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M&A

OVER 40 YEARS OF ACCOUNTING EXCELLENCE

TYPES OF AUDIT ENGAGEMENTS

Newsletter

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Introduction

Warm greetings from all us at M&A!

We hope you and your families are keeping safe during these Covid times.

We are pleased by the fruitful engagements that we have had in our previous editions of our newsletter.

We now release our ninth edition of the year 2020 tax newsletter. The newsletter covers recent developments in the taxation regime in Kenya which aims to keep you current and updated on tax matters.

On the right column of the newsletter you will find contact details for the senior members of our team who can help answer any questions you may have about the issues highlighted in this newsletter or any other matter.

We are interested in your feedback on the items covered and what topics you would like covered in the future.

Please provide any feedback at **tax@mbaya.co.ke**

In this issue

From the Tax Desk

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» From the TaxDesk »

Tax Compliance/Clearance

A Tax Compliance also known as Tax Clearance is a status officially confirmed by Kenya Revenue Authority (KRA). This status is confirmed by issuance of a Tax Compliance Certificate or a tax Clearance Certificate (TCC) to a taxpayer as proof of having filed and paid all their taxes.

TCC is valid for twelve (12) months from the date of issuance.

Application for TCC is done through the iTax platform and the certificate is sent to the applicant's email address.

The process of issuance of a TCC has been enhanced.

The system first verifies the tax compliance status from existing iTax data and a taxpayer will only proceed with the application if all tax returns have been filed and all applicable taxes have been paid.

Any non-compliance issues will be highlighted for the taxpayer to resolve before completion of the application process.

Where the taxpayer is compliant in returns filing and tax payments, Tax Compliance Certificate is automatically issued.

All KRA PINS that existed prior to iTax are subjected to an approval level to validate the taxpayer's compliance status from the legacy system.

Where a taxpayer is undergoing investigation in any of the KRA offices, a caveat may also be procedurally placed prohibiting approval of the TCC by an officer though notification will be displayed to clearly communicate the same.

These enhancements have resulted in the delays being experienced by the taxpayers getting TCC approvals.

From the above, it's imperative for all taxpayers to ensure they are compliant at all levels i.e.

a) Filing of tax returns on or before the due date for all applicable tax obligations.
b) Payment of tax on or before the due date.
c) Clearance of all outstanding tax debt.

An Overview of Minimum Tax

Minimum Tax was introduced by the Finance Act 2020. It is a base Income Tax, payable by all persons regardless of whether or not they make a profit. The tax is meant to foster equity and fairness in the tax system as everyone pay a base tax whether they earn profits or not.

The rate of the minimum Tax is 1% of the gross turnover of the company for a year of income.

The effective date for the Minimum Tax is from 1st January 2021

The tax due shall be paid in instalments and shall be due by the 20th day of each period ending on the 4th, 6th, 9th, and 12th month of the year of income.

Where the Instalment Tax payable by a person is higher than the Minimum Tax, then the person shall pay the Instalment Tax, however, where the Minimum Tax is higher than the Instalment Tax, then the Minimum Tax shall be payable.

Incomes exempted from Minimum Tax

The following incomes are exempted from this tax:

- Income exempted by the Act
- Employment income
- Income that is subject to Residential Rental Income Tax
- Income that is subject to Turnover Tax
- Income that is subject to Capital Gains Tax.
- Income from extractive sector

In case a loss is incurred and the minimum tax is paid then the loss will be claimable the next time the company makes a profit provided 10 years from the time the loss was declared will not have lapsed. If the 10 year period will have lapsed, then the loss is not claimable anymore and its lost loss.

Excisable Goods Business

Through a public notice dated 3rd September 2020, Kenya Revenue Authority seeks to create awareness to the general public on the need to adhere to the rules governing the goods subject to excise tax.

The Excise Duty Act 2015 prescribes in Section 16(2) payment of a fee upon application of license or registration to manufacture or import excisable goods.

Regulation 3(2) of Excise Duty Regulations 2020 (Legal Notice No.113 of 2020) provides that Kshs. 50,000 excise license fee be paid during the business registration. Further, Section 37 of the Excise Duty Act 2015 provides for requirement of a security bond for licenced manufacturers, and Regulation 19(8) of Legal Notice No. 113 of 2020 provides the Commissioner with mandate to determine the bond amount required under the ACT, using the risk profile of the industry to which the licensee belongs.

All excisable goods manufactured in or imported into Kenya, with the exception of motor vehicles, must bear excise stamps as stipulated in Section 28 of the Excise Duty Act 2015 as read together with Regulation 3 of The Excise Duty (Excisable Goods Management System) Regulations, 2017 (Legal Notice No. 53 of 2017). The cost of the stamps varies according to product categories as provided under the Legal Notice No. 53 of 2017. For mineral water and aerated water of tariff number 2201.10.00 the fee is Kshs. 0.5 per stamp.

All persons engaging in excisable goods businesses should therefore meet some requirements.

Types of Audit Engagements

An audit is an appraisal activity undertaken by a practitioner to provide assurance to a principal over a subject matter which is the primary responsibility of another person against a given criteria or framework. Let us examine six types of audit engagements and their characteristics.

1. External Audit

This is the most common known type of audit engagement. It is carried out annually and involves the examination of an entity's financial statements by an external auditor who is independent of the organization. The purpose is to determine whether, in the auditor's opinion, the statements give a true and fair view of the company's financial position and are free from material misstatements. Some external audits are required by various Statutes thus making them statutory audits as well.

2. Internal Audit

This activity is undertaken voluntarily by an organization (or when required by statute) to appraise any matters which can affect the achievement of organization objectives. It centres around, among others:

- Monitoring the effectiveness of internal controls;
- Monitoring compliance with laws and regulations;
- Evaluating the company's risk management policies and procedures; and
- Investigating instances of fraud and theft.

The internal auditor is not independent of the organization and reports to the audit committee of the Board of Directors. An internal audit can however be conducted by an employee of the company or an external entity.

3. Tax Audit

A tax audit is conducted by the Kenya Revenue Authority (KRA) to assess the accuracy of returns filed by a company. These audits are usually targeted at returns that result in excessively low tax payments, to see if an additional assessment can be made. The revenue authority will therefore examine the company's records and books such as tax invoices, audited accounts, tax returns and bank statements.

The company may choose to deal with the KRA directly or engage the services of a qualified tax professional to act as a liaison between the tax authorities and the company.

4. Forensic Audit

This is an examination of an entity's financial records to derive evidence that can be used in legal proceedings. Accounting, auditing and investigative skills are utilized.

Some situations where a forensic accountant may be needed are:

- During fraud investigations involving embezzlement, money laundering, tax evasion and insider trading;
- When quantifying losses in the case of insurance claims;
- In determination of the profit share of business partners in case of a dispute; and
- In determination of claims of professional negligence relating to the accounting profession.

5. Compliance Audit

This is an examination of a firm's policies and procedures to see if it is in compliance with internal or regulatory standards. It is most commonly used for regulated industries.

A compliance audit is a non-assurance engagement, meaning that the practitioner does not convey to the intended users any assurance as to the reliability of an assertion.

6. Value for Money Audit

It involves an assessment of the efficiency, effectiveness and economy of an organization's use of resources.

Value for money audits are usually performed as part of internal audit and are especially relevant to sectors which do not have profit as their main objective. The auditor assesses the use of resources and funds against the intended objective or purpose of projects or entities.

7. Information Technology or Information Systems Audit

An IT or IS audit is used to determine whether internal controls exist in an organization's information systems and are working efficiently and effectively. This helps to minimize business risk.

The audit will seek to establish whether the existing information systems are safeguarding corporate assets, maintaining data integrity and supporting corporate objectives.

There are of course more types of audits such as payroll, governance and special audits. At Mbaya & Associates, we are happy to offer our services in any of the above types of engagements. We invite you to reach out to us for more information on the same.

Tax Due Dates

Withholding Tax | 20th Day of the following month

Pay as You Earn | 9th Day of the following month

VAT | 20th Day of the following month

Balance of Tax on Self-Assessment | 4th Month after year end

Monthly Rental Income | 20th Day of the following month

KENYA REVENUE AUTHORITY

Instalment Tax

1st Instalment |20th day of the 4th month after year end

2nd Instalment | 20th day of the 6th month after year end

3rd Instalment | 20th day of the 9th month after year end

4th Instalment | 20th day of the 12th month after year end

Kindly note that all the returns must be filed on I tax while the payments e-slips must be generated from the I-Tax platform.