

# ATAF-TARC WEBINAR

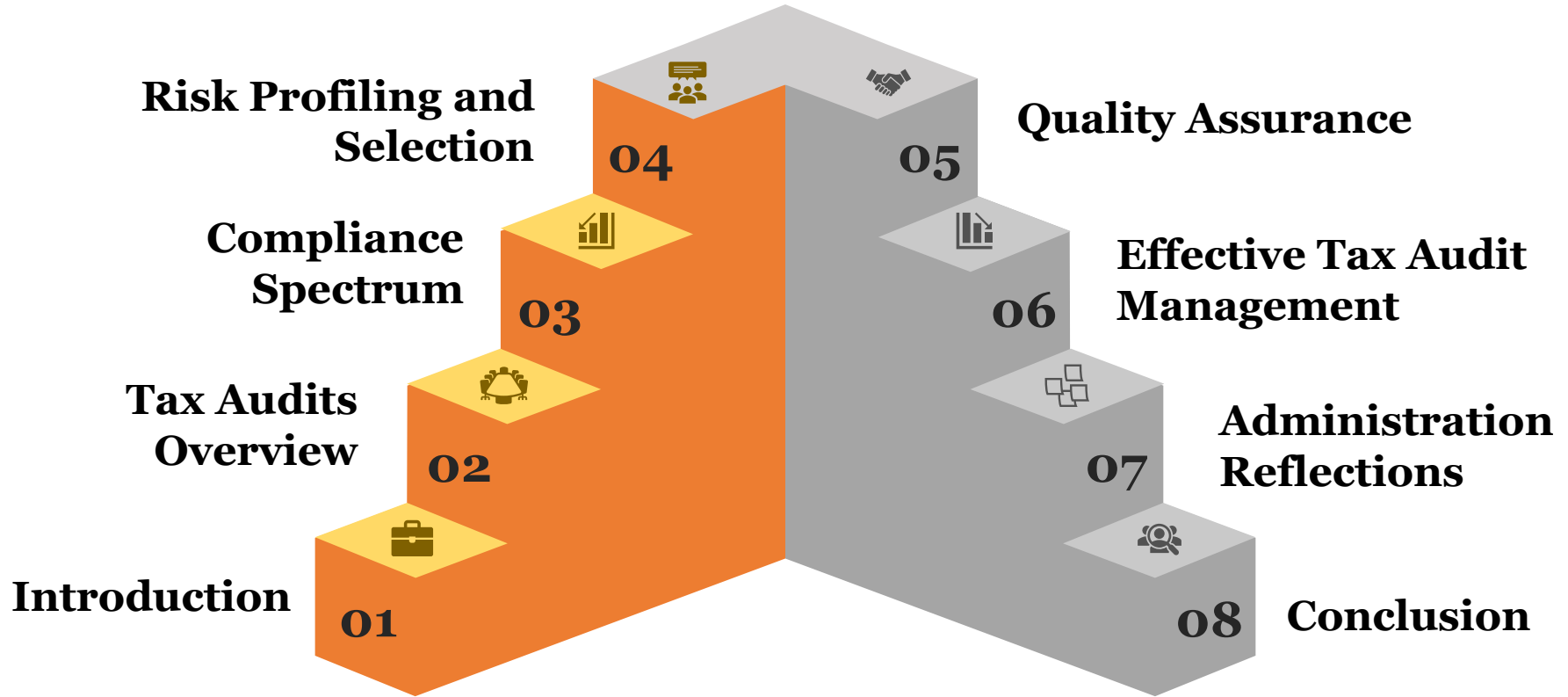
## **TAX AUDITS IN AFRICA: POLICY AND ADMINSTRATION REFLECTIONS**



*Enhancing the Effectiveness of Tax  
Audits Through Tax Audit Quality  
Assurance*

**CPA Maurice Oray**  
**Deputy Commissioner - Corporate**  
**Policy Division**  
**Kenya Revenue Authority**

# Presentation Outline



# Introduction

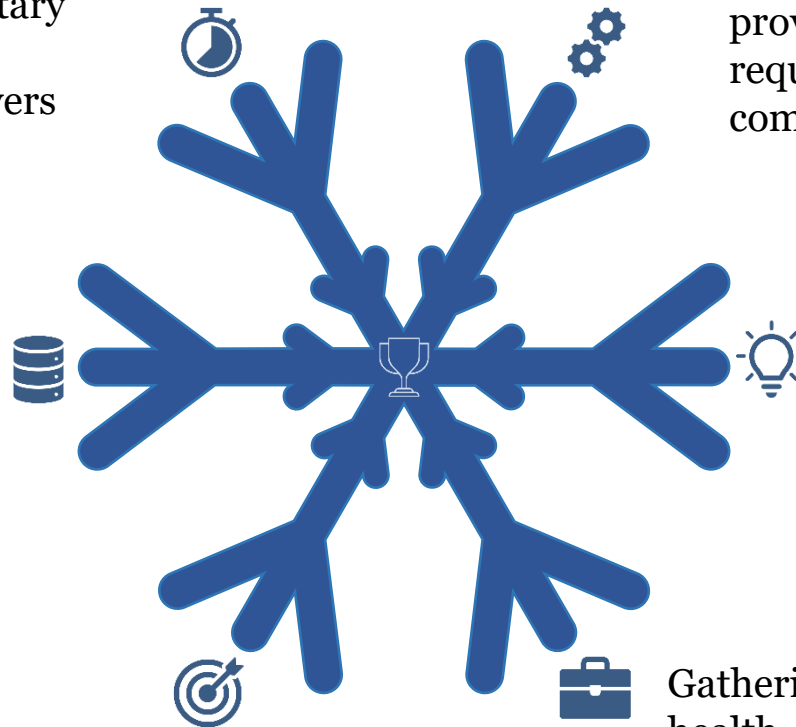
- Most countries including Kenya use self-assessment system.
- self-assessment systems is based on the principle of complete and accurate reporting by taxpayers to ensure that every citizen declare and contribute their fair share.
- some taxpayers, however, do not provide complete and accurate information in their declaration leading to less than full compliance.
- Less than full compliance limit the capacity of government to raise revenue for developmental purposes.
- Tax revenue plays an important role in sustaining economic development.
- Tax audit is considered instrumental in detecting and deterring non-compliance.
- Well designed and managed, tax audit programs can have far wider impact than simply raising additional revenue.
- Tax audit is an essential compliance tool in most tax jurisdiction.

# Aims of tax audits

- ❖ Promote voluntary compliance.
- ❖ Educate taxpayers

providing remedial action required to put taxpayers on a compliant footing.

- ❖ Gathering intelligence



Detect non-compliance at the individual taxpayer level

- ❖ Guiding on what procedural or other changes are necessary to facilitate counter-evasion activities.
- ❖ Evaluating and recommending for prosecution where strong indications of serious tax evasion/avoidance emerge.

Gathering information on the health of the system (including patterns for taxpayers compliance behavior).

# Tax Audits Overview

## Types of Tax Audits

Issue & data-oriented audit

comprehensive or full audit

fraud investigation

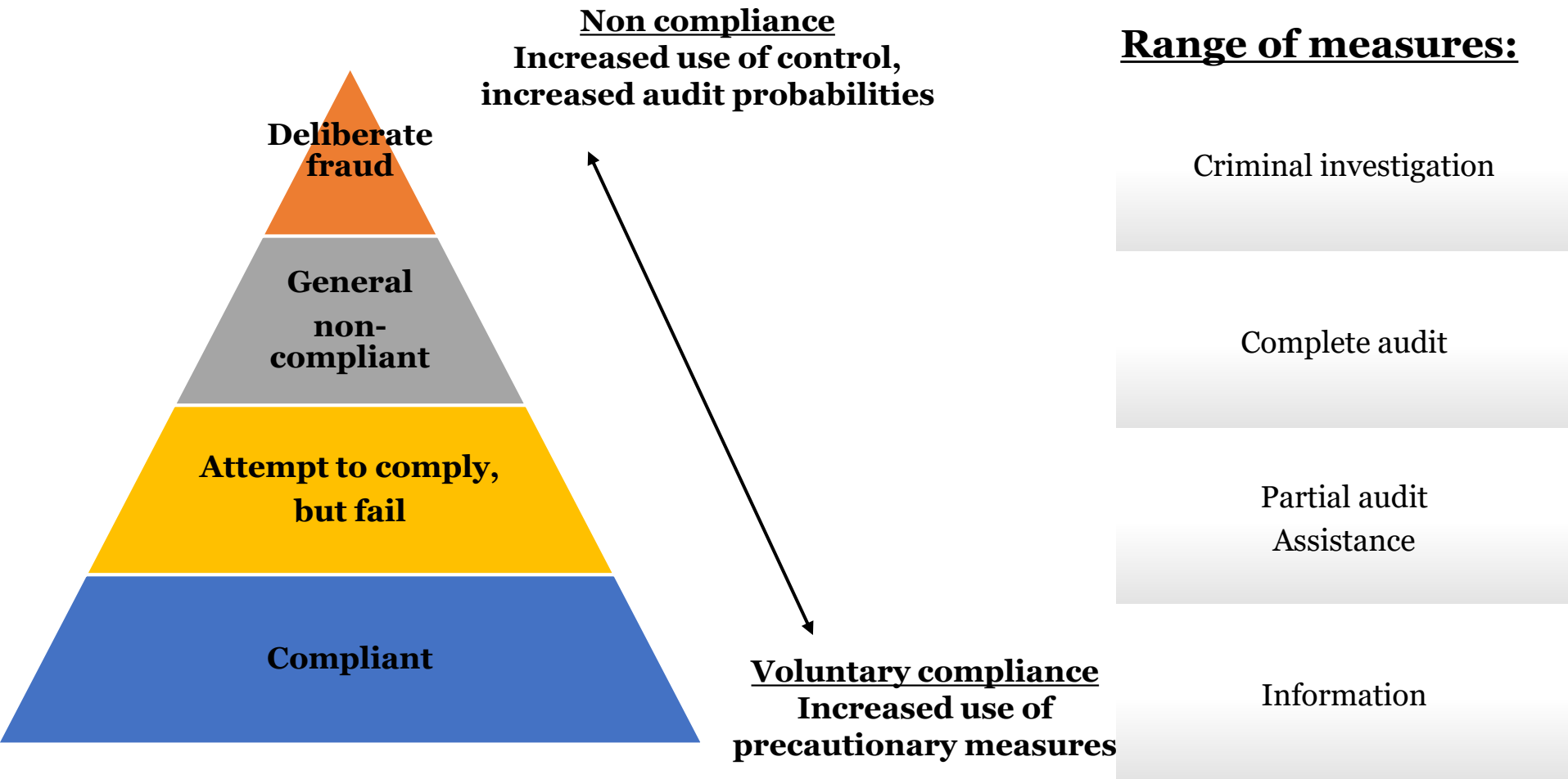
## Supporting Tools

- Risk based audit profiling – use of risk parameters.
- Use of industry benchmarks – input/output, excise sector, etc.
- Segmented audit technique guides (ATG) – sectors such as telecommunication, Extractive, service sectors.
- Computer Assisted Audits Techniques (CAATs) - an accelerated and sophisticated method of reviewing taxpayer data in an electronic format
  - allows to obtain, review, analyze, and output the results more quickly and accurately.
  - It assures a timely, efficient, and accurate audit.
- The use of information and communication technology (ICT) – DWBI.
- 3<sup>rd</sup> Party Data – matching cases.



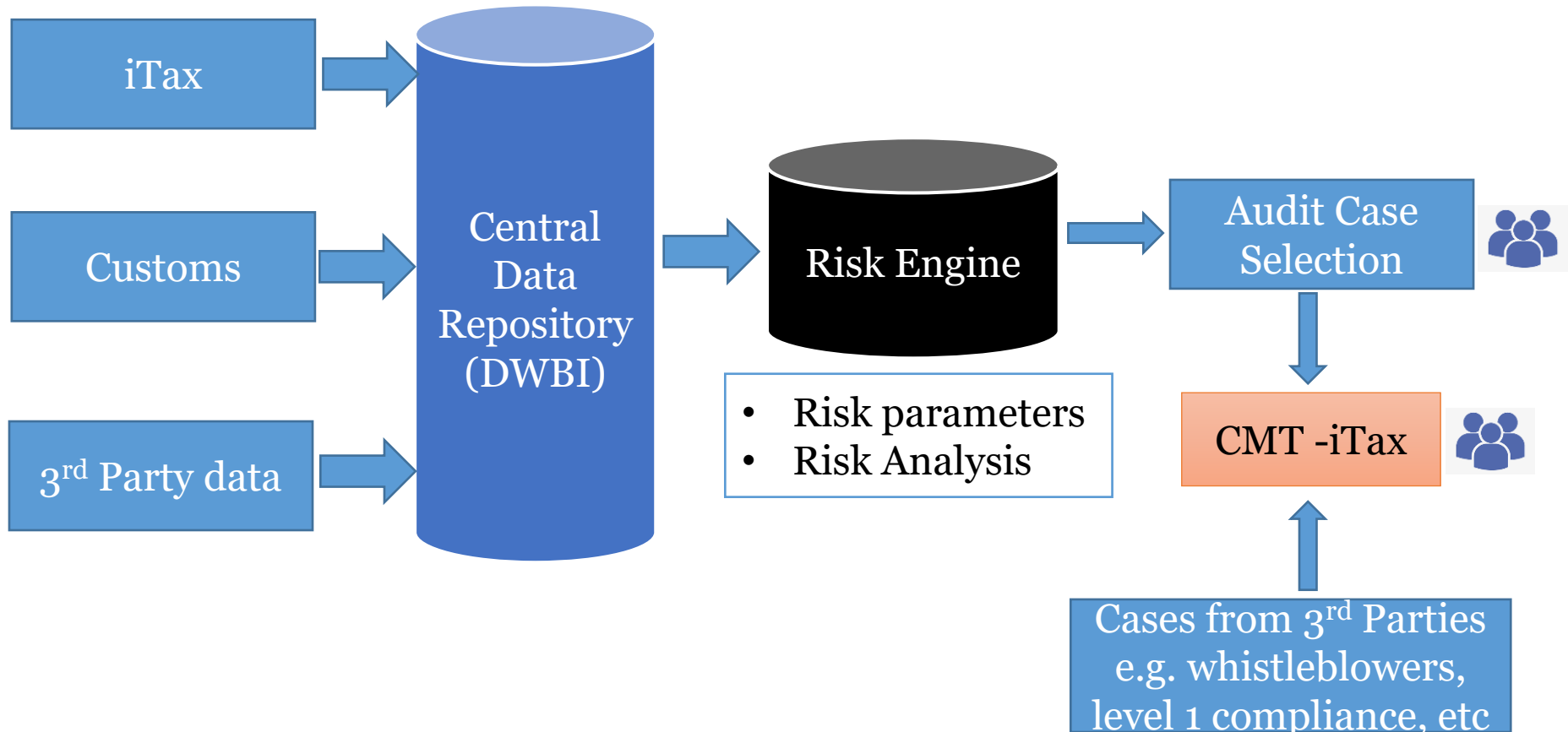
Overview of audit process

# The compliance spectrum of taxpayers



*A taxpayer's risk is directly related to his willingness to comply with the tax obligations (registration, filing, reporting and payment) and the respective consequences of his/her noncompliance.*

# Audit case risk profiling and selection



- **All steps of the audit procedure are integrated into the iTax system.**
- Steps include: assigning audit cases; preparing of an audit case plan, assigning cases to auditors, assigning cases to audit centers, selection of audit types including comprehensive audit, source of audit cases, creating a taxpayer profile and issuing automated audit notices to taxpayers

# Objectives of Tax Audit Quality Assurance

**Quality Assurance** –review to be carried out to evaluate the performance of the tax audits in terms of their adherence to the process of audit prescribed in the Audit Manual

The prescribed process is actually being followed in the conduct of audit by the field formations

High standards of professional conduct are being exhibited by the auditors

Tax legislations are appropriately applied and such applications

The staff is adequate and involvement of the senior staff is commensurate with the expected participation norms

The audit process is being properly documented by the auditors

Basic infrastructural facilities have been provided to the audit formation





# Tax Audit Quality Assurance Practices

Risk-Based Audit Selection System - identify the most risky returns/declarations or non-compliant taxpayers for audit.

Legal Framework – clarity of the laws to guide tax audits and regulation (maintaining of books, gives taxpayers a right of appeal; places a burden of proof on the taxpayer; and, applies sufficient penalties to deter non compliance)

Modern case management process - do away with bureaucratic multilevel approvals prior to audits being commenced and completed.

## Structure and Management

- Segregation of duties for the audit function between headquarters and regional/field offices.
- Policy and operational tasks are not carried out by the same personnel.
- Independent case selection

A clear set of roles and responsibilities for every aspect of the workflow process – managerial and personal accountability at every level.

Tax administration should have procedures, manuals, and guidelines in place setting out the best practices to be followed.

# Effective tax audit management

Scope of audits - reflect the risks to be addressed and desired audit coverage of the taxpayer population.

Monitoring and control of audit work at both Audit Centres and Head Office.

A clear set of roles and responsibilities for every aspect of the workflow process – managerial and personal accountability at every level.

Methods and techniques - range of investigative and analytical approaches are adopted by auditors to enhance identification of issues.

Have a a two-stage quality review -

- all should be subject to a supervisor review, and
- a sample should be selected for a strategic review.

Computer system flags an irregularity

Performance Management – have metrics for tax audit officers e.g tax yield.

# Administration Reflections - Kenya

Comprehensive Annual national audit work plan.

VAT Audit assessment (VAA) – matching inputs and outputs.

Enhanced system to manage risk profiling & audit cases.

Use of industry benchmarks in tax audits.

Restructured the tax audit function between July 2017 to July 2020 –

- Audits did continue in some topical areas such as transfer pricing
- The audits was done at regional level while stations conducted compliance checks
- Cases are only assigned through “iTax” system – only cases assigned will be audited.

Difference levels of review – supervisor, team reviews and forums.

# Administration Reflections - Kenya

Independent review of audit objections – dispute resolution mechanisms.

Tax audits are subjected to internal audits, QMS audits, Auditor General.

Referral of Audit cases – technical forum/guidance

Use of Post Audit Clearance (PCA) in cases of customs.

IMF TADAT – Reviewed Kenya's Tax Audit processes.

Tax audit capacities – OECD training on Tax Inspectors Without Borders.

# Conclusion

**Audits are resource intensive therefore few are usually conducted** – invest in large scale Computer Assisted Audit programs, system irregularities detection.

**E-commerce** - requiring tax administrations to modernize audit methodologies and approach and enhance those used for traditional activities of the taxpayers.

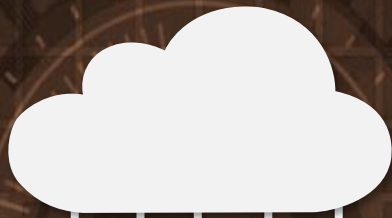
**Optimize audit yield** - adopt risk scoring using sophisticated techniques drawing information from different sources.

**A heavy presence of informal activity** - leaves less room for tax audits due to incomplete records and visibility (profiling becomes a challenge due to limited information).

Peer review and benchmarks

Upscale necessary training - specialist areas, such as computer auditing, international accounting standards, and transfer pricing.

**Quality Assurance of tax audits** – ATAF should consider establishing a pool of tax audit quality assurance experts.



THANK YOU

