

4000 AUDIT WORK IN PROGRESS (WIP)

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4010 AUDIT WORKPAPER PREPARATION

Workpapers are prepared as a record of the auditor's work. This record is necessary to support and, if needed, defend the audit recommendation. A uniform method of accumulating and presenting this record has been developed for use in all department tax audits. The design of this format is intended to achieve the following objectives:

- To require that auditors maintain an accurate, thorough, and usable record not only of the information developed during the audit but also of the procedures used to obtain and evaluate this information. This record of both what has been done and what has been found is necessary in order to support the auditor's recommendation.
- To provide a method of presentation that will make the information contained in the file easily retrievable.
- To ensure the flexibility necessary for use in all cases. Each audit is unique, and the procedures and techniques necessary to successfully complete a given audit will depend on the situation. The uniform workpaper format adapts well to any audit. It avoids the possible confusion of a standard workpaper format with a standard audit program (which cannot be developed for our purposes because each assignment is different), and emphasizes the need for the auditor to determine what is to be done on each case.

The volume of workpapers will vary from case to case. A general guideline is to include all relevant data and material that are prepared or obtained during the examination. This will involve several distinct kinds of documents both electronic (PASS) and paper, including:

- An Index to Audit File
- Audit Program Worksheet
- Audit Issue Sections (including verification)
- Event Log
- Correspondence
- Information Document Requests (IDRs)
- Audit Issue Presentation Sheets (AIPS)
- Notes or other narrative material prepared by the auditor
- Copies of documents obtained from the taxpayer or third parties
- Other data as needed
- PASS and Non-PASS Audit Schedules (See PASS tips folder to copy non-PASS schedules into a PASS workpaper folder.)

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4020 WORKPAPER PREPARATION STANDARDS

Auditors have considerable latitude in preparing workpapers, as long as the following standards are met:

- Neatness and legibility are of utmost importance
- Number all pages for cross-referencing purposes
- Include the auditor's initials and date prepared on all pages.
- Label each workpaper with an appropriate heading such as:

TAXPAYER NAME
TAXPAYER ID NUMBER
ISSUE
YEARS INVOLVED

PASS gives auditors the ability to create headers and footers on WORD or EXCEL templates contained in the system. Many of these templates are programmed with auto-population features allowing the system to automatically create headers and footers. Information included in these headers and footers generally consists of case unit name and number as well as folder where located, document name and page number. Auditors may revise the header and footer information to agree with their cross-referencing scheme.

All workpapers must be numbered, indexed and cross-referenced. Logical subdivisions must be established so that workpapers are grouped by topic or issue. Subdivisions must be summarized and indexed on the Audit Program Worksheet. Numbers should be shown at the bottom-center of each workpaper and include both the section and page (1/1, 1/2, 2/1, 2/2, etc.).

Notations must be included to identify the source of all data included. Documents must indicate when and from whom they were received. The name of the person who furnished the information must be noted. If necessary for identification, note their position. In large audits you may receive information from numerous people. Comments like "received from taxpayer" are not precise.

If not self-evident, the significance of each workpaper should be briefly noted. Notations must be made to explain each symbol (tick-mark, triangle, etc.) that was used for indicating the verification of amounts or totals. This applies to copies of taxpayer documents included as audit workpapers.

CAUTION: Copies of workpapers and other documents may be requested by the taxpayers or their representatives. Workpapers, narratives and other documentation should reflect an objective, unbiased audit.

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4030 UNIFORM FORMAT

The uniform format for all tax audits requires use of the following items on PASS:

Event Log

Form FTB 6869a, INDEX TO AUDIT FILE

Form FTB 6833, AUDIT PROGRAM WORKSHEET

Form FTB 6870B, AUDIT ISSUE SECTION

Form FTB 9910, AUDIT ISSUE SECTION – VERIFICATION

4035 INDEX TO AUDIT FILE, FORM FTB 6869A

The purpose of form FTB 6869a, Index to Audit File, is to facilitate cross-referencing between the PASS electronic file and associated paper files of an audit package. PASS static folders are listed on the form. The form gives the auditor the flexibility of adding folders to reflect issue folders created in PASS. The form contains two columns for cross-referencing purposes: (1) PASS File Name, (2) Physical Document File. Enter the appropriate cross-referencing value in each column. At the completion of all audit work, print the index form and attach it in front of the workpapers in the paper file.

4040 AUDIT PROGRAM WORKSHEET, FORM FTB 6833

The Audit Program Worksheet should be used to identify the possible audit issues and to index the workpaper file. This document is found in the *****.

Procedures:

- List material audit issues and potential amounts involved.
- Designate corresponding Audit Issue Section (FTB 6870B) number in Workpaper Reference column.
- For each issue listed, specify the conclusion (i.e. adjust or no change) on this Audit Program Worksheet once it has been determined.

NOTE: ((* *)) = Indicates confidential and/or proprietary information that has been deleted.

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4050 EVENT LOG

The Event Log provides users with a detailed listing of all actions taken or recorded in PASS for a specific case unit. It can be viewed at either the case or case unit level. However, entries are made only at case unit level. PASS automatically records some entries in the Event Log while the user must enter others. See PASS Help for details on events recorded by PASS. Users should periodically review the Event Log to ensure the automatic record features are properly functioning and to ensure manual events are recorded.

Print the Event Log only in extremely unusual situations such as a subsequent user of the file not having access to PASS. If printed, attach the log to the workpaper file directly underneath the form FTB 6869a Index to Audit File and ensure it is properly labeled and numbered for cross-referencing purposes.

4060 AUDIT ISSUE SECTION, FORM FTB 6870B

The Audit Issue Section accomplishes the following:

- Divides the workpaper file by topic.
- Provides sub-indexes for each Audit Issue Section.
- Provides a summary and record of the audit process for each Audit Issue Section.

Form FTB 6870B is formatted to provide a record of the audit process (Summary Explanation as Reported and Conclusion) for those audit issues that lend themselves to this format. These segments are completed as the audit progresses, beginning with the pre-field audit activity. Reference to supporting workpapers should be provided within the text of the document. The name of the * * * * * should reflect the issue under audit.

FTB 6871D (Notes) and FTB 9904 (Free Form) are other PASS templates which can be used to summarize and reference groupings of information that do not lend themselves to the "As Reported and Conclusion" format of FTB 6870B. Examples would include the following:

- Background Data
- Planning
- Pre-Audit Information
- Documents that require cross-referencing to more than one program item

For a complete listing of templates available in PASS, refer to PASS Help.

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4065 AUDIT ISSUE SECTION – VERIFICATION, FORM FTB 9910

The purpose of form FTB 9910 Audit Issue Section – Verification is to provide auditors with a means of documenting audit activity on specific audit issues. Documenting our activity serves as the central basis for supporting audit determinations as cases move through various stages of the audit lifecycle. Form FTB 9910 or the equivalent form FTB 6870B is required on all cases and should be prepared as thoroughly as possible.

Section Headings:

- Summary Explanation of Items Reported – Use this section to explain how the issue was reported (or not reported) on the state return, how it was identified and why the decision was made to pursue (or not to pursue) the issue.
- Verification Procedures – Use this section to document steps taken in identifying, developing and reaching the audit conclusion. Mention all sources relied upon such as annual reports, unitary questionnaire or meeting minutes in support of the audit determination. Also mention any research conducted along with the sources and results of the research.
- Conclusion – Clearly state the results of the examination. Include references to any law sections, regulations, SBE cases or District Court decisions in support of your conclusion. Also mention any policy considerations relied on in supporting the audit conclusion.

Include all workpaper references in the column labeled "W/P REFERENCE." Workpaper references should agree with form FTB 6869 Index to Audit Workpapers.