

Prudential Tax Audits & Tax Systems Reviews

Our article from 6 August 2018 entitled *Are you prepared for a review by the ATO?* highlighted that tax governance is a key focus area for the Australian Taxation Office (ATO) when reviewing both privately held groups and large public and multinational businesses.

The article covered the importance of your business being able to demonstrate its tax control framework (documented in the form of a Tax Risk Management Charter) is working in practice. This is vital to achieving the ATO's highest rating for tax governance of "justified trust".

The ATO encourages all large private and public companies to achieve this rating, but to do so you must be able to demonstrate that your tax control framework has not only been designed effectively, but is also operating as intended. Practically, this can be achieved by undertaking periodic testing of the tax controls of your business with evidence of the testing program to include conducting a:

- Prudential Tax Audit; or
- Tax System Review.

How Crowe Horwath can assist

Prudential Tax Audit

Over time, a significant proportion of large businesses can expect an ATO audit and our experience has shown that most businesses are *not* well prepared. Very often, this means the process can then become drawn-out which adversely impacts on the day-to-day running of the business.

To prepare for the inevitability of an ATO audit, Crowe Horwath regularly assists clients by conducting Prudential Tax Audits. In addition to properly evidencing the Tax Risk Management Charter of the business is working in practice; such exercises also provide executive management with the comfort of knowing they are better prepared for a tax audit in any tax area.

Our prudential audit program deals with many facets of taxation, including income tax, goods and services tax (GST), fringe benefits tax (FBT) and superannuation guarantee (SG). Given the activity of the Office of State Revenue (OSR), many businesses are also receptive to a prudential audit covering payroll tax.

A typical Prudential Tax Audit commences with an initial interview with the managing director and key senior staff within the finance and administration groups of your business. At this interview, a detailed questionnaire (customised to meet the specific needs of your business) is used to gather information regarding your internal business systems for the taxes under review.

The initial interview is followed by substantial field work; a manager, along with an experienced senior consultant from our Taxation Advisory group, undertake the field work. This generally consists of checking taxation information through the internal systems of the business to source documents. Upon completion of the field work, significant time is then dedicated to analysing the information collected, identifying potential taxation issues, researching solutions to these issues and formulating recommendations and strategies where necessary.

After this analysis has been undertaken, we provide executive management with a detailed report of

our findings and recommendations. The report will include a detailed review of the operation of each of the taxes, and will identify any issues, outstanding taxation liabilities and identify opportunities to minimise tax exposures..

Benefits of a Prudential Tax Audit

The main advantage of carrying out a Prudential Tax Audit is that it allows us to identify past tax technical issues and problem areas. Not only does this allow us to help 'fix' the problem on a prospective basis, it allows us to perform a risk assessment in advance of an audit and enables us to inform executive management of any potential adverse tax consequences that may result from audit or review by the ATO or OSR.

Tax Systems Review

Adequate systems are an essential part of ensuring compliance with the tax risk management policies of a business. We strongly believe that a Tax Systems Review is a critical step to ensuring ongoing compliance with the tax risk management objectives of your business. Businesses with demonstrably watertight systems and processes are far more likely to achieve a "justified trust" rating from the ATO, compared to those with inadequate systems in place.

Whilst a Tax Risk Management Charter alone provides a solid foundation for managing tax risk, a key factor of risk management is ensuring adequate systems are in place to deal with meeting the tax objectives outlined in the charter. Once a documented tax risk management policy is in place, adequate systems are an essential part of ensuring compliance with these policies. It follows that a Tax Systems Review is an essential step to ensuring ongoing compliance with the Tax Risk Management Charter of your business.

The aim of such a review is to determine if information relevant to correctly paying each of the taxes under review is captured and documented correctly. The review will identify any shortcomings of your systems and where appropriate, make recommendations to ensure systems and procedures are adequate and robust to assist with compliance of your taxation obligations.

The purpose of a Tax Systems Review is not to identify past tax technical issues and problems, as is the case with the Prudential Tax Review above. Rather, a Tax Systems Review is a review of the extent to which your systems are being used effectively to record and retrieve tax information. To this end, we do not analyse in detail the taxation treatment of past transactions, but rather, review and make recommendations to the process involved in capturing and recording tax information.

A Tax Systems Review can cover all Federal taxes including income tax, GST and employment taxes, as well as State taxes such as payroll tax.

Benefits of a Tax Systems Review

The aim of a Tax Systems Review is to provide you with recommendations for improvements to the systems and processes of your business, to ensure that you are well placed to meet your future taxation obligations and objectives. Where significant risk areas are identified, we incorporate these risks into the Tax Risk Management Charter.

We also examine what procedures are in place to ensure complex tax technical issues are dealt with appropriately, and under what circumstances external advisers are engaged to resolve a problem. Our reviews also include establishing what risk management procedures are in place, and are therefore closely paralleled with the Tax Risk Management Charter of the business. Overall, the

benefits of undertaking a Tax Systems Review can be summed-up as a way of ensuring:

- A potential decrease in the frequency of tax audits and therefore a reduction in time and cost of complying with ATO tax audit requirements.
- Tax risk management becomes embedded into the culture and operations of your business as a whole.
- A systematic approach to tax risk management is an integral element of planning and performance management;
- Your level of tax risk is minimised and to manage tax risk in accordance with best practice.
- Executive management is alerted to changing legislative requirements or changes to the business that may affect the level of tax risk.

In addition, a major benefit of conducting a systems review is a reduced risk of errors in tax compliance systems and processes where our recommendations are implemented and adequate systems are in place for capturing and reporting tax information.

If you would like more information, please speak to your adviser, or contact a member of your local tax team.

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This article contains general information and is also not intended to constitute legal or taxation advice. If you need legal or taxation advice, we recommend you speak to a qualified adviser.

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