



**IFTA**<sup>®</sup>  
International Fuel Tax Association Inc.

# **AUDIT MANUAL**

*Effective Date: September 2024*

## **TEXTUAL NOTE**

The International Fuel Tax Agreement Audit Manual has been subject to amendments under Section R1600 of the Articles of Agreement, which were effective January 1, 2017. The amendments resulted in a rewrite of the Audit Manual.

The previous version of the Audit Manual, effective from January 1996 through December 31, 2016 can be found on the IFTA, Inc. website at [www.iftach.org](http://www.iftach.org). This version includes commentary and consensus board interpretations that affected the Audit Manual. All commentaries initiated from Consensus Board Interpretations of issues or history/intent segments of IFTA ballots.

It is the purpose of this publication to provide a commentary when sections have been amended. An asterisk (\*) next to a Section number indicates commentary to that Section. As revisions occur commentary will be inserted. All commentary after January 1, 2017, will be recorded in the Audit Manual which was effective on that date.

<b>TABLE OF CONTENTS</b>		<b>PAGE</b>
<b>A100</b>	<b>Introduction</b>	<b>4</b>
<b>A200</b>	<b>Audit Program Standards</b>	<b>5</b>
A210	Proficiency and Due Professional Care	<b>5</b>
A220	Auditor Independence	<b>5</b>
A230	Planning and Supervision	<b>5</b>
A240	Auditor Qualifications and Responsibilities	<b>5</b>
A250	Number of Audits	<b>5</b>
A260	Selection of Audits	<b>6</b>
	Commentary	<b>7</b>
<b>A300</b>	<b>Audit Procedures</b>	<b>8</b>
A310	Preliminary Audit Procedures	<b>8</b>
A320	Evaluation of Internal Controls	<b>8</b>
A330	Sampling and Projection	<b>8</b>
A340	Unreported Distance	<b>9</b>
A350	Audit Adjustments	<b>9</b>
A360	Reduction To Total Fuel	<b>9</b>
<b>A400</b>	<b>Audit Communications</b>	<b>10</b>
A410	Communications Between Jurisdictions	<b>10</b>
A420	Notification	<b>10</b>
A430	Request For Records	<b>10</b>
A440	Opening Conference	<b>10</b>
A450	Closing Conference	<b>10</b>
A460	Audit Report	<b>10</b>
A470	Audit File Contents	<b>12</b>
	Commentary	<b>13</b>
A500	Records Review	<b>14</b>
A510	Records Review Implementation	<b>14</b>
	Commentary	<b>16</b>

Audit is a critical element of ensuring compliance with the International Fuel Tax Agreement (IFTA). Under the provisions of IFTA, a member jurisdiction must audit, on behalf of all member jurisdictions, the tax returns and supporting documents of licensees based in that jurisdiction. The purpose of this manual is to set standards for auditors and member jurisdictions and to provide guidance and procedures specifically for the performance of IFTA audits.

The Audit Manual is the basis used by the Program Compliance Review Committee (PCRC) in evaluating a member jurisdiction's compliance with the audit requirements as set forth in Article XIII of the Agreement. When the Audit Manual uses the word "must" or "shall" in connection with a procedure, this indicates an unconditional requirement for a member jurisdiction and is subject for compliance review. The use of the word "should" in the Audit Manual also indicates a requirement for a member jurisdiction, although one where noncompliance will be accepted if the jurisdiction has documented the relevant circumstances and the reasons for not complying. In all instances where deviation is required, the rationale to support the deviation must be documented in the work papers.

**A200****AUDIT PROGRAM STANDARDS**

Each member jurisdiction must use an audit program. An audit program provides for uniformity and consistent application of audit procedures, serves as a training tool for new auditors, and facilitates the review of the audit. An audit program does not preclude the use of auditor judgment. Deviations from an audit program are acceptable if they are reasonable given the audit circumstances.

**A210 PROFICIENCY AND DUE PROFESSIONAL CARE**

The audit is to be performed and the audit report prepared by a person or persons having adequate technical training and proficiency in auditing, while exercising due professional care and maintaining an objective state of mind.

**A220 AUDITOR INDEPENDENCE**

The audit engagement, the audit organization and the individual auditor, whether government, public or contracted by a member jurisdiction, must be free from personal, external, and organizational impairments to independence, and must avoid the appearance of such impairments to independence.

**A230 PLANNING AND SUPERVISION**

The base jurisdiction shall adequately plan and supervise audits, and shall maintain documentation of such planning and supervision in the audit files. Documentation of these factors, by way of example, include work papers showing analysis of reported figures, observations regarding the licensee's account, and records of communication between the auditor and his or her supervisor. Documentation that the auditor's proposed audit results were reviewed for accuracy and for compliance with IFTA requirements shall be included in the audit file.

**A240 AUDITOR QUALIFICATIONS AND RESPONSIBILITIES**

- .100 Each member jurisdiction is responsible for the staffing of qualified auditors based on the member jurisdiction's personnel guidelines.
- .200 Auditors should conduct themselves in a manner promoting cooperation and good relations with licensees and member jurisdictions.
- .300 Auditors must give all licensees and member jurisdictions fair consideration.
- .400 Each member jurisdiction must ensure its auditors maintain proficiency in IFTA auditing by providing training opportunities through internal or external training sources.
- .500 The auditor must make a reasonable attempt to verify information reported on the tax returns.

**\*A250 NUMBER OF AUDITS**

Base jurisdictions will be held accountable for audits and will be required to complete audits of an average of 3 percent per year of the number of IFTA accounts required to be reported by that jurisdiction on the annual reports filed pursuant to the IFTA Procedures Manual, Section P1110.300.005 excluding new licensees, for each year of the program compliance review period, other than the jurisdiction's IFTA implementation year. Such audits shall cover all of the returns that were filed or required to be filed during a license year or shall cover at least four (4) consecutive quarters. This does not preclude audits of individual licensees several times during the program compliance review period. However, audits of a

single licensee that cover multiple license years, fuel types, or both shall be counted as one audit for program compliance review purposes.

For purposes of this requirement, a Member Jurisdiction may substitute three Records Reviews for one Audit; provided, that no Member Jurisdiction may substitute Records Reviews for more than twenty-five percent of the total of the Audits required under this section. To use Records Reviews as a substitute for Audits, a Member Jurisdiction must adopt formal procedures that comply with the guidelines for Records Reviews set out in the Audit Manual. All accounts may be subject to a Records Review. Records Reviews cannot count toward the high or low distance audit requirement established in Section A260 Selection of Audits of the IFTA audit manual. All Records Reviews will count towards the unspecified distance account audit requirements. Any follow up or secondary Records Review on compliance issues will not count as another Records Review.

## **A260 SELECTION OF AUDITS**

The following guidelines shall be used in selecting audits to fulfill the IFTA auditing requirements:

### **.100 Low-Distance/High-Distance Accounts Requirement**

At least 15 percent of each member jurisdiction's audit requirement shall involve low-distance accounts. Low-distance accounts are considered to be the 25 percent of the previous year's licensees who had the lowest number of miles/kilometers reported in all member jurisdictions. At least 25 percent of each member jurisdiction's audit requirement shall involve high-distance accounts. High-distance accounts are considered to be the 25 percent of the previous year's licensees who had the highest number of miles/kilometers reported in all member jurisdictions.

### **.200 Low-Distance/High-Distance Computations**

Low-distance computations and high-distance computations shall be based on total miles/kilometers reported by all IFTA licensees included on the annual report filed by the jurisdiction pursuant to the IFTA Procedures Manual, Section P1110.300.005 excluding new licensees, but including licensees who report no operations during a quarter, for the first three quarters of each calendar year.

## **Commentary**

A250 IFTA Ballot 7-2022 amended the IFTA Audit Manual to provide for Records Reviews when determining the number of audits completed and is effective on January 1, 2023.

**A300****AUDIT PROCEDURES****A310 PRELIMINARY AUDIT PROCEDURES**

The purpose of performing preliminary audit procedures is to familiarize the auditor with the licensee's business and reporting history.

- .100 The auditor must identify, and document in the audit file, the licensee's vehicles operated in the audit period, and vehicle characteristics that might affect the audit.
- .200 The auditor must identify, and document in the audit file, how the licensee obtains fuel, the types of fuel used, and the locations of any bulk fuel storage.
- .300 The auditor must analyze the licensee's tax returns subject to audit, note trends or variances, and document findings in the audit file.

**A320 EVALUATION OF INTERNAL CONTROLS**

The auditor must provide a summary description of the licensee's distance and fuel accounting systems. The auditor should compare the distance and fuel summaries provided by the licensee to the tax returns, and document any differences. An example of the licensee's records examined by the auditor should be included in the audit file.

The auditor must:

- .100 Identify the records the licensee maintains to support the tax returns;
- .200 Attempt to determine if there have been changes in the licensee's distance or fuel accounting procedures or operations during the audit period;
- .300 Document the existence of any internal controls;
- .400 Review and test the reliability of the licensee's internal controls;
- .500 Determine if sampling techniques are appropriate based on the effectiveness of the internal controls.
- .600 When sampling, the reliability of the licensee's internal controls should determine the degree to which the records are tested.
- .700 The above items, and the strengths and weaknesses identified in the licensee's distance and fuel accounting systems, must be documented in the audit report.

**A330 SAMPLING AND PROJECTION**

Unless a specific situation dictates, all audits will be conducted on a sampling basis.

- .100 Sample period(s) must be representative of the licensee's operations.
- .200 Sample period(s) may be different for member jurisdictions due to seasonal operations.

When the summary information does not match information reported on the quarterly returns, the auditor must attempt to determine the reason for the discrepancy. The auditor must also determine whether to project the sample findings per the summaries or tax returns. It is generally preferable to project to



summary distance and fuel (corrected as necessary). The auditor must document in the audit file and note in the audit report the conclusions made as to whether the distance and fuel per summary or tax return has sufficient accuracy and reliability to be used in sampling projections.

If the base jurisdiction utilizes a distance software program to verify the records of the licensee, that software program shall be used as an audit tool for verification of reported distances.

### **A340 UNREPORTED DISTANCE**

If the auditor discovers distance that was unreported, and cannot ascertain where that distance was traveled, the distance shall be allocated using a rational and unbiased approach. The reasoning for the approach must be documented in the audit file.

### **A350 AUDIT ADJUSTMENTS**

- .100 When records for the fleet as a whole are adequate for audit, the base jurisdiction shall have the authority to adjust the MPG or KPL.
- .200 In instances where the records for specific vehicles in the fleet under audit are substantially impaired or missing, the base jurisdiction may make audit adjustments for fuel and distance for those vehicles based on factors such as:
  - .005 Prior experience of the licensee;
  - .010 Licensees with similar operations;
  - .015 Other vehicles in the fleet with similar operations;
  - .020 Industry averages;
  - .025 Records available from fuel distributors or other third parties;
  - .030 Other pertinent information the base jurisdiction may obtain or examine;
- .300 If the base jurisdiction determines that such factors as those in A350.200 fail to provide a basis to support an audit adjustment, the jurisdiction may, for the specific vehicles at issue, either
  - .005 reduce the vehicle MPG or KPL by 20% or
  - .010 adjust the vehicle MPG to 4.00 or the KPL to 1.7.
- .400 Nothing in this section shall affect the grant or denial of credits for tax-paid fuel in accordance with P550.

### **A360 REDUCTION TO TOTAL FUEL**

The total fuel reported by a licensee shall only be reduced when there is clear proof, based on the records provided by the licensee, to support such a reduction and such proof is documented in the audit file. The absence of tax paid fuel receipts and a subsequent denial of tax-paid credits claimed does not, in and of itself, warrant a reduction to reported total gallons.

**A400****AUDIT COMMUNICATIONS**

All audit communication, both written and oral, must be documented in the audit file.

**A410 COMMUNICATIONS BETWEEN JURISDICTIONS**

Jurisdictions may contact each other to obtain pertinent information in accordance with each jurisdiction's disclosure policy.

**A420 NOTIFICATION**

- .100 The licensee should be contacted at least 30 days prior to the conduct of an audit. Through the initial or subsequent audit contacts, the licensee must be advised of the audit period, the type of records to be audited, and the proposed audit start date.
- .200 The base jurisdiction may begin the audit within the 30 day notification period with agreement from the licensee, or for just cause.

**A430 REQUEST FOR RECORDS**

The auditor must request the appropriate records to conduct an audit of the selected audit period.

**A440 OPENING CONFERENCE**

A documented opening conference should be held with the licensee to discuss the licensee's operations, distance and fuel accounting system, audit procedures, records to be examined, sample period, sampling procedures, etc.

**A450 CLOSING CONFERENCE**

A documented closing conference should be held with the licensee during which any areas of non-compliance, and any requirements and recommendations for improvement to the distance and fuel accounting systems are discussed.

**A460 AUDIT REPORT**

An audit report, including a narrative and a billing summary documenting the audit, must be prepared by the base jurisdiction and provided to the licensee and all affected member jurisdictions. Where appropriate a checklist may serve this purpose. A copy of the audit report must be kept in the audit file. The base jurisdiction should send the audit report to all affected jurisdictions at the same time it sends the final report to the licensee. The audit report must contain:

- .100 General Information:
  - .005 Name of base jurisdiction;
  - .010 Auditor's name;
  - .015 Licensee's name;
  - .020 Licensee's address;
  - .025 Licensee's phone (where required);

- .030 Licensee's representative;
- .035 Account number;
- .040 Fleet number (where applicable);
- .045 USDOT number (where required);
- .050 Audit Period;
- .055 Summary of licensee's business operations;
- .060 Note trends or variances;
- .200 Summary of the Evaluation of Internal Controls:
  - .005 Reliability of internal controls;
  - .010 Strengths and weaknesses in internal controls;
  - .015 Changes in the licensee's accounting procedures during the audit period;
- .300 The opening and closing conference dates and attendees or reason why, if not held.
- .400 Sampling Methodology Information:
  - .005 Description of sampling methodology or reason sampling was not performed;
  - .010 The periods and vehicles sampled.
- .500 Distance and Fuel Examination:
  - .005 Identify source documents used by the licensee to determine distance and fuel;
  - .010 Identify the information in the source documents;
  - .015 Describe procedures used to verify reported distance, fuel and MPG/KPL;
  - .020 Explanation of distance and fuel adjustments;
  - .025 Note any discrepancies between summaries and licensee's tax returns;
  - .030 Auditor's evaluation of adequacy of records.
- .600 Summary:
  - .005 The report must indicate the procedures, findings, any requirements to become compliant and any additional information deemed necessary.
- .700 Billing Summary: All items listed below, except penalty .045, must be presented in the billing summary by reporting period.
  - .005 Net distance adjustment in total;
  - .010 Net distance adjustment by jurisdiction;

- .015 Net tax paid fuel purchases adjustment;
- .020 MPG/KPL as reported;
- .025 MPG/KPL as a result of audit;
- .030 Net fuel tax adjustment per jurisdiction;
- .035 Reported tax by jurisdiction;
- .040 Audited tax by jurisdiction;
- .045 Penalty;
- .050 Interest by jurisdiction; and
- .055 Total by jurisdiction.

**A470 AUDIT FILE CONTENTS**

In addition to a copy of the audit report and any pertinent post-audit communications concerning the audit, the audit file shall contain at least the following information:

.100 Schedules

.005 Supplementary Schedules

Supplementary schedules shall provide additional detail corroborating the results reflected in the Billing summary required in A460. The schedules shall illustrate how the audited fuel and distances were calculated and the computation of adjustment factors determined from a sample, if applicable.

.200 Support Documentation

.005 Detail Information

Information, in the form of schedules, working papers or examples that document the records reviewed and support the audit results. Such information shall include detail of retail and/or bulk purchases, detail of bulk fuel withdrawals, and analysis of trips audited, showing audited distance in total and per jurisdiction.

.010 List of Records Maintained

A list of records, which shall indicate what records are maintained by the licensee and whether those records comply with the Agreement.

## **Commentary**

A460 .700 IFTA Ballot 5-2021 added language to the Audit Manual, A460.700 removing the requirement to include .045 penalty, in the billing summary by reporting period, effective January 1, 2023. Ballot 5-2021 did not remove the requirement to include the penalty imposed in the Billing Summary totals.

## **A500 RECORDS REVIEW**

A Base Jurisdiction may perform a Records Review of any Licensee's distance and fuel reporting system to ensure compliance with the Agreement. A Records Review is a thorough evaluation of the Licensee's internal controls and record-keeping system to ensure compliance with the Agreement. The purpose of performing a Records Review is to mitigate potential record keeping compliance issues.

- .100 The primary differences between an Audit and a Records Review are that a Records Review:
  - .005 focuses only on an evaluation of internal controls and compliance of the distance and fuel reporting system using requirements found in A320, except A320.500 and A320.600 of the Audit Manual;
  - .010 may be limited in scope to less than a full Reporting Period;
  - .015 may be conducted before the first renewal;
  - .020 will be part of an overall education plan on educating the Licensee of IFTA record-keeping requirements as set forth in the base jurisdictions procedures;
  - .025 is not required to compare records to a quarterly tax return to determine adjustments; and
  - .030 cannot result in a tax assessment.

## **A510 RECORDS REVIEW IMPLEMENTATION**

- .100 A Member Jurisdiction electing to institute a Records Review program that qualifies towards the annual Audit requirement must establish procedures and guidelines similar to those for Audits. The Records Review procedures must:
  - .005 comply with requirements in A240.100 to A240.400 Auditor Qualifications and Responsibilities;
  - .010 document the distance and fuel reporting system used by the Licensee, the items included in the source documents, and the sources used by the Licensee to determine distances and fuel reporting;
  - .015 assess and document internal controls;
  - .020 evaluate the compliance of the records with IFTA requirements and identify specific deficiencies;
  - .025 furnish a written report to include information found within section A460.100 (except A460.100.50), A460.200, A460.500 (except A460.500.020 and A460.500.025) and A460.600, of the Audit Manual;
  - .030 record all contacts with the Licensee; and,

- .035 retain the completed Records Reviews documents according to the prevailing IFTA Program Compliance Review Audit records retention requirements found in A470.200.
- .200 It is strongly recommended that the base jurisdiction conduct a follow up contact with the Licensee if non-compliance issues are noted.
- .300 Notwithstanding Section A240, Records Reviews may be conducted by personnel processing Licensee applications if they meet all other provisions of the Manual.
- .400 Completing a Records Review precludes that Licensee from an audit for 180 days after the completion of the review to allow the Licensee to correct deficiencies found in the review.

The intent of the Records Review program is to educate Licensees regarding IFTA requirements while providing credit to the jurisdiction for the education efforts. A Records Review should not be used to find noncompliant Licensees for audit. If non-compliant records are found the jurisdiction should educate that carrier on record keeping and reporting methods and instruct that carrier to file amended returns for previously filed returns.

## **Commentary**

- A500 IFTA Ballot 7-2022 amended the Audit Manual to include a provision for Records Reviews and is effective January 1, 2023.
- A510 IFTA Ballot 7-2022 amended the Audit Manual to define the process for implementing Records Reviews and is effective January 1, 2023.
- A510.035 Non Substantive change amended the Audit Manual to replace the word Peer with Program and is effective September 16, 2024.