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Commonwealth of Massachusetts

Department of Revenue

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**Computer Assisted**

**Audit Group**

**617-887-6996**

**[www.mass.gov/dor](http://www.mass.gov/dor)**

# A Guide to Computer Assisted Audit Techniques

## **Computer Assisted Auditing Techniques**

*Your company has been selected for audit by the Massachusetts Department of Revenue. Our goal is to determine the proper tax due and propose any adjustments to the tax reported, with minimal time and expense to your company and the Department of Revenue. Computer Assisted Audit Techniques (CAATS) is an important tool in attaining that goal. The Department of Revenue has invested in software that allows us to accept electronic records from virtually any bookkeeping or financial accounting system. If you submit your records electronically we can quickly select a statistically valid sample of transactions on which to base our audit. We do this work from our office, saving your staff time and inconvenience.*

*Integrating CAATS into the audit process is part of our commitment to streamline the audit process. Our goal is to complete an efficient, understandable and accurate audit. We will provide an audit trail consistent with Generally Accepted Accounting Principles. Our CAATS program is based on a tested and sound database application and informed judgment.*

*This booklet is a basic introduction. DOR maintains additional information online at [www.mass.gov/dor](http://www.mass.gov/dor). You may also request more detailed information regarding specific aspects of CAATS by contacting the Computer Assisted Audit Group at 617-887-6996.*

## **What is a Computer Assisted Audit?**

*Audit functions formerly performed manually are now performed using standard financial accounting software, modified as necessary for a particular system. Generally, much of the same information is requested and analyzed as in a traditional audit. Once verified using computer techniques, data is retained so it can be used in other areas of the audit including error identification and segregation of transactions within accounts. Customized reports are generated by computer and a standard audit trail is maintained.*

## **What advantages does the use of CAATS have over a traditional audit?**

*Most importantly, it saves time for you and DOR with no loss of quality or accuracy. Secondly, by analyzing data and generating specific reports using a standard program, data analysis is focused and allows for any future adjustment to be made with minimal effort. Thirdly, preliminary data can*

## General Information

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*often be analyzed early in the audit process and a more efficient audit plan can be devised earlier.*

### **Specific Areas in which CAATS Is Useful:**

**Computer Assisted Sampling.** *This permits the use of random statistical sampling, which tends to be more accurate and saves time in those instances in which it is appropriate (see FAQ section for details).*

**File Management.** *Files are combined, compared, managed, segregated and ordered automatically using generally accepted computerized file management. Adjustments or other changes to data and reports are easily accomplished. The DOR auditor will review your accounts in order to request specific information from your records essential to the audit.*

**Report Generation.** *Once data integrity is verified, the auditor can produce various reliable reports from the overall data population.*

### **Which taxpayers can use Computer Assisted Audit Techniques?**

*If you maintain computerized records DOR can, in almost all cases, analyze records using the computerized techniques. These techniques are used for data extraction and sampling regardless of the type of computer software or media used, individual accounting systems in place, or the method of storage and retrieval of source documents. DOR analyzes your system and quickly determines if your data is maintained in such a way as to permit the use of CAATS in full or in part.*

### **Computer Audit Questionnaire**

*Enclosed is a Computer Audit Questionnaire. Please complete and return this form prior to the commencement of your audit. The questionnaire provides DOR with information about your company's computer system, record-keeping, methods of data retrieval and additional information about your accounting practices. This form is mandatory and will become part of your audit file. Consistent with DOR policy, the completed form is confidential. This questionnaire assists your auditor in identifying and requesting records essential to completing your audit expeditiously.*

*DOR will assist you throughout your audit as you provide us with data in a usable format, and will explain reports, analysis of data and sampling in detail.*

# CAATS Frequently Asked Questions

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***Does the use of CAATS affect any other aspect of the audit process?***

*Generally, no. The use of Computer Assisted Audit Techniques automates what was previously done manually.*

***Is my data kept confidential? Is media sent to the Department of Revenue such as CDs, DVDs, tapes or other computer files kept securely and confidentially?***

*DOR maintains high standards regarding confidentiality of all taxpayer records and audit documents. This applies to electronic media which you supply, internal DOR electronic processing media, and paper records.*

***Is the use of CAATS restricted to “transaction” or “trustee” type taxes (Sales/Use Tax; Sales Tax on Meals; Income Tax Withholding; etc.)?***

*No. It can be used to reconcile accounts, analyze data and select various aspects of any type of computerized records which the auditor and taxpayer find useful to complete any tax audit.*

***Will my entire audit use CAATS?***

*Not necessarily. You and the auditor will determine which parts of your audit are best performed using CAATS.*

***What is Computer Assisted Random Sampling?***

*Transactions that occurred throughout the audit period are sampled instead of choosing a “block” of transactions during specific time periods. Composite data is analyzed and stratified to create sets of transactions called stratum. Data is stratified so that individual transactions relate directly in importance to the entire population. Standard scientific sampling techniques are employed, consistent with Generally Accepted Accounting Principles, to derive a sample population of the strata. Transactions are selected on a random basis throughout each stratum. The result is a sample that represents all the transactions within audit population.*

***We do not retain paper transaction records. In some cases, our records to be sampled are “book entries” only. Does this mean Computer Assisted Sampling can’t be used?***

*No. DOR is capable of using multiple computerized methods during your audit.*

## CAATS Frequently Asked Questions

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***We changed our computerized bookkeeping and accounting systems during the audit period. Does that mean we can't use CAATS?***

*No. In this situation, we may use two separate analyses and simply combine them to produce the audit result.*

***May I discuss CAATS with my accountant or other representative before the audit begins?***

*Yes. You will be provided ample time to discuss this with anyone of your choosing prior to your audit. In addition, DOR will meet with you and/or your representative to discuss these techniques in detail.*

***Will I receive copies of audit documents and work papers as before?***

*Yes. You may prefer to receive them in a computerized format (DVD, CD), or you can request a "hard copy" format. DOR is able to provide both types of reports.*

***Can I transmit and receive data using the Internet and/or e-mail?***

*Usually yes; however, to maintain the integrity of your computer systems and ours we have specific requirements that must be adhered to if data is to be transmitted via the Internet. Request additional information from your auditor.*

***My Information Technology department may wish to discuss specific aspects of the computerized audit process. Can DOR assist those persons?***

*DOR will assist anyone designated by your company to be involved with this audit.*

***To simplify the audit process, we may issue a "read-only" password to the DOR auditor. Is the use of this password covered by the disclosure aspects of Massachusetts General Laws?***

*Yes. (See 830 CMR 62C.21.1)*



**6. Approximately how many Massachusetts *expense* transactions exist for your company for the audit period?**

<input type="checkbox"/> less than 1,000	<input type="checkbox"/> 1,000-5,000	<input type="checkbox"/> 5,000-10,000	<input type="checkbox"/> greater than 10,000
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**7. Approximately how many Massachusetts *sales* transactions exist for your company for the audit period?**

<input type="checkbox"/> less than 1,000	<input type="checkbox"/> 1,000-5,000	<input type="checkbox"/> 5,000-10,000	<input type="checkbox"/> greater than 10,000
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**8. Approximately how many Massachusetts *fixed asset additions* exist for your company for the audit period?**

<input type="checkbox"/> less than 1,000	<input type="checkbox"/> 1,000-5,000	<input type="checkbox"/> 5,000-10,000	<input type="checkbox"/> greater than 10,000
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**9. Please check each item captured and stored by your computer system : (Please add additional categories if needed)**

***EXPENSES***

<input type="checkbox"/> vendor name	<input type="checkbox"/> Vendor number	<input type="checkbox"/> vendor address	<input type="checkbox"/> vendor city
<input type="checkbox"/> vendor state	<input type="checkbox"/> vendor zip	<input type="checkbox"/> invoice number	<input type="checkbox"/> invoice date
<input type="checkbox"/> G/L account number	<input type="checkbox"/> journal number	<input type="checkbox"/> Department	<input type="checkbox"/> unit price
<input type="checkbox"/> purchase order number	<input type="checkbox"/> quantity	<input type="checkbox"/> batch number	<input type="checkbox"/> total price
<input type="checkbox"/> product description	<input type="checkbox"/> tax paid	<input type="checkbox"/> tax accrued	<input type="checkbox"/> shipping charges
<input type="checkbox"/> total invoice price	<input type="checkbox"/> date paid	<input type="checkbox"/> delivery city	<input type="checkbox"/> delivery state
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

***SALES***

<input type="checkbox"/> Invoice number	<input type="checkbox"/> invoice date	<input type="checkbox"/> customer name	<input type="checkbox"/> customer number
<input type="checkbox"/> ship to address	<input type="checkbox"/> ship to city	<input type="checkbox"/> ship to state	<input type="checkbox"/> ship to zip
<input type="checkbox"/> product number	<input type="checkbox"/> product description	<input type="checkbox"/> unit price	<input type="checkbox"/> quantity
<input type="checkbox"/> total price	<input type="checkbox"/> tax	<input type="checkbox"/> exempt number	<input type="checkbox"/> resale number
<input type="checkbox"/> shipping charges	<input type="checkbox"/> Total invoice amount	<input type="checkbox"/>	<input type="checkbox"/>

**10. Please check the box *yes* if you can provide sample data to insure that the data contains the necessary fields.**

yes  no

**11. Do you accrue sales tax paid to vendor(s) separately, or include in the total amount?**

accrue separately  include in the invoice

**Person to contact for data processing information for example,(IT manager, Systems Analyst or AP/ AR representative)**

NAME: \_\_\_\_\_ Title \_\_\_\_\_ telephone ( ) \_\_\_\_\_ - \_\_\_\_\_

**The undersigned individual attests to the answers indicated on this form as being a true representation of the business**

NAME: \_\_\_\_\_ Signature: \_\_\_\_\_ Date: \_\_\_\_\_

*The purpose of this publication is to provide taxpayers with general information about Massachusetts tax laws and Department of Revenue policies and procedures as of April 1, 2006. It is not designed to address all questions in detail, and taxpayers are encouraged to seek further guidance as described throughout this guide. Nothing contained within this publication supersedes, alters or otherwise changes any provisions of Massachusetts General Laws, Massachusetts Department of Revenue Regulations or Rulings or any other sources of the law.*

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