DIRECTION GÉNÉRALE DES
FINANCES PUBLIQUES

Why does one decide to audit an entity?

The tax audit of an entity is neither automatic nor arbitrary

On average, entities under the responsibility of the Directorate for national and international audits (DVNI) are audited every 7 years. Among them, the very large entities are regularly audited (about every 4 years) due to the complexity of operations they conduct and to financial challenges they represent. Small and medium entities: the choice to audit them or not depends on the information that the tax authority has already gathered or that it will gather.

The audit methods are based on the issues.

Some numbers:

- Nearly 3 million businesses subject to the "real tax regime";

- More than 48,000 on-site audits carried out each year;

- About 1.6% of these entities are audited on site every year.

How does the administration select the entities to be audited?

The tax audits' programming on entities depends on an effective mobilization of information available to the Tax Department. The programming's aim is an optimal and objective coverage of the tax issues.

Programming an on-site audit begins with a review of every document in the tax file, which is done from the office.

This is a comprehensive and critical analysis of filed returns using information and documents in the entity's file and computer tools to cross and analyze tax and accounting data from the entity.

These points are generally subject to written requests for information issued to the entities. The administration may also obtain information from third parties (suppliers ...) according to French law (the right of communication).

Very often, the information provided by the taxpayer is sufficient to explain what appeared to be an anomaly. The file is then closed.

Otherwise, an on-site audit of the entity may be required.

Some examples of indicators:

Apparent differences between the reported items and the information available to the administration;

- Inconsistencies in the data provided by the taxpayer;

- Abnormalities that show results well-below the expected results compared to comparable entities in the same geographic area;

- Absence of tax returns.

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Who makes the decision to carry out an on-site audit on an entity?

The decision to carry out an on-site audit of an entity belongs to the director (that is to say the head of all services of public finances present in a *département*, or the manager of an interregional structure specializing in tax audit) and does not belong to the auditors, nor their direct superior.

The contribution of risk-analysis and data mining

- The risk analysis in the audit programming of entities is to assess the risk of failure to tax legislation from the data reported by the taxpayers.

It is an objective selection based on business criteria (e.g low margin rate for the reported activity,...) which allows to select the most interesting files.

- Similarly, the **data mining** goal is to improve and automate selection process of the files of entities that should be audited based on the information available to the tax administration and implementing sophisticated statistical techniques.

The use of these methods can both improve the targeting of audits and the detection of fraud more quickly, including the most complex, in order to stop the financial consequences.