

Chapter 23

Finance—Provincial Sales Tax Audit Selection Follow Up

1.0 MAIN POINTS

This chapter is a follow-up of recommendations from our *2007 Report – Volume 3*, Chapter 9, regarding the Ministry of Finance’s processes to select businesses for audit to promote compliance with provincial sales tax laws. At March 26, 2013, the Ministry of Finance has implemented all of our previous recommendations.

2.0 INTRODUCTION

Under *The Provincial Sales Tax Act*, the Ministry of Finance (Finance) collects a 5% provincial sales tax (PST) on certain consumer purchases. Finance collected \$1.32 billion in PST revenues in 2011-12 and expects to collect \$1.35 billion in 2012-13.^{1,2}

Effective management of the provincial sales tax system is crucial to achieving Finance’s strategies for a competitive tax system, optimized revenue to the province, and accountable financial and performance management. Finance conducts routine audits of taxpayer records to promote compliance with PST laws³ and to determine if taxpayers have reported and paid the correct amount of taxes.

This chapter describes our follow-up of management’s actions on two recommendations outstanding since our 2007 audit of Finance’s processes to select businesses for audit to promote compliance with provincial sales tax laws.

Our *2007 Report – Volume 3*, Chapter 9, concluded that Finance had adequate processes to select businesses for PST audit with some exceptions. We made five recommendations.

Our *2009 Report – Volume 3*, Chapter 7, reported that while Finance made considerable progress and planned for further progress, the recommendations were not met.

Our *2011 Report – Volume 2*, Chapter 9, reported that Finance had implemented three of the five recommendations and partially implemented the remaining two recommendations.

To conduct this review, we followed the *Standards for Assurance Engagements* published in the *CICA Handbook – Assurance*. To evaluate Finance’s progress towards meeting our recommendations, we used the relevant criteria from the original audit. Finance had agreed with these criteria in the original audit.

¹ Ministry of Finance. (2012). *Public Accounts 2011-12, Volume 1*, p. 73.

² Ministry of Finance. (2013). *Saskatchewan Budget Update 12-13. 3rd Quarter Financial Report*, p. 10.

³ *The Provincial Sales Tax Act and The Provincial Sales Tax Regulations*.



3.0 STATUS OF RECOMMENDATIONS

This section sets out the two outstanding recommendations, Finance's actions to March 26, 2013, and the status of the recommendations. We found that Finance has implemented these two remaining recommendations.

3.1 Desired Outcomes Identified

We recommended that the Ministry of Finance set the desired outcomes of the provincial sales tax audit selection process in measurable terms. (2007 Report – Volume 3; Public Accounts Committee agreement March 25, 2009)

Status – Implemented

In 2011, as previously reported, Finance had identified goals and related action plans that specifically related to PST audit selection but had not decided on which measures to use as the basis of measuring its progress in achieving those goals (performance measures).

Finance's Audit Branch is responsible for selecting and carrying out PST audits. Finance's 2012-13 Audit Branch strategic plan (strategic plan) includes 19 performance measures and targets related to its four business goals. Some of the measures are output measures (e.g., amount of audit revenue assessed, cost per direct audit hour, number of proactive outreach letters sent); others are outcome measures (e.g., audit satisfaction survey results). Although the Audit Branch's 2012-13 performance measures did not explicitly include a measure of the overall rate of taxpayer non-compliance (i.e., the "tax gap"), it continued to collect data to be able to measure and report on the tax gap.

The Audit Branch's strategic plan aligns with the *Ministry of Finance Plan for 2012-13*.⁴ This Plan includes a related strategy "Optimizes Revenue to the Province", a measure "Benefit-cost ratio of audit and compliance activities", and the following related key actions:

- ▶ Promote compliance with Saskatchewan's tax programs through quality service, taxpayer education, and responsible, effective enforcement
- ▶ Continue implementation of changes to the tax audit selection process to identify those businesses most likely to not comply with provincial tax laws and target audit resources accordingly
- ▶ Continue implementation of changes to educate those businesses identified as low to medium tax risk to improve voluntary compliance⁵

The selected performance measures sufficiently set out Finance's desired outcomes of the PST audit selection process.

⁴ Available from <http://www.finance.gov.sk.ca/PlanningAndReporting/2012-13/FinancePlan1213.pdf>. (2 May 2013).

⁵ Ministry of Finance. (2012). *Ministry of Finance Plan for 2012-13*, p. 3.

3.2 Reporting on Effectiveness of Audit Selection Process

We recommended that the Ministry of Finance require its senior management to receive reports on the effectiveness of the provincial sales tax audit selection process. (2007 Report – Volume 3; Public Accounts Committee agreement March 25, 2009)

Status – Implemented

As expected by senior management, the Audit Branch provided senior management with its mid-year report in December 2012. This report outlined the Branch's progress towards meeting goals and objectives outlined in its strategic plan. It compared actual results-to-date to planned targets for 17 of its 19 performance measures. For two performance measures (i.e., turnaround time for quality control review and percentage of staff who meet annual training hours), Finance continues to work on implementing processes to be able to collect data to report on these measures.

The Audit Branch's report includes additional contextual information (e.g., details of total revenues assessed, reasons why targets not achieved) to help senior management understand the results as compared to targets. Also, the report specifically describes actions taken for all of the Audit Branch's objectives and additional information on the performance measures.

The report provides senior management with sufficient information to enable them to assess the effectiveness of the PST audit selection process.