conference.

Information/Government Printing Press Lm 720,794

		Lm
i)	Photographic works	1,308
ii)	Publications	1,004
iii)	Government Gazette	780
iv)	Standing Orders	17
v)	Jobbing Orders	693,742
vi)	Stationery	23,943

Lm150,429 out of Lm720,794 quoted above are due in respect of unallocated stores.

Lm15,696 were written off as these arrears were statute-barred.

Out of the total arrears due, an amount of Lm597,522 is not collectable as they are considered by the department as statute-barred and Lm20,326 are being contested.

Mediterranean Conference Centre Lm 204,942

These arrears are outstanding bills in respect of conferences and other events held by third parties at the M.C.C.

Wireless Telegraphy Lm 1,862,252

		Lm
i)	T.V. Licences	1,552,479
ii)	Wireless Licences and Inspection Fees	151,174
iii)	Marine Licences	158,599

The return submitted was incomplete. The details requested in the Treasury Circular could not be extracted from the computer system presently in operation. A new computer system which will cater for all the information requested should however be in place and start operating in January 2002.

VAT Lm 43,879,914

		Lm
i)	VAT 1994	17,584,884
ii)	Customs and Excise Tax (CET)	7,814,490
iii)	VAT 1998	17,955,984
iv)	Refunds to Government on 1997 Stocks	445,958
v)	Expenditure Levy	78,598

Total arrears increased from Lm41,742,193 in 1999 to Lm43,879,914 in 2000, an increase of Lm2,137,721 (5.1 per cent)

Arrears in respect of CET 1997 decreased from Lm10,453,628 in 1999 to Lm7,814,490 in 2000.

On the other hand arrears for VAT 1994 increased slightly from Lm17,353,444 in 1999 to Lm17,584,884 in 2000. There was however a significant increase in VAT 1998 arrears from Lm13,286,962 in 1999 to Lm17,955,984 in 2000.

It should however be pointed out that these arrears are inclusive of estimated assessments issued and interests due which are automatically cancelled and replaced, if applicable, by the actual tax due once the relevant late tax returns are submitted.

Contracts Lm 501,128

		Lm
i)	Issue of Stores made by ex-Central Supplies Section	266,181
ii)	Penalties and damages due to Government	234,947

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

Out of Lm266,181 arrears due shown in item i), an amount of Lm266,079 was due from the Water Services Corporation which was paid in 2001.

Roads Lm 886,160

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

An amount of Lm266,299 due by a contractor is being contested in court and this case is going before the Arbitrary Board.

During 2000 the Roads Department took no action to collect the balance of Lm619,861 arrears due from Corporations and third parties.

Conclusion

In spite of any monitoring that is being made by the Ministry of Finance to control arrears of revenue there is no evidence of any significant improvements.

This is supported by the fact that, out of an approximate amount of Lm392,881,794 million outstanding as on 31 December 1999, only around Lm75 million or 19 per cent were collected during 2000. On the other hand, Lm169 million are newly accrued arrears for year 2000.

The difference is bound to increase the absolute amount of arrears substantially. However, when write-offs are considered, notwithstanding being incomplete, the net approximate increase in arrears as compiled by NAO amounts to Lm14.6 million.

Precaution should be taken when quoting these arrears of revenue as several qualifications, some mentioned in this report, determine the level of their reliability. This level of reliability can be improved if all departments where revenue is raised approach the concept of arrears more seriously and professionally.

Departments which should be singled out due to their lack of information and enforcement on arrears include: the Courts, Police, Social Security (S.S. Contributions up to 1997), Inland Revenue (S.S. Contributions from January 1998), Joint Office, Licensing and Testing and the Ministry for the Environment.

More emphasis should be made on statute-barring as millions of Maltese Liri may be involved. The recommendations which have been featuring repeatedly in the Auditor General's Reports in order to achieve a better return in the collection of arrears of revenue still stand. These include:

- an *ad hoc* structure concentrating on the collection of arrears;
- a strategy or system to address inter-departmental arrears of revenue;
- the update of information prior 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. Particular 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 possibly by deducting at source any payments due to defaulters;
- more control and attention by assessors when computing claims;
- imposition of penalties for late payments in terms of relevant legislation.

Response by the Ministry of Finance

- It is unacceptable that a situation is allowed to develop wherein a revenue-earning department is not in a position to quantify arrears of revenue;

- Permanent Secretaries are being advised to see that Heads of Departments/Directors falling under their charge assign due weight to this task and to ensure that the Heads/Directors' level of success or otherwise in this regard is reflected in their annual performance assessment;

- The ministry is taking action to draw up a feasible action-plan to seek to address, during 2002, the issue of dated Income Tax claims. These pre-FSS assessments account for a substantial portion of the gross arrears declared outstanding and have been due for a considerable number of years;

- Other actions being considered which could contribute to a containment and eventual reduction of reported arrears include the:

  i) Setting up of *ad-hoc* monitoring units at Ministry or Department level depending on the relevance of the problem;
  ii) Appointment of Bad Debts Monitoring Boards at Ministry level as is envisaged would be in place when an accruals-based accounting system is operational;
  iii) Encouragement of offsetting arrangements as far as possible;
  iv) Write-off of inter-Departmental arrears particularly when these are dated and current funding levels rule out possibility of payment.

The Internal Audit and Investigations Directorate (IAID) is currently carrying out an assignment on Arrears of Revenue. It is hoped that through the joint efforts of IAID, Ministry of Finance and the respective Permanent Secretaries, a healthier and more realistic situation may follow.

Arrears of Revenue

Ministry/Department	Outstanding on 31/12/99	Collected during 2000	% Rate of Coll-ection	Written off or not due 2000	Arrears 2000	Outstan-ding on 31/12/2000	Net Variation	% Change in Arrears	Due from Govt. Depts. & Parastatal Bodies	Amounts Statute Barred
	Lm	Lm		Lm	Lm	Lm	Lm		Lm	Lm
Agriculture & Fisheries	192,781 a	29,974	15.5	11,612	29,163	180,358	-12,423	-6.4	78,628	-
Customs	9,195,908 a	7,901,633	85.9	468,263	6,346,903	7,172,915	-2,022,993	-22.0	6,289,303	-
Education	70,473	4,456	6.3	13,383	8,497	61,131	-9,342	-13.3	-	-
Inland Revenue:										
Income Tax	229,093,800	60,555,422	26.4	58,589,331	127,494,516	237,443,563	8,349,763	3.6	- b	-
Duty on Docs. & Transfers	15,192,806	332,287	2.2	4,368,558	7,503,753	17,995,714	2,802,908	18.4	-	-
Death & Donation Duties	3,510,447	118,873	3.4	493,825	73,655	2,971,404	-539,043	-15.4	-	-
Courts	5,368,634 a	284,530	5.3	100,470	346,887	5,330,521	-38,113	-0.7	-	-
Social Security	7,296,523 a	256,996c	3.5	30,099 c	525,245 c	6,967,234	-329,289	-4.5	- b	-
Govt. Property Division	4,451,005	794,553	17.9	536,324	1,494,835	4,614,963	163,958	3.7	2,164,780	34,960
Health	760,220	30,021	3.9	68,036	215,122	877,285	117,065	15.4	-	52,775
Police	626,881	57,152	9.1	18,794	244,602	795,537	168,656	26.9	496,791	-
Min. for the Environment	7,035,322	572,833	8.1	190,227	810,618	7,082,880	47,558	0.7	1,938,191	2,122,983
M.D.C.	4,734,102	465,957	9.8	556,177	263,101	3,975,069	-759,033	-16.0	2,958,323	-
Treasury	48,715,670 a	11,997	0.0	115,833	5,005,299	53,593,139	4,877,469	10.0	53,368,611	-
Tourism	190,962 a	19,429	10.2	6,159	30,132	195,506	4,544	2.4	89,472	24,810

(Continued)

Ministry/Department	Outstanding on 31/12/99	Collected during 2000	% Rate of Coll-ection	Written off or not due 2000	Arrears 2000	Outstan-ding on 31/12/2000	Net Variation	% Change in Arrears	Due from Govt. Depts. & Parastatal Bodies	Amounts Statute Barred
Finance	10,132,196 a	150	0.0	239,938	497	9,892,605	-239,591	-2.4	9,590,000	-
Information/G.P.Press	796,678	103,442	13.0	16,983	44,541	720,794	-75,884	-9.5	720,495	613,218
M.C.C.	187,444	107,230	57.2	5,733	130,461	204,942	17,498	9.3	64,759	-
A.F.M.	32,340	5,664	17.5	12,570	6,634	20,740	-11,600	-35.9	11,126	11,985
Wireless Telegraphy	1,726,633	- b	0.0	- b	- b	1,862,252	135,619	7.9	-	-
Youth & Sports	63,000	-	0.0	-	-	63,000	-	0.0	63,000	-
CET/VAT	41,742,193	3,053,981	7.3	13,774,007	18,965,709	43,879,914	2,137,721	5.1	1,094,709	-
Contracts	460,521	102,161	22.2	14,742	157,510	501,128	40,607	8.8	266,128	881
Roads	886,160	-	0.0	-	-	886,160	-	0.0	595,748	-
Industrial & Employ. Relations	383,370	6,317	1.6	194,871	-	182,182	-201,188	-52.5	-	182,182
Others	35,725	10,169	28.5	5,723	5,749	25,582	-10,143	-28.4	2,250	1,314
TOTALS	**392,881,794**	**74,825,227**	**19.0**		**169,703,429**	**407,496,518**	**14,614,724**	**3.7**	**79,792,314**	**3,045,108**

(a) Opening balance does not agree with 1999 closing balance.

(b) Details not submitted.

(c) Details re N.I. Contributions not submitted.

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Travel Abroad on Official Government Business

Background

Expenditure incurred on Travel abroad on official government business during 2000 amounted to Lm 1,357,244. Actual expenditure exceeded the estimated amount for the year by Lm197,944.

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

	Lm
Tickets	587,057
Overseas Subsistence/Accommodation	721,634
Overseas Hospitality	3,227
Removal and Relocation Expenses (MFA)	45,326
TOTAL	1,357,244

A breakdown of excess expenditure over revised estimates above Lm10,000 by Ministry/Department during 2000 is given in the Table below:

Excess of Expenditure over revised Estimates

Ministry/Department	**Approved**	**Actual**	**Excess**
	Lm	***Lm***	***Lm***
Office of the Prime Minister	65,000	108,681	43,681
Armed Forces of Malta	19,000	57,255	38,255
Culture and the Arts	3,000	18,141	15,141
Ministry for the Environment	38,000	62,177	24,177
Ministry for Tourism	13,000	45,813	32,813
Ministry of Agriculture and Fisheries	40,000	60,781	20,781
Ministry for Health	80,000	99,101	19,101
Ministry of Justice and Local Government	20,000	51,159	31,159
Judicial	5,000	16,973	11,973

Increase in the number of travel advances and related expenditure in 2000 as compared to 1999 is shown hereunder:

No of Advances			**Expenditure**		
1999	**2000**	**Increase**	**1999**	**2000**	**Increase**
			Lm	***Lm***	***Lm***
1,144	1,369	225	1,100,071	1,357,244	257,173

Non-adherence to regulations on Travel

In terms of OPM Circular PS/6/94 all visits abroad on official business should be approved by the respective Permanent Secretaries who are also 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 prescribed form duly filled in, accompanied by original of all documents and receipts, is to be forwarded to the Auditor General.

In terms of the above-quoted directives Heads of Department/Directors of Corporate Services concerned and later the Permanent Secretary responsible for these Departments/ Ministries were requested to submit the documentation in respect of the outstanding advances.

Outstanding Advances for 2000

NAO recorded a total of 1369 advances availed of during 2000 in connection with official travel abroad on government business. As on 1st September 2001 documents for verification of expenses in respect of 93 of these Travel Advances had still to be submitted for verification by NAO. These advances carry a face value of Lm47,593 or 3.5 per cent of the total expenditure in 2000 and 6.8 per cent of the 1,369 advances for the year.

Defaulters with five or more returns not submitted are shown in the table hereunder.

Outstanding Travel Advances for 2000
as at 30th August 2001

Department/Ministry	No. of Outstanding Advances	Sums Advanced
		Lm
Culture and the Arts	7	4,312.69
Ministry of Education	8	4,026.01
Ministry of Health	12	4,872.00
Ministry for Home Affairs	29	12,877.00
House of Representatives	5	4,659.64
Museums	6	1,851.00
Youth and Sports	7	1,964.04
Others	19	13,030.68
TOTAL	**93**	**47,593.06**

Outstanding Advances 1980 – 1999

Apart from the advances in respect of 2000, an additional 473 advances covering period 1980 to 1999 and showing a face value of Lm 377,443 are also outstanding due to non-submission of documents or failure to satisfy in full related audit queries. Defaulters are shown in the table overleaf.

1980-1999 Outstanding Travel Advances
as at 30th August 2001

Department/Ministry	No. of Outstanding Advances	Sums Advanced
		Lm
Ministry of Food, Agriculture & Fisheries	2	5,879.43
Attorney General	18	22,585.50
Civil Aviation	1	530.00
Culture	13	7,708.61
Customs	2	381.48
Min/Dept of Education & Human Resources	55	68,869.08
Dept of Environment/Environment Protection	81	45,794.17
Family Welfare	1	275.00
Ministry of Finance	10	7,440.00
Ministry of Foreign Affairs	5	2,910.00
Ministry/Department of Health	55	29,364.18
Ministry for Home Affairs	16	8,378.00
House of Representatives	27	16,061.23
Department of Industry	33	56,986.19
Department of Information	1	268.67
Department of Inland Revenue	7	6,754.70
Min. for Interior & Justice (Arts) and Local Government	24	16,187.17
Law Courts	43	21,444.37
Department of Libraries	2	549.00
Department of Museums	11	4,564.97
Police	1	354.00
Department of Roads	1	247.00
Ministry of Social Development/Policy	7	3,406.00
Central Office of Statistics	2	198.00
Ministry/Department of Tourism	32	33,101.46
Water	2	2,449.50
Department of Works	20	14,523.59
Youth and Sports	1	232.00
TOTAL	**473**	**377,443.30**

Compliance Audit of Official Travel Expenditure for 2000

The objective of this audit was to determine the degree of compliance with the existing rules and regulations governing official travel abroad for the year 2000. When this audit was carried out in October 2000, only documents for 473 travel advances out of 1,369 advances issued in the year 2000 were forwarded to NAO.

Methodology

One out of 10 travel advances from the 473 whose documents were submitted to NAO were selected for verification. Thus, the audit sample amounted to 47 or 10 per cent out of 473 advances submitted up to October 2000. The table shown hereunder provides a breakdown of expenditure related to this sample.

Breakdown of Expenditure of the 47 Travel Advances chosen for examination	
	Lm
Tickets/insurance	18,194
Overseas Subsistence/Accommodation	19,500
Overseas Hospitality/tips/transport/porterage	1,728
TOTAL	**39,422**

Findings

- Airfare invoices and/or air tickets to verify the duration of the visits abroad were not submitted in respect of 4 or 8.5 per cent of the sample advances.
- 3 or 6.4 per cent of air tickets were not booked with Air Malta and no copies of quotations obtained from other airlines/travel agencies were submitted.
- Officers in receipt of 16 or 34 per cent advances did not declare whether they were receiving any compensation for accommodation/meals/subsistence allowance from the host organisation or entity in order to determine whether the correct subsistence allowance was paid in these cases.
- Receipts for claimed miscellaneous expenses in respect of 10 advances or 21.3 per cent were not submitted.

- Refunds of unspent balances of 12 or 25.5 per cent advances were either refunded by the delegates long after their return to Malta or refunds were remitted to Central Bank of Malta by the Ministry/Department excessively late.

- Expenses in respect of 1 or 2.1 per cent travel abroad included Lm 154.60 for Taxi fares as the two delegates did not use any other alternative means of transport.

- Subsistence allowance paid in respect of 4 or 8.5 per cent visits abroad was erroneously paid as 1/6 of the subsistence allowance was not deducted for lunches/dinners that were provided free. The amount overpaid was Lm185.

Conclusion

The Ministry of Finance has issued several circulars updating the regulations of Travel Abroad on Official Business in order to strengthen compliance.

The last MF Circular issued on this subject was No 9/2001 dated 22 August 2001. With immediate effect this Circular lays down that:

- Officials proceeding abroad have to declare that they have no pending statement of expenses to submit in connection with any advances received in respect of previous visits abroad dating back more than one month.

- Heads of Departments/Directors of Corporate Services have to confirm the correctness of the Officer's declaration.

- Travel forms duly filled in and accompanied by originals of all documents and receipts are to be forwarded by the Director of Corporate Services to the Auditor General within three months of the date of the visit abroad.

The findings highlighted in this report clearly illustrate that compliance is not satisfactory. The measures introduced in August should further enhance improvements in the application of the rules and regulations.

Response by the Ministry of Finance

Regulations governing Travel Abroad on Official Business have been fine-tuned and Heads of Department/Directors Corporate Services have been directed to ensure that these are abided by.

MF Circular 8/2000 was issued to address the long pending issue of pre-1993 outstanding travel advances. The one remaining outstanding balance (LM55,482) relates to advances made to the House of Representatives. This amount remained unsettled because no funds are available under the Department's Recurrent Vote to effect refund.

The issue of pre-1993 advances outstanding with NAO due to the non-submission of supporting documents to account for the amounts advanced is being addressed to ensure due compliance on the part of all the Ministries/Departments concerned.

The Ministry's Forum for Finance Managers which meets on a monthly basis shall also be discussing the subject in depth in one of its upcoming sessions.

The Ministry will continue to guide and monitor the respective Ministries/Departments but it is ultimately up to the latter to ensure effective compliance with approved regulations.

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Transport Expenditure

Background

The total expenditure on transport that was charged to the recurrent expenditure – *'Transport'* amounted to Lm5,569,411. This represents an increase of Lm 446,813 over 1999. The components of the expenditure are presented in the Table hereunder:

Components of Transport Expenditure

	1999 ***Lm***	**2000** ***Lm***	**Variation** ***Lm***
Maintenance of vehicles	267,381	291,643	24,262
Hire of Transport	1,438,223	1,476,931	38,708
Hire of self-drive cars	451,627	564,091	112,464
Hire of imprest vehicles	1,556,999	1,504,231	(52,768)
Fuel	1,135,012	1,333,176	198,164
Payment for personal use } Transportation of goods } Malta/Gozo Expenses }	273,356	399,339	125,983
Total	5,122,598	5,569,411	446,813

Breakdown of transport expenses incurred by Ministries and Departments during 2000 is given in the Table on pages 112-114.

Audit Concern

The total amount of Lm 5,569,411 expenses charged to the recurrent votes does not give a true picture of total amount expended on transport. The reason is that additional transport costs are also charged to funds allocated to Programmes and Initiatives, Contribution to Government Entities and Capital Votes.

It is not therefore possible 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. Lack of detailed information in the Treasury Accounting System is giving a distorted picture of the Financial Statements published in the Treasury Financial Report.

This practice was reported upon in the NAO Report for 1999. However, as from January 2001 a new Chart of Accounts was introduced which would make it possible to have a breakdown of all transport expenditure irrespective from which votes these were paid. Detailed information would be a tool which the Administration can use to benchmark the various units.

Conclusion

The irregularities in the use of government owned/hired vehicles have been reported upon repeatedly. The issues regarding the non-compliance with Rules and Regulations have been extensively reported upon in the Performance Audit No 4/2001 dated May 2001 which was the subject of the meeting of the Public Accounts Committee (House of Representatives) held on 10 October 2001. It is not felt necessary to make any further comments.

Response by Ministry of Finance

Major NAO concerns regarding Transport Expenditure are being addressed by the Working Group set up by the Ministry of Finance in conjunction with the Office of the Prime Minister and the Internal Audit and Investigations Directorate.

It is envisaged that by early 2002, sufficient progress would have been made such as to contribute to the solution of a number of the endemic problems that were highlighted in NAO's Performance Audit of May 2001.

BREAKDOWN OF TRANSPORT EXPENSES BY MINISTRY/DEPARTMENT 2000

Ministry/Department	Voted in Estimates	Actual							Variance (-)Savings (+)Excess
		Maint. of Vehicles	Hire of:			Fuel	Others *	Total	
			Transport	Self Drive Cars	Imprest				
	Lm	*Lm*	*Lm*	*Lm*	*Lm*	*Lm*	*Lm*	*Lm*	*Lm*
Office of the President	18,000	12,084	-	1,213	-	13,621	434	27,352	9,352
House of Representatives	7,000	3,324	-	1,348	-	4,609	-	9,281	2,281
Office of the Prime Minister	43,000	15,686	880	3,483	-	13,143	3,155	36,347	-6,653
Public Service Commission	1,000	136	-	-	-	852	-	988	-12
Armed Forces of Malta	310,000	1,340	4,039	-	7,095	287,414	-	299,888	-10,112
Information	19,000	1,452	3,225	5,542	-	4,932	3,452	18,603	-397
Electoral Office	10,000	-	680	-	6,995	2,614	-	10,289	289
Ministry for Social Policy	151,000	13,005	112,730	18,903	-	17,180	8,436	170,254	19,254
Social Security	46,000	723	5,751	155	25,974	9,173	6,059	47,835	1,835
Family and Social Welfare	24,000	336	674	10,670	9,184	4,130	677	25,671	1,671
Care of the Elderly	40,000	11,706	-	5,360	11,349	13,412	1,369	43,196	3,196
Housing	17,000	324	-	4,081	10,822	2,434	1,740	19,401	2,401
Industrial & Employment Relations	20,000	-	-	-	9,814	1,899	5,566	17,279	-2,721
Ministry of Education	35,000	7,242	594	18,291	-	13,365	699	40,191	5,191
Education	1,100,000	11,320	1,030,076	28,037	114,183	37,045	24,350	1,245,011	145,011
Libraries and Archives	2,000	795	-	-	-	1,473	434	2,702	702
Museums	10,000	765	29	6,848	-	2,183	1,262	11,087	1,087
Youth and Sports	9,000	1,173	-	4,562	-	4,247	-	9,982	982
Culture and the Arts	12,000	669	-	7,408	-	4,871	-	12,948	948
Ministry of Finance	25,000	5,326	-	7,079	-	9,796	138	22,340	-2,660

BREAKDOWN OF TRANSPORT EXPENSES BY MINISTRY/DEPARTMENT 2000 (continued)

Ministry/Department	Voted in Estimates	Actual							Variance (-)Savings (+)Excess
		Main-tenance of Vehicles	Hire of:			Fuel	Others *	Total	
			Transport	Self Drive Cars	Imprest				
	Lm	*Lm*	*Lm*	*Lm*	*Lm*	*Lm*	*Lm*	*Lm*	*Lm*
Treasury	2,000	1,390	74	86	-	788	-	2,338	338
Inland Revenue	20,000	3,204	478	598	-	5,637	9,057	18,974	-1,026
Customs	30,000	14,954	-	-	-	10,922	10,962	36,838	6,838
V.A.T	40,000	2,038	-	-	-	2,931	28,057	33,026	6,974
Contracts	4,000	1,797	-	300	-	1,617	200	3,914	86
Ministry for the Environment	1,000,000	2,120	-	165,857	772,757	288,726	93,680	1,323,140	323,140
Environment	92,500	2,396	-	32,198	47,887	17,989	2,830	103,300	10,800
Ministry for Tourism	140,000	2,099	-	17,563	110,885	9,044	201	139,792	-208
Min for Transport & Comm.	16,000	3,250	87	3,786	-	5,785	-	12,908	-3,092
Civil Aviation	5,000	723	-	241	-	2,031	19	3,014	-1,986
Roads	25,000	-	-	14,304	-	5,105	3,140	22,549	-2,451
Licensing and Testing	6,000	-	-	3,578	-	779	-	4,357	-1,643
Ministry for Economic Services	62,500	6,043	-	34,692	3,309	18,531	482	63,057	557
Trade	6,300	1,457	169	1,427	-	1,843	230	5,126	-1,174
Industry	13,000	1,509	-	5,264	7,192	2,561	961	17,487	4,487
Statistics	8,000	-	-	1,700	-	948	847	3,495	-4,505
Ministry for Home Affairs	37,000	8,918	1,136	16,337	3,952	19,702	683	50,728	13,728
Police	237,000	12,067	-	3,576	-	212,829	4,356	232,828	-4,172

BREAKDOWN OF TRANSPORT EXPENSES BY MINISTRY/DEPARTMENT 2000 (continued)

Ministry/Department	Voted in Estimates	Actual							Variance (-)Savings (+)Excess
		Main-tenance of Vehicles	Hire of:			Fuel	Others *	Total	
			Transport	Self Drive Cars	Imprest				
	Lm	*Lm*	*Lm*	*Lm*	*Lm*	*Lm*	*Lm*	*Lm*	*Lm*
Correctional Services	20,000	4,648	-	-	-	7,144	-	11,792	-8,208
Civil Protection	50,000	23,867	339	7,708	-	19,095	539	51,548	1,548
Government Property Division	28,000	333	-	6,551	10,834	7,320	1,754	26,792	-1,208
Joint Office	11,000	237	-	2,878	-	1,070	171	4,356	-6,644
Legal	5,000	822	1,852	-	-	1,313	770	4,757	-243
Min of Agric. and Fisheries	326,000	25,304	16,929	32,178	163,036	53,494	10,198	301,139	-24,861
Ministry for Gozo	271,000	7,745	63,808	13,552	103,565	36,083	52,510	277,263	6,263
Ministry of Health	366,000	45,032	20,139	15,870	72,763	99,481	94,879	348,164	-17,836
Min of Justice &Local Govt.	26,000	5,012	168	15,397	-	6,653	-	27,230	1,230
Local Councils	24,000	664	-	14,206	-	5,339	2,475	22,684	-1,316
Judicial	230,000	1,692	183,962	24,404	3,290	9,602	-	222,950	-7,050
Ministry of Foreign Affairs	117,000	22,572	29,112	6,860	9,345	28,142	8,045	104,076	-12,924
Department of Public Lotto	11,000	2,344	-	-	-	2,030	2,134	6,508	-4,492
Gaming Board	15,000	-	-	-	-	248	12,388	12,636	-2,364
Totals	**5,143,300**	**291,643**	**1,476,931**	**564,091**	**1,504,231**	**1,333,176**	**399,339**	**5,569,411**	**426,111**

Source: Treasury Books

*Re-imbursment for use of personal vehicles, transportation of goods and Malta/Gozo Transport Expenses

Non-Submission of Fiscal Receipts to Government Departments

Background

The Auditor General, in his Report for 1998, has reported that notwithstanding the issue by the Treasury Department of two circulars (Treasury Circular Nos. 11/95 and 12/97) instructing Heads of Department to ensure that Tax Invoices/Fiscal Receipts are issued to them for every purchase effected, most departments, including some major ones, were not obliging. The Treasury had also instructed departments (Treasury Circular 9/99) that with effect from 3 January 2000 a monthly list of defaulters had to be submitted directly to the Audit and Assurance Section of the VAT department.

The matter was taken up at length by the Public Accounts Committee on the 10 January 2001 at Sitting No. 57 and the whole procedure adopted in government departments was discussed. The Commissioner, VAT Department and the Accountant General took part in the discussion.

In one of his interventions, the Auditor General informed the Committee that spot checks would be made in government departments to verify whether the non-adherence to regulations *vis-à-vis* fiscal documents is still prevalent.

Developments

In its comments on this issue, NAO had opined that this irregularity might have emerged because of the lack of knowledge by accounts personnel and procurement officers in the various departments of the provisions of the VAT regulations.

The Accountant General had, in March 2000, issued Treasury Circular 8/2000, requesting departments to nominate officers in their respective accounts sections for informative talks on the basic principles of the Value Added Tax and particularly where the issue of tax invoices/fiscal receipts is concerned.

Another positive step taken by the Accountant General was the inclusion in Treasury Circular dated 3 February 2000 (Treas. 6/2000) dealing with the archiving of payment vouchers that henceforth fiscal receipts received from Suppliers should be attached to the relative original payment voucher. This would, in the course of auditing the expenditure accounts of departments, be of benefit in ascertaining that there is compliance with VAT regulations.

Follow-up

An exercise on a test basis to verify compliance regarding these regulations was carried out on 10 per cent of all the payment vouchers issued by 26 Ministries/Department during year 2000. This compliance audit revealed that 53 per cent of the payments effected, which by their nature should have been covered by anyone of the approved fiscal receipt, had no fiscal document attached to the relative payment voucher as instructed by the Accountant General by means of Treasury Circular 6/2000.

This Treasury requisite is meant to serve as a proof that a fiscal receipt was submitted by suppliers for every taxable supply of goods or services rendered. No test could be effected on three other departments because they ignored the provisions of the circular and as a result the number of missing fiscal documents could not be arrived at.

The following is the outcome of the test check carried out:

Ministries/Departments Checked	26
Payment Vouchers Checked	5,762
Payment Vouchers Requiring VAT Document	3,812
Payment Vouchers Without VAT Document	2,022
Non Compliance To VAT ACT	53%
Non Submission of Defaulters list	18
VAT Registered Departments	9

The audit revealed that all 26 Ministries/Departments under study experienced payments not supported by a VAT document. Moreover, only 8 out the 26 were submitting the list of defaulters for investigation by the Inspectorate Division of the VAT Department.

Nine of the entities examined are VAT registered, i.e. entitled to refund of VAT. They were supplied with an ordinary invoice instead of the official tax invoice. A tax invoice is clearly defined at the Thirteenth Schedule of the Act. *Inter alia*, one of the requisites which distinguishes a tax invoice from an ordinary invoice is section 2 (d) of this Schedule.

This section refers to *'the name, address and Value Added Tax registration number of the person (in this case Ministry/Department) to whom the supply is made'*. In the absence of a tax invoice, the receiver of the supply would not be able to claim a credit from the VAT charged by the supplier.

It would appear that although an encouraging number of officials from within the accounts sections of government departments attended the informative talks organized by the Accountant General on VAT, the position has not improved.

Ministry of Finance response

In its comments to the points raised by the NAO, Ministry of Finance has stated that the Ministry in conjunction with the VAT Office would be dedicating the December 2001 session of its Forum for Finance Managers to this issue.

Conclusion

Various circulars were issued establishing the procedures to be adopted by government departments to ensure that contents of the VAT legislation are adhered to. Accounts officers are not yet aware of the importance of requesting a valid tax document. It is felt that internal control should be more robust. Failure to have all transactions covered by receipts stipulated in VAT legislation runs counter to Government's drive to instill a sense of compliance by all concerned.

It cannot but be stressed that it is the responsibility of the Heads of Department to ensure that all laws and regulations are strictly followed in their departments.

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Fixed Telephone Lines with Overseas Dialing Facility – Office and Residential Use

Office use

Background

The 1999 Annual Report highlighted the fact that standing government regulations which are meant to enhance control on overseas calls were not being adhered to. A total of 675 lines were found in a preliminary survey as having overseas dialing facility in Ministries and Government Departments. It was indicated that the number could not be considered comprehensive. It was therefore agreed that all lines with the facility be reviewed by Directors Corporate Service and each line be identified with a specific user.

During the Public Accounts Committee meeting when information on the Report was being given, the Auditor General emphasised that the preliminary survey conducted by the NAO was compliance testing without questioning the policy as to who is entitled for a debarred line.

Developments

The Permanent Secretary, Ministry of Finance informed the Committee that on the 22 February 2001 a letter circular was issued to all Permanent Secretaries and Directors Corporate Service enlisting the Auditor General's concerns. They were enjoined to review the position in their respective departments and to submit a return to the Ministry of Finance on the position obtaining in their Ministry and the departments falling under its portfolio.

In its 1999 Report NAO had reported 675 debarred lines in Ministries and Government Departments. A total of 697 lines were reported to the Ministry of Finance following the February 2001 letter circular. However from the exercise conducted whilst checking the year 2000 accounts, it was established that 905 lines had the facility in 2000 resulting in 230 and 208 lines over what was reported in the survey by this office and Finance respectively. These figures by Ministry portfolio are made up as shown in the table hereunder.

Ministries (including Parliamentary Secretaries & Depts)	As reported by NAO in AR 1999	As reported by MF in February 2001	As verified by NAO for year 2000
OPM	98	106	128
Social Policy	37	37	56
Education	81	61	110
Finance	62	69	75
Environment	43	49	62
Tourism	38	31	50
Transport & Comm.	25	23	26
Economic Services	46	26	52
Home Affairs	94	105	127
Agriculture & Fisheries	19	30	35
Gozo	11	20	14
Health	58	53	61
Justice & Local Govt.	29	32	41
Foreign Affairs	34	55	68
Total:	**675**	**697** (1)	**905** (2)

(1) **includes:** 21 being barred and 17 under consideration
(2) **includes:** 7 barred in 2001and 25 action being taken to bar

During the course of auditing the accounts of government Ministries and Departments for year 2000, and with a view to close the survey, telephone bills covering overseas calls were examined against the returns on the evidence of which the 1999 Report was based.

Residential use

Background

Free telephone facilities are limited to one telephone number with the exception of officers in Scale 1 and 2 who are also allowed free facilities on their private line situated in a summer residence. Moreover, public officers enjoying free telephone facilities have their telephone line completely unbarred to enable direct dialing for overseas and cellular calls. Officers concerned are required to refund overseas calls that are of a personal nature.

Findings

During the course of auditing, there were four cases where officials who are entitled to free telephone facilities are enjoying two unbarred telephone lines at their residence with full expenses charged to the public account. These cases came to light only because overseas calls were made from both lines and, therefore, the eventuality of finding other cases if a hundred per cent examination was possible cannot be excluded.

Development

Ministry of Finance is concerned that charges for private overseas calls effected from private residence are not being regularly refunded to Government. Action is being taken at that end to formalise the method of payment of telephone bills and to reiterate the need to ensure that all charges relating to international calls that are of a personal nature are to be refunded by the user concerned.

Conclusion

The fact that there were unbarred telephone numbers identified by the NAO which were not included in the lists submitted by Directors Corporate Services through the respective Permanent Secretary was preoccupying. The NAO who passed on its findings to Parliament was given incorrect information.

Corporate matters fall primarily under the responsibility of the Ministry of Finance and the Office of the Prime Minister in that these two Ministries establish the policies and issue relevant regulations. However it is the responsibility of Heads of Department to oversee that regulations are being adhered to and a sound system of internal controls exists in their department thereby ensuring that public funds are being utilised with due economy and propriety.

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Part 6 – Departmental Issues

Ministry Of Finance

Inland Revenue Department

Background

A compliance audit for the year 2000 of Vote 26 Cost Centre 1 of the Inland Revenue Department examined:

- Recurrent Expenditure
- Department Transport
- Inventories Assets and Stores and
- Reconciliation of Bank Accounts

The budgeted recurrent expenditure approved in the Year 2000 Estimates amounted to Lm3,628,000 (excluding Personal Emoluments). Actual expenditure incurred during year 2000 was Lm3,603,071.

Findings

Recurrent Expenditure

Misallocation of Expenditure: a random check of 10 per cent (108) out of 1,074 payment vouchers was carried out. Misallocation of expenditure – expenses charged to a sub-head other than that provided in the Approved Estimates - totalled Lm12,859. This amount is on the high side considering that 24 out of 108 payment vouchers audited (i.e. 22 per cent) were not affected in the appropriate item/account number.

Purchasing Procedure: procurement of stores and services have to be authorised through a Local Purchase Order (LPO). Out of the sample of 108 payment vouchers there were 31 cases (29 per cent) without proper authorisation as the LPO was issued after the receipt of the invoices.

Financial Limits: in procuring equipment, stores, works or services, departments are to adhere to regulations as laid down in the Public Service (Procurement) Regulations, 1996.

However two instances were identified when the Department did not comply with these regulations. In both cases the Department should either have issued a departmental call for tenders or else obtained approval for a direct order from the Ministry of Finance. Related details are shown below:

Details of Expenditure	**Amount** ***Lm***
Ironmongery/Stationery Items	4,684
4 Fax Machines, 5 Photocopiers and maintenance thereof	7,962

Paper Handling Machine: the supply, delivery and commissioning of a Burster, Decollator, Folder, Envelope Insertion and Mailing Machine was acquired following the issue of Tender No. 464 on the 17 December 1992. The machine is used for the mailing of post in bulk mainly Income Tax Declaration Forms and Self-Assessment Returns. The total cost of this machine amounted to Lm106,255 (inclusive of Lm5,040 installation charges and Lm1,247 value of the spares).

The annual maintenance charge amounts to Lm8,047.42, being 7 per cent of Lm99,968 equipment cost in addition to 15 per cent VAT. The agreement for maintenance of the equipment, signed on 20 January 1995, provided that the supplier *"shall use all reasonable endeavours to* ***maintain the Equipment in good***

working order *and in particular shall undertake maintenance services……as follows:*

i. *Preventive Maintenance: Supplier shall carry out routine preventive maintenance at periodic intervals, provided always that where it is expedient in the opinion of supplier such maintenance may be carried out at the time of corrective maintenance……*

ii. *Corrective Maintenance: In the event of a fault occurring in the Equipment, supplier shall carry out corrective maintenance during supplier's normal working hours and/or during such other period(s) and subject to such additional charge(s) as may be agreed between the parties……"*

During the Financial Year 2000, the total payments to the supplier amounted to Lm8,637.10. These represent costs in respect of preventive and corrective maintenance amounting to Lm8,047.38 and Lm589.72 respectively.

However, the Department is not benefiting from the effective use of the machine due to continuous stoppages and paper jamming. The Department even remarked that the same time and financial resources are required in performing the tasks manually or making use of the machine, in addition to the time taken to set the machine again working.

The Department resorted to having the mailing of income tax declarations for Y/A 2001 processed manually. As for the mailing of returns, the Department intends to utilize few of the functions the machine is supposed to perform. The Department considers it more cost-effective to keep the machine idle.

The Department is seeking recommendations regarding the best course of action to follow. The different scenarios pointed out were:

- Continue paying the annual preventive and corrective maintenance and having certain functions performed manually.

- Terminating the Maintenance Agreement and employ a part-time worker to cater for ad hoc corrective maintenance.

- Terminating the Maintenance Agreement, keeping machine idle and having all functions performed manually.

VAT Fiscal Receipts: contrary to the directives issued in Treasury Circular 9/99 and also in violation of VAT legislation, out of the sample of 108 payment vouchers verified, it resulted that there were 52 (48 per cent) where a fiscal receipt was required but not given by the supplier. Total payments of these 52 cases, not covered by fiscal receipt, amounted to Lm32,731.

Due to the low compliance rate, an exercise was carried out to verify whether the 19 consultants giving their professional services to the Department are forwarding VAT receipts. The following were the findings:

a. 5 out of 19 consultants did not send any VAT receipts;

b. 6 out of 19 consultants sent the VAT receipts;

c. the remainder only forwarded VAT receipts covering part of fees paid.

The Department explained that suppliers who failed to send a VAT receipt were requested in writing to comply by forwarding a receipt. Details of those who still fail to comply (including the legal consultants) are ultimately forwarded to the VAT Department.

Departmental Transport

There are ten government owned vehicles at the department. Three are fully expensed vehicles used by Directors on Performance Contract and seven are for *"general use"*. Total expenditure incurred on transport during 2000 amounted to Lm 18,974.

Log books: there are no controls over log books of departmental vehicles. The monthly certification that the journeys performed were on official duties and are correct is not being complied with.

Moreover, the following shortfalls were noticed:

- The log book is signed by the driver and not by the officer making the journey.

- Tachometer reading is recorded in the log book only at the beginning of the day instead of for each journey.

- With a few minor exceptions, issues of petrol are not entered in the log books.

Garaging of vehicles: the log books of two general use vehicles indicated occasions when these vehicles were not garaged at the Department but were taken home overnight by the drivers concerned without any covering authority.

Inventory of Assets

Inventory Ledger: the Department did not keep an updated Inventory Ledger. In May 2000 an exercise was initiated to build afresh the computerised Inventory Ledger and bring the inventory in line with the requirements as laid down in MF Circular 14/99. This exercise however has still not been completed.

Verification of Inventory items purchased during 2000: an exercise was carried out to physically verify 52 inventory items costing Lm8,686. The items to be verified were chosen on the basis of the cost and the nature of the item.

Only 32 out of 52 items could be physically located. The other 20 items could not be verified as the Officer responsible for Stores was not knowledgeable of how to extract data relevant as to whom these items of inventories were issued.

Bank Reconciliation Statements

The Department operates two separate Bank Accounts which are held with the Central Bank of Malta namely:

i Bank Account A - Balance shown in CBM Books on 31/12/00 was Lm683,617. Tax refunds in respect of new self-assessment system are made from this Bank Account.

ii Bank Account B - Balance shown is CBM Books on 31/12/00 was Lm683,674. Tax refunds due to tax payers prior to Y/A 1999 (i.e. *"old"* system) are made from this Bank Account.

The purpose of the audit was to establish whether:

a) at the end of each month balances of the Bank Accounts as shown in the Books of the Inland Revenue were being reconciled with the Balances shown at CBM;

b) that the operations of these Bank Accounts were being carried out in compliance with Financial Rules and Regulations.

Findings

i Monthly Bank Reconciliation Statements are not being drawn up to reconcile the bank balances of the Bank Accounts as they appear in the Department's books with the balances on the Bank Statements forwarded by CBM;

ii Cash Books are not kept for each Bank Account;

iii in the case of drafts remaining unpresented after the lapse of six months, the monies thereof, are not being credited to a Below the Line Account (Drafts Unpaid) and relative bank accounts adjusted accordingly. Drafts unpresented amounted to Lm131,902 for period 28 June 1999 to 20 July 2000;

iv approximately 2,960 cheques, as a consequence of unclaimed post, are held at the Refund Section. Around 2,160 drafts with an expired validity period are held in a cabinet. There is less control in the case of 800 other cheques whose validity period has not yet expired. These are held in open boxes easily accessible to the public;

v Unpresented Drafts of the New System (F.S.S.) are not registered in an *"Unpresented Drafts Ledger"* as this ledger has still not been drawn up.

Conclusion

The issues raised in this audit indicate serious lack of compliance with Financial Rules and Regulations which the department needs to address.

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Contracts Department

Background

A compliance audit for the year 2000 carried out at the Contracts Department examined:

- Recurrent Expenditure
- Department Transport and
- Inventory of Assets

The budgeted recurrent expenditure for this vote amounted to Lm51,000 (excluding Personal Emoluments). Expenditure incurred amounted to Lm48,957 during year 2000.

Findings

Expenditure

Misallocation of Expenditure: a random check on 11 per cent (45) out of 404 payment vouchers was carried out. Out of 45 payment vouchers examined, 4 cases (9 per cent) resulted in expenditure being charged to the wrong item of expenditure.

Purchasing Procedure: the procurement of stores and services have to be authorised through a Local Purchase Order (LPO). Out of the sample of 45 payment vouchers, 33 required the issue of an LPO prior to purchase. There were 4 cases (12 per cent) without proper authorisation as the LPO was issued after the receipt of the invoices.

Fiscal Receipt: Contrary to the directives issued in Treasury Circular 9/99 and also in violation of VAT legislation, out of 31 payment vouchers from the sample of 45, there were 13 (42 per cent) where a fiscal receipt was required but not given by the supplier. The total payments not covered by fiscal receipt of these 13 cases amounted to Lm2,920.

Moreover the Contracts Department was not forwarding a monthly return of defaulters to the VAT Department.

Petty Cash Book: The department does not keep a Petty Cash Book in which receipts and payments are registered as required by Reg. 85 of the General Financial Regulations 1966. Expenditure of Petty Cash for year 2000 amounted to Lm923 – an average of Lm77 every month.

Department Transport

Log Books: Four government-owned vehicles are currently being used by the Contracts Department. A log book is not required for one of the cars as this is used by the Director General. Regarding the other three cars the following irregularities and non-compliance with regulations were noted:

i) A log book was not being kept for one of the vehicles;

ii) Log books kept for the other two cars were not kept as laid down in regulations – details, purpose and mileage of each journey, issue of petrol and signature of officer using vehicle not recorded in log books;

iii) Log books are not certified as correct at the end of each month by officer-in-charge transport.

Unless log books are properly kept, the department would not be in a position to exercise proper controls on the issue of petrol and ensure that vehicles are used on official business.

Displaying name of the Department on Vehicles: The name of the department is not displayed on two of the vehicles as required by MEAF Circular No. 2/97. NAO was informed that steps will be taken to display the name of the department on one of the vehicles.

Garaging of Vehicles: While two of the cars are parked overnight outside the department, the other car is used by an employee to travel to and from his house where the car is kept overnight. In terms of standing regulations only officials entitled to a fully expensed car are allowed to use government owned vehicles for personal use.

The department explained that the employee is allowed to take it home as the car is considered to be on call for any departmental emergency which may crop up outside normal office hours. The name of the Department is also not displayed on this vehicle on the plea that it is used as the substitute car when the official car requires repairs and/or service.

The matter was referred to the Ministry of Finance for a ruling.

The Permanent Secretary, Ministry of Finance directed that on both issues the Department is to conform with established regulations.

Inventory of Assets

During the course of verification of the Inventory of Assets it was noted that:

i) Three items costing Lm1,905 purchased during 2000 were not taken on charge. The inventory ledger is not kept up to date;

ii) No room inventory lists are kept;

iii) The department started work on a new inventory system in accordance with MFC/14/99 but this exercise has still not been concluded.

Conclusions

The issues raised in this audit indicate lack of compliance with Financial Rules and Regulations and internal control is weak.

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Customs Department

Background

An audit for the year 2000 of the Customs Department examined:

- Revenue
- Expenditure
- Inventory of Assets

Estimated revenue was calculated at Lm61,419,000 against actually collected Lm56,019,733 for the year 2000.

The budgeted recurrent expenditure of the vote amounted to Lm516,000 (excluding Personal Emoluments) and actually incurred Lm564,697 during year 2000.

Revenue (Lm56,019,733)

During this exercise the following revenue branches were examined for compliance:-

- Anti Fraud Squad Section – Auction Sale of Cars
- Burdnara Licences and ID Cards
- Customs Airfreight Section – Luqa
- Customs and Excise Yacht Marina Section

- Customs Courier Section – Luqa
- Deep Water Quay – Shed I & III
- Duty Free Section – Luqa
- Excise Section – Administration
- Excise Section – Licences of Stills and Condensers
- Hal Far Groupage Bonds
- Hal Far Groupage Bonds Operating Fees
- Long Room - Customs House
- Malta International Airport Arrivals Office
- Outdoor Services – Sale of Seals
- Outer Quays – Laboratory Wharf
- Parcel Post Office Branch
- Private Bonds – Security Seals
- Sea Passenger Terminal

Findings

From the above listed sections, the most non-compliant were found to be the branches shown below:

Anti Fraud Squad Section – Auction Sale of Cars (Lm55,903): This section is responsible to collect VAT, Duty and Garage Charges from the sale by auction of vehicles seized by Customs. Non-compliance issues included:

i) Dates of receipts are not entered in the cashbook.

ii) The cashbook is not numbered and is not certified for the number of pages contained.

iii) No receipt of remittance is issued by the accounts section at the head office to the section's cashier.

iv) Remittances to the accounts section are not done on regular basis and part of the revenue is not being accounted and remitted in the proper financial year as shown in the following table.

Revenue Collected during the year 2000					
Receipt Numbers		**Period Collected**		**Total Amount *Lm***	**Date Remitted**
From	**To**	**From**	**To**		
L613945	L613995	12/12/1999	20/12/1999	13,672	16/02/2000
L613998	L614027	28/05/2000	31/05/2000	14.601	23/06/2000
L614029	L614058	01/10/2000	04/10/2000	15,691	20/10/2000
L613804	L613830	17/12/2000	11/01/2001	11,939	12/01/2001
TOTAL AMOUNT				**55,903**	

Customs Airfreight Section - Luqa (Lm8,555,523): During the financial year 2000 this section was responsible to process 17,117 releases of which 111 were audited. From this sample it resulted that there were 19 (17.11 per cent) instances in which either documents were missing, Euro 1 Certificates presented were invalid or inputs were incorrect in the Customs Declaration.

Hal Far Groupage Bonds: During the year 2000 this section effected releases against 65.000 release orders issued by the Long Room at the Head Office. A sample of 79 cases were examined. 27 (34 per cent out of 79) releases were made against Euro 1 Certificate which were not totally compliant with the Malta-EEC Association Agreement. The required security feature (the horizontal line below the list of items covered and crossing of the empty space to exclude all possibility of fraudulent additions) was absent.

The Customs Department should have collected duty on deposit pending the presentation of valid Euro 1 Certificates. If the importers fail to produce these valid certificates within five months the deposited duty is forfeited and passed on to government as revenue.

Long Room - Customs House: During the year 2000 this section processed 85,000 customs declarations against which

11,600 releases were made. In this exercise a sample of 116 entries were selected. From the releases checked it resulted that 25 (21.55 per cent) out of 116 had Euro 1 Certificates which were not totally compliant because no horizontal line was drawn below the last line of the description and the empty space was not crossed through as laid down in the Malta-EEC Association Agreement. This is a security feature to exclude the possibility of fraudulent additions.

As a result the Customs Department should have collected deposit duty on the imports pending the presentation of valid Euro 1 Certificates. If the importers eventually fail to produce valid certificates within five months the deposited duty is forfeited and is passed on to government as revenue.

Hal Far Groupage Bonds Operating Fees (Lm88,602): This section is responsible for the collection of fees from Hal Far Groupage Bonds Operators. The total revenue collected during the year 2000 was Lm88,602. For this exercise a check of all the 39 licences issued by the department was carried out. The following shortcomings were noted:

i) There were 37 (95 per cent) cases in which no receipt was issued to the bond operators after effecting payment.

ii) Details on dates of re-allocation, area of storage space and calculations of fees are generally not recorded in the relative files.

iii) No Cash Book is kept.

iv) There were 24 (61.5 per cent) instances in which money collected was remitted late to the accounts section.

v) All the licence renewals were issued late, that is after the 28 August as stipulated in Legal Notice No. 59 of 1995.

Outdoor Services - Sale of Seals (Lm6,357): From an exercise carried out in this section it resulted that it was generally non-compliant as shown hereunder:

i) Receipts issued are not entered daily in the Cash Book.

ii) Remittances by the cashier to the accounts section are not done when amounts exceed Lm30, every Friday or on the last working day of the month as laid down in the Financial Regulations. From a sample check it resulted that remittances take place on a monthly basis.

iii) The Cash Book is not numbered and not certified for the number of pages contained.

iv) There were cases of money collected in 1998 and 1999 that was passed to revenue in Financial Year 2000.

Parcel Post Office Branch (Lm834,539): This section is well managed and records are kept updated. However, NAO has to report the following:

The last time Maltapost forwarded revenue collected on behalf of the Customs Department goes back to the 25 August 1999 covering amounts collected during July 1999. No revenue has been passed to Customs since then. The total amount of revenue collected up to December 2000 (Lm66,975) is being withheld by Maltapost.

From Customs records it results that this is happening because Maltapost are claiming 10 per cent commission on the total amount of revenue collected by the branches. The commission is being claimed on the strength of Clause 9 of an agreement reached between the Postmaster General on behalf of the Government of Malta and the Chairman of Maltapost p.l.c. on the 7 May 1998.

The disagreement was registered when Maltapost wanted to deduct the commission at source whilst the Customs Department insisted that the total revenue should be passed to the department and pay the commission afterwards on a monthly basis. The method of payment of the commission was not stipulated in the said agreement.

The matter was referred to the Ministry of Finance and after discussions with Maltapost, it was agreed that Maltapost will pay the total amount of revenue due to Government against the simultaneous payment of 10 per cent commission by Customs. The commission will be paid out of the recurrent expenditure item 30 – Contractual Services.

On the 30 October 2001 Customs informed this Office that the amount of Lm66,975 due up to December 2000 has been paid by Maltapost.

Expenditure (Lm564,697)

Misallocation of Expenditure: From a sample of 120 payment vouchers, that is 6.7 per cent out of a total of 1792 issued by this department, it resulted that there were 22 instances (18.3 per cent) in which amounts paid were charged under the incorrect item.

Purchasing Procedures: From the same sample it resulted that there were 39 (32.5 per cent) Local Purchase Orders which were raised after the invoices were issued.

Fiscal Receipts: A high percentage of suppliers did not issue a fiscal receipt to the Customs Department. Out of 120 payments there were 47 (39.2 per cent) fiscal receipts missing. Total payments not covered by fiscal receipts of these 47 cases amounted to Lm 44,792. The Vat Department is being informed about these defaulters on a regular basis.

Logbooks: This department is making use of 45 vehicles of which 7 (15.6 per cent) were checked for their logbooks. From this sample it was noted that:

- one vehicle does not have a logbook.
- the other six vehicles had the journey details and mileage recorded inconsistently in the logbooks, that is, in some cases on a daily basis and in others for each trip made.
- the department does not have an officer in charge of transport and the logbooks are not certified at the end of each month for the journeys/mileage performed.

Inventory

Presently, the Customs Department is operating a computerised system which records the number of items in each section. The reports generated by this system show only the quantity of the same item in each section. However, items cannot be identified individually by their serial number and their location. Moreover, no room inventory lists are kept.

The inventory ledger system is not in conformity with Control Regulations as per MF Circular No. 14/99. Customs started working on the new system to comply with the new regulations.

Conclusion

Financial Regulations and Protocols are frequently not being observed as indicated hereunder.

(a) EUR Movement Certificates are being accepted even if they are not according to criteria laid down in the EEC - Malta Protocol (1992).

(b) In many instances, collection of revenue and remittances are not carried out as stipulated in the Financial Regulations.

(c) Manual cashbooks are not kept properly and certified.

(d) Records together with supporting documents are not kept attached together in a central place. Moreover, freight notes or Delivery notes for verification of freight charges are not being kept by the department.

(e) Rules and Regulations governing expenditure and management of assets are largely being ignored.

(f) There is an urgent need for the department to become fully computerised to introduce uniformity in all its branches.

All the issues raised in this audit indicate lack of compliance with Financial Rules and Regulations and with Customs Legislation. Moreover internal control is weak.

The department is facing continuously many changes in its business processes and customs regulations as a result of trade liberalisation and Malta's application to become a member of the European Union. It is essential that members of the staff are familiar with Customs Procedures and Financial Regulations. Moreover, importers should be kept aware of their obligations to satisfy the department with regards the validity of supporting documents for the importation of goods.

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Ministry of Agriculture and Fisheries

Agriculture & Fisheries

Revenue for year 2000 under Ministry of Agriculture and Fisheries, was estimated to reach Lm472,000. However Lm439,692 were collected resulting in a shortfall of Lm32,308.

This audit is concerned with the lack of internal controls regarding revenue collection.

Agriculture - Revenue

Dishonoured Cheque

A cheque for Lm2000 received by the department for services rendered to a third party in connection with landscaping, was returned by bank as dishonoured in November 2000. It took the department 7 months to retrieve a fresh cheque which was re-deposited on the 12 June 2001.

Sale of fruit trees and vine rootlings

Proceeds from sale of fruit trees effected in January 1998 and in January 1999, although deposited in the public account, were not reported to the Treasury as per section 43 (1) of the General Financial Regulations (Statement by accounting officers of revenue collected). Sales amounted to Lm12,413.90 and Lm11,260.20 respectively.

These amounts could not feature in the financial statements drawn up by the Accountant General in the respective years. However these amounts were reported to the Treasury in year 2000 and included in the financial statements of the year under review. This does not give the true picture of the actual revenue collected from this item during 2000. The figures appearing in the financial reports for these last three years are as follows:

Year	Estimated Revenue	Actual Revenue	Variation
	Lm	***Lm***	***Lm***
1998	9,000	3,009	(5,991)
1999	9,000	2,188	(6,812)
2000	9,000	46,747	37,747

Arrears of Revenue

A number of claims (around 50 amounting to Lm7168) which remained unsettled and which were issued by San Anton Division are not being included in the yearly return of arrears. The services were rendered to third parties and to Local Councils.

Fisheries Department

Money collected at the Fishmarket covers either Licence fees (Revenue), or Fish Marketing Scheme (Below-the-Line Account). Amounts generated by these sources in year 2000 were:

Licence Fees	Lm	14,490
Fish Marketing Scheme	Lm	1,480,263

Fish Marketing Scheme

Copies of bank deposit slips in respect of the following takings could not be produced for auditing purposes. These transactions were effected prior to the introduction of the Departmental Accounting System at the Ministry of Agriculture and Fisheries and as such, the following deposits could not be verified through the system:

Date	Receipt Number	C.B. folio	Total Amount
17/8/00	P 528158 - P 528168	186	Lm 1,515.08
18/8/00	P 528169 - P 528189	187	Lm 2,185.16
22/8/00	P 528277 - P 528282	190	Lm 41.00
24/8/00	P 528311 - P 528331	192	Lm 4,191.62
26/8/00	P 528360 - P 528375	2	Lm 7,943.51
26/8/00	P 528376	2	Lm 532.65
27/8/00	P 528377 - P 528383	2	Lm 547.07
28/8/00	P 528384 - P 528393	3	Lm 1,181.76
28/8/00	P 528394 - P 528395	2	Lm 388.50
29/8/00 29/8/00	P 528396 - P 528400 P 528901 - P 528928	3 & 4	Lm 6,206.40
30/8/00	P 528929 - P 528950	4 & 5	Lm 1,600,00
31/8/00	P 528951 - P 528970	5 & 6	Lm 2,435.55
01/9/00	P 528971 - P 529001	6 & 7	Lm 4,890.78
02/9/00	P 529002 - P 529010	7	Lm 1,228.45
04/9/00	P 529011 - P 529023	7	Lm 2,362.95
05/9/00	P 529024 - P 529050	8	Lm 3,258.03
06/9/00	P 529051 - P 529070	9	Lm 2,807.25
07/9/00	P 529071 - P 529078	9	Lm 2,677.85

Statement of Remittance to Bank

A statement of remittance to bank covered by a voucher amounting to Lm84,690.81 is undated, unsigned and could not be matched with the corresponding bank deposit slips as no details whatsoever were entered in this statement;

Dishonoured Cheques

It could not be ascertained whether five cheque amounting to Lm1,600 referred back to the department as dishonoured by the Central Bank have since been re-deposited.

Conclusion

The internal control system at both the Agriculture Department and the Fisheries Department is weak. Control procedures are designed and performed to assure aspects of quality, to prevent errors or irregularities, or to detect and correct them.

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Ministry for Tourism

Tourism

Ministry

The budgeted recurrent expenditure for Vote 32 amounted to Lm1,245,000 (excluding personal emoluments) and the expenditure actually incurred during the year was Lm1,196,953.

This audit was concerned with:

- Recurrent expenditure for the Ministry (Lm 1,245,000)
- Recurrent expenditure under Programmes and Initiatives related to the Institute of Tourism Studies (Lm 980,000)

Local Purchase Orders

The Departmental Accounting System at the Ministry was introduced in October 2000. The DAS provides for the generation of a computerised Local Purchase Order. However Local Purchase Orders were, up to the end of September 2001, being raised manually followed by a Computerised Emergency Local Purchase Order.

This procedure should only be resorted to when it is necessary to make purchases in haste at remote sites when it is impractical to go back to the department. This is not the case at least with all the purchases effected by the department.

From the examination of 58 payment vouchers (representing 10 per cent of vouchers issued through DAS between October 2000 and December 2000), 20 purchases required the drawing up of a

Local Purchase Order. In all the 20 cases, the procedure of raising a manual/Emergency LPO was adopted.

Vehicles

Five hired vehicles are being made use of after office hours by personnel (both of the department and of the ITS) who by the nature of their duties are not entitled to have a fully expensed vehicle.

Institute of Tourism Studies

The Ministry has two items under its Recurrent Expenditure Programmes and Initiatives namely – Institute of Tourism Studies (Lm555,000) and – Stipends to Students (Lm425,000). Actual expenditure incurred under these two items during year 2000 amounted to Lm 903,533. Furthermore the Ministry has a below-the-line account (Running of the Institute of Tourism Studies) the balance of which on 31 December 2000 stood at Lm55,267. These three expenditure items are meant to cover the expenses of the ITS.

Stipends to Students

Background

The Institute of Tourism Studies offers programmes of studies at Craft, Certificate and Diploma levels. Courses are offered on full-time or part-time basis. Full-time students of Maltese Nationality who are not in full employment receive a stipend during the scholastic period of Lm12 per week for the 1st year, Lm17 per week in the 2nd year and Lm22 per week in the 3rd year (Academic Year 2000-2001).

Furthermore students receive half the annual government bonus, have to pay their National Insurance Contributions and may have their stipend deducted in case of failure to attend sessions. During year 2000, the amount of Lm425,000 was provided however the actual expenditure incurred from this item was Lm371,826.

ITS Rules and Regulations stipulate that students who resign from a course of studies without indicating their intention to do so before the start of the 2nd semester, are to refund all stipends paid to them.

Findings

Deductions from stipends to cover uncertified sickness, absenteeism or sickness over and above the 10 day certified sick leave entitlement are being correctly computed.

The collection of refunds of stipends from students who have ceased following courses is not being enforced except for the issue of an occasional reminder. No legal action has been taken. Since the matter was brought to the attention of ITS, an intimation letter was again submitted to a number of defaulters.

ITS could only furnish a list of 36 students who resigned between 1998 and 2000 with an outstanding amount of over Lm11,000 - the highest amount being Lm1,029. On the 25 July 2001 ITS stated that a list of those who resigned prior to 1998 is still being compiled.

Audit concern

Debtors are not being included in the annual arrears list. Amounts due may become, or even in some cases may have already become, statute barred. The refund clause appearing in the Rule and Regulations prospectus handed to ITS applicants needs to be strengthened in favour of the Institute.

It is understood that steps were being taken to amend the Prospectus and that legal advice is being sought to recover outstanding refunds.

Misclassifications of Expenditure

Two payments amounting to Lm3,975 in respect of guarding services which should have been a charge on the Running of the Institute were debited to the Stipends account.

Lm2,964 covering two bills both pertaining to the Ministry should have been a charge on Utilities - Communications, and not to the ITS below-the-line account.

Other payments totaling Lm20,670 pertaining to the Ministry in respect of two motor vehicles were erroneously charged to the ITS items. These payments charged to the wrong expenditure items were due to non availability of funds under the respective Ministry votes.

Non availability of funds could have been resolved either through virements or the request for the issue of a contingency warrant if the expenditure was an unforeseen one.

Ministry of Finance has on several occasions issued directives regarding virements indicating which virements can be authorised by the Permanent Secretary of the Ministry concerned and those that require the approval of Ministry of Finance itself. Furthermore Permanent Secretary, Ministry of Finance by virtue of MF Circular 3/2000 dated 25 January 2000 stated that *"it is essentially important as from now that expenditure transactions are carefully and properly classified and recorded"*.

Deposits into Bank

Monies received at the Institute for Tourism Studies are deposited into a Below-the-Line Account and they cover mainly takings from the restaurants and examination fees.

The main concern under Income was the non adherence to Financial Regulations *vis-à-vis* deposits into Bank of both cash and cheque takings at the Institute. Regulations stipulate the maximum amount that could be held in hand before remitting to Bank and that cheques should be remitted to bank on the same day they are received. The table below illustrates the amounts deposited in the account during year 2000 and the period each amount covers:

Period	**Deposited on**	**Amount**
24.12.1999 – 20.01.2000	21.01.2000	Lm6426.07
21.01.2000 – 25.01.2000	26.01.2000	Lm6018.06
26.01.2000 – 01.02.2000	02.02.2000	Lm8715.88
02.02.2000 – 23.02.2000	23.02.2000	Lm4264.84
23.02.2000 – 13.03.2000	14.03.2000	Lm9738.29
14.03.2000 – 27.03.2000	28.03.2000	Lm4981.36
27.03.2000 – 18.04.2000	no deposit slips attached	Lm5509.74
19.04.2000 – 24.05.2000	25.05.2000	Lm6897.19
24.05.2000 – 12.08.2000	14.08.2000	Lm2193.00
September 2000	no income	
27.05.2000 – 14.10.2000	16.10.2000	Lm3709.29
15.10.2000 – 01.11.2000	03.11.2000	Lm4020.40
30.10.2000 – 17.11.2000	21.11.2000	Lm4674.43
13.11.2000 – 01.12.2000	04.12.2000	Lm3485.42
01.12.2000 – 18.12.2000	19.12.2000	Lm8919.89

This non-compliance was brought to the attention of Management who has in April 2001 responded that deposits are now being effected in accordance with the Financial Regulations.

Printing Works

OPM Circular 39/98 stipulates that printing works may only be ordered from outside sources if the Government Printing Press cannot undertake the work and prior written confirmation to this effect is obtained from the GPP. The Institute has contracted 11 jobs in total amounting to Lm4,525 without following the procedures of the above quoted circular.

Currently the bulk of the printing works is being done at the Government Printing Press and where jobs are contracted elsewhere, standing regulations are being followed.

Inventory

No inventory of furniture, office and other equipment could be produced for verification. Furthermore the instructions contained in MF Circular 14/99 issued in November 1999 relating to the changeover regarding inventory control *vis-à-vis* the implementation of the Government Accrual System and which had to be finalised within one year of the issue of the said circular had not yet been started up to the time of the audit.

The compilation of the inventory has now been taken in hand and will be drawn up following an ad hoc stocktaking of all the furniture and equipment (including catering equipment) at the Institute.

Conclusion

The observations raised by this office were in respect of lack of internal controls and non observance of government rules and regulations both at the ITS and at the Department of Tourism. The Department is addressing the shortcomings but where public funds are endangered more urgent action is indicated.

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Ministry of Justice & Local Government

Law Courts

Dishonoured Cheques

Background

All monies received by the Courts Department are collected at different cash points according to from where the claims originated and were issued. All takings are eventually deposited with the Courts Accounts Section for remittance to Bank.

Findings

838 cheques were returned as dishonoured by the Central Bank during the period January 1997 and December 2000. Of these, 204 cheques with face value of Lm4,637 had not yet been re-deposited. In June 2001 the matter was raised with the Director General who took immediate action to rectify the position. However only 12 cheques amounting to Lm808 have been settled up to time of writing. The position now stands as follows:

Year	No. of pending cheques	Amount *Lm*
1997	57	807.78
1998	18	500.15
1999	83	1,238.73
2000	34	1,282.50
Total	**192**	**3,829.16**

Missing Counterfoil Receipt Book

A counterfoil receipt book withdrawn by the Cash Office in March 2000 from the Accounts Section where the stock of receipt books is held, could not be produced for audit checking. No receipts pertaining to this counterfoil book could be traced in the cash book.

However this counterfoil book was made use of. NAO has come across a copy of a receipt which forms part of the said missing counterfoil book. The total amount covered by this allegedly missing counterfoil book could not be ascertained. No explanation has as yet been given.

Claims Register – Commissioners of Justice

Background

Traffic contraventions were being decided upon by Commissioners of Justice up to April 2000. Sittings were held at the Law Courts. The hearings took place in six different halls and were all presided by a legal officer.

An audit was carried out to ascertain that all persons served with a notice of summons have appeared before the appointed Commissioner and that all fines inflicted were being correctly entered in the claims books.

Findings

It has been ascertained from a random test check that claims registers were being adequately drawn up. However it was noted that 264 summons have not been presented to the Commissioners for judgement. The word *'missing'* is entered in the *'Fines Inflicted'* column of the claims register across the respective Notice of Summons Reference number indicating that the case was not heard by the Commissioner. These summons cover the period 3 January 2000 to 13 April 2000 and are distributed amongst the 6 halls as follows:

Hall	No. of Summons	Period covered
2	19	04.01.00 - 28.03.00
3	57	02.02.00 - 13.04.00
7	105	31.01.00 - 10.04.00
9	58	03.01.00 - 30.03.00
10	6	02.02.00 - 28.03.00
13	19	04.01.00 - 28.03.00

In March 2001 the comments of the Director General were requested. For ease of reference, the summons reference number involved, the Hall and the name of the Commissioner of Justice were given. No response has since been received.

Irregularities at Cash Office

Background

The NAO Annual Report for 1999 reported that serious irregularities were detected at the cash office of the Law Courts and recommended that an investigation be carried out. A Board of Inquiry was set up in terms of Section 3 (a) of the Inquiries Act XIX of 1977. The Board, while confirming the irregularities reported upon by the NAO, recommended that:

- further investigations be carried out by the Police;
- the subsidiary and main cash book be reconstructed, and
- cancelled traffic fines be reactivated.

Developments

The matter was reported to the Police in August 2000 and the Director General had a meeting with a police inspector in May 2001. No further information was given by the Director General.

Although the exercise concerning the reconstruction of the subsidiary and main cash book has been completed, it cannot be considered as conclusive because of a missing receipt book. Moreover, the total amount that was short deposited to the detriment of government could not be determined.

The department has reactivated the 44 traffic fines (totaling Lm745) indicated as having been tampered with. A total of Lm640 has since been recouped. The remaining Lm105 are owed by 6 defaulters who have now been served with a Warrant of Seizure. It was made clear to the department that the irregularities detected were the result of sample tests carried out and not a hundred per cent check.

In the case of the tampered with traffic fines, the month of October 1999 was taken as a sample. Although it is positive to note that the reactivated fines under query have been recovered, the matter cannot be considered as concluded before a full scale exercise is conducted on the remaining months until that period into year 2000 when these irregularities ceased to occur.

Conclusion

All the points raised in this report are indicative of lack of internal controls at the Courts Department. Priority should be given to rectify those issues which might become statute barred if no appropriate action is taken forthwith.

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Local Councils

Background

The Government allocated Lm9.66m to Local Councils for the financial year covering the period 1 April 2000 – 31 March 2001.

In terms of Section 65(1) of the Local Councils Act, 1993 the audit of the Local Councils' financial statements was carried out on behalf of NAO by eight private audit firms. Their appointment as Local Government Auditors was renewed to cover the councils' financial year under review.

Financial Statements

Audit reports and financial statements of each of the sixty eight Local Councils were to be submitted by not later than 30 June 2001. Fifty three reports were delivered on time. Another twelve reports were received by 31 July, two by 31 August and one by the second week of October.

Income and Expenditure Account

There were five councils whose expenditure exceeded income. The table hereunder shows the Councils and the respective amounts.

Local Council	**Excess Expenditure as at 31 March 2001** ***Lm***
Zebbug	(24,635)
Zabbar	(51,481)
Kercem	(4,238)
Santa Venera	(3,498)
Swieqi	(2,526)

In the case of Swieqi this situation has been occurring over the past years since 1998/99.

Working Capital

There were sixteen Local Councils with a negative working capital. The table below shows these Local Councils, the amount for the year under review and the corresponding figures for the previous year.

Local Council	2000-2001 Lm	1999-2000 Lm
Birgu	(20,216)	(34,428)
Bormla	(76,721)	(35,806)
B'Kara	(20,997)	(25,252)
Ghasri*	(1,051)	3,340
Kalkara*	(8,177)	8,758
Kercem*	(36,000)	7,590
Luqa *	(61,155)	62,564
Mosta	(175,638)	(194,398)
Msida	(15,907)	(36,023)
Paola	(60,654)	(96,533)
Pieta'	(22,889)	(35,913)
Qrendi*	(5,647)	10,171
Safi*	(307)	21,484
San Lawrenz*	(3,230)	88
Swieqi	(7,009)	(28,739)
Xewkija*	(1,504)	4,216

The councils marked (*) reported a negative working capital in relation to the previous year's positive balance. Bormla Local Council showed an increased negative working capital balance over that of the previous year.

Qualified Opinions

Seventeen auditors' reports were qualified, eleven of which for one of the following reasons:

- debtors/income not verifiable;
- irregularities in fixed assets;
- shortage of liquid funds;
- an adjustment may be required due to the possible loss of a sub-emphyteusis lease of premises;
- unauthorised use of Special Needs Funds for recurrent expenditure.

Furthermore, five reports were qualified for two of the above mentioned reasons and one was qualified for three reasons.

In five reports (two of which were also qualified) the auditors deemed it necessary to modify but not to qualify the report, in this respect:

- One report draws attention to the fact that two contractors are claiming Lm83,676 in total for works carried out. This amount is shown as a note to the financial statements as a contingent liability instead of being included with the creditors;
- Four reports highlight the fact that the Council would not be able to operate on the annual allocation of funds received from Government unless restraint in expenditure is exercised.

Findings

The table below shows the most widespread areas of concern mentioned in the management letters and the number of Councils raising such concerns.

Areas of Concern	***Number of Local Councils***
Local Enforcement System	46
Fixed Assets	38
Fiscal Receipts	35
Tenders/Contracts	33
Personal Emoluments	19
Purchase Order/Request	18
Allowances	16
Donations	11

The following is a summary of the concerns mentioned in the above table:

Local Enforcement System (LES)

Among the weaknesses related to LES, auditors found out that:

- a report generated for a specific time range varies when the same report for the same period is generated at a future date;
- reconciliation of amounts deposited with the reports issued from the system is not carried out on a monthly basis.

Fixed Assets

The shortcomings in this respect are detailed hereunder:

- register not updated;
- not reconciled by category with nominal ledger;
- inadequate labelling;

- grouping of assets with different depreciation rates;
- incorrect depreciation rates.

Fiscal Receipts

- Fiscal receipts are either not made available or not in accordance with VAT legislation.

Tenders/Contracts

The concerns listed include:

- contractual agreements and/or renewal contracts were not available;
- less than three quotations were obtained for expenditure under Lm2,000;
- no insurance was deposited by the contractors;
- guarantees not submitted by contractors;
- a public call for tender was not issued for contracts over the Lm2,000 limit;
- less than one month was allowed between the date of publication and the closing date of the tender.

Personal Emoluments

- FS5's were not prepared at the end of each month and tax deducted was not remitted to the Inland Revenue Department on time.
- Differences were encountered between the amounts of personal emoluments in the accounts and amounts

declared on FSS forms with the result that tax deducted was incorrect.

Purchase Orders/ Requests

- Purchases were not supported by a purchase order/request.

Allowances

- Allowances were granted to the executive secretary and/or councillors on a monthly basis. These were mainly given for the use of personal transport and for telephone expenses, both mobile and fixed.

Donations

- Donations in cash and/or in kind were made to various entities not listed under Schedule 8 of the Local Councils Act.

Other Concerns

Although the following concerns occurred in only one Council, their materiality warrants mention.

- income derived from sources not covered by bye-laws was not recorded and receipted;

- works were carried out in areas not within the Council's jurisdiction;

- a day centre was rented direct from the vice Mayor. The rental agreement was only for a period of 8 years without the right of renewal. Lm14,509 were spent on alterations and improvements. The Local Council has no right to a refund of these expenses upon expiry of the rental agreement;

- the sum of Lm480 was spent for the purchase of mobile phones;

- missing cash was not recorded in the financial statements because the amount stolen was not known;

- Lm4,048 was spent on one visit abroad;

- a direct debit card linked to the Council's current account was obtained for the payment of expenses connected with a visit abroad. The card can be used both locally and abroad and is, to date, still valid.

There was one Council which obtained a debit card and another which obtained two for the sole purpose of effecting deposits.

Management Letters

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

To date, only sixty two Local Councils and the Local Councils' Association sent a response to the management letter as required by Section 7, sub-sections (3) and (4) of Legal Notice 156 of 1993 - Local Councils (Audit) Regulations, 1993.

Previous Year's Weaknesses

The Local Government Auditors reported that nine Local Councils addressed all weaknesses highlighted in the management letter for the previous financial year. The weaknesses were only partially addressed in the other fifty eight councils.

Mid-Term Audit

The Local Councils of Floriana, Iklin and Mosta requested a mid-term audit during the year under review due to the termination of employment of the respective executive secretaries.

In the case of Iklin, it was not carried out because the fee was considered excessive by the Council. The mid-term report for Mosta contained a qualification as auditors could not verify the fixed assets. The mid-term audit of Floriana Local Council confirmed that the previous executive secretary carried out his duties satisfactorily.

Local Councils' Association

The financial statements for the year ending 31 December 2000 reveal that the expenditure exceeded income by Lm5,723. The Association had a negative working capital balance of Lm1,222.

Three out of the four recommendations made by the auditor in the previous year's management letter were not implemented. These are:

- material cheque payments were not always supported by three quotations;
- no formal fixed asset register was compiled;
- an insurance premium amounting to Lm72 was paid by the Association in respect of its offices which are neither owned nor officially rented.

Recommendations

NAO advocates the setting up of a Local Councils' Support Unit to monitor Councils' operation to ensure that they are not in violation of the law.

The Local Council Department failed to react apparently due to human resources constraints. This was also due to Government's commitment at the time to revamp the internal audit function. Furthermore, recently the Ministry publicly expressed the intention to carry out an operations review.

Notwithstanding the above, NAO opines that the objectives and functions of a Support Unit are different from those of the Internal Audit and Investigative Directorate. Its function would be on an ongoing basis supporting Local Councils as necessary.

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Ministry of Education

Education

The budgeted recurrent expenditure (including Supplementary Estimates) under the Ministry of Education amounted Lm25,244,000. This amount excluded personal emoluments. Actual expenditure incurred totalled Lm 25,285,970.

The item *"Contribution towards financing of church schools"* and the vote *"Department of Education"*, are the subjects of this report.

Contributions to Church Schools

Background

The amount of Lm8,080,000 (Lm7,080,000 provided in the Approved Estimate together with a further amount of Lm1,000,000 appearing in the Supplementary Estimates) was voted for year 2000 as Contribution towards the Financing of Church Schools.

The amounts actually contributed during the years 1995 to 2000 were:

1995	Lm 5,200,000
1996	Lm 6,322,405
1997	Lm 7,909,000
1998	Lm 6,853,747
1999	Lm 7,499,999
2000	Lm 8,080,000

As on October 2000, there were 60 Church Schools who together with the personnel at the Secretariat for Catholic Education and Culture benefited from these contributions.

The criteria under which the State is to finance Church Schools is found in Article 6 Section 2 (c) of the Agreement dated 28 November, 1991 entered between the Holy See and the Republic of Malta.

Scope of Audit

An audit was carried out in respect of year 2000 to ascertain that the Ministry is advancing funds in accordance with the established criteria. The Ministry authorises payments based on returns submitted by the Church Secretariat. There are no records giving full particulars of salaries paid to teaching and non-teaching staff and the population.

Article 6.2(d)(ii) of the agreement stipulates that the number of teaching and non-teaching staff is established in relation to the operational requirements and in proportion to the number of students in each school, according to the criteria used in State Schools. From documents available at the Ministry, NAO calculates that the number of full time employees stood at 1,338 between January 2000 and September 2000 whereas it has increased to 1,427 with effect from October 2000 i.e. the start of scholastic year 2000/2001, an increase of 89 personnel. It has not yet been confirmed by the Ministry whether this increase is in accordance with the terms of the agreement and if it has the Ministry's approval.

NAO is not in a position to certify the correctness and appropriateness of the payments effected. The matter was taken up with the Ministry who referred the points raised by NAO to the Delegate of the Secretariat for Catholic Education and Culture for comments before Ministry submits its reply to NAO.

During the year the Ministry had carried out spot checks at different Church Schools to verify the correctness of salaries being paid as regards increment dates and salary scales. No discrepancies seem to have been detected in this area. The

Ministry did not verify during this exercise whether the number of staff employed tallied with that approved by the Ministry.

Moreover, at least in these last five years no exercise has been undertaken by the Ministry to verify whether claims by the Church Schools Secretariat and funds advanced by the Ministry correspond to that part of the total emoluments actually paid by all the schools and which is payable by Government in virtue of the agreement.

Recommendations

Although there is nothing to indicate that the implementation of the terms of the Agreement is in any way being endangered, in view of the substantial amount of public funds that are being transacted, it is recommended that:

- priority should be given to establish sound internal controls

- ensure that returns/statements stipulated in the Agreement are produced and confirmed by the Ministry on a regular basis

- any increase in the number of employees should be covered by Ministry's approval.

Documents submitted by the Church Schools Secretariat to the Ministry should reflect the actual amounts paid by the schools at the end of each month.

Department of Education

The budgeted recurrent expenditure (excluding personal emoluments) of the Department of Education (Vote 18) amounted to Lm5,808,000. Actual expenditure during year 2000 covering the 8 Cost Centres totalled Lm5,682,799.

A test check was carried out on 659 payment vouchers which represent 10 per cent of the total number of vouchers issued during the year.

Expenditure

Printing Works

Printing works amounting to Lm14,302 and covered by 13 payment vouchers in the sample were contracted to private firms. No written confirmation, as stipulated in OPM Circular 38/98, was found indicating that the works could not be undertaken by the Government Printing Press.

Misclassification of Expenditure

Eleven payment vouchers totalling Lm108,410.57 were wrongly charged to *"Telephone Service Charge"*. Included in this amount is payment covering a Water Services Corporation bill (water and electricity) for Lm107,792.95.

The reason as to why this bill was charged to the wrong account was given as exhaustion of funds in the appropriate items. The reason given for the misclassification of the remaining 10 vouchers which were also confirmed by the department, was lack of funds in appropriate item or through an oversight.

Inventory

In November 1999, Ministry of Finance issued a circular (MF 14/99) regarding the introduction of Accrual Accounting which made special reference to the Inventory Control Regulations. One of the major tasks in the implementation of accrual accounting is to ascertain that inventory records are updated at all times. A twelve month timeframe was given to complete the Inventories and put a value to every item listed.

Two employees are entrusted with the drawing up of fresh inventories of the whole department, including out-stations. The

Education Department is vast and has many out-stations with schools spread throughout the island.

Progress registered is negligible. Had the task been planned and inventory officers appointed at outstations much more progress would have been achieved.

Textbooks Store

Store Ledger

Background: An audit was carried out at the Textbooks Store of the Education Department. School books are charged to item *"Operating Materials and Supplies"*. During the year 2000, over Lm242,000 worth of books were purchased by the department. There are about 325 different titles in the store.

Audit concerns: It could not be ascertained from the store ledger that all textbooks purchased have been taken on charge. Moreover, the number of books said to have been allocated to schools cannot be confirmed.

Findings: There is no record on the payment voucher or relative invoice indicating ledger page where the textbooks have been taken on charge. These documents could not always be matched with records available at the store particularly when books have been delivered by suppliers in batches.

The number of books shown on the ledger as having been issued and distributed to schools do not necessarily reflect the actual number issued from store.

The quantities entered in the issue columns are arrived at by deducting the stock on hand at a particular time of the year from the previous balance. As things stand, the stock on hand would always tally with the ledger balance.

It is however standing store accounting practice in such instances to either:

a) record in the ledger each and every single issue voucher which is signed by the recipients as a proof that the quantity of books indicated on the issue voucher reached their destination, or

b) draw up schedule of the quantity of books issued for each title and enter the resulting totals in the ledger.

During the year over Lm7,000 worth of books were purchased for different sections and centres of the department. Not included in this figure are books bought for specialised teachers.

It is felt that all the purchases and the respective issues should be channeled through the Stores Section for record and control purposes irrespective of whether they are text book, reference books or single copies on specific subjects.

Overstocking of Books

A total of 12,400 soft cover copies of the text book *'Antologija ta' Versi Patrijottici'* and 460 hard cover copies of the same title were entered in the ledger in February 1997. No hard cover copies were issued since January 1998 whereas issues of soft cover copies were last effected in January 1999. The stock on hand at the time of the audit was 12,145 and 445 copies respectively. The price per book could not be determined.

A consignment of 20,000 books entitled *'Primary Schools Syllabus for years 4,5, and 6'* was supplied to the Education Department in March 1998 for Lm9,670. There were no movements in the stock between December 1999 and end June 2001 when the stock stood at 18,714. A further 265 copies were distributed to various schools between July 2001 and August 2001.

Other titles no longer used have remained in stock. These books include:

a) 649 copies *Espace Student Book*

b) 585 copies *Espace Workbook*

c) 675 copies *Elementary Technical English Student Book*

d) 433 copies *Malta Republika Taghna*

e) 1315 copies *Odissea*

Observations: Although bin cards are available, these are not being updated with every issue.

Moreover, the same person holding the ledgers is in charge of the bin cards and as a result there is no segregation of duties so vital in a store environment.

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Museums

Cash at Museum sites and at Head Office

Background

The issue regarding excessive cash at Museum sites and at the accounts division of the department has been reported upon since 1996. In terms of the Financial *Regulations "unless otherwise authorized by the Permanent Secretary, Ministry of Finance, every accounting officer shall pay daily into an authorized bank any sum of Lm30 or upwards"*.

At a sitting of the Public Accounts Committee held in February 1999, the Ministry of Education opined that with the appointment of Museum Officers the problem would be addressed.

Developments

In September 2000 the Department sought authority to open an account with a local bank. Authority was granted in March 2001. Museum officers were appointed in May 2000. The job description included, as a daily operation, the duty to *"control and safeguard revenue collected at museums or sites, and transferring such revenue to appropriate depository"*.

Although Museum Officers were appointed in May 2000 the situation had not changed. Deposits running into thousands of Malta liri per remittance, varying between Lm2,222 on 17 November 2000 and Lm31,400 on 13 October 2000 were still being effected usually on a weekly basis.

The department has since mid June 2001 contracted a security service firm. The firm carries out surprise inspections in the various museum sites. Security Officers collect entrance fees from the 14 museum sites around the island and deposit the takings with one of the commercial banks as authorized by Finance. Collectors make *"approximately two weekly trips per site, however, if the need arises some sites may require more than two"*.

The situation has ameliorated and progress has been recorded. It is expected that theft of museum takings would not recur and that adherence to the Financial Regulations would be a standing practice.

Publications at sites

An exercise was carried out to verify that the records of stock movements of publications on sale at museum sites comply with regulations on stock control, issue of receipts, etc.

No record is kept of the stock on hand of the book *The Hal Saflieni Hypogeum 4000BC – 2000AD* for sale at the Hal Saflieni Hypogeum. No records could be produced on the number of copies sold or to whom 812 were given free of charge. Sales of books are not covered by a general receipt. Moreover no cash book was being kept. The Department gave the number of books sold by the end of May 2001 as 538 copies fetching Lm2,690 with *"812 copies having been distributed as complimentary to guests during the opening ceremony as well as to delegates from foreign diplomatic missions"*. A reprint of 2,400 copies has been made in June 2001.

A register recording the stock in hand and sales effected is now being kept.

There is no stock control or any other record in respect of books sold at prices of Lm2, Lm3 or Lm5 and postcards (sets) found for sale at the **Museum of Fine Arts**. Furthermore no receipt is issued for books sold. Money from sale of these publications is remitted to the accounts section of the Museums Department once or twice a year without any documentation issued to cover the amount remitted. An amount of Lm870 realised from the sale of a particular publication was still being kept on site.

While receipts are issued for sales effected from the **Museum of Archaeology**, the number of books that should be in stock could not be verified. No records of the number of books taken on charge nor the number of books given as complimentary and the number sold could be arrived at.

The stock of a pamphlet sold at the **Roman Villa** is held at the department and the site is supplied with the pamphlet as and when required. No stock book is held at the Department or at the site and the quantity in hand cannot be confirmed. An exercise is being carried out by the Department to ascertain the stock in hand and a register to record stock and transactions effected is to be drawn up.

Moreover, all Museum officers are to keep a record of all necessary documents, a stock register and cash book.

Items of Artistic Value

Background

The case of a number of items of antique or artistic value which could not be traced in Ministries and departments was mentioned in the 1997 Annual Report. These items are on loan from the Museum of Fine Arts.

When in February 1999 the matter was discussed by the Public Accounts Committee it was agreed that a joint exercise be conducted between the Museums Department and Ministries to identify works of art found at Ministries and departments. The subject featured again in the 1998 Audit Report. Limited progress on the missing items was registered and it was observed that PAC's recommendation had not yet been acted upon.

During the October 2000 sitting, the PAC was informed that an OPM Circular was issued in December 1999 on the lines agreed during the February 1999 meeting. Liaison officers were to be appointed within each department. The duties of these employees, in collaboration with the Museum of Fine Arts, were to:

- carry out a stocktaking exercise,
- update and properly classify the inventory of special items of all ministries/departments,
- update the Museum records to include items of fine art purchased/acquired by the respective Ministry/ Department without the knowledge of the Museum,
- once updated, to maintain the inventory.

Developments

Most Ministries and Departments did not respond to the request for the appointment of inventory officers.

In April 2001 the Museums department was requested to inform NAO:

- which were the Ministries/Departments which have not yet carried out the stocktaking exercise;

- to submit a list of the findings *vis-à-vis* those Ministries and Departments which had carried out the stocktaking; and

- to indicate the works of art which according to the Fine Arts division are to be found in each Ministry etc.

Up to time of writing the information has not been supplied.

Conclusion

It is important that all items of fine art, on loan or otherwise, are catalogued by the Curator of Fine Arts. The master inventory is to have an updated record on the exact whereabouts of every item. The name of the employees responsible to report/adjust any eventual movement/addition is to feature in the museum catalogue.

The liaison/inventory officer who is responsible to maintain an up-to-date inventory, should liaise with the Curator of Fine Arts at the Museums Department in establishing a list of items, if any, to appear on the inventory, to verify the correctness of the inventory and to endeavour to trace any items not found in their proper location (OPM Circular 43/99).

The exercise is to be concluded as a matter of priority considering that:

a. with Government policy decision to introduce Accrual Accounting, updated inventory records of Tangible Fixed Assets (Heritage Assets including Works of Art are so classified) are indispensable for its implementation, and

b. the Minister of Education on the 30 July 2001 gave the first reading of a Bill the provisions of which are aimed, amongst other things, at promoting improved management of Malta's cultural treasures and the winding up of the Museums Department.

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Ministry for Home Affairs

Government Property Division

Arrears of rent from non-residential and commercial tenements

Background

The Government Property Division within the Ministry for Home Affairs is responsible for the collection of various rents from tenants occupying Government owned premises. Government immoveable property falls under one of the following categories:

- Rural
- Perpetual
- Residential
- Non-Residential
- Commercial
- Government Departments
- Encroachments

The accumulated arrears due to the Division totaled Lm4,614,963 up to 31 December 2000 – Lm448,612 in respect of non-residential premises and Lm3,739,378 in respect of commercial premises. An audit on arrears of revenue from non-residential and commercial tenements was carried out.

Objectives

The aim of the audit was to examine what action is being taken by the Department in the collection of arrears due in respect of non-residential and commercial tenements so that rent would not become time barred.

Methodology

Files of tenements included in the list of arrears of revenue, where the amount of arrears was considered material, were examined. One file comprising 6 per cent of the total value of arrears in the non-residential account (Lm29,288.50 out of a total of Lm448,612) was viewed. In the commercial category, five files comprising a total of 31.7 per cent of the arrears value (Lm593,360 out of a total of Lm3,739,378) were examined.

Findings

In three cases out of the six mentioned above, action taken by the department was not considered satisfactory. Below is a brief account of the shortcomings:

- In one instance, in spite of an agreement reached with the lessee to settle the amount due, the department ceased to continue to follow up when rent due fell once again in arrears.

- In another instance no agreement was reached with the lessee to collect the amount due.

- A third case concerned a tenement which is in the process of being transferred to a parastatal corporation that has been occupying the premises for some time. Up to the time of publication of this report, no agreement was being negotiated to collect the rent due from the past and present tenant.

A list of arrears of commercial tenements in excess of the prescription period of five years is given on page 178:

Tenement No.	Arrears in periods of 6 Months	Balance Due *Lm*
1	13.51	182,150.77
2	14.25	18,805.37
3	14.46	18,002.33
4	18.00	15,750.00
5	13.50	823.50
6	13.50	648.00
7	14.63	585.00
8	12.00	162.00
TOTAL		**236,926.97**

In the above-mentioned cases, the arrears due have increased from the previous years.

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Police Department

Two issues relating to the collection of fees due on licences by the Police Department are covered:

- the adequacy of computer software used to record and manage revenue transactions; and
- reconciliation of revenue collected on behalf of Police by commercial banks.

Examination of software

Background

The Police Department is responsible for the collection of revenue from licences relating to Weapons, Wines & Spirits and Trading

Licences. Moreover, fees are charged in respect of conduct certificates. The amount of revenue according to the financial report and the amount of arrears reported by the Department, as at 31 December 2000, in respect of these licences, are:

	Revenue	**Arrears**
Weapons	Lm 367,597	Lm167,394.50
Wines & Spirits	Lm 222,521	Lm 82,269.58
Trading Licences	Lm1,148,698	Lm247,126.83

Three computerised systems are in use; one connected with the weapons licences, a second with trading licences (including wines & spirits) and a third system covers the issue of conduct certificates.

Findings

Closing and Opening of balances of arrears: The closing balances of arrears for the year 1999 and the opening balances for the year 2000 do not tally. Variances found were as follows:

Licence Type	**Closing Balance 1999** ***Lm***	**Opening Balance 2000** ***Lm***	**Variance** Lm
Weapons	148,012.50	168,924.00	20,911.50
Trading Licences	127,930.79	128,346.79	416.00
Wines & Spirits	30,762.40	30,864.40	102.00
	306,705.69	**328,135.19**	**21,429.50**

The closing balance for 1999 is that given by the Police in the return submitted in terms of Section 49(1) of the General Financial Regulations and the opening balance for 2000 refers to the amount the Department transfers from individual records.

Records of Weapons: The department did not have all the I.D. numbers of licence holders on the manual record system and a temporary computer database with a fictitious I.D. number was created. Eventually these records were being transferred to the *"Weapons Data Capture"* system, but holding the fictitious I.D. number. As a result incomplete records were found both in the temporary and in the *"Weapons Data Capture"* databases. Records could be updated only if and when the licence holders call to renew their licences. At the end of the exercise it resulted that the present computer systems (the Temporary and the *"Weapons Data Capture")* still show 4.5 per cent of licence holders in Malta with a fictitious I.D. number (1,070 from 23,637) and 4.1 per cent of such holders in Gozo (178 out of 4,304).

Records of Wines & Spirits and Trading licences: The computer system used by Local Councils is not accessible to the Police Department, not even on a read only basis. This hindered the updating of licences records by the Police Department when establishments commence or cease operations.

The Police Department had to set up a second database, completely independent from that used by Local Councils. Information on the two systems does not tally. This state of affairs is affecting the correctness and the timely collection of arrears of revenue.

When payments are effected at local banks, the receipt usually takes an average of four weeks to reach the licence holder. As the data used by Local Councils is updated only when a receipt is generated, records do not reflect the true position in real time.

No receipt is generated when the licence holder's name extends beyond 22 characters. In such cases records are never updated because of the restricted character field in the software.

Criminal Records: The computer system does not allow the reversal of entries in the cash journal (in cases of inputting errors) if the certificate/receipt is erroneously printed. The computer generated cash journal is amended manually, by cancelling the entry and correcting the total in ink.

Conclusion

The shortcomings of the systems have been identified by the Department but have not yet been rectified.

Action is being taken in conjunction with MITTS either to enhance the existing software or to incorporate corrective measures to address the points mentioned above in a completely new system.

Bank Reconciliation

Background Information

In terms of Section 82 para. 3(iv) of the General Financial Regulations, 1966 departments who keep a bank account are requested to submit to the National Audit Office a reconciliation statement at the end of each month together with the relevant bank statement.

The Police Department has four bank accounts with the commercial banks for money collected from trading licenses. Fees collected by Local Councils are deposited in the same account. During 2000 the total revenue collected from these licences recorded in the Financial Report amounted to Lm1,148,698.

It was found out that the Department fails to carry out reconciliations with bank statements.

Renewal notices of trading licences are drawn up in duplicate and mailed by the Local Councils. Payment of these licenses can be effected in two manners:

- either at the respective Local Council, or
- at any branch of the relevant banks.

Payments at Local Councils: Payments effected at Local Councils are deposited in the appropriate account at the listed banks. A weekly report is forwarded to the Police Department. The department verifies whether the amount collected is correctly shown in the bank statement.

Payments at Banks: The original renewal notice which is stamped by the bank cashier is handed back to the payer, while the stamped copy is passed on to the Police Department together with the statement. The department ensures that the amounts shown on the renewal notices tallies with the deposited amount shown in the statement. The stamped copies of the renewal notices are then forwarded to the respective Local Councils to issue a receipt.

Transfer of Money to the Public Account.

An agreement was entered into by the Director (Local Councils) and the Commissioner of Police, on behalf of Government, and by the respective receiving bank separately, whereby cleared monies less bank charges, are to be transferred to the Public Account at the Central Bank every Thursday, valuation as on Wednesday of the previous week.

Audit concerns associated with reconciling of bank statement include:

- The Police Department does not keep its own records of the accounts.
- The sample of the Local Councils weekly report made available showed that the deposits are not made on a daily basis as stipulated in the Financial Regulations. In one instance a deposit by a Local Council was carried out as much as 3 months later.
- Management opinion is that bank reconciliation constitutes duplication of work.

Recommendations

NAO is of the opinion that bank reconciliation is necessary since it is:

- A requisite under Section 82 para 3(iv) of the General Financial Regulations, 1966.

- An internationally accepted internal control accounting procedure. This procedure helps identify, explain and adjust any differences between balance shown on the bank statement and the entity's cash book accounting records.

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Ministry for Social Policy and Ministry of Finance

Social Security Contributions (Class I and Class II) – Arrears due

Background

An audit was carried out of activities related to the collection of Social Security Contribution (SSC) due from Class I and II contributors for the year 2000.

Class I contribution refers to employed persons while Class II refers to self employed and self occupied persons.

All gainfully employed persons are obliged to pay social security contributions. The revenue derived through contributions for the year 2000 amounts to Lm162,018,058.

Until 1997, the Department of Social Security was responsible for the collection and enforcement of money due to Government in respect of social security contributions by employees, employers and the self-employed.

These responsibilities as from year 1998 were transferred to the Department of Inland Revenue. The transfer of responsibilities was formalised by Legal Notice 73/99 in April 1999. The Department of Social Security remains responsible for the collection and enforcement of social security contributions for years prior to 1998.

Objectives

The objective of this audit was to establish what action is being taken to collect outstanding contributions in a timely manner. The amount of arrears of Class I contributions (estimated by the Department to be Lm5,432,565) is 1.3 per cent of the total amount of revenue due to Government. As no amount of arrears for Class II contributions could be given by the Social Security and Inland Revenue Departments, the proportion of total amount of revenue due to total amount of revenue due to Government cannot be stated.

Findings

Class I Contributions (pre 1998)

The Department of Social Security is responsible for the enforcement of recouping arrears of social security contributions in respect of financial years up to 1997.

The Department is not in a position to categorically state the amount of outstanding revenue due to Government for this period. The department estimates that as at end 2000, arrears of revenue for Class I contributions amounted to Lm5.432 million.

	Defaulters			**Amount**		
Range Lm	**Number**	**%**	**Cumul-ative %**	**Lm**	**%**	**Cumul-ative %**
0-1000	160	23.05	23.05	74,686	1.37	1.37
1001-2000	120	17.29	40.35	182,997	3.37	4.74
2001-3000	72	10.37	50.72	176,035	3.24	7.98
3001-4000	62	8.93	59.65	219,795	4.05	12.03
4001-5000	43	6.20	65.85	194,497	3.58	15.61
5001-6000	26	3.75	70.00	141,857	2.61	18.22
6001-7000	28	4.03	73.63	182,681	3.36	21.58
7001-8000	23	3.31	76.95	170,964	3.15	24.73
8001-9000	17	2.45	79.39	145,442	2.68	27.41
9001-10000	19	2.74	82.13	182,184	3.35	30.76
10001-15000	48	6.92	89.05	603,496	11.10	41.87
15001-20000	19	2.74	91.79	337,821	6.22	48.09
20001-50000	40	5.76	97.55	1,188,556	21.88	69.97
50001-100000	11	1.59	99.14	810,410	14.92	84.88
Over 100000	6	0.86	100.00	821,144	15.12	100.00
Total	**694**	**100.00**		**5,432,565**	**100.00**	

The table on page 185 is a breakdown of the amounts due and the number of defaulting contributors in various amount brackets.

The present system of collecting and accounting for social security contributions does not enable the Department of Social Security to detect defaulters. The Department becomes aware of outstanding contributions only when a gainfully employed person either:

a. turns up at the Social Security Department to check whether his contribution is being paid by his employer; or

b. Reports that his employer is not forwarding National Insurance Contributions

Failure to detect defaulters weakens the Department of Social Security's ability to plan strategically since only crude estimates of the amount of arrears of revenue due can be made. Moreover, it will not be in a position to enforce collection of outstanding contributions.

In addition, the failure to report the outstanding amount due is in breach of Paragraph 49 (1) of the General Financial Regulations 1966, which obliges Heads of Department to submit an annual return of arrears of revenue to the Accountant General for onward transmission to the National Audit Office.

The table overleaf relates to eight companies, which are considered by the DSS to owe the highest amounts in respect of social security contributions.

These companies represent 18.4 per cent of the total amount due as submitted by the department (i.e. Lm1,002,048 out of Lm5,432,565).

The Department's inability to effect the timely enforcement of collection of Social Security Contributions arise when companies fail to inform the department of the current wage/salary of the employees and the actual number of employees. Consequently departmental data is completely dependent on data, correct or otherwise, submitted by employers.

Company	**Balance at DSS as at December 2000**	**Action taken by DSS and when**
	Lm	
Company A	260,000	Warrants requested on 30/04/99
Company B	134,704	Judicial Letter on 22/04/98
Company C	112,960	Judicial Letter on 30/08/00
Company D	108,000	Judicial Letter on 23/07/98
Company E	103,680	In liquidation
Company F	101,800	Negotiating agreement, TX 34s requested on 10/04/01
Company G	97,304	Intimation Letter on 06/02/01
Company H	83,600	Judicial Letter on 21/01/99
TOTAL	**1,002,048**	

Source: Social Security Department

Class II Contributions (pre 1998 and post 1997)

The audit revealed a serious lack of reliable management information which hindered both the Inland Revenue Department and the Department of Social Security from ensuring that Class II contributions are duly collected in terms of the Social Security Act. This scenario is mainly due to the following:

- The delegation of responsibility for the collection and enforcement of Social Security contributions to the Department of Inland Revenue in 1998 (although such delegation was formally effected in 1999) raises concerns.

The Department was not prepared to undertake such responsibilities as at the time Income Tax reforms were actively being pursued.

- As a result hardly any enforcement action has been undertaken by the Department of Inland Revenue from 1998 and 2000. The Department of Social Security also ceased activities in this respect on the basis that it was no longer responsible for the task. Thus neither the Department of Social Security nor the Department of Inland Revenue performed any direct enforcement related tasks during this period.

- Similarly to the situation regarding Class I contributions, neither the Department of Inland Revenue nor the Department of Social Security was in a position to state the amount of outstanding contributions. This is corroborated from the official advice, sent by the Department to the respective defaulter, by claiming an approximate amount and not the actual contributions due.

- The management of the social security contribution function at both the Social Security and Inland Revenue Departments is said by both organisations to be in transition. Currently the Department of Inland Revenue is restructuring its organisation and developing software to enable the implementation of more stringent enforcement techniques.

Conclusions

Action being taken by both Departments to collect outstanding contributions under the Social Security legislation seems to be very weak

Once no proper records of contributions were kept recovery of arrears is rendered more complex and public revenue may be lost.

Considering the substantial amount of contributions involved it is recommended that the Departments jointly take immediate action to:

a) Recover outstanding contributions, and

b) As a matter of urgency ensure that all procedures are in place so as not to leave the situation deteriorate and avoid similar occurances.

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Part 7 – Special Report

Inland Revenue Department

Auditing of Assessments issued to Self Employed Taxpayers for the four year period Y/A 1997 – Y/A 2000

Executive Summary

The purpose of this audit was to assess the efficiency with which the Inland Revenue Department issued assessments for the period under review. The factors determining the efficiency with which assessments are issued are:

- adherence to relevant provisions of the Income Tax Act (Cap 123), the Income Tax Management Act 1994 (Cap 372) and Act No IX of 1999

- effective use, by assessing officers, of the Instructions Manual (Income Tax).

The review was carried out on the four year period Y/A 1997 to Y/A 2000 assessments issued to 100 self-employed taxpayers. The number to be sampled was arrived at after having carried out a pilot survey on a random sample of 31 taxpayers in order to determine the most appropriate sample size for results with a 95 per cent Confidence Level and +/- 10 Confidence Interval.

Data obtained through returns submitted by taxpayers, to the Inland Revenue Department, was analysed and appropriate profitability ratios calculated. This was followed by comparing the details obtained from the Trading Account with Turnover and Purchases figures declared in returns submitted, by the same

taxpayers, to the V.A.T. Department. Another issue addressed was whether the Inland Revenue Department forwarded National Insurance claims to full-time self-employed taxpayers under review.

The audit revealed 33 of taxpayers sampled benefited from a non-taxable situation, as follows:

- 30 full-time self-employed married taxpayers, with unemployed wives, were assessed upon a declared income below Lm4,000.
- 3 single taxpayers were assessed on income declared of less than Lm3,000.

Graphical analysis are provided in Figures 2 and 3 of this report.

Based on findings arrived at during the course of the audit, NAO concluded that:

- assessments were issued upon data forwarded in returns, without making any reference to previous years' returns contained in the taxpayer's file.
- Y/A 1997 and Y/A 1998 assessments were issued as declared by the taxpayer, without enquiring or verifying further amounts declared in the returns. This being applicable also to assessments issued upon returns having mathematical or accounting errors, '*skeleton*' Trading Accounts and Profit/Loss Accounts lacking a breakdown of expenses claimed.
- partnership profits were not computed as a whole, but a separate assessment was carried out for each partner.
- there is lack of communication between the Inland Revenue Department and V.A.T. Department. Section 56(4) of Act No. XXIII of 1998 regulates the sharing of information from

the latter to the former department. Each department separately issues assessments upon income declared by a self-employed individual.

- not all wives earning full-time self-employment income are being forwarded with National Insurance claims.

The report concludes by forwarding various recommendations, amongst which is that the department should place emphasis on quality and not only on the quantity of assessments issued.

Purpose of Audit

This audit was aimed towards forming an opinion on the Inland Revenue Department's adherence to relevant requirements of the Income Tax Acts, in assessing income derived from a self-employment business. This exercise covered the four-year period ending Year of Assessment (Y/A) 2000 - examining tax returns of a sample of taxpayers for Y/As 1997/1998/1999/2000.

The Acts refer to Part III *'Exemptions'* and Part IV *'Deductions'* of the Income Tax Act (Cap 123), Part IV *'Returns'* and Part V *'Assessments'* of the Income Tax Management Act, 1994 (Cap 372) as amended by Act No IX of 1999 – *"An Act further to amend the Income Tax Management Act, 1994"*. The Management Act's aim is *'to regulate the collection of income tax and to provide the administrative machinery for such collection'*.

The self-employed category incorporates taxpayers whose:

- self-employment business is their main income source
- VAT registered business is in addition to the main employment
- self-employment income is derived by the spouse other than the responsible spouse. In all cases examined, the *'other spouse'* referred to the wife.

Audit Methodology

In forming an opinion, the following procedure was adopted:

- A list of those taxpayers deriving income from a self-employed trade or business was obtained. The list forwarded by the Inland Revenue Department totalled 22,627 self-employed taxpayers. However, the Department could not identify, from the list provided, the amount of self-employed taxpayers on a full-time and those on a part-time basis, due to the fact that *"the information given… represented those taxpayers who declared an income from trade, business or profession during Basis Year 1999 and which is not classified as requested"*.

- A pilot survey for the four years under review was carried out on a random sample of 31 taxpayers in order to determine the most appropriate sample size for results with a 95 per cent Confidence Level and +/-10 Confidence Interval.

- From the list given by CIR a total sample of 100 taxpayers was established.

- Examined taxpayers' files, in addition to copies of Y/A 1999 and Y/A 2000 Self-Assessment returns for the same taxpayers in the sample. As regards self-employed business partnerships, files and returns of all partners were also examined.

- Analysed data extracted by calculating, for each Y/A, the following key Operating Ratios - Gross Profit/Turnover, Net Profit/Turnover, Expenses/Net Profit. In addition, where deemed necessary, ratios were also calculated as to a particular item of expense as a percentage of total expenditure.

- Compared declared Net Profit against Taxable Profit brought to charge. The Accounts Receivable System of the Income

Tax Division was accessed for Y/A 1997 and Y/A 1998 assessments issued. Details of assessments issued, by means of data capturing, based on information declared in Y/A 1999 and Y/A 2000 self-assessment returns were also obtained from the Department's Launcher System.

- For each Y/A, details as to Turnover and Purchases accounted for in the Trading Account were compared with details featuring in taxpayers' returns to the V.A.T. Department. Other details such as business commencement date, business de-registration date, person(s) name applying for V.A.T. Number and partners' list, where applicable, were also compared.

- Obtained details as to whether full-time self-employed taxpayers are being served with National Insurance Claims by the Inland Revenue Department and whether payments thereof are being effected regularly. However, this exercise did not focus on the issue regarding the correctness of NI Claims issued.

Limitation on Scope of Audit

NAO is unable to express an unqualified opinion, on the basis of INTOSAI Auditing Standards - Section 174 (a) - dealing with the aspect of Limitation on Scope which is being reproduced.

"An auditor may not be able to express an unqualified opinion when any of the following circumstances exist and, in the auditor's judgement, their effect is or may be material to the financial statements:
(a) there has been limitation on the scope of the audit …"

It was not possible to verify the total of 100 returns for each Y/A under review. In fact, the number of taxpayers' returns that could be reviewed totalled 72 (Y/A 1997), 74 (Y/A 1998) and 91 each for of Y/A 1999 and Y/A 2000. This was due to the following reasons:

- 5 out of the total taxpayer files requested were not forwarded as the relative files could not be located. The Department stated that it "… *is undergoing through a massive exercise to finalise all pending objections and pre '99 assessments and one must appreciate that this involves an enormous movement of assessment files.*"

This hindered verification of the 100 returns selected from Y/A 1997 and Y/A 1998 respectively. However, verification of relevant Y/A 1999 and Y/A 2000 returns was carried out from copies of returns forwarded.

- 5 returns for Y/A 1997 and another 5 for Y/A 1998 have not been forwarded for further analysis. This problem arose due to the department's policy in assessing returns without making any reference to previous assessed returns filed in taxpayer's files.

- Assessments not yet issued by the Department, with respect to Y/A 1997 and Y/A 1998 amounted to 4 and 2 respectively.

- 14 returns for each of Y/A 1997 and Y/A 1998 were not sent to the Department. One of these taxpayers was forwarded with Best of Judgement Assessment, 1 for each Y/A.

- As regards Y/A 1999 and Y/A 2000, returns not sent amounted to 9 for each year. Best of Judgement assessments issued amounted to 8 for Y/A 1999 and 9 for Y/A 2000. All remaining copies of Y/A 1999 and Y/A 2000 returns requested to carry out this exercise were forwarded to NAO.

Findings

General Findings

Taxpayers' Status

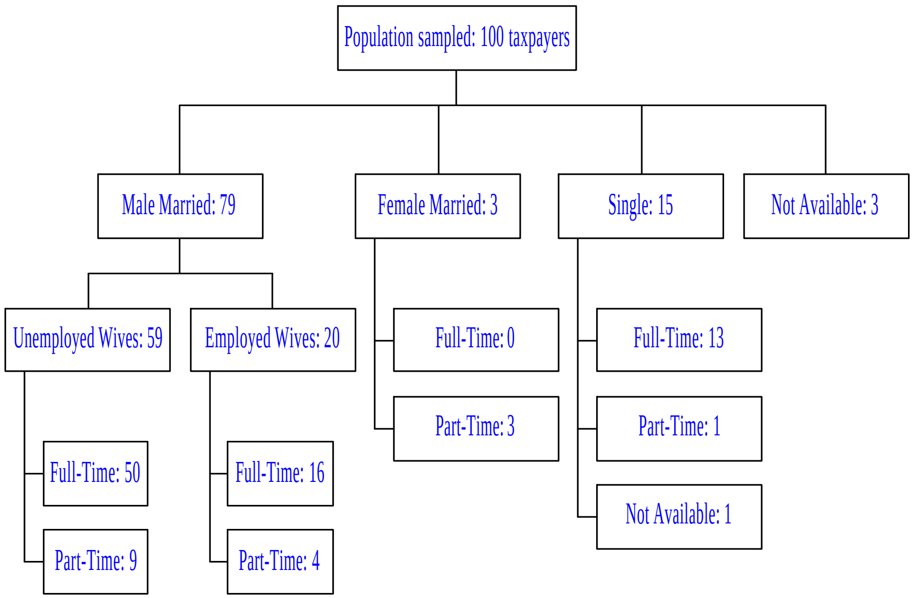
It is noted that 82 out of the taxpayers sampled were married taxpayers, 79 of which were male and 3 female. Individuals with single status amounted to 15. It was not possible to identify the status of the remaining 3 taxpayers under review due to lack of information.

59 of taxpayers sampled were married taxpayers with unemployed wives, 50 of whom were engaged in full-time self-employment. The remaining 9 taxpayers earned part-time self-employment income in addition to their full-time employment.

Out of the 15 single status taxpayers (15 per cent of sample), one failed to send Income Tax Returns and is not a V.A.T. registered taxpayer. As a result it was not possible to determine whether income derived from the self-employment is on a full or part-time basis. However, it can be said that 13 of these were engaged in a full-time self-employment.

The following diagram illustrates the above stated:

Figure 1: Analysis of Taxpayers sampled according to Status



Income Declared and Assessed

Income Tax Returns for the four years under review were not sent by 3 married full-time self-employed taxpayers, with unemployed wives. Further analysis give the following results:

- Non-taxable married full-time self-employed taxpayers, with unemployed wives, amounted to 63.8 per cent (i.e. 30 out of 47) as a result of assessments issued on declared income below Lm4000.

- Individuals whose declared and assessed income ranged from Lm4001 – Lm5500 amounted to 12.8 per cent (i.e. 6 out of 47).

- Taxpayers who declared and were assessed upon income above Lm5501 but below Lm7000 amounted to 12.8 per cent (i.e. 6 out of 47).

- Individuals taxed at a 0.25 rate totalled 6.4 per cent (i.e. 3 out of 47).

- The incidence decreased further to the same percentage of 2.2 per cent (i.e. 1 out of 47) applicable for individuals taxed at 0.30 and 0.35 rates.

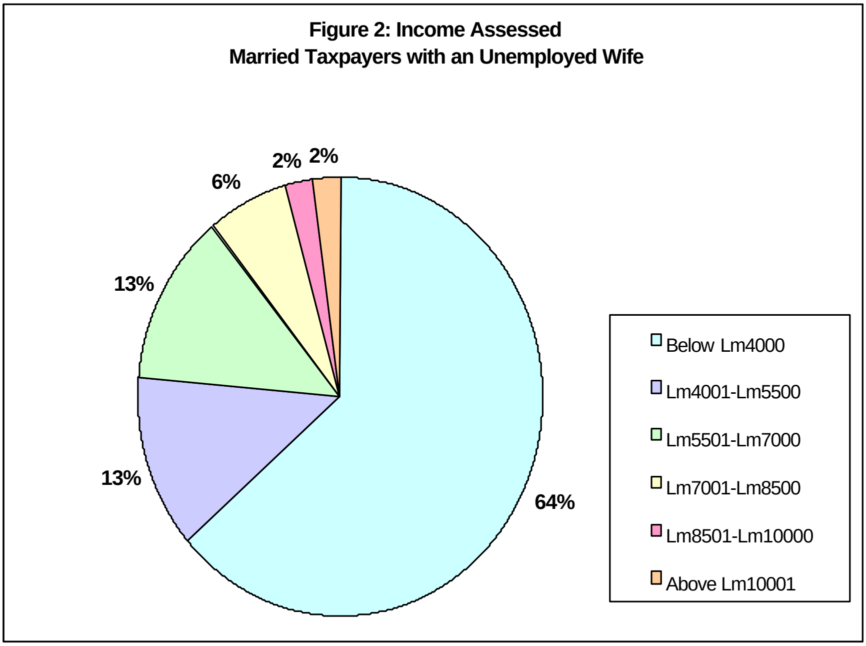
As regards taxpayers of a *'Single'* status:

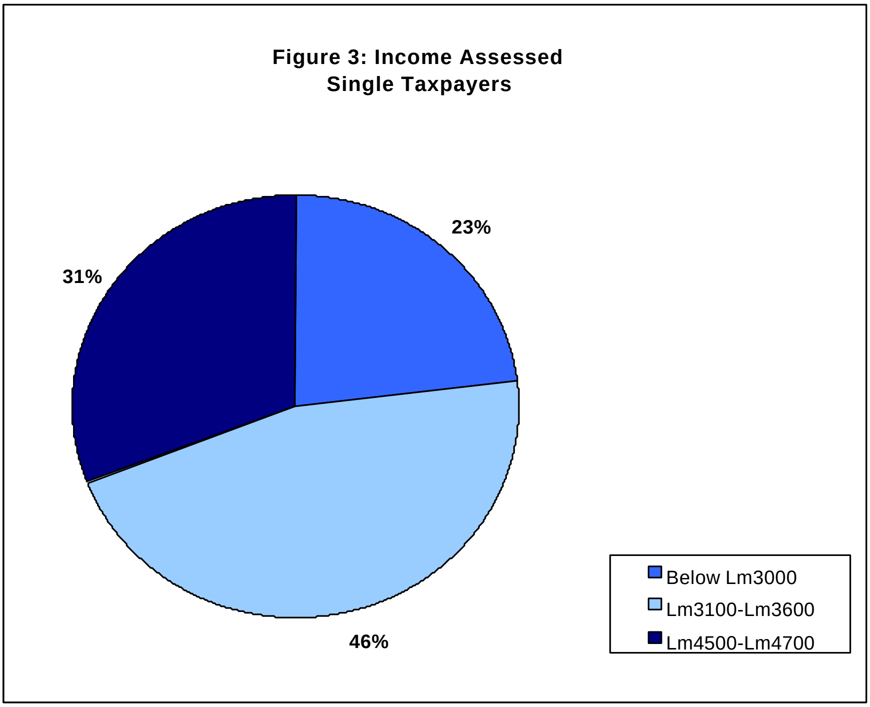
- 23.1 per cent declared and were assessed upon income below Lm3000, thus placing these taxpayers in a non-taxable bracket.

- 46.2 per cent declared and assessed income ranged from Lm3100 – Lm3600.

- The remaining 4 taxpayers were taxed on income ranging from Lm4500 – Lm4700.

The following pie charts give in graphic form income declared and assessed by married individuals with unemployed wives, followed by single taxpayers.





Specific Findings

Assessments Issued

The issue of assessments, including Best of Judgement Assessments, is regulated by Section 7 of Act No IX of 1999. This Act substituted Sections 30 and 31 of the Income Tax Management Act, 1994. Whereas the former section caters for assessments relating to years preceding Y/A 1999, the latter regulates assessments and determinations relating to Y/A 1999 and subsequent years.

A. Assessments Issued - Y/A 1997 and Y/A 1998

Procedure

Pre Y/A 1999 assessments are regulated by the above-mentioned revised Section 30 (1) [2]. The procedure stipulates that once the taxpayer forwards the income tax return to the Department, the Commissioner may:

- accept, refuse, or carry out adjustments to income declared in the taxpayer's income tax return, or
- investigate records prior to issuing the assessment.

Observations

- Out of the 72 taxpayers whose returns were examined for Y/A 1997, one return was refused on the basis of low income declared.
- 36 (50 per cent) of returns (Figure 4 on page 201 refers) were accepted by the Department as declared by the taxpayers when in fact they needed adjustments in their income levels.

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[2] ***Section 30 (1)*** *"Where a person has delivered a return of income for any year of assessment preceding the year of assessment 1999 the Commissioner may –*
(a) accept the return and make an assessment accordingly;
(b) after considering such further returns, books or evidence, if any, as may be produced before or obtained by him, refuse to accept the return and to the best of his judgement determine by order in writing the amount of chargeable income of the person and assess him accordingly."

- Assessments of the remaining 35 Y/A 1997 returns were issued as declared by the taxpayers. The information in the returns was as required and there were no mathematical and accounting errors. However, the possibility of understatements in Turnover and Profits figures declared is not excluded.

- Out of the 74 audited returns for Y/A 1998, one return was refused for low income declared.

- 46 (62 per cent) returns (Figure 4 refers) needed adjustments in income declared and only 5 returns were adjusted prior to issuing the assessment.

These adjustments were as follows:

- National Insurance Contributions erroneously claimed on 3 assessments

- Gross Interests earned not declared on 2 assessments.

The same observations apply to assessments issued in relation to the remaining 27 Y/A 1998 returns.

A breakdown, for each of Y/A 1997 and Y/A 1998, regarding the types of irregularities and aggregate figures above quoted, is provided in the table below:

Figure 4: Y/A 1997 and Y/A 1998 Returns needing adjustment in Income Level Declared

	Y/A 1997		**Y/A 1998**	
	No of returns	**%**	**No of returns**	**%**
Information Omitted	21	29.2	24	32.4
Errors in Computation	14	19.4	20	27.1
Erratic Information	1	1.4	2	2.7
Total	**36**	**50**	**46**	**62.2**

B. Assessments Issued - Y/A 1999 and Y/A 2000

Procedure

With effect from Y/A 1999, statements are to be regulated by the revised Section 31[3]. The procedure stated is that once the taxpayer forwards the self-assessment return to the department, a statement is issued by capturing data of the self-assessment return. Data captured may be:

- as declared by the taxpayer, or
- arithmeticaly adjusted. (Arithmetical adjustments refer to the correction of additions and subtractions or the rectification of the tax computation as worked out by the taxpayer).

Therefore, data captured should tally with details forwarded by the taxpayer, except in the case where:

- the taxpayer adjusted details in the income tax return by means of an Adjustment Form, or
- the department carried out arithmetical adjustments.

Validation of Data Captured

During the year 2000 a system of checkers, independent from staff responsible to capture data, was introduced to analyse any discrepancies resulting from the electronic validation process. This applied to discrepancies resulting in data inputted with respect to Y/A 2000 returns.

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[3] ***Section 31*** *"Where a person has delivered a return of income under section 10 of this Act that includes a self-assessment for the year of assessment 1999 or any subsequent year of assessment, the Commissioner shall determine the chargeable income, the tax chargeable thereon and the tax payable by or repayable to that person for that year of assessment in the amounts indicated by that person in the self-assessment, making such arithmetical adjustments as may result to be necessary on the basis of the information contained in that return".*

Validation parameters are:

- *Specific* (ex: if an individual failed to declare income of a Capital nature or data capturing clerks failed to bring to charge capital gains declared, the 7 per cent capital gains tax withheld at source would not be credited).

- *General* (ex: verify whether allowable deductions exceed 5 per cent of employment income, verify whether total tax on chargeable income differs from captured amount by more than Lm100, verify refunds claimed by taxpayers).

Further in-depth investigations on income declared are only carried out if the taxpayer is selected from a sample according to departmental criteria.

Observations

NAO requested the list of those taxpayers sampled for further investigation in order to form an opinion on assessments issued by the department of those taxpayers falling in this Office sample. This information was not made available.

The department has to verify whether there are arithmetical errors in all returns submitted and correct such errors where these result as required in terms of the revised Section 31 of the Act. From the audit it transpired that the department did not carry out this operation.

Moreover, out of 91 audited returns for each of Y/A 1999 and Y/A 2000, the audit revealed that in 2 cases for Y/A 1999 and in 3 cases for Y/A 2000, the data captured did not tally with the original return, without the variation being explained or accompanied by an Adjustment Form. 2 cases of Capital Gains arising from the sale of an immovable property were not brought to charge, even though declared as income by the taxpayers. As a result, non-conformity of assessments issued with details submitted in Y/A 1999 and Y/A 2000 returns amounted to 2.2 per cent and 3.3 per cent respectively.

A breakdown, for each of Y/A 1999 and Y/A 2000, regarding the types of irregularities and aggregate figures above quoted, is provided in the table below:

Figure 5: Y/A 1999 and Y/A 2000 Returns needing adjustment in Income Level Declared

	Y/A 1999		Y/A 2000	
	No of returns	%	No of returns	%
Information Omitted	22	24.2	21	23.1
Errors in Computation	24	26.4	24	26.4
Erratic Information	2	2.2	1	1.1
Total	**48**	**52.8**	**46**	**50.6**

C. Information Omitted, Errors in Computation and Erratic Information – Y/A 1997 to Y/A 2000

The department issued assessments after taking into consideration Trading and Profit/Loss Accounts, submitted with returns, featuring one of the three irregularities. The following table provides aggregates of figures and percentages, for the four years under review as presented in Figures 4 and 5, on the subject in caption:

Figure 6: Returns needing adjustment in Income Level Declared

	No of returns	%
Information Omitted	88	26.8
Errors in Computation	82	25.0
Erratic Information	6	1.8
Total	**176**	**53.6**

These figures are exclusive of information declared in the Income Tax returns being at variance with income declared in V.A.T. returns.

Information Omitted

Non-compliance with Section 19 of the Income Tax Management Act 1994,[4] being applicable to accounts submitted for the 4 years under review, was noted.

None of the taxpayers sampled for review were granted CIR's exemption as detailed under section 19 (3) from submitting Trading and Profit/Loss accounts. However, it resulted that 14 taxpayers regularly forwarded *'skeleton'* accounts, for each of the four years under audit. That is, accounts submitted lacked essential figures - Opening/Closing Stocks, Purchases and a detailed breakdown of Expenses.

Aggregates of Turnover, Cost of Sales, Total Expenses and Net Profit were the only details featuring in the *'skeleton'* accounts of these 14 taxpayers. Assessments were issued in respect of accounts lacking workings leading to Cost of Sales figure. Besides, aggregate total expenses as from Y/A 1997 onwards, were allowed as expenses for

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[4] ***Section 19:*** *" (1) Every person carrying on a trade, business, profession or vocation shall keep proper and sufficient records of his income and expenditure to enable his income and allowable deductions to be readily ascertained.*

(2) The records referred to in sub-article (1) of this article shall include:

- *a) proper accounts with respect to –*
  - *i) all sums of money received or expended and the matters in respect of which the receipt or expenditure takes place; and*
  - *ii) all sales, purchases or services rendered, as well as any other transaction, act or operation pertaining to the trade, business, profession or vocation;*
- *b) a profit and loss account or equivalent annual statement;*
- *c) a statement of the assets and liabilities as on the date on which the annual accounts of the trade, business, profession or vocation are made up or, in the case of a company, a balance sheet.*

(3) Subject to such conditions as he may deem fit to impose, the Commissioner may exempt any person in respect of any year of assessment from keeping any record or statement referred to in sub-article (2) of this article."

tax purposes, even though no related Breakdown of Expenses was provided in an aggregate of 18 returns.

There were another 5 cases, of businesses carrying on trading activities, who provided only the Sales and Net Profit figures. In 8 other cases the required Accounts were not submitted but declared only in the Income Tax Return, the Net Profit (6 cases) or Share of Profit (2 cases), in cases of partnership. Moreover, 2 taxpayers earning income from more than one business, submitted one Trading and Profit/Loss Account for both businesses.

Thus, the Department is not enforcing Section 10(5) of the income Tax Management Act, 1994 empowering it to refuse returns not accompanied by the required documents.

These shortcomings continued notwithstanding the fact that, as from Y/A 1999, the department commenced forwarding self-employed taxpayers with specimen Trading and Profit/Loss Accounts sheet giving a detailed list of common business expenses.

Errors in Computation

Uncorrected errors encountered in assessments raised were broadly of two types - of a mathematical nature and/or of an accounting nature.

Checking of mathematical calculations in accounts forwarded resulted in an aggregate of 16 returns as having miscalculated Cost of Sales, Gross Profit and total amount of expenses. The major incidence being the last type of error found in 7 cases. All these eventually led to a miscalculated and incorrect declaration of the Net Profit figure.

Accounts forwarded and assessed were also noted to have errors of an accounting nature:

- Opening Stock figure did not tally with Closing Stock figure of previous Financial Year.

- In calculating Cost of Sales, Opening Stock was erroneously deducted from Purchases while Closing Stock was added.

- Net Profit was calculated after deducting the cost of acquiring Fixed Assets, ranging from purchase of tools/machinery to payments by installments of motor vehicles. In a total of 20 returns expenses of a capital nature were deducted when calculating the Net Profit for the year.

- The Income Tax Act regulates that the cost price of the Fixed Asset be expensed for throughout a number of years. It also provides for an initial allowance in the first year of purchase in cases of capital assets newly purchased, in addition to the annual wear and tear allowance. Instances of erroneously deducting the cost price of capital assets in the year of purchase amounted to 2 (Y/A 1997), 5 (Y/A 1998), 8 (Y/A 1999) and 5 (Y/A 2000) in spite of the Instructions Manual issued for use by I.T. employees.

- The Department did not adjust Depreciation expense calculated on a Straight Line Basis instead of the Reducing Balance Method – 9 cases each for Y/A 1997 till Y/A 2000 were found.

- A particular taxpayer's income for Y/A 1999 was assessed upon Accounts for the Financial Year ended 1999, which in actual fact refer to Y/A 2000.

Erratic Information

Section 27 (1)[5] of the Income Tax Management Act, 1994 regulates the declaration of income as regards partnerships *'en nom collectif'*.

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[5] ***Section 27(1)*** *"Where the Commissioner is satisfied that a trade, business, profession or vocation is carried on by two or more persons jointly, the income*

13 per cent of taxpayers sampled declared to earn income from a partnership *'en nom collectif'*. The following are the findings arrived at after examining also the Income Tax Files and Y/A 1999 and Y/A 2000 returns of all partners:

- 1 (7.7 per cent) taxpayer declared to being in partnership for Y/A 1998 and Y/A1999 only. Profits declared were neither shared equally nor constant during these years. Being in partnership resulted in placing part of *'partnership'* profits for the two years respectively as non-taxable in the hands of the other *'partner'*.

The Commissioner did not enforce Subsection 3 of Section 27 granting authority to the Department that *"Where the Commissioner is not satisfied that a trade, business, profession or vocation is carried on by two or more persons jointly, the gains or profits from such trade, business, profession or vocation shall be deemed to have accrued to such person entitled to a share of such gains or profits as the Commissioner may elect, and assessment of tax shall be made accordingly"*.

- Another taxpayer declared being in partnership with another 2 partners. However, one of these partners did not declare the share of profit for Y/A 1999, due to differences between the partner's retirement date from the business.

- Although sharing profits equally, another partnership resulted in having its 3 partners declare a different share of profits.

- Another case in respect of Y/A 1997 and Y/A 1998 was found whereby only 1 out of 5 partners declared his share of profit.

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of any partner from the partnership, otherwise than in a partnership en commendite the capital of which is divided into shares or in a partnership anonyme, shall be deemed to be the share to which he was entitled during the year preceding the year of assessment in the income of the partnership, such income being ascertained in accordance with the provisions of the Income Tax Acts and shall be included in the return of income to be made by such partner under the provisions of the Income Tax Acts."

Whilst details submitted by partners of the remaining 9 partnerships agreed in their declaration of share of profits, irregularities resulted in 30.8 per cent (i.e. 4 out of 13) of partnerships verified.

Analysis of Expenses Claimed

Part IV of the Income Tax Act, specifically Section 14 (1) states that *"For the purpose of ascertaining the total income of any person there shall be deducted all outgoings and expenses incurred by such person during the year preceding the year of assessment to the extent to which such outgoings and expenses were wholly and exclusively incurred in the production of the income……".*

This provision progresses by listing those expenses that may be treated as business expenses. An expense may be allowed as business expense for one taxpayer, but not allowed for another because it is the nature of the business that determines whether the expense is an allowable deduction or otherwise.

Miscellaneous Expenses

The increasing trend to classify a substantial amount of total expenses as *'Miscellaneous / General Expenses'* limits the Department's ability to determine the nature of expenses included under this category. It results from NAO exercise that the percentage of expenses being declared globally as *'Miscellaneous/General Expenses'* increased from 2.8 per cent (i.e. 2 out of 72) in Y/A 1997 to 6.6 per cent (i.e. 6 out of 91) in Y/A 2000.

Defining *'substantial amount of total expenses'* results from the high rate of 22.5 per cent, 21.3 per cent, 35.1 per cent and 7.3 per cent from Y/A 2000 backwards respectively claimed under *'Miscellaneous'*.

Rent Payable

"Rent paid by any tenant of land or buildings occupied by him for the purpose of acquiring the income" is allowed as a deduction for tax purposes under Section 14 (1b) of the Income Tax Act. However, this section is to be read in conjunction with Section 25[6] of the Income Tax Management Act, 1994.

It was noted that none of the taxpayers, (20 taxpayers in Y/A 1997, 22 taxpayers in Y/A 1998, 32 taxpayers in Y/A 1999 and 28 taxpayers in Y/A 2000), claiming rents as a deduction, were forwarded with the Department's notice regulated by Section 25, even though total amount of rent claimed as expenses almost tripled during the four year period covered.

If obtained, this information could be effectively made use of by the department to:

- verify that the amount being claimed as an expense is the correct amount being paid and check that the rent claimed is not inclusive of a premium paid in addition to, or in lieu of, rent. Any premium paid would have to be regarded as a capital expenditure and therefore not allowed as an expense.

- verify that the rent is declared as income, in the hands of the individual(s) or entity receiving it, and hence brought to charge after deducting therefrom allowable deductions.

Out of the total 36 taxpayers claiming rent during the four year period, 19.4 per cent (i.e.7 out of 36) of taxpayers claimed a

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[6] ***Section 25*** *"The Commissioner may give notice in writing to any person who is the occupier of any house, property, land or industrial building requiring him to furnish within a reasonable time a return containing-*

(a) the name and address of the owner of such house, property, land or industrial building; and

(b) *a true and correct statement of the rent payable and any other consideration passing therefor."*

constant annual rent expense. An equal percentage of 19.4 per cent (i.e. 7 out of 36) claimed rent for one Y/A only, while 36.1 per cent (i.e. 13 out of 36) claimed rent for some particular Y/As only. Others, amounting to 5.6 per cent (i.e. 2 out of 36) resulted in rent claimed without any pattern whatsoever.

Self-employed National Insurance Contributions Payments

Part VI *'Personal Deductions'* of the Income Tax Act was repealed by Act XX of 1996 – Section 15. With effect from Y/A 1997, National Insurance Contributions payable both by an employed and a self-employed individual were not to be considered as a tax deductible expense in calculating taxable income.

It was noted that in 18 returns, 5 for Y/A 1997, 6 for Y/A 1998, 3 for Y/A 1999 and 4 for Y/A 2000, there were claims of N.I. payments as an expense. However, adjustments with respect to 3 taxpayers' Y/A 1998 returns resulted, by bringing to charge NI erroneously claimed.

Motor Vehicle Expenses

Section 14 (1c) of the Income Tax Act stipulates that *"any sum expended for repairs of premises, plant or machinery employed in acquiring the income, or for the renewal, repair or alteration of any implement, utensil or article so employed"* is an allowable deduction.

However, Section 26 of the Act provides a list of 'deductions not to be allowed' - *"For the purpose of ascertaining the total income of any person no deduction shall be allowed in respect of*

a) domestic or private expenses ……

b) any outgoings and expenses to the extent to which they are not wholly and exclusively incurred in the production of the income ………".

Expenses claimed ranged from fuel, license and insurance to repairs and maintenance of motor vehicles supposedly being made use of solely in the production of the income. The law defines that it is the nature of the business that determines whether the expense is tax deductible or otherwise. However, it was noted that allowance was granted to all those who claimed such expenses.

Out of the total 46 taxpayers claiming fuel during the four year period, 32.6 per cent (i.e.15 out of 46) of taxpayers claimed a reasonable annual increase in fuel expense. 8.7 per cent (i.e. 4 out of 46) claimed fuel for one Y/A only, while 41.3 per cent (i.e. 19 out of 46) claimed fuel for some particular Y/As only. Others, amounting to 17.4 per cent (i.e. 8 out of 46) resulted in unexplainable fluctuations in fuel claimed.

Expenses claimed in relation to Motor Vehicle License and Insurance revealed that 2 out of 7, claimed such an expense for only one Y/A. Another taxpayer claimed only for Y/A 1997 and Y/A 2000. In almost half of the taxpayers returns this expense is claimed in an irregular manner.

Out of 23 taxpayers deducting Motor Vehicle Repairs & Maintenance expense in calculating the taxable profit, 26.1 per cent (i.e. 6 out of 23) claimed these expenses for one Y/A while 47.8 per cent (i.e. 11 out of 23) claimed the expense for some years only. It is observed that the cost for repair and maintenance claimed almost tripled during the period Y/A 1997 to Y/A 2000.

Bad Debts

Section 14 (1d) of the Income Tax Act allows Bad Debts to be written off, for tax purposes, after having *"proved to the satisfaction of the Commissioner to have become bad during the year immediately preceding the year of assessment* *notwithstanding that such bad debts were due and payable prior to the commencement of the said year".*

Although the application of this section applied to only one of the taxpayers sampled, it is worthwhile to note that proof of any action taken by the taxpayer to recoup the amounts written off was not obtained. This notwithstanding the fact that amounts involved as a percentage of total expenses amounted to 11.5 per cent and 12.4 per cent for Y/A 1999 and Y/A 2000 respectively.

Entertainment Expenses

Although Entertainment Expenses claimed to have been incurred does not constitute a tax deductible expense, due to the nature of the businesses carried out by the relevant taxpayers, these were nonetheless allowed as deductions against taxable income. Although the expenses claimed decreased in absolute terms, the rate in real terms is on the increase considering that 3 taxpayers put up a claim for Y/A 1997 as compared to 1 taxpayer who claimed in Y/A 2000.

The Instructions Manual states that *"A claim for such deduction should be supported by reasonable evidence as to its nature and amount. The cost of entertaining potential new customers, however, is regarded as incurred before income is produced and is not therefore allowable".*

Wages Payable

Wages payable are to be treated as expenses if these are *"wholly and exclusively incurred in the production of the income"* and thus are allowed prior to calculating the Net Profit. The number of taxpayers claiming these expenses increased from 10 in respect of Y/A 1997 to 13 in respect of Y/A 2000.

The department did not verify employees' remuneration claimed. This verification is considered necessary to:

- verify whether the self-employed business is registered as an employer with the Inland Revenue Department
- check that the amount claimed as an expense reconciles with data featuring in the Payee Statement of Earnings (TX 34) (applicable to Y/A 1997 and Y/A 1998) and Final Settlement System Payee Statement of Earnings (FS3) (applicable with effect from Y/A 1999), thus reducing the possibility of excess or fictitious expenses allowed as deductions
- check that the amount was declared by the employee(s) in receipt of the remuneration and accordingly brought to charge in the hands of the recipient(s)
- verify whether the director owner of the business declared the income earned as remuneration from the business itself.

Verification of details with V.A.T. Department

Verifying details against V.A.T. Application

Checking of details entered in V.A.T. applications revealed the following differences against declarations made in the Income Tax Return and accounts submitted:

- 5 taxpayers differed in stating whether the self-employment business is being carried out on a Full Time or Part Time basis - the Income Tax Return of 4 taxpayers stated that the main income is earned from the full-time self-employment business, but the contrary was found in the related V.A.T. applications, the other taxpayer declared that the income was earned from the ownership of a company engaged in the business on a Part Time basis, whereas the V.A.T. application showed that he is self-employed full time in the business.

- 2 taxpayers declared their partnership's share of profit in the Income Tax Return, but applied for the V.A.T. Number as sole self-employed traders. Another taxpayer is assumed to be declaring the total profits arising from his business, whereas information obtained from V.A.T. Department shows that the business is a partnership between 3 partners. Another taxpayer's details differed as to the retirement date of one of the partners from the business.

- 4 taxpayers applied for a V.A.T. number, and hence declared to have started the business much before having commenced declaring income in the Income Tax Return.

- Another taxpayer differed in his description of the nature of his self-employment economic activity.

- In addition, 4 self-employed individuals resulted in having not registered for V.A.T purposes.

V.A.T. Files in respect of 4 taxpayers were not forwarded. However, relevant taxpayers' details were obtained from computerized information available, being inputted from applications forwarded to the V.A.T. Department.

Trading Accounts' Figures against V.A.T. Returns – Turn Over and Purchases

As opposed to the requirement of submitting annually Income Tax Returns relating to the whole of the previous Financial Year, the closing date and Financial Period to which V.A.T. Returns are to be submitted is based on the Turnover or Income from the Provision of Services. As a result, the higher the Turnover, the shorter the reporting period.

Due to the differences in reporting periods, figures assessed were checked, wherever possible, against calculated annual averages for Turnover and Purchases. Irregularities resulted after having compared turnover declared in income Tax returns against declared amounts in VAT returns. Amounts differing by less than Lm1000 were not reported upon.

Turnover declared differed by 54 per cent (i.e. 34 out of 63) in Y/A 1997, 47 per cent (i.e. 31 out of 66) in Y/A 1998, in Y/A 1999 47.7 per cent (i.e. 41 out of 86) and in Y/A 2000 the difference was 35.7 per cent (i.e. 30 out of 84).

On the other hand, considering that purchases of stock for resale and business expenses incurred were being reported separately, in the V.A.T. Return, as from V.A.T. 1999, it is considered prudent to comment on Purchases declared for Y/A 2000 only. Figures differed by 20.3 per cent (i.e. 16 out of 79).

The above figures are inclusive of cases whereby Nil income was declared in the Income Tax Return, contrary to what was declared in the V.A.T. return. Turnover not declared in the tax returns totaled 4, 5, 2 and 3 for Y/A 1997 to Y/A 2000 respectively.

Undeclared Income

Turnover not declared, inferred on the whole self-employed population during the four year period sampled is estimated as follows:

Y/A 1997	Lm8.6 million
Y/A 1998	Lm8.5 million
Y/A 1999	Lm8.5 million
Y/A 2000	Lm4.8 million

The amount of turnover not declared implies that the profit element that might have been generated was not brought to charge.

The decrease in turnover not declared may be attributed to the increase in taxpayers' awareness of the responsibilities and consequences resulting from incorrect self-assessment and associated increase in penalties.

National Insurance Contributions Payments

As stated earlier, it is not the purpose of this exercise to determine the validity of N.I. Contributions issued by the Inland Revenue Department. This notwithstanding the following findings are being mentioned:

- 5 cases were found whereby the husband is an employed individual, with the wife deriving income from self-employment but without any N.I. claims raised by the Department on the spouse.
- No details with respect to N.I. claims or payments were found in 6 other cases.
- 36 per cent or 32 out of the remaining 89 taxpayers, resulted in having outstanding N.I. contributions arrears. At the date of the audit, unpaid N.I. contributions by these 32 taxpayers amounted to Lm7114 and Lm12862 for Y/A 1999 and Y/A 2000 respectively.

Outstanding arrears for Y/A 1997 and Y/A 1998 are not being provided since the Inland Revenue Department became responsible to issue N.I. claims as from 1 January 1998

Conclusions

The following can be said to be the major shortcomings resulting from the survey:

- Not all Y/A 1997 and Y/A 1998 returns were found in the relative taxpayer's files but these returns were separately assessed on the basis of information forwarded in each return.

- The majority of pre Y/A 1999 assessments were issued only on the strength of information declared by the taxpayer.

- Y/A 1997 and Y/A 1998 assessments were issued without enquiring or verifying further amounts declared in the returns.

- Arithmetical adjustments were not effected prior to determining the chargeable income in Y/A 1999 and Y/A 2000 self assessment returns.

Period Y/A 1997 till Y/A 2000

- Differences between Opening Stock of a Y/A and Closing Stock of the previous Y/A.

- Expenses in respect of rent, motor vehicle licence and insurance were claimed for only one or some Y/As.

- Partnership profits were not computed first and then each partner taxed on the relative partnership's share of profit. A separate assessment on its own was carried out for each partner without viewing the partnership as a whole.

- Minimum mathematical checking such as adding up of expenses claimed was not carried out.

- Adjustments catering for accounting errors, including expenses not allowed for income tax purposes were not effected.

- The department may become aware of individuals under-declaring their income by putting to practice Section 25 of the Income Tax Management Act, 1994 in terms of which the CIR may request details as to whom rent is being paid.

- Wages paid to individuals employed on a full or part-time basis is not being checked to ascertain that wages payable by the business (and thus allowed to be claimed as a business expense), are brought to charge in the hands of the owner of the business being in receipt of these wages, in addition to the profits from the self-employment.

- Apparently communication between the two main Government's revenue collecting departments - Inland Revenue and the V.A.T. Departments – is not strong.

- The Inland Revenue Department is not effectively making use of information regarding taxpayers found not issuing fiscal receipts following a VAT inspection.

Management's Comments

The following departmental comments were forwarded to this Office in letter dated 19th November 2001:

- Before implementing the new system, the department considered it essential to eliminate the work backlogs that existed in the assessment process of the returns submitted for the years prior to year of assessment 1999 and to update taxpayers' accounts. This exercise had to be carried out at the shortest possible time as delaying the processing of the outstanding assessments could impinge on the credibility of the new system.

- Since 1999, the department had to operate the two systems in parallel putting great pressures on human resources. Enough staff had to be allocated to the newly set-up units to ensure that these operate with efficiency and that all timeframes established by legislation are adhered to. Due to these circumstances, the number of staff deployed for the updating of the pre 1999 assessments had to be restricted.

- Although the department considered it impossible to examine the returns in detail when raising the assessment, any deficiencies that may have occurred will be rectified in future. The department is strengthening its procedures for the auditing of the income declarations made by taxpayers to check in-depth for any potential tax evasion in respect of returns filed by taxpayers for pre- or post-1999 years of assessment. Cases selected for further enquiries will undergo an extensive investigation covering and going back for as many years as necessary.

- The department is devising an electronic system whereby the data from the submitted trading and profit and loss accounts, amongst other data, is checked against preset accounting ratios and other criteria to identify the 'possibility' of any non-compliance with tax laws. Such tax returns are immediately referred for extensive in-depth auditing by the new 'tax audits' division set up within the department for this purpose.

- Tax returns submitted without the necessary attachments, like the profit and loss account, will be immediately referred for auditing and may eventually lead to a formal assessment by the department.

Recommendations

Considering the findings and conclusions NAO recommends that quality of assessments for Y/A prior to 1999 should not be prejudiced when expediting the issue of assessments.

The following recommendations would enable the Commissioner of Inland Revenue to administer the tax system fairly and efficiently and help self-employed taxpayers be more aware of their responsibilities and comply with their tax obligations.

- A rotation system of assessment should be introduced. The same taxpayer is to be assessed by the same assessor for two consecutive years. The file is to be reviewed for the next two years by a different assessor.

- Assessments are to be raised after viewing past returns contained in the file thereby enabling the assessor to become familiar with the respective case.

- Register all partnerships and assess the partnership as a whole to arrive at the taxable profits. The taxable profits should be distributed amongst the partners according to their profit sharing ratio.

- Examine the accounts forwarded by taxpayers by:

  1. Obtaining proper and detailed Trading and Profit/Loss Accounts prior to issuing assessments.

  2. Checking whether Opening Stock is equal to Closing Stock of the previous Financial Year.

  3. Recalculating totals and other figures, and effect arithmetical adjustments in respect of assessments issued for Y/A 1999 and after, where necessary.

  4. Analyse accounts as to percentage gross profit margin or mark-up, Net Profits as a percentage of Turnover and expenses as a percentage of Net Profit.

- Review past years' assessments issued if the assessing exercise reveals irregularities or material errors.

- Apply the provisions of Section 21 of the Income Tax Management Act, 1994 with respect to rents payable prior to assessing outstanding assessments.

- Where trend of expenses claimed is not reasonable, obtain records for further verification as provided for in Section 14 of the Income Tax Management Act, 1994.

- Collate details available at the Department with details at the V.A.T. Department. Verify further income declared by taxpayers reported upon as not issuing fiscal receipts.

- The department should also keep statistics, on an annual basis, to highlight the tax recouped (i.e. the increase in tax intake) through carrying out examination of accounts. The difference between the tax assessed and tax declared by self-employed taxpayers should serve as an indication to the tax administration as to whether they are being successful or otherwise in tackling tax evasion from this particular sector of the economy.