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To
THE UNITED NATIONS INDUSTRIAL
DEVELOPMENT ORGANIZATION (UNIDO)
Att: Mr. N. Maabdi
C.C. Ms. Daniela Fiori, Francois Denner

13th of December
REF N.º1728/TAX/EY/2010

Contract N° 16002112
UNIDO Project n° EE/MOZ/08/001

Subject: Final Report on the 2nd Training Course on Fiscal Auditing for the Revenue Authority of Mozambique in Beira

Dear Sir,

As per paragraph (b) of number 2.09 of the above Contract we have the pleasure of submitting herewith our Final Report on the 2nd training which took place in Beira.

1. Introduction

Ernst & Young was invited by the United Nations Industrial Development Organization (UNIDO) through Request for Proposal n° 716000048/NM/GOc dated the 11th of March 2010, to submit a proposal for the provision of services in accordance with the Terms of Reference of Project B.E.S.T.F - Ref. EE/MOZ/08/001, for the "Training Course on Fiscal Auditing for the Revenue Authority of Mozambique".

Ernst & Young submitted the proposal and was awarded the project by means of Contract N° 16002112.

Ernst & Young was further awarded an extension to the initial contract for the delivery of the same training in Beira.

The 2nd training took place in Beira between the 20th of September and 1st of October 2010.

The training course took place on the basis of the initially agreed content for each of the topics, adjusted as per the feedback received from the participants from the 1st training.

Similarly to the first training, the participant's profile was previously defined by the ATM based on the technical experience and responsibilities of the participants. Participants comprise essentially people that are currently involved in tax audits and staff from the information technologies department.

The attendance rate was close to 90% and a total of 27 participants representing the following locations where present:

Province	Nº of participants
Cabo Delgado	4
Manica	2
Nampula	7
Niassa	4
Sofala	6
Tete	2
Zambézia	3
Total	28

2. Framework

UNIDO is implementing a project in Mozambique on "Business Environment Support and Trade Facilitation (BESTF) where the Mozambique Revenue Authority (ATM) is the leading counterpart in the trade facilitation component of the project. The primary aim of the technical support to ATM is to integrate its functions and improve its capacity to respond to the increasing needs of the national and regional business communities in trade activities.

Within this scope, the training session was prepared and performed in coordination with ATM. The content of the training, dates and duration were previously discussed and agreed with the ATM.

The agenda comprised of the following topics:

Session	Date (s)	Duration
Introduction	20.09	1day
Mozambique Tax System	20-21.09	2 days
Audit	22-24.09	2 days
Execution of Audit	27.09-01.10	5 days

3. Objective of the training session

The primary aim of the training session was to assist ATM to integrate its functions and improve its capacity to respond to the increasing needs of the national and regional business community in trade activities. Specific areas of focus were:

3.1 ATM to harmonize the necessity to respond to national growth and modernization with the global market challenges, insuring at the same time maximization of revenue collection and transparency

Regarding this aspect we felt that the objective was met. On the one hand, matters were discussed such as guarantees of the taxpayers, the role of the revenue authorities not as a "police" but as an entity that provides support to taxpayers in order to facilitate compliance with tax obligations, the preparation of an audit and the knowledge of the industry of the taxpayer, the principles of good faith of both taxpayer and revenue authorities and the professionalism of the ATM. On the other hand, the adopting of methodologies that are clear and objective and the increase of the technical knowledge of the ATM officials, all contribute for improving response to market challenges, maximizing revenue collection by rendering the tax collection process more efficient, ensuring transparency and conferring security for the taxpayers.

3.2 Creation of a common institutional culture and behaviour

The organization of similar training sessions or workshops is of capital importance for the ATM officials from the different parts of the country to adopt a seamless culture and behaviour.

The training session allowed for officials from different areas and parts of the country to openly discuss the subjects, exchange ideas and get to know each other. As referred above behaviour aspects such as professionalism, values and ethics were discussed in order to raise awareness on the role and objectives of the ATM.

The assumption of most of the participants was that the taxpayer is not in good faith when reporting for tax purposes and that AT's first approach should be to challenge the assessment made by the taxpayer and penalise for any faults found. The training also helped the participants to see the taxpayers as stakeholders in the tax collection process.

3.3 Ultimately to enable participants to also be able to replicate the training courses within the institution

The training session was interactive and participative and allowed participants to express their opinions and concerns.

We believe that this approach, together with the material provided and the case studies discussed provides the participants with sufficient tools and skills to be able to replicate the training within the institution.

There were several instances in which the answers to questions of a participant were provided by another participant which showed the involvement and will of the participants to learn and express their knowledge.

4. Methodology

The training sessions were delivered in the format of plenary sessions on the basis of a manual prepared for each of the topics, complemented by a booklet containing the relevant legislation, in order to allow the adequate follow up by the participants. In the case studies and discussions we also used other support documents such as tax forms.

Notwithstanding that the topics comprised theoretic sessions, there were sessions dedicated to discussions and case studies and therefore, the training was also practical and interactive. In fact, this was one of the requirements of the training given that one of the objectives was to create capacity in the participants to replicate the training at the level of the ATM.

According to the presentation structure of the manuals, slides in power point were projected, accompanied by an explanation of the presenter which was complemented by practical examples of situations and / or facts in order to facilitate the understanding.

Participants were allowed to present their questions at any moment in order to avoid the deferment of clarifications in a Q&A session, where people may no longer be comfortable or interested in placing queries.

During the presentation, special relevance was given to the legal basis and grounds given that compliance with legislation constitutes a key factor for the success of a tax audit process.

In fact, the legal base and grounds were of particular interest for the participants.

The training sessions run daily for a period of 10 days from 8h00 to 16h00, with 2 coffee breaks and 1 hour for lunch. The Saturday and the Sunday were resting days.

5. Training material

The following material was used in the training sessions:

- ▶ Projector;
- ▶ Flipshard;
- ▶ Training manual containing the essential aspects of the topics discussed;
- ▶ Booklet with legislation containing the following laws:
 - Law n.º 15/2002, dated 26th June: *Base Law of the Mozambican Tax System*
 - Law n.º 2/2006, dated 22nd of March: *General Tax Law*
 - Decree n.º 46/2002, dated 26th of December: *General Regime on tax Offences*
 - Decree n.º 19/2005, dated 22nd of June: *Regulations of the Procedures of Tax Inspection*
 - Law n.º 4/1994, dated 13th of September: *Donations law*
 - Decree n.º 29/1998, dated 9th of June: *Regulations to the Donations Law*
 - Law n.º 4/2009, dated 12th of January: *Code of Fiscal Benefits*
 - Decree n.º 56/20098, dated 7th of October: *Regulations to the Code of Fiscal Benefits*

- Law n.º 11/2007, dated 12th June: *Updates the tax legislation on mining activities*
- Decree n.º 5/2008, dated 9th of April: *Regulations on the Taxes specific for Mining Activities*
- Law n.º 12/2007, dated 12th of June: *Updates the tax legislation on oil activities*
- Decree n.º 4/2008, dated 9th of April: *Regulations of the Petroleum Production Tax*
- Law n.º 13/2007, dated 12th of June: *Review of the regime of the tax incentives in the mining and petroleum operations*
- Decree n.º 56/2003, dated 24th of December: *Regulations on Fuel Tax*
- Law n.º 32/2007, dated 31st of December: *Value Added Tax Code*
- Decree n.º 7/2008, dated 16th of April: *Regulations of the VAT Code*
- Law n.º 33/2007, dated 31st of December: *Individual Income Tax Code (IRPS)*
- Decree n.º 8/2008, dated 16th of April: *Regulations to the IRPS Code*
- Ministerial Diploma n.º 269/2009, de 29 de Dezembro: *Updates IRPS withholding tax rates*
- Law n.º 34/2007, dated 31st of December: *Corporate Income Tax Code (IRPC)*
- Law n.º 20/2009, dated 10th of September: *Amends and revokes some articles of the IRPC Code*
- Decree n.º 9/2008, dated 16th of April: *Regulations to the IRPC Code*
- Decree n.º 68/2009, dated 11th of December: *Amends articles of the IRPC Code*
- Decree n.º 6/2004, dated 1st of April: *Stamp Duty*
- Decree n.º 38/2005, dated 29nd of August: *Amends articles of the Stamp Duty Code*
- Resolution n.º 9/91, dated 20th of December: *Ratifies the Double Taxation Treaty between Mozambique and Portugal*
- Resolution n.º 34/2008, dated 16th of October: *Ratifies the Protocol to the DTT between Mozambique and Portugal*
- Resolution n.º 54/98, dated 12th of November: *Ratifies the DTT between Mozambique and Mauritius*
- Resolution n.º 27/99, dated 8th of September: *Ratifies the DTT between Mozambique and Italy*
- Resolution n.º 10/2004, dated 14th of April: *Ratifies the DTT between Mozambique and the UAE*

- Resolution n.º 33/2008, dated 16th of October: *Ratifies the DTT between Mozambique and Macau (China)*
- Resolution n.º 35/2008, dated 30th of December: *Ratifies the DTT between Mozambique and South Africa*
- Ministerial Diploma n.º 113/2006, dated 31st of May: *Withholdings made to non resident entities and procedures for implementation of the DTT's*
- Notice n.º //GBM/2009, from the Bank of Mozambique on minimum provisions for financial institutions

The training material, namely the manuals, were developed and adjusted as per the requirements of each training session and the feedback obtained from the 1st training.

We believe that the format and content of the manuals to allow the participants for consultation in their daily tasks as they are easy to handle and consult. The sequence of the topics is logical and each topic is included under a separate section.

6. Evaluation of the Participants, Conclusions and Recommendations

Most of the participants are originally from Maputo and have been seconded to the different provinces.

As per the TOR, the participants were submitted to a written examination containing theoretical questions and case studies.

The overall evaluation that we make of the participants is that the technical skills on tax audits are reasonable. They are in general aware of the functioning of the main taxes, namely VAT, IRPC and IRPS and in overall aware of the procedures and objectives of a tax audit. Notwithstanding, we feel that improvement in the following areas is required:

- ▶ The awareness of the relevant legal provisions and assessment of the issues raised based on the legislation and not merely on practice. We noticed during the case studies and examination that in certain instances issues are evaluated on the basis of the common practice and that the participants are not aware of the legal provisions that should serve as basis for their analysis. This in our opinion is a key requirement and a starting point for any action to be taken by the revenue authorities with respect to the tax affairs of taxpayers.
- ▶ Audit techniques in order to render the audit process more efficient.
- ▶ Legal formal requirements for a tax audit process in order to ensure compliance by the ATM with the rights and guarantees provided to taxpayers under the tax legislation and consequently reduce claims and appeals lodged by the taxpayers against the revenue. A key factor for this is the knowledge and understanding of the relevant legislation.

7. Evaluation of the Consultant

In order to obtain the opinion of the participants we provided them with a evaluation where they were requested to provide their comments on the various aspects related with the

training, namely, the content of the training session, form of presentation and competence of facilitator / presenter and other related issues.

The evaluation form also contained a field for improvement suggestions by the participants and areas which they wanted to see discussed in more detail.

By the review that we made to the evaluation sheets, the main conclusions were the following:

- ▶ Most of the participants considered that the training course was useful for the improvement of their technical skills as auditors / inspectors, for the improvement of their knowledge of the law and consequent increase of revenue. It also allowed them to see the issues from the perspective of the taxpayers.
- ▶ The majority of the participants stated that they would like to see this type of initiative take place on regular basis in order to keep them updated.

Attached to the present report are the following documents:

- Training Manuals
- Daily attendance rosters
- Examination template
- Certificates
- Course evaluation sheets

Yours sincerely

