

Tax Compliance Bureau Audit Standards

General Standards

- Auditors must maintain independence in mental attitude in all matters relating to the audit.
- Auditors must use professional judgment in planning and performing audits.
- The staff assigned to perform the audit must collectively possess adequate professional competence needed to address the audit objectives and perform the work.
- The staff assigned to conduct an audit should collectively possess the technical knowledge, skills, and experience necessary to be competent for the type of work being performed before beginning work on that audit.
- Auditors performing tax compliance audits should maintain their professional competence through continuing tax and audit training.
- A system of quality control should be designed to provide reasonable assurance that the Tax Compliance Bureau and its personnel comply with professional standards and applicable legal and regulatory requirements.

Fieldwork Standards

- Auditors must adequately plan the work necessary to address the audit objectives.
- Auditors should obtain an understanding of internal control that is significant within the context of the audit objectives.
- Auditors must obtain a sufficient understanding of the entity and its environment, to design the nature, timing, and extent of further audit procedures.
- Audit supervisors or those designated to supervise auditors must properly supervise audit staff. Audit supervision involves providing sufficient guidance and direction to staff assigned to the audit to address the audit objectives and follow applicable requirements, while staying informed about significant problems encountered, reviewing the work performed, and providing effective on-the-job training. The nature and extent of the supervision of staff and the review of audit work may vary depending on a number of factors, such as the significance of the work, and the experience of the staff.

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- Auditors must obtain sufficient appropriate audit evidence by performing audit procedures to provide a reasonable basis for the conclusions reached in the audit.

Documentation Standards

- Auditors should prepare audit documentation in sufficient detail to enable an experienced auditor, having no previous connection to the audit, to understand from the audit documentation the nature, timing, extent, and results of audit procedures performed, the audit evidence obtained and its source and the conclusions reached.

Ethical Principles

The ethical principles that guide the work of auditors who conduct tax compliance audits are:

- the public interest;
- integrity;
- objectivity;
- proper use of information, resources, and positions; and
- professional behavior.

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General Standards

- **Independence** – Auditors must maintain independence in mental attitude in all matters relating to the audit.
 - An auditor should not have business or personal interests that would interfere with his or her ability to evaluate taxpayer compliance objectively. Auditors should avoid behavior that would give even the appearance of favoritism or other impropriety. If an auditor develops a conflict of interest in relation to an existing audit, he or she should inform the audit supervisor. The audit supervisor will assist the auditor in determining the best course of action.
 - Demonstrated by:
 - Completion of Pre-Employment Authorization and Certification
 - Completion of Disclosure of Financial or Personal Interest when applicable
 - Completion of Supplemental Employment Request when applicable
 - Annual disclosure training
- **Professional Judgment** – Auditors must use professional judgment in planning and performing audits.
 - Auditors demonstrate professional judgment through:
 - **Reasonable Care** – acting in accordance with the standards and principles of the State of Michigan, the Michigan Department of Treasury, and the Tax Compliance Bureau

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- Following rules of ethical behavior. The State Ethics Act (PA 196 of 1973, as amended) contains guidelines for ethical conduct by public officers or employees.
- Complying with Tax Compliance Bureau audit guidelines and documentation requirements
- Respecting the rights of taxpayers (Taxpayer Rights During an Audit, Taxpayer Rights Handbook)
- Obeying the law (Revenue Act)

- **Professional Skepticism** – evaluating the quality of information provided by taxpayers and recognizing that information should not be accepted without some basis for reliance. Auditors should seek to verify the accuracy of a taxpayer’s assertions.
- Requiring oversight and approval of audit procedures by audit management
- Considering the source of audit evidence
 - Review of taxpayer’s relevant internal processes before accepting data as reliable
 - Request for supporting documents when necessary

- **Professional Competence** – The staff assigned to perform the audit must collectively possess adequate professional competence needed to address the audit objectives and perform the work.
 - Competence is the result of a combination of **education and experience**. Competence is required through:
 - Civil service job specifications
 - On-the-job training requirements
 - Evaluation via annual performance reviews

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- Auditors performing tax compliance audits should maintain their professional competence through **continuing tax and audit training**. Competence is developed and maintained by:
 - Required training in technical tax subjects each year
 - Refresher training as needed
 - Encouraging auditors to obtain advanced certifications and/or specialized knowledge
 - Internal instruction addressing changes to statute or case law

- The staff assigned to conduct an audit should collectively possess the **technical knowledge, skills, and experience** necessary to be competent for the type of work being performed before beginning work on an audit. Competence is demonstrated by:
 - Completing final evaluations following major tax training
 - Exhibiting mastery of applicable tax laws
 - Identification of relevant statutes
 - Knowledge of Department guidance
 - Research using authorized research tools
 - Familiarity with applicable Federal reporting requirements
 - Choosing and implementing appropriate audit procedures

- **Quality Control and Assurance** –
 - A system of quality control should be designed to provide reasonable assurance that the audit organization and its personnel comply with professional standards and applicable legal and regulatory requirements.

 - Policies and procedures should address leadership responsibilities for quality; independence, legal, and ethical requirements; human resources; audit performance, documentation, and reporting; and monitoring of quality

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Fieldwork Standards

- **Planning** – Auditors must adequately plan the work necessary to address the audit objectives.
 - Planning may require:
 - Adjusting audit scope and methodology throughout the audit as necessary
 - Evaluating provisions of significant laws, regulations, etc.
 - Requesting information regarding ongoing IRS audits
 - Identify impact on Michigan taxes
 - Reviewing results of prior audits
 - Other planning tasks include:
 - Communicating with taxpayer or taxpayer representative
 - Identifying sources of audit evidence
 - **Entity and Environment** – Auditors must obtain a sufficient understanding of the entity and its environment to design the nature, timing, and extent of further audit procedures.
 - **Internal Control** – Auditors should obtain an understanding of internal control that is significant within the context of the audit objectives.
- **Supervision** – Audit supervisors or those designated to supervise auditors must properly supervise audit staff. Audit supervision involves providing sufficient guidance and direction to staff assigned to the audit to address the audit objectives and follow applicable requirements, while staying informed about significant

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problems encountered, reviewing the work performed, and providing effective on-the-job training. The nature and extent of the supervision of staff and the review of audit work may vary depending on a number of factors, such as the significance of the work, and the experience of the staff.

- Supervision encompasses:
 - Staying informed about significant issues
 - Supervisors accessible via phone/e-mail during fieldwork
 - Reviewing work performed
 - Pre-review prior to issuance of the Notice of Preliminary Audit Determination
 - Final review
 - Multiple levels of review prior to issuance of Final Audit Determination Letter
 - Providing on-the-job training
 - Informal instruction
 - Team meetings
 - Assignment of senior auditors/lead auditors
 - Detailed feedback
- **Obtaining Sufficient, Appropriate Evidence** – Auditors must obtain sufficient appropriate audit evidence by performing audit procedures to provide a reasonable basis for the conclusions reached in the audit.
 - Appropriateness – quality of evidence
 - Relevance – Ensure that there is a logical relationship between the evidence and the auditor’s conclusions.
 - Validity – Evaluate whether the evidence is meaningful and serves as a reasonable basis for measuring tax due.
 - Understand evidence provided
 - Develop adequate knowledge of taxpayer activity
 - Reliability – Check for the consistency of results and obtain verification and support for findings.

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- Perform direct physical examination or computation when possible
- Review original documents
- Sufficiency – quantity of evidence
 - Greater audit risk requires a greater quantity of evidence
 - Stronger evidence may permit less evidence to be used
 - Volume does not compensate for lack of relevance, validity, or reliability
- Evaluate evidence for appropriateness and sufficiency
- **Documentation Standards** – Auditors should prepare audit documentation in sufficient detail to enable an experienced auditor, having no previous connection to the audit, to understand from the audit documentation the nature, timing, extent, and results of audit procedures performed; the audit evidence obtained and its source; and the conclusions reached.
 - Documentation serves to:
 - Provide principal support for the auditor’s findings
 - Aid auditors in conducting and supervising the audit
 - Allow for review of audit quality
 - Documented information includes:
 - Objectives, scope, methodology
 - Work performed and evidence used to support significant judgments and conclusions
 - Affirmation of supervisory review

Ethical Principles

All public employees must abide by the State Ethics Act (MCL 15.342), which corresponds to the ethical principles identified by Government Auditing Standards.

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The ethical principles that guide the work of auditors who conduct tax compliance audits are:

- **the public interest;**
 - A public officer or employee shall not solicit or accept a gift or loan of money, goods, services, or other thing of value for the benefit of a person or organization, other than the state, which tends to influence the manner in which the public officer or employee or another public officer or employee performs official duties. (MCL15.342(4))
- **integrity;**
 - A public officer or employee shall not represent his or her personal opinion as that of an agency. (MCL15.342(2))
 - A public officer or employee shall not participate in the negotiation or execution of contracts, making of loans, granting of subsidies, fixing of rates, issuance of permits or certificates, or other regulation or supervision relating to a business entity in which the public officer or employee has a financial or personal interest. (MCL15.342(7))
- **objectivity;**
 - A public officer or employee shall not engage in or accept employment or render services for a private or public interest when that employment or service is incompatible or in conflict with the discharge of the officer or employee's official duties or when that employment may tend to impair his or her independence of judgment or action in the performance of official duties. (MCL15.342(6))
- **proper use of information, resources, and positions;**
 - A public officer or employee shall use personnel resources, property, and funds under the officer or employee's official care and control judiciously and solely in accordance with prescribed

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constitutional, statutory, and regulatory procedures and not for personal gain or benefit. (MCL15.342(3))

- A public officer or employee shall not engage in a business transaction in which the public officer or employee may profit from his or her official position or authority or benefit financially from confidential information which the public officer or employee has obtained or may obtain by reason of that position or authority. Instruction which is not done during regularly scheduled working hours except for annual leave or vacation time shall not be considered a business transaction pursuant to this subsection if the instructor does not have any direct dealing with or influence on the employing or contracting facility associated with his or her course of employment with this state. (MCL15.342(5))

and

- **professional behavior.**
 - A public officer or employee shall not divulge to an unauthorized person, confidential information acquired in the course of employment in advance of the time prescribed for its authorized release to the public. (MCL15.342(1))