

Govt mulls separate internal audit wing

ISLAMABAD: The government is considering the creation of a separate tax audit wing for effective monitoring of the performance and effectiveness of various programmes, schemes, and activities as part of the ongoing reforms in the Federal Board of Revenue (FBR), a senior tax official told Dawn on Tuesday.

The proposed move is to take away internal audit policy formation and its implementation from the FBR.

“We have received several proposals regarding the function and administration of the new audit wing,” the official said, adding that universal self assessment always needs to be followed by an effective internal audit system.

Currently, internal audit is part of the FBR hierarchy and seeks approval regarding policy and its implementation.

According to the official, it was noted that the audit under the current set up mostly remained redundant and ineffective because it was not possible for the officers to come up with identification of violations being part of the same department.

As per the proposed plan, the internal audit wing will be stationed at the FBR with tax officers posted there. The audit wing will directly report to the finance minister, the officer said, adding many options are on the table for making separate rules for posting, transfers, administration and reporting line of all officers to be posted in the audit wing.

It is worth mentioning that government has already decided to establish a separate tax policy division and take away powers of policy from the FBR.

Internal Control assumes much greater importance, and must be designed in a more modern and scientific manner in order to ensure credibility and efficiency.

As per FBR policy, the main function of all departments of the board is to ensure the collection of due revenue for the federal government, and to check its leakage through evasion. An effective Internal Control, through Internal Audit, thus has a direct bearing on revenue. If it has a positive impact on revenue collection, it will be viewed as being useful and effective.

The primary function of Internal Audit is to evaluate processes that are in place to identify any weaknesses in internal controls that might lead to undetected errors or lapses. When any such weakness is identified it is reported to the line management for corrective action. The basic thrust of audit is not just detection of evaded duties and taxes but also over seeing that various provisions of the Acts, rules, regulations and procedures are being followed in true letter and spirit.

In the absence of any effective system, an ill-timed amendment was introduced in the Income Tax Ordinance which led to automatic selection of taxpayers for audit who failed to submit their returns timely in the last three years.

As a result of this, over a million late filers of tax returns are now receiving audit notices from the FBR field formations across the country. The late filers of tax returns for the tax year 2015, 2016 and 2017 were selected for audit under section 214D of the Income Tax Ordinance.

According to the officer, the government has done away with amendment in the Finance Act 2018. However, he said government is now considering various proposals to install an effective internal audit wing instead of harassing taxpayers through such amendments in future.

Mubarak Zeb Khan