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Day 2: Session 2
Tax governance,
risk and control

The Westin, Singapore
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Agenda

1. The changing tax environment and business response
2. Focus on tax governance, policy and transparency
3. Focus on tax risk management and control
4. Benefits of getting it right

The changing tax environment and business response

Drivers for change

1

Tax is now a strategic concern

- Unilateral and multi-lateral legislative change
 - ETR and cash tax impact uncertain
 - Broader stakeholder focus
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2

Regulators are more demanding

- Board engagement, oversight
 - Attention to controls, systems
 - Proactive review, disclosure and action
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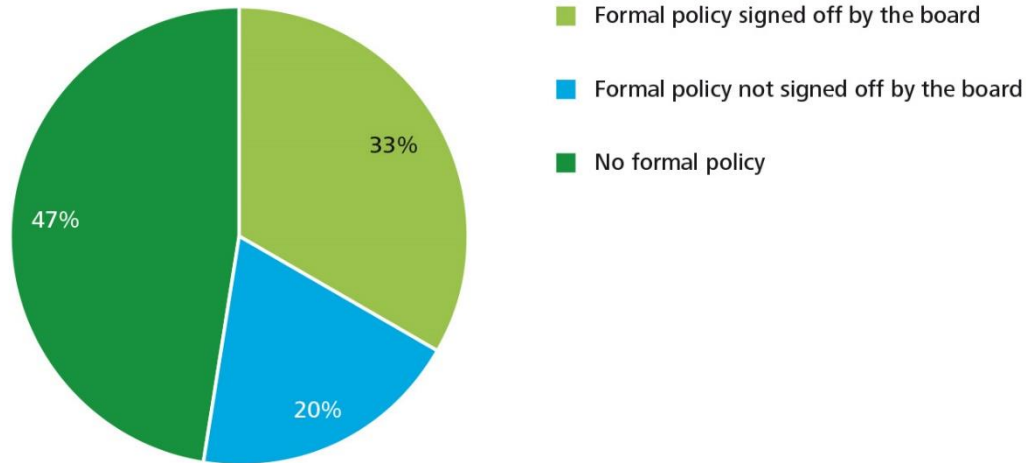
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More is being promised

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

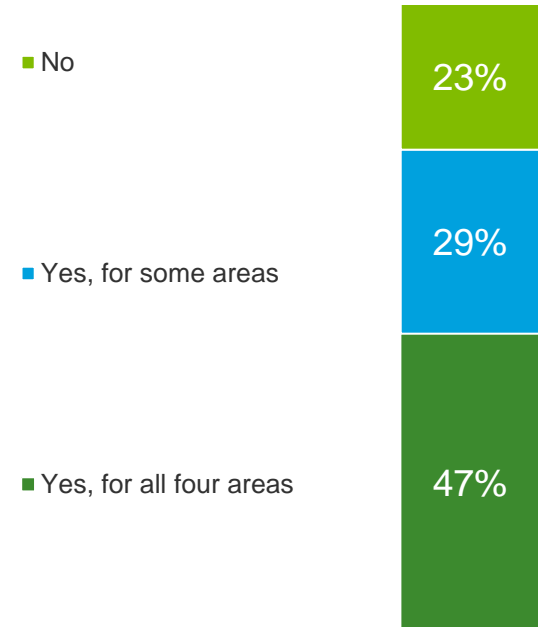
Global tax risk management environment

Groups are increasingly defining their tax policy



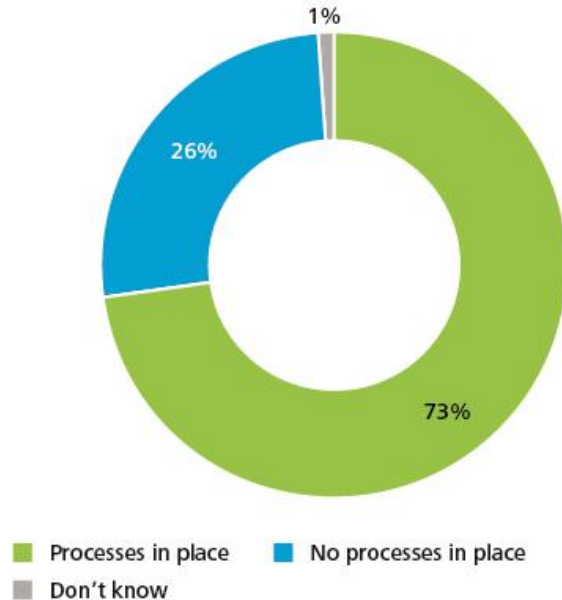
Source: Deloitte Global Market Research, 2014

Accountabilities for taxes getting clearer



Global tax risk management environment

Groups generally have processes for identifying, controlling and reporting tax risk



More and more third parties have a specific interest in tax risks and how they are managed

- Tax Authorities – e.g. UK, Australia, Singapore, Netherlands, Japan, Spain
- International bodies – e.g. OECD, EU Commission
- The Press
- Investors
- Analysts – e.g. Schrodgers, Citi
- Indices – e.g. Dow Jones Sustainability Index, MSCI World
- NGOs – e.g. Tax Justice Network, Action Aid

Source: Deloitte Global Market Research, 2014

The components of effective tax governance

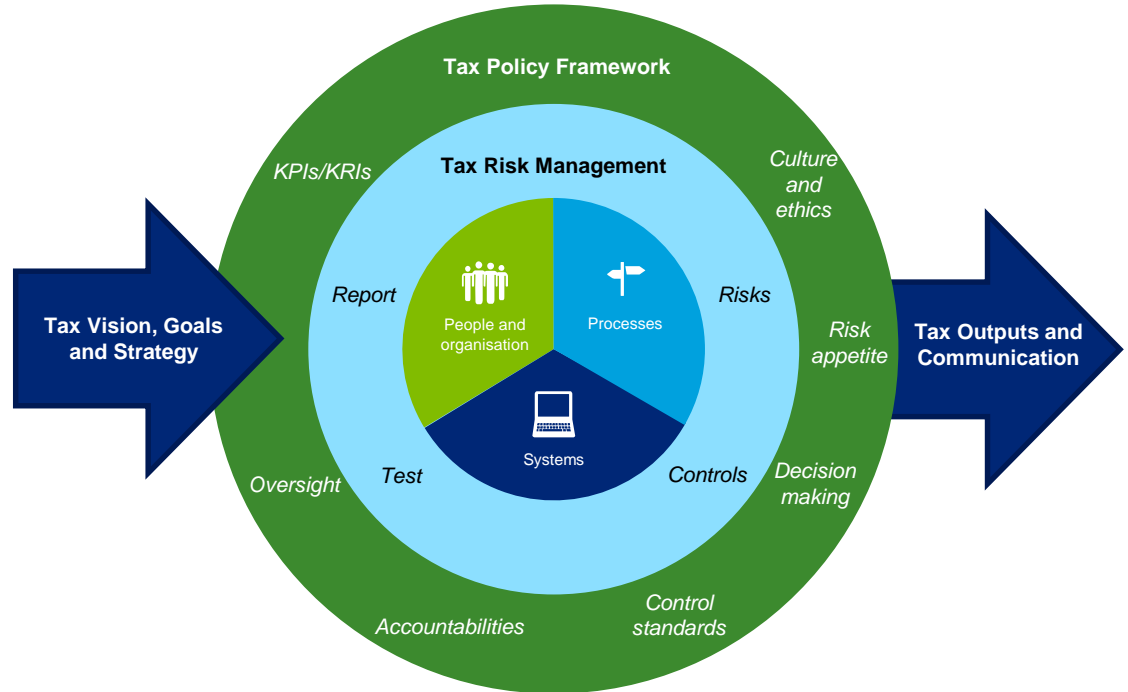
Corporate Goals and Governance Standards



Tax contribution often looks like:

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

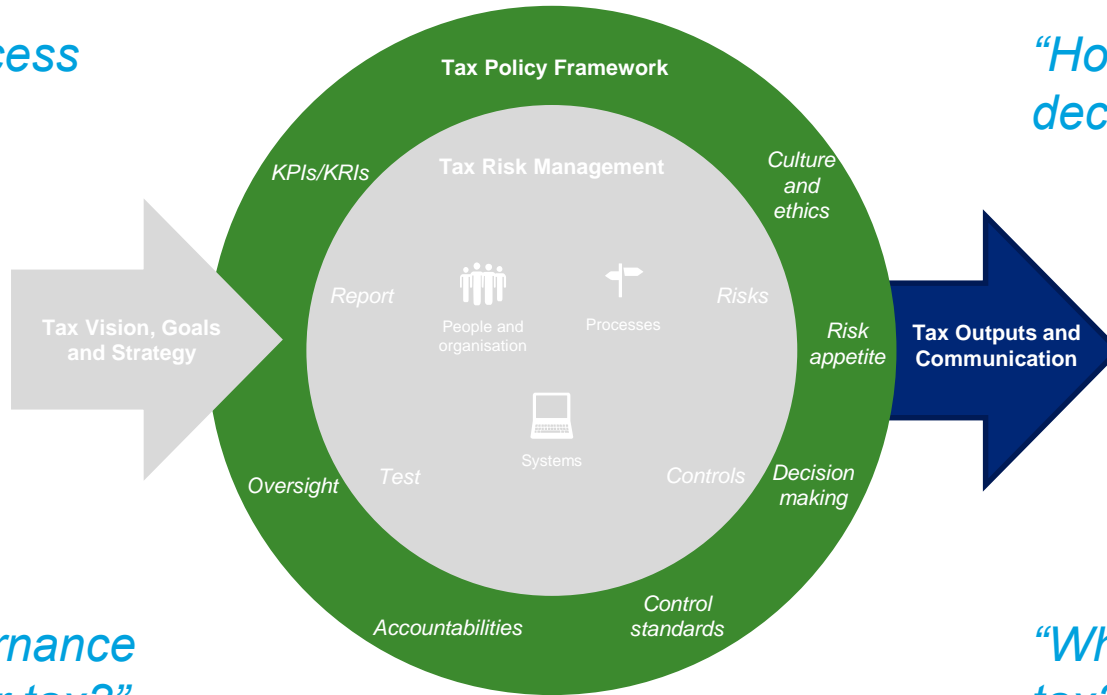
Effective tax governance should facilitate these goals



Focus on tax governance, policy and transparency

Tax governance, policy and transparency

“How is success measured?”



“How are key decisions made?”

“What governance is there over tax?”

“Who owns each tax?”

Case study 1

Setting the tax policy

Planning

- Define aims and examples of issues to fix
- Understand existing framework and policies
- Understand external requirements
- Establish structure for policy documentation

Example Contents:

1. Scope
2. Objectives
3. Delegation of accountability and escalation
4. Key tax principles
5. Tax compliance and reporting
6. Tax advisory and reporting
7. Tax audits and enquiries
8. Tax lobbying
9. Use of advisors
10. Tax systems

Draft key principles and accountabilities

- Agree principles within tax leadership team
- Understand peer group and best practice examples
- Identify areas requiring specific review/approval
- Document initial split of roles and understand definitions

Group Tax accountable for:

- CT – Europe
- VAT – UK
- Managing tax authorities

Group Tax responsible for:

- Tax reporting
- Tax advice to the business

Group Tax supports:

- Employment taxes
- Operational taxes

Test with stakeholders

- Identify key stakeholders (e.g. Finance, Legal, Investor Relations)
- Share draft policy and define agenda
- Agree principles and accountabilities through real-life scenarios

Scenario

- Tax is made aware of a development opportunity and a number of options are available which have differing affects on the available tax reliefs and deductions.

Key principles

- Precedence is given to business strategy over tax strategy
- In making tax planning decisions, we apply the principles set out in Tax Risk Guidance

Accountabilities

- Tax Accountable for providing tax planning strategies
- BAs Accountable for implementation

Finalise and seek endorsement

- Refine policy based on stakeholder discussions
- Identify appropriate body to approve – in this case framework suggested Executive Management Committee
- Present policy and seek endorsement

Outcomes

The outcome of this process should be a policy that:

- ✓ Is aligned with organisation's broader goals and standards
- ✓ Meets the requirements of regulators
- ✓ Facilitates embedding policy within the organisation, not just Group Tax but also wider Finance and other functions
- ✓ Supports provision of external assurance where appropriate

Case study 2

Embedding tax policy framework

Oversight

- Global bank had informal tax committee but limited mandate to enforce decisions as not considered full committee of the bank
- At same time as refreshing tax policies, committee brought in non-tax members, established programme of external input and is now a formal part of governance framework
- Currently agreeing accountability for VAT and operational taxes through committee activity

Attestations

- Multinational engineering business uses an annual questionnaire to seek sign-off re. compliance with policy standards
- Looking to implement rolling internal audit process

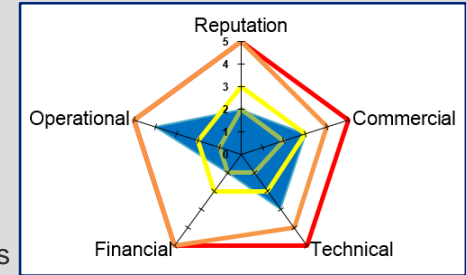
Annual declaration:

I have reviewed compliance with tax policy standards for [X] and confirm:

- Controls operated effectively
- Material exceptions reported
- Resources appropriate

Decision Making

- Oil and gas major uses the “decision web” to formalise strategic tax decision making
- Projects are mapped against policy and approved/escalated/declined based on scores



Key Performance Indicators

- Global commodities trader performed exercise to set KPIs for tax team as a whole and for individuals
- Used tax vision and policy as basis, referencing Deloitte’s Four Faces of the Tax Function as a benchmark

Example KPIs:

- Returns filed on time
- Audit resolution
- ETR target
- Feedback from business

Case study 3

Communicating the tax policy/position

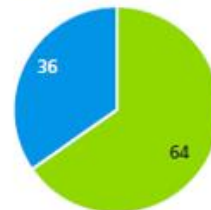
Issue:

Investor relations team keen to publish tax governance arrangements and regional tax payment information to meet Dow Jones Sustainability Index criteria. Tax and CFO hesitant as limited impact assessment had been performed.

Activity performed:

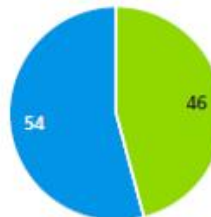
1. Workshop hosted by Tax, but involving Finance and IR. Agenda:
 - Understand objectives for further tax transparency as well as future obligations (e.g. CbCR)
 - Review peer group practice and potential options for nature and method of disclosure
 - Perform initial benchmarking of tax payment information
 - Establish plan for further assessment and initial decision re. disclosure
2. Dry run of data collection and disclosure
3. Detailed analysis of data and disclosure
4. Presentation to senior leadership with recommendations
5. Decision re. publication and implementation

Governance



- 64 (2013: 60) groups made some disclosure of tax-related governance. Of these:
 - 7 (2013: 8) made partial reference (e.g. mentioning that the Audit Committee had reviewed tax accounting judgment areas).
 - 57 (2013: 52) provided fuller details, setting out processes for setting and monitoring adherence to tax policies and strategies.

Taxes paid/contribution



- 46 (2013: 32) groups disclosed total taxes paid/tax 'contribution'. Of these:
 - 6 (2013: 12) made partial disclosure, setting out total taxes paid with no further analysis.
 - 40 (2013: 20) disclosed the split between various categories of tax.

FTSE 100 benchmarks

Tax governance, policy and transparency conclusions

1

Refresh tax policy

- Formalise tax standards and accountabilities
 - Engage with stakeholders
 - Seek endorsement and mandate for implementation
-

2

Implement tax policy

- Ensure an appropriate infrastructure for tax policy implementation
 - Create appropriate oversight, decision making protocols, attestations and KPIs
-

3

Communicate to provide confidence

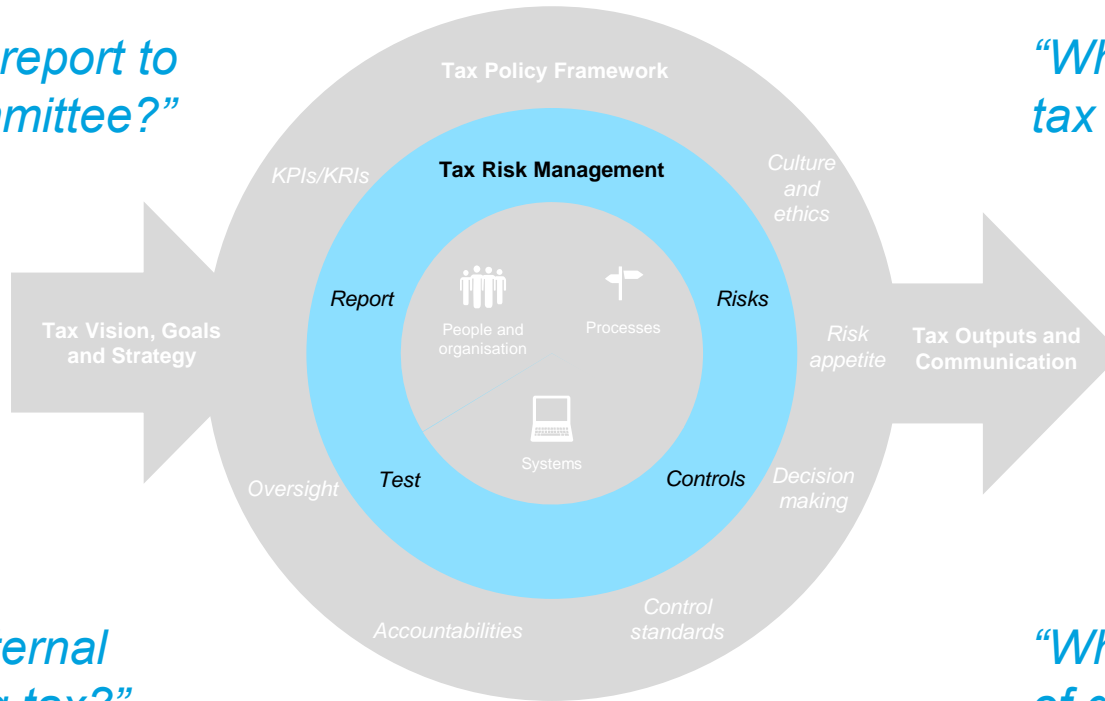
- Understand objectives for greater tax transparency
- Assess options and benchmark
- Balance stakeholder needs

Focus on tax risk management and control

Tax risk management

“How do we report to the Tax Committee?”

“What are our key tax risks?”



“When is Internal Audit testing tax?”

“Who are our ‘lines of defence’?”

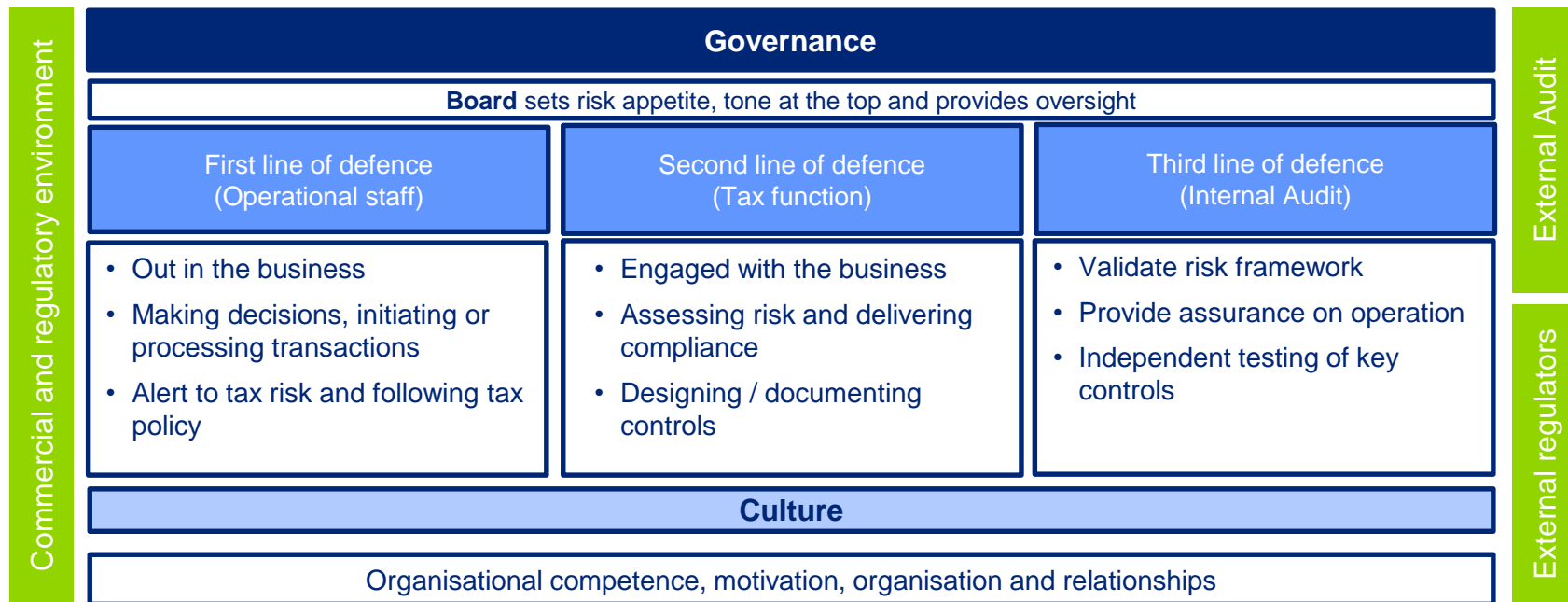
Refreshing the fundamentals

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. ACAP
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

Refreshing the fundamentals

Controlling risks – 3 lines of defence



Case study 1

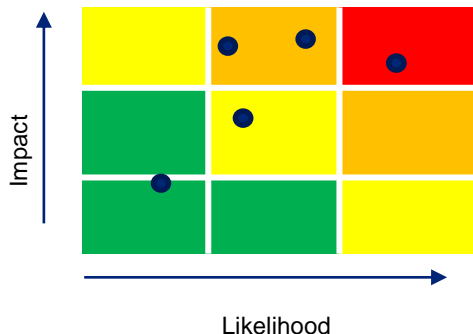
Risk identification and reporting

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*

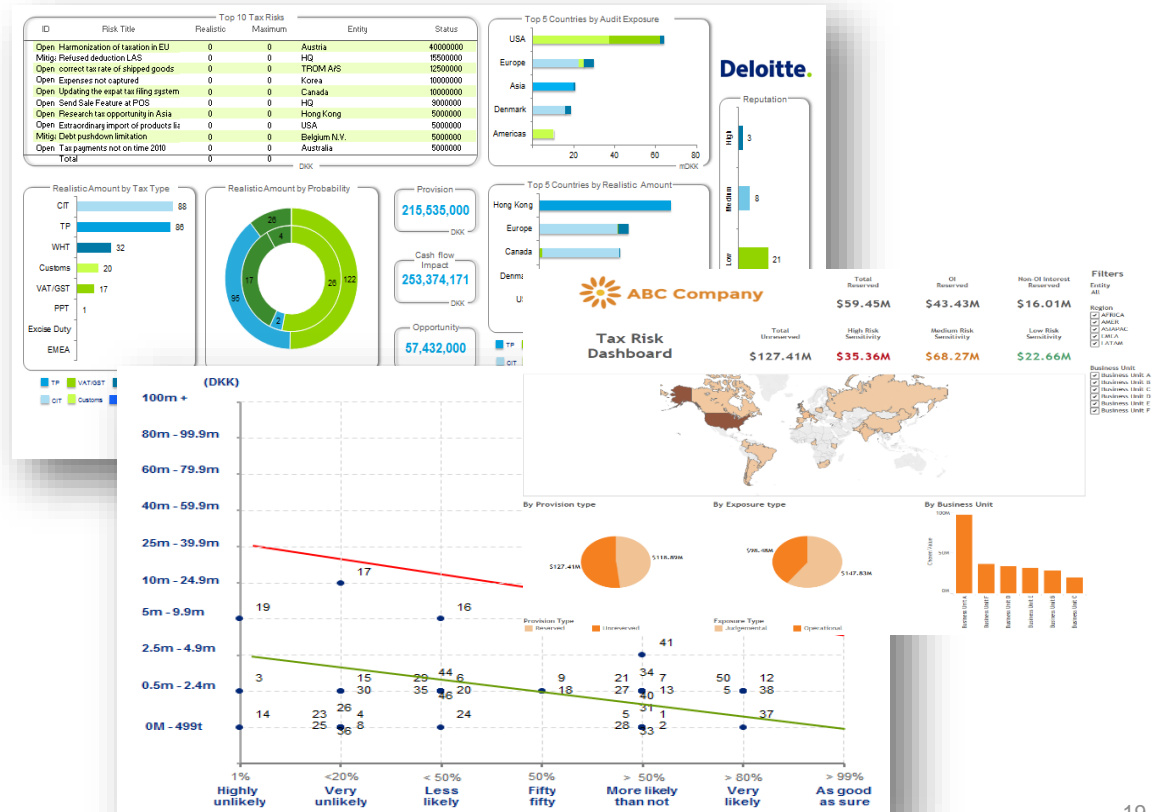
Case study 1

Risk identification and reporting

Risk identification and monitoring tools are facilitating increasingly sophisticated reporting

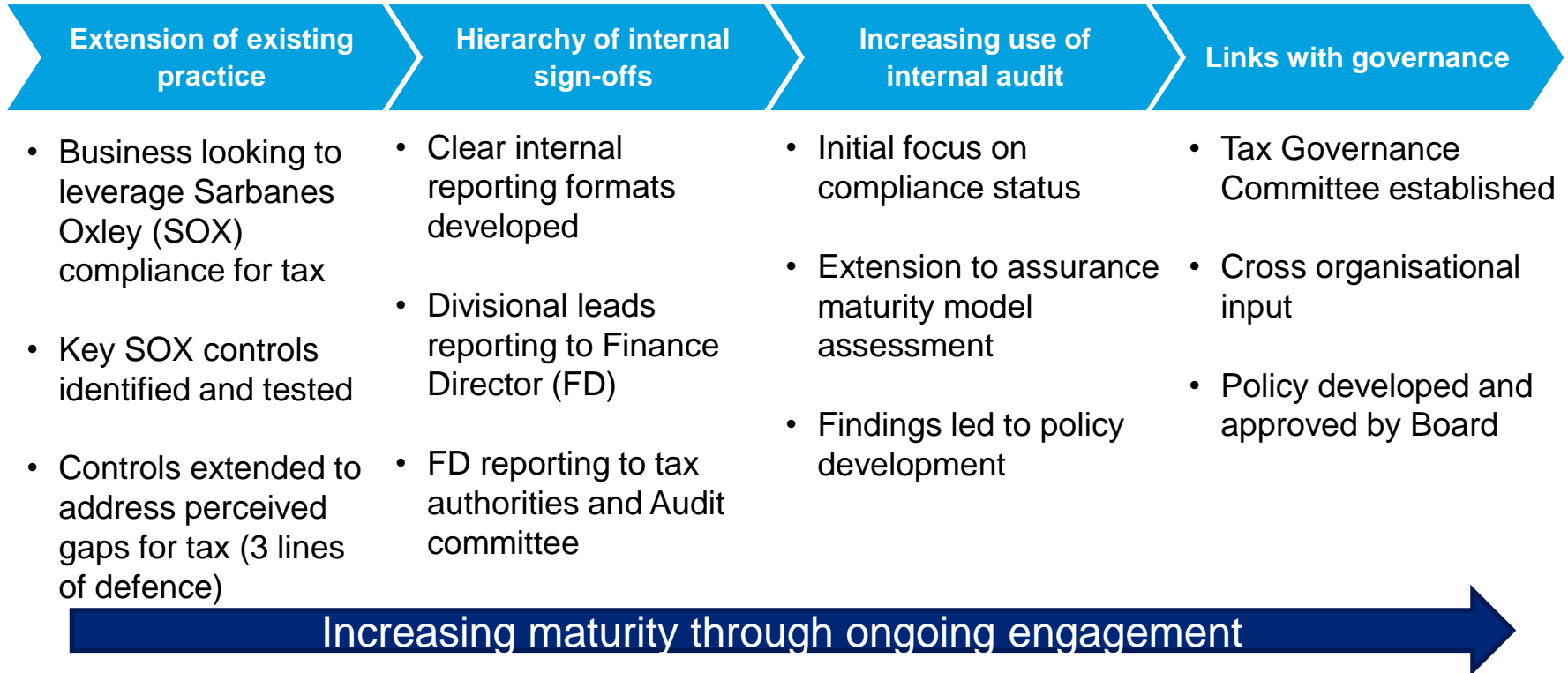
Common features include:

- 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



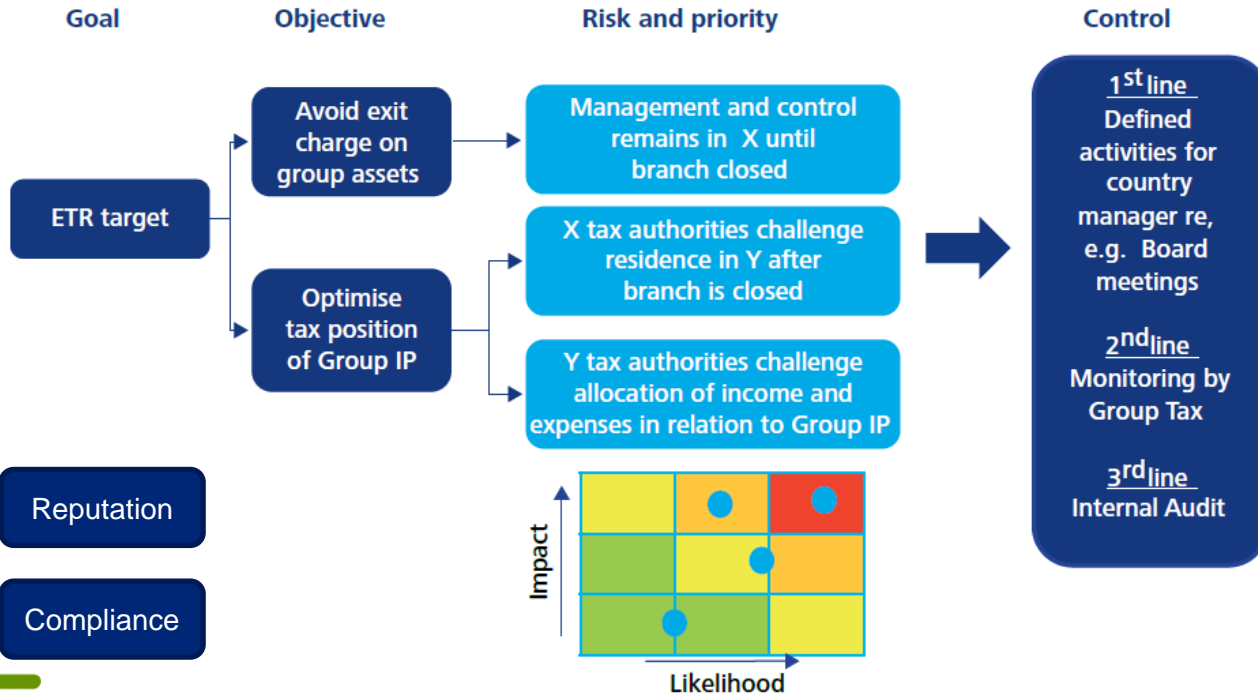
Case study 2

Controlling risks to compliance



Case study 3

Controlling risks to value



Common structure

Ref	System	Impact	Priority	Control	Responsible	Review
1	Exit charge	High	High	Defined activities for country manager re, e.g. Board meetings	Country Manager	Quarterly
2	Exit charge	High	Medium	Monitoring by Group Tax	Group Tax	Quarterly
3	Exit charge	High	Low	Internal Audit	Internal Audit	Quarterly
4	Exit charge	Medium	High	Monitoring by Group Tax	Group Tax	Quarterly
5	Exit charge	Medium	Medium	Monitoring by Group Tax	Group Tax	Quarterly
6	Exit charge	Medium	Low	Internal Audit	Internal Audit	Quarterly
7	Exit charge	Low	High	Monitoring by Group Tax	Group Tax	Quarterly
8	Exit charge	Low	Medium	Monitoring by Group Tax	Group Tax	Quarterly
9	Exit charge	Low	Low	Internal Audit	Internal Audit	Quarterly



Case study 2 and 3

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

Risk management and control 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'

Benefits of getting it right

Benefits

Reduced risk of financial/reputational damage

Securing value for the business

Increased stakeholder confidence in tax



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