ASEANSAI

Research Project Report on Revenue Audit

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ACKNOWLEDGEMENT

The Research Project on Revenue Audit was one of the ASEANSAI Knowledge Sharing Committee activities endorsed in the Committee's Work Plan 2014 - 2017 by the 2nd ASEANSAI Assembly in Brunei Darussalam in November 2013. This research project was planned to be implemented in 2016 and a total of seven (7) members SAI joined this research. The participating SAIs are Cambodia, Indonesia, Lao PDR, Malaysia, Philippines, Thailand and Vietnam.

The 1st Focus Group Discussion (FGD) was conducted in March 2016 to discuss the design and framework of the research project. Each SAI was requested to prepare a country paper on the practices of revenue audit to supplement the research. During the 1st FGD, it was unanimously agreed that a Generic/General Guideline on Revenue Audit will be developed. The purpose of the guidelines is to facilitate revenue audit and to assist SAIs in conducting an effective audit on government revenue. A 2nd and 3rd FGD was duly held to finalize the research project and the Generic/General Guideline on Revenue Audit.

SAI Malaysia as the project lead would like to express its deepest gratitude to the heads of participating SAIs who provide the full support and cooperation for the completion of the research project and the Generic/General Guideline on Revenue Audit. Last but not least, SAI Malaysia would also like to record its sincere appreciation to SAI Lao PDR and SAI Cambodia for hosting the 1st and 2nd FGD, respectively.

I. PROJECT BACKGROUND

1. Introduction

1.1. ASEANSAI was formed on 16 November 2011 in Bali, Indonesia as a professional organization which is autonomous, independent and non-political. Among its objectives are to build capacity and promote cooperation and understanding in the field of public sector auditing among its members through exchange and sharing of experiences as well as lessons learnt.

1.2. The ASEANSAI Knowledge Sharing Committee (KSC) Work Plan 2014 - 2017 was approved during the ASEANSAI 2nd Assembly in Brunei Darussalam in November 2013. Revenue Audit is one of the projects planned in 2016 and the project lead is SAI Malaysia. The selection of the project was based on the needs survey conducted among ASEANSAI.

1.3. The FGD were held on the following dates and venues:

1st FGD	2 - 4 March 2016 at Don Chan Palace Hotel, Vientiane, Lao PDR
2nd FGD	18 - 20 July 2016 at Cambodiana Hotel, Phnom Penh, Cambodia
3rd FGD	24 - 26 October 2016 at Royale Bintang Hotel, Kuala Lumpur, Malaysia

2. Project Objective, Scope and Approach

2.1. Governments today face increasing demands for services by the public in an environment of limited resources. Thus, by ensuring tax and revenue systems are managed effectively, government can maximize revenues in order to fulfill its responsibility for the wellbeing of her citizens by ensuring the security of a state; manage the economy to bring about growth and development as well as to maintain and improve the quality of the environment.

2.2. Under Section 20, ISSAI 1 (The Lima Declaration), SAIs shall be empowered to audit the collection of taxes as extensively as possible and, in doing so, to examine individual tax files. Besides that, it states that tax audits are primarily legality and regularity audits; however, when auditing the application of tax laws, SAIs shall also examine the system and efficiency of tax collection, the achievement of revenue targets and, if appropriate, shall propose improvements to the legislative body.

2.3. As revenue or tax collection has been cited as one of the high risk areas that are prone to leakage and mismanagement, revenue audit plays a significant role in the field of public sector auditing. However, with limited auditing guidance materials available, there is a need for ASEANSAI to collaboratively address this issue to overcome the shortcomings and promote best practices in revenue audit.

2.4. This research aims to enhance the audit capability of ASEANSAI member countries in auditing revenue by:

- exchanging and sharing of knowledge and current practices; and
- developing a general guideline on revenue audit.

2.5. The scopes of the project include the audit of revenue on:

- custom and excise duties;
- goods and services tax or value added tax; and
- income tax.

2.6. To achieve the said objectives, participating SAIs were required to write a country paper to provide the background information on revenue audits carried conducted by the respective SAI. The outline of the country paper includes SAI's mandate; auditing guidelines used; audit objectives, scope and methodology; audit findings; recommendations; challenges and lesson learnt; best practices; and the way forward. Each aspect mentioned in the respective country papers was further deliberated and clarified by the project team. In parallel, the project team developed the generic guidelines on revenue audit. The task of writing up the content of the guideline was distributed among participating SAIs. The chapters and contents of the guidelines were thoroughly discussed in the three FGDs.

3. Summary of Project Findings

3.1. Broadly speaking, public revenue is money received by a government. Revenue audit is conducted to ensure revenue that should be collected has been effectively and efficiently collected and accounted for properly.

3.2. All participating SAIs in this research project are empowered to carry out financial, compliance and performance audits. It is observed that revenue audits carried out by SAIs is in conformity with the respective provisions of the SAI's national constitution and Audit Act/Law which gives the respective Auditor General a wide discretionary powers in deciding what, how and when to audit and to report. However, the mandate of SAI Malaysia, Philippines and Thailand specifically mentioned revenue audits. As stated by INTOSAI's Lima Declaration of Guidelines on Auditing Precepts in 1977, SAIs should be empowered to audit the collection of taxes as extensively as possible and, in doing so, to examine individual tax files. Here, members of ASEANSAI that participate in this research project are empowered to examine individual tax files. However, SAI Indonesia and Philippines face constraints in examining individual tax files.

3.3. Only three SAIs, namely SAI Malaysia, Philippines and Vietnam had developed specific auditing manual/guidelines to facilitate revenue audits on income tax, VAT/GST as well as custom duties.

3.4. Even though each participating SAIs has different audit objectives on revenue audit, the gist of these objectives is to ensure that revenue that should have been collected, has been collected and accounted for properly and timely. Meanwhile the scope of revenue audits conducted by SAI Lao PDR, Malaysia and Vietnam is broad, that is all receipts from direct and indirect taxes are audited. As for other SAIs, their audit scope is limited to either the income tax, or custom duties or excise duties. Audit methodologies used by respective SAIs are related to audit scope. However, auditing conducted by SAIs are in compliance to International Standards of Supreme Audit Institutions (ISSAI) whether the revenue audits conducted are through financial, compliance or performance audit. Here, the fundamental principles related to the audit process under ISSAI 100 are adhered to, namely, planning, conducting, reporting and follow-up.

3.5. Some of the common audit findings of revenue audits are inaccurate or incomplete revenue estimates; shortfall in revenue collections; non-compliance of taxation laws and regulations that resulted in revenue leakages; delay in transferring tax revenue to National Treasury; internal control weaknesses; financial records not up-dated; errors in tax assessment; inappropriate goal settings by taxation authorities; inefficiency in revenue process and collections; and ineffective mechanism in detecting non-compliance.

3.6. The respective SAIs made recommendations for improving revenue collections to the management. Beside recommending tax authorities to enforce tax provisions and regulations strictly, other common recommendations were to prepare realistic revenue estimates; ensure timeliness in transferring revenue to National Treasury; tighten or improve internal controls; prepare or update SOP; review goal settings and evaluate performance of revenue collectors; enhance monitoring; and collaboration between tax authorities and other related ministries.

3.7. Common challenges faced by revenue auditors were auditing capacity such as lack of human resource, skills, experience, and auditing tools like Computer Assisted Audit Tools and Techniques (CAATTs); lack of cooperation from tax authorities; and lack of information sharing among tax agencies.

3.8. Based on the country papers from SAIs, among the lessons learnt from revenue audits were auditing capacity on revenue audits needs to be enhanced as revenue leakages cannot be detected solely by the tax authorities; auditors needs to be an expert in taxation and conduct risk analysis to identify matters of potential significance or line of audit inquiry; and evaluate revenue information technology (IT) systems and its applications.

3.9. Several best practices have been identified in this research such as conducting yearly workshops; coaching and mentoring of auditors; enhancing human resources management (such as recruiting auditors with professional degrees majoring in taxation); audit findings used as basis by parliament to approve the State budget; developing the Auditor General's Online Dashboard to monitor follow-up; carrying out horizontal audits (that is an evaluation of one process or activity across the ports/sub-ports); and creating a database related to government revenue.

3.10. To conclude, revenue auditors play an important role in detecting revenue leakages and thus ensure the government's fiscal policy targets are achieved. Among the way forward suggested to enhance revenue audits are to develop the ASEANSAI General Guidelines on Revenue Audit; individual SAI need to develop or update specific auditing guidelines on taxation, VAT/GST and customs duties; and to share knowledge and ideas in specific revenue audits such as income tax, VAT and custom and excise duties.

4. Project Limitations and Further Consideration

4.1. The research project summarizes and presents the practices on revenue audit based on the country papers and discussions in the FGDs. This approach somehow affects the accuracy of the facts and information in the report because the maturity of SAIs in carrying out revenue audit varies. Languages also posed a challenge in conducting the research as it limits the team from obtaining more detailed information.

4.2. Thus the project team only focused on a general guideline of revenue audit. In the future, the project team proposes further work to discuss and share knowledge on the audit of specific revenue common to all participating member SAIs, for example, Income Tax as well as Value Added Tax (VAT), Goods and Services Tax (GST) or Custom Duties.

II. REVENUE AUDIT

This part provides the definition and principles of public revenue, definition of revenue audit; the SAI's mandate in auditing revenue; auditing guidelines; the objectives of revenue audit; and its scope and methodology.

1. Definition of Public Revenue

1.1. Public revenue is defined as money received by a government. It is the most important tool of the fiscal policy of the government as without it, the government will not have the funds to perform political, social and economic duties so as to maximize social and economic welfare and well-being of her citizens.

1.2. Prof. Dalton has defined public revenue in two senses - broader and narrow senses[1]. In a broader sense, it includes all the income and receipts irrespective of their sources and nature, which the government happens to obtain during any period of time. In the narrow sense, it includes only those sources of income of the government which are not subjected to repayment.

1.3. Revenues earned by the government are received from sources such as taxes levied on the incomes and wealth accumulation of individuals and corporations and on the goods

[1] Dalton, H. (2003). *Principles of public finance* (Vol. 1). Psychology Press.

and services produced, exports and imports; non-taxable sources such as licenses, permits, services rendered, proceed of sales, rentals, interest and return on investment, fine and penalties, contributions and compensations received locally and from abroad; and capital receipts in the form of external grants and debts from international financial institutions.

2. Definition of Revenue Audit

2.1. Revenue audit is a systematic review or examination of assessment records, collection reports, and other accounting records for the purpose of determining whether revenues are properly assessed, collected and accounted for in accordance with laws and regulations, and whether these revenues are fairly presented in the financial statements.

2.2. For effective audits, one needs to understand clearly the broad policy framework within which the agency is functioning, the law, rules and procedure that govern it and its decision, and organization and administration of the agency. It is also important for the auditor to know what are the basic records and other important documents which the agency is supposed to keep and the purpose for which these are being kept.

2.3. A complete revenue audit includes an evaluation of the internal controls of the revenue administration system, determination of adherence to the appropriate laws, rules and regulations, and assessment of efficiency in revenue-generating activities. In short, revenue audit is to ensure revenue that should be collected has been collected and accounted for properly.

3. Audit Mandate

3.1. All participating SAIs in this research project are empowered to carry out financial, compliance and performance audits. It is observed that revenue audits carried out by SAIs is in conformity with the respective provisions of the SAI's national constitution and Audit Act/Law which gives the respective Auditor General a wide discretionary powers in deciding what, how and when to audit and to report. The relevant audit mandates are as follows:

Country	Constitution/Act/Law
Cambodia	Law on Audit of the Kingdom of Cambodia
Indonesia	• Indonesia 1945 Constitution • State Finances Law No. 17/2003 • State Financial Management and Accountability Law No.15/2004 • Badan Pemeriksa Keuangan Act (Law No.15/2006)
Lao PDR	• Constitution of Lao PDR • Audit Law (No 16)
Malaysia	• Federal Constitution • Audit Act 1957
Philippines	• The 1987 Philippine Constitution • Presidential Decree No. 1445
Thailand	• Constitution of the Kingdom of Thailand • Organic Act on State Audit, B.E. 2542 (1999)
Vietnam	• The Constitution of the Socialist Republic of Vietnam (2013) • Law on State Audit (Revised 2016)

3.2. However, only the mandate of SAI Malaysia, Philippines and Thailand specifically mentioned revenue audits as follows:

a. Malaysia:

"The Auditor General shall in his audit make such examination as he may deem necessary to ascertain whether all reasonable precautions have been taken to safeguard the collection and custody of public moneys or other moneys subject to his audit" [*Sub-section 6(a), Audit Act 1957*]

b. Philippines:

"The Commission shall have authority to examine books, papers, and documents filed by individuals and corporations with, and which are in the custody of, government offices in connection with government revenue collection operations, for the sole purpose of ascertaining that all funds determined by the appropriate agencies as collectible and due the government have actually been collected, except as otherwise provided in the Internal Revenue Code of 1977" [*Section 28, Presidential Decree No. 1445*]

c. Thailand

"Office of the Auditor General has the powers and duties to audit the collection of taxes, duties, fees and other revenues of audited agency and give opinions as to whether it is in compliance with the laws, rules, regulations or resolutions of the Council of Ministers; in this instance, the Office of the Auditor General shall also have the power to audit the assessment of taxes and duties and the collection of fees and other revenues made by the audited agency, and the audited agency shall disclose information obtained from tax payers, payers of fees or any other money to Office of the Auditor General as requested, and it shall be deemed that the disclosure of such information is a lawful act" [*Sub-section 39(2)(e), Organic Act on State Audit B.E.2542 (1999)*]

3.3. As stated by INTOSAI's Lima Declaration of Guidelines on Auditing Precepts in 1977, SAIs should be empowered to audit the collection of taxes as extensively as possible and, in doing so, **to examine individual tax files**. Here, members of ASEANSAI that participate in this research project are empowered to examine individual tax files. However, SAI Indonesia and Philippines faces constraints in examining individual tax files. Here, SAI Indonesia needs an approval to access specific individual tax file from the Minister of Finance. Meanwhile, SAI Philippines has yet to finalize the guidelines on the audit of tax assessments.

4. Auditing Guidelines

4.1. As a whole, respective SAIs do not have a general guideline on revenue audit. However, audits on specific revenues such as income tax, VAT/GST and custom duties are carried out in conformity with the respective SAI's auditing standards which are prepared based on ISSAI.

4.2. SAI Malaysia, Philippines and Vietnam have developed specific auditing manual/guidelines to facilitate revenue audits on income tax, VAT/GST as well as custom duties.

4.3. Other SAIs like Cambodia and Lao PDR use audit program for any revenue audits. SAI Indonesia uses either financial and compliance audit manual and SAI Thailand conducts revenue audit as part of financial audit in revenue cycle for annual financial statement of government agencies.

5. Audit Objectives

Even though respective SAIs has different audit objectives on revenue audits, the gist of these objectives was to ensure that revenue that should have been collected, has been collected and accounted for properly and timely. Individually, the examples of audit objectives of member SAIs are as follows:

Country	Examples of Audit Objectives
Cambodia	• ensure that the General Department of Taxation has collected the correct tax at the right time, in accordance with domestic tax legislation.
Indonesia	• assess whether the revenue from import duty has been accurately charged according to the stipulated law and properly presented according generally accepted accounting principles.
Lao PDR	• determine whether revenues shown on the income statement represent all and only revenues earned by the enterprise during the period under audit (completeness and occurrence) and are properly stated, classified and described (presentation and valuation).

Country	Examples of Audit Objectives
Malaysia	• assess whether revenues are correctly received, recognized and recorded properly in accordance to the related laws, rules and regulations. • assess whether duties and taxes has been properly charged and collected as stipulated by the relevant laws and revenue leakages are avoided.
Philippines	• determine that revenues are generated from sources expressly authorized by law and that policies, practices, rules and regulations contribute to the realization of the goals/targets through efficient and economical means. • determine that all earned revenues are promptly and correctly assessed, billed, and collected in full when due and remitted/deposited to the government depositories. • determine that all revenues are accurately recorded and properly classified in the appropriate books of accounts. • ensure that adequate regulations and procedures have been framed to secure an effective check on the assessment, collection, remittance/deposit and recording of revenues, and that such regulations and procedures are duly and efficiently carried out.
Thailand	• satisfy that tax revenues are fairly presented in accordance with accepted accounting standards. • verify the efficiency of internal control and accounting systems. • assess whether the revenue cycle from excise tax has been accurately assessed and collected. • satisfy that collection of revenues are lawfully made. • verify the completeness and accuracy of tax collection that are deposited to treasury reserves. • review refunds and exemptions of revenues and their legality.
Vietnam	• assess and certify the correctness and reasonableness of the report on collection and management of taxes, including exemption, deduction, relief, refund, and write-off irrecoverable debt of taxes, and activities against tax fraudulence and tax evasion via transfer-pricing. • assess the compliance of responsibility related organizations (and duty in charged units) the laws, regulations and related guidelines on collection and management of taxes, including exemption, deduction, relief, refund, and write-off irrecoverable debt of taxes and activities against tax fraudulence and tax evasion via transfer-pricing. • assess the efficiency of the communication activities on the

Country	Examples of Audit Objectives
	promulgation of laws and related regulations on taxes and duties on collection and management of taxes, including exemption, deduction, relief, refund, and write-off irrecoverable debt of taxes, and activities against tax fraudulence and tax evasion via transfer-pricing to the intended tax payer and related parties. • assess the effectiveness and efficiency of activities on compliance regulations against tax fraudulence and tax evasion via transfer-pricing in arm to figure out shortcomings present in laws and regulations of taxes, difficulties in compliance to these laws and regulations in order to find our recommendation for further amendment.

6. Audit Scope

The scope of revenue audits conducted by SAI Lao PDR, Malaysia and Vietnam is broad, that is all receipts from direct and indirect taxes are audited. As for other SAIs, their audit scope is limited as follows:

Country	Audit Scope
Cambodia	• limited to the General Department of Taxation.
Indonesia	• limited to import duties of custom offices.
Philippines	• does not cover audit of tax assessments at the Bureau of Internal Revenue where the audit is limited to the receipts and remittances and the conduct of cash examination of Revenue Collecting Officers.
Thailand	• limited to excise tax in revenue cycle of Excise Department.

7. Audit Methodology

7.1. As revenue audit has a wide coverage that includes multiple disciplines of taxation such as income tax, VAT/GST as well as custom duties, audit methodologies used by respective SAIs are related to audit scope. However, auditing conducted by SAIs are in compliance to ISSAI whether the revenue audits conducted are through financial, compliance or performance audit. Here, the fundamental principles related to the audit process under ISSAI 100 are adhered to, namely, planning, conducting, reporting and follow-up.

7.2. In a nut shell, audit methodologies used by respective SAIs are as follows:

Country	Audit Methodologies
Cambodia	a. understanding the General Department of Taxation's operation; b. review legislation and applicable laws on taxation; c. identify process risk; d. carry out compliance tests on internal controls; and e. test sample of the tax declarations to ensure the correctness of tax collected.
Indonesia	a. ensure Customs Offices has adequate internal controls; and b. test assessment of import duties to ensure the accuracy of import duty calculation.
Lao PDR	a. survey, collect and gather data on the financial position, the internal position, the internal control system, and other data related to the audited entity; b. assess the internal control system; and c. carry out the audit programs.
Malaysia	a. carry out walk-through test of the revenue systems; b. evaluate internal controls such as segregation of duties and access authorization; c. carry out financial statements analysis; d. checking records and accounts, including checking sample of assessment done by Income Tax and Customs Officers to ensure correctness of tax collected; and

Country	Audit Methodologies
	e. physical examination on the cash and receipts.
Philippines	a. uses the Integrated Results and Risk-Based Audit (IRRBA) approach by understanding the agency, it's process and internal controls and identifying significant agency risks by conducting audit risk assessment; and b. design and execute audit tests (financial and compliance) as well as performance audits on prioritized significant projects/ programs/ activities.
Thailand	a. interview executive management and key tax officers to gain an understanding of the tax revenue collection process; b. obtain and review procedures followed in the recognition of revenue and evaluate internal control systems; c. carry out audit on collection and accounting; d. audit of assessments; and e. test the overall reasonableness of excise tax.
Vietnam	a. understand the entity and determine key areas to be audited; b. conduct pre-audit survey on tax audit in several related tax collection process; c. review and research relevance laws, regulations, guidelines used in tax audit; d. draft audit plan; e. conduct branch workshops and seminars for exchange and sharing experience on audit tax collection; f. develop audit check list, audit criteria and template of working papers and audit report; g. design working mechanism in auditing process; h. perform audit procedures; i. review audit findings and results; j. reporting; and k. post audit seminar.

III. COMMUNICATING AND REPORTING

1. Audit Findings and Recommendations

Country	Audit Findings and Recommendations
Cambodia	**1. Business Not Registered with the General Department of Taxation** Article 101 of the Law on Taxation stipulates that "A person must register with the tax administration within 15 days after a person begins economic activity." The audit found that some firms registered at the Ministry of Commerce had not registered with the General Department of Taxation. This may lead to tax evasion. *It was recommended that management should collaborate with Ministry Of Commerce to register the firms*. **2. Failure To File Returns** Article 104 of the Law on Taxation stipulates that "the tax payer must submit a tax declaration to the tax administration according to the form, the time and the place determined by the tax administration." During our review, we found that some tax payers registered at some tax branches had not filed their returns (monthly and yearly). This may lead to tax evasion. *It was recommended that management to take action in according the tax provision*. **3. Failure To Issue VAT Invoices (Tax Payers)** Article 77 of the Law on Taxation stipulates that "Any taxable person who makes a supply shall provide the purchaser a serially numbered Value Added Tax invoice." During our review, we found that some tax payers had not issued tax invoices as regulated. This may lead to understating the taxable sale revenue and VAT payment. *It was recommended that management should enforce tax provision strictly.* **4. Incorrect Tax Declaration** Article 127 of the Law on Taxation stipulates that "Tax evasion is the willful, knowing, or systematic or repeating violation of tax provisions with intention of reducing or eliminating the tax amount required by tax provision to be paid." And article 127 of the Law on Taxation stipulates that "The additional tax for the underpayment of tax or late payment must be

Country	Audit Findings and Recommendations
	calculated separately from the additional tax for the obstruction of the implementing of the tax provision." During our review, we found that certain incorrect tax declaration as below: • Import and export firms had declared nil tax while though they had imported merchandise with the customs value of certain amount. • Some petroleum firms had understated the sale price under the market price from 100 riel to 1,300 Riel per liter. This leads to the understatement of tax payment by the tax payers and the understatement of tax revenue collected by the General Department of Taxation. *It was recommended that management should strengthen the tax declaration.* **5. Untimely Transfer Tax Revenue To National Treasury** Article 106 of sub-decree No. 82 of the Royal Government on the Rule of Public Accounting stipulates "that all revenue shall be recorded in the right fiscal year." During our review, we found that the General Department of Taxation and some Tax Branches were late in transferring tax revenue of certain amount to national budget in the right fiscal year. Failing to transfer the tax revenue in the right fiscal year makes the total tax revenue understated. *It was recommended that management should transfer the tax revenue in the right fiscal year.*
Indonesia	**1. Shortage in property tax due to inappropriate lower tax rate** A mining company should pay property tax based on the value of its mining land. The value of the land is calculated based on specific formula, stated on the contract between government and the mining company i.e. flat rate of $50,000 times International Bank for Reconstruction and Development (IBRD) deflator*. IBRD deflator is then adjusted every two years. Based on the mentioned formula, the tax office charge the tax payable.

Country	Audit Findings and Recommendations
	In 2015, BPK conducted compliance audit on the calculation and collection of property tax for mining company for the period 2010-2015. From the audit, it was noted that the mining company was undercharged due to the different deflator rate (USD deflator instead of IBRD deflator as stated in the contract) used. This resulted in under collection of government revenue amounting to IDR132 billion. *It was recommended that the tax authority should charge the correct rate.* *IBRD deflator: Inflation rate release by IBRD-World Bank **2. Shortage in excise tax due to inaccurate production volume data** Excise on tobacco product is charged when produced or imported. The manufacturer of the tobacco product that already has a tax identity has an obligation to regularly (twice a month) submit its production report to customs office. The excise tax is charged based on the production volume reported by the manufacturer. In 2016, BPK conducted compliance audit to assess the accuracy of excise charged by several customs offices for the year 2011-2014. From the examination, it was noted that there were differences in the reported production from production and tax report, causing underpayment of excise tax amounting to IDR155 billion. For the period of 2011-2014 the Customs Office had never conducted an audit on the accuracy of production report from tobacco manufacturer. In addition, there is no such mechanism to ensure the accuracy of the report production submitted by the manufacturers. *It was recommended that Customs Office should establish a systematic mechanism to ensure the accuracy of production report and correctness of excise tax collected.* **3. Shortage in excise tax due to out of date tariff imposition** According to the Minister of Finance Decree on Tobacco Product Excise Tariff, the excise is charged in rupiah for every piece or gram of tobacco product. One of the popular tobacco products is cigarette. The excise tariff

Country	Audit Findings and Recommendations
	for each type of cigarette is based on the manufacturer class (class is based on the number of cigarettes production volume) and the retail selling price class. The excise tariff is regulated by the Minister of Finance. The Head of Customs Office (local level) has an authority to apply the valid tariff for each manufacturer or importer. In 2012 there was a decree from the Minister of Finance to implement the new excise tariff. Based on the decree, the new excise tariff is higher than the existing one. In 2016**,** BPK conducted a compliance audit to examine whether the customs offices has complied with the regulation. Based on audit analysis conducted on the decrees database in Customs Head Office (national level), it was noted that some of the Head of Customs Offices (local level) did not impose the new excise tariff decree as the decree database was not updated. The outdated excise tariff caused a shortage in excise duty amounting IDR49.5 billion. *It was recommended that all Customs Office (local level) should update its database with the current excise tariff to ensure that excise duty is properly collected.*
Lao PDR	**1. Improper Estimation of Revenue Budget** The Estimated Revenue Budget of the Tax Department for 2012-2013 fiscal year did not include tax obligations of all enterprises. According to 2012-2013 statistics, the number of enterprises controlled by the Tax Department was 513 and only 233 enterprises submitted their revenue budgets. For the remaining 280 enterprises, their revenue budgets were based on the previous year's estimate. Besides that, the revenue budget for the Local Department sector was also based on the previous year's estimate*. It was recommended that the Department of Tax prepare the Estimated Revenue Budget based on all tax obligations for enterprises from all sectors.* **2. Planning And Revenue From Land** The estimated revenue from land for 2012-2013 fiscal years were not reliable as it was based on

Country	Audit Findings and Recommendations
	out-of-date census data on land in the Provinces and the Capital City. *It was recommended that the Tax Department make a proper and reliable land revenue estimates in coordination with the Ministry of Resources and Natural Environment by collecting and updating* census data on land*.* **3. Examining Accounts Of Enterprises** For the financial year 2012-2013, the Tax Department has conducted examinations on accounts of 306 enterprises (59.64% of 513 enterprises under the control of Tax Department). The audit noted that the results of examination shows that enterprises need to pay more tax. This was due to the fact that the Tax Department has only financial statements from 366 enterprises as some enterprises submit their financial statement with additional tax at the end of the year, whereby the Tax Department was unable to verify the actual revenue and thus cannot include the said revenue to the State budget. *It was recommended that the Tax Department examine accounts of all enterprises and include all revenue to the State budget as stipulated under Article 87 of Law Tax (amended) No. 05/NA dated 20 December 2011.* **4. Accounting Record** The Tax Department records incorrect classification of revenue amounting to 104.81 billion as compared to Treasury's Chart of Accounts. According to budget, income tax from State enterprises should be listed in category 01, part 01, sub category 01 and 7011 (Treasury's Chart of Account) but it was recorded in the profit account from other businesses from State enterprises category 01, part 01, and sub category 0.2 and 7012 (Treasury's Chart of Account). *It was recommended that the Tax Department and Ministry of Finance classify revenue correctly as specified in the Chart of Accounts pursuant to Article 61 of the Law on Budget Decree 02/NA dated 26 December 2006.*

Country	Audit Findings and Recommendations
	5. Annual Reports From Enterprises The Tax Department's instruction for enterprises to submit their yearly financial statement was not fully complied with. It was noted that 3 enterprises were unable to summit the financial statement for the last 3 years (2012, 2013 and 2014), 94 enterprises for 2 years (2013 and 2014) and 186 enterprises for 1 year (2014). *We recommended that the Tax Department should ensure all enterprises submit their annual financial statement timely and investigate promptly any delay in accordance with Article 11 of the agreement No. 1482/MOF dated 30 May 2013 between the ministers concerned and the Tax Department.*
Malaysia	**1. Import Duty Assessment For Completely Built-up Vehicles** 1.1. The Royal Malaysian Customs Department (RMCD) is the second largest revenue collector after Inland Revenue Board of Malaysia. RMCD is responsible for the collection of indirect taxes such as import duty, export duty, sales tax, excise duty, service tax and levies imposed on commercial and industrial activities. Besides that, RMCD also provides customs facilitation and advisory services to the businesses as well as being responsible for the enforcement and compliance with the law to ensure that no leakage of revenue through smuggling either by sea, land or air. For the period of 2012 to 2014, RMCD has collected RM100.642 billion in revenue. In 2012, revenue collected was RM32.319 billion and increased by RM0.808 billion (2.5%) to RM33.127 billion in 2013. In 2014, the collection increased by RM2.069 billion (6.24%) to RM35.196 billion. 1.2. Overall, the audit revealed that the assessment of import duty of Completely Built-up (CBU) vehicles and monitoring activities on the movement of vehicles from Designated Area (Duty Free Islands of Labuan and Langkawi) was less than satisfactory. However, the Enforcement Division in RMCD Headquarters had taken proper measures in locating and detaining vehicles from Designated Area that overstayed in Principal

Country	Audit Findings and Recommendations
	Customs Area (Malaysia exclusive of Designated Area). The summary of the audit findings were as follows: a. assessment of import duty/tax on CBU vehicles was less than satisfactory where: i. a total of 213 K1 Forms (5.4% from audit sample of 3,931) have errors in assessment that resulted in under collection of taxes amounting to RM1.29 million and over collection of RM499,296; and ii. a total of 111 K1 Forms (2.8% from audit sample of 3,931) contains insufficient vehicles information which involves duties/tax amounting to RM1.85 million and vehicles valued at RM2.86 million. b. movement of vehicles from licensed warehouse was not satisfactory because Malaysian Association of Malay Vehicle Importers and Traders (PEKEMA) did not apply for extension of time for keeping unsold imported vehicles for more than 36 months without payment of duty/tax. As at 31st December 2014, estimated duty due from those unsold imported vehicles amounted to RM12.65 million. Besides that, 7 licensed warehouse (12.3% of audited licensed warehouse) were not insured for fire and theft which involved 725 vehicles with an estimated duty of RM38.22 million; and c. monitoring of movement of vehicles from/to Designated Area was less than satisfactory due to the lack of comprehensive and immediate measures to penalize vehicle owners who violated the laws such as by forfeiting bank guarantees, enforcing penalties and detaining vehicles by RMCD in Labuan and Langkawi. 1.3. *To ensure the assessment of import duties of CBU vehicles are properly and effectively carried out as well as to avoid any revenue leakage, it is recommended that RMCD gives due considerations to the followings:* *a. Post Clearance Audit Branch of RMCD Compliance Management Division should reassess the Custom Declaration Forms with errors highlighted and report the results to National Audit Department by June*

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	2016; b. *Custom officers should ensure that only quality Custom Declaration Forms with sufficient details (especially the first registration date) on vehicles information are accepted;* c. *Warehousing Management and Control Unit should tighten the control over unpaid duty/tax vehicles in the licensed warehouse;* d. *RMCD Headquarters should review Customs Standing Order No. 53 regarding storage period for vehicles without duty/tax payment and the necessity of annual 100% inspection in the licensed warehouse; and* e. *RMCD in WP Labuan and Langkawi should tighten controls in the movement of vehicles from/to Designated Area by taking comprehensive and immediate measures such as forfeiting bank guarantees, enforcing penalties and detaining vehicles if necessary.* **2. Customs Duties Assessment Of Imported Liquor** 2.1. For the period 2010 to 2012, RMCD collected revenue amounting to RM90.849 billion. Revenue collected in 2012 amounted to RM32.319 billion, an increase of RM4.168 billion (14.8%) as compared to RM28.151 billion in 2010. Among the factors that contributed to the achievement of the targeted revenue collection was the collection of import duties (including excise duty and sales tax on imports) amounting to RM26.558 billion or 29.2% of the total revenue collected for the period 2010 to 2012. For the same period, customs duties collected from the importation of liquor amounted to RM594.91 million, representing 2.2% of the total import duties. 2.2. Audit findings revealed that generally, import duties for liquor was satisfactorily assessed by RMCD and complied with relevant laws and regulations. However, there were some weaknesses as follows: a. all import of liquor required the approval of the Food Safety and Quality Division, Ministry of Health Malaysia. However, for the period 2010 to 2012 no

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	such approval was granted for 59.9% of all liquor imported; b. audit examination on 28,062 items of liquor imported in 2010 to 2012 revealed that 1,174 (4.2%) items with customs duties amounting to RM1.63 million (0.9%) were wrongly assessed by customs officers; and c. the error in assessment of imported liquor resulted in an under-collection of at least RM1.95 million in revenue. 2.3. *It is recommended that RMCD takes the following actions:* a. *provide a comprehensive guideline on the assessment of imported liquor with a list of types and brands of commonly imported liquor so that import duties could be correctly assessed by customs officers;* *b. train customs officers on the different types and brands of commonly imported liquor to avoid ambiguities and enable them to ascertain the correct classification and customs tariff;* *c. ensure that importers settle all Bills of Demand issued and pay the under-collected revenue; and* *d. scrutinize Customs Form K1 and K9 for the import of liquor in 2010 to 2012 to ensure the recovery of any under-collected revenue and report the results periodically (quarterly) to the NAD.* **3. Management And Controls Of Duty Free Shops** 3.1. RMCD plays a major role by providing facilitation to the country's tourism sector through the establishment of Duty Free Shops (DFS) under Section 65D of the Customs Act 1967. Basically, there are five types of DFS, namely, International Airport DFS, Port DFS, Downtown DFS, Border DFS and Domestic DFS. All DFS provide facilities for international travellers to purchase duty free goods thus promoting the tourism industry. In October 1997, RMCD issued Customs Standing Orders No. 55 (Duty Free Shops) to streamline the application and licensing procedures as well as integrating control measures on DFS. As at the

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	end of 2012, RMCD has approved 52 licensees with a total of 69 DFS premises. Based on RMCD's Annual Report, the total sales of DFS for the period 2010 to 2012 amounted to RM2.417 billion wherein sales of RM1.041 billion in 2010 has dropped 8.1% to RM0.957 billion in 2012. 3.2. Audit findings revealed that generally, the management and controls of the DFS were not satisfactory as DFS were not managed properly and efficiently. Among the weaknesses identified were as follows: a. DFS licenses were renewed even for inactive/dormant DFS as the annual license fee of RM600 is too low; b. customs duties on the current stock of 9 DFS in Kedah, Perlis and Selangor amounted to RM15.09 million as compared to their bank guarantee of RM6.54 million. This means that customs duties of RM8.55 million were not covered by bank guarantees which may cause RMCD to suffer loss; c. one out of 2 Domestic DFS at Padang Besar, Perlis and all 5 Downtown DFS located at the Federal Territory of Kuala Lumpur (FT Kuala Lumpur) and the state of Selangor did not maintain a register to record relevant particulars of their customers; d. due to the lack of manpower, the DFS Customs Control Station at Subang, Selangor was unable to carry out their responsibilities of matching original DFS sale invoices to copies of the same invoice certified by the Export Attestation Custom Station; e. there were cases where duty free goods sold by DFS exceeded the permitted quantities or to those not entitled as follows: i. all Downtown DFS in FT Kuala Lumpur and the state of Selangor sold duty free goods (mostly liquor) to the same crews of 15 ships. As a result, every crew has purchased duty free goods that exceeded the permitted quantities, thus causing loss of revenue amounting to RM216,715 for 2 days; and ii. the same 5 Downtown DFS issued invoices of

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	sale of liquor to crews of 11 ships that had sailed, did not berth or did not sail in the month of December 2012. Some of the ships were neither in the records of the Marine Department Central Region nor in the records of berth controls Westport Malaysia Sdn. Bhd., Selangor. If the sale of liquor by these Downtown DFS could not be proven to have been actually exported, the estimated revenue loss to the Government would be RM230,536 for 2 days. f. three out of 6 Border DFS (two in Bukit Kayu Hitam, Kedah and one in Padang Besar, Perlis) sold duty free goods in bulk to enforcement agencies of Thailand; and g. the application for tax remission in 2009 and 2012 has not been decided by the RMCD Headquarters even though there was a potential revenue of RM1.99 million to be collected. *3.3. It is recommended that RMCD gives due considerations to the followings:* *a. the outcome of the meeting by the committee set up to review DFS license fees should be submitted to the National Audit Department (NAD) before 31 December 2013;* *b. ensure that all DFS (including DFS not covered in this audit) have sufficient bank guarantees to cover the total customs duties of their duty free stocks;* *c. ensure that all Domestic and Downtown DFS maintain a register to record relevant particulars of their customers;* *d. ensure that DFS Customs Control Stations carry out their responsibilities of matching original DFS sale invoices to copies of the same invoice certified by the Export Attestation Custom Station;* *e. ensure that a special task force ascertains the actual amount revenue lost due to the sale of liquor to those not entitled and submit the investigation report to NAD on or before 31 August 2013;* *f. review the new to issue licenses of Downtown DFS and if required, the related companies could be awarded licenses as Port DFS on the condition that*

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	their business premises are located at ports or ferry terminals serving international passengers; and *g. ensure that immediate decisions are made on all applications for tax remission under Section 18(1) of the Customs Act 1967 as it has a potential revenue of RM1.99 million to be collected.* **4. Withholding Tax** 4.1. Withholding Tax (WHT) is an amount withheld by the party making payment (payer) on income earned by a non-resident (payee) and paid to the Inland Revenue Board of Malaysia (IRBM). The Income Tax Act, 1967 provides that where a person is liable to make payment as listed in the Act (other than income of non-resident public entertainers) to a non-resident person (NR payee), he shall deduct WHT at the prescribed rate for such payment and pay that tax to the Director General of IRBM within one month after such payment has been paid or credited to the NR payee. WHT is the fifth highest contributor from the nine main tax components with total collection for year 2012, 2013 and 2014 amounted to RM2.097 billion, RM2.013 billion and RM2.206 billion respectively. 4.2. An audit conducted between November 2014 and January 2015 revealed that the management of WHT was satisfactory as the external audit and desk audit activities had achieved their annual targets. However, there were several weaknesses that require attention as follows: a. inappropriate goal setting for desk audit activities resulting difficulties in identifying actions to be made in order to solve each case; b. ineffective mechanism in detecting non-residents who are liable to WHT and lack of awareness of Government agencies regarding the obligation to pay WHT; c. Operating Procedures Manual was not prepared and time frame not set for external and desk audit activities. As a consequence, external audit officers takes 190 to 2,284 days to resolve cases amounting to RM7.03 million and desk audit officers takes 34 to

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	3,617 days to issue CP17A form amounting to RM1.77 million in Self Assessments System (SAS) ledger; and d. Letter of WHT instalment approval was not issued to 9 (10.1%) out of 89 payer amounting to RM1.47 million due to non-compliance of procedure. 4.3. *To enhance the performance of external audit and desk audit activities, it is recommended that IRBM consider the followings:* *a. review goal setting for desk audit activities to ensure the effective measurement of the yearly performance;* *b. system integration between IRBM and Royal Malaysian Custom Department needs to be carried to ensure effective detection of non-residents whom liable to WHT;* *c. perform external audit to Government agencies and recommend to Ministry of Finance to include WHT element in Treasury procurement checklist form;* *d. provide MOP and ensure standard norms are set to enhance the efficiency of external audit and desk audit activities;* *e. enhance internal inspection and supervision of external audit and desk audit activities to ensure the compliance of procedure. Besides, prompt actions need to be taken regarding the non-compliance on issues raised; and* *f. strengthen the process of imposing WHT and tax payments to avoid loss of Government revenue.* **5. Management Of Company Income Tax** 5.1. The Inland Revenue Board of Malaysia (IRBM) implemented the Self-Assessment System (SAS) for companies with effect from the year 2001. The purpose of implementing this system is to encourage companies to declare and pay the tax payable/balance of tax payable voluntarily. In order to verify the accuracy of income tax declared by companies through this system, IRBM carries out tax audit activity to determine the level of compliance by companies with tax laws and to educate them towards voluntary

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	compliance. In this regard, IRBM carries out 2 types of tax auditing which are field audit and desk audit. Generally, field audit is more effective than desk audit in detecting tax evasion, thereby increasing tax compliance as field audit can trace the source documents and records for verification on accuracy of tax computation as submitted by companies. 5.2. Audit findings based on sampling revealed that the Audit Branch's performance in achieving its Key Performance Indicators (KPI) for field audit was good. However, there were some weaknesses in the implementation of assessment activity and tax collection as follows: a. a total of 1,422 field audit cases were settled late between 1 month to 5 years involving additional tax and penalty amounting to RM189.82 million; b. audit checklist was not filled up for 656 companies where additional tax and penalty charged amounted to RM61.74 million; c. notice of estimate assessment amounting to RM3.52 million was not issued to 44 companies; d. tax arrears for 147 companies amounted to RM54.03 million; e. increase in tax (fine) amounting to RM4.25 million was not imposed on tax arrears and failure to comply with tax instalment payment scheme resulted in a loss to the Government; and f. civil suit action and caveat on landed property were not taken against companies which did not pay tax arrears. 5.3. *To further improve the management on company income tax, it is recommended that IRBM considers the followings:* a. *enhance monitoring on work progress of every case;* *b. ensure that work procedures are being complied with such as making it compulsory to fill up the audit checklist and issue notice of reminder to companies which failed to keep complete records;* *c. review the Surprise Visit Register, minimum visit frequency and sample selection criteria for surprise*

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	visit such as category of taxpayer, number of team and Field Audit Officer; d. *review and improve the capacity of automation system such as the Case Management System (CMS), the Self-Assessment System For Company (STSC) and the Revenue Management System (ReMS) so that the efficiency on the management of company income tax could be enhanced;* e. *strictly enforce tax arrears collection in order to safeguard the Government from loss of revenue; and* f. *enhance the internal inspection on tax audit activity and tax collection at IRBM branches from time to time. Furthermore, ensure that immediate actions are taken on non-compliance issues and monitor so that the same issues do not recur.* **6. Real Property Gains Tax** 6.1. The Real Property Gains Tax (RPGT) is a tax imposed on gains derived from the disposal of real estate which includes flats, houses, condominiums, apartments, farms and vacant lands. RPGT is levied on every ringgit of the chargeable gain from the disposal of real estate (asset which may be subjected to tax). Basically, each category of disposal is assessed individually depending on the holding period of the asset. The Real Property Gains Tax Act 1976 (RPGTA 1976) provided some exemptions on the chargeable gains such as exemptions on private residence, exemptions under Schedule 4 of RPGTA 1976 and exemptions made by the Minister. RPGT is handled by the RPGT Unit in each branch of the Inland Revenue Board of Malaysia (IRBM). Besides that, the Corporate Tax Department (CTD) of IRBM is also involved in the handling of RPGT. Beginning 2013, RPGT collection for the Petroleum Division (Downstream) is recorded under the Petroleum Division while the collection before 2013 was recorded under CTD. RPGT is the sixth highest contributor from the 9 main tax components with total collection of revenue amounting to RM537.60 million, RM607.99 million and RM787.29

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	million for the year 2011 to 2013 respectively. Audit findings revealed that all three RPGT Units selected achieved their annual targets where each assessor successfully completed 1,200 RPGT assessments. 6.2. Overall, the management of RPGT was satisfactory. However, there were several weaknesses which should be given due attention as follows: a. there were outstanding assessments (back log) of 11,470 and 12,974 cases in Petaling Jaya and Johor Bahru Branch respectively because the number of RPGT forms received exceeded the annual targets set for each assessor; b. inaccurate classification of real property disposal; c. delay in the processing of RPGT forms between 91 days to 852 days; d. notices of assessment were not yet issued even though the acquirers had remitted 2% of the total value of consideration to IRBM; e. there were RPGT arrears amounting to RM773,636 involving 19 individuals and 6 companies; f. the 10% tax increase under subsection 21(4), RPGTA 1976 amounting to RM17,122 was not imposed on disposers (individuals/companies); and g. civil suits under section 23, RPGTA 1976 were not taken against 6 companies with tax arrears amounting to RM590,263. 6.3. *It is recommended that IRBM considers the followings:* *a. create a clearer guideline on the classification of property disposals whether under RPGTA 1976 or the Income Tax Act 1967;* *b. a more systematic distribution of files should be made so that assessors could identify the frequency of transactions made by disposers in the same year of assessment;* *c. enhance the enforcement activities of RPGT collection such as preventing tax evader from leaving Malaysia and taking civil suit so that tax arrears could be collected in full; and* *d. the number of employees in the RPGT Unit should*

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	take into account the number of real property disposal forms received in order to avoid backlog and increase revenue collection.
Philippines	**1. Shortfall of Targeted Income** Even though the total revenue of the Bureau Of Customs (BOC) for 2014 increased by Php64.392 billion or 21.1% from Php304.898 billion a year earlier to Php369.290 billion, there was still a shortfall of Php40.335 billion from the targeted income. *The following were recommended:* *a. Study and employ new strategies in the collection of revenues to increase and meet the targeted income;* *b. Enhance the Bureau's intelligence capability and vigorously go against persons or groups violating the tariff and Customs Code of the Philippines (TCCP); and* *c. Implement Section 2 of RA 9335 which prescribes the provisions of sanctions to BOC officials and employees who were not able to achieve their targets, and rewards for those who had exceeded their targets.* **2. Incomplete/Non Submission of Supporting Documents** Supporting documents on liquidated import entries were either not submitted or incomplete. *The following were recommended:* *a. Require the Master/Officer-in-Command of the shipping vessels/aircrafts to submit directly to the Audit Team the hard copy and e-copy of all Inward Foreign Manifests (IFMs)/Consolidated Cargo Manifest (CCMs) and impose the fine of Php10,000 prescribed in Section 2521 of the TCCP on those who failed to do so; and* *b. Direct the District Collectors of the concerned ports/sub-ports to submit the corresponding original import entries and supporting documents such as Bill of Lading, supplier's commercial invoice, packing list, etc.*

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	3. Limited Viewing Access Limited viewing access to the BOC e2m Customs Import Assessment was given to Commission of Audit. *We recommended that the COA Audit Teams are granted viewing and printing access to all the modules/subsystem of the e2M System without further delay for effective audit of the BOC assessment and collections.* **4. Shortfall of Collection Target** The main revenue generating agency of the country collected Php1.334 trillion or 9.71 percent more than the last year's figure but was still short of Php122 billion or 8.37% of the Php1.456 trillion collection goal. *The following were recommended:* *a. Evaluate the performance of the different Revenue District Offices (RDO) and other offices concerned to determine the reasons/factors for the shortfall of collections so that the same could be addressed in the future and enhance/study new strategies to meet the targeted income collection of the regions and the agency as a whole; and* *b. Require all offices concerned to employ an intensified system of collection of all possible collectibles (i.e. Accounts Receivables/Delinquent Accounts, penalties/surcharges) and if warranted, implement the pertinent provisions of Republic Act (RA) 9335 to encourage the personnel to improve their collection performance.* **5. Unredeemed Dishonored Checks** Other Receivables pertaining to unredeemed dishonored checks continued to increase over the years and totaled Php554.210 million as of December 31, 2014 due to acceptance of personal checks for payment of internal revenue taxes and the apparent laxity in the enforcement of remedies prescribed under existing regulations. *The followings were recommended:* *a. Revise the policy of accepting personal checks as*

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	payment of internal revenue taxes and if necessary, accept only Manager's/Cashier's Checks to avoid dishonored checks; *b. Consider accepting payments through other credit facilities;* *c. Stop accepting personal checks from taxpayers with a history of issuing dishonored checks; and* *d. Require the Collection Service to strictly monitor the action of the RDOs, particularly the Collection Section which is responsible for the safekeeping of the original dishonored checks submitted by the AAB branch, in the sending of collection letters and the execution of the appropriate summary remedies, in order to ensure the redemption of dishonored checks.* **6. Failure to Enforce Settlement of Penalties** Management failed to enforce the settlement of penalties totaling Php1,842,098.53 as of December 31, 2014 imposed on Authorized Agent Banks (AABs) for late reporting and remittance of collections. *The following were recommended:* *a. Demand from the concerned AABs the immediate payment of the herein penalties, and if necessary resort to legal action to facilitate collection; and* *b. Require the Office concerned to monitor closely the penalties imposed on AABs so that appropriate action is promptly taken to avoid the accumulation of the unpaid amounts and also to serve as deterrent in delayed remittance.* **7. Collections Not Deposited Intact or Within the Prescribed Period** Some Revenue Collection Officers did not deposit their collections intact or within the prescribed period contrary to PD 1445 and other pertinent rules and regulations. This unnecessarily exposed these collections to the risk of misuse. *The following were recommended:* *a. Require the Revenue Collection Officers (RCOs) to deposit their collections intact and within the prescribed period;*

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	b. *Consider requesting an authority for the possible use of AABs where it would be more convenient for the RCOs to deposit their collections with lessened travel and time;* c. *Instruct the RCOs to deposit their collections to the Authorized Government Depository Bank (AGDB) nearest to their official station; and* d. *Require the Revenue District Officer and the Chief of the Collection Section to closely monitor the RCO in the performance of her duties and responsibilities to avoid huge undeposited collections in the hands of the accountable officer.* **8. Revenue Collecting Officers Not Designated and Not Adequately Bonded** Some Revenue Collecting Officers were not duly/officially designated as such and not adequately bonded. *It was recommended that the agency issue special order or equivalent document designating the concerned employees as Collection Officers. Otherwise, make representation with the Top Management for delegation of such authority to ensure that all personnel performing collecting functions are properly and duly designated.* **9. Failure to Dispose Forfeited Real Properties Within the Prescribed Period** Management failed to strictly implement its policy of disposing the forfeited real properties within the prescribed three years after the one year redemption period and reportedly sold only 30 pieces of forfeited real properties from 2007 to 2014. *The following were recommended:* a. *Require the offices concerned to take the necessary steps to expedite the consolidation of title of the newly acquired/forfeited assets to qualify them for disposal through sale;* b. *Facilitate the sale of the properties already titled to the Government of the Philippines in order to prevent their deterioration and convert them into cash; and* c. *Monitor the efficiency of the concerned offices in*

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	the consolidation of the titles and/or transfer of ownership of the acquired/forfeited assets in previous years in the name of the Republic of the Philippines and to conduct ocular inspections of these acquired/forfeited assets to determine their actual status and conditions.
Thailand	**1. Late Transfer of Tax Revenue to Treasury** During our audit, we found that some local tax offices of Excise Department were late in transferring tax revenue to Treasury. Failing to transfer the tax revenue within the stipulated time could cause the government to lose the opportunity to make use of the money for development. *It was recommended that the Excise Department should transfer the tax revenue in the proper time.* **2. Excise Tax on Imported Playing Cards** The accuracy of excise tax collected on imported playing cards as recorded in the Business Intelligence System by Customs Department on behalf of Excise Department could not be ascertained. Some transaction had no supporting document (import permit) and no proof of duty paid. Besides that, the database of tax revenue from each department has never been reconciled. *It was recommended that the Excise Department and the Customs Department should understand the process to assess and collect tax from imported playing cards. The Excise Department should reconcile report from the Business Intelligence System for accuracy of tax collection including all reports from the system for other tax that the Customs Department collect on behalf of the Excise Department.* **3. Powers And Duties In Arrest And Suppression** The Excise Department Officers have no powers and duties in the arrest and suppression of smugglers as specified in the Playing Card ACT, B.E. 2486. As a result, the process of arresting of smuggler takes a long time and there were only few number of offenders arrested accordingly. *It was recommended that the Excise Department review the Playing Card Act, B.E.*

<table>
<tr><th>Country</th><th>Audit Findings and Recommendations</th></tr>
<tr><td></td><td>2486 and other Excise Tax Law regarding powers and duties of auditors in arresting and suppression in order to enhance the capability of auditors to be more efficient and effective.</td></tr>
<tr><td>Vietnam</td><td>1. Improper Application of Tax Incentives During Economic Recession

From the end of 2011 to early 2012, in order to stop economic decline in the country, the National Assembly and the Government issued a resolution on tax exemption and reduction of tax payable, extension of tax payment instalments and tax refund for small and medium enterprises (SMEs). These incentives were meant to support SMEs to survive and strengthen them during the economic recession as well as ensuring macro-economic stability and social welfare. The audit revealed several weaknesses as follows:
• Certain tax exemption and reduced corporate income tax were in contravention of regulations and extension of tax payment instalments were given to ineligible enterprises.
• VAT refunds were given to enterprises which did not strictly comply with the laws and regulations.
• The Tax Department prepared an improper report that resulted in many cases of taxpayers not making instalment payments in time.
It was recommended that tax payers should pay back to the government any ineligible or improper tax exemption, reduction and refunds.

2. Government Control of Goods Temporarily Imported for Re-export
a. The Ministry of Finance issued circular on the calculation of tax payable on goods temporarily imported for re-export activities, but considered as domestically consumed was not in-line with the provisions of decree issued by the Government. This caused a reduction of VND 469 billion in fuel tax revenue of State budget in 2012.
b. The Ministry of Finance’s circular was not in-line with the provisions of the Commercial Law and the Customs Law. This resulted in the improper</td></tr>
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	implementation of temporary import for re-production, liquidity and tax collection at import stage thus creating inequality among oil trading businesses as well as the underpayment of import gasoline tax of VND 21 billion. c. The Customs Authority did not manage its responsibility properly in monitoring, inspection and didn't apply appropriate measures including imposing penalties on violating regulations such as delay of re-export declarations as well as overdue re-import declarations. *It was recommended that:* • *Ministry of Finance revise the circulars to be in line with the decree issued by the Government as well as the Commercial Law and Customs Law.* • *Relevant oil trading businesses pay tax to the State budget of temporarily imported gasoline but then used for domestic consumption in 2012 amounting to USD 22,500,000 as well as imported gasoline tax of USD 1,000,000.* **3. Non Compliance and Application of Incorrect Rate of Corporate Income Tax** a. Failure to declare, undeclared revenue, unreasonable and higher expenses cost and improper norms as prescribed under the Income Tax Act. b. Some businesses apply the wrong corporate income tax rate (10% instead of 25%) and tax incentive period as stipulated by laws and regulations. *It was recommended that the tax authority requires tax payers to pay additional tax and correct corporate income tax rate and tax incentive period be applied and businesses concerned pay the difference to the National Treasury.* **4. Late Transfer Of Tax Revenue To The National Treasury** The records in Customs authorities shows some balance of import/export duties temporary collected instead of being transferred to the National Treasury as

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	required by laws and regulations. *It was recommended that such balances should be* transferred immediately. **5. Tax Price Evasion** a. Under the law, beer is imposed by special consumption tax of 50% on the manufacturer's selling price, of which, if the first intermediate distribution selling price is higher than 10% of the manufacturing selling price, the tax base will be imposed on the first intermediate distribution selling price. b. In order to commit tax fraud, the corporation established subsidiaries as the first intermediate distribution and the difference between the manufacturing selling price and its subsidiaries equals 9.99%. This means that the corporation has paid the tax based on its selling price to the subsidiaries when in actual fact the corporation and its subsidiaries is a consolidated group where it owns 99.99% capital of its subsidiaries. *It was have recommended that the correct tax base on the selling price of beer be applied and the corporation pays the additional special consumption tax.*

IV CHALLENGES AND LESSON LEARNT

1. All participating SAIs in this research project face some common challenges when carrying out revenue audits. Among the challenges are:

a. Auditing Capacity

- Lack of human resource that is insufficient number of auditors with the necessary skills to achieve SAI's objectives or to ensure quality audits were carried out.
- Lack of skills, experience or expertise in taxation laws and regulations. As revenue audits especially on income tax, VAT/GST and custom duties are very technical in nature, auditors need to be well versed in taxation laws and regulations.
- Lack of auditing tools such as the absence of guidelines on revenue audit or out-of-date specific auditing guidelines on Customs or Income Tax;
- Lack of CAATTs and IT support. With the advances in technology, relevant government are utilizing new technologies to enhance revenue collection. Given the rapid changes in the nature and structure of ICTs, revenue system has to be constantly modified or updated. Auditors are hard pressed to play catch-up with such new systems.
- Lack of training for revenue auditors.

b. Co-operation from Agencies

- Difficulty in obtaining audit evidence to form an audit opinion. This may be due to information especially individual tax files being classified as confidential and protected under a special provision of the law to safeguard the personal information of taxpayers.

- Lack of co-operation from agencies could pose a serious challenge to an auditor. Even when doing an overview, insufficient or inaccurate information from agencies could mislead the auditors' understanding of tax assessment and collection. This in-turn could lead to a poorly developed audit programs.

c. Information Sharing Among Tax Agencies

- Lack of information sharing among tax agencies. Most countries have different agencies to collect tax (income tax or VAT) and customs duties. Due to tax law, information of tax payers was not allowed to be revealed to other unrelated government agencies.
- For information that can be shared among agencies, there is no data reconciliation done to ensure non-leakage of revenue.

2. Base on the country papers from respective SAIs, among the lesson learnt from revenue audits are:

a. Revenue leakages has a huge impact on the fiscal policy of any government and its' development program. Such leakages especially from tax evasion cannot be detected solely by the tax authorities. As such, SAIs plays an important role to help plug any such leakages.

b. Auditing capacity on revenue audits needs to be enhanced through/by:

- getting sufficient number of auditors with the necessary skills to achieve SAI's objectives;
- adequate training especially on new technologies and advances in taxation;
- the increase usage of CAATTs and IT support;
- developing or updating obsolete manual or guidelines on revenue audits; and
- the adoption and application of ISSAI 30 (Code of Ethics) as all auditors should act with integrity, impartiality, objectivity, competence and professionalism.

c. In carrying out revenue audits, auditors need to:

- review laws and regulations on taxation to ensure it is current and still relevant;
- review previous findings and recommendations during planning stage;
- conduct risk analysis to identify matters of potential significance or line of audit inquiry;
- evaluate if the revenue IT systems and its applications are appropriate, efficient and adequately controlled to ensure valid, reliable, timely and secure input, processing and output at all levels of its activity;
- be aware of all the necessary legal and audit evidence to support their audit observations/findings;
- include audits on non-revenue activities such as enforcement of smuggling as ensuring full compliance with relevant procedures, avenues of revenue leakage could be plugged.

V. BEST PRACTICES

Among the best practices by participating SAIs are:

Country	Best Practices
Indonesia	a. Yearly workshop to update auditor's knowledge with current rules related to government revenue. b. Recruit auditor from State College of Accountancy majoring in tax. c. Conduct the audit by sampling of import documents and transaction. Our sample are based on the following factors: • value of imported goods; • profile of commodity types; • profile of importer country; • profile of country of origin; • profile of importer company; • reported duty and price list; and • forbidden and restricted goods rule. d. *Vouching* – to assure the accuracy and validity of numbers represented in import duty and CIF as a base of import duty align with import goods reports, manifest and import duty. e. *Re-performance* - to assure the validity of calculation in import duty. f. *Confirmation* - to assure the payments of import duty and taxes have been received by State Treasury Fund.
Lao PDR	a. Results from the audit are used by Parliament to consider and approve the State budget. b. Audit findings used by administrative agencies and other concerned organizations for management to improve in performing their duties; as data and evidence in the lawsuit process by the people's courts, the people's prosecutor offices and other investigative organizations; as educational tools or imposing sanctions to the audited entities.
Malaysia	a. Monitoring the implementation of audit recommendations through the Auditor General's Online Dashboard. The Auditor General's Online Dashboard is developed to monitor the status of actions taken by the auditees on audit recommendations. The status of action taken by

Country	Best Practices
	auditees is reported as 'no action', 'action in progress' and 'action has been taken' and the general public can follow the progress implementing audit recommendations though the official website of NAD. b. The National Audit Academy has allocated a week for income tax and customs audit courses every year. Such courses are conducted to update and inform all relevant auditors on the latest information regarding revenue collection by IRBM and RMCD. It also emphasized on the technical aspects of tax assessment carried out by the respective agencies. c. NAD practices job rotation to enhance experience of auditors and generally the normal time period of job rotation is every 5 years. However, such policy is not applicable to auditors attached to the IRBM Audit Branch and Customs Audit Branch. As auditors attached to the said branches has developed unique technical knowledge on revenue audits, NAD has decided to extend the normal time period of job rotation to at least 7 years.
Philippines	a. Horizontal audit is an evaluation of one process or activity across the ports/sub-ports within the Bureau located nationwide. A horizontal audit is appropriate for processes and activities that are similar across a number of functional groups in a Bureau, in order to assess the effectiveness of the common approach. For example, the audit of confiscated goods conducted on all ports and sub-ports which when consolidated will result to greater impact as to materiality and the relevance of the audit. It facilitates consolidation of similar findings and gives the Auditor a ready approach to audit. b. Constant training, coaching and mentoring of auditors to create and enable environment to improve the Audit Team's performance and develop individual potentials. The revenue collecting agency is a peculiar agency that needs specialized training and experience for an auditor to fully develop and understand the process or functions of the Agency. This will be attained through constant training. c. Open communication line between the auditor and

Country	Best Practices
	audited agency, but also ensure that the independence is not compromised or impaired.
Thailand	a. Do training for auditor to update knowledge with current laws and regulations related to government revenue. b. Set up databases related to government revenue.
Vietnam	a. The State Audit Office has issued the audit guideline of local government budget, of which it is inclusive of tax audit guideline. b. The Training Centre of State Audit Office has prepared the in services course in regard with the revenue audit such as tax collection database system that enable the auditor access the data and information from the tax authorities for audit purpose. c. Develop an audit plan in each type of tax aimed to make deeply assessment fraud prevention, anti-tax losses for the State budget.

VI CONCLUSION AND THE WAY FORWARD

1. Government or public revenue is the most important tool of the fiscal policy of the government as without it, the government will not have the funds to perform its political, social and economic duties. Thus, tax authorities must have an effective and efficient tax system and avenues of any revenue leakages should be identified and plugged.

2. As revenue or tax collection has been cited as one of the high risk areas that are prone to leakage and mismanagement, revenue audit plays a significant role in the field of public sector auditing as detection of revenue leakages should not be placed solely on the responsibility of the tax authorities. As such, SAIs plays an important

role to help plug any such leakages as well as assuring efficiency, effectiveness, accountability and good governance in the administration and collection of government revenue. The way forward to enhance revenue audits are:

Country	Way Forward
Cambodia	To increase effectiveness and efficiency of audit work, the National Audit Authority has to accomplish the key major activities such as: a. improve auditor's knowledge and skill; b. develop tax audit guideline; c. establish external communication with relevant ministries; and d. establish IT system to link with the entity to assess the information in efficient manner.
Indonesia	Currently, we conduct audit on import duty separate from income tax and value added tax audit. In the future we should conduct comprehensive audit among import duty, income tax, and VAT for selected same companies. By conducting this comprehensive audit we can see whether the company reported the same value of imported goods either for the import duty purpose or for its financial statement. The characteristic of each tax is different so they can complement each other. If taxpayer tries to underpay import duty by understating the value of imported goods, they should pay more income tax and VAT (as the cost of goods sold will be lower).
Lao PDR	Our intention are: a. to share knowledge and ideas acquired and discussed from this program and apply them depending on situations; b. to understand the revenue audit methodologies conducted among ASEANSAI by reviewing actual case studies; c. to learn the fundamentals of legal structure and organization regarding revenue audit implemented among ASEANSAI; d. to learn audit techniques in specific area and

Country	Way Forward
	adapt them to comply with laws and regulations in Laos; and e. to share issues and challenges in revenue audit among ASEANSAI.
Malaysia	a. Since revenue auditing is important, it would be beneficial to the auditors if there is memorandum of understanding between collecting agencies/authority could be achieved. This would lead to information sharing between agencies related to revenue collection and resulted in more efficient and effective auditing. b. It is hope that through research/joined project activities and seminars on revenue auditing such as this Focus Group Meeting, knowledge, experiences and best practices can be shared and used by all ASEANSAI. Besides that, in order to improve the efficiency of auditing on regional level, a joined revenue audit could be conducted provided that there is similarity in tax regimes among the countries in ASEAN.
Philippines	a. We look forward to the time that the guidelines in the audit of tax assessments required under E.O. No. 38 will be issued so that the Commission on Audit can perform the audit of revenues and receipts or revenue audit for the purpose of determining whether revenues and receipts are assessed, collected and accounted for, and presented in the financial statements, in accordance with laws and regulations. b. We like wise look forward to the times that e-copy is admissible as audit evidence in the Philippines and the law on custodianship will widen to include the e-copy of the documents subject to audit since the retention period of documents is only up to 10 years and the storage areas provided by the Audited Agency is not enough. c. Create a Memorandum of Agreement specifically to resolve the issue on the submission of e-copy detailing the specific procedures taking into consideration the surrounding circumstances.
Thailand	a. Improve auditor's knowledge on revenue audit. b. Set up database related to government revenue. c. Impart knowledge on revenue audit to all auditors and

Country	Way Forward
	supporting staff. d. Develop specific manual of revenue audit.
Vietnam	a. Fostering efficiency in international cooperation, knowledge and experience sharing and training on revenue and related tax audits; b. Improve effectiveness, economy and efficiency in quality audit assurance activities within audit offices. c. Develop bank of tax payer information and improve interconnection mechanism to State Treasury and Tax Departments. d. To amend audit law/regulation to be more specific on third party documents (including softcopies) submission for audit purposes.

LIST OF TEAM MEMBERS
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No.	Name	Participating SAI
1.	Mr. Paul Chai Sin Ngee	Facilitator, Malaysia
2.	Mr. Heng Karo	Cambodia
3.	Mr. Khath Veasna	
4.	Mr. Iman Santoso	Indonesia
5.	Mrs. Oktarika Ayoe Sandha	
6.	Mr. Touy Phetsanouban	Lao PDR
7.	Mr. Vannasao Soumpholphakdy	
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12.	Mr. Khamhak Sybounmy	
13.	Ms. Chanphayvan Khounsakda	
14.	Mr. Aounheuan Phommaly	
15.	Mr. Saiful Anuar bin Mohd Jaafar	Malaysia
16.	Ms. Johaniffa Jamil	
17.	Mrs. Maria Theresa S. Yambao	Philippines
18.	Mrs. Angelita C. Lomentigar	
19.	Ms. Sricha Thongthep	Thailand
20.	Ms. Anuchana Palawat	
21.	Ms. Truong Thi Huong Giang	Vietnam
22.	Ms. Nguyen Thi Hai Yen	

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5.	Ms. Chhoeuy Davy	
6.	Ms. Heng Bothida	
7.	Mr. Iman Santoso	Indonesia
8.	Mrs. Oktarika Ayoe Sandha	
9.	Mr. Touy Phetsanouban	Lao PDR
10.	Mr. Vannasao Soumpholphakdy	
11.	Mr. Saiful Anuar bin Mohd Jaafar	Malaysia
12.	Ms. Johaniffa Jamil	
13.	Mrs. Maria Theresa S. Yambao	Philippines
14.	Mrs. Angelita C. Lomentigar	
15.	Ms. Sricha Thongthep	Thailand
16.	Ms. Anuchana Palawat	
17.	Mr. Padipat Sappachai	
18.	Mr. Dang Van Cong	Vietnam
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4.	Mr. Iman Santoso	Indonesia
5.	Mrs. Oktarika Ayoe Sandha	
6.	Mr. Saiful Anuar bin Mohd Jaafar	Malaysia
7.	Ms. Johaniffa Jamil	
8.	Mrs. Khairul Saidah Abas Azmi	
9.	Mrs. Nor Azreen Yusoff	
10.	Mrs. Norakma Sabran	
11.	Mrs. Nurulhuda Hayati Mohammad Nazri	
12.	Mrs. Maria Theresa S. Yambao	Philippines
13.	Mrs. Angelita C. Lomentigar	
14.	Ms. Sricha Thongthep	Thailand
15.	Ms. Anuchana Palawat	
16.	Mr. Padipat Sappachai	
17.	Mr. Dang Van Cong	Vietnam
18.	Ms. Nguyen Thi Hai Yen	

National Religion King

National Audit Authority

REVENUE AUDIT ON VAT

02 - 04 March 2016

Vientiane

Country Paper on Value Added Tax Audit

Heng Karo

Khath Veasna

INTRODUCTION

Cambodia as a nation

Cambodia has a land area of 181,035 square kilometers in the southwestern part of the Indochina peninsula, about 20 percent of which is used for agriculture. It lies completely within the tropics with its southern most points slightly more than 10° above the Equator. The country capital city is Phnom Penh.

Geography: Situated in the southwest of the Indochinese peninsula, Cambodia occupies a total area of 181,035 square kilometers and borders Thailand to the west and northwest, Laos to the northeast, Vietnam to the east, and Gulf of Thailand to the southwest.

Languages: Khmer (official) and English (Second language)

Religions: Buddhist (official)

Population: 15,458,332

GDP per capita: 1,138USD (in 2014)

Administrative divisions: Capital (reachthani) and Provinces (khaet) / Municipalities and Districts / Communes (khum) and Quarters (sangkat)

Revenue collection

Fiscal revenue includes the revenues obtained from domestic and international trade taxes and excises, and other fiscal revenues. (Ref. Article 15 of the law on public finance system)

Summary revenue from 2012 to 2014 is shown in the below table.

Types of revenue	**2012 (Thousand$)**		**2013 (Thousand$)**		**2014 (Thousand$)**	
	Amount	**%**	**Amount**	**%**	**Amount**	**%**
I - Domestic Revenue	2,065,413	100%	2,263,612	100%	2,757,615	100%
1. Current Revenue	1,973,169	96%	2,176,401	96%	2,707,424	98%
a - Tax Revenue	1,610,812	78%	1,822,234	81%	2,334,127	85%
- Direct Taxes	319,012	15%	390,362	17%	491,206	18%
- Indirect Taxes	958,454	46%	1,058,620	47%	1,372,084	50%
+ VAT	593,832	29%	669,888	30%	847,377	31%
VAT (GDT)	**222,311**	**11%**	**268,270**	**12%**	**293,124**	**11%**
VAT (GDCE)	371,521	18%	401,618	18%	554,254	20%

Types of revenue	2012 (Thousand$)		2013 (Thousand$)		2014 (Thousand$)	
	Amount	%	Amount	%	Amount	%
+ Others	364,622	18%	388,732	17%	524,707	19%
- Trade Taxes	333,346	16%	373,252	16%	470,836	17%
b - Non tax revenue	362,357	18%	354,167	16%	373,297	14%
2. Capital Revenue	92,243	4%	87,211	4%	50,191	2%

Note: 1$ = 4000 Riel/General Department of Taxation (GDT)/General Department of Customs and Excise (GDCE)

In 2014, Domestic revenue collection was 2,757,615 thousand USD, increased 22% and 34% compared to 2013 and 2012 respectively.

In 2014, VAT collection was 847,377 thousand USD, increased 26 % and 43% compared to 2013 and 2012 respectively.

In 2014**,** VAT collection by the tax authority was 293,124 thousand USD, increased 9% and 32% compared to 2013 and 2012 respectively.

Value Added Tax

From 1 January 1998 onward, shall be established a Value Added Tax a taxable supplies for the benefit of the state budget. (Ref. Art. 55 of Law on Taxation)

Non taxable supplied are as follows: (Ref. Art. 57 and 58 of Law on Taxation)

- Public postal service.
- Hospital, clinic, medical, and dental service, and the sale of medical and dental goods.
- The service of transportation of passengers by a wholly state owned public transportation system.
- Insurance services.
- Primary financial services.
- The importation of the articles for personal use that are exempt from customs duties.
- Non profit activities in the public interest that have been recognized by the Ministry of Economy and Finance.
- Importation of goods for or by foreign diplomatic and consular missions, international organizations and agencies of technical co-operation of other government for use in the exercise of their official function shall be treated as non taxable supplies.

Taxable supply (Ref. Art. 60 of Law on Taxation)

- Supply of goods and services by a taxable person in the Kingdom of Cambodia;
- The appropriation of goods for his own use by the taxable person;
- The making of a gift or supply at below cost of goods and services by taxable person;
- The import of goods into the customs territory of the Kingdom of Cambodia.

Tax rate (Ref. Art. 64 of Law on Taxation)

- The tax on Value Added Tax shall be imposed at the tax rate of 10 percent of the taxable value of each taxable supply in the Kingdom of Cambodia.
- The tax on Value Added Tax shall be imposed at the tax rate of 0 percent of the taxable value of each taxable supply of goods exported from the Kingdom of Cambodia.

MANDATES

The National Audit Authority

Legislative framework

The National Audit Authority (NAA) was created by the Law on Auditing of the Kingdom of Cambodia. The Audit Law came into effect on 3 March 2001. The Law sets out the responsibilities and powers of the Auditor-General as the external auditor of the Cambodian government public sector.

Under article 18 of the Law on Audit of the Kingdom of Cambodia, the Auditor General and the Deputy Auditors-Generals shall be appointed by royal decree on the recommendation of the Royal Government and approved by a majority plus-one of all members of the National Assembly.

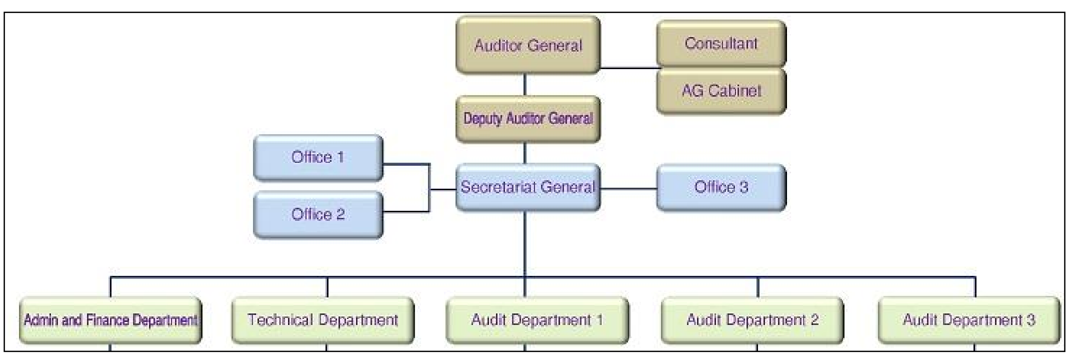
The auditor-general and deputy auditors-general are appointed for 5-year terms and may be reappointed for an additional term. If the auditor-general or a deputy auditor general dies, resigned, becomes disable, or commits a serious mistake, a new auditor general or deputy auditor-general will be appointed under the terms and conditions stated in Law on Audit of the Kingdom of Cambodia.

The institutions that are subject to this Law shall include ministries, agencies, authorities of national treasury, and public financial institutions and public financial joint-ventures, public enterprises, public establishments, municipalities, provincial and local government offices, contractors or suppliers of goods and services to the government under contracts, and other organizations that have received financial assistance from the government for their equity and loans, including tax and duty exemptions and concessions granted by the government to non-profit organizations and private investment enterprises. In performing its work, NAA conducts compliance, financial, and performing audits at its own initiative or at the request of the Finance and Banking Commission of the National Assembly, the National Assembly, the Senate, or audited bodies.

The Auditor-General prepare reports and in accordance with the provisions of this Law or otherwise make general comment upon all matters relating to public accounts, moneys and public assets and liabilities. The Auditor-General shall regularly submit a report to the National Assembly and the Senate upon any matter arising out of the performance of duties or the exercise of any of his/her powers under this Law.

The organizational structure

The National Audit Authority led by an Auditor General and Two Deputy Auditor Generals, and has a secretariat general, five under supervision departments and some offices as shown below:



Member of International Communities

As a new borne institution in history of Cambodia, SAI needs vital help from the outside world especially experienced SAI in both region and international. To get the assistance, NAA had work so hard and succeeded to become a member of International Organization of Supreme Audit Institution (INTOSAI) in December 2002. However, member of INTOSAI alone is not guaranteed to fulfill the needs of NAA, Hence NAA has to continue its journey to become and integrate itself into the regional community- Asia Organization of Supreme Audit Institutions (ASOSAI) in March, 2004 and a member of Asean Supreme Audit Institutions (ASEANSAI) in 2011.

AUDIT GUIDELINE

NAA has a no guideline on tax auditing. Instead, we use an audit program for that audit.

AUDIT OBJECTIVES, SCOPE AND METHODOLOGY

Audit objective: The objective of an audit is to ensure that General Department of Taxation has collected the correct tax at the right time, in accordance with domestic tax legislation.

Audit Scope: The audit scope is limited to the General Department of Taxation.

Audit methodology:

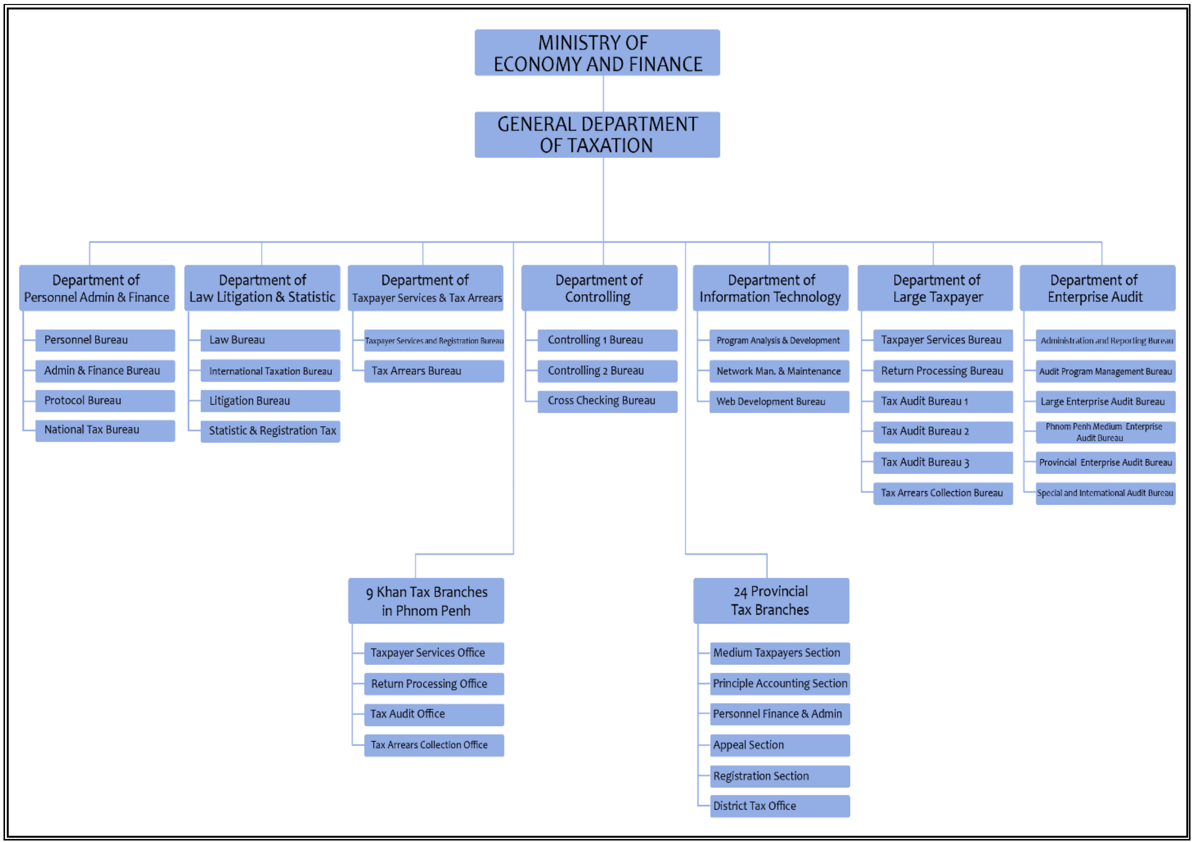
Understanding the entity's operation

Mission: The Mission of the General Department of Taxation is to achieve the compliance with the laws and regulations on taxation by:

- Providing taxpayer services including information, education, and guidance for taxpayers to properly comply with the laws and provisions on taxation;
- Undertaking enforcement programs by auditing, enforcing and penalizing any taxpayers who do not properly comply with the laws and provisions on taxation;
- Collecting tax revenues by properly implementing the laws and provisions on taxation and completely accounted for the national budget;

- Undertaking transparent principles in implementation of laws and provisions on taxation for enhancing reliability of tax administration;
- Enhancing capacity and knowledge of tax officers on a regular basis for effective performance;
- Enhancing the management effectiveness through precise, modern and highly responsible policies, working performance, and working system and etc.

Institutional structure



Human resource: General Department of Taxation has a total officer of 1400.

Laws and regulations: Laws and regulations are critical tools of the General Department of Taxation in functioning operation and collecting tax. Law on taxation is being amendment to suit the tax environment and other regulations are revised.

Tax collection procedure: Tax collection is performed manually through self-declaration by the tax payers. Tax payers have to submit their tax return monthly in hard copy.

Risk assessment: General Department of Taxation identifies the risk of the tax payers such as declared nil, declared loss, non-declaration and under declaration, etc.

Revenue management strategy: Two main functions were developed and introduced to implement the revenue management strategy.

Key function:

- Tax payer registration
- Tax payer service
- Declaration
- Auditing
- Tax arrears collection and complaint

Supporting function:

- Promoting good governance and human resource management
- Information technology

To gain an understanding of entity's operation, we reviewed the General Department of Taxation's enabling legislation and applicable laws on taxation. We interviewed executive management and key tax officers to gain an understanding of the tax revenue collection process by drawing the flowchart and identifying the process risk and the controls within the process.

Compliance testing is used to test the operation of internal controls to determine if they are being applied consistently and correctly. We tested a sample of the tax declarations at tax departments and tax braches to ensure the applicable laws and established criteria were followed.

AUDIT FINDINGS AND RECOMMENDATION

NAA had found several findings:

1. Unregistered business (tax payers do not register)

Article 101 of the Law on Taxation stipulates that "A person must register with the tax administration within 15 days after a person begins economic activity."

NAA had found that some firms which had registered at the Ministry of Commerce had not registered at the General Department of Taxation.

This may lead to tax evasion.

We recommend management should collaborate with ministry of commerce to register the firms.

2. Failing to filing their returns

Article 104 of the Law on Taxation stipulates that "the tax payer must submit a tax declaration to the tax administration according to the form, the time and the place determined by the tax administration."

During our review, we had found that some tax payers registered at some tax branches had not filed their returns (monthly and yearly).

This may lead to tax evasion.

We recommend management to take action in according the tax provision.

3. Failed to issue value added tax invoice (tax payers)

Article 77 of the Law on Taxation stipulates that "Any taxable person who makes a supply shall provide the purchaser a serially numbered Value Added Tax invoice."

During our review, we had found that some tax payers had not used tax invoice as regulated by the General Department of Taxation.

This may lead to understate the taxable sale revenue and value added tax payment.

We recommend management should enforce tax provision strictly.

4. Incorrect tax declaration

Article 127 of the Law on Taxation stipulates that “Tax evasion is the willful, knowing, or systematic or repeating violation of tax provisions with intention of reducing or eliminating the tax amount required by tax provision to be paid.” And article 127 of the Law on Taxation stipulates that “The additional tax for the underpayment of tax or late payment must be calculated separately from the additional tax for the obstruction of the implementing of the tax provision.”

During our review, we had found that the incorrect tax declaration as the below:

- Import and export firms had declared tax nil while we had found that they had imported merchandise with the customs value of certain amount.
- Some petroleum firms had understated the sale price under the market price from 100 riel to 1,300 Riel per liter.

This leads to the understatement of tax payment by the tax payers and the understatement of tax revenue collected by the General Department of Taxation.

We recommend management strengthen the tax declaration.

5. Untimely transfer tax revenue to National Treasury

Article 106 of Sub-degree No. 82 of the Royal Government on the Rule of Public Accounting stipulates “that all revenue shall be recorded in the right fiscal year.”

During our review, we had found that General Department of Taxation and some Tax Branches were late in transferring tax reveue of certain amount to national budget in the right fiscal year.

Failing to transfer the tax revenue in the right fiscal year makes the total tax reveune understated.

We recommend management to transfer the tax revenue in the right fiscal year.

CHALLENGES AND LESSON LEARNT

The National Audit Authority faces some challenges such as:

- Lack of human resource,

- Lack of tax auditing guideline,
- Lack of information sharing from relevant ministries, and
- Lack of I.T to support audit work.

Tax audit is critical in nature. Experiences told that the tax evasion is a big loss and cannot be detected by the tax authority in timely way. In addition, the National Audit Authority could deliver value to the tax authority to some extent due to lack of cooperation from the entity in providing document, lack of relevant information from other ministries, lack of qualified auditors who has expertise in taxation and I.T support the audit work.

BEST PRACTICES

The National Audit Authority will learn from other SAIs to improve our audit work.

WAY FORWARD

To increase effectiveness and efficiency of audit work, the National Audit Authority has to accomplish the key major activities such as

- Improve auditor's knowledge and skill,
- Develop tax audit guideline,
- Establish external communication with relevant ministries, and
- Establish I.T system to link with the entity to assess the information in efficient manner.

REVENUE AUDIT

Study Case from Indonesia

1. **Types of Revenue**

Transparent financial reporting is a mandatory responsibility from a government. Government should be held responsible for integrity, performance and accountability in managing the public fund entrusted to them. Government then should provide transparent and reliable information regarding these following considerations:

1. Government controlling and managing significant resources of one country
2. The use of those significant resources will impact one country welfare

Accountability refers to the obligation of government to account its activities, accept responsibility, and to report the result in transparent manner. This accountability includes the responsibility for all resources entrusted to government. Government should be accountable either in its revenue and spending (the use of revenue). Government should be accountable to use its revenue for the wellbeing of its country. Revenue poses a high risk area of an audit since it has a very high probability to be "off the book".

In its simplest way, national revenue is defined as the total amount of money earned within a country. In Indonesia, state revenue comes from three sources which are:

1. Tax revenue
2. Non tax revenue
3. Grant revenue

The following table describes the revenue data of Government of Indonesia on 2013-2014:

Table 1: Government of Indonesia Revenue 2013-2015 (in 000.000.000 rupiah)

No.	Types of revenue	2015	2014	2013
State Revenue		1577,67	1550,35	1438,7
A	**Tax Revenue**	1226,00	1146,87	1.077,31
1	Income tax	600,43	546,18	506,44

No.	Types of revenue	2015	2014	2013
2	Value Added Tax and Tax on Luxurious Good	424,02	409,18	384,71
3	Property Tax	30,22	23,48	25,30
4	Excise Tax	128,33	118,09	108,45
5	Other Tax	8,13	6,29	4,94
6	International Trade Tax	34.87	43,65	47,46
B	**Non Tax Revenue**	332.92	398.45	354,57
1	Revenue from Natural Resources	112.36	240,85	226,41
2	Government share on state finance enterprise	110.06	40,31	34,03
3	Other Non-Tax Revenue	72.68	87,61	69,48
4	Public Service Body Revenue	37,85	29,68	24,65
C	**Grants**	18,72	5,03	6,83

Tax revenue are managed by two agents which are tax office and customs office. Tax office handling income tax, property tax, and value added tax meanwhile customs office manage the excise tax, other tax and international trade tax. This paper will focus its discussion on the audit of government revenue which comes from international trade tax (import duty is part of this international trade tax) as the fourth biggest tax revenue for government.

This paper will be divided into 9 section, first we explain what types of revenue that government of Indonesia poses, second the audit mandate of BPK related to revenue audit, third is about the audit guidelines BPK to ensure the high quality of an audit performed, the fourth section then discuss the main objective of an audit, scope, and methodology, and the fifth section is the audit finding, the sixth section is about audit recommendations, the seventh section talk about challenge and lessons learnt, the last section will conclude by a way forward for the future.

2. Audit Mandate

The state finance law No 17/2003 article 1 define the state finance as the country overall right and obligation that can be valued in monetary item, and all other things in form of money or goods that can be possessed by country in relation with the conduct of its right and obligation.

According to the above article state finance is described from three perspective:

1. State finance as an object
   From an object side, state finance encompass overall country right and obligation that can be valued in monetary item, including fiscal, monetary, and separate managed country wealth policy and activities, and all other things in form of money or goods that can be possessed by country in relation with the conduct of its right and obligation

2. State finance as a subject
   From a subject side, state finance encompass all the above object that is controlled by central government, local government, Public Company, and other bodies related to state finance.

3. State finance as a process
   From the process side, state finance encompass the whole process related to the management of the above object starting from the policy formulation, decision making process, until the accountability process.

4. State finance as an objective
   From the objective side, state finance encompass overall policy, activities, and legal relationship related to the ownership and/ or the control of the above object in order to govern the country.

The legal status of BPK is stated on Indonesia 1945 Constitution (article 23E):

"*To audit the management and accountability of state finance, there shall be a Supreme Audit Institution which shall be free and independent".*

BPK is among the State Institutions together with the President, Parliaments, and the Supreme Court. Holding this position, BPK gains a considerable level of independence from the executive as well as legislative powers to fulfill its duties.

The operational basis for BPK to conduct its mandate is described in Law No 15/2004 article 2 which state as follow:

(1) State finance audit encompass the audit of the management and accountability of state finance.
(2) BPK conduct the audit on the management and accountability of state finance

Pursuant to the State Financial Management and Accountability Audit Act (Law No.15/2004 article no 4) and BPK Act (Law No.15/2006 article no 6), BPK conduct three types of audit: financial audit, performance audit, and special purpose audit (including compliance, investigative and environmental perspective audit).

Revenue audit on import duty can be done in form of financial, compliance, or in performance audit. In this paper we will discuss the audit in form of financial and compliance audit.

3. Audit Guidelines

There is no specific audit guideline related to audit on tax revenue. We are using either financial and compliance audit manual to do the audit on revenue. The audit manual developed by BPK is based on related ISSAIs.

4. Audit on Government Revenue

Objective, Scope, and Methodology

Audit objective are assessing whether:

- activities, financial transactions and information regarding government revenue are, in all material respects, in compliance with the authorities which govern the audited entity;
- Government revenue information is presented in accordance with the applicable financial reporting and regulatory framework

- Government revenue activities are performing in accordance with the principles of economy, efficiency and effectiveness and whether there is a room for improvement

The scope of the audit is all government revenue i.e. tax revenue, non tax revenue, and grant.

Audit methodology in short are as follows:

- Understanding business entity
  It is conducted by reviewing past audit report, current situation (entity's data and report analysis), and regulations related to government revenue. Auditor should understand the structure and the operation of the government revenue collection agencies and its process in collecting revenue.
- Assessing risk
  Auditor should identify risk faced by the government revenue collection agencies that can harm its objective. The examples of the risks are the undercollection of government revenue, the delay in revenue collection, etc.
- Assessing internal control related to the identified risks
  In this phase auditor assess the internal control adequacy of government revenue collection agencies to mitigate the identified risk. Some examples of sound internal control is strong and integrated information system regarding the tax payer identity, segregation of duty in collecting and remitting the tax payment to national treasury, etc. Should auditor find some internal control weaknesses, then auditor should focus the audit on that area.
- Conducting field audit based on identified risks
  In this phase auditor conduct the testing for the accuracy or the reasonableness of the government revenue. Some examples of audit procedures are documentary review, reperformance, recalculation, observation, cash opname, etc.
- Performing audit conclusion
  Based on the evidence obtained from the field audit, auditor then perform the audit conclusion to fulfill the audit objective.
- Reporting and Communicating audit result

The last step is to report and communicate the audit result to those charged with the governance, and other authorized parties.

5. Audit Finding

Some examples of audit finding regarding government revenue are as follows:

a. Shortage in excise tax due to out of date tariff imposition

Based on the audit on import duty, auditor noted there are some incorrect imposition of import duty due to the outdated rate used by the custom officials. This incorrect imposition causing IDR32 billion shortage in government revenue.

b. Shortage in property tax due to inappropriate lower tax rate

A mining company should pay property tax based on the value of its mining land. The value of the land is calculated based on specific formula, stated on the contract between government and the mining company i.e. flat rate of $50,000 times International Bank for Reconstruction and Development (IBRD) deflator*. IBRD deflator is then adjusted every two years. Based on the mentioned formula, the tax office charge the tax payable. In 2015, BPK conducted compliance audit on the calculation and collection of property tax for mining company for the period 2010-2015. From the audit, it was noted that the mining company was undercharged due to the different deflator rate (USD deflator instead of IBRD deflator as stated in the contract) used. This resulted in under collection of government revenue amounting to IDR132 billion.

*IBRD deflator: Inflation rate release by IBRD-World Bank

c. Shortage in excise tax due to inaccurate production volume data

Excise on tobacco product is charged when produced or imported. The manufacturer of the tobacco product that already has a tax identity has an obligation to regularly (twice a month) submit its production report to customs office. The excise tax is charged based on the production volume reported by the manufacturer.

In 2016, BPK conducted compliance audit to assess the accuracy of excise charged by several customs offices for the year 2011-2014. From the examination, it was noted that there were differences in the reported production from production and tax report, causing underpayment of excise tax amounting to IDR155 billion. For the period of 2011-2014 the Customs Office had never conducted an audit on the accuracy of production report from tobacco manufacturer. In addition, there is no such mechanism to ensure the accuracy of the report production submitted by the manufacturers.

6. Audit Recommendation

a. It was recommended that the Custom Department to improve its internal control especially in information system area to ensure all custom office to use the current list of import tariff.
b. It was recommended that the tax authority should charge the correct rate of the property tax.
c. It was recommended that Customs Office should establish a systematic mechanism to ensure the accuracy of production report and correctness of excise tax collected.

7. Challenge and Lesson Learnt

Auditor should have an adequate understanding on this following information:

- Internal control standard;
- Business process of import activities;
- Related parties in import activities.

8. Best Practices

1. Yearly workshop to update auditors knowledge with current rules related to government revenue (one of its part is related to the import duty).
2. Recruit auditor from State College of Accountancy majoring in tax

3. We conduct the audit by *sampling* of imported document and transaction. Our sample based on the following factors:

   a. The value of imported goods;
   b. Profile of Commodity types;
   c. Profile of importer country;
   d. Profile of country of origin;
   e. Profile of Importer company;
   f. Reported duty, price list, and
   g. Forbidden and restricted goods rule.

4. *Vouching*. The methods is conducted to assure the accuracy and validity of number represented in import duty, assure that cost, insurance, and freight (CIF) as calculation base of import duty align with import goods report, manifest and import duty.

5. *Reperformance*. The methods is conducted to assure the validity of calculation in import duty.

   Confirmation. The methods is conducted to assure the payments of import duty and taxes have been received by State Treasury Fund.

9. Way Forward

Currently, we conduct audit on import duty separate from income tax and value added tax audit. In the future we should conduct comprehensive audit among import duty, income tax, and value added tax for same certain companies (as a sample). By conducting this comprehensive audit we can see whether the company reported the same value of imported good either for the import duty purpose or for its financial statement. The characteristic of each taxes is different so they can complement each other. If taxpayer try to underpay import duty by understated the value of import goods, they should pay more for income (as they cost of goods sold will be higher) tax and value added tax. Vice versa.

ASEANSAI RESEARCH PROJECT
REVENUE AUDIT COUNTRY PAPER SAI OF LAO PDR

I. GENERAL INTRODUCTION

a) SAI Information

Since the establishment of the Lao PDR, 40 years ago, Lao P.D.R has undergone 2 major transformations of the economic environment from the post liberation situation into command economy and then from a command economy to a more market-oriented economy.

The SAI of Laos was established as a Constitutional body in 1998.

State Audit Organization

State Audit Organization is an independence institution and is an institution of Audit organization system, which is created or dissolved by the National Assembly and has a mandate to conduct a study on economy, efficiency, effectiveness of its entities, state institutions, mass organizations, and other organizations that manage and use public funds, social political; organizations that use state budget, various organizations under the supervisory of armed forces, public projects funded by local budget, loan and government contribution or grant from domestic and overseas organizations and state interposes or company with joint capital.

Fields subject to SAO audit covers and audit on financial report, compliance and performance audit. Meanwhile, by the type of audit, SAO audit covers planned audit, audit by request and that includes strengthening SAO. External audit is the responsibility of the SAO operating in accordance with the 2007 Audit Law, with the duty to report to the National Assembly. The SAO is rapidly growing in stature and size its staff has almost tripled over the past 3 years and two new regional offices have been established. Matters included in SAO audit reports have been discussed and debated in the National Assembly. The Audit Law 2007 enhances the SAO's independence by having it report to the National Assembly rather than the Prime Minister, as was previously the case. The SAO has begun capacity-building activities for improving financial audits with support from selected SAIs and other INTOSAI members. An action plan for 2009–2020 has been developed that focuses on building the capacity and defining the resource requirements of the SAO. However, the SAO needs support to build its auditing capacity overtime, with the objective of being able to perform its full mandate under the Audit Law 2012 to international standards within 3–5 years, thereby further enhancing public sector transparency and accountability in the Lao PDR.

The National Assembly is an important authority that relies upon the financial statements that the State Audit Organization is required to audit. The audited government accounts provide the National Assembly with assurance that past budgets were implemented as authorized, and with a basis for setting future budgets. Because the financial audits conducted by State Audit Organization serve the National Assembly, and because the National Assembly is the supreme, law-making body of the country, State Audit Organization is called the Supreme Audit Institution, or SAI, of the Lao PDR. State Audit Organization conducts its financial audits in accordance with auditing standards promulgated by INTOSAI the International Organization of Supreme Audit Institutions.

It recently developed its vision and mission statements. The vision of the office is to ‘Enhance Good Governance through Accountability and Transparency in the Public Sector’ while its mission is to ‘Provide trustworthy, effective and independent audit for the efficient management and utilization of public resources’.

To assure periodically realistic compliance, in 2012, the audit law has been amended and approved in the third session of national assembly VII, which changed the name from the law on audit to the state audit law number 16/NA dated July 06, 2012, and is it effectively used in recent time. And in 2015 the state audit organization is stated in the constitution of Lao PDR (Revised version, 2015).

b) Introduction (tax revenue audit)

Taxes is the financial obligation of individuals, legal entities or organizations which generate revenue from conducting the profession, business operation, consumption of goods and services in the Lao PDR and in foreign countries which must be paid according to the rates provided in this Tax Law.

The Government promotes tax works by issuing policies, regulations, [appointing /authorizing] personnel, vehicles and necessary equipment to the effective works to manage the collection of tax revenues in a unified manner throughout the country, adjust revenue justly, contribute revenue into the state budget to promote the expansion of business production, attract foreign and domestic investment, contribute to rural development and the alleviation of poverty among the ethnic citizens.

There are two tax categorized, namely: indirect taxes and direct taxes Indirect tax is tax collected from consumers of goods and general services provided by business production operators in the Lao PDR territory. Indirect taxes consist of:

Value-added tax is an indirect tax calculated and collected based on the value added to goods and services which occur in all practices commencing with production, distribution, the provision of services to consumption and collected on the value of goods and services imported into the territory of the Lao PDR.

Excise tax is an indirect tax collected on the consumption of goods and certain categories of services specifically prescribed in this Law

Direct taxes are taxes collected from all Lao citizens, individuals, legal entities and organizations which generate income from business production domestically or abroad.

Direct taxes consist of:

- Profit tax; Profit tax is a direct tax which is collected on profits of the enterprise, including freelancers who undertake business production

- Income tax; Income tax is a direct tax collected on the income of individuals, [or] legal entities who generate income in the Lao PDR as provided in this law.

- Fixed tax (lump sum); A lump sum tax is a direct tax collected from individuals, [and] legal entities which conduct small and medium-scale business production not under the value added tax system, such is paid in a lump sum under contract between the tax authorities and tax payer and does not include income tax provided in Article 45 of this law. Small and medium-scale business operators which generate annual revenue of less than 50,000,000 kip, shall perform as follows:

- From 12,000,000 kips and below, the lump sum tax shall be exempted, from 12,000,001 to 50,000,000 kips, lump sum tax shall be collected to each business activity at the absolute rate not over 600,000 kip/year in accordance with the decision of the Government in order to be consistent with the size of the business and specific situation of each location;

- For small and medium-scale business operators which generate annual income between 50,000,001 to 400,000,000 kip, the lump sum rate shall be applied as follows:

Annual business revenue used as basis for calculation (Kip)	Rate of Fixed Tax for each type of activity		
	Manufacturing	Trade	Service
50,000,001-120,000,000	3%	4%	5%
120,000,001-240,000,000	4%	5%	6%
240,000,001-400,000,000	5%	6%	7%

- Lump sum tax shall be paid monthly, quarterly, bi-annually or annually as provided in the contract. In the event that the tax payer generates a higher or lower business income than provided in the contract, the tax officers in collaboration with the tax payer or relevant sectors, shall calculate a unified and accurate tax amount to collect the excess tax and make a new lump sum tax contract for future implementation of tax payment.

- Environmental tax Environmental tax is a direct tax which is collected from individuals, legal entities and organizations which are permitted to operation the manufacturing businesses, to import or use the natural resources in Lao PDR which cause the pollution to the environment, damages to health, life of people, animal, plant and the balance of an ecosystem.

- Fees, professional service charges: Fees are direct obligations being state administrative rights collected from individuals, legal entities or organizations which operate in economic and social activities through state sectors in the form of issuing certificates and licenses. Professional service charges are direct obligations being professional administrative service fees of state sectors for non-profit social services and to support the state budget expenditure.

Rights and Obligations of Taxpayers, Individuals and Relevant Organizations Taxpayers have the following rights:

- The provision of data and information, directives, explanations advice on tax payment policies and regulations as well as determination of tax obligations of the taxpayer;

- To have the taxpayer data kept confidential;

- To receive refund of excess tax payments in accordance with the law;

- To submit, petition, litigate relating to acts of tax officers, employees or organizations which are inappropriate and not consistent with this law and other relevant laws.

Taxpayers have the following obligations:

- To calculate, declare and pay tax in full and on time.
- To be responsible for the declaration, calculation, requesting withholdings, requesting reductions and exemption from taxes clearly and truthfully;
- To summarize and make annual tax payment plans;
- To report to the savings account, funds and other financial institution [information] to the tax authorities ;
- To maintain accounts and use invoices in accordance with laws and regulations;
- To provide account documents, invoices, financial statements and other documents related to the calculation and accounts audit to the tax authorities, in accordance with laws and regulations;
- To perform decisions, orders, instructions and notifications of tax officers in the payment of taxes due and fines, after which, if there is the failure to pay attention to and not to cooperate, taxpayers will consent to the confiscation and seizure of any assets which are in equal value to the amount of taxes due;
- To maintain and keep accounting documents in accordance with laws and regulations;
- To perform other obligations in accordance with laws and regulations.

Rights and Obligations of Individuals and Relevant Organizations

Individuals and relevant organizations have the following rights and duties:

1. To monitor, audit, provide data and information of taxpayers, and provide assistance and cooperation to the tax authorities in accordance with their role;

2. To notify and report any violations of the tax law to the tax authorities. The informants and such reports shall be protected and kept confidential pursuant to law.

II. AUDIT MANDATE

At the present state audit organization is stated into the constitution of Lao PDR (Revised version, 2015) SAI of Lao PDR are used audit mandate as following:

- Constitution of Lao PDR (Revised version, 2015);
- Audit Law (Revised version, 2015) No 16/NA 6 July 2012;
- TAX LAW (amended version) No. 05/NA, dated 20 December 2011;
- Value Added Tax Law No. 04/NA, 26 December 2006;
- State Budget Law (Amended version) No. 02/NA, 26 December 2006;
- Accounting Law (Amended Text) No: 01/NA, 2 July 2007;
- Enterprise Law (2013);

III. AUDITING GUIDELINES

In the present, the state audit organization has tools to use for conduct the audit as: general audit standard.

a) International Level:

- ISSAI 1000+
- ISSAI 3000+
- ISSAI 4000+

b) Nation Local Level:

- Audit manual on the financial audit;
  - Volume I: The Financial Audit Process and Reference Material
  - Volume II: Detailed Audit Programs, Foreign-Aided Loan Projects
  - Volume III: Detailed Audit Programs, State Owned Enterprises
  - Volume IV: Detailed Audit Programs, State Owned Banks
  - Volume V: Detailed Audit Programs, Government Financial Statements

After state audit organization (SAO) is stated into the constitution of Lao PDR (Revised version, 2015) additional, we are developing many auditing guidelines and audit mandate for supporting auditors in the SAI.

IV. AUDIT OBJECTIVES, SCOPE AND METHODOLOGY:

a) **Audit Objectives:** To determine whether (a) the audit has been properly planned in accordance with INTOSAI and SAO auditing standards; (b) sufficient competent evidential matter has been gathered and documented in the audit working papers to enable the expression of an audit opinion without reference to any scope limitation (or limitations to the scope of the audit examination have been appropriately described in the audit report on the financial statements taken as a whole); and (c) audit observations summarized in management letter points and in AJEs have been considered in formulating an appropriate overall audit opinion on the financial statements taken as a whole, in accordance with INTOSAI and SAO auditing standards.

And to determine whether revenues shown on the income statement (a) represent all and only revenues earned by the enterprise during the period under audit (Completeness, Occurrence); and (b) are properly stated, classified and described (Presentation, Valuation).

b) **The scope of the revenue audit:** is broad, auditing on tax revenue is scope in direct and indirect tax income.

c) **Methodology of conduct the tax revenue audit**: is standard stated in general standard audit manual as: in the audit process it has to go in 3 steps:

Preparation for the audit

Upon decision of audit, the team of the State audit must prepare their mission in which the essential operations are presented as follows:

d. To make survey, collect and gather data on the financial position, the internal position, the internal control system, and other data related to the audited entity;

e. To assess the internal control system, and the data collected from the audited entity in order to determine the objectives, targets, contents, appropriate scope and methods of audit;

f. To prepare detailed audit programs after performing the operations 1 and 2 above- mentioned.

The conduct of audit mission

The conduct of audit mission shall conform to the following procedure:

1. The team of audit must conduct its audit mission in accordance with the provisions of decision of audit and the detailed audit program;

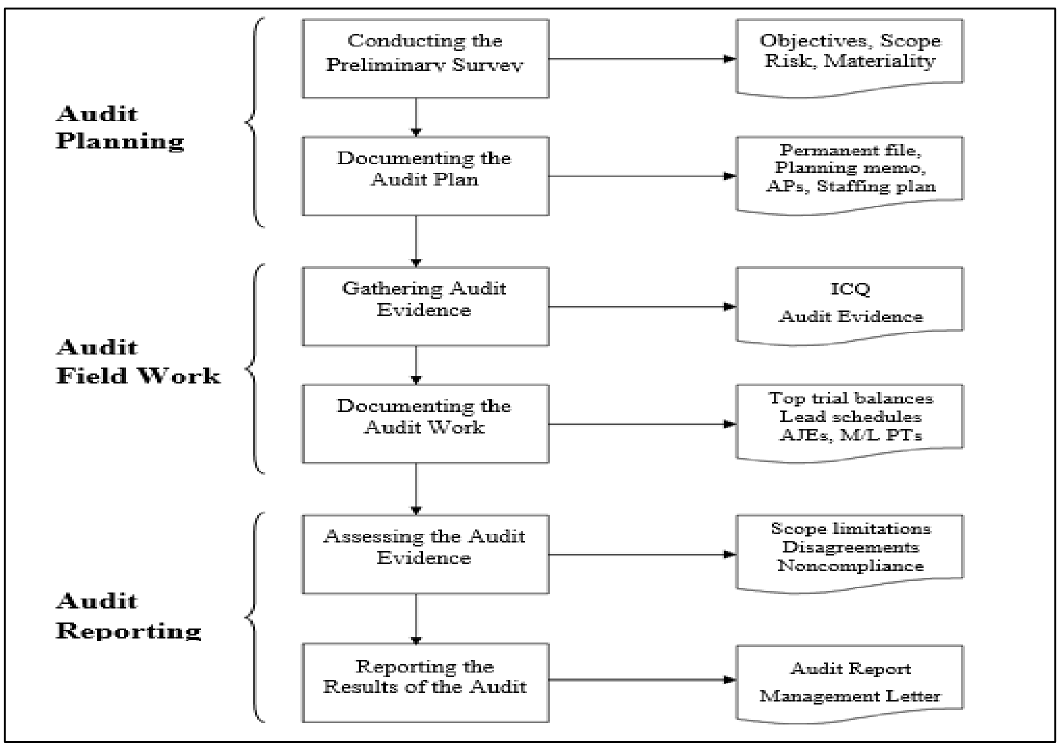
2. The audit is carried out by the examination of the documents and the field work;

3. The audit must apply the standards of the State audit.

The Audit Report

At the end of the audit mission, the auditor must establish conclusions on the audit findings, in which he/she must state clearly on the evaluation, certification and make recommendations on what was audited, drafting minutes of the audit findings which are to be sent to the audited entity for their written comments on the recommendations made. If there is no comments within fifteen days from the reception of the draft audit report, the draft report is considered as being approved; The audit report must be signed and certified by the President of Central State Audit Organization or the Chief of Regional (State) Audit Organization.

Figure: The Financial Audit Process



V. AUDIT FINDINGS

1) Revenue budget planning management

Planning revenue budget of Tax Department from enterprises in 2012-2013 fiscal year, it does not start from plan tax obligations of the entity enterprises complete, according to statistics FY 2012-2013, the units of Enterprise control by Tax Department there are 513 units, which are 233 units in the plan given taxes to Tax Department, with 280 units in the plan no given taxes various to Department of Tax, the planning revenue is based on estimates compared to last year.

For the part of the plan revenue budget for the sector Tax Local's Department it is given plan based on figures established practice in the past year, which is not based on Plan contribution tax different types of enterprises to local management.

2) Planning and revenue from land.

The planned revenue from the fiscal year 2012-2013 is not clear , the cause is due to the census of land is also old data, it cannot collect statistics and the number of census land actually across the country fully and accurately, thus making predictions plan revenue from land inconsistent with reality. The revenue from land in the Provinces and the Capital City cannot conclude: that each Provinces, Capital City, each City, each village cannot collect revenue of land.

3) Examine accounts enterprises.

FY 2012-2013 Tax Department is conducted examine accounts of enterprise in amount 306 units, equivalent to 59.64% of the units enterprise level Department control of 513 units, noted that: the results of examine are both affordable information unit enterprises to examine the pay tax more.

The reason is the Department of Tax has been documented financial statements from enterprises only 366 units, some enterprises are nearing the end of the year so they summit to the Tax Department, additional Tax department they cannot proceed to examine the reality so it cannot make the revenue into the budget.

4) Accounting record.

Tax Department records some incorrect manner content of budget and list of treasury account: as income tax from state enterprises, according to the account budget is set in category 01, part 01, sub category 01 and Chart of Accounts Treasury is 7011, but the recording account in actually recorded in the account profit tax from other businesses from state enterprises is category 01, part 01, and sub category 0.2 the Treasury's account 7012 chart of account amount 104.81 billion, which was recorded incorrectly according to the budget accounts and Treasury accounts.

5) Acceleration Claim conclusions units annually from enterprises.

Accelerated demand among enterprises to report annually to the Department of Tax to examine the given taxes Obligations are not meet, it expressed as some unit enterprise unable to summit the financial statement of annually report its 3 years back as 2012, 2013 and 2014, these are 3 units enterprises unable to summit the financial statement conclusions over 2 years back as 2013 and 2014 amounted to 94 units, in 2014 there 186 units enterprises unable to summit the financial statement over 1 year.

VI. RECOMMENDATIONS

1. Revenue budget planning management

The Department of Tax put the plan revenue budget for the sector taxes from entity enterprises by initiative capacity exploring sources of unit production and service laws that set.

2. Planning and revenue from land

Department Tax audit plans Revenue from land to fully calculate a precise, in coordination with the Ministry of Resources and Natural Environment to inspect, collect statistical census of land each completely and accurately. Organizations operating revenue is to coordinate with the provinces and the capital review statistics on the family land that ties the tax and complete statistics on family land pending given as a reference to determine the measures to solve the performance to Article 56 of the Law on Budget Decree No. 02 / NA, dated 26 December 2006 was set.

3. **Examine accounts enterprises.**

The Department of Taxation is to examine calculate account enterprises complete each unit to increase rigor, responsibility and obligation to provide revenue to the budget of the state unit enterprises in Article 87 of Law Tax (amended) No. 05 / NA, dated 20 December 2011 was set.

4. **Accounting record**

Department of Tax, Ministry of Finance to put accounting correct number account specified in the chart of accounts and copying systems account state in accordance with the law on accounting was adopted in each period pursuant to Article 61 of the Law on budget decree 02 / NA, dated 26 December 2006 and of the treasury account of the set.

5. **Acceleration Claim conclusions units annually from enterprises**

Department Tax must put on the acceleration demand among enterprises submit report annually to conduct inspection investigate promptly schedule the time and according to a notice on the closing brief account each year the Department of Tax and Article 11 of the agreement of the Minister on the organization and functioning of the Department of Tax No. 1482 / MOF, dated 30 May 2013.

VII. <u>CHALLENGES AND LESSON LEARNT</u>

a) SAI engaging Stakeholder

- Entities Corporation

b) ISSAI Implementation

- ISSAI 1000+

- ISSAI 3000+
- ISSAI 4000+

c) **Legislation**

Reasons for non-compliance:

1. Lack of skill: To become a Revenue Auditor (RA), a performance audit team-leader or a performance audit manager, certain distinctive qualifications have to be met.

   An also, Qualifications for staff members who conduct performance audits include

   - knowledge of the methods applicable to revenue auditing and the education, skills, and experience needed to apply such know -ledge;
   - knowledge of government organizations, programs, and functions;
   - skills to communicate clearly and effectively, orally and in writing; and
   - special skills depending on the nature of the specific audit (e.g. statistics, information technology (IT), engineering etc… , or expert
   - knowledge of the subject matter concerned;

2. Lack of audit tools are has fully complied with the Audit Law is a general but not specify revenue audit Tools for conducting audit on FA;
3. Lack of Good communication with the auditee (s) and experts from different backgrounds is important during the entire audit process. Similarly, revenue audit managers must also be vigilant. It is important that the factual basis of final descriptions, analyses and recommendations is accurate

4. Lack of leadership support: SAI are not constitution RA audit, Quality Control (QA), Quality Assurance (QC) and Code of ethic not fully met .

5. All auditors should act with integrity, impartiality, objectivity, competence and professionalism and also code of ethic. To meet these standards the performance auditor must be adequately educated and have experience of investigative/ evaluation work.

VIII. BEST PRACTICES

Results from the test used to help Parliament to consider and approve the state budget, a figure split state budget, programs and projects

The significant level of the state budget; Used to consider and adopt conclusions Absolute organization operating budget of the annual and monitor the implementation of the budget of the state, fiscal policy and financial state; The administrative and other relevant bodies used in the management, administration and management functions, including its report; Courts, public prosecution and investigation - an investigation using the information, the evidence in the proceedings; Organization management target validation used to educate or disciplinary goals being audited; Target validation using as a reference to confirm and enhance efficiency of movement and improve on weaknesses, constrained its expression in the conclusions of the audit, the audit review the role, functions, operations, and planning work in the past of the entity being audited to identify, and evaluate whether the management operation are consistent with efficiency and effectiveness of the proceeding of them. The results of the examination of society are understanding more about implements policies - Party on the monitor, understand about management, use budget and manage property and state. Audits to make employees check the meaning and importance of the audit, make audit office obliging the nation, are served up, conscious of the rules - the laws and of moral action can be taken to the ethics of monitoring well.

The administrative agencies and other concerned organizations, to use for administrative management and the performance of their duties, including control activities;

The people's courts, the people's prosecutor offices and other investigative organizations, to use as data and evidence in the lawsuit process; The management bodies over the auditees, to use for the purpose of education or imposing sanctions over the audited entities;

The audited entities, to use as reference for attesting and reinforcement of the effectiveness of the operations as well as improvement and resolution of the weaknesses and deficiencies mentioned in the audit report.

In summary then, the test has contributed to renovations to improve the administration and management of the organization state bodies Mass and all businesses, another test was increased confidence in the national government, the organization of state organizations private domestic and foreign organizations, public speaking, especially the role of audit increasingly higher.

The National Assembly, to use for the consideration, the adoption of the State Budget estimate, the allocation of State Budget, those of the programs and projects of national importance financed by the State Budget; consideration and adoption of the final settlement of the State Budget of the year and to supervise the implementation of the State Budget and monitor the financial and monetary policies of the State;

IX. WAY FORWARD

We would expect to learn in the program to make effective use of them as we intend to achieve following:

a) To share knowledge and ideas acquired and discussed from this program other countries and apply them to home country depend on situations.

b) To understand the operation of audit system in ASEANSAI, especially the efforts of audit revenue in auditing by taking actual case examples and clarify the problem.

c) To learn the fundamentals of legal structure and organization regarding audit system in ASEANSAI.

d) Audit technical on specification audit area and compliance with Law and regulations in Laos.

e) To share the problems and efforts to tackle audit revenue in auditing in participating countries.

After passing the program, SAI of Lao will bring the lessons and the experiences that he will receive from the program to compare what SAI has done and what SAI need to develop then discuss how will we develop our issues in the future.

REVENUE AUDIT

SAI MALAYSIA

1. INTRODUCTION

1.1. The Malaysian Federal Government's revenue is classified into four main categories, namely **Tax Revenue**, **Non-Tax Revenue**, **Non-Revenue Receipts** and **Revenue from Federal Territories.**

a. **Tax Revenue** comprises Direct Tax Revenue and Indirect Tax Revenue where:

i. Direct Tax Revenue includes Income Tax (individual, company, petroleum, withholding and cooperative); Stamp Duty; Real Property Gains Tax; and Labuan Business Activity Tax; and

ii. Indirect Tax Revenue includes revenue from Goods and Services Tax (GST), export duties, import duties, excise duties and levies. Meanwhile, Sales Tax and Service Tax were charged for the period of January to March 2015 before being replaced by the GST with effect from 1 April 2015.

b. **Non-Tax Revenue** consists of:

i. licenses and permits, charges imposed on the granting of rights to individuals, corporations, businesses including petroleum royalty and other enterprises as well as motor vehicle licenses for purpose of control or regulation;

ii. service fees for services rendered by the Federal Government to the public;

iii. proceeds from sales of goods and physical assets owned by the Government including land, buildings, office equipment, storage facilities and other miscellaneous goods;

iv. rentals on land, buildings, vehicles and machinery;

v. interest and return on investments, proceeds from divestment, dividends from shares, interest income and coupon bonds as well as interest on loans granted by the Government;
vi. fines and penalties including out-of-court settlement fees and forfeitures;
vii. contributions and compensations received locally and from abroad; and
viii. income from exploration of oil and gas as well as petroleum operations.

c. **Non-Revenue Receipts** includes:
   i. refund of expenditures, payments from previous years, refund of salaries arising from resignations, refund of training expenses, refund of trust funds and unclaimed monies; and
   ii. inter-departmental credits, transfer of funds between ministries or departments for services rendered between Government agencies; reimbursements of the Government's contributions under the Employees Provident Fund (EPF) scheme and contributions from Government departments, statutory bodies or Government-owned companies.

d. **Revenue from Federal Territories** consists of tax and non–tax revenue including receipts from licenses and permits, land premiums and quit rent, sales of assets, rentals, service fees and entertainment duties.

1.2. Actual revenue collected by the Federal Government for the year 2013 to 2015 is RM656,451 million where more than half (55.45%) comes from Direct Tax (collected by the Inland Revenue Board of Malaysia). A summary of actual revenue collected is shown in **Table 1**.

TABLE 1
SUMMARY OF ACTUAL REVENUE COLLECTED

Classification	2013 (RM Million)	2014 (RM Million)	2015 (RM Million)	Total	
				(RM Million)	(%)
Direct Tax	120,523	126,743	116,760	364,026	55.45
Indirect Tax	35,429	37,462	53,258	126,149	19.22
Non-Tax Revenue	54,450	53,899	50,095	158,444	24.14
Non-Revenue Receipts	1,590	1,667	1,473	4,730	0.72
Federal Territories Revenue	1,378	855	869	3,102	0.47
Total	**213,370**	**220,626**	**222,455**	**656,451**	**100.00**

1.3. The Federal Government's revenue for 2016 is estimated at RM225,656 million, an increase of RM3,201 million (1.44%) from the revenue collected in 2015.

2. AUDIT MANDATE

2.1. Revenue audits conducted by the National Audit Department (NAD) Malaysia are in accordance with the Federal Constitution and Audit Act 1957.

2.2. His Majesty, the King shall appoint the Auditor General on the advice of the Prime Minister and after consultation with the Council of Rules in accordance with Articles 105 of Federal Constitution.

2.3. Under Article 106 of the Federal Constitution, the accounts of the Federation and of the States shall be audited and reported on by the Auditor General. And under Article 107, the Auditor General shall submit his reports to the King, who shall cause them to be laid before the House of Representatives.

2.4. Empowered under Section 7 of the Audit Act 1957, the Auditor General has full power to request all information and explanation pertaining to the audit. He can have access to any documents and have power to ask any individuals to give statement under oaths as well as to empower any officers to inspect and enquire on his behalf. Whilst under Section 5, he shall audit the accounts of:

i. accounting officers of the Federation and of the States;
ii. any separate fund established in a State or the Federal Territory;
iii. any other public authority or body if it is so provided by law or if not provided, at the request of that authority or body and with the consent of the Minister of Finance through the Gazette;
iv. any other body, including a company registered under the Companies Act 1965 [Act 125], in receipt of a grant or loan from the Federation or a State, and including also a company where more than half it paid-up share capital is held by the Federation, a State or a public authority or is so held in the aggregate by two or more of them; and
v. any other public authority if the Minister of Finance is satisfied that the public interest requires that the accounts of the authority shall be examined, inquired into and audited by the Auditor General notwithstanding any law relating to the accounts and audit of any such authority.

2.5. As stated in Section 6 of the Audit Act 1957, the Auditor General shall in his audit make such examination as he may deem necessary to ascertain whether:

i. all reasonable precautions have been taken to safeguard the collection and custody of public moneys or other moneys subject to his audit;
ii. issues and payments of moneys subject to his audit were made in accordance with proper authority and payments were properly chargeable and are supported by sufficient vouchers or proof of payment;
iii. due care has been taken to account for and to ensure proper use, control, maintenance and disposal of all public stores or other stores subject to his audit;
iv. all accounts and other records have been and are properly and faithfully maintained;
v. in his opinion moneys have been applied to the purposes for which they were appropriated or authorized and the activities related to such purposes were carried out or managed in an efficient manner with due regard for economy and the avoidance of waste or extravagance; and

vi. the provisions of the Federal Constitution and of the Financial Procedure Act 1957, and any other written law relating to moneys or stores subject to his audit have been in all respects complied with.

2.6. Besides the powers of the Auditor General as enshrined in the Federal Constitution and Audit Act 1957, the Ministry of Finance under the authority of the Financial Procedure Act 1957 issued Treasury Instructions (TI) that are classified as supplementary laws where "*Every accounting officer shall be subject to this Act and shall perform such duties, keep such books and render such accounts as may be prescribed by or under this Act or by* instructions issued by the Treasury *in matters of financial and accounting procedure…".* The relevant Treasury Instructions that related to the powers of the Auditor General are:

i. TI 305: The Auditor General or an officer delegated by him in writing shall have access to all records, books, vouchers, documents, cash, stamps, securities, stores or other property subject to his audit; and

ii. TI 306: It is the duty/obligations of all public officials to provide the Auditor General all necessary facilities in the performance of his duties and to reply any audit observation not later than one month from the date of the audit observation.

2.7. Section 138(1) of the Income Tax Act 1967 has a provision where classified material shall be treated as confidential and such classified material could not even be produced and used in court. However, under sub section 4, the confidentiality of such classified material cannot prevent the production or disclosure of classified material to the Auditor General (or to public officers under his direction and control) or the use of classified material by the Auditor General, to such an extent as is necessary or expedient for the proper exercise of the functions of his office.

3. AUDITING GUIDELINES

3.1. The NAD does not have a specific guideline on revenue audit but carry out revenue audits based on a combination of approaches to produce audit conclusions.

3.2. However, the following auditing guidelines based on ISSAI are used in revenue audits:

i. Auditing Guidelines on Financial Statement Based on ISSAI;
ii. Auditing Guidelines on Income Tax;
iii. Auditing Guidelines on Customs Assessment; and
iv. Auditing Guidelines on Goods and Service Tax.

4. AUDIT OBJECTIVES, SCOPE AND METHODOLOGY

4.1. Audit Objectives

4.1.1. According to ISSAI 200 – Fundamental Principles of Financial Auditing, the objective of financial statement auditing is to enhance the degree of confidence of intended users in the financial statements. This is achieved through the expression of an opinion by the auditor as to whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework, or – in the case of financial statements prepared in accordance with a fair presentation financial reporting framework – whether the financial statements are presented fairly, in all material respects, or give a true and fair view, in accordance with that framework.

4.1.2. In Malaysia, the objective of financial statements auditing is to certify the annual financial statements submitted by the Federal and State Governments/Government Agencies as required by law and in accordance with accepted accounting standards. Through this audit, the Auditor General will give his opinion whether the financial statements prepared is true and fair and that records are properly maintained and updated. One of the main element audited is revenue received.

4.1.3. The objectives of revenue auditing are to assess whether all the revenues are correctly received, recognized and recorded properly in accordance to the related laws and rules and regulations.

4.1.4. As for assessment audits, it was conducted to assess whether duties and taxes has been properly charged and collected as stipulated by the relevant laws and leakages can be avoided.

4.2. Audit Scope

4.2.1. The scope of revenue audit comprises all Tax Revenue, Non-Tax Revenue, Non-Revenue Receipts and Revenue from Federal Territories.

4.2.2. All receipts deposited in the consolidated fund are subject to the audit.

4.3. Audit Methodology

Audit methodologies consist of walk through test of the revenue systems such as e-Terimaan for government's revenue, MyGST for goods and service tax, Customs Information System (RMS) for customs and excise duty, Revenue Accounting System (eRAS) for income tax collection, and mySIKAP for licensing of road tax; evaluation of internal controls such as segregation of duties and access authorization; financial statements analysis; checking records and accounts; and physical examination on the cash and receipts.

5. AUDIT FINDINGS

5.1. Import Duty Assessment for Completely Built-up Vehicles

5.1.1. The Royal Malaysian Customs Department (RMCD) is the second largest revenue collector after Inland Revenue Board of Malaysia. RMCD is responsible for the collection of indirect taxes such as import duty, export duty, sales tax, excise duty, service tax and levies imposed on commercial and industrial activities. Besides that, RMCD also provides customs facilitation and advisory services to the businesses as well as being responsible for the enforcement and compliance with the law to ensure that no leakage of revenue through smuggling either by sea, land or air. For the period of 2012 to 2014, RMCD has collected RM100.642 billion in revenue. In 2012, revenue collected was RM32.319 billion and increased by RM0.808 billion (2.5%) to RM33.127 billion in 2013. In 2014, the collection increased by RM2.069 billion (6.24%) to RM35.196 billion.

5.1.2. Overall, the audit revealed that the assessment of import duty of Completely Built-up (CBU) vehicles and monitoring activities on the movement of vehicles from Designated Area (Duty Free Islands of Labuan and Langkawi) was less than satisfactory. However, the Enforcement Division in RMCD Headquarters had taken proper measures in locating and detaining vehicles from Designated Area that overstayed in Principal Customs Area (Malaysia exclusive of Designated Area). The summary of the audit findings were as follows:

a. assessment of import duty/tax on CBU vehicles was less than satisfactory where:
    i. a total of 213 K1 Forms (5.4% from audit sample of 3,931) have errors in assessment that resulted in under collection of taxes amounting to RM1.29 million and over collection of RM499,296; and
    ii. a total of 111 K1 Forms (2.8% from audit sample of 3,931) contains insufficient vehicles information which involves duties/tax amounting to RM1.85 million and vehicles valued at RM2.86 million.
b. movement of vehicles from licensed warehouse was not satisfactory because Malaysian Association of Malay Vehicle Importers and Traders (PEKEMA) did not apply for extension of time for keeping unsold imported vehicles for more than 36 months without payment of duty/tax. As at 31st December 2014, estimated duty due from those unsold imported vehicles amounted to RM12.65 million. Besides that, 7 licensed warehouse (12.3% of audited licensed warehouse) were not insured for fire and theft which involved 725 vehicles with an estimated duty of RM38.22 million; and

c. monitoring of movement of vehicles from/to Designated Area was less than satisfactory due to the lack of comprehensive and immediate measures to penalize vehicle owners who violated the laws such as by forfeiting bank guarantees, enforcing penalties and detaining vehicles by RMCD in Labuan and Langkawi.

5.1.3. To ensure the assessment of import duties of CBU vehicles are properly and effectively carried out as well as to avoid any revenue leakage, it is recommended that RMCD gives due considerations to the followings:

a. Post Clearance Audit Branch of RMCD Compliance Management Division should reassess the Custom Declaration Forms with errors highlighted and report the results to National Audit Department by June 2016;
b. Custom officers should ensure that only quality Custom Declaration Forms with sufficient details (especially the first registration date) on vehicles information are accepted;
c. Warehousing Management and Control Unit should tighten the control over unpaid duty/tax vehicles in the licensed warehouse;
d. RMCD Headquarters should review Customs Standing Order No. 53 regarding storage period for vehicles without duty/tax payment and the necessity of annual 100% inspection in the licensed warehouse; and
e. RMCD in WP Labuan and Langkawi should tighten controls in the movement of vehicles from/to Designated Area by taking comprehensive and immediate measures such as forfeiting bank guarantees, enforcing penalties and detaining vehicles if necessary.

5.2. Customs Duties Assessment of Imported Liquor

5.2.1. For the period 2010 to 2012, RMCD collected revenue amounting to RM90.849 billion. Revenue collected in 2012 amounted to RM32.319 billion, an increase of RM4.168 billion (14.8%) as compared to RM28.151 billion in 2010. Among the factors that contributed to the achievement of the targeted revenue collection was the collection of import duties (including excise duty and sales tax on imports) amounting to RM26.558 billion or 29.2% of the total revenue collected for the period 2010 to 2012. For the same period, customs duties collected from the importation of liquor amounted to RM594.91 million, representing 2.2% of the total import duties.

5.2.2. Audit findings revealed that generally, import duties for liquor was satisfactorily assessed by RMCD and complied with relevant laws and regulations. However, there were some weaknesses as follows:

a. all import of liquor required the approval of the Food Safety and Quality Division, Ministry of Health Malaysia. However, for the period 2010 to 2012 no such approval was granted for 59.9% of all liquor imported;
b. audit examination on 28,062 items of liquor imported in 2010 to 2012 revealed that 1,174 (4.2%) items with customs duties amounting to RM1.63 million (0.9%) were wrongly assessed by customs officers; and
c. the error in assessment of imported liquor resulted in an under-collection of at least RM1.95 million in revenue.

5.2.3. It is recommended that RMCD takes the following actions:

a. provide a comprehensive guideline on the assessment of imported liquor with a list of types and brands of commonly imported liquor so that import duties could be correctly assessed by customs officers;
b. train customs officers on the different types and brands of commonly imported liquor to avoid ambiguities and enable them to ascertain the correct classification and customs tariff;
c. ensure that importers settle all Bills of Demand issued and pay the under-collected revenue; and
d. scrutinize Customs Form K1 and K9 for the import of liquor in 2010 to 2012 to ensure the recovery of any under-collected revenue and report the results periodically (quarterly) to the NAD.

5.3. Management and Controls of Duty Free Shops

5.3.1. RMCD plays a major role by providing facilitation to the country's tourism sector through the establishment of Duty Free Shops (DFS) under Section 65D of the Customs Act 1967. Basically, there are five types of

DFS, namely, International Airport DFS, Port DFS, Downtown DFS, Border DFS and Domestic DFS. All DFS provide facilities for international travellers to purchase duty free goods thus promoting the tourism industry. In October 1997, RMCD issued Customs Standing Orders No. 55 (Duty Free Shops) to streamline the application and licensing procedures as well as integrating control measures on DFS. As at the end of 2012, RMCD has approved 52 licensees with a total of 69 DFS premises. Based on RMCD's Annual Report, the total sales of DFS for the period 2010 to 2012 amounted to RM2.417 billion wherein sales of RM1.041 billion in 2010 has dropped 8.1% to RM0.957 billion in 2012.

5.3.2. Audit findings revealed that generally, the management and controls of the DFS were not satisfactory as DFS were not managed properly and efficiently. Among the weaknesses identified were as follows:

a. DFS licenses were renewed even for inactive/dormant DFS as the annual license fee of RM600 is too low;
b. customs duties on the current stock of 9 DFS in Kedah, Perlis and Selangor amounted to RM15.09 million as compared to their bank guarantee of RM6.54 million. This means that customs duties of RM8.55 million were not covered by bank guarantees which may cause RMCD to suffer loss;
c. one out of 2 Domestic DFS at Padang Besar, Perlis and all 5 Downtown DFS located at the Federal Territory of Kuala Lumpur (FT Kuala Lumpur) and the state of Selangor did not maintain a register to record relevant particulars of their customers;
d. due to the lack of manpower, the DFS Customs Control Station at Subang, Selangor was unable to carry out their responsibilities of matching original DFS sale invoices to copies of the same invoice certified by the Export Attestation Custom Station;
e. there were cases where duty free goods sold by DFS exceeded the permitted quantities or to those not entitled as follows:
    i. all Downtown DFS in FT Kuala Lumpur and the state of Selangor sold duty free goods (mostly liquor) to the same crews of 15 ships.

As a result, every crew has purchased duty free goods that exceeded the permitted quantities, thus causing loss of revenue amounting to RM216,715 for 2 days; and

ii. the same 5 Downtown DFS issued invoices of sale of liquor to crews of 11 ships that had sailed, did not berth or did not sail in the month of December 2012. Some of the ships were neither in the records of the Marine Department Central Region nor in the records of berth controls Westport Malaysia Sdn. Bhd., Selangor. If the sale of liquor by these Downtown DFS could not be proven to have been actually exported, the estimated revenue loss to the Government would be RM230,536 for 2 days.

f. three out of 6 Border DFS (two in Bukit Kayu Hitam, Kedah and one in Padang Besar, Perlis) sold duty free goods in bulk to enforcement agencies of Thailand; and

g. the application for tax remission in 2009 and 2012 has not been decided by the RMCD Headquarters even though there was a potential revenue of RM1.99 million to be collected.

5.3.3. It is recommended that RMCD gives due considerations to the followings:

a. the outcome of the meeting by the committee set up to review DFS license fees should be submitted to the National Audit Department (NAD) before 31 December 2013;
b. ensure that all DFS (including DFS not covered in this audit) have sufficient bank guarantees to cover the total customs duties of their duty free stocks;
c. ensure that all Domestic and Downtown DFS maintain a register to record relevant particulars of their customers;
d. ensure that DFS Customs Control Stations carry out their responsibilities of matching original DFS sale invoices to copies of the same invoice certified by the Export Attestation Custom Station;

e. ensure that a special task force ascertains the actual amount revenue lost due to the sale of liquor to those not entitled and submit the investigation report to NAD on or before 31 August 2013;
f. review the new to issue licenses of Downtown DFS and if required, the related companies could be awarded licenses as Port DFS on the condition that their business premises are located at ports or ferry terminals serving international passengers; and
g. ensure that immediate decisions are made on all applications for tax remission under Section 18(1) of the Customs Act 1967 as it has a potential revenue of RM1.99 million to be collected.

5.4. Withholding Tax

5.4.1. Withholding Tax (WHT) is an amount withheld by the party making payment (payer) on income earned by a non-resident (payee) and paid to the Inland Revenue Board of Malaysia (IRBM). The Income Tax Act, 1967 provides that where a person is liable to make payment as listed in the Act (other than income of non-resident public entertainers) to a non-resident person (NR payee), he shall deduct WHT at the prescribed rate for such payment and pay that tax to the Director General of IRBM within one month after such payment has been paid or credited to the NR payee. WHT is the fifth highest contributor from the nine main tax components with total collection for year 2012, 2013 and 2014 amounted to RM2.097 billion, RM2.013 billion and RM2.206 billion respectively.

5.4.2. An audit conducted between November 2014 and January 2015 revealed that the management of WHT was satisfactory as the external audit and desk audit activities had achieved their annual targets. However, there were several weaknesses that require attention as follows:

a. inappropriate goal setting for desk audit activities resulting difficulties in identifying actions to be made in order to solve each case;
b. ineffective mechanism in detecting non-residents who are liable to WHT and lack of awareness of Government agencies regarding the obligation to pay WHT;

c. Operating Procedures Manual was not prepared and time frame not set for external and desk audit activities. As a consequence, external audit officers takes 190 to 2,284 days to resolve cases amounting to RM7.03 million and desk audit officers takes 34 to 3,617 days to issue CP17A form amounting to RM1.77 million in Self Assessments System (SAS) ledger; and
d. Letter of WHT instalment approval was not issued to 9 (10.1%) out of 89 payer amounting to RM1.47 million due to non-compliance of procedure.

5.4.3. To enhance the performance of external audit and desk audit activities, it is recommended that IRBM consider the followings:

a. review goal setting for desk audit activities to ensure the effective measurement of the yearly performance;
b. system integration between IRBM and Royal Malaysian Custom Department needs to be carried to ensure effective detection of non-residents whom liable to WHT;
c. perform external audit to Government agencies and recommend to Ministry of Finance to include WHT element in Treasury procurement checklist form;
d. provide MOP and ensure standard norms are set to enhance the efficiency of external audit and desk audit activities;
e. enhance internal inspection and supervision of external audit and desk audit activities to ensure the compliance of procedure. Besides, prompt actions need to be taken regarding the non-compliance on issues raised; and
f. strengthen the process of imposing WHT and tax payments to avoid loss of Government revenue.

5.5. Management of Company Income Tax

5.5.1. The Inland Revenue Board of Malaysia (IRBM) implemented the Self-Assessment System (SAS) for companies with effect from the year 2001. The purpose of implementing this system is to encourage companies to declare and pay the tax payable/balance of tax payable voluntarily. In order to verify the accuracy of income tax declared by companies through this system, IRBM carries out tax audit activity to determine the level of compliance by companies with tax laws and to educate them towards voluntary compliance. In this regard, IRBM carries out 2 types of tax auditing which are field audit and desk audit. Generally, field audit is more effective than desk audit in detecting tax evasion, thereby increasing tax compliance as field audit can trace the source documents and records for verification on accuracy of tax computation as submitted by companies.

5.5.2. Audit findings based on sampling revealed that the Audit Branch's performance in achieving its Key Performance Indicators (KPI) for field audit was good. However, there were some weaknesses in the implementation of assessment activity and tax collection as follows:

a. a total of 1,422 field audit cases were settled late between 1 month to 5 years involving additional tax and penalty amounting to RM189.82 million;
b. audit checklist was not filled up for 656 companies where additional tax and penalty charged amounted to RM61.74 million;
c. notice of estimate assessment amounting to RM3.52 million was not issued to 44 companies;
d. tax arrears for 147 companies amounted to RM54.03 million;
e. increase in tax (fine) amounting to RM4.25 million was not imposed on tax arrears and failure to comply with tax instalment payment scheme resulted in a loss to the Government; and
f. civil suit action and caveat on landed property were not taken against companies which did not pay tax arrears.

5.5.3. To further improve the management on company income tax, it is recommended that IRBM considers the followings:

a. enhance monitoring on work progress of every case;
b. ensure that work procedures are being complied with such as making it compulsory to fill up the audit checklist and issue notice of reminder to companies which failed to keep complete records;

c. review the Surprise Visit Register, minimum visit frequency and sample selection criteria for surprise visit such as category of taxpayer, number of team and Field Audit Officer;

d. review and improve the capacity of automation system such as the Case Management System (CMS), the Self-Assessment System For Company (STSC) and the Revenue Management System (ReMS) so that the efficiency on the management of company income tax could be enhanced;

e. strictly enforce tax arrears collection in order to safeguard the Government from loss of revenue; and

f. enhance the internal inspection on tax audit activity and tax collection at IRBM branches from time to time. Furthermore, ensure that immediate actions are taken on non-compliance issues and monitor so that the same issues do not recur.

5.6. Real Property Gains Tax

5.6.1. The Real Property Gains Tax (RPGT) is a tax imposed on gains derived from the disposal of real estate which includes flats, houses, condominiums, apartments, farms and vacant lands. RPGT is levied on every ringgit of the chargeable gain from the disposal of real estate (asset which may be subjected to tax). Basically, each category of disposal is assessed individually depending on the holding period of the asset. The Real Property Gains Tax Act 1976 (RPGTA 1976) provided some exemptions on the chargeable gains such as exemptions on private residence, exemptions under Schedule 4 of RPGTA 1976 and exemptions made by the Minister. RPGT is handled by the RPGT Unit in each branch of the Inland Revenue Board of Malaysia (IRBM). Besides that, the Corporate Tax Department (CTD) of IRBM is also involved in the handling of RPGT. Beginning 2013, RPGT collection for the Petroleum Division (Downstream) is recorded under the Petroleum Division while the collection before 2013 was recorded under CTD. RPGT is the sixth highest contributor from the 9 main tax components with total collection of revenue amounting to RM537.60 million, RM607.99 million and RM787.29 million for the year

2011 to 2013 respectively. Audit findings revealed that all three RPGT Units selected achieved their annual targets where each assessor successfully completed 1,200 RPGT assessments.

5.6.2. Overall, the management of RPGT was satisfactory. However, there were several weaknesses which should be given due attention as follows:

a. there were outstanding assessments (back log) of 11,470 and 12,974 cases in Petaling Jaya and Johor Bahru Branch respectively because the number of RPGT forms received exceeded the annual targets set for each assessor;
b. inaccurate classification of real property disposal;
c. delay in the processing of RPGT forms between 91 days to 852 days;
d. notices of assessment were not yet issued even though the acquirers had remitted 2% of the total value of consideration to IRBM;
e. there were RPGT arrears amounting to RM773,636 involving 19 individuals and 6 companies;
f. the 10% tax increase under subsection 21(4), RPGTA 1976 amounting to RM17,122 was not imposed on disposers (individuals/companies); and
g. civil suits under section 23, RPGTA 1976 were not taken against 6 companies with tax arrears amounting to RM590,263.

5.6.3. It is recommended that IRBM considers the followings:

a. create a clearer guideline on the classification of property disposals whether under RPGTA 1976 or the Income Tax Act 1967;
b. a more systematic distribution of files should be made so that assessors could identify the frequency of transactions made by disposers in the same year of assessment;
c. enhance the enforcement activities of RPGT collection such as preventing tax evader from leaving Malaysia and taking civil suit so that tax arrears could be collected in full; and

d. the number of employees in the RPGT Unit should take into account the number of real property disposal forms received in order to avoid backlog and increase revenue collection.

6. RECOMMENDATIONS

6.1. Base on the audit findings, recommendations were forwarded to the relevant agencies to improve their revenue collection and minimize revenue leakages. The said agencies are recommended to take stern actions against non-compliance of rules and regulations and uncollectable revenue due to negligence.

6.2. As audit observations were based on the limited audit scope and samples, agencies are recommended to ensure such non-compliance does not occur at offices and transactions not covered by NAD.

7. CHALLENGES AND LESSON LEARNT

7.1. Challenges

7.1.1. Human resources are the most significant factor in auditing as experienced and knowledgeable auditors could produce quality audits. Thus, it is a challenge to employ auditors with proper knowledge and experience in revenue auditing. Furthermore, the audit carried out on IRBM and RMCD requires auditors to have technical skills and knowledge with at least the same level as the auditees' personnel. However, due to new appointment and lack of training, it is acknowledged that some auditors may lack technical skills and knowledge.

7.1.2. Lack of cooperation from the agencies during the audit could pose challenges for auditors. Auditors also face some difficulty in obtaining documents relating to revenue audits and insufficient or inaccurate information could mislead the auditors' understanding of revenue assessment and collection.

7.1.3. With the advances in technology, relevant government are utilizing new technologies to enhance revenue collection. Given the rapid changes in the nature and structure of ICTs, revenue systems has to be constantly modified or updated. For example, the Customs Information System will be upgraded to u-Customs (Ubiquitous or found everywhere) in 2016. This system is a fully integrated, end-to-end, Customs modernization solution that delivers 'Single Window' for goods clearance. By developing this system, RMCD hopes to enhance the efficiency of revenue collection. Hence, all auditors need to keep up with changes in ICT to ensure that revenue audits can be conducted professionally.

7.1.4. Certain information on revenue such as income tax are classified as confidential and protected under a special provision of the law to safeguard the personal information of taxpayers. Thus, only auditors attached to the Income Tax Audit Branch are privy to such information.

7.2. Lesson Learnt

7.2.1. Auditors should review previous findings and recommendations during planning stage.

7.2.2. There is a need to conduct risk analysis to identify matters of potential significance or line of audit inquiry.

7.2.3. IT auditors needs to evaluate if the revenue IT systems and its applications are appropriate, efficient and adequately controlled to ensure valid, reliable, timely and secure input, processing and output at all levels of its activity. This needs to be carried out before the actual revenue audits can be carried out. As such, more IT auditors need to be trained.

7.2.4. Compliance audits not related to the collection of revenue could also have an impact on the revenue even though there are no taxes involved. By full compliance with relevant procedures, avenues of revenue leakage could be plugged.

8. BEST PRACTICES

8.1. Monitoring the implementation of audit recommendations through the Auditor General's Online Dashboard:

8.1.1. The Auditor General's Online Dashboard is developed to monitor the status of actions taken by the auditees on audit recommendations.

8.1.2. The status of action taken by auditees is reported as 'no action', 'action in progress' and 'action has been taken' and the general public can follow the progress implementing audit recommendations though the official website of NAD.

8.2. Annual Technical Training:

8.2.1. The National Audit Academy has allocated a week for income tax and customs audit courses every year.

8.2.2. Such courses are conducted to update and inform all relevant auditors on the latest information regarding revenue collection by IRBM and RMCD. It also emphasized on the technical aspects of tax assessment carried out by the respective agencies.

8.3. Human Resources Management:

8.3.1. NAD practices job rotation to enhance experience of auditors and generally the normal time period of job rotation is every 5 years.

8.3.2. However, such policy is not applicable to auditors attached to the IRBM Audit Branch and Customs Audit Branch. As auditors attached to the said branches has developed unique technical knowledge on revenue audits, NAD has decided to extend the normal time period of job rotation to at least 7 years.

9. WAY FORWARD

9.1. Since revenue auditing is important, it would be beneficial to the auditors if there is memorandum of understanding between collecting agencies/authority could be achieved. This would lead to information sharing between agencies related to revenue collection and resulted in more efficient and effective auditing.

9.2. It is hope that through research/joined project activities and seminars on revenue auditing such as this Focus Group Meeting, knowledge, experiences and best practices can be shared and used by all ASEAN SAI. Besides that, in order to improve the efficiency of auditing on regional level, a joined revenue audit could be conducted provided that there is similarity in tax regimes among the countries in ASEAN.

ASENSAI RESEARCH PROJECT REVENUE AUDITS -

COUNTRY PAPERS

PHILIPPINES

INTRODUCTION

The Bureau of Internal Revenue and the Bureau of Customs are the main revenue generating agencies of the country. The following are the revenues being collected by the two agencies:

A. BUREAU OF CUSTOMS (BOC)

Tax Revenues collected by the BOC include import duties, excises on imports, value-added taxes, export and premium duties, documentary stamp taxes, and the related fines and penalties.

1. **Import Duty** - This revenue pertains to the taxes imposed under the Tariff and Customs Code of the Philippines (TCCP) on goods entering the country. This category includes levies for purposes of protecting locally manufactured goods of similar nature or for purposes of generating revenues that are based on the assessed value of the goods. The taxes imposed shall not exceed 100% ad valorem. The Tariff Sections, Chapters, headings and subheadings and the rate of import duty are provided for under Section 104 of the TCCP.

2. **Excise on Imports -** Excise on imports include all taxes imposed on all imported goods that are enumerated under the National Internal Revenue Code (NIRC).

3. **Value-Added Tax -** There shall be levied, assessed and collected on every importation of goods value-added tax equivalent to 12% based on the total value used by the BOC in determining tariff and customs duties, plus customs duties, excise taxes, if any, and other charges, such as tax to be paid by the

importer prior to the release of such goods from customs custody. Provided, that where the customs duties are determined on the basis of the quantity or volume of the goods, the value-added tax shall be based on the landed cost plus excise taxes, if any. (*Sec.107, NIRC).*

4. **Export and Premium Duty -** There shall be levied, assessed and collected an export duty on the gross FOB value at the time of shipment based on the prevailing rate of exchange, of all export products (Sec. 514, TCCP).

5. **Surcharges, Fines and Penalties** - This revenue includes all surcharges, fines and penalties imposed for late payment of duties and taxes and those imposed under Sections 2501-2505 of TCCP as follows:

   - ✓ A surcharge of 10%, for failure to pay the liquidated duties, taxes and other charges of a liquidation within ten (10) working days, (Sec. 2501, TCCP)
   - ✓ Upon any authorized withdrawal of imported articles stored in a customs bonded warehouse, a surcharge of 50% and the surcharge shall be increased by 25% annually of the unpaid taxes if the delinquency lasts for more than one year (*Sec. 2501-A, TCCP*)
   - ✓ Undervaluation, Misclassification and Misdeclaration in Entry. *(Sec. 2503, TCCP).*
   - ✓ Failure or refusal of party to give evidence or submit documents for examination. (Sec. 2504)
   - ✓ Failure to declare baggage. (Sec. 2505)

6. **Fees and Charges -** Section 3301 of the TCCP provides the following fees for services rendered and documents issued by the Bureau of Customs:

   - ✓ Import Processing Fee - All importations covered by a formal entry shall be subject to a fixed import processing fee of Php250 up to Php1,000 depending upon the dutiable value of shipment.

- ✓ Refund Processing Fees/Docket Fees - A fee to be collected for processing an ordinary claim for refund of tax and duty payments including cash bonds; and for formal protest/appeal from decision of the District Collector/Valuation and Classification Review Committee depending upon the amount of claim protested.

- ✓ Administrative Fees

  a. Issuance of certificates – Php100.00
  b. Issuance of permits – Php100-Php400
  c. Registration Fees –Php500 - Php2,000
  d. Accreditation Fees – Php100-Php1,000
  e. Documentary Customs Stamp - Php100- Php200

7. **Warehousing (Supervision Fee) -** Section 1903 provides for establishment of bonded warehouse wherein the operator of a bonded warehouse shall pay an annual supervision fee.

8. **Sale of Goods/Merchandise Confiscated -** Sale of goods/merchandise confiscated represents the proceeds from sale of the abandoned, seized property in customs custody *(Sec. 2601, TCCP)*

B. BUREAU OF INTERNAL REVENUE (BIR)

1. Tax Revenue

a. Individual and Corporation

<u>Income Tax</u> –taxes imposed upon the taxable income of individuals as citizens, resident aliens, non-resident citizens, non-resident aliens (for income earned in the Philippines), aliens employed by regional offices of multinational corporations, aliens employed by offshore banking units, and

alien individual employed by petroleum service contractor and sub-contractor. It also includes income tax imposed upon the taxable income of domestic corporations, proprietary educational institutions and hospitals, government-owned or controlled corporations, agencies or instrumentalities, and the taxable income derived from all sources within the Philippines of resident foreign corporations and non-resident foreign corporations and the final tax imposed on certain passive income of individuals and corporations. It also includes additional tax on the improperly accumulated taxable income of each corporation.

b. Property

Estate Tax - taxes imposed on the right of the deceased person to transmit his/her estate to his/her lawful heirs and beneficiaries at the time of death and on certain transfers which are made by law as equivalent to testamentary disposition.

Donors Tax - taxes on a donation or gift, and is imposed on the gratuitous transfer of property between two or more persons who are living at the time of the transfer.

Capital Gains Tax - taxes imposed on the gains presumed to have been realized by the seller from the sale, exchange, or other disposition of capital assets located in the Philippines, including pacto de retro sales and other forms of conditional sale.

c. Goods and Services

Excise tax - taxes imposed on goods manufactured or produced in the Philippines for domestic consumption or for any other disposition and to things imported. This includes excise tax on distilled spirits, wines, fermented liquors, tobacco products, cigars and cigarettes, petroleum products, automobiles and mineral products. The excise tax may be specific or ad valorem.

Business Tax - taxes on persons or entities in the course of trade or business. This includes Value Added Tax (VAT), Expanded VAT and Percentage Taxes.

Taxes on Sand, Gravel and Other Quarry Products - taxes imposed by government units on sand, gravel, stones, earth and other quarry resources extracted from public lands or from beds of seas, lakes, rivers, streams, creeks and other public waters within the Philippine's territorial jurisdiction.

d. Others

Documentary Stamp Tax - taxes on documents, instruments, loan agreements and papers evidencing the acceptance, assignment, sale or transfer of an obligation, rights, or property incident thereto.

e. Fines and Penalties

Tax Revenue - Fines and Penalties-Taxes on Individual and Corporation - all fines and penalties charged in relation to collection of taxes on individual and corporation.

Tax Revenue-Fines and Penalties-Property Taxes - all fines and penalties charged in relation to the collection of estate, donors and capital gains taxes.

Tax Revenue-Fines and Penalties-Taxes on Goods and Services - all fines and penalties charged in relation to the collection of import duties, excise tax and business taxes.

2. Service Income

a. Registration Fees – fees for the registration of business.

b. Clearance and Certification Fees - fees collected for the issuance of clearances/certificates to individuals/organizations/groups/corporations.

AUDIT MANDATE

LEGAL BASIS

1. The 1987 Philippine Constitution provides, as far as relevant, as follows:

The Commission on Audit shall have the power, authority, and duty to examine, audit, and settle all accounts pertaining to the revenue and receipts of, and expenditures or uses of funds and property, owned or held in trust by, or pertaining to, the Government, or any of its subdivisions, agencies, or instrumentalities, including government-owned or controlled corporations xxx. (*Section 2(1), Article IX-D, 1987 Philippine Constitution*)

The Commission shall have exclusive authority subject to the limitations in this Article, to define the scope of its audit and examination, establish the techniques and methods required therefor, and promulgate accounting and auditing rules and regulations xxx (*Sec. 2(2), Ibid).*

No law shall be passed exempting any entity of the Government or its subsidiary in any guise whatever, or any investment of public funds from the jurisdiction of the Commission on Audit (*Sec. 3, Ibid*).

2. Presidential Decree (PD) No. 1445 provides as follows:

In keeping with its Constitutional mandate, the Commission adheres to develop and implement a comprehensive audit program that shall encompass an examination of financial transactions, accounts, and reports, including evaluation of compliance with applicable laws and regulations; to institute control measures through the promulgation of rules and regulations governing the receipts, disbursements, and uses of funds and property; and to promulgate auditing and accounting rules and regulations xxx. (*Sec. 2[2,3,4]P.D. 1445)*

The Commission shall have authority to examine books, papers and documents filed by individuals and corporations with, and which are in the custody of, government offices in connection with government revenue collection operations, for the sole purpose of ascertaining that all funds determined by the appropriate agencies as collectible and due the government have actually collected xxx. (*Sec. 28, Ibid.*)

AUDITING GUIDELINES

1. COA Resolution No. 96-469 dated August 20, 1996 prescribing the use of the Revenue Audit Manual by the auditors assigned at the Bureau of Customs for a guide in the efficient and effective conduct of revenue audit at the Bureau of Customs.

2. Commission on Audit Memorandum No. 2013-004 dated July 09, 2013 prescribing the use of the Cash Examination Manual

3. Section 21 of the Manual on the New Government Accounting System, Volume I

4. Philippine Public Sector Accounting Standards Board (PPSAS 23) – Revenue from Non-Exchange Transactions (Taxes and Transfers)

AUDIT OBJECTIVES, SCOPE AND METHODOLOGY

OBJECTIVES OF REVENUE AUDIT

- To understand the revenue system, its operating components and internal control structure inherent in the system.

- To determine that revenues are generated from sources expressly authorized by law and that policies, practices, rules and regulations contribute to the realization of the goals/targets through efficient and economical means.

- To determine that all earned revenues are promptly and correctly assessed, billed, and collected in full when due and remitted/deposited to the government depositories.

- To determine that all revenues are accurately recorded and properly classified in the appropriate books of accounts.

- To ensure that adequate regulations and procedures have been framed to secure an effective check on the assessment, collection, remittance/deposit and recording of revenues, and that such regulations and procedures are duly and efficiently carried out.

SCOPE

The audit covers the period January 1 to December 31, 2014. This also includes evaluation of the internal controls, determination of adherence to appropriate laws, rules and regulations, and assessment of efficiency in revenue-generating activities.

The absence of approved guidelines in the audit of tax assessments of the BIR required under Executive Order No. 38 did not permit the COA to conduct verification on the correctness/accuracy of the revenues/taxes collected during the year. The audit is limited to the receipts and remittances and the conduct of cash examination of the accountabilities of the Accountable Officers. Thus, whether or not the correct amount of internal revenue taxes, fees and charges are assessed, collected and accounted for, and presented in the financial statements were not ascertained.

AUDIT METHODOLOGY

The audit methodology adopted by the Commission on Audit is the Integrated Results and Risk-Based Audit (IRRBA) guided by the following audit activities:

1. Planning

   Agency Audit Planning and Risk Assessment
   - ✓ Prepare Agency Audit Workstep
   - ✓ Understand the Agency (UTA)
   - ✓ Identify Significant Agency Risks
   - ✓ Understand and Assess Agency - level Controls
   - ✓ Understand the Process
   - ✓ Conduct Audit Risk Assessment and Planning
2. Execution
   - ✓ Design Audit Tests
   - ✓ Execute Audit Tests –
     - Conduct Financial/Compliance Audit
     - Conduct Performance Audit on the prioritized significant Projects Programs and Activities
     - Evaluate Audit Results
     - Communicate Audit Results
3. Conclusion and Reporting
   - ✓ Summarize Audit Results
   - ✓ Prepare Audit Report
   - ✓ Perform Overall Audit Review
   - ✓ Wrap-up and archive the Engagement
   - ✓ Follow-up Agency Action Plan

AUDIT FINDINGS

1. BOC Revenue Performance – Shortfall of Php40.335B

   The total revenue of the Bureau for CY 2014 increased by Php64.392 billion or 21.1 percent from Php304.898 billion a year earlier to Php369.290 billion.

2. Non-submission/incomplete submission of documents supporting liquidated import entries

3. Limited viewing access to the BOC e2m Customs Import Assessment given to the Commission on Audit

4. The Agency which is the main revenue generating agency of the country collected Php1.334 trillion or 9.71 percent more than the last year's figure but short of Php122 billion or 8.37 percent of the Php1.456 trillion collection goal.

5. *Other Receivables* pertaining to unredeemed dishonored checks continued to increase over the years and totaled Php554.210 million as of December 31, 2014 due to acceptance of personal checks for payment of internal revenue taxes and the apparent laxity in the enforcement of remedies prescribed under existing regulations.

6. Management failed to enforce the settlement of penalties totaling Php1,842,098.53 as of December 31, 2014 imposed on Authorized Agent Banks (AABs) for late reporting and remittance of collections.

7. Some Revenue Collection Officers did not deposit their collections intact or within the prescribed period contrary to PD 1445 and other pertinent rules and regulations. This unnecessarily exposed these collections to the risk of use and misuse.

8. Some Accountable Officers were not duly/officially designated as such and not adequately bonded.

9. Management failed to strictly implement its policy of disposing the forfeited real properties within the prescribed three years after the one year redemption period and reportedly sold only 30 pieces of forfeited real properties from CY 2007 to 2014.

AUDIT RECOMMENDATIONS

For the audit findings presented above, the following were recommended:

1. a) Study and employ new strategies in the collection of revenues to increase and meet the targeted income
   b) Enhance the Bureau's intelligence capability and vigorously go against persons or groups violating the tariff and Customs Code of the Philippines (TCCP); and
   c) Implement Section 2 of RA 9335 which prescribes the provisions of sanctions to BOC officials and employees who were not able to achieve their targets, and rewards for those who had exceeded their targets.

2. a) Require the Master/Officer-in-Command of the shipping vessels/aircrafts to submit directly to the Audit Team the hard copy and e-copy of all Inward Foreign Manifests (IFMs)/Consolidated Cargo Manifest (CCMs) and impose the fine of Php10,000 prescribed in Section 2521 of the TCCP on those who failed to do so; and
   b) Direct the District Collectors of the concerned ports/sub ports to submit the corresponding original import entries and supporting documents such as Bill of Lading, supplier's commercial invoice, packing list, etc.

3. Grant the COA Audit Teams viewing and printing access to all the modules/subsystem of the e2M System without further delay for effective audit of the BOC assessment and collections.

4. a) Evaluate the performance of the different Revenue District Offices (RDO) and other Offices concerned to determine the reasons/factors for the shortfall of collections so that the same could be addressed in the future to the extent possible and enhance/study new strategies to meet the targeted income collection of the regions and the Agency as a whole; and

   b) Require all Offices concerned to employ an intensified system of collection of all possible collectibles (i.e. Accounts Receivables/Delinquent Accounts, penalties/surcharges) and if warranted, implement the pertinent provisions of Republic Act (RA) 9335 to encourage the personnel to improve their collection performance.

5. a) Revisit the policy of accepting personal checks as payment of internal revenue taxes and if necessary, accept only Manager's/Cashier's Check to avoid dishonored checks;

   b) Consider accepting payments thru other credit facilities;

   c) Stop accepting personal checks from taxpayers with history of payment of checks which have been dishonored; and

   d) Require the Collection Service to strictly monitor the action of the RDOs, particularly the Collection Section which is responsible for the safekeeping of the original dishonored checks submitted by the AAB branch, in the sending of collection letters and the execution of the appropriate summary remedies, in order to ensure the redemption of dishonored checks.

6. a) Demand from the concerned AABs the immediate payment of the herein penalties, and if necessary resort to legal action to facilitate collection; and

   b) Require the Office concerned to monitor closely the penalties imposed on AABs so that appropriate action is promptly taken to avoid the accumulation of the unpaid amounts and also to serve as deterrent in delayed remittance.

7. a) Require the Revenue Collection Officers (RCOs) to deposit their collections intact and within the prescribed period;

b) Consider requesting an authority for the possible use of AABs where it would be more convenient for the RCOs to deposit their collections with lessened travel and time consumed;

c) Instruct the RCOs to deposit their collections to the Authorized Government Depository Bank (AGDB) nearest to their official station; and

d) Require the Revenue District Officer and the Chief of the Collection Section to closely monitor the RCO in the performance of her duties and responsibilities to avoid huge undeposited collections in the hands of the accountable officer.

8. a) To issue special order or equivalent document designating the concerned employees as Collection Officers. Otherwise, make representation with the Top Management for delegation of such authority to ensure that all personnel performing collecting functions are properly and duly designated.

9. a) Require the Offices concerned to take the necessary steps to expedite the consolidation of title of the newly acquired/forfeited assets to qualify them for disposal thru sale;

b) Facilitate the sale of the properties already titled to the Government of the Philippines in order to prevent their deterioration and convert them into cash; and

c) To monitor the efficiency of the concerned Offices in the consolidation of the titles and/or transfer of ownership of the acquired/forfeited assets in previous years in the name of the Republic of the Philippines and to conduct ocular inspections of these acquired/forfeited assets to determine their actual status and conditions.

CHALLENGES AND LESSONS LEARNT

1. Some cases filed in courts against Collecting Officers who incurred shortages discovered during the conduct of cash examination were dismissed due to some technicalities that are beyond the control of the Auditors.

   The Auditors should be aware of all the necessary legal and audit evidence to support their audit observations/findings.

2. Non-updating of the Revenue Audit Manual for the Bureau of Customs which was written in 1996. Advances in technology make the manual partially obsolete.

   Obsolescence of the manual hinders the audit because of no available reference on hand to be used by the auditors.

3. Lack of regular Revenue Audit Training of Auditors to enable them to audit effectively.

   The Auditor should be updated of the new technologies and advances related to their work.

BEST PRACTICES

a. Horizontal Audit

Horizontal audit is an evaluation of one process or activity across the ports/sub ports within the Bureau located nationwide. A horizontal audit is appropriate for processes and activities that are similar across a number of functional groups in a Bureau, in order to assess the effectiveness of the common approach. For example, the audit of confiscated goods conducted on all ports and sub ports which when consolidated will result to greater impact as to materiality and the relevance of the audit. It facilitates consolidation of similar findings and gives the Auditor a ready approach to audit.

b. Constant Training, Coaching and Mentoring of Auditors assigned in ports and sub ports

This is focused on creating and enabling environment to improve the Audit Team's performance and develop individual potentials. The revenue collecting agency is a peculiar agency that needs specialized training and experience for an auditor to fully develop and understand the process or functions of the Agency. This will be attained through constant training.

c. Open communication line between the auditor and audited agency, but ensuring that the independence is not compromised or impaired.

WAY FORWARD

We look forward to the time that the guidelines in the audit of tax assessments required under E.O. No. 38 will be issued so that the Commission on Audit can perform the audit of revenues and receipts or revenue audit for the purpose of determining whether revenues and receipts are assessed, collected and accounted for, and presented in the financial statements, in accordance with laws and regulations.

We likewise look forward to the times that e-copy is admissible as audit evidence in the Philippines and the law on custodianship will widen to include the e-copy of the documents subject to audit since the retention period of documents is only up to 10 years and the storage areas provided by the Audited Agency is not enough.

Create a Memorandum of Agreement specifically to resolve the issue on the submission of e-copy detailing the specific procedures taking into consideration the surrounding circumstances.

ASEANSAI RESEARCH PROJECT REVENUE AUDIT

Country Paper

SAI Thailand

INTRODUCTION

Government's revenue consists of all kinds of government receipts, such as tax, duty, fees, levies, interest, dividends, and income from the sale of assets, investments, and the leasing of government property.

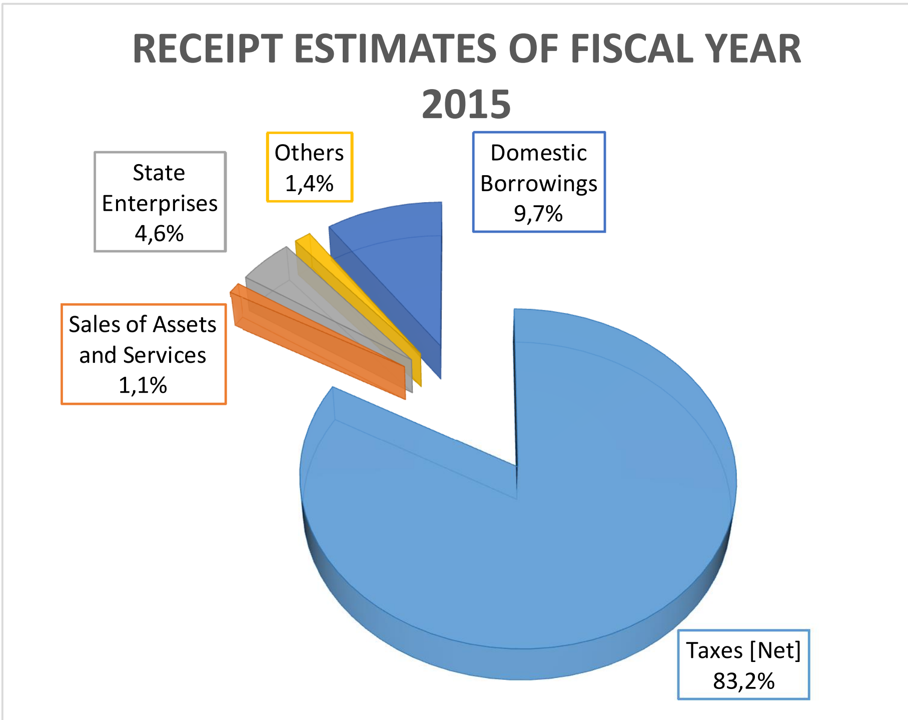


Figure I "Receipt Estimates of Fiscal Year 2015"

REFERENCE: BUREAU OF THE BUDGET "THAILAND'S BUDGET IN BRIEF FISCAL YEAR 2015"

Type of Revenue

Government's revenue is classified into two main categories, namely Tax Revenue and Non-Tax Revenue.

1. Tax Revenue is taxes that the government agencies collected or received by laws, regulation, rules or legal cause and government agencies have to deposit such revenues to government treasury in compliant with Budget Procedure Act.

Tax Revenue is classified as follow:

1.1 Direct Tax Revenue

Direct Tax Revenue directly collected from tax payee or tax payee have to pay tax by themselves, includes Income Tax (Personal, Corporate and petroleum) and others Direct Tax Revenue.

1.2 Indirect Tax Revenue

Indirect Tax Revenue is collected from goods and general services.

1.2.1 General sales tax revenue is tax collected from the sale of goods or services and Import and Export. General sales tax revenue consists of Value added tax, Specific Business Tax and Stamp Duty.

1.2.2 Specific sales tax revenue is tax collected from production and sale of goods and the provision of certain services including rental fee collected from entity related to the natural resources. Specific sales tax revenue consists of Excise tax from domestic consumption and tax related to the natural resources.

1.2.3 Tax revenue from Import – Export of Goods and Services collected from the activity of bringing goods or services enter into the country and tax collected from the activity of sending out goods or services aboard.

1.2.4 Income tax revenue collected from license fee to allow for operation. For example, the auction of liquor licenses, Forest License, licensing of radio communications.

1.2.5 Income tax on other income is other income that the agencies collected by their power and must be submitted to the Treasury.

2. Non - tax revenue represents income not generated from taxes which the agency will be submitted to the Treasury. Non – tax revenue comprise of:

2.1. Revenue from sale of assets and services is revenue generated from the sale of assets and services, the agencies have to submit to the Treasury and do not allow to take that revenue. For example, income from the sale of immovable property and buildings, revenue from the sale of investment and government securities, revenue from the sale of the stolen property, fee income from land and fee income of registration immovable property, rental fee from government property.

2.2. Revenue from state commerce is revenue that received from investment, such as dividend income.

2.3. Other revenue is revenue that the agency was required to submit to Treasury and income earned to the government in addition to the various categories listed above. For example, fees and fines on justice, compensate fee from offence case, fine and penalties on tax offence case.

A large part of tax revenue collection comes from three main agencies under the Ministry of Finance which are the Revenue Department, the Excise Department, and the Customs Department - collectively account for about 85-90% of the government's revenue. The Revenue Department collects more than half of the total tax collection.

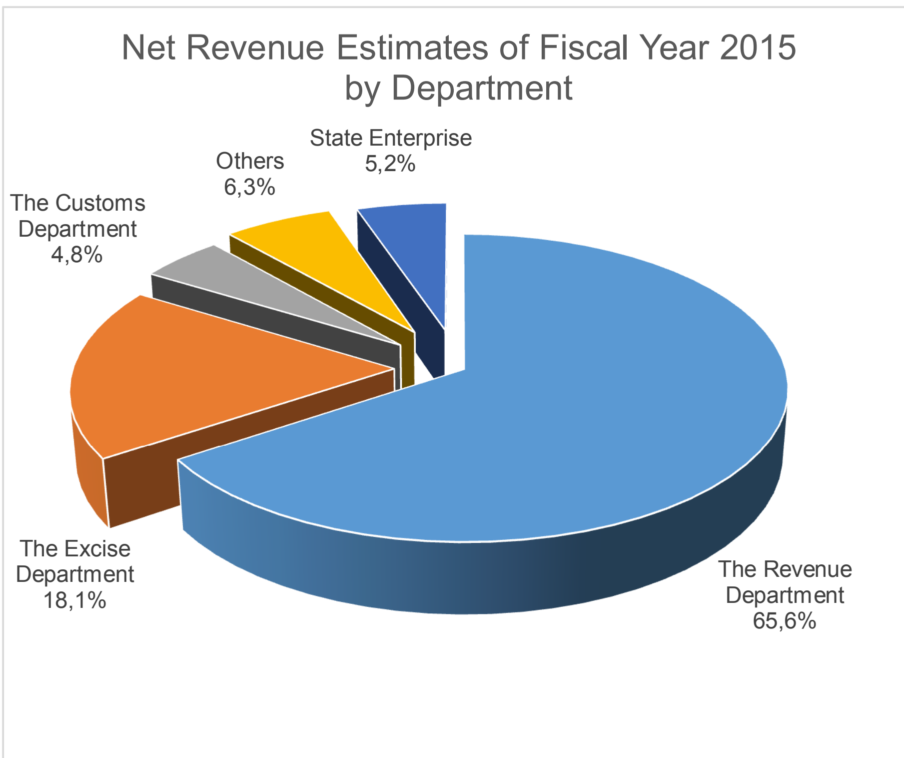


Figure II “Net Revenue Estimates of Fiscal Year 2015 by Department”

REFERENCE: BUREAU OF THE BUDGET “THAILAND’S BUDGET IN BRIEF FISCAL YEAR 2015”

The Revenue Department

All taxes comprise of:

Personal Income Tax (PIT) is a direct tax levied on income of a person. A person means an individual, an ordinary partnership, a non-juristic body of person and an undivided estate. In general, a person liable to PIT has to compute his tax liability, file tax return and pay tax, if any, accordingly on a calendar year basis.

Corporate Income Tax (CIT) is a direct tax levied on a juristic company or partnership carrying on business in Thailand or not carrying on business in Thailand but deriving certain types of income from Thailand.

Petroleum Income Tax (PT) is a direct tax, levied annually (for each accounting period of 12 months duration) on net profit of a “petroleum taxpayer”, who is carrying out the business of petroleum exploration and production. It is also levied on the disposal of profits outside of Thailand. The rules and regulations for Petroleum Income Tax are covered under Petroleum Income Tax Act and other related law. The rates, penalties, surcharge, etc. are different from that of Corporate Income tax.

Value Added Tax (VAT) has been implemented in Thailand since 1992 replacing Business Tax (BT). VAT is an indirect tax imposed on the value added of each stage of production and distribution.

Specific Business Tax (SBT) is another kind of indirect tax introduced in 1992 to replace Business Tax. Certain businesses that are excluded from VAT will instead be subject to SBT.

Stamp duties are taxed on instruments and not on transactions or persons. For the purposes of stamp duty, an instrument is defined as any document chargeable with duty under the Revenue Code. The stamp duty rules are contained in Chapter VI of Title II of the Revenue Code.

Fines and Penalties

The Customs Department

All taxes comprise of:

Export duty

Export duty is levied on the export of goods and shipped abroad. At present there are two types of goods that have to pay export duty when shipped abroad, some types of wood and leather. And collect from profit sharing in oil operation under specific contract. The tariff rate collected under Decree.

Import duty

Import duty is levied on import of goods from abroad. The tariff rate collected under Decree.

Other incomes

Other incomes from the sales of property in dispute, customs fees, tax penalty and miscellaneous income and fees which collected by agencies in many provinces and the rates are accordance with the Customs Act 2469 and the amendment.

Excise Department

Excise Department has the authority to collect Excise tax. Excise tax is indirect tax collected from Selling of specific type of goods and services which is reasonable enough that tax must be burden higher than the normal consumption goods or services, for example goods and services which may effect to physical health and moral, the luxury goods and services or goods received extra benefits from the state or products that pose a burden to the government in order to build facilities to serve customers or product which may cause environmental pollution.

All categories of goods and service are paid for excise tax as follows:

- Petroleum and Petroleum Products
- Cars
- Beer
- Liquors
- Golf course
- Massage Parlor
- Perfumes and perfume essences
- Horseracing course

- Tobacco
- Beverage
- Electronic appliances
- Motorcycles
- Battery
- Nightclubs and discotheque
- Lead crystals and other crystals
- Playing cards
- Carpets and textile flooring with animal furs
- Miscellaneous

AUDIT MANDATE

The Office of the Auditor General of Thailand (OAG) is an independent government agency under the Constitution of the Kingdom of Thailand which comprised of the State Audit Commission, the Auditor General and the Office of the Auditor General.

Revenue audits conducted by the Financial Audit Office, Provincial Audit Office and Revenue Collection Audit Office (conducted in 2015) under the Organic Act on State Audit B.E.2542 (1999) Section 39, (2) (e) Office of the Auditor General has the powers and duties to audit the collection of taxes, duties, fees and other revenues of audited agency and give opinions as to whether it is in compliance with the laws, rules, regulations or resolutions of the Council of Ministers; in this instance, the Office of the Auditor General shall also have the power to audit the assessment of taxes and duties and the collection of fees and other revenues made by the audited agency, and the audited agency shall disclose information obtained from tax payers, payers of fees or any other money to Office of the Auditor General as requested, and it shall be deemed that the disclosure of such information is a lawful act.

Types of Audit of SAI Thailand

- Financial audit
- Revenues Collection Audit
- Procurement audit
- Investigative audit
- Performance Audit

Audited Agencies

- Ministry, Sub-ministry, Department
- Provincial administration agency
- Local administration agency
- State Enterprise
- Other state agency
- Agency receives subsidies from above
- Agency receives subsidies from State and audited by OAG in comply with the law

AUDITING GUIDELINES

OAG does not have specific guideline on revenue audit. OAG conducted revenue audit as part of financial audit in revenue cycle for annual financial statement of government agencies. The overall audit guidelines based on International Standard on Auditing are used in financial audit – revenue cycle.

AUDIT OBJECTIVES, SCOPE AND METHODOLOGY

Audit objectives

- to satisfy that revenues are fairly present in accordance with accepted accounting standards;
- to verify the efficiency of internal control and accounting systems;
- to assess whether the revenue cycle has been accurately assess and collect;
- to satisfy that collection of revenues are lawfully made;
- to verify the completeness and accuracy of tax collection that deposit to treasury reserves;
- to review refunds and exemptions of revenues and their legality

Audit Scope

The scope of revenue audit comprise all government revenues which are include of tax revenue and non-tax revenue.

Audit Methodology

- Interviewed executive management and key tax officers to gain an understanding of the tax revenue collection process;
- Obtain and review procedures followed in the recognition of revenue and evaluate internal control systems;
- Audit of collection and accounting;
- Audit of assessments;
- Test the overall reasonableness of revenue cycle.

AUDIT FINDINGS AND RECOMMENDATIONS

<u>Case one:</u>

Audit Finding

Late transfer tax revenue to Treasury.

During our audit, we had found that some local tax offices of Excise Department were late in transferring tax revenue to Treasury than timely basis in related law.

Government may lose an opportunity to use money for country development in proper time due to failing to transfer the tax revenue to Treasury.

Recommendation

Excise Department should transfer the tax revenue in the proper time.

Case two:

Audit Finding

Excise tax on imported playing cards.

The excise tax on imported playing cards which is recorded in Business Intelligence System by Customs Department on behalf of Excise Department, cannot reconcile for accuracy of collected amount. Some transaction had no supporting document of permission for import and no evidence about stamp feed paid. Database about tax revenue from each department has never been reconciled.

Recommendation

The Excise Department and Customs Department should understand the process to assess and collect tax form imported playing card for the accuracy of collection in accordance with law. The Excise Department should reconcile the accuracy of report from Business Intelligence System for accuracy of tax collection and should expand to review accuracy of report from the system for other tax that the Customs Department collect on behalf of the Excise Department.

Case three:

Audit Finding

Powers and duties in arrest and suppression.

The Excise Department Officers have no powers and duties in arrest and suppression of smuggler specified in the Playing Card ACT, B.E. 2486. As a result, the process of carrying out arrest and criminal repression take a long time and there were a few number of offenders arrested accordingly.

Recommendation

Excise Department should reconsider about the Playing Card ACT, B.E. 2486 and other Excise Tax Law regarding powers and duties of auditors in suppression and arrest in order to support the capability of auditors to be more efficiently and effectively.

CHALLENGES AND LESSON LEARNT

Challenges

- There is no specific guideline for revenue audit and this type of audit is new for auditors this may cause the lack of knowledge and experience.
- Auditors are lack of technical skill and knowledge in revenue auditing and also training to enable them to audit effectively.
- There are various types of Excise tax and related law and some of them are out of date.
- There is no data reconciliation between revenue agencies especially the Collecting interchangeable.

Lesson Learnt

- The audit guideline is important for auditors. Therefore, the guideline should be prepared to assist the auditors to conduct audit efficiently and effectively.
- Knowledge and experience of tax collection are important for auditors.
- Laws and regulation related to revenue assess and collection need to be updated.

BEST PRACTICE AND WAY FORWARD

Best Practice

- Do training for auditor to update knowledge with current law and regulation related to government revenue.
- Set up database related to government revenue.

Way Forward

- Improve auditor's knowledge on revenue audit.
- Set up database related to government revenue.
- Impart knowledge on revenue audit to all auditors and supporting staff.
- Develop specific manual of revenue audit.

ASEANSAI RESEARCH PROJECT REVENUE AUDITS

COUNTRY PAPER

VIETNAM STATE AUDIT OFFICE

1. INTRODUCTION

In Vietnam State budget includes revenue from domestic taxes, crude oil, import and export duties, and international aid. Of which revenue from domestic taxes plays increasing importance role in total state budget. In the estimated state budget in table 1 domestic revenue account for 70% of total revenue in year 2015, slightly higher than 69% in 2014 and 67% in year 2013; revenue from import and export account for 19% in year 2015, 17% in year 2014 and 18% in year 2013 respectively. In current circumstance of continuous oil price falling, domestic revenue from domestic and import and export become more important in financing for government spending and support balancing state budget.

Since 11 November 1994 State Audit of Vietnam (SAV) has given significant contribution to the whole economy in aspect of improving efficiency and effectiveness in public assets and state budget management. The contribution for state budget via pushing increased budget revenue and reduced expenditure. According to the Summary Audit Achievement from our foundation up to the year 2013 (1994 - 2013), State audit findings and recommendation to increase by 147.580 billion VND include: increased revenue from tax 29.148 billion VND, reduce expenditure 22.365 billion VND, other recommendation 96.067 billion VND. SAV operation shows increasing important role to the economy as well as budget revenue. That is reasons why the assignment of improving and increasing quality of auditing revenue, particularly audits in taxes and activities related always in first priority ranks of SAV's assignment.

2. AUDIT MANDATE

According to the Article 118 of the Constitution 2014 The State Audit Office shall be established by the National Assembly, operate independently, abide only by the law, and audit the management and use of public finance and assets. The State Auditor General is the head of the State Audit Office and shall be elected by the National Assembly. The term of office of the State Auditor General shall be prescribed by a law. The State Auditor General is responsible, and shall report on audit results and his or her work, to the National Assembly. When the National Assembly is in recess, he or she is responsible, and shall report on his or her work, to the Standing Committee of the National Assembly. The organization and specific tasks and powers of the State Audit Office shall be prescribed by a law.

The functions, tasks, powers of SAV are stipulated in Article 9 - 11 of the Law of the State Audit Office of Vietnam as follow:

- Article 9. Functions of SAV: SAV has the functions to make assessment, confirmation, give auditor's opinions with regard to the management and use of public finance and/or public property.

- Article 10. Duties of SAV as follow:

    1. *Decide annual audit plans and submit reports to the National Assembly before implementation.*

    2. *Organize the implementation of annual audit plans and performance of audit tasks at the request of the National Assembly, Standing Committee of the National Assembly, the President, the Government, and the Prime Minister.*

    3. *Consider deciding audits at the request of Ethnic Council, Committees of the National Assembly, Deputies of the National Assembly, Standing Committee of the People's Council, the People's Committees of central-affiliated cities and provinces (hereinafter referred to as provinces) and other organizations not in the annual audit plans of SAV.*

    4. *Propose opinions of SAV to the National Assembly for consideration and decision of state budget estimates, allocation of central government budget, contents of investment in National target programs, projects of national importance, and approval for state budget statements.*

5. *Join agencies of the National Assembly and the Government in examining state budget estimates, plans for allocation of state budget, plans for adjustment of state budget estimates, plans for provision of funding for National target programs and projects of national importance decided by the National Assembly and state budget statements.*

6. *Join other agencies of the National Assembly in supervising implementation of laws and resolutions of the National Assembly, ordinances and resolutions of Standing Committee of the National Assembly on budget – finance; supervising enactment of state budget and financial policies on request.*

7. *Join other agencies of the National Assembly, the Government, and competent authorities in submitting law/ordinance projects on request in the process of formulating and inspecting law/ordinance projects.*

8. *Submit annual consolidated audit reports, implementation of auditors' opinions to the National Assembly, Standing Committee of the National Assembly; send those reports to the President, the Government, the Prime Minister, Ethnic Council, Committees of the National Assembly; provide audit results for the Ministry of Finance, deputies of the National Assembly, the People's Councils, the People's Committees where audits are carried out, and other agencies as prescribed by law.*

9. *Provide explanation of audit results for the National Assembly and other agencies of the National Assembly as prescribed by law.*

10. *Publish audit reports, annual consolidated audit reports, implementation of auditors' opinions according to Article 50, Article 51 of this Law, and relevant regulations of law.*

11. *Monitor, inspect the implementation of opinions of SAV.*

12. *Transfer documents to investigation agencies, the People's Procuracies, and other regulatory agencies responsible for handling suspected criminal*

cases and violations committed by organizations and individuals that are discovered through auditing.

13. *Manage audit dossiers; protect confidentiality of accounting figures, documents, information about operation of audited units as prescribed by law.*

14. *Seek international cooperation in terms of governmental auditing.*

15. *Organize, manage works related to scientific research, training and development of human resources of SAV.*

16. *Organize examinations, issue, revoke, and manage state audit practitioner certificates.*

17. *Disseminate regulations of law on governmental auditing.*

18. *Develop and Strategy for development of SAV and submit it to Standing Committee of the National Assembly for promulgation.*

19. *Perform other tasks as prescribed by law.*

- Article 11. Entitlements of SAV:

1. *Submit law/ordinance projects and draft resolutions to the National Assembly, Standing Committee of the National Assembly as prescribed by law.*

2. *Request audited units and relevant entities to promptly provide sufficient, accurate information and documents serving the audit.*

3. *Request audited units to implement opinions of SAV with regard to the violations of their financial statements and failure to adhere to law; suggest measures for them to overcome their shortcomings discovered by SAV.*

4. *Request competent agencies or persons to request audited units to implement opinions of SAV with regard to the violations of their financial*

statements and failure to adhere to law; suggest actions against failure to implement or to adequately and promptly implement auditors' opinions.

5. *Request competent agencies or persons to deal with violations discovered during the audit.*

6. *Request competent agencies or persons to deal with entities that obstruct the operation of SAV or provide false information/documents for SAV and state auditors.*

7. *Request professional assessment where necessary.*

8. *Authorize or hire audit firms to carry out audits at organizations managing/using public finance and/or public property; SAV is responsible for the truthfulness of information, documents, and opinions provided by such audit firms.*

9. *Request the National Assembly, Standing Committee of the National Assembly, the Government, the Prime Minister, and other agencies of the State to amend policies and law.*

- Article 3. Audit activities of SAV: Audit activities of SAV involve assessment and determination of properness and truthfulness of information about public finance and/or public property or financial statements related to the management and use of public finance and/or public property; adherence to law and efficiency of management, use of public finance and/or public property.

3. AUDITING GUIDELINES

3.1. Laws, regulations and audit guidelines:

- Audit Law 2014

- The procedure of state budget audit published in accordance to the Decision 02/2013/QĐ-KTNN, 29 of March, 2013 signed by Auditor General.

- A platform audit guideline on compliance procedures on collection and management of taxes, including exemption, deduction, relaxing, refund, and forgive irrecoverable debt of taxes (Decision 333/QĐ-KTNN, 11 of April, 2013 signed by Auditor General).

- Research on the development of handbook on tax audit (in preparation process).
- Research on the role of SAV in fighting tax corruption via transfer-pricing (in completion process).

3.2. Selected issue on "A draft of platform audit guideline on compliance procedures on collection and management of taxes, including exemption, deduction, relaxing, refund, and forgive irrecoverable debt of taxes, and activities against tax fraudulence and tax evasion via transfer-pricing for the year 2012".

Activities and reports will be audited include:

- Reports on collection and management of taxes, including exemption, deduction, relaxing, refund, and forgive irrecoverable debt of taxes, and activities against tax fraudulence and tax evasion via transfer-pricing that were prepared by the Centre Tax Bureau and Local Tax Departments.
- Activities conducted by Centre Tax Bureau and Local Tax Departments on collection and management of taxes, including exemption, deduction, relaxing, refund, and forgive irrecoverable debt of taxes, and activities against tax fraudulence and tax evasion via transfer-pricing.

Organization will be audited

- List specific name and position belong to the Centre Tax Bureau will be audited for each audit assignment, such as Policy Department, Forecast Revenue Department, Report and tax accounting department, Information and tax payer assistance department, tax debt department, personal income tax department, Large firm tax manage department, Centre Tax Inspection department.

- List specific name and position belong to the Local Tax Department will be audited for each audit assignment, such as Genera Revenue Forecast Division, Tax Debt Division, Information Propagate and tax payer assistant division, Tax Inspection Division, Regular tax examine division.
- Related organization will be collated such as Centre Treasury and Local Treasury at province, district and selected tax payers.

Scope of audit

- Reports from Centre Tax Bureau on results of tax examines and inspections for a specific period of time;
- Reports from Local Tax Departments and some execute Divisions on results of tax examines and tax inspections for a specific period of time.

3.3. Selected issue on the "Research on the development of handbook on tax audit".

The research on the development of handbook on tax audit start from understanding tax collection and management process and related activities in order to formulate guidelines for audits of taxes.

Fundamental issues of tax management

- Policy designs and institutionalization legislation on taxes;
- Develop tax management models at central and local levels;
- Deploy regulations and requirements of different laws on taxes;

Related parties on tax management

- Tax payers
- Tax managers
- Instruments of tax management;

Fundamental principals of tax management

- Consistent, concentration and democracy principal;
- Transparency and disclosure principal;
- Relevant principal;
- Economic and efficiency principal.

Selected issues of tax management on import – export duties

- Tax payer information management;
- Tax registration;
- Tax report
- Tax payments
- Tax payable determinations
- Tax refund
- Tax deduction
- Tax exemption
- Tax relaxing
- Tax examination
- Tax inspection
- Tax debt deletion
- Sanction to tax fraudulent
- Dealing with violations or un-compliance to tax regulations
- Other activities.

4. AUDIT OBJECTIVES, SCOPE AND METHODOLOGY

<u>Audit objectives:</u>

- Assess and certify the correctness, reasonable and righteous of the report on collection and management of taxes, including exemption, deduction, relaxing, refund, and forgive irrecoverable debt of taxes, and activities against tax fraudulence and tax evasion via transfer-pricing;

- Asses the compliance of responsibility related organizations (and duty in charged units) the laws, regulations and related guidelines on collection and management of taxes, including exemption, deduction, relaxing, refund, and forgive irrecoverable debt of taxes and activities against tax fraudulence and tax evasion via transfer-pricing;

- Assess the efficiency of the communication activities on the promulgation of laws and related regulations on taxes and duties on collection and management of taxes, including exemption, deduction, relaxing, refund, and forgive irrecoverable debt of taxes, and activities against tax fraudulence and tax evasion via transfer-pricing to the intended tax payer and related parties.

- Assess the effectiveness and efficiency of activities on compliance regulations against tax fraudulence and tax evasion via transfer-pricing in arm to figure out shortcomings present in laws and regulations of taxes, difficulties in compliance to these laws and regulations in order to find our recommendation for further amendment.

<u>The scope: all intended audited activities related to audit topic will be scrutinized and reviewed</u>

- All the activities and action plans assumed to be conducted by tax divisions/departments designed for improve tax collection.

- The fulfilment as counsellor of the related organization such as Centre Tax Bureau to the position/organization in charge in responsibility in develop law, regulations and guidelines on tax.

- All the regulations, guidelines, decisions, executive directions and related activities on tax collection and tax management will be reviewed and tested for efficiency and effectiveness.

- The fulfilment of specific position/organization responsibility to make a decision on tax exemption, tax deduction, tax relaxing, tax refund, and forgive irrecoverable debt of taxes in accordance to relevance regulations. For instance of year 2012, the inferred regulation was Circular 28/2011/TT-BTC guiding a number of articles of the law on tax administration and the government's decree No. 85/2007/NĐ-CP of May 25, 2007, and Decree No. 106/2010/ NĐ-CP of October 28, 2010.

- The performance of tax collection, management, examination, inspections and of other action plan in improve tax revenue and against tax evasion or fraudulent.

Methodology

- Pre -audit preparation:

  - Gathering information, evidence, news, etc., relevant to related parties or activities intend to be audited;

  - Recognize demand on related issue in SAV's audit reports from stakeholders, such as public, government, parliament or other significant audit report users. This will help SAV determine right direction for audit assignments in different circumstance since the demand might be changed by years.

  - Conduct national seminars and workshop on tax collection and action plans fighting tax corruption.

- Audit preparation:

- Conduct pre-audit survey on tax audit in several related tax collection process;
- Draft audit plan;
- List relevance laws, regulations, guidelines will be reviewed and used in tax audit;
- Conduct research on relevance laws, regulations, guidelines will be reviewed and used in tax audit;
- Conduct trainings on taxes and related issues;
- Conduct entire branch workshops and seminars for exchange and sharing experience on audit tax collection;
- List name, time frame to conduct audit at each organization/ department/ division that intend to be audited;
- Lay down specific requirements and audit target on each audited organization;
- Develop a list of requirements and questions will be covered for each audited activities and organizations;
- Develop template of working papers and report specified for the audit;
- Design working mechanism in auditing process.
- Planning for audit of group.
- Planning for audit of team.
- Planning for make report audit.

* Conduct audit:
    - Perform audit procedures to implement the contents of the audit plans is identified in the audit of each audit teams and audit group;

- Complete the objectives set out
- Conduct audit predetermined procedures to achieve objectives and requirements of audit plans of audit team and audit group.
- Compliance requirements typically designed for the audits during whole audit process;

- Audit finalize:
  - Review audit findings and results of audit teams;
  - Review audit findings and results of audit Groups;
  - Review audit findings and results of SAV;
  - Public audit reports;
  - Post audit seminar;
  - Lesson learnt and training courses

5. AUDIT FINDINGS

- Noncompliance to tax regulations;
- In efficiency in collection and management of tax departments;
- Tax payers late tax reports;
- Many shortcomings in regulations and laws of tax;
- Inefficiency in tax examinations or tax inspections;

6. RECOMMENDATIONS

- Improvement in information system in audit revenue and tax related activities;
- To conduct renovation in management of audit teams and audit group related to tax and state revenue.
- Improvement in training;
- To strengthening cooperation to other SAI in revenue audit via training and experience sharing;
- To strengthening cooperation to other SAI in fighting tax corruption via price transferring via inter-assistance during audits, international workshop and experience sharing;
- Reinforcing technology in revenue and tax related audit.

7. CHALLENGES AND LESSON LEARNT

Challenges

i. Tax fraudulent become more complex and sophisticated.

ii. Benefit from tax fraudulent is significantly big to overcome risk of detected.

Lesson Learnt

i. Encourage auditor improve knowledge, skill and experience via on the job training and in-house training on revenue and tax.

ii. Rotation in auditors.

8. BEST PRACTICES

i. The State Audit Office has issued the audit guideline of local government budget, of which it is inclusive of tax audit guideline.

ii. The Training Centre of State Audit Office has prepared the in services course in regard with the revenue audit such as tax collection database system that enable the auditor access the data and information from the tax authorities for audit purpose.

iii. Develop an audit plan in each type of tax aimed to make deeply assessment fraud prevention, anti-tax losses for the State budget.

9. WAY FORWARD

- Fostering efficiency in international cooperation, knowledge and experience sharing and training on revenue and related tax audits;
- Improve effectiveness, economy and efficiency in quality audit assurance activities within audit offices.
- Develop bank of tax payer information and improve interconnection mechanism to State Treasury and Tax Departments.
- To amend audit law/regulation to be more specific on third party documents (including softcopies) submission for audit purposes.

MINISTRY OF FINANCE

Phụ lục số 03/CKTC-NSNN

Đơn vị tính: Bill VND

STT		Estimated Year 2015	Weight	Comparison 2015/2014	Change 2015/ 2014	Estimated Year 2014	Weight	Comparison 2015/2014	Change 2015/ 2014	Year 2013	Weight
		911.100	**100,000%**	**116,40%**	**16,40%**	**782.700**	**100,000%**	**95,92%**	**-4,08%**	**816.000**	**100,000%**
I	**Domestic**	**638.600**	**70,091%**	**118,48%**	**18,48%**	**539.000**	**68,864%**	**98,81%**	**-1,19%**	**545.500**	**66,850%**
1	Revenue from SOEs	220.842	24%	119,63%	19,63%	184.599	24%	105,95%	5,95%	174.236	21%
2	Revenue from Enterprises which has foreign invesment	142.459	16%	127,65%	27,65%	111.603	14%	103,97%	3,97%	107.339	13%
3	Revenue from non - SOEs (domestic only)	119.546	13%	111,46%	11,46%	107.252	14%	89,19%	-10,81%	120.248	15%
4	Agriculture land use tax	33	0%	103,13%	3,13%	32	0%	114,29%	14,29%	28	0%
5	Personal income tax	51.266	6%	108,19%	8,19%	47.384	6%	86,37%	-13,63%	54.861	7%
6	Registration fees	15.435	2%	112,73%	12,73%	13.692	2%	101,86%	1,86%	13.442	2%
7	Environment protection tax	12.939	1%	102,94%	2,94%	12.569	2%	87,93%	-12,07%	14.295	2%
8	Other fee and charge	14.035	2%	135,87%	35,87%	10.330	1%	99,54%	-0,46%	10.378	1%
9	Revenues from land, houses:	46.590	5%	109,70%	9,70%	42.469	5%	92,92%	-7,08%	45.707	6%
a	*Non agriculture land use*	*1.330*		107,78%	7,78%	*1.234*		98,17%	-1,83%	*1.257*	

MINISTRY OF FINANCE **Phụ lục số 03/CKTC-NSNN**

Đơn vị tính: Bill VND

STT		Estimated	Weight	Comparison	Change	Estimated	Weight	Comparison	Change	Year 2013	Weight
		Year 2015		**2015/2014**	**2015/ 2014**	**Year 2014**		**2015/2014**	**2015/ 2014**		
b	*Rent from land hiring, water surface hiring*	*5.855*		123,32%	23,32%	*4.748*		101,43%	1,43%	*4.681*	
c	*Land use*	*39.000*		108,33%	8,33%	*36.000*		92,31%	-7,69%	*39.000*	
d	*State owned house sold*	*405*		83,16%	-16,84%	*487*		63,33%	-36,67%	*769*	
10	Other state revenues	14.365		177,98%	77,98%	8.071		202,94%	102,94%	3.977	
11	Revenue from selling products, land use or others benefit of public land	1.090		109,11%	9,11%	999		101,01%	1,01%	989	
II	**Revenue from selling crude oil**	**93.000**	**10,207%**	**109,15%**	**9,15%**	**85.200**	**9,351%**	**86,06%**	**-13,94%**	**99.000**	**10,866%**
III	**Revenue from import and export**	**175.000**	**19,208%**	**113,64%**	**13,64%**	**154.000**	**16,903%**	**92,49%**	**-7,51%**	**166.500**	**18,275%**
1	- Total revenue from import and export activities:	260.000		116,07%	16,07%	224.000		94,32%	-5,68%	237.500	
	+ Import/export duties, special consumption tax, invironment protection imported tax	*83.400*		112,82%	12,82%	*73.920*		91,23%	-8,77%	*81.022*	

MINISTRY OF FINANCE **Phụ lục số 03/CKTC-NSNN**

Đơn vị tính: Bill VND

STT		Estimated	Weight	Comparison	Change	Estimated	Weight	Comparison	Change	Year 2013	Weight
		Year 2015		2015/2014	2015/ 2014	Year 2014		2015/2014	2015/ 2014		
	+ VAT on imported goods and service	*176.600*		117,67%	17,67%	*150.080*		95,91%	-4,09%	*156.478*	
2	- VAT refund	-85.000		121,43%	21,43%	-70.000		98,59%	-1,41%	-71.000	
IV	**Revenue from aid**	**4.500**	**0,494%**	**100,00%**	**0,00%**	**4.500**	**0,494%**	**90,00%**	**-10,00%**	**5.000**	**0,549%**