2014 – Issue 20—For many companies, it happens every three to four years like clockwork — you receive a questionnaire or letter with those infamous words "you have been selected for a sales and use tax audit." Depending on the number of legal entities a company has and the jurisdictions in which it operates, the number of ongoing sales and use tax audits at any particular time can reach an unmanageable number.

Whether a company is operating with a robust tax department dedicated to sales tax or has a small team of tax professionals handling all tax issues, the impact can be equally overwhelming. How does a company maintain operational integrity in the daily job requirements and still adequately manage multiple audits? Where do you begin? You have monthly sales tax returns due, you are likely short—staffed, and every time you look at your desk the stack of audit notification letters keeps getting higher and higher. Relax — here are a few key ideas you can use to streamline the audit process and better manage your audit workload.

Organization Is of Utmost Importance

Maintaining organization in the audit management process is the key factor to effectively managing an audit. Typically, a company with a dedicated sales tax team has individuals focused on either audit or compliance, or both. When you are inundated with audit notifications, it is best to designate at least one and possibly multiple team members (if you have the staff) to audit management. Ideally, you should strive for consistency in the delegation of assignments. It can also be advantageous to assign a audit within one state or within a certain business operation to one team member. Doing so allows the team member to gain expertise in a particular jurisdiction or business operation, which can lead to efficiencies when reviewing schedules and communicating with auditors.

Once you have the audits assigned to a team member, the next step is to create a master spreadsheet listing all ongoing audits. Helpful information on the spreadsheet should include the following information: tax type, audit period, auditor’s name, statute waiver expiration date, taxing jurisdiction, preliminary assessment amounts, comments associated with the audit, and what stage the audit is in — ongoing auditor fieldwork, pulling documentation, etc. It may also be beneficial to prioritize each audit listed on the spreadsheet to establish which audits should be addressed first. This prioritization could depend on factors such as expiring waivers, anticipated assessments, the retirement of an auditor, etc. Having a priority incorporated within a master spreadsheet allows team members to focus their efforts on the most important audits.

Maintain Control Over the Audit Process

Now that the audits have been assigned internally, it is time to focus on controlling the flow of information that the auditor receives. The primary goal should be to make the auditor’s review of the company documentation as easy as possible. However, it is important to ensure that the company is not providing information that is outside the scope of the audit. Unless you are performing an internal audit or managed audit, it will be the auditor’s responsibility to perform many of the preliminary tasks involved in the audit fieldwork such as merging data received, tying control totals, validating accruals, reconciling data, etc. As a general rule of thumb, avoid providing data for periods that are not listed in the audit period. Furthermore, for local tax audits, if you are dealing with specific cities, counties or parishes, you should only provide the data associated with the jurisdiction codes related to the respective taxing jurisdiction.
What else can you do to maintain control and manage the flow of information internally? Design an audit checklist. This checklist can help the tax team identify key project milestones and monitor what information has been provided.

What should the checklist include? Typically, the checklist will include the following categories associated with a sales and use tax audit: data analysis and reconciliations, sampling design versus detail review, and the review of transactions. The checklist will also include an area where you can capture whether the task has been completed and the date of completion. Each main category will include subcategories or tasks related to the topic. For example, the data analysis subcategories may include the following tasks: general ledger – trial balance reconciliation, tax reconciliation, account activity, etc. Having a checklist and consistently updating it when information is transferred allows the team to confirm that key project milestones were completed, while also maintaining an audit trail.

**Maintain Positive Relationships With the Auditors**

The last and possibly most important area is responsiveness. One of the key attributes of a successful audit is establishing a good working relationship with the auditor. The simplest way to ensure that you get off to a good start is to respond to auditor requests in a timely way. Creating internal guidelines for communication can assist in this process. For example, you might begin by establishing a requirement that all team members strive to respond to emails and voicemails within 42 hours.

Auditors are never “welcome guests,” but the company representatives should try to treat them with kindness throughout the audit process. Also, avoid placing the auditor in an uncomfortable work environment; if you have the space, place the auditor in a dedicated work area with easy access to the necessary facilities.

Lastly, plan for when the audit is complete; be prepared to take action if the audit results are overstated or unreasonable. It is also best to have an idea going into the audit of what additional taxes might be due (or potential refunds). If the audited amount is not what you were expecting, be prepared to discuss potential recourse with the auditor.

These small changes in corporate protocol can go a long way in creating long-lasting relationships with tax auditors and potentially result in a positive audit result.

**Alvarez & Marsal Taxand Says:**

Managing multiple audits can be a daunting task for tax departments, as some audits can be time-consuming and may require an extensive amount of attention to ensure they are completed in a timely way. When team members are organized and take the initiative to implement internal processes to help track audit progress, it helps to alleviate some of the intimidation caused during the audit process.

Understanding the audit life cycle and what key tasks must be completed to perform an accurate audit are essential to controlling the flow of information. Tax team members should be focused on providing only relevant information within the scope of the audit review to prevent the generation of inflated assessments. Most importantly, being responsive to your auditor at all times throughout the audit life cycle can create a rapport that can last for several years to come. There is nothing better than having developed the trust and respect of an auditor who will be visiting you consistently every audit cycle.

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