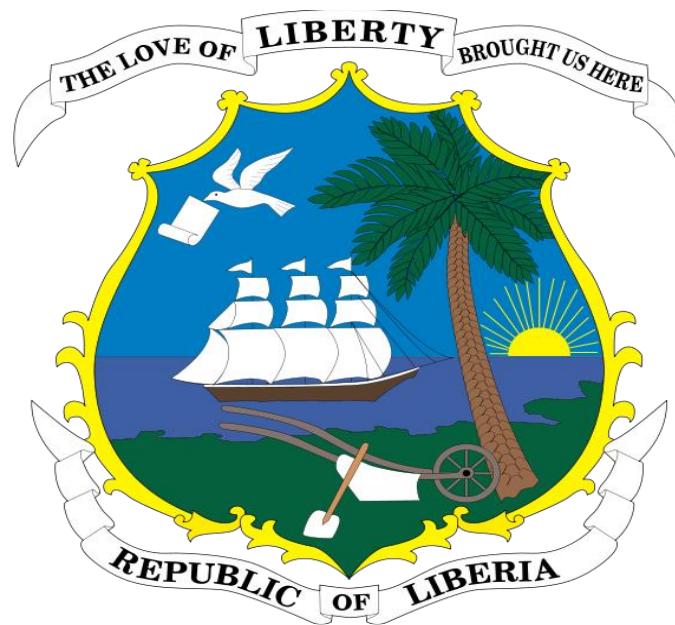


LRA

LIBERIA REVENUE AUTHORITY



TERMS OF REFERENCE FOR THE ENGAGEMENT OF INDEPENDENT PROFESSIONAL SERVICES FIRMS TO CONDUCT AUDITS OF COMPANIES OPERATING THE NATURAL RESOURCE SECTOR OF LIBERIA

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Acronyms

APA	Advance Pricing Agreement
ATM	Audit Task Manager
CA	Concession Agreement
GoL	Government of Liberia
ISA	International Standards on Auditing
LRA	Liberia Revenue Authority
LRC	Liberia Revenue Code
NRTS	Natural Resource Tax Section

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1. Introduction

The Liberia Revenue Authority (LRA) is mandated under the Liberia Revenue Authority Act of 2013 to administer and enforce revenue laws in accordance with the Liberia Revenue Code and other related legislations and regulations. Since its establishment in July 2014, LRA embarked on a massive business re-engineering process and rebuilding of structures to execute its mandate. Realizing the significance of the natural resource sector to the economy, the LRA established the Natural Resources Tax Section (NRTS) within the Domestic Taxes Department to manage all tax matters pertaining to the natural resource sector in Liberia, including, but not limited to; tax audits, Accounting, Analysis, and Assessment (AAA). The section plays a critical role in enhancing tax compliance in sector and improving revenue collections through risk based tax audits, collection, and enforcement. Its aim is to ensure Liberia and its people receive their fair share of revenues from their natural endowment.

LRA requested and has received funding from Africa Development Bank (AfDB) to facilitate tax audits in the Natural Resources sector specifically in Mining and Agriculture sector. LRA intends to use part of the funds to engage the services of reputable professional services firms to conduct comprehensive tax audits of selected companies in the natural resource sector while providing on-the- Job training and practical skills transfer so as to strengthen the capacity of NRTS to more effectively execute its mandate. The selected firms will work alongside NRTS staff to execute the audits and facilitate hands-on skills and knowledge transfer.

The following are the terms of reference ('ToRs') on which the LRA agrees to engage the services of an independent professional services firm to work alongside selected staff of the Natural Resource Tax Section to conduct comprehensive tax audits of selected companies operating in the natural resource sector in Liberia and report to the LRA in connection with the assignment.

2. Interpretation.

In these ToRs, the following terms shall apply:-

'Code' or **'the Code'** means the Liberia Revenue Code

'Comprehensive Tax Audit' means a tax audit covering all tax kinds and fees payable by the taxpayer under the Liberia Revenue Code, the concession agreement or other related legislation.

'Tax Audit' or 'audit' refers to an activity or a set of activities performed to determine a taxpayer's correct tax position and or compliance for a particular tax period or series of period.

'Tax Payer' means any person subject to a tax imposed by the Liberia Revenue Code and other laws or subject to a related obligation to pay interest, penalties, or fees.

'Tax period' means a tax year ending 31st December or a fiscal or financial year as per the definition of the entity being audited.

'Audit Task Manager' ('ATM') refers to the LRA official or designate who is responsible for managing the audit and who is the Auditor's primary contact point with LRA for the audit or the overall engagement.

'Auditor' or 'Firm' means an independent professional services contracted for performing this audit and for submitting a report to the LRA. 'Auditor' can refer to the person or persons conducting the audit, usually the engagement partner or other members of the engagement team.

The **'engagement partner'** is the partner or other person in the firm who is responsible for the engagement and its performance, and for the report that is issued on behalf of the firm, and who has the appropriate authority from a professional, legal or regulatory body.

'Entity' or 'Company' refers to the entity subject to tax audit.

3. Objectives of the Assignment

The overarching objectives of the assignment is to strengthen the capacity of the NRTS to conduct effective risk based tax audits in the sector through practical skills transfer. For each company and relevant tax period, the specific objectives include:-

- a) To conduct a comprehensive review of the transactions undertaken by companies operating in the natural resource sector to determine the extent of their compliance with the relevant Concession Agreements or Advance Pricing agreements as well as the Liberia Revenue Code and other related legislations;
- b) Verify production and valuation of natural resources produced or extracted, sold or exported and ascertain whether payments due to the GoL were correctly computed and duly paid in accordance with the relevant Agreements and the Revenue code;
- c) Verify all expenses claims by the companies and ascertain the accuracy of capital and other deductions claimed in line with the revenue code and the applicable concession agreements;
- d) Identify any tax avoidance schemes by the company, including but not limited to thin capitalisation, abuse of deductions, transfer pricing and any other methods used to reduce tax liabilities or shift profits out of Liberia.

- e) Quantify, the revenues foregone due to tax incentives and special fiscal regimes contained in the various concession agreements that are the subject of to the tax audits, executive orders and other legal instruments.
- f) Strengthening the capacity of the LRA particularly the NRTS to conduct effective risk based tax audits in the sector.

4. Scope of the Assignment

- a) The project will cover at least eight (08) companies operating in the natural resource sector of Liberia particularly in the Agriculture sector.
- b) Assignments will be awarded to two different successful firms in two different lots, and each of the lots shall comprise of Four Companies each which shall be audited
- c) Each assigned case will be audited comprehensively covering all tax kinds for all open tax periods up to the current tax period.
- d) Cases shall be assigned to successful firms based on technical competence, industry knowledge and suitability of the proposed work plans and audit programs.

5. Standards and Guidance

The Auditor who perform this assignment shall be governed by:

- a) The Liberia Revenue Code and any related tax legislation, executive orders and regulations in Liberia;
- b) The IFAC *International Standards on Auditing* ('ISAs') for *Audits of Historical Financial Information* insofar as these can be applied in the specific context of a tax audit;
- c) The IFAC *Code of Ethics for Professional Accountants* (issued by IFAC's *International Ethics Standards Board for Accountants (IESBA)*), which establishes fundamental ethical principles for Auditors with regard to integrity, objectivity, independence, professional competence and due care, confidentiality, professional behaviour and technical standards;
- d) The IFAC *International Standards on Quality Control* (ISQCs), which establish standards and provide guidance on an Auditor's system of quality control.

6. Key Deliverables

The auditor will work alongside NRTS staff assigned to the team throughout the audit process; from risk analysis to planning, audit execution, reconciliation and closure. Key deliverables will include:-

- a) Comprehensive Audit reports for each assigned case; detailing the extent of compliance with the provisions and requirements of the Liberia Revenue Code, MDAs and applicable concession agreements, quantifying and qualifying all areas of non-compliance;
- b) Reconciliation reports of amounts due and paid under each concession agreement highlighting any over/under payments made;
- c) Schedules of fully reconciled tax positions clearly indicating any taxes due in accordance with the Liberia Revenue Code and the applicable concession agreements and other legislation;
- d) Soft copies of all schedules and templates and financial models used during the audit and analysis;
- e) Management report highlighting key areas of non-compliance, any unresolved issues and areas for future audit/review;
- f) Comprehensive training of all staff to conduct audit across all sectors by maximising their involvement in audit planning, execution and reporting.

7. Auditor's Requirements and Qualifications

7.1 Requirements for the firm

- a) The Auditor should be a member of an accounting or auditing body of International repute.
- b) The Auditor must employ staff with appropriate professional qualifications and suitable experience with IFAC standards, in particular International Standards on Auditing and with specific demonstrable experience in conducting tax audits of entities comparable in size and complexity as international extractive/renewable resource companies.
- c) Have demonstrated experience in the area of Natural Resources audit. Experience in a developing country is a plus.
- d) Knowledge and understanding of the Liberia Revenue Code

7.2 Team Qualifications and Experience

- a) The field team leader should be a tax audit manager or a senior tax auditor/advisor with demonstrable experience in conducting tax audits of entities similar size, and complexity.
- b) The field team should demonstrate sufficient knowledge and understanding of Natural resource sector particularly agriculture Sectors.
- c) Good understanding of Liberia Revenue Code, and other related laws and legislations is an added advantage.

- d) The field team should be comprised of an appropriate mix of tax advisors/auditors with relevant knowledge and experience in the sectors subject to audit and international taxation to execute the assignment effectively.

7.3 The Tax Manager

Should be:-

- ▶ A qualified tax expert with a relevant experience in the taxation of natural resources particularly Mining or Agriculture sector, and international taxation
- ▶ A university degree or professional qualification with at least 6 years' experience in tax administration or tax advisory services preferably in natural resource sector.
- ▶ A professional tax advisor/consultant, auditor or accountant in public or private practice including relevant managerial experience of leading audit teams.

7.4 The Senior Tax Advisor/Auditor

The tax advisor/ auditor should be qualified tax experts with relevant university degree or professional qualification and at least 3 years professional tax experience in public or private practice. Knowledge of the extractive or renewable resource sector is required.

7.5 Reporting Requirements

Throughout the assignment, the Auditor shall report to Commissioner Domestic Taxes Department of the LRA who shall designate an Audit Task Manager to act as a liaison between the LRA and the Auditor.

A specific and separate audit report should be issued for each entity audited detailing the extent to which the entity complied with its reporting and tax obligations under the Liberia Revenue Code, Concession Agreement or Advance pricing agreement and quantifying to the extent possible all incidents/areas of noncompliance. The audit report should be presented in the English language.

The audit report should include all financial findings made by the Auditor regardless of the amount involved.

7.6.1 Procedures and timetable for the submission of draft and final audit reports

- a) Prior to commencement of the audit, the auditor shall submit his audit plan to ATM detailing the significant tax risks identified, the extent of substantive audit procedures to be conducted during the audit, the key areas of focus and the audit team work allocations.
- b) Throughout the audit process, the auditor shall contact the ATM for any clarification and guidance on issues of interpretation and application of any provisions of the Liberia Revenue Code, the Concession Agreement or APA. In instances where the auditor is not in agreement with the LRA position on any particular provision of the LRC,CA or APA, the LRA position shall take precedence over the auditor and both opinions shall be documented to form part of the audit evidence.
- c) The auditor shall submit a draft audit report for the attention of the ATM within 5 working days following the completion of the field work. The draft audit report shall include the comments of the Entity insofar as would have already been obtained during the audit fieldwork.
- d) The ATM shall hold a meeting with the Auditor to discuss the draft audit report and any related issues that require specific attention.
- e) The ATM shall provide comments to the Auditor within 5 working days from receipt of the draft report. The ATM shall collect LRA's comments and ensure a proper and timely submission to the Auditor.
- f) The LRA reserves a right to request the Auditor to carry out additional audit work necessary to satisfy the objectives of the audit.
- g) The Auditor shall submit a pre-final report to LRA (i.e. for the attention of the ATM) within 5 working days from receipt of LRA's comments to the draft report.
- h) Thereafter, the ATM shall arrange an exit conference with the entity to discuss the audit findings
- i) Thereafter, a final audit report shall be issued by the Auditor to the LRA for assessment and enforcement action.
- j) In addition to the audit report, the auditor shall submit a management report to LRA with recommendations on areas for further capacity building for its staff
- k) The LRA may request the Auditor for further assistance in reconciling and preparing responses to any tax objections raised by the entity including expert representations during litigation.

8. Duration

The period of the assignment is six months.