

# FIRS and LIRS agree to establish joint audit and investigation framework



## Background

The Federal Inland Revenue Service (“FIRS”) and Lagos State Internal Revenue Service (“LIRS”) signed a Memorandum of Understanding (MoU) to establish a Joint FIRS and LIRS Audit and Investigation Team (“JAIT” or “the Team”) on 6 February 2023. The JAIT implementation committee organised a sensitisation meeting on 10 August 2023 to educate stakeholders on the guidelines for successful implementation of the collaborative framework.

The objective of the MoU is to harmonise the tax procedures between the FIRS and LIRS, foster collaboration, promote exchange of information and reduce time and cost for relevant stakeholders.

In 2017, FIRS and State Internal Revenue Services (SIRSs) signed a similar MoU. The Joint Tax Board (JTB) had the responsibility to coordinate and oversee the implementation for the framework outlined in the MoU. However, the previous framework was not successful due to various challenges encountered, including harmonising the interests of all SIRSs. The JAIT implementation committee has learnt from the previous challenges and has now launched a pilot test with a focus on FIRS and LIRS. The JAIT plans to replicate the success of the collaboration with other SIRSs in the future.

## Key highlights of the MoU and discussions at the sensitisation meeting

- The MoU was signed on **6 February 2023** and the commence date of the procedures will be **1 September 2023**.
- The JAIT implementation committee will set up a technical sub-committee to review and develop the guidelines on the audit/investigation exercise.
- The JAIT will consist of competent staff from the FIRS and LIRS, who will also undergo periodic training and capacity development. External parties will not be deployed for the JAIT tax review process.
- The JAIT implementation committee will set up a technical committee to review the report of the JAIT and objections of taxpayers.
- The process will involve the exchange of information between the FIRS and LIRS while protecting and safeguarding the information received in line with relevant data protection requirements.
- The JAIT will send correspondence to the taxpayers on a JAIT letterhead. The letter would state that all correspondence should be directed to the JAIT Committee Secretariat. The letter will also contain details of the office and tax auditors in charge of the tax audit/investigation.

- Taxpayers will be notified at least two weeks to the commencement of the tax audit/investigation exercise with details of the team members.
- At the point of issuing a letter of intent for payment of undisputed liability, FIRS and LIRS will issue a separate letter of intent and the existing process of remitting taxes to each agency will remain the same.
- Audits that are already ongoing will not be transferred to the JAIT, but will continue to be handled by either the FIRS or the LIRS as the case may be.
- The JAIT will carry out a risk profiling to assess taxpayers to be audited under the JAIT model.
- Taxpayers will have the liberty to opt for the JAIT instead of separate audits undertaken at different times by the relevant tax authorities later in the future when the process is firmly established.
- The JAIT implementation committee expressed commitment to ensure JAIT maintains the highest standard of ethical conduct while discharging their duties
- All queries on processes and implementation can be sent to [firslirs.project.firs.gov.ng](mailto:firslirs.project.firs.gov.ng)

## Key Takeaway



Considering the policy somersault that happened with the initiative proposed by the JTB in 2017, there are perceived concerns about the likelihood of success of the JAIT initiative, considering the short-lived nature of the previous policy. However, carrying out a pilot with only the FIRS and LIRS is more practical, compared to the initial initiative that sought to bring 36 agencies together.

The collaboration and exchange of information is expected to bring about efficiency and facilitate the speedy resolution of audit and investigation exercises, allowing taxpayers to focus on their core operations and generally contributing to the ease of doing business. It can also prevent double-dipping by one tax authority, for example - where the FIRS insists on tax ordinarily paid or payable to the LIRS.

The effectiveness of the framework will depend on how well the FIRS and LIRS are able to collaborate. We expect that modalities will be introduced to address potential challenges especially around uniformity of review approach, integration of systems, capacity of staff and so on.



## Key Takeaway (Cont'd)



Taxpayers should however be aware that the collaboration between the FIRS and LIRS would enhance some risks which are currently not being dealt with under the current audit scenario such as:

- Scrutiny of transactions between companies and their individual shareholders and directors to determine the appropriate personal income tax (PIT) and companies income tax (CIT) implications
- Transfer pricing risks which did not focus on the PIT angle as States did not have capacity
- Common Reporting Standards (CRS) whereby the FIRS receives information about the foreign bank accounts of individuals and can now share that information with the SIRS
- Detailed scrutiny of the financial statements by States outside the standard payroll costs and more review of how individual shareholders apply cash from the business to personal needs.

This would create new risks and companies may need to carry out a tax health check to identify the magnitude of these risks in order to remediate and/or mitigate them.

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