



AUDIT
OFFICE



REPUBLIC
OF CYPRUS

AUDIT OF THE TAX MANAGEMENT SYSTEM

Executive Summary



AUDIT OFFICE OF THE REPUBLIC
SPECIAL REPORT no. ΤΦ/02/2021

9 April 2021



AUDIT
OFFICE



REPUBLIC
OF CYPRUS

AUDIT OF THE TAX MANAGEMENT SYSTEM

Executive Summary

AUDITED ENTITIES

Tax Department

Executive Summary

According to the 2019 Fiscal Report of the General Accounting Office (GAO), the revenues of the Central Government related to direct taxation amounted to approximately €2.1 billion or 21% of total revenues. These revenues are managed by the Tax Department (TD) through the Tax Management System (TMS).

The system is used for a wide range of functions regarding direct taxation such as managing taxpayer data, managing tax declarations, calculating and enforcing taxes and managing revenues and tax returns.

In November 2019, our Office began auditing the system in order to evaluate the effectiveness and efficiency of the controls that affect the reliability of its data and operations and have a significant impact on the Financial Statements of the Republic.

We evaluated the organizational structures, policies and IT procedures of TD and the supporting unit of the Department of Information Technology Services (DITS) and examined the general controls that were applied and which directly affect the reliability of the IT control environment of TD. After conducting risk assessment based on the information collected, we selected sub-entities of the system for which we assessed the existing internal controls to identify vulnerabilities that affect the completeness and validity of the information.

The general conclusion is that TD remains exposed to a number of risks which may have a significant impact on its tax collection capacity, its compliance with the legislation and the reliability of the data held in the system.

The most important findings concern the following:

- Deficiencies in matters of management and organization of TD and DITS such as insufficient definition of responsibilities for TD systems, delay in the implementation of the recommendations from external consultants, non-adoption of information security policy and lack of coordination in matters of contract execution.

- Weaknesses in change management, such as the absence of recorded procedures, limited scope of the existing change management process and cases of implementation of changes without adequate evaluation and authorization.
- Weaknesses in matters of access management in the TMS such as insufficient definition of responsibilities and liabilities and absence of recorded procedures.
- Deficiencies in the backup and recovery processes of the system, in relation to the determining the recovery point objective and recovery time objective after a disaster.
- Absence of an action plan for the management of incidents and problems of the system infrastructure.
- Delays in the transfer of tax declarations to the TMS from Taxisnet and shortcomings in data security issues.
- Insufficient integration of preventive controls in TMS for cases of conflict of interest (e.g., the ability of the taxpayer to tax himself, without this being able to be identified in time).
- Absence of controls in the TMS, which govern the taxation process with a white screen.
- Increased risk of circumvention the mass taxation controls, due to procedures outside TMS environment and lack of control and reconciliation procedures of the taxes to be confirmed.
- The collection management procedures are mostly manual and there is a lot of dependence on specific personnel. Although the collection procedures have been recorded in a manual, it has not been communicated to staff.
- In cases of collection of taxes by bank cheques, receipts are issued before cheques are cleared.
- We identified a case where, with the instructions of TD, there was intervention to the source code of TMS, in order to circumvent the controls of the procedures of data collection to update the netting system (EFARSY) of GAO.
- Some tax categories were not included in the 2019 arrears report submitted to GAO. We also noted the absence of a reconciliation mechanism in the process of preparing the report on arrears.

For the findings included in the report, we submitted specific recommendations addressed to both TD and DITS, with the aim of improving the procedures and strengthening the controls of TMS.

In accordance with the provisions of INTOSAI international standards governing our audit, findings regarding security issues, which may have a negative impact on TD, have been removed from this Report or presented without detail. We note that these findings have been notified to TD along with specific recommendations for corrective action.

Our recommendations aim to improve TD procedures and strengthening TMS control environment. We believe that most of our recommendations can be implemented in parallel and independently of the implementation of the new unified computerized tax system which is under development.

We note that the audit we conducted is not a comprehensive and inclusive evaluation study of all aspects of TMS but was limited to specific audit areas that were evaluated as most important.

Taking into account the fact that the implementation of the new unified computerized tax system is expected to be completed in 2023, TD should study and prioritize the findings of the audit based on their risk and impact and draw up a plan for the implementation of the recommendations.