

REPUBLIC OF THE PHILIPPINES
DEPARTMENT OF FINANCE
BUREAU OF INTERNAL REVENUE
Quezon City

June 25, 2002

REVENUE MEMORANDUM ORDER NO. 16-2002

SUBJECT : Investigation of Internal Revenue Tax Liabilities of Local Government Units (LGUs) for year 2001 and the 1st and 2nd Quarters of Calendar Year 2002.

TO : All Regional Directors, Revenue District Officers and Others Concerned.

I. OBJECTIVES

1. To enhance a high degree of voluntary compliance of LGUs thru the conduct of quality audit; and
2. To ensure strict compliance of LGUs to the internal revenue tax laws and regulations.

II. AUDIT COVERAGE

This program shall cover the investigation of all internal revenue tax liabilities of LGUs with year 2001 Internal Revenue Allotment (IRA) releases of more than Ten Million Pesos (₱10,000,000.00) each or with decrease in total tax remittance of at least fifty thousand pesos ₱50,000.00. compared to that of the preceding year. Records of IRA releases may be taken from the Dept. of Budget and Management or the Withholding Tax Division of the Bureau of Internal Revenue.

III. AUDIT POLICIES AND PROCEDURES

1. **Cases to be Audited and Issuance of TVN** – The Regional Director having jurisdiction over the LGU shall issue a Tax Verification Notice (TVN) for the audit of 2001 and the 1st and 2nd quarters of calendar year 2002 internal revenue tax liabilities of the said LGU(s). The List of TVNs issued shall be submitted to the Assessment Service (AS), copy furnished the Deputy Commissioner- Operations Group (DCIR-OG).

2. **Conduct of Audit** – Investigation of the selected LGUs may be conducted by a regional task force created for this purpose or by the Revenue District Office (RDO) having jurisdiction over the LGU at the option of the Regional Director. The audit, including the issuance of final assessment notice, must be finished on or before Aug. 31, 2002.

3. **Review and Approval of Reports of Investigation** – The reports of investigation shall be reviewed by the Assessment Division and approved by the Regional Director. However, the dockets may be subjected to post review by the national office.

4. **REPORTING REQUIREMENTS** – The docket should contain the following:
 - a. Comparative Balance Sheet;
 - b. List of asset acquisition;
 - c. Comparative Profit and Loss Statement with enumeration of specific income and expense accounts;
 - d. Worksheet showing the reconciliation of expense and expenditure accounts, including asset acquisition, with the actual tax withheld and remitted to the BIR under BIR Form Nos. 1600, 1601-C, 1601-E, 1601-F, 1602 (if applicable), 1603, 1606 and the Annual Alphabetical List of Income Payments Subjected/Not Subjected to Withholding Tax filed under BIR Form Nos. 1604-CF and 1604-E;
 - e. Listing of “Withholding Tax Returns Filed” with mention of date of filing;
 - f. Xerox copies of withholding tax returns filed (BIR Form Nos. 1600, 1601-C, 1601-E, 1601-F, 1602 (if applicable), 1603, 1606, 1604-CF, 1604-E);
 - g. Listing of other tax returns filed;
 - h. Xerox copies of other tax returns filed, if any;
 - i. Photocopies of contracts entered into by the LGUs with contractors and suppliers;
 - j. Working papers showing computations of deficiency taxes;
 - k. Proof of payment of deficiency taxes; and
 - l. Table of Contents with page number of all attached documents.

5. **Monitoring of TVNs Issued** – A “Report of Closed Cases” (Annex “A”) as well as “List of Tax Verification Notices Issued” as authorized under this Order shall be submitted by the Regional Director to the ACIR- AS, copy furnished the DCIR-OG.

IV. EFFECTIVITY

This Order takes effect immediately upon approval.

(Original Signed)
RENÉ G. BAÑEZ
Commissioner of Internal Revenue