



ST. KITTS AND NEVIS

TECHNICAL ASSISTANCE REPORT—STRENGTHENING CORE BUSINESS FUNCTIONS AUDIT CAPACITY (RTAT)

February 2023

This technical assistance report on St. Kitts and Nevis was prepared by a staff team of the International Monetary Fund. It is based on the information available at the time it was completed in April 2022.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: <http://www.imf.org>
Price: \$18.00 per printed copy

International Monetary Fund
Washington, D.C.



TECHNICAL ASSISTANCE REPORT

ST. KITTS AND NEVIS Strengthening Core Business Functions Audit Capacity (RTAT)

APRIL 2022

Prepared By
Martin Roche



MEMBERS

Anguilla, St. Kitts and Nevis, Aruba, The Bahamas, Barbados, Belize, Bermuda, British Virgin Islands, Cayman Islands, Curaçao, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, St. Kitts and Nevis, St. Lucia, St. Maarten, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago, Turks and Caicos Islands

PARTNERS

Canada, United Kingdom, European Union, Netherlands, Mexico, Caribbean Development Bank, USAID, Eastern Caribbean Central Bank

DISCLAIMER

The contents of this report constitute technical advice provided by the staff of the International Monetary Fund (IMF) to the authorities of St. Kitts and Nevis (the "TA recipient") in response to their request for technical assistance. This report (in whole or in part) or summaries thereof may be disclosed by the IMF to IMF Executive Directors and members of their staff, as well as to other agencies or instrumentalities of the TA recipient, and upon their request, to World Bank staff, and other technical assistance providers and donors with legitimate interest, including members of the Steering Committee of CARTAC, unless the TA recipient specifically objects to such disclosure (see [Operational Guidelines for the Dissemination of Technical Assistance Information](#)). Publication or Disclosure of this report (in whole or in part) or summaries thereof to parties outside the IMF other than agencies or instrumentalities of the TA recipient, World Bank staff, other technical assistance providers and donors with legitimate interest, including members of the Steering Committee of CARTAC, shall require the explicit consent of the TA recipient and the IMF's Fiscal Affairs Department.

MEMBERS



Anguilla



St. Kitts and Nevis



Aruba



The Bahamas



Barbados



Belize



Bermuda



British Virgin Islands



Cayman Islands



Curaçao



Dominica



Grenada



Guyana



Haiti



Jamaica



Montserrat



St. Kitts and Nevis



St. Lucia



St. Maarten



St. Vincent and the Grenadines



Suriname



Trinidad and Tobago



Turks and Caicos Islands

PARTNERS



Canada



UK aid



European Union



Ministry of Foreign Affairs of the Netherlands



Secretaría de Hacienda y Crédito Público Mexico



Caribbean Development Bank



USA AID



Eastern Caribbean Central Bank

Table of Contents

Acronyms and Abbreviations	2
Executive Summary	3
Main Findings.....	4
Introduction.....	4
Training of the Financial Sector Audit Team	4
Review of several returns and drafting an Audit Program.....	4
Effects of Covid-19.....	5
Profile Meetings.....	5
Agreed Next Steps	6
Appendix.....	7
Appendix I. List of Training Topics	7

DM# 7256828

Acronyms and Abbreviations

CARTAC	Caribbean Regional Technical Assistance Centre
CD	Capacity Development
IRD	St. Kitts and Nevis' Inland Revenue Division
RTAT	Regional Tax Audit Team Training Program

Executive Summary

In response to a request from the St. Kitts and Nevis Inland Revenue Division (IRD), CARTAC provided capacity development (CD) in strengthening audit capacity under the Regional Tax Audit Team (RTAT) training program.

The main objective of this CD was to strengthen capacity to audit and verify accuracy of reporting by taxpayers in the Financial Sector. The CD started with the provision of five days of training of IRD auditors where the purpose was to prepare the authorities to implement the necessary actions in adopting good practice in auditing the Financial Sector. The training included (i) an overview of the financial sector and business processes; (ii) assistance to the auditors to develop a better understanding of the various financial products/instruments; (iii) guidance in auditing the banks and insurance companies; and (iv) awareness of the key tax risks within this sector. The training also included reviewing of financial statements and tax returns for several banks and insurance companies, developed an audit schedule and provided guidance preparing audit notification letters.

The CD was delivered in a series of short targeted virtual interactions with IRD staff during the period from November 15, 2021 to April 20, 2022.

Main Findings

Introduction

The purpose of the CD was to strengthen the capacity of the St. Kitts and Nevis Inland Revenue Division (IRD) to audit and manage compliance within the financial sector. Auditors were trained on techniques and methods for auditing financial institutions and were introduced to the concept of starting a program of profile meetings and cooperative compliance within the sector. These meetings would give the auditors more insight and knowledge of the sector and its operations. The CD also provided advice to the IRD auditors on specific issues they have come across in performing audits in the sector. Due to the suspension of travel because of the COVID-19 pandemic, the mission was carried out remotely. The mode of delivery included emails and remote training using Teams which involved shared video presentations and chat. The training topics presented are listed in Appendix 1.

Training of the Financial Sector Audit Team

The Financial Sector Audit Team attended all of the training sessions, five days in total. Training was provided on a number of issues related to the financial sector (see Appendix 1) and in particular IRD received the following:

- (i) an overview of the Financial Sector industry;
- (ii) an insight into how a financial institution records transactions;
- (iii) how these transactions are reflected in the profit and loss account and the balance sheet;
- (iv) guidance on how to carry out an audit on a financial institution, including how to prepare for the audit;
- (v) an outline of the key risks in this sector; and
- (vi) how to establish key controls that should be in place within an institution, which may give the IRD guidance regarding the details provided in the accounts.

The attendees were presented with documentation supporting each area covered, including a template for an audit test work sheet.

In addition to the above, the training provided the auditors with;

- (i) techniques to help develop audit test schedules;
- (ii) understanding of the various financial products (e.g. futures, options, derivatives etc.) offered by financial institutions;
- (iii) an understanding of how a bank or insurance company would calculate and book any profit or loss on the provision of these services; and
- (iv) the importance of a program of profile meetings in bringing a deeper understanding of the sector and its operations.

Review of several returns and drafting an Audit Program

IRD auditors were assisted in reviewing a number of audit cases. This assistance helped in resolving issues that the auditors had discovered during previous audits. In particular, some of the issues discussed were:

- (i) the operation of withholding tax;
- (ii) helping the auditors overcome their lack of experience and understanding banking operations and their IT systems;
- (iii) uncertainty on what sample size should be used for effective audit testing; and
- (iv) application of VAT on leasing.

The St. Kitts and Nevis Inland Revenue Division auditors presented four tax returns which were reviewed. A number of potential tax issues were identified, and the expert worked together with the IRD audit team to develop audit schedules and audit letters for each of the two companies. This exercise gave the audit team valuable insight into the financial sector and the processes within this industry. This process allowed the IRD financial sector auditors to;

- (i) identify potential tax risks for these two companies and the industry as a whole;
- (ii) draft a set of audit test schedules for these companies, which will also be applicable to other companies within this sector;
- (iii) develop a list of potential tax issues for the audit team to discuss with these banks;
- (iv) obtain an understanding of the issues and transaction(s) identified;
- (v) understand the accounting and tax treatment adopted by the banks and also understand the tax implications of this treatment; and
- (vi) decide on whether to initiate an audit on some (accounting) issues or accept the account and tax treatment adopted by the taxpayer.

Effects of Covid-19

The CD raised awareness of the auditors on the effect of COVID-19 on the banks. These includes:

- (i) how a number of banks were helping the cash flow of companies by granting “repayment holidays” and how this would affect their interest income;
- (ii) how banks would have to potentially upwardly adjust their level of bad debt provisions; and
- (iii) how the IRD would have to establish the way the adjustments are reflected in the annual accounts and anticipate lesser revenue from the sector.

The CD also raised awareness on how the insurance sector is impacted by COVID-19. It highlighted that, within the insurance industry, companies may have had to return some of their premium income to the policy holders because the level of risk covered was reduced as a result of the economic downturn. This also makes it important that IRD establishes how this reduced premium income is reflected in the accounts of insurers. It is imperative that this reduction in premiums is also reflected in the accounts of the insured, especially if it is claimable as deduction from taxable income.

Profile Meetings

The concept of “Profile Meetings”, in which the audit team would arrange an annual meeting with the companies in the financial sector, was discussed. Profile Meetings are an informal information gathering process with companies, which allows IRD to collect information about companies and get details and understanding on some key transactions outside the audit forum. These meetings would provide the St. Kitts and Nevis Financial Sector Audit Team with an opportunity to discuss with the banks their business operations, key transactions recorded on the returns, the bank’s future plans and to gain an understanding of key issues within the bank’s annual accounts and get an overview of the controls in place within a company. These meetings will enhance the IRD’s compliance risk management processes and complement the current work on identifying key risks within each company and build risk profiles. The IRD has been encouraged to set up a program of Profile Meetings with a number of financial sector companies as well as companies from other industries.

Agreed Next Steps

The IRD will build on this training and CD when designing future audit program. Given the importance of Financial Sector in St. Kitts and Nevis, further support to ensure compliance in the sector would be beneficial. The IRD will need further assistance to strengthen the audit program of the Financial Sector and support to review of tax returns of the companies in that sector. As a first step the audit team should, develop a program of profile meetings to gather relevant information on the operations of various businesses in the sector.

Appendix I. List of Training Topics

- 1 Introduction into the World of Banking
- 2 Overview of the Financial Sector (Banking, Insurance, Treasury and Lending)
- 3 Financial Instruments explained
- 4 Concept of Transfer Pricing
- 5 Inter-Company Charges
- 6 Inter-Company Loans
- 7 Leasing
- 8 The Audit Function
 - Planning an audit (sources of information available)
 - Performing the audit (the different types of audits)
 - Finalizing / Closing the audit
 - The Audit Report
- 9 Fee / Commission Income
- 10 Cost of Equity / Tier 1 Capital
- 11 Bad Debt Provisions / Bad Debts
- 12 Accounting for Provisions
- 13 Accounting Standard IFRS 9
- 14 Foreign Tax credits
- 15 Group Relief
- 16 Life Assurance & General Insurance