

STRATEGIC MANAGEMENT FOR TAX TRAINING

INTERNAL REVENUE COMMISSION - PAPUA NEW GUINEA

This paper acknowledges the present absence of a training institute that would support tax officials of the Internal Revenue Commission (IRC) of Papua New Guinea (PNG). While it outlines the PNG perspective and experience, many of the issues and approaches will be familiar to other member administrations, particularly those in developing economies.

This paper outlines the current environment in PNG and the IRC's planned strategies to meet current and future challenges. These include maintaining established relationships and working with central agencies and aid donors to develop appropriate training curricula to support a *Progressive Learning Framework*. It is anticipated these outcomes will provide the essential building blocks to further develop our workforce and enable staff and management in IRC and Taxation Division to better achieve organisational goals and objectives.

The taxation environment in Papua New Guinea

PNG is a developing country with a population of over six million, of whom 85% live in rural villages. In common with many other developing countries, PNG's informal sector is the country's largest source of employment, a significant driver of its economy, and important to reducing crime and poverty. However, the 70% of businesses in the informal sector do not earn sufficient income to exceed the tax free threshold of PGK7000, which is about USD2,700. It is only the largest 30% of enterprises which are of interest from a tax perspective.

PNG is blessed with resources such as oil, gas, minerals, agriculture, marine resources (both sea and river) and tourism. Large multinational companies compete to develop PNG's resources, and to invest in the country. So at one end of the spectrum we have the multinational companies keeping proper records and generally complying with their obligations in terms of filing, reporting and payments. At the other extreme there are also a large number of businesses, often contractors associated with major projects, who do not maintain their records and operate significantly through cash.

Cash transactions exist in many sectors. These include fees to professionals such as accountants and doctors, cash royalties paid to landowner organisations, and payments to other groups such as building and transport contractors.

There are over 800 distinct languages spoken in PNG, and a large part of the population first learn their local language or *Tok Ples*, with *Tok Pisin* or *Hiri Motu* as a second language. English is the language of formal education and commerce, and business records are required to be kept in English. However, it is typically a third or fourth language, and English literacy levels among businesses are often low. Communication is a further factor hampering tax awareness, as transport and telecommunication links are limited outside the larger urban centres. In remote areas it may be physically very difficult to comply with the tax law; for example a small primary producer may have very limited access to the banking system.

A further feature of PNG society is the *wantok* system. The term *wantok* literally means “one talk” and it refers to a kinship system among people who have a common language, which carries an obligation for a member of the group to provide mutual support to his or her wantoks. This support is often financial, involving cash gifts or loans among wantoks and may, for example, be a complicating factor in determining the cash income of a particular taxpayer.

The Internal Revenue Commission’s approach

Given the difficulties that geography, language differences and low levels of literacy create for awareness and understanding of tax obligations – the foundation for voluntary compliance with those obligations – the PNG IRC adopts a balanced approach to ensuring compliance with the laws, involving a mix of awareness and enforcement activity. While other jurisdictions have similar approaches, developing awareness of tax obligations in PNG may start at a more fundamental level than in developed countries, where the existence of tax obligations is better known generally.

The IRC has a staffing establishment of 782 staff with approximately 660 staff on strength at present. It has had responsibility for both taxation and customs functions since 1992 although changes are in train to separate into two separate agencies in the immediate future.

The head office is located in the National Capital, Port Moresby and there are Goods and Services Tax offices in all but two of the country’s 22 Provinces. These provinces are located on the mainland as well as in the islands. With approximately 70 staff working around the country this provides many operational challenges.

The IRC has a range of teams employed in identifying non compliance and responding with client education and support or enforcement action. These include GST auditors and inspectors in relation to GST obligations, source deduction auditors for tax deducted at source from salary and wages income

and eligible business payments, business auditors for small businesses, and a large case audit program which reviews compliance among some large corporate taxpayers.

Geography and language are considerations for IRC staff as well, and the first training need for client service and audit staff relates to language. Despite high levels of academic achievement on entry to the IRC, a good understanding of how businesses operate is often a learning need for new officers. Recognising this, training includes business report writing skills, as well as fundamentals of accounting, followed by on the job development of these skills.

Challenges

Communication is a major challenge faced by the management and staff in the IRC with email contact limited within the provinces. For example one provincial office only has email access to the Head Office staff. Surface mail is particularly slow with mail not being delivered to some Provinces for many months and fax communications are unreliable due to telecommunication breakdowns, electrical load shedding, equipment failure and maintenance delays.

The challenges of language and communication are also factors in the levels of non-compliance which exist, and make cash based transactions and businesses difficult to audit. For these reasons, there are particular mechanisms in the PNG tax system designed largely to deal with avoidance in the cash economy sector.

Transport to provincial centres is, in the main, limited to air travel which is expensive and can be unreliable due to unfavourable weather conditions, or grounded aircraft. Road and sea travel can be a more affordable option where it is available but the security and welfare of staff using this mode of travel is a consideration. For example, rough seas can cause boating mishaps and law and order issues on the highways increase the risks for our staff undertaking this type of travel.

The inaccessibility of our provincial offices produces challenges for an organisation wanting to increase and maintain staff skill levels as well as update staff of legislative and operational changes. Organising courses in provincial locations or arranging travel to courses, monitoring the transfer of learning within the work environment and assessing capability are restrained due to these logistical challenges within a constrained budgetary environment.

Overcoming Challenges

However, we have not let this deter our enthusiasm. Management committed to advancing the IRC have sourced alternative avenues of assistance including advisory support such as the PNG Advisory Support Facility and the Strongim Gavman Program both funded through the Australian Aid Agency, AusAID. These programmes have been running in the IRC since 2004 and have provided support to the Corporate Services areas of the IRC as well as the Taxation Wing. In addition, the Taxation staff have benefited from support from well established links with the Australian Taxation Office through an ongoing ‘twinning program’ that supports bilateral exchanges for skills transference and capacity building.

IRC officials also benefit from attendance at key international conferences including the Commonwealth Association of Tax Administrators (CATA); the Pacific Islands Tax Administrators Association (PITAA) and, of course, the Study Group of Asian Tax Administration and Research (SGATAR).

Twinning arrangements

While the IRC does not presently have the opportunity to collaborate with an appropriate taxation training institute, it has participated, since 2006, in the PNG IRC - Australian Taxation Office Twinning Scheme (PATOTS). This scheme operates in parallel with the efforts of Strongim Gavman Program employees. Through both approaches ATO officers are well positioned to help build the core competencies and project management skills of IRC officers across all levels and increase the number of officers capable of completing core tasks with minimal supervision. The PATOTRS scheme:

- Has a strong focus on developing the knowledge and skills of IRC officials, knowledge and skills transfer and ongoing knowledge sharing and support;
- Contributes to poverty reduction by strengthening the IRC’s capacity for policy development and implementation and by building staff capacity;
- Utilises existing PNG management structures and performance frameworks wherever possible; and
- Encourages greater aid effectiveness through regular reviews and dialogue.

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PATOTS includes a robust monitoring and evaluation framework and incorporates gender and HIV/AIDS policy and awareness. Its design outlines the roles and responsibilities of each participating agency, the PATOTS management processes and an analysis of risks and sustainability.

The current year PATOTS schedule will see activities planned for the following areas:

- Executive reporting systems
- Communications and marketing
- Performance Audit programming
- Human Resource professional development
- Underground Economy multilateral discussions
- Transfer pricing
- Information design
- Debt management
- Capacity testing
- Filing enforcement and prosecutions action

In the next twelve months, six ATO officers will visit PNG and work in the IRC for periods of time, while 14 IRC officers will visit Australia to participate in a number of related workshops, discussions and tailored skilling activities. Some of the multilateral discussions and conferences will involve the participation of other revenue agencies including the Directorate General of Taxation for Indonesia, the New Zealand Internal Revenue Service, the Canada Revenue Agency and Her Majesty's Revenue and Customs for the United Kingdom.

Further Education

There is a trend in the IRC which is supported by management, for officers to seek certification throughout their working life. Leadership programs, technical courses for officers from Taxation and Customs, conferences and short programmes within PNG and overseas are regularly sourced and attended by IRC staff. This has resulted in a well traveled workforce that has experience beyond the borders of PNG providing an opportunity to bring innovation, enthusiasm, knowledge and skills back

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to the workplace. Some of the countries experienced by IRC staff include Australia, India, Korea, United States of America, Malaysia and Brazil.

As a result the IRC has a large proportion of qualified staff ranging from administrative staff with diplomas in accounting, human resource management, information technology, Bachelor Degree qualified officers working in the Taxation, Customs and Services Wings, through to highly qualified legal and management staff with Master Degree in Law and Doctorate in Management. Since 2003 as many as 30 officers completed a diploma qualification while employed by the IRC, more than 56 officers currently employed by the IRC have completed a Bachelor Degree, eight officers have finished their Master Degree and we are proud to say we also have a senior member of staff who completed his Doctorate while employed by the IRC. The IRC is also currently supporting a number of officers who are presently undertaking either full or part-time study.

This effort has paid off for the IRC and within the government sector in PNG and overseas, these results are recognized. The feedback IRC has and continues to receive is that of a 'go ahead, progressive organization' with sound leadership. This perception is further evidenced by the continuing support it receives from donor agencies and government.

Assessment of Environment for next 12 months

However, these efforts may be undermined as the climate in PNG continues to change. There is a movement in the economic sector due to increased overseas investment in a significant Liquefied Natural Gas (LNG) project in PNG. As a consequence major growth is anticipated resulting in a growing demand for skilled and qualified staff particularly in the areas of legal, accounting, information technology and human resource professionals. This combined with an expected rise in the cost of living including accommodation costs and increased salary packages offered in the market will cause a possible outflow of skills from the IRC over the next 12 – 18 months. These challenges may place pressure on our management and services area as they will coincide with the internal changes anticipated in the separation of the Customs Wing from the IRC.

Current Arrangements

The IRC has a commitment to training at least 2% of the staff on strength each year. While the Human Resources area develops and facilitates generic training, the Tax Operations area has retained the main responsibility for developing and reviewing their technical training requirements and training courses. This tends to be completed on an ad hoc basis, with programmes being developed on the run

and as required at the time. At present no standardized curriculum or development programme exists nor is there a library of training courses retained and maintained by Tax Operations.

In addition, the IRC has also purchased a “*learn key*” package to enable staff undertake self paced learning at times which suit their needs and the needs of their work area. This has met with limited success. Staff have been slow to utilise the *learn key* facility which may be in part due to cultural preferences. PNG staff often prefer and work better within an environment of learning exchange where officers are able to share ideas and learn from each other rather than working in isolation as is the case with this program.

Line managers have the main responsibility for training their staff. The Human Resources Branch assists and supports the training by ensuring logistical needs are satisfied such as trainer availability, venue and catering arrangements, travel bookings and provision of training materials.

While experienced in the technical areas of tax relevant to the training, these Tax Operations line managers rarely have undertaken the *train the trainer* courses important in skilling trainers to develop and deliver training. Our goal in the IRC is that this situation will change and that skilled technical staff will be in a position to offer training based upon an approved curriculum which supports the individual and organisational development needs of the taxation staff of the IRC.

Policy Development

A training policy has been developed as the first step to remedy this situation. Developed from a need in the IRC to have a consistent approach to the training delivery, the policy addresses the following areas:

- Equitable access to training
- Determining training needs
- Training Plans
- Designing Training Courses
- Various training options available
- Career Path Planning
- Return on the training Investment

Therefore the policy was developed to reinforce the importance of ensuring training undertaken by the IRC focuses on skills which support the various technical and service areas in the achievement of the organisational goals and objectives. In addition, it is intended to encourage training needs of all staff in Taxation to be considered when planning and delivering training, use of appropriate criteria when selecting participants for courses, the rationale used when suitability of training programmes, improve the communication between Taxation and HR and the training being attended to ensure personal files and training records updated. It was intended these activities were conducted in line with the GoPNG Public Service General Orders and the policy was developed to guide the IRC in the requirements of the General Orders.

Roles and Relationship/cooperation between the staff training related organisations

Further, the IRC is part of the Public Sector Workforce Development Program (PSWDP) which is a 5 year AusAID project managed by the Secretary of PNG Personnel Management. This project addresses Public Sector Reforms for all Government Agencies in PNG Public Service and is coordinated by AusAID.

The relationship between the PSWDP and Public Sector Agencies is occurring in a new way. The PSWDP is one of the top projects run in the PNG Public Service because Public Servants understand that they are part of a whole, as a team oriented style, integrating with spiral development techniques.

The focus is on each agency business needs and therefore agencies are coming together at the PNG Institute of Public Administration (PNGIPA) to share ideas for improvements. This work is done through partnership with Human Resource Managers through out the Public Service. The key goals they are now working on are as follows:

1. A new Public Sector Training Package Qualification Pathway to be crafted clearly laying out generalist and specialist qualifications in Government following Certificate 11 to advance Diploma level.
2. Competencies of skills-set and knowledge that are required by different occupational or job-sets in Government will be mapped out with respective descriptions
3. The new Public Service Training Package will align jobs to skills-sets and qualification following the National Qualification Framework developed by both the National Training Council (NTC) and Commission for Higher Education.

4. Following this both the Australian Public Service Commission (APSC) and Government Skills Australia (GSA) will assist our human resource managers in the development of the final Public Service Training Package Qualification Pathway which will be customised for PNG.

Basically the PSWDP is in a position to provide capacity building to support the IRC to develop a pathway to skills development which should place the IRC on par with the skills set levels in the Asia Pacific Region. This is not necessarily about creating a new big thing instead we are recognizing the importance of survival in this difficult environment by encouraging, retaining and importing talent available in PNG and through the available aid programs.

What this means for the IRC

As we have grown, it has become apparent that we need to formalise training programs and other development processes for us to achieve our objectives. Working with the PSWDP should harness the innovative mindset of IRC management to enable the creation of a *Progressive Learning Framework* which achieves the organisational and individual outcomes.

The way forward is for the IRC to take on initiatives in their respective divisions by carrying across practices common to other agencies in the public sector while at the same time taking ownership for the development of tasks specific to the IRC.

Through the input by management and staff of the respective division as well as the support from PSWDP and aid donors the IRC hopes to develop a training curriculum and a *Progressive Learning Framework* which will bring creativity back to the worker, improving morale and productivity. Team members are mutually dependant upon each other achieving best results through synergy. This means seeking input from staff to improve frontline operations or building innovations into IRC Strategic Plans then down through the work plans and performance management processes.

From a recruitment perspective we could select people on the strength of their ideas. We are suggesting we go back to the basic of the recruitment where we can provide a development program for our new intakes starting from entry level. This is to gain confidence by involving staff in the process and it ensures staff become the wave of change in the IRC. Further, officers employed at any level in the organisation could receive the training they specifically require based upon the program in the *Progressive Learning Framework*. Needs identified in the performance management process could be directly linked to the training available in the *Progressive Learning Framework* assisting managers and Directors to better tailor training requests to their specific fields of expertise. All of

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these development initiatives will focus upon the IRC and specifically Tax achieving their organisational goals. Concurrently, the employees should be proud to come to work and should be inspired to present themselves professionally as part of their work ethics.

The IRC is at a crossroad. There are many challenges to be faced and we need to ensure we have appropriately qualified staff available to meet these challenges. We need to harness the resources available to us in the form of training, human resource and taxation expertise. By harnessing these resources we hope to develop appropriate training structures to equip us with the necessary skills and knowledge to enable us to drive required skills development throughout a staff member's career. This is a large program requiring commitment and support. It is through this program that we hope to rock the canoe more so it faces in the right direction for the country.