

NEW CENTRALIZED APPROACH TO INTERNATIONAL AUDITS

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Risk Assessment

Federal budget cuts have resulted in a new risk-based approach to international audits by the Large Business & International (“L.B.&I.”) division of the I.R.S.

On February 27, Sharon Porter, acting director of International Business Compliance within the L.B.&I., announced that the I.R.S. will “re-engineer” its approach to international audits and begin implementing a pilot program utilizing an experimental centralized method of risk assessment. The L.B.&I. has organized a group of revenue agents, international examiners, and transfer pricing specialists to assess risk for all coordinated industry case returns in order to identify possible compliance issues.

Porter explained that, since the 1960’s, the I.R.S.’s audit instructions have traditionally been to “find the compliance risk in this return” within a certain amount of time. Now, it is commonplace for companies to be involved in intricate international transactions, and more data is available to be utilized in the audit process.

The new centralized approach provides the examiner with more information at the beginning of the review process, and risk is assessed at the beginning of the audit. The examiners and specialists will then review the returns. This centralized approach will more efficiently allocate the L.B.&I.’s resources.

The L.B.&I. is also employing best practice methods in its examination process, with internal reviews and compliance assurance for large cases.

An international strategy council has been formed to detect compliance risk and establish a systematic way of “identifying top strategic issues.” The council is developing new efficient training programs to maximize resources and reduce the training time for examiners. Typically a new domestic agent is trained in about a year, while an international examiner has three years of training. Through best practices and transactional-based training methods, the L.B.&I. will re-focus its approach to international audits.

