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EMEA TMC
client conference

Tax risk
management
and control

The Crystal, London
9-10 June 2015



Agenda

Increasing focus on tax governance and risk

The components of effective tax governance

Refreshing the fundamentals

Scenario 1: risk identification and reporting

Scenario 2: tax control framework – compliance

Scenario 3: controlling risks to value

Conclusions

Increasing focus on tax governance and risk

1

Tax is now a strategic concern

- Unilateral and multi-lateral legislative change
 - Effective tax rate (ETR) and cash tax impact uncertain
 - Broader stakeholder focus
-

2

Regulators are more demanding

- Board engagement, oversight
 - Attention to controls, systems
 - Proactive review, disclosure and action
-

3

More is being promised

- Mechanisms needed for delivering outcomes
- Those responsible need to get comfortable
- Expectations to comply and explain approach

The components of effective tax governance

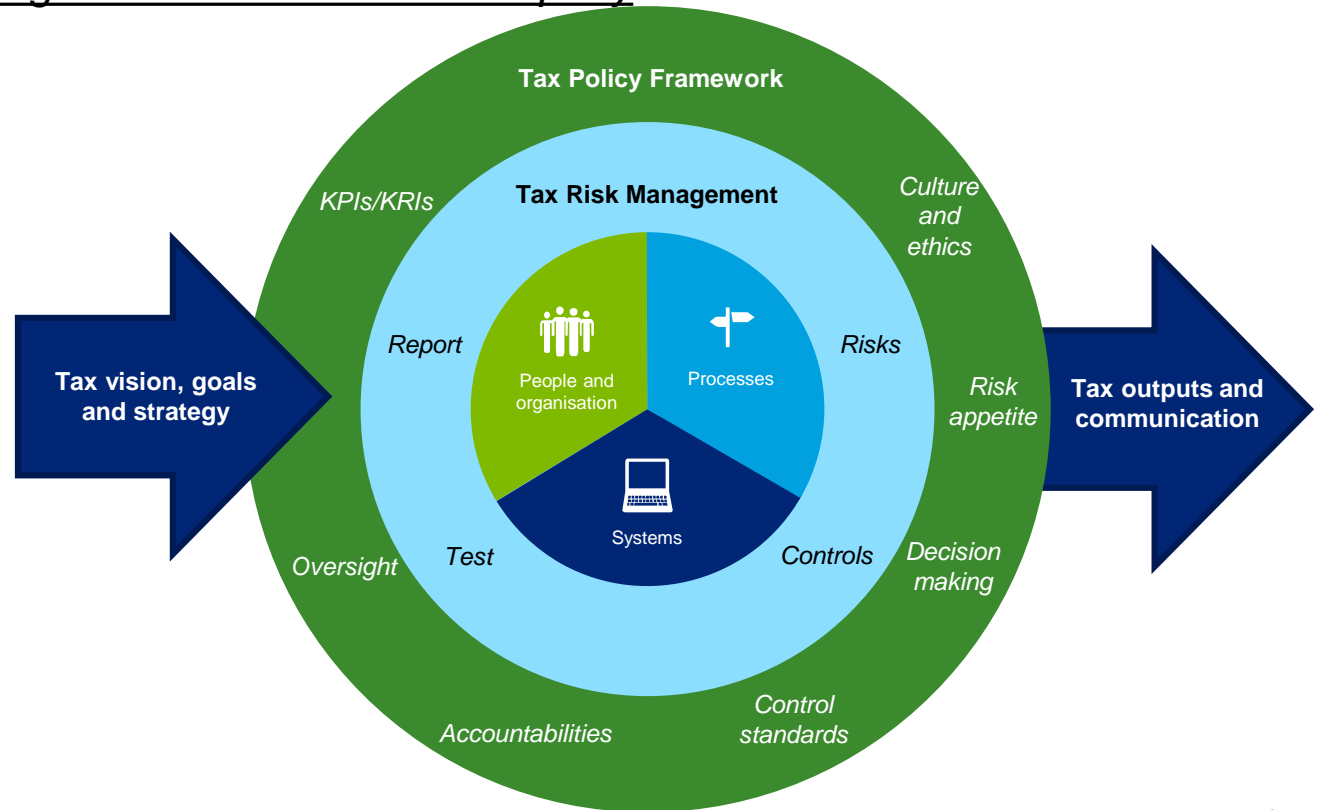
Financial Reporting Council (FRC) UK Corporate Governance Code: “*The purpose of corporate governance is to facilitate effective, entrepreneurial and prudent management that can deliver long-term success of the company”*”



Tax contribution often looks like:

- *Compliance*
- *Sustainable minimisation of tax*
- *Manage reputation*
- *Efficient tax operating model*

Effective tax governance should facilitate these goals



KPI – Key performance indicator
KRI – Key risk indicator

The components of effective tax governance

FRC UK Corporate Governance Code
to facilitate effective, long-term success of

This breakout session will focus on challenges and real-life examples of Tax risk management

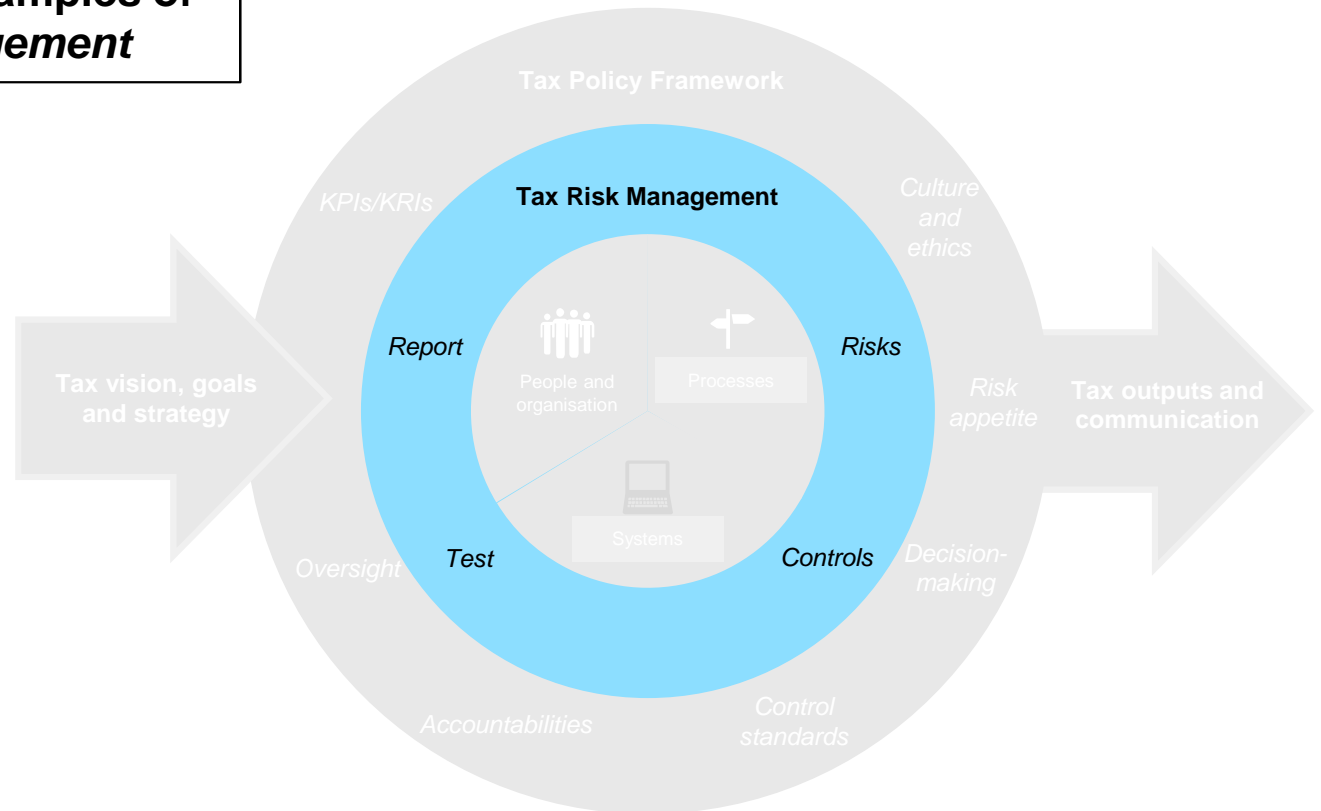
purpose of corporate governance is management that can deliver



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Other sessions will focus on:

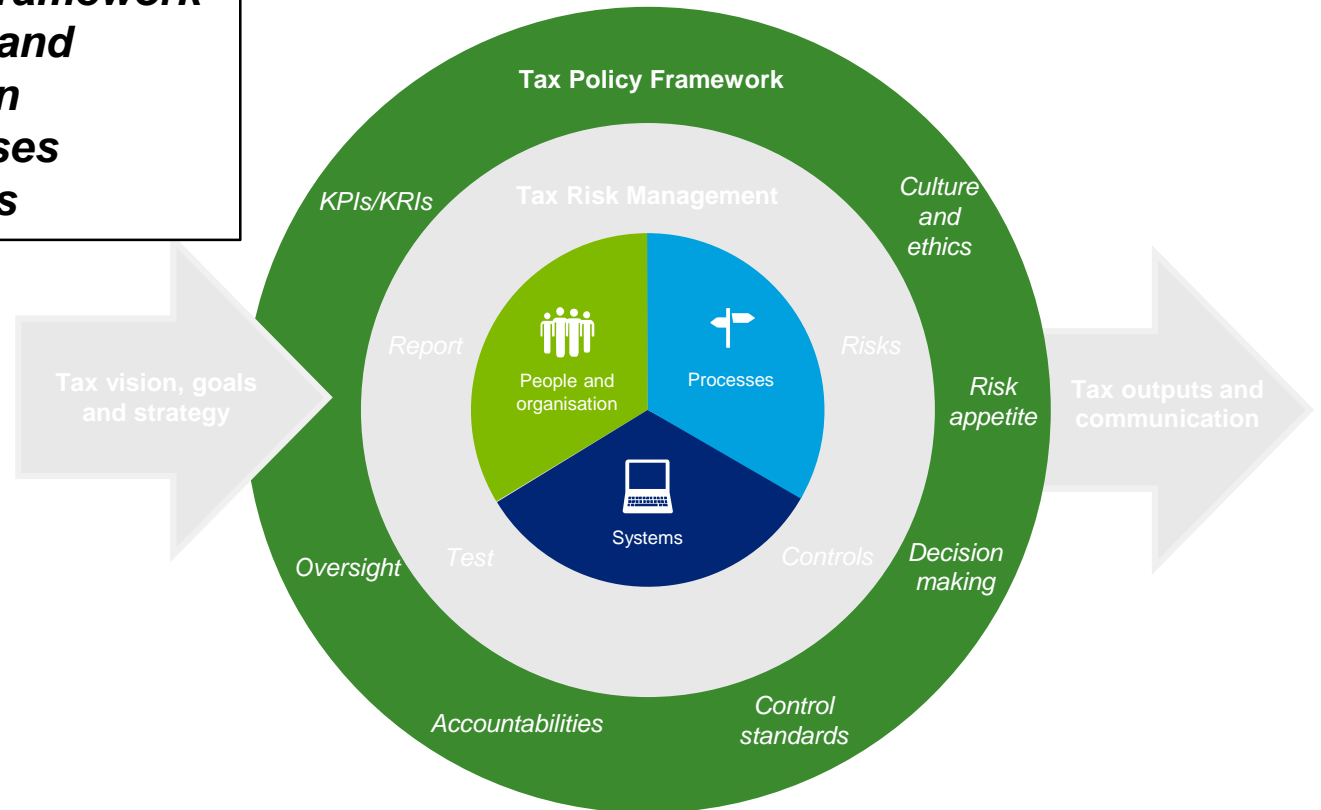
- **Tax policy framework**
- **Tax people and organisation**
- **Tax processes**
- **Tax systems**

use of corporate governance is management that can deliver

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Refreshing the fundamentals

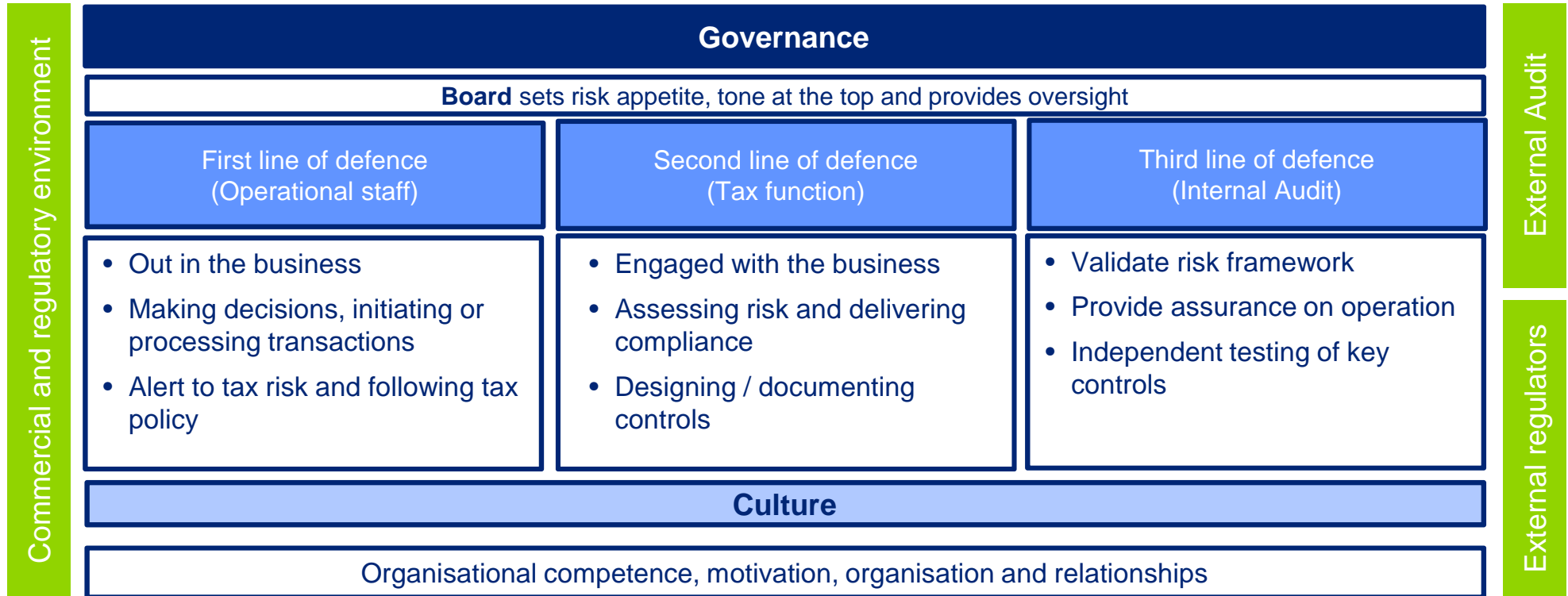
What is tax risk?

Stakeholder goals	Associated risks
Compliance	<ul style="list-style-type: none">• Inaccurate calculation of liabilities• Late or omitted returns• Associated regulatory failures e.g. Senior Accounting Officer (SAO)
Value	<ul style="list-style-type: none">• Corporate strategy undermined by tax issues• Failure to execute tax strategy• Failure to adapt strategy for the changing environment
Reputation	<ul style="list-style-type: none">• Potential for misread of tax profile• Brand damage• Immoral vs. inept

Financial reporting risk?

Refreshing the fundamentals

Controlling risks – 3 lines of defence



Scenario 1

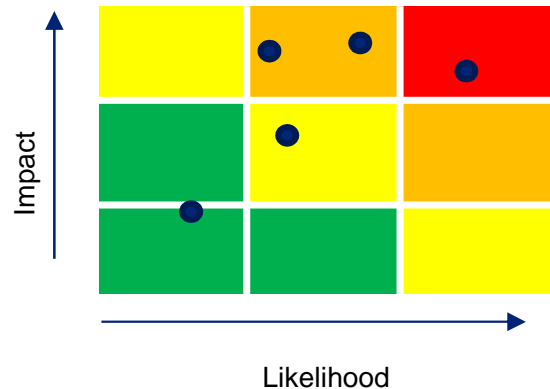
Risk identification and reporting

Identification

- Broad involvement – facilitated by specialists
- Outside in - The tax risks that arise from what the business does
- Inside out - The tax risks that arise from within the central tax function
- Looking at others – The tax risks that we understand that peer organisations have now
- Looking forward – Undertake a ‘pre-mortem’?

Prioritisation

- Supports a shared view on how to allocate resource
- Ensures a proportionate response.



Capture and tracking

- Captured on a risk register
 - *Region, country*
 - *Owner*
 - *Title and description*
 - *Impact – net of mitigation*
 - *Likelihood – net of control*
 - *Risk rating – automated*
 - *Current management – controls, mitigation, monitoring*
 - *Current status*

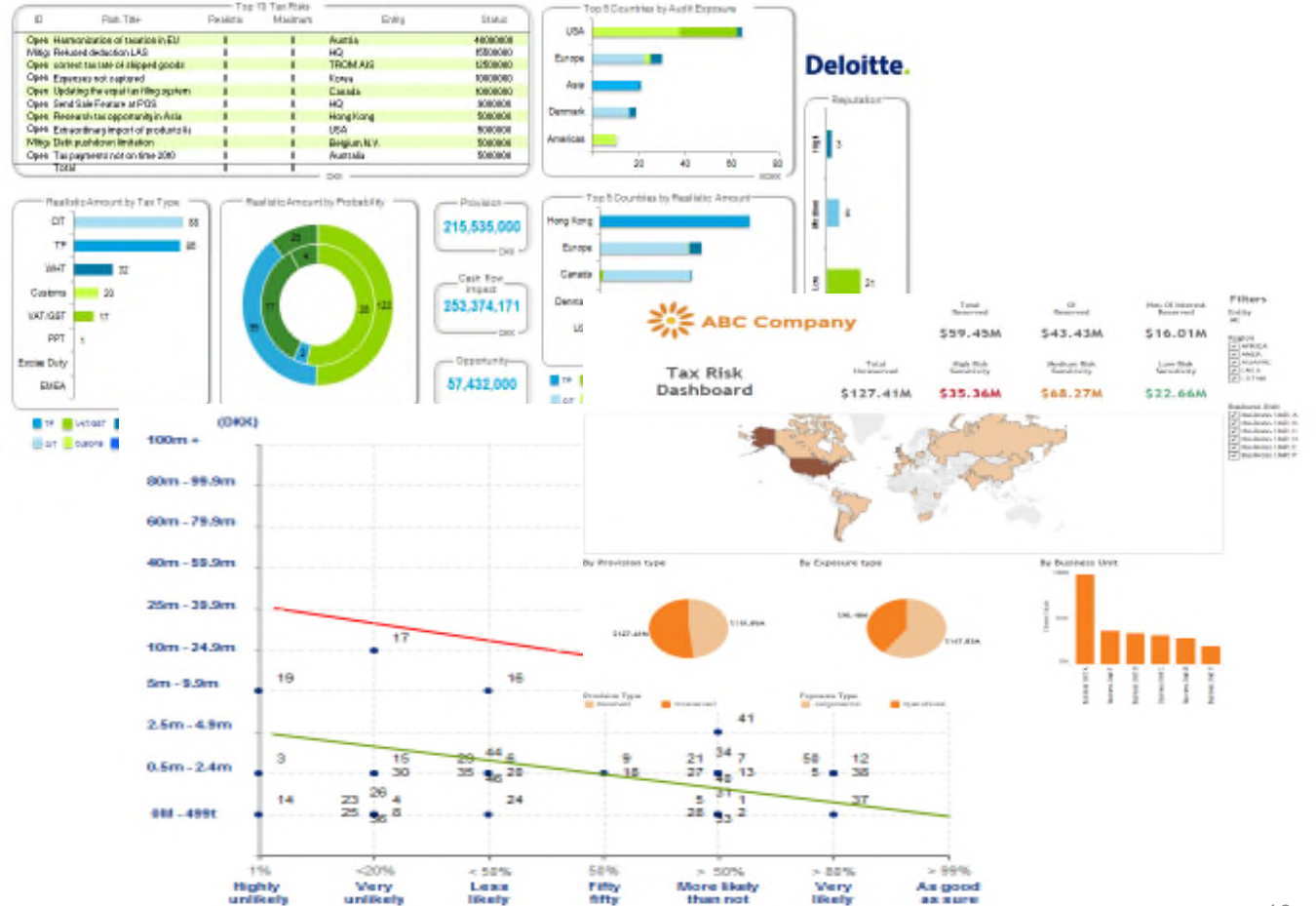
Scenario 1

Risk identification and reporting

Risk identification and monitoring tools are facilitating increasingly sophisticated reporting

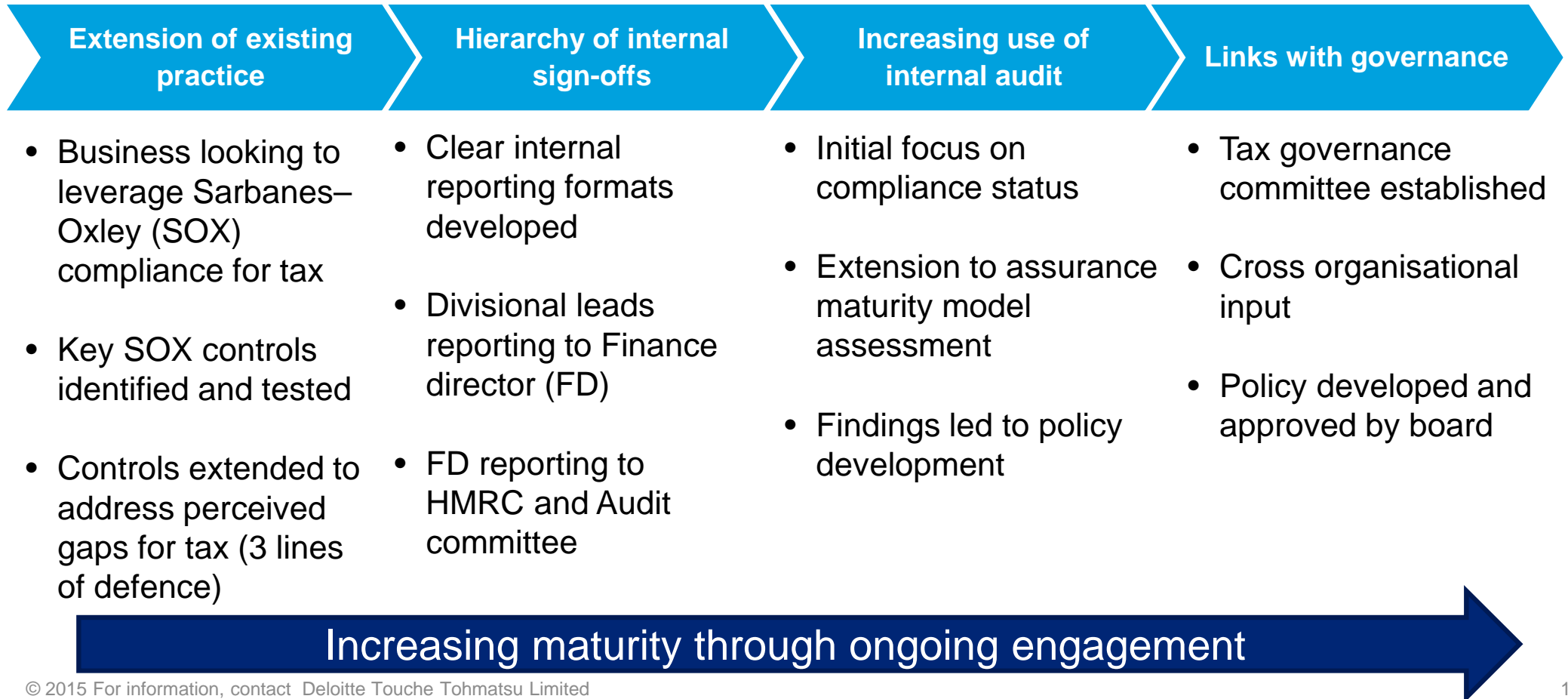
Common features include:

- Single repository in which to collate and track tax risks and opportunities of all types across divisions and geographies.
- Automatically generated dashboards which visualise the underlying risks and potential areas of opportunity
- Smart tools which efficiently collate risk data from the business
- Reductions in the the amount of time spent manually analysing large quantities of data
- Ability to create snapshot reports for reporting to stakeholders



Scenario 2

Tax control framework – compliance



Scenario 2

Tax control framework - illustration

Methodical structure

Drill down to underlying control

Group Tax Control Framework [XYZ plc]

Index

1. Tax Strategy & Governance

- 1.1 Manage Tax Policy
- 1.2 Manage Tax Strategy
- 1.3 Manage Transfer Pricing

2. Tax Accounting & Reporting

- 2.1 Prepare Tax Budgets & Forecasts
- 2.2 Prepare Tax Charge (Current & Def.)
- 2.3 Execute Tax Payment (CT, VAT, C&E)
- 2.4 Prepare Tax Accounts

3. Tax Compliance

- 3.1 Manage Tax Master Data
- 3.2 Direct Tax Compliance
- 3.3 Payroll Compliance

4. Non tax led processes

- 4.1 Talent
- 4.2 Inventory

Risk category	Ref.	Risk	Control objectives	Control	Owner	IA Testing frequency
Payroll Compliance	3.3.A	The reporting of Short Term Business Visitors is incomplete or late	Accurate and timely reporting of Short Term Business Visitors (STBVs), including the payment of relevant taxes to tax authorities.	Quarterly inward visitor logs are reconciled to SAP expense claims and overseas travel recharges	Payroll	Quarterly

Scenario 3

Controlling risks to value

Identification

Understand the commercial and corporate goals, particularly around reputation and risk appetite

Reflect legal, operational and other relevant arrangements

Consideration of interaction of the above with domestic and international tax considerations

Developing the risks and controls

Identify and evaluate high level tax risks associated with the plans to achieve those commercial and corporate goals

Determine causes of those risks

Design controls (3 lines of defence) in relation to those risks

Implementation and monitoring

Implementation of controls (e.g. recruitment of relevant staff, standard processes, link to tax compliance procedures)

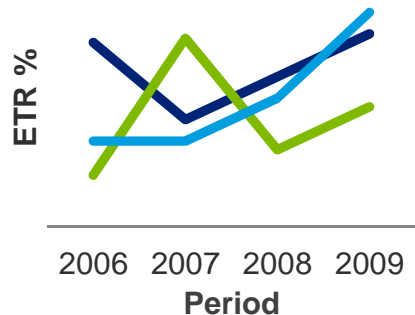
Use of technology to facilitate monitoring of controls based on scorecard

Issues escalated and addressed

Reputation management



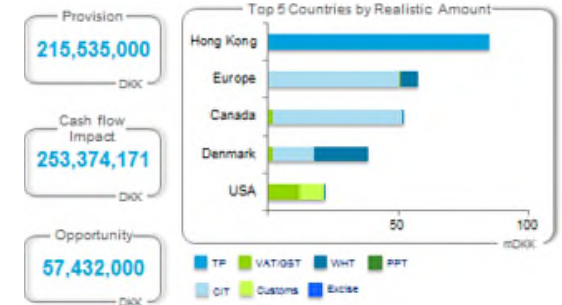
Target ETR



Risk register summary

Summary		Probability		
		Low	Medium	High
Impact	High	9 (11)	8 (11)	7 (5)
	Medium	2 (3)	9 (7)	3 (5)
	Low	4 (3)	1 (5)	0 (2)

Reporting tools



Conclusions

1

Identify & prioritise risk

- Understand stakeholder goals to overlay tax risk,
 - Broader business input,
 - Specialist input for the 'unknown unknowns'
-

2

Design / adapt control framework

- 3 lines of defence,
 - Proportionate documentation: as little as possible but as much as necessary
-

3

Ongoing communication and refinement

- Formalise lines of communication in and out of the tax team and to those charged with governance,
- Establish shared view on roles and responsibilities,
- Recognise that risk management is never 'done'



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