ATAF-TARC WEBINAR
TAX AUDITS IN AFRICA: POLICY AND ADMINISTRATION REFLECTIONS

Enhancing the Effectiveness of Tax Audits Through Tax Audit Quality Assurance

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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

- 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.

Detect non-compliance at the individual taxpayer level

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.
- 3rd Party Data – matching cases.
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.

**Range of measures:**
- Criminal investigation
- Complete audit
- Partial audit
- Assistance
- Information

**Compliant**

Voluntary compliance
Increased use of precautionary measures

**Attempt to comply, but fail**

Deliberate fraud

Non compliance
Increased use of control, increased audit probabilities

**General non-compliant**

Increased use of control, increased audit probabilities

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.**
- **The staff is adequate and involvement of the senior staff is commensurate with the expected participation norms.**
- **Tax legislations are appropriately applied and such applications.**
- **Basic infrastructural facilities have been provided to the audit formation.**
- **The audit process is being properly documented by the auditors.**
# 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 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.
- 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.

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

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

**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