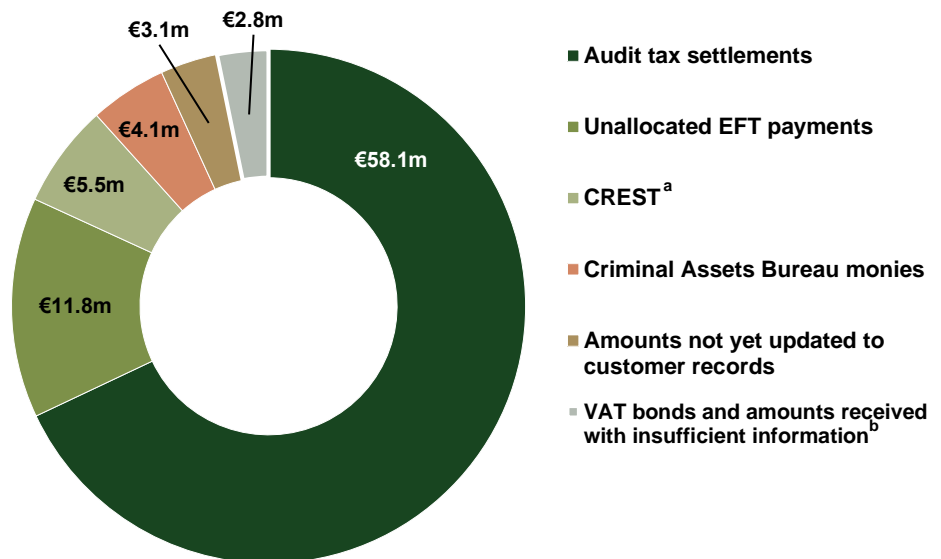


17 Overstatement of certain unallocated tax deposits

- 17.1** The primary function of the Office of the Revenue Commissioners (Revenue) is the assessment and collection of taxes and duties. The total net receipts collected by Revenue on behalf of the Exchequer for 2021 was €67.5 billion (€56.2 billion in 2020).
- 17.2** The statement of balances in the revenue account for the year ended 31 December 2021 includes a liability amount of €85.4 million in respect of ‘unallocated tax deposits’ (UTDs) (see Figure 17.1).^{1,2} These include
- receipts that cannot be allocated to either a taxhead or taxpayer record at year-end
 - payments made on account during tax audits and audit settlements
 - non-audit payments for which accounting instructions have not yet been completed.
- 17.3** Although recognised as a liability in the revenue accounts statement of balances, UTD receipts are regularly lodged to the Central Fund, along with other Revenue transfers, to avoid large cash sums being held outside the Exchequer for extended periods.

Figure 17.1 Unallocated tax deposits reported at end 2021



1 The official title of the revenue account is the account of the receipt of revenue of the State collected by the Revenue Commissioners.

2 The UTD balance of €85.4 million is included in the liabilities figure of €99.1 million in respect of amounts awaiting receipting and allocation.

Source: Revenue Commissioners

- Notes:
- a CREST is an electronic clearing system which settles transfers of shares that are dealt with on selected exchanges.
 - b VAT bonds are a security required by Revenue where there is a perceived risk relating to a particular taxpayer. This category also includes miscellaneous amounts received with insufficient information for allocation to the relevant taxpayer or taxhead record.

- 17.4** Payments are received in a number of ways from taxpayers, for example, by EFT, cheque and via the Revenue Online Service (ROS).¹ Once a payment is received, a work item is generated on Revenue's integrated taxation processing (ITP) system, to be processed by a caseworker.
- 17.5** For all non-ROS payments on account, the caseworker updates the taxpayer record on the ITP system with all necessary details, including the related taxheads. This automatically updates Revenue's financial management system. For ROS payments on account, a separate, additional step is required by the caseworker to record the related taxhead on the financial management system. The information on the financial management system is used to produce the annual revenue account.
- 17.6** As part of the audit of the 2021 revenue account, the audit team requested an aged listing of the taxpayers who had paid the audit settlements to the value of €58.1 million that were recorded in the UTD balance at the year-end (as shown in Figure 17.1). Based on further testing, the audit concluded that the amount that should have been recorded as audit tax settlement UTDs was in fact circa €25.5 million i.e. approximately €32.5 million less than the amount recorded in the revenue account.
- 17.7** In response to the audit finding, Revenue identified errors that had arisen due to caseworkers failing in some cases to carry out the additional step on the financial management system to record the relevant taxheads.
- 17.8** While this error did not affect the taxpayer record or the prompt transfer of funds to the Exchequer, it did result in the UTD balance in the revenue account at 31 December 2021 being overstated by an estimated €32.5 million and the 2021 taxhead receipts being understated by the same amount. The settlement amounts of €32.5 million were not recorded in the relevant taxhead receipts until April 2022.
- 17.9** At the request of the audit, the statement on internal financial control included with the 2021 revenue account was amended to include a disclosure on the error of €32.5 million. Revenue considered that the error did not represent a material misstatement in terms of the revenue account, so no amendment was made to the account in this regard.
- 17.10** Revenue is planning to introduce an ICT system enhancement to eliminate the additional step that is required to record the taxhead on the financial management system when payments on account are recorded in ROS. This will ensure that the UTD allocation to the relevant taxhead(s) will happen automatically when the taxpayer record is updated. This enhancement is planned for October 2022.

¹ Revenue Online Service (ROS) enables taxpayers/agents to view their/their client's current position with Revenue for various taxes and levies, file tax returns and forms and make payments for these taxes online.

Conclusions and recommendation

- 17.11** The audit of the 2021 revenue account found that the taxhead receipts for 2021 were understated by an estimated €32.5 million as audit tax settlements made by taxpayers were incorrectly included in the year-end UTD balance rather than being allocated to the relevant taxhead(s). Relative to reported receipts of €67.5 billion, this represents an understatement of 0.05%, which in accounting terms would not be regarded as a material error or misstatement requiring correction in financial statements.
- 17.12** The audit tax settlement payments of €32.5 million were transferred to the Exchequer in a timely way and allocated to the taxpayers' records correctly.
- 17.13** Manual interventions increase the risk of errors that may result in account balances and transactions being materially misstated in financial statements. While manual interventions may be a necessary part of the Revenue audit and settlements process, there should be a strong control in place to ensure those transactions are processed correctly.

Recommendation 17.1

Automated solutions should be implemented to replace the need for any manual interventions identified, where possible. Where not possible, Revenue should implement a robust system of controls to ensure the required manual interventions are carried out correctly and in full.

Accounting Officer's response

Agreed.

The system enhancement to ensure the automatic reallocation of payments from UTD to the appropriate taxhead record when taxpayer records are updated is on schedule for release in October 2022. Current accounting controls are being strengthened to ensure that audit settlement payments recorded as UTD balances are verified as part of the month-end accounting process.

The monthly reconciliation exercise and systems enhancement will ensure that all future reallocations from UTD will be reported correctly in the revenue account.

