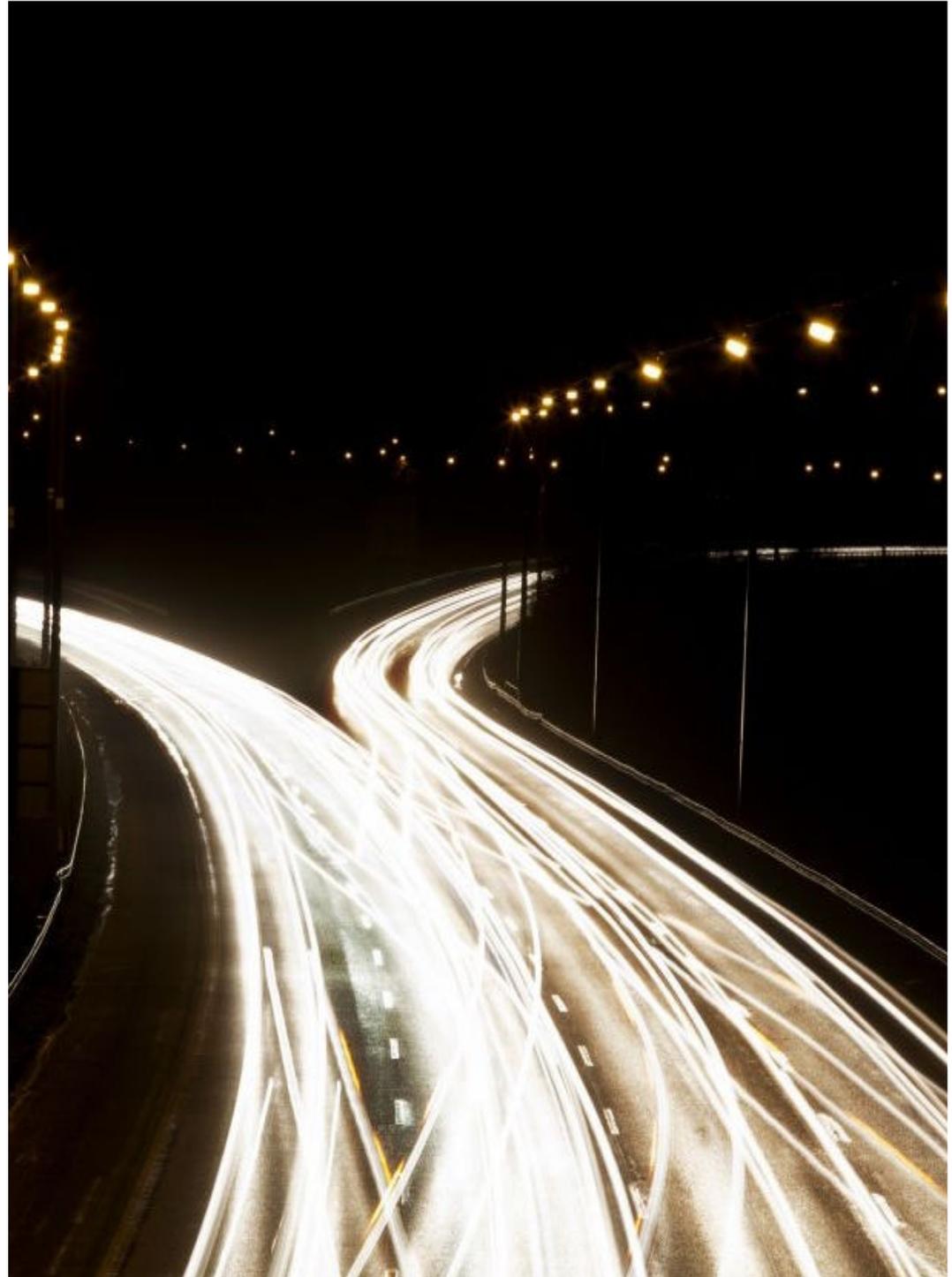


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Automating the VAT Reconciliation Process

7 May 2015



What we will cover today

Setting the scene

Step 1 – Understanding the problem

Step 2 - Identifying the fixes required

Step 3 – Implementing the change

Setting the scene

- Reconciling indirect tax submissions is considered the **most important control** by both auditors and tax authorities
- Core reconciliations are:



- Lots of other additional local reporting requirements and therefore reconciliations to consider (eg Spesometro in Italy)
- < 5% of businesses have fully automated reconciliations
- **There is no silver bullet** – successful automation is based on understanding and improving the data sources and processes

The importance of getting it right

Are your reconciliations fit for purpose?



UK authority expectations (SAO):

- Utilise the “right people, processes and systems to manage taxes against policy/obligations”
- Work with wider finance and internal audits to ensure the process is being reviewed and tested
- HMRC challenging businesses on whether they have taken ‘reasonable steps’



Other local authorities:

- Turnover reconciliations are becoming standard practice during VAT audits
- Tax authorities requesting source ERP data
- Authorities seek to use data mining software (IDEA, ACL, SAS) to automate much of the process

Frequency of tax authority audits in 2014

Priority 1

High

- France ("FEC")
- Germany ("GDPdU")
- Portugal (~SAF-T)
- Luxembourg (~SAF-T)

Priority 2

Medium

- Austria
- Belgium
- Finland
- Hungary
- Ireland
- Poland
- Spain
- UK
-
- *Czech Rep*
- *Denmark*
- *Netherlands*
- *Norway*
- *Slovenia*
- *Sweden*
- *Switzerland*

Priority 3

Low

- *Bulgaria*
- *Cyprus*
- *Greece*
- *Italy*
- *Latvia*
- *Lithuania*
- *Malta*
- *Romania*

Tax authority audit data requests

Growing trend (particularly EU) of re-working reconciliations by authorities

Data Type	Data Definition	Examples of data fields
Master Data	GL Account	GL Account Number, GL Account Description and GL account class
Master Data	Customer Master	Customer ID, Customer Name, Customer Country and Customer VAT Number
Master Data	Vendor Master	Vendor ID, Vendor Name, Vendor Country and Vendor VAT number
Master Data	Tax code	Tax Code ID and Tax Code description
Master Data	Journal Category	Journal Code, Journal Label (Invoice, Payment, FA, Manual)
Balances	GL Account Balance	Fiscal Year, GL Account Number, Opening balance, Total Debit, Total Credit, Ending Balance,...
Balances	Customer Balance	Fiscal Year, Customer ID, Customer Opening Balance, Customer Ending Balance
Balances	Vendor Balance	Fiscal Year, Vendor ID, Vendor Opening Balance, Vendor Ending Balance
Transaction	GL journals	Fiscal Year, Fiscal Period, Journal Code, Journal Name, Journal Date, GL account Number, Journal Description
Transaction	Invoices/Credit Notes	Fiscal Year, Invoice Number, Invoice Date, Invoice Gross amount, Invoice Tax Amount, Vendor/Customer ID, Tax Code
Transaction	Payments	Fiscal Year, Payment Number, Payment Date, Payment Amount, Vendor/Customer ID

Our experience of moving towards automation

3 step approach

Step 1 – Understand the problem

- Which individual parts of the technology or processes are causing issues?
- Review the process



Step 2 - Identify a fix or solution for each item

- ERP and data fixes
- Workpaper fixes
- Process fixes



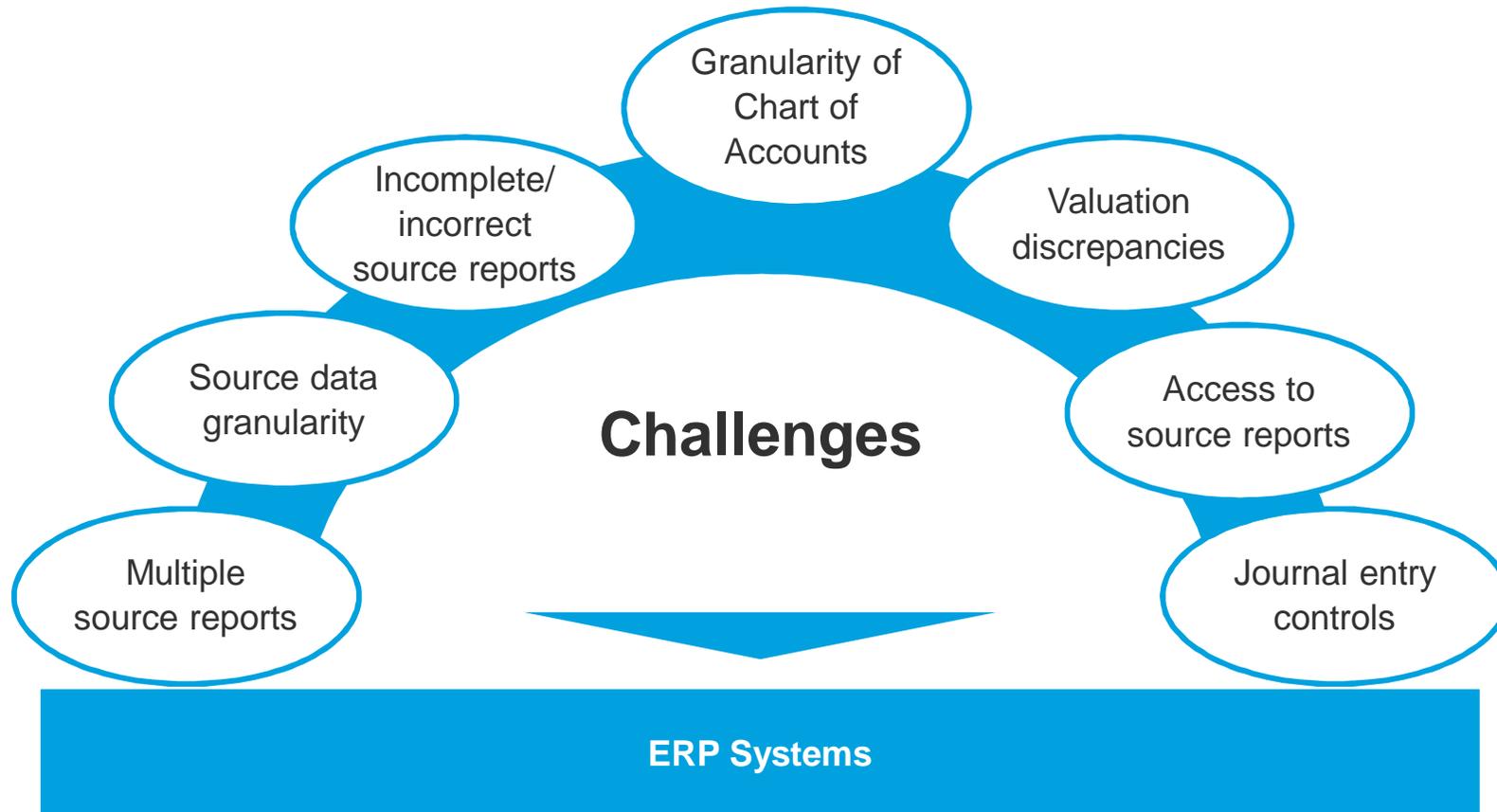
Step 3 – Implement the changes



Step 1 – understand the problem

Understanding the problem

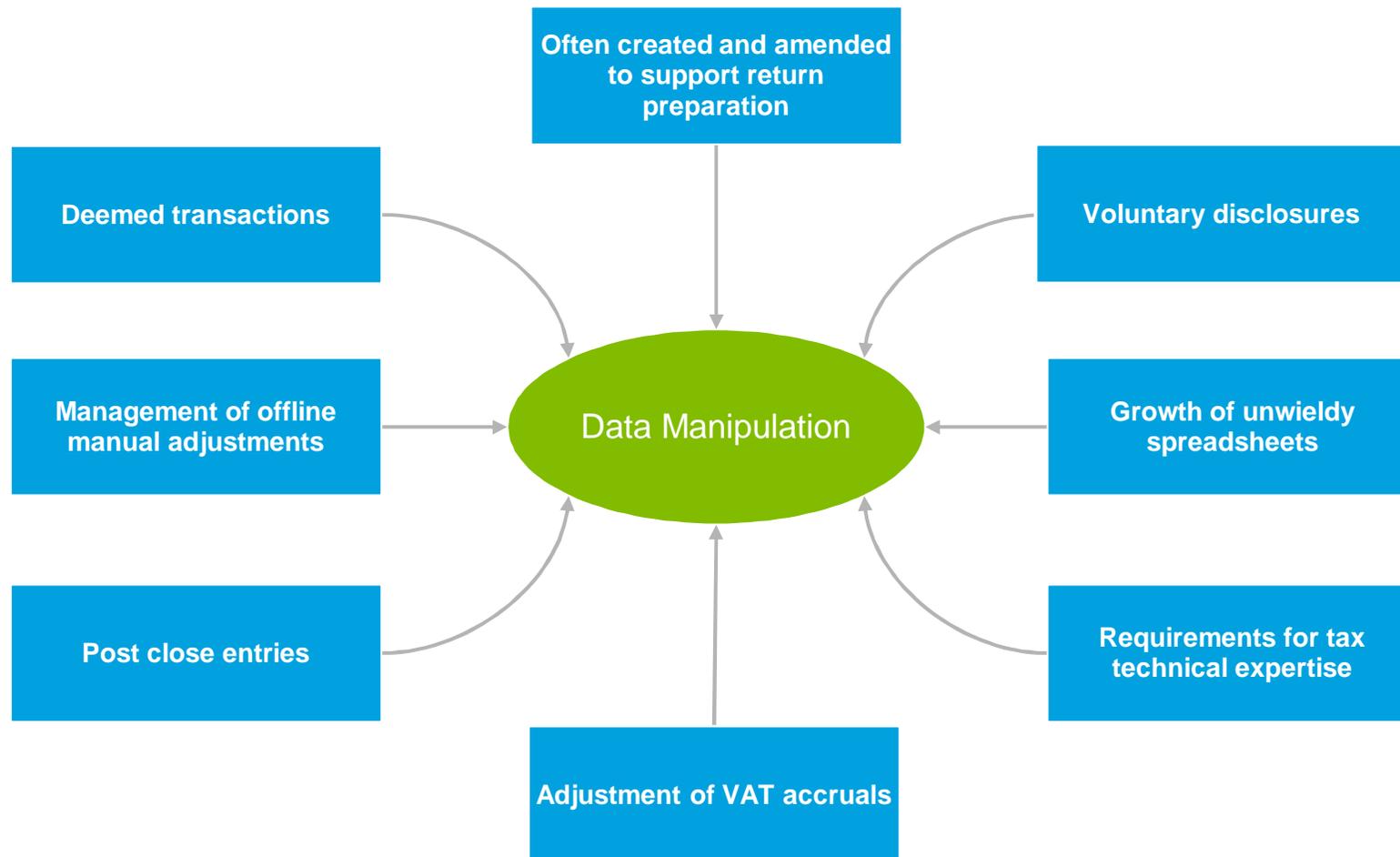
Technology & ERP Systems



Understanding the problem

Processes

Many problems are caused by off-system processes:



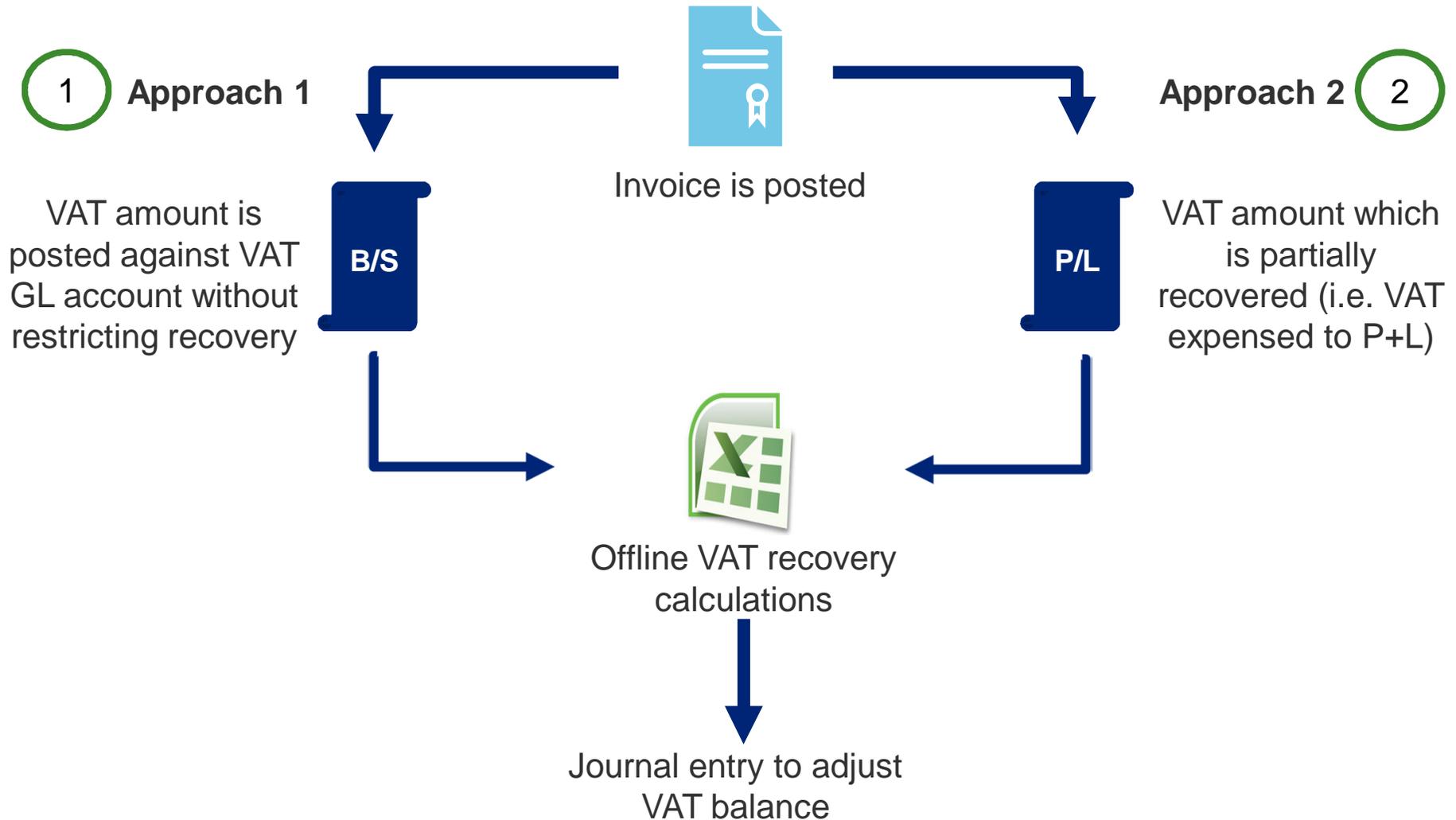
Understanding the problem

External Factors

- Maintaining an appropriate level of visibility e.g. outsourcing VAT compliance
- Adapting to business changes
 - New countries, entities etc.
 - New systems and data sources
- Legislative changes e.g. SAF-T

Example problem

Partial exemption posting



Step 2 – Identifying the fixes

Identifying the fixes

ERP Configuration

Adjusting the Balance Sheet structure to better facilitate automated reconciliation:

- Control account
- Automated AP/AR VAT accounts
- Manual AP/AR adjustment account
- Feed of legacy/source systems
- Special purpose accounts:
 - Foreign input VAT
 - Other indirect tax accounting
 - Blocked input VAT

Note	GROUP	20. \$'000 (restated)
	50,161	45,421
	110	2,256
		7,344
3	22,251	5,352
4	1,933	12
5	737	994
6	579	
7		61,379
8		
9	75,777	
		61,807
	27,790	112,48
	122,857	87
	1,027	20,9
10	30,360	190,7
11		

Identifying the fixes

ERP Configuration

Improve the GL taxonomy:

- Minimise the amount of offline VAT calculations
- Application at country-wide or regional basis
- Create local tax codes to meet local VAT and statutory reporting from the same source

Improve the quality of source reports:

- Identify key data fields
- Deploy standard source reports
- Determine how to use data once reported

Identifying the fixes

ERP Configuration

ECSL/ECPL improvements:

- Update VRNs to ensure they are complete and accurate
- Specific EU sales and purchases tax codes

Intrastat improvements:

- Weights and commodity codes included on inventory/material master data
- Plants abroad (SAP) and Own-goods rules (Oracle) for movements of own goods
- ENGR dashboard (SAP) reporting

Identifying the fixes

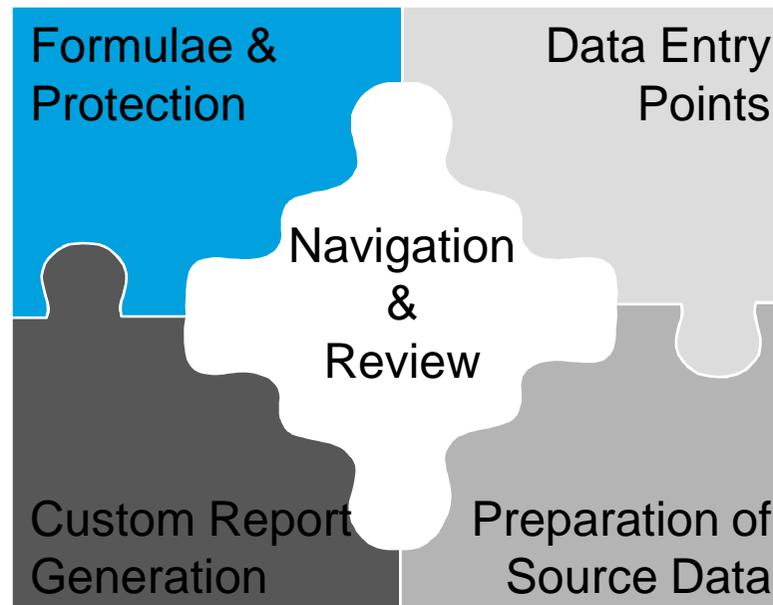
Building a framework

- Make reconciliation check a specific point in the return sign off
- Run periodic reports to check VAT balances and work with Finance to clarify issues e.g.
 - Unexpected manual journals
 - Monthly EC Sales reconciliation to VAT/revenue GL balances
- Training & documentation e.g. VAT guidance
- Prepare VAT and statutory returns in tandem rather than delivering them separately (before realising they do not reconcile)

Identifying the fixes

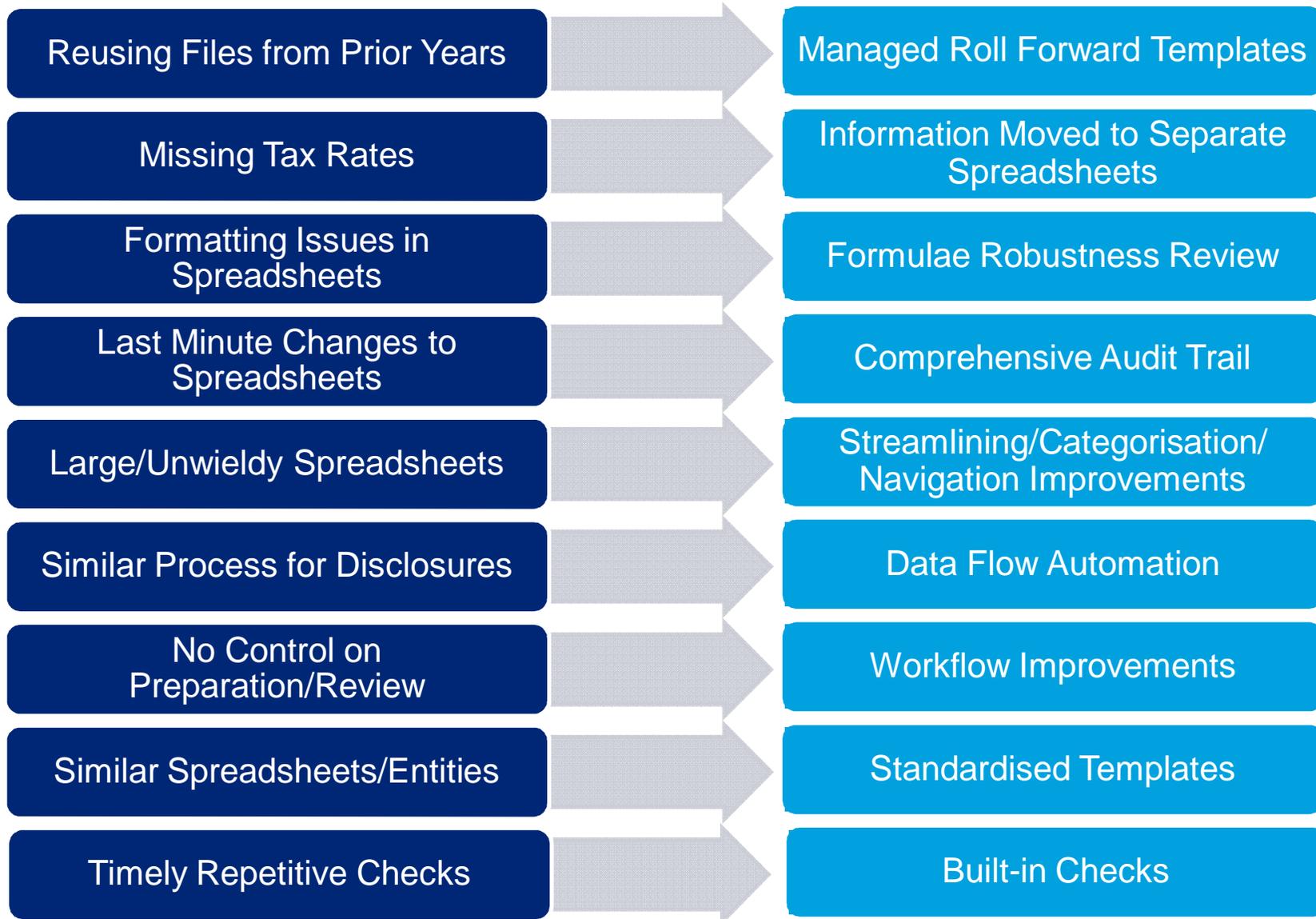
Processes

- Reconciliations require working manipulated data back to source
- Important to make data manipulation as transparent as possible
- Multiple source systems will likely require multiple reconciliation stages
- Reconciliations limited by the effectiveness of spreadsheets
- Third party tools designed to support both preparation and checking of return preparations



Identifying the fixes

Workpaper functionality



Identifying the fixes

Workpapers – best practice example

Identifying the fixes

Working with Finance



Understand the risk areas by working with finance to automate system controls:

- Tax sensitise product/account codes
- Validation/warning messages
- Configure tax logic in the AP/AR process

Identifying the fixes

Outsource to transform?

- Is the 'as-is' fit for purpose?
- Broader finance outsourcing projects can offer a route to improve technology and processes
- Ensure outsourcer understands the reconciliation process
- Agree the deliverable
- Establish roles and responsibilities

Step 3 – Implement the change

Implementing the change

- Try to break it down into small projects
 - Workpaper improvements
 - Tactical ERP and data improvement
 - Analytics
- For larger projects timing can be key - initiatives such as Finance Transformations create an opportunity to implement changes
- Do you need a business case?
- Who are the stakeholders?
- Testing and training is key to avoid disruption to business as usual

Key points

- Most businesses struggle with this. There is no 'silver bullet' to address the entire reconciliation approach
- Increasing automation requires:
 - Understanding the pinch points
 - Tactical fixes to address them
 - Implementing changes at the right time
- Tackling issues one by one will offer a greater chance of overall success
- Simple changes to the reconciliation process can still make a significant difference – it doesn't have to be a big project.

Questions?



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