



AUDIT • ADVISORY • TAX

GLOBAL TAX ASSURANCE AND RISK MANAGEMENT

A WORLD CLASS TAX FUNCTION

ENHANCING PERFORMANCE THROUGH
THE DEVELOPMENT OF A BEST IN CLASS
TAX CONTROL FRAMEWORK

2020



“ Tax is increasingly on the Board’s agenda, and senior management want a culture of no surprises when it comes to managing tax on a global basis. On top of that, there is an increasing need to demonstrate tax assurance and efficiencies in terms of how tax operates across the business - this is determined by your Tax Control Framework and its level of maturity. ”

A WORLD CLASS TAX FUNCTION

Understanding the challenges and opportunities for all businesses

WHAT IS THE VALUE OF DEVELOPING A STRONG TAX CONTROL FRAMEWORK?

CHALLENGES

The need for greater tax assurance from senior management	Tax increasingly on the Board agenda	More focused tax authority audits and the need for zero error	Demonstrating good behaviours in advance of tax due diligence and IPO readiness
The need for a culture of no surprises over global tax risk	Cost effective tax compliance	Constantly evolving global tax transparency regulations	Tax reputation as part of your wider CSR

Over the past few years, we have seen heightened challenges as a result of increasingly complex tax compliance and regulatory requirements, magnified often by overly manual and disjointed processes that create tax risk. Businesses are asking for practical ways to gain control and assurance over managing their tax risk, their tax reputation and tax operations. With the challenges above, the key objective is to gain assurance over how tax operates across the business and to ensure tax is operating as efficiently as possible. This is achieved by ensuring a best-in-class tax control framework.

OPPORTUNITIES

Documented tax processes and workflows to evidence good behaviours	Clearly defined tax vision and mandate to define what good looks like for tax	Effective global tax risk management to ensure a culture of no surprises	Clarity over tax governance and RACI so everyone knows who does what
Enhanced tax process efficiency and technology	Data analytics to enable tax optimisation & efficiency	Benchmark assurance to certify existing tax processes	Defined KPIs and control measures for tax

Based on our experience of working with global organisations across all industries and headquartered in all continents, we have seen clear value in a consistent approach to enabling enhanced performance over all their tax operations, and articulating a clear path to a robust 'Tax Control Framework'.

This document sets out the steps to providing assurance over your global tax operations. This begins with a benchmark of your existing operations to determine quick wins and a clear path to effective global tax operations through better use of resource, enhanced policies and processes, and use of our market leading technology Tax Value Creator™ powered by Vena.

NAVIGATING THE PATH:

Ensuring a strong Tax Control Framework ('TCF')

THREE STEPS TO PROVIDING ASSURANCE OVER YOUR GLOBAL TAX OPERATIONS

- #### 1 UNDERSTAND YOUR CHALLENGES AND OPPORTUNITIES

Determining your aspirations around tax governance and the management of tax risk across your business to enable you to define what success looks like. What are your key drivers? What do your internal and external stakeholders expect? Where do you want to be in 1 year, 3 years or 5 years' time?
- #### 2 BENCHMARKING YOUR 'CURRENT STATE' TAX OPERATIONS

Undertake a benchmark review of your tax operations across your entire business to understand your current state, and how this compares to your peers and leading practices. Do you have an aspiration to manage your tax operations more strategically?
- #### 3 THE TCF ROADMAP: DEVELOPING THE BUILDING BLOCKS TO SUCCESS

Where are you on your path to managing tax as you would like (based on the above)? Your TCF roadmap will guide you on your journey to enhancing your current state to ensure effective global tax operations in a way that works for you.

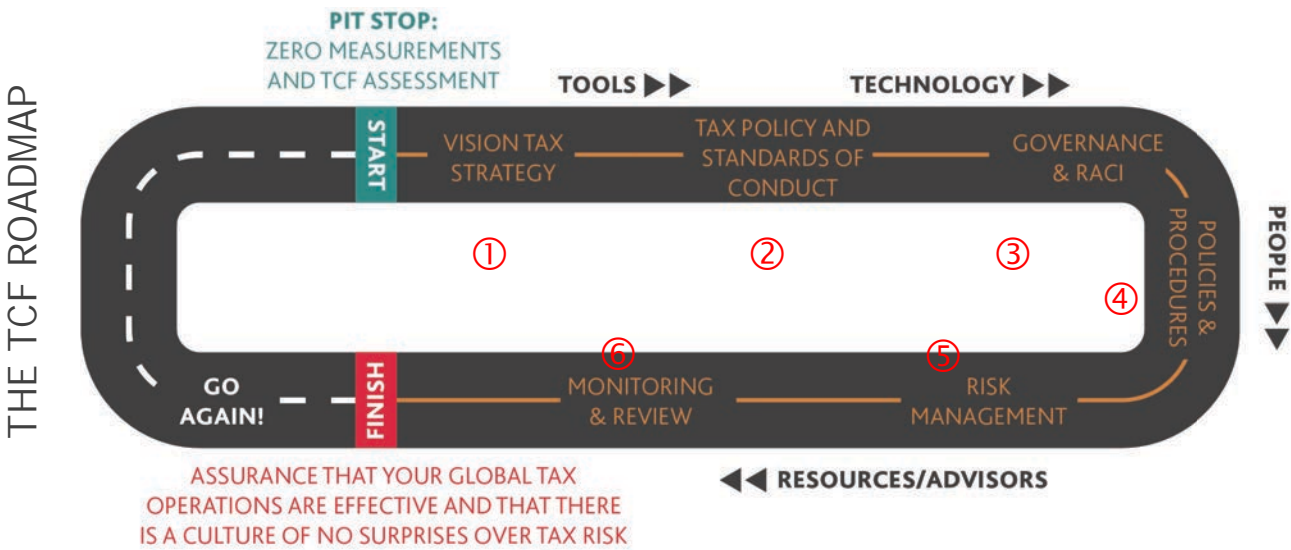
TAX CONTROL FRAMEWORK

The OECD defines a Tax Control Framework simply as 'the part of the system of internal control that assures the accuracy and completeness of the tax returns and disclosures'.

Increasingly, SARS, other tax authorities and regulators are expecting businesses to have considered this definition and be able to demonstrate the steps they have undertaken to operationalise their own Tax Control Frameworks.

The OECD states that there are six building blocks which underpin good practice in a Tax Control Framework. These can be summarised as follows:

- ① An established Tax Strategy
- ② A Tax Policy that sets out expected standards of conduct in how you want tax managed in the business
- ③ Governance as it supports tax is documented, including assigning accountabilities and responsibilities for the management of tax
- ④ Tax procedures that support the Tax Strategy and Tax Policy are in place and embedded in everyday operations
- ⑤ An effective Tax Risk Management framework
- ⑥ Testing is performed and assurance is provided.



GLOBAL TAX ASSURANCE

Businesses of all sizes, whether they be local small businesses, large multinationals, or something in between need to recognise that they operate in an increasingly complex tax compliance and regulatory environment (see a selection of global tax initiatives below). This increased complexity is often compounded by overly manual, inefficient processes that create rather than manage tax risk.

SARS and tax authorities across the globe are requiring businesses to demonstrate robust tax behaviours and effective tax risk management. In order to be demonstrable, this governance needs to be documented to some level. Under King IV™ these requirements are more formal

In addition to this, tax remains a strategic issue for businesses. Boards are seeking assurance over the effectiveness of their global tax operations, and importantly that there is a culture of no surprises when it comes to tax risk.

In simple terms, it is about seeking practical ways to gain control and assurance over tax risk, your tax profile and external reputation, demonstrating it, and effectively communicating this to your internal and external stakeholders using our Total Tax Value approach..



INCREASING REGULATION ON A GLOBAL BASIS : some examples



STEP 2: BENCHMARKING YOUR TAX OPERATIONS

Assessing the 'current state' of your tax control framework (through our 'Zero Measurement' review approach) will allow you to understand the effectiveness of your existing tax processes, resources, tax risk and governance structures, where you sit vs your peer group, and what you need to do to achieve your objectives.

There are **four key benefits** to our approach:

1. Providing clarity, confidence and transparency in the way your business operates in relation to tax
2. Ensuring you can deploy a 'no surprises' tax risk framework across your business
3. Allowing for the optimisation of your delivery model through better use of people, process and technology (Tax Value Creator™)
4. Creation of a clear vision and mandate to meeting your current and future tax requirements.

In our experience, there are eight key areas (see right) which will enable us to start to determine the strength of your Tax Control Framework. The effectiveness of your operations across these eight areas will often drive opportunities to improve your approach to tax compliance, the management of tax risk, your tax strategy, or transparency and tax performance improvement.

They also allow us to benchmark your existing tax operations and this typically demonstrates where tax operations are working effectively, or where there are process or control inefficiencies that need to be looked at again.

The key for you is that you ensure you have control over all your tax operations and you minimise material 'tax surprises'.

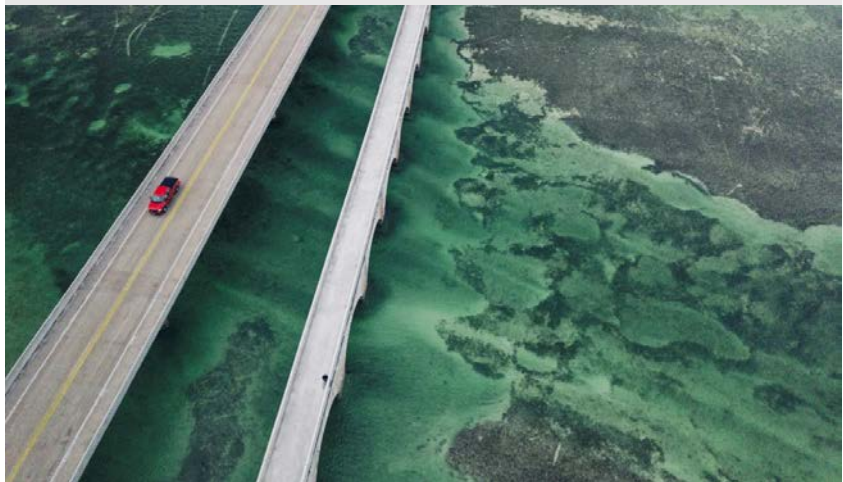
WORKING IN PRACTICE:

Our current state assessment (zero measurement) reviews are typically delivered through a series of workshops supported by our Tax Value Creator™ and BDO tools:

1. We perform a number of structured discussion sessions with relevant tax, finance and wider personnel within your business. These facilitated sessions will be underpinned by our tax risk operations methodology.
2. We deploy tools such as our tax risk and controls operations online questionnaire selectively to assist in assessing the relative maturity of your broader operations.

This model seeks to benchmark the way tax is managed within businesses across a 5 level model from an ad-hoc reactive approach (level 1) through to a very sophisticated and fully optimised approach (level 5).

It should be noted that it is often not appropriate for a business to operate at level 5, but it is important for management to understand where they currently operate, and how they benchmark against others. This allows key management decisions to be made around whether the current state is appropriate to the business.



LEVEL 1

Ad-hoc



LEVEL 2

Standardised

EIGHT KEY AREAS TO BE CONSIDERED AS PART OF THE CURRENT STATE ASSESSMENT ('ZERO MEASUREMENT')

1

Identify the taxes that are relevant to your business and their associated compliance status including:

- ▶ your compliance requirements
- ▶ status of submissions vs deadlines
- ▶ how your compliance process is monitored and managed.

2

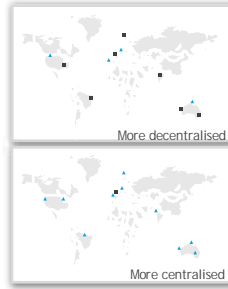
Determine how tax governance is defined in your business in terms of:

- ▶ existing accountabilities and responsibilities
- ▶ tax reporting lines
- ▶ the effectiveness of tax controls
- ▶ escalation mechanisms.

This includes determining the tax reporting lines and escalation mechanisms and whether these are appropriate.

3

Do you have a centralised or decentralised model in terms of your tax operations? What would work best for you in terms of control?



4

Consider the relationship between those responsible for tax, and the rest of the business, and how the identification and escalation of issues that could have a tax impact is managed, as well as the level of 'business partnering' for tax.

Are there KPIs in place that sets out 'what good looks like' in terms of managing tax demands from the business?

5

Assess the ability of your governance and underlying control framework to support the effective management of your global tax risks and seeking a culture of no surprises.

In order to support this assessment we will seek to understand how you identify and manage both commercial and business issues which could have a tax impact, how the resulting tax risks are assessed, and managed through to resolution.

6

Understand the extent that your compliance requirements can be, or need to be, supported by the effective use of technology as well as how this is currently delivered.

Consideration will be given to any existing risks or inefficiencies, and opportunities for the enhanced use of technology, data analytics, and tax optimisation.

7

Determine the level of tax knowledge (expertise) in the business and the extent that the identified level of expertise is appropriate to manage your tax obligations.

8

Consider the extent to which tax resources are being used effectively. This should include people, processes, technology, data or the external cost of third-party advisors.



LEVEL 3

Managed



LEVEL 4

Enhanced



LEVEL 5

Optimised

STEP 3: TRAVELLING THE TCF ROADMAP THE BUILDING BLOCKS TO SUCCESS

The BDO Tax Control Framework Roadmap is structured to allow you to take one step at a time and enhance your governance over a timetable that suits you.

It provides absolute clarity over your journey.

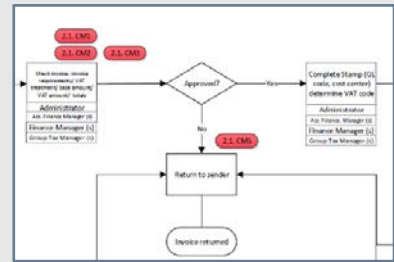
Phases include:-

1. Current state (the Zero Measurement) review
2. Development of your vision for tax in the business through a Board approved Tax Strategy
3. Articulation of your Tax Policy through expected standards of conduct in how you want tax to be managed in your business
4. Formalise Tax Governance through defined agreed accountabilities, roles and responsibilities using a RACI matrix (right)
5. Develop tax control policies and procedures including process maps and flow charts
6. A culture of no surprises through effective global tax risk management (including tax risk identification, assessment and escalation mechanisms):
7. Monitoring and review: monitoring and testing by means of samples and full population data analytics.

All of this will be enabled by the correct use of tools, technology and resources to ensure your Tax Control Framework is working effectively.

EXAMPLE TOOLS AND TECHNOLOGIES:

Objective	Start Date	End Date	Responsible	Status	Score
1. Establish a clear vision for the group's tax strategy					
2. Establish a clear governance structure for tax					
3. Establish a clear tax policy and procedures for the group					
4. Establish a clear tax control framework for the group					
5. Establish a clear tax risk management framework for the group					
6. Establish a clear tax reporting framework for the group					
7. Establish a clear tax compliance framework for the group					
8. Establish a clear tax dispute resolution framework for the group					



PAYE TRAM	Risk Rating	Regular Assurance										Assurance Score	Benchmark
		Key Process	H/M/L	Internal Assurance				External Assurance					
				Resource/ Experience / Training	Internal Process Controls	Written Policy/ Processes	Initial Review	Second Review	HMRC	External Audit	External Advice/ Software		
1. Payroll	H	4	5	4	4	3	3	1	5	1	3	33	30
2. Terminations	M	4	3	2	3	0	0	2	5	0	1	20	20
3. Expenses	M	3	4	4	5	3	0	0	0	5	3	27	20
4. PSA	L	3	3	0	4	3	5	0	0	0	1	19	10
5. Gross Paid Individuals	L	2	3	0	0	0	0	0	2	0	0	7	10

PIT STOP:
ZERO MEASUREMENTS
AND TCF ASSESSMENT

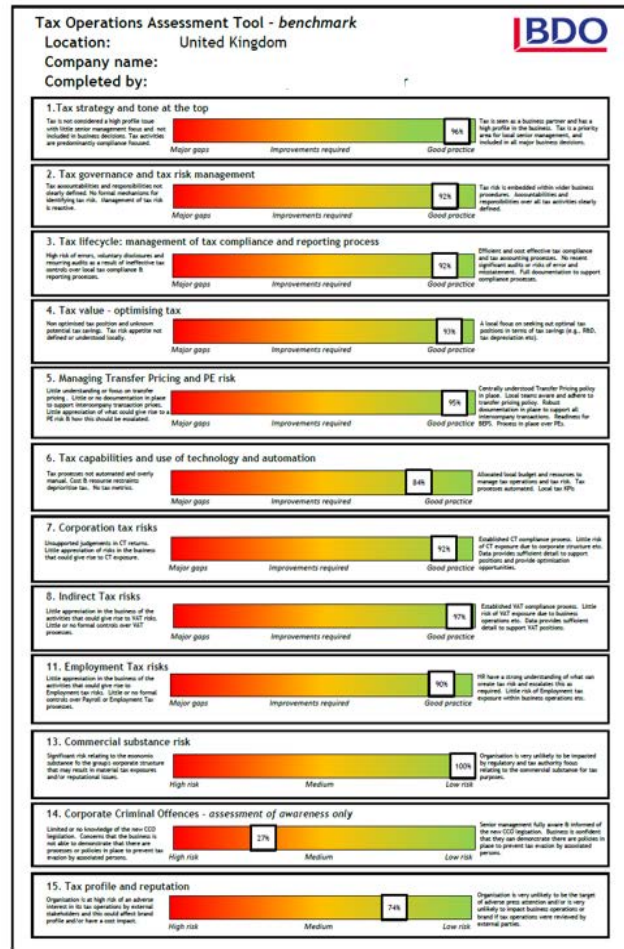
TOOLS ►►



ASSURANCE THAT YOUR GLOBAL TAX OPERATIONS ARE EFFECTIVE AND THAT THERE IS A CULTURE OF NO SURPRISES OVER TAX RISK

At BDO, we use a number of established tools, technologies and methodologies to support our clients to develop or enhance their Tax Control Framework. Some of these are shown here from examples of process flow charts to RACIs, tax risk registers and tax control assurance matrices, our market leading Tax Value Creator™ platform and our Total Tax Value approach. We will agree which are most appropriate to your review during the scoping phase.

	Belgium	Ireland	Singapore	Sweden	Spain	US	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%



TECHNOLOGY ▶▶

TAX POLICY AND STANDARDS OF CONDUCT

GOVERNANCE & RACI

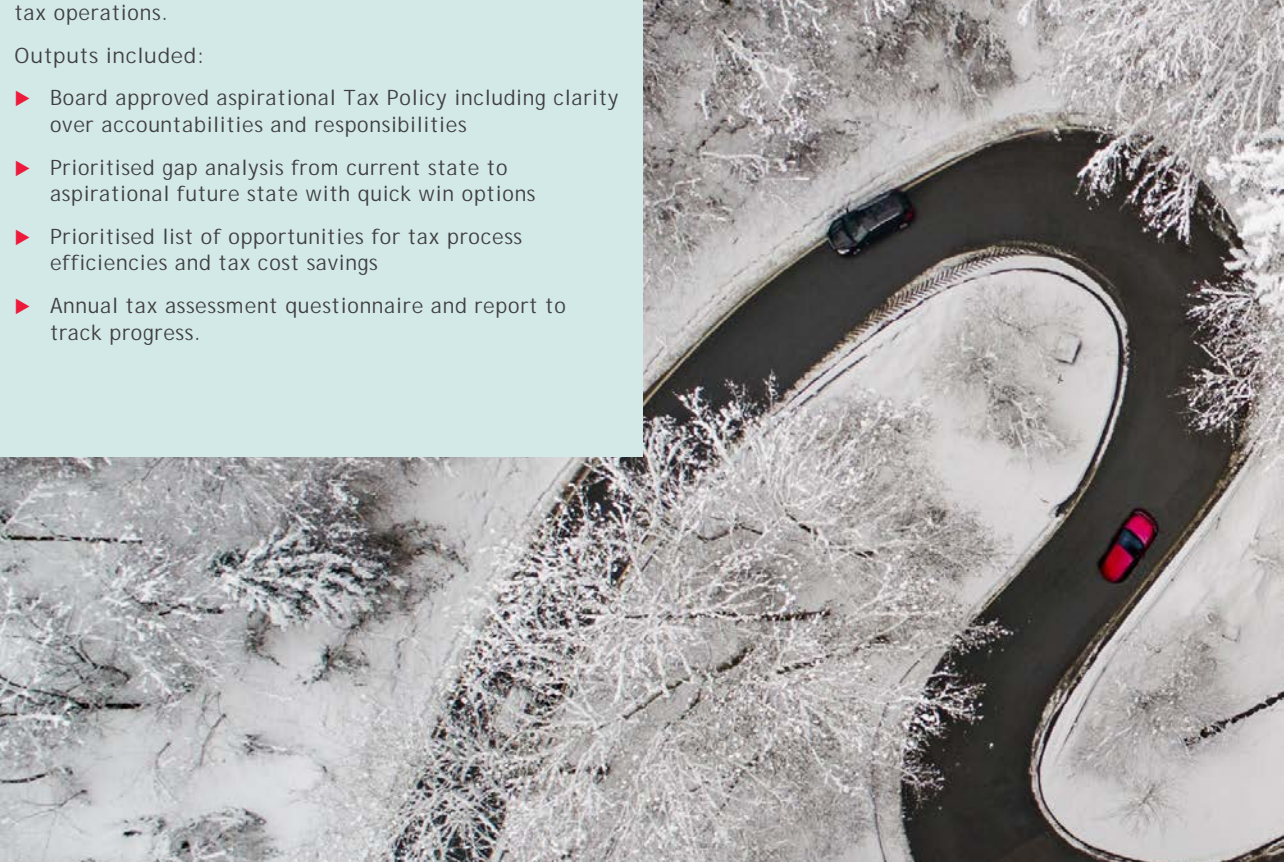
PEOPLE ▶▶
 POLICIES & PROCEDURES

MONITORING & REVIEW

RISK MANAGEMENT

◀◀ RESOURCES/ADVISORS

OUR EXPERIENCE

EXAMPLE CREDENTIALS	
JSE Top 40	GLOBAL SERVICES CLIENT BASED IN THE JOHANNESBURG
<p>A new in role Tax Director wanted clarity and assurance over how his tax operations were carried out globally and that he had control over all tax operations. This was in response to a history of errors across numerous taxes and in multiple African countries. Simply speaking, there was little or no transparency or control over tax compliance, tax reporting and the management of tax risk. In the words of the Tax Director, he was worried about 'tax skeletons that he wasn't aware of.'</p> <p>We undertook an immediate tax operations diagnostic review through questionnaires and interviews to identify where there were control gaps in tax operations and immediate risks of unexpected tax costs and audits.</p> <p>We developed a board approved Tax Policy that set out expected standards of conduct over how tax activities should be carried out and developed a prioritised gap analysis and action plan (a road map) so that the Tax Director could gain assurance she had control over global tax operations.</p> <p>Outputs included:</p> <ul style="list-style-type: none"> ▶ Board approved aspirational Tax Policy including clarity over accountabilities and responsibilities ▶ Prioritised gap analysis from current state to aspirational future state with quick win options ▶ Prioritised list of opportunities for tax process efficiencies and tax cost savings ▶ Annual tax assessment questionnaire and report to track progress. 	<ul style="list-style-type: none"> ▶ A large global client was coming under increasing SARS scrutiny and placed tax risk management high on their agenda. VAT and Employment taxes were their key priorities ▶ BDO were asked to develop a Tax Control Framework specifically to support their African operations and approach to VAT and Employment taxes ▶ As an immediate action, we supported the client in documenting the process descriptions and workflows for these taxes ▶ We also performed a current state assessment of their existing governance and prepared a 'traffic light' (Red/Amber/Green) report assessing their control environment to determine a prioritised list of where enhancements were required.
	

EXAMPLE CREDENTIALS

GLOBAL MANUFACTURING CLIENT

A client asked us to formalise their tax risk framework to avoid any tax 'surprises' arising from their expanding operations across African and the Middle East. This was as a result of concerns over their existing governance in the following areas (residence status of Permanent Establishments, the tax impact of mobile employees, treatment of VAT and evolving compliance responsibilities).

We carried out a current state assessment of their existing tax governance. We then used this to develop a working methodology for the client so that existing tax risks could be better managed, and any potential new risks could be pro-actively identified, assessed and reported before they became a problem. This included practical reporting tools which provided senior management with confidence that all tax risks were adequately tracked and actioned.

Outputs included:

- ▶ Tax Risk Policy approved and communicated to local Finance and operations leads
- ▶ Tax risk escalation mechanisms and RACI
- ▶ Customised quarterly tax risk questionnaires for use throughout the business
- ▶ Tax risk reporting tools (including dashboard) to senior management
- ▶ Total Tax Value reporting and model disclosure for the annual reports.

FINTECH CLIENT

In response to an ever evolving global tax regulatory environment, an increasing focus on tax by both internal and external stakeholders, as well as commercial changes and competing priorities; a Fintech company asked us to provide assurance that:

- ▶ there was transparency around the way they operate in relation to tax
- ▶ there was a 'no surprises' framework to manage tax risk across the business in different jurisdictions
- ▶ they had a robust approach to meeting their current and future tax requirements.

In order to gain this assurance, they asked us to perform a tax risk and controls review with a focus on the tax processes, resources (internal and external), tax risk and governance structures.

As part of this review we benchmarked their tax control framework model against leading practice in other organisations of a similar scale and risk profile.

Our recommendations focused on enhanced tax risk identification, assessment and reporting, improved documentation over certain tax processes (indirect taxes and employment taxes) and more focused use of tax resources from 'value protection' to 'value added' activities.

Recommendations were implemented, including the use of technology and data (with our Tax Value Creator™ platform) to improve how tax risk was identified and reported globally.



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