

SPECIAL REPORT No 1/2023

Tax audits: How is their effectiveness ensured?

EXECUTIVE SUMMARY

The audit objective was the evaluation of the Independent Authority for Public Revenue (IAPR) systems for the selection and execution of effective tax audits, during the 2020-2021 period. In general, the audit concluded that significant progress is being made in strengthening tax audits' effectiveness as well as audit procedures' integrity. However, there is still room for further improvement of the risk identification and management procedures.

- I.** "Risk factors" are not sufficiently targeted to the type and size of businesses; not all audit services are able to guarantee an equivalent treatment of tax evasion risks.
- II.** Audit services modify the priority list with stereotypical reasoning, i.e., by placing their pending cases, mandatory audits and the cases subject to a statute of limitation.
- III.** No rules have been established nor are there sufficient safeguards to ensure justification for bypassing audits included in the priority list.
- IV.** Audit agencies were provided with a wide margin of discretion with regard to the selection of cases to be audited, thereby not ensuring equitable treatment of taxpayers throughout the country.
- V.** The tax audits carried out for the implementation of the prioritized cases list are not targeted solely to the specific tax-evasion risk previously assessed.
- VI.** The Independent Authority for Public Revenue (IAPR) administration has not established a strict framework for the implementation of audit actions by all audit services.
- VII.** The audit procedure did not identify any a posteriori evaluation process of the effectiveness of the "risk factors" established for the selection of cases to be audited.
- VIII.** The system for ensuring the audit personnel competences needs continuous development.
- IX.** The system for ensuring the integrity of the tax audit mechanism shows weaknesses.

The Court of Audit noted the progress made by the Independent Authority for Public Revenue (IAPR) since the start of the audit in March 2022 and the willingness of its management to continuously improve the effectiveness of tax audits' systems.