

# Understanding Audit, Tax Due Diligence, and Value-Added Tax: A Comprehensive Guide for Nigerians







In the ever-evolving landscape of business in Nigeria, understanding the relationship between audit, tax due diligence, and value-added tax (VAT) is crucial. These concepts are not just regulatory requirements; they are essential for any business aiming to thrive and maintain compliance in today's market.

## The Role of Audits in Business Governance

Audits are a fundamental component of effective business governance. They provide a systematic review of an organization's financial records and operations, ensuring compliance with laws, regulations, and internal policies. This transparency is crucial for investors, stakeholders, and other parties who rely on accurate financial information to make informed decisions.

## The Business Governance Structure

A well-structured business governance framework includes several key components:

-  **Board of Directors:** The board is responsible for overseeing the organization's strategic direction, financial performance, and risk management.
-  **Management Team:** The management team executes the board's strategic direction and ensures the day-to-day operations of the business.
-  **Internal Audit Function:** This function provides independent assurance to the board and management on the effectiveness of governance, risk management, and control processes.
-  **External Auditors:** Independent external auditors are appointed by the board to provide an objective assessment of the organization's financial statements.



## The Role of Audits in Governance

Audits play a crucial role in supporting the business governance structure by:

- i Risk Assessment:** Audits help identify potential risks and vulnerabilities, allowing the board and management to take proactive measures to mitigate them.
- i Financial Reporting:** Audits ensure the accuracy and reliability of financial statements, providing investors and stakeholders with a clear picture of the organization's financial health.
- i Compliance:** Audits verify that the organization is complying with relevant laws, regulations, and industry standards.
- i Internal Controls:** Audits assess the effectiveness of internal controls designed to prevent fraud, errors, and inefficiencies.

## Linking Audit to Tax Due Diligence

Now, how does audit relate to tax due diligence? Tax due diligence is a crucial step in evaluating a company's tax obligations, often performed during mergers and acquisitions. This process involves reviewing past tax returns, compliance with tax laws, and identifying potential tax liabilities. A well-conducted audit lays the groundwork for effective tax due diligence by ensuring that financial statements are accurate and reliable.

In Nigeria, tax due diligence is guided by the Federal Inland Revenue Service (FIRS) Act. The FIRS Act emphasizes the importance of complying with tax regulations, and the information gathered during audits can reveal potential risks that may affect tax obligations. For example, discrepancies in revenue reporting identified during an audit can lead to significant tax liabilities if not addressed.

## The Importance of Value-Added Tax (VAT)

Value-added tax is another critical component of the financial ecosystem in Nigeria. VAT, introduced by the Value Added Tax Act of 1993, is a consumption tax levied on goods and services at each stage of production. It plays a significant role in government revenue and affects both businesses and consumers.



For businesses, understanding VAT is essential for compliance. Companies must accurately collect VAT on sales and remit it to the government. Failure to do so can result in penalties and interest charges, highlighting the importance of conducting regular audits and thorough tax due diligence.

### **The Interconnection: A Case Example**

Consider a manufacturing company in Nigeria looking to expand through acquisition. Before finalizing the purchase, the company conducts tax due diligence. During this process, they review previous audits of the target company's financial statements and tax compliance. They discover discrepancies in VAT reporting, revealing that the target company has underreported its VAT liabilities.

This finding affects the acquisition decision and poses a risk for the acquiring company if the underreported VAT leads to future liabilities. By understanding the interplay between audits, tax due diligence, and VAT, the acquiring company can make a more informed decision, protecting its interests and ensuring compliance with Nigerian tax laws.

### **The Path Forward**

In conclusion, audits, tax due diligence, and value-added tax are interconnected elements that shape the financial landscape for businesses in Nigeria. Understanding these concepts is vital for ensuring compliance, minimizing risks, and fostering trust among stakeholders. Adroit Advisors is committed to helping businesses navigate these complexities, providing insights and support to enhance financial integrity.