

# EXECUTIVE COUNCIL

## PUBLIC

<b>Title:</b>	Response to the Public Accounts Committee Report on Internal Audit Reports
<b>Paper Number:</b>	95/17
<b>Date:</b>	28 June 2017
<b>Responsible Director:</b>	Financial Secretary
<b>Report Author:</b>	Chief Internal Auditor
<b>Portfolio Holder:</b>	MLA Roger Edwards
<b>Reason for paper:</b>	This paper is submitted to Executive Council: To meet a statutory requirement
<b>Publication:</b>	This report should be made public after submission of the response to the Legislative Assembly on 27 July 2017.
<b>Previous papers:</b>	N/A
<b>List of Documents:</b>	Appendix A1 - A4 - PAC Letters Appendix B – FITB Response

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### 1. Recommendations

Honourable Members are recommended to approve:

- (a) The submission of the attached response to the Assembly;
- (b) That this report is made public after submission of the response to the Legislative Assembly on 27 July 2017.

### 2. Additional Budgetary Implications

2.1 None.

### 3. Executive Summary

- 3.1 The Public Accounts Committee submitted four letters (Appendix A1 – A4) to Members of the Legislative Assembly following their reviews of the following Internal Audit Reports and Annual Accounts:
  - FIGO;

- Fire and Rescue Domestic;
- FIPASS Follow-up report; and
- FITB Accounts for year ending 30 June 2016.

The PAC requested assurances from Members in relation to the FIGO Internal Audit Report and the FITB Accounts.

3.2 A response to the Assembly is provided below.

#### **4. FIG Response**

##### ***FIGO***

4.1 The letter made the following recommendation (Appendix A1): *“We would like MLAs to assure us that in the new contract for booking MOD flights there are clearly stated terms with regard to the receipt of revenue by the FIG and that relevant clauses will be properly applied.”*

4.2 The contract for booking MOD flights was agreed in 2014 for a period of 5 years. As part of the contract the contractor is required to forward payments to FIGO within 1 week of receiving the invoice. There have been delays in receiving payments as highlighted in the audit. FIGO will continue to raise invoices and chase any outstanding debts. However, a revised escalation process has now been implemented which will enable outstanding payments to be escalated within Treasury and appropriate action taken in accordance with the agreement.

##### ***FITB***

4.3 The letter made the following recommendation (Appendix A4):

4.4 *“PAC would like assurance from MLAs, by the end of April 2017, that appropriate steps have been taken to ensure that the FIG will not be exposed to any kind of legal action by the UK HMRC.”*

4.5 A response has been received from the FITB. (Appendix B). FITB have taken appropriate steps to obtain assurance that the relevant taxes have been paid. FITB have calculated the total liability and in the event that the taxes were not paid these could be met from FITB funds. FITB have also confirmed that any future UK based employees will be paid a net salary to ensure this situation does not arise again.

#### **5. Options and Reasons for Recommending Relevant Option**

5.1 None

#### **6. Resource Implications**

##### **6.1 Financial Implications**

None

##### **6.2 Human Resource Implications**

None

6.3 Other Resource Implications

None

**7. Legal Implications**

7.1 The Public Accounts Committee Ordinance 2009 section 14 (1) states:

*If the Committee, in reporting to the Legislative Assembly, recommends that the Government should or should not take a course of action, the Governor is to submit within six months a written response to the Assembly”.*

**8. Environmental & Sustainability Implications**

8.1 None

**9. Significant Risks**

9.1 None

**10. Consultation**

10.1 The PAC letters and responses have been shared and agreed with the FIGO Representative and the FITB CEO and FITB Financial Controller.

**11. Communication**

11.1 N/A

## Public Accounts Committee

Shackleton House PO Box 420 Stanley Falkland Islands FIQQ1ZZ  
Tel +500 22905 Email: pacsecretary@horizon.co.fk

Ref: PAC/17/02/02

8<sup>th</sup> February 2017

Members of the Legislative Assembly  
Gilbert House  
Stanley

Dear Members,

### FIGO

At our Committee Meeting held on 2<sup>nd</sup> November, the Chief Internal Auditor appraised us of an Internal Audit regarding FIGO.

We understand that the audit was satisfactory overall but wish to raise a concern. We noted unsatisfactory outcomes regarding the provision of a database dating back to 2012 which has resulted in large cashflow advantage to a contractor. We would like MLAs to assure us that in the new contract for booking MOD flights there are clearly stated terms with regard to the receipt of revenue by the FIG and that relevant clauses will be properly applied.

Yours sincerely,



Dr Andrea Clausen  
Chairman  
Public Accounts Committee

cc: Chief Internal Auditor

## Public Accounts Committee

Shackleton House PO Box 420 Stanley Falkland Islands FIQQ1ZZ

Tel +500 22905

Email: [pacsecretary@horizon.co.fk](mailto:pacsecretary@horizon.co.fk)

Ref: PAC/17/02/03

8<sup>th</sup> February 2017

Members of the Legislative Assembly  
Gilbert House  
Stanley

Dear Members,

### **Fire and Rescue Domestic**

At our Committee Meeting held on 2<sup>nd</sup> November, the Chief Internal Auditor appraised us of an Internal Audit regarding the Fire and Rescue Domestic Service.

We understand that the audit was satisfactory with some medium level recommendations concerning date stamping of invoices, stock recording and the review of training records but that overall the management is good. We are confident that these items have been noted by the department and have no further comments to make.

Yours sincerely,



Dr Andrea Clausen  
Chairman  
Public Accounts Committee

cc: Chief Internal Auditor

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Shackleton House PO Box 420 Stanley Falkland Islands FIQQ1ZZ

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Email: [pacsecretary@horizon.co.fk](mailto:pacsecretary@horizon.co.fk)

Ref: PAC/17/02/04

8<sup>th</sup> February 2017

Members of the Legislative Assembly  
Gilbert House  
Stanley

Dear Members,

### Follow-up Report – FIPASS

At our Committee Meeting held on 2<sup>nd</sup> November, the Chief Internal Auditor appraised us of a follow-up report on FIPASS.

We were pleased to see that three of the four recommendations made have been completely implemented with the fourth in progress. We have no further comments to make.

Yours sincerely,



Dr Andrea Clausen  
Vice-Chairman  
Public Accounts Committee

cc: Chief Internal Auditor

## Public Accounts Committee

Shackleton House PO Box 420 Stanley Falkland Islands FIQQ1ZZ

Tel +500 22905 Email: [pacsecretary@horizon.co.fk](mailto:pacsecretary@horizon.co.fk) Website:

[www.pac.org.fk](http://www.pac.org.fk)

Ref: PAC/17/02/05

8<sup>th</sup> February 2017

Mrs C Prior  
Clerk to the Legislative Assembly  
Gilbert House  
Stanley

Dear Claudette

### **Falkland Islands Tourist Board Accounts year end 30 June 2016**

In accordance with Section (80) of the Constitution I am pleased to report to the Assembly that the Public Accounts Committee has examined the above accounts and accompanying Audit Completion Report.

We have noted that there is a potential risk to the FIG with regards to payment made to the UK HMRC in respect of the Director of International Communications and Markets.

As is made clear by the report, Mazars “understand that the Director of International Communications and Markets, who is based in London, is paid Gross rather than being paid through the payroll and suffering the deductions of either local or UK payroll taxes.”

Mazars explain the situation with regard to the difference between self-employment status and the conditions needed to be considered an employee commenting “Our review would indicate that the Director of International Communications and Markets meets the definition of an employee as they have a contract or employment, they get paid holiday, the business provides them with the tools necessary for them to do their role and they only work for the Tourist Board. Therefore, as such, we would expect local taxes and NIC to be deducted at source from the payroll.”

Mazars go on to say “We understand from discussions however, that the Director of International Communications and Markets is responsible for their own taxes and the Board are relying on such payments to be made locally. However, should HMRC undertake a review of the payroll records for the Tourist Board, the Board may be liable for Employers NIC at 13.8% on all earnings over £676 per month for the tax year 2016/17 and could be liable for unpaid PAYE deductions if it was identified that the Director of International

Communications and Markets had not been paying local taxes and was, in fact, an employee of the Board. This would be plus interest and penalties.”

Mazars then “strongly advise the Board to obtain confirmation from the Director of International

Communications and Markets that such taxes have been paid in the UK under the Self-assessment system in place and to consider, through obtaining legal advice, whether the Director of International Communications and Markets meets the definition of an employee and therefore employers NIC payments are due.”

PAC would like assurance from MLAs, by the end of April 2017, that appropriate steps have been taken to ensure that the FIG will not be exposed to any kind of legal action by the UK HMRC.

The accounts will now be published on our website.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Andrea Clausen', written in a cursive style.

Andrea Clausen  
Chair

cc: CEO, FITB

## Appendix B

Andrea Clausen,  
Public Accounts Committee  
Shackleton House  
PO Box 420  
Stanley  
Falkland Islands  
FIQQ 1ZZ

Dear Andrea,

### **Falkland Islands Tourist Board Accounts year end 30 June 2016**

We are writing to assure you that in line with the matter highlighted by Mazars LLP in their Audit completion report and the resulting point in our management letter of representation that we have indeed taken the appropriate steps to gain assurance that the Director of International Communications and Markets has taken the necessary actions to ensure that the appropriate local taxes and NICs have been paid. Evidence to confirm that the appropriate taxes have been paid will be requested in due course from the Director.

Whilst we cannot offer unlimited assurance on any legal action from HMRC the arrangements made to pay the Director of International Communications a gross salary in the UK was made to reduce bureaucracy and have been clearly documented as part of his contract. We are therefore satisfied that the responsibility for ensuring local taxes and NICs has been mutually agreed with the Director in questions as his responsibility and will continue to be the case. Legal advice has not been sought as FITB agree that the Director should have been classified as an employee despite his contract which states otherwise. Evidence that taxes have been paid will be requested from the Director, FITB have calculated the total liability in the event that taxes are not paid and these could be met from FITB funds if necessary.

Any future UK based employees will be paid a net salary to ensure that this situation does not arise again.

Yours sincerely,

Jo Muncaster  
Financial Controller, FITB