

VIRTUAL AUDITS

Virtual Auditing

With states facing more and more budget restrictions and travel being one area that is being cut from their budgets, state auditing departments need to come up with innovative constructive ways of continue to perform audits on Motor Fuel Accounts without the cost associated of traveling to the Taxpayers location.

What are Virtual Audits?

Virtual audits are paperless, electronic audits that are conducted without face to face interaction between government and industry. All data is exchanged in electronic formats such as MS Word, Excel, PDF files, text files and EDI files.

Benefits of Virtual Audits:

- Cost savings and efficiency – travel expenses, cost and storage of paper files, and postage.
- Accessibility of data by all personnel within an organization – Audit, Appellate, Litigation, etc.
- Reduction of physical storage space
- Minimize the possibility of losing files
- Faster access to files and information
- No auditing standards, rules, or regulations that prevent use of paperless auditing systems
- Improved performance with consistent data capture and analysis
- Ability to link work papers and evidence directly to audit report
- Disaster recovery capabilities

Issues associated with virtual auditing:

- Audit review process may be more difficult
- Equipment needs such as scanners and monitors – budget issues, compatibility issues with different software types
- Storage capacity limits
- Getting electronic results to the taxpayer – secure email, secure mail box
- Fear of change – resistance to re-engineering of business processes
- Fear of technology
- Requires training and keeping abreast of software developments

What states need to address before performing virtual audits:

- Identify how long to retain records
- Identify when and how to back up files
- Uniform rules for naming and categorizing files
- Know the electronic recordkeeping requirements and professional standards of the IRS, other federal agencies, and state and local governments
- Security systems to ensure authenticity, prevent manipulation of data, and improper access to confidential information
- Strong upper management commitment and resources for automation

The audit process:

When a state decides to begin virtual auditing, management and auditors need to develop procedures that can be followed to ensure all virtual audits are conducted on a consistent basis. The state would need to develop a list of expectations for the taxpayer that would provide, in advance, information on how the virtual audit process is going to work and what their responsibilities are during the audit. The list of expectations should include: what data is required from them, expectations of response time for both state and industry for all methods of communication, the scope of the audit, and back up phone number and email addresses.

When human interaction is eliminated in this type of auditing extra time and care needs to be dedicated to the taxpayer. This is an integral step as one-on-one communication and hands on training is lost during a virtual audit and these have been vital for on location field audits. All parties involved in the process need to make sure they understand each other completely, or they need to make sure that they are asking questions before specific topics are closed or communication has ended. This type of auditing can lead to longer audits and a lack of focus by both the taxing authority and industry on completion of the audit. Both parties need to be committed to completing the audit in a timely manner and keeping deadlines as they come due.