

# **Performance Audit**

## **VAT Department Inspectorate Unit**

**Report by the Auditor General**

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October 2000

Mr. Speaker,

This report has been prepared and is being submitted in terms of sub-paragraph 8(a)(ii) of the First Schedule of the Auditor General and National Audit Office Act, 1997 for presentation to the House of Representatives in accordance with sub-paragraph 8(b) of the said Act.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'J. G. Galea', with a horizontal line underneath the name.

*J. G. Galea*  
Auditor General

The Hon. Speaker  
House of Representatives  
Valletta

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## **Executive Summary**

1. A performance audit relating to operations undertaken by the Inspectorate Unit of the VAT Department has been undertaken during the period January-April 2000. This audit sought to evaluate the efficiency and effectiveness of the Inspectorate Unit within the Department. For this purpose, three main functions of the Inspectorate, namely fiscal receipt spot-check inspections, business surveillance and desk audits were reviewed.
2. The Department has undergone three major changes since its inception. The three changes in legislation in the span of five years entailed that departmental priorities had to shift from enforcement and developing methodologies and techniques to increase revenue to conducting fundamental changes in legislation, computerisation and internal organisation. Furthermore, several units were organised to carry out duties connected with several new schemes set up under the new Act<sup>1</sup>.
3. This audit has identified a number of issues which are hindering the Inspectorate Unit from attaining better results. The performance of desk audits, surveillance visits and fiscal receipt spot checks, which constitute an important basis to enforce current VAT legislation, did not always attain the desired level of performance.
4. The entry qualifications for VAT inspectors are considered as below those requested by other countries operating this system of consumption tax. The absence of a working manual creates an over-dependence on VAT inspectors' experience and aptitude. This situation is not conducive to standard work

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<sup>1</sup> VAT Department Management Report – December 1999.

practices and decision making. In addition the Department estimates that its complement of VAT inspectors falls short of requirements. However, the Department is currently in the process of recruiting a number of part-time inspectors.

5. The strategy adopted by the Department in respect of fiscal receipt spot-checks does not lend itself for the whole spectrum of business categories. For instance, it does not cater for or is conducive to attain results when applied to certain service providers and the construction industry. That the current approach to strategic planning relating to such inspections is diminishing their effectiveness. Inspections should also be targeted on those areas and categories where tax-compliance is most at risk.
6. Nearly 60% of fiscal receipts spot check inspections indicate trader compliance. On the other hand about one fourth of inspections carried out are inconclusive and required follow up. The hit rate of inspections during 1999 amounted to 20%.
7. Over 1300 surveillances of business were carried out during 1999. Assessments of under-declared tax are rarely raised solely on the basis of the information collected during a surveillance. Normally assessments are raised following an in-depth desk audit supported by information collected through surveillances.
8. Information relating to Traders' records is not being fully exploited. Furthermore, the targeting of inspections and surveillance is not strategically planned. Targeting does not reflect the distribution of traders categorised by economic activity or the risk associated with the VAT revenue.
9. The use of risk based targeting is still in its evolutionary stage and has been introduced at the Sifting Unit early this year. Techniques adopted to date are basic and are not adaptable to

all business situations. The use of information technology in risk assessment is still minimal.

- 10.** The Department does not utilise performance indicators as a management control tool on the output of the different functions performed by the Inspectorate Unit. Records pertaining to time allocated per function are not maintained and thus an evaluation of efficiency for each of the three functions audited could not be performed.
  
- 11.** The Department is involved in harmonising legislation and work practices in accordance to European Union standards. The setting up of the Tax Compliance Unit is the logical consequence to the objective of enhancing efficiency and effectiveness of the tax collection function. Furthermore, this Unit will provide the opportunity for tax collecting departments to co-ordinate their activities and utilise more effective techniques to ensure that monies due to Government are duly, and timely, collected.





## 1 Introduction

1.1 A performance audit relating to operations carried out by the Inspectorate Unit of the VAT Department has been undertaken during the period January-April 2000. The audit focused on operations undertaken by the Unit during 1999 and information is as verified by the National Audit Office as at end February 2000.

### Background

1.2 Value Added Tax Act, 1998, which came in effect on 1 January 1999, provides the legal framework which regulates operations undertaken by the VAT Department. The main objectives of the Department, as outlined in the Estimates 2000, include ensuring that all potential taxpayers register for VAT and that tax due is collected in an efficient and timely manner. Revenue target for fiscal year 2000 is estimated at Lm100 million<sup>2</sup>.

1.3 The Department's structure and procedures were revised according to the new VAT legislation. During 1999, several task teams were organised to carry out duties connected with a number of new schemes and functions introduced under this new Act. The Department, however, still has a significant number of outstanding cases relating to Value Added Tax Act, 1994 and Customs and Excise Tax Act, 1997. Such a situation is hindering the Department from focusing totally on aspects relating to VAT 1998. For most of 1999, the Department's resources were directed towards ensuring a smooth transition from one system to another.

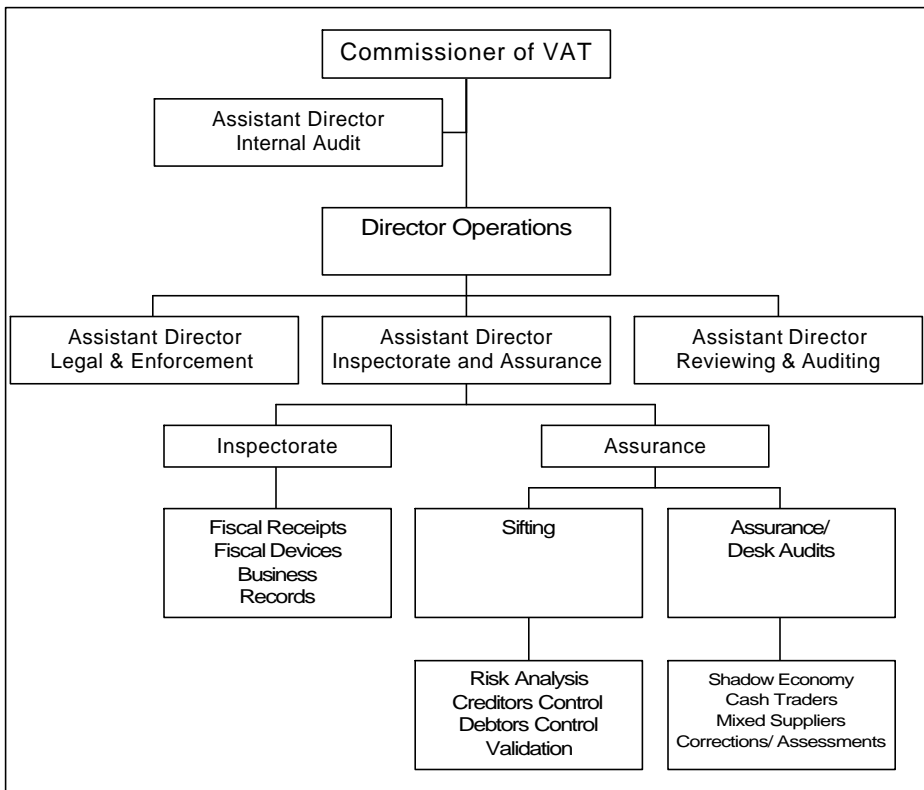
1.4 Assurance of VAT compliance by traders is the primary activity undertaken by the VAT Department. Most of the assurance

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<sup>2</sup> Estimates 2000 (p 151).

related activity is the responsibility of the Inspectors at the Department. In total the Department employs 43 inspectors. The Review Section, which also performs assurance and enforcement duties employs eight of these inspectors under the headship of an Assistant Director. The Inspectorate Unit, also headed by an Assistant Director, employs the other 35 inspectors which constitute 26% of the staff complement employed by the Department. Both Units report to the Director Operations within the Department. An organisation chart of the VAT Department is presented below. The operating costs related to the inspectors employed at the VAT Department during 1999 amounted to Lm578,260. A breakdown of this amount is provided at Table 9 of this Report.

**Chart 1: VAT Inspectorate & Assurance Organisation Chart**



Source: VAT Department

1.5 The main functions of the Inspectorate Unit during the year under review (1999) entailed:

- the performance of field inspections to investigate and deter potential abuse in the issue of fiscal receipts;
- the undertaking of surveillance visits to assess traders' business activities;
- the performance of desk audits relating to traders' business activities;
- monitoring of manual fiscal receipts and fiscal devices;
- Y2K testing and compliance;
- attendance of court sessions in connection with alleged VAT non-compliance;
- monitoring of tax returns through sifting techniques;
- dealing with consumers' complaints and manning a customer help desk;
- other duties directly connected with the changeover from previous to current VAT legislation.

1.6 These tasks are carried out by sub-units headed by a Principal Officer. One-sub unit consists of 16 VAT inspectors responsible for the performance of fiscal receipts' inspections and surveillances. The other sub-unit of 16 inspectors performs desk audits. Eight inspectors deployed at the Review Section also contribute to the above duties. Three members of staff are deployed at the Sifting Unit to support the inspectors by validating the correctness of VAT returns and the sifting of high-risk taxpayers through various analytical techniques.

- 1.7 It is to be pointed out that 20 inspectors performing the functions described above were also assigned investigation duties in connection with the Refund of CET on Stocks 1998 Scheme as well as VAT 1994 excess credit claims. This is further mentioned in paragraphs 2.51 to 2.54.
- 1.8 The assurance powers of the VAT Department are regulated by the 1998 Act. Defaulters detected by the Inspectorate Unit are referred to the Legal Section for any further action deemed necessary. The Department is empowered to impose a 'compromise penalty' on defaulters. The Act empowers the Commissioner to enter into an agreement with offenders whereby the defaulter pays a fine. Court action and compromise penalties, was taken in 1187 cases emanating from inspections performed by the Inspectorate Unit in 1999 (table 2 refers)

## Audit Objectives

- 1.9 In view of the importance of the revenue (tax) collection function within Government, the National Audit Office has included in its audit program for 2000 the performance audit of the Inspectorate Unit. It is estimated that during the current financial year, the revenue generated through consumption taxation will amount to 15% of Government's Ordinary Revenue<sup>3</sup>.
- 1.10 Given the importance of an efficient and effective tax collection system, the NAO objectives for this audit include evaluating whether:
- processes and operations undertaken by the Inspectorate Unit are efficient and effective
  - all sectors participating in the Maltese economy are given the adequate degree of attention by the Unit.

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<sup>3</sup> Source: Estimates 2000 (p 8).

## **Scope, Methodology and Constraints**

1.11 In order to attain the above objectives, NAO reviewed whether:

- this Unit has performance measurement criteria against which to assess its operations;
- the inspections' procedure in use by the Department is conducive to attain efficiency and effectiveness in respect of operations undertaken vis-a-vis inspections and desk audits;
- activities undertaken are bearing the desired results.

1.12 The performance of this audit entailed that interviews and meetings be held with the Commissioner of VAT and other officials within the Department. Data utilised for the purpose of this exercise was provided by the VAT Department and validated by NAO through sampling. The source of data will be quoted where appropriate.

1.13 This audit entailed the review of:

- 886 (15% of fiscal receipt spot check- inspections) VAT files and reports related to fiscal receipt inspections
- 228 (18% of surveillance visits performed) related to surveillance, and
- 118 (22% of provisional assessments cases reviewed) files in respect of desk audits.

1.14 The Act stipulates that the Commissioner of VAT may permit the Auditor General or his representative to have access to any records or documents as may be necessary for the performance of audits.



## 2 Findings

### VAT Inspectors

- 2.1 There are no formal educational requirements for VAT inspectors' recruitment. The only requirements are as specified by the relative Management and Personnel Office circular which require that applicants hold an appointment of Assistant Principal or Executive Officer in the General Service. Although a pass at "O" level in bookkeeping or accounts is desirable, this is not obligatory. Given that the duties of VAT inspectors include ensuring that proper books of accounts are kept and performing audit assessments and book auditing, current recruitment requirements may not be conducive to optimal inspector performance.
- 2.2 Personnel have received relatively little formal training in carrying out inspections and identifying risk areas/traders. On the job training is given by experienced staff within the Unit. However, this does not always ensure a thorough understanding of the job and its requirements. Skills required for the job are gained mainly through experience. Furthermore, since staff at the Inspectorate Unit has to rely heavily on experience and intuition, fairness and consistency in procedures and practices is not always apparent.
- 2.3 Current training practices include an induction course for new recruits. The Department also organises a number of training sessions delivered by the Department's senior officials and a public auditor. In addition to the above, a 5-week course relating to field inspections was organised for all VAT inspectors during 1999. This training program was delivered by H.M. Customs and Excise of the United Kingdom. The aim of these training modules



was to provide inspectors with new assurance and auditing skills for controlling tax evasion and avoidance through timely implementation of effective assurance measures. This course also provided field training to VAT inspectors. Two inspectors also attended a three-month training course in Brussels related to the activities undertaken by the Department. However, despite the fact that the need for better training has been recognised by the Department, there is no on-going training program.

## **Field Visits**

- 2.4 The Inspectorate Unit is empowered to perform on-site visits where economic activities are carried out in order to enforce compliance to VAT legislation. This audit covered fiscal receipt spot check inspections and surveillance inspections. Fiscal receipt inspections mainly focus on the issuing of fiscal receipts, the functionality of fiscal devices and the keeping of sales' records. Business surveillance inspections are also carried out over a number of hours or days to ascertain the level of business activity. Field inspections ensure that VAT registered taxpayers declare the correct amount of input tax. These inspections also address consumer complaints.
- 2.5 Field inspections are performed by 16 inspectors. Other inspectors deployed within the VAT Department also perform on-site visits. However the latter are carried out on weekends. During 1999, 5957 fiscal receipt spot check inspection and 1302 surveillance inspections were performed. The costs associated with the maintenance of the various functions of this Unit are lumped together since relevant data is not separately kept by the VAT Department<sup>4</sup>.

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<sup>4</sup> Further details relating to costings of Inspectors are presented at para. 2.55.

## **Fiscal Receipt Spot Check Inspections**

- 2.6 Fiscal receipt inspections arise from three main sources, namely:
- consumer complaints received through the Consumer Welfare Unit at the Department of Consumer Affairs;
  - complaints received at the VAT Department through the VAT Customer Care Service and other inspections performed on the initiative of the Department.
- 2.7 Fiscal receipt inspections are mainly undertaken on the initiative and approval of the Principal Officer in Charge and the Head of the Inspectorate Unit respectively. The main criterion for performing inspections originating from consumer complaints is the chronological approach according to the inflow of complaints. 12% of inspections covered consumer complaints received at the Department of Consumer Affairs and forwarded to the VAT Department for necessary action required. Furthermore, this Unit performs random inspections of businesses at various localities on the initiative of the Department. During 1999, 88% (5242 cases) of inspections were performed on the initiative of the Department. Such an amount includes the follow-up of complaints by consumers received at the VAT Customer Care Service at the Department.
- 2.8 A team of two or more inspectors generally performs fiscal receipt inspections. Such inspections entail that the inspectors ensure the correctness of current recording of sales through the issuing of fiscal receipts. The inspectors are empowered to request consumers to produce relevant fiscal receipts. In addition, and for internal control purposes, the inspectors request trader to furnish sales readings as recorded in the fiscal cash register. The inspectors may also request trader to make available the transaction journal.

2.9 The Commissioner may, in the case of an offence by a trader, impose a 'compromise penalty' in terms of Section 84 of the Act. The same legislation empowers the Commissioner to prosecute defaulting traders following an observed third offence. In the latter instances, inspectors will be required to give evidence in court. During 1999, 1222 compromise penalties out of a total of 5957 inspections were imposed. However, it is to be pointed out that compromise fines were actually introduced during July 1999. The number of compromise penalties therefore cover period July-December 1999.

### ***Targeting***

2.10 The targeted sectors during 1999 are indicated in Table 1 below. The catering industry, together with high street retail outlets and hawkers, featured prominently in inspections performed.

2.11 A significant number of other sectors, such as services, professions and the manufacturing industry were given a much lower priority. A breakdown of inspections is included at Appendix I. A contributory factor to such a situation is that the methodology adopted for these inspections does not easily lend itself for these categories. Such a scenario may arise through a number of reasons. For instance, such professions usually offer payment on account facilities and thus fiscal receipts are not issued for each visit. Moreover, a number of professional services are VAT exempt. One may contend that the performance of such inspections will not contribute towards actual VAT revenue. However, such an argument is fallacious since it excludes the fact that through VAT compliance, the trader will also be obliged to comply with Inland Revenue regulations. The establishment of the Tax Compliance Unit within the Ministry of Finance should enhance co-operation between the tax collecting departments.

**Table 1 – Fiscal Receipts Spot Check Inspections performed during 1999<sup>5</sup>**

Description <sup>6</sup>	Field Inspections	Total Field Inspections	Total Traders in Category	Total Traders inspected in category
	(No)	(%)	(No)	(%)
Wholesale and retail trade	3,748	65.205%	15,155	30.339%
Hotels and restaurants	965	16.788%	2,899	5.804%
Manufacturing	503	8.751%	4,277	8.562%
Other community, social and personal service activities	210	3.653%	4,877	9.763%
Real estate renting and business activities	140	2.436%	6,540	13.093%
Agriculture Hunting and Forestry	65	1.131%	4,495	8.999%
Health and social work	39	0.678%	1,011	2.024%
Construction	26	0.452%	4,121	8.250%
Transport and storage and Communication	25	0.435%	2,983	5.972%
Others	27	0.469%	3,594	7.194%
	<b>5,748</b>	<b>100.000%</b>	<b>49,952</b>	<b>100.000%</b>

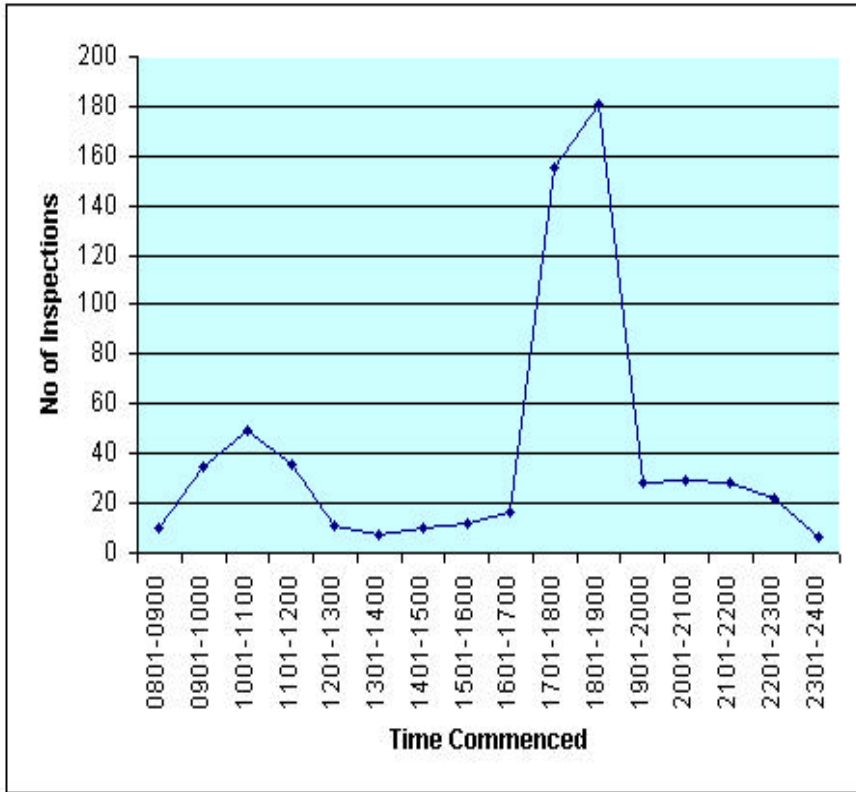
Note: Sorted according to number of Field Inspections.

2.12 A 15% random sample of all inspections performed during 1999 revealed that 50% of all inspections were performed between 17.00 hrs. and 19.00 hrs. – Chart 2 refers. Such timings exclude a significant business period. The Department ought to study the effectiveness of this approach to timing of inspections.

<sup>5</sup> Note: 209 inspections are excluded from this table since they could not be matched with the Core Database at the VAT Department. It is to be noted that 5957 inspections were performed during 1999 as is indicated in Paragraph 2.9. Source: VAT Department Field Inspection Database and VAT 1998 Core Database.

<sup>6</sup> NACE code description is as given by the VAT Department

**Chart 2- Fiscal Receipt Spot Check Inspections'  
Commencement Time<sup>7</sup>**



***Frequency of Inspections Performed***

2.13 Table 2 overleaf indicates the frequency and outcome of fiscal receipt spot check inspections performed in 1999. The number of inspections targeted at the same traders within one year is also shown.

2.14 The Table indicates:

- a compromise penalty/court action was inflicted in 1187 cases or 20% of inspections;
- 1328 cases indicate that 24% of inspections required follow-up;

<sup>7</sup> Source: Files viewed by NAO.

**Table 2 – Frequency of Fiscal Receipt Spot Check Inspections performed during 1999**

<b>Traders</b>	<b>Frequency of Inspections</b>	<b>Compromise Penalty/ Court Action</b>	<b>Follow-Up Recommended</b>	<b>No Action Required</b>	<b>Total</b>
1	18	9	2	7	18
1	17	2	5	10	17
1	16	9	4	3	16
3	15	3	6	36	45
1	14	8	2	4	14
2	13	3	5	18	26
2	12	6	11	7	24
3	11	13	2	18	33
5	10	10	18	22	50
7	9	16	19	28	63
10	8	17	15	48	80
18	7	21	26	79	126
38	6	39	55	134	228
67	5	56	89	190	335
115	4	93	87	280	460
279	3	151	184	502	837
686	2	267	319	786	1372
2004	1	464	479	1061	2004
<b>3243</b>		<b>1187</b>	<b>1328</b>	<b>3233</b>	<b>5748</b>

Note: 209 inspections are excluded since they could not be matched with the Core Database at the VAT Department. Consequently, 35 cases were excluded from the figure of the 1222 quoted in paragraph 2.9.

- no further action was required following 3,233 or 56% inspections;
- in some cases the imposition of penalties and/or legal action against a determined defaulter did not serve as an adequate deterrent. This is indicated by the repeated number of compromise penalties inflicted on some traders. In certain instances, the number of

compromise penalties imposed on traders exceeded the limit of three compromise penalties stipulated by the 1998 Act. The Department has taken immediate steps to examine its position vis-à-vis this situation.

- 27 % of all inspections carried out were visits repeated on the same taxpayers for at least four times.

2.15 The fact that 24% of inspections required follow-up and that penalties/court actions were inflicted in 20% of inspections may indicate lack of effectiveness in VAT compliance.

2.16 It is felt that the following observations relating to spot-check inspections contribute to a reduction in inspection effectiveness:-

- There is no evidence of a developed strategic approach to target inspections on high risk areas. Strategic planning would enable the department to increasingly focus on the higher risk areas regarding both evasion and potential revenue.
- Electronic Targeting –Inspection targeting is not performed electronically on the whole population of traders. Current manual targeting does not take into consideration ‘*trader risk*’ related to taxable turnover, complexity of the business and past trader compliance. However, electronic sifting, introduced earlier this year, is considered to be the first stage in developing electronic risk assessment.
- Operational Manual - The Inspectorate Unit lacks a manual relating to the official methodology to be adopted by inspectors during field-work. Such manuals are generally intended to provide working guidelines as well as ensuring that a standard methodology is implemented. Although a number of

hand-outs are given during training modules these do not eliminate the need for standard guidelines. Instances were noted whereby inspectors used a different approach for performing inspections. The frequency and significance of these inspections warrant the setting up of standard guidelines.

### ***Inspection Reports***

- 2.17 An inspectors' report for each inspection is compiled in accordance to a pre-set format. However, these reports are not always comprehensively compiled therefore diminishing the effectiveness of the inspectorate function.
- 2.18 The reports lack a number of details regarding the initiating source of the inspection, date and type of complaint (if applicable). The lack of such data inhibits further analysis.
- 2.19 The pre-printed report sheets are not sequentially pre-numbered and thus internal control over these loose-leaf sheets is not considered adequate.
- 2.20 Closing time of inspections is generally not recorded on the inspectors reports. This omission does not enable an accurate evaluation of inspection efficiency. This situation also minimises internal control relating to administrative matters, such as over time due to inspectors.
- 2.21 A 17% sample, equivalent to 69 inspection reports compiled in April 1999, revealed 26 instances (38%) where the completed pre-printed report was not signed by all the inspectors who performed the inspection. Such a situation deviates from the Department's policy (undocumented) that all inspections are to be performed by at least a team of two persons to ensure inspector accountability and a better representation if the case is referred for legal action. NAO confirmed that all reports being



processed by the Legal Section for court action were correctly endorsed by relative inspectors.

- 2.22 Quality control reviews of completed inspection reports are generally not performed by either the Principal in Charge or the Head of Section. Both these officials stated that such a review was not performed due to other priorities and pressure of work.
- 2.23 A database relating to inspections performed is also kept by the Inspectorate Unit. The primary function of such a database is for departmental administrative purposes. However, the database does not include all the fields completed by inspectors in their report such as time, and description of inspection outcome. The non-inclusion of such information hinders the evaluation of results obtained. In addition, the opportunity to produce management reports which contribute towards better inspection planning and co-ordination is not taken advantage of. Furthermore, 209 out of a population of 5957 inspections were eliminated from the analysis since traders' VAT number could not be matched with the same field contained in the core system.

### ***Inspection Follow-up (FUR)***

- 2.24 Follow Up action Required (FUR) is recommended when inspections do not conclusively indicate trader compliance in respect of issuing fiscal receipts. The Table opposite indicates instances where FUR was recommended. NAO derived this information through a random sample of 118 out of a population of 1414 FUR cases<sup>8</sup>.
- 2.25 Reasons, which potentially hinder the completeness of fiscal receipts inspections leading to a follow up inspection are given in Table 3. Other instances hindering the performance of these

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<sup>8</sup> The 1414 FUR cases include 86 cases whose VAT number could not be matched with Core Database.

inspections include the non-tracing of daily business locality of hawkers or other non-permanent business premises.

**Table 3 - Inspection Follow-Up (FUR)**

<b>Remarks/Reasons for an inspection follow up</b>	<b>Number</b>	<b>Percentage</b>
Documented inspections' outcome justifies FUR	49	41.53%
Presence of Inspectors was noted	28	23.73%
Incomplete inspection report	26	22.03%
No clients at time of inspection	6	5.095%
Compromising fines included	5	4.24%
Customer did not co-operate	4	3.39%
	<b>118</b>	<b>100.00%</b>

Source: VAT Department Inspections' Reports

2.26 A lack of continuity between an initial inspection and a follow up arises since:

- it is not the same inspector who performs the follow-up;
- no reference or previous inspection outcome are indicated to the inspector performing FUR;
- the Principal in Charge does not refer to previous reports when scheduling FURs to be undertaken;
- a significant period elapses between initial inspection and follow-up. Outstanding FURs date back to inspections performed four/five months earlier;
- no specific reason was cited for recommending further action to be taken in 20 out of 26 incomplete inspection reports;

2.27 Such a situation does not encourage inspectors to focus their inspection on previously highlighted deficiencies.

## Surveillance

2.28 Surveillance exercises entail that two or more inspectors evaluate the business activities of a given outlet through observing the level of activity in a given period. The effectiveness of surveillance increases significantly when such reviews are complemented with other assessments of the trader's business. In fact, such exercises are generally performed to complement assessment and enforcement related tasks. During 1999, the VAT Department performed 1281\* and 21 surveillance exercises in Malta and Gozo respectively.

**Table 4 - Surveillances performed during 1999**

Description	Malta	Gozo
Hotels and restaurants	752	17
Wholesale and retail trade	253	2
Other community social personal service activities	127	0
Manufacturing	61	0
Real estate renting and business activities	28	0
Construction	9	0
Health and social work	8	1
Transport and storage and communication	7	0
Agriculture Hunting and Forestry	3	0
Education	3	0
	<b>1251*</b>	<b>20</b>

\* 31 surveillance exercises are excluded from this table since VAT numbers at source could not be matched with Core Database.

Source: VAT Department Field Inspection Database.

2.29 Surveillance targeting is the responsibility of the Principal in Charge of field inspections. Exercises are generally undertaken on the initiative of the afore-mentioned officer and/or in accordance with specific requests from other sections within the VAT Department. Requests, however, are generally verbal. It is felt that this lack of documentation minimises internal control

since no audit trail exists to enable reconciliation between surveillance exercises intended to be performed and those actually carried out. This situation diminishes the effectiveness of surveillance management since verbal instruction are not conducive to accountability and does not ensure that requested surveillance are actually performed. Furthermore, a number of VAT numbers maintained for recording surveillance inspections (31 out of 1302 – 2.4%) could not be matched with the core database maintained by the Department.

2.30 Monitoring and quality control of surveillance exercises performed is minimal. The Department was not in a position to submit information to NAO on the rate of cases on which provisional assessments were raised through surveillances. The Department informed NAO that results of surveillances are filed and assessments are normally raised following an in-depth audit investigation of the business records, documents and books of accounts. The effective management of surveillance is further undermined since no strategic plan to conduct and target these exercises exists.

2.31 The effectiveness of surveillance exercises is also weakened since VAT inspectors are not given specialised training or instructions relating to the trading sector under review. Inspector aptitude is the main criteria for delegating a particular surveillance exercise. This situation hinders the attainment of the surveillance objectives since inspectors may not be familiar with business practices relating to particular trading sectors.

### ***Surveillance Targeting***

2.32 The most targeted economic activity has been the catering industry (60%). The wholesale and retail trade sector has also featured significantly in surveillance undertaken. Although 10% of surveillance were carried out in the service sector, these

inspections were mainly targeted at motor vehicle related services and hairdressing and beauty salons.

**Table 5 – Surveillance Targeting – Breakdown by Category**

Description	Surveillance (No)	Total Surveillance (%)	Traders in Category (No)	Traders in Category (%)
Hotels and restaurants	769	60.504%	2,899	5.804%
Wholesale and retail trade	255	20.063%	15,155	30.339%
Other community, social and personal service activities	127	9.992%	4,877	9.763%
Manufacturing	61	4.799%	4,277	8.562%
Real estate renting and business activities	28	2.203%	6,540	13.093%
Others	31	2.439%	16,204	32.439%
	<b>1,271</b>	<b>100.000%</b>	<b>49,952</b>	<b>100.00%</b>

Note: 209 inspections are excluded from this table since they could not be matched with the Core Database at the VAT Department.

Source: VAT Department Field Inspection Database and VAT 1998 core system database

2.33 The information provided through Table 5 indicates that a number of important sectors of the economy were not given adequate surveillance coverage. In fact, surveillance on manufacturing and other professional services and/or sectors with a significant turnover were marginally or not inspected at all. It is felt that surveillance can be an effective tool in providing the Department with information relating to trader’s level of business activity. Moreover the importance of surveillance increases since fiscal receipt spot check inspections only indicate compliance while surveillance provides information on potential VAT revenue. Appendix II provides a breakdown of all surveillance visits performed during 1999.

2.34 Table 6 indicates the frequency of surveillance exercises performed on the same traders. This shows that 26% of total surveillances consisted of four or more repeat visits targeted at the same taxpayer. This implies that 10% of traders surveilled were inspected at least four times during 1999.

**Table 6 - Frequency of Surveillance**

No of surveillance inspections	No of Taxpayers	Total Surveillances
9	2	18
8	1	8
7	2	14
6	9	54
5	15	75
4	37	168
3	104	312
2	169	338
1	304	304
	<b>643</b>	<b>1271</b>

Note: 31 inspections are excluded from this table since VAT numbers in Inspectorate Database could not be matched to the Core System at the VAT Department.

Source: VAT Department Field Inspection Database.

2.35 NAO acknowledges the benefits of repeated inspections at the same outlet since more accurate information related to a particular business is provided. Furthermore, long-term trader compliance is encouraged. Nonetheless, it is felt that an adequate balance relating to the desired number of surveillance visits on a particular trader is yet to be attained. This opinion is based on the fact that the Department needs to perform a number of repeated visits to strengthen its case when raising assessments. The performance of up to two inspections accounted for 74% of total inspections. Thus, in this context, a case for the Department on the basis of one or two inspections may be challenged.

## **Desk Audits**

- 2.36 Desk audits constitute one of the major functions of the Inspectorate Unit. This function entails the review and raising of provisional assessments in respect of traders' business activities. Cases to be reviewed are referred to the Inspectorate Unit Desk Audit Section mainly by the Sifting Section within the Inspectorate Unit itself and other sections of the Department. As at end 1999, the desk audit function and the Sifting Unit employed 16 and 3 personnel respectively. The desk audit function is also supported by professional auditors which are contracted by the Department.
- 2.37 Desk audits are performed through the analysis of data contained in the traders' VAT return and traders' records of business activities. Furthermore, surveillance exercises, as discussed in paras. 2.28 to 2.35 of this report are generally performed to complement desk audits undertaken. Where necessary, provisional assessments are raised by this Unit. Trader is then requested to either confirm or present evidence to support disagreement with assessment raised. This procedure is regulated by Section 43 of the VAT legislation.
- 2.38 The Review Section also perform desk audits but which arise out of traders' objections vis-à-vis provisional assessments raised. In addition, the reviewing of such objections by the Review Section enables segregation of duties between the initiator and reviewer of provisional assessments.

### ***Constraints – Different Tax Systems***

- 2.39 The re-introduction of VAT during 1999 has impinged on the routine operations undertaken by the Desk Audit Unit. In fact, similarly to other Units within the VAT Department, the Inspectorate was involved in the change-over from one tax

system to another. The Desk Audit's contribution in this regard during 1999 was mainly related to Stock Refund Assessments which is discussed in paragraphs 2.51 to 2.54.

2.40 The desk audits being performed by the Inspectorate Unit relate to the three expenditure taxes that were in effect since 1995. Such a process is generally cumbersome and time consuming. The inspectors have to be conversant with the legal and technical aspects of the three separate legislations.

### ***Sifting Section***

2.41 The Sifting Section is a three person unit within the Inspectorate Unit. Its role is to refer cases for further investigation to the Inspectorate Desk Audit by identifying high risk traders. Furthermore, through the utilisation of validation techniques, Sifting ensures that the correct amount of tax is declared by the trader and takes the initiative to detect wrong declarations through various analytical methods. NAO reviewed the Sifting function vis-à-vis its contribution to the Desk Audit Section.

2.42 The Sifting Unit applies two criteria to determine whether taxpayers returns need further audit. These are:

- electronic validation of the mathematical correctness of traders' tax returns;
- the evaluation of all traders' returns through a series of accounting ratios introduced during January 2000.

2.43 724 out of all taxpayers' returns were submitted to the Inspectorate Unit Desk Audit Section to be assessed for mathematical correctness<sup>9</sup> during the first four months of the year.

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<sup>9</sup> Source: Desk Audit Unit.



- 2.44 As at end February 2000, a total of 1214 out of 6447 cases reviewed in respect of financial year 1999 did not satisfy accounting ratio parameters established to indicate potential deficiencies in VAT returns.<sup>10</sup> Deficiencies may relate to under declaration of tax and issues relating to the integrity of tax returns submitted. However, only 32 of these could be handled by the Desk Audit Unit for further follow-up action. The review of the 32 cases was not concluded by the time this audit was completed. The Desk Audit Unit is not equipped to handle a greater amount of such cases.
- 2.45 It is felt that the full potential of the Sifting function is not being exploited since these accounting ratios are not yet linked to other risk variables such as past trader compliance, business size and type. Furthermore, the use of such accounting ratios is still an evolving technique.
- 2.46 The accounting ratios evaluation is not performed through the VAT core system but through a spreadsheet program. This situation reduces efficiency since data is imported into the spreadsheet through the Batching Section of the Department<sup>11</sup>. Moreover, the spreadsheet in use have limited audit trail capabilities.

### ***Desk Audits Performed***

- 2.47 2722 cases were reviewed and yielded a net value assessment of Lm2,000,141 (Table 7). Moreover, Desk Audit personnel also participated in 5484 Stock Refund exercises relating to the introduction of VAT 1998.<sup>12</sup>

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<sup>10</sup> Source: Sifting Unit Database.

<sup>11</sup> The Batching Section is responsible for the data entry of VAT returns received by the Department.

<sup>12</sup> Refer to paragraphs 2.51 to 2.54

Table 7 - Breakdown of desk audits undertaken during 1999

Exercise Type		Cases Reviewed	Net Tax Value of Assessment
<b>Credits:</b>	VAT	1822	1,420,917
	CET	132	55,349
<b>Corrections:</b>	VAT/CET	150	60,733
<b>Assessments:</b>	Traders	36	11,729
	Service Providers	55	70,364
<b>Provisional Assessments</b>	VAT 1999	527	381,049
	<b>Total</b>	<b>2722</b>	<b>2,000,141</b>

Source: Monthly Progress Reports - Inspectorate Unit

**Notes:**

- *'Credit' desk audits relate to verification of tax credit claimed by trader in respect of Section 24 of the Act.*
- *'Corrections' desk audits relate to verifications of requests by traders to make adjustments to tax return submitted in respect of particular tax periods in term of Section 28 of the Act.*
- *'Assessments' desk audits relate to assessments raised by the department in instances of non-submission of a tax return by the stipulated date. Assessments are made in terms of Section 31 of the Act.*
- *'Provisional Assessments' are raised when tax return submitted is deemed not to contain a full and correct statement of business activities for a particular tax period. Provisional Assessments are raised in terms of Section 32 of the Act.*

## **Provisional Assessments**

2.48 Provisional assessments are raised when a tax return furnished for a tax period does not contain a full and correct statement of the matters required to be declared.<sup>13</sup> Out of 2722 cases which were desk audited NAO focused on the 724 (refer to para. 2.43) returns which were referred by the Sifting Section on the basis of mathematical errors. Of these, 527 cases were reviewed and provisional assessment raised as at year end 1999 amounted to Lm381,049. These form part of the Lm2,000,141 mentioned in para. 2.47.

2.49 Out of the 724 cases referred to the Desk Audit Section, NAO reviewed 109 files (15% sample) on which action has been initiated as at end of March 2000. During the course of this exercise the following were observed:

- Discrepancies detected in VAT returns through the Inspectorate's validation process were mainly related to the 'Purchases' section of the return (39%). Errors in the 'Sales' amounted to 29 (27%). Errors noted in both these sections of the VAT form amounted to 14 (13%). Other discrepancies in the VAT return amounted to 21%.
- Despite the discrepancies in the VAT returns the NAO sample revealed that only 12 traders (11%) agreed to adjustments made by the VAT Department and effected relative payment. This amounted to a total of Lm14,103. On the other hand another 10 traders (9%) had not effected payment even though they had agreed to the Inspectorate's claims. The outstanding amount of these claims totaled Lm17,469.

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<sup>13</sup> Paragraph 32 of Act XXIII of 1998

- A total of 49 traders (45%) out of the 109 sampled disagreed with the provisional assessment and appealed in terms of provisions of VAT legislation. The amount under dispute amounted to Lm39,653. 38 (35%) of the files reviewed did not provide information as to whether traders have agreed or not to the raised assessment.

2.50 Generally, the Inspectorate's reporting in the traders' files is not considered adequate. Files reviewed (109) lacked a checklist indicating the procedure adopted and action taken by the inspector. Inspectors were generally in a position to account and substantiate action taken in particular cases. The traders' records in the VAT core system is adjusted accordingly. The situation indicates that the approach is heavily dependant on the inspector and the lack of such documentation in files is considered as an internal-control weakness.

### ***Stock Refunds***

2.51 Traders were entitled to claim refunds on stocks held prior the introduction of VAT 98. The Stock Refund exercise undertaken by the Department during 1999 in connection with the changeover from CET to VAT necessitated the contribution of most of the inspectors employed by the Department.

2.52 According to the Department data, 5944 applications for stock refunds amounting to Lm21,220,122 were received during 1999. The Inspectorate Unit's involvement in this exercise entailed the reviewing of 316 applications for stock refunds. The remaining were reviewed by other sections. By year-end, 5160 applications were approved and Lm13,451,398 were referred for payment. Another 324 claims, amounting to Lm2,872,217, were rejected. Furthermore, Lm283,630 were deducted from 816 claims. Table 8 refers.

**Table 8 Stock Refunds – 1999**

<b>Cases requesting r efunds:</b>	<b>5944</b>	Lm21,220,122
<b>Assessed and Refunded:</b>	<b><u>5160</u></b>	Lm13,451,398
<b>Balance:</b>	<b>784</b>	
<b>Number of Rejections:</b>	<b><u>324</u></b>	Lm 2,872,217
<b>Deductions after Adjustments:</b>		Lm 283,630
<b>Pending Claims</b>	<b>460</b>	<b>Lm4,612,877</b>

**Source:** Management Report December 1999

2.53 The performance of this exercise has not only resulted in substantial savings to the VAT Department through stock refund statement adjustments but the operation has also served to provide valuable information to the Department in the form of traders’ business activities and traders’ attitude vis-à-vis VAT accounting.

2.54 This exercise depended greatly on the experience gained by the Department during the period that VAT and CET legislation have been in force in Malta. For the purpose of the stock refund exercise the Department utilised various techniques such as accounting ratios and traders’ past business performance. This approach reaffirms NAO’s view that if such techniques were formalised, the Department’s effectiveness would increase.

## **Efficiency and Effectiveness of Inspectors**

2.55 A breakdown of the costs associated with the maintenance related to functions performed by Inspectors is presented in Table 9 below. It was not possible to establish the cost of the three separate functions (Receipt Spot Inspections, Surveillances and Desk Audits) discussed in this report because of overlapping of tasks performed by Inspectors within the Department. There is insufficient information to determine the relationship between inputs and outputs of the Inspectorate Unit. Therefore, indices of efficiency cannot be known.

**Table 9 - Breakdown of Inspectors' Costs<sup>14</sup>**

	<b>Inspectors' Costs (Lm)</b>	<b>% of Dept Cost</b>	<b>Total Dept Cost (Lm)</b>
Salaries (including Support Staff)	325737	38%	849,059
Training of Employees	22,257	89%	24,894
Operation and Maintenance	215,266	37%	620,767
	<b>578,260</b>	<b>39%</b>	<b>1,494,720</b>

Source: Departmental Accounting System report and VAT Department Accounts

2.56 Objectives of the Inspectorate Unit are not clearly defined and/or quantified and so it is not possible to assess the degree of their realisation i.e. effectiveness.

2.57 However the report includes a number of indicators which may be conducive to assessment of elements of effectiveness of the Inspectorate Unit (paras. 2.15 and 2.16 refer). In addition, the effectiveness of surveillance visits is weakened since inspectors are not given any specialised training or instructions relating to the trading sector under review. Furthermore, quality control by surveillance exercises is minimal and a number of important sectors of the economy were not given adequate surveillance coverage. (paras. 2.29, 2.31 and 2.33 refer).

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<sup>14</sup> Costs covering the operations of 45 inspectors within the Inspectorate & Assurance and Reviewing & Auditing Sections as shown in Chart 1.



### 3 Conclusions

- 3.1 This audit sought to evaluate whether the Inspectorate Unit is operating within acceptable levels of efficiency and effectiveness. For this purpose the three main function of the Inspectorate, namely fiscal receipt inspections, business surveillance and the desk audit functions were reviewed.
- 3.2 Lack of information and predetermined, clear and quantified targets for the Inspectorate Unit hindered NAO from determining a degree of efficiency and effectiveness of the Unit.
- 3.3 It is acknowledged that three legislative and subsequent operational changes in the taxation system within the span of five years have impinged on the Inspectorate's efficiency and effectiveness. The Department's priorities had to shift from enforcement and developing methodologies and techniques to increase revenue to conducting fundamental changes in legislation, computerisation and internal organisation.
- 3.4 The operations of the Inspectorate have also been impaired through the difficulties encountered by the Department in recruiting better qualified and adequately trained inspectors.
- 3.5 Tax Assessments techniques currently in use are being developed further. In fact, the Department is already addressing this situation through further use of information technology. Under-developed assessment techniques may have constrained the Department from increasing revenue yield.
- 3.6 The Department is taking the initiative to develop planning, benchmarking and performance indicators as a way to measure and control its performance more efficiently and effectively.



- 3.7 Government is currently re-engineering the tax collection function. It is envisaged that this process will ensure the utilisation of more effective assessment techniques to ascertain that all monies due to Government are duly collected.
- 3.8 Fiscal receipt inspections and surveillances have mainly been targeted on wholesale and retail and hotels and restaurants categories. The targeting objective of the Unit has been that of maximising VAT revenue. General tax compliance has not yet figured in the goals of the operations of the Inspectorate Unit.
- 3.9 The Department's comments on this audit were considered when concluding this report.

## 4 Recommendations

4.1 In view of the foregoing the National Audit Office recommends that:

- The VAT Department increasingly adopts risk based targeting when selecting businesses for assessment reviews and spot-check inspections. VAT revenue and VAT compliance should both be considered in risk based targeting.
- The use of accounting ratios be further developed to enable a more strategic and effective approach to assessments.
- Co-ordination with other tax collecting departments is enhanced. Such an approach will maximise the use of taxpayers' information available in terms of current legislation. Targeting businesses for inspections which are VAT exempt would contribute towards this recommendation.
- A working manual relating to all processes and methodologies undertaken by the Department be compiled. A manual will contribute towards standardisation of work practices and decision making.
- The utilisation of information technology increases. In order to optimise benefits, the possibility of integrating the various electronic systems currently in use by the Department should be explored and taken into consideration in the current upgrading of systems being undertaken.

- For better management control the Department should generate benchmarks and performance indicators for its various operations.

## Appendix I

### Fiscal Receipts Spot Check inspections

Nace Code	Description	Inspe ctions	% of total Inspections	Total Traders in Category	% of Traders in Category
5263	Other non-store retail sale	428	7.4461%	1840	3.6835%
5248	Other retail sale in specialized stores	392	6.8198%	1207	2.4163%
5540	Bars	386	6.7154%	1438	2.8788%
5247	Retail sale of books, newspaper and stationery	340	5.9151%	455	0.9109%
5530	Restaurants	308	5.3584%	683	1.3673%
5211	Retail sale in non-specialized stores with food	304	5.2888%	881	1.7637%
5224	Retail sale of bread, cakes, flour confectionery	301	5.2366%	378	0.7567%
5118	Agents specializing in the sale of particular products	262	4.5581%	1569	3.1410%
1581	Manufacture of bread; manufacture of fresh pastry	244	4.2450%	338	0.6766%
5242	Retail sale of clothing	203	3.5317%	594	1.1891%
5552	Catering	195	3.3925%	365	0.7307%
5231	Dispensing chemists	187	3.2533%	202	0.4044%
5246	Retail sale of hardware, paints and glass	171	2.9749%	325	0.6506%
5116	Agents involved in the sale of textiles, clothing	148	2.5748%	450	0.9009%
5212	Other retail sale in non-specialized stores	142	2.4704%	347	0.6947%
9312	Hairdressing and other beauty treatment	111	1.9311%	801	1.6035%
5221	Retail sale of fruit and vegetables	85	1.4788%	227	0.4544%
5227	Other retail sale of food, beverages and tobacco	70	1.2178%	211	0.4224%
5222	Retail sale of meat and meat products	67	1.1656%	369	0.7387%
112	Growing of vegetables, horticultural specialties	61	1.0612%	3848	7.7034%
5262	Retail sale via stalls and markets	58	1.0090%	75	0.1501%

**Performance Audit - VAT Department Inspectorate Unit**

<b>Nace Code</b>	<b>Description</b>	<b>Inspe ctions</b>	<b>% of total Inspections</b>	<b>Total Traders in Category</b>	<b>% of Traders in Category</b>
5115	Agents involved in the sale of furniture, households	55	0.9569%	246	0.4925%
1552	Manufacture of ice cream	54	0.9395%	18	0.0360%
5244	Retail sale of furniture, lighting equipment	53	0.9221%	177	0.3543%
1584	Manufacture of cocoa; chocolate and sugar confectionery	51	0.8873%	39	0.0781%
7481	Photographic activities	46	0.8003%	228	0.4564%
5511	Hotels and motels, with restaurant	43	0.7481%	205	0.4104%
5245	Retail sale of household appliances and radio	39	0.6785%	160	0.3203%
9315	Other service activities n.e.c.	36	0.6263%	1624	3.2511%
5110	Wholesale on a fee or contract basis	34	0.5915%	191	0.3824%
7140	Renting of personal and household goods n.e.c.	30	0.5219%	81	0.1622%
5020	Maintenance and repair of motor vehicles	27	0.4697%	1233	2.4684%
5243	Retail sale of footwear and leather goods	27	0.4697%	107	0.2142%
5139	Non-specialized wholesale of food, beverages	26	0.4523%	88	0.1762%
3614	Manufacture of other furniture	26	0.4523%	1133	2.2682%
5551	Canteens	25	0.4349%	121	0.2422%
5170	Other wholesale	24	0.4175%	352	0.7047%
5119	Agents involved in the sale of a variety of goods	23	0.4001%	895	1.7917%
5030	Sale of motor vehicles parts and accessories	22	0.3827%	176	0.3523%
5117	Agents involved in the sale of food, beverages	21	0.3653%	248	0.4965%
9234	Other entertainment activities n.e.c.	19	0.3305%	670	1.3413%
8513	Dental practice activities	18	0.3132%	111	0.2222%
5233	Retail sale of cosmetic and toilet articles	18	0.3132%	105	0.2102%
7484	Other business activities n.e.c.	17	0.2958%	338	0.6766%
5010	Sale of motor vehicles	17	0.2958%	203	0.4064%
8512	Medical practice activities	16	0.2784%	638	1.2772%
5260	Retail sale not in stores	16	0.2784%	38	0.0761%
5142	Wholesale of clothing and footwear	16	0.2784%	80	0.1602%

*Performance Audit - VAT Department Inspectorate Unit*

<b>Nace Code</b>	<b>Description</b>	<b>Inspe ctions</b>	<b>% of total Inspections</b>	<b>Total Traders in Category</b>	<b>% of Traders in Category</b>
1580	Manufacture of other food products	16	0.2784%	16	0.0320%
5210	Retail sale in non-specialized stores	14	0.2436%	33	0.0661%
5133	Wholesale of dairy produce, eggs and edible oils	14	0.2436%	52	0.1041%
9133	Activities of other membership organizations n.e.c	12	0.2088%	405	0.8108%
5225	Retail sale of alcoholic and other beverages	12	0.2088%	27	0.0541%
501	Fishing	12	0.2088%	618	1.2372%
5131	Wholesale of fruit and vegetables	12	0.2088%	51	0.1021%
9233	Fair and amusement park activities	11	0.1914%	21	0.0420%
1822	Manufacture of other outerwear	11	0.1914%	205	0.4104%
5241	Retail sale of textiles	10	0.1740%	70	0.1401%
1589	Manufacture of other food products n.e.c.	10	0.1740%	28	0.0561%
5223	Retail sale of fish, crustaceans and molluscs	10	0.1740%	20	0.0400%
8042	Adult and other education n.e.c.	9	0.1566%	1291	2.5845%
6023	Other land road passenger transport	9	0.1566%	548	1.0971%
9231	Artistic and literary creation and interpretation	9	0.1566%	528	1.0570%
3622	Manufacture of jewelry and related articles n.e.	9	0.1566%	82	0.1642%
5113	Agents involved in the sale of timber and building	9	0.1566%	82	0.1642%
5220	Retail sale of food, beverages and tobacco	9	0.1566%	43	0.0861%
5111	Agents involved in the sale of agricultural materials	9	0.1566%	25	0.0500%
1930	Manufacture of footwear	9	0.1566%	22	0.0440%
5273	Repair of watches, clocks and jewelry	9	0.1566%	21	0.0420%
5050	Retail sale of automotive fuel	8	0.1392%	81	0.1622%
7410	Legal, accounting, book-keeping and auditing activities	8	0.1392%	44	0.0881%

**Performance Audit - VAT Department Inspectorate Unit**

<b>Nace Code</b>	<b>Description</b>	<b>Inspe ctions</b>	<b>% of total Inspections</b>	<b>Total Traders in Category</b>	<b>% of Traders in Category</b>
7415	Management holding companies	8	0.1392%	314	0.6286%
5240	Other retail sale of new goods in specialized stores	8	0.1392%	62	0.1241%
4541	Plastering	7	0.1218%	1105	2.2121%
5230	Retail sale of pharmaceutical and medical goods	7	0.1218%	9	0.0180%
7011	Development and selling of real estate	6	0.1044%	391	0.7828%
2812	Manufacture of builders' carpentry and joinery	6	0.1044%	282	0.5645%
7110	Renting of automobiles	6	0.1044%	238	0.4765%
7134	Renting of other machinery and equipment n.e.c.	5	0.0870%	36	0.0721%
4521	General construction of buildings and civil engine	5	0.0870%	1201	2.4043%
5550	Canteens and catering	5	0.0870%	16	0.0320%
3663	Other manufacturing n.e.c.	5	0.0870%	318	0.6366%
2051	Manufacture of other products of wood	5	0.0870%	55	0.1101%
5271	Repair of boots, shoes and other articles of leather	5	0.0870%	42	0.0841%
6330	Activities of travel agencies and tour operators	4	0.0696%	732	1.4654%
7020	Letting of own property	4	0.0696%	1419	2.8407%
4544	Painting and glazing	4	0.0696%	100	0.2002%
5136	Wholesale of sugar and chocolate and sugar confectionery	4	0.0696%	62	0.1241%
5135	Wholesale of tobacco products	4	0.0696%	22	0.0440%
2621	Manufacture of ceramic household and ornaments	4	0.0696%	9	0.0180%
5226	Retail sale of tobacco products	4	0.0696%	4	0.0080%
2625	Manufacture of other ceramic products	4	0.0696%	3	0.0060%
5512	Hotels and motels, without restaurant	3	0.0522%	61	0.1221%
4540	Building completion	3	0.0522%	33	0.0661%
6022	Taxi operation	3	0.0522%	292	0.5846%
5274	Repair n.e.c.	3	0.0522%	286	0.5725%
2222	Printing n.e.c.	3	0.0522%	168	0.3363%
4533	Plumbing	3	0.0522%	157	0.3143%

*Performance Audit - VAT Department Inspectorate Unit*

<b>Nace Code</b>	<b>Description</b>	<b>Inspe ctions</b>	<b>% of total Inspections</b>	<b>Total Traders in Category</b>	<b>% of Traders in Category</b>
5114	Agents involved in the sale of machinery	3	0.0522%	88	0.1762%
5143	Wholesale of electrical household appliances	3	0.0522%	44	0.0881%
7210	Hardware consultancy	3	0.0522%	30	0.0601%
3650	Manufacture of games and toys	3	0.0522%	10	0.0200%
2220	Printing and service activities related to printing	3	0.0522%	6	0.0120%
1510	Production, processing and preserving of meat	3	0.0522%	2	0.0040%
1550	Manufacture of dairy products	3	0.0522%	2	0.0040%
7122	Renting of water transport equipment	2	0.0348%	26	0.0520%
9272	Other recreational activities n.e.c.	2	0.0348%	25	0.0500%
3511	Building and repairing of ships	2	0.0348%	11	0.0220%
6025	Freight transport by road	2	0.0348%	537	1.0750%
4531	Installation of electrical wiring and fittings	2	0.0348%	515	1.0310%
6021	Other scheduled passenger land transport	2	0.0348%	332	0.6646%
8514	Other human health activities	2	0.0348%	210	0.4204%
2811	Manufacture of metal structures and parts	2	0.0348%	183	0.3664%
3611	Manufacture of chairs and seats	2	0.0348%	91	0.1822%
110	Growing of crops; market gardening; horticulture	2	0.0348%	68	0.1361%
9314	Physical well-being activities	2	0.0348%	52	0.1041%
8010	Primary education	2	0.0348%	44	0.0881%
8041	Driving school activities	2	0.0348%	44	0.0881%
5112	Agents involved in the sale of fuels, ores, metals	2	0.0348%	38	0.0761%
9212	Motion picture and video distribution	2	0.0348%	35	0.0701%
5145	Wholesale of perfume and cosmetics	2	0.0348%	33	0.0661%
120	Farming of animals	2	0.0348%	32	0.0641%
5144	Wholesale of china and glassware, varnish, paint	2	0.0348%	29	0.0581%
1772	Manufacture of knitted and crocheted pullovers	2	0.0348%	24	0.0480%



**Performance Audit - VAT Department Inspectorate Unit**

<b>Nace Code</b>	<b>Description</b>	<b>Inspe ctions</b>	<b>% of total Inspections</b>	<b>Total Traders in Category</b>	<b>% of Traders in Category</b>
5146	Wholesale of pharmaceutical goods	2	0.0348%	21	0.0420%
1593	Manufacture of wines	2	0.0348%	17	0.0340%
1820	Manufacture of other wearing apparel and accessories	2	0.0348%	14	0.0280%
3220	Manufacture of television and radio transmitters	2	0.0348%	5	0.0100%
3420	Manufacture of bodies (coachwork) for motor vehicles	1	0.0174%	3	0.0060%
9132	Activities of political organizations	1	0.0174%	46	0.0921%
3610	Manufacture of furniture	1	0.0174%	29	0.0581%
1582	Manufacture of rusks and biscuits;	1	0.0174%	9	0.0180%
1513	Production of meat and poultrymeat products	1	0.0174%	7	0.0140%
4543	Floor and wall covering	1	0.0174%	513	1.0270%
9010	Other Community, social and personal service activities	1	0.0174%	105	0.2102%
8510	Human health activities	1	0.0174%	26	0.0520%
2452	Manufacture of perfumes and toilet preparations	1	0.0174%	4	0.0080%
7412	Accounting, book-keeping and auditing activities;	1	0.0174%	498	0.9970%
7411	Legal activities	1	0.0174%	451	0.9029%
7031	Real estate agencies	1	0.0174%	190	0.3804%
7260	Other computer related activities	1	0.0174%	190	0.3804%
6111	Sea water transport	1	0.0174%	165	0.3303%
6523	Other financial intermediation n.e.c.	1	0.0174%	113	0.2262%
6322	Other supporting water transport activities	1	0.0174%	107	0.2142%
5134	Wholesale of alcoholic and other beverages	1	0.0174%	88	0.1762%
6024	Other land passenger transport	1	0.0174%	82	0.1642%
9131	Activities of religious organizations	1	0.0174%	63	0.1261%
4550	Renting of construction or demolition equipment	1	0.0174%	55	0.1101%
9313	Funeral and related activities	1	0.0174%	48	0.0961%
9220	Radio and television activities	1	0.0174%	47	0.0941%

*Performance Audit - VAT Department Inspectorate Unit*

<b>Nace Code</b>	<b>Description</b>	<b>Inspe ctions</b>	<b>% of total Inspections</b>	<b>Total Traders in Category</b>	<b>% of Traders in Category</b>
2670	Cutting, shaping and finishing of stone	1	0.0174%	42	0.0841%
3512	Building and repairing of pleasure and sporting	1	0.0174%	39	0.0781%
2211	Publishing of books	1	0.0174%	32	0.0641%
9311	Washing and dry-cleaning of textile and fur products	1	0.0174%	32	0.0641%
5154	Wholesale of hardware, plumbing and heating equipment	1	0.0174%	29	0.0581%
5147	Wholesale of other household goods	1	0.0174%	27	0.0541%
2666	Manufacture of other articles of concrete, plaster	1	0.0174%	24	0.0480%
6420	Telecommunication	1	0.0174%	24	0.0480%
5130	Wholesale of food, beverages and tobacco	1	0.0174%	21	0.0420%
7413	Market research and public opinion polling	1	0.0174%	21	0.0420%
8520	Veterinary activities	1	0.0174%	17	0.0340%
5141	Wholesale of textiles	1	0.0174%	16	0.0320%
5040	Sale, maintenance and repair of motorcycles	1	0.0174%	15	0.0300%
1598	Manufacture of mineral waters and soft-drinks	1	0.0174%	13	0.0260%
2052	Manufacture of articles of cork, straw	1	0.0174%	12	0.0240%
8511	Hospital activities	1	0.0174%	9	0.0180%
2923	Manufacture of non-domestic cooling and ventilation	1	0.0174%	7	0.0140%
3340	Manufacture of optical instruments and photographic	1	0.0174%	7	0.0140%
6110	Sea and coastal water transport	1	0.0174%	6	0.0120%
1821	Manufacture of workwear	1	0.0174%	5	0.0100%
2521	Manufacture of plastic plates, sheets, tubes	1	0.0174%	5	0.0100%
5261	Retail sale via mail order houses	1	0.0174%	5	0.0100%
1771	Manufacture of knitted and crocheted hosiery	1	0.0174%	4	0.0080%
3350	Manufacture of watches and clocks	1	0.0174%	4	0.0080%
3661	Manufacture of imitation jewelry	1	0.0174%	4	0.0080%

**Performance Audit - VAT Department Inspectorate Unit**

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3510	Building and repairing of ships and boats	1	0.0174%	3	0.0060%
1532	Manufacture of fruit and vegetables juice	1	0.0174%	2	0.0040%
4010	Production and distribution of electricity	1	0.0174%	1	0.0020%
	Others	0	0.0000%	6281	12.5741%
		5748	100%	49952	100%

## Appendix II

### Surveillance Visits

Nace Code	Description	Surveillances	% of Surveillances	Total in Traders Category	% of Traders in Category
5530	Restaurants	450	35.4052%	683	1.3673%
5540	Bars	175	13.7687%	1438	2.8788%
5020	Maintenance and repair of motor vehicles	130	10.2282%	1233	2.4684%
5552	Catering	90	7.0810%	365	0.7307%
9312	Hairdressing and other beauty treatment	77	6.0582%	801	1.6035%
5511	Hotels and motels, with restaurant	43	3.3832%	205	0.4104%
5263	Other non-store retail sale	37	2.9111%	1840	3.6835%
1581	Manufacture of bread; manufacture of fresh pastry	28	2.2030%	338	0.6766%
5262	Retail sale via stalls and markets	24	1.8883%	75	0.1501%
9234	Other entertainment activities n.e.c.	17	1.3375%	670	1.3413%
1552	Manufacture of ice cream	11	0.8655%	18	0.0360%
9315	Other service activities n.e.c.	10	0.7868%	1624	3.2511%
9233	Fair and amusement park activities	9	0.7081%	21	0.0420%
9262	Other sporting activities	9	0.7081%	64	0.1281%
5224	Retail sale of bread, cakes, flour confectionery	9	0.7081%	378	0.7567%
5512	Hotels and motels, without restaurant	7	0.5507%	61	0.1221%
8512	Medical practice activities	7	0.5507%	638	1.2772%
5211	Retail sale in non-specialized stores with food	7	0.5507%	881	1.7637%
1584	Manufacture of chocolate and sugar confectionery	6	0.4721%	39	0.0781%
7134	Renting of other machinery and equipment n.e.c.	6	0.4721%	36	0.0721%
7140	Renting of personal and household goods n.e.c.	6	0.4721%	81	0.1622%

**Performance Audit - VAT Department Inspectorate Unit**

<b>Nace Code</b>	<b>Description</b>	<b>Surveillances</b>	<b>% of Surveillances</b>	<b>Total in Traders Category</b>	<b>% of Traders in Category</b>
5118	Agents specializing in the sale of particular products	5	0.3934%	1569	3.1410%
7410	Legal, accounting, book-keeping and auditing activities	5	0.3934%	44	0.0881%
3420	Manufacture of bodies (coachwork) for motor vehicles	5	0.3934%	3	0.0060%
7484	Other business activities n.e.c.	5	0.3934%	338	0.6766%
5227	Other retail sale of food, beverages and tobacco	5	0.3934%	211	0.4224%
5050	Retail sale of automotive fuel	5	0.3934%	81	0.1622%
6330	Activities of travel agencies and tour operators;	4	0.3147%	732	1.4654%
5117	Agents involved in the sale of food, beverages	4	0.3147%	248	0.4965%
5248	Other retail sale in specialized stores	4	0.3147%	1207	2.4163%
4541	Plastering	4	0.3147%	1105	2.2121%
5246	Retail sale of hardware, paints and glass	4	0.3147%	325	0.6506%
5110	Wholesale on a fee or contract basis	4	0.3147%	191	0.3824%
8042	Adult and other education n.e.c.	3	0.2360%	1291	2.5845%
4521	General construction of buildings and civil engine	3	0.2360%	1201	2.4043%
7020	Letting of own property	3	0.2360%	1419	2.8407%
5139	Non-specialized wholesale of food, beverages	3	0.2360%	88	0.1762%
6023	Other land road passenger transport	3	0.2360%	548	1.0971%
5260	Retail sale not in stores	3	0.2360%	38	0.0761%
9132	Activities of political organizations	2	0.1574%	46	0.0921%
5551	Canteens	2	0.1574%	121	0.2422%
5550	Canteens and catering	2	0.1574%	16	0.0320%
123	Farming of swine	2	0.1574%	126	0.2522%
1596	Manufacture of beer	2	0.1574%	2	0.0040%
3610	Manufacture of furniture	2	0.1574%	29	0.0581%
1582	Manufacture of rusks and biscuits;	2	0.1574%	9	0.0180%
5170	Other wholesale	2	0.1574%	352	0.7047%

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<b>Nace Code</b>	<b>Description</b>	<b>Surveillances</b>	<b>% of Surveillances</b>	<b>Total in Traders Category</b>	<b>% of Traders in Category</b>
1513	Production of meat and poultrymeat products	2	0.1574%	7	0.0140%
5242	Retail sale of clothing	2	0.1574%	594	1.1891%
9133	Activities of other membership organizations n.e.c	1	0.0787%	405	0.8108%
7440	Advertising	1	0.0787%	197	0.3944%
5119	Agents involved in the sale of a variety of goods	1	0.0787%	895	1.7917%
5116	Agents involved in the sale of textiles, clothing	1	0.0787%	450	0.9009%
3511	Building and repairing of ships	1	0.0787%	11	0.0220%
4540	Building completion	1	0.0787%	33	0.0661%
8513	Dental practice activities	1	0.0787%	111	0.2222%
5231	Dispensing chemists	1	0.0787%	202	0.4044%
4543	Floor and wall covering	1	0.0787%	513	1.0270%
112	Growing of vegetables, horticultural specialties	1	0.0787%	3848	7.7034%
8510	Human health activities	1	0.0787%	26	0.0520%
7415	Management holding companies	1	0.0787%	314	0.6286%
3614	Manufacture of other furniture	1	0.0787%	1133	2.2682%
2452	Manufacture of perfumes and toilet preparations	1	0.0787%	4	0.0080%
9010	Other Community, social and personal service activities	1	0.0787%	105	0.2102%
9272	Other recreational activities n.e.c.	1	0.0787%	25	0.0500%
7122	Renting of water transport equipment	1	0.0787%	26	0.0520%
5210	Retail sale in non-specialized stores	1	0.0787%	33	0.0661%
5225	Retail sale of alcoholic and other beverages	1	0.0787%	27	0.0541%
5233	Retail sale of cosmetic and toilet articles	1	0.0787%	105	0.2102%
5221	Retail sale of fruit and vegetables	1	0.0787%	227	0.4544%
	Others	0	0.0000%	17832	35.6983%
		1271	100%	49952	100%