



2010

COMMISSIONER GENERAL
INTERNAL REVENUE COMMISSION

Annual Report



www.irc.gov.pg

www.irc.gov.pg

**"We collect taxes to help
build PNG"**



SPECIAL PROJECTS AND POLICY INITIATIVES

Revenue Accounting System II (RASII)

During the year, the IRC completed stage one of our key project - RASII, which will replace the ageing Revenue Accounting System (RAS) currently in use. The system is used to administer PNG tax legislation and manage the collection of PNG taxes. The primary objective of the RASII project is to protect and maximise Government revenue from taxation recognising that the current system does not support the future tax directions of the IRC which includes a desire to move to automated assessment and better targeting of audits and the automation of current onerous manual assessing and collection processes. The first phase of the project involved the selection and procurement of a new system and the business analysis required to align that system with PNG's specific requirements. Phase two will commence in early 2011 and will review and re-design detailed work flows and business processes in order to make best use of the new system which is expected to substantially improve the effectiveness of tax administration. Total project time for the second phase is four years; with the implementation complete in approximately eighteen months.

Key Client Unit

In recognition of the importance of providing services to our large business and LNG related taxpayers, our key client management was further developed during 2010. Building on the existing Large Business Co-ordination Unit, the KCM Unit will provide a single point of entry for these taxpayers to ensure early resolution of issues and to foster voluntary compliance.

Corporate Plan 2010 – 2012

During 2010 IRC designed and launched its new Corporate Plan. The new plan maps out a three year journey for IRC commencing in January 2010 with the movement of Customs from IRC and tax administrative responsibilities to two separate and new agencies. Following consultation with staff the new plan informed stakeholders and staff on our Key Focus areas of Effective Service Delivery, Manage Risk, Capable Staff and Measurement. It will also guide the business performance and budget for the next three years. The 2010-2012 IRC Corporate Plan was launched in December 2010.

Tax Policy

IRC provided advice to Treasury on a number of taxation policy initiatives during 2010 which were then introduced into the 2011 National Government Budget process and adopted. Advice from IRC was provided about the impact on revenue; ease of administration of changes and any legal issues associated with the policy initiatives. The policy initiatives included an update of housing tax concessions; improvement of environmental and social outcomes by allowing tax deductions for environmental protection and clean-up costs; the enhancement of measures regarding retirement savings accounts and improvement in compliance of the remittance and collection of salary and wages taxes. There were also a number of minor policy and technical amendments to clarify the law and administrative procedures, strengthen enforcement activities, increase administrative efficiency and correct technical errors.

IRC ANNUAL REPORT 2010 TABLE OF CONTENTS

COMMISSIONER GENERAL'S OVERVIEW	3
CORPORATE STRATEGY	5
Vision	5
Mission	5
Values	5
GOVERNANCE FRAMEWORK	6
Corporate Planning	6
Planning and Reporting Framework	6
Key Performance Indicators and Reporting	7
How we contribute to Vision 2050	8
ROLE & FUNCTION	9
ORGANISATIONAL STRUCTURE AND PERFORMANCE	10
TAX WING	11
Assess & Prioritise Division	11
Collect Taxes Division	12
Tax Audits Division	12
Manage Debt Division	14
Policy & Advice Division	15
SERVICE WING	16
Office of the Commissioners	16
Legal Services Division	17
Information & Communication Technology Division	18
Corporate Services Division	19
Internal Audit and Integrity Division	20
2010 RESOURCES	22



IRC ANNUAL REPORT 2010

TABLE OF CONTENTS (CONT)

2010 FINANCIAL REPORT	23
2010 ACHIEVEMENTS AGAINST CORPORATE PLAN	26
Effective Service Delivery	26
Manage Risk	27
Measurement	27
Capable Staff	28
REVENUE COLLECTION 2010	29
Total 2010 Direct Tax	29
Total 2010 Goods and Services Tax	30
REPORT ON BREACHES OF TAX LAWS IN 2010	33
EXTERNAL SCRUTINY	34
External Audit Activities	34
Internal Revenue Commission Audit Committee	35
SPECIAL PROJECTS AND POLICY INITIATIVES	36
Revenue Accounting System II (RASII)	36
Key Client Unit	36
Corporate Plan 2010 – 2012	36
Tax Policy	36

Internal Revenue Commission Audit Committee

As part of its governance framework, the IRC convenes an audit committee consistent with the Financial Management (management) Act chaired by Secretary Finance Department or his delegate. During 2010 the following meetings and activities were undertaken:

23 March: First Audit Committee Meeting for the year. The main agenda items include; internal audit updates and reports (No audit conducted on IRC. Work in progress on Customs audit. A limited number of audits were carried out in 2010 due to staffing and financial constraints), quarterly financial reports (4th quarter financial report 2009), Appointment of independent members and Auditor General's Office updates.

27 May: Second Audit Committee Meeting. The main agenda items includes; Internal audit updates and reports (revised annual audit work plan, A limited number of audits were carried out in 2010 due to staffing and financial constraints), Quarterly financial reports (1st quarter financial report 2010), and Auditor General's Office updates.

12 August: Third Audit Committee Meeting. The main agenda items include; Internal audit updates and reports (PNG Customs Service's Internal Audit Reports and Internal Investigations Reports were handed over to PNG Customs Services due to de-merger, A limited number of audits and investigations were carried out in 2010 due to staffing and financial constraints), Quarterly financial reports (2nd quarter financial report 2010), and Auditor General's Office updates approved two internal audits to be undertaken.

28 September: IRC facilitated an information session for the Audit Committee members.

4 November: Fourth Audit Committee Meeting. The main agenda items includes; Internal audit updates and reports (Procurement & Management of Asset and Attendance Audit were in progress, A limited number of audits were carried out in 2010 due to staffing and financial constraints), Quarterly financial reports (3rd quarter financial report 2010), and Auditor General's Office updates (Auditor General's Office reported receiving Management Letter for Audit of Internal Revenue Commission 2008/2009).



EXTERNAL SCRUTINY

External Audit Activities

The IRC was subject to a number of external audit activities by the Auditor General's Office in 2010. These were:

11 May: Commencement of Final Audit of Internal Revenue Commission (IRC) and Customs for 2009 year end closing balances due to the separation of IRC and Customs functions.

13 July: Management Letter for Audit of Internal Revenue Commission 2008/2009. The audit of the Internal Revenue Commission covered the following areas:

- Corporate governance, annual activity plans, management meetings
- Reporting requirements and compliance with statutory and legal requirements
- Revenue accounting systems, variances in revenue balances, dishonoured cheque collection, debt management, age of debts, Mining and Petroleum taxes
- Customs Audit and Trust Accounts

25 August: Commissioner General's response to the Management Letter for Audit of Internal Revenue Commission 2008/2009 delivered to the Auditor General's Office.

1 September: Acknowledgement of the receipt of Commissioner General's responses to the Management Letter for Audit of Internal Revenue Commission 2008/2009.

25 October: Commencement of audit of 2009 annual financial year and review of internal controls systems as at 3rd quarter of 2010 for Internal Revenue Commission. The audit covered:

- Current Corporate Plan, annual financial and management reports 2009, expenditure vote details and summary 2009 and 2010, trust transaction details and summary 2009 and 2010, cashbook – drawing account 2009 and 2010, bank statements – drawing accounts 2009 and 2010, monthly bank reconciliation – drawing accounts and trust accounts 2009 and 2010, asset register and motor vehicle fleet 2009 and 2010, ALESCO monthly payroll summary report 2009 and 2010, first, second and third quarter financial management reports 2010, treasury management system reports - current 2010, warrant authorities and cash fund certificates issued during the year 2009 and 2010, advance control register, official receipts/deposit slips for all revenue maintained 2009 and 2010, revenue ledger details for accounts maintained 2009 and 2010, journal entries register/listing, losses and deficiencies register and loss reports and accountable forms register.

15 October: Auditor General's comments on Internal Revenue Commission's responses for the year of audit 2008/2009.

COMMISSIONER GENERAL'S OVERVIEW



It is with pleasure that I present the *Internal Revenue Commission 2010 Annual Report*.

The Annual Report is our principal report to our Minister, the Minister for Treasury. This document also meets the IRC's reporting requirements as specified in the Income Tax Act, Part II, Section 8 for presentation to Parliament by our Minister. As an open and accountable administration, we publish these documents to assure the government and community that the tax system is being effectively and efficiently managed and administered.

Our revenue administration

In 2010 the IRC delivered to government and community, both in terms of revenue collection and improved service delivery.

For example, net cash collections from GST and direct taxes administered by the IRC of K5.53 billion were K669 million above Budget forecasts. While the better than planned revenue outcome was mainly attributable to stronger than expected economic conditions, it also reflected the results of a range of IRC activities intended to meet our Corporate Vision of ensuring that Papua New Guinea's tax system favours voluntary compliance from taxpayers.

We also made very substantial tax refunds to taxpayers of around K476.6 million. These payments included income tax and GST refunds. In response to the advent of increased Liquefied Natural Gas Project (LNG) activity and to comply with the National Government's initiatives to promote LNG activities, the IRC established key client management arrangements to ensure that agreed performance standards for GST refunds are successfully met and other possible administrative obstacles are minimised to ensure the success of projects.

These positive outcomes took place in an extremely challenging year, given the demerger of Customs functions from the IRC on 1 January 2010 and the associated reorganisation of our structure and work areas. We also undertook recruitment for more than 350 positions; developed and launched our 2010–12 IRC Corporate Plan and established new Strategic Planning and Reporting and Governance Frameworks. Our Services and Revenue Accounting areas were further challenged by continuing to provide support activities to Customs during the transition.

Our financial performance

Our final full year operating expenditure budget for 2010 was K38.33 million and our operating expenditure for the year was K35.37 million. The final operating balance was K2.96 million which represents an underspend of 7.7% against our operating budget.

The key factor influencing our operating balance was the unanticipated delay associated with our revenue accounting computer system redevelopment project (RASII) and deployment of a wide area network to our Provincial offices. This accounted for around K2 million of total underspend.

There was some underspend associated with recruitment challenges. The IRC also met personal emolument costs of K2.5 million for PNG Customs Service staff during the transition to full separation of our respective budgets and functions. Only K0.9 million of this sum was reimbursed by Customs.

What is most pleasing

Internal audit function is an important management tool and a process for maintaining accountability. In compliance with section 9 of the Public Finances (Management) Act, the IRC was reviewed by an External Audit Committee comprised of senior representatives from other government agencies and private sector organisations. The Committee met on a quarterly basis and provided endorsement of the IRC's Plan. It also monitored progress and provided guidance on related issues through the year.

It is pleasing that, in October 2010, the Auditor General's Office (AGO) commended the IRC for clarifying issues that allow the AGO "to better understand systems of operations relating to the nature of taxes in the country". The AGO also thanked us for positively responding to the recommendations highlighted in the management letter for the Audit of IRC for the 2008-09 period.

The year ahead

Clearly, the redevelopment of our dated revenue accounting computer system through our RASII project and the introduction of associated technology will produce significant improvements to our ability to deliver effective service to taxpayers. New work practices and procedures will be required along with new skills for our people. Our managers will need to think and work differently to what they have been traditionally used to.

Understanding this, we have arranged for a change management program which will support the introduction of RASII over the next two years. The IRC will continue, also, to receive technical assistance and capacity building support from a range of institutions through this challenging period.

We have identified our middle management as a key component of our service delivery improvements and we will conduct a significant middle manager development program in 2011. In later years, the IRC will take a leadership role by making this program available to other tax administrations in the Pacific.

Betty Palaso
Commissioner General



REPORT ON BREACHES OF TAX LAWS IN 2010

Table 4 outlines the breaches or evasion of the Income Tax Act 1959 (as amended) and compliance action taken.

Breaches or evasion of Income Tax Act	Compliance action taken
Section 313 – Failure to lodge income tax returns	2,153 taxpayers -12,699 final notices issued
Section 313 – Court Fines	121 Fines imposed – K312,500
Section 316 (1) – Late lodgment penalties for income tax returns lodged late	1,003 late lodgment penalties imposed – K4.6 million
Section 316 (2) – Omitted income penalty	68 omitted penalties imposed – K8.5 million
Section 275 (O) – Underestimation of provisional tax	1 case for K2.07 million
Section 272 – Garnishee on bank accounts	1,261 garnishee notices were issued to recover outstanding income taxes
Section 262 – Penalty for unpaid tax	2,368 cases were imposed with late payment penalty

Table 4: Breaches or evasion and compliance action



CORPORATE STRATEGY

The IRC is responsible for the collection of taxes which are used by the Government to fund its programs to develop the nation. The IRC's Vision, Mission and Values form the basis of why we exist and what we believe in:

Vision

To ensure Papua New Guinea's Tax System favours voluntary compliance.

We will make it easier for the taxpaying community to comply by offering improved services and education products, including encouraging greater reliance on our website: www.irc.gov.pg

Mission

We collect taxes to help build Papua New Guinea.

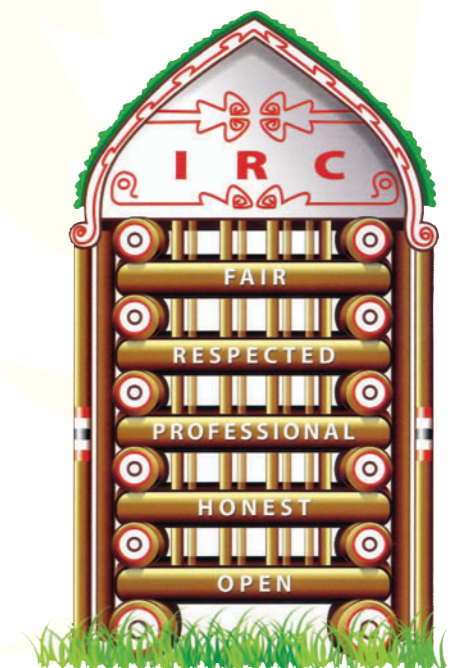
We will develop balanced awareness and enforcement strategies to address key risks for different market segments. Together with the provision of quality and timely advice through a new public rulings system, these strategies will ensure that we collect the right amount of tax.

Values

We foster fairness, respect, professionalism, honesty and openness.

Our values are illustrated by a traditional Trobriand Islands yam house. The values written across each beam supporting the house indicate that these values are the foundation of the IRC.

The "Haus" represents the way in which we want our organisation to be seen by the community as well as how we relate to each other at work in the IRC. We will continue to contribute to the tax system in ways that see us respected as much for the way we go about this as for what we deliver.



Year to Date 2010 GST Distribution - Kina (millions)

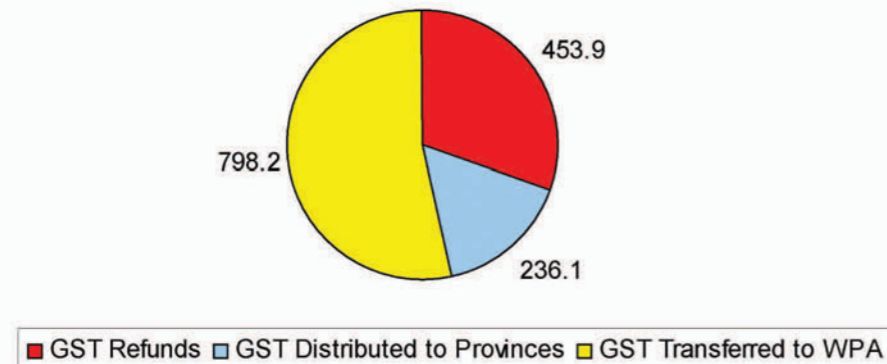


Chart 5: Year to Date 2010 GST Distribution

Table 3 summarises the total tax revenue collected by IRC in 2010.

Kina (,000)

	2010 Actual Collection	2010 Projected Collection (2010 MYEFO forecast)	Difference	2010 Projected Collection (2010 Budget forecast)	Difference	2009 Actual Collection	Difference
Direct Tax							
Individual Income Tax	1,553,071	1,422,300	130,771	1,420,200	132,871	1,254,549	298,522
Corporate Income Tax	1,201,051	1,227,100	-26,049	1,107,700	93,351	1,085,931	115,120
Dividend Withholding Tax	278,831	275,900	2,931	180,500	98,331	246,612	32,218
Mining & Petroleum Tax	1,476,052	1,472,700	3,352	1,088,800	387,252	749,145	726,906
Other Direct Taxes	227,080	259,300	-32,220	232,500	-5,420	201,276	25,804
GST transferred to Waigani Public Account	798,200	802,900	-4,700	835,700	-37,500	693,000	105,200
Total Direct Tax	5,534,284	5,460,200	74,084	4,865,400	668,884	4,230,513	1,303,770

Table 3: Total Tax Revenue Collections 2010



GOVERNANCE FRAMEWORK

Corporate Planning

Below is a summary from the Internal Revenue Commission's Corporate Plan 2010-2012. It outlines our Vision, Mission, Values and Key Focus areas and forms the basis of our Governance Framework.



Planning and Reporting Framework

From the commencement of 2010, IRC implemented a new streamlined committee structure supporting governance processes across our operations. Included in the governance framework is the adoption and implementation of the IRC Planning and Reporting Framework outlined on the next page. The Annual Report box is highlighted in green to indicate its status within the IRC planning and reporting framework.

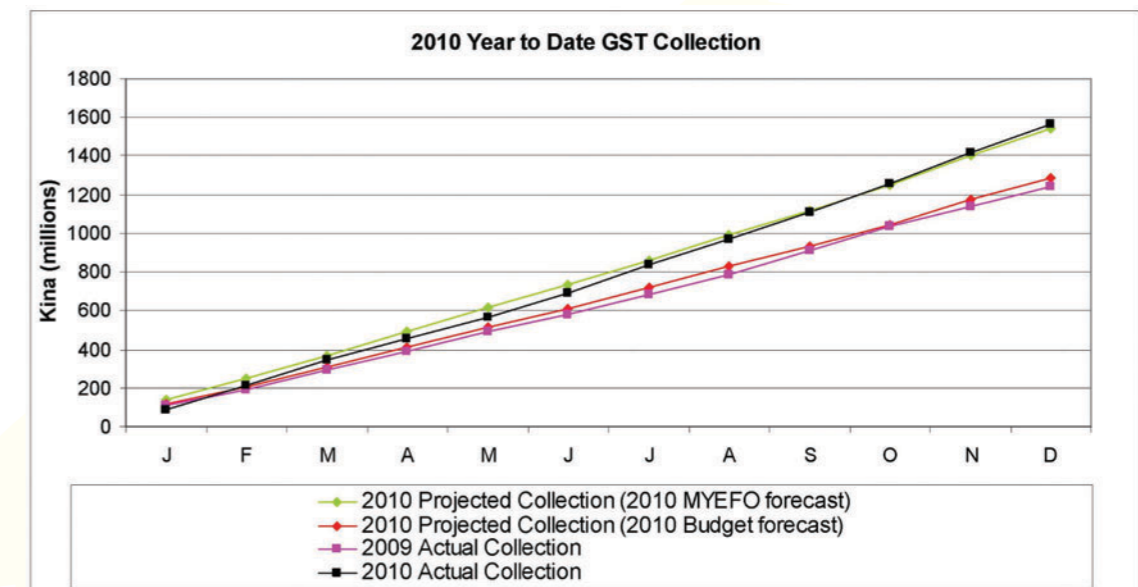


Chart 3: Year to Date GST Collection

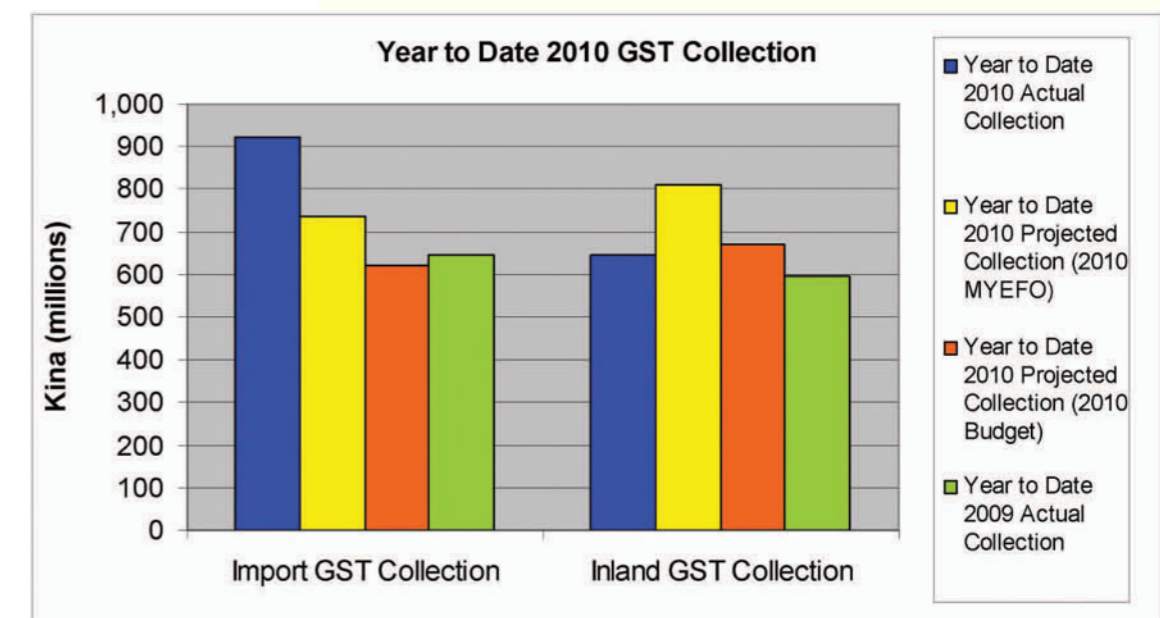


Chart 4: 2010 Import and Inland GST

The total value of GST refunds issued to taxpayers in 2010 was K454 million. 2010 GST distributions to provinces came to K236 million and K798 million was transferred to the Waigani Public Account.

IRC Annual Report 2010

K thousands							
	2010 Actual Collection	2010 Projected Collection (2010 MYEFO forecast)	Difference	2010 Projected Collection (2010 Budget forecast)	Difference	2009 Actual Collection	Difference
Direct Tax							
Individual Income Tax	1,553,071	1,422,300	130,771	1,420,200	132,871	1,254,549	298,522
of which: PAYE Tax	1,493,303	1,362,300	131,003	1,360,200	133,103	1,194,866	298,437
of which: Business Payments Tax	53,219	40,000	13,219	40,000	13,219	39,999	13,220
of which: Income Tax Assessed	6,549	20,000	-13,451	20,000	-13,451	19,684	-13,135
Corporate Income Tax	1,201,051	1,227,100	-26,049	1,107,700	93,351	1,085,931	115,120
Dividend Withholding Tax	278,831	275,900	2,931	180,500	98,331	246,612	32,218
Mining & Petroleum Tax	1,476,052	1,472,700	3,352	1,088,800	387,252	749,145	726,906
Bookmakers Turnover Tax	9,109	8,060	1,049	8,040	1,069	6,761	2,349
Stamp Duty	65,439	76,710	-11,271	76,310	-10,871	57,714	7,725
Royalty/Management Fees	10,393	12,370	-1,977	12,340	-1,947	8,146	2,247
Bank Account Debits Tax	0	0	0	0	0	0	0
Bookmakers Licence Fee	0	0	0	0	0	15	-15
Court Fines	9	30	-21	30	-21	8	1
Departure Tax	4,338	3,870	468	3,870	468	3,318	1,020
Training Levy	1,736	1,960	-224	1,800	-64	2,389	-653
Gaming Machine Tax	93,063	123,100	-30,037	102,900	-9,837	89,163	3,899
Interest Withholding Tax	42,306	32,000	10,306	25,000	17,306	33,076	9,231
Sundry Receipts	686	1,200	-514	2,210	-1,524	687	-1
Total Direct Tax	4,736,084	4,657,300	78,784	4,029,700	706,384	3,537,513	1,198,570

Table 1: Total 2010 Direct Tax Revenue

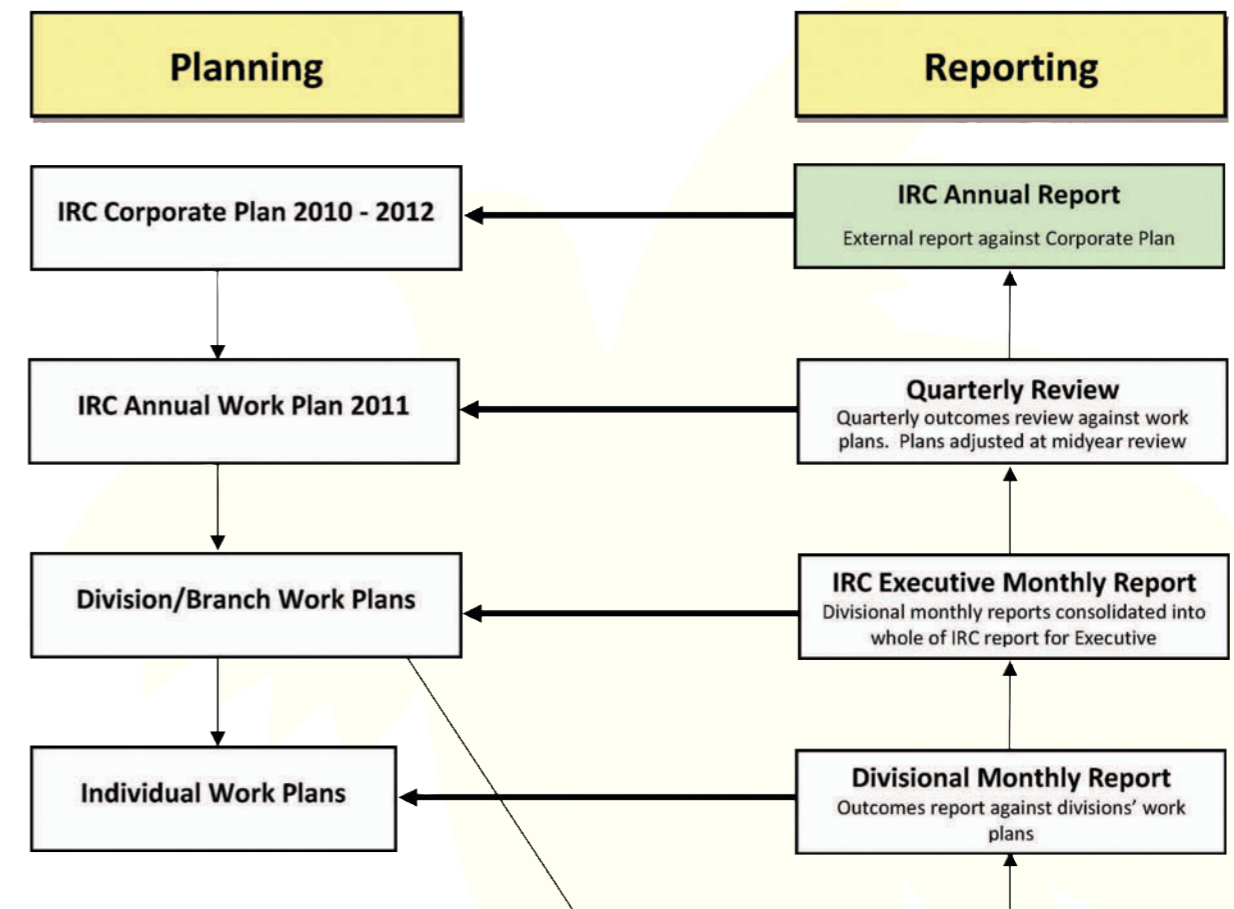
Total 2010 Goods and Services Tax

Total 2010 GST collection came to K1,566 million, K278 million greater than the 2010 Budget forecast of K1,288 million. GST revenue transferred to Waigani Public Account in 2010 was equal to K798 million, K38 million less than the 2010 Budget forecast of K836 million. Table 2 provides more details. Charts 2 and 3 show year to date GST collection data.

K thousands							
	Year to Date 2010 Actual Collection and Disbursement	Year to Date 2010 Projected Collection and Disbursement (2010 MYEFO forecast)	Difference	Year to Date 2010 Projected Collection and Disbursement (2010 Budget forecast)	Difference	Year to Date 2009 Actual Collection and Disbursement	Difference
Collections							
GST Collection at Ports	923,147	734,300	188,847	618,000	305,147	643,527	279,620
GST Collection in Provinces	643,178	808,400	-165,222	670,000	-26,822	595,348	47,830
Total Collection	1,566,326	1,542,700	23,626	1,288,000	278,326	1,238,876	327,450
Disbursements							
GST Refunds	453,928	486,800	-32,872	250,000	203,928	311,029	142,899
of which: allocated to Ports	269,465	235,431	34,034	121,859	147,606	163,867	105,598
of which: allocated to Provinces	184,463	251,369	-66,906	128,141	56,322	147,162	37,301
GST Distributed to Provinces	236,115	253,000	-16,885	235,516	599	212,342	23,773
GST Transferred to Waigani Public Account	798,200	802,900	-4,700	835,700	-37,500	693,000	105,200
Total Disbursements	1,488,244	1,542,700	-54,456	1,321,216	167,027	1,216,372	271,872
Net GST Revenue	78,082	0	78,082	-33,216	111,298	22,504	55,578

Table 2: Total 2010 GST Collection and Disbursement

IRC Annual Report 2010



Key Performance Indicators and Reporting

The IRC is committed to improving its business performance. During 2010 the organisation began to develop key performance indicators for all the activities in its 2010 Annual Work plan. This will be further improved in 2011. Performance of each activity in the plan was measured and reported on a monthly basis, and formal quarterly reviews were undertaken by the IRC Executive. At the midyear review the 2010 plan was revised. Performance indicators were specified for all activities in the plan, based on the nature of the activity and the most effective measure. Activities in the plan were measured quantitatively or qualitatively and reported as required. Where quantitative reporting is used, outputs, and in some cases revenue impact, were planned on a monthly basis. Key performance indicators are:

- Performance against monthly targets
- Achievement of prescribed turnaround times

Qualitative reporting is used for project work where the activity delivers a single or very few individual outputs that are non-numerical in nature and difficult to measure. In this case, the plan outlines the project activity, and reporting is against the on-time achievement of planned activities. The 2010-2012 IRC Corporate Plan documents some of the key performance indicators that IRC will progress during its three year life.

How we contribute to Vision 2050

The National Government's 40 year plan Vision 2050 is aimed at changing the attitudes of all Papua New Guineans. The IRC is working to ensure that it is ready to contribute to the Seven Pillars underpinning Vision 2050.

The Government has identified three core focal pillars to drive PNG forward and the IRC will concentrate on these during the life of its current Corporate Plan. These three pillars are:

Human and Social Capital Development

Significant effort has been undertaken during 2010 for IRC to develop its own workforce. A workforce development framework is in the planning stage and will be progressed during 2011.

Institutional Development

The 2010 restructure of the IRC provides the foundation for ongoing redesign of processes and procedures for increased efficiency and effectiveness in administering the tax system. As well as reviewing our internal processes, opportunities to align with shared interests of stakeholders such as other Government agencies and the tax professions will be further progressed in 2011 to secure appropriate revenue outcomes for PNG.

Service Delivery and Wealth Creation

During the year we created a greater focus on achieving outcomes in our key focus areas, including effective service delivery. We recognise the importance of more effective service delivery in encouraging voluntary compliance for revenue outcomes which will support the provision of Government services. Further planned improvements in our tax administration will also support businesses to prosper across all market segments reflecting the growth and trends of the PNG Economy.

More broadly, our four Corporate Focus Areas as identified in the IRC Corporate Plan 2010 – 2012 links to all seven pillars of Vision 2050 as follows:

Effective service delivery

- Institutional development and service delivery.
- Wealth creation, natural resources and growth nodes.

Manage Risk

- Security and international relations

Measurement

- Strategic planning, integration and control

Capable staff

- Human capital development, gender, youth and people empowerment
- Church, culture and community development.



REVENUE COLLECTION 2010

Total 2010 Direct Tax

Total direct tax revenue (i.e. Excluding GST) collected in 2010 was equal to K4,736 million, K706 million more than the 2010 Budget forecast of K4,030 million and K1,199 million greater than the 2009 collection of K3,538 million. The primary reason for total revenue exceeding the forecast was higher than predicted Mining and Petroleum Tax revenue.

The year to date direct tax revenue is shown in Chart 1 and by category in Chart 2. Table 1 contains a more detailed summary for the year

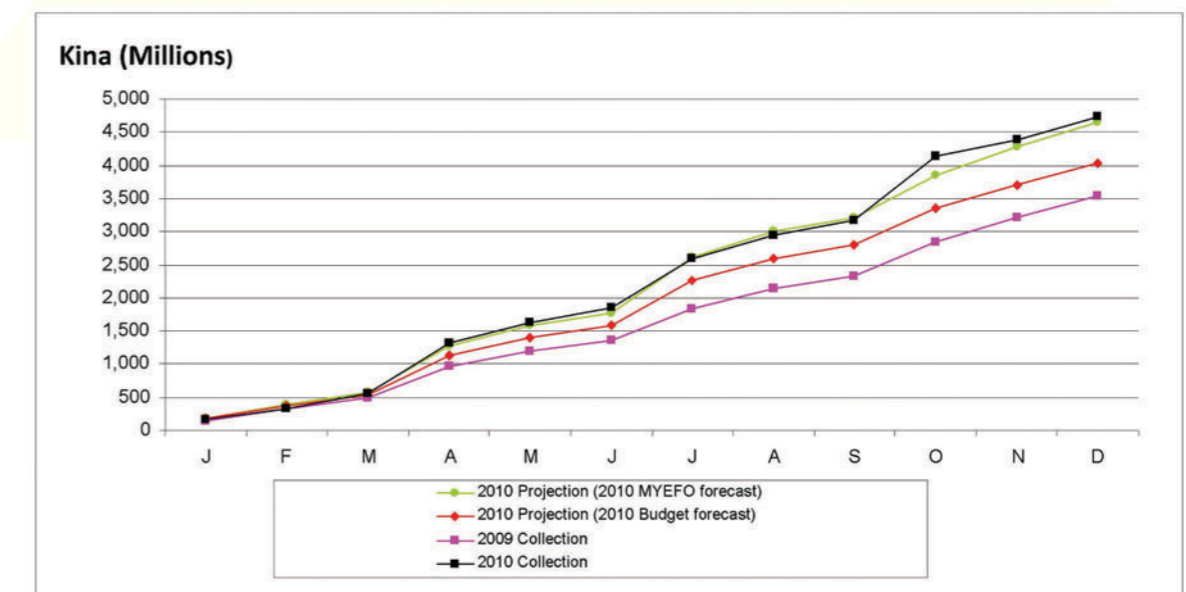


Chart 1: Year to Date Direct Tax Revenue

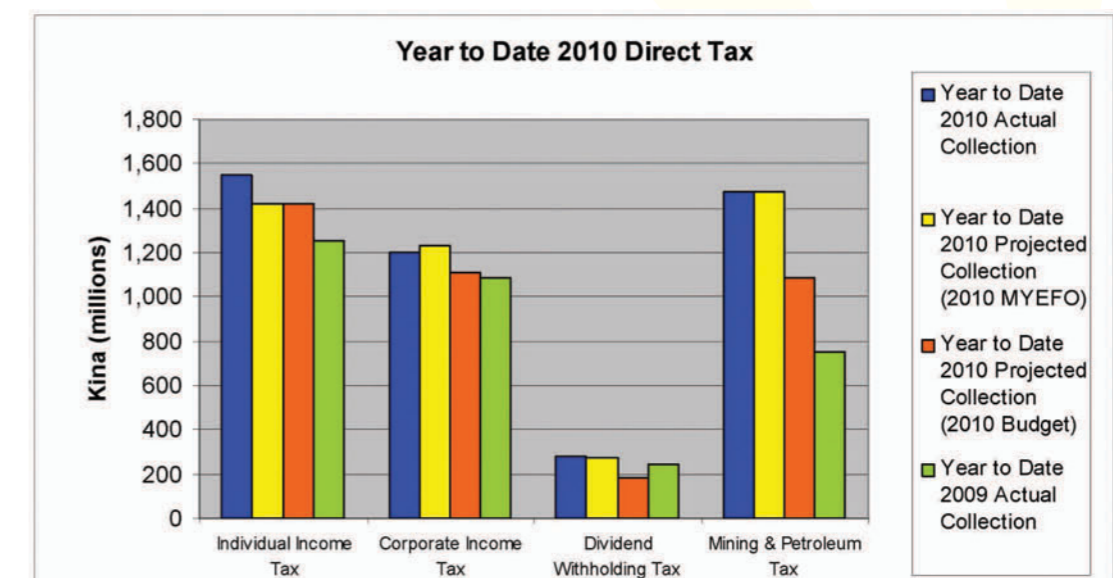


Chart 2: Year to Date Direct Tax - By Category



IRC Annual Report 2010

- A formal annual planning process following a review of performance was put in place to develop the IRC Annual Workplan for all Divisions
- A formal IRC Governance Framework was established and Corporate Focus Area Governance committees developed key performance indicators to measure the success in progressing the key strategies identified in the 2010-2012 IRC Corporate Plan
- Under the Measurement Governance Committee three areas of business performance were chosen for closer scrutiny during the year. These were: an analysis of revenue collected by economic sector, an analysis of the age of debt and ways to reduce and manage debt and an analysis of the GST refund process

Capable Staff

There are four key objectives under this Corporate Focus area

- to improve human resource management processes
- to promote better leadership
- to improve performance management; and
- to improve staff welfare

During 2010, a number of strategies identified in the Corporate Plan were undertaken:

- As part of the restructure of IRC, 382 positions were out of which 314 were for staff on strength advertised.
- Over fourteen training and development programs were undertaken, with nine held in Port Moresby and five held in the Provinces
- 12 staff were assisted to further develop their skills through study leave. More than ten staff enrolled in professional education
- IRC took the lead in planning for a Management Development Program geared toward assisting middle level managers with management skills scheduled for March/April 2011
- Leadership and change management training to support the implementation of the new Revenue Accounting System II (RASII) was also identified for inclusion in the second phase of the RASII project
- Following the restructure, existing IRC policies were reviewed and updated ready for endorsement early in 2011
- The preparation of a performance management framework commenced with the rollout of a pilot program in Lae. Full rollout is expected to occur in 2011 following evaluation of the pilots held in 2010
- Planning for a comparative organisational and full remuneration analysis commenced late in 2010 to be completed in 2011. This will benchmark IRC against other public service agencies, including taxation authorities in other Commonwealth jurisdictions and make recommendations for improvement
- As part of our commitment to community programs, the IRC held a successful HIV/Aids community education event for staff on World Aids Day

IRC Annual Report 2010



ROLE & FUNCTION

The Internal Revenue Commission (IRC) collects nearly all of PNG's taxes and, in particular, Income Tax, Salary and Wage Tax and GST. We inform taxpayers about their tax obligations; assess their tax returns and we take action against those who choose to avoid tax. We also assist Treasury on the development of tax policy.

The IRC has around 350 staff in 19 locations around Papua New Guinea. The IRC was newly restructured in 2010, the first year of the corporate plan, to carry forward the traditions of more than 50 years tax administration in PNG. We are a modern organisation and proud of our cultural heritage. Our people come from every region of PNG and from other countries around the globe. We are committed to sound governance, integrity and accountability to Government and the community. We embrace the principles of non discrimination in our workplace. The IRC is mandated by Parliament to administer the following laws:

- Income Tax Act 1959 (as amended)
- Income Tax, Dividend (Withholding) Tax and Interest (Withholding) Tax Rates Act Chapter 111
- Income Tax (Rates) Act (Consolidated) 1976
- Income Tax (rates) Act 1975
- Income Tax (Specific Gains Tax) (Rates) Act 1982
- Stamp Duties Act chapter 117
- Goods and Service Tax Act 2003
- Gaming Control Act 2007
- Departure Tax Act Chapter 387
- Income Tax (International Agreements) Act 1987
- Income Tax (Salary or Wages Tax) (Rates) Act 1979

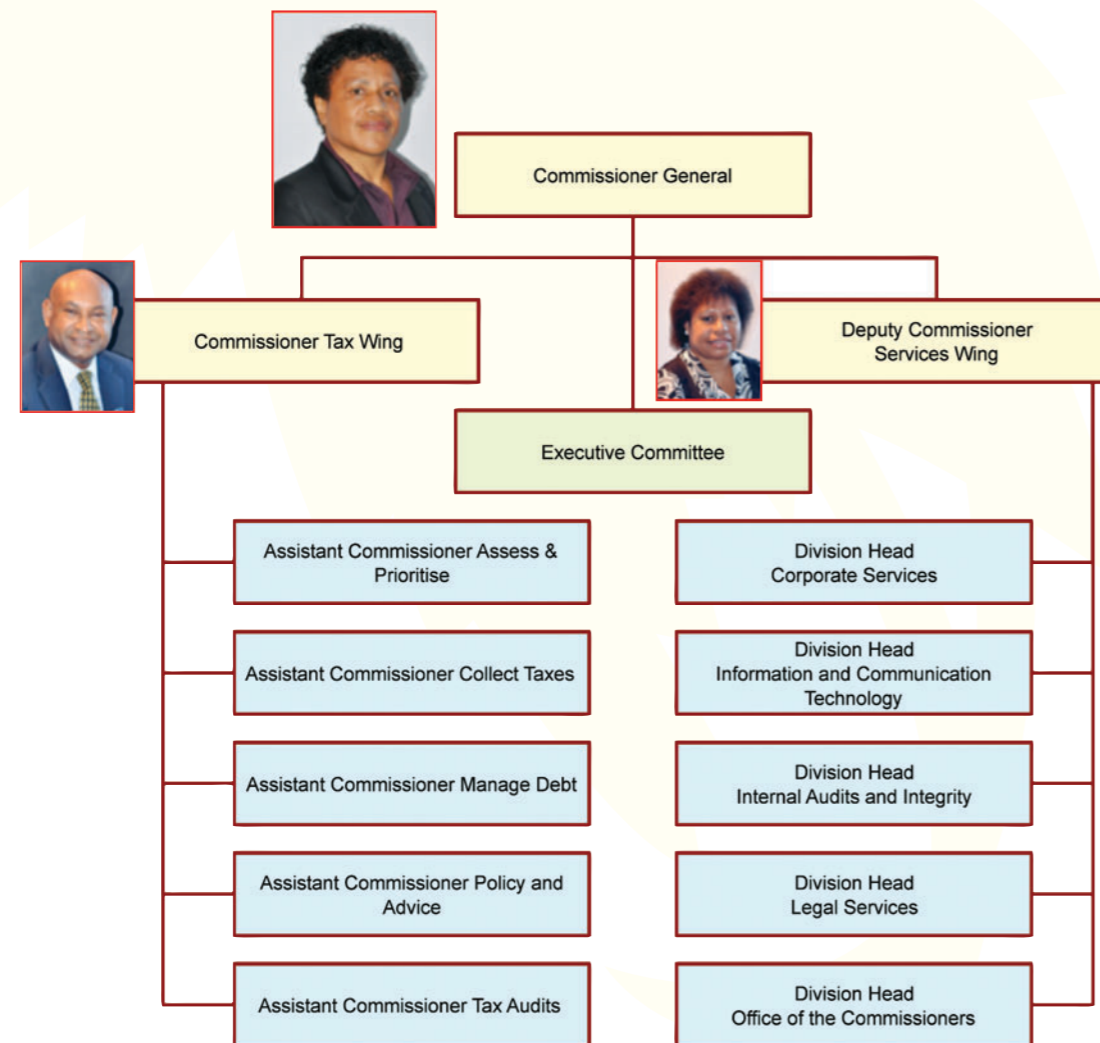
In terms of managing staff and funds of the IRC this means we are bound by the Public Service General Orders, the Public Service (Management) Act on staff and employment matters and the Public Finance (Management) Act on how we budget and spend our funds.

Our staff are successful at work and outside of work. We are leaders in church, sport and the community. In addition to its core functions, the IRC participates in community initiatives by supporting the fight against HIV/AIDS through the Government's first workplace HIV/AIDS policy and through the recognition of our Port Moresby headquarters, Revenue Haus, as a Meri Seif Ples.



ORGANISATIONAL STRUCTURE AND PERFORMANCE

The chart below outlines our organisational and management structure. The IRC is headed by the Commissioner General, Ms Betty Palaso and has two core functions – the Tax Wing headed by the Commissioner of Taxes, Dr Alois Daton and the Services Wing, headed by Commissioner Services, Ms Pauline Bre.



The following sections of the report expand on our operational roles, responsibilities, key achievements, constraints and limitations.

advise taxpayers and assist them to understand how the PNG tax laws operate

- We carried out 247 taxpayer awareness workshops across PNG
- Enhancements to the IRC website have resulted in an increase of website visits to an average of 2,000 per month over the year

Manage Risk

There are four key objectives under this Corporate Focus area

- to develop a workable risk management framework
- to improve compliance activity
- to improve internal controls; and
- to establish sanctions for non-compliance

During 2010, a number of strategies identified in the Corporate Plan were undertaken:

- A risk register was developed to identify internal and external risks across the organisation and mitigating strategies to be undertaken
- An economic analysis of large business and resources taxpayer market segments was undertaken, further building our intelligence framework
- Quality assurance activities within our audit program were undertaken to ensure that audit resources are used effectively
- Officers attended a Debt Multi-lateral Conference in Australia which led to a more streamlined analysis of the types of debt on hand. The process of prioritising debt categories and developing thresholds for debt collection activities will continue in 2011 and is expected to reduce the size of our debt portfolio

Measurement

There are three key objectives under this Corporate Focus area

- to improve tools to monitor and report
- to develop baseline measures, and
- to develop and improve our key performance indicators

During 2010, a number of strategies identified in the Corporate Plan and Corporate Management Tools were developed and undertaken:

- A Strategic Planning & Reporting Framework was developed that outlines key planning and reporting processes and the linkages between them
- As part of the framework a new monthly reporting template was developed that enables IRC Divisions to report on key activities and track progress on business performance and report against it each month
- As part of the reporting framework, quarterly, mid year and annual reviews have been established to enable IRC management to better monitor and report on business performance and achievement of Corporate Plan goals



2010 ACHIEVEMENTS AGAINST CORPORATE PLAN

The IRC Corporate Plan 2010 – 2012 identifies four key corporate focus areas and a number of objectives and strategies that will be delivered during the life of the plan. Considerable progress was made during 2010 in the key focus areas of Effective Service Delivery, Manage Risk, Measurement and Capable Staff. These are outlined below.

Effective Service Delivery

There are two key objectives under this Corporate Focus Area

- to improve systems and processes; and
- to improve advice to taxpayers and their representatives

During the year, a number of strategies identified in the 2010 – 2012 Corporate Plan were undertaken:

- The first stage of the upgrade to our key Revenue Accounting System (RASII) was completed in November 2010. RASII is designed to upgrade the existing revenue accounting system (RAS), to protect and maximise Government revenue from taxation. The new system will support the future tax directions of the IRC for voluntary compliance from taxpayers by ensuring more automated processes, timely processing, more reliable reporting and greater access to information. The second stage is scheduled to commence in the first quarter of 2011
- A Key Client Unit was further developed to better serve particular taxpayers, including those engaged in LNG project activity consistent with the National Government's emphasis on developing PNG's LNG resources. Building on the existing Large Business Co-ordination Unit, it provides a single point of entry for early resolution of issues and to foster voluntary compliance
- Business processes have been improved to ensure performance against a turnaround time of 30 days for GST refunds for these LNG related taxpayers
- A successful twinning project with IRC officers and the Australian Tax Office to improve filing and correspondence control systems has been completed identifying areas for improving staff skills across the organisation
- The IRC upgraded its information technology infrastructure to enable external email access that will further improve the channels of communications and advice to taxpayers and their representatives
- IRC forms, guides and educational publications were reviewed in 2010 and updated for our website and to reflect the separation of IRC from Customs that took place at the start of the year
- We developed a draft policy to implement a public rulings system in our move towards encouraging taxpayer confidence and to more efficiently

TAX WING

The Tax Wing of the IRC is responsible for the assessing and collection of all taxes administered by the Commissioner General and provides taxpayers and the community with tax services and support. There are five divisions in the Tax Wing. Their primary functions and reporting highlights are set out below:

Assess & Prioritise Division

The purpose of the division is to:-

- Ensure all taxpayers are assessed fairly and with the legally correct amount of tax payable
- Efficient and timely processing of all types of returns and other lodgments
- Support and encourage both taxpayer compliance and taxpayer advice
- Prompt identification of non compliance with all lodgment requirement (e.g. returns, withholding statements and reconciliations)
- Employ risk management approaches across the section

Key Achievements

During the year the following assessment targets were achieved:

- Assessed 3,844 original and adjusted provisional taxes, exceeding the target of 2,244 assessments
- An estimated K890.3 million was raised in provisional tax for the 2011 year on income earned in 2010
- Assessed 1,002 training levy returns, exceeding the target of 700
- Assessed 3,635 salary and wage income tax returns, exceeding the target of 3,000
- Processed 5,293 certificates of compliance, exceeding the target of 5,000

Constraints & Limitations

- Staff were impacted by the IRC's organisational restructure. The requirement to advertise and confirm positions and process of filling additional positions proved distracting
- Business activity generated by LNG projects created an increase in some workloads calling for redeployment of staff resources
- There were some skills and knowledge gaps
- Planning targets set for non business, business, partnership and trust returns of income at beginning of 2010 required refinement



Collect Taxes Division

The purpose of the division is to:

- Manage the accounting of all IRC revenue collections, including trust accounts, reconciliation of collections and statutory reporting responsibilities
- Process data input from assessments and issue notices of assessments and other related notices to tax payers
- Provide an up to date status of the taxpayer ledger accounts
- Process and refund overpaid taxes

Key Achievements

- More than 2,400 provisional tax notices of assessments were issued, exceeding our target of 1,855
- Receipted cheques over the target set for the year by 16,000
- Processed GST return lodgments over the target set for the year by 10,900
- More than 6,900 demands for outstanding Business Payments Tax and Salary Wage Tax were issued, exceeding our target of 3,000

Constraints or limitations

- The movement of officers into new divisions under the restructure led to some challenges to business focus
- Recruitment processes required for new positions took time
- Insufficient staff resources contributed to non achievement of some targets
- Divisional budget constraints

Tax Audits Division

The purpose of the division is to:

- Multi-skill staff across different tax audits
- Implement the Audit Plan
- React quickly to changing priorities for the audit program
- Ensure usage of whole-of-IRC audit framework and methodology
- Implement an audit quality assurance program

Key Achievements

- During 2010, 23 income tax audits were conducted on Small to Medium Enterprises (SME) taxpayers. This was less than our target of 70 cases
- There were 347 comprehensive non-deduct and no remit audits conducted on the Salary Wage and Business Payments taxpayers. We exceeded our 2010 projected revenue of K60 million by K650,000 on these audits
- During the year there were 55 comprehensive GST audits conducted on SME taxpayers. Planned revenue of K20 million was short by K6 million

Other Taxpayer Audit

- After our mid-year review, a target was set of 130 cases for projected GST claims adjusted of K8.5 million. By the end of the year nearly 2,700 cases

PAYMENTS FROM APPROPRIATION - WARRANTS - ALLOCATION

PAYMENTS		2010 K,000
PERSONAL EMOLUMENTS		
111	Salaries & Allowances	13,688.3
112	Wages	62.7
113	Overtime	54.9
114	Leave fares	551.4
116	Education Subsidy	
141	Gratuities	1,255.0
SUB TOTAL		15,612.3
GOODS & SERVICES		
121	Travel & Subsistence	1,825.0
122	Utilities	3,554.4
123	Office materials and Supplies	988.9
124	Operational material and Supplies	429.7
125	Transport & Fuel	518.7
126	Consultancy Fees	207.1
127	Rental of Property	530.5
128	Routine Maintenance	1,540.1
135	Other Operational Expenses	5,242.3
136	Training	742.0
142	Membership Fees	156.3
SUB TOTALS		15,735.0
CAPITAL		
221	Furniture & Equipments	3,888.2
222	Purchase of Vehicles	
223	Plant & Equipments	
225	Construction & Improvements & Renovation of Houses	140.0
SUB TOTALS		4,028.2
OTHERS		
	Unutilized Funds	2,952.80
TOTAL PAYMENT		38,328.3

**GOVERNMENT APPROPRIATION - ALLOCATION**

	RECEIPTS WARRANTS	2010
		K,000
	PERSONAL EMOLUMENTS	
111	Salaries & Allowances	13,758.2
112	Wages	91.5
113	Overtime	74.3
114	Leave fares	672.0
116	Education Subsidy	
141	Gratuities	1,293.4
	SUB TOTAL	15,889.4
	GOODS & SERVICES	
121	Travel & Subsistence	1,833.2
122	Utilities	3,554.4
123	Office materials and Supplies	990.8
124	Operational material and Supplies	441.4
125	Transport & Fuel	543.7
126	Consultancy Fees	1,048.0
127	Rental of Property	546.7
128	Routine Maintenance	2,270.0
135	Other Operational Expenses	5,312.9
136	Training	810.2
142	Membership Fees	163.3
	SUB TOTALS	17,514.6
	CAPITAL	
221	Furniture & Equipments	4,424.3
222	Purchase of Vehicles	
223	Plant & Equipments	
225	Construction & Improvements & Renovation of Houses	500.0
	SUB TOTALS	4,924.3
	TOTAL APPROPRIATION	38,328.3

- were adjusted surpassing the target by 136 cases. Planned GST claims reduction exceeded projected claims by K10 million
- During the year 2,597 comprehensive audits on GST refund claims were conducted This was less than our target of 3,690. However we exceeded our planned reviews valued at K300 million by K204 million
- 950 desk audits were conducted on Group Tax employers. This was less than our target of 1,000 audits. We exceeded our projected revenue target of K253 million by K222 million on desk audits conducted
- 3 audits on High Net Worth Individuals were conducted. Planned revenue of K10 million was short by K7 million

The main reason for the mixed results was the recruitment process and management and supervision of turnaround time in completing cases. These concerns have been addressed and should enhance division efforts in 2011

Other Key Achievements

During 2010 the division conducted a joint inspection exercise with Manage Debt Division to follow up GST non lodgers and non payers in the National Capital District and Morobe Province. In this exercise the following additional revenue collections were established and collected:

- GST K19 million
- Salary Wage Tax K1 million
- Company Tax K800,000
- Business Payment Tax K51,000
- For the first time in the IRC a case call over was conducted. 160 outstanding income tax cases were reviewed to determine revenue impact of continuing audit. Identification of training requirements was highlighted during this exercise
- The division conducted its first audit training for many of the new and old auditors in view of the changed audit responsibilities due to the restructure

Constraints or limitations

- During the year our Large Business & International audit area was not able to conduct any audit due to attention given to preparing documentation on a large litigation case. The staff on strength in this section was not sufficient to commence any large audit
- Recruitment processes necessitated by the organisational restructure caused some disruption
- Releasing of warrants and cash fund certificates plus the inconsistency in the allocation of cash flow hampered the planning of audit trips
- Quality management and supervisory skills of our officers require improvement



Manage Debt Division

The purpose of the division is to:

- Follow up non payment of debt established and undertake action to enforce recovery, up to the point of litigation
- Promote tax awareness and education of responsibilities of taxpayers throughout the country
- Increase distribution of informational materials (e.g. flyers, pamphlets, etc)

Key Achievements

- Issued more than 10, 000 demand notices
- Conducted more than 4,500 inspections with a revenue impact of K461 million
- Conducted over 250 taxpayer awareness sessions against a planned target of 120 sessions
- Handled over 32,000 counter inquiries and 44,000 telephone inquiries
- Introduced new initiatives to improve relations with taxpayers and their agents for example, using email, individual phone calls and options for instalment plans for taxpayers to settle their debt
- Improved our co-ordination with other IRC divisions to settle cases where an objection or appeal had been lodged and focusing on fresh debt cases
- Implemented changes to secure accurate taxpayer addresses
- Improved our monthly report to the IRC Executive to increase understanding of the debt portfolio and to formulate better debt reduction strategies

Constraints

- Insufficient budget support - staff and skill shortages in IRC divisions cause delays in assessing tax returns and resolving objections and amendments
- Links to key agencies – e.g. Investment Promotion Authority, the registries of courts. These agencies have information on taxpayers that would assist debt reduction efforts. IRC has difficulty accessing this information. Efforts are being made to resolve this issue
- Economic growth – the fast growing PNG economy will create many new taxpayers and debts



2010 FINANCIAL REPORT

INTERNAL REVENUE COMMISSION SUMMARY STATEMENTS OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

	K,000
Opening Balance 1 January	0
RECEIPTS	
TREASURY APPROPRIATION	
Personal Emoluments	15,889.4
Goods and Services	17,514.6
Capital Expenditure	4,924.3
Total Receipts	38,328.3
PAYMENTS	
TREASURY APPROPRIATION	
Personal Emoluments	15,612.3
Goods and Services	15,735.0
Capital Expenditures	4,028.2
Unutilized Fund	2,952.8
Total Payments	38,328.3



2010 RESOURCES

The table below outlines key IRC resources for 2010:

As at December 2010	
HUMAN RESOURCES	
Total establishment	581
Permanent staff	335
Non citizen contract officers	5
Probationary officers	9
Unattached officers	5
Casual officers	0
Funded vacancies	229
Staff on Strength	354
Understaffed by	227
FUNDS	
Operating Budget – Recurrent	K38.3 million
Personal Emoluments	K15.9 million
Goods and Services	K22.4 million
INFRASTRUCTURE	
Number of Offices	18
Number of Vehicles	16

Policy & Advice Division

The purpose of the division is to:

- Provide accurate and timely advice on all aspects of taxation laws to management and operational units within the Taxation Wing and to taxpayers and their representatives
- Provide well researched and professionally presented advice that accurately state the law as it is to give effect to the objectives of the organisation
- Identify and propose policies to develop legislative changes intended to improve the tax system
- Provide support services to Tax Agents

Key Achievements

- Completed 57 objections, seven more than originally planned
- Provided complex advice to stakeholders over 378 occasions against an original target of 220
- Undertook 187 Large Business portfolio and profiling cases
- Four special projects were set up in 2010 to develop officers' research skills and to train them in researching tax cases and preparing guidelines
- The Public Ruling Project was completed to draft stage for implementation in 2011
- During 2010, three key projects were commenced and completed to draft stage. These are: Tourism Incentive, Transfer Pricing and Research & Development Projects. These projects are expected to be finalised in 2011

Constraints

- Some difficulty in achieving 2010 Work Plan targets due to staff vacancies
- Impact of LNG Project has required diversion of staff resources to cater for work in this area



SERVICE WING

The Service Wing of the IRC provides services to all IRC business units and staff to enable the efficient assessment and collection of all taxes administered by the Commissioner General. There are 5 divisions in the Services Wing. Their primary functions and reporting highlights are set out below:

Office of the Commissioners

The purpose of the division is to:

- Drive strategic policy and planning, secretariat and risk management functions
- Provide office support and policy implementation by managing special projects, internal reporting, communications, secretaries and drivers
- Enhance relations with international organisations and key revenue agencies around the world

Key Achievements

- Finalised, printed, launched and distributed the IRC Corporate Plan 2010-2012
- Led the implementation and monitoring of the IRC work plans.
- Facilitated key governance mechanisms by discussing with divisions and committees throughout the year.
- Ensured Governance Committees met and kept accurate records and distributed the records on time and in a shared folder on the IRC Network
- Kept specific pages of the IRC website updated
- Processed all overseas travel documents before officers travelled out of Port Moresby
- Reviewed international travel calculation forms for travel to be approved by Commissioners
- Continued to maintain international relations with all tax administrations and organisations around the world
- Successfully separated international travel files and documents for PNG Customs Service (PNGCS) and IRC
- Produced three issues of the IRC & PNGCS newsletters on a quarterly basis and other publications as and when required successfully and on time
- Completed all administrative work for the Executive on a daily basis
- Completed and submitted up to date monthly reports

Constraints & Limitations

- Adapting to changes brought on by the restructure caused a delay in work being produced within the division
- Skills shortages also caused delays to the recruitment process and unfavourable employment market conditions for specific positions within the Office of the Commissioners
- Budget constraints also saw a number of work plan activities being deferred or dropped throughout the year

- All PNG Customs Service Cases (both completed and incomplete) identified and quarantined for hand over. The cases were transferred to PNG Customs Services due to the de-merger
- Coordinated the Internal Revenue Commission's Loss & Deficiency Report. Managers made aware of the importance of this report and the need to comply with the requirements in the Financial Management Manual
- Asset Register Template Completed. Managers are obliged to comply with the requirements in the Financial Management Manual to register all new assets purchased, and report all losses every year as the losses occur

Constraints or limitations

- Staffing constraints impacted on the division resulting in challenges to investigate all allegations received in a timely and effective manner
- A limited number of internal audits were carried out due to staffing and budget constraints

Staffing and financial constraints did not permit the Division to achieve its objective of conducting eight Fraud Awareness presentations across the organisation



IRC Annual Report 2010

Constraints or limitations

- Expenditure budget management was very challenging with numerous work changes both in Human Resources and Finance & Budgeting
- There were continuous problems with the lifts and air conditioning at the Revenue Haus headquarters and communications between the landlord and building management are ongoing
- Integrity issues/configuration of payroll master file in separation of the Customs and IRC payrolls
- Separation of Customs and IRC personnel files
- Recruitment of new staff selection process across the IRC was very challenging
- Limited staff performing multi-tasks with low levels of training and experience
- Repaid salaries and cash receipts cannot be processed by IRC directly

Internal Audits and Integrity Division

The purpose of the division is to:

- Review and deliver fraud awareness and education across IRC
- Conduct fraud risk assessment across IRC
- Develop Fraud Control Plan
- Implement annual audit plan
- React quickly to changing priorities for the audit program
- Ensure usage of whole-of-IRC audit framework and methodology
- Implement an audit quality assurance program

Key Achievements of 2010

- Completed and issued twelve internal investigation reports
- Purchase of the Case Management Intelligence & Information System for the Investigation Branch of the Division. This system will improve the current system to properly assess, register, allocate and manage all allegations received, and to produce effective and reliable reports for management
- The IRC 2011 Audit Plan was put in place
- Commenced audits on attendance and procurement & management of IRC assets.
- Conducted four Fraud Awareness presentations in Lae, Madang, Goroka and Kokopo. This led to further information being received regarding investigations already underway and provided supporting evidence of allegations made
- Coordinated IRC's response to the Auditor General's Management Letter
- Coordinated four IRC Audit Committee Meetings
- Completed the registration of Internal Audit & Integrity Division's assets

IRC Annual Report 2010

Legal Services Division

The purpose of the division is to:

- Assist the IRC with achieving its corporate and divisional objectives by providing an effective and reliable legal service
- Assist the IRC to achieve consistency in advising
- Ensure that staff capacity is enhanced through continuous legal education and effective supervision
- Ensure that stakeholders have confidence in the IRC litigation and legal advisory services
- Ensure that turnaround times for dispensation of legal services are based on specific, measurable, achievable and a realistic time frame

Key achievements

- Managed the discussions of all technical proposals and ensured key legislative amendments were passed including some outstanding amendments/proposals from the previous year
- Provided legal advice on general and complex matters and generally managed to keep within our turnaround times
- 15 Disciplinary cases and 22 charity status applications were attended to within set turnaround times
- All Customs prosecution files were referred to PNG Customs Service
- One lawyer attended the Victorian Bar Readers Course for three months in Melbourne, Australia.

Constraints or limitations

- Severe staff shortage
- Skills gap - lack of Directors and Principal Advising Officers affected litigation work
- Slow recruitment process
- Lack of funding which resulted in Income Tax Review Tribunal being unable to sit to advance pending tax appeals
- Legal research was hampered due the PNG "In Laws" web site being out of commission since June. Lawyers used external resources to complete their work



Information & Communication Technology Division

The purpose of the division is to:

- Align ICT services to business needs
- Develop capability to deliver key ICT services
- Improve stakeholder relationships
- Compliance with mandatory requirements
- Regularly review the ICT plan

Key achievements

- Implementation of ICT Strategic Plan 2009 – 2012
- Infrastructure Upgrade including the replacement of aging servers
- Introduction of Internet on desktops
- Enabled external emails to be issued by IRC Officers from desktops
- Phase I of the upgrade of the Revenue Accounting System II (RASII) project was completed
- Engagement of a volunteer from the Australian Volunteer International (AVI) organisation to assist with IT Operations and upgrade staff skills
- Work management mechanism in place. Effective Reporting & better meetings, work plans and regular reviews. Staff were placed on performance agreements to promote fair assessment.
- A Risk Management framework was put in place to enable ICT Management team awareness of risks and to inform appropriate actions
- A Communications Plan to capture all the meeting dates and reporting deadlines was put in place
- Formal procurement and budget planning was finalised for accountability of ICT assets

Constraints or Limitations

- Skills shortage due to slow recruitment process and unfavourable employment market conditions to retain and attract new staff
- Work plan activities deferred due to shortage of staff
- Wide Area Network (WAN) Upgrade cancelled due to the only bidder being unsuccessful.
- Slow contractual process with RAS II project consultants
- Lack of recruitment of external RASII Project Manager due to no applications received.
- Late completion of Phase one outputs deferred to 2011 has set back the timeline for delivery of the RASII project.
- Business Continuity Plan (BCP) deferred due to resources diverted to the RAS II project
- No proper office space for preparing PCs for deployment and limited office space to store IT equipment.
- Office air conditioning problems affecting ICT Operations and posing a risk to the servers and data storage

Corporate Services Division

The purpose of the division is to:

- Oversight preparation, management and accountability of the organisation's annual finances and budget
- Provide efficient and consistent support services levels to staff and business units
- Provide and/or support training and development programs for IRC officers to achieving the overall organisational objectives
- To manage all facilities, equipment and assets of the organisation
- Provide streamlined registration process and maintenance of operational files throughout their life-cycle (creation, maintenance and disposal).

Key Achievements

Finance & Budget Branch

- IRC sought and obtained approval from Department of Finance to move from a semi – self accounting status to become a self accounting agency. As from the beginning of 2010 IRC is able to process payments to all its customers internally
- At the 2009 budget sitting of the Parliament, Customs functions were demerged from the IRC. As a consequence, the IRC had to restructure and subsequently revised its 2010 annual expenditure budget. Transfers of funds from the old vote codes to newly created vote codes was successfully executed with assistance from the Treasury Department

Property & Facilities Branch

- Board of Survey and Loss Register was carried out successfully in March/April for the first time for IRC and Customs. This exercise was carried out to clear out obsolete assets through a proper disposal process
- In addition, the IRC's Asset Register was successfully updated

Human Resources Branch

- Initial submission relating to the restructure was refined and the total staff establishment of 581 job descriptions were reviewed and revised for sign off by the Department of Personnel Management. The Human Resources area executed a separation of payroll and establishment for both IRC and the PNG Customs Services due to Customs demerger
- 160 IRC staff participated in 15 training courses. Ten courses were run in-house and five courses were outsourced. A further 13 officers were supported on fulltime study assistance with 20 other officers supported on part time study assistance

Operations Support Branch

- All taxpayer files and registrations were centralised, where previously they were held by respective user branches/divisions