Everything Matters

Governance & performance in tax

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Tax governance can and should be considered together with the performance of tax functions in support of business objectives.
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Beyond pure tax governance we explore considerations such as the effectiveness of stakeholder reporting, definition of key performance indicators and usage of enabling technologies as potential areas to improve performance.
Executive Summary

Tax governance has become a core topic for business leaders, partly because the benefits from better practice in controls. More forcefully many groups recognise that tax governance should be considered together with the performance of tax functions in support of business objectives.

Operating models and the performance of tax functions will likely receive renewed attention (as with other functions) in response to Covid-19. This comes as organisations were already expanding their purpose and community stance, measures to build business and operational resilience and adoption of new technologies - all of which have tax function implications.

From a pure tax governance perspective over recent years there have been initiatives concerning automatic data exchange between countries, reporting requirements such as DAC 6 in Europe, guidance on board and management level tax controls such as from the Australian Tax Office (ATO) in Australia and public transparency of taxation information.

Everything Matters

Addressing this complex environment could be perplexing, but through prioritisation the most concrete activities can be put in place. In other words everything matters, but some matter more than others.

In this report we review recent developments in tax governance and performance and highlight some of the potential areas of focus based on trends we are seeing in the market.

Beyond pure tax governance we explore considerations such as the effectiveness of stakeholder reporting, definition of key performance indicators and usage of enabling technologies as potential areas to improve performance.

In respect of tax governance and controls we set out areas of typically higher and lower areas of maturity that may suggest where more focus is required. Example areas of improvement for many groups includes control definition and controls in place for data.

We also explore the extent to which there are correlations in the maturity of tax governance and performance of tax functions by industry and size. In short we tend to see a stronger correlation to size than industry.

Equally we have seen how some of the smaller groups can be the most mature and best performing, which demonstrates perhaps the most important driver – purpose.

In particular purpose evidenced through ongoing sponsorship and profile of the tax function which is combined with day to day discipline, innovation and attention to detail; both defining and reflecting the “DNA” of more mature and resilient tax functions. In other words everything does matter.
Tax governance can be described as implementing controls that support business objectives whilst exhibiting agility and resilience, and yes, support compliance.
Introduction

Against the background of the global focus on trust in tax and tax transparency, the rise of purposive organisations and scrutiny by regulators, many organisations are reviewing and enhancing their tax governance frameworks.

Quite likely the responses to Covid-19 by companies and governments will accelerate this even more as operating models, business continuity and cost structures are revisited, governments move to review compliance with support and incentives regimes and community expectations of corporate behaviour evolves.

A somewhat ‘proper’ but important theme in the world of governance is not just creating an appearance of processes and controls, but evidencing the right activities are undertaken.

More positively this can be described as implementing controls that support business objectives whilst exhibiting agility and resilience, and yes, support compliance.

What is the current state of play with tax governance and where next in terms of focus? This report examines the outcome of reviews in Australia by the ATO and global themes and what that suggests in terms of which tax governance and performance elements need greatest focus. In doing so we have surfaced data-based insights from KPMG’s diagnostic tools, including the Tax Control Room.

1. ATO Findings report for Top 100 (July 2019) and Top 1000 (March 2019) organisations
2. KPMG Tax Control Room
Global Action

Before examining more closely the position in Australia, it is useful to keep in mind the global trends and developments. In December 2019 the Global Reporting Initiative (GRI) released a final standard for tax transparency\(^3\). The standard addresses tax governance framework disclosure and is a significant development coming from one of the leading standard setters in sustainability reporting\(^4\).

Beyond transparency, groups have been responding in how they govern and manage tax. According to global KPMG benchmarking\(^5\) over 60% of companies now assign tax responsibility to a board member, moving sharply away from historical practices of tax being relegated to specialists in a dark corner of the organisation.

We are also seeing other jurisdictions in Asia and Europe develop specific views on tax governance frameworks directly but also indirectly through data requests.

**The Top 3 Objectives Globally of Tax Functions**

The shift to tax risk management has been going on for some time but as 2 and 3 on the diagram\(^6\) demonstrates, its prominence as a top objective of tax functions is now very clear.

3. Global Reporting Initiative, Standard 207
4. PMG global tax reporting standard at country-by-country level
5. KPMG Global Tax Department Benchmarking, 2018 summary
6. KPMG Global Tax Department Benchmarking, 2018 summary
Before examining more closely the position in Australia, it is useful to keep in mind the global trends and developments.
..because tax is so pervasive, by looking at frameworks, processes and data for tax purposes, non-tax opportunities for improvement can be achieved.
Good business sense and great for the Profile of Tax

Tax governance is just one of the activities organisations need to find time and other resources to assess and implement. The benefits however from taking a structured and longer term investment in tax governance are multiple, including:

- Improve the profile of tax and Heads of Tax through engaging boards and senior management in terms of risk management and governance, an approach that resonates better with such audiences.
- Increase comfort that tax outcomes are being consistently achieved within a defined risk appetite, with fewer surprises.
- Save time through greater clarity in responsibilities and the procedures to occur across organisations.
- Address key person risks and save time through having in place documentation of the tax governance framework and key processes, controls and policies when team members change.
- Provide a structured approach to avoid complacency and identify process and other improvements.
- Provide a structured approach to identify the needs and build the business case to address tax data and tax technology needs as regulators globally invest in their own data technologies.
- Demonstrate purpose and care towards internal and external stakeholders, creating a positive legacy.

The benefits above are augmented by the strategic asset that tax functions can be - because tax is so pervasive, by looking at frameworks, processes and data for tax purposes, non-tax opportunities for improvement can be achieved.

These improvements can be across strategic changes (e.g. new business or investment approvals), process (supply chains) and data (e.g. trends from transaction data) levels.
Many groups relatively early on the journey

The ATO has been reviewing the nature and operation of tax governance frameworks as part of their Justified Trust methodology. Groups are provided a ‘Stage Rating’ to reflect the ATO’s assessment of their framework – Stage 3 is best in class, Stage 1 where baseline are in elements in place. A red flag is possible where evidence of baseline controls are missing.

Across Top 100 and Top 1000 populations most groups are achieving Stage 1. Very few groups have achieved Stage 3. The graphs below highlight the sobering findings from ATO reviews. Is this a good result?

This result is the same for Top 100 and Top 1000 populations

It is important to note that part of the reason for the high percentage of Stage 1 ratings is the lack of evidence regarding tax governance controls having being established or operating effectively. Many tax and finance functions very diligently attend to tax compliance and related requirements but often do so without a developed framework and model for demonstrating key control activities are in place. In other words, a lack of evidence that people and groups are doing the right things.

Equally, the ATO findings and our own work in the area suggests relatively few groups are very mature. Examples of gaps include a lack of clarity in accountability and responsibility at board, audit committee and senior management levels, limited depth or consistency in the controls being documented and followed, or independent testing having taken place. We will look at selected benchmarks on this later.

7. ATO Findings reports, Top 100 (July 2019), Top 1000 (March 2019)
According to these results, most groups reviewed achieved a Stage 1, the lowest rating apart from receiving a red flag.
2 Profile of tax function (can still be) a challenge

The ‘tone from the top’ is important, with tax having adequate sponsorship and standing is a critical success factor in managing tax risks. Boards or country leadership do not need to be tax experts, but there is a clear role in ensuring measures are in place to address tax risks arising in the business on a timely basis in addition to ongoing compliance.

Based on surveys of Australian tax functions some 45% of groups provide a quarterly update on taxation developments. This is in many ways a positive result, suggesting in a significant number of organisations Boards are aware of taxation issues and the need to manage them appropriately. The graphic below shows the frequency of reporting to Boards or Board level committees.

![Reporting to Board level frequency %](image)

Another dimension to the profile of a tax function is whether tax is reviewed by internal audit. The existence of these types of reviews is a useful signal because it is a reflection of how well tax is embedded in the enterprise risk and governance model like other risks.

As the testing of design effectiveness of tax control result indicates, in almost 50% of organisations there has not yet been a review of tax controls from a design perspective, a result which appears to be lower than would be hoped. The graphic below sets out these results.

![Testing of design effectiveness of tax control %](image)

8. KPMG Analysis, based on Tax Control Room data, across all sectors and all sizes of organisations
9. KPMG Analysis, based on Tax Control Room data, across all sectors and all sizes of organisations
A common experience for Heads of Tax or those tasked with managing tax, is the more the dialogue they have on tax with senior management and boards using the prism of risk management the greater the resonance tax has for those audiences and the better standing tax is given.

Reporting on tax return filing status is not the best way to make an impact, important as compliance timeliness is; rather, setting out the control environment for tax, and how emerging business and legislative changes are being attended to within that environment.

**Most groups have areas of strength and areas for improvement**

The ATO have published a detailed guidance on tax risk management and governance (ATO Guide)\(^{10}\). The ATO Guide establishes 13 controls as better practice, within which example elements and practices are defined.

Whilst the ATO has published some high level rankings in their Top 100/1000 program they have not published detailed findings from their reviews on the relative maturity of groups against each control. KPMG however, uses a diagnostic tool Tax Control Room to assist in benchmarking groups when we undertake assessments of a tax function performance maturity and gap analyses against the ATO Guide. The average scores from Tax Control Room are set out in the graphic below.

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The results reflect a scoring mechanism utilised to assess the extent to which measures are in place to meet ATO better practice. The higher the percent score the more of those measures are in place. The above scores are averages results and we note there is quite some variation on a case by case basis. It is also important to note that a 100% score against the ATO expectations may not be a relevant outcome due to the circumstances and compensating controls in place for each specific organisation.

The observations that arise out of the above results\textsuperscript{11} suggest:

- For quite a few of the ATO controls, the average score is less than 50%, suggesting for many groups the level of maturity shows opportunity for improvement and is consistent with the high proportion the ATO have reported as obtaining a Stage 1 for tax governance.
- The more developed controls include BC3 (board communication) and MC7 (procedures to explain book to tax differences).
- The least developed areas include BC4 (periodic internal control testing), MC2 (capacity, capability and controls definition) and MC4 (controls in place for data).

As mentioned above some of the lower scores can be attributed to limited structure or documentation of controls, which is relevant to keep in mind when interpreting the data.

3 Typically larger groups are more mature, but size is not everything

Not surprisingly groups that are larger are often more mature in the existence and definition of controls. We generally see a positive correlation against each of the ATO controls as shown below.
There is a standout exception to this positive correlation, which concerns the controls in place for data, MC4. This could be due to the increased challenges for larger groups to manage the larger amounts of data coming from different sources and increased awareness of the potential challenges in doing so.

What is also interesting is the lower level of correlation for MC1 (role and responsibilities are understood) compared to MC3 (significant transactions are identified).

We would also observe that a number of smaller groups buck the expectation of lower maturity, having found the comfort and other benefits from greater formal governance outweighed by the effort of implementing and maintaining measures. Going back to an earlier point on sponsorship, good governance measures would appear to be as much driven by the tone from the top and focus on better practice as it is from size, time and other resources.

**Some differentiation between sectors**

As the ATO observed in their breakdown of Top 100 tax governance stage ratings results\(^\text{12}\) there are sectors such as banking and finance where in general there is a higher level of maturity, at least based on the proportion achieving Stage 2 over Stage 1. The differentiation between sectors is set out below.

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\(^{12}\) ATO Top 100 Interim Findings Report July 2019
We would also share the observation based on the data we have that banking and finance organisations are typically more mature with sectors such as superannuation improving in recent times. Overall though the distinction between sectors is not as strong as the correlation in size of organisation.

The graph above does however illustrate areas of generally lower maturity, MC2 (capability, capacity and controls definition) and MC4 (controls in place for data) compared to more mature areas such as BC2 (definition of roles for boards).

### 4 Tax technology and data under-invested

As can be seen from the generally lower MC4 scores above, a control area where many groups will find areas for improvement is in the use of technology and tax data. What are some of the factors driving this situation?

Looking in more detail at the components making up this area we can see a continued high reliance on spreadsheets for tax computations, a situation that has prevailed in the last quarter of a century. Whilst tax complexity and reporting has grown over this period the reliance on spreadsheets has generated greater inherent risk into the tax process. The first graphic illustrates this below.
There is a role for spreadsheets however the automation and control benefits from better use of technologies should be accorded greater value.

In terms of achieving comfort in the underlying data we also see limited use of data level analysis such as line item exception testing, for instance just over 35% undertaking such testing for indirect taxes such as GST. Usage of line item exception testing by selected tax type is set out in the bottom left graphic.

It is hard to avoid an observation that there is work to be done to achieve the appropriate sponsorship and support required for a step change in the investment into tax data and tax technology that is required.

The opportunities being missed in terms of operational efficiencies in addition to data reliance and reputation is not going unnoticed. As shown in the graphic below, outside of head count (and almost equal to) the number one area globally where Heads of Tax want to invest is tax technology.

In an era of increasing transaction level reporting and analysis by tax regulators, country by country reporting and automatic exchange of information, one would expect escalating investment in this area.
Justifying trust by businesses across three segments

The ATO’s Justified Trust methodology based reviews for Top 100, Top 1000 and Top 500 private groups all consider alignment with the ATO Guide by each organisation. The depth of the ATO consideration concerning tax governance does vary understandably for the three different segments.

Under Justified Trust, Top 100 organisations receive a tailored, yearly review experience from the ATO, including specific recommendations on enhancing tax governance in respect of specific scenarios, content of documentation and testing programmes.

Many Top 1000 organisations have now had their income tax based Streamlined Assurance Review, or will experience it over the coming months. Specific recommendations are provided to each organisation by the ATO, and tracked for subsequent follow up where it relates to an area of lower assurance.

The general themes we see coming from those reviews include:

- Implementation of recommendations from gap analyses.
- Ensuring appropriate governance measures and frameworks are evidenced.
- Establishing a model for testing of controls.

GST based reviews have now started where framework, process and data level controls are all considered, with additional emphasis on detailed GST related process and data controls. This includes the ATO running their own analytics across transactional data.

GST based reviews are ongoing for Top 100 organisations, with the Top 1000 programme having been kicked off in 2019 and is expected to take a few years.

Top 500 private groups are now being engaged on many of the same discussion areas; roles and responsibility, documentation of procedures and how significant transactions are being managed.

The trend towards data

We are observing with regulators globally the increased incorporation and sophisticated use of taxpayer data in regular compliance (standard audit files for example) or audit activity, for both ‘domestic tax’ (VAT/GST and income taxes) and international dimensions such as country by country reporting. No doubt this trend will continue.

In response, organisations are similarly needing to increase the sophistication of their own data level controls and have a holistic view of how different regulators view them based on all the data now being shared.

The automatic exchange of information by tax regulators globally is another reason to invest more effort into tax data – integrity, visibility and reporting.
The other shift we are seeing is in the level of detail and consistency of documentation of process level controls, such as procedures for tax returns.

Naturally tax data and analytics are receiving increased attention by taxpayers in response to the data challenge. As with other aspects of tax operations, there needs to be appropriate governance surrounding the use of data and analytic tools to demonstrate their accuracy and completeness in a manner that can stand up to scrutiny by regulators.

**Shifting Tax Governance?**

In addition to VAT / GST an area we expect greater tax governance emphasis in the future is Transfer Pricing (TP). The tax governance enhancement opportunity here is to embed more controls to boost contemporaneous documentation and enhancement of the evidence of the governance process.

When arriving at TP positions, the model for ongoing review and testing of the application of TP positions across an organisation globally will become even more critical.

On the near horizon globally is BEPS 2.0, and the impacts that will have on the controls that will need to be in place during the implementation and on a go forward basis. For global groups such a change will be a catalyst to revisit globally relevant governance models for TP and other dimensions.

The other shift we are seeing is in the level of detail and consistency of documentation of process level controls, such as procedures for tax returns and GST / VAT compliance, as well as specific policy documents for more complex areas.

The tax governance enhancement opportunity here is to embed more controls to boost contemporaneous documentation and enhancement of the evidence of the governance process.
KPMG employ a model to assess performance of tax functions, called Tax Performance Maturity.
As important as the focus on governance is, there is a broader need to understand the effectiveness of a tax function or how an organisation is managing tax in general. It is an important basis to help identify priorities. KPMG employ a model to assess performance of tax functions, called Tax Performance Maturity. This model goes beyond the ATO controls focus and considers areas such as effectiveness of stakeholder reporting, definition and management to key performance indicators and usage of enabling technologies and other dimensions grouped by three areas:

- Strategy, risk and skills;
- Effectiveness and efficiency; and
- Communication and measurement.

### Tax Operating Model

**Driving Business Value Through Tax**

#### Influencing Stakeholders
- Tax awareness across the organisation and tax authorities
- Effectiveness of internal reporting and communication of key tax issues, and external reporting while considering reputational risk

#### Measuring Performance
- Measure the efficiency and effectiveness of the tax function
- Board interest in, and review of tax function performance
- Identify KPIs and KPis for tax including those monitored by the tax authorities

#### Embedded Processes
- Document and update policies and procedures (incl. broader organisational documentation)
- Operation of risk management framework
- Monitoring, quality assurance and internal audit
- Scenario planning for tax uncertainty

#### Timely and Accurate Information
- Readiness to produce tax data quickly
- Systems & mechanisms to identify and respond to changes in legislation, systems and environment
- Leverage efficiency opportunities and eliminate duplication of activities

#### Enabling Technologies
- Evaluate existing technology and design framework for identifying and evaluating new options
- Involve IT function in optimising technology configuration and support
- Alignment and adequacy of financial systems and tax calculation and forecasting software

#### A Common Purpose
- Maturity of tax strategy and approach
- Scope of responsibilities, accountabilities and information inputs and outputs for tax
- Tax function operating model

#### High Performing Team
- Incentive achievement of tax function objectives (incl. effective goal setting)
- Tax function and shadow tax interaction
- Train new staff and maintain expertise; define roles and responsibilities
- Engage external advisors
Through the model described above organisations are provided a score out of 10 against the seven pillars. In the first graphic below we have extracted average scores by industry - as with the ATO controls scores there is variation in maturity. The second graphic below shows some but not necessarily a strong correlation between this maturity and the size of the organisation.

Average Tax Performance Maturity scores by industry (out of 10)

Correlation between Tax Performance Maturity and size of organisation
For organisations wanting to improve the tax function performance the above data suggests improving the definition and measurement of group, team and individual KPIs surrounding tax is one area to focus on.

Interesting observations from these summary results:

Noting these are average scores across a wide range of groups, the overall average score of 5.10 out of 10 suggests many groups recognise the opportunity to improve tax function performance.

An area of greater maturity is ‘A Common Purpose’ which includes definition of responsibilities, perceived strength of relationship between the tax function and business teams, definition of the tax strategy and processes surrounding planning.

Two areas of lower maturity are ‘Enabling Technologies and Measuring Performance’; the former concerning the usage of tailored technologies to help with data integrity as well as reporting (including how these technologies support control objectives) and the latter concerns the extent to which team and individual objectives are set and measured.

There is variation in performance maturity by industry but not very significantly; with financial services indicating a higher level of performance compared to manufacturing and retail.

There is a positive correlation between performance maturity and size overall, with the correlation being weaker when it comes to measuring performance and embedding processes.

One of the hallmarks of higher performing organisations is in how the sense of purpose is reflected in day to day operations. For organisations wanting to improve the tax function performance the above data suggests improving the definition and measurement of group, team and individual KPIs surrounding tax is one area to focus on together with improving consistency in processes and tax technology usage.

13. KPMG Analysis, based on Tax Control Room data
Outcomes that support business objectives

Taking all the above into account, the priorities to be striving towards for better tax governance revolve around the fundamentals of governance and the intrinsic link to the management of tax:

**Tax as a Business Partner**
Establish and monitor mechanisms to support business outcomes

**Good Governance of Tax Data**
Obtain greater confidence, visibility and automation surrounding data through a risk management lens

**Manage – Not React To - Risks**
Build risk awareness, establish controls and continual review of measures to both manage risks and be on the front foot with regulators.

**Visibility & Sponsorship**
Achieve board and other senior sponsorship and visibility of the tax function.
What are the hallmarks of leading tax functions, and what is the platform for achieving those outcomes?
A platform through which to define and develop tax governance
To achieve these priority outcomes, a framework and activity cycle that meets business as well as ATO needs is required. A useful framework and example key features to achieve this are described below:

Tax Governance Model
- Governance Structure
- Position, Resources of Tax Function

Tax Risk Management Model
- Know your Tax Risks
- Risk Appetite & Tolerances
- Risk Escalation

Control Activities
- Embedded Controls
- Processes, Data & Technology

Review Testing
- Framework / Process / Data
- Design / Operating Effectiveness

Communication
- Tax Vision, Priorities & KPI’s
- Board Reporting & Engagement
- Business Engagement
- Tax Transparency / 3rd Parties

Function / Business Unit / Entity / Group / Geographies
- Direct Taxes / Indirect Taxes
- Evidence of Operation
This framework reflects general risk management models and provides appropriate weighting to tax management elements within which specific jurisdiction requirements (such as the ATO’s 13 controls) can be applied.

**Governance and tax function performance**

As highlighted elsewhere examining and changing levers impacting the performance of a tax function is an important parallel thought process when identifying actions to improve tax governance. This can include using the Tax Performance Maturity model as an example.

**Emerging Developments**

**Singapore’s pilot of a corporate income tax controls model**

Singapore has recently started piloting a tax governance model. The Singapore model follows many aspects consistent with international practices like the Australian ATO model. The requirements include:

- Existence of a tax risk management and governance framework document with Board oversight
- Designation of roles concerning tax risk management and tax controls
- Appropriate capacity and capability of those responsible for managing tax risk
- Established processes for assessing and managing risk
- Controls surrounding data
- Review of the adequacy of controls

Whilst in its early days the initiative by another regulator demonstrates the new focus on the area and an assessment of benefits to regulators in developing such regimes.
More practically the catalyst for WHY typically reflects combinations of business change, transformation, ATO / regulator focus; and improving the profile or mandate of the tax function.
### When to look at tax governance – the tax governance activity cycle

"Always!" is one energetic answer to the question of WHEN. After all, tax governance incorporates activities happening on a day to day basis, right? Once developed, the activity cycle revolves around assessing, enhancing and testing the framework and process level controls. More practically the catalyst for WHY typically reflects combinations of business change, transformation, ATO / regulator focus; and improving the profile or mandate of the tax function across the business, with senior management and the board.

#### Tax Function Objectives
- Support business objectives
- Sustainability / purpose
- Profile of tax function
- Risk Management
- Relationship with ATO
- Transformation

#### Assess
- Governance framework
- Tax function performance
- Global tax benchmarking
- Tax dashboards
- Tax risks (GST / Funds / Other)
- Document reviews
- Workshop / Interviews
- Diagnostic

#### Enhance
- Governance documentation
- Awareness / communications
- Controls as business as usual
- Process and data controls
- Tax Transparency Reports
- Improve control definition
- Tools to embed process controls
- Tax technology and Data & Analytics

#### Review / Testing
- Framework / Process / data
- Design effectiveness
- Operating effectiveness
- Reporting of findings
- Desktop / Walkthrough
- Re-performance
- Data & Analytics

#### What
- Function / Business Unit / Entity / Group / Geographies
- Direct Taxes / Indirect Taxes
- Evidence of Operation
Extending beyond the ATO driven gap analysis

In response to the ATO Justified Trust methodology, many groups have now undertaken a gap analysis against the ATO Guide. In many cases, these have been useful exercises to assess gaps and develop an understanding and documentation of those areas in the ATO Guide.

We have observed quite some variability in both the scope and depth of those gap analyses, in addition to the fulfilment of actions identified at the time. We also believe as the market matures the greatest value will be obtained through considering governance beyond documentation, such as the use of data analytics.

It will also benefit groups to be thinking in terms of tax function profile, business partnership, management of risk and tax data to achieve meaningful outcomes in addition to better documentation of processes and controls.

As a result, reflecting on the immediate objectives for the tax function helps identify the specific areas of focus within a holistic activity cycle. For instance if there is a desire to improve the profile of the tax function then the areas of greatest interest will be in assessing the position of the tax function in the organisation, priorities of the tax function, perceived standing of the tax function and the format and channels of communication between tax and business teams or with senior management and the boards.

An area of greater challenge requiring persistence and structure is the objective of embedding controls as business as usual. The enhancement of processes, checklists, tools and overarching governance to embed in the DNA of the organisation will determine what doing the right thing looks like and the evidence of it occurring.

The starting point depends on existing maturity and commercial imperatives

Where to start?

Take stock of where you are at. There is no rocket science but still of lot of sense in starting with some form of assessment, the scope of that assessment should be tailored to the objectives and the stage of the governance journey the organisation is at, and the type of framework the organisation is applying.

For groups earlier in their governance journey a review of the general tax governance framework and associated documentation is the natural starting point. Groups further into their governance journey will find greater value in assessing the process level controls.

Even more developed is the assessment, enhancement and testing of tools to embed both process and data controls into day to day activities including data analytics.

Commercial imperatives such as we saw during the Covid-19 response rightfully can drive priorities, revisiting and improving tax forecasting models, risk escalation and reporting in context of significant events and transactions, clarity in responsibility and accountability when working virtually.

Why not start with testing?

With the ATO's emphasis on testing operating effectiveness in order to achieve higher Stage ratings, there is an inclination to undertake testing sooner rather than later. This practical view point does have a certain appeal. The potential downside is a poorly scoped testing cycle undertaken by resources without the skills to appropriately assess the design and operation of controls, with a worst case outcome of misleading levels of comfort being communicated on the basis 'tax has been tested'.

Such risks can be mitigated through development of risk and control matrices and a multi-year testing model. Our view of better practice is that some effort should first be placed into enhancements once there at least has been a framework assessment, before undertaking formal testing for tax controls.
Addressing the recommendations from the gap analysis

Finding time and other resources to address all the findings from a gap analysis can be daunting. Breaking it down by priority is one means to identify digestible activities. The other dimensions for prioritising could include:

- The specific control (often linked to the ATO’s 13 controls in their Guide).
- Business dimensions (group wide functions, business unit or entity specific areas).
- The types of tax at issue, direct and the different indirect taxes (size/materiality).

Another important dimension is whether the risk / control concerns a higher level or framework control or more detailed process level control. As tax governance measures develop we see controls and activities being thoughtfully considered at greater levels of detail as demonstrated in procedure documents or inclusion of tax controls in organisation wide Governance Risk and Controls systems.

Reasonably for many groups the focus has been on establishing, documenting or refining higher level framework level controls (for example risk escalation and board reporting). Rightfully because these foundation controls set the basis for more detailed processes. Such higher level controls we might term ‘Level 1/2’ in terms of definition detail. Most of the Board Controls in the ATO Guide are Level 1 or 2. The next level of detail has been in the definition of key tax processes, such as the controls for tax return preparation or tax accounting. These examples of ‘Level 3’ controls equate to the ATO’s Management Control 3 and other similar controls.

In essence data level controls we consider ‘Level 4’. Examples include controls surrounding logic in tax calculations, but going deeper into controls at transaction processing or master data. Remembering controls can include the use of preventative (e.g. use of tax determination engines) and detective (e.g. use of periodic or even continuous monitoring) through data analytics, it is in this level of control we anticipate greater focus by the ATO. As the MC4 scores above indicate it is generally an area of lower maturity.

We have observed quite some variability in both the scope and depth of those gap analyses, in addition to the fulfilment of actions identified at the time.
Six Areas of Focus

The areas of activity to enhance tax governance and performance for each organisation will depend on how mature the existing environment is, and the objectives that are being worked towards.

Broadly there are 6 types of activities we are seeing. These reflect the different business needs and maturity or experience with tax governance.

1 Undertaking and refreshing the initial gap analysis

For those groups yet to undertake a gap analysis, then such an activity is an apt investment of resources. We have also seen instances where groups have revisited their gap analysis because the initial review was limited in depth – for example not considering all of the ATO controls, a high level consideration only or limited documentation of compensating controls.

Equally we believe there is a case to be made for groups to periodically refreshing their gap analysis to determine if gaps are being addressed or to amend the analysis as business needs change.

Best practice includes a gap analysis against the ATO Guide involving a review of framework documentation together with activities that contribute to the existing framework. This would include documentation (e.g. awareness of control measures across senior management and teams and data controls), resulting in a documented set of gaps, actionable actions and any relevant compensating controls. Based on the results from our diagnostic tool, at a very high level, the graphic below shows an overview of maturity against the ATO’s 13 control.

Average scores in % on ATO controls by organisation size groupings
Broadly there are 6 types of activities we are seeing. These reflect the different business needs and maturity or experience with tax governance.
Six Areas of Focus

One indicator of where to focus efforts is on those controls where current scores are lower, for example:

- Controls in place for data (MC4) appears to be an area of improvement for organisations of all sizes.
- For groups with annual revenues over $5 billion annually, testing of controls (BC4) and controls definition (MC2) are additional stand out areas.
- For groups with annual revenues between $250 million and $5 billion controls concerning significant transactions (MC3) and for some even board endorsement of a tax governance framework (BC1) are example areas in addition to those above.
- For groups with annual revenues under $250 million then documentation of control frameworks (MC6) and procedures to explain significant transactions (MC7) are further likely areas for consideration.

The above areas need to be of course related to each organisation’s profile, but at least serve as the basis of asking the question of how well placed are you against these controls.

When undertaking a gap analysis against the ATO’s controls, we believe it is better practice to also assess tax performance measures at the same time.

2 Establishing baseline documentation, processes and controls

To address key person risks and support ongoing achievement of a Stage 1 rating from the ATO, a common area of activity for less mature groups has been to establish and document governance fundamentals including board or senior management involvement, risk escalation and also describing key tax processes, procedures and policies.

Such baseline documentation not only helps address important aspects of key person risk, it will also save time through clarifying roles, avoiding duplication, and generating appropriate evidence of activities when reviewing positions or specific numbers after the event (which happens!)

There is a refrain that we sometimes hear that competent tax and finance teams ‘know what they need to do and don’t need a document to tell them how to do their job’. We all forget just how much knowledge we have developed in a role which is not easily apparent to others unless it is documented. In addition there will always be organisation specific dimensions that determine escalations and other controls which are not the same as other groups.

Better practice also requires there to be a framework that allows consistency in processes and logic to arrive at tax outcomes; without standardised documentation achieving consistency is much more difficult. Business continuity in the face of Covid-19 or employee changes has demonstrated the fundamental value of assuring basic documentation is in place – especially where controls are not embedded in systems or other processes.

3 Deepening governance documentation and related measures

Sometimes together with developing the baseline documentation and measures, or as the natural next step in the sequence is to establish artefacts and components that reflect slightly more developed risk management methodologies and thinking.

Common examples here are the development of more detailed process maps with key controls, roles and responsibility documentation using models such as RACI (Responsibility, Accountability, Consulted, Informed), enhancing risk and tolerance definitions and escalation models and capturing the tax control environment in a Risk and Controls Matrix (RACM). Conceptually the RACM serves as foundation in the definition of controls to be reviewed as part of a testing program.
During this activity and when establishing the baseline controls, having regard to organisation wide risk management models including any application and the three lines of defence, risk appetite and tolerance setting and escalation processes.

Business continuity in the face of Covid-19 or employee changes has demonstrated the fundamental value of assuring basic documentation is in place – especially where controls are not embedded in systems or other processes.

What we mean by ‘embedding’ of tax controls into business as usual is to implement mechanisms in an easy to use manner to clearly describe the control and to evidence the operation of those controls. A starting point in doing so is take a step back to understand where the risks of non-compliance are.

**Think first about the risks that could give rise to non-compliance**

Sometimes groups apply controls as though it was the undertaking of tax compliance activities that created the risk, rather than starting from an analysis of where the risk of non-compliance can be, and the potential likelihood and where the impacts exist. Whether this is at the point in time a transaction was considered, an invoice issued or later in the process.

For instance there might be in place an excellent checklist when the income tax return is being prepared; but limited controls during the year that implement transfer pricing positions or policy.

As a result there can be effort and controls being deployed in the wrong part of a tax process or simply too late.

Reviewing controls to identify which of them or new ones can be deployed earlier in processes so they operate in a contemporaneous manner (GST, R&D and TP are good examples) will likely reduce risks and reduce the total effort deployed in executing controls overall.

**4 Formal review or testing of tax controls**

Increasing numbers of organisations are undertaking structured testing or reviews of their tax controls. Broadly there are three models for review: 1) a tax review, 2) testing of controls by internal audit, or 3) testing or assurance of controls by external auditors. Usually in each model tax governance subject matter experts will be involved.

There are differences in terms of process, cost and stakeholder reporting depending on the model chosen. ATO guidance is expected on their view of the regard they will place on testing models in context of the ATO Guide and tax governance stage ratings.
Six Areas of Focus

Regardless the objective of such reviews or testing is to have teams independent from those that designed and operate the control to assess effectiveness of the design and operation of those controls. The teams undertaking the reviews should be sufficiently skilled in what is better practice in the related controls, whether that is higher level framework controls, or specific tax processes or data (e.g. fixed asset or GST treatments).

Careful planning for and application of resources with the appropriate combination of skill sets will result in a more valuable review and output in general but especially in assessing better practice or effective design of controls for the industry and size of operation. Equally careful planning and execution of the testing is required to generate adequate evidence of the work through scoping, selection of controls, sampling and evidence of operation, working papers, and reporting.

We would observe that there is sometimes an inclination to seek to test too many controls given time and other constraints or not quite the right balance and sequence in the testing of framework level controls and more detailed process or data level controls.

A better practice testing model includes the development and evolution of a multiyear testing plan covering the dimensions of the tax governance framework:

- Frameworks, processes, data (i.e. controls from Levels 1 to 4 described above linked often linked to the controls in the ATO Guide).
- Different taxes, including indirect taxes.
- Group and business unit specific operations.

Finally we would observe more concrete findings are being arrived at the more detailed the process or data control being tested (but this is certainly not always the case).

5 Embedding process and data controls

Much of the discussion surrounding tax governance and controls surrounds documentation, whether it be in the definition of controls or evidencing their application.

There is of course a significant role for the use of computer systems and software to help establish, operate and test controls. Driving the examination and application of such tools will help embed and efficiently operating controls – process maps and checklists do not in themselves form a tax governance framework, especially for larger groups!

Data Controls

On the data side a number of controls are typically in place, such as GST controls in Enterprise Resource Planning (ERP) systems, when transaction processing. Certain groups have invested in tax determination engines to provide even greater control.

Some data controls are applied through calculation models, whether that be spreadsheets or purpose built tax technology. As mentioned earlier there is lower use of purpose built tax technologies than might be imagined with the resultant risks and time inefficiencies that creates.

Tax data analytics is being increasingly deployed and rightfully so. They provide an efficient way to test large volumes of data in a structured manner. Common areas of application include GST, Funds / Trusts, fixed assets and employment taxes - all areas where there are higher volumes of data.

From a governance perspective we believe there will continue to be increased use of tax data & analytics but incorporated better into the overarching risk and controls model for the organisation, including the definition of tax data analytics being undertaken on a continuous basis, rather than once off or periodic reviews.

Larger tax functions are developing data robots (bots) to automate processes and data manipulation. This is a double edged sword, whilst they lower risks through increased automation, they can create new risks in terms of the over reliance on their operation and limited understanding or visibility in how they are working and the controls they are applying. The risk here is creating systematic risk that is masked or hidden from view. Robotic processes are extremely useful as long as their functionality has been well thought out and planned. Ironically they provide similar risks to the use of spreadsheets. Inclusion of the use of such bots in testing programs is highly important.
For both the use of ‘robotics’ and data & analytics there is a risk of insufficient governance and evidence of that governance to successfully stand up to scrutiny, a new and important area for attention.

**Process Controls**

Embedding process controls is arguably less developed than data controls. Relatively few groups have deployed tools for tax workflow and tax risk and controls tracking / testing which incorporate and allow the evidence of operation of controls such as reviews, checklists, reconciliation, self-assessment / attestation. More often such measures if they are evidenced are in stand-alone documents and emails, which can be harder to keep track of and increases the risk of a lack of consistency in the application of those controls.

Deploying process tools makes more sense for larger organisations or teams, especially tax / finance teams that are geographically dispersed or the control requirements are very specific. Leveraging toolsets such as Sharepoint already in place in an organization can be an appropriate option, or similarly expanding the application of enterprise wide risk and control platforms. There are purpose built tools also available where leveraging existing platforms is not sensible.

Conceptually the results of the continuous monitoring from data analytics and reporting from process controls are presented with tax filing status, quantitative items, tax governance priorities and other items are combined as a holistic tax dashboard.

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**Controls as Business As Usual**

**From Documents to Operations**

There is always a need to document controls, but what are the options to help operationalise them especially across teams and geographies? The right approach will clearly depend on each organisation, here are points of consideration:

- What platforms exist that are accessible already to the wide range of tax, finance and other teams making decisions with a tax impact:
  - Does the organisation utilise a Governance, Risk & Controls (GRC) platform into which tax controls can be added or expanded?
  - Can additional preventative process controls be added to underlying transactional systems, either using native functionality or through tax engines?
  - Are knowledge sharing platforms such as Microsoft Sharepoint available, and could functionality such as checklists and reconciliation tests be added? Similarly for collaboration platforms such as Microsoft Teams.
  - Where tax is being outsourced, what client collaboration technologies are being used and can both client side as well as advisor side controls be captured and evidenced?
Six Areas of Focus

Controls as Business As Usual cont…

- Where there is not an existing platform used by the organisation:
  - As a base case describing the control and evidencing the operation together with the documentation of the process for which the controls is needed – examples of this include:
    - In the context of significant transactions or investments, having the tax controls and considerations set out in the ‘checklist’ or other documentation that is prepared for an investment committee or equivalent.
    - Summary of quantitative and qualitative controls in the working papers for tax compliance calculations.

- Increasingly there are scalable controls platform that are efficient to use just for tax use cases, these are in essence targeted versions of GRC platforms:
  - Including tax risk register and risk and controls definition and tracking.
  - Use of basic workflow to trigger through questionnaires specific controls such as reconciliation tests or checklists, ideal for use with say a shared service team not part of the tax team.
  - Potential integration of tax data & analytics outputs as part of a continuous monitoring programme.
  - Dashboards and reporting of the controls environment – number and operation of controls by team, business unit, tax type and jurisdiction.

Regardless of the platforms chosen a useful perspective is not to design and implement the controls purely based on tax compliance processes, rather the obligation to file a tax return is just specific hallmark, or milestone, in a chain of tax controls.

6 Periodic assessment of tax management - whole of tax risks, dashboards and revisiting operating models

Groups often undertake an annual process to revisit their view of what are the underlying tax risks, and the relative impact and likelihood of those risks. Obtaining a holistic, 360 degree view, from business, finance, tax, senior management, outsource providers and advisers is a useful discipline to help avoid complacency and missing viewpoints from tax but also broader finance and other teams making decisions with a tax impact.

For instance the risks as assessed for GST by group tax could be very different to accounts processing teams in shared service centres or in the business itself. The risk and impact of incorrect tax positions being adopted on new products or investments continues to be another example.

Another practical measure to help identify further areas to develop or change is to establish and benchmark a dashboard of tax governance from a Head of Tax / Chief Tax Officer perspective.
Example areas include:

- Frequency and content of reporting to boards / audit committees
- Awareness and application of tax risk appetite and risk escalation measures
- Strength of relationship between tax and business or finance teams
- Usage of tax technology and tax data & analytics
- Sourcing model and the spread of resource utilisation between tax planning, compliance, risk management teams
- Results from analytics and process controls

Another common scenario we are seeing when tax governance deserves particular focus is because of business changes.

This can be through formal transformation programmes where people, processes and technology of tax and finance functions are being reviewed, or externally imposed changes.

Or more practically we quite often see instances where there are significant changes in tax / finance teams or leadership and those new teams find there are low levels of documentation – frameworks, guidance and working procedures that can be followed and do not need to be created.

This is particularly evident where organisations acquire or dispose of material business units or functions and the inherent legacy tax risks either imparted or exported from the organisation do not align to the tax risk framework in existence.

“More practically we quite often see instances where there are significant changes in tax / finance teams or leadership and those new teams find there are low levels of documentation.”
One of the potential outcomes of the Covid-19 crisis will be a significant increase in the usage of TTRs.
Demonstration of Purpose

Publishing on tax governance to third parties

Tax Transparency Reports (TTRs), where information is made publically available on key tax financial dimensions and tax governance, continue to increase in breadth and sophistication of application.

The GRI have now finalised their standard on this area, and in Australia we have seen draft updates of the Tax Transparency Code by the Board of Taxation which was first published in 2016.

The issuance of the GRI standard is a significant milestone, being the first global tax reporting standard. It is not the only international organisation making strides in the area. The International Business Council for one has launched in 2020 a consultation on integrated reporting including adopting GRI 207.

One of the potential outcomes of the Covid-19 crisis will be a significant upshift in the usage of TTRs; this is because of 1) acceleration of a shift in the purpose of organisations beyond shareholder value and 2) in return for public support of companies through the crisis an increased appetite and expectation of companies demonstrating their value to society.

To underline the above we observe that it is not uncommon for the push to generate TTRs to come from boards and CEOs more so than finance and tax teams. The former seeing TTRs as a positive opportunity.

We expect continued development and application of TTRs by large groups and Superannuation Funds in the near / medium term.

Funds, Administrators, Custodians

Tailored reporting to interested third parties

An emerging topic and for Funds (e.g. Fund Managers, Private Equity) and their institutional investors is the provision of a TTR style report to provide comfort on the practices related to tax reputation. Pension, Sovereign and Superannuation funds are increasingly seeking comfort their investments are in vehicles that do not risk their reputation. See also the Principles for Responsible Investment, a UN affiliated organisation, which has recently issued a findings report on expectations and progress in reporting on tax.

Separately, and slightly different in nature, we are seeing increased expectations being placed by Superannuation funds on Administrators, Custodians and other service providers to provide visibility of the measures there are undertaking to manage tax risks. This includes revising or developing tax policies setting out positions being taken, greater communication of internal control processes and, results of internal testing. ATO review of the Superannuation funds has added to the focus on this area.

Pension, Sovereign and Superannuation funds are increasingly seeking comfort in investments that are in vehicles that do not risk their reputation.
Summary

Tax governance and tax function performance as a discipline has been developing with increased sophistication. More groups are designing and deploying in-depth measures than ever before.

As outlined in this report identifying the ‘why’ in determining the focus of the assessment, enhancement or testing of tax governance will pay dividends in terms of addressing the risks that need to be managed in a structured way, and achievement of outcomes beyond documentation of processes and controls (as important as that is).

As the market evolves, lessons learned and new tools applied, organisations will be able to continue to identify the areas of focus for them to enhance tax governance and the management of tax, including the key areas of:

- Visibility and sponsorship of tax;
- Tax as a business partner;
- Manage – not react to – risks; and
- Good governance of tax data.

In many ways the concepts of good tax governance and performance are well established. What is less well established and consistent, are the methodologies, measures and evidence and how to ‘do it’. In other words, evidencing that tax and finance functions are doing the right things, and through which defining and forming a more impressive legacy as professionals.

Leading tax professionals have moved well beyond wanting to leave a simple legacy from all that hard work of a few spreadsheets, file notes, the odd advice and tax returns.

But rather manage tax as a strategically important part of supporting a business’s commercial objectives, reputation across society as well as operational efficiency.

All sound reasons to enhance the governance and performance of tax management.

In many ways the concepts of good tax governance and performance are well established. What is less well established and consistent, are the methodologies, measures and evidence and how to ‘do it’.
Driven by the organisations tax objectives, KPMG’s tax governance team can assist to assess, enhance and review/test tax governance frameworks and tax management more broadly. We have direct experience of assisting clients across different industry sectors, sizes and geographies.

**TAX OBJECTIVES AS DRIVER**

- Support business objectives
- Sustainability / Purpose
- Profile of tax function
- Risk management
- Relationship with ATO
- Transformation

### How We Can Help

#### Assess
- Governance framework
- Tax function performance
- Global Tax benchmarking
- CTO dashboard
- Tax risks (general)
- Tax risks (GST / Funds / Other)

**How**
- Document reviews
- Workshop / interviews
- Tax Control Room

#### Enhance
- Governance documentation
- Awareness / communications
- Controls as BAU
- Process and data controls
- Tax Transparency Reports

**How**
- Improve control definition
- Tools to embed process controls (such as GRC platforms)
- Tax technology and Data & Analytics

#### Review / Testing
- Framework / process / data
- Design effectiveness
- Operating effectiveness
- Process and data controls
- Reporting of findings

**How**
- Desktop reviews
- Walkthrough / interviews
- Re-performance
- Data & Analytics
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