

Audit Defense

Strategy Leads to Big Win for Client

Davis Davis & Harmon LLC (DDH) implemented an audit defense strategy which won over the auditors and saved the client millions.

DDH was engaged by a client to manage a routine sales/use tax and business/occupational license tax audit for the state of Washington. **DDH took over the audit midstream and had to contend with a series of unwieldy audit schedules with unsubstantiated tax assessments and liabilities.**

Challenges

- The audit was open for three years and very little progress had been made.
- The auditor had grown contentious and frustrated due to the lack of responsiveness by the prior consulting group.
- The auditor scheduled numerous sale and purchase transactions as taxable from the general ledger resulting in a huge assessment.

Solution

DDH took over the audit and began working with the auditor to provide support to reduce the assessment.

DDH had to fight to remove transactions from the audit schedules based on research and supporting documentation.

DDH negotiated with the auditor to remove sales transactions of an acquired company for which no support was available, along with other transactions such as intercompany transactions, journal entries, and adjusting entries.

Results

DDH successfully reduced the \$94M audit assessment down to approximately \$750,000.

DDH managed the next audit. We worked with the client to conduct a review in advance of the audit. **Based upon the rapport established during the previous audit, the auditor accepted DDH's audit findings at face value without performing a more thorough review.**

In the past, the state of Washington performed follow-up audits every four years without any lapse in statute.

Based on the outstanding results of the last audit, the state of Washington has not returned to conduct a follow-up audit.