Income Tax Department

8.1 Enforcement and Recovery Section

Introduction

As of 30 June 2006, there were 6,614 individuals and 1,278 companies owing a total amount of Rs 764.5 million to the Income Tax Department (ITD).

The above debts were categorised as collectible and they included debts of Rs 132 million and Rs 50 million under appeal at the Supreme Court and Privy Council respectively.

Debts under objection or appeals (other than above) were termed as non collectible and amounted to Rs 440 million.

Debt Collection

Collection of arrears during 2005-06 was the lowest of the last four financial years as shown in Table 44.

<table>
<thead>
<tr>
<th>Financial Year</th>
<th>Outstanding Debts (Rs m)</th>
<th>Amount Collected (Rs m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001-2002</td>
<td>582</td>
<td>212</td>
</tr>
<tr>
<td>2002-2003</td>
<td>677</td>
<td>326</td>
</tr>
<tr>
<td>2003-2004</td>
<td>674</td>
<td>285</td>
</tr>
<tr>
<td>2004-2005</td>
<td>747</td>
<td>347</td>
</tr>
<tr>
<td>2005-2006</td>
<td>764</td>
<td>262</td>
</tr>
</tbody>
</table>
Long Outstanding debtors

An age analysis of debtors as at end of the last two financial years given in Table 45 showed that there has been very little reduction of arrears relating to financial years up to 2001-02.

Some 36 per cent of the arrears amounting to Rs 272 million as of 30 June 2006 were over six years old. ITD considered that some Rs 32 million of these were irrecoverable.

Table 45 Debtors age analysis

<table>
<thead>
<tr>
<th>Financial Year</th>
<th>30 June 2006 (Rs m)</th>
<th>30 June 2005 (Rs m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prior to 30 June 2000</td>
<td>273.68</td>
<td>271.89</td>
</tr>
<tr>
<td>2000-2001</td>
<td>39.40</td>
<td>37.52</td>
</tr>
<tr>
<td>2001-2002</td>
<td>113.74</td>
<td>111.99</td>
</tr>
<tr>
<td>2002-2003</td>
<td>82.12</td>
<td>66.94</td>
</tr>
<tr>
<td>2003-2004</td>
<td>57.60</td>
<td>51.91</td>
</tr>
<tr>
<td>2004-2005</td>
<td>180.52</td>
<td>143.70</td>
</tr>
<tr>
<td>2005-2006</td>
<td></td>
<td>80.55</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>747.06</strong></td>
<td><strong>764.50</strong></td>
</tr>
</tbody>
</table>

It was difficult to recover debts that were long outstanding.

Enforcement Actions

Further to my 2004-05 Audit Report, the effectiveness of enforcement tools was reviewed.

- One of the enforcement measures mentioned in the Income Tax Act, 'Proceedings for temporary closing down of business'(Section 140A) has still not been applied.

- As of 3 August 2006, the outcome of 22 out of 45 Distress Warrants (DW) issued during 2004-05 but not returned by ushers was still unknown. During 2005-06, 100 DW were served. 51 of these had not been returned. Only eight cases resulted in seizures compared to 13 in 2004-05. In 39 cases, the tax payer had no or insignificant movable property. None of the seizures has resulted in sales. ITD has issued letters to the Chief Usher, Supreme Court to initiate legal action as regards sales of goods seized, but there has been no response so far.

- In 221 cases where total tax due amounted to some Rs 219 million, inscriptions were taken on the immoveable properties of those taxpayers.
As of 30 June 2006, five cases of Compulsory Notice Contrainte for a total amount of Rs 27,987,774 were still outstanding.

As per the Objection to Departure (OTD) Register, OTD has been filed in 33 cases with total tax due of Rs 39,579,812. Agreements have been reached in three cases for Rs 6,719,834 and accounts have been settled in four cases for Rs 792,614.

Irrecoverable debts were still being processed for write off.

Recommendation

Prompt action should be taken for recovery of arrears.

8.2 Outstanding Appeals

According to Section 134 of the Income Tax Act, any person who is aggrieved by a decision or determination may appeal to the Assessment Review Committee.

As of 30 June 2006, 480 appeals for a held over amount of some Rs 462 million were still outstanding. 101 out of those 480 cases amounting to Rs 103.6 million related to appeals lodged for more than six years.
Value Added Tax Department

8.3 Arrears of Revenue

As at 30 June 2006, a total of some Rs 372.03 million was due to the Value Added Tax (VAT) Department. Details for the past five financial years are given in Table 46

Table 46 Arrears as at 30 June 2006

<table>
<thead>
<tr>
<th></th>
<th>As at 30 June 2002 (Rs m)</th>
<th>As at 30 June 2003 (Rs m)</th>
<th>As at 30 June 2004 (Rs m)</th>
<th>As at 30 June 2005 (Rs m)</th>
<th>As at 30 June 2006 (Rs m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value added Tax</td>
<td>55.58</td>
<td>85.63</td>
<td>140.5</td>
<td>182.85</td>
<td>245.84</td>
</tr>
<tr>
<td>Sales Tax</td>
<td>22.66</td>
<td>24.73</td>
<td>20.7</td>
<td>20.20</td>
<td>19.74</td>
</tr>
<tr>
<td>Hotel and Restaurant tax</td>
<td>31.79</td>
<td>28.54</td>
<td>27.5</td>
<td>16.22</td>
<td>15.88</td>
</tr>
<tr>
<td>Gaming and Betting Tax</td>
<td>1.09</td>
<td>15.31</td>
<td>17.2</td>
<td>63.37</td>
<td>90.57</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>111.12</strong></td>
<td><strong>154.21</strong></td>
<td><strong>205.9</strong></td>
<td><strong>282.64</strong></td>
<td><strong>372.03</strong></td>
</tr>
</tbody>
</table>

The debt to the VAT department has been continuously increasing from Rs 111.12 million in 2001-02 to Rs 372.03 million in 2005-06, or an increase of 234 per cent in five years.

Over and above the amount of Rs 372.03 million due as of 30 June 2006, some Rs 431.95 million were not yet enforceable as of 30 June 2006, as these cases were under objection at the Assessment Review Committee (ARC). This is shown in Table 47

Table 47 Tax not yet Enforceable

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount (Rs m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value Added Tax</td>
<td>275.08</td>
</tr>
<tr>
<td>Sales Tax</td>
<td>2.49</td>
</tr>
<tr>
<td>Hotel and Restaurant Tax</td>
<td>51.60</td>
</tr>
<tr>
<td>Gaming and Betting Tax</td>
<td>102.78</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>431.95</strong></td>
</tr>
</tbody>
</table>
8.3.1 Value Added Tax

➢ Out of Rs 245.84 million outstanding as of 30 June 2006, Rs 45.8 million only related to the year 2005-06 while the remaining balance was in respect of prior years.

➢ Total amount of tax collected during 2005-06 in respect of arrears of tax relating to previous years amounted to some Rs 35.99 million. The rate of recovery of arrears is shown in Table 48

Table 48 Recovery of arrears of VAT

<table>
<thead>
<tr>
<th>Years</th>
<th>VAT outstanding at 30 June 2005 (Rs m)</th>
<th>Amount collected during 2005-06 (Rs m)</th>
<th>% collected</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998-99</td>
<td>2.52</td>
<td>0.018</td>
<td>0.7</td>
</tr>
<tr>
<td>1999-00</td>
<td>11.51</td>
<td>0.26</td>
<td>2.3</td>
</tr>
<tr>
<td>2000-01</td>
<td>21.86</td>
<td>0.518</td>
<td>2.4</td>
</tr>
<tr>
<td>2001-02</td>
<td>15.98</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2002-03</td>
<td>38.03</td>
<td>1.29</td>
<td>3.3</td>
</tr>
<tr>
<td>2003-04</td>
<td>61.39</td>
<td>14.08</td>
<td>22.9</td>
</tr>
<tr>
<td>2004-05</td>
<td>31.56</td>
<td>19.83</td>
<td>62.8</td>
</tr>
<tr>
<td>Total</td>
<td>182.85</td>
<td>35.99</td>
<td></td>
</tr>
</tbody>
</table>

8.3.2 Sales Tax

Value Added Tax was introduced since 1998 to replace sales tax. The last assessment in respect of sales tax was raised in 1999-2000.

➢ As of 30 June 2006, a total of some Rs 19.74 million, involving 85 cases, was still outstanding. As of 30 June 2005, the debtors figure was some Rs 20.2 million. Only an amount of Rs 483,151 was collected during 2005-06.

➢ 26 cases, totalling some Rs 5.6 million were awaiting write off. Application for write off has been made in 39 other cases amounting to Rs 7.1 million.

8.3.3 Hotel and Restaurant Tax

As of 30 June 2006, there were 31 cases outstanding for a total amount of Rs 15.88 million.

Recovery of debt was slow. An amount of Rs 343,262 only was collected in 2005-06 which represented two per cent of debt amounting to Rs 16.22 million as of 1 July 2005.
8.3.4 Gaming Tax

As of 30 June 2006, a total of Rs 90.5 million was due in respect of gaming tax. Debts amounting to some Rs 24.7 million were collected in 2005-06. Over and above the amount of Rs 90.5 million due as of 30 June 2006, some Rs 102.8 million were not yet enforceable, as these cases were under objection at the ARC.

Department’s Reply

The debt at the VAT Department has been continuously increasing for the following reasons:

➢ The examination of records of high risk VAT registered persons and licensees under the Gaming Act has resulted in a continuous increase over the years in the amount of tax assessed.

➢ With most of the assessments under the VAT Act going through the objection and appeal process and most of the licensees under the Gaming Act making appeals against the assessments, the VAT Department could initiate enforcement actions only when the assessments became enforceable. In many of the cases, by that time, the companies were either already in liquidation or under receivership and enforcement actions taken in accordance with the legislation, have not proved to be effective.

The Value Added Tax Act was amended in April 2005 to provide for the payment of 30 per cent of the tax claimed in the notice of assessment. This amendment, coupled with the close monitoring of debts was expected to improve the debt collection process.
8.4 Arrears of Revenue

8.4.1 General

I have drawn attention several times in the past to the large amount of money which was due to the Registrar-General's Department and which has been increasing over the years to reach some Rs 166 million as of 30 June 2006. This represented more than 130 per cent increase from 30 June 2001 to 30 June 2006. Arrears as at the end of the past six financial years and the respective amount recovered or adjusted in the ensuing financial years are given below.

<table>
<thead>
<tr>
<th>Financial Year ended</th>
<th>Arrears (Rs)</th>
<th>Recovered/adjusted in Ensuing Financial Year (Rs)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>30 Jun 2001</td>
<td>71,299,205</td>
<td>8,041,015</td>
<td>11</td>
</tr>
<tr>
<td>30 Jun 2002</td>
<td>108,355,930</td>
<td>18,275,384</td>
<td>17</td>
</tr>
<tr>
<td>30 Jun 2003</td>
<td>130,512,172</td>
<td>15,537,343</td>
<td>12</td>
</tr>
<tr>
<td>30 Jun 2004</td>
<td>132,948,184</td>
<td>5,831,276</td>
<td>4</td>
</tr>
<tr>
<td>30 Jun 2005</td>
<td>153,991,872</td>
<td>11,808,319</td>
<td>8</td>
</tr>
<tr>
<td>30 Jun-2006</td>
<td>166,140,971</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Recovery of arrears was slow with amounts recovered ranging from as low as four per cent of the arrears in 2004-05 to 17 per cent in 2002-03.

Registrar-General Department’s Reply

Arrears of Revenue have in fact increased from 2001 to 2006 to reach Rs 166 million at 30 June 2006. The increase may partly be explained by the various changes brought by the Finance Act to the Registration Duty Act and the Land (Duties and Taxes) Act since 2001, whereby the responsibility for taxation of deeds had been shifted from the Registrar-General to Notaries. The 20 per cent penalty leviable for duties inadequately paid also contributed to an increase in arrears.

8.4.2 Irrecoverable Arrears

Of the Rs 166 million due as of 30 June 2006, some Rs 19.6 million (12 per cent) might not be recovered at all and would eventually have to be written off. These related to Succession Duties for which Application for Write Off was being processed, amounts due from deceased debtors, time barred cases for taxes relating to deeds drawn between 1992 and 2000 and untraceable debtors.
➢ **Time Barred Cases**

No legal action had been taken to recover long outstanding duties and taxes relating to deeds drawn between 1992 and 2000 and totalling some Rs 3.9 million. These cases had become time-barred and might not be recoverable. An Inscription of Privilege, being the only safeguard available, should have been enrolled in all the cases. However, from a sample of 20 cases selected, it was noted that Inscription was enrolled in three cases only.

➢ **Deceased Debtors**

Registration Duties and Land Transfer Taxes totalling some Rs 1 million in respect of 61 deceased debtors were outstanding as of 30 June 2006. The law provides that the Registrar-General may inscribe a Privilege on all the properties of the deceased. However, in the case of Land Transfer Tax, where the vendor does not possess any other property in addition to the one being sold, enrolment of Inscription of Privilege is not possible and the debt may not be recovered.

➢ **Untraceable Debtors**

Some Rs 12 million in respect of Registration Duty and Land Transfer Tax were due from some 1,150 untraceable debtors. Only about 155 cases totalling some Rs 2.9 million were being followed by the Attorney Section.

**Registrar-General Department's Reply**

➢ Authority for write off of the Succession Duties due by deceased debtors has been obtained.

➢ With regard to the time barred cases, a shortage of staff prevented their proper follow up. All technical posts on the Department's establishment have been listed for abolition in July 2004, resulting in no recruitment/promotion exercises to be carried out since that date. Failure to fill the post of Attorney since 2004 has worsened the situation.

➢ An Inscription on immovable properties belonging to deceased persons has been enrolled in all cases but the outstanding amount may only be recovered in cases where a transfer of the properties belonging to the deceased is made by the heirs.

➢ Tracing of some debtors has proved very difficult, even with the assistance of the Police. However, in all cases, inscription has been enrolled to secure the debt.

**8.5 Campement Sites**

The law provides that the Registrar-General's Department shall establish a register of campement sites. The register should contain particulars of every campement site and of declaration made, namely by every owner, subsequent new owners, lessees and heirs of owners of a campement site.
The completeness of the register could not be ascertained. There was no evidence that the survey of all campement sites and campements was completed.

The Ministry of Housing and Lands did not inform the Registrar-General's Department of each lease agreement signed but sent lists on an ad hoc basis. The last one sent in May 2006 gave particulars of all leases, with all relevant details and was classified on a District/Location basis.

The index of the records at the Registrar-General's Department was according to the names of lessees in alphabetical order. No links could be found between this document and that of the Ministry of Housing and Lands for easy comparison and detection of cases of lessees not paying the appropriate tax.

The Registrar-General's Department was not always informed by lessees of construction of a building for residential purposes on the site.

There should be a close collaboration between the Ministry of Housing and Lands and the Registrar-General's Department so that claims for tax are promptly sent to lessees to ensure that they are paying their dues. The index at the Ministry of Housing and Land should also be codified and the same reference used at the Registrar-General's Department for easy identification and comparison.

As for Campement Tax, the Registrar-General's Department should liaise with Local Authorities for all permits delivered for construction on such sites. Site visits should also be carried out.

Registrar-General Department's Reply

The survey of campement sites is still under way.

The Ministry of Housing and Lands has been requested to codify its list of campement sites to facilitate identification.

8.6 Debt Recovery System

The Attorney Section was responsible for follow up of debtors. Apart from reminders, other provisions have been made in the law to recover debts. The law provides that the Registrar-General may apply to a Judge in Chambers for an Order ("Contrainte") to issue against the debtor in case of non-payment of arrears. The "Contrainte" is a document whereby the Registrar-General informs the debtor that payment of the sum due may be enforced against him by all legal ways and means.

"Contrainte" was often served upon debtors only after five years assuming the debtor could be contacted. If still the debtor does not pay, a “Procipe” and the "Contrainte" are served upon the debtor by an Usher after a Judge Order rendering the "Contrainte" and “Seizure and sale of the movable and immovable property of the Debtor” executory.
Cases were noted where seizures were not being effected even after service of Judge Order upon the debtor by an Usher. Only reminders were sent informing the debtor that an Inscription of Privilege had been enrolled on all immovable properties belonging to him.

The Registrar-General's Department should ensure that Judge Orders were duly executed.

**Registrar-General Department's Reply**

There is presently no Attorney to assist the Department in recovering debts. Advice from the Attorney General’s Office and guidance of the Ministry of Finance are being sought on "Contrainte" and execution of Judge Orders.
Customs & Excise Department

8.7 X-Ray Scanner Equipment – Rs 131 million

Background

Following positive comments from a ministerial visit and the mission of the Comptroller of Customs in Dubai in March 2003, it was decided to procure the scanner of Chinese origin in use there due to its superior technology. The Government of China agreed that the two interest free loans totalling RMB 40 million (some Rs125 million) granted in July 2002 and March 2003 be used to finance the Scanner Equipment.

Contract Sum

The contract sum was agreed at RMB 39 million (some Rs 131 million) and consisted of the supply, installation and commissioning of two scanners, including the construction of sheds. In August 2004, the Customs and Excise Department (CED) made several comments and proposals on the draft copy of the contract which the Supplier submitted for vetting, among which was the two to three years warranty period as from commissioning date of equipment. Nevertheless, in view of the close of the financial year in China (December 2004) and downpayment to be effected to the Supplier by that date, the contract agreement was signed on 10 December 2004 without incorporating the comments of the CED.

Observations

Two crucial issues were not solved at time of signing the agreement, namely the reasonableness of the cost of equipment and the warranty period.

Cost of Equipment

The cost of equipment was an important issue before the finalisation of the agreement. Dubai had acquired two scanning equipment of the same model as that procured for the Port (MB1215HS) for the cost of US$ 4 million, i.e. some Rs 100 million three years back whereas as per agreement, one scanner model MB1215HS and another smaller one model PB2028 (Airport) were obtained for the total sum of Rs130 million. Further, there was a difference of only RMB 2.7 million between the model MB1215HS - large container scanner at the Port and the model PB2028 - small palletised scanner at Airport. The Comptroller had raised this issue prior to the signature of the contract, but to no avail.

Warranty period

The warranty period was another important aspect that should have been negotiated. Despite the Comptroller’s recommendations for a two to three years warranty period, only one year warranty was obtained whereas Dubai had been able to negotiate a full three year parts and labour warranty.
The warranty period would expire on 23 November 2006 and a yearly post warranty maintenance and service agreement has now to be entered with the Supplier.

Government would then have no alternative than to bear additional maintenance costs (approximately Rs 25 million for two additional years), which could have been provided in the contract price, had intensive and timely negotiations been carried out.

In view of the above, my Office could not ascertain whether Government had obtained best value for money in the procurement of the Scanning Equipment.

**Training of Personnel**

Training of personnel is a pre-requisite for the proper utilisation of the equipment so as to derive the associated benefits accordingly. As per contract agreement, training was to be provided to System Operators, Maintenance Technicians and Senior Management Officials.

**Observations**

- Only 12 hours operation practice was actually provided to system operators compared to 42 hours as per training programme.

- At Airport, operators did not obtain proper training on image interpretation, hence they were encountering difficulty in performing same. Management was not informed of same, despite the equipment has been used for six months.

- Three operators who did not follow the training course were posted to the Airport Unit in mid-August 2006.

- The training of Maintenance Technicians could not be held due to non-availability/recruitment of same.

- According to Customs report, the Supplier did not have an effective senior management training program and the quality of the training provided was not to the required level. The Supplier was only a manufacturer of X-Ray Scanners and had not invested in developing effective training programs for Customs Officers.

Hence, the training was not adequate and effective.

**8.8 Operational Problems**

The following operational problems were encountered:

- There was no proper taking over of equipment, tools and spare parts. The two scanners were commissioned on 23 November 2005 but despite CED commitment to set the scanners operational, these were in use as from early February 2006, i.e. two months later due to the fact that infrastructural works entrusted to MPI and ESD were not yet ready. This time lag has a direct incidence on the one year warranty period.
Management decided to scan all imported containers/pallets to maximise the utilisation of that expensive equipment. However, the target was not met at the Port as the Cargo Handling Corporation could not provide the necessary logistics in terms of trucks and forklifts for scanning all containers.

At the Airport, the Section initially attempted to scan a maximum number of igloos/containers/pallets but due to operational problems encountered, it was decided to unstuff cargos and to scan only selected items based on profiling technique. This technique was based solely on the integrity of the personnel and was highly discretionary. Further, several types of cargos were not being scanned.

The palletised scanner at Airport was not seen in operation elsewhere prior to/after its acquisition. This might account for the problems being encountered. This issue was not officially reported to management.

The scanner at the Port had enough capacity to scan 100 per cent of import containers and even to scan export and transhipment containers on a sample basis. However, after six months of operation, the scanner was still being underutilised due to above mentioned problems. Although there is an upward trend in the number of containers scanned at the Port, yet the percentage of spare capacity remains high, i.e 65 per cent.

At the Airport, the scanner was being used at only 3-4 per cent of its capacity.

After six months of utilisation of the Scanner Equipment, no material outcome has been noted to date on physical verification of suspected cases.

Back-up of the Scanning data was effected only at the Port.

8.9 Manifest

Introduction

The initial process of clearing goods at the CED is the manifestation of bills. A manifest contains detailed information about cargo of a vessel/Aircraft. Such information includes the description and quantity of goods, and particulars of consignee amongst others.

The Customs Act provides the following regarding the control over landed goods:

- Part V-Sub Part II Section 49 of the Customs Act 1988 stipulates that the master, owner or duly authorised agent of every aircraft or ship shall submit a full and complete inward manifest, both electronically and in hard copy to the Comptroller.

- Section 57 and 58 of the Customs Act 1988 stipulate that the Mauritius Marine Authority or any Airport Management Authority shall submit to the Comptroller return showing the cargo which has been:
  - manifested and unloaded
manifested but not unloaded

unloaded but not manifested

The following were noted:

- There was no control system in place at the Manifest Section to ensure that all manifests have been received.
- The Mauritius Port Authority (MPA) and the Airport of Mauritius Ltd (AML) did not submit returns on cargo as prescribed in law, and no actions were taken against them.
- Numerous amendments were effected by agents to manifests and these were disrupting the workflow of operations due to the fact that there was no proper co-ordination between the various units of the Department. Further, no control was exercised on amendments to avoid departure from customs procedures. Documents relating to amendments were not properly filed for examination.
- Unstuffing of cargo was effected on copy of manifest handed by Agents rather than information from the Customs Management System (CMS). The risk existed that information about cargo differed.
- Remarks in respect of discrepancies noted in unstuffing of cargo (House Manifest) were inserted in CMS for the Port only. There were no follow-up by the Manifest Section to ensure that necessary amendments had been effected to the manifests in CMS.

Hence, the objective of the Manifest Section, to ensure that complete and accurate information was received on all vessel/aircraft and their cargos, was not being achieved, since reliance was being placed on information submitted by Agents.

**Recommendations**

- Complete returns should be requested from the appropriate bodies and these be worked out to ensure that accurate manifests have been captured on the CMS.
- The procedures for amendments to manifest must be reviewed to ensure the smooth flow of activities.
- The Unstuffing Unit should ensure that information used for unstuffing purposes is accurate.
- The Manifest Section should monitor all discrepancies noted by Unstuffing Unit so as to ensure that appropriate amendments are effected in the CMS.
8.10 Jerquing

Introduction

Jerquing is the jargon used in CED for the clearing of manifested goods. The ultimate process of jerquing is to identify all goods which have not been cleared for subsequent follow-up.

Legal Provisions

Part V – Sub Part III Section 61 of the Customs Act 1988 provides that all goods not cleared from outstanding manifests may be sold/disposed of within two months from the date landed. Hence, the need to have reliable and timely information for all cargos which have not been jerqued.

Problems Identified

- Control over manual jerquing was loose and was not subject to internal check.
- Bills with difference in weight ranging from 0.90 to 0.99 kg were not automatically jerqued.
- Information in CMS regarding outstanding cargo was not reliable as:
  - partially outstanding bills did not necessarily represent goods still physically undelivered
  - totally outstanding bills included those not cross matched with Bill of Entry (BOE) and where delivery had already been effected
  - goods in transit remained outstanding in system though physically cleared due to non-availability of BOE
  - non matching of BOE with Bill of Lading (BOL) in respect of goods cleared at Freeport and Chief Preventive Office.
- It was difficult to locate undeclared goods in CMS, thus no action was initiated. The risk of tampering /substitution/loss /deterioration of goods could not be ignored.
- Jerquing section did not have information on goods still lying at agents premises as well as customs units though goods had already been jerqued or might have not been accounted by system and are still under Customs responsibility. (Goods at Bonded Warehouses and goods detained and seized).
- Balances in weight in the system remained uncleared even if goods had actually been delivered. This was attributed to the fact that goods released by the Clearing and
Forwarding Agents were based on the number of packages whereas jerquing was effected basically on weight declared.

- Periodic reports on outstanding bills were not extracted.

Hence, information relating to uncleared goods could not be used as a basis to initiate follow-up action. The Auction Sales Unit was then carrying out a survey of long outstanding goods, but given that no accurate and reliable report was available at the Jerquing Section, it was working on the physical existence of goods to determine the course of action to be taken.

**Recommendations**

- Procedures must be put in place so as to obtain information on the location of uncleared goods and action be taken to insert this remark in the manifest.

- Proper control should be exercised over manual jerquing.

- A complete list of outstanding bills must be extracted and properly filed.

- The Jerquing Section must liaise with the different Units so as to have detailed and up to date information on the actual status of uncleared goods. Such information could then be used to effect physical survey and action initiated for goods to be channelled to Customs Warehouse for sales or disposal.

**Management Response**

Corrective measures are being taken where appropriate to improve the system.
Companies Division

8.11 Arrears of Revenue

As of 30 June 2006, a total amount of some Rs 232.3 million was due to the Companies Division in respect of company licences and registration fees.

Details of debtors for the past five years are given below:

<table>
<thead>
<tr>
<th>Financial Year</th>
<th>Debtors (Rs m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001-02</td>
<td>111.9</td>
</tr>
<tr>
<td>2002-03</td>
<td>153.9</td>
</tr>
<tr>
<td>2003-04</td>
<td>170.7</td>
</tr>
<tr>
<td>2004-05</td>
<td>191.2</td>
</tr>
<tr>
<td>2005-06</td>
<td>232.3</td>
</tr>
</tbody>
</table>

- The debt to the Companies Division has been continuously increasing from Rs 111.9 million in 2001-02 to Rs 232.3 million in 2005-06.
- The debtors figure of Rs 232.3 million included fees and fines amounting to Rs 159 million and Rs 71.7 million respectively.
- Included in the debtors figure was an amount of Rs 123.5 million owed by offshore companies - “Global Business Category 1 and 2”. It represented 53 per cent of the total debtors.

Fees for these types of companies were collected by the Companies Division as from January 2003. As of 30 June 2003, the debtors figure amounted to Rs 39.1 million and this figure rose to Rs 123.5 million as of 30 June 2006 representing an increase of 215 per cent.

- During 2005-06, some Rs 1.8 million were written off as irrecoverable debts. A sum of Rs 1.6 million was awaiting write off.
- As an age analysis of debtors was not available in the Return of Arrears of Revenue as of 30 June 2006, it could not be ascertained whether the debts were long outstanding or not.

Conclusion

- Although actions were being taken to recover debts, they were not adequate. I recommend more aggressive actions be initiated within time to recover debts.
- In the case of Global Business Category 1 and 2, apart from reminders, no other action was seen taken to recover the debts which represented 53 per cent of total debtors. The debts were increasing year by year at high rate. It is imperative to come up with practical solutions to recover these debts.
An age analysis of debtors must always be compiled and shown clearly in the Return of Arrears of Revenue. Moreover, ageing of debtors is an important aspect of control over recovery of debts.

Companies Division Reply

The number of registered companies has increased from about 30,000 in 2001 to 53,000 in 2006. This substantial increase has definitely had an incidence in the arrears of revenue as of 30 June 2006.

Actions are presently being taken for the recovery of outstanding registration fees.

An age analysis of debtors could not be compiled as the existing computer system was not designed to support this type of analysis. However, the age analysis of debtors has been incorporated in our new IT system which will be operational by the end of this year.