



Australian Government
Australian Taxation Office

Cooperative Assurance Model

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Overview

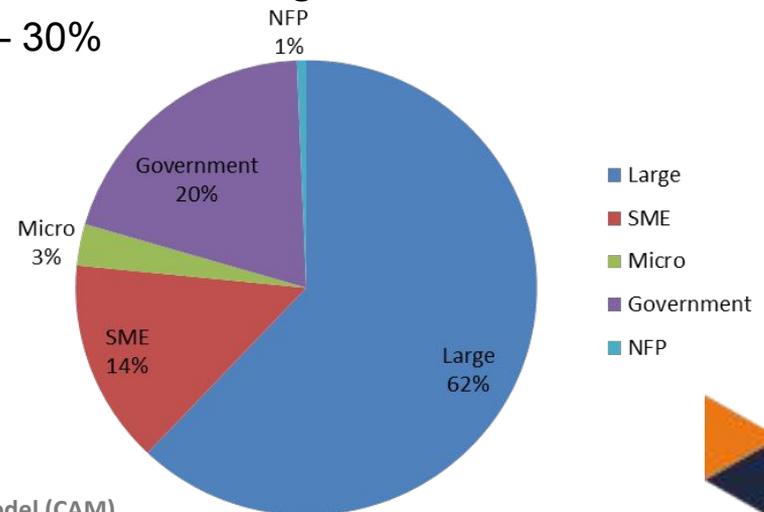
- History between software developers and GST/Indirect Tax
- Integrity of Business Systems Risk
- Revenue by industry
- Why do errors occur in the large sector
- Key governance questions
- The shift in our approach
 - GST Integrity of Business Systems Cooperative Assurance Model (CAM)
- CAM – Engagement of stakeholders / co-design
- CAM – processes, reviews and tests
- CAM – Incentives to participate
- Questions

GST History with Software Developers

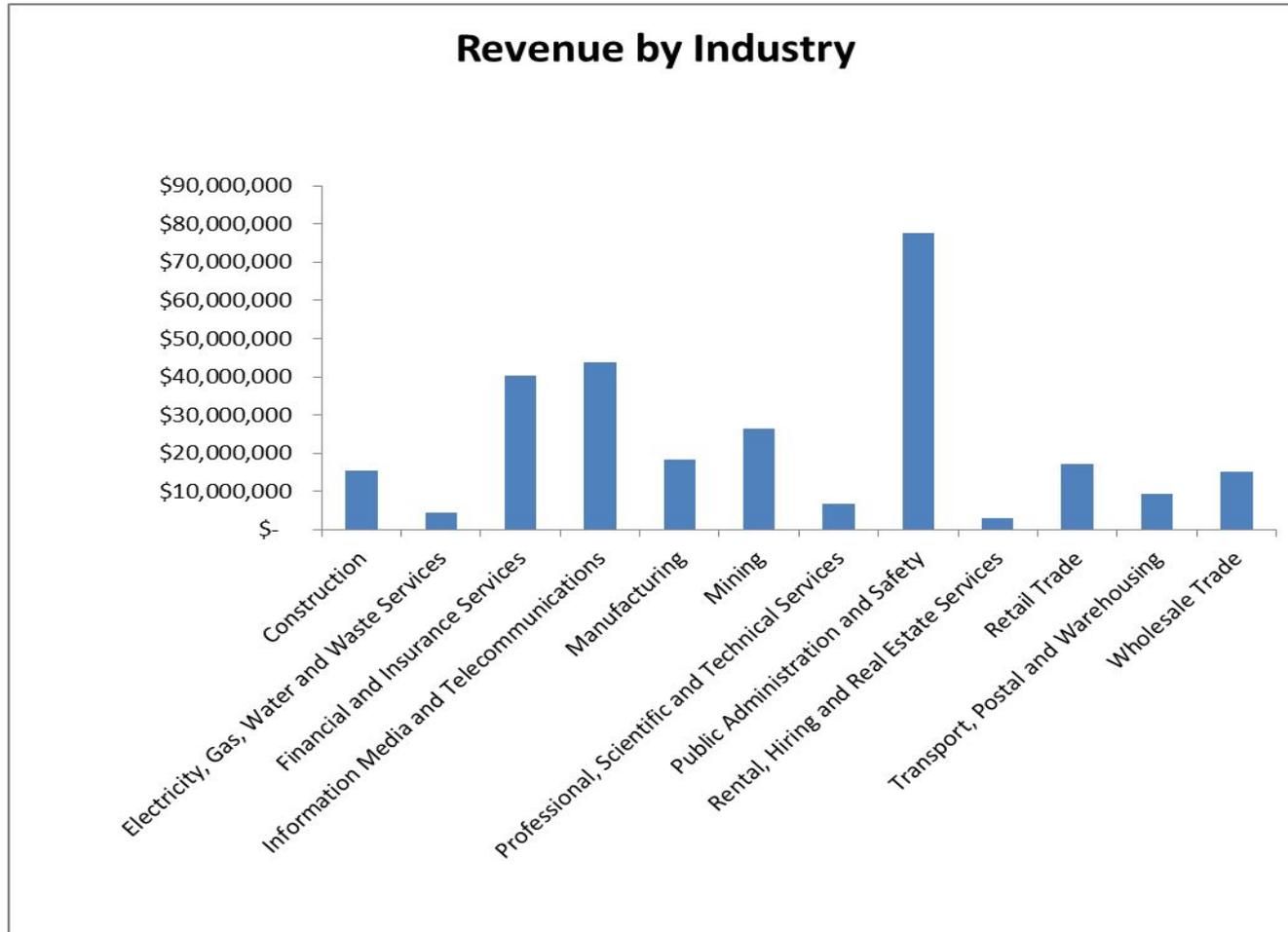
- Importance of Software Developers to ATO and GST
- Introduction of GST
- \$200 incentives
- 13 years of SDCG participation
- SDCG GST workshops – resolve issues /escalate reform
- Ongoing GST support and assistance through SILU

Integrity of business systems risk

- IBS risk is the most significant GST risk in the large market. The multiple effort of incorrect transactions can lead to significant revenue risk.
- The majority of ATO adjustments relating to IBS were made as voluntary disclosures
- Most common reasons for adjustments in the large market:
 - Activity statement preparation errors – 30%
 - System related issues – 23%
 - Unsure of supply status – 18%



Revenue by Industry



Why do errors occur in the large sector?

- Change of structure where departments have combined (centralised / consolidated finance accounting departments)
- Reduction of staff in financial, accounting and tax functions
- Poor staff training
- A diminished level of investment in financial management and accounting systems
- Activity statement preparation
- Miscommunication between related entities
- Incorrect supply status
- Incorrect application of GST legislation
- Changes in process

Key governance questions

- Are your tax or super functions independently reviewed?
- Are You confident that:
 - Your organisational structures dealing with tax and super are sound?
 - Your organisation has well documented policies and procedures on tax and super issues?
 - Staff responsible for the organisation's tax and super accounting functions have sufficient knowledge, skills and experience to do their jobs properly?
 - Any computerised accounting system your organisation uses correctly codes and calculates tax and super transactions?
 - Your practical obligations regarding tax and super registration, lodgement and payment have been completed on time?
 - Your organisation is aware of our risk focus areas relating to your industry or business activity?

The shift in our approach – GST Integrity of Business Systems Cooperative Assurance Model

- Encourage taxpayers into a cooperative assurance relationship through the use of natural business systems and assurance practises
- Cooperative assurance requires ongoing commitment by business to:
 - Use assurance methods and tools to validate their transactional systems
 - Review output of risk tests
 - Rectify procedural weaknesses and
 - Address any issues that may affect the correct reporting of their GST and FTC obligations

Engagement of Stakeholders - CAM

- CCH tax managers and accountants , May 2014 -Sept 2014.
- BIG 4 accounting firms
- CTA workshops
- Feedback from all sessions have been built into a revised model
- ITX Executive Endorsement, still be signed off by Commisioners
- February 2015 revised model distributed to stakeholders, consultation is still occurring (March 2015)
- Software Developers March 2015

Data accuracy testing capability

These tests are provided as a guide as to the level of assurance that the ATO requires of an entrant into the GST governance and financial reporting assurance model and taxpayer's business environment will have a bearing on the types and nature of assurance and verification testing that is undertaken. Taxpayers may have systems controls in place therefore assurance testing for each BAS lodgement on a monthly basis is not required. In such a circumstance the ATO would expect that the system control would be basic.

GENERIC TESTS

- Manually reconcile General Ledger GST Output and Input accounts against BAS.
- Reconcile sum of BASs for financial year to audited Profit and Loss Statement after adjusting for all relevant differences such as depreciation, timing, amortisation, capex and GST grouping
- Reconcile subsidiary billing system total against General Ledger GST Output accounts.
- Identify related companies outside of GST Group and then test that GST is being charged on inter-company invoices and credit notes.
- Identify any taxable coded Accounts Receivable/Payable invoices and credit notes where GST is not 1/11th of the total.
- Identify non-taxable coded Accounts Receivable/ Payable invoices and credit notes where GST is present.
- Tests to Identify:
 - customers and suppliers with multiple tax codes
 - GL expense accounts with multiple tax codes
 - Invoice Date and Reporting period mismatches for supplies
 - all "Tax Only" supplies and acquisitions
 - Accounts Payable and Receivable invoice duplicates.
- Tests that assesses whether there are any GST rounding issues.
- Tests that analyse invoices and test whether GST is 10% where tax type is GST Free, non-taxable.
- ABN tests verify that :
 - the recorded ABN is valid.
 - identify any vendors without valid ABN and vendors who have an ABN, but are not registered for GST. Subsequently test to check GST is not claimed on these acquisitions
 -
- Review bad debts written off for period and check GST codes used and amounts. Cross check for any recovery of bad debts and ensure GST has been applied when recovered
- Test to review appropriate GST on adjustments that reduced or increased customer invoices, e.g. credit notes, prompt payment discounts, goodwill adjustment, volume or quantity rebates.
- Identifies gaps in the invoice or other recorded sequence numbers of sales transactions. Show the number of gaps in the sequence, the size of each gap and the date of the transaction that immediately preceded each gap.

TREND ANALYSIS

- The ATO conducts the following trend analysis tests as part of GST integrity of business systems risk identification particularly in relation to detecting unexplained variances that may indicate an error in the BAS preparation process. These tests may assist in the detection of errors prior to BAS lodgement.
- Where the sum of label 1A is zero OR has reduced by 70% or more in a specified 12 month period test if a set number of net GST refunds (1A+7A-1B) are claimed in that period compared to the previous 12 months
- A test that identifies where there are 2 or more BASs reporting the same figure during a specified 12 month period.
- Where the sum of reported 1B figure exceeds the calculated 1B $(G10+G11)/11 - 7A$ by a set threshold for the specified 12 month period the discrepancy is examined and explained.
- Where the sum of reported 1A figure is less than the calculated 1A $(G1-G2-G3)/11$ figure by a set threshold for the specified 12 month period the discrepancy is examined and explained.
- Where total sales (sum of G1) have grown in a specified 12 month period compared to the previous 12 months by set percentage the growth is examined and explained.
- Where total sales (sum of G1) have declined in a specified 12 month period compared to the previous 12 months by set percentage the decline is examined and explained.
- Where total acquisitions (sum of G10+G11) have grown in the specified 12 month period compared to the previous 12 months by set percentage the growth is examined and explained.
- Where there is a negative change in the 1A/1B ratio $(1A - 1B)$ in a specified 12 month period compared to the previous 12 months by set percentage the decline is examined and explained.
- Where label 1B has spiked in any BAS period in a specified 12 month period by a set percentage when compared to immediate previous BAS period AND compared to the same BAS period in the previous 12 months.
- Consider the GST impacts where the taxpayer had an amended Income Tax or Fringe Benefits Tax Assessment in the specified 12 month period, but did not revise any BAS for the same Income Tax year.
- Provide an explanation where payable BAS have been lodged late for a period greater than 4 weeks from due date (include those granted extensions) where BASs were lodged in a specified 2 year period.

SPECIFIC TESTS (relevant taxpayer) – as per the guide their own specific tests and

- Test to identify whether
- Test to identify exit fees
- Test to identify whether
- Test to identify whether appropriately applied.
- Test to identify whether
- Identify all transactions ("CASH" or notes or descr
- For either sales or purch that meet specified crite negative values, the max provide the criteria requ
- Determine whether any If so, check that the tax h corresponding GST accou
- Identify through the cre occurred outside of norm expenses within 14/21 d
- Shows the pattern of sal Also identifies days in th including the length of e
- Identify GAPS in trading
- Having extracted data fr sales in ERP or Accountir
- Reconcile Section 153B t "acquisitions" and "suppl

Incentives for participation - CAM

- Will include:
 - Placed in a lower risk classification
 - Not subject to GST integrity of business systems risk compliance activity for a specified period
 - Added benefits for Boards and management teams

Questions ?

Our Commitment to You

We are committed to providing you with accurate, consistent and clear information to help you understand your rights and entitlements and meet your obligations.

If you feel that this presentation does not fully cover your circumstances, or you are unsure how it applies to you, you can seek further assistance from us.

This information in this presentation was current at March 2105.