

Financial audit of National Taxes in Norway

In their audit of national taxes, SAI-Norway use IT tools for data capture and monitoring. Asbjørn Moen scopes the problem and the describes the solution.

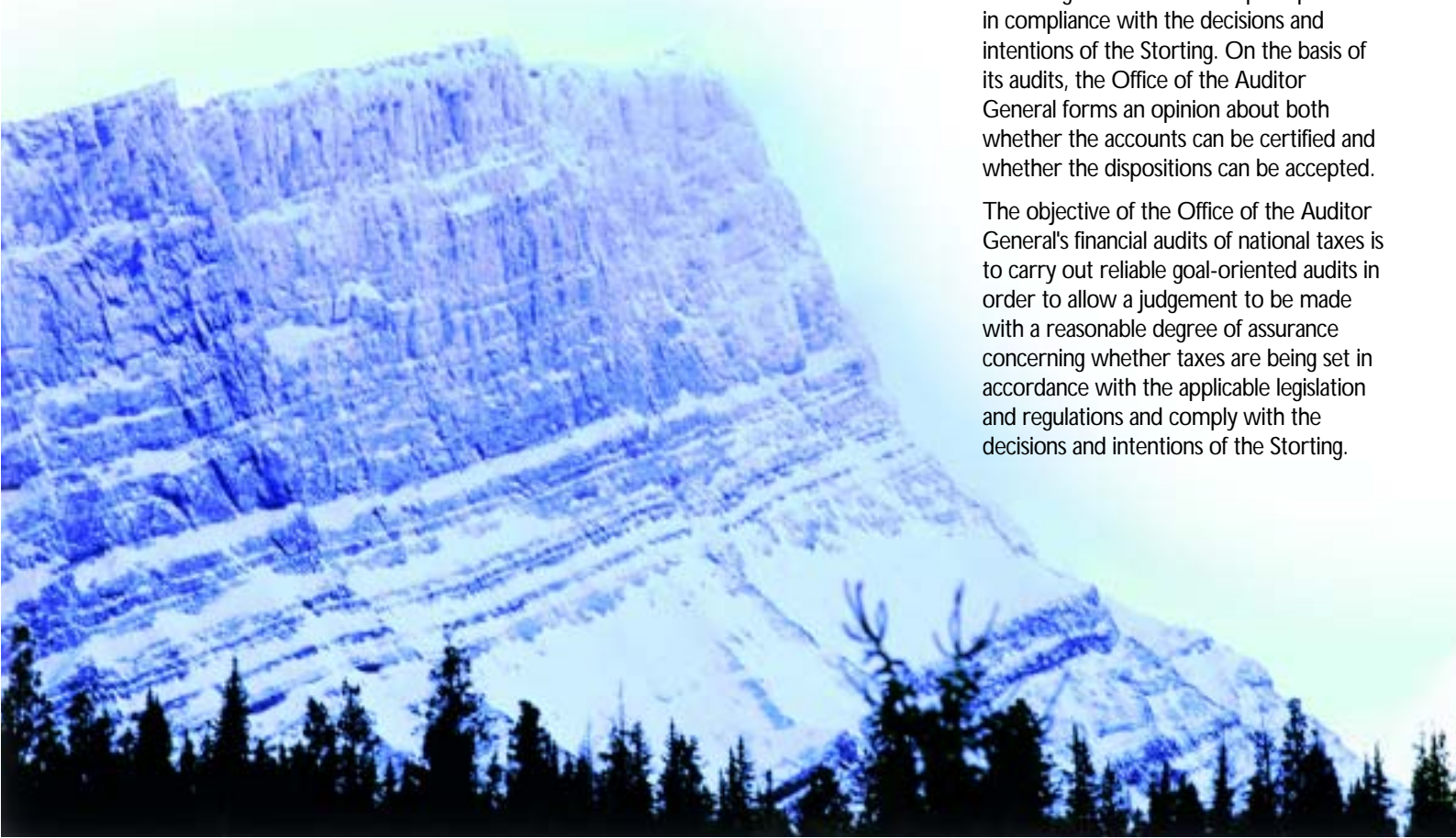
SAI-Norway

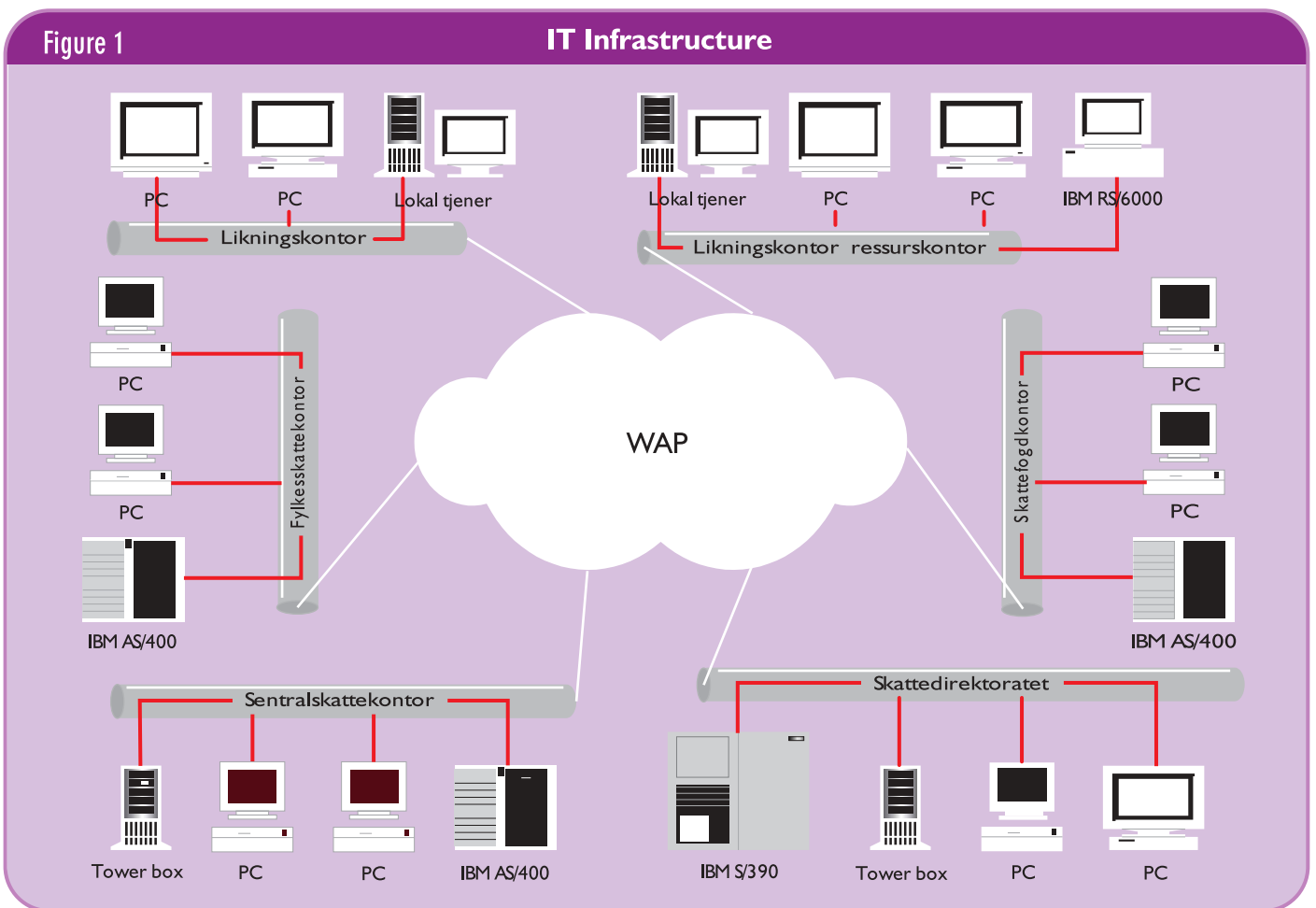
The Office of the Auditor General of Norway is the audit institution and supervisory body of the Norwegian parliament, the Storting, and is independent of the Norwegian government and public administration. Its auditing activities consist of two main areas: performance auditing and financial auditing.

Financial auditing

The purpose of the Office of the Auditor General's audits of the central government accounts is to check that the accounts give a true picture of the financial activities. Financial audit consists of monitoring that central government agencies have rendered accounts in accordance with the central government rules and regulations and ascertaining whether central government funds are being administered according to sound financial principles and in compliance with the decisions and intentions of the Storting. On the basis of its audits, the Office of the Auditor General forms an opinion about both whether the accounts can be certified and whether the dispositions can be accepted.

The objective of the Office of the Auditor General's financial audits of national taxes is to carry out reliable goal-oriented audits in order to allow a judgement to be made with a reasonable degree of assurance concerning whether taxes are being set in accordance with the applicable legislation and regulations and comply with the decisions and intentions of the Storting.





Organisation of the tax administration

The tax administration in Norway is organised into three levels (see Figure 1):

- central (the Ministry of Finance and the Directorate of Taxes);
- county (19 county tax offices - one in each region); and
- municipal (435 local tax offices - one in each municipality).

Tax base

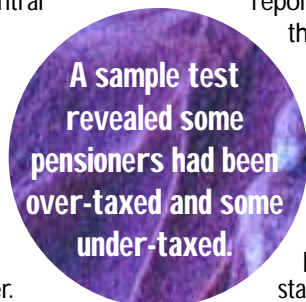
Approximately three million private taxpayers annually submit a tax return to the tax authorities containing information about financial matters, which is then used to calculate the tax due for the year. Approximately 300 000 taxpayers submit a tax return for self-employed people. In addition, approximately 130 000 corporate tax returns are filed each year. For the financial year 1998, total assessed taxes for the nation as a whole came to NOK 220 billion.

IT systems

The tax administration uses a number of custom-made computer systems. There is a central system in the Directorate of Taxes that is linked up to a local system installed in all of Norway's 435 local tax offices, see Figure 2. The central system includes the National Population Register, the central tax roll, the central tax calculation system, the central database of the figures that form the basis for the calculations and the central advance-deductions system. The local system is linked up to the DSB system (a computer-aided system to process tax returns), which is used to assess tax for each individual taxpayer.

IT equipment

Since 1995, the Office of the Auditor General has used IT tools that are linked up to the tax administration's computer network in connection with the financial audit of taxes. This allows the auditors access to information right down to the level of the individual taxpayer in the user systems in the local tax offices and the tax administration's national registers, including access to the tax administration's own report generator. The IT equipment that the Office of the Auditor General uses for these tasks is separate from the other computer systems in the Office of the Auditor General. The system is run on a Unix server with a tape drive located in the Office of the Auditor General's premises. There are five local work stations connected to this server, allowing the Office of the Auditor General access to the computer systems in the country's 435 local tax offices via the tax



authorities' computer network. Access can either be established directly with the local tax office or by means of the individual local tax office sending a tape containing the relevant information. The Office of the Auditor General also has access to the Directorate of Taxes' central mainframe computer, which contains the National Population Register (information about approx. 4.5 million inhabitants) and the national tax roll, the tax settlement for private taxpayers and the tax settlement for companies.

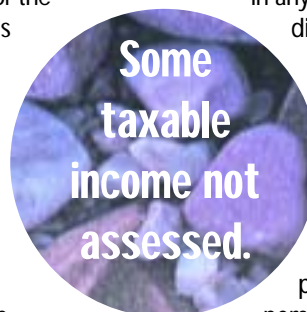
Available data

The Directorate of Taxes' database contains a great deal of information, including external basic data from banks, financial institutions, employers, etc. regarding individual taxpayers. This background information alone constitutes some 33 million statements per year.

These statements are necessary for the automated assessment of the taxpayer. The statements include, for example, statements of earnings and deductions from employers, payment of pensions, statements of balance and interest from banks and financial institutions, information about shares from the Norwegian Registry of Securities (Verdipapirsentralen) and information about life insurance, shares in housing co-operatives and shares in housing companies.

The monitoring possibilities afforded

The processing software that has been developed in connection with these systems provides almost unlimited

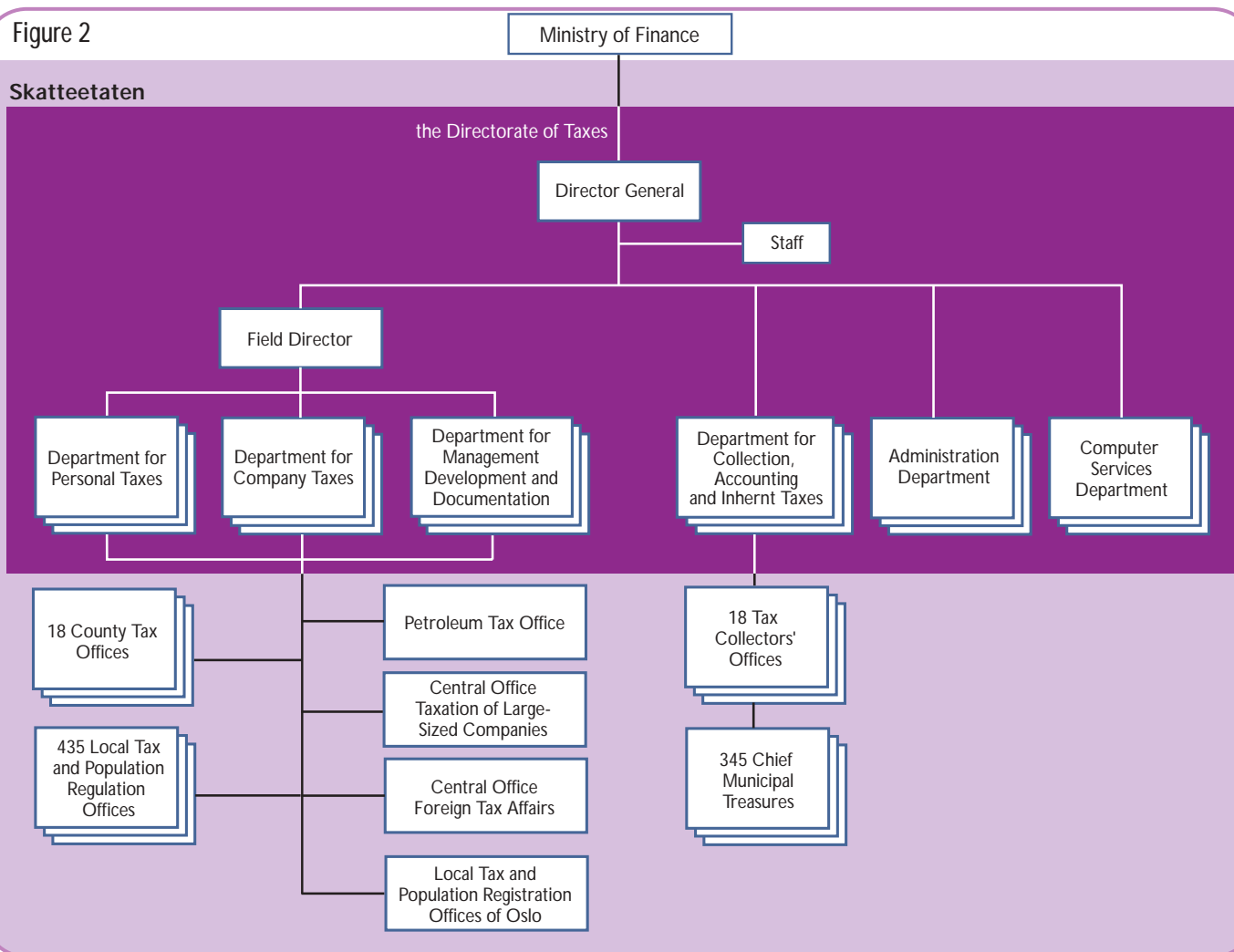


possibilities for automated checks and tests in any variety of combinations to detect differences that may indicate possible errors. Elements in the tax return that are subject to particular monitoring include pay and fees, earnings on remuneration to cover work-related expenses, pensions and other national insurance benefits, children's pensions, sick pay for self-employed persons and setting of personal income for self-employed persons.

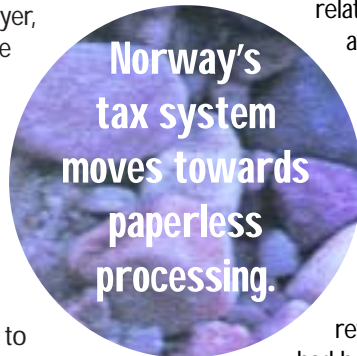
The scope of the audit

Each year, the Office of the Auditor General visits between eight and twelve local tax offices in connection with its audit of the tax assessment. Prior to these visits, the Office of the Auditor General has already performed extractions by using the report generator on the systems. A

Figure 2



number of lists of relevant areas for inspection are compiled, and the entries in the tax return that have been chosen for special monitoring are reviewed for a sample of taxpayers. The processing system enables the auditors to perform detailed tests on the individual entries in the tax return right down to the level of the individual taxpayer, generally with a high degree of accuracy and precision. Special tests have been developed to reveal instances of lost tax revenues and cases where a taxpayer has been taxed too highly. In addition, the auditors take advantage of the possibility to compare information recorded in several databases and systems in order to detect any errors or deficiencies in the tax settlement. By using computer tools, such as WinIdea and Excel Spreadsheet, and the report generator, the Office of the Auditor General is able to perform much of the audit work before it conducts spot checks on individual cases in individual local tax offices. This has led to a large increase in the scope of the audit, and now, by means of computer testing, it is possible for the auditors to check the details of the entries selected for audit for the entire population of taxpayers in an individual municipality. A further advantage of computer-aided testing is that the documentation is more reliable. Extensive use of computer tools entails that the tests performed are more target-oriented, meaning that the inspection visits take less time, thus saving costs.



Results

Below is an example of the results achieved by an audit using computer tools. In connection with an audit of tax levied on pensions and other social security benefits at eight local tax offices, we requested extracts from the computer system relating to pensioners under the age of 70 years for whom the figures submitted to the tax authorities by the pension funds concerning the amount of pension paid were higher than the amount on which the taxpayer was taxed. This test revealed that 182 pensioners had been overtaxed (representing a total of NOK 1.3 million) and 50 pensioners had paid a total of almost NOK 1 million too little in tax.

During an audit visit to a relatively large municipal tax office, one test on income from employment revealed that pay of a total of NOK 21.5 million had erroneously not been included in the tax assessment. This test was performed on one sixth of the total population of taxpayers in the municipality. At the request of the Office of the Auditor General, the tax office in question performed the same automated tests on the rest of the taxpayers in the municipality. The results of these tests indicated that approximately NOK 120 million of income from employment had not been taxed by this office.

Performance

The Directorate of Taxes has acknowledged the importance of the Office of the Auditor General's findings and

comments, both in relation to the Directorate's own experiences and to aid the quality assurance of the processing of tax assessments in the future. A number of measures have now been implemented in order to remedy the demonstrated errors and weaknesses in routines and guidelines, and these measures have helped eliminate a number of possibilities for error.

The Storting

Once the auditing procedures in connection with inspection visits have been completed, the Office of the Auditor General considers whether information about the detected matters should be forwarded to the Storting. Any circumstances that merit criticism revealed by the audit must first be presented to the audited agency for comment. If the matters are so serious that the Office of the Auditor General must report them to the Storting, the Ministry concerned must be given the opportunity to respond to the auditors' criticisms before the matter is submitted to the Storting.

The future

With regard to financial auditing in connection with tax assessment, the computer tools used have to date generally been used to monitor the assessment of private taxpayers (employed people etc.) by checking a sample of entries in the computerised system for processing tax returns (the DSB system). Once the new system for assessing self-employed people and companies comes into use in 2004, all accounts will be kept on computer systems and submitted to the Directorate of Taxes electronically. This will entail less paperwork for businesses, and the tax administration will be better able to verify details regarding self-employed people and companies. The new system will also make it easier for the Office of the Auditor General to carry out efficient audits in this area. ■

About the Author



Asbjørn has been employed at The Office of the Auditor General of Norway since September 1993. Prior to that he had seventeen years experience with the taxation authorities as a Senior Executive Office, and later as a Project Manager. Asbjørn currently works as an audit advisor in the tax assessment area.

The photograph shows Asbjørn in the "engine room" at the Auditor General's Office. The equipment, which is connected to the taxation authorities, consists of a Unix server, tape station, uninterruptible power supply and router.

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