EUROSAI VI
Kongress 2005
Europa | Bonn | Petersberg

AUDIT OF PUBLIC REVENUES

Sub-theme I

The significance of public revenues for public financial managers and for the Legislature's budget authority

Questionnaire Results Paper

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(March 2005)

Contents

1 Introduction

The objectives of the VI EUROSAI Congress are to promote the exchange of ideas and experiences between Supreme Audit Institutions in the sphere of external financial audit and fiscal management, especially the audit of public revenues, and to prepare conclusions and recommendations thereupon.

Public revenues extend to other kinds of (non-tax) revenues, such as property income, administrative fees, sales, capital revenues, European Union (EU) subsidies and grants. Although revenues proceeding from borrowing may represent a significant part of the State budget, these revenues will not be included in this discussion in order to keep the subject manageable.

The purpose of Sub-theme I is to establish a foundation for the other sub-themes with regard to the size, structure and management of public revenues in the various European countries.

The sub-theme I working group, comprising the SAIs of Austria, Lithuania, the Netherlands (Chair) and Portugal, has prepared the Questionnaire Results Paper before you, which gives details of the reactions of 33 EUROSAI members[1] to the Sub-theme I Principal Paper. The questions of the Principal Paper are included in this document for reference.

This paper provides the basis for the Sub-theme I Discussion Paper, which will be debated at the sub-theme plenary session to be held during the EUROSAI Congress in Bonn in 2005.

For the collection of the data, the working group used the figures and definitions of the International Monetary Fund (IMF), wherever possible[2]. All members of EUROSAI were invited to confirm and complete a table with IMF-based data regarding the public revenues of their country. Eleven countries did so, and on the

[1] Austria, Belarus, Belgium, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, Germany, Greece, Iceland, Ireland, Italy, Kazakhstan, Latvia, Lithuania, Malta, The Former Yugoslav Republic of Macedonia, Moldavia, The Netherlands, Poland, Portugal, Russian Federation, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, Ukraine, United Kingdom, the European Court of Auditors.

[2] To provide an insight into changes in public revenues over time, data are presented for a series of years, namely 1992-1997-2002. Where no data were available for 1992 and/or 1997 and/or 2002, another year has been selected, as close as possible to the standard year. It was not possible to indicate the actual year (where this differs from the norm) in the individual tables.

basis of the IMF figures (when available) the working group completed the country tables for a further 19 countries (those from whom a completed questionnaire or full country paper had been received[3]). Due to their specific position the data received from the European Court of Auditors are not included in the graphs and data analysis. For one country there were no IMF-figures available. The graphs and data analysis in this paper and the accompanying annex are therefore based on information from 30 countries. Since not all countries answered all questions, the number of countries on which the graphs are based varies per case.

2 Public Revenues

2.1 The importance

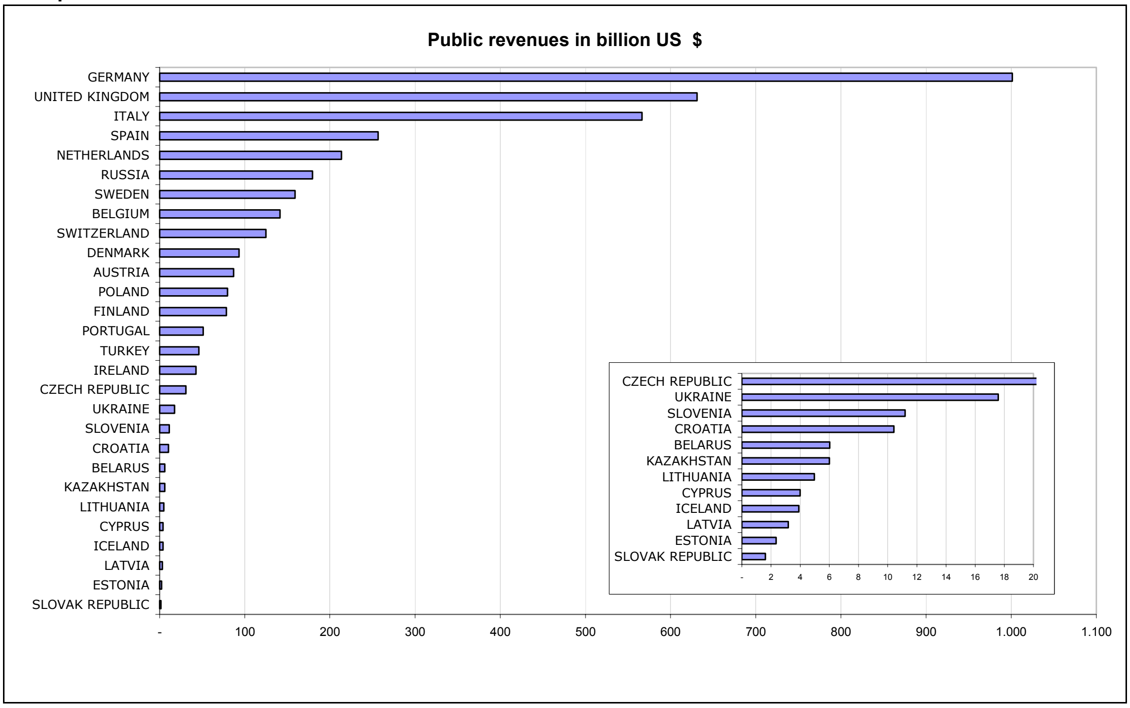
The importance of public revenues is self-evident. Without revenues, there can be no expenditure. Public revenues cover a broad spectrum. It should also be kept in mind that public revenues are a significant instrument in the implementation of government policies. Some have their origins in tax legislation, others in the provision of services or in capital gains. Audit of the various types of public revenue is exceedingly important to all supreme audit institutions (SAIs). All countries tend to have comparable types of revenue, although perhaps not to the same degree. In addition, in most economies there is a need for lowering public expenditure (with a special focus on public deficits) and this trend cannot be considered separately from the ‘revenue side’ of public finance.

In recognition of the importance of an efficient revenue collection system, Supreme Audit Institutions have for quite some time prioritised the establishment of revenue audits as a specialized and independent domain. The subject of the audit of public revenues was addressed by the INTOSAI Congresses held in Rio de Janeiro in 1959, in Madrid in 1974 and in Lima in 1977.

[3] The country papers and completed questionnaires can be viewed on the VI EUROSAI Congress website (www.eurosai-2005.de).

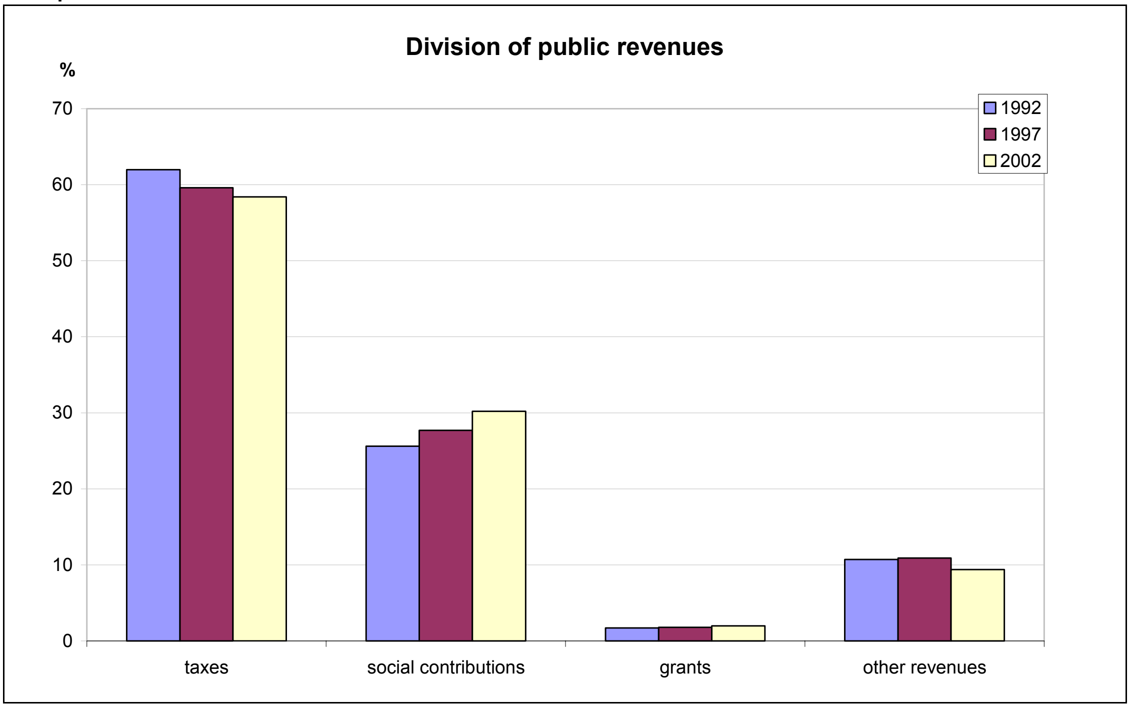
The following graph (and table 1 see annex) presents the magnitude of public revenues in us dollars per EUROSAI country for the year 2002.

Graph 1



The following graph shows the division of the total public revenues at the level of central government for the years 1992, 1997 and 2002.

Graph 2

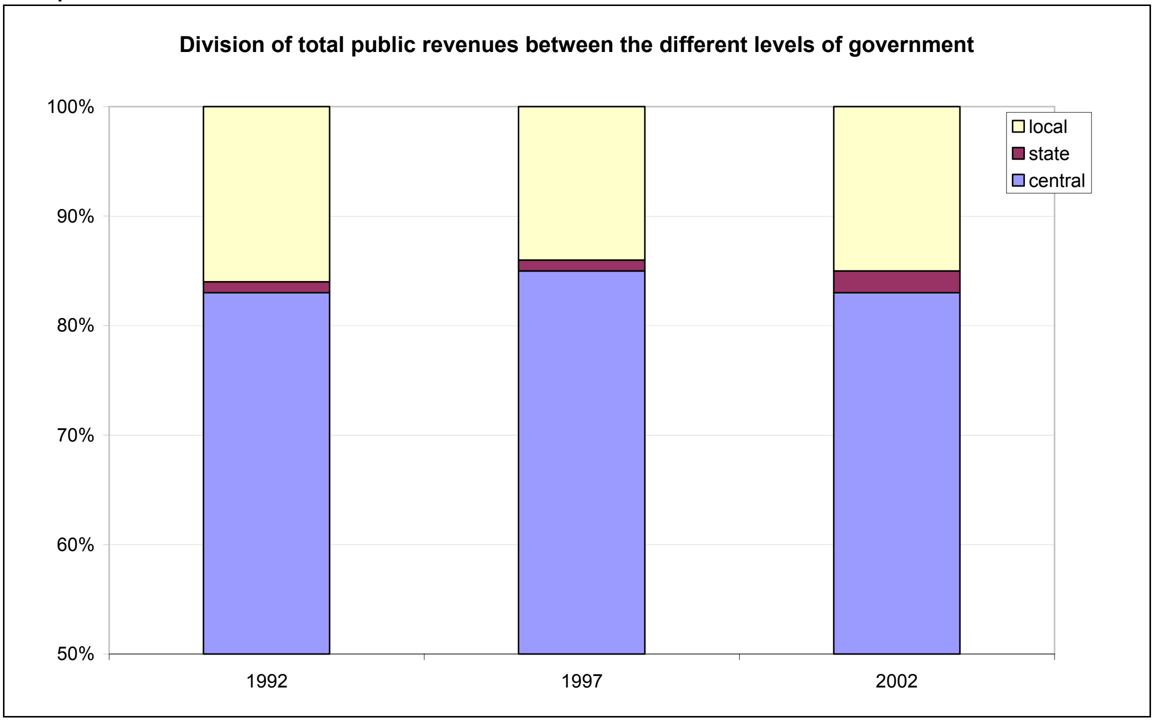


The graph shows no substantial changes in the division of the total public revenues over the chosen years. Taxes and social contributions are by far the most important categories of public revenues for all countries. (see annex table 2).

Each level of Government has its own revenues. In most countries the state and local levels receive a set portion of the tax income. In the graph below these financial flows are eliminated.

The graph shows the division of the total public revenues over the three levels of government.

Graph 3



From the graph it is clear that the central government is in general responsible for the collection of 85% on average of the total public revenue. (see annex table 3).

2.2 Tax Revenues

2.2.1 Introduction

"Taxes are what we pay for civilized society"[4]. Tax revenue – which forms the dominant share of revenue for many government units – is composed of compulsory transfers to the general government sector.

Each country has its own tax authority. For audit purposes, it is important to have an insight into the tax authority's organisation and working practices, as well as into its relationship with parliament and the taxpayers. To this end, the following elements of the tax authority are important:

- the organisation
- the service
- the audit policy
- the sanctions policy
- other policies

Due to their obligatory nature, social contributions can be regarded as a form of taxation. Opinions differ on this point. In this paper, they are included as a separate category. Therefore, when the tables and text refer to taxes, social contributions are not included.

In almost all countries, the portion of public revenues taken up by social contributions is rising. Over the years in question, the average percentage has increased from 26% to 30%. A few countries have percentages higher than 40% and at the same time there are a small number of countries with social contributions below 20%. (see annex table 4).

2.2.2 Structure of the tax authority and taxes

QUESTIONS	
1	What percentage of total public revenues[5] is derived from the four 'largest' taxes in your country? Please name these four taxes.
2	How many other types of tax are there at central/federal level in your country?
3	Is the tax authority in your country integrated with the customs authority?
4	How many people work at the tax authority (excluding the customs authority) in your country?

[4] Justice Holmes

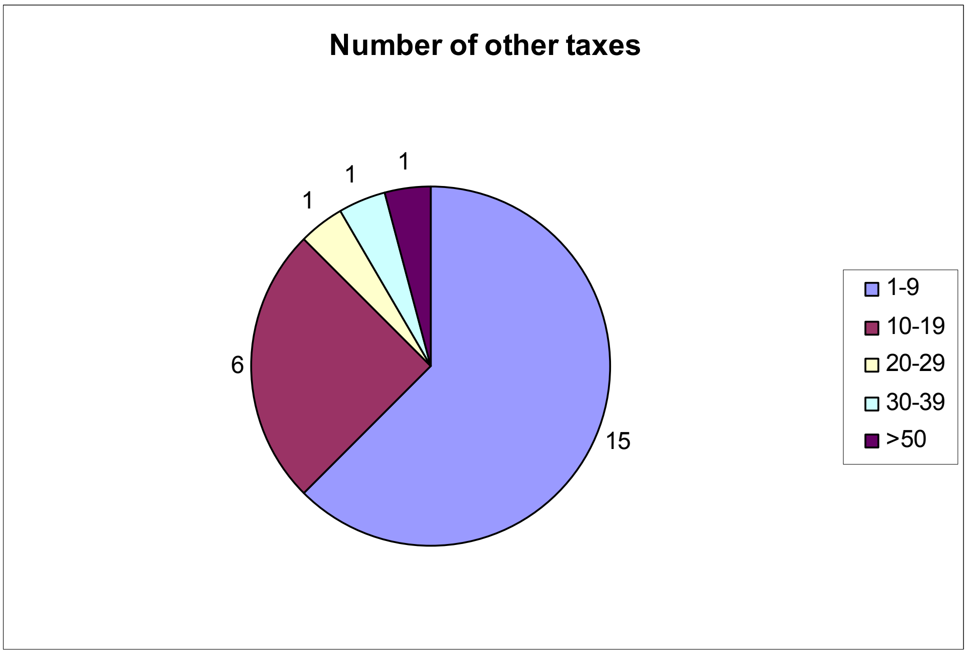
[5] Including social security contributions

5	How many people work at the customs authority in your country?
6	How many people at the tax and customs authorities work in audit?
7	Has the tax authority in your country recently undergone significant change? If so, what consequences have there been for the tax authority's primary process and audit?
8	Does the tax authority have an internal audit department?
9	Is the internal audit department responsible for auditing the regularity of the tax authority's expenditure and revenue?
10	Are parts of the tax authority's primary process in your country performed by third parties?
11	What role does parliament play in the receipt of public revenues: Is it involved in the creation and modification of taxation? Is it involved in setting the level of taxation? What influence does it have on the tax authority's audit policy?

1-2

The taxes most often mentioned by the respondents are income tax, corporate taxes, VAT, and excise & duties. These four taxes account for between 34 and 95% of the total revenue of the central governments. Most (18) countries report that these 4 taxes account for 60-90% of total revenue. The number of "other tax types" ranges from one to fifty. The answers to this question are stratified in the graph below.

Graph 4



Even though the contribution to total revenue of the four largest taxes shows a wide spread (34-95%), there are no indications that the answers to the questionnaire show abnormalities. Answers are spread evenly across the range. A large number of *other taxes* might be expected where the revenue of the four largest is relatively small, or vice-versa. The figures do not reveal such a correlation, however.

Over the period analysed, the tax portion of the total revenues declines slightly from 62% in 1992 to 57 % in 2002. More details can be found in the table 5 in the annex.

3

Of the responding 28 countries, 15 have integrated their tax and customs authorities. In one country the integration process is underway. No countries report on plans to discontinue the integration. Thus, about half of the respondents have integrated services, the other half doesn't and there is no apparent trend towards either structure.

4-5

Unfortunately, our efforts to get a basis for comparison on the number of tax employees per countries did not generate the expected results. Due to the lack of a common currency basis, we were not able to calculate total tax revenue per employee. Also, the data showed no meaningful correlation between the number of employees in tax and customs, and the population of the responding countries. We also feel that there may be multiple factors at work that determine the number of employees needed to get the job done. Such factors may include cultural aspects, working conditions and legal structures.

6

On the basis of the data received, we concluded that this question was probably interpreted differently than the WG had intended. Therefore no analysis has been done.

7

Most countries indicate that there have recently been significant changes in the tax-authorities organisation and/or structure. From answers to the questionnaire we have derived the following motivations/outcomes:

A Strengthening of the primary process
B Automation
C Cutbacks
D EU-influences

E Efficiency enhancement (no real influence on the process)
G Changes in position (legal placement)
H Integration of the tax and customs departments.

For some countries more than one motive applies.

8-9
Almost all countries report the presence of an internal audit department within the tax authority. About 75 % of these internal audit departments are responsible for regularity audits.

One country report describes that the internal audit objectives are governed by directives and recommendations. “Internal audits shall involve an independent review of the authorities’ management and control, and of the manner in which the authority fulfils its financial accounting obligations.” And: “The SAI's directives and recommendations in respect of the regulations state that the audit must also cover the efficiency of the operation and that it is in accordance with the objectives set by the government and the parliament.”

10
Outsourcing of the primary process is not very common. Only 3 countries report on parts of the primary process that are executed by third parties, other than governmental institutions. For this question the transfer of responsibility for the liability calculations from the tax-authority to the taxpayer itself has not been considered as outsourcing. Nevertheless, this may prove to be an interesting change in philosophy in the tax-collection process.

11
With regard to the role of the Parliament, all countries bar one state that Parliament is involved in the creation and modification of taxation and in setting the level of taxation. As to the kind of influence of parliament on the rate setting, we cannot determine from the answers whether parliament debates and approves proposed rates or sets the rates itself. According to most SAIs, Parliament does not have an influence on the tax authority’s audit policy.

A few countries responded that if shortcomings come to light (for instance via the media), Parliament would call the responsible minister to account, which could influence audit policy.

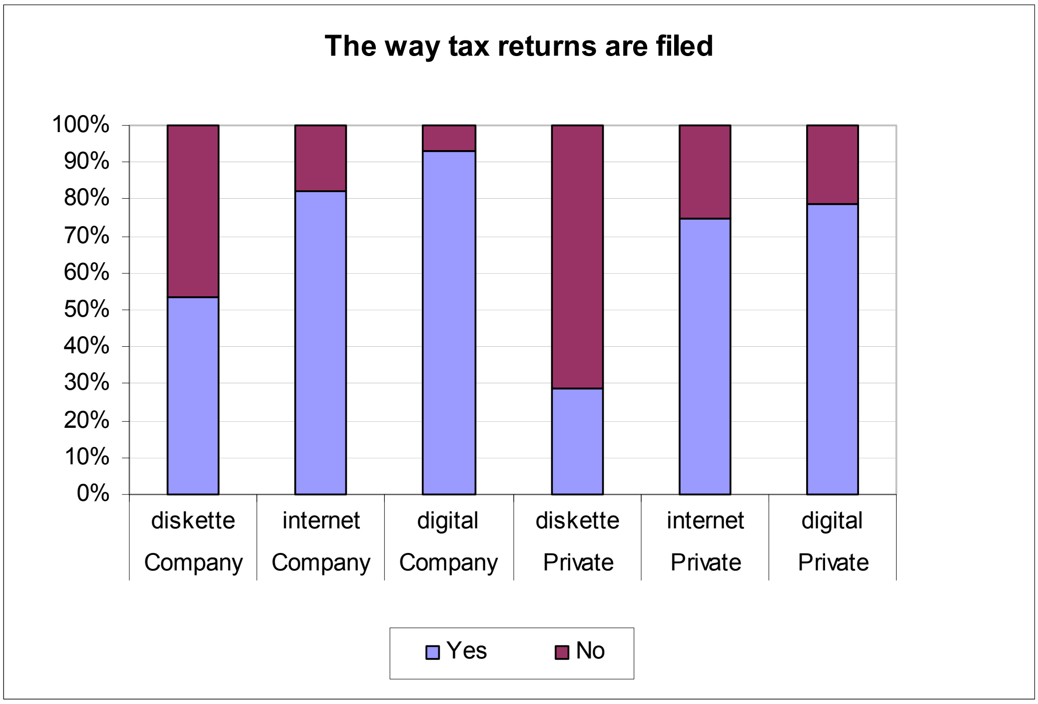
2.2.3 Service

QUESTIONS			
Can tax returns be filed electronically in your country?		Business	Private
12	By diskette	Yes/no	Yes/no
13	By internet	Yes/no	Yes/no
14	What percentage uses these options? Internet + diskette	%	%

12

The graph below shows the way tax returns are filed

Graph 5



Digital means the possibility to file by internet and/or by diskette.

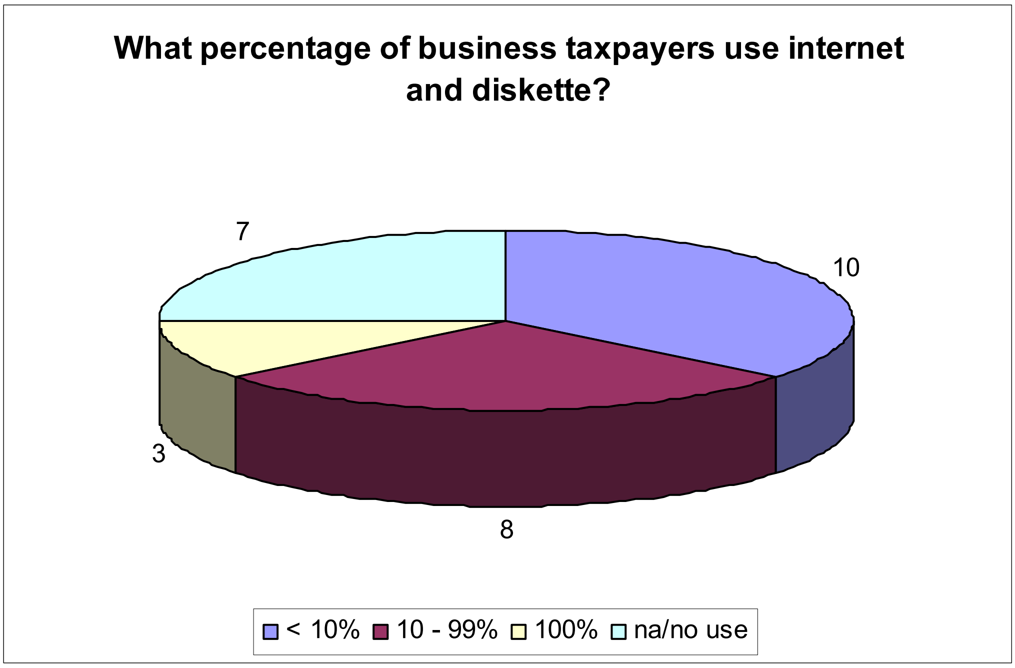
About half of the countries allow businesses to file their tax returns on a diskette (possible in 15 countries, not possible in 13). However, only 8 countries allow private taxpayers to file by diskette, while 20 countries do not.

For private taxpayers the Internet also seems to be the predominant facility. In 21 questionnaires, filing via the Internet is mentioned as a possibility. 7 countries do not offer private taxpayers the possibility to file electronically. The number of countries in which tax returns can be filed via the Internet by businesses is much higher than the number of countries in which this is not possible (possible in 23 countries, not possible in 5).

Most countries (namely 26 of the 28 questionnaires studied) provide the possibility for businesses to file tax returns on a diskette or/and over the Internet. For private taxpayers in 20 out of 26 countries is a possibility to file digitally.

14
The next graph shows the use of internet and diskette.

Graph 6



Full variety of use the above-mentioned facilities is seen: from 0%, 15 up to 100%.

In a relatively large number of countries (10), the percentage of businesses that make use of the above-mentioned facilities is less than 10%. 8 countries show percentages between 10% and 100%; 3 countries show percentages 100%.

For private taxpayers, the percentages are slightly higher. 9 countries show percentages less than 10 %. 11 countries show percentages between 10% and 100%. 2 countries show percentages 100%.

15

If the tax authority in your country processes returns electronically, what information (which can be verified against a second source) is available to it for electronic processing?	Yes	No
Private individual salary information	22	2
Interest income	17	8
Bank balances	12	12
Mortgages and personal credits	11	12
Ownership of immovable property	19	6
The value of immovable property	16	5
Ownership of securities (shares, bonds, options, etc.)	13	12
Ownership of vessels	10	14
Ownership of vehicles	17	8
Prior year records	20	5

Agricultural equipment, air transport, other transport facilities, pensions and rents, professional income, commercial and other agricultural, forestry and livestock income, assets and other property increments, list of deceased persons are mentioned as other information sources available.

Five countries have access to all information sources mentioned above. One country has no access to any of the information sources mentioned above. 5 countries have access to all information sources mentioned above, with one or two exceptions. 4 countries have no access to any of the information sources mentioned above, with one or two exceptions.

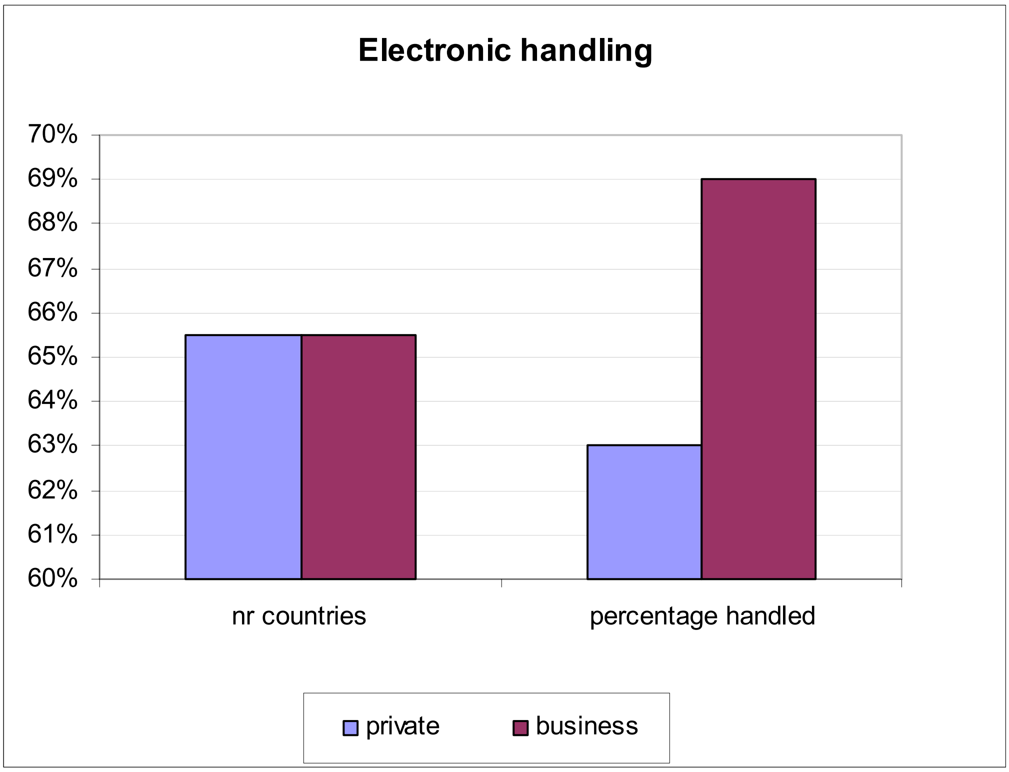
1 country has access to all information sources mentioned above, with the exception of 3 – 4. 4 countries have no access to any of the information sources mentioned above, with three to four exceptions.

2.2.4 Audit policy

QUESTIONS	
16	What percentage of private taxpayers are dealt with by computer (without the intervention of a member of staff) in your country?
17	What percentage of business taxpayers are dealt with by computer (without the intervention of a member of staff) in your country?
18	Does the tax authority in your country adhere to the principle that all business taxpayers should be audited every year or at least once in every, say, five years?

The graph below shows the level of automation of the tax audit

Graph 7



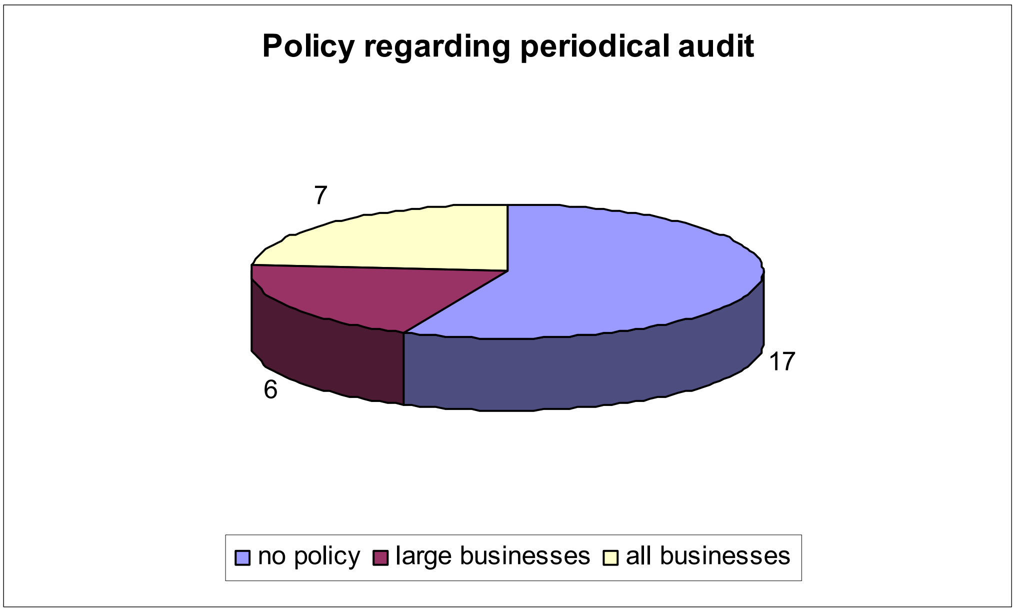
16-17

Nineteen countries have automated the tax audit of private taxpayers without the intervention of a member of staff. In sixteen countries that have data available, about 63% of the taxpayers are handled by computers. Some countries stated that only validity checks are carried out by computer, or that tax officers review computations.

19 countries have automated the tax audit of business taxpayers without the intervention of a member of staff. In the sixteen countries that have data available, about 69% of the business taxpayers are handled by computers.
Not all the answers stated above apply in all cases to the whole population of taxpayers or taxes.

18
The next graph gives an indication of the existence of a tax-audit-policy.

Graph 8



Seventeen countries have no policy regarding the periodicity of the tax audit, six have a policy that is aimed solely at large businesses and seven countries have a policy aimed at all taxpayers.

Most countries that do not apply the above-mentioned policy, as well as a part of the countries applying a policy of periodic audit of taxpayers, have implemented or are implementing systems of risk profiles or similar risk assessment systems that determine the likelihood of businesses being subject to audit.

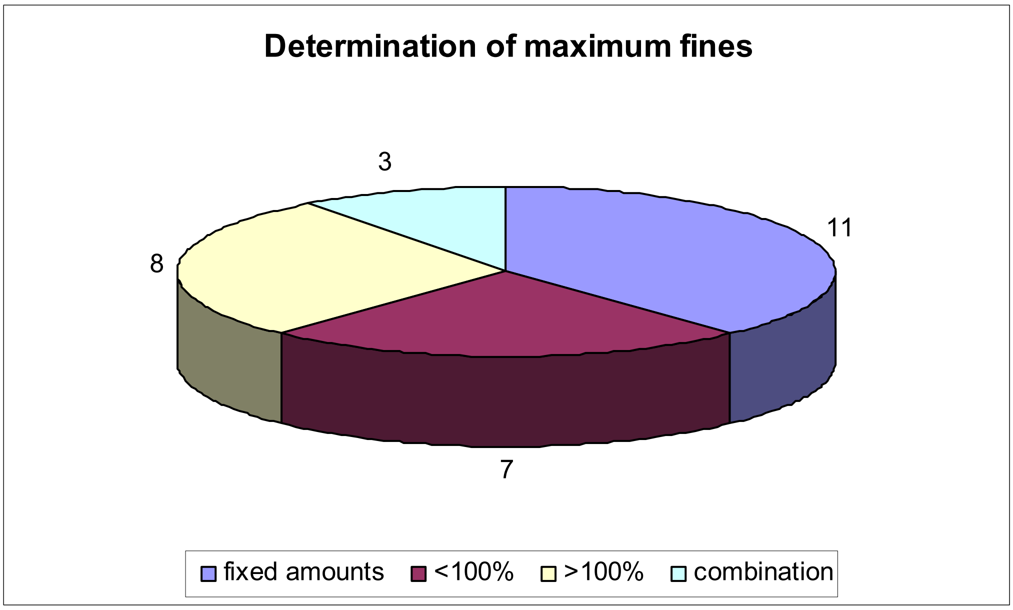
2.2.5 Sanctions policy

QUESTIONS	
19	Can the tax authority in your country impose administrative fines? If so, on what grounds?
20	What is the maximum fine that the tax authority can impose?
21	Which other sanctions are the tax authority able to apply?

19
In almost all of the countries the tax authority can impose fines.

20
Graph 9 indicates the composition of fines.

Graph 9



Eleven countries have maximum amounts as fines, which vary substantially (from € 350 to € 110,000). Eight countries have fines of 100% or higher (up to 400%) and seven countries have maximum fines lower than 100%. Only three countries have maximums, which are based on a combination of fixed amounts and percentages.

21
To the question which other sanctions the tax authority is able to apply, the respondents gave a variety of answers, such as detaining people, prohibiting the transfer of goods, confiscating goods, and publicly exposing those who do not pay their taxes.

2.2.6 Accountability

QUESTIONS	
22	Does the tax authority report separately to parliament or is its accountability part of a greater whole (for example that of the ministry of finance)?
23	Does the tax authority report to parliament on non-financial aspects? If so, please provide examples.

24	Must the tax authority in your country formally report on the policy in place to optimise tax revenues?
25	How does the tax authority report on this?
26	Must the minister responsible for the tax authority in your country declare that the operations are in order (issue an ‘in control statement’)? If so, how is this arranged?

22
22 of the 30 countries report that the annual report of the tax administration is part of a larger report, especially the annual report of the Ministry of Finance. The remaining eight countries have (also) separate annual reports of the tax administration.

23
Eleven countries include standard non-financial aspects in their annual report. Five of those countries include specific non-financial aspects in their annual report related to questions of parliament. In three countries the tax administration reports every year on indicators of effectiveness and efficiency.

24-25
In ten countries, the tax administration has an obligation to report on the policy in place to optimise tax revenues. In one country, the report focuses on the policy that is in place, while the other countries report on the correctness of the budget.

26
Two respondents stated that the minister responsible for the tax authority declares that the operations are in order (issues an ‘in control statement’).

2.2.7 Other

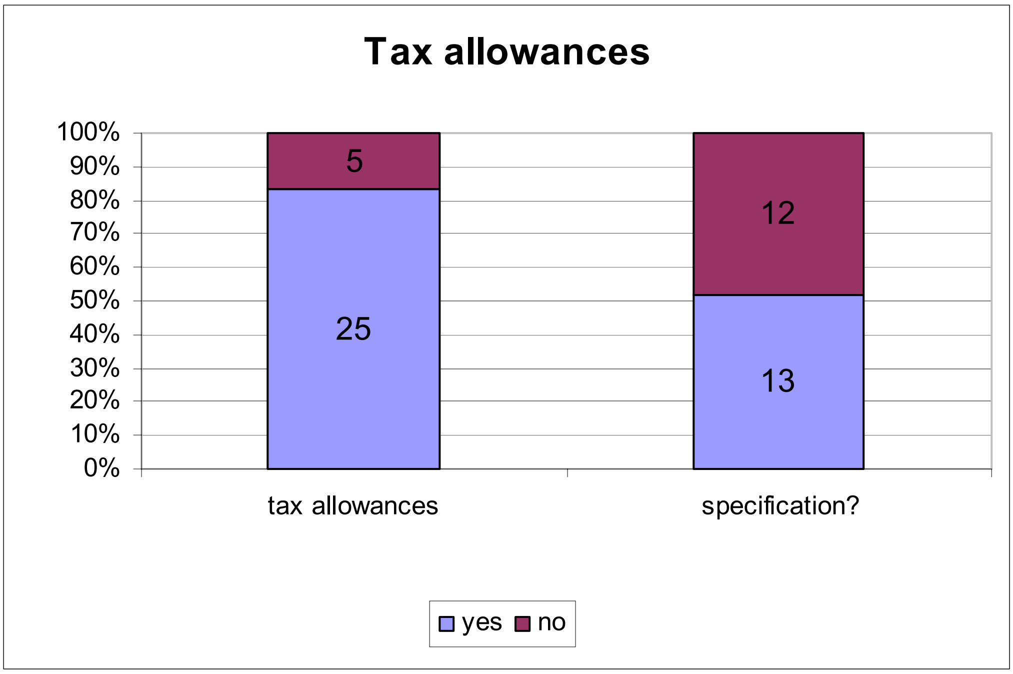
QUESTIONS	
27	Does your country allow tax expenditures, for example do taxpayers receive subsidies in the form of tax deductions for investing in energy-saving equipment? Please provide examples. What amount is involved in such schemes each year? Are the schemes audited? Does the responsible minister report to parliament on the efficiency and effectiveness of tax expenditures?

28	What percentage of tax receivable is exempt from collection in your country each year?
29	What powers does the tax authority have to allow exemptions, deductions and tax relief in your country?

27

If tax allowances are allowed and the insight in amounts involved is shown in the next graph.

Graph 10



25 out of 30 countries allow tax allowances. In most cases tax allowances are given to improve the environment and facilitate investments by companies. Of those 25 about half cannot specify the amount involved in tax allowances. For the countries that can, the amount varies widely. Only three countries report that the tax allowances are not audited. Twelve countries answer that the responsible minister does not report on the efficiency and effectiveness of the tax allowances.

28

This question was not clearly formulated and only a few answers were received. The number is too small to make an analysis.

29
About 50% of respondents indicated that the tax authority has powers to allow exemptions, deductions and tax relief. These respondents added that this occurred "within the boundaries of the law".

2.3 Other revenues and grants

2.3.1 Introduction

Brought together under this heading are various revenues, such as administrative fees, property income, interest, sales of goods and services, fines etc. Unlike in previous years, the latest IMF figures do not show a distinction between non-tax revenues and capital revenues. For the revenues mentioned above, the IMF uses the heading 'Other revenues', which is why the working group uses that description in the tables and in the description below.

At the central level, the proportion of the other revenues and grants varies considerably between the countries. For the years 1992, 1997 and 2002, the average percentage of this category is about 12% of the total public revenues. In 58% of the countries this category of revenues was below the average.

Only 4 countries have a state level. For that reason that level has not been taken into further consideration.

At local level, the percentages of the category other revenues and grants are substantial higher than at the central level. The average is about 43%. In 43% of the countries the percentage of other revenues and grants is also below that average (see annex for tables 6-7).

2.3.2 Other revenues

This section deals on one hand with such items as fees for compulsory licences and other administrative fees from the sale of services. On the other hand there is a wide range of financial flows of varying sizes, for example revenues from the sale of public land and natural resources and the income from state properties.

At the central level the average percentage of the (combined) category other revenues is 10 % of the total revenues. In 60% of the countries the average is below that level.

At the level of local government the average percentage is 15. In 47% of the countries the average is below that level.

Fees

Within the same country, public revenues from fees differ enormously between the different levels of government (where different levels exist). They differ in nature, because they are linked to a wide variety of public services, and in amount. One country gave the following description: compulsory fees are levied for services where the state has a monopoly – for example, passport fees – whereas voluntary fees are charged for various services where the state does not have a monopoly. In this case and in other cases where a voluntary fee is paid, there are other suppliers beside the state, so that the fee has the meaning of a price the consumer should pay to the supplier, in spite of the fact that the supplier is the Government. In these cases, some competition difficulties may arise. That is not the case when there is a compulsory fee involved. The end consumer has no choice but to pay the fee to the state if s/he needs the public goods. Another SAI points out that public revenues from fees have been declining since 1995 due to the fact that many services have been transferred to separate trading funds or companies, or have been fully privatised.

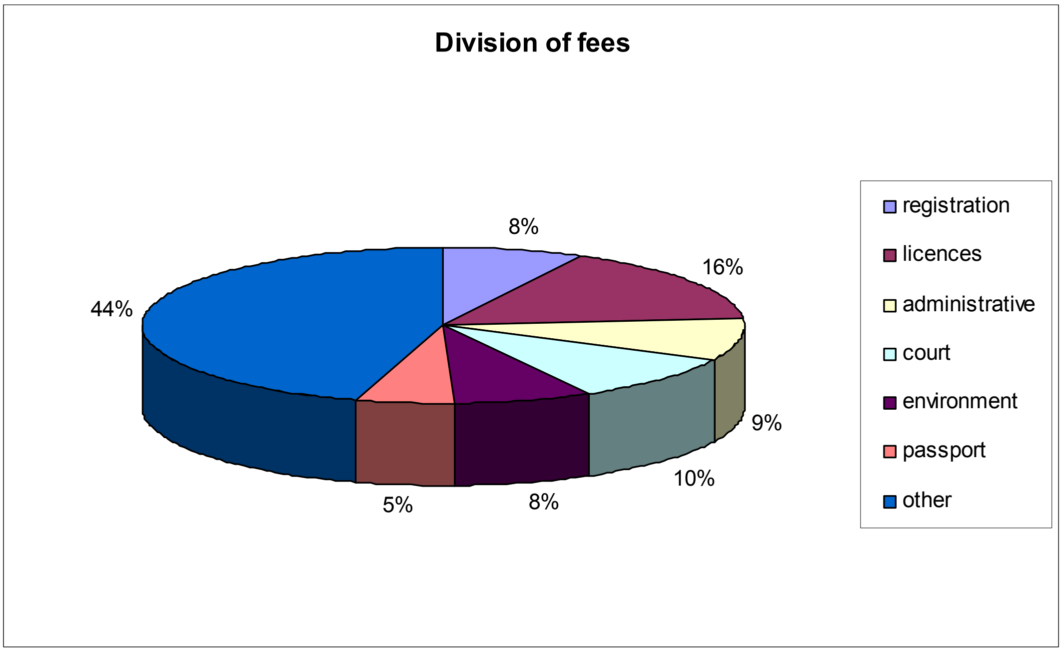
QUESTIONS	
30	Name three important fees in your country
31	Explain who sets the rates for each fee.
32	Are the fee rates the same throughout the country?
33	Who collects the fees?
34	Are the fees audited (externally or internally)?
35	Are the fees audited by your SAI?

30

The most frequently named fees are those for motor vehicle licences, court fees, land register fees, passport fees and broadcasting receiving licences. Most fees are linked to the traditional activities of the different levels of Public Administration (administrative fees, judicial fees, concessions, use of natural resources); several fees are related to the use of infrastructures (roads, motorways, energy, and broadcasting services); others are used as policy instruments (environmental fees; air security; licenses for economic activities).

The division of the category fees is shown in the graph below

Graph 11



31
Laws and regulations mostly set the rates for fees. Ministries and the Parliament play an important role here. At the local level, local authorities fulfil that role. Voluntary fees (cf. paragraph 3.2.2) are mostly set by the agencies themselves.

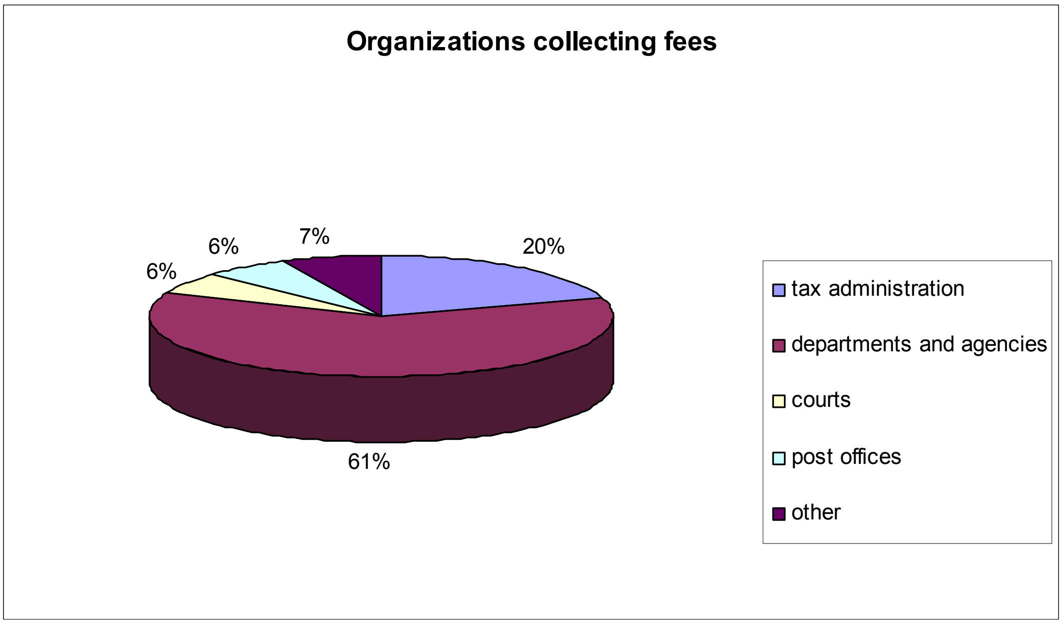
32
In nearly all countries, the fee rates are the same throughout the country. However, some countries point out that this situation refers to the fees at State level. At regional/local level there are some differences, at least in five countries.

33
Most of the fees are collected through the ministries and/or their agencies. For instance, a quarter of the fees are collected through the tax authority, courts and post offices. Local authorities are also mentioned by some countries, as well as the public bodies, which provide the services on which fees are levied (for instance, schools and universities).

It must be stressed that in the case of the agencies, the relevant powers have been assigned to them by legislation.

Who's responsible for the collection of fees is shown in the graph below.

Graph 12



34
In nearly all countries the fees are audited, either internally or externally. SAIs and regional/local audit offices are mentioned within the area of external audit, and so are administrative courts.

35
Many countries consider the audit of the fees as a regular task for their SAI. In some cases a distinction is made among the levels of administration: local fees are audited by the regional/local RAI and the central fees are audited by the (national) SAI. However, for 17 % of the countries, fees are not audited at all.

Other financial flows
This category includes a wide range of financial flows of varying sizes, for example revenues from the sale of public land and natural resources.

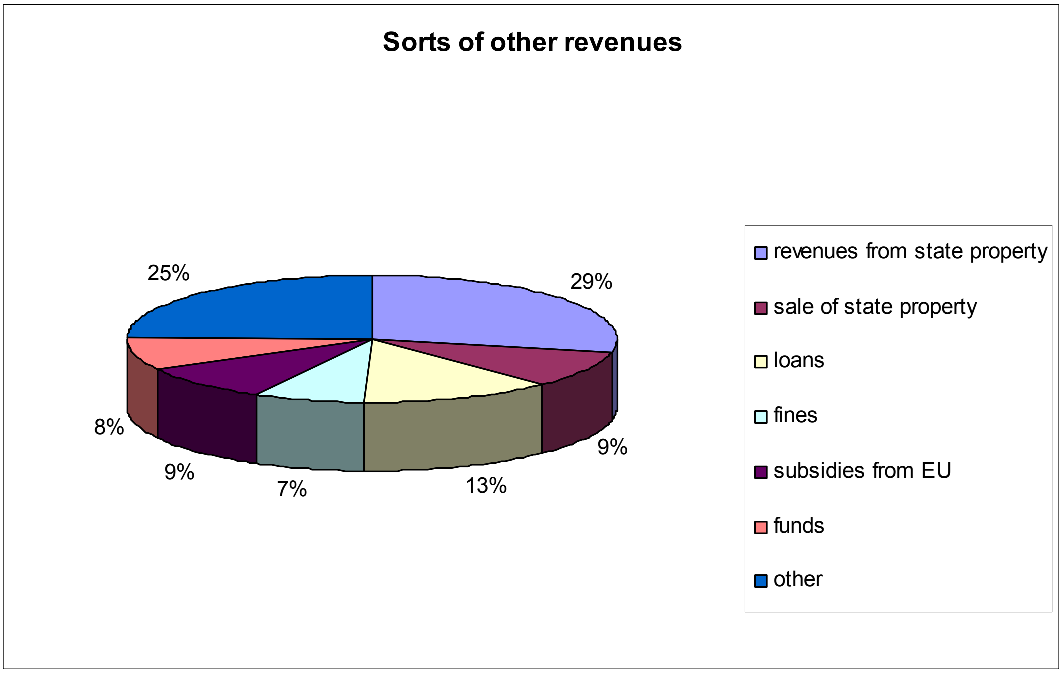
QUESTIONS	
36	Name the three largest financial flows (other than taxes and fees) in your country.
37	Describe who/which institutions are responsible for managing each flow.
38	How is the amount of the payment/revenue determined?
39	For whom are the revenues intended and is it clear in advance for what purpose the revenues will be used?
40	Who has audit responsibility and what is known about the regularity of these flows?
41	Does the SAI have audit powers and does it make use of them?

36

By far the most frequently named categories comprise income from the sale of state property, income from state property, revenues from privatisation proceeds and various kinds of economic activity. Also interest on loans, financial assets' dividends (from state owned companies) and rent from other assets are mentioned by several countries.

The various sorts of revenues are shown in the next graph.

Graph 13



37
In most of the countries, the Ministry of Economic Affairs and/or Finance (tax authority) and its/their agencies are responsible for managing the financial flows.

The Ministry of Finance is generally at a top level of tax administration, even in federal structures. Some countries point out, in particular, the fact that the National Treasury (whatever the official name may be) co-ordinates the management and monitoring of the EU grants. Some countries mention that their Central Bank (or other National/Public Bank) has a role in this area, too. In addition, there are also some specialized institutions/structures (e.g., Board of Agriculture; ESF Council), which are referred to as having responsibilities as regards specific financial flows.

38
Law and/or regulations often regulate the determination of the amount of payment/revenue. If it concerns the sale of a major property of the state, the revenue is often the outcome of a negotiation process. If it concerns interest, for example, then the conditions and percentages are laid down in specific documents. Several SAIs refer to methodologies based on cost coverage; financing the services rendered; an assessment of the performance of the enterprises which pay for the use of the state capital; dividends paid by companies (e.g., banks) decided upon by shareholders meetings. Such criteria imply a recent trend towards considering economic (commercial) factors rather than just administrative proceedings, in spite of the fact that public revenues are concerned.

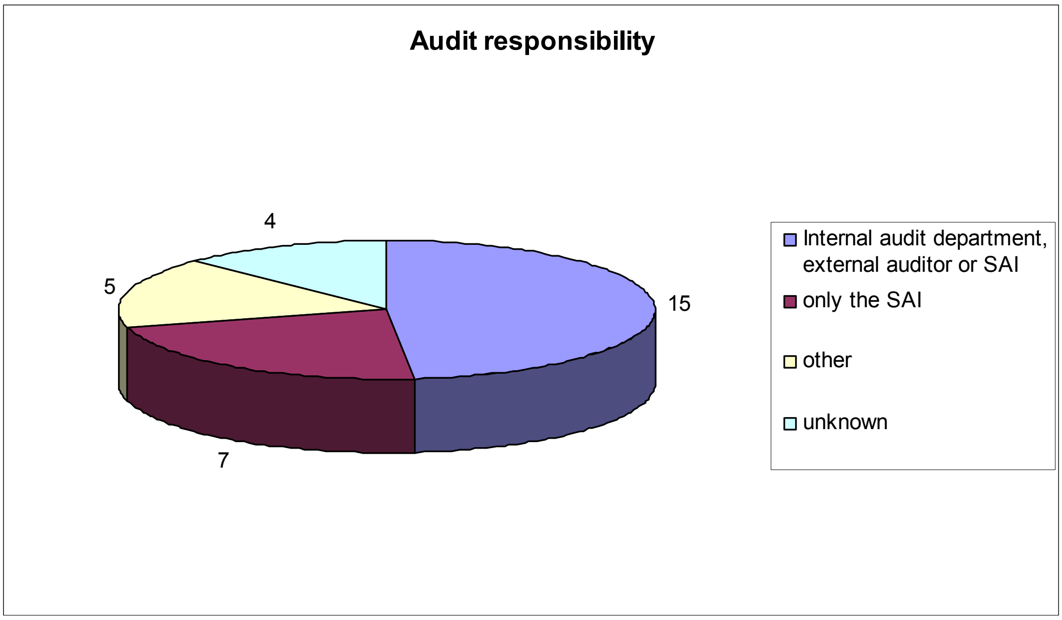
39
Most countries use their revenues to fund their expenditures, according to the principle of overall coverage (all revenues serve to cover all expenditure). Only by way of exception, or act of parliament, may certain revenues be used for specific purposes. So, earmarking (certain revenue may be used for specific purposes) is an exception, in spite of the fact that there are references to funds used for specific purposes (e.g., to finance social benefit payments). It is used as an extra source of budget funding for certain specific purposes. There are also references to funds required by local authorities.

40
55 % of the SAIs are of the opinion that the audit departments (internal audit services of the bodies collecting fees) bear the audit responsibility. 19 % of the countries gave a different answer, for example the tax authority. Some SAIs refer the control

responsibilities of local authorities and, as far as external control is concerned, to Regional Audit Institutions.

The audit responsibility is shown in the graph below

Graph 14



41
Almost all of the SAIs have audit power and use that power on a regular basis.

2.3.3 Grants

At the level of Central government not all of the countries have grants. (About 20 % do not). The average percentage of the grants is about 1,8% of the total revenues. In 66% of the countries the average is below that level. At the level of the local government almost all countries have grants. The average percentage of the total revenues is 29. In 50 % of the countries that average is below that level (see annex for table 8).

For nearly 30 % of the countries the EU subsidies form a major source of income. At the local level, 'grants from another level of government' are one of the most important sources of revenue. In 50 % of the countries the level varies between 20 and 50 %.