



DEPARTMENT OF FINANCE AUDIT DIVISION

96-4-AU

6/1/96

STATEMENT OF AUDIT PROCEDURE

COMPUTER ASSISTED STATISTICAL SAMPLE FIELD AUDITS

I. BACKGROUND

Audits of large taxpayers require a great deal of field time because of the number of records that must be examined. Statisticians have developed methods of "sampling" (examining) a small portion of these records to establish whether the records accurately reflect a taxpayer's actual business activity. Using statistical sampling techniques in field audits can reduce the time needed to complete most large examinations.

In addition, most taxpayers maintain computerized records. These records may be analyzed using time saving computer programs. The Audit Division, in order to take advantage of both computerized records and statistical sampling, has developed procedures for computer-assisted and statistical sample field audits ("CASSFA"). A CASSFA is generally applied to one or more components of a taxpayer's return which may result in a change in tax liability.

II. SCOPE

This Statement of Audit Procedure will advise auditors how to identify a field audit case which is suitable for CASSFA. This Statement of Audit Procedure will also explain how to conduct such an audit.

III. PROCEDURE

- A. An auditor will work with his or her supervisor to identify possible CASSFAs.
- B. **STATISTICAL SAMPLE AUDITS** - Once it has been determined that the company's records are suitable for a statistical sample audit, which is an audit of all records by random sample of items throughout the audit period, the taxpayer will be asked to sign a form consenting to a statistical audit sampling method (see Exhibit A). This form must be completed by the taxpayer prior to the commencement of the statistical sample audit.¹

The Audit Division has prepared a description explaining the methodology used in a statistical sample audit (see Exhibit B). This shall be given to taxpayers along with the consent form. A recent New York State Tribunal case held that a taxpayer with accurate and complete records has the right to refuse a statistical sample audit (See Advisory Opinion, M-94507-006). If the taxpayer does not consent to a statistical sample audit, the auditor may be required to review all of the documentation of the taxpayer.

- C. **COMPUTER ASSISTED AUDITS** - Once a potential CASSFA is identified, the taxpayer will be

¹ It is not required that a consent form be signed prior to performing a CASSFA by a taxpayer who has not filed a return.

**COMPUTER ASSISTED
STATISTICAL SAMPLE FIELD AUDITS**

asked to complete the computer audit feasibility questionnaire (see Exhibit C). The Audit Control Unit will review this form to determine if the company's computer records are suitable for computer analysis. Where a taxpayer's records are inadequate, or if the taxpayer's computer records cannot be converted to a format that can be read with the Department's equipment, the Department may not conduct an audit using the CASSFA method.

- D. Auditors doing a computer assisted audit will ask the taxpayer to provide the computer records for all or some of the periods being audited, as determined by the auditor. The Audit Control Unit is responsible for performing the data conversion and analyzing the records.
- E. In all cases, the Department may discontinue a computer assisted audit if it determines that the data on the computer files are not complete or are otherwise inadequate.
- F. In some cases, a statistical sample audit of the "hard copy" documents that form the basis of a taxpayer's computerized records may be deemed necessary. In that case, both a computer assisted audit and a statistical sample audit may be conducted. The statistical sample audit of the paper records will be used to verify that the taxpayer's computerized records, which were based on the paper records, are accurate.
- G. The auditor will review the computer-assisted audit and/or the statistical sample audit results and use them (possibly in combination with other data found during the course of the audit) to determine any changes in the examined component of the taxpayer's return. Any change may result in a change in tax liability.
- H. All other review necessary to substantiate the remaining segments of the audit shall proceed according to existing audit procedures.