

INTRODUCTION TO AUDITING

A beginner's look at the basic steps of auditing. The fast track from the initial contact with the licensee, to writing the audit report when the audit is finalized.



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AUDITING (narrowly defined) is a written report on the examinations of records for a client.



* Auditors do not certify records, but report that based on the evidence provided the records are reliable.

BASIC IFTA AND IRP OVERVIEW

SIMILARITIES AND DIFFERENCES

DEFINITIONS

IFTA – INTERNATIONAL FUEL TAX AGREEMENT



An agreement between the lower 48 states of the United States and the Canadian Provinces, to simplify the reporting of fuel use by motor carriers that operate in more than one jurisdiction.

A motor carrier receives an IFTA license and one set of decals for each qualifying vehicle it operates.

DEFINITIONS continued

The carrier files a quarterly fuel tax report. This report is used to determine the net tax or refund due and to redistribute those taxes to the affected jurisdictions.

This tax is required for motor vehicles used, designed, or maintained for transportation of persons or property and:

- Having two axles and a gross vehicle hauling weight or gross vehicle registered weight in excess of 26,000 pounds, and/or

DEFINITIONS continued

- Having three or more axles regardless of weight
- Is used in combination, when the weight of such combination exceeds 26,000 pounds.
- Exceptions: recreational vehicles such as motor homes, pickup trucks with attached campers, and buses when used exclusively for personal pleasure by an individual.

RECORDKEEPING FOR IFTA

Each jurisdiction traveled in by a qualified motor vehicle receives a portion of the tax money based on the distance driven and the fuel consumed.

Licensee's are required to keep records that allow for the tracking of the distance driven by each qualified vehicle in each jurisdiction as well as the fuel records for all fuel purchased by each qualified vehicle.

Licensee's must keep the records for **four years** from the tax return due date or actual filing date, whichever is later.

DEFINITIONS continued

IRP – INTERNATIONAL REGISTRATION PLAN



An agreement among the 48 contiguous United States, the District of Columbia and 10 Canadian Provinces which provides payment of commercial motor carrier registration fees.

IRP's fundamental principle is to promote and encourage the fullest possible use of the highway system.

DEFINITIONS continued

Carrier's register in its "base" jurisdiction and receive one apportioned license plate and cab card for each one of their vehicles.

The apportioned license plate is issued by the base jurisdiction allowing for travel through all jurisdictions listed on the cab card.

DEFINITIONS continued

Vehicles are eligible for apportionment under the provisions of the IRP if they meet the following criteria:

- Intended for use in two or more member jurisdictions
- Is a power unit having two axles and a gross vehicle weight of 26,000 pounds (11,794 kg)

DEFINITIONS continued

- Is used in combination, when the weight exceeds 26,000 pounds (11,794 kg) gross vehicle weight
- Is a power unit having three or more axles
- A vehicle may be apportioned at a weight < 26,000 pounds

RECORDKEEPING FOR IRP

Each jurisdiction traveled in receives a portion of the registration fees based on the distance driven in the previous July to June period.

Registrant's are required to keep records that allow for the tracking of the distance driven by each qualified vehicle in each jurisdiction.

Registrant's must keep the records for **three (3) years** from the close of the registration year.

ANATOMY OF AN AUDIT

ANATOMY OF AN AUDIT

The Audit Process

(IFTA Manual A600) and (IRP APM Article 6 before July 2013 and Article 4 beginning July 2013)

- Audit Notification – At least 30 days prior to conducting a routine audit, the licensee should be contacted in writing and advised of the approximate date an audit is to be conducted and the time period the audit will cover. For just cause, the notification requirements may be waived.

ANATOMY OF AN AUDIT- continued

- Opening conference – outlining the licensee’s operation, audit procedures, records to be examined, sample period, sampling procedures, etc.
- Evaluation of Internal Controls/testing reporting weaknesses
- Entering distance and fuel into spreadsheets or databases and testing to mileage programs

ANATOMY OF AN AUDIT

CONTINUED

- Closing conference – outlining preliminary findings to include applicable penalty and interest, recommendations, rights of appeal, and identifying the person to whom the audit report should be addressed.

ANATOMY OF AN AUDIT CONTINUED

- Audit reports – communicate the results of the audit, showing adjusted distance, fuel and the monetary results. A report is given to the licensee and all affected jurisdictions. Some jurisdictions use one report to give to the licensee and another report to give to the jurisdictions. Others use one report to give to all.

PRE-AUDIT PLANNING

RISK ASSESSMENT:

Review any previous audits

Analyze IRP Applications

- Estimated distance
- Jurisdictional coverage
- Vehicle types
- Vehicle weights
- Fuel types

RISK ASSESSMENT:

Analyze IFTA quarterly returns

- Repetitive MPG's
- Rounded and or repeated figures
- Zeroing out the returns
- Exemptions claimed
- Changes in activity
- Seasonal activity
- Very low or very high MPG's
- Covering all jurisdictions involved

Comparing IFTA returns to IRP applications:

- Review the reported jurisdictions' distance reported by each program
- Review the number of IFTA decals to number of units registered under IRP
- Review addresses, contacts, etc.

Comparing IFTA returns to IRP applications: continued

- Review fuel types for IRP and compare to fuel reported for IFTA.
- Using your sample quarters for IFTA to cover your IRP audit periods

Jurisdictions may contact each other prior to the audit to obtain pertinent information regarding an auditee/licensee.

PRE AUDIT PLANNING

- Proper pre-audit planning enables the auditor to become familiar with the licensee/company and what was reported on the returns and applications.
- Comparing the returns and applications provides necessary information to effect a relevant and representative choice of sample periods and documents for the review. This analysis may provide an indicator of certain weaknesses in the reporting system that will require attention.

PRE AUDIT PLANNING - continued

- Effective communication during the initial contact and use of a questionnaire provides important information that enables the auditor to clearly understand the operational and recordkeeping practices of the licensee/registrant. It also enables the licensee/registrant to understand the audit process and the information needed for the audit.
- Making contact with the auditee (licensee/registrant)
Phone call followed by introduction letters

INTERNAL CONTROLS

DEFINITION OF INTERNAL CONTROL:

Is the process designed to provided reasonable assurance regarding the reliability of reporting, effective and efficient operations, and compliance with applicable laws and regulations.

Safeguarding assets against theft and unauthorized use, acquisition, or disposal is also part of internal control.

WHY ARE INTERNAL CONTROLS IMPORTANT TO AUDITORS?

- Is there a separation of duties?
- Can reliance be placed on the internal controls?
- What are the impacts of any weaknesses in the controls?

WHY THE IMPORTANCE WITH THE STUDY OF INTERNAL CONTROLS?

The auditor can determine weaknesses in the internal control system and if reliance can be placed on the distance and fuel records.

This will also assist the auditor with the selection of sample periods as well as sample size. The more reliance there is on the records, the fewer samples can be selected for review.

IRP AUDIT MANUAL

APM 203. STUDY AND EVALUATION

For a proper Audit to be conducted, a study and evaluation of the Registrant's reporting system and internal accounting controls must be preformed. It is essential that the auditor gain an understanding of the Registrant's reporting system to aid in the Audit process. Additionally, where reliance is to be placed on internal accounting controls for sampling test work and projections, the auditor must determine the reliability of the internal accounting controls and the impact of any weaknesses in the controls on sampling procedures employed in the Audit.

IFTA AUDIT MANUAL

A640 EVALUATION OF INTERNAL CONTROLS

The auditor's study and evaluation of the licensee's internal accounting system has several identifiable phases.

.100 REVIEW AND DOCUMENTATION

.200 PRELIMINARY EVALUATION

.300 TESTS OF COMPLIANCE

.400 REPORT ON WEAKNESSES

HOW DO YOU EVALUATE INTERNAL CONTROLS?

TO PROPERLY EVALUATE THE INTERNAL CONTROLS THE AUDITOR WILL CONDUCT A REVIEW THROUGH INQUIRY AND OBSERVATIONS AND SHOULD GAIN AN UNDERSTANDING OF THE FLOW OF THE TRANSACTION PROCESS.

- 1) Does the licensee/registrant have policies and procedures?
- 2) Do they use accounting codes for the tracking of distance and fuel?

HOW DO YOU EVALUATE INTERNAL CONTROLS? CONTINUED

- 3) Have there been changes in the licensee's accounting procedures or operations during the audit period.
- 4) Identify the records that the licensee keeps to support the tax returns and the registration.
- 5) How do those records get from the driver to the personnel who do the tax returns and the registration?

HOW DO YOU EVALUATE INTERNAL CONTROLS? CONTINUED

- 6) Does the accounting personnel create summaries (monthly, quarterly)?
- 7) Does the company perform any type of audit on the summaries and driver's records before the tax returns or registration paperwork are submitted to the base jurisdiction?
- 7) Does the company take steps to ensure all distance traveled and fuel consumed is being captured within the proper quarter and application year?

INTERNAL CONTROLS

With tough economic times in the IFTA and IRP membership, the jurisdictions could really gain from training their auditors to get a better understanding of internal controls and how it affects the audit process.

Understanding internal controls will help put your scarce resources to their best use.

MANUAL vs. ELECTRONIC RECORDS

- ## Manual vs. Electronic Records
- Date of trip (starting and ending)
 - Trip origin and destination
 - Route of travel (may be waived)
 - Beginning and ending odometer or hubodometer readings of the trip (may be waived)
 - Total distance
 - Jurisdictional distance
 - Unit number or VIN

On-Board Recording Devices

- Can supplement or replace manual trip reports
- Must meet the requirements of Article 5 of the APM and P600 of the IFTA Procedures Manual

On-Board Recording Devices Used Alone or with a Manual System

- Printed reports must be produced
- Retain for audit
- Prepare summaries manually

On-Board Recording Devices Used with an Electronic System

- Capability to produce trip reports
- Prepare summaries

On-Board Recording Devices-Minimum Requirements

- Manufacturer certification
- Tamperproof
- Function warning
- Time stamp
- Memory full warning
- Odometer update
- Data entry confirmation

On Board Recording Devices- Reporting Requirements

- Trip reports
- Vehicle / Fleet summaries
- Exception reports
- Calibration reports

Example: Printed Trip Report

06/11/10 DTR DETAIL REPORT PAGE: 169

COMPANY : █████ START DATE : 10/09/07 MANIFEST :
 CUSTOMER : █████ END DATE : 10/11/07 START CITY : 46.6297,114.076
 FLEET : 001 START METER : 0 START STATE : MT
 VEHICLE : 713 END METER : 1964 TOTAL FUEL : 0.0
 DTR # : █████ TOTAL MILES : 1964 MPG : 0.00

DATE	ST	HWY	ROUTE	TOTAL MILES	TOLL MILES	ENDING METER
10/09/07	MT	US-93	JCT US-93,I-90	23	0	23
10/09/07	MT	I-90	JCT I-90,I-94	350	0	373
10/09/07	MT	I-94	SL,MT @ ND	250	0	623
10/09/07	ND	I-94	SL,ND @ MN	357	0	980
10/09/07	MN	I-94	JCT I-94,I-694	226	0	1206
10/09/07	MN	I-694	JCT I-694,I-94	22	0	1228
10/09/07	MN	I-94	SL,MN @ WI	11	0	1239
10/09/07	WI	I-94	JCT I-94,I-90	148	0	1387
10/09/07	WI	I-90	SL,WI @ IL	143	0	1530
10/09/07	IL	I-90	JCT I-90,I-94	86	0	1616
10/09/07	IL	I-94	JCT I-94,I-90	15	0	1631
10/09/07	IL	I-90	SL,IL @ IN	9	0	1640
10/09/07	IN	I-90	JCT I-90,I-94	18	0	1658
10/09/07	IN	I-94	SL,IN @ MI	31	0	1689
10/09/07	MI	I-94	JCT I-94,I-196	34	0	1723
10/09/07	MI	I-196	JCT I-196,US-13	77	0	1800
10/11/07	MI	US-131	JCT US-131,I-96	4	0	1804
10/11/07	MI	I-96	43.0231,85.6669	0	0	1804
10/11/07	MI	I-96	JCT I-96,US-131	0	0	1804
10/11/07	MI	US-131	JCT US-131,I-19	4	0	1808
10/11/07	MI	I-196	JCT I-196,I-94	77	0	1885
10/11/07	MI	I-94	SL,MI @ IN	34	0	1919
10/11/07	IN	I-94	JCT I-94,I-90	31	0	1950
10/11/07	IN	I-90	JCT I-90,IN-912	11	0	1961
10/11/07	IN	IN-912	41.6394,87.4706	3	0	1964

On-Board Recording Devices-Carrier Responsibility

- Recalibrate
- Data backup
- Electronic submission of records
- Driver training
- Compliance

Audit Wrap Up

- Determining Results
- Audit Report
- Exit Conference

Determining Results

- No Change
- Change
- Notice of Assessment Based on Estimates

Audit Report

- Name and Address
- Account Numbers
- Audit Period
- Records Description
- Employed Audit Techniques
- Distance / Fuel Adjustments
- Audited vs. Reported Data
- Fee / Tax Adjustments
- Remarks and Recommendations
- Units Applied with Full Fees
- Date of Issuance
- Signature

Exit Conference



LINKS TO THE VARIOUS RESOURCES AVAILABLE TO AUDITORS

http://c.ymcdn.com/sites/www.irponline.org/resource/esmgr/publications/plan_effective_1.1.13_posted.pdf

http://c.ymcdn.com/sites/www.irponline.org/resource/esmgr/publications/apm_2008.pdf

http://c.ymcdn.com/sites/www.irponline.org/resource/esmgr/publications/apm_&_appendix_2013_together.pdf

LINKS TO THE VARIOUS RESOURCES AVAILABLE TO AUDITORS

<http://www.iftach.org/>

<http://www.iftach.org/manuals/2012/AA/A%20of%20A%2011-2012.pdf>

<http://www.iftach.org/manuals/2012/AM/Audit%20Manual%20January%202012%20FINAL.pdf>

LINKS TO THE VARIOUS RESOURCES AVAILABLE TO AUDITORS

<http://www.iftach.org/manuals/2011/PM/Procedures%20Manual%20-%20Final%20-%20December%202011%20page%20number%20correction.pdf>

<http://www.iftach.org/manuals/2011/PM/Procedures%20Manual%20-%20Final%20-%20December%202011%20page%20number%20correction.pdf>

