



Co-operative-style auditing of groups of companies¹



1. Principles of a co-operative-style auditing of groups of companies

The purpose of this concept is to motivate the people involved in an audit of a group of companies to co-operate voluntarily. People should be encouraged to realise that a co-operative approach can be of benefit to all those involved in the procedure. The aim is to build confidence through transparency and reliability while stressing common objectives.

The goal of a co-operative-style group audit is

- to conduct the audit as promptly as possible and
- to complete it swiftly
- with as little time and energy as possible for all those involved.

This presupposes optimal co-operation among all those involved and requires the full and voluntary support both of the management of the enterprise being audited and of the auditing authority above and beyond their statutory obligations. All those involved in the audit manifest their unreserved willingness to participate and support the joint project. The enterprise gives priority to the questions and requests of the representatives of the audit office. The main stages of the procedure should be co-ordinated with the enterprise as follows:

2. Preparation

Preparation for the audit is done by the auditors. They form an overall view by studying files and general information and reviewing information gained from the previous audit of the group.

¹(Based on a draft prepared by the Hamburg Tax Office for Large Enterprises)

3. Start

At the start of the audit there is a **structured opening meeting** with the representatives of the group; in the case of a follow-up audit, this can be done in the final meeting. All essential procedural steps and principles are co-ordinated and the advantages of voluntary co-operation as opposed to merely fulfilling the statutory obligations are pointed out.

Already at this stage the enterprise should be informed of the following:

- It may be possible to limit the areas to be audited.
- A certain timeframe can be set for completing the audit, provided those involved agree on a schedule for the audit. By accepting the audit schedule, the enterprise declares its willingness to participate in a co-operative-style audit of the group.
- Timing of the number of assessment periods to be audited can be agreed with the enterprise provided that the catch-up audits have proceeded to the mutual satisfaction of both sides.
- Mutual efforts to optimise common concerns are supported.
- Regular interim meetings are held to discuss the state of the procedure.

These advantages presume that the group lends its assistance beyond what it is legally required to do; the exact form which this co-operation is to take must be determined in each individual case. Among other things, it is highly desirable that the enterprise should adapt to the results of the audit and that this should be taken into account in the next tax returns.

4. Orientation stage

An orientation stage serves to identify possible focal points of the audit and the emphasis to be assigned to them.

In this first audit stage

- the auditors orient themselves based on the previous preparation with the aid of the material present at the enterprise,
- contact persons must be available from the tax department and from the specialist departments for consultations and to provide information of a general or specialised nature which can also be in response to specific enquiries,
- the material which the enterprise is legally required to provide (e.g. documentation of transfer prices) should already be available to the auditors,
- it is indispensable that the auditors should have unrestricted access to all hardware and software and all tax-related data,
- the enterprise is requested to make available other material which might be significant for taxation or useful for the audit,

● the audit service wishes to take into account information provided by the enterprise about itself in the talks between the auditors and the representatives of the enterprise. This concerns topics about which the revenue administration by no means has to assume that they have not been handled correctly for tax purposes. The goal is rather to facilitate at an early stage clarity about the application of the law. In the experience of the audit services suitable information provided by the enterprise about itself regularly helps considerably to expedite the course of the audit.

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5. Planning of the concrete audit

In the next stage those involved from the Tax Office, the specialised audit service and, if appropriate, the Federal Central Tax Office determine the topics upon which the actual audit should concentrate. Normally a selection is made from among a large number of areas which could conceivably be audited; this is then co-ordinated within the Tax Office and the resulting audit concept is approved by the hierarchy of the Tax Office.

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6. Planning talk with the enterprise

The focal points which have been elaborated for the audit are presented to the enterprise. In accordance with the project management procedure the staff and time required for these focal points of the audit are estimated and are fitted into an overall matrix with escalation management. This is to make it clear what the priorities of the audit are and how time is to be managed.

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This elaboration is presented in a special meeting with representatives of the enterprise. After a thorough discussion, the concrete audit schedule is co-ordinated with them. What is desired is that each party should display consideration for the legitimate interests of the other side throughout that course of the procedure.

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7. Audit actions with results, individual steps as required

The individual steps of the audit should if possible be taken in the time period planned and should be co-ordinated with the enterprise. The data access required must be ensured for the duration of the "actual" audit. In addition, all data relevant to the audit must be supplied to the auditors on data media.

During the audit stage the following may take place as required:

- specific requests relating to the audit,
- audit memos, notes for the files, statements,
- feedback discussions based on the interim results of the audit,
- audit notes presenting the results from the point of view of the auditors,

- clarifications, preferably final, of individual points with the enterprise.

The focal points of the audit elaborated in the previous stage of the procedure should if possible be dealt with within the time scheduled.

8. Regular meetings to review the progress made

The persons who participate in the audit hold regular meetings in order to

- produce interim results,
- present the status of the audit,
- quickly identify and solve any problems,
- discuss possible improvements,
- report on current developments,
- plan the further course of the audit.

The goal is to hold the talks in a mutually agreed cycle. If serious difficulties arise in the audit in progress this should be discussed at senior level between the enterprise and the audit office.

9. Adjustments in the topics may be necessary

It may be that the information gained results in further focal points of the audit; perhaps even to new priorities and to "changes in direction".

If in the course of the audit additional areas are identified for auditing, these should be notified to the enterprise in a spirit of trust and co-operation.

10. Final meeting

In the current view the final meeting is a customary procedural step which need not present any special features, in particular if the participants can succeed in clarifying individual points as they arise.

In addition there should be feedback on the mutual experience gained from the audit which is ending and suggestions for the next audit should be discussed.