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Is it worth investing in “Lifestyle audit” in Zimbabwe?

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ABSTRACT: The present paper reviewed literature on life style audit. This paper explores the lifestyle audit in Zimbabwe, and proposes practical solutions that can be considered to arrest corruption to improve governance. The findings from literature reviewed point out that theoretically lifestyle audit has many materials benefits in its administration, practically reports on official that have been acquitted after the lifestyle audit seemed to be unavailable. This paper strongly recommends that more training and outsourcing of financial forensic audit must be done and engaged on a regular basis.

KEYWORDS: Lifestyle audit, Investing, Zimbabwe

I. INTRODUCTION

Audit and audit process has long attracted many researchers and academia's to explore its usefulness in modern corporate management. Shareholders, investors, entrepreneurs and management experts heavily rely on these audits (Mbat. D & Eyo. E, 2013). Quite recently the corporate world has adopted the use of, business intelligence or suspect profiling (Powell, p. 2011), as this a method now adopted to directly to investigate an employee being suspected to be involved in illicit business activities as governed the laws of the country and his employer.

Lifestyle audits have been defined as suspect profiling and business intelligence (Powell, 2011), financial investigation (Pasco, 2009), background investigations (Van Rooyen, 2008:216), lifestyle analysis (Coenen. T, 2009:171) and net worth analysis (Madinger & Zalopany, 1999). European Community members in public companies and government are governed by the Council Regulation (EC, Euratom) No 2988/95 of 18 December 1995 on the protection of the European Communities financial interests. The European Commission Members make use of ISA240 and ISSAI 1240 to combat passive and active corruption and illicit activities as defined by the European Anti-Fraud Office, ECA (2014). In South Africa, forensic investigators are given powers by the Criminal Court and National Prosecuting Authority, Criminal Procedure Act 51 of 1977, to exercise powers to access suspect information regarding financial and non-financial material in order to carry out a lifestyle audit.

ZIMRA (2014) defines a lifestyle audit as an audit carried out with specific attention on income received by individuals, and these reports are an amalgamation of reports from a variety of databases that aim to give a snapshot of certain related aspects of the life of an employee (Powell, 2011). DiSabatino. M (n.d.) argues that this lifestyle audit is a tool used by auditor's to ascertain if the income you claim on your tax return can support how you live.

II. LIFESTYLE AUDIT OBJECTIVES

Lumumba (2011) states that lifestyle audit is the only tool to arrest corruption in Africa. He further identifies the causes of corruption in Africa and include poor leadership, “poverty” (politics of the belly), omnipotent state, greed and selfishness, clientelism and patronage nepotism, absence of popular participation of the public in government, weak

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institutions of governance, lack of accountability and transparency, lack of political ethical values, centralist nature of the state and concentration of state power, negative colonial legacy, weak judicial system and constant insecurity and conflicts (2011: 7). Thus the objectives of lifestyle audit according to ZIMRA (2014) and Income Tax Act [Chapter23:06]; Capital Gains Act [Chapter23:01]; Value Added Tax Act [Chapter23:12] and Customs and Excise Act [Chapter23:02] include:

- Evaluate revenue collected as declared by the client;
- Raise awareness to clients on how to properly compute their income and declare their tax;
- Encourage compliance;
- Need to maintain up to date clients tax activities.
- Assess and collect additional revenue
- Promote compliance and update clients' tax affairs

The other objective of lifestyle audit exercise is to identify unreported cases of unjust self-enrichment and prevents the likelihood of corruption (Financial Gazette, 2017).

2.1 Lifestyle Audit Process

Lifestyle audit process employs the skills of forensic investigators who are termed Forensic Accountants and Forensic Auditors. Forensic investigation is a systematic, premeditated process, which aims to prove that a crime has in reality been committed by an offender, by gathering, evaluating and safekeeping of evidence for jury, with the aim of identifying and apprehending the suspect(s), recovering stolen property, and assisting in the prosecution of the person(s) charged with the crime, Dowling (1979). Deloitte and Touché (2002) state that financial forensic investigation which involves the application of both financial literacy skills and an investigative way of thinking to unsettled cases. These unsettled issues comprises of act such as breaking of internal company policy, which include, nondisclosure of personal interests, and abuse of company resources, which are usually governed by company disciplinary policy.

Fraud is difficult to uncover by its very nature, thus steps have to be taken by the offender in order to conceal it (Coenen. T, 2009). Offenders try to hide their misconduct to the general public, state company's management and owners, but mostly auditors. The ACFE (2010) state that there are many fraud detection methods and which ever method is engaged will require the assessment of source documents. In most cases these documents provide the evidence necessary to prove an act of offense in a court of law. Individual documents can be examined in several ways to detect possible fraud.

Golden et al. (2006) argue that it is mostly difficult to detect acts of offences especially so in fraud involving material financial misstatements, which occur only in about two percent of all financial statements. Fraud is generally covered, and often occurs through conspiracy. Normally, the documents supporting misplaced transactions are not kept back in company records. False records are often produced, and genuine documents are distorted, to bear fabricated transactions. Pasco (2009) further argues that the ability to trail the money path allows for the full expansion of the facts and circumstances involved in the case to be shown in a logical and sequential pattern, and simplifies the understanding of how the financial pieces fit together. This provides the investigator with the tools to uncover and identify all the participants in a criminal enterprise.

According to Kass-Shraibman and Sampath (2011), tracing the flow of money will identify the names of payees, individuals or businesses that have received money or some other form of compensation. These parties will be the subjects of the investigation. Understanding who these payees are and how they relate to each other, will assist the investigator in uncovering the fraud scheme. Powell (2011) further highlights that fraud and corruption are usually committed by means of 'off book' transactions or manipulated accounting records. It is very difficult to detect, and dishonest professionals are able to conceal their fraud with disturbing alacrity and ease, particular in work

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environments with weak controls or limited segregation of duty. Fraud may be concealed in documents and such documents are often questionable (ACFE, 2011) Missing or altered documents are some of the principal indicators of fraud and such occurrences should be thoroughly investigated.

In order for forensic auditors detect fraud, Golden, Skalak, and Clayton. M. (2006) state: "Knowing where to look is the first step in fraud detection. Understanding the motivations of those committing the fraud and knowing in which accounts fraud is more likely to exist, based on a risk assessment, helps identify areas that might be subject to the greatest need for scrutiny. Similarly, being aware of the types of transactions that warrant further review, as well as other potential red flag indicators, may alert investigators to areas that might require a closer look"

Specific fraud detection techniques include carrying out analytical procedures, using audit tests, observing and inspecting, making enquiries, and conducting interviews (Golden et al., 2006). Golden et al. (2006:122) point out further that having a mind-set of professional scepticism and better knowledge of various types of fraudulent schemes, may make the difference between detecting and not detecting fraud. Coenen. T (2009) states that newfound wealth is often difficult for a person to hide. Despite an employee's best efforts to keep a fraud under wraps, buying a new car or fancy jewellery may be too much to resist (ZIMRA 2016). Spending beyond one's apparent means should be a warning sign that a fraud may be occurring.

Sometimes the only clue to the illicit activities is a sudden unexplained change in an employee's lifestyle. Powell (2011) suggests further that the lifestyle audit is therefore a critical management tool to identify staff members who, based on an extravagant lifestyle, may potentially be engaging in illicit activity. It is also one of the few mechanisms that organisations may utilise as a first step towards discreetly determining whether a 'tip-off' of suspected fraudulent activity, potentially has merit or not.

Coenen. T (2009) warns that lifestyle changes alone are not an exact indicator that fraud is occurring; however, changes in lifestyle are small pieces of a puzzle which should be watched carefully as they sometimes relate to occupational fraud. She goes on to say that the method of a lifestyle analysis does not give definite proof of hidden income, but it appeals to the common sense argument that if an individual is spending this much money, it has to come from somewhere. Powell (2011) states that a lifestyle audit is a justifiable fraud prevention and detection mechanism and it's an excellent barometer of the extent of the fraud risk within an organisation, and companies should make use of this proactive anti-fraud mechanism to protect themselves before they fall victim to fraud to identify fraud which is happening.

Literature reviewed indicates that lifestyle audit yield favourable results of ending corruption if it targets top government officials such as ministers, the so called prophets, army generals and connected individuals (Financial Gazette, 2017).

2.2 Lifestyle Audit Methods

According to the ACFE (2012), the net worth method is commonly used and it is defined as the difference between assets and liabilities at a particular point in time. According to Coenen. T (2009), a person's change in net worth, plus the living expenses for the period, equal the funds required for the period. Jackson and Bekerian (1997) argue that offender profiling can be regarded as a useful investigative tool for investigators. Offender profiling is considered to be an aid in investigations; therefore, there is a relationship between offender profiling and investigations.

Coenen. T (2009) state that the lifestyle analysis is similar to the net worth method, the latter being another way to connect the "dots" of someone's lifestyle, to make a circumstantial determination of hidden income. Pasco (2009) state that the net worth is a complete listing of assets less liabilities, or, what one owns, less what one owes. Bekerian. D and

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Levey. A (2005) believe that offender profiling is a method of collating various pieces of information and data about an offender, with the intention of establishing the most likely offender who committed the crime, and that the profiling of an offender is used to understand why and how the crime was committed.

Coenen. T (2009:171) purports that the process for the net worth analysis that can also be used for a lifestyle audit includes both public records and legitimately obtained private records. The fraud investigator assembles known purchases of real estate, automobiles, personal possessions, and other assets. Liabilities are tabulated as well, taking into account mortgages, personal loans, personal credit cards, and trade credit.

According to SARS spokesman Adrian Lackay (as quoted by Temkin. S, 2012), the taxman conducts audits on taxpayers, businesses trusts and individuals. Lackay goes on to say that the process has many stages, one of which is a lifestyle questionnaire which SARS requires a taxpayer to complete (Temkin. S, 2012). Lackay is also reported as saying the following (Temkin. S, 2012), "This questionnaire is used to judge whether the monthly living expenses are consistent with the taxpayer's declared income and assets in the name of the taxpayer."

In the risk-profiling of individual taxpayers, SARS uses a variety of sources of information including third-party data and risk rules which assist in identifying potential discrepancies between income declared by taxpayers and the income and assets they are thought to have.

Should such a potential discrepancy be identified, a taxpayer is selected for audit (Temkin. S, 2012). According to newspaper reports, the Hawks have previously approached banks and cell phone companies to request the records of suspects regarding lifestyle audits into their alleged questionable wealth. This lifestyle audit is part of a preliminary investigation handled by the Hawks, to determine whether they have a case against a suspect or not (Ngalwa. S & Malefane. M, 2011).

According to SAPA (2010), Deputy President Kgalema Motlanthe indicated that SARS conducted investigations of people who appeared to be living beyond their means. These investigations started on the basis of information obtained from various sources, including the SARS anti-corruption and fraud hotline, income tax returns submitted to SARS, and suspicious activity reports from members of the public.

A lifestyle questionnaire is one method of obtaining information from a taxpayer, and together with other information sources, helps SARS in matching the lifestyle trends, income streams, and the asset base of a taxpayer, to what has been declared in an income tax return.

A lifestyle audit conducted by SARS can take an extended period to finalise, and can be exacerbated when financial records are not readily available to explain the increases in assets reflected by the taxpayer, or to address the nature of deposits received by the taxpayer in their bank accounts, satisfactorily (Crome. B, 2010).

The ACFE (2012:3.823) suggests the following steps when building a financial profile of an individual:

Step 1- Identify the subject's significant assets, e.g. cash on hand or anything else of value that can be converted into cash.

Step 2- Identify all significant liabilities, e.g. any debt arising from an oral or written promise to pay.

Step 3- Identify all income sources during the relevant time period. Income includes money or other things of value received in exchange for services or goods. Income is never included as an asset.

Step 4- Identify all significant expenses incurred during the relevant period. An expense is any payment for consumables, for personal or business reasons, over the relevant time period. Expenses are not included as liabilities.

According to Zimbabwe Revenue Authority (2014), the audit process employs the following verification methods:

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- ii. Information support source of income/ expenditure
- iii. Educating of clients on tax matter
- iv. Issuance of amended assessment where discrepancies are noted and collection of any tax due

2.3 Benefits and Cost of Lifestyle Audit

Since a lifestyle audit is a process of citing properties, motor vehicles, company register information and credit histories (Powell. S, 2011), it therefore means that it is financial investigative related and thus the techniques employed are valuable in ascertaining money laundering allegations, than can be second-handily be effectively in further investigations.

Powell. S (2011) argues that unpretentious credit assessment on a client may disclose bad debt and judgements, and these are essential fraud risk gauge and an exceptional barometer for the level of scamming side an organisation. Radcliffe. J (2004), implementing innovative intelligence of auditing income records aides law enforcement to grab its priorities by filling gaps in information pertaining vague threats by criminals. The acclimatization of existing facts and the gathering of innovative intelligence sustenance the efforts to plan for the future direction of current tax evasion threats. Crime intelligence integrates entirely any possible information including lifestyle audits (Radcliffe, 2004). Gillespie. T (2014) states the following advantages of a lifestyle audit:

- Enables detecting misappropriated funds and hidden assets.
- Allows narrowing the list of possible fraud suspects who are living beyond their financial means.
- Identifies direct evidence of fraud.
- A tool by which investigators can use to prove that a target is secondary sources of income unknown, declared
- Aides the investigation by indicating to the investigator where to direct their inquiries.
- Can yield direct or circumstantial evidence of illegal income or hidden assets, indicating that the subject cannot afford the lifestyle they are leading.
- It is a crucial fraud risk indicator.

The lifestyle audit can support the client (Gillespie. T, 2014), against the charges levelled against him. Van Rooyen (2008) argues that crime examination is not a 'one way street', precedence must be set to collecting facts towards a solution and that one cannot disregard facts that will free a client.

2.4 Reliability of Lifestyle Audits

Association of Certified Fraud Examiners (2012) argue that illicit transfers identified in financial records may not be significant enough for investigators to acquit a client, as many transactions are now being concealed in transactions of activities, consumables, or for unusual one-time expenses such as medical bills (Gillespie, 2014).

Association of Certified Fraud Examiners (2012) also warns that erroneous and false negative readings need to be linked certain related events, to have an upper hand understanding of the financial records which is however aided by social profile of clients.

Powell. S (2011) argues further that the findings of the lifestyle audit are a pointer and clue that something is amiss but it's inconclusive without additional confirmation. Perfectly a reasonable clarification for a spendthrift lifestyle as a result of inheritance, affluent partner or family member, not known by the employer, providing financial support cannot be easily detected by audit but it needs thorough analysis before conclusions can be drawn. The results of the lifestyle audit must, accordingly, be approached with caution.

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Powell. S (2011) and Coenen. T (2009) agree that lifestyle modification only is not a positive indicator that fraud is taking place, thus, modifications in lifestyle are fragments of a puzzle which ought to be observed cautiously, as they from time to time transmit to work-related fraud.

IV. METHODOLOGY

The study adopted various literature sources from Zimra articles on lifestyle audit, journals, opinion publications, newspapers and academic literature.

V. MAJOR FINDINGS, CONCLUSION AND RECOMMENDATIONS

i. Lifestyle Audit Objectives

Evaluation of accurate taxable collectable was evidenced to be done to organisations with tax registration certificates. But, majority of business organisations commonly classified as small to medium enterprises were seen not to have tax registrations certificates and they are being called informal sector. Tax is not being collected on revenue generated from sales and tax on wages is not being collected.

Seldom tax awareness seminars or outreach programmes have ever been documented in newspapers or ZIMRA publications on trying to educate and engage the public on the need to comply with the laws of the country.

Pressure of compliance is being exerted on already existing and registered organisations. Flee markets, vendors and the indigenous enterprises are enjoying tax free havens.

ii. Benefits of Lifestyle Audit

Though vast literature supports that this tool detects misappropriation of funds from an organisation by its employees, it has up to date failed to incriminate senior officials in public limited companies that are suspended on claims of abuse of office. Reports conclude that the findings were inconclusive as there is no clear evidence.

Though many junior officers from revenue departments, law enforcement and public office are being accused of bribery and being corrupt, a few have been implicated with the crisis worsen, authorities have tasked lifestyle audits for revenue officers and law enforcement department but the bribery and corruption has worsen.

Root causes of bribery like roadblocks and Vehicle Inspection Department have been noted by the general public as a huge cause for concern, like has been done by the lifestyle audit since it was adopted to incriminate officers who have illicitly benefited from it.

iii. Costs of Lifestyle Audits

Many senior officials have declared in press and national television that the allegations are not true. Improper administration of this tool has ripple and lasting consequences on the client as reputational damages is costly and timely to repair.

iv. Reliability of Lifestyle Audit Reports

With recent and past High Court rulings dismissing filed cases of illicit financial transactions, this has viewed that the revenue department has not competent experts in carrying out the lifestyle audits.

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VI. METHODS AND MATERIALS FOR AUDIT PROCEDURES

Since primary data of transactions of acquisition and disposal are required to assess if the net worth a client is living is within his/ her means. Some private information needs the court order to view a person's records. Some scholars view this as a violation of rights of a person.

Adoption of a lifestyle audit is very noble move that aims to unearth bribery and corrupt practices that occur in public offices, however revenue departments needs to train and consult with leading experts in forensic investigation, particularly in money laundering and financial auditors, to device modern tools and strategies to combat officials who have red flags. In the findings the reliability of lifestyle audit underpinned the objectives and benefits of the tool. In this land the tool has failed to gain popularity as many illicit dealers and implicated officers walk free from charges levied against them. Court orders must be given to access financial data to expose the financial illicit deals. Proper implementation and administration of the lifestyle audit will prove it to be useful tool to combat corruption, and illicit financial flows. The system should not be specific to Zimra, Police Officers and general civil servants but also high government officials with no exceptions. Lifestyle audit is a very important process that instils disciplines among citizens.

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