

BIZ INSIGHT

Bol policy on machinery presents challenge to auditors

ONE OF the major challenges faced by companies promoted by the Board of Investment, and their auditors, is a new practice that has recently been adopted by the Bol.

Just like any other company, one that has received promotional privileges from the Bol is subject to an independent audit. In the latter case, one of the purposes of the audit is to form an opinion as to whether the performance and nature of the project comply with the conditions stipulated in the Bol certificate. If the report provided by the auditor shows that the company has satisfied the conditions, the agency will authorise the company to use the privilege of corporate-income-tax exemption.

This simply means that the Bol will rely on the opinion of the auditor when issuing such authorisation. The purpose of this article is to raise awareness of the significance of the auditor's report to the Bol.

The Bol requires the auditor to examine certain information regarding the machinery used by promoted companies because it has found that some have not complied with such conditions. In most cases, it is a requirement that the machinery to be used in a project must be new and imported or purchased locally after the application for privileges or after the certificate Bol has been granted.

If the machinery was imported or purchased locally prior to the date on

which the Bol application was filed, it would be considered used or old machinery and would not qualify. If the company fails to comply with this requirement, the amount of corporate income tax to be exempted could be adversely affected.

A few years ago, Bol officers found several cases where machinery for a project had been purchased and booked in the accounts of the company before it had submitted its application for investment promotion. Such machinery was then not accepted for use in the Bol

project. Disputes arose when Bol officers did not believe that the machinery or other assets were new, while the companies insisted that they had never been used before.

It was then decided that an independent auditor should be the person most qualified to verify and identify the condition of machinery in such cases.

As a result, Bol officers now request that auditors of promoted companies verify this matter. This has created a huge burden on the auditor, who now has to face the problem of



**Suradech
Hongsa**

how to prove that the machinery or other assets had never been used before the application was submitted to the Bol.

As well, in spite of such requirements, the Bol does not have a manual or provide any guidelines for the auditors to follow, or even a form to fill out with regard to this matter. The auditors have to find their own ways to manage this issue, and often the facts on which their opinion will be based occurred two or three years previously. If this issue had been raised at the stage when the Bol was considering the application, the auditor would have been easily able to check whether the machinery or other assets existed and what their apparent condition was.

If a company were to fail to satisfy its Bol conditions, it would be a disaster, because the agency would cancel its tax privileges. As a result, the company would have substantial tax issues with the Revenue Department.

At present, the Bol has to rely on the auditor's confirmation report because it does not have its own evidence to prove the status of the machinery, and the report of the independent auditor is deemed valid and reliable. Therefore, every Bol company will have to consult with a professional adviser and its independent auditor carefully in order to defend its position on such matters.

Suradech Hongsa, the author, is a PricewaterhouseCoopers manager.