9.1 Introduction

In July 2004, the Government decided to establish a Statutory Body, the Mauritius Revenue Authority, to be the agent of the State for the purpose of -

➢ the assessment of liability, the collection of and the accountability for, any tax, duty, fee or charge or other sum leviable or payable under the Revenue Laws that were, hitherto, administered by

- The Income Tax Department,
- The Large Tax Payers Department,
- The Customs and Excise Department,
- The Value Added Tax Department, and
- The Registrar-General’s Department; and

➢ the management, operation and enforcement of the Revenue Laws.

Formerly, the above-mentioned Departments were operating as separate entities with the Revenue Authority, coordinating and supervising their activities. With the enactment of the Mauritius Revenue Authority Act 2004 and the repeal of the Unified Revenue Act 1983, a centralised Revenue Authority with a flat organisational structure was created.

Some provisions of the Act were proclaimed in October 2004 to enable the Authority to start functioning, while the other provisions relating to the actual management, operation and enforcement of the Revenue Laws were proclaimed in June 2006 to be effective as from 1 July 2006.

Prior to that, in May 2006, the Mauritius Revenue Act was amended in order to maintain the Registrar-General’s Department within central Government, instead of transferring its administration to the Mauritius Revenue Authority.

Presently the Authority is fully operational and has taken over the responsibility for the collection of Income Tax, VAT and Customs and Excise duty since July 2006.
Income Tax

9.2 Arrears of Revenue - Income Tax

9.2.1 Introduction

As of 30 June 2007, there were 6,248 individuals and 1,598 companies classified as small and medium taxpayers, owing a total amount of some Rs 807 million to the MRA. These include debts of Rs 102 million and Rs 7 million under appeal at the Supreme Court and Privy Council respectively.

9.2.2 Outstanding Debtors

(a) An age analysis of debtors for Small and Medium Taxpayers as at end of the last two financial years is given in Table 9-1.

<table>
<thead>
<tr>
<th>Financial Year</th>
<th>Outstanding Debts at year end</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>30 June 2006 (Rs m)</td>
</tr>
<tr>
<td>Prior to 30 June 2001</td>
<td>309</td>
</tr>
<tr>
<td>2001-02</td>
<td>112</td>
</tr>
<tr>
<td>2002-03</td>
<td>67</td>
</tr>
<tr>
<td>2003-04</td>
<td>52</td>
</tr>
<tr>
<td>2004-05</td>
<td>144</td>
</tr>
<tr>
<td>2005-06</td>
<td>81</td>
</tr>
<tr>
<td>2006-07</td>
<td>Nil</td>
</tr>
<tr>
<td>Total</td>
<td>765</td>
</tr>
</tbody>
</table>

Arrears over six years old, relating prior to 1 July 2001, have increased from Rs 309 to Rs 343 million. The increase is due to charging of penalty. These arrears represent some 42 per cent of the total as of 30 June 2007.

(b) Arrears for Large Taxpayers have increased from Rs 7.5 million as of 30 June 2006 to Rs 33.3 million as of 30 June 2007.
9.2.3 Debt Collection

Collection of arrears for Small and Medium Taxpayers during 2006-07 was slightly higher than that of 2005-06 but lower than the three financial years preceding 2005-06 as shown in Table 9-2.

Table 9-2  Debtors - Trend of Collections

<table>
<thead>
<tr>
<th>Financial Year</th>
<th>Outstanding Debts (Rs m)</th>
<th>Amount collected (Rs m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002-03</td>
<td>677</td>
<td>326</td>
</tr>
<tr>
<td>2003-04</td>
<td>674</td>
<td>285</td>
</tr>
<tr>
<td>2004-05</td>
<td>747</td>
<td>347</td>
</tr>
<tr>
<td>2005-06</td>
<td>764</td>
<td>262</td>
</tr>
<tr>
<td>2006-07</td>
<td>807</td>
<td>274</td>
</tr>
</tbody>
</table>

9.2.4 Court and appeal Cases

Aging of cases under appeal at the Supreme Court is given in Table 9-3

Table 9-3  Aging of Supreme Court cases

<table>
<thead>
<tr>
<th>Financial Year</th>
<th>No. of assessments</th>
<th>Amount (Rs)</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prior to 1 July 2003</td>
<td>30</td>
<td>22,155,450</td>
<td>21.70</td>
</tr>
<tr>
<td>2003-04</td>
<td>27</td>
<td>6,976,063</td>
<td>6.84</td>
</tr>
<tr>
<td>2004-05</td>
<td>15</td>
<td>27,309,120</td>
<td>26.76</td>
</tr>
<tr>
<td>2005-06</td>
<td>16</td>
<td>12,446,490</td>
<td>12.20</td>
</tr>
<tr>
<td>2006-07</td>
<td>68</td>
<td>33,161,442</td>
<td>32.50</td>
</tr>
<tr>
<td>Total</td>
<td>156</td>
<td>102,048,565</td>
<td>100.00</td>
</tr>
</tbody>
</table>
9.3 Objection and Appeal

9.3.1 Introduction

According to Section 131B of the Income Tax Act 1995, any person aggrieved by a determination of an objection may lodge written representations to the Assessment Review Committee (ARC).

As per Section 20 (3) of the Mauritius Revenue Authority Act 2004, a panel of the ARC shall endeavour to fix the case for hearing within six months from the date the representations were lodged and give a decision no later than eight weeks from the start of the hearing. The period may be extended in case of exceptional circumstances.

9.3.2 Outstanding Appeals

As per records, 478 assessments were under appeal as of 30 June 2007. Out of these, 98 cases were outstanding for more than six years.

In view of the large number of cases under appeal, it may not be possible for ARC to determine all of them within the legal time limit.
9.4 Arrears of Revenue - Rs 49.5 million

Arrears of revenue represent mainly Customs Offence Reports (COR) raised for offences in breach of Customs Legislation. The Customs figure stood at some Rs 49.5 million as of 30 June 2007. The accuracy of this figure could not be ascertained due to the following:

- Out of a sample of 20 CORs examined, 14 worth Rs 63 million have not been included in the arrears of revenue for both previous and current years.
- There was a difference of Rs 351,609 between the opening balance figure of Customs and that of the Accountant General in respect of one court case which was included as arrears as at 30 June 2006 but not accounted for this year.

MRA’s Reply

Cases not included in Arrears of Revenue have not been compounded and were referred to Police for court action.

NAO Comments

It must be pointed out that there is inconsistency in the treatment of arrears by Customs as unsettled cases referred to the Assessment Review Committee, which are not compounded, are included in Arrears of Revenue. As the Arrears of Revenue figure will appear in the financial statement of the Accountant-General, the reference of an outstanding item of revenue to Court or Police for collection or for any reason does not affect the responsibility of the Department originally concerned to show the outstanding item in its return.

9.4.1 Analysis of Arrears of Revenue

A breakdown of the figure of Rs 49.5 million is shown in the Table 9-4
### Table 9-4 Analysis of Arrears of Revenue

<table>
<thead>
<tr>
<th>Period</th>
<th>Amount Outstanding (Rs)</th>
<th>Pending at Court (Rs)</th>
<th>Unsettled (Rs)</th>
<th>Referred to Police (Rs)</th>
<th>Assessment Review Committee (Rs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Year</td>
<td>41,440,958</td>
<td>9,043,084</td>
<td>1,268,725</td>
<td>31,129,149</td>
<td></td>
</tr>
<tr>
<td>2005-2006</td>
<td>715,970</td>
<td>715,970</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2004-2005</td>
<td>130,230</td>
<td>130,230</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2003-2004</td>
<td>2,265,125</td>
<td>695,319</td>
<td>1,569,806</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2002-2003</td>
<td>231,479</td>
<td>231,479</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prior to 2002</td>
<td>4,780,433</td>
<td>4,780,433</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>49,564,195</strong></td>
<td><strong>5,475,752</strong></td>
<td><strong>11,690,569</strong></td>
<td><strong>1,268,725</strong></td>
<td><strong>31,129,149</strong></td>
</tr>
</tbody>
</table>

**Observations**

- 37 CORs for a total amount of Rs 5,475,752 were pending at court and most of these cases related prior to year 2002, some as far back as year 1979.
- There were 54 unsettled cases totaling Rs 11,690,569 as of 30 June 2007. Though agreement was made between Customs and the offender for repayment in monthly instalments yet in several cases, the terms of payment were not complied with.
- 26 cases totalling Rs 1,268,725 were referred to Police for prosecution.
- Where offenders do not agree to compound an offence regarding valuation, classification and country of origin of imported goods, they can make appeal to the Assessment Review Committee (ARC). Included in the figure of Rs 31.1 million is one case amounting to Rs 29 million, which does not fall within the above offences.

**MRA’s Reply**

The figure of Rs 9,043,084 in respect of unsettled cases for the current year relate to cases in dispute on terms of compounding or under review/in the process of payment.

The Assessment Review Committee will determine whether the case of Rs 29 million referred to it falls within its jurisdiction or not.
9.5 Customs Control over Mauritius Duty Free Paradise Co. Ltd

The Mauritius Duty Free Paradise Co Ltd (MDFP) came into operation in March 2002. It benefited from customs and excise duty on local and imported goods for eventual sale to incoming and outgoing passengers at Airport. The total amount of duties exempted during financial year 2006-07 was some Rs 500 million.

9.5.1 Routine Checks

Two resident Customs Officers are posted at the main store of the MDFP to exercise control over duty free goods. They have access to the MDFP manual records and the inventory IT system to view any real time transaction.

Observations

➢ There was no evidence of the percentage of physical verification of importations and receipts of goods at the Main Store by Customs.

➢ No checks were seen performed on issues to the two sub-stores and duty free shops.

➢ No examination was carried out on the sales invoices at the duty free shops, where discrepancies mostly arise.

➢ Completeness of goods returned to local importers was not examined to ensure that the latter pay the appropriate duties.

➢ I was informed that due to voluminous transactions, controls were being based on risk management. However the selective checks performed could not be produced to audit.

➢ There was no indication that entries in the IT system were being verified on a sample basis, especially stock adjustments.

➢ Regular surveys were not seen carried out by customs officers particularly at high risk areas such as duty free shops.

9.5.2 Stock take Exercise

A stock take exercise was carried out at year end by the MDFP in the presence of its external auditors in respect of all items at all its locations. Numerous discrepancies were initially noted and Stock Variance Reports were automatically generated by the system to reflect same. A recount exercise was carried out for all variances.
**Observations**

- The Stock take exercise was not attended by Customs nor was any sample check performed.
- Most of the variances detected became nil after recount. Two striking examples being a shortage of 9500 cartridges Marlboro KSF and a surplus of 1500 cartridges State Express 555.
- There was no evidence that recount of goods was done in the presence of Customs Officers.
- A sum of Rs 168,750 was paid by MDFP as duty and taxes on stock that could not be accounted for. However the completeness of variance reports was not ascertained by Customs nor detailed workings checked to assess the accuracy of this figure.
- A physical survey was effected by audit on 2 October 2007 in the duty free departure shop. Out of three items verified, discrepancies were noted in all of them.

**Recommendations**

- There is a need to review the whole customs control over MDFP.
- Goods entering and leaving the warehouse should be inspected on a regular basis, mostly high dutiable goods.
- Proper control should be exercised over sales transactions.
- Entries for receipts of goods should be verified independently from the CMS to the MDFP IT system.
- Adjustments to stock should be thoroughly checked.
- Customs Officers should attend inventories at least for a sample of goods, but a 100 per cent check be effected for recount cases.
- All checks performed by the Customs Officers need to be properly documented.

**MRA’s Reply**

Actions are being taken as recommended. There has been a rotation of resident customs officers with clear instructions and new guidelines for adequate and proper controls.
9.6 Returning Residents

Any returning resident who on his arrival satisfies certain conditions of the Customs Act shall be entitled to a duty concession on a passenger motor car or van provided that the importation of the motor vehicle is made within 180 days of the date of his return to Mauritius, with the prior approval of the Comptroller.

Item 3 Section 4(b) (i) of Part 1 A of the First Schedule of the Excise Act 1994 provides that “where a returning resident absents himself from Mauritius for more than six months, after benefiting from duty concession, he shall pay such proportionate excise duty and value added tax on the motor vehicle as the Comptroller may determine in accordance with the Act”.

Observations

➢ A sample audit check carried out on returning residents for period January 2005 to June 2006 revealed that nine returning residents have been absent for more than six months after benefiting from duty concession.

➢ There was no verification by Customs on the movements in and out of the country of those returning residents from the Passport and Immigration Office to ensure that they have not been abroad for more than six months.

➢ Proportionate duty of some Rs 6 million was thus not claimed by Customs from those returning residents, notwithstanding 12 per cent interest per annum effective as from 7 August 2006 as per Section 14.1(A) of Customs Act 1989.

Recommendations

➢ The MRA (Customs & Excise Department) should maintain an up to date communication system with the Passport and Immigration Office and properly follow up returning residents benefiting from duty concessions.

➢ Necessary action should be initiated to recover the proportionate duty from those returning residents not complying with the law.

MRA’s Reply

The online database maintained by the Passport and Immigration Office on the movements of travellers is now accessible to the Department. Henceforth such facility will ensure systematic monitoring over the movements of returning residents.

Action has been taken to recover the proportionate duty in the cases reported.
9.7 Bonded Warehouse/Showroom

9.7.1 General

Bonded Warehouses aim at facilitating trade thereby offering importers the possibility to store their imported goods for a temporary period of time before they are cleared.

According to Customs legislation an initial period of 12 months is granted followed by a further period of 12 months upon application for rewarehousing and submission of a bank guarantee. During this period, payment of duties/taxes is deferred. Bonded Warehouses fall under the supervision of Customs.

The Director is empowered to transfer such goods to a Customs warehouse for eventual disposal by auction, if duties and taxes are not paid within the moratorium period. In case of rewarehousing bank guarantees can be realised.

Customs legislation has been amended to include bonded showroom for motor vehicles.

9.7.2 Compliance with Legislation

- Prior to the enactment of the new legislation, approval to operate as bonded showroom was already granted to nineteen companies. I was informed that procedures had been initiated since April 2006 for such cases.

- Nevertheless there were still some thirty other companies, which were operating as showrooms outside the ambit of the Customs Act.

MRA’s Reply

It is expected that all existing vehicle showrooms will operate under the new legal framework by end of December 2007.

9.7.3 Records and Documentation

- A complete register of Bonded Warehouses/Showrooms with all relevant information was not kept by the Bond Section.

- The actual number of bonded warehouses in operation could not be ascertained as such information differed from various sources.

- Files kept in respect of bonded warehouses were not properly documented.

- Several warehouses were no longer operational but there was no indication whether their licences have been revoked.
In the absence of proper records and documentation, it is not known how control is being exercised over Bonded Warehouses.

_MRA’s Reply_

Revocation of bonded warehouses, which have ceased operation, is under process.

9.7.4 Warehousing/ex-warehousing procedures

The Customs Officer allocated to the respective bond accompanies goods to the warehouse, examines physical quantity, checks delivery from warehouse and records receipts and issues in a manual register.

**Observations**

- There is no segregation of duties in that the same officer performs the above tasks. This is against sound internal control principles. The risk of collusion with bond owners/importers cannot be ignored.

- There was no evidence of checks being performed either by the Internal Audit Section or the Bond Monitoring Unit (BMU) over the manual registers. Physical checks on goods lying in the warehouses by the BMU were reported to be limited due unavailability of transport facilities. No independent checks were also carried out at time of either warehousing or ex warehousing of goods.

In view of the above, there is the risk of goods not entering warehouse or being substituted/removed fraudulently.

_MRA’s Reply_

The Fast Team carries out random physical verification of consignments after clearance.

9.7.5 Bond

Prior to goods being warehoused, the proprietor or occupier of a bonded warehouse has to give general security by bond, with two sufficient sureties for such sum to cover the payment of the full duty, levy and taxes due on the goods to be warehoused. This applies for the initial period of 12 months. Sureties are provided either by individuals or companies.

**Observations**

- No check is carried out by Customs in respect of companies to ascertain their financial viability. Audit carried out a sample check at the Registrar of Companies and the following were noted:
- Two companies have not submitted their financial statements for the last three years and might be in the winding up process.
- Two companies had negative working capital.
- Three companies were incurring losses.
- No records were available for one company implying that it could be a fictitious one.

Hence, the probability of recovering the amount of the security is remote in case of default.

**MRA’s Reply**

- Necessary amendments need to be brought to the Customs Regulations 1989.
- The possibility for the Registrar of Companies to submit a certificate of viability will be explored.

**9.7.6 Monthly and Yearly Returns**

Contrary to Customs legislation, monthly returns of stock were not always being submitted by warehouses. Regarding the yearly return, most of them did not provide same for year 2006.

**MRA’s Reply**

The imposition of a penalty will be considered for non-compliance.

**9.7.7 Manual Registers/CMS**

A comparison of information relating to goods in bonded warehouses as per manual registers and the CMS revealed the following:

- There was substantial discrepancy between the CMS and manual figures for outstanding goods in Bonded Warehouses.
- Despite the fact that for the five previous years, the CMS did not reflect actual amount of goods in bonded warehouses, yet no remedial action has been taken to date.

In view of the above, audit could not ascertain

- Whether all the outstanding Bills of Entry (BOE) have actually been cleared.
- The actual value of outstanding balances held at each warehouse.
MRA’s Reply

The CMS is not a proper Bond Management System and it is proposed that the new CMS have an integrated Bond Management Module to address this issue.

9.7.8 Overlying vehicles in bonds/showrooms

Duties and taxes payable amounted to Rs 6.6 million and Rs 2.5 million respectively in respect of overlying vehicles as of end of August 2007.

Observations

- Vehicles have remained in warehouses for period ranging from 24 to 181 months, i.e well beyond the statutory time limit.
- In one case, vehicles were lying at the warehouses for more than 15 years and needed to be scrapped.
- The non-recovery of duties and taxes was attributed to late clearance by Auction Sales Section. Audit is of the opinion that high value items should be given priority.

Site visits

Audit carried out surveys at four bonded warehouses/showrooms. The main shortcomings identified were:

- Expired items were awaiting customs approval for disposal at one bonded warehouse. Customs duty will therefore not be recovered in respect of these items.
- Another bonded warehouse was open to public access, contrary to existing procedures.
- 504 bottles of Estate wines seen in one bond were not recorded in the manual registers/list of overlying goods/monthly returns.
- Furniture were found overlying since September 2003 in another warehouse. Their FOB valuation did not appear to be fair.

MRA’s Reply

- Clearance is being awaited from the Dangerous Chemical Control Board in respect of expired items.
- Appropriate measure is being taken to restrict access to customers in bonded warehouses for vehicle examination.
- The bottles of wine have been transferred to Auction Sales Section.
Prior to delivery of furniture, the FOB value will be confirmed.

9.7.9 Bonds at Airport

Two bonds operating since long at Airport were reported to have the same status as Bonded Warehouse. Such bonds deal with duty free goods thereby necessitating enhanced control over same. Customs Officers are posted at these Bonds and their working hours is from 0900 Hrs to 1600 Hrs.

Observations

- Authority to operate these two bonds was not produced to audit.
- Procedures for Bonded Warehouses were not being adhered to:
  - One Bond was not managed and maintained with a two key system.
  - A sum of Rs 70 million was provided as security for four warehouses while the CMS value of outstanding goods for only one of them was Rs 96.3 million as of 20 September 2007.
  - A bank guarantee of Rs 4 million provided by the other one appeared to be insufficient in view of the large volume and high value of transactions.
  - Export Bill was not being used for issues from Bond and stores transfer notes were being used instead.
- At one bond, receipts of goods from a private company were not accompanied by Customs Officers and accordingly, these were not physically verified. Various cases of missing goods were noted – e.g. liquors and wine. Further, no customs duty and VAT have yet been paid on these missing goods.
- Bond transactions outside customs working hours were not subject to checks.
- Although customs officers have been posted at one bond since October 2003, yet it was only as from January 2007 that a manual register was kept. No official handing over and physical stock take was effected in January 2007 upon change in posting.
- At another bond, a manual register was introduced in August 2007 but all entries were completely based on the Bond’s system. The CMS was not operational since long at this warehouse. Hence, proper control was not being exercised over receipt and issues of duty free goods.
- Customs officers did not have access to the computerised stock operated by both bonds. Further, these systems did not provide for inclusion of BOE number for easy retrieval and control over goods by Customs.
**Overall Conclusion**

- There is a need to review the operation of all Bonded Warehouses including a complete survey to remedy the shortcomings mentioned above and to enhance control over customs revenue.

- Regarding the two Bonds at Airport, although they have the status of a bonded warehouse, yet their operations are different. This might necessitate amending existing legislation to review their status.

**MRA's Reply**

- Checks are being performed on a post control basis.

- A zero based review on procedures and controls will be carried out in respect of the two bonds at the Airport.

**9.8 Cash Collection**

Customs Department collects Custom & Excise Duties and Value Added Tax from importers and manufacturers. The total cash collections (Custom and Excise Duties, Value Added Tax) for financial year 2006-07 were Rs 19,331,439,258 as per the computer listing, representing 46 per cent of Government total recurrent revenue (Rs 41.3 billion). Hence, the need for the operation of an effective cash collection system. However, material differences were noted between the computer listing and that of the Revenue Section. Some examples are shown in Table 9-5

<table>
<thead>
<tr>
<th>Revenue Code</th>
<th>Items</th>
<th>Revenue Section (Rs)</th>
<th>Computer Listing (Rs)</th>
<th>Difference (Rs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>42.301.002</td>
<td>Spirits, Liquors &amp; Alcoholic Beverages</td>
<td>1,920,895,282</td>
<td>1,829,103,294</td>
<td>91,791,988</td>
</tr>
<tr>
<td>42.301.003</td>
<td>Tobacco Products</td>
<td>2,184,318,382</td>
<td>2,007,203,582</td>
<td>177,114,800</td>
</tr>
<tr>
<td>42.301.004</td>
<td>Motor Vehicles &amp; Motor Cycles</td>
<td>1,300,678,485</td>
<td>2,231,142,910</td>
<td>(930,464,425)</td>
</tr>
<tr>
<td>44.061.002</td>
<td>Agric Fees</td>
<td>-</td>
<td>1,854,710</td>
<td>(1,854,710)</td>
</tr>
<tr>
<td>44.999,999</td>
<td>Miscellaneous</td>
<td>19,783,637</td>
<td>18,636,872</td>
<td>1,146,765</td>
</tr>
</tbody>
</table>

**Table 9-5 Examples of differences between Computer Listing and records of Revenue Section**
I was informed that amendments were made by the Acting Chief Cashier to daily listings and sent to the Revenue Section, but the Custom Management System (CMS) was not being updated accordingly.

**Observations**

- There is a lack of segregation of duties in the cash collection system - the Acting Chief Cashier is responsible for cash collection, banking, making amendments to the daily computer listing, cancellation and re-print of receipts. This is against sound internal control principles.

- The computer system gives the cashier the option to reprint a receipt, which has already been issued previously. Cases were noted where same receipts have even been printed six times. There is the potential risk of cash collections not being accounted for.

- Some 28 receipts were missing in the database. These referred to cancelled receipts which did not always appear as cancelled ones in the CMS. Some of these were not produced to audit. Several original receipts found cancelled were listed in the database.

- There is no control over manual receipts booklets. Several receipt booklets have not been produced to audit.

- Customs also collects money through electronic payment and electronic cards. A difference of some Rs 1.5 billion was noted between the CMS and Revenue Section in respect of electronic payment. I was informed that neither a receipt number nor a sequential number is given to payment received electronically. As for electronic cards, these are not accounted for in the CMS according to the IT Section.

In view of the above shortcomings, audit could not ascertain the actual cash collections during the year.

**9.9 Review of past Audit Report**

**X-Ray Scanner Equipment – Rs 131 million**

At paragraph 8.7 of my 2005-06 Audit Report, I commented on the following:

- problems relating to the warranty period of the X-Ray scanner,
- the inadequate and ineffective training of personnel,
- operational problems being encountered, and
- under utilisation of the equipment.

The actual situation is as follows:
Warranty period

A post warranty maintenance and service agreement was reached with the supplier for period 1 December 2006 to 30 November 2007 for the sum of Rs 7,633,095 (US $ 240,000).

Observations

- As of October 2007, at a time when the maintenance period was nearing completion, the Contract Agreement was not yet signed despite the fact that total payments had already been effected in May 2007. The MRA has expressed the intention of signing a maintenance contract with the supplier for another year.

- As per the Draft Maintenance Agreement, another contract was to be entered with the supplier for training of two local engineers and two technicians at a total cost of US $ 80,000. This would have ensured an eventual take over by Customs. However no agreement was reached as no engineer/technicians was available for recruitment.

Training of Personnel

The Department sought technical assistance from foreign Customs bodies to provide more training on image interpretation.

Observations

- Technical assistance has not been finalised. Hence, no specialised technical training was provided to date. The MRA is planning to launch a six-month consultancy services for the provision of expert advice.
- Only a basic training was dispensed to five Technical Officers and 21 Customs Officers for seven half days (13 hours) on the operation of the equipment.
- Remote image monitors have been installed at IKS Compliance and FAST Team Sections to allow these officers to assist in the Red/Green Channel decision-making. However, no basic training was given to them and no material outcome was noted.

MRA’s Reply

The Government of Singapore, led by Singapore Cooperation Enterprise together with another enterprise are interested to provide at no cost to the Government of Mauritius, customs modernization software and training that includes Cargo Scanning services IOT model (Implement-Operate-Transfer). Besides, the Department is currently making arrangements for the training of two customs officers on image interpretation by Australian Customs Service.
Operational Problems

- The target of management was to scan all imported containers/pallets so as to maximise the utilisation of the equipment. After one and a half year of operation, though improvement was noted yet the scanners were still operating below capacity.

- At the port, some 55 per cent containers were scanned as of September 2007. This was again attributed to lack of equipment by the cargo handling Organisation Ltd (CHLC), which has limited the number of import containers brought for scanning.

- At Airport, the number of consignments scanned was 33 per cent as of September 2007. This was again due to operational problems in un-stuffing cargos. The construction of an un-stuffing warehouse at PATS in front of the scanner is still under negotiation.

- Out of the total number of containers/consignments scanned during period September 2006 to September 2007, the percentage of suspected consignments was 2.33 per cent and 0.71 per cent at Seaport and Airport respectively. Anomalies were minimal and no material outcome has been noted on physical verification effected.

- Management needs to investigate on the low percentage of cases of anomalies detected to assess its causes and take remedial action accordingly.
Sales Tax

9.9 Outstanding Balance

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

As of 30 June 2007, a total of some Rs 19.6 million, involving 86 cases, was still outstanding.

During 2006-07, only an amount of Rs 110,000 was collected. This represented 0.5 per cent of outstanding figure of Rs 19.7 million as of 30 June 2006.
9.10 Arrears of Revenue

9.10.1 Value Added Tax (VAT)

Total collections of VAT in respect of Small and Medium Taxpayers has increased from Rs 3.6 billion in 2005-06 to Rs 4.3 billion in 2006-07, while for Large Tax Payers total collections increased from Rs 4.6 billion in 2005-06 to Rs 5.8 billion in 2006-07.

Nevertheless, total debts in respect of VAT amounted to some Rs 465.2 million as of 30 June 2007. These comprised Rs 124.3 million in respect of large tax payers and Rs 340.9 million for small and medium taxpayers.

9.10.1.1 Small and Medium Taxpayers

(i) Debtors Balance as of 30 June 2007.

As of 30 June 2007, some Rs 341 million was due by the above category of taxpayers. Details of arrears for the past five financial years is shown in Table 9-6.

<table>
<thead>
<tr>
<th>Financial Year</th>
<th>Amount (Rs m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002-03</td>
<td>85.6</td>
</tr>
<tr>
<td>2003-04</td>
<td>140.5</td>
</tr>
<tr>
<td>2004-05</td>
<td>182.8</td>
</tr>
<tr>
<td>2005-06</td>
<td>245.8</td>
</tr>
<tr>
<td>2006-07</td>
<td>340.9</td>
</tr>
</tbody>
</table>

- The debt had been continuously increasing from Rs 85.6 million in 2002-03 to Rs 340.9 million in 2006-07 representing an increase of 298 per cent in five years.

- Over and above the amount of Rs 340.9 million, some Rs 255.7 million were not yet enforceable as of 30 June 2007 as a result of representations made at the Assessment Review Committee (ARC).
(ii) Collection of Arrears

A sum of Rs 55.5 million was collected during 2006-07 in respect of arrears of tax amounting to Rs 245.8 million as of 30 June 2006. The rate of recovery of arrears is shown in Table 9-7.

Table 9-7 Collection of Arrears

<table>
<thead>
<tr>
<th>Financial Years</th>
<th>Amount Outstanding as of 30 June 2006 (Rs m)</th>
<th>Amount Collected During 2006-07 (Rs m)</th>
<th>% collected</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998-99</td>
<td>2.6</td>
<td>nil</td>
<td>-</td>
</tr>
<tr>
<td>1999-00</td>
<td>11.3</td>
<td>0.1</td>
<td>0.88</td>
</tr>
<tr>
<td>2000-01</td>
<td>21.3</td>
<td>0.3</td>
<td>1.6</td>
</tr>
<tr>
<td>2001-02</td>
<td>15.9</td>
<td>3.8</td>
<td>23</td>
</tr>
<tr>
<td>2002-03</td>
<td>41.0</td>
<td>1.9</td>
<td>4.6</td>
</tr>
<tr>
<td>2003-04</td>
<td>63.9</td>
<td>9.7</td>
<td>15</td>
</tr>
<tr>
<td>2004-05</td>
<td>44.0</td>
<td>17.6</td>
<td>40</td>
</tr>
<tr>
<td>2005-06</td>
<td>45.8</td>
<td>22.1</td>
<td>48</td>
</tr>
<tr>
<td>Total</td>
<td>245.8</td>
<td>55.5</td>
<td></td>
</tr>
</tbody>
</table>

Although collection of arrears has increased by 27.7 per cent compared to the preceding year, the rate of collection was still low. The collected amount of Rs 55.5 million represented 22.5 per cent of arrears as of 30 June 2006.

(iii) Enforcement Tools

The enforcement measures consisted of inscription, attachment orders, distress warrant, contrainte and prosecution. These tools were reviewed to ascertain their effectiveness.

➤ Attachment Orders

During the period 2000-01 to 2006-07, attachment orders were made in 1,383 cases for an amount of Rs 348.3 million.

As of 30 June 2007, an amount of Rs 286.6 million inclusive of accrued penalty was still outstanding.

➤ Distress Warrant

The distress warrant was applied only in 2004-05 in 30 cases for an amount of Rs 25.5 million. As of 30 June 2007, none of the cases has been settled.
Inscription

During the period 2000-01 to 2005-06, inscription was taken on debts amounting to Rs 147.6 million. A sum of Rs 79.1 million, which represented 53.5 per cent of total amount inscribed was still outstanding as of 30 June 2007.

Prosecution

During the period 2000-01 to 2006-07, 76 cases were referred for prosecution for an amount of Rs 76.7 million.

As of 30 June 2007, none of the cases has been settled.

Actions were taken to recover debts. However, they were not adequate. I recommend more aggressive actions be initiated within time to recover debts.

Management Replies

Where a debtor owes tax, various enforcement actions may be taken for recovery of the amount due. For example, for a particular debt, an attachment may be made on the taxpayer’s bank account followed by a distress warrant and finally prosecution. If there is no credit balance on the bank account and nothing is remitted by the bank, it would be wrong to state that the amount attached is still outstanding. Also reporting amounts outstanding by that taxpayer under each enforcement action separately, i.e. once under attachment, then under distress warrant and prosecution gives rise to double accounting or even more.

9.10.1.2 Large Tax Payers

The arrears as of 30 June 2006 amounted to Rs 7.7 million and have increased to Rs 124.3 million as of 30 June 2007.

Over and above the amount of Rs 124.3 million, some Rs 48 million were not yet enforceable as a result of representations made at the ARC.
Hotel and Restaurant Tax

9.11 Arrears of Revenue

The last assessment in respect of Hotel and Restaurant Tax was raised in 2001-02. The outstanding enforceable debt as of 30 June 2007 amounted to Rs 15 million.

The amount not yet enforceable as of 30 June 2007, involving 20 cases, amounted to Rs 51.6 million.

The arrears collected during 2006-07 amounted to Rs 898,889. The rate of collection is low. It represented 5.7 per cent of arrears figure of Rs 15.8 million as of 30 June 2006.
**Tax on Gaming**

**9.12 Arrears of Revenue**

As of 30 June 2007, the total of enforceable debts in respect of gaming tax amounted to some Rs 102 million.

The arrears collected in 2006-07 amounted to Rs 19.2 million. This represented 21.2 per cent of arrears figure amounting to Rs 90.5 million as of 30 June 2006.

Over and above the amount of Rs 102 million due as of 30 June 2007, some Rs 92 million were not yet enforceable as these cases were at the ARC.
Other Taxes

Companies Division

9.13 Arrears of Revenue

As of 30 June 2007, a total amount of some Rs 271.7 million was due to the Companies Division in respect of company licences and registration fees.

Details of debtors for the past five financial years are as shown in Table 9-8.

Table 9-8 Debtors for the past Financial Years

<table>
<thead>
<tr>
<th>Financial Year</th>
<th>Debtors (Rs m)</th>
<th>Increase over previous year (Rs m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002-03</td>
<td>153.9</td>
<td>-</td>
</tr>
<tr>
<td>2003-04</td>
<td>170.7</td>
<td>16.8</td>
</tr>
<tr>
<td>2004-05</td>
<td>191.2</td>
<td>20.5</td>
</tr>
<tr>
<td>2005-06</td>
<td>232.3</td>
<td>41.1</td>
</tr>
<tr>
<td>2006-07</td>
<td>271.7</td>
<td>39.4</td>
</tr>
</tbody>
</table>

- The debt to the Companies Division has been continuously increasing from Rs 153.9 million in 2002-03 to Rs 271.7 million in 2006-07.
  The debt has increased by Rs 39.4 million compared to that of 30 June 2006.
- As the debt figure of Rs 271.7 million was not supported by a list of debtors, its completeness and accuracy could not be ascertained. It would also be difficult for the Companies Division to monitor debts.
- An age analysis of debtors was again not available in the Return of Arrears of Revenue as of 30 June 2007. Thus, it could not be ascertained whether the debts were long outstanding or not.
- The debtors figure of Rs 271.7 million comprised fees amounting to Rs 186.9 million and fines totalling Rs 84.8 million.
  The debts for fees amounted to Rs 159 million as of 30 June 2006. An increase of Rs 27.9 million was noted as of 30 June 2007.
- A sum of Rs 1.6 million was awaiting to be written off.
Included in the debtors figure was an amount of Rs 154.3 million owed by offshore companies- "Global Business Category 1 and 2". It represented 56.7 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’ figures amounting to Rs 39.1 million rose to Rs 154.3 million as of 30 June 2007, representing an increase of 294 per cent.

**Recommendations**

- Individual list of debtors be worked out for better monitoring of debts and for verifying accuracy and completeness of total debtors figure.
- An age analysis of debtors be compiled. Ageing of debtors is an important aspect of control for recovery of debts.
- More severe actions to be initiated within time to recover debts.
- In the case of Global Category 1 and 2, the Companies Division should find ways and means to collect the debts. An increase of 294 per cent over four years with debt of Rs 154.3 million is substantial.

**Division’s Reply**

The Companies Division has embarked on a new IT Project which has been designed to take on board the newly proclaimed Business Registration Act. The new software system is not fully operational because of slowness of the Internet connection through Government Online Centre. As such, there are some reports which still cannot be run. Among these reports, there are the list of debtors and their ageing analysis of debtors, which are expected to be operational by the end of November 2007.

Actions are now being taken to strike off Companies for which registration fees have not been paid.
Registrar-General's Department

9.14  **Arrears of Revenue**

**General**

At paragraph 8.4 of my 2005-06 Audit Report mention was made of the large amount of money which was due to the Registrar-General's Department and which has been increasing over the years. As of 30 June 2007, the amount due was some Rs 189.6 million.

Arrears for the past seven financial years and the respective amount recovered or adjusted in the ensuing financial years are as shown in Table 9-9

<table>
<thead>
<tr>
<th>Financial Year</th>
<th>Arrears (Rs)</th>
<th>Amount Recovered/ Adjusted in Ensuing Financial Year (Rs)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000-01</td>
<td>71,299,205</td>
<td>8,041,015</td>
<td>11</td>
</tr>
<tr>
<td>2001-02</td>
<td>108,355,930</td>
<td>18,275,384</td>
<td>17</td>
</tr>
<tr>
<td>2002-03</td>
<td>130,512,172</td>
<td>15,537,343</td>
<td>12</td>
</tr>
<tr>
<td>2003-04</td>
<td>132,948,184</td>
<td>5,831,276</td>
<td>4</td>
</tr>
<tr>
<td>2004-05</td>
<td>153,991,872</td>
<td>11,808,319</td>
<td>8</td>
</tr>
<tr>
<td>2005-06</td>
<td>166,140,971</td>
<td>6,256,344</td>
<td>4</td>
</tr>
<tr>
<td>2006-07</td>
<td>189,610,683</td>
<td>-</td>
<td></td>
</tr>
</tbody>
</table>

Recovery of arrears was still slow, with only four per cent of amount due at 30 June 2006 having been recovered during financial year 2006-07.

**Irrecoverable Arrears**

There was not much change in the situation regarding the sum of Rs 19.6 million due, which might not be recovered at all and mentioned at paragraph 8.4.2 of the 2005-06 Audit Report. These related to Succession Duties due, time barred cases for taxes relating to deeds drawn between 1992 and 2000, and amount due by deceased debtors and by untraceable debtors. During financial year 2006-07, authority has been obtained to write off Succession Duties due totalling some Rs 700,000 whereas the amount due by deceased debtors has increased by some Rs 320,000 to reach Rs 1.6 million.
9.15 **Campement Sites**

The register of campement sites to be maintained by the Registrar-General's Department, as required by the law, was not up to date as the survey of all campement sites and campements was still ongoing.

The Registrar-General's Department was not always informed by lessees of construction of a building for residential purposes on the site. I have recommended that 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 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 any comparison and detection of cases of lessees not paying the appropriate tax. At paragraph 8.5 of my 2005-06 Audit Report, I have suggested that the index at the Ministry of Housing and Lands be codified and the same reference used at the Registrar-General's Department for easy identification and comparison.

As for Campement Tax, I have recommended that the Registrar-General's Department should liaise with Local Authorities for all permits delivered for construction on such sites. There was no evidence that the matter has been pursued further in line with my recommendations.

**Department's Reply**

- The Registrar-General's Department had acquired an additional vehicle in June 2007, and from that date, the survey of campement sites had resumed and is expected to be completed in 2008.

- For Campement Tax, the Registrar-General's Department, in collaboration with the Valuation Department, undertakes its own investigation to find out whether there had been new constructions on campement sites.

9.16 **Debt Recovery System**

There was not much change in the Debt Recovery System. At paragraph 8.6 of my 2005-06 Audit Report, I mentioned that there were cases 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 same situation as last year still prevailed. The Attorney Section which was responsible for follow up of debtors still did not have an Attorney to assist the Department in recovering debts.

**Department's Reply**

Attorneys of the Attorney-General's Office assist the Department in the recovery of debts in the absence of a departmental Attorney.
Department of Environment

9.17 Environment Protection Fees.

The Environment Protection Act 2002 (EPA) requires specific establishments to pay an environment protection fee in accordance with the 5th Schedule of the Act. This concerns hotels, boarding houses of more than four bedrooms and enterprises engaged in stone crushing or in the manufacture or processing of aggregates, concrete blocks, pre-cast units, corals or basalt sand.

The Ministry of Environment & National Development Unit (ME&NDU) collects the Environment Protection Fee at 0.75 per cent of the monthly turnover, from the registered establishments. The turnover figures reported by the establishments were not subject to any verification to ascertain their accuracy and correctness.

During the financial year 2006-07, the ME&NDU collected some Rs 186.2 million from 312 establishments registered with it. Other establishments liable under the Act have not registered with the ME&NDU, and have thus not paid the Environment Protection Fee.

The records kept at ME&NDU were not complete and did not include all the establishments that were required to pay the Environment Protection Fee under the Act.

ME&NDU has not taken appropriate action under Section 67(5) of the EPA to recover the fees due from the defaulting establishments.

Some 30 establishments were in arrears and had not yet paid the fee due. The age list of the fees ranged from 8 to 88 months.

With effect from 1 October 2007, the fee is collected by the Mauritius Revenue Authority and all documents have been transferred thereof.