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## Good Practices in Social Security

Good practice in operation since: 2014

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### **Electronic tax audit: Electronic acceptance and verification of employer data**

German Federal Pension Insurance  
Germany

## **Summary**

*The electronically assisted company audit makes the procedure much simpler and at the same time more efficient for employers and tax consultants, and for the Audit Office of the German Federal Pension Insurance (Deutsche Rentenversicherung – DRV). The employer's electronic payroll accounting data is transferred to the Audit Office in a defined form via a secure connection. Audit preparation for the employer is in many cases just a mouse click; paper documents only have to be provided occasionally. The fact that the auditors spend less time on site lightens the burden for employers and tax consultants. Travel time is eliminated and travel costs saved.*

*The procedure is voluntary for employers at the present time. However, legislators intend to make the procedure compulsory in the coming year.*

## **The issue or challenge**

*What was the issue or challenge addressed by your good practice? Please provide a short description.*

The German Federal Pension Insurance audits some 800,000 employers annually to check whether they have paid their social security contributions correctly. The range of tasks of the Audit Office of the German Federal Pension Insurance has increased in recent years. The Fund has since begun checking for accident insurance and social security for artists. This has made audits increasingly complex and time-consuming. The amount of preparation has also increased for employers and tax consultants.

As a rule, company audits were previously carried out on the premises of employers and tax consultants. This meant that the employers and tax consultants had to have premises and personnel available. In practice, audit information and documentation is increasingly stored by the employer using automated data processing. This results in documents necessary for preparing for an audit often having to be printed out from the employer's data processing system.

## **Addressing the challenge**

*What were the main objectives of the plan or strategy to resolve the issue or challenge? List and briefly describe the main elements of the plan or strategy, focusing especially on their innovative feature(s) and expected or intended effects.*

The main objective was to provide automated assistance to employers with their electronic accounting data so as to reduce the effort previously involved in traditional audits for all concerned, and to decrease the time taken to carry out the audit on site.

It is intended for the accounting data from the employer to be transferred to the German Federal Pension Insurance in a uniform format using the same media via a secure connection. The employer should be able to prepare for the audit with just a single click in the payroll accounting program. At the same time, this should allow a large proportion of the audit to take place without the further involvement of the employer, making the audit more efficient and lightening the load for the employer during the audit.

## Targets to be achieved

*What were the quantitative and/or qualitative targets or key performance indicators that were set for the plan or strategy? Please describe briefly.*

It was assumed that during the first fully productive year (here, 2015), five percent of employers (40,000) would send electronic accounting data for the audit and that this figure would increase by five percent each year.

It was also assumed that 10 percent of audits at the employer's site would be unnecessary in the case of companies with fewer than six employees. These small enterprises make up about half of the approximately 800,000 companies to be audited each year. It was assumed that in the first year, one percent of these small enterprises would not need an on-site audit. An annual increase of one percent is expected.

Furthermore, it is assumed for all employers that the number of on-site audits can be cut by 10 percent.

## Evaluating the results

*Has there been an evaluation of the good practice? Please provide data on the impact and outcomes of the good practice by comparing targets vs actual performance, before-and-after indicators, and/or other types of statistics or measurements.*

2015 was the first fully productive year in which close to one-half of the expected five percent could be achieved. Since then, the proportion of audits performed using the new method has increased considerably. In 2018 (the year of this report), 29 percent of all audits were conducted with the help of electronic accounting data from employers. Overall, the Audit Office was able to make the expected savings in terms of travel costs and working hours. The number of paper print-outs was reduced for all involved. The electronic employer data and the programmed audit routines can also more quickly determine whether the employer has calculated and paid the correct amount of contributions.

## Lessons learned

*Based on the organization's experience, name up to three factors which you consider as indispensable to replicate this good practice. Name up to three risks that arose/could arise in implementing this good practice. Please explain these factors and/or risks briefly.*

The procedure is voluntary for employers at present. This is simultaneously a source of opportunities and risks.

In Germany, employer payroll accounting programs must be certified by the social security administration, with the mandatory tasks being prescribed by law. Voluntary procedures such as electronically assisted audits are also optional for the providers of payroll accounting programs. As a result, until today only about one-quarter (29 out of 122) of all providers offer the "electronically assisted company audit" module. However, about half of all payroll accounting

is carried out using these 29 programs. On the other hand, the voluntary nature of the procedure has led from the outset to constructive exchanges between all participants in the procedure, something that, presumably, would not have happened had it been compulsory. The main participants were:

- Federal Ministry of Labour and Social Affairs;
- Confederation of German Employers' Associations;
- Federal Chamber of Tax Consultants;
- Consortium of Payroll Software Developers;
- IT Service Centre for Statutory Health Insurance;
- National Association of Statutory Health Insurance Funds;
- Audit offices of the German Federal Pension Insurance;
- Pension Insurance Data Authority.

A practical procedure has thus been created, which is accepted in equal measure by employers and tax consultants, as well as by the auditors of the German Federal Pension Insurance.