



Office of The National Public Auditor

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## ONPA Releases Inspection Report of Chuuk State Tax and Revenue Office

The Office of the National Public Auditor (ONPA) announces the release of Inspection Report No. 2014-04, *Inspection of Chuuk State Tax and Revenue Section fiscal years 2010 -2012*. A digital copy of the report is available for public review online at [www.fsmopa.fm](http://www.fsmopa.fm) and printed copies are available at the ONPA offices on Weno, Chuuk and in Palikir, Pohnpei. The inspection was conducted pursuant to Title 55 of the FSM Code, chapter 5 and in accordance with the 2011 Quality Standards for Inspection issued by the U.S. Council of the Inspectors General on Integrity and Efficiency.

The 'Chuuk State Tax and Revenue Office' is responsible for implementing the state tax and revenue laws. It ensures that citizens and businesses pay the correct amount of state taxes and fees to the government.

The objective of our inspection was to determine whether the Chuuk State Tax and Revenue Office's compliance function implemented the efficient and effective processes to ensure taxpayers' compliance with Chuuk State tax system.

Based on our inspection, we concluded that although the Chuuk State Tax and Revenue Office had implemented some measures to ensure taxpayers' compliance with the tax system, there was still opportunity to improve the efficiency and effectiveness of the processes in order to ensure improvement in the taxpayers' compliance.. The office did not have a complete tax audit manual and it also lacked regulations with the implementing procedures and guidelines for efficient and effective conduct of its tax audit function, collection and enforcement of all the required taxes under the Chuuk State tax law.

As a result, the potential for tax revenue collections was not maximized, which in turn, has contributed to lesser government funds for urgent and needed public programs and services to improve the welfare of the citizens. We highlighted a number of areas of tax administration and collection that needed improvement.

- About \$1.2 million assessed liabilities for sales taxes and penalties have long been pending for collection

- Two tax delinquent cases involving about \$ 661,000 referred for legal action not resolved in a timely manner
- Absence of strategic planning process to define priority and focus for tax audits
- Absence of tax audit manual resulted in lack of consistency in the delivery of tax audit services
- Absence of regulations that would improve the effective and consistent implementation of the tax law

To improve taxpayers' compliance, the Chuuk State Tax and Revenue office needs to develop appropriate plans of action that include:

- Strengthening the tax audit function and enforcement programs with the development of audit tools, improvement of internal control procedures and further strengthening of legal authority in order to achieve operational efficiency and effectiveness in the enforcement of laws on tax collections.
- Collaboration between the Attorney General and the Director of the Department of Administrative Services to develop and implement the control procedures to ensure that decisions on tax cases referred for legal action are quick, timely, decisive and not delayed.
- Training and development for the management and the staff to:
  - Develop and implement strategic and operational plans to focus the office's efforts on results-oriented tax audit activities
  - Implement performance measures to guide actions and monitor the achievement of tax revenue goals and objectives
  - Use tax gap analysis and risk assessment techniques to identify potential areas of taxpayers' noncompliance.
  - Development and implementation of a tax audit manual to ensure consistency and quality in the delivery of tax audit services
  - Development and promulgation of tax regulations, where appropriate, to implement the tax law

We discussed our findings and recommendations with the officials from the Department of Administrative Services (DAS) and the Attorney General Office and they all agreed with the findings. The management response from DAS is included as an Appendix in the final audit report.

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