

PP-2008-01
2/29/08

STATEMENT OF AUDIT PROCEDURE

ALL UNITS: PROCEDURES ENSURING A FAIR AUDIT

I. BACKGROUND

This SAP explains how auditors should handle audit findings that increase or decrease a taxpayer's tax liability. Audit Division staff is reminded that we contribute to the agency's mission by conducting quality audits that are fair, transparent and result in the determination of the proper tax liability.

This Statement of Audit Procedure reflects current Audit Division procedures and is not intended to change any existing policy or procedure.

II. PROCEDURE

Palm Card: At the beginning of an audit, auditors should include a palm card as part of its initial correspondence with the taxpayer, in accordance with PP-2008-3.

- The palm card will include the name, phone number and email address of the auditor, supervisor and manager.
- The card will list the issues to be reviewed in the audit based on our initial screening of the tax return. These issues may be narrowed or expanded during the course of the audit based upon analysis of the information gathered and reviewed during the audit.
- The palm card will also include the expected length of the audit and an explanation of the taxpayer's rights and obligations during the audit.

Review: Following established field audit procedures, the auditor examines the books, papers, records and other data available in connection with the audit. Where the auditor observes apparent errors or discrepancies, the auditor must diligently pursue such matters and, if appropriate, propose adjustments. An appropriate adjustment may either increase OR decrease the amount of a taxpayer's liability.

Refunds: The auditor or the supervisor may find that a taxpayer has over reported income or failed to claim all proper deductions or modifications to the tax base. The auditor must advise the taxpayer of such preliminary observations and work with the taxpayer to establish the proper tax liability. Notwithstanding, the auditor does not function as the taxpayer's tax advisor and it remains the taxpayer's responsibility to make all elections or judgments concerning his, her or its liability.

Taxpayer Explanations: To determine the proper tax liability, auditors will discuss the tax treatment of various items examined during the audit with taxpayers. The auditor should explain to the taxpayer that any workpapers, statements, findings or conclusions presented by the auditor are tentative and subject to review by supervisory personnel or by the Quality Management Support Group.

Notice of Proposed Tax Adjustment: Once draft workpapers are completed a copy should be sent to the taxpayer along with a Notice of Proposed Tax Adjustment (NOPTA). The NOPTA should include a description of each adjustment made and the increase or decrease in tax liability due to that adjustment.