



Tax Auditing and Tax Risk Management  
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## Private International Institute of Management and Technology

### Abstract

This paper was written in order to carry out a research regarding the audit, taxations that go with it and the management risks that a company has to face.

In order to analyze the practical side of it we will be conducting a research and analysis within a company called SANIEXPO and carrying out a tax audit that will lead us at the end with the firm conclusion that a healthy company can't prosper without a good risk management and the use of the tax audit



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## **Chapter 1: Introduction**



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Taxation is the set of rules, laws and measures that govern a country's tax system. In other words, taxation focuses on the practices used by a state or a community to design taxes and other compulsory levies.

It is considered to be one of the company's major concerns. It is a constraint that is difficult to control. Even if the company opts for a strategy of fiscal transparency, it is not, however, immune to tax risks.

This is why the company must pay attention to tax risk management. In other words, it must follow the evolution of tax legislation. It is often very costly for a company to wait for tax inspectors to arrive before asking itself whether it is complying with tax requirements. Hence the use of periodic audit reviews to identify risks, quantify them and take the necessary action.

This report is entitled: "Tax Audit and Tax Risk Management" and answers the following questions: What is the purpose of tax audit and what is its approach? What are the different sources of tax risk? And how does tax audit contribute to the management of these risks?

The first part of the report is devoted to the theoretical aspect of tax auditing and tax risks to put the reader in the context of the brief. It is divided into three sections:

- The first section provides an overview of the concept of audit in general, and tax audit in particular.
- The second section focuses on tax risk management.
- The third section is concerned with tax risks and their relation to tax audit.





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## **Chapter 2: The Review of the Literature**



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In tax matters, the company must ensure that it complies with its tax obligations and works in absolute transparency. It must be vigilant with regard to monitoring the tax parameter in order to minimize the tax risk, which weighs heavily on its financial situation, but which could threaten its sustainability and lead to its disappearance.

The tax audit will be the tool that will attest to the regularity, sincerity and faithful image of the tax operations carried out by the company.

### Generality about the audit

The Romans used the term "audit" to refer to a control on behalf of the emperor over the management of the provinces. The term comes from the Latin verb "audire" meaning "to listen". It is a tool available to the company to better control and manage.

- **The concept of audit**

The concept of audit is abstract, which is why there are several definitions that have been proposed to delimit it.

- The audit is a critical review that allows us to verify the information given by the company and to assess the operations and systems put in place to translate it.
- In addition, auditing is a methodical, independent and documented process for obtaining audit evidence and objectively assess the extent to which audit criteria are met.

Overall, we can therefore define auditing as the evaluation carried out by a competent professional, according to previously established standards, with a view to detecting flaws and anomalies, in order to put in order, the necessary corrective procedures. And finally to transmit the result to interested users.



- **The different types of audit**

- 1. Internal Audit**

The internal audit is requested by the company itself: it is commissioned by the company itself, i.e. it is a consulting activity carried out by the company's employees, these employees certify the regularity of the company's management in terms of procedures.

This type of audit is seen as a structured control tool at the service of the General Manager. It is an independent function of periodic (usually annual) evaluation of the organization.

- 2. The external audit**

The external audit is a critical review by a committee or an audit firm (representing the interests of stakeholders), allowing verification of the information given by the organization (example: certification of accounts).

- 3. Accounting and financial auditing**

Accounting and financial auditing applies to the entire accounting system, in particular the examination of the financial statements to verify their truthfulness, regularity, conformity and ability to reflect the true and fair view of the organization.

It is a reasoned opinion on the financial statements, detection of fraud or misappropriation and/or improvement of financial management.

- **Tax audit**

- 1. Definition of tax audit**

The tax audit is a critical examination of the tax situation of a company. It is a set of control operations and verifications carried out by an internal or external auditor of the company.

- The tax audit is therefore a process that aims to control compliance with certain standards.



## **2. The objective of the tax audit**

The objective of a tax audit is to:

1. To increase the fiscal framework of the company
2. Detecting anomalies and shortcomings that could lead to a significant tax adjustment in the event of a tax audit
3. Propose the improvements to be made in procedures to ensure compliance with tax legislation
4. Integrating taxation into the system for the circulation of information affecting company taxation
5. Take stock of the company's tax environment

## **3. The role of the tax auditor**

The tax auditor's mission is to ensure that the company complies with its tax obligations. He carries out a regularity control which will allow the company to know not only its mistakes but also the risk they generate.

Indeed, the tax auditor assesses the company's ability to use the possibilities offered by the tax legislation and thus its capacity to be efficient in its tax management.

## **4. The tax audit approach**

A tax audit mission is not carried out at random by improvisation, it must be carried out according to an assured approach, which could be based on five fundamental steps that can be summarized as follows:

1. Preliminary phase
2. General awareness
3. Evaluation of the internal tax audit
4. Audit of tax-related transactions
5. Synthesis and report



### ❖ Preliminary phase

This phase requires first of all the preparation of an audit contract, generally called an "engagement letter".

This engagement letter is drawn up by the tax auditor and co-signed by the tax auditor and the representative of the audited entity in which the auditor defines the terms and conditions of his interventions in order to be able to refer to them in the event of a dispute must include the following elements in particular:

- **The reciprocal obligations of the parties which are divided into two :**

The obligations of the tax auditor, which include (The general duty of care, the obligation regarding delivery, the content of the audit report and The obligation of confidentiality).

The obligations of the company, which in turn include (the obligation to facilitate the work of the auditor and the obligation to remunerate the auditor).

1. Scope of work
2. The objective of the mission
3. The execution time (period of the mission)
4. The amount of remuneration

### ❖ General awareness

The general acquaintance consists in collecting general information about the audited entity. It is important in the performance of the tax audit, as it allows the identification of the tax issues that will need to be analyzed as part of the assignment.

This step is all the more important when it is a first intervention. The information should be summarized in the audit report.

The main general information that should be included in an audit report is summarized below:

1. **Brief description of the activity:** this is a brief description of the activity of the audited entity with emphasis on the nature of the activity, the legal context, the company's membership of a regulated sector, etc.



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2. **Tax position of the audited entity:** this is a list of the main characteristics of the company with regard to tax matters, including the tax regime of the audited entity, Key figures of the entity that have an impact on the tax management of the company such as: turnover, net accounting profit, tax result, tax rate for the year and amount of tax due for each audited financial year, etc., these key figures make it possible to determine the company's tax position
3. **Statement of distributable reserves:** This is an important consideration because it is of interest to potential purchasers of the company, and therefore the auditor should disclose any tax implications of the existence and distribution of reserves, including the possible withholding tax or corporate tax surcharge.
4. **Previous Tax Audits and Fiscal Years Open to Tax Audit:** The tax auditor should obtain as much information as possible about tax audits that may have previously affected the audited entity.

### Purpose of the General Awareness:

1. Allows you to draw up a list of potential risks (identify areas of tax risk).
2. Target the control work.
3. Follow legal obligations and determine the fiscal result in order to really assess the risks.

### ❖ Evaluation of the internal tax audit

In order to be able to give his opinion on the tax position of the audited company, the tax auditor must first of all assess the security system put in place to ensure the regularity and tax effectiveness of the transactions carried out, this security system is commonly referred to as "internal control".

The evaluation of the Internal Tax Audit consists for the tax auditor in focusing his audits on the tax function within the company and in studying in particular the way in which tax issues are dealt with within the audited company.

Therefore, the work of the tax auditor, in this context, focuses mainly on the study of internal control specific to the tax field and on the audit of tax operations.



### **Objectives of the study of this control:**

Generally, the objectives of the internal control assessment specific to the tax function depend on the nature of the engagement.

1. This phase must include an analysis of the human and material resources available to the company for tax matters: existence and organization of the tax department, qualification of members, documentation, etc.
2. a perspective of regularity: the auditor will look at the tax safeguards put in place to process transactions
3. an efficiency perspective: the auditor will look at the distribution of the working time of the company's tax specialists to determine their activity dedicated to tax management.
4. Finally, the auditor will examine the conditions under which the company's management consults with the tax authorities in making decisions.

### **Implementation of the study of the internal control system for taxation:**

On the basis of the guidelines provided by his work program, the auditor must carry out an analysis of the company's internal control system in order to assess its strengths and weaknesses and to determine the nature, scope and timetable of his audit work on the accounts related to tax operations.

### **Steps in the study of internal control:**

The study of the internal control system goes through three stages, first of all it is necessary to describe the system (Review of written procedures, interviews with staff and physical observation), then to verify its existence (In this phase, the tax auditor will be interested in making sure that the description of the internal tax control system corresponds to reality) and at the end of his preliminary assessment (This is a very important step in the tax IC approach, it allows the tax auditor to form an opinion on the quality of the procedures put in place to limit tax risk. This assessment is made using the internal control questionnaire, which summarizes certain controls deemed necessary for the satisfaction of control needs).

#### **❖ Audit of tax-related transactions**

**Verification of tax transactions is carried out by the following means:**



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5. The tax questionnaire: The tax questionnaire is generally used to check tax compliance and is used to guide the tax auditor in preparing a specific program taking into account the objectives defined by the assignment.

### **The documents submitted to the tax auditor's control:**

The documents made available to the auditor are:

1. Accounting documents (purchase and sales invoice, bank statement etc...)
2. Journals, scales, and ledgers, asset files.
3. Correspondence with the tax authorities
4. Tax returns (IS, IR, VAT)

### **❖ Synthesis and Report**

The tax audit report is a document in which the summary and conclusions of the auditor's work are recorded.

At the level of tax audit, the conclusions can be communicated to the client in two distinct forms:

6. The tax audit report which establishes the company's tax situation.
7. The recommendations report, which should recommend actions to cure or prevent the identified risks.

**Conclusion:** The approach of the tax audit is largely inspired by that of the accounting and financial audit. The approach adopted by the auditor must ensure the efficiency and optimization of intervention time. Whose main goal is to:

1. Identify irregularities, omissions, inaccuracies and discrepancies affecting the probative value of the accounts.
2. To quantify the adjustments to be made.
3. Provide evidence of inconsistencies identified in the overall risk analysis.





## **5. Limitations of tax auditing**

Fiscal risks are emerging on all sides, given the importance, complexity and instability of tax legislation. However, the tax audit is unable to identify all irregularities. This is because they are difficult and delicate to assess

- **Limitations related to the time constraint of the mission:**

The tax auditor is not permanently present in the audited company. He intervenes according to a schedule assured in advance and for a well-defined period. His intervention limited in time, generates tax risks. He carries out an estimate by means of surveys. These enable him to obtain a conviction and not a certainty.

The tax audit assignment does not constitute a guarantee in the context of a subsequent tax audit revealing tax irregularities. The responsibility of a tax auditor cannot be called into question. For his mission is placed in the context of an advisory mission. Therefore, the tax auditor is not bound by an obligation of result but by an obligation of means.

- **Limits related to the delicate assessment of tax risk:**

If the rules are fair, well-defined and relate to either formal or time-limited obligations, there is no difficulty in monitoring them. Moreover, this is not always the case. The generality of the text and the constant evolution of tax legislation offer the possibility of designating a set of objective criteria for analyzing the existence of the irregularity and its absence. "Indeed, the regularity or irregularity with regard to the tax risk is then partly a function of the assessment of the auditor or the tax auditor.

So the tax audit is a method of detecting tax risks. It allows first of all to ensure that the company respects its tax obligations to which it is subject. In other words, it must comply with the tax rule. And in a second place, it has to check whether the company is opposed to tax risks or is exposed to non-compliance with the tax rule. "It is important that the accounts are audited in accordance with the applicable regulations. And to set up a risk matrix in order to make the necessary recommendations. »

Every company must carry out a regular tax audit. The principle that "prevention is better than cure" must be respected. A tax audit makes it possible to rectify and correct certain errors in order to avoid a possible call for a tax audit.



The majority of tax recalls are motivated solely by formal irregularities that can be avoided. Thus, the purpose of a tax audit is to discover ways of reducing taxes. It will be useful in the event of a planned sale of a company, called a seller's audit in order to reassure potential buyers. It can also be used in the case of a planned purchase of a company in order to verify the absence of risks.

### **Tax risk management**

- **Risk management**

The term risk management has various meanings. It varies depending on the area in which it is used. Despite this difference, the task of risk management is to deal with risks that may threaten the proper execution of the work and to provide a quality guarantee for the tasks carried out.

The purpose of risk management is to identify and anticipate actions, events or inactions that may affect the implementation of the strategy within a given time frame, define treatment options and ensure that an optimal option is chosen, implement this approach and, finally, monitor the effectiveness of the chosen solution in relation to the required expectations.

- **Tax risk management**

Tax risk management can take two forms:

1. Passive management
2. Proactive management

#### **Passive tax risk management:**

In this mode of management, the professional helps the company's managers to react to a threat or to alleviate the negative repercussions of risks that may arise.

#### **Proactive tax risk management:**

In a proactive approach, the company not only gives itself the means to avoid dangers, but also seeks to take advantage of the opportunities that come with them. This is reflected in the implementation of a process to detect risks and take advantage of opportunities.



This process consists of **5 steps**:

1. Identification of risks:

Risk management focuses on identifying the risks to the company's assets, its values in the broadest sense, in order to help management to effectively manage tax risks.

2. Control of tax risks:

Risk management requires the creation of a memory of risk-generating events and the risks involved. The result is that in order to achieve risk control, it is first of all necessary to carry out a systematic inventory of risks, record them in a specific notebook or database and then measure their importance and seriousness.

3. Tax risk assessment:

This step consists of evaluating the combination of probability of occurrence and potential severity. The risk manager will seek to address the risks with the highest severity coupled with the highest probability.

4. Determining the company's tax risk tolerance threshold:

This is the level of risk at which the company can no longer tolerate additional tax risk. *"It aims to achieve a balance between risk management and opportunity."*

5. Choosing the right solution:

The final step in the risk management process is to make the appropriate decision for each risk identified.

This decision can take **two forms**:

6. Risk reduction: this consists of trying to avoid the risk or mitigate its impact.
7. Risk management: in this case the company chooses to take the risk and seize all the tax planning opportunities that come with it.

▪ **Sources of tax risks**

There are many sources of tax risk for a company, both internal and external.

1. Generally, risks of external origin are aggravated by internal weaknesses.



### 3-1 External risks

Risks of external origin can be grouped into **three categories**:

- The complexity of tax laws.
- The discrepancy between accounting and taxation.
- Change in doctrine or administrative practice.

#### a) **The complexity of tax laws**

The complexity of the system makes its application more difficult for both the administration itself and the taxpayer. "Based on this idea, a complex tax system is a system that is poorly controlled and that offers escape routes for the taxpayer.

Indeed, tax law presents itself as an obscure and complex law. Taxpayers find themselves in a quandary of choice, no longer being able to know their tax system with certainty. He will then plunge directly into a growing ignorance, which will lead to legal insecurity. The latter stems from the instability and obscurity of tax laws.

#### b) **The discrepancy between accounting and taxation**

If tax law is imposed on behalf of companies, accounting is subject to certain tax rules. Companies with transparent tax management are particularly confronted with a dilemma between accurate financial reporting and tax rules.

The General Tax Code provides for the obligation of companies to keep their accounts in accordance with company accounting legislation, but in the event of a discrepancy between an accounting rule and a tax rule, the principle of the autonomy of tax law leads to a preference for the tax rule.

- On the other hand, this discrepancy does not logically imply incompatibility, but in fact the opposite is true, since the point of calculation of the tax result is always the accounting result.



### **c) Administrative doctrine**

Administrative doctrine is a source of tax risk because of its complexity. Tax law prepares favorable ground for interpretation. Interpretation then consists in explaining a text whose ambiguity is certain, with precise and clear terms by all, without however modifying its content. This is the most delicate function performed by the tax administration.

### **3-2. Risks of internal origin**

Risks of internal origin can be grouped into two categories:

- Procedural risks.
- Risks related to people.

#### **1. Procedural risks**

The prevention of tax risk systematically involves the adoption of a set of tax methods and procedures. Faulty or non-adopted procedures that do not meet the entity's tax needs encourage the development of risk. It is therefore appropriate to provide for tax procedures (procedures for preparing tax returns, procedures relating to withholding tax, etc.) and to verify their effectiveness by means of certain control methods.

- a)** The objective of tax proceedings is to reduce the probability and impact of the inherent risk. The absence of such procedures leads to a high level of residual risk.

#### **2. Risks related to people**

Individuals can be considered a source of risk through their negligence, poor follow-up, ignorance or incompetence or even lack of collaboration and collective spirit.

Those responsible for tax operations should behave in a manner conducive to voluntary compliance with tax law. They should be involved in the proactive management of tax risk, which is at the heart of the company's values.



## The Relationship between Tax Audit and Tax Risk Management

-Everybody wants to **pay less tax**. **Some** just don't know how to do it. So they do nothing and declare the results of their entrepreneurial activity as best they can.

Unfortunately, sometimes, in doing so, they make mistakes:

- Either in their statement
  - Either in their management of the company's resources
- ❖ It is seen that the lack of mastery of the tax law that leads entrepreneurs to make mistakes that represent a relative tax risk, this is what tax auditing is for: to reduce the tax risk for the company.
- **The tax audit, a tool for assessing the tax risks incurred by the company (in terms of IS, IR, VAT)**

The tax auditor plays a very important role in controlling the regularity of various taxes (corporate tax, income tax, and VAT).

### 1. The audit of direct taxes:

These are the taxes that directly affect the income of individuals or legal entities during a given period. This direct taxation establishes personal income tax (PIT) and corporate income tax (CIT).

The tax auditor's work consists of an audit of the taxable base and the rates applied.

### 2. Indirect taxes: The VAT audit:

These taxes do not directly affect income, but are levied on marketed products, goods and services.

It's basically:

The value added tax which is a synthetic tax on the expenditure because it is calculated on the global turnover realized monthly or quarterly.



- So the tax auditor checks:
- **The VAT chargeable event**

The generating event is the event that gives rise to the debtor's debt to the treasury.

Thus, the tax auditor must distinguish between the events giving rise to the tax liability and the due date of each of the following transactions:

- **For imports: it is** the customs clearance of the goods.
- **For sales of goods and merchandise:** it is the delivery of the merchandise.
- **For services:** it is the collection of the price or down payments when it occurs before the service is performed.
- **The different rates applied**

The tax auditor must ensure the accuracy of the rates applied and if he finds errors, he must correct them with the rates applied and this before the expiry of the limitation period while proceeding to send a correction invoice to the clients concerned.

It must verify that the rates apply to turnover excluding VAT.

- **VAT deductions**

Indeed, the tax auditor must ensure that the conditions for VAT deduction are met, namely:

- a) The VAT deducted by the business must relate to items necessary for the operation and must be supported by regular and conclusive documentary evidence.
- b) The VAT must not concern a property excluded from the right to deduct.
- c) Purchases must be made from a taxable person...etc.`

- **The tax audit, a means of preventing and minimizing tax risk**

Thus taxation, a major concern of any company, by the multiplicity, complexity and instability of its texts, generates more and more risks. Every decision has tax implications and has an impact on the company's operations. Hence the need to develop a new function allowing:

- First, to help the company manage the tax parameter.
- Secondly, to measure the risk that may arise from a possible tax audit.



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- **The tax audit, a tool at the service of the company**

In order to reduce the tax burden as effectively as possible, and without exposing it to tax risks, a range of actions and decisions must be taken in conjunction with the other functions of the company. This action can only be carried out as part of the overall management of the company.

- For this, a tax diagnosis, in other words a TAX AUDIT, must be carried out. This audit mission will assess the strengths and weaknesses of the company in tax matters and will therefore result in the following:

- Examination of the company's tax file, to identify the risks associated with reporting obligations and to bring them into line with the legislation in force.
- To quantify these risks in order to prevent a possible tax audit.

### **Conclusion**

Finally, it can be concluded that good tax risk management necessarily involves an audit and diagnosis of taxation within the company. The audit then makes it possible to assess and evaluate the strengths and weaknesses in order to highlight the possible tax risks that weigh on the company.





## **Chapter 3: Data and Methodology**



Within this chapter we will be tackling the tax audit of the following Moroccan company:

### Presentation of the SANIEXPO company

#### 1. History

The Bentahar group was founded in 1987 by creating the company **Sanitaire 2000** in Casablanca.

The group later expanded to other cities in Morocco by creating:

- **SANIEXPO** in 1991 in Rabat
- **Sanitaire Amine** in 1996
- **Tahiri and Co. establishment in** Tangier in 2001

The group is dedicated to the marketing of tile products, sanitary equipment and taps.

The company in which we conducted our study is the **SANIEXPO Company** which has the legal form "**SARL**", it was created by Mr. Abdellatif Bentahar and Mr. Mustapha Bentahar.

The company is specialized in the marketing of tiling products, equipment and sanitary taps and distributes its products in all regions of Morocco.

**SANIEXPO** offers good quality products imported from different countries by internationally renowned brands or manufactured locally by major companies, in particular the products manufactured by:

- The Hansgrohe and Noken brand factories for taps
- Duravit for sanitary ware and bathroom furniture
- Sonia for accessories
- Venis and porcelanosa for tiles.



## 2. Technical data sheet

Nom du dirigeant	M. Mustafa Bentahar ,M. Abdellatif Bentahar
Capital	1 500 000 Dhs
Effectif	de 5 à 10 salariés
Année de création	1991
Type d'établissement	Siège
N RC	30471

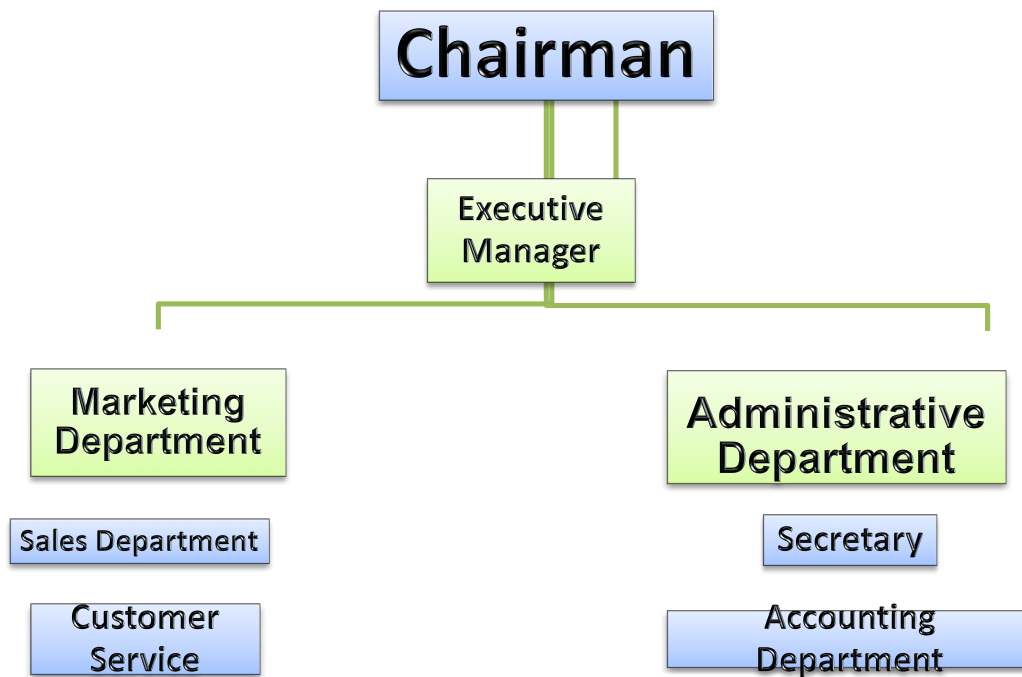
## 3. The specialty of the company:

SANIEXPO is specialized in the distribution of products such as:

- **tiles:** the company offers local and imported products from different countries.
- **Bathroom furniture:** SANIEXPO exhibits a wide selection of bathroom furniture
- **Sanitary:** The top-of-the-range and mid-range brands are displayed in the showroom.
- **Taps and fittings:** a wide range of articles and tap products



4. Organizational chart:



- **SANIEXPO** is a family business run by the BENTAHAR family, its general president is Mr. BENTAHAR Abdellatif.

- Mr **BENTAHAR Mustapha**, is also a member of the company's general management.

- The sales department is headed by M. **MESKINE Thami** whose mission is to manage sales, purchases and stocks.

-**Mrs. BENALI** Fatiha is in charge of the Accounting and Administrative Department.

- **SANIEXPO** employs a total of 10 employees, including: workers, transporters, and employees of other departments.



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### **Conclusion:**

This research was so instructive that we were able to experience life in a conducive environment that promotes work and collaboration with great friendliness.

It was an enriching experience and a great boost to my professional life. It was also an opportunity to concretize the theoretical foundations acquired and to highlight them. This gave us the opportunity to face the constraints we may encounter during our professional career.



## **Chapter 4: Findings**



## **Carrying out the tax audit mission within SANIEXPO**

The tax audit mission in **SANIEXPO** starts with the reception of the mission order and ends with the final audit report. It breaks down as follows:

### **1. Preliminary phase:**

The **preliminary phase** is a diagnosis that determines the modalities of the mission in terms of feasibility, timeframe, cost and objective.

#### **a. The date and deadline of the mission**

The date for the start of the work has been set for 20 January 2020, and the mission to **SANIEXPO** has been set for a period of 10 days, while the data collection phase will last one week.

#### **b. The main axes of the tax audit:**

In **SANIEXPO**, the mission consisted of:

- Ensure compliance with tax obligations for the period audited.
- Verify compliance with the general conditions for deductibility with regard to expense recognition.
- Verify tax returns, accounting documents having an impact on taxation and the procedures used.



### 2. Getting acquainted

A wide range of information and documents was provided to the accounting officer, which enabled her to become acquainted with SANIEXPO's activities.

Nevertheless, it is still necessary to know and be familiar with certain tax specificities of the company in order to identify and detect areas of tax risks. In this respect, several recommendations have been suggested:

- The company is subject to the collection system
- The VAT rate applied by the company is 20%.
- The turnover realized in 2017 is 7 015 901.87 dh
- Approximately 60% of SANIEXPO's sales are received in cash.
- The company makes both local and international sales.

### 3. The study of internal control relating to SANIEXPO's tax function

The files and conclusions were handled by the accounting service team as part of an assessment of SANIEXPO's internal control.

It is an apprehension of the organizational quality of the company through an examination of the main procedures (purchase, sale, stock, fixed assets, cash flow, etc.).

In other words, it is a general assessment of internal control at the accounting and tax levels. It is usually an in-depth assessment on the tax area.

At this level, an additional summary note could be drawn up, identifying the strengths and weaknesses of the current SANIEXPO system.

### 4. The audit of SANIEXPO's tax operations

The documents used to verify the tax transactions are the following:

- Accounting documents: purchase and sales invoices, bank statements, etc.
- Tax returns





All of SANIEXPO's tax documents have been exhaustively checked to detect any risk that may arise from either a:

- Misreporting
- Late filed declaration

### 5. Synthesis and report

Once the auditor has examined all the necessary control and verification operations, he will issue his conclusions on all the tax aspects of the audited company.

These conclusions will be recorded in its audit report, which will be transmitted to the company's management.

In this respect, the auditor will present in his report the details:

- **the anomalies** and irregularities noted.
- **the consequences of** these anomalies and irregularities on the company, with a quantified evaluation of each anomaly or irregularity identified.
- **recommendations to** remedy the anomalies and irregularities observed or to improve the tax management of the company.

#### 1.1 Anomalies and irregularities noted:

The auditor presents the misstatements as identified during data collection. Following the tax audit mission carried out at **SANIEXPO**, the following anomalies emerged:

- a) Cash receipts in excess of 20,000 dh
- b) Absence of receipt stamps on sales invoices paid in cash
- c) Deduction of VAT for transactions excluded from the right to deduct

But before detailing them, a **RPAS** (Revelation and Problem Analysis Sheets) must be drawn up for each anomaly, which makes it possible to highlight the risks due to non-compliance with the rules and the costs generated by the malfunctions.



**A. Cash receipts in excess of 20,000 dh**

<b>Working paper reference:</b> sales invoices	<b>RPAS N°1</b>
<b>Problem :</b> Realization of sales operations that exceed <b>20 000 dh</b> paid in cash.	
<b>Cause:</b> The company prefers cash payment because sometimes it takes longer to cash a bank check.	
<b>Consequence:</b> Penalty payment to tax authorities in case of an audit	
<b>Recommendation:</b> make payments by check only in the case of a sales transaction that exceeds 20,000 dh	
<b>Established on:</b> 25 /01/2020	

**B. Receipt stamps on cash receipts:**

<b>Working paper reference:</b> sales invoices	<b>RPAS N°2</b>
<b>Problem:</b> Lack of receipt stamps on sales invoices paid in cash	
<b>Cause :</b> Absence of an oversight body	
<b>Consequence:</b> Penalty payment to tax authorities in case of an audit	
<b>Recommendation:</b> Apply stamp duty on sales invoices paid in cash.	
<b>Set it up: DATE :</b> 25 /01/2020	



**C. Value added tax (VAT) on purchase transactions:**

<b>Working paper reference:</b> VAT deduction statements	<b>RPAS N°3</b>
<b>Problem:</b> the deduction of VAT for purchase transactions excluded from the right to deduct	
<b>Cause:</b> Lack of knowledge of the CGI article that deals with this.	
<b>Consequence:</b> Payment of penalty for failure to report to the tax authorities in the event of an audit, and payment of late penalty in the event of rectification.	
<b>Recommendation:</b> -either file a corrective VAT declaration to correct the error if the time limit has not expired; or - Either make a contentious declaration addressed to the tax department in the opposite case	
<b>Established:</b> 01 /02/2020	

After writing a **RPAS** for each anomaly, it is time to detail each one.

**a. Cash receipts:**

**SANIEXPO** receives about **60%** of its turnover in cash, of which a part only concerns receipts exceeding **20,000 dh**.

During a check on the sales invoices, the total amount of the invoices that exceed 20,000 dh was totaled, and a total of 80,000 dh was found for the year 2016 and 39,500 dh for the year 2017.

**b. Receipt stamps on cash receipts:**

After checking the sales invoices, we found that **SANIEXPO** does not submit the sales invoices in cash to the receipt stamp.

These receipts are estimated at MAD 3,924,419 (incl. tax) for the 2016 financial year and MAD 3,924,419 (incl. tax) for the 2010 financial year.

4,209,541.122 dh for the financial year 2019



**c. Value added tax (VAT) on purchase transactions:**

The tax deductibility of each expense incurred by the audited entity was analyzed by checking whether the invoices for purchases and services include the name of the supplier, tax identifier, RC, etc. and whether the tax on the purchases is deductible.

It turned out that the company SANIEXPO:

- Deducts vat for materials not related to the operation of the business. Among them we found:
  - Restaurant expenses are personal expenses of the company chef.
  - Fuel costs
  - Carries out another operation excluded from the right to deduct: this operation concerns a purchase of goods whose amount exceeds 10,000 dh paid in cash.

**1.2 The consequences of these anomalies**

• **The applicable rules**

The auditor presents the set of rules contained in the CGI that are relevant to the point he is addressing. Following the tax audit mission carried out at SANIEXPO, the following applicable rules emerged:

**a. Cash receipts:**

According to **article 193 of the CGI** stipulates that: *"Independently of the other tax sanctions, any settlement of a transaction whose amount is equal or higher than twenty thousand (20,000) dirhams, carried out otherwise than by non-endorsable crossed check, bill of exchange, magnetic means of payment, bank transfer, electronic process gives rise to the application against the selling company or service provider, verified, of a fine of 6% of the amount of the carried out transaction. »*

**b. Receipt stamps on cash receipts:**

According to **Article 252-I-B of the CGI**:

"Are subject to the rate of 0.25%, the pure and simple receipts or acquittals given at the foot of invoices and memorandums, receipts or discharges of sums and all titles which entail release or discharge, paid in cash. »

In addition to the non-application of stamp duty payment obligations, the General Tax Code (CGI) provides for penalties of around 100% of the simple duties payable, as well as a late payment surcharge of 5% for the first month of delay, and 0.50% per month or fraction of a



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month for failure or delay in filing the declaration, in case the stamp duty is paid on declaration.

The CGI also provides for the payment of a penalty of 100% of the amount of the simple duties with a minimum of MAD 1,000, in case of total or partial concealment or omission in the declarations.

### c. Value added tax (VAT) on purchase transactions:

- **Concerning materials not related to the operation:**

**Article 106-I of the CGI** stipulates that: "Does not give right to deduction, the tax having charged:

1° - goods, products, materials and services not used for the needs of the holding.

(4) petroleum products not used as fuels, raw materials or processing agents, excluding gas oil used for the operating requirements of vehicles for the collective road transport of persons and goods and the road transport of goods carried out by taxable persons on their own account and by their own means ...".

- **For purchases exceeding 10 000 dh:**

**In the same vein** and in accordance with the provisions of **article 106 of the CGI** "Is not deductible the tax having charged on purchases, works or services whose amount exceeds ten thousand (10,000) dirhams per day and per supplier, within the limit of one hundred thousand (100,000) dirhams per month and per supplier and whose payment is not justified by non-endorsable crossed check, bill of exchange, magnetic means of payment, bank transfer...".

- **Tax risks:**

The auditor notes the risks related to **non-compliance with these rules**, risks contained in the CGI. Sometimes the auditor just states the article of the CGI without quantifying the tax risk. Following the tax audit mission carried out at SANIEXPO, the following tax risks emerged:



**a. Cash receipts:**

SANIEXPO is liable to a fine of **6%** for invoices exceeding **20,000** dh collected per species.

- The estimated fines relating to cash collections for the two previous years amount to **MAD 7170**, and are detailed as follows:

Table N°1	Risk concerning cash invoices exceeding MAD 20,000		Total in DH
	2018	2019	
Total invoice amount	80 000	39 500	119 500
6% fine	4800	2370	7170

**b. Receipt stamps on cash receipts:**

the stamps of receipt are subjected to the rate of **0.25%**, thus the estimate of the risks concerning the stamp duties is of the order of **20 334.89 DH**. It is distributed as follows:

Table N°2	Stamp risk on cash receipts		Total in DH
	2018	2019	
Cash collection in cash TTC	3 924 419	4 209 541,122	8 133 960.122
Receipt stamp	9811.04	10 523.85	20 334.89

**c. Value added tax (VAT) on purchase transactions:**

Concerning the purchase transaction which exceeds **MAD 10,000** and paid in cash, the estimate of the risk related to the value added tax for the year 2019 is about **MAD 3,000**, detailed as follows:



Table N°3

<b>The year</b>	<b>2019</b>
<b>Invoice amount</b>	<b>15 000</b>
<b>Vat 20%.</b>	<b>3000</b>

In this case, Article 6 of the 2017 Finance Act introduced the following sanctions:

- **500 DHS for an out of time deposit.**
- **2000 DHS for failure to report.**

### **5.3 Proposal of recommendations**

The tax auditor presents verbally to the management of the audited company and in less technical language the anomalies identified, the risks they run and the recommendations proposed to eliminate or reduce these risks.

The recommendations made by the auditor in his report must be followed by the necessary actions for their implementation. These actions are of two kinds: corrective actions and improvement actions.

- Corrective action will be taken whenever an anomaly or irregularity is found.
- Improvement actions are taken whenever the company can make tax savings or improve the management of its tax file.

➤ **In our case, the proposed recommendations are as follows:**

**a. Cash receipts:**

The action consists in using in the future the bank check as a means of payment for sales transactions exceeding 20,000 dh because it allows to keep a trace of payment and to avoid the tax risks involved.



### **b. Receipt stamps on cash receipts:**

Since the company cannot reverse the invoices issued, the action consists in applying stamp duty on sales invoices paid in cash.

### **c. Value added tax (VAT) on purchase transactions:**

The undertaking may lodge a corrective VAT declaration to correct the error if the time limit for lodging the declaration has not expired. However, if the time limit for filing has passed, the correction of an error made can only be made by means of a contentious declaration addressed to the locally competent tax department.





## **Chapter 5: Conclusion**



### Conclusion

At the end of our study, it appears that managing taxes in a company is not easy given the large number of taxes. But it is a management that is imposed on companies by laws and regulations.

The use of tax audit has the direct and logical counterpart of the declaratory system, which is that the tax is established on the basis of the taxpayer's declarations and is subsequently subject to control by the tax authorities.

This possibility constitutes a formidable and unavoidable threat if the company does not know its tax rights and obligations or if it does not adapt measures to deal with tax risks.

However, good tax risk management requires an audit and a diagnosis of the tax situation within the company. The tax audit then makes it possible to assess and evaluate the strengths and weaknesses in order to highlight the possible tax risks that weigh on the company. It allows to lift the veil on the uncertainties and tax questions of the entity and then facilitates the decision making, the recommendations and advice resulting from this diagnosis contribute to the tax security of the company and participates in the improvement of its tax management. This measurement procedure remains useful and necessary in order to avoid or anticipate tax audits.



**Appendix:**

**Schedule:**

**Tasks carried out within SANIEXPO**

**1. Filing of supporting documents**

The classification of the supporting accounting documents that characterize the daily activities and operations of the company is done by the chronological filing system, i.e. in chronological order according to the following procedure:

- PURCHASE FILE.
- SALE FILE.
- BANK FILE.
- CASH REGISTER FILE.
- MISCELLANEOUS OPERATIONS FILE.

**2. Accounting**

Once the file is closed, the person in charge of the file proceeds to the recording of the accounting entries in the following auxiliary journals:

- PURCHASES JOURNAL
- SALES JOURNAL
- BANK NEWSPAPER
- CASH BOOK
- MISCELLANEOUS OPERATIONS LOG

➔ Before posting an invoice, it must meet certain conditions: - The name of the supplier, the date of the invoice, the name of the customer, the stamp and signature of the supplier, the nature of the transaction, the amount and the VAT rate indicated, the VAT, tax identification, ICE, trade register.

- **Purchase Diary**

In this journal all purchase invoices for the month in question are recorded, e.g. purchases made during the month of January must be recorded in the purchase journal of the same month.

The C.T.T. amounts recorded in this journal are credited first, and depending on their method of settlement, they are debited in the Cash journal or the Bank journal.



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On the other hand, the corresponding expense account is debited and the recoverable VAT is charged on the expenses in order to comply with the double-dip rule.

➔ Since the company does business with a variety of suppliers, four-digit codes (supplier coding) are used to distinguish each supplier.

- **Purchase Diary**

Sales invoices are entered in the same way as purchase invoices.

- **Bank Newspaper**

The company may have one or more bank journals depending on the number of bank accounts it holds. In this journal the details of the bank statement are detailed, making entries in their appropriate accounts.

- **Cashier's journal**

The cash journal is made up of receipts represented by customer invoices paid in cash and supplies that come either from the bank or from a cash contribution from a partner, and expenses made up of supplier invoices paid in cash, cash vouchers and withdrawals for bank supplies.

- **Miscellaneous Operations Log**

In this diary all the transactions are generally made other than Purchases, sales, banks and cash, for example (Social security charges, VAT...).

### **3. Analysis of the accounts**

Account analysis is a very important task after entry. It is an analysis of situation accounts, for example, vendor account, customer account, bank account, cash account, and so on.

The analysis makes it possible to decide on the situation of the account and to qualify it as either a debtor or a creditor. On the basis of this assessment, the company decides on the nature of the action to be taken, for example whether the company owes money or whether it must pay money.



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