



AUDIT • ADVISORY • TAX

GLOBAL TAX ASSURANCE AND RISK MANAGEMENT

DEVELOPING A GLOBAL TAX RISK MANAGEMENT FRAMEWORK

PROVIDING ASSURANCE OVER
TAX GOVERNANCE, THE MANAGEMENT
OF TAX RISK AND TAX OPERATIONS
ACROSS YOUR BUSINESS

2020



BACKGROUND:

Developing a global tax risk management framework

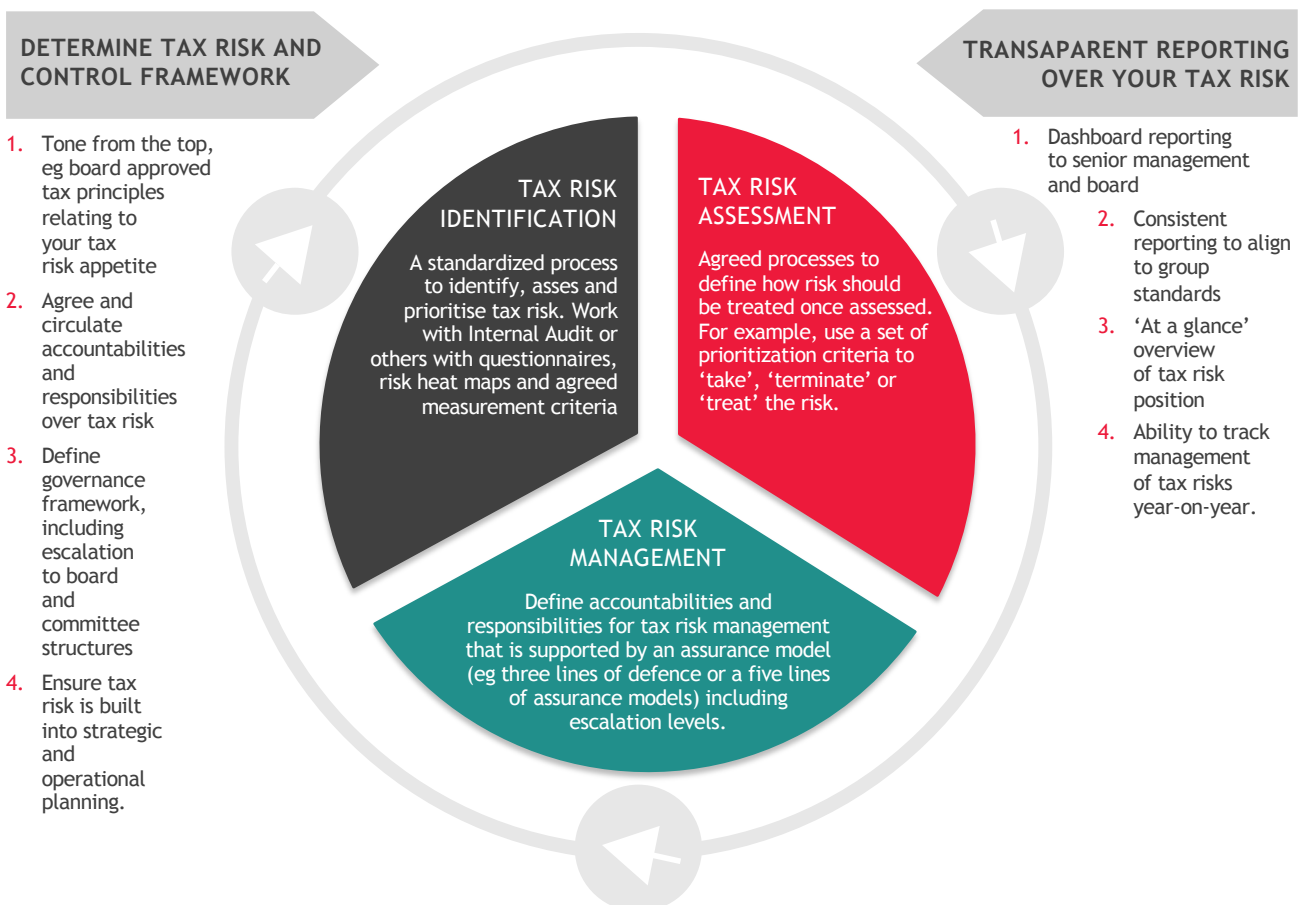
WHAT DO WE MEAN BY A STRONG TAX RISK MANAGEMENT FRAMEWORK?

Tax risk and control frameworks which are fit for purpose within modern organisations need to provide the following:

1. clearly defined tax roles and responsibilities
2. a formalised tax risk identification methodology
3. embedded tax controls which support an organisation's policies and processes
4. reporting lines to communicate tax risk in a timely manner (both periodic and ad hoc reporting)
5. a defined tax risk appetite which has senior level agreement.

It is only by considering each of these five components in the context of the business that an organisation can gain assurance that it has managed its tax risk position effectively. We would also expect such an exercise to create a clear definition of what tax risk means, and a strategy to use appropriate tax risk reporting tools.

In our work with all organisations, we always start by developing a clear vision for what a culture of strong tax risk management means for the business. This enables us to establish the right environment to create a tax risk and control framework which is right sized and appropriately structured (as below).



STEP 1: DETERMINE THE SCOPE

Developing a global tax risk management framework

AN INITIAL FOCUS TO ESTABLISH THE FOCUS OF THE REVIEW

UNDERTAKING A GLOBAL TAX RISK REVIEW

The first step is to determine what you already know about the management of your tax risk:

- ▶ What are your ‘known knowns’ (and also where there may be ‘unknown unknowns’)?
- ▶ What already concerns you and Senior Management in terms of your main tax risk areas?
- ▶ Are these risks consistent on a global basis?
- ▶ Are there jurisdictions or areas of the business where you have little/less visibility or confidence that tax risk is being identified and managed?
- ▶ Can we separate jurisdictions and/or business units into various tiers dependant on a set of parameters (such as materiality, historic tax issues, level of transparency and/or tax risk profile)?

In most cases the majority of tax risk arises not from within the tax or finance functions, but from activities undertaken by the wider business.

DETERMINGING YOUR EXISTING TAX RISK AND CONTROL FRAMEWORK

- ▶ How do you define your existing tax risk and control framework and how does this benchmark to leading practices for your industry and global footprint?
- ▶ What is the risk appetite of the business? Is there a tone from the top?
- ▶ How is tax risk currently identified, assessed and escalated to the right people in your business?
- ▶ Do you have a three lines of defence or five lines of assurance model?
- ▶ Is there an existing global tax risk register? How is this maintained?
- ▶ Is there tax governance around tax risk management in terms of tax accountabilities and responsibilities?

These questions are very important and need to be asked before undertaking a deep dive global tax risk review.

We always begin with a **facilitated ½ day workshop** with tax and finance leadership to discuss objectives, the existing approach to tax risk management and known areas of concern around tax risk.

This will drive our initial determination of your tax risk environment, the existence of any potential gaps in your current tax risk and control approach, and importantly, it will enable us to prioritise countries and/or business units so we know where to focus the first phase of the review.

This could include a focus on specific tax areas in particular key countries and/or identify the need to ‘analyse’ a particular location or part of your business. It will also set the focus to determine what your tax risk framework should look like and create the initial building blocks to strengthen your tax risk and control framework.

“ Effective tax risk management does not have to be complex. At BDO we believe a simple, but structured approach to managing tax risk can demonstrably improve an organisation’s identification, assessment and management of tax risk and create an environment of ‘no surprises’ around the delivery of tax on a global basis. ”

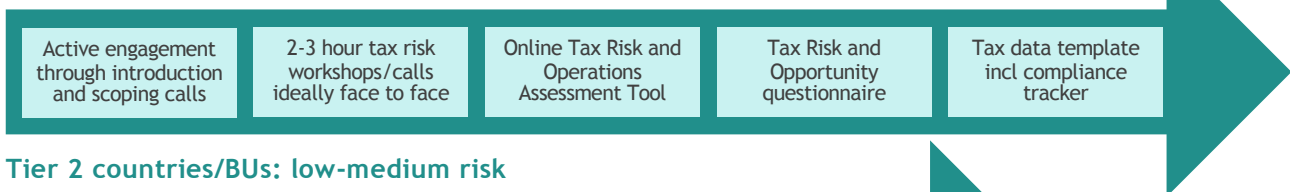
STEP 2: TAX RISK IDENTIFICATION AND ASSESSMENT

Developing a global tax risk management framework

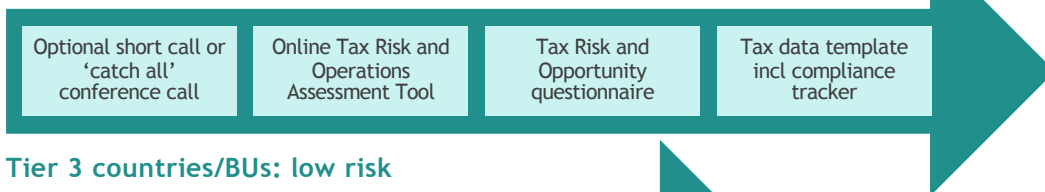
WORKING IN PRACTICE

In undertaking a Global Tax Risk review, the level of focus on a country-by-country basis can be determined by separating jurisdictions and/or business units into tiers depending on parameters such as materiality, historic tax issues, level of transparency and/or tax risk profile. The review for each tier would be as follows:

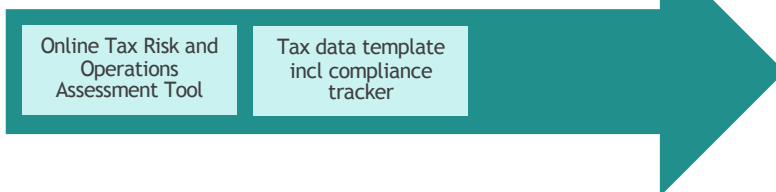
Tier 1 countries/BUs: higher risk



Tier 2 countries/BUs: low-medium risk



Tier 3 countries/BUs: low risk



ESTABLISHED APPROACH

We have an established approach to tax risk management and its assessment utilising tried and tested tools and questionnaires.

These include:

1. AN ESTABLISHED APPROACH TO UNDERTAKING FACILITATED DISCUSSION SESSIONS

We have extensive experience in undertaking structured discussion sessions with relevant tax, finance and wider personnel within your business to analyse how tax is managed and tax risk identified. We adopt a collaborative approach to working with your teams, seeking to leverage work being done well, and make positive recommendations where improvements or additional rigour needs to be introduced. Our intention is to create an environment of openness and knowledge sharing. Our recommendations will always be targeted, practical, and right sized for your operation.

2. TOOLS, TECHNOLOGIES AND DATA

One example is our online 'Tax Risk and Operations Assessment Tool' (example output on next pages) to provide an immediate benchmark of the relative strengths of your tax risk and control framework. This tool has been designed in a way which allows those who are not tax specialists to engage with it effectively.

The questions cover a broad range of tax management issues, including Corporate Income Tax, VAT, Customs, Employment taxes etc as well as focusing on areas such as tax governance, local tax capabilities, use of technology, tax reputation and commercial substance risk.

We also have specific tools focused on different aspects of your business (eg our Tax Risk and Opportunity Questionnaire, our Tax Data Collector, the Tax Value Creator™ platform powered by Vena, and our Total Tax Value reporting tool).

BDO TAX RISK TOOLS AND TECHNOLOGIES

1 TAX RISK AND OPERATIONS ASSESSMENT TOOL (BELOW)

We use our tax risk and operations assessment tool to provide an objective benchmark of your tax operations. In addition, we believe it is important to support this with a separate questionnaire that asks more 'open' questions enabling local teams to set out specific issues that may be of concern to them (eg, specific local tax authority points and/or local business issues).

2 TAX RISK AND OPPORTUNITY QUESTIONNAIRE

This questionnaire allows a focus on areas that will help us to identify where there may be tax optimisation opportunities. For example, this will include questions on the use of tax losses, debt capacity, opportunities for R&D and maximising tax depreciation etc.

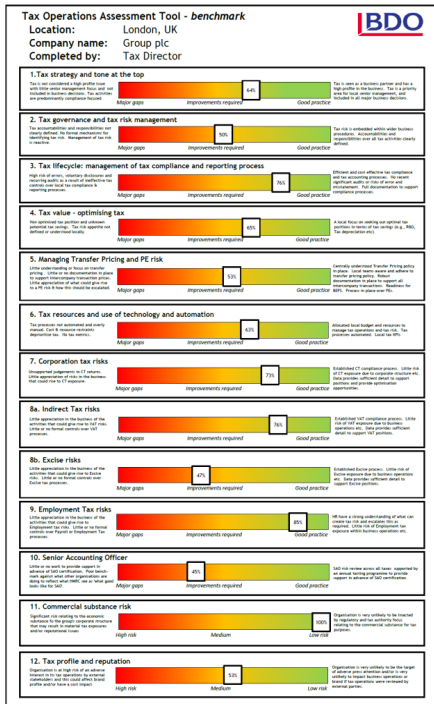
3 TAX DATA COLLECTOR

The data collector allows us to collate relevant tax compliance information, including historical tax payment data etc.

This will include visualisation of relevant data, including ETR, CTR, compliance status, extent of tax audits, tax losses etc.

Development of Tax Risk Report including tax risk register, tax heatmap, and recommendations (see over)

TAX RISK AND OPERATIONS ASSESSMENT TOOL - SNAPSHOT



	ENTITY 1	ENTITY 2	ENTITY 3	ENTITY 4	ENTITY 5	ENTITY 6	Average
Tax Strategy and Tone at the Top	39%	66%	43%	75%	89%	39%	59%
Tax Risk Management and Governance	74%	68%	69%	67%	87%	71%	73%
Tax Lifecycle: tax compliance	94%	58%	86%	80%	96%	58%	79%
Tax planning: optimising tax	86%	83%	-	60%	75%	47%	70%
Transfer Pricing	100%	60%	88%	60%	45%	55%	68%
Tax Resources: capabilities and tech	67%	40%	78%	40%	74%	49%	58%
Corporation Tax risks	100%	85%	88%	77%	88%	88%	88%
Indirect Taxes risks	92%	76%	86%	79%	84%	72%	82%
Employment Taxes risks	88%	93%	93%	80%	70%	80%	84%
Commercial Substance	39%	100%	87%	42%	17%	78%	61%
Tax Profile	79%	71%	86%	66%	42%	63%	68%
Overall score	78%	73%	80%	66%	70%	64%	72%

Example tax risk register (RACM)

Risk ID	Risk Category	Risk Description	Risk Level	Business Impact	Control Effectiveness	Residual Risk	Residual Risk Description
TR-001	Compliance Risk	High level of complexity of the law	High	Significant	Medium	Medium	Significant
TR-002	Compliance Risk	Complexity of the law	High	Significant	Medium	Medium	Significant
TR-003	Compliance Risk	Complexity of the law	High	Significant	Medium	Medium	Significant

STEP 3: TYPICAL OUTPUTS & TAX RISK REPORTING

Developing a global tax risk management framework

TAX RISK REPORT

The review and our Tax Risk report will have covered three main areas:

- ▶ Your tax risks on a global basis
- ▶ Identification of where there are gaps in your tax control framework (and hence tax risks) across your global footprint - reported succinctly for senior management.
- ▶ Determination of the overall strength of your existing tax risk and control framework and some practical steps to improve and better articulate your tax risk governance, accountabilities and responsibilities, and internal tax risk reporting mechanisms.

Specifically, our outputs usually include a tax risk and control matrix (RACM), gap analysis defining where governance improvements are required, immediate 'quick wins', and longer term recommendations to improve your tax risk management framework or to automate your tax value chain.

	Group (EMEA) Tax	Group (EMEA) Finance	Local country teams	Shared service centre	Non-tax groups (to specify)	External providers										
	R	A	C	I	R	A	C	I	R	A	C	I	R	A	C	I
- Tax Governance																
- Establish scope of tax operations for the group/sub-group																
- Establish tax principles and expected standards of conduct																
- Develop 'day-to-day' tax policies and procedures for business																
- Monitor tax legislation and policy																
- Tax Administration																
- Establish tax authority relationship																
- Establish tax advisor relationships																
- Maintain documentation retention																
- Maintain tax master data																
- Managing Tax Risk																
- Develop tax risk strategy and risk compliance framework																
- Establish tax risk appetite for the group																
- Identification of tax risk across the business																
- Monitor, prioritise and report tax risk																
- Develop response to tax risk																
- Develop internal controls for tax																
- Monitor tax risk mitigation																
+ Tax Planning and Transaction Support																
+ Manage Corporate Income Tax Accounting and Reporting																
+ Manage Corporate Income Tax Compliance																
+ Manage Indirect Tax Compliance																

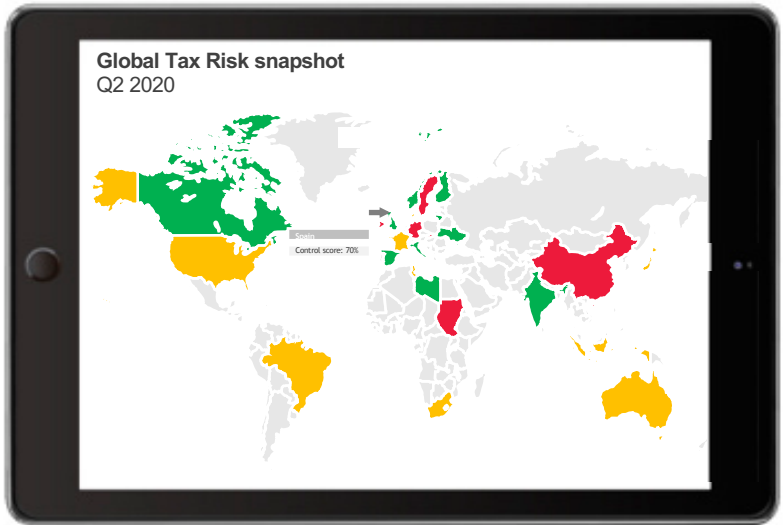
WORKING IN PRACTICE

Over and above the tools described above, BDO have a database of template tax risk policies, procedures and other tools to support our tax risk work.

This includes:

- ▶ RACI matrix (right)
- ▶ Tax Risk questionnaires
- ▶ Tax Risk Registers and heatmaps
- ▶ Global Tax Risk map
- ▶ Detailed Tax Risk Register
- ▶ Database of internal and external tax policy documents
- ▶ Example board papers.

Where possible, we always aim to use technology to enable real-time identification, assessment and reporting of tax risks.



TYPICAL APPROACH

Phase	Reminder of objectives and tasks	Reminder of deliverables	Time commitment
Step 1: Impact and implementation plan workshop	<ul style="list-style-type: none"> ▶ Confirm scope and timetable ▶ Share anonymous examples of tax risk register and tax risk policy documents ▶ Determine stakeholders and shared objectives. 	<ul style="list-style-type: none"> ▶ Implementation plan ▶ Skeleton plan of what your tax risk framework could look like. 	<ul style="list-style-type: none"> ▶ Single 1 hour kick-off call/meeting ▶ BDO personnel: <ul style="list-style-type: none"> - Tax risk director.
Step 2: Tax risk and governance review	<ul style="list-style-type: none"> ▶ Benchmark your existing tax risk and control framework ▶ Gap analysis of the building blocks required to develop your tax risk and control framework ▶ High level tax risk review ▶ Desk top review of existing documentation to determine extent of existing tax risk and control framework. 	<ul style="list-style-type: none"> ▶ Use of online Tax Risk and Operations Tool and summary report. 	<ul style="list-style-type: none"> ▶ ½ day tax risk workshop ▶ Analysis of Tax Operations Assessment Tool and policy documents ▶ Summary memo/report ▶ BDO personnel: <ul style="list-style-type: none"> - Tax risk director.
Step 2: Detailed tax risk identification and assessment	<ul style="list-style-type: none"> ▶ Detailed tax risk identification and risk assessment exercise ▶ Development of tax risk register ▶ Clear recommendations on development of relevant processes and procedures. 	<ul style="list-style-type: none"> ▶ Detailed Tax Risk Register (RACM) ▶ Summary of main tax risks that can be shared to other stakeholders ▶ Detailed recommendations relating to where enhanced tax risk governance is required (eg, need for tax risk policies, escalation mechanisms etc). 	<ul style="list-style-type: none"> ▶ ½ day workshop with key stakeholders and use of tax risk tools ▶ Development of detailed Tax Risk Register ▶ Development of detailed report with recommendations and next steps ▶ BDO personnel: <ul style="list-style-type: none"> - Tax risk director - Tax risk senior manager - Tax risk manager.

Step 3: Building blocks to strengthening your tax risk and control framework - often can be run in parallel with the above

Phase	Reminder of objectives and deliverables	Time commitment
Phase 3: Developing Tax Risk and Control Framework	<ul style="list-style-type: none"> ▶ Development of tax risk policies, procedures, including setting tax accountabilities and responsibilities. In practical terms, this would be a Tax Risk Policy, RACI matrix for tax risks (ie articulating tax risk accountabilities and responsibilities), escalation mechanisms, tax risk communication mechanisms and defining tax risk tolerances. ▶ Implementation of a rolling tax risk identification, assessment and reporting programme to ensure a bottom-up approach to the management of tax risk ▶ Development of a system of tax risk reporting tools for internal, senior management and external purposes. 	<ul style="list-style-type: none"> ▶ Further workshops or a number of calls ▶ Tax Policy ▶ BDO personnel: <ul style="list-style-type: none"> - Tax risk director - Tax risk senior manager - Tax risk manager.

MANUFACTURING CLIENT

The Problem:

The client operated through a decentralised structure with significant, autonomously managed operations. In response to increasing internal and external pressures, they had a number of objectives:-

- ▶ enhance their tax risk management framework
- ▶ drive better engagement in relation to tax where it was relevant to business transactions
- ▶ redefine how tax operated in the business
- ▶ improve the profile of tax.

This was also in response to an expanding operational structure in Africa and changes in the tax team.

Value we provided:

- ▶ We undertook a global tax risk identification exercise, identifying, assessing and prioritising risks arising across the business and consolidating them into a single tax risk register for presentation to senior management
- ▶ Seeing gaps in the existing tax risk management framework, we first developed a set of tax risk principles to be approved by the Board. This was then supported by an internal Tax Risk Policy document (also Board approved) which clarified expected standards of conduct over how tax risk was managed across the group
- ▶ This was then rolled out across the group through the implementation of some tax risk identification and assessment tools (including an updated Tax Risk Register), using technology and data to enable real-time reporting of tax risks. The Board were very enthusiastic about this work, enabling full visibility and a practical and formalised approach which was relevant to their operations.

FOR MORE INFORMATION:

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