

Presentation to Institute of Internal Auditors Fiji

Tone from the Top

By

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“Tone from the Top” - Drivers

- **Tone ultimately defines sustainability and success**
- **Broader themes revolve around:**
 - **ensuring Macroeconomic Stability:**
 - *Foreign Direct Investment (FDI), International Trade, Movement of Capital and Labor*
 - *World Bank’s definition of Corporate Governance - “The manner in which power is exercised in the management of country’s economic and social resources for development.*
 - **enhancing Transparency and accountability:**
 - *Principal-Agent problem, Fiduciary Duties, Maximization of Shareholder wealth, Manage internal and external risks*
 - *IIA’s view of governance – “System by which organizations are directed and controlled”*

“Tone from the Top”

Changing Dynamics Internationally

- *A wave of corporate failures resetting the tone at the top!*
 - Role of Internal Auditors
 - US Sarbanes-Oxley Act
- *Global Financial Crises – who is to be blamed?*
 - *Fiscal sustainability impacting on debt sustainability...*
 - *Banking Crises*
- *Panama Papers*

“Tone from the Top”

Changing Dynamics Internationally

- *A move towards greater financial disclosure*
 - Changing shape and form of Financial Statements
 - International Financial Reporting Standards
- *An increased effort towards tax transparency*
 - Bank Secrecy laws gone
 - *US FATCA law*
 - *EU Savings Directive*
 - Global Forum on Tax
 - Automatic Exchange of Information
 - Domestic Resource Mobilization (DRM) in view of Sustainable Development Goals (SDGs)
 - Base Erosion Profit Shifting (BEPS) addressing international tax challenges.

“Tone from the Top” – Changing Dynamics in Fiji

- ***Regulatory risks management requires serious attention***
 - *Black Economy at 32.4% of Official GDP*
 - *Tax audits reveal weak financial management systems*
 - *Tax Fraud on the rise (discussed later)*
 - *Tax laws getting tougher*
- ***A wave Fijian Regulatory changes***
 - *Listed Companies*
 - *Crimes Act*
 - *Anti Corruption Laws*
 - *New Companies Act*
 - *Tax Laws*
 - *New Tax Administration Act*
 - *New Income Tax*
 - *Proceeds of Crime Act*
 - *Unexplained Wealth*
 - *Anti-Money Laundering*

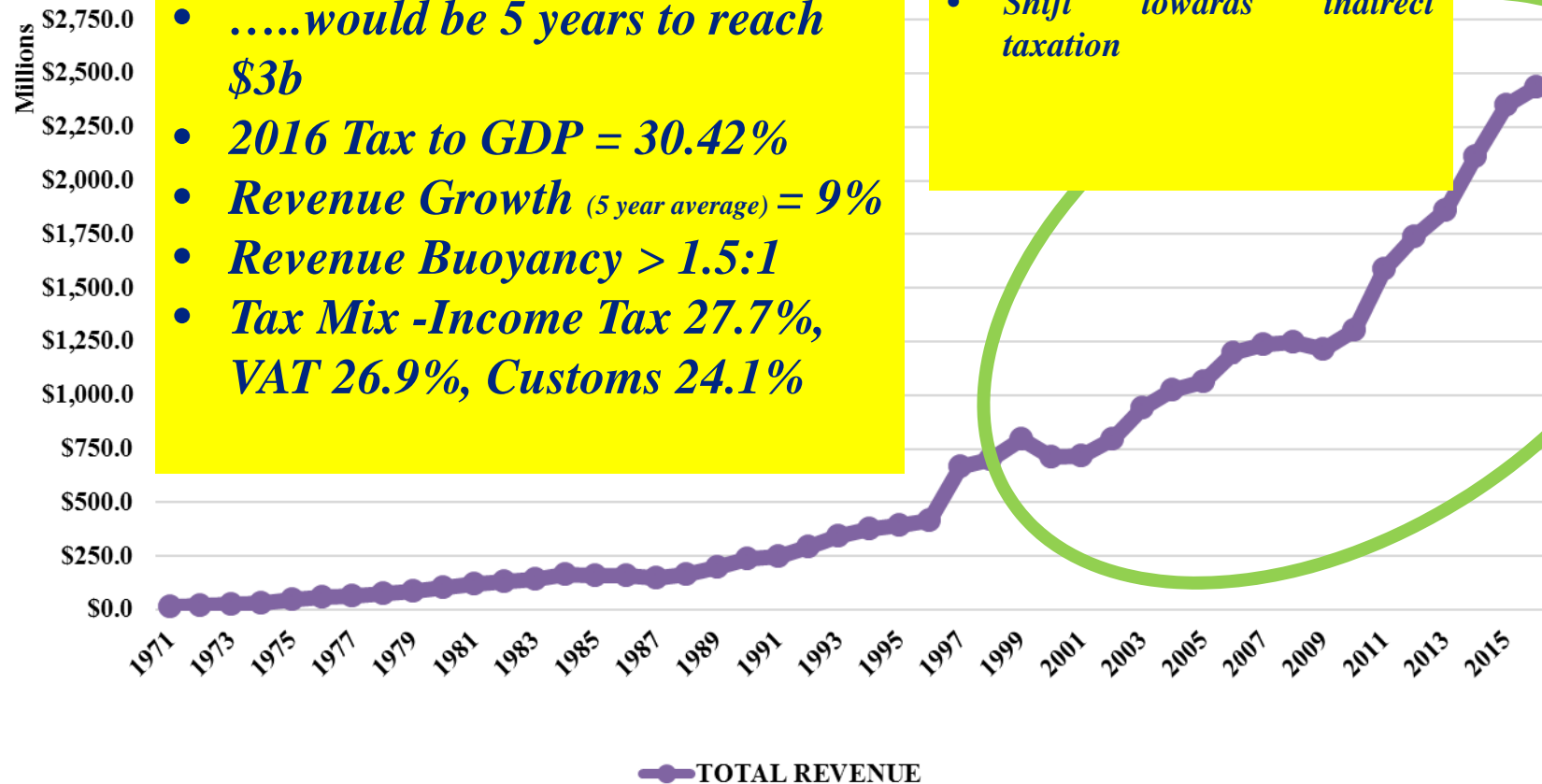
“Tone from the Top” – Changing Dynamics

- *Tax and Corruption relationship? Impact on Revenue?*
 - *Tax Officials*
 - *Tax Agents*
 - *Taxpayers*
- *Fiji Revenue & Customs Authority*
- *Governance Framework*
 - *Audit Committee*
 - *Internal Audit Charter*
 - *Creation of Ethical Standards Unit*
 - *Creation of Internal Audit Unit*
 - *Development of Corporate Governance Charter*
- *Whistle Blowing Policy*
- *Compliance Improvement Strategy*

From Million to Billion

- 85 years to reach \$1b mark
- ...then 10 years to reach \$2b
-would be 5 years to reach \$3b
- 2016 Tax to GDP = 30.42%
- Revenue Growth (5 year average) = 9%
- Revenue Buoyancy > 1.5:1
- Tax Mix -Income Tax 27.7%, VAT 26.9%, Customs 24.1%

- FRCA establishment (1999)
- Low rate, broad based regime becoming more prominent
- Shift towards indirect taxation



Tax Revenue and FRCA Internal Assurance

- *Compliance efforts*
- *Tax Restructuring*
 - *Income Tax : 31% to 20%*
 - *VAT Introduction: 15% to 9%*
 - *Customs Tariff adjustments*
- *New Taxes*
 - *Social Responsibility Tax*
 - *Fringe Benefits Tax*
 - *Capital Gains Tax*
 - *Service Turnover Tax*
 - *Environmental Levy*
 - *Water Resource Tax*



Tax Compliance : Recent Audit Cases

- *Multiple set of accounts:*
 - *Underreporting of income*
 - *Overclaiming of expenses, eg, depreciation claims, personal expenses*
- *Domestic Transfer Pricing*
 - *Manipulating assets value, concessions, income splitting*
- *Increased large value transactions involving cash*
- *Dividend Tax Planning*
- *VAT Fraud*
- *Customs undervaluation, misclassification, Misdescription*
- *Setting up offshore companies leading to Incorrect Invoicing*
- *Carteling and consolidating invoices*
- *Splitting of Invoices*
- *Investing retained earning into single premium insurance policies under Directors name*
- *Money kept in offshore accounts to pay for services provided to local entity*
- *Offshore settlement for property purchases in Fiji*
- *International Transfer Pricing*
 - *Inter-company loans*
 - *Excessive Management fee remittance*

Tax Compliance : Recent Audit Cases

- ***Operational Level Strategies***
 - ***Compliance Improvement Strategy implemented with targeted audits***
 - *Brings transparency as well*
 - ***Desk audit team established***
 - *Matching data across multiple tax return, e.g. VAT adjustments for FBT; Totals sales are recorded in VAT and Income Tax returns*
 - ***Electronic Fiscal Device implementation to be rolled out to all traders***
 - ***Development of new IT System for Tax Administration***
 - ***Minimal Time to Pay Arrangement for fraud cases***
 - ***Prosecuting taxpayers with cases before courts now***
 - ***Extensive data matching***
 - *Economic Sector profiling*
 - *Developing benchmarks*
 - *Financial ratios – Tax office not accepting incomplete tax returns*
 - *Third Party data now obtained for modeling*
 - ***Deem Dividend provision introduced for advances to Directors***
 - ***Whistle Blowing cases implemented leading to millions being collected***
 - ***Set up of a Gold Card Unit***
 - ***Voluntary Compliance with extensive awareness***
 - ***Aggressive Media Campaigns***

Tax Compliance Level : Corporate Tax

FSIC	SECTOR	CORPORATE TAX				
		2009	2010	2011	2012	Average
01	Agriculture	(2.7)	3.6	3.5	(4.7)	(0.1)
02	Forestry and Logging	1.3	2.6	0.8	0.7	1.3
03	Fishing and Aquaculture	(2.3)	1.7	4.1	(5.1)	(0.4)
07-09	Mining and Quarrying	1.9	3.3	1.5	(4.9)	0.4
10-33	Manufacturing	6.8	3.0	(1.1)	(0.1)	2.1
35	Electricity, Gas, Steam and Air Conditioning Supply	0.2	1.2	10.2	(3.1)	2.1
36-39	Water Supply, Sewerage, Waste Management & Remediation Activities	15.0	32.7	203.5	(12.4)	59.7
41-43	Construction	5.7	0.7	(9.0)	4.0	0.3
45-47	Wholesale & Retail & Repair of Motor Vehicles and Cycles	1.6	11.4	1.3	22.6	9.2
49-53	Transport and Storage	0.4	0.6	0.8	(7.5)	(1.4)
55-56	Accommodation & Food Service Activities	0.1	3.4	1.4	12.2	4.3
58-63	Information and Communication	6.0	0.5	(23.7)	6.4	(2.7)
64-66	Financial and Insurance Activities	(20.7)	(20.3)	15.7	15.2	(2.5)
68	Real Estate Activities	55.3	(5.5)	2.4	21.2	18.3
69-75	Professional, Scientific & Technical Activities	(2.3)	5.1	(0.3)	2.9	1.4
77-82	Administrative and Support Activities	(4.4)	1.1	5.1	1.1	0.7
84	Public Administration & Defense, Compulsory Social Security	0.04	(32.3)	(1.0)	(1.7)	(8.8)
85	Education	2.3	11.5	(12.9)	(32.6)	(7.9)
86-88	Human Health and Social Work Activities	(0.7)	16.0	45.1	9.3	17.4
90-93	Arts, Entertainment & Recreation Activities	6.3	(4.2)	74.5	7.0	20.9
94-99	Other Service Activities	(9.4)	(2.0)	39.1	(1.8)	6.5
	TOTAL	0.3	3.5	1.3	0.4	1.4

Tax Compliance Level : Business Tax

FSIC	SECTOR	BUSINESS TAX				
		2009	2010	2011	2012	Average
01	Agriculture	(0.1)	(5.9)	(6.3)	42.9	7.7
02	Forestry and Logging	(2.4)	0.7	(0.9)	(1.1)	(0.9)
03	Fishing and Aquaculture	0.0	0.0	(10.3)	0.0	(2.6)
07-09	Mining and Quarrying	(1.1)	0.0	(11.8)	0.0	(3.2)
10-33	Manufacturing	(57.6)	(6.2)	14.5	10.4	(9.7)
35	Electricity, Gas, Steam and Air Conditioning Supply	0.97	20.1	(34.1)	(215.3)	(57.1)
36-39	Water Supply, Sewerage, Waste Management & Remediation Activities	(147.3)	(52.8)	(1,017.7)	0.0	(304.4)
41-43	Construction	(24.5)	(7.3)	(24.7)	13.3	(10.8)
45-47	Wholesale & Retail & Repair of Motor Vehicles and Cycles	(7.2)	21.4	40.6	19.3	18.5
49-53	Transport and Storage	(16.8)	(3.0)	(1.8)	7.4	(3.6)
55-56	Accommodation & Food Service Activities	(0.6)	2.8	6.6	(48.9)	(10.0)
58-63	Information and Communication	0.4	(24.9)	(10.5)	(7.2)	(10.6)
64-66	Financial and Insurance Activities	6.1	37.2	(9.6)	(7.8)	6.5
68	Real Estate Activities	(16.9)	18.1	(162.7)	(66.2)	(56.9)
69-75	Professional, Scientific & Technical Activities	14.7	7.4	(6.4)	18.8	8.6
77-82	Administrative and Support Activities	(10.0)	(0.6)	(15.2)	67.8	10.5
84	Public Administration & Defense, Compulsory Social Security	(5.2)	(46.8)	2.8	13.2	(9.0)
85	Education	24.4	5.6	30.2	(67.7)	(1.9)
86-88	Human Health and Social Work Activities	15.2	(1.5)	(66.8)	(0.6)	(13.4)
90-93	Arts, Entertainment & Recreation Activities	(9.6)	0.0	563.6	(8.4)	136.4
94-99	Other Service Activities	42.7	(37.3)	(232.9)	(461.4)	(172.2)
	TOTAL	(27.5)	3.7	(13.1)	21.6	(3.8)

Tax Compliance Level : Business Tax

FSIC	SECTOR	PERSONAL INCOME TAX				
		2009	2010	2011	2012	Average
01	Agriculture	3.3	0.3	2.3	(3.1)	0.7
02	Forestry and Logging	4.5	0.6	(0.1)	0.1	1.3
03	Fishing and Aquaculture	(0.5)	(3.7)	2.5	2.9	0.3
07-09	Mining and Quarrying	0.2	0.2	2.4	(5.8)	(0.8)
10-33	Manufacturing	9.7	0.9	5.1	(12.6)	0.8
35	Electricity, Gas, Steam and Air Conditioning Supply	(0.2)	(0.2)	(3.1)	(2.9)	(1.6)
36-39	Water Supply, Sewerage, Waste Management & Remediation Activities	(43.0)	0.8	(172.8)	(1.7)	(54.2)
41-43	Construction	2.2	(0.2)	(1.8)	(1.8)	(0.4)
45-47	Wholesale & Retail & Repair of Motor Vehicles and Cycles	2.2	0.4	(23.9)	(15.2)	(9.1)
49-53	Transport and Storage	0.6	0.1	0.2	(1.4)	(0.1)
55-56	Accommodation & Food Service Activities	0.8	1.7	2.0	(20.1)	(3.9)
58-63	Information and Communication	(0.0)	0.7	12.7	0.8	3.5
64-66	Financial and Insurance Activities	0.2	4.6	1.9	(0.1)	1.6
68	Real Estate Activities	(13.7)	2.5	(4.5)	44.7	7.2
69-75	Professional, Scientific & Technical Activities	(1.3)	2.6	1.2	0.7	0.8
77-82	Administrative and Support Activities	11.3	6.2	5.7	3.8	6.7
84	Public Administration & Defense, Compulsory Social Security	(2.6)	(1.9)	(0.2)	(0.2)	(1.2)
85	Education	6.8	1.5	0.9	(3.4)	1.4
86-88	Human Health and Social Work Activities	(2.6)	1.0	(5.9)	2.4	(1.3)
90-93	Arts, Entertainment & Recreation Activities	(0.8)	4.7	6.6	(8.5)	0.5
94-99	Other Service Activities	(7.2)	(5.8)	17.4	(6.1)	(0.4)
	TOTAL	9.2	2.0	1.9	(1.4)	2.9

Tax Compliance Level : Value Added Tax

FSIC	SECTOR	VALUE ADDED TAX					
		2009	2010	2011	2012	2013	Average
01	Agriculture	(2.0)	(5.3)	(0.5)	3.2	6.4	0.4
02	Forestry and Logging	1.4	2.0	(0.1)	0.7	3.4	1.5
03	Fishing and Aquaculture	(3.3)	(3.3)	0.2	3.2	7.8	0.9
07-09	Mining and Quarrying	3.4	(2.0)	0.2	(2.1)	1.4	0.2
10-33	Manufacturing	1.3	1.5	4.3	4.3	1.1	2.5
35	Electricity, Gas, Steam and Air Conditioning Supply	0.2	1.2	13.2	(2.2)	(0.03)	2.5
36-39	Water Supply, Sewerage, Waste Management & Remediation Activities	53.1	158.0	41.8	8.0	1.4	52.5
41-43	Construction	4.8	(1.4)	1.0	5.6	3.6	2.7
45-47	Wholesale & Retail & Repair of Motor Vehicles and Cycles	0.9	18.6	2.0	9.9	2.4	6.8
49-53	Transport and Storage	0.6	0.2	2.2	0.7	0.1	0.8
55-56	Accommodation & Food Service Activities	0.7	2.8	2.8	1.5	3.0	2.2
58-63	Information and Communication	0.0	0.8	3.9	0.6	0.9	1.2
64-66	Financial and Insurance Activities	4.9	42.4	8.7	(4.1)	5.8	11.6
68	Real Estate Activities	(4.6)	4.5	1.2	(20.3)	11.5	(1.5)
69-75	Professional, Scientific & Technical Activities	(3.6)	1.0	0.6	0.6	3.1	0.4
77-82	Administrative and Support Activities	(2.4)	2.3	2.2	1.0	2.7	1.2
84	Public Administration & Defense, Compulsory Social Security	8.00	2.5	0.3	1.2	(4.0)	1.6
85	Education	(9.1)	4.6	(17.2)	237.4	25.6	48.3
86-88	Human Health and Social Work Activities	7.3	(1.8)	(4.9)	(56.8)	(7.6)	(12.8)
90-93	Arts, Entertainment & Recreation Activities	0.9	3.9	71.7	1.1	8.6	17.2
94-99	Other Service Activities	(2.8)	(9.2)	52.7	60.0	0.0	20.1
	TOTAL	1.1	4.0	2.2	4.0	2.8	2.8

“Tone from the Top” Concluding Remarks

- *Strong Executive Management support is needed;*
- *Requires a recognition that internal Audit role is getting more prominent;*
- *Requires greater attention towards regulatory compliance especially ensuring tax compliance*

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Thank You