

Audit readiness reviews

Are you prepared for IRS exams?

Your issue

Recently, the Internal Revenue Service (IRS) has embarked on many new initiatives and enforcement tactics. Among the strategic initiatives of the IRS are the following:

- **Compliance risk** — Identify and address the Large Business and International (LBI) compliance risks for the increasingly global LBI taxpayer.
- **Re-engineering and issue management** — Re-engineer and institutionalize issue management strategies and compliance processes.
- **Compliance information management** — Use partnerships, processes, and legislative changes to provide timely data to effectively assess the reporting compliance risks in the LBI population.

As a result, businesses of all sizes and types face heightened scrutiny from the IRS today as it seeks to examine increased numbers of taxpayers and seeks to improve the efficiency of its examination process through increased taxpayer transparency.

Several other recent regulatory and market changes have increased the challenges to corporate tax functions and demand for better audit readiness planning:

- Reporting of uncertain tax positions (UTPs) on Schedule UTP (effective for the 2010 tax year for certain corporate taxpayers).
- Increased participation in the Compliance Assurance Process (CAP).
- Increasing IRS enforcement with regard to certain record retention and international cross-border information reporting requirements.
- IRS initiatives designed to shorten the exam cycles, bringing audits current and redirecting cost savings towards new enforcement efforts.

In order to effectively manage the examination process — from analyzing pre-examination risk exposure and planning for the opening conference to determining post-examination issue resolution options — an increasing number of companies are taking steps to determine their “audit readiness.”

Deloitte can help.

Our approach

The Tax Controversy professionals at Deloitte help companies strengthen their audit readiness programs and plan ahead for future tax risks. Our professionals have developed a methodology to help taxpayers prepare for IRS examinations. Some of the more common events that can demonstrate a need for audit readiness services include:

- IRS notice of an examination.
- Information technology (IT) system upgrades and conversions.
- Acquisition or divestiture of business units.
- Tax assessments or penalty notices from the IRS.

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Through an Audit Readiness Assessment, our professionals help companies understand and analyze risk points, such as incomplete electronic tax records, procedural or IT systems weaknesses, reportable transactions disclosures, and changing IRS examination procedures. Based on the assessment results, we can make recommendations to help companies manage the impact of these risks on their organizations.

Following are other ways in which we can assist:

Tax record retention

Most documentation and electronic data shortcomings are not apparent without a detailed analysis and review. The implications of missing or incomplete supporting documentation frequently surface only when the IRS appears at a taxpayer's door. Finding these gaps at the earliest possible point can help avoid the loss of data and facilitates efforts to mitigate such losses, for instance, by conducting a pre-exam plan to replace or restore the affected records as appropriate.

Pre-audit planning

Under the IRS Quality Examination Process (QEP), it is increasingly important for taxpayers to implement processes to participate in the IRS audit planning process, to effectively plan for the use of new accelerated dispute resolution procedures, and to apply a new set of practices in IRS audit management. Our professionals will review a taxpayer's existing processes and assist in the execution of process improvements to bring a taxpayer up to date.

Compliance process analysis

We analyze written policies, procedures, and information system guides along with the relevant tax law and IRS audit guidelines to help assess compliance gaps, so that a taxpayer can address issues that may have resulted in the payment of excess taxes or penalties. Areas covered include payroll compliance and reporting, [tax information reporting](#), Schedule UTP reporting, reportable transaction disclosure compliance, among others. As part of this analysis, we identify information that is routinely requested by the IRS in Information Document Requests (IDRs) so that taxpayers can develop processes to gather and retain the requisite data and analyze potential exposures within the information. Once this data is gathered, processes need to be in place for retaining it in an organized manner

for ease of access when requested by the IRS. Our [Tax Controversy Manager \(TCM\)](#) is a Web-based tool that (among other capabilities) enables taxpayers to manage dataflow prior to, during, and after tax examinations and to track the various related records to prepare for future tax controversies.

The Deloitte difference

Deloitte has a national team of highly qualified professionals to support your IRS examination needs. We have a history of experience in the areas of pre-examination activities, compliance process analysis, and [record retention tax consulting](#). Our team members draw on their collective experiences from both the IRS and Deloitte. Our professionals stand ready to assist you and your company with addressing a changing environment that requires advance planning to mitigate unnecessary costs and risks. We offer:

- One of the largest national tax controversy practices in the United States. Professionals with diverse backgrounds, including former senior IRS executives, chief counsel officials, IRS litigators, revenue agents, group managers, private industry executives, and technology specialists.
- Innovative, Web-based technology, supporting tools, and related processes — Tax Controversy Manager and Interest Analyzer — to help you prepare for, monitor, and manage your organization's tax controversies and the calculations associated with them.
- Deloitte's Washington National Tax practice, a dedicated team of technical specialists who help our clients stay informed on tax legislation and regulations and the potential impact on their businesses.
- Specialists across numerous industries to bring industry-specific knowledge and experience.
- Timely updates on IRS matters through Deloitte's publication, IRS Insights at: www.deloitte.com/us/tax/irs.
- Access to the broader resources of the member firms of Deloitte Touche Tohmatsu Limited, including tax, financial advisory services, and consulting.

For more information

To learn more about Deloitte's Audit Readiness Reviews, as well as the full scope of our Tax Controversy Services, contact us at tcs@deloitte.com or visit at www.deloitte.com/us/tcs.