



SAINT HELENA AUDIT SERVICE
External Auditors

VEHICLE CUSTOMS REVENUE



FINAL VALUE FOR MONEY REPORT

V29 – June 2012

Value for Money audits are conducted by the Audit Service on behalf of the Legislative Council, in order to determine whether St Helena Government resources have been used with proper regard to economy, efficiency and effectiveness.

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EXECUTIVE SUMMARY

This review formed part of the Value for Money Audit Plan for 2011/12. The objective of the audit was to review the system for the assessment and collection of revenues from imported vehicles. Further, to determine the adequacy of measures to minimise under collection of customs duties and to ascertain whether legislation and procedures have been complied with.

The Customs Ordinance Cap 145 governs the collection of customs duties and management of imports into St Helena. The Collector of Customs and other customs officers are appointed by the HE Governor to administer the Ordinance. The collection of customs duty is the responsibility of the Collector of Customs. The Customs Office is part of the Finance Directorate within St Helena Government (SHG).

A total of 58 vehicles were imported in April/May 2011 from which revenue of £35,743 were collected. At the time of this review, customs dues were charged at 35% of the purchase price of the vehicle.

Based upon the work undertaken and the findings detailed in the body of this report, the overall opinion is given below. The range of possible audit opinions given for Value for Money is good, adequate and inadequate. Definitions of the audit opinions can be found at Appendix A to the main report.

ADEQUATE	Management arrangements are generally conducive to achieving Value For Money – but further important enhancements could be made.
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We have concluded that the system for the assessment and collection of revenues from imported vehicles is adequate, and some improvements in processes and procedures need to be made. We have made six recommendations with regards to compliance with the Ordinance and improvements in procedures and control.

Customs office procedures include comparison of prices declared for imported vehicles with the Source Country market values. Audit testing revealed that evidence of review is not maintained and therefore evidence that checks are being carried out in compliance with Customs Ordinance is missing.

The Car Valuation Sheet needs to be revised and should be completed correctly in all cases. We recommend that the Customs Car Valuation Sheet be properly completed and should be modified to include the relevant details.

Proof of purchase in the form of an invoice or a receipt was not filed in Customs Office for all vehicles imported on V156 in April. The absence of such documentation on file indicates non-compliance with the Ordinance. We recommend that documentation relating to the value of each vehicle is always maintained on file to evidence compliance with section 8(5) of the Ordinance.

The assistance given by the Customs Manager and his staff is acknowledged and a list of persons consulted during the production of the report is included at Appendix C.

1. INTRODUCTION

- 1.1 The Customs Ordinance governs the collection of customs duty and management of imports and exports into/from St Helena. The Collector of Customs is appointed by the Governor to administer the Ordinance. The Financial Secretary is the Collector of Customs supported by the Customs Office, which forms part of the Finance Directorate within the St Helena Government (SHG). HM Customs and Revenue is responsible for the collection of all customs duties, Law enforcement and protection of society and the maximisation of amounts collected from all customs revenue heads and the compliance with the provisions of the Ordinance. Detection of fraud and enforcing Prohibitions and Restrictions.
- 1.2 The rate of customs duties payable on vehicles imported to St Helena is determined by the Governor in Council. At the time of this review, customs duties were charged at 35% of the purchase price of the vehicle. Exemptions from duties are allowed for one vehicle if the owner of the vehicle is employed under contract with SHG, however if the vehicle is sold the duty becomes liable.
- 1.3 Customs revenue is classified as an indirect tax and is transferred directly into the Consolidated Fund.
- 1.4 The system for the assessment and collection of revenues from imported vehicles was reviewed to assess the adequacy of measures to minimise under collection of customs dues and to ascertain whether legislation and procedures have been complied with.
- 1.5 This report is based on the 58 vehicles imported during Voyages 156, 157 and 158 of the RMS St Helena in April/May 2011. Revenue of £35,743 was collected from these vehicles. A sample of 17 vehicles were selected and tested to determine whether the price provided for each vehicle

by the importer reflects the open market value of that particular vehicle.

2. FINDINGS

- 2.1 The findings are based upon the work undertaken and evidence gathered.

System for customs clearance of the importation of vehicles

- 2.2 All vehicles imported should be listed on a manifest. The manifest should contain information such as the number and type of vehicles, VIN and registration numbers, the shipper and the consignee. 54 vehicles arrived on V156 from UK, 1 from Ascension Island and 3 on V157 from Cape Town.
- 2.3 Section 8(1) of the Customs Ordinance requires entries to be submitted to Customs in the approved form in respect of goods imported to the island. Details required on this form are such as consignee/importer, number of packages, quantity, description of goods, rate of duty, value and duty. Entries were completed for all vehicles imported on those voyages.
- 2.4 Section 9(1) provides for provisional entries to be submitted if the owner is unable, owing to absence of any invoice of cost, to supply the full particulars for making an entry. Section 9(3) requires the importer to complete a perfect entry in the place of the provisional entry. It was found that not all perfect entries were complete; all the details were not recorded and they were filed with the provisional entries.
- 2.5 We recommend that in accordance with the Ordinance, management ensures that all details are recorded on the perfect entry **(See recommendation one)**.
- 2.6 Section 10 of the Ordinance provides for the Collector of Customs to grant "approved importer" status to any importer who regularly imports goods of a certain class or description of a business carried on by him.

An "approved importer" is an individual or company/business who regularly imports goods of a certain class or description as part of a business carried on by him, and may at any time revoke such grant. The importer may be allowed to move the vehicle off the wharf before paying provided a bond is signed in the approved form by the approved importer and Customs Officer.

- 2.7 Approved importers who sign a bond are required to produce all invoices and entries within a period of 14 days from the date of importation. The Collector can grant more time to submit in certain circumstances)
- 2.8 Review of entries revealed that one approved importer did not adhere to Section 10(2)(a) of the Ordinance. Entries in respect of vehicles arrived on V156 on 3 April 2011 were submitted on 26 May 2011 39 days overdue and for V158 on 16 May 2011 were submitted on 8 June 2011, 9 days overdue. Customs advised that follow-up action was carried out by phone. Follow up action should be documented in all cases.
- 2.9 We recommend that that follow up action be documented as evidence of an audit trail **(See recommendation two)**.
- 2.10 The requirement of the Customs Ordinance for customs clearance is not fully complied with.

Assessment of Tax Due

- 2.11 Section 8(5) of the Ordinance requires the owner or his agent when presenting entries to -
- Submit for verification and filing in the Customs an original or acceptable duplicate invoice in respect of the goods to which the entry relates;
 - Produce for inspection such other documents as any Customs Officer may reasonably require; and
 - Answer to the best of his knowledge and belief any question with respect to such entries.
- 2.12 Proof of purchase in the form of an invoice or a receipt of value of the vehicle is provided to Customs. Testing revealed that a proof of payment was not filed for 22 of the 57 vehicles imported on V156. Customs Manager confirmed that an invoice or receipt is always provided for all vehicles but there are times when it is not always possible to make a copy of the document due to the photocopier being out of action. Lack of evidence of the required documentation could indicate non-compliance with Section 8(5)(a) of the Customs Ordinance. The Customs Office should look into another way of improving their means of obtaining documentation e.g. scanning.
- 2.13 We recommend that documentation relating to the value of each vehicle is always maintained on file to evidence compliance with section 8(5) of the Ordinance and that Customs should consider improving their means of obtaining documentation **(See recommendation three)**
- 2.14 If the importer cannot satisfy the customs officer with regards to the purchase price of the vehicle then an investigation is run and a check is carried out to compare the price on the internet using mainly Parker's Guide and occasionally Auto Trader and Prices or other resources dependant on country of origin, this is a risk based approach. A Declaration is included on the entry which is signed and dated by the importer declaring that the information contained and any accompanying documents is true and accurate. However, these checks are not evidenced to confirm they have been carried out.
- 2.15 The Customs Manager said that random checks are also carried out on prices recorded on garage invoices by officers when they return to the office but these checks are not evidenced either.
- 2.16 A sample of 17 vehicles arrived on V156 of the RMS St Helena on 3 April 2011 from UK, was selected for testing to assess the

reasonableness of values provided by importers. Details of vehicles recorded on the Car Valuation Sheet were used to identify the particular vehicle on the Parker's Guide website to compare the price with that provided by the importer. There were insufficient details of the vehicles recorded on the Car Valuation Sheet to be able to identify a particular vehicle. Only 2 of the 17 vehicles tested could be identified to comparative values, which were found to be consistent.

2.17 Further this review proved difficult to carry out as vehicles could be purchased from auctions or via a private sale. In addition the state of the vehicle must be considered i.e. accidental damage. Officer's judgment is utilized and if the value is unrealistic then it would be investigation. In all cases the decisions made by the Officer should be documented and evidence held.

2.18 There are instances when the importer would like to make payment before the vehicle arrives but documentation is not available. In such cases the importer would give customs details of the vehicle. Customs would check the country of origin market value using mainly "Parker's Guide" and other sources. A provisional entry is completed and the importer would make payment on the price identified on the internet. When the vehicle arrives and the documentation received Customs would compare the values. If the values are inconsistent then as stated adjustments are made or further investigations carried out, adjustments would be made accordingly. A perfect entry is completed for the acceptable value. If there is no documentation then the vehicle is either not released or the importer must provide the information within the legal time frame, failure to do so will result in further action. There is no evidence of checks performed on value of vehicles in absence of documentation.

2.19 We recommend that prices are compared with the UK /source country market value for vehicles imported and comparisons be placed on file stating

whether the value provided was reasonable and on what basis, this would be a risk based approach. This would evidence the check and confirm that controls are place compiling with Customs Ordinance **(See recommendation four).**

2.20 A Customs Car Valuation Sheet which records all the relevant details of the vehicle is completed for each vehicle by the customs officer. The purpose of the Car Valuation Sheet is to record details of each vehicle imported such as the Make, Model, Diesel/Petrol, Registration Number, Chassis Number, Engine Number, Mileage, Colour, Vehicle Identification Number and details to note from the exterior and interior of the vehicle. The sheet is used to check and determine the reasonableness of valuations declared by the importer in comparison with the open market values. Further, the information is used to check that vehicles are not stolen or have been modified. The Customs Manager said that it may also be used to seek UK Customs/ South African Customs assistance in a case where an investigation may be necessary. The Car Valuation Sheet also requires details to note from the exterior and interior of the vehicle e.g. central locking, number of doors, sunroof, saloon/hatchback, man/elect windows, entertainment system plus more. It is noted that some of these details were also missing.

2.21 Testing of the 58 vehicles imported revealed that the Valuation Sheets were not always filled in completely in that some details listed on the sheet were missing.

2.22 The table below is a summary of the missing details of the top section of the Car Valuation Sheet:

Missing details	No of sheets
Model	17
Diesel/Petrol	3
Registration Number	5
Chassis Number	35
Engine Number	52
Mileage	3
Colour	7
Vehicle Identification Number	24

2.23 We recommend that the Customs Car Valuation Sheet be properly completed with the appropriate relevant details, this could include registration numbers, to be able to identify a particular vehicle for the purpose of checks to be carried out in the case of discrepancies with the vehicle and to compare prices with the UK market values **(See recommendation five)**.

2.24 We recommend that management consider revising the Car Valuation Sheet to include the important details that will enable a price to be obtained for a particular vehicle. Details such as the Manufacturer, Model, Year Model, Registration Number, Chassis and Engine Number, VIN, Mileage, and the exact version of the vehicle Saloon, Hatchback, Estate, number of doors. This would make the Car Valuation Sheet fit for its purpose therefore allowing Custom officers to obtain realistic prices of vehicles for comparison. Insufficient details would result in customs officers not being able to identify a vehicle or possibly the wrong vehicle which could result in obtaining the incorrect value thus resulting in a loss of revenue. This would also support the identification of stolen vehicles **(See recommendation five)**.

2.25 Further consideration should be given to incorporate a section in the Proceeds of Crime Bill /Customs Ordinance that if a vehicle does not seem to represent a reasonable market value when compared to the Invoice supplied. Then Customs will asses on the market value and the owner can appeal with the onus being on the appellent to prove the actual value.

2.26 The requirement of the Customs Ordinance and procedures for the assessment of duty due is not fully complied with.

Payment of Tax Dues

2.27 All duties payable under the Ordinance must be paid and in accordance with the tariff in force.

2.28 Exemptions from dues are allowed for one vehicle if the owner of the vehicle is employed under contract with SHG, but if sold then duty is liable.

2.29 The Customs Manager said the Customs Officers requested original documentation from the importer which is either an invoice or a receipt of which approximately 50% was original. The documents are copied for Customs file.

2.30 Duty must be paid on completion of the entry with exception of the approved importer who signs a bond and are allowed 28 days of arrival of importation to pay. Payment is made by way of cash or bank transfer. An official receipt is prepared for cash payment. A bank transfer form is filled in by the importers for payment made through the Bank. The forms are left with the Customs Officer responsible for the receiving payments who then take them to the Bank to process the payment.

2.31 Section 10(2)(b) requires the approved importer to pay all dues payable within a period of 28 days from the date of importation.

2.32 Review of entries revealed that one approved importer did not adhere to the Ordinance. Vehicles arrived on the V156S on 3 April 2011, V158 on 16 May 2011 were paid on 30 May 2011 and 24 June 2011 respectively i.e. 29 days and 11 days respectively. There was no evidence of follow-up by customs as the Customs Manager confirmed that follow-ups were carried out by telephone

2.33 We recommend that management ensure that proper procedures are in place for the follow-up of payments from approved importers in order that Section 10(2)(b) of the Ordinance is complied with and evidence is held. There is a risk of late entries being overlooked and result in a loss of revenue. Management should consider applying a late payment interest rate to encourage prompt payment, which will involve the introduction of new legislation **(See recommendation six)**.

3. CONCLUSION

3.1 The system and procedures for customs clearance of the importation of vehicles requires improvement. We have made six recommendations to ensure compliance with Customs Ordinance Cap 145.

3.2 We recommend that in accordance with the Ordinance, management ensures that all details are recorded on the perfect entry.

3.3 We recommend that documentation relating to the value of each vehicle is always maintained on file to evidence compliance with section 8(5) of the Ordinance and that Customs may wish to consider improving their means of obtaining documentation by way of scanning.

3.4 We recommend that evidence is held documenting the risk based process with regards to vehicles imported. This would evidence the check and confirm that the control does exist and in compliance with Customs Ordinance.

3.5 We recommend that the Customs Car Valuation Sheet be properly completed with the specific details to be able to identify a particular vehicle for the purpose of checks to be carried out in the case of discrepancies with the vehicle and to compare prices with the source country/ UK market values.

3.6 Further consideration should be given to incorporate a section in the Proceeds of Crime Bill /Customs Ordinance that if a vehicle does not seem to represent a reasonable market value when compared to the Invoice supplied. Then Customs will assess on the market value and the owner can appeal with the onus being on the appellant to prove the actual value.

3.7 We recommend that management consider revising the Car Valuation Sheet. This would make the Car Valuation Sheet fit for its purpose.

	RECOMMENDATION	Officer responsible for implementation	Priority	Implementation expected to be complete by: (Month, Year)	Management Comments
1.	<p>Section 9 of the Ordinance provides for importers to complete provisional entries in the absence of any invoice or cost. Section 9(3) states “A perfect entry of goods that has been entered as a provisional entry shall be made in a manner as if a provisional entry had not been made.”</p> <p>Not all perfect entries were complete; all the details were not recorded and they were filed with the provisional entries.</p> <p>We recommend that in accordance with the Ordinance, management ensures that all details are recorded on the perfect entry and that system improvements are carried out.</p>	Director General of Customs & Revenue	Medium	Implemented June 2012	Agreed, however the provisional entry may be kept on file to ensure a full audit trail. Particularly in cases where there is doubt or ongoing enquiries which at times can be lengthy.
2.	<p>Section 10(2)(a) of the Ordinance requires the approved importer to sign a bond in the approved form and to produce all invoices and entries within a period of 14 days from the date of importation. One approved importer did not comply with the requirements of the Ordinance and submission of 2 entries was overdue by 39 days and 9 days.</p> <p>(a) Management to ensure that follow up action is documented for audit purposes.</p>	Director General of Revenue & Customs	Medium	Implemented June 2012	New procedures are adopted in order that these matters are not overlooked. However there are occasions where delays can be encountered by the trader and an extension of time can be granted i.e. trader of Island, illness, etc.

	RECOMMENDATION	Officer responsible for implementation	Priority	Implementation expected to be complete by: (Month, Year)	Management Comments
3.	<p>Proof of purchase in the form of an invoice or a receipt was not filed in Customs Office for all vehicles imported on V156 in April. There was no evidence of proof of purchase for 22 vehicles. Customs advised that documentation was produced for all vehicles imported but there were times when a copy could not be made due to the fact that the photocopier was out of action. The absence of documentation on file indicates non-compliance with the Ordinance.</p> <p>We recommend that:</p> <p>(a) documentation relating to the value of each vehicle is always maintained on file to evidence compliance with section 8(5) of the Ordinance</p> <p>(b) Customs should consider improving their means of obtaining documentation by way of scanning.</p>	Director General of Customs & Revenue	High	Implemented Feb 2012	This is already in place since moving to the wharf in February 2012 and a scanner is on order. Photocopying problems have been resolved with the move of office from the Post Office.
4.	<p>Customs Manager said that importers are requested to provide original documentation for all vehicles imported for the purpose of calculation of dues and if the value does not satisfy the customs officer then a check is carried out to compare the price with UK/source country market value. However these checks are not always evidenced.</p> <p>We recommend that risk based decisions on checking vehicle prices are</p>	Director General of Customs & Revenue	Medium	Implemented June 2012	We agree that this should be on file.

	RECOMMENDATION	Officer responsible for implementation	Priority	Implementation expected to be complete by: (Month, Year)	Management Comments
	noted in the documentation, further any additional evidence sort is obtained on file as evidence. This would evidence the check in compliance with Customs Ordinance.				
5.	<p>Customs Officers do not record all the details on the Car Valuation Sheet that are required to enable a market value to be obtained via the internet. Without such details a specific vehicle cannot be identified to compare prices and could result in the incorrect values obtained for comparison. These Sheets are not always filled in completely by customs officers.</p> <p>We recommend that that the Customs Car Valuation Sheet be properly completed with the specific relevant details.</p> <p>Further, we recommend that a review of the current form should be carried out to ensure the correct information is being recorded.</p> <p>Further, we recommend that consideration should be given to incorporate a section in the Proceeds of Crime Bill /Customs Ordinance amendment that if a vehicle does not</p>	Director General Customs and Revenue	Medium	Implemented June 2012	Agreed

	RECOMMENDATION	Officer responsible for implementation	Priority	Implementation expected to be complete by: (Month, Year)	Management Comments
	<p>seem to represent a reasonable market value when compared to the Invoice supplied. Then Customs will asses on the market value and the owner can appeal with the onus being on the appellant to prove the actual value.</p>	<p>Customs Manager</p> <p>Director General HM Customs and Revenue in consultation with the Attorney General's Office.</p>	<p>Medium</p> <p>Medium</p>	<p>July 2012</p> <p>Dependant on legislative programme.</p>	<p>A full review is underway to encompass all areas and build on best practice from other jurisdictions.</p> <p>A new Customs and Excise Act is in draft and we will seek to have this recommendation incorporated into the new legislation.</p>
6.	<p>Section 10(2)(b) requires the approved importer to pay all dues payable within a period of 28 days from the date of importation. One approved importer did not adhere to the Ordinance and payments in respect of vehicles arrived on 3 April 2011 and 16 May 2011 were 29 days and 11 days overdue respectively. There was no documented evidence of follow-up.</p> <p>We recommend that:</p> <p>Evidence detailing the follow up of late payment needs to be held and recorded on file.</p>	<p>Director General of Customs & Revenue.</p>	<p>Medium</p>	<p>Implemented May 2012.</p>	<p>Agreed new debt management procedures were established and this recommendation is incorporated.</p>

APPENDIX A

AUDIT OPINION DEFINITIONS

Every Value for Money audit concludes with an overall opinion based upon individual opinions that are applied to each of the review areas identified in the scope of the audit. The range of opinions, together with an explanation of their meanings, is as follows:

<i>Value For Money Opinions</i>	
GOOD	Management arrangements are conducive to achieving Value For Money and only minor enhancements, if any, can be identified.
ADEQUATE	Management arrangements are generally conducive to achieving Value For Money – but further important enhancements could be made.
INADEQUATE	Management arrangements are not considered to be adequately conducive to achieving maximum Value For Money.

APPENDIX B

SCOPING AND RESOURCING

To examine whether the objectives were achieved with regard to efficiency and effectiveness, the Audit Service assessed the following:

- The system for the customs clearance of the importation of vehicles and compliance with the Customs Ordinance Cap 145 ;
- Documentation produced for values to enable calculations of dues payable are in accordance with Customs Ordinance;
- Calculation of dues collected are in accordance with the Customs Ordinance Cap 145 Section 21
- Review of the process to assess the actual price of the vehicle

This was done by:

- Obtaining a list of all inwards manifests for voyages 156, 157 and 158 of the RMS St Helena in April/May 2011 and ensure entries were made for each vehicle imported;
- Obtain invoices or documentation which provides details and value of the vehicle and perform a comparison on a sample of prices of 17 vehicles with the UK market value on internet;
- Document the system to determine compliance with the Customs Ordinance Cap 145.

APPENDIX C

LIST OF PERSONS CONSULTED

The assistance given to the Audit Service by all those listed below during the course of the audit is acknowledged with appreciation.

Names	Title	Directorate
Peter Henderson	Director General of Customs & Revenue	Finance
Lionel Joshua	Customs Manager	Finance
Rosemond Fowler	Customs Officer (Administration)	Finance