

Internal control system of the VAT receipt process

Key facts

The Swiss Federal Audit Office (SFAO) audited the internal control system (ICS) of the value added tax (VAT) receipt process in the VAT Main Division of the Federal Tax Administration (FTA), where receipts amounted to CHF 22.6 billion in 2013.

An existing and effective ICS protects federal assets, prevents or reveals errors and irregularities in accounting and ensures proper use of federal funds. The audited processes are vital for assessing the existence of ICS at the overall federal level.

In May 2014, the Federal Employees' Association published an employee survey. In this survey, various technical shortcomings were listed in the way the VAT Main Division performs its tasks. Due to the report of the Federal Employees' Association, the existing audit mandate was extended. The technical remarks were examined. The focus was on the question of whether the activities of the External Audit Division were risk-oriented and effective.

Net receipts of the External Audit Division amounted to CHF 85.5 million in 2013. A multi-year comparison shows that these net receipts have been falling since 2006. The main reason for this is the “pragmatism article” introduced in 2006 in the Value Added Tax Ordinance (VATO), which led to the Administration no longer being able to confront the entity subject to VAT with additional claims on just formal grounds. As a result, credit notes were issued for many checks which had already been completed in the period from 2006 to 2008. Then in 2010, the revised VAT Act was introduced, which led to a further decline in the net receipts of the External Audit Division. The framework conditions for the VAT Main Division to conduct checks deteriorated following the revision of the VAT Act: the requirement to find proof is increasingly dealt with by the FTA, e.g. in the case of missing accounting, missing records, insufficient turnover reconciliation and unavailable proof of export. This adversely affects the effectiveness and efficiency of the External Audit Division. Moreover, the chances of success in legal proceedings are reduced. Documents obtained as a result of conducted controls may not be used in subsequent criminal proceedings.

The VAT Main Division has made some progress since the last SFAO audits in 2010 and 2012.

- A comprehensive VAT strategy was prepared and approved;
- The risk-oriented selection and allocation of checks in the External Audit Division is proceeding in a manner which is satisfactory to good;
- In the Collection Division, checking of declarations is conducted in a more risk-oriented manner;
- Overall, the internal control system (ICS) with regard to the VAT receipt process is good. The defined ICS is being put into practice;
- The implementation of the defined ICS controls is, apart from some exceptions, comprehensibly recorded and documented.

The greatest potential for improvement is in the areas listed below which have to be tackled by the VAT Main Division and have in part already been acknowledged:

- Risk management should be inter-divisional. Combating fraud, new applications and litigation should also be integrated into risk management. FISCAL-IT's specialist requirements for risk management must be defined in inter-divisional terms.
- To improve risk analysis quality, additional data sources are required (cf. SFAO report "11391 FTA organisation and instruments for fraud detection and combating fraud in the area of VAT"). However, further expansion of risk management will be difficult to realise with the existing data and IT systems.
- The External Audit Division should adopt a more targeted approach on known systematic risks and errors. Considering the currently long audit intervals, putting up with some gaps might very well pay off.
- The audit actions and proof in the case of audits with no negative findings should be documented more systematically. It should also be clear how the risks which were identified prior to the audit were covered during implementation of the audit. This documentation should be checked within the scope of the review by the team leaders.
- The External Audit Division should increasingly harmonise and further develop the auditing methods. The use of data analysis tools and sampling concepts should be evaluated.
- The approval guidelines are not always adhered to in the Collection Division. The workflow is adjusted and fully automated using FISCAL-IT.
- The Legal Division should define clearer rules for handling decisions and information. More complex orders and information should be subject to two signatures.
- Access authorisation to financially relevant systems should be reviewed periodically. In this regard, the legislative compliance (e.g. tax confidentiality, data protection) of third party access authorisation must be assessed.
- The business identification number (UID) introduced on 1 January 2011 or the corresponding register of the Federal Statistical Office (FSO) should be used in future.

It is generally known that the FTA uses outdated systems with which tasks currently can barely be completed. The quality and efficiency of data capture and data evaluation must be improved with the introduction of FISCAL-IT. Auxiliary, time-consuming manual evaluations and checks are currently unavoidable. The SFAO will refrain from making specific recommendations on improving the old systems. The SFAO has taken into account findings in the report which should be noted when designing new IT systems. The SFAO assumes that these topics will be tackled systematically when FISCAL-IT is introduced.

In the case of the technical shortcomings in the VAT Main Division's task performance highlighted in the Federal Employees' Association report, the SFAO concludes that these shortcomings cannot be generalised:

- The External Audit Division's existing selection and allocation strategy is judged to be satisfactory to good.
- There is no conscious unequal treatment of taxpayers. Two cases dating from 2010 were referred by VAT Main Division employees to the SFAO in which unequal treatment had allegedly been committed by management after audits. In the SFAO's assessment, unequal treatment did not occur in either of the two cases. Those questioned are not aware of other cases.
- It is true that management decisions relating to the code of practice do not always encounter a sympathetic reception from inspectors and the responsible specialist groups. However, the process of establishing practice-based norms is structured and comprehensible.
- It is true that for inspectors the administrative activities have increased in comparison with the past. On the one hand, increasing amounts of data have to be collected for statistical purposes (amongst other things for upgrading economic statistics for determining flat-rate tax rates). Thus, there are practical constraints. On the other hand, certain information has to be recorded several times which must be judged as inefficient.

The most important findings from the interviews and the audit actions on specialist remarks from the Federal Employees' Association report is that there is potential for optimisation in VAT internal communication:

- In judging audit results, VAT process specifications must be complied with consistently. Conflicts of interest must always be avoided.
- Decisions and court judgements should be communicated to employees at a time and in a form more appropriate to the addressee and taking account of the background to the decision-making. This should make it easier for employees to understand decisions and to defend them to outside parties. Furthermore, the audit specialists should be increasingly involved in the expert groups.

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