Capacity Building Committee

COMPENDIUM

CAROSAI Programme on Cooperative Audits of Revenue Departments

2017

Capacity Building Committee

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Glossary of Terms

Accounts Receivable	Refers to taxes owed to Government and comprises outstanding taxes, penalties and interest. It is recorded as a financial asset in Government financial statements. Debt is another term used for accounts receivable.
Aging analysis	Refers to segment outstanding debt into age categories. This allows specific compliance and enforcement responses to be developed depending on the age of the debt.
Business Continuity Planning	Refers to the process an organisation uses to plan and test the recovery of its business processes after a disruption. It also describes how an organisation will continue to function under adverse conditions that may arise (for example, natural or other disasters).
Internal Control Framework	Refers to management's operating style, and all the policies and procedures adopted by management to assist in achieving the entity's objectives. It comprises the interrelated components of risk assessment, control environment, control activities including Information Technology (IT) support and taxpayer education/communication processes, and finally monitoring and reporting processes.
IT governance	Refers to the overall framework that guides IT operations in an organisation to ensure that it meets the needs of the business today and that it incorporates plans for future needs and growth.
Information security	Refers to the ability of a system to protect information and system resources with respect to confidentiality and integrity.
Risk profiling	Refers to developing an understanding of the characteristics of different groups of taxpayers with outstanding balances and assists to determine which accounts to pursue. It is also known as compliance risk assessment.
VAT	Value Added Tax is s a type of consumption tax that is placed on a product whenever value is added at a stage of production and at final sale.
Write off	Refers to removing debt that is deemed non collectable from Government balance sheets. Typically revenue departments have a set of criteria to guide this process.

Capacity Building Committee

Executive Summary

Introduction

This regional report is a compendium of the results of the first cooperative/parallel audit conducted by six Supreme Audit Institutions (SAIs) in the Caribbean region. The focus of the compendium is the capacity building efforts of IDI/CBC and the CAROSAI Secretariat to enhance the auditing skills of SAIs and individual auditors to carry out comprehensive and high quality audits of the management of revenue streams by applying International Auditing Standards (ISSAIs).

The objective of this compendium is to:

- Present regional audit findings aggregated from individual SAI audits;
- Report the successes and achievements to improve the professional capacity of individual audit staff and the organisational capacity of participating SAIs to audit revenue departments;
- Highlight the lessons learned over the course of the audit; and
- Propose a Way Forward to support future cooperative audits within the CAROSAI community.

What is CAROSAI?

CAROSAI is the Caribbean Organization of Supreme Audit Institutions. It is one of the eight regional organizations of INTOSAI and was founded in 1988. Presently there are 22 member SAIs – Anguilla, Antigua and Barbuda, Aruba, Bahamas, Barbados, Belize, Bermuda, British Virgin Islands (BVI), Cayman Islands, Dominica, Guyana, Grenada, Haiti, Jamaica, Montserrat, St. Kitts and Nevis, St. Lucia, St. Maarteen, St. Vincent and the Grenadines, Suriname, Turks and Caicos Islands and Trinidad and Tobago.

The aims of CAROSAI are to:

- Increase the exchange of knowledge and experiences between member SAIs of the organization;
- Expand training and continuing education possibilities between SAIs;
- Increase the importance of the internal audit function in public sector;
- Render technical assistance and support to the member SAIs;
- Strengthen cooperation between member SAIs.

Why an audit of revenue departments?

CAROSAI's *Strategic Plan 2012-2015* aims to strengthen the institutional and professional capacities of its member SAIs. Cooperation among SAIs is a good way of maintaining effectiveness, as it promotes benchmarking and the development of best practice. This supports the development and enhancement of general professional knowledge of public-sector auditors.

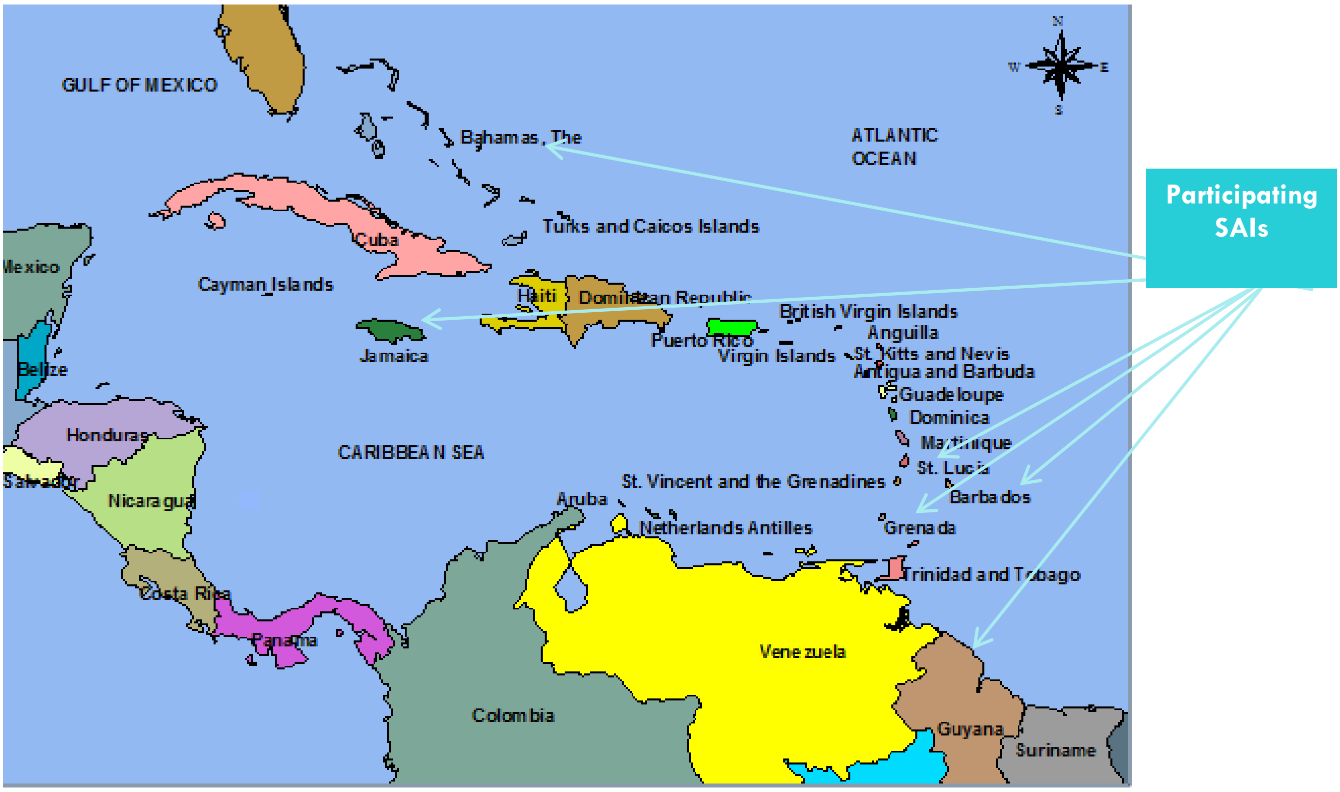
A number of CAROSAI member SAIs suggested the idea of a cooperative parallel revenue audit as a focus for 2014-15 to build SAI capacity to audit revenue departments. Following a discussion at the IX Congress of CAROSAI in 2013, a dialogue with IDI was initiated to implement the CBC's guidance on Cooperative (Parallel) Audit Methodology for an audit of revenue departments. It was considered by Congress participants that a collaborative approach: joint planning, simultaneous pilot audits, collective discussion and review of pilot audit reports would provide the best opportunity for participating SAIs to share ideas and develop best practices in the region to establish a sound revenue audit process and methodology.

At the time of the audit, a number of Caribbean countries were undertaking a reform of their tax systems. The reform process aimed to increase the efficiency and effectiveness of tax administration processes in compliance with relevant tax legislation and to support national development goals through a transparent, efficient and equitable tax system. In a time of transition, audit can place a crucial 'value add' role by highlighting deficiencies in previous administrative processes to safeguard against them being carried over to newly reformed systems.

Participating SAIs

The following Figure is a map of the Caribbean indicating the name and location of SAIs, which participated in the cooperative/parallel audit.

Figure 1: Map of the Caribbean



The SAIs of the Bahamas, Barbados, Grenada, Guyana, Jamaica and St. Lucia took part in the cooperative audit programme. The audit team for each SAI consisted of at least two members – one experienced and one less experienced auditor. This ensured that at least 12 SAI professionals were trained in ISSAI based audit methodologies following the cooperative audit approach. This enhances the capacity of individual SAIs and fosters a culture of benchmarking and sharing good practices within CAROSAI.

Key findings

Audit findings from the published audit reports clustered around the following key themes that should be of interest to regional CAROSAI stakeholders:

- **Risk assessment** including at both the organisational and process level and whether an analysis of these risks drove the design of the control environment;
- **Control environment** including the policies and procedures designed to maximize the tax collected, the use of staff trained in legally compliant control activities, the clear delineation of roles and responsibilities in the debt collection process, and the use of IT systems support and a taxpayer communications strategy to assist in the effective management of debt collection; and
- **Monitoring and reporting** including the use of performance targets to track and monitor control activities and also to support informed decision-making by managers ultimately responsible for an effective and efficient control environment.

Because the Compendium contains some high level observations about the management of the debt collection function in a number of Caribbean jurisdictions, it should be of interest to Caribbean governments and regional organisations involved in promoting transparency and accountability in the management of government revenue. The following tables present these consolidated findings.

Table 1 - Risk assessment

KF1	Risk assessment was not used as a tool to ensure that the agencies responsible for managing collections understood the risks posed to their business and did not develop appropriate mitigation strategies to manage the impact of these risks
KF2	The risk of poor co-ordination of collection actions with other agencies was not sufficiently recognized in the majority of jurisdictions audited. The lack of recognition of this key business risk impeded the design of a high quality control environment to support the efficient and fair collection of outstanding taxes
KF3	Risk profiling of delinquent accounts is not sufficiently developed to support the design of a cost effective collections strategy to maximize the collection of outstanding tax
KF4	Analysing the age of a debt was not a technique used by the majority of revenue departments audited. This meant that the risk of not appropriately designing compliance and enforcement strategies to maximise debt collection was increased

Table 2 - The Control Environment

KF5	In most jurisdictions audited, documented policies and procedures were not complete and often not compliant with relevant tax legislation
KF6	The lack of staff adequately trained in current and more advanced collection methods limits the effective management of the collections function
KF7	Where the issue of clearly defined staff roles and responsibilities was examined, the audits found that job description documentation was lacking within the collections area to adequately identify staff roles and responsibilities
KF8	Where agencies use IT systems as part of their control framework, a documented IT governance structure assists in meeting business goals and supports the effective use of limited resources. This was not always the approach adopted by the collections management agencies audited
KF9	The timeliness of collections actions was impacted where a combination of electronic and manual processes were required to pursue delinquent accounts. This reduced the probability of full collection of delinquent accounts and impacted on accurate record keeping
KF10	While some action was taken by the audited entities to back up and store data off site, more was needed in terms of developing and documenting a clearly defined Business Continuity Plan and establishing defined roles and responsibilities
KF11	More attention to the maintenance of secure information is needed as agencies increasingly computerise sensitive client data
KF12	Where communications with taxpayers was examined as part of the audits, the overall finding was that tax agencies did not have a sufficiently structured and comprehensive approach to taxpayer education to increase rates of voluntary compliance

Table 3 – Monitoring and reporting

KF13	No realistic tax performance targets based on an accurate assessment of total obligations were set by revenue agencies. This impacts the Government's revenue base
KF14	Collections units in revenue departments were not guided by an all-inclusive monitoring strategy that supported the provision of reports to senior management on performance as well as promoting continuous operational improvement
KF15	Reporting on the performance of collections management activities was poor and did not provide senior management with an informed account of how well each of the debt collection activities was performing individually and whether together they were achieving overall collections management goals. It was common that the IT systems used by revenue departments could not routinely generate reports for management attention. Reports had to be produced manually

Overall Conclusion

A key aspect of revenue administration is the debt collections management function. Revenue Departments must administer and be seen to administer the collection of taxes in a manner that promotes voluntary compliance. At the same time, it must enforce compliance to maintain equity (no category of taxpayer is treated differently to another) and public confidence in the fairness of the tax system. Having a well-designed internal control framework in place to manage this function in accordance with applicable legislation and Government policy is generally the responsibility of revenue departments.

The following table presents 'point in time' information on the outstanding debt of certain tax categories in the jurisdictions audited as part of this CAROSAI audit of revenue departments.

Table 4 - Outstanding tax debt by tax type by jurisdiction.

Jurisdiction	Tax Type	Outstanding tax debt
Bahamas	Department of Inland Revenue	2010/11 - $94.78**m**
Barbados 1	Corporation Income	2011/12 - $552.2**m**
Barbados 2	VAT	2013/14 - $475**m**
Jamaica	Property	2015/16 - $7,116**b**
St Lucia	Direct taxes	2013/14 - $740.8**m**

Note:
1. The value of the debt is expressed in the local currency of the jurisdiction audited.
2. Audit teams were concerned with the quality of the information they were provided, so all debt totals should be treated as an estimate.

This compendium focuses on key aspects of an Internal Control Framework - risk assessment, the control environment and associated activities, and monitoring and reporting to support effective debt management. Across all jurisdictions audited, issues of concern emerged about the effectiveness and efficiency of debt management and the impact this has on Government revenue.

To maximise revenue collection, it is highly recommended that the audited revenue departments, as a priority, focus on three immediate areas of improvements. These are:

- **A process level risk assessment.** This will have a significant impact in the short term as it provides an opportunity for the collection agency to review its work processes to identify what works and what doesn't. Risk profiling of the varied cohorts of delinquent taxpayers supports more effective and targeted enforcement responses. Over the longer term the collections agency can carry out a more robust risk assessment to ensure that the debt collections function is appropriately designed to support overall organisational goals concerning revenue collection;
- **Documented debt collection policies and procedures.** Having these available to all staff and supported by a training programme would in the short term support more efficient tax collection. Over the longer term, the revenue agencies audited should review all aspects of their internal control environment, including IT systems support and taxpayer education strategies, to ensure it is 'fit for purpose' to support the achievement of the agency's revenue goals;
- **A monitoring strategy of operational effectiveness.** The development of a monitoring strategy would provide immediate business benefits by ensuring that where ineffective processes in the debt collections function are identified, they are reported to management promptly so that remedial action can be taken. Over the longer term, regular management reporting based on monitoring the performance of the debt collection activities (with Key Performance Indicators assigned) would support management's responsibility to ensure the efficiency and effectiveness of its collections business operations.

The recommendations of each individual audit report are available at Appendix 1. In most cases, revenue agencies were responsive to these recommendations. When implemented, they will go a long way to enhancing debt collection strategies.

Concluding against the CAROSAI/IDI objectives

There is no doubt that the first cooperative audit by members of CAROSAI was a capacity building success for participating SAIs:

- All participating SAIs committed to conducting pilot audits and reporting on the audit;
- A cooperation agreement between IDI and participating SAIs was facilitated by CAROSAI;
- SAI teams, comprising at least two auditors, were nominated to participate in the programme;
- All six SAIs planned and conducted cooperative audits; and
- Four SAIs have published/tabled five audit reports with two reports pending.

IDI expectations were also realised:

- At least 12 SAI professionals were trained in ISSAI based audit methodologies following the cooperative audit approach; and
- Compendium of key findings and lessons learnt is published.

SECTION 1

Background to the CAROSAI Cooperative Audit

This section sets out the reasons why the audit topic is relevant to members of CAROSAI; an introduction to cooperative auditing; the CAROSAI cooperative audit objective; the Caribbean region SAIs that participated; and the objective and scope of individual SAI audits. The cooperative auditing framework is also presented.

Caribbean nations and revenue collection

Government revenue is money received by a government. It is an important tool of the fiscal policy of any government as it supports government expenditure on key social and economic imperatives. Revenues earned by the government are received from sources such as direct taxes levied on the incomes and wealth accumulation of individuals and corporations, on the goods and services produced, on exports and imports and from a range of other indirect tax raising measures.

For Caribbean nations, there is a need for governments to meet increasing social obligations with limited and in some situations declining revenue streams. To improve the fiscal situation, good tax law supported by appropriate administrative policies and strategies to maximise tax collection is a major priority. It is also important that a comprehensive approach includes arrangements that allow citizens and businesses to more easily comply with relevant laws and regulations. Where tax systems have administrative processes that apply the law equitably across the various cohorts of taxpayers, confidence in the system is enhanced.

Introduction to cooperative auditing

Cooperative audits involve multiple audit institutions working together on a single audit. This approach is especially useful in specialised or complex audit areas.

INTOSAI classifies cooperative audits as **concurrent** (parallel), **coordinated** and **joint** audits:

- **Concurrent (parallel) audits** – a decision is taken to carry out similar audits with both the methodology and audit approach shared. The audit is conducted simultaneously by two or more SAIs, but with a separate audit team for each SAI, reporting to its own governing body and on matters within its jurisdiction;
- **Coordinated audits** – a coordinated audit is either a joint audit with separate audit reports to the SAIs' own governing bodies or a parallel audit with a single audit report in addition to the separate national reports;
- **Joint audits** – key decisions are shared. The audit is conducted by one team composed of auditors from two or more SAIs who usually prepare a single joint audit report for presentation to each respective governing body.

The focus of the CAROSAI programme is on concurrent (parallel) auditing methodology that requires a substantial degree of cooperation across participating SAIs. Concurrent (parallel) audits can result in individual national reports and a regional audit report or compendium.[1]

1 *Cooperation between Supreme Audit Institutions*, INTOSAI, November 2007.

The CBC/IDI cooperative audit programme

In 2012, the UK Department for International Development (DFID) funded a program of support in conjunction with the INTOSAI Capacity Building Committee (CBC) and the INTOSAI Development Initiative (IDI) to further the aims of the CBC in developing guidance on different areas of SAI capacity development. In particular, the programme provided an opportunity for SAIs to influence the work of the CBC to more effectively cater to the needs of SAIs. The CBC/IDI program was conducted globally in five INTOSAI regions from 2012-2015.

CBC guidance currently covers:

- ***Cooperative Audit Methodology***
- Improving impact of SAI Reports
- Human Resource Management / Professionalisation of SAI staff
- Business Continuity Planning
- Peer Review
- ISSAI Implementation Strategy.

Programme Objective

The objective of the CAROSAI audit programme was to:

improve SAI's professional staff and organisational capacity to conduct and report on audit of revenues / revenue departments

Expected Outcomes of the programme:

SAI Level outcomes

- *All participating SAIs commit to conducting pilot audits and reporting on the audit*
- *Cooperation agreements with SAIs*
- *All six SAIs plan and conduct cooperative audits*
- *SAI teams nominated to participate in the programme*
- *6 SAIs publish/table their audit reports.*

IDI Level Outcomes

- *At least 12 SAI professionals are trained in ISSAI based audit methodologies following cooperative audit approach*
- *Compendium of key findings and lessons learnt is published.*

Expected Long Term Outcomes

- *Inclusion of audit reports on revenue departments as a regular feature in the annual audit plans of the participating SAIs*
- *Strengthened regional capacity to conduct value added audits leading to effective recommendations which are adopted by the executive*
- *Adoption of cooperative audit methodology by the CAROSAI region as a way of building and strengthening professional and organizational capacity of member SAIs.*

Cooperative audit objective and individual SAI objectives and scope

The overall cooperative audit objective was to:

> ***Assess the effectiveness of the management of (audit focus – VAT, income tax, business tax) in (country X) by examining key aspects of the revenue collection process:***
>
> 1. ***Registration;***
> 2. ***Collection;***
> 3. ***Compliance and enforcement; and***
> 4. ***Monitoring and Reporting.***

This objective was sufficiently broad to enable audit teams to tailor their audit to ensure its relevance to the individual jurisdiction as well as to ensure the manageability of the audit process given the resources available.

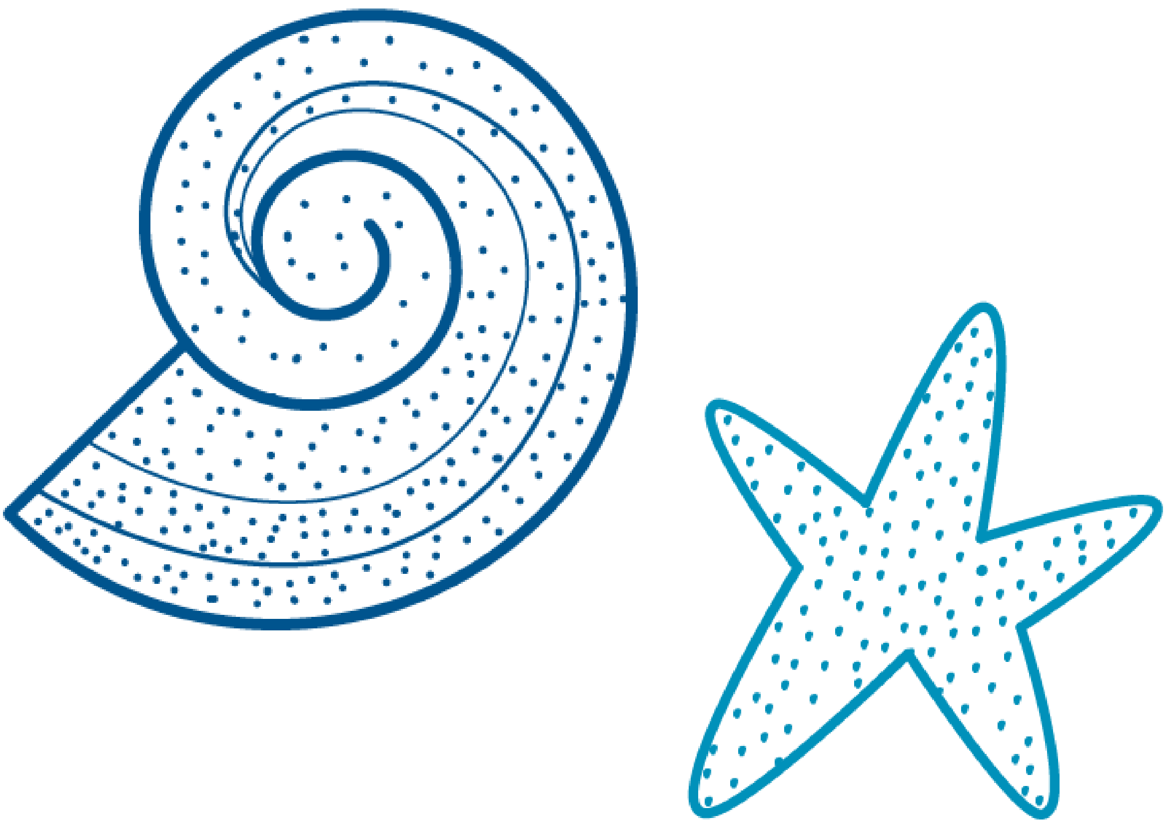


Table 1.1 SAI audit objectives and scope

SAI	Audit Objective	Audit Scope
The Bahamas	To assess the effectiveness of the IT management being used by Customs Department and Department of Inland Revenue for revenue systems under their management	Review of general control environment of IT systems in relation to IT governance, IT security and Business Contingency Planning and Disaster Recovery.
Barbados 1.	To assess the effectiveness of the management of accounts receivable of the Inland Revenue Department, specifically whether the Department had adequate systems, policies and procedures in place to collect taxes owed to the Department and reliably measured and reported on the effectiveness of the collection efforts	The period under review covered 1 April 2011 to 31 March 2013
Barbados 2.	To determine whether the Value Added Tax Division was effective and efficient in managing their accounts receivable	The audit focused on the management of the accounts receivable by the VAT Division for the period 1 April 2013 to 31 March 2014
Grenada	To assess the effectiveness and efficiency of Inland Revenue Department's Management of Personal Income Tax Services to the Self Employed	
Guyana	To assess the administration of registration and de-registration for Value Added Tax (VAT) in Guyana	
Jamaica	To determine whether the Tax Administration of Jamaica (TAJ) was managing its operations effectively and efficiently to maximise the collection of property tax.	The audit covered the period from April 2011 to March 2016. The TAJ and the Ministry of Local Government and Community Development (MLG&CD) were the focus of the audit
St Lucia	To assess the effectiveness of the management of direct taxes at the Inland Revenue Department	The audit focused on the following direct taxes: Personal Income, Corporate Income, Withholding and Property Tax for the three year period 2011/12 – 2013/14

Note: Over the course of the audit, the SAI of Barbados decided to split their initial audit into two to better manage the audit process. This resulted in two audit reports.

Cooperative/parallel Audit Framework

The CAROSAI cooperative/parallel regional audit of revenue departments involved the following key steps as set out in the CBC guidance: Memorandum of Understanding (MoU); Pre-study on proposed audit pilot; Audit Planning Meeting; Pilot Audits; Review meeting, Post programme activities and programme evaluation. The framework is presented diagrammatically below.

Figure 2 – Cooperative/parallel audit Framework

November - December 2013	•MoU signed between SAI management, the CAROSAI Secretariat and IDI defining the program objective, activities and expected outputs and outcomes
January - February 2014	•Prior to planning meeting the audit teams prepared a preliminary study on the Tax and VAT situations in their countries. This enabled teams to identify risks to the effective management and collection of Government revenue
February - March 2014	•Each audit team presented the findings of the preliminary study to identify common auditable issues. Audit teams with the assistance of experts and peer review developed an audit workplan suitable to their jurisdiction
April - July 2014	•Audit teams conduct the pilot audits according to the agreed audit plan and methodology
August - September 2014	•At the review meeting, teams presented the results of the pilot audits and with the assistance of the IDI experts commenced drafting their reports
January - December 2015	•Individual SAI reports tabled in respective legislatures
June - November 2016	•IDI and CAROSAI report to Governing Board /Congress on the programme. IDI prepares a regional compendium of lessons learned and good practices

Support provided to the audit

The audit was a combined effort involving the IDI and the CAROSAI Secretariat. The Heads of the participating SAIs provided leadership and direction to their audit teams over the course of the audit. In addition to oversight by the IDI programme manager, IDI provided the following technical support to the audit teams:

- Mr Manjit Lal – a specialist tax auditor from the UK NAO;
- Mr Madhev Panwar – an IT audit specialist from the US GAO; and
- Ms Claire Kelly – a cooperative audit specialist from the Pacific Association of Supreme Audit Institutions (PASAI).

Structure of regional compendium

This regional compendium showcases achievements against the key objectives for this programme, set out above. It reports the challenges faced to raise the capacity of public auditors in the Caribbean region, particularly when auditing the complex interaction of legislative and administrative requirements to provide a sound revenue base. The structure of this regional report is set out in the following table.

Section 1	Background to the audit • Caribbean nations and revenue collection • Introduction to cooperative auditing • CAROSAI programme objective • Regional audit objective • Individual SAI audit objectives • Audit Framework • Support provided to the audit
Section 2	Summary of key findings of individual audits organised by theme
Section 3	Lessons learned from the pilot audit experiences and the Way Forward
Appendix 1	Extracts from individual SAI reports including: • Audit objective and scope • Audit Conclusion • Recommendations

SECTION 2

Key Findings

This section presents key findings across the thematic areas of: risk assessment, the collections management internal control environment and related activities, and monitoring and reporting.

Introduction

The audits undertaken by CAROSAI member SAIs focused on the management of the collection of outstanding taxes across a range of taxes including property tax, VAT, personal income tax and corporate tax. The terms used in the audits to refer to the collection of outstanding amounts varied: accounts receivable, management of arrears, collections management and strategy. For the purposes of this section, the term collections management is used to describe the administrative process for the recovery of outstanding taxes.

The collections management process typically involves a series of steps that can escalate to enforcement action. Initially the collections management agency would correspond with the debtor either by mailing notices, contacting the taxpayer by phone, or sometimes visiting them in person. If these actions fail to recover the amounts owed, the agency has the option of other enforcement measures such as garnishments or registering liens and warrants for seizure and sale of the taxpayer's property.

The key findings of the regional compendium are derived from the published CAROSAI cooperative/parallel audit reports. Each of the audits considered the robustness of the management framework concerning the four basic tax compliance obligations of citizens and businesses that are generally administered by all revenue bodies in accordance with their respective tax laws. This includes (i) registering for tax purposes, (ii) filing tax returns on time, (iii) correctly reporting liabilities and (iv) paying taxes on time. Compliance can be voluntary or through a range of enforcement procedures in accordance with relevant legislation. As a consequence, monitoring and reporting on the effectiveness of the control environment is a crucial component of the control framework. The comparative findings across the reports are organized into areas of mutual interest for the participating SAIs and broadly fall into the following categories:

- **Risk assessment** including at both the organisational and process level and whether an analysis of these risks drove the design of the control environment (Key Findings 1–4)
- **Control environment** including the policies and procedures designed to maximize the tax collected, the use of staff trained in legally compliant control activities, the clear delineation of roles and responsibilities in the debt collection process, and the use of IT systems support and a taxpayer communications strategy to assist in the effective management of debt collection. (KF 5-12)
- **Monitoring and reporting** including the use of performance targets to track and monitor control activities and also to support informed decision-making by managers ultimately responsible for an effective and efficient control environment. (KF 13-15)

The following diagram presents the interconnectedness of the components of the internal control framework.

Figure 3 – The Internal Control Framework

Source: adapted from an OECD's Internal Control Framework schema.

Key findings from the individual SAI audits are illustrated. Individual SAI audit conclusions and recommendations are presented in Appendix 1 to this compendium.

1. Risk assessment

Risk assessment is an essential component of the collections administration internal control framework. This is because it provides the necessary information to properly design complete and cost-effective controls. A sound risk assessment also provides the basis for ensuring responsibility for managing risks is appropriately allocated to managers. Managers need to understand the risks of non-compliance with relevant tax laws and manage these risks through the control environment. Better practice suggests that the control framework is based on a risk assessment of the agency and its customers and that this is recognized in control framework documentation by detailing the risk factors.[2]

Managers also need to ensure that a complete and cost-effective collections administrative control environment is established to properly support the organisation's overall objectives.

Each tax administration agency would be expected to have completed a risk assessment at both the organisational level (agency, programme) and at the process level (function, task).

Business risks

Each of the individual audits reviewed the risk assessment approach of the agency under audit and found that overall there was no comprehensive effort to assess the risks of not meeting the business objective of the entity. There was a poor correlation between the stated objectives and strategies of the entity and a documented analysis of its related business risks.

KF 1 – Risk assessment was not used as a tool to ensure that the agencies responsible for managing collections understood the risks posed to their business and did not develop appropriate mitigation strategies to manage the impact of these risks.

ILLUSTRATION 1

The SAI of the Bahamas found that no risk assessment study or an analysis of the impact of risks to their business was carried out by the agencies it audited. The SAI recommended that such a study be carried out so that each agency could identify critical areas and prioritise them according to risk and the likely impact to the Department.

There was a positive response from management to the recommendation, which indicated that suitable corrective actions would be taken.

Compliance with applicable tax laws was another high level risk factor identified in a number of the audits conducted. This risk was heightened where the collections management agency had to co-ordinate enforcement action with another agency, for example the court system. Inevitably the cost of collection increases where other agencies are involved.

2 ANAO, 1997, *Management of the Accounts Receivable Better Practice Guide*.

Stakeholder confidence in the administration's ability to apply the tax law fairly and transparently could be diminished where gaps emerged in the effective operation of enforcement activities. In addition, there would be a revenue shortfall and collections management agencies would experience difficulty in meeting their annual targets. The design of the control environment should address this risk.

KF2 – The risk of poor co-ordination of collection actions with other agencies was not sufficiently recognized in the majority of jurisdictions audited. The lack of recognition of this key business risk impeded the design of a high quality control environment to support the efficient and fair collection of outstanding taxes.

ILLUSTRATION 2

The **SAI of Jamaica** found that limited access to the court system impeded the process of summons and litigation against delinquent property taxpayers as well as the corresponding seizure of assets.

Process level risks

While it is important that management has a good understanding of organisational risk, a further enhancement of the risk assessment activity specifically related to the management of the debt collections function is required. Formal process level risk assessments provide managers with the requisite knowledge to not only manage the risks and the associated opportunities that arise but provide them with a better understanding of control issues and how they can be managed effectively and efficiently. Process level risk assessments provide the basis for the subsequent design of all aspects of the control environment.

Risk profiling (compliance risk assessment) was a key process driven risk assessment discussed with the audit teams at the planning meeting for the cooperative CAROSAI audit. It involves developing an understanding of the characteristics of different groups of taxpayers with outstanding balances and assists to determine which accounts to pursue. This helps to target and tailor administrative compliance and enforcement responses to maximise results using available resources.

KF3 Risk profiling of delinquent accounts is not sufficiently developed to support the design of a cost effective collections strategy to maximize the collection of outstanding tax.

ILLUSTRATION 3

The audit by the **SAI of Barbados** of the efficiency and effectiveness of the Inland Revenue Department (IRD) found that an informal risk profiling approach was used. This involved examining historical data from past experiences with known taxpayers to determine which taxpayers the Compliance Unit would pursue. Despite this, there were still significant numbers of taxpayers with large outstanding balances and the number was increasing incrementally during the period under audit.

The **SAI of Barbados** also audited the efficiency and effectiveness of the Value Added Tax (VAT) Division's management of its outstanding debt. The audit noted that there was a significant amount of information on its system to support the risk profiling of registrants. The audit found that risk profiling was used to segment debtors with similar characteristics into groups. Groups were then profiled according to the level of risk of non-payment. These activities could potentially drive stronger collection efforts targeting those taxpayers profiled as posing a higher risk of non-collection. However, the Division allocated debt management cases based on values and the same collection process was followed regardless of the value of the debt.

The findings across both audits highlight the different approaches to risk profiling as a means of optimising the collection of arrears. This is important as during the course of the audits a new collection authority was created – the Barbados Revenue Authority (BRA). The operations of the IRD, the VAT Division, the Land Tax Department and the Licensing Authority were amalgamated under the new authority. In the context of changes to the administration of revenue in Barbados, the SAI's audit results are timely and should be influential in ensuring that the BRA's approach to collection management is better practice and uses risk profiling of taxpayers to direct collections efforts across its various tax bases. The Revenue Commissioner indicated that the recommendations in the report would be used in setting up the collections department of the Authority.

Aging analysis of outstanding debt

An important process driven risk assessment complementary to risk profiling is an aging analysis. Being able to segment outstanding debt into age categories allows specific compliance and enforcement responses to be developed depending on the age of the debt. Best practice suggests that the age of the debt is influential in determining what collection strategy provides the best likelihood of recovery. Once a debt is two or more years old, it is usually deemed uncollectable. This provides management with the opportunity to maximise staff resources by targeting those categories of debt, which are potentially collectible while writing off uncollectable debt. It is also important that the performance of different collection strategies is monitored.

KF 4 – Analysing the age of a debt was not a technique used by the majority of revenue departments audited. This meant that the risk of not appropriately designing compliance and enforcement strategies to maximise debt collection was increased.

ILLUSTRATION 4

The **SAI of Barbados'** audit of the VAT Division found that 57 per cent of the VAT debt obligations at 31 March 2014 were five or more years old. This was valued at approximately $265 million. The audit suggested that the VAT Division follow international better practice by developing criteria to guide writing off bad and uncollectible debt. This would allow for debt to be fairly and accurately reported. The development of guidance of this type could be a focus pursued by the newly created Barbados Revenue Authority across all of its tax categories.

Conclusion

Risk assessment is the lynchpin of a well-designed Control Framework. The revenue agencies audited had not undertaken the necessary risk assessments at either the organisational or process level, and, as a result, were not in a position to develop strategies to manage these risks. It is advisable that the revenue agencies audited undertake, as a priority, a process level risk assessment. This will have a significant impact in the short term supporting revenue agencies to maximise their revenue collection. Over the long term, a robust risk assessment will also assist to ensure that the debt collections function is appropriately designed to support overall organisational goals concerning revenue collection.

2. The Control Environment

A collections management control environment is fundamental to effective management of an agency's debt collection efforts. The control environment should clearly set out collection management responsibilities and promote sound management principles, including continuous improvement through monitoring the effectiveness of the debt collection approach. Comprehensive and up-to-date policies and procedures are basic to a better practice control environment.

An effective control environment also ensures collections management policies, procedures and practices are aligned with overall corporate strategies and objectives.

For the purposes of this regional Compendium, lessons from the individual audits were considered under the following four main attributes of an effective control environment for the collections management function:

- **Process**—collections management's policies and procedures (SOPs) should be complete and effectively communicated to all staff responsible for actioning them;
- **Personnel**—high quality and experienced staff, with their responsibilities and accountabilities clearly defined, effective on-going training and communications programmes support staff in the performance of their duties;
- **IT**—the technology used within the collections management function should support all the elements of the established control framework and be 'fit for purpose'; and
- **Communications with taxpayers** – promoting voluntary compliance with the tax system is an important incentive to encourage public confidence in the impartiality and transparency of the system, potentially reduce the tax gap and drive down the cost of recovery.

Process

Agencies responsible for collections management have policies and documented procedures in place to guide the function. Typically, the policies and procedures provide sufficient guidance for staff to perform daily tasks in a consistent manner and all debtors are treated fairly.

KF 5 – In most jurisdictions audited, documented policies and procedures were not complete and often not compliant with relevant tax legislation.

ILLUSTRATION 5

The **SAI of Jamaica** found that there was no standardisation of enforcement procedures across Tax Administration Jamaica's (TAJ) regional offices. This meant that, in some instances, interest was not applied to outstanding amounts when summons were issued for late payment. This resulted in a loss of revenue. The TAJ responded positively to this finding and recommendation and stated that a Standard Operating Procedure (SOP) would be developed and rolled out across its regional offices.

The **SAI of Barbados** in its audit of the VAT Division found that some debtors were issued with multiple demand letters calling for immediate payment but no follow up action was taken when the debts were not cleared. Under Section 72 of the Income Tax Act, Cap. 73 'failure to comply with the request to settle arrears' should result in the Department taking legal action or initiating other compulsory action as required by law.

Personnel

Agencies with a collections management function have appropriately qualified staff and a training regime in place to ensure relevant staff are aware of their responsibilities and how to carry out their tasks effectively to support corporate goals.

KF6 – The lack of staff adequately trained in current and more advanced collection methods limits the effective management of the collections function.

ILLUSTRATION 6

The **SAI of St Lucia** found that training in collection methods was not coordinated centrally leaving supervisors to identify individuals requiring training and developing training responses. In addition, there were no specialised training modules/manuals or other reference materials to guide officers in their collections actions. However, it was noted that in one collections section of the Inland Revenue Department (IRD) – corporation tax – the IRD was able to link increased revenue performance with specialised forensic training provided to the IRD auditors. This clearly demonstrates the significant revenue benefits derived from staff training and these benefits could be replicated across other tax categories with arrears. During the course of the audit, the relevant section of the IRD commented that the current training situation was not ideal and that they would take corrective action.

Staff roles and responsibilities for collection management tasks have been appropriately allocated within collection agencies, and have been adequately documented.

KF7 – Where the issue of clearly defined staff roles and responsibilities was examined, the audits found that job description documentation was lacking within the collections area to adequately identify staff roles and responsibilities.

ILLUSTRATION 7

The **SAI of Barbados** in its audit of the collections function of the Inland Revenue Department found that organisational arrangements for managing the collection of outstanding taxes were not clearly defined and that the roles and responsibilities of staff in the Compliance Unit could not be determined as no job descriptions were available. This seriously impacted any performance analysis of whether the structure of the Unit supported effective and efficient operations.

2a - IT support

Increasingly, general and application IT controls are being utilised in the majority of organisations with the objective to improve business efficiency and the effectiveness of service delivery. Improvements in these areas has also brought with it risks and vulnerabilities associated with computerised databases and business applications. A response to the increasingly computerised operations of governments and public sector organisations means that Information Technology (IT) Audit has become one of the central themes of audits being conducted by Supreme Audit Institutions (SAIs) including by CAROSAI member SAIs. Supporting this development, IDI and its Working Group on IT Audit (WGITA) have developed guidance and training modules to support SAIs to audit within an IT environment. The role of IT audit is crucial in providing assurance that appropriate processes are in place to manage the relevant IT risks and vulnerabilities. These controls need to be monitored to ensure that the systems and data stored in them remain secure.

At the planning session for this cooperative/parallel audit of revenue departments, participating auditors were introduced to the *WGITA/IDI Handbook on IT audit for Supreme Audit Institutions* by a member of the Working Group who also provided technical support and assistance on IT audit to participating SAIs. Because of this, the SAI of the Bahamas carried out an audit dedicated to select IT governance practices at the Customs Department and the Department of Inland Revenue in the Bahamas. Additionally, other audit teams applied aspects of the guidance to their audit work and revealed that an effective collections process was often hindered by inaccuracies in the agency' s computer systems. This section consolidates the findings of the audits in relation to information systems under three main headings:

- **IT support for business goals and operations** especially where staff were required to review a combination of computerised data and manual files;
- **IT support for business continuity** and IT infrastructure, and
- **Information security** - client data.

IT support to monitoring and reporting functions will be considered in the next part of this section.

IT support for business goals and operations
Collections management agencies use technology to support collections activities in a way that contributes to the agency's strategic objectives as well as ensuring cost-effective and efficient processing.

IT governance provides the overall framework that guides IT operations to ensure that it meets the needs of business today and that it incorporates plans for future needs and growth. It is an integral part of enterprise governance, and comprises the organisational leadership, institutional structures and processes, and other mechanisms (reporting & feedback, enforcement, resources etc.) that ensure that IT systems sustain organisational goals and strategy while balancing risks and effectively managing resources.[3]

KF 8 - Where agencies use IT systems as part of their control framework, a documented IT governance structure assists in meeting business goals and supports the effective use of limited resources. This was not always the approach adopted by the collections management agencies audited.

ILLUSTRATION 8

The IT audit conducted by the **SAI of the Bahamas** found that neither of their auditees had a formal IT governance structure to aid in the management of their business requirements. The SAI recommended that a formal structure be established to ensure this so that the IT systems could sustain organisational goals and strategy while balancing risks and effectively managing resources.

[3] WGITA/IDI, *Handbook of IT Audit for Supreme Audit Institutions*, p.18.

At least half of the audits published found that the efficiency of the collections operations was compromised where staff had to put in place a combination of electronic and manual processes.

KF 9 – The timeliness of collections actions was impacted where a combination of electronic and manual processes were required to pursue delinquent accounts. This reduced the probability of full collection of delinquent accounts and impacted on accurate record keeping.

ILLUSTRATION 9

The **SAI of St Lucia** found because the information system used by the IRD was unable to flag an account when payment was due, collections officers had to scrutinise the database to identify individual accounts where payment was due.

The **SAI of Jamaica** found that while a receipt for payment of taxes could be generated electronically, the 'official' receipt could only be provided when the client takes proof of payment to the office. This is not only time consuming for collections staff and for taxpayers but could also impact negatively on record keeping of actual payment.

IT support for business continuity

Government organisations have come to rely increasingly on the availability and correct operation of their computer systems in order to discharge their statutory obligations. Computer systems play an important role in such diverse activities such as the assessment and collection of taxes and customs revenues; the payment of state pensions and social security benefits; and in processing national statistics. In fact, many activities cannot be carried out effectively – if at all – without the support of computers.

Loss of power, industrial action, fire, and malicious damage can all have disastrous effects on computer systems. It may take many weeks for an organisation to resume effective business operations if they do not have a workable business continuity plan in place.[4]

Business Continuity Planning (BCP) is the process an organisation uses to plan and test the recovery of its business processes after a disruption. It also describes how an organisation will continue to function under adverse conditions that may arise (for example, natural or other disasters).

The audit conducted by the SAI of the Bahamas is the only one to examine BCP in the entities that it audited. However, it is worthwhile including this finding in the regional compendium as it is likely that as more collections processes are automated the issue of BCP and its effective management will become more prominent. This lesson could be useful to other jurisdictions as they improve the IT support functions in their operations.

4 WGITA/IDI, ibid, p.40.

KF 10 – While some action was taken by the audited entities to back up and store data off site, more was needed in terms of developing and documenting a clearly defined Business Continuity Plan and establishing clearly defined roles and responsibilities.

ILLUSTRATION 10

The **SAI of the Bahamas** found that while its audited agencies provided for the backup and off site storage of data, more could be done to formalise this including the development and documentation of a BCP with defined roles and responsibilities of 'who will do what' in the event of a disaster. This is to ensure that agencies can keep functioning with minimal disruption. Both auditees agreed with the SAI's recommendation concerning this.

Information security

Information Security can be defined as the ability of a system to protect information and system resources with respect to confidentiality and integrity. The protection of information and information systems against unauthorised access or modification of information, whether in storage, processing, or transit, and against denial of service to authorised users. Information security includes those measures necessary to detect, document, and counter such threats. Information security allows an organisation to protect its Information System infrastructure from unauthorised users. Information security comprises computer security and communications security.

A fundamental aspect of IT governance is the security of the information to ensure its availability, confidentiality and integrity.[5]

The security of client data whether it be held on an information system or stored manually received considerable attention in the CAROSAI audits. This was because of the importance placed on ensuring that sensitive taxpayer data remained secure.

5 WGITA/IDI, ibid, p.57.

KF11 – More attention to the maintenance of secure information is needed as agencies increasingly computerise sensitive client data.

ILLUSTRATION 11

The audit conducted by the **SAI of the Bahamas** found that the entities it audited did not have a formal security policy in place outlining the appropriate segregation of roles and responsibilities. While security training was provided verbally it was without the support of a training manual for staff reference. There was also the potential for unauthorised access to client data as communication between the HR and the IT sections on staff exits was not prompt. This meant that the termination of access codes was not always timely.

The **SAI of St Lucia** reported that the updated security policy for its information system was not provided to all staff increasing the risk that uninformed staff may breach its protocols and procedures.

2b - Communications with taxpayers – promoting voluntary compliance

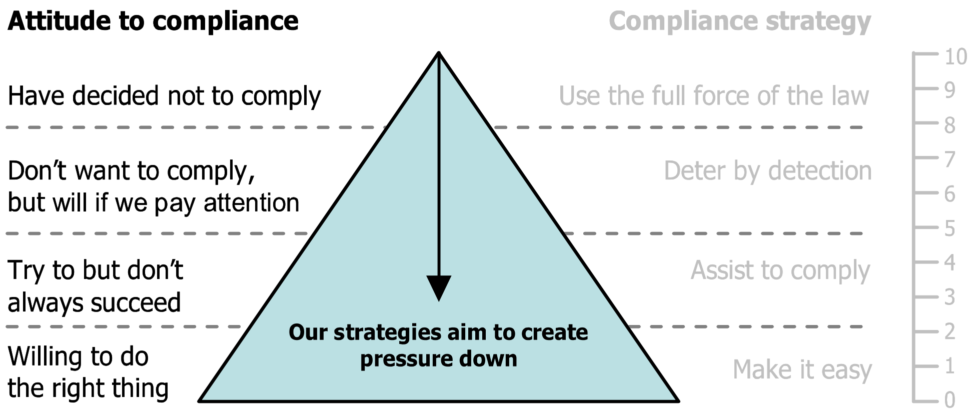
International better practice suggests that many revenue bodies have adopted both a business model that recognises the different factors that influence taxpayers' compliance and different strategies to achieve improved voluntary compliance. A number of revenue bodies have declared the pursuit of voluntary compliance as their main mission.

There is an opportunity to establish a more co-operative relationship between taxpayers and revenue bodies to facilitate higher levels of voluntary compliance. This relationship requires commercial awareness, impartiality, proportionality, openness and responsiveness by revenue bodies and disclosure and transparency by taxpayers in their dealings with revenue bodies.[6]

The diagram, depicted below, is known as the 'Compliance Pyramid' indicating a continuum of taxpayer attitudes to compliance, ranging from a 'willingness to do the right thing' (voluntarily comply) to 'having decided not to comply' (resist complying). It also illustrates the types of intervention appropriate for each attitude.

6 OECD, *Information Note – Tax Compliance and Tax Accounting Systems*, 2010.

Figure 4 – Taxpayer attitudes to compliance and compliance strategy response



Source: OECD.

A communications strategy targeting taxpayers will ensure that they are well informed about their tax obligations and are aware of the consequences of non-payment and the policies and procedures involved in the collection process. Where this is in place, the likelihood of voluntary compliance with tax obligations increases. It is important that tax agencies use the most effective means of educating taxpayers such as websites, TV and radio programs, newspapers and front desk help. On-going communications with different cohorts of taxpayers is especially important where legislative changes bring about alterations in tax obligations.

KF12 – Where communications with taxpayers were examined as part of the audits, the overall finding was that tax agencies did not have a sufficiently structured and comprehensive approach to taxpayer education to increase rates of voluntary compliance.

ILLUSTRATION 12

One of the corporate goals of the IRD of St. Lucia is to: 'advise the public of their rights and responsibilities and to encourage and achieve the highest possible degree of voluntary compliance in accordance with tax laws and regulations'. The **SAI of St Lucia** examined the taxpayer education activities of the IRD and found that there was no comprehensive strategy to guide the education activities to achieve its stated goal. As well, there was no feedback mechanism to measure the impact of any activities. Management agreed with the findings on taxpayer education and suggested that a new operational structure and corporate business plan (2014-17) would address this deficiency.

Conclusion

Agencies did not have in place a full suite of documented policies and procedures to guide debt collection activities. Clearly defined staff roles and responsibilities were lacking with little or no structured training provided to staff to assist them carry out their duties effectively and efficiently.

The use of IT systems to support efficient and effective operations was compromised. This was especially where a combination of electronic and manual interventions was required to identify and pursue delinquent accounts. It was common that revenue agencies' IT systems could not generate periodic management reports to inform decision-making.

Revenue departments audited did not have a structured approach to taxpayer education to increase rates of voluntary compliance. Little analysis was available on the costs and benefits of promoting voluntary compliance as opposed to costly enforcement actions. Such an analysis would be useful in developing cost effective compliance responses targeted to the characteristics of individual groupings of taxpayers.

To maximise revenue collection in the short term, the revenue agencies audited should, as a priority, ensure that documented policies and procedures are available to all staff and supported by a training programme. Over the longer term, the revenue agencies audited should review all aspects of their internal control environment, including IT systems support and taxpayer education strategies, to ensure it is 'fit for purpose' to support the achievement of the agency's revenue goals.

3. Monitoring and reporting

Monitoring and management reporting is a necessary activity to support the operation of an effective control framework. A well-established monitoring and reporting environment includes use of both periodic reviews, such as those undertaken by internal audit and external consultants, as well as in-built review mechanisms. The scope and frequency of monitoring activities will depend primarily on an assessment of risks and the effectiveness of on-going monitoring. The more robust the on-going monitoring is, the less need there will be for comprehensive separate evaluations at a later stage. It is also important to note that the effectiveness and appropriateness of the control framework can change as the environment changes and that monitoring assists in change management.

Performance measurement is a key tool by which organisations can monitor their performance. This includes the use of Key Performance Indicators at the activity level coupled with setting realistic and measurable organisational goals and targets. The practice of measuring a task or activity is integral to a continuous improvement environment. Performance measurement is also integral to the internal control environment as it helps an organisation identify process problems as they occur, often well before the problems adversely affect outputs and outcomes.

Performance information should be reported regularly to management to ensure that prompt corrective action is taken when required.

This part of the Key Findings Section consolidates findings across the audit reports in the following areas:

- **appropriate performance targets** are set;
- **regular monitoring procedures** are in place to measure performance against business process goals and objectives and promote continuous improvement; and
- performance information against these indicators is included in **regular management reports**.

Setting appropriate performance targets

The tax gap is defined as the aggregate amount of true tax liability imposed by law for a given tax year that is not paid voluntarily and on time. True tax liability for any given taxpayer means the amount of tax that would be determined for the tax year in question if all relevant aspects of the tax law were correctly applied to all of the relevant facts of that taxpayer's situation. [7]

At the aggregate level, the tax gap is the difference between the taxes that would have been due if all taxpayers had reported all of their activities and transactions correctly and the taxes that were actually collected. Because of this, the tax gap is a useful performance measure of the effectiveness of the tax system including its core functions of registration, assessment of liability, collection and enforcement functions. In this context the setting of appropriate and realistic targets, measuring actual collections against total obligations is crucial.

KF13 – No realistic tax performance targets based on an accurate assessment of total obligations were set by revenue agencies. This impacts the Government's revenue base.

ILLUSTRATION 13

The **SAI of Jamaica** found that annual property tax targets were set based on improving collections in dollar value rather than focusing on a more realistic measure related to the number of properties that should be paying tax. The audit revealed over two fiscal years that the amount collected represented only 45 per cent of total property tax obligations. Tax Administration Jamaica agreed that the targets should be more in keeping with total obligations and responded that the annual targets established in collaboration with other government agencies should more closely reflect the total obligations.

The **SAI of St Lucia** reviewed the Department of Inland Revenue's processes for setting targets and monthly collections projections and found that the Department did not use any proven tax forecasting methodology for corporate and personal income tax. Instead the process to set targets relied on historical data and professional knowledge and experience. This approach to setting targets means that the Department cannot provide assurance that it is collecting all of the taxes owing as prescribed by the tax law.

[7] Internal Revenue Service, US Department of the Treasury, *A report on Voluntary Compliance*, August 2007.

Regular monitoring procedures are in place

While the senior management of an organisation is responsible for the overall control framework, individual line managers can facilitate continuous operational improvement through taking responsibility for the framework within the areas of their control. Managers should be actively responsible for developing, assessing, maintaining and monitoring the controls within their own areas of responsibility.

Effective and efficient collections management requires a comprehensive and well-designed monitoring strategy including the setting of revenue targets, performance measures, frequency of monitoring and reporting against the targets.

KF 14 – Collections units in revenue departments were not guided by an all inclusive monitoring strategy that supported the provision of reports to senior management on performance as well as promoting continuous operational improvement.

Illustration 14

Both of the audits conducted by the **SAI of Barbados** into the administration of Inland Revenue and the VAT Division found that there were no performance indicators set for collections management. This meant that it was not possible to monitor the performance of this area or the efficiency and effectiveness of its collections processes. This limited any opportunity to identify where operational improvements could be made and efficiencies garnered.

The **SAI of St Lucia** analysed a sample of returns to determine the time lag between filing and assessment. The audit found that the lag was, on average, 29 months. Of these returns, 25 per cent had outstanding liabilities in excess of $400,000. This has important implications for timely and efficient tax collection. When arrears from these returns become 'old', the likelihood of arrears recovery becomes difficult and costly. This highlights the importance of having performance indicators in place so that operational performance can be monitored.

Performance reports to management are regular

Organisations use performance measures to ensure that management receives regular feedback throughout the collections management business process. Regular reporting on performance allows management to determine whether an organisation or part of the organisation is performing in accordance with agreed expectations.

Organisations should develop a suite of indicators that will measure progress over time. The effectiveness of the overall collections management process as a whole should be measured as well as the effectiveness of specific debt collection techniques.

Whatever IT system supports the collections management should have the capacity to provide regular reports and feedback to management as well as an 'incident' reporting function to alert management to emerging issues.

KF15 – Reporting on the performance of collections management activities was poor and did not provide senior management with an informed account of how well each of the debt collection activities was performing individually and whether together they were achieving overall collections management goals. It was common that the IT systems used by revenue departments could not routinely generate reports for management attention. Reports had to be produced manually.

ILLUSTRATION 15

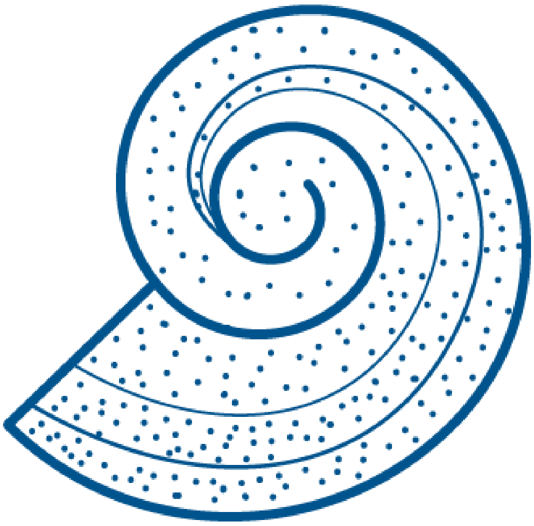
The **SAI of Barbados** in its audit of the Inland Revenue Department found that there was informal reporting at management meetings but no written reports were submitted to Executive Management. Neither the Compliance Unit nor the Investigations Unit produced reports for management on the success or otherwise of their debt collection activities or reported on the amount of money collected by each collections method.

The **SAI of the Bahamas** found that the IT systems of the two agencies audited did not produce 'incident' reports on a regular basis in order to monitor critical issues as they arise. Again this limited management's capacity to decide on the best course of action to address emerging problems.

Conclusion

Current management performance reporting mechanisms across the agencies audited did not enable management to exercise sufficient ongoing control over the debt collection function. In some instances high level revenue targets were set related to a predetermined value as opposed to an accurate assessment of total obligations. This impacts governments' revenue base.

The development of a monitoring strategy would provide immediate business benefits by ensuring that where ineffective processes in the debt collections function are identified, they are reported to management promptly so that remedial action can be taken. Over the longer term, regular management reporting based on monitoring the performance of the debt collection activities (with Key Performance Indicators assigned) would support management's responsibility to ensure the efficiency and effectiveness of its collections business operations.



Section 3

Lessons Learned and the Way Forward

This section outlines what lessons have been learned over the course of the CAROSAI cooperative audit and focuses on the capacity building experiences of participating auditors – what worked for them and where programme improvements could be made. It also suggests 'where to from here' for both CAROSAI member SAIs and IDI programme managers.

The objective for the CAROSAI cooperative audit programme was to:

- *Improve SAI's professional staff and organisational capacity to conduct and report on audit of revenues/revenue department.*

Self-assessment by programme participants of improvement in the level of knowledge and skills gained from the cooperative audit is an effective means of determining whether the objective of the audit was achieved.

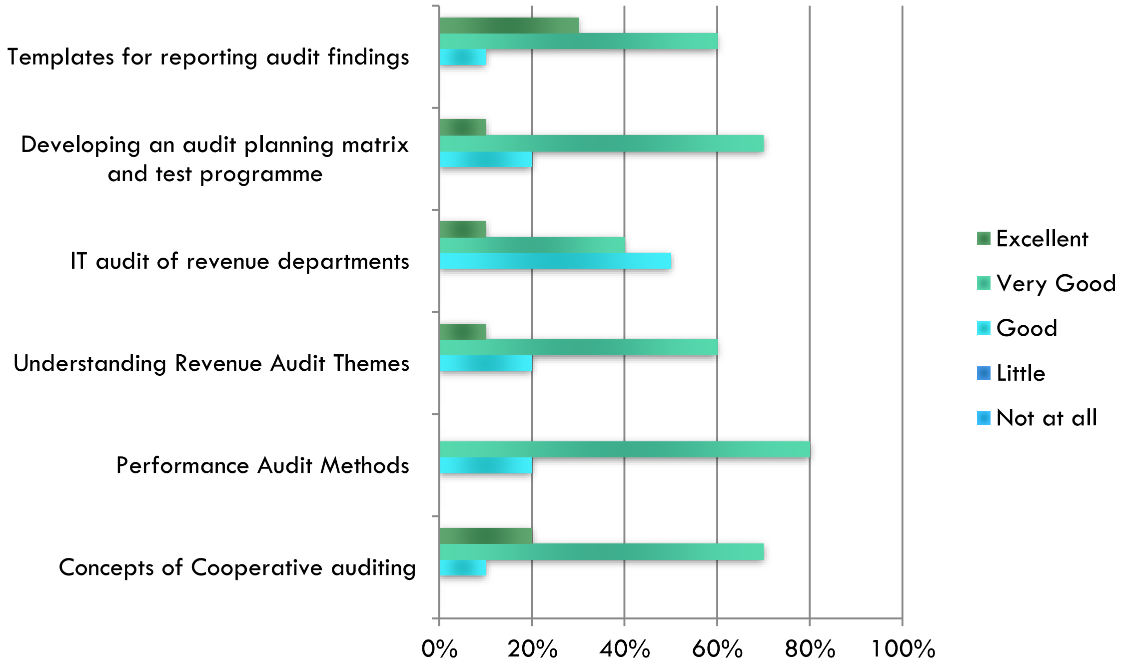
Lessons from the pilot audit experiences

At the conclusion of both the Audit Planning Meeting and the Audit Review meeting, participating auditors were surveyed about their experiences. This provides valuable input for future consideration about capacity building for CAROSAI members.

Survey results for the planning meeting

Participants were surveyed in relation to improvements in their knowledge and skills against the following core competency areas addressed at the planning meeting. The results are presented in Figure 3.1.

Figure 3.1 - Self assessed levels of improvement in key performance auditing competencies – audit planning



Across the range of competency categories surveyed, there was significant improvement in the level of skills and knowledge of participating auditors. Self-assessed ratings indicated an improvement across all the competencies.

Of particular interest, is the improvement in **understanding revenue audit themes**, with 60 per cent of participants rating themselves as having a 'very good' understanding and 10 per cent as 'excellent'. This level of understanding was a significant boost in confidence for the auditors involved and supported the successful execution of the audits.

There was also a substantial self-assessed improvement in two core competencies – **performance audit methods** (80 per cent 'very good' and 20 per cent 'good') and **developing and planning an audit matrix** (70 per cent 'very good', 20 per cent 'good' and 10 per cent 'excellent'. This enhanced understanding by participant auditors supported performance audit practice in the field.

Also of interest is the demonstrated improvement in how **IT auditing** could be used effectively in an audit of revenue departments. Post the planning meeting, auditors rated themselves as 50 per cent having a 'good' understanding, 40 per cent as having a 'very good' understanding and 10 per cent as having an 'excellent' understanding. Again confidence in using IT auditing skills was a critical success factor in the conduct of a majority of the audits. Participants commented that including aspects of IT auditing with performance auditing was an excellent approach. This suggests that any future cooperative audits that are proposed in the CAROSAI region should, where relevant, include an IT auditing component. In the long term, this cooperative auditing experience will enhance both the skills of individual auditors as well as improving SAI organisational capacity to conduct audits of relevance to their stakeholders.

Participants also commented that the practical demonstration of the use of the audit matrix and other templates provided at the planning meeting were most useful to them not just in the conduct of this revenue audit but also for future planned performance audits.

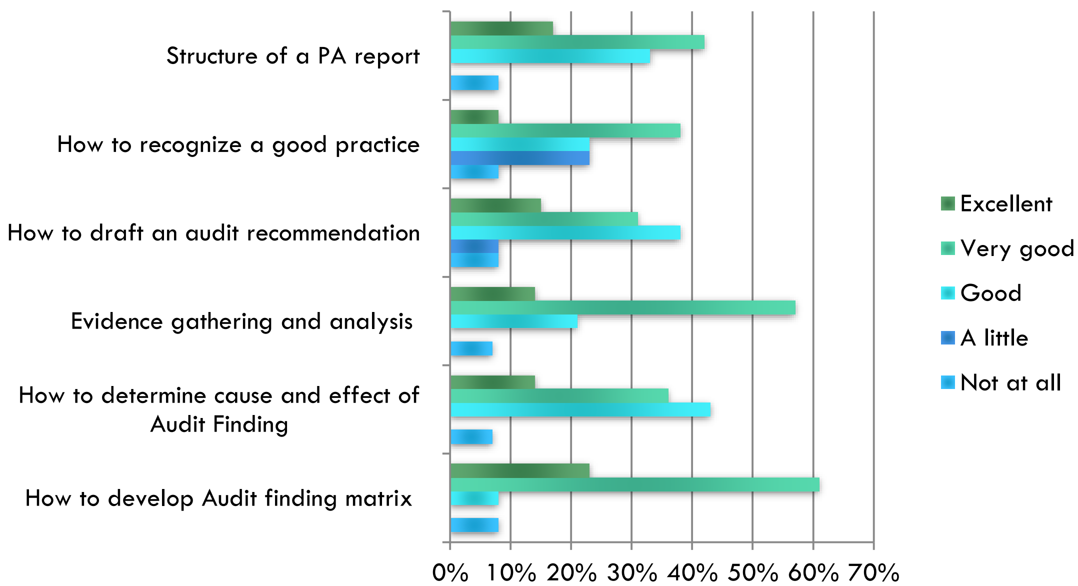
One participant commented:

> *Overall the planning meeting was beneficial. Being our first performance audit the planning meeting provided clarity into exactly what we were getting into. After getting over the nervousness and understanding what we had to do the planning meeting provided us with valuable guidance into what we needed to do and how we were going to do it with a desired result in mind.*

Survey results from the audit review meeting

Participants were surveyed in relation to improvements in their knowledge and skills against core performance audit reporting competencies. They self-assessed their improvement against their knowledge and skills in the competency areas prior to taking part in the planning meeting. The results are presented in Figure 3.2.

Figure 3.2 – Self assessed levels of improvement in key performance auditing competencies - reporting



Again results indicate that the majority of participants felt that their level of understanding and skills had improved significantly over the course of the Audit Review meeting. The results also indicate where more guidance and assistance could be provided to auditors, especially in the areas of drafting recommendations and recognising good practices. Participants considered that being provided with examples of good performance audit reports would be useful, especially where the IDI experts could guide them through the process of establishing a causal link between audit findings, recommendations and overall conclusion.

Half of all participants commented that they were able to 'completely' use the feedback provided by the IDI experts on their draft reports, while the remainder commented that they would be able to use the feedback to a 'Fairly large extent'. However, all participants were very satisfied with the process and special mention was made of the fact that the small size of the group allowed the participants and the experts to have a better focus and detailed attention to each of the reports. This is a useful lesson to inform the design of future Cooperative Audit Review meetings.

A positive result

Subsequent to the tabling of their revenue audit report, one audit team commented:

The expert guidance combined with the tools and templates provided had greatly assisted in the SAI's performance audit assignments and supported their SAI to conduct two additional revenue audits following the cooperative audit experience.

The Way Forward

There is no doubt that the first cooperative audit by members of CAROSAI was a capacity building success for participating SAIs:

- All participating SAIs committed to conducting pilot audits and reporting on the audit;
- A cooperation agreements between IDI and participating SAIs was facilitated by CAROSAI;
- SAI teams, comprising at least two auditors, were nominated to participate in the programme;
- All six SAIs planned and conducted cooperative audits; and
- Four SAIs have published/tabled five audit reports with two reports pending.

IDI expectations were also realised:

- At least 12 SAI professionals are trained in ISSAI based audit methodologies following the cooperative audit approach; and
- Compendium of key findings and lessons learnt is being published.

It is still a little early to assess whether expected long-term outcomes have been achieved. At least one participating SAI has indicated its interest in carrying out further audits of revenue departments.

Where do we go from here?

The cooperative audit approach has proven to be a sound methodological tool to familiarise auditors with ISSAI based performance auditing and in the case of this first CAROSAI cooperative audit to facilitate an understanding of IT auditing and its effective use in performance auditing. It is important that the momentum and enthusiasm for cooperative auditing fostered by this first CAROSAI cooperative audit is not squandered and skills and expertise lost. As with cooperative audits in other regions, audits of complex subject matter were designed and implemented using a cooperative approach. Technical experts provided valuable inputs to the planning and review process. This was combined with peer review. This is an important feature of cooperative auditing as it means that not only were auditors provided with technical advice but were also supported in the design of their audit by peers from comparable audit offices. As one participant commented:

The peer reviews were of great assistance to us. They were able to guide us in our audit by providing insight into conducting performance and IT audit based on their years of experience. Their assistance made our audit much easier to conduct.

SAI Heads who took part in the audit planning and audit review meetings as well as the audit teams expressed a desire to continue with the cooperative approach to auditing revenue departments for the immediate future and nominated the next tranche of possible cooperative revenue audits:

- **Bahamas:** audit of VAT implementation
- **Barbados:** audit of refunds
- **Grenada:** tax administration across streams
- **Guyana:** registration (self-employed) / VAT collection / corporation tax
- **St Lucia:** VAT administration (legislation) / IT audit of Standardized Integrated Government Tax Administration System (SIGTAS)
- **Jamaica:** customs admin (legislation)/ income tax, VAT, corporation tax (registration).

The knowledge gained about addressing capacity needs related to performance auditing and IT aspects of a performance audit from this first cooperative audit are useful to inform the design and delivery of a second cooperative revenue audit programme.

Appendix 1 – Individual Caribbean SAI audits

This Appendix presents the audit objectives, scope, conclusions and recommendations for each of the five published audit reports.

THE BAHAMAS
OFFICE OF THE AUDITOR GENERAL BAHAMAS

Title of Audit: *Performance audit of Selected IT Governance Practices at the Customs Department and Department of Inland Revenue*

Publishing details: http://www.bahamas.gov.bs/

AUDIT OBJECTIVE:

To assess the effectiveness of the IT management being used by Customs Department and Department of Inland Revenue for revenue systems under their management by:

- Assessing that suitable IT Governance mechanisms are in place and functioning as intended;
- Evaluating the reliability of IT Security; and
- Reviewing Business Continuity Policy and Disaster Recovery.

AUDIT SCOPE:

Review of general control environment of IT systems in relation to IT governance, IT security and Business Contingency Planning and Disaster Recovery. Overall governance by the Ministry of Finance was also assessed.

AUDIT CONCLUSION:

The Customs Department and Department of Inland Revenue are not effectively managing their revenue systems as stipulated in the WGITA – IDI Handbook. However, the departments are integrating other necessary mechanisms, systems and procedures to address their deficiencies.

AUDIT RECOMMENDATIONS:

IT Governance

1. We recommend that the Revenue Departments develop an IT Governance structure that fits into the overall Governance Strategy of the respective departments. IT Governance structure will help to ensure that the department's current as well as future needs are met. Also, it would ensure that IT systems sustain organizational goals and strategy while balancing risks and effectively managing resources. This will help to determine the control environment and set the foundation for establishing sound internal control practices and reporting at functional levels for management's oversight and review.

2. We recommend that the Ministry of Finance create a steering committee and make a decision on where to place this and its membership.

3. We recommend that management ensure that the IT Strategy of the Department fits into the overall business strategic goals of the Department. The IT strategy being developed should consider the current and future needs of the Department, and factor in the new systems ability to meet current IT capacity when implemented and future needs.

IT Security

4. We recommend that the Departments produce a documented information security policy and implement the policy.

5. Security training is essential in preventing unauthorized access and safeguarding of sensitive data entrusted to each employee. We recommend that the appropriate training be carried out with all employees from their initial hiring, and that follow- up training be carried out periodically.

6. We recommend that the IT Section at the Department of Inland Revenue increase the minimum length of the password from four characters to meet international best practices.

7. We recommend that the Departments produce incident reports on a regular basis in order to efficiently and effectively monitor issues arising. This would assist the department in identifying errors, omissions, negligence and other incidences and determine the best solution to address the problems.

8. We recommend that the HR Section notify the IT Section as soon as a person leaves a department to ensure that their access is cancelled and only authorized persons have access.

Business Continuity Policy and Disaster Risk Recovery

9. We recommend that the departments develop and document a clearly defined business contingency policy in the event of a disaster and for the protection of IT information. The Business Contingency Plan will establish clearly defined roles and responsibilities. This will answer the question: Who will do what? 'in the event of a disaster in order to keep the departments functioning with minimum disruption.'

10. We recommend that the Customs Department and Department of Inland Revenue carry out an impact analysis and risk assessment study. The study will allow the Departments to identify critical areas and prioritize them according to their risk and impact to the Departments. Then the Departments will be able to allocate resources (financial, human and time) according to their ranking.

11. We recommend that the Customs Department synchronize the machines as soon as possible and perform a full test for disaster recovery and document the results and the way forward. We also recommend that the Department of Inland Revenue prepare and test their disaster recovery plan.

BARBADOS
OFFICE OF THE AUDITOR GENERAL OF BARBADOS

Title of audit 1: *Special Report on Inland Revenue Department*

Publishing Details: http://www.bao.gov.bb

AUDIT OBJECTIVE

To assess the effectiveness of the management of accounts receivable of the Inland Revenue Department, specifically whether the Department had adequate systems, policies and procedures in place to collect taxes owed to the Department and reliably measured and reported on the effectiveness of the collection efforts.

AUDIT SCOPE

The audit focused on the management of the accounts receivable process for the Inland Revenue Department over the period April 1, 2011 to March 31, 2013. It should be noted that most of the information was gathered through the interview process as little physical documentation requested was received.

AUDIT CONCLUSION

Accounts receivables are a significant part of Government's financial assets. They are normally highly liquid assets, which directly impacts on Government's cash flow. To this end, the non-collection of the accounts receivables significantly affected the financial position of the Government.

The overall collection performance of the accounts receivables process was ineffective and inefficient evidenced by the significant rise in accounts receivables and the age of the outstanding balances. With the establishment of the Barbados Revenue Authority (the Authority/BRA), it is hoped that these issues will be addressed and the accounts receivables process greatly enhanced.

AUDIT RECOMMENDATIONS

It is recommended that the Barbados Revenue Authority ensure that:

(i) An accounts receivable management strategy is developed and implemented for these taxes. The strategy should align with the key aspects of the relevant legislation and include the following:

- Performance indicators for the Debt Collection Unit;
- An aging analysis policy on receivables;
- A risk profiling strategy for pursuing debtors;
- Operational guidelines for the staff of the Debt Collection Unit;
- Setting of targets and objectives for the Debt Collection Unit;
- Operational plans for the year;
- A training policy and manuals; and

- A communication strategy which ensures that all stakeholders are kept abreast of the account receivable management strategy.

(ii) Reconciliations are carried out on the accounts receivables balances between the consolidated financial statements and the records of the electronic tax system on a regular basis and in a timely manner;
(iii) The accounts receivable collection methods are followed as per the Income Tax Act, Cap. 73;
(iv) Action should be taken to have uncollectible amounts written off; and
(v) Policies and procedures are implemented to monitor and evaluate the work of the Debt Collection Unit especially the effectiveness and efficiency of the collection process.

BARBADOS
OFFICE OF THE AUDITOR GENERAL OF BARBADOS

Title of audit 2: *Management of the Accounts Receivable of the Value Added Tax (VAT) Division*

Publishing Details: http://www.bao.gov.bb

AUDIT OBJECTIVE

To determine whether the Division was effective and efficient in managing their accounts receivables. It examined:

- whether the Division has strategies in place to manage the growth in accounts receivables;
- whether the enforcement of the accounts receivables collection process is efficient and effective; and
- whether the Division monitors and reports on its performance activities by management.

AUDIT SCOPE

This audit focused on the management of the accounts receivable by the Value Added Tax Division for the period 1 April 2013 to 31 March 2014.

AUDIT CONCLUSION

Establishing an effective accounts receivable operation is necessary to maximize revenue collection. The lack of an effective accounts receivable management strategy has impacted negatively on the accounts receivable collection process of the Division.

AUDIT RECOMMENDATIONS

It is recommended that the Barbados Revenue Authority should:

(i) document its accounts receivables management strategy;
(ii) write off accounts receivables that are uncollectible;
(iii) create and use risk profiles of registrants in determining its strategies in pursuing the collection of receivables;
(iv) maintain and update operating guidelines and ensure they are consistently followed;
(v) ensure that performance indicators are established to assist in evaluating the performance of the unit responsible for receivables management;
(vi) put systems in place to ensure that collection is timely and that the enforcement tools available are fully utilised; and
(vii) ensure that the accounts receivables listing presented to the Audit Office reconcile with the controlled totals and the accounts receivables recorded in Government's financial statements.

JAMAICA
AUDITOR GENERAL'S DEPARTMENT

Title of audit: *Property tax collections and enforcement at Tax Administration Jamaica (TAJ)*

Publishing Details: http://www.auditorgeneral.gov.jm

AUDIT OBJECTIVE

To determine whether TAJ was managing its operations effectively and efficiently, to maximize the collection of property tax.

AUDIT SCOPE

Our audit covered the period April 2011 to March 2016 and focused on The Tax Administration of Jamaica (TAJ) which has administrative responsibility for the collection of property tax and its joint collaboration with the Ministry of Local Government and Community Development (MLG&CD) to increase property tax compliance.

AUDIT RECOMMENDATIONS

1. TAJ should expedite strategies to improve the accuracy of its property tax register thereby enabling greater efficiency in the use of resources for property tax collection and enforcement.

2. TAJ performance measure should also include a target to increase the number of compliant properties and specific milestones to achieve an optimal level of compliance.

SAINT LUCIA

OFFICE OF THE DIRECTOR OF AUDIT

Title of audit: *Inland Revenue – Direct Taxes*

Publishing Details: http:// www.auditstlucia.com

AUDIT OBJECTIVE

To assess the effectiveness of the management of direct taxes at the Inland Revenue Department (IRD) by examining key aspects of revenue collection.

AUDIT SCOPE

The audit focused on the following direct taxes for the past three years 2011/12 - 2013/14

- Personal Income
- Corporate Income
- Withholding
- Property tax

The key lines of enquiry were:

- The IRD's strategy to efficiently and effectively collect revenue and manage arrears;
- The IRD's strategy to promote and support voluntary tax compliance;
- The IRD' preparedness for revenue collection in terms of staff training; and
- The IRD's IT support for revenue collection and debt reduction.

AUDIT CONCLUSION

We conclude that the IRD was not effective in its management of direct taxes as it related to key aspects of revenue collection. We base our conclusion on the following:

Huge amount in direct tax arrears and no major strategy to reduce the debt - 60,377 accounts with a total value of $740,832,971 in arrears.

87% of the aged tax arrears for direct taxes were over two years old.

Enforcement activities only contributed 6.79% to arrears reduction and 1% to overall revenue collection.

IRD is unable to quantify the total arrears for property tax.

IRD has fallen short of its targets for the collection of direct taxes for all three years audited.

There were declines in Property tax collections in 2011/12 and 2012/2013 despite projections being reduced by 5 million for each those two years;

Taxpayer education needs strengthening.

The training regime to assist collection officers to improve productivity, employment attitude, efficiency and effectiveness was ineffective.

The version of the information system (SIGTAS) in use is old and outdated and does not effectively support tax administration.

AUDIT RECOMMENDATIONS

Tax Collection

To maximize collection and to measure the effectiveness of its collection efforts the IRD should:

- Develop and implement a comprehensive and robust strategy / action plan with a view to reducing arrears of revenue and keeping it at a minimum;
- Establish a risk methodology for prioritizing collection efforts. IRD should periodically assess this methodology to determine whether it is ranking accounts for action appropriately and consistently. The department should then develop guidelines to encourage collection staff to use the risk scoring to prioritize their work;
- Measure the tax gap and explore the use of proven tax forecasting methodologies for corporate and individual income taxes;
- Put measures in place to promptly identify and pursue delinquent accounts using all available collection and enforcement tools as guided by the Tax Act;
- During the conduct of an assessment of property, verify mailing address given by the property holder using tangible evidence such as utility bills etc;
- Develop and implement clearly defined benchmarks/targets and performance measures for collection, both for the collection section itself and for individual collection staff. The IRD should also have an action plan to correct any inefficiencies identified;
- Seek ways to make assessment of batches more efficient and timely;
- Seek professional assistance in converting and integrating the Property Tax data into SIGTAS or to invest in another suitable information system to adequately support the proper administration of Property Tax;
- Enforce the use of the exit certificate.

Promoting Voluntary Tax Compliance

The IRD should:

- Have a dedicated team or unit within its structure with the responsibility for taxpayer education;
- Develop a comprehensive plan or strategy for taxpayer education;
- Target educational campaign at taxpayers with a high risk of non-compliance. Develop a quality assurance system for taxpayers to measure and ensure feedback via telephone, e-mail, website, and social media;
- Justify and seek adequate funding for taxpayer education based on annual work plan.

The IRD's Preparedness for Revenue Collection (staff training)

The IDR through its HR section should co-ordinate all training and provide clear, centralized guidance to their staff particularly the collection staff through a comprehensive training regime. The regime should include documented needs assessment, training plan, reports and evaluations.

- Specialized modules, modules/manuals or other reference material should be developed to guide officers in their collection actions.

The HR section should actively seek opportunities to help employees diversify their skills or gain exposure to more advanced collection techniques.

Information Technology Support

The IRD should Continue to explore the possibility of acquiring a new system jointly with other OECS countries that use "Standardized Integrated Government Tax Administration System (SIGTAS) to minimize the cost of acquisition. The new system should be able support the following functions:

- property tax and audit functions generation of complete, accurate and up-to-date information on debtors' accounts to allow collections to capture defaulters as their debts becomes due;
- automatically flag and create a report with the following criteria including (1)accounts past the due date (immediately after the due date)(2)accounts past 15 days and (3)accounts past 30 days;
- Ensure that IT policies and procedures are circulated to all staff including any updates;
- Capture data relating to property tax in a format that would allow it to be inputted into SIGTAS-PT.