Why are you doing an audit?

ESTABLISHING AUDIT OBJECTIVES

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What is a local property tax audit?

"The process of accumulating and evaluating financial records and other evidence in order to determine conformity with the applicable state and local tax laws"

"The local property tax audit is a compliance audit"

Audit ABC's – Getting Started

The most important consideration for a successful audit program and one that should be completed prior to beginning the audit process is to establish the objectives . Audit objectives establish the purpose for having an audit program in the first place. Effective audit objectives provide:

1. Justification for the audit program
2. Uniformity in audit procedures and goals
3. The criteria required to be completed to issue an audit opinion
4. Measurement criteria to determine effectiveness of the audit program

Establishing Audit Objectives

All local audits should be guided by two objectives that should be included in every audit program.

- Uniformity – an effective audit program must ensure that taxpayers with similar business operations are taxed in the same manner.
- Voluntary Compliance – An effort should be made during the course of the audit to educate the taxpayer on the proper methods and deadlines to report the necessary information to the local tax assessor. The goal of all assessment offices is voluntary compliance. The audit program should encourage and reinforce this goal.

Audit Objectives

- Existence – The auditor must verify that there is situs to assess the assets
  - Are the assets being audited located within the taxing jurisdiction?
  - Do the records needed for a correct audit opinion exist?
- Completeness – The auditor must ensure that the records needed to complete the audit are available or can be ascertained and that all impacted taxpayers are included
  - Have all transactions, including cash, been recorded?
  - Does the tax roll include all taxpayers?

Audit Objectives

- Valuation – The auditor must accurately classify the assets under audit and ensure the correct valuation method has been used
  - Have all components of purchasing equipment been included in determining “original purchase price”?
  - Have all classes of property been identified to allow for proper valuation methods?
- Accuracy – The auditor must verify that all taxpayer financial or asset information has been correctly calculated or reconciled
  - Have all audit work papers been verified as being free of clerical errors?
  - Have all documents provided by taxpayer been recalculated to ensure correctness?

Audit Objectives

- Presentation and Disclosure – There must be a consistent format and presentation of all audit findings. The results must be presented and communicated in a standardized format and the disclosure of all necessary information must be presented in a manner that allows decisions to be made.
  - Understandable by the taxpayer and the courts if necessary
  - All suggested adjustments should be supported by legible, credible, organized work papers.
  - All relevant laws, AG opinions, Tax department rulings supporting the assessment are present in the report

Audit Objectives

- Rights and Obligations – The audit record accurately portrays the claims of all parties
  - The final report clearly communicates to the taxpayer his/her right to appeal and the appeal procedures
  - The final report clearly provides any assessment adjustments/changes
  - The final report clearly outlines any taxpayer concerns and includes any responses or resolutions to those claims

Audit Objectives

1. Uniformity
2. Voluntary Compliance/Taxpayer Education
3. Existence
4. Completeness
5. Valuation Method
6. Accuracy
7. Presentation/Disclosure
8. Rights/Obligations