



# AUDIT DEPARTMENT

Audit Report No. 6 of 2013

Report of the Director of Audit, Grenada

on

The Value Added Tax (VAT)

January 2012- May 2013

**THE DIRECTOR OF AUDIT  
AUDIT DEPARTMENT**

**Compliance Report of the Director of Audit, on the Value Added Tax  
(VAT) for the period 1 January 2012 to 31 May 2013.**

*Isha Abraham*  
**Director of Audit (Ag.)  
Audit Report No. 6 of 2013**



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Ref. No.: (27) in 9/22

10 October 2013

Dr. The Right Hon. Keith Mitchell  
Minister for Finance and Energy  
Ministry of Finance and Energy  
Carenage  
St. George's

Dear Sir,

In accordance with Section 14 of the Audit Act CAP 22A of the Laws of Grenada, I submit a special report on the Value Added Tax (VAT) for the period 1 January 2012 to 31 May 2013. This report is for laying before the House of Representatives.

Section 14(3) of the Audit Act stipulates, that the Minister shall, not later than seven days after the House of Representatives first meets, after he has received the special report, lay it before the House of Representatives.

Yours Respectfully,

*Abraham*

.....  
Isha Abraham  
DIRECTOR OF AUDIT (AG.)

## ACKNOWLEDGEMENT

The Director of Audit acknowledges with gratitude, the assistance and co-operation extended by the Comptroller of Inland Revenue and staff at the VAT Unit.

Thanks also to the Audit team and to all other officers who contributed to the achievement of the audit results.

The Office also expresses profound gratitude to the World Bank and Mr. Bill Rafuse (Consultant) for technical assistance and expertise rendered in the execution of the audit and in achievement of its objectives.

Special thanks to the Government Printer for publishing this Report and allowing the Office to fulfill its obligations to Parliament.



# Compliance Audit

## On

## Value Added Tax

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## 1.0 Introduction

1.1 Value Added Tax (VAT) is a tax on consumption; it is charged on the value of imports and on the value added (mark-up) on goods and services supplied by one business to another or to final consumers.

1.2 VAT was introduced in 2010 with the VAT ACT CAP 333A (as amended by the Value Added Tax (Amendment) Act 7 of 2011) and CAP 333B of the LAWS OF GRENADA being the primary legislations which give authority for the administering of this Tax.

1.3 VAT is charged on all goods imported (except those exempted by legislation) whether or not the importer is a VAT registrant. It is designed in such a manner as to allow registrants to include VAT in their prices so that it is ultimately paid by the final consumer.

1.4 Persons who make taxable supplies and meet or are expected to meet the VAT threshold of \$120,000.00 per annum: a promoter of public entertainment or a licensee or proprietor of a place of public entertainment, Government Entities (to include local government, authorities and councils), and persons wishing to carry on investments in accordance with Section 12 (1) of the Act, are the categories of persons who are required to register for the tax.

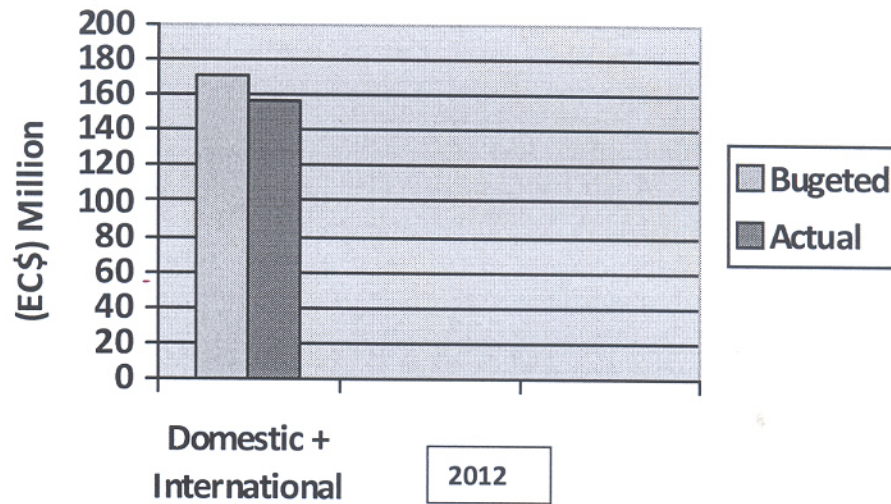
1.5 The Comptroller of Inland Revenue Division (IRD) is responsible for the collection of VAT on Domestic Transactions while the Comptroller of Customs and Excise is responsible for the collection of VAT on international transactions.

1.6 The existing VAT legislation repealed the General Consumption Tax (GCT), the Airline Ticket Tax and the Motor Vehicle Purchase Tax.

1.7 VAT provides for a standard rate of fifteen percent (15%), (except for a reduced rate for hotel accommodation and dive activity of ten percent (10%), and a rate of zero percent (0%) for certain goods and services. VAT is also levied on mobile telecommunication services at the rate of twenty percent (20%) on the supply of a voucher as defined in the VAT Act.

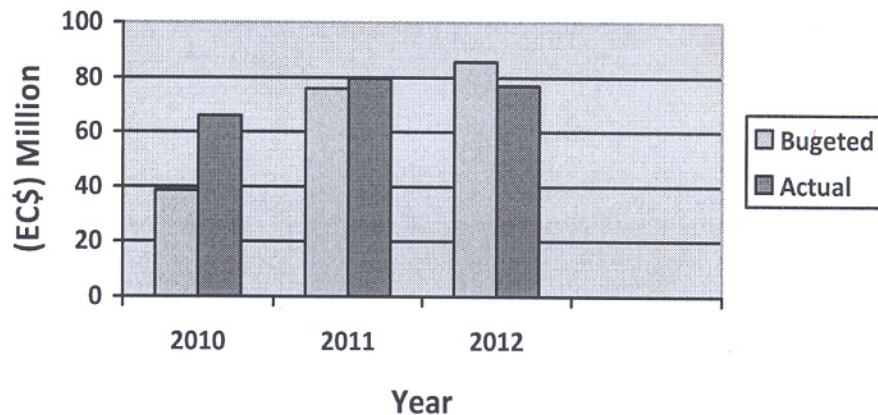
1.8 For the year ended 31 December 2012, the amounts collected from VAT as per Estimates of Revenue and Expenditure were 77.0 million on Domestic Transactions and 79.1 million on International Transactions, representing 37.8 percent of the revenue collected for this period.

Chart 1: Showing budgeted versus actual VAT collection (Domestic and International) for the year 2012



1.9 The following table shows the budgeted and actual VAT collected as per Estimates of Revenue and Expenditure for years 2010 to 2012.

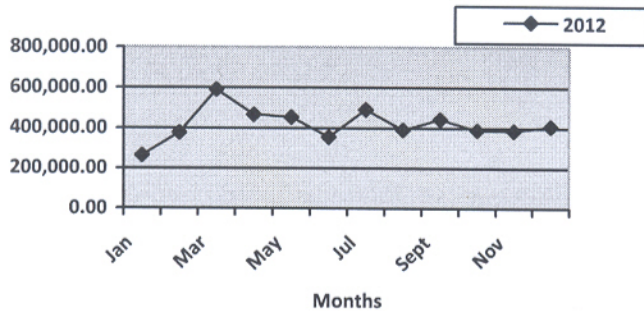
Chart 2: Showing budgeted versus actual VAT collection for years 2010 to 2012 (Domestic)



1.10 Receivables in 2012 ranged from a low of just over \$264,000.00 in January, to a high of just over \$591,000.00 in March. The monthly receivables are illustrated in the chart below.



Chart 3: Showing VAT Receivables for the year 2012



1.11 The VAT Act provides for penalties ranging from a fine of \$2,500.00 to \$10,000.00 for late lodgment of returns.

## 2.0 Audit Objective

To determine whether the Inland Revenue Division's VAT registration, assessment, enforcement and related record-keeping activities are carried out in accordance with the VAT Act.

### 2.1 Audit Scope

- The audit examined activities of IRD (domestic VAT) and not activities relating to the Customs and Excise Division.
- The activities examined for compliance with the Act were with respect to registration, collection, assessment, record keeping and information collection for the period 1 January 2012 to 31 May 2013.
- The audit was guided by the Auditing Standards issued by the International Organization of Supreme Audit Institutions (INTOSAI).
- The audit did sample checks in relation to registration and assessment and the following methods were used as selection:

**Registration sample check;** from a population of nine hundred and forty-seven (947) registrants, twenty-five percent (25%) of fifty-three (53) large companies amounting to thirteen (13) were chosen randomly and two and a half percent (2.5 %) of eight hundred and ninety-four (894) medium and small businesses amounting to twenty-two (22) were chosen randomly.

**Assessment sample check;** from the first ten (10) one registrant was selected and thereafter every tenth from a population of 118.

### **3.0 Subject Matter and Subject Matter Information**

3.1 The requirements and procedures for the administering and enforcement of VAT are stipulated in the Laws of Grenada CAP 333A and CAP 333B.

3.2 During the Audit engagement, the areas of registration, assessments and record keeping and information collection were selected and assessed against the relevant criteria as detailed in the Audit Plan and Program.

### **4.0 Audit Criteria**

- There are documented, up-to-date policies and procedures related to compliance requirements that are communicated to employees.
- An organization structure for compliance is established and resourced.
- All individuals and businesses that meet the threshold requirements are registered.
- Registrants lodge (file) returns as required.
- There is a mechanism to assess registrants who do not lodge complete and accurate returns or keep required records.
- Fees, penalties and interest are applied as required and enforcement action is taken.
- The Division's related VAT records are accurate, complete and up-to-date.

### **5.0 Management Responsibilities**

5.1 According to the VAT Act (CAP 333A and CAP 333B) the Comptroller of Inland Revenue is responsible for the administering of VAT thus ensuring compliance with the requirements of the legislation.

### **6.0 Auditor Responsibilities**

6.1 Our responsibility is to independently express a conclusion on the areas of Registration, Assessment, Enforcement, and Record keeping based on our audit, which was guided by the Auditing Standards issued by the International Organization of Supreme Audit Institutions (INTOSAI). These standards require that we comply with ethical requirements and plan and perform the audit so as to obtain reasonable assurance as to whether the activities conducted in relation to VAT are in conformity with the relevant Legislation.

## **7.0 Observations**

### **7.1 Communication of policies and procedures**

#### ***Audit criterion:***

There are documented, up-to-date policies and procedures related to compliance requirements that are communicated to employees.

#### ***Audit procedures:***

Conducted interviews/ discussions with section heads

Requested and examined documented policies and procedures

Enquired of officers whether up-to-date policies and procedures are communicated to them.

#### ***Findings:***

There are documented, up-to-date policies and procedures related to compliance requirements that are communicated to employees.

Presently the VAT unit is incorporated into the mainstream operation of IRD, which includes all the existing tax types. As a result, questions were presented to some senior officers who had little knowledge of the existing VAT Legislation and its operational procedures due to the merger.

Generally the Audit found that the activities in respect to the administering of VAT were in accordance with the Laws of Grenada CAP 333A and 333B and all the other established policies and procedures.

#### ***Recommendation:***

Audit recommends that a comprehensive education process be undertaken, to provide officers who originally were not part of the VAT process, with knowledge of the requirements of the VAT Legislation and the existing policies and procedures.

### **7.2 Staffing**

#### ***Audit criterion:***

An organization structure for compliance is established and resourced.



***Audit procedures:***

Requested a copy of the organizational chart

Obtained job descriptions for positions as outlined on the organizational chart

Enquired from management whether there is a full complement of staff

Enquired from staff members whether they were familiar with their responsibilities and whether there were limitations in the performance of their duties.

***Findings:***

An organizational structure is established and the division is sufficiently resourced, in relation to the requirements of the structure.

**7.3 Registration**

***Audit criterion:***

All individuals and businesses that meet the threshold requirements are registered.

***Audit procedures:***

Obtained the VAT Register from the Comptroller.

Obtained a list of individuals and businesses from Corporate Affairs of Intellectual Property Office (CAIPO) for the period 1 January 2012 to 31 May 2013.

Compared both records to ascertain whether individuals and businesses on the Registry list are captured on the VAT Register.

Sought explanation for differences from the VAT office.

***Findings:***

From a sample size of ninety-nine (99) businesses which was randomly chosen from the list of businesses registered at CAIPO from 1 January 2012 to 10 May 2013, ninety-four percent (94%) of these businesses were not captured on the VAT Register.

There is no mechanism for retrieving information pertaining to the existence of companies and businesses.

Many applications for Registration had no information in box 14, which relates to "Value of VAT Taxable Supplies (excluding exempted supplies)". This information is

deemed as mandatory for the processing of applications as outlined in the "Operational Procedure Manual Registration/Deregistration". As a result, audit could not determine whether the applicants met the threshold.

***Recommendation:***

A mechanism to obtain information pertaining to the existence and eligibility of companies and businesses for tax purposes should be implemented.

**7.4 Record Keeping**

***Audit criteria:***

The Division's related VAT records are accurate, complete and up-to-date.

Registrants lodge (file) returns as required.

***Audit procedures:***

A sample of registrants from the VAT Register was selected.

Selected files were examined to verify that monthly returns were filed.

An interview was conducted to determine whether there were any procedures for updating records and checks were done to ensure that these records were accurate and complete.

Examined files to ensure all the documentation as stipulated in the Act are kept in the file.

***Findings:***

VAT returns submitted by taxpayers were assessed and were up-to-date in SIGTAS. However, the manual individual Taxpayers' file system was not in sync with SIGTAS in that fifty-six (56) of the fifty-seven (57) files examined were not up-to-date.

***Recommendation:***

Supervision over the manual filing of VAT returns and other documentation to ensure that Taxpayer's records are complete and up-to-date.

## **7.5 Assessment**

### ***Audit criterion:***

There is mechanism in place to make an assessment of the VAT payable by a taxable person if the Comptroller is not satisfied as to the accuracy of a VAT return lodged by the person.

### ***Audit procedures:***

Conducted interviews to determine procedures used to assess incomplete and inaccurate returns.

Obtained a list of all assessments undertaken for the period 1 January 2012 to 31 May 2013.

Verified whether actions were taken within the stipulated time as required by the Act, Part XII 53 (11).

### ***Findings:***

There are procedures in place to make an assessment on the accuracy of returns lodged by persons.

Tax Audits were conducted by the VAT Office in accordance with PART XII Section 53 of the VAT Act and the Division's policies and procedures, as a result of dissatisfaction with the accuracy of VAT returns. An examination of a sample of Audit files revealed that some Tax Audit Plans, which outlined the basis of the audit, were not signed by the Comptroller or designated officer to provide assurance of revision and approval.

General remarks – Audit reports, in regard to the review of sales made by registrants for a specific period, were not always signed by the Tax Auditor and Tax Supervisor.

### ***Recommendation:***

All documents pertaining to reassessment of lodged returns should be reviewed, signed and dated by the relevant authority.



## 7.6 Enforcement

### *Audit criterion:*

Fees, penalties and interest are applied as required and enforcement action is taken.

### *Audit procedures:*

Obtained and reviewed procedures for enforcement

Interviewed the officer in-charge of enforcement/compliance

Performed a walk through test of the system

Assessed enforcement actions to determine whether:

- Legal penalty actions were taken; and
- Payments were first applied to penalties

### *Findings:*

Letters were issued granting “**one off**” waivers of late filing penalty to three (3) Taxpayers quoting Sections 44 (4) and (5) of the Value Added Tax Act No. 23 of 2009 as the authority.

*“Where the Comptroller has granted an extension of time to file a VAT return, the tax payer’s liability if any, for a late filing fee under sub-clause (3) shall be waived.”*

However, there was no evidence that an extension of time was granted as stipulated in the Act. According to the Act, the Comptroller can impose a ten thousand dollars (\$10,000.00) penalty for late filing.

Measures such as seizures and garnishing for non-compliance by Taxpayers, were not implemented as provided for in the Act.

### *Recommendation:*

The granting of time before the waiver of a fixed penalty should be adhered to in accordance with Section 44 (4) of the Act.

Non-compliance on the part of Taxpayers should be addressed using the provision of the VAT Act to enforce clauses relating to garnishing and seizures.

## **7.7 Management Reports**

### ***Audit criterion:***

Section heads produce monthly reports

### ***Audit procedures:***

Conducted interviews with Section heads

Obtained monthly reports from the Comptroller or Section heads.

### ***Findings:***

From a review of the management reporting process with management, audit is of the opinion that there is no standard format of monthly reporting and reports are produced upon request by the Comptroller. Audit requested management reports from the Comptroller but none were presented.

### ***Recommendation:***

A policy on management reporting on compliance performance should be developed and communicated to Section heads.

## **8.0 Conclusion**

8.1 Generally the activities of the IRD relating to registration, assessments, enforcement and record-keeping were in compliance with the VAT Act.

8.2 As a result of the merger of the VAT personnel into the mainstream tax operations, many officers including supervisors and senior staff were not familiar with the policies and procedures relating to VAT.

8.3 An organizational structure is established and the Division is sufficiently resourced when compared to the requirements of the structure.

8.4 The system of capturing eligible businesses and individuals who exceed the threshold is not fully effective, as potential Taxpayers may not always be identified on a timely basis due to the lack of a systematic method of data collection.

8.5 Generally, monthly returns are filed by Taxpayers and updated in SIGTAS on a timely basis.

8.6 The clauses in the VAT Act in relation to incomplete and inaccurate returns are applied; however, the issue of granting of time before the waiver of a fixed penalty (Section 44 (4)) is not adhered to.

8.7 Enforcement actions consist mainly of the application of interest, penalties and fees. Measures such as seizure and garnishing for non-compliance by Taxpayers were not implemented as provided in the Act. Management has attributed this deficiency to unavailability of storage facility.

8.8 The Division's related VAT records were not complete and up-to-date, especially with respect to the filing. It therefore means that these files did not represent a reasonable position of the Taxpayers.

## **9.0 Summary of Recommendations and Management Responses**

9.1 Audit recommends that a comprehensive education process be undertaken, to provide officers who originally were not part of the VAT process, with knowledge of the requirements of the VAT Legislation and the existing policies and procedures.

9.2 There should be proper supervision over the manual filing of VAT returns and other documentation to ensure that Taxpayer's records are complete and up-to-date.

9.3 The granting of time before the waiver of a fixed penalty should be adhered to in accordance with Section 44 (4) of the Act.

9.4 Non compliance on the part of Taxpayers should be addressed using the provision of the VAT Act to enforce clauses relating to garnishing and seizures.

9.5 A policy on management reporting on compliance performance should be developed and communicated to Section heads.

### **Management's Response**

Attached

### **Audit's Comments to Management's Response**

After review of management's comments, adjustments were made to paragraphs 1.2, 1.7. and 7.5 of the final audit report.



Audit commends the IRD for responding to the report, since a major challenge facing the Department is the lack of responses to Audit findings and recommendations by management. IRD's commitment to compliance is acknowledged and encouraged.

## Management's Response

The Inland Revenue Division (IRD) applaud and encourage the compliance checks carried out on the administration of the Value Added Tax (VAT) by the Government Audit, and wishes to suggest that similar activities be conducted on Inland Revenue Division as a whole and not just a tax type administered by IRD.

The Division accepts in principle the observations and recommendations established in the report and would seek to address and mitigate shortcomings identified.

However, we wish to provide a few comments and clarity where necessary on the report submitted. Our comments are page and paragraph specific and they are as follows:

- P.2 Item 1.2: The audit was conducted at a time when we had already amended the VAT laws and as such the amendment to the substantive Act should be included. It is Act # 7 of 2011.
- P.2 Item 1.7: IRD also administer a 20% rate on mobile telecommunication services, text and data packages. This information can be found in the amended as sited above.
- P.9 Item 7.5: This should be captioned "Review" as the tax is self assessed. If a return is submitted and the Comptroller has reason to believe it is inaccurate the taxpayer is audited. If the taxpayer has not lodged a return with IRD it is first a compliance issue as the entity is classified as a non-filer by the Compliance and Enforcement section. In the instance where Compliance is unable to get the taxpayer to lodge their return it is then referred to Audit for a Best of Judgment. The issue of signing the Reassessment notices is one that is founded in the law. Such notices cannot be signed as it is a system generated legal document in its own right

(samples are embedded in the regulations). The cover letter however, puts the package being sent out to the taxpayer after an audit into context.

As it relates to seeing whether the entities paid an audited sum, this must be ascertained from another arm of IRD. The collection and Enforcement section would be able to provide information on the status of the case. Audit handles ascertaining the accuracy of a lodged return while Compliance and Enforcement seeks to collect the additional revenue placed on the books. As such, at no point would you be able to tell from an audit file whether a payment is made. The Compliance and Enforcement section has its own procedures and documentation that provides status reports on cases outstanding for collections.

- P. 10 Item 7.6: We accept the content of this item in principle and wish to advise that there was a Cabinet Conclusion #1492 of 2010 that gave rise to such waivers. Albeit the Cabinet Conclusion does not supersede the law, the intent of same was acted upon.

The Division wishes to express heartfelt thanks to the staff from the Officer of the Director of Audit and as previously mentioned, we hope that such an activity can be carried out on Inland Revenue Division as a whole.