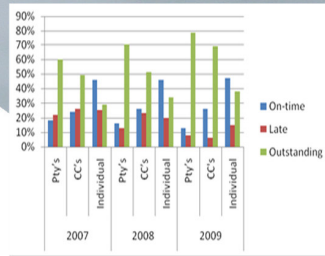




REPUBLIC OF NAMIBIA



REPORT OF THE AUDITOR-GENERAL ON PERFORMANCE AUDIT STUDY ON

MINISTRY OF FINANCE

DEPARTMENT OF INLAND REVENUE

FOR THE FINANCIAL YEARS 2007, 2008 AND 2009

Published by authority

Price (Vat excluded) N\$ 48.54
Report no 924

REPUBLIC OF NAMIBIA



TO THE HONOURABLE SPEAKER OF THE NATIONAL ASSEMBLY

I have the honour to submit herewith my performance audit report of the Department of Inland Revenue in the Ministry of Finance for financial years 2007, 2008 & 2009 in terms of Article 127(2) of the Namibian Constitution. The report is transmitted to the Honourable Minister of Finance in terms of Section 27(1) of the State Finance Act, 1991, (Act 31 of 1991) to be laid upon the Table of the National Assembly in terms of Section 27(4) of the Act.

WINDHOEK, March 2011

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

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LIST OF ABBREVIATIONS

❖ MOF	Ministry of Finance
❖ MTI	Ministry of Trade and Industry
❖ IRD	Inland Revenue Directorate
❖ Pty Ltd	Private Limited Company
❖ CC	Close Corporation
❖ VAT	Value Added Tax
❖ VIA	VAT on Imports
❖ ETX	Employees Tax
❖ ITX	Income Tax
❖ ASYCUDA++	Automated System for Customs Data

GLOSSARY

User-defined report528 the reports that generate all records for all taxpayers who are registered with IRD-VAT Import Account.

Estimation: estimate based on previous years' tax returns submitted to determine /assess the tax liability of a taxpayer for a year/s that the taxpayer does not submit return/s.

Provisional taxpayer: taxpayer that submit two provisional returns during the tax year before the final return.

EXECUTIVE SUMMARY

The Office of the Auditor-General is authorized to carry out Performance audits in terms of section 26(1)(b) (iv) of the State Finance Act 1991, (Act 31 of 1991), which reads as follows: The Auditor-General “may investigate whether any moneys in question have been expended in an efficient, effective and economic manner”.

The Performance Audit report is based on the extent to which the Inland Revenue Directorate (IRD) is having sound practice in place to ensure effective and efficient collection of tax revenue. The audit focused on the operations of IRD which are the assessment of tax returns, following up on outstanding taxes and tax returns, and conducting audits, as far as tax collection is concerned.

The major findings, conclusions and recommendations that were identified during the audit are as follows:

Findings

- There is a lack of monitoring on the progress of regional offices by IRD with regard to tax collection;
- There is no recovery plan on how outstanding returns and taxes will be recovered;
- The majority of tax returns were either submitted late or not submitted at all. This demonstrates that IRD does not make effort to reduce the outstanding returns;
- The assessments of tax returns are not done within the prescribed period of eight months as per taxpayer charter;
- Taxpayers with outstanding taxes are rarely notified, which has resulted in large amounts of uncollected taxes which amounts to N\$ 7.2 billion as at 28 February 2009;
- IRD do not make use of Asycuda++ system to verify the correctness of the tax declared. The Asycuda++ system is under-utilised. The IRD was not able to state how much of N\$ 10.8 billion deferred by customs was collected;
- There is no threshold of tax refunds to guide IRD in executing of its audits;
- The Taxlive system is not performing fully as problems are continuously experienced.
- IRD do not have full control of the Taxlive system, which makes them more depended on the consultant.

Conclusions

- The oversight and follow-up by the IRD is not effective enough in overseeing the activities of the regional offices in collection of tax revenue.
- The late or non-submission of tax returns, has impacted on the IRD to be unable to collect tax on time and also to fulfil its statutory requirement.
- IRD is not achieving its objective as laid down in the taxpayer charter, which is to assess all tax returns within a prescribed period.
- Large amounts of VIA remain uncollected as the IRD is not making use of the Asycuda++ system which is at their disposal.
- There are no set standards and uniformity in auditing tax refunds within IRD.
- Taxlive system is not performing to its fullest, which is hampering the effective collection of tax revenue.
- The effective operation of the Taxlive system is dependent on the consultant and not on IRD.

Recommendations

- Clear targets should be set for regional offices to provide direction and serve as a benchmark to measure the performance of regional offices. The audit also recommends that management meetings should be conducted on a regular basis.
- The IRD should draw up a recovery plan on the outstanding returns and taxes.
- The IRD should ensure that tax returns are assessed within the prescribed period.
- The IRD should use Asycuda++ system in the assessment of VIA returns.
- The IRD should set up a standard on tax refund audits and should be carried out in a consistent manner.
- An Information System audit should be conducted on the Taxlive system.
- IRD should take full control of the Taxlive system and the consultant should have limited access to the live system.

CHAPTER 1

1.1 INTRODUCTION

The Namibian tax is based on a self-assessment system whereby taxpayer's assess themselves (calculating their tax liability) before submitting their tax returns at Inland Revenue Directorate (IRD) which is responsible for the collection of tax revenues.

1.2 REASON FOR THE AUDIT

The audit is motivated by concerns raised by the media in terms of the following:

- lack of controls in terms of tax returns as assessment of tax returns are not done in a timely manner,
- tax returns getting lost;
- not all taxable income is declared by taxpayers;
- tax due are not being paid; and
- taxpayers' not being informed on their outstanding returns and balances.

In light of the above, the Auditor-General (OAG) decided to carry out an audit to ascertain to what extent IRD is collecting revenue through effective tax collection.

1.3 IRD MISSION STATEMENT

The mission of the IRD *"is to provide the best possible tax and valuation services"*.

1.4 OBJECTIVES OF THE IRD

"To achieve the above mentioned mission, the objective of the IRD is to contribute to the achievement of Government targets in the field of income redistribution and to generate revenue for the financing of public expenditure through effective collection of taxes."

1.5 ORGANISATIONAL STRUCTURE

The IRD comprises of a Head Office which is headed by a Commissioner and six regional offices situated in Oshakati, Walvis Bay, Windhoek, Rundu, Otjiwarongo and Keetmanshoop headed by Deputy Directors."

1.6 FINANCING AND BUDGET ALLOCATION

The total funds allocated according to the approved budget and actual audited expenditure of the IRD is as follows:

Financial year	Estimate expenditure (Budget)	Actual expenditure	Variance
	N\$	N\$	N\$
2006-2007	80 197 000	59 360 216	20 836 784
2007-2008	90 032 000	71 940 371	18 091 629
2008-2009	130 726 700	71 830 269	58 896 431

1.7 STAFFING

The following table below highlight IRD staff establishment for the period 2006-2009

Financial year	Establishment	Filled	Vacant
2006-2007	429	341	88
2007-2008	429	374	55
2008-2009	579	389	190

CHAPTER 2

2. AUDIT OBJECTIVES

2.1 Introduction

The main objective of the audit is to ascertain whether tax compliance, controls, assessments and collection of tax revenue by the IRD is being achieved in a timely manner.

2.2 Audit scope

The audit focused on the operations of IRD which are assessment of tax returns; follow-up on outstanding taxes and tax returns, and conducting audits, as far as tax collection is concerned. This includes only Income Tax, Value Added Tax, VAT on Imports and Employees Tax. The audit covered three tax years which are 2006/07, 2007/08 and 2008/09.

2.3 Audit methodology

The IRD has six regional offices of which five were visited namely Windhoek, Oshakati, Rundu, Keetmanshoop and Walvis Bay during the audit. The selection of regions was made based on the taxpayer population in the country. Windhoek and Oshakati regional offices were included in the selection due to the fact that they are the only offices that serve company (CCs and Pty's) taxpayers.

2.3.1 Documents analysis

The purpose of documents analysed was to ascertain whether the activities and operations regarding income tax compliance, control, assessment and collection of tax revenue, was done in accordance with the tax Acts, regulations and policies. This was conducted through the following documentary reviews:

- Organizational structures;
- Taxpayer charter;
- Taxation of Companies and Close-corporations manual;
- Basic Audit Techniques-Income Tax manual;
- Income Tax for Business manual;
- 2006-07 Ministerial annual report;
- Tax collection manual;
- Income tax basics manual;
- Inland Revenue staff job description;
- Quarterly progress report;
- Production sheets on the assessments;
- Report from Taxlive system on outstanding balances on taxes (Tax due), outstanding returns and outstanding assessments;
- Audit report on audit conducted by IRD;
- Report from collection section on demands sent, tracing of taxpayers and summonses issued to taxpayers on outstanding returns and taxes and
- Taxpayer files (random sample drawn from taxpayer population.)

A sample of three hundred and ninety (390) Pty Ltd tax files was selected from a total population of twelve thousand, two hundred and two (12 202), four hundred (400) CCs tax files was elected from a total population of thirty nine thousand five hundred and three (39 503) and

one thousand four hundreds (1 400) Individual tax files was elected from a total population of two hundred and ninety eight thousand seven hundred and thirty three (298 733) on a random sampling basis). In total two thousand one hundred and ninety (2 190) taxpayer files were analyzed for the three tax years.

2.3.2 Interviews

The objective of the interviews was to gather information that could not be obtained through documents analyzed and also to verify the accuracy on the findings acquired. This was done with 28 officials and they are as follows:

- 1x Deputy Commissioner
- 6x Deputy Directors
- 11x Control Taxation Officers
- 5x Chief Taxation Officers
- 3x Control Registry Clerks
- 2x Chief Registry Clerks

CHAPTER 3

3. PROCESS DESCRIPTION ON TAX COLLECTION

3.1 Introduction

The tax acts states that individuals, farmers, close corporations, companies and sole proprietors should register as a taxpayer with the IRD for tax payment purposes. Before an individual, Pty, CC, sole proprietorship or a farmer can start paying tax, they needs to register for tax purposes. It is therefore the responsibility of the taxpayers to register with the IRD.

3.2 Key players and their roles and responsibilities

- Ministry of Finance (MOF)
Responsible to maximize tax revenue collection
- Taxpayers
Responsible for the submission of tax returns and payment of taxes
- Ministry of Trade and Industry (MTI)
Responsible for the registration of companies (Pty and CC) and other businesses. Once the registration is done, the MTI forward the list of newly registered companies and businesses to MOF to be given tax numbers.
- Directorate of Customs and Excise
Responsible for capturing Value Added Tax on Import Account (VIA) at entry point upon imports on the computer system (Asycuda++) for taxpayer with VIA accounts and deferred the amount to be collected by IRD. Custom and Excise is also responsible for collecting tax as cash on VIA from importers that are not registered for VIA at the point of entry.

3.3 Registration as taxpayer¹

3.3.1 Income tax

- **Salary earning individuals and non-salary earning**

According to the Income Tax Amendment Act No.5, 2010 amendment of Schedule 4 to the Act No. 24 of 1981 salary earning individual who earn an income of more than N\$ 40 000 per annum and non-salary income in excess of N\$ 5 000 per month is liable to pay tax and should register for income tax. Registration for both is done at the IRD by completing a registration form and then the taxpayer will be given an income tax number.

- **Companies (PTY's and CC's) and other businesses**

The companies should first register with the Ministry of Trade and Industry (MTI) before registering with the Ministry of Finance for income tax purposes. Once the companies are registered with the MTI, the MTI should forward a list of all newly registered companies to IRD to be registered for tax. The taxpayers can elect the number of the provisional tax returns to be submitted before the final tax return is submitted.

¹ Collection manual page 4-6

- **Employee Tax (ETX)**

Companies and businesses with employees can register for ETX with IRD.

3.3.2 Value Added Tax (VAT)

According to the Value-Added Tax Act, Act No. 10 of 2000, section 15, an organization or individual should register for VAT, when such a taxpayer earned a combined turnover from all taxable activities of more than N\$ 200 000 at the end of any 12 month period (excluding tax and any “exempt” transactions) must register for VAT within 21 days after the end of that period. Similarly, if at the beginning of any 12 month period it is expected that the turnover will exceed N\$ 200 000, registration must be made within 21 days of the beginning of the period.

3.3.3 Value Added Tax on Import Account (VIA)

VAT system depends on the levying of tax on every enterprise when it acquires goods, it is logical that when an enterprise acquires goods by importation, VAT should be charged.” Therefore the taxpayer should register for VIA.

3.4 Submission of tax returns to IRD by taxpayers

Tax returns should be submitted at the regional offices’ customer services or at the magistrate court on or before the due dates of the taxpayers’ tax return. The received date is stamped on the tax return and its face value is captured on the taxlive system, there after the tax return is sent to the records/registry section.

3.4.1 Income tax return

According to the Income Tax Act section 56, Act No. 24 of 1981 states that every person shall prepare and deliver in the prescribed manner within the time mentioned of such annual notice or on the receipt of a form delivered or sent by post by the IRD.

- **Salary earning individuals**

Salary earning individuals are required to submit their tax return four months after the end of the tax year (30 June) as per the tax return form issued by the IRD to the taxpayer.

- **Provisional Taxpayers (Companies and other businesses)**

“Companies and businesses should render provisional returns twice a year (every six months while farmers only submit once a year). These Provisional taxpayers should render a final tax return seven months after the end of the tax year” (30 September).

3.4.2 Employee tax (ETX) returns

Returns should be rendered monthly on or before the 20th of the following month after the employer pay out the salaries.

3.4.3 VAT returns

According to the Value-Added Tax Amendment Act No.10 of 2000, section 24: *“Every registered person shall furnish the Commissioner with a return in respect of each tax period relating to such person (within 25 days after) not later than the twenty- fifth day of the month following the end of the tax period, whether or not tax is payable in respect of such period.”*

A VAT return is lodged by all registered enterprises on a two monthly basis, usually by the 25th of the first calendar month after the end of a tax period.

3.4.4 VIA returns

According to the collection manual, these taxpayers must file an Import return not later than the 20th of the month following the month of imports.

3.5 Payment of tax

The due date of payments for all type of taxes is payable on or before the due date of tax returns, these also apply to deferred VIA payments. However, companies and individuals that are not registered for VIA must pay immediately at point of entry.

3.6 Assessment of tax returns

According to the taxpayer charter the “assessment of tax returns should be done within a period of eight months upon received date” by the IRD.

The assessment process that should be completed within the prescribed period is as follows:

Upon request of the assessors the records/registry section should sent the taxpayer’s file together with the received tax return to the assessment section. The assessors ensure that the tax returns submitted are correctly completed and ascertain if tax liability are declared correctly and if over or under payments were made. Thereafter the statements of account (assessment notice) is generated by the system automatically and sent to the taxpayer indicating the tax status. In case there is an overpayment, refunds are paid to the taxpayers where as for underpayment, the statement of account (assessment notice) is sent stating the amount to be paid by taxpayer.

According to the Income Tax Amendment Act, 2007, Act No. 24 of 1981, section 79 states: *“If the taxpayer fails to pay any tax in full on or before the due date for payment of such tax as specified in the Act or any extension of such due date which the Minister may grant, interest shall be paid by the taxpayer on the outstanding balance of such tax at the rate of 20 percent per annum (calculated daily as from such due date for payment and compounded monthly during the period which any portion of tax remains unpaid) calculated as from the day immediately following such due date for payment until the day of payment”*. The Taxlive system calculates penalties and interest automatically.

3.7 Notifications by the IRD

- **Notice of assessment (statement of account)**

Once the tax return assessment is done, the IRD should issue and send a statement of account to the taxpayer that reflects the tax balance. The statements of accounts are printed by the Head Office in Windhoek and forwarded to the regional offices before being sent to the taxpayers.

- **Outstanding tax returns**

In cases where tax returns are not submitted the outdoor sections are responsible to notify and follow-up on taxpayers. Two letters of notification and one final demand are sent to all taxpayers who fail to render returns on time. If no response is received the taxpayer will be summoned to court. If found guilty by the court s/he will be fined and also penalties and interest compounded will be imposed/charged starting 30 days after the due date.

- **Outstanding payments**

The collections section should send an initial notification automatically printed by the taxlive system and send within 30 days to the taxpayers who fail to make payments in a timely manner. However, if the taxpayer does not respond, a second notification written manually, with a 10 days grace period is issued, followed by a final demand with 14 days grace period and if no response obtained, the taxpayer is summoned to court.

3.8 Tax audits

According to the directives from the Minister, the audit section is obligated to carry out VAT audits on all refunds above N\$ 15 000, of companies and individuals. In cases where the assessor detects that the taxpayer wants to evade tax, it's referred to the audit section of the IRD while complicated cases are referred to the special investigations section.

3.9 Filing of tax returns

All taxpayer's related documentation and correspondence should be filed in a tax file which should be opened for such a taxpayer upon registration (when the taxpayer receives a tax number) at the regional office under which such a taxpayer falls. Tax files of taxpayers are then stored at the respective registry sections according to a number sequence. Registry is responsible to keep tax files updated, sending and receiving tax files upon request and storing taxpayer files.

- **Movement of tax files within regional offices**

Whenever a section requires a taxpayer's file, the section should request the tax file from registry by booking it out and when the section finishes with the particular tax file it should be sent back to registry to be filed for record purposes and correspondence.

- **Transferring of taxpayers files between regional offices**

If a taxpayer re-locate to other regions, the IRD transfer the taxpayer file to the regional office that is serving such region where the taxpayer has been relocated. Transfer of files between regional offices is also being done on the taxlive system, whereby the user office is being changed.

CHAPTER 4

4. FINDINGS

4.1 Received date on the system and on the return not corresponding

When a taxpayer submit his/her tax return at IRD customer care, the tax return should be stamped with a date stamp upon submission. In cases where the returns were submitted at the magistrate, the magistrate date should be used as the received date on the taxlive system. However, the audit found that the stamp date and the system date do not correspond as the auditors could not determine which date the IRD used. It was further discovered that when returns are received at a magistrate office it is stamped on the date received. These returns are then forwarded to an IRD office. When the IRD office receives the returns they stamp the return again which are normally a later date than actually received. This emanates that the wrong date is entered into the system. The capturing of wrong date on the taxlive system will result in taxpayer's return being late and penalties and interest being charged where they are not suppose to be charged.

It was also discovered that in certain cases tax returns are having two stamps, one for IRD and the other for the magistrate office, however neither one was captured on the Taxlive system as the received date. In this case the government will lose out on late penalties and interests if the taxpayer owes.

The audit also found that some due dates printed on provisional returns for a particular period were not correct, which could mislead taxpayers when submitting their returns.

4.1.1 Cases referred to Government Attorney

Interviews conducted revealed that cases referred to the Government Attorney take a long time before action is taken against those taxpayers who fail to adhere to tax regulations. The auditors discovered that the prolonged period is caused by lack of information provided by the IRD to the Government Attorney. In cases where the taxpayer is not residing at the known address provided by IRD, it is referred to the Deeds Office. This also results in delay to summon the taxpayer to appear in court.

4.1.2 Tax returns submitted do not follow the correct route

Interviews conducted and documents analysed indicates that tax returns submitted are not always submitted via customer care but at other sections which resulted in returns getting lost, not stamped at all or not captured on the taxlive system.

4.1.3 Tax returns assessed without proof

The audit found that tax returns are sometimes assessed as nil returns even though the taxpayer does not submit declarations from the police that there were no trade done and verify with Asycuda ++ system.

4.1.4 Staffing

Interviews indicated that a high staff turnover is another factor that is hindering the performance of the IRD. Lack of experts in the Information Technology to section maintain and assist in matters regarding the taxlive system was also highlighted by interviews.

4.2 Oversight by the Ministry in ensuring that IRD reaches its goal

It is the responsibility of the management of MOF to monitor and follow-up the progress of the IRD and takes action should there be deviation, which is further cascaded down to the IRD management which has the responsibility to set objectives for all regional offices. MOF should also ensure that regional offices have the resources to meet the set objectives. Furthermore the IRD should oversee that regional offices meet the set objectives and if these objectives are not met they should take action. Regional offices are responsible to report back to the IRD head office on progress and matters of concern on a continuous basis.

The audit found that for the 2007 and 2008 tax years there were no management meetings of the IRD and regional offices, while for the 2009 tax year the first meeting was only held on the 30th of January 2009. Since these progress meetings are a measure whereby head office can follow-up on regional offices, this shows that there is a lack of monitoring and follow-up action by management of the IRD as regular meetings were not held.

Furthermore the audit found that reports produced by Regional Offices on a monthly or quarterly basis to Head Office on the progress and statistics of work done in their regions does not include statistics on the number of tax returns outstanding or neither on the amount of taxes owed to the IRD by the taxpayers. The report also does not indicate the pending work that was supposed to be covered during the period of the reporting. The effects of these information missing in the reports is that management will have difficulties in monitoring the performance of the regional offices as they do not know if there are pending issues that still need to be addressed. The oversight of the Head Office on Regional Offices will be compromised in that regard.

The audit also found that there are no recovery plans on how outstanding tax returns and tax balances will be recovered. This may result in IRD not able to recover taxes owed by the taxpayers. It was also observed through the budget document that IRD always budget to collect what have been collected in the previous tax year, and not considering the outstanding taxes to the budget.

Regional offices are responsible to notify and follow-up on outstanding tax returns and tax due to IRD. The audit found that there is a lack of monitoring from the IRD to the regional offices as far as tax collection is concerned. This is supported by the large number of taxpayers with outstanding tax returns and large amounts of outstanding taxes that are rarely being notified. This has resulted in government losing huge amount of revenue. For more info, see table 3 and 4.

Furthermore the auditors established through interviews that there are no targets set for regional offices in performing their duties.

There is no uniformity in handling notifications by all Regional Offices, for example Keetmanshoop gives taxpayers ten (10) days to respond whilst other offices give thirty (30) days.

It was also discovered that there is no uniformity in issuing letters of demand, for example the Walvis Bay Office only send one final demand whereas other regional offices issue two initial notices before a final demand while at the Keetmanshoop Office more than three notices were sent.

4.3 Registration of taxpayers

Before any taxpayer can start paying tax, they should be registered with the MOF, whereby a tax number is issued and only one number per type of tax is given to a taxpayer.

The audit found that there are taxpayers that are having more than one tax number. This is a result of the absence of a system to screen taxpayers' before they are being registered in order to ensure that they are not registered twice. The Taxlive system is unable to restrict that a taxpayer is registered twice. Therefore the auditors were unable to determine the correctness of the total taxpayers in the country.

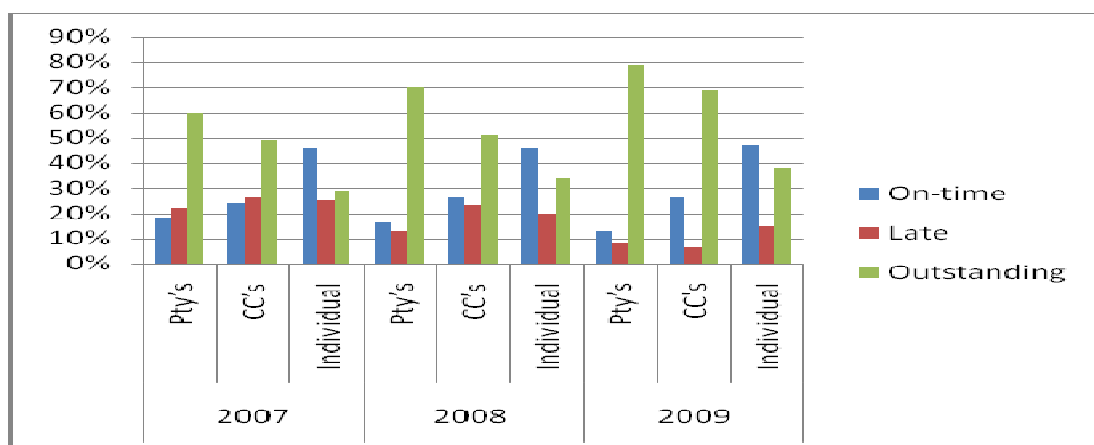
4.4 Submission of tax returns and payment of taxes based on self-assessment system

Tax returns for individual taxpayers should be submitted on or before the 30th of June every year while Pty's and CCs seven months after the end of their financial year. Two letters of notification and one final demand should be sent to all taxpayers who fail to render tax returns on time and if no response is received from the taxpayers they are summoned to court.

However, document analysed indicates that the majority of tax returns are submitted late or not submitted at all.

The graph below illustrates the submission of returns for the three years under review.

Graph 1: Submission of tax returns



Source: Sample of taxpayers files

The graph above illustrates that outstanding returns for all taxpayers have increased over the three years in relation to tax returns that were submitted late and on time. This demonstrates that IRD does not make efforts to reduce the outstanding returns.

The payments for all type of taxes should be made on or before the due dates. The taxlive system deployed by the IRD automatically calculates interest and penalties as soon as tax returns are captured. However, the audit found that not all taxpayers are paying the tax due that they are suppose to pay, and this has resulted in a large amount of outstanding taxes. This is illustrated in table 4.

4.5 IRD assessments of tax returns

According to the taxpayer charter, assessment of tax returns should be done within a period of eight months from the date received. However this has not been the case as tax returns are not all assessed within the period of eight months as reflected in table 1 below:

Table 1: Assessment of tax returns

Returns received:	2007	2008	2009
Assessed	135 618	118 468	70 436
Not assessed	43 622	51 979	84 197

Source: Statistic produced by IRD taxlive system

The above table indicates that the number of income tax returns received but not assessed has drastically increased over the three years; from 2007 to 2008 the increase in percentage terms was nineteen percent (19%) while from 2008 to 2009 the increase was sixty two percent (62%). The table also demonstrates that the number of returns assessed has decreased over the same period with thirteen (13%) and forty one (41%) respectively, despite the fact that IRD has established two new regional offices during the same period. It is further demonstrated under paragraph 1.7 - staffing. If the returns are not assessed, the tax liabilities will not be correctly determined to ensure that the correct tax is paid, therefore correct tax revenue may not be collected in that particular tax year.

Table 2: Assessment within the prescribe period

Returns:	2007			2008			2009		
	Pty	CC	Individual	Pty	CC	Individual	Pty	CC	Individual
Assessed within 8 months	62%	63%	77%	33%	47%	71%	58%	81%	74%
Assessed after 8 months	38%	37%	23%	67%	53%	29%	42%	19%	26%

Source: Statistics drawn from the sample of taxpayers analysed

The above table shows that the returns received are not all assessed within the prescribed period of eight months. The number of tax returns assessed within the period of eight months has decreased over the three years, resulting in the delay of tax assessment and collection of tax revenue for the specific tax year. If the assessments are not done within the prescribed period, the service delivery to taxpayer's is not being delivered in accordance with the taxpayer charter.

Interviews conducted indicated that the contributing factor to the prolonged assessments of tax returns is the lack of staff within the assessment section compared to the increase in the taxpayer's population over the three years. This factor could not be verified by the auditors due to unavailability of the figures.

4.6 Issuing of notifications on outstanding tax returns and documentations

The IRD is responsible to notify taxpayers who fail to submit their tax returns as well as the necessary accompanying documentation within the due date. However, during the audit, it was found that taxpayers are rarely notified as IRD do not always sent notification to taxpayers within the required period. The audit also found on numerous occasions that notifications are sent to taxpayers a year later. These are being illustrated in table 3 below.

Table 3: Notification issued to taxpayers (Pty's, CCs and Individuals)

Notifications	2007			2008			2009		
	Pty	CC	Individual	Pty	CC	Individual	Pty	CC	Individual
Initial	12%	12%	23.3%	6%	4%	21.7%	2%	1%	16.8%
Follow-up	2%	1%	4.3%	1%	0.4%	2.8%	1%	0.4%	1.8%

Source: Statistics drawn from the sample of taxpayers analysed

The table above illustrate that minimal notifications are issued and sent to taxpayers in relation to outstanding tax return in graph 1. The table also demonstrate that less follow-up are being made compared to the initials notifications, which has resulted in a large number of outstanding tax returns. If a tax return is not submitted, it will not be assessed, tax due will not be determined and collected.

Furthermore the above table reflect that both initial and follow-up notifications have also decreased gradually over the three years even though the number of outstanding tax returns has increased. This meant that there were no improvements in terms of issuing notification over the three years.

Interviews conducted with IRD officials stated that notifications and follow-up action are rarely done because the process is extremely time-consuming because it is done manually and involves a large number of taxpayers with outstanding tax returns. Understaffing was another factor mentioned by IRD to be the reason for not sending notifications timely which is contrary to the high number of 190 vacant positions on the establishment.

The auditors also found that there are a number of taxpayers that are not submitting final ITX tax returns although, VAT and provisional returns are submitted. This resulted in the increase of outstanding tax returns which is caused by lack of notifications issued.

4.7 Payment of correct tax and follow-up on outstanding tax balance

After the assessment by IRD is done, the correct tax due is determined whether taxpayer is getting a refund. A statement of account (notice of assessment) is printed by the taxlive system and sent to taxpayers within thirty (30) days. In cases were taxpayers have an outstanding balance and fail to make payments on time, a second manually written notification is issued with a 10 days grace period, followed by a final demand with 14 days grace period should there be no response. Should there be no response received, the taxpayer is summoned to court.

The audit found that taxpayers with outstanding balances are not informed in time while they are not aware whether they have an outstanding amount or balance. It was further discovered that when assessment is made by IRD it may differ from the self assessment which may result that interest and penalties has unknowingly accrued. Furthermore the auditors found while working on the Taxlive system that officials of the IRD are forecasting tax liabilities. Interviews conducted with IRD officials revealed that forecasts are based on taxpayers previous year's tax returns declarations if they do not submit tax returns for the current year. These forecasts are made with the aim of attracting the taxpayers to enquire on the large amount of outstanding tax, through issuing notifications to these taxpayers, while these notifications are not being issued. This has contributed to the large number of outstanding tax to the State. (Refer to table 4 for outstanding taxes).

During the audit a total of 2 190 (PTY's 390, CC's 400 and individual 1 400) sample of taxpayers analysed indicated that an amount of N\$ 416 037 621.90 were still outstanding for the three tax

years interview. Further analysis stated that IRD is seldom issuing notification, which might be a contributing factor to the aforementioned amount as demonstrated below.

Out of the 390 Pty's taxpayers analysed, 75 have tax due. Out of 75 Pty's, 9 were initially notified and only 2 out of 9 that were notified have followed up.

Out of 400 CC's taxpayers that were analysed 69 have tax due. Out of 69 CC's taxpayer that have tax due only 8 were notified up and out of 8 only 4 were further followed up.

Out of 1 400 individual tax payer, 300 have outstanding balance. Out of the 300, 70 were notified with only 24 were further followed up.

The following table indicates the total amount of taxes that were outstanding, at the end of the three tax years under review.

Table 4: Total amount of outstanding tax per tax years

	ITX	ETX	VAT	VIA	Total
2007	3 048 348 481	149 929 288	905 861 951	134 001 434	4 238 141 154
2008	2 424 582 182	250 919 548	1 312 218 692	329 827 319	4 317 547 741
2009	4 503 414 754	343 854 363	1 724 474 871	678 860 267	7 250 604 255

Source: Statistics provided by MOF_IRD

The table above indicates that the outstanding taxes have been increasing for all years except ITX for 2008 tax year, where an amount of N\$ 623 million decrease was recorded, indicating that more taxes were collected in 2008 tax year in relation to other tax year. However, there were still N\$ 2.4 billion outstanding for ITX at the end of the 2008 tax year.

In 2009 the total tax balance outstanding has increased rapidly, from 4.3 billion in 2008 to N\$ 7.2 billion which is a sixty eight percent (68%) increase which means in this tax year in particular a huge amount of tax remained uncollected and the IRD objective of maximising tax revenue collection is not achieved. However, the auditors were unable to verify the correctness of the figures in the table above as they have been receiving different figures during the audit. This was because the figures received from IRD could not be verified by the auditors.

4.7.1 Collection of Value Added Tax on Import Account (VIA) by IRD

VAT on Import Accounts (VIA) is recorded on the Customs system (Asycuda++) at the borders upon entering the country. This is then deferred to the IRD, which is responsible for tax collections. These deferred amounts are due on the 20th of the next month to IRD. Upon payment of such tax, taxpayers are required to provide records of all their imports to IRD for verifications.

The auditors found that when IRD is assessing VIA returns they do not make use of the Asycuda++ system to verify the correctness of the tax declared. The Asycuda++ printout is only used in cases where the taxpayer is being audited by IRD.

For the years under review N\$10 858 588 912 was deferred by Customs and Excise but IRD was not able to provided the auditors with a brake down of how much was related to the deferred amount.

4.8 Audit and refunds

All regional offices are obligated to carry out audits on tax refunds, which are referred to as Desk Audit section. Tax refunds are verified/ audited by the assessment sections however; there is no standard set by IRD to guide the regional offices. Therefore the regional offices came up with their own internal threshold, whereby some regional offices are using N\$ 5 000 while others are using N\$ 3 000 for ITX and N\$ 15 000 for VAT.

Furthermore the IRD also carried out field audits when there are suspicions in the income and expenditure of the taxpayer or tip off from the public. Each regional office is required to submit a yearly plan on the field audits to be conducted subject to approval by the Deputy Commissioner and the Permanent Secretary of MOF.

Refunds for VAT above N\$ 15 000 to taxpayers that were analysed during the audit indicated that taxpayers are excluding taxable items on the return and at times claiming one invoice twice.

The auditors also found numerous refunds that were supposed to be audited by desk audit or verified by assessment sections were not done in a timely and consistent manner.

4.9 Filing system

During the audit, the auditors found that measures are available to IRD as far as the handling of tax returns and taxpayers' files are concerned. A form should be used by officials when transferring files within sections or divisions and between regional offices. Transfer of files between regional offices can also be recorded on the taxlive system.

However this is not done on a consistent basis, therefore the number of tax files requested by the auditors, were not all made available as the respective registry sections could not trace the tax files. The numbers of tax files not availed are illustrated in table 5 below:

Table 5: Sample size and tax files not available during the audit.

Taxpayers	Total sample	Taxpayers' file not available (in percentage)
Pty Ltd	390	39 (10%)
CCs	400	59 (15%)
Individual	1400	203 (15%)

Source: sample requested for audit

The unavailability of tax files may result in tax returns not being assessed thus the tax liability will not be known. The government may lose revenue if the taxpayers do not assess themselves correctly, interest and penalties will also not be known or paid. Taxpayers file not availed may also have an impact on the inquiries by the tax payers as there will be no record.

The audit also found that not all documents are filed in the correct taxpayers file and at times not filed at all. Furthermore tax returns can be recorded as received in the taxlive system while it is not filed and also returns might have been assessed as per the system but still not been filed.

A copy of a statement of account (assessment notice) should be filed in a taxpayers file and the original should be sent to the taxpayer as soon as the assessment is completed and printed to inform the taxpayers on their tax balances. However, the table below shows that a large number of notices (copies) in the taxpayers files were not availed for audit.

Table 6: Documents not in the tax files

	Income Tax returns	Provisional returns	Assessment notice
Pty Ltd files	67	4	34
CCs files	57	18	67
Individuals files	107	5	719
Total	231	27	820

Source: Statistics drawn from the sample of taxpayers analysed

4.10 IRD Taxlive system

The taxlive system should provide reliable information and produce management reports. According to interviews and observation the system in general since its introduction has not performed up to their expectations and problems are continuously creeping up as not all system functions are active and used. IRD staff particularly identified the inability of taxlive system to produce management reports as a major setback for senior personnel to monitor and oversee progress in the respective sections/divisions.

Taxpayers are requesting for de-registrations and although all documentation required for deregistration are attached to the request and do not have an outstanding balance, they are not being deregistered as at times the system does not allow the officials to de-register taxpayers.

Furthermore the auditors found that the system is allowing refunds for the same taxpayer with different tax accounts to be paid while there is an outstanding tax balance on others as the taxlive system is not able to sett-off balances automatically.

The audit also found that the system owners (IRD officials) do not have full control of the system, but the consultant that is maintaining the system has full control. This was identified when the auditors requested the IRD to provide them with the outstanding tax balances for the three years under audit and they (IRD) could not provide them. The audit team only managed to get the outstanding balances when IRD requested them from the consultant. This is an indication of the risk that is involved as the system owner does not have full control of their system.

CHAPTER 5

5. CONCLUSION

5.1 General

It appears that the officials capturing the tax return on the system are not clear which date to use when a tax return is having two stamp dates and in cases where the tax returns do not have stamp date. Tax returns submitted are not always following the correct channel, resulting in tax returns not stamped or captured on the system. If the correct received date is not captured on the system the taxpayer will be liable to penalties and interest should there be an outstanding amount or alternatively the government will lose out on interest and penalties.

The delay in government attorney to take action may cause taxpayers to be reluctant to respond on summons as well as a delay in tax revenue collection.

The IRD is assessing nil returns as such without declaration as to why a nil return was submitted, which creates room for tax evasion.

This practise is inconsistent and appears to be a good practise if fully implemented but is not part of IRD requirements.

5.2 Oversight by the Ministry in ensuring that IRD reaches its goal

The oversight of the ministry is not effective enough in overseeing the activities of the regional offices in the collection of tax revenue. The absence of targets for regional offices makes monitoring on progress of the regional offices difficult for management.

Furthermore there is a lack of monitoring and uniformity from IRD on the regional offices in overseeing the activities of regional offices in the collection of tax revenue.

5.3 Registration of taxpayers

The inability of the taxlive system to prevent a taxpayer to register twice as well as the fact that taxpayers are not screened by the IRD resulted in them having two tax numbers.

5.4 Submission of tax returns and payment of taxes based on self-assessment

The late or non-submission of tax returns, has impacted on IRD to be unable to collect tax on time.

5.5 IRD assessments of tax returns

A substantial amount of assessments are not being done within the stipulated eight month period which leads to a delay in tax determination (assessment) and tax collection as well as a failure by the IRD to provide satisfactory service delivery to taxpayers as promised in accordance with the taxpayer charter.

5.6 Issuing of notifications on outstanding tax returns and documentation

The absence of proper control and monitoring mechanisms at IRD in terms of notifying and following-up taxpayers on outstanding tax returns in a timely manner, results in a large number of outstanding tax returns. IRD is not in position to determine the correctness of actual tax liability as well as collected tax; as a consequence government will continue losing revenue.

5.7 Payment of correct taxes and follow-up on outstanding tax balances

The IRD's inability to consistently notifying taxpayers with outstanding tax has resulted in large amounts of uncollected taxes which is hampering the IRD in achieving its main objective which is to maximise state revenue through effective tax collection.

In respect of VIA collected, there remain large amounts of uncollected VIA as the IRD officials are not fully making use of the Asycuda++ system which is at their disposal.

The deficiency of a tax recovery plan at IRD on due taxes caused the increase in large amount of tax due.

5.8 Audits and refunds

There are no set standards and uniformity in auditing tax refunds within IRD.

5.9 Filing system

The filing and transfer practise used by registry section at IRD is not effective since some returns were missing from tax files as well as other misfiled tax related documentations were found. The aforementioned scenario could be a disadvantage to both the IRD and taxpayers, as IRD might not have proof of tax documents should such documents get lost and/or the taxpayers may get frustrated with such bad practise at the IRD.

5.10 IRD Taxlive System

Taxlive system is not performing up to expectation as problems are continuously hampering the effective collection of tax revenue. The management report function on the Taxlive system is not functioning which is also hampering the management of IRD in monitoring the progress of tax collection. The effective operation of the Taxlive system is depended on the consultants.

5.11 Consultants

The effective operation of Taxlive system at IRD is dependent on the consultants.

CHAPTER 6

6 RECOMMENDATIONS

6.1 General

To avoid taxpayers being penalised for late submission and for the government to loose on penalties and interests, it is recommended that all tax returns should be first received at the receiving point and be stamped on the date received. In case where the returns are received and approved by the second party, such receive date should be used.

The IRD together with the Attorney General (Government Attorney) should come up with a plan on how taxpayers that are summoned should be dealt with in a timely manner to speed up the recovery processes of tax revenue owed to the Government.

The auditors also recommend that in case a nil return is submitted, proof should also be submitted such as police declaration, this practise should be set as a requirement.

6.2 Oversight by the Ministry in ensuring that IRD reaches its goal

Clear targets should be set for regional offices to provide direction and serve as a benchmark to measure the performance of regional offices.

It is also recommended that the management of the Ministry together with the regional office should come up with a plan on how to recover the outstanding taxes and tax returns and how the outstanding work should be carried out.

The audit also recommends that management meetings should be conducted on a regular basis.

6.3 Registration of taxpayers

To prevent taxpayer being issued with two tax numbers, it is recommended that before registration takes place, taxpayer should be screened and ensures that they were not registered before.

6.4 Submission of tax returns and payment of taxes based on self-assessment

Notifications and follow-up of taxpayers who fail to render returns should be done on a regular basis as there is a high risk that large amounts of tax revenue might be lost.

The IRD should come up with a plan which will enable them to reduce the large number of outstanding returns.

6.5 IRD assessments of tax returns

Management should ensure that tax returns are assessed within the prescribed period.

The IRD should make optimal use of Asycuda ++ system when performing their duties.

6.6 Issuing of notifications on outstanding tax returns and documentation

IRD should ensure that proper control and monitoring mechanisms with regard to issuing notifications and follow-up on outstanding tax returns are in place and tax returns are submitted in a timely manner.

6.7 Payment of correct tax and follow-up on outstanding tax balance

The IRD should see to it that assessment notices are sent to the taxpayers soon after assessments are completed as well as prompt and consistent notifications to taxpayers who fail to respond to such assessment notices.

The IRD should ensure that there is a tax recovery plan with proper targets for the known taxes owed and tax balance due are being communicated and collected from taxpayers. The statistic of outstanding taxes should also be kept within regional offices and should be made available to the Head Office at all times. Furthermore more emphasis should be placed on the collection of tax revenue.

6.8 Audits and refunds

The IRD should come up with a standard on who should be audited. It is also recommended that audit be carried out on a consistent basis to prevent tax evasion.

6.9 Filing system

The IRD should come up with clearly written procedures that should be implemented and applied across all regional offices to ensure that a proper filing system is in place which will make sure that taxpayers' files are easily accessible (located/traced); tax returns and other documentation are not misfiled or lost from tax files.

6.10 IRD Taxlive system

An Information System audit should be conducted on IRD Taxlive system. It is recommended that IRD take full control of the Taxlive system and consultants should have limited access to the live system.

6.11 Consultant

It is recommended that IRD should take full control of the Taxlive system and should remove the consultants immediately.