

## Audit information sheet

*Inland Revenue collects tax for the government. The best way of achieving this is when people willingly comply with the tax laws. We call this 'voluntary compliance'. We help people to comply through the information available on our website, our booklets and guides, our advisory services and contact centres, and by undertaking reviews and audits.*

### What is an audit?

An Inland Revenue audit is an examination of your financial affairs to check that you've paid the correct amount of tax, and you're complying with the laws. An audit might simply be a check of a VAGST registration, or it could be a full examination of business and personal records. It may also include an examination of your computerised accounting systems from a tax perspective using specialised computer tax auditing techniques.

### How you are selected for an audit?

We use a range of methods for selecting audits, such as computer profiling to identify inconsistencies or changes from your previous return information, your own compliance record, reviewing transactions in another audit or examining a particular issue or problem affecting a group of customers or an industry.

We review our methods regularly to keep them up-to-date. Please note however, that we are not obligated to tell you the reason we select you for an audit although we will indicate areas we are likely to review. An audit may cover additional areas to those indicated if this is necessary.

### How long does an audit take?

There are no set timeframes as the length of time is affected by a range of factors including; the size of the business, the standard of your records, the number of return periods under review, type of transactions reviewed and your cooperation.

The investigator will discuss an estimated timeframe for your audit during the initial interview.

We recognise that an audit can affect your business routine so we'll try to cause as little disruption as possible.

### What is a voluntary disclosure?

We encourage you to tell us if you know there is an error in your tax affairs before we find it. If you tell us about an error, it's called a 'voluntary disclosure'.

There are a number of advantages in making a voluntary disclosure rather than waiting for us to find a discrepancy during an audit. A major advantage is that any shortfall penalty charged on a related tax shortfall may be reduced by up to 10%.

In order for the reduction to apply, where you have been formally notified of an investigation, you must make your voluntary disclosure at the initial interview or prior to the review of records stage (whichever is the earlier). Refer to Operational Statement GEN 003 – Voluntary Disclosure for more details and IR49 form to be used.

### How audits are carried out

Each audit is unique and is based around a customer's specific tax affairs, although the basic procedures are the same for most audits:

1. We'll notify you (and your tax agent) that you have been selected for an audit.
2. The investigator will arrange an initial meeting with you to discuss your business and the audit in general. This is also an opportunity for you to make a voluntary disclosure if required.
3. We may decide to review your computer accounting systems in detail. This involves our specialist Compliance Technology & Audit staff. We will advise you if this is required.
4. After the initial meeting, the investigator will arrange for and begin the review of your accounting or other relevant records such as ledgers, journals, invoices, bank accounts and payroll information. This is an important part of an audit and usually takes the most time. We may need to take your records back to our office for further review. If we do, we'll give you a receipt detailing the items taken.
5. We may contact your employees, suppliers and other 3<sup>rd</sup> parties such as your bank to confirm the information you have provided or to seek additional information that may be required.
6. We will keep you informed of the progress of the audit and will look to work through any issues with you (or your agent) as the audit progresses.
7. We usually arrange a meeting with you near the end of the audit to discuss any issues that haven't been resolved and any adjustments that may be required to your tax.
8. If adjustments are required to the returns filed we'll explain the reason for this and issue an assessment.
9. If you don't agree with the changes we have assessed, you will need to lodge an objection within one month of the date of the assessments we have made.
10. A final audit letter will be issued to confirm the audit outcomes, whether any shortfall penalties have been applied and the objection process should you disagree with our assessments.

## How we'll work with you

### The investigators role

You can expect our investigator to:

- be prompt, courteous and professional
- follow through on what they say they will do
- respect your privacy and treat all information about you as confidential.

### Your role

We do expect you to be courteous, honest and give us reasonable assistance during the review. This includes giving us access to your business premises and supplying information and documents.

We don't expect you to stop all activity and focus on the review, although your cooperation will mean we can finish the audit as quickly as possible with the least disruption to you.

The investigator may ask questions on your private affairs, eg. you may be asked what you spend your money on, what bank accounts you have and what leisure activities you do. We ask these questions to check that you are living within the level of income you have returned.

### Solving problems

You and the investigator should work together to sort out any issues or problems that may arise during the audit.

If this isn't possible you are encouraged to contact the Principal Investigator in the first instance or the Assistant CEO of Audit and Investigations if the matter remains unresolved. The investigator will provide the contact details of their Principal and Assistant CEO at the time of the audit.

### Assessments

Where an adjustment to your tax to pay is required, we'll send you a notice of assessment that confirms the adjustments made. Agreement is reached when you don't lodge an objection or when we have resolved any objections lodged by you in which a final notice of assessment is issued and statement of account showing the new amount of tax to pay and when it is due, or the amount to be refunded.

### Shortfall Penalties & Prosecution

A shortfall penalty may be imposed as a percentage of the tax shortfall (ranging from 0% to 50% of the tax amount) depending on how the tax shortfall occurred. If we are considering a shortfall penalty, we'll discuss this with you and ask you to provide an explanation why the shortfall has arisen.

It's a serious matter if you deliberately obstruct an Inland Revenue investigator or officer as they carry out their audit and may result in increased shortfall penalties or prosecution.

We may also consider prosecution if we find that you have willingly or recklessly provided a false tax return, not filed a return when required, not deducted taxes or have not paid taxes deducted to Inland Revenue.

### Objections

If you disagree with an assessment we have issued, you will have 1 month from the date of the Notice of Assessment to lodge your objection.

When making an objection, it is important that:

- i. The objection is lodged using the approved form (IR52); and
- ii. You provide sufficient information and detail, including evidence to support your grounds for objection.

An objection can be considered invalid if you do not provide the above required details.

After reviewing your grounds for objection, we will respond in writing to confirm whether we disagree or agree either partially or in full.

Should you disagree with the outcome of the objection, you can appeal the decision before the Tax Tribunal.

### Tax Tribunal

The Tax Tribunal is made up of a Supreme Court Judge and two members from the private business community with experience in taxation matters.

Whilst you can object to any "tax decision" you can only utilise the Tax Tribunal to challenge an "Objection Decision". So you must ensure that you have gone through the Objection process and received your "Objection Decision" before making an application to the Tax Tribunal.

To make an application to the Tax Tribunal you will need to complete and lodge the prescribed form (IR53), which is available at IRS and pay the prescribed fee of \$50.

The Tax Tribunal has the power to:

- Confirm, reduce, increase or change the assessment to which the Objection Decision relates; or
- Return the matter to the Commissioner and direct that the Objection Decision is reconsidered.

### Other sources of information

If you have questions throughout the audit process, please ask the investigator.

Other sources of information include:

- Your tax agent or accountant
- Our website [www.revenue.gov.ws](http://www.revenue.gov.ws) which holds our investigations standard practices.