

PUBLICATION 147

SEPTEMBER 2023

WHAT TO EXPECT IN A
COMPUTER-ASSISTED
AUDIT



Introduction

The goal of all California Department of Tax and Fee Administration (CDTFA) audits is to determine whether or not the correct amount of tax has been paid during the audit period. To do that, we primarily look at your sales and purchase records.

When your records are kept in electronic form, we can more readily assess the accuracy of your tax reporting by examining the electronic records and dramatically reducing the volume of paper documents needed for the audit. We call this a “computer-assisted audit.” Sales and Use Tax [Regulation 1698](#), and Special Taxes [Regulation 4901](#) permits us to access all records, including electronic records and data you maintain. Computer data is considered part of your books and records.

We are providing this brochure to help you understand what to expect as we review your electronic records. If you have questions about the computer-assisted audit process, be sure to ask the team member with whom you have been communicating.

What is a computer-assisted audit?

In a computer-assisted audit, we examine your electronic records. You download data that we then analyze using specialized software such as Audit Command Language or VEdit, among others. We will provide guidance and work with your information technology staff to provide this data in a format we can use. Typically, we request that you submit electronic data to us in a “flat” (nondelimited, fixed width) file format along with the record layout. Data is accepted in Extended Binary-Coded Decimal Interchange Code (EBCDIC) format or American Standard Code for Information Interchange (ASCII) format. Data received in EBCDIC format is converted to ASCII format. With advanced notification and approval, other formats may be accepted. We can work with most data systems to find the most effective manner to complete the audit.

In an examination of records, a Computer Audit Specialist (CAS) will assist our team members in

the completion of the audit. The CAS is specially trained in data systems and statistical sampling and provides technical support to our audit team. The CAS does not make decisions regarding the audit.

What are the benefits of a computer-assisted audit?

Businesses usually find this method less time-consuming and more convenient than a conventional audit as a computer-assisted audit requires the retrieval of fewer source documents, such as invoices. This saves you the time and expense of retrieving paper documents, which minimizes the disruption to your business and reduces the time you and your employees devote to the audit.

In the end, we expect to have an audit which is more accurate and requires fewer resources for both you and our team members.

Are the tests, procedures, standards, and techniques the same as those for audits using paper records?

In general, yes. Since the objectives of the audits are the same, it follows that we will apply similar, if not identical, measures to both. In fact, a computer-assisted audit usually reduces the number of records we examine, as we can better identify the population being examined.

What will the auditor need to know about my electronic records?

Before starting any audit, we need to understand your business operations and recordkeeping procedures. For a computer-assisted audit, we will ask:

- What electronic records do you have?
- What format are they in?
- For what periods are the records available?
- What internal controls are in place to support your tax accrual system?

- How have you developed and implemented tax accrual system changes?
- Do you have records of individual sales and purchases?
- Have you changed accounting systems since the prior audit or during the current audit period?

We will also need to:

- Understand the accounting system as well as the sales and purchasing processes.
- Identify files that are maintained electronically.
- Determine relationships between files and any fields that link them together.
- Determine which fields in those files contain the needed information.
- Observe a system walk-through. This will provide an opportunity for us to watch someone enter a sales or purchase invoice. We will request a screen print of the information captured in your computer records.

This will help us determine which fields (in which files) contain the information that will be needed for us to examine your records. The information is usually in several files and may be on a mainframe, network, or personal computer (PC). Your information technology staff will be asked to create one composite file. A composite file is one file containing all of the fields needed to complete the audit. Composite files make the audit process run smoother and faster with fewer data problems.

We may ask you to provide table files that contain descriptions of codes or an electronic chart of accounts. These files may be stored on a PC in word processing, spreadsheet, or database programs.

How do you keep my records confidential?

You are protected by the state's confidentiality laws, which generally prevent us from disclosing any of the records we obtain in your audit, whether they are in paper or electronic form. In addition, before you provide copies of electronic business records, you and the auditor should agree on the following:

- The format of the records.
- The method of transmission of the records, including encrypted electronic transmission.

- The security measures we will use to protect the confidentiality of your records.
- What we will do with your electronic records at the end of your audit.

You may request that we perform all of our work on your premises and keep your electronic data on site.

What are the steps in a computer-assisted audit?

Step 1: Discussing your records at the preaudit conference

A preaudit conference is a meeting that may occur several months before the start of the audit to discuss the availability and production of records, including electronic records. You, and any owners, partners, or corporate officers, will be invited and encouraged to attend the preaudit conference along with your representatives and appropriate information technology staff.

During the preaudit conference, the items to be discussed will include general audit procedures, availability and access of records, computer-assisted audit procedures, relevant sampling issues, data transfer process, verification of data, security of data, timeframes for furnishing and reviewing records.

We will request only records and data that are relevant to the audit. We will ensure the transaction data is material to the audit and is used properly. We will consider the nature of transactions and the ease with which data can be accessed and analyzed.

Step 2: Reviewing your computer system

In addition to understanding your accounting records, we will discuss other elements of your computer system, including:

- The software package used for your general ledger, sales orders, accounts payable, and fixed assets.
- Areas related to ecommerce such as electronic data interchange, procurement (credit) cards, and electronic funds transfer.
- Availability of imaged source documents.

Step 3: Evaluating data integrity

The data you provide will be examined for accuracy and completeness. This is accomplished by reconciling the electronic data with your books and records. Selected accounts and sales in the data are totaled for a given time period (for example, one year or the audit period). The totals are compared with the totals from your physical books and records.

We will ask you to review your data and provide all additional records needed to reconcile any differences. Timing issues, manual adjustments to accounts, and other issues, may cause amounts to not match perfectly. Still, we expect the amounts to closely agree.

Step 4: Developing a sampling plan

Like audits that use paper records, computer-assisted audits attempt to identify the most accurate way to sample your transactions. Sampling means selecting units, such as, individual sales, from a population, such as reported or recorded total sales, that take place over a certain period of time. Before we sample your records, we will work with you to develop a sample plan. That plan will be documented on [CDTFA-472, Use of Sampling in Auditing](#).

Please note: The information and methods described in CDTFA-472 may change during the audit. We use the form to establish the most effective and efficient sampling plan; however, we continually evaluate the plan as the audit progresses and change it if necessary. We will discuss any proposed change with you.

Step 5: Selecting the sample

Using the method described in CDTFA-472, we will select the sample transactions to be reviewed. In many cases, we can significantly reduce the number of source documents required based on information available in the electronic data. In order to select the most representative sample, it is not uncommon for us to reduce the population by separating accounts known to contain errors and reviewing those accounts on a detailed

basis. On the other hand, we also may include transactions recorded as occurring outside the state of California to verify the claimed (or netted) exemption.

Step 6: Evaluating the sample

After reviewing the sampled transactions, we will evaluate the results. See “What statistical sampling standards do you use?” (below) for an explanation of our policy standards and confidence level requirements. If this analysis shows the sample examined is not representative of the total population, our auditor and you may agree to one of the following options:

1. Increase the sample size.
2. Examine specific transactions on an actual basis.
3. Drop the test and accept reported amounts in that area of the audit.

Step 7: Computing error rate and total category error

In nearly all audits that use statistical sampling, we determine the dollar value of the errors found in a category (for example, sales) by using the results of the sampling. We take the error rate from the sample and apply that to the total dollar value of the sample to determine the total error amount.

What statistical sampling standards do you use?

Confidence interval

Achieved Precision: CDTFA uses an 80 percent confidence level in our statistical sample evaluation calculations. Our desired precision is 75 percent or less. If the achieved precision for the combined evaluation is less than or equal to 75 percent, errors are projected for all test strata within the sample.

For more information

A complete explanation of our statistical sampling procedures is too lengthy for this publication. If you have any questions about the sampling methods used in your audit, please discuss them with the auditor or the CAS. You may also want to download or review [chapter 13](#) of our *Audit Manual, Statistical Sampling*, at www.cdtfa.ca.gov/taxes-and-fees/staxmanuals.htm. The chapter explains our sampling practices and standards in detail. If you have any questions about your computer-assisted audit, please contact:

AUDITOR NAME

TELEPHONE NUMBER

AUDIT SUPERVISOR NAME

TELEPHONE NUMBER

COMPUTER AUDIT SPECIALIST NAME

TELEPHONE NUMBER

For more information on audits in general, please see our [publication 76](#), *Audits*. You may obtain a copy from your auditor, download one from our website, or request one by calling our Customer Service Center at 1-800-400-7115 (CRS:711).

Customer service representatives are available to assist you Monday through Friday from 7:30 a.m. to 5:00 p.m. (Pacific time), except state holidays.

Taxpayers' Rights Advocate Office (TRAO):

The TRA0 helps taxpayers when they are unable to resolve a matter through normal channels, when they want information regarding procedures relating to a particular set of circumstances, or when there are apparent rights violations. You may contact the TRA0 at:

Telephone: 1-916-324-2798

Fax: 1-916-323-3319

Toll-Free: 1-888-324-2798

Email: txrtsweb@cdtfa.ca.gov