

RECORDER REPORT

**FBR will launch new audit framework: Shabbar**

ISLAMABAD: Chairman Federal Board of Revenue (FBR) Shabbar Zaidi said on Friday that FBR will launch new audit framework in the first week of October 2019.

According to a tweet of Shabbar Zaidi, a taxpayers' friendly, easy, simple and effective audit framework will be launched in the first week of October 2019. The purpose is to facilitate reasonable taxpayers. It will be designed to have a paradigm shift in tax culture.

Under the new audit framework, there would be least personal interaction, Shabbar Zaidi added.

For Tax Year 2017, the FBR had laid down 12 risk- parameters for selection of sales tax and Federal Excise cases for audit.

The FBR Audit Policy-2018 issued on April 4, 2019 revealed that the FBR has conducted computer ballot on parametric basis for selection of 2.3% of cases for audit out of the total filers after exclusions in Income Tax for Tax Year 2017. For Sales Tax and Federal Excise Duty (FED), the FBR selected 2.5% and 7.7% cases for audit respectively out of the total filers after exclusions for tax periods corresponding to accounting period adopted for the purpose of return of income for TY 2017 under the Income Tax Ordinance 2001.

The FBR Audit Policy-2018 said that advanced data analytics have been used to design parameters to make sure that only non-compliant tax payers are selected. As a result, the FBR has selected a small number of high-risk cases for audit compared to previous years. This year only 2.3% of total cases available for audit for income tax, sales tax, and FED have been selected through ballot compared with 7.5% cases selected in last year's ballot. Furthermore, the FBR has decided that taxpayers who have been audited in Income Tax in any of the preceding three Tax Years i.e. 2016, 15, and 14 and salaried individuals would be excluded from this year's Ballot. Similarly, taxpayers who have been selected for audit under Audit Policy 2017 for Sales Tax and FED have been excluded from this year's ballot, past audit policy added.

In its past report, Tax Reform Commission had recommended that a specialized but an independent unit should be created to conduct audit. This unit should have professionals who have been trained in audit skills, relevant tax laws and accounting standards. Desk audit of taxpayers should continue to be done with FBR field structure.

The TRC had further recommended that the annual return should be certified by the auditor in respect of the consumption of input with the notified limits. In cases where the consumption falls out of the ambit of the notified limits should be subject to audit by specialized audit cell. In order to enhance the transparency the audit report should be placed on website.

The TRC had recommended that as a tax administration has to deal with state-of-the-art aggressive tax planning schemes involving cross-border financial transactions, a tax audit solely comprising internally promoted auditors could encounter difficulties in detecting and analyzing these schemes effectively. Therefore, the FBR can also alternatively think of induction of mid-career recruitment of experience tax consultant with experience in law and accounting directly into higher grades. This measure would be an effective countermeasure and would also attend to the needs and of large taxpayer unit with large size clients.

The TRC had recommended that the system needs a complete overhaul to cater to the complexities and diversities of tax audit. Modern day tax audit requires resources in auditing, accounting, information technology, together with specialized sectorial knowledge. We strongly feel that audit function should be completely separated from rest of the FBR. A separate audit division needs to be created to plan and execute the work of audit, it added.

The national audit plan should be chalked out each year based on search and investigative work carried out by the Audit Division. The audit at the field formation should only be conducted under direct supervision, scrutiny by the division based on risk areas identified during enquiry work. There should be proper documentation of the audit process and the same should be carried out in a structured manner including a review by the supervisor before drawing any final conclusion, Tax Reform Commission added.