Bring your tax risk management policy to life with technology

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Author: Sasha Gradnig – Senior Manager, Enterprise Digital

In brief

It has been over a year since the release of the Australian Taxation Office's (ATO) guide on tax risk management and governance review guide. Since then, we have noticed an increased awareness of the requirements to formalise the tax risk management policy. However, the challenge is how to link these to operational processes and, in particular, understanding the capability of automation technology available right now to help manage tax risk.

This article highlights the technology aspects of tax risk management and governance by explaining ATO expectations in relation to technology which is important, particularly given the ATO is actively engaged on automation as a key way to demonstrate robust tax controls are in place. When the right technology is used to manage risks, this can ultimately reduce the extent of ATO reviews and audits.[1]

In detail

Background

In July 2015, the ATO published its Guide[2], outlining what it considers to be 'best practice' standards in terms of Board level and managerial level controls to effectively manage tax risk. These standards apply to 'large' corporations[3] and include recommended policies and disclosures regarding tax governance[4] which are aligned with the Organisation for Economic Co-Operation and Development's (OECD) most recent recommendations.[5]

[1] Note this article applies to those organisations which do not have a co-operative assurance agreement with the ATO (where additional conditions apply).
[2] Refer to the ATO *Tax Risk Management and Governance Review Guide* published in July 2015.
[3] Annual turnover exceeding AUD$500million.
[4] For listed companies, there is an expectation that the annual report includes a statement from the board attesting to the effective ness of policies and processes in place to manage risk.
[5] Refer to the OECD publication "*Co-operative Tax Compliance Building Better Tax Control Frameworks*" dated May 2016.

The Board of Taxation has also set standards with regard to tax risk management. Large corporations who have signed up to the voluntary Tax Transparency Code must publish information on their approach to tax risk management as part of their annual report. The ATO must be notified once this report has been published on an annual basis.[6]

To demonstrate the effectiveness of controls in place to manage tax risk, the ATO expects taxpayers to provide evidence of a formal tax risk management policy document, and, importantly, to demonstrate how the policy has been embedded in day-to-day operations. This includes a description of:

- key controls and supporting procedures to ensure compliance with the tax law
- flow of information from accounting records to tax returns and checks in place to ensure the correct allocation and classification of line items in accordance with applicable tax law and administrative guidelines.

Descriptions of these controls may be included in separate tax procedures documents, but must be referenced in the tax risk management policy.

Examples of specific operational activities which the ATO expects to be covered in the tax risk management policy are:

- preparation and approval of tax returns
- retention of working papers detailing calculation of the amounts disclosed in returns and
- processes for reviewing compliance risk for taxes other than corporate income tax and Goods and Services Tax (e.g. Fringe Benefits Tax, State based employment taxes).

In our experience, there is regularly a gap between high level policy statements and operational level procedures. Often there is little or no integration. Further, we have observed a missing link between the controls expected to be in place and technology used to manage tax risk. This article highlights technology related controls which the ATO considers are critical to effectively manage operational tax risks and explains possible solutions to help build a tax technology strategy.

What specific technology related controls need to be included in my tax risk management policy and why?

In order to satisfy the minimum requirements set by the ATO, the policy should include references to data integrity controls in place at an enterprise level to ensure:

- accuracy of data
- appropriate access to data and authorised changes to systems, programs or data in master files
- necessary upgrades are made to systems or programs
- maintain security in terms of manual intervention and
- prevent loss of data or inability to access when required.

Specific controls relevant to the tax function which should be identified either in the tax risk management policy or in supporting procedures include:

- extent of automated calculations/data-processing routines programmed into source systems
- use of complex spreadsheets & version control/authorised changes and
- internal reporting processes between tax and technology owners regarding control weaknesses.

[6] Refer to the Board of Taxation's report *A Tax Transparency Code* dated February 2016.

As described in the ATO's Guide[7], there is an expectation that evidence is available to demonstrate that technology related controls exist and that periodic testing is performed to assess these controls for effectiveness.

The ATO has developed a draft testing program in conjunction with representatives from a consultative forum, including PwC, which describes how to assess tax controls, including technology related controls, for effectiveness. The intention is that the program will be used by ATO officers, as well as taxpayers conducting their own periodic testing (typically through their internal audit program).

How technology can be used to embed tax controls across operations

There is no doubt that technology plays an important role in addressing gaps between the strategic objectives set out in the tax risk management policy and managing tax operational risks.[8] In referring to 'technology', it should be kept in mind we mean source systems used across the organisation, as well as tax specific software, whether off-the-shelf or bespoke software, and analytics and consolidation/calculation tools.

Ultimately, all types of technology used in day-to-day operations to ensure data integrity should be considered in deciding how to build a strategy to best use technology to manage tax risk.

We have observed a gap in tax functions' understanding of the capability of automation available right now and we are leading in automating tax and accounting with machine learning in conjunction with other technologies.

There are some simple yet powerful ways in which technology can help to manage tax risk at an operational level. Here are some examples:

ATO tax control objective[9]	Example technology
Automated calculations or data-processing routines	Tax return software products
Provide evidence of review and signoff of returns	Workflow management and status reporting solutions toe help track and manage queries and provide documentation support
Demonstrate controls in place to perform reconciliations between accounting and tax classification of transactions to ensure completeness and incorporate explanatory notes for differences	Expense/fixed assets register analytics solutions which extract data from source systems and provide 'tax ready' information through automated tax sensitive reviews Exceptions reporting tools, such as automated transaction tests to check for data processing accuracy (e.g. GST does not equal 10%)
Maintain appropriate tax document management processes	Document management solutions which allow for all relevant documentation to support filings to be located in the one repository. These can also be integrated with workflow management tools

[7] Refer to the ATO *Tax Risk Management and Governance Review Guide* published in July 2015.
[8] Refer to the *Tax Function of the Future series publication "Global tax transparency and risk management"* published in September 2015.
[9] Refer to "Managerial control 4: Controls in place for data" section of the ATO's Tax Risk Management and Governance Review Guide from July 2015 for a complete list.

The takeaway

Tax technology can help provide greater visibility and control of key processes and help manage risk. As a first step, we recommend you identify and evaluate current technology used to manage specific tax risks and highlight any gaps. Once this is done, a roadmap can be designed setting out objectives, time frame, responsibilities and how technology will be used to fill those gaps. PwC is leading the way with automating tax and accounting processes through machine learning in conjunction with other technologies. By understanding how this works in practice, you will be in a good position to be able to demonstrate to your CIO, other senior executives and the Board how your organisation can best use technology to manage tax risk.

Let's talk

For a deeper discussion of how these issues might affect your business, please contact:

Charmaine Chalmers, Brisbane
+61 (7) 3257 8896
charmaine.chalmers@pwc.com

Robert Gallo, Melbourne
+61 (3) 8603 1494
robert.gallo@pwc.com

Ronen Vexler, Sydney
+61 (2) 8266 0320
ronen.vexler@pwc.com

Paul McCartin, Melbourne
+61 (3) 8603 5609
paul.mccartin@pwc.com