



TAX ASSURANCE AND RISK MANAGEMENT

SENIOR ACCOUNTING OFFICER HEALTHCHECK

IDEAS | PEOPLE | TRUST

IBDO

DEVELOPING OVERALL TAX GOVERNANCE

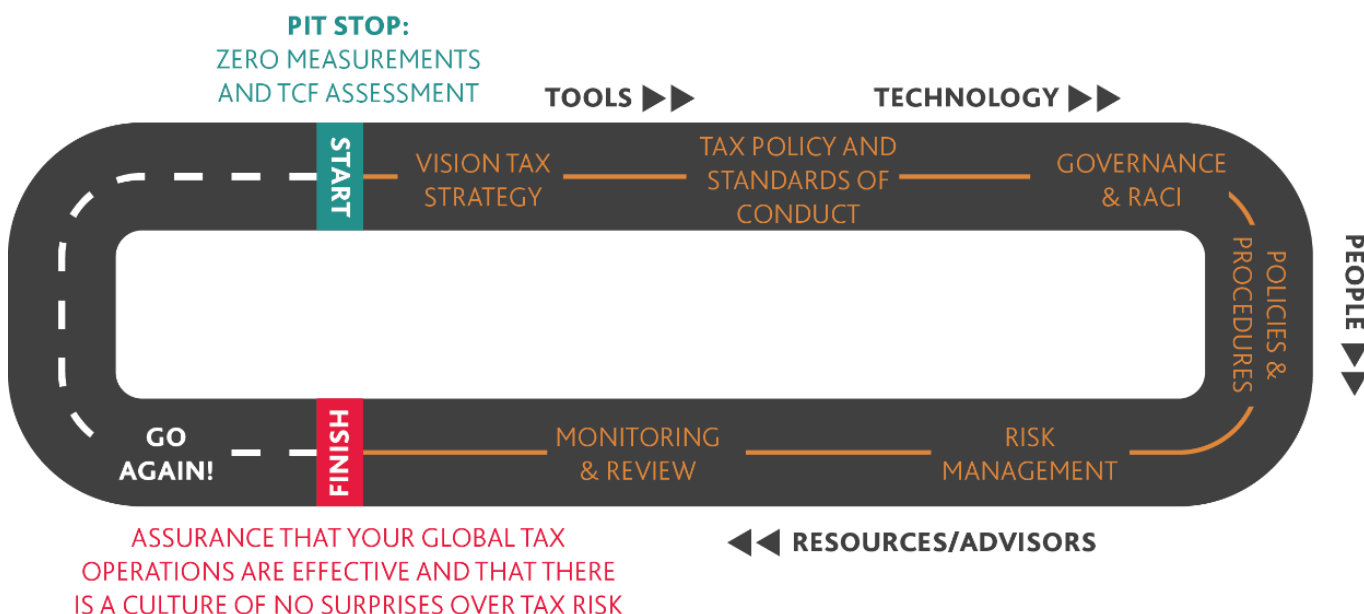
Tax is increasingly on Boards' agendas and all organisations need to take steps to demonstrate a clear vision for their tax operations as well as ensure a culture of 'no surprises' when it comes to tax risk.

We believe that the Tax Control Framework ('TCF') and its roadmap - see below - provides the framework for the effective management of tax within an organisation. It is a path that we help our clients follow.

The secret to the success of the TCF is to ensure that the processes and controls underpinning each of the elements are successfully communicated and adopted across the business. Essentially, your TCF provides the building blocks

of how tax operates in your business and brings together several components such as effective tax risk communication mechanisms, clearly defined processes and controls to identify and manage risk, a defined tax risk appetite, tax risk escalation mechanisms and tax risk reporting tools.

Your TCF relies on all those involved in tax activities being aware of their accountabilities and responsibilities in identifying and reporting tax risk. It is essentially all about good governance.



DEVELOPING OVERALL TAX GOVERNANCE

A HOLISTIC APPROACH TO TAX GOVERNANCE AND SAO COMPLIANCE

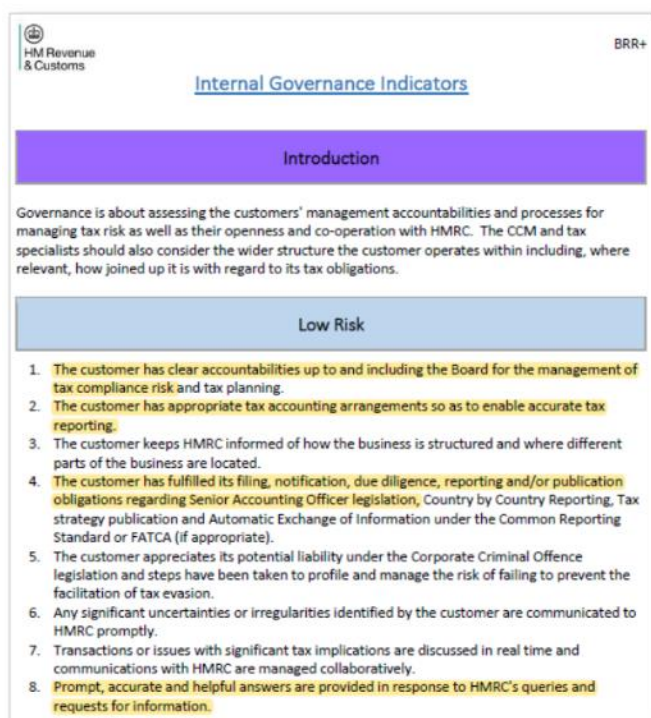
The introduction of the requirement for large businesses to publish a tax strategy in 2016 gave HMRC more insight into underlying approaches to tax governance, attitudes to tax planning, and how businesses perceived their relationship with HMRC.

Following this, in 2019, HMRC updated the business risk review programme (BRR+) with a systemised and analytical process for assessing a businesses' tax operating model against 24 low risk indicators (many of which are directly linked to the requirements contained within the SAO legislation). BRR+ is increasingly having an impact on HMRC's ability to understand financial and tax delivery systems, the approach taken to compliance and the underlying internal governance which supports both tax and SAO filings.

As a result, HMRC is now looking at businesses in a much more analytical and systemised manner. Businesses are more commonly being asked to provide information regarding the roles and responsibilities for finance and tax, the design and interactions between underlying systems, the documenting of tax relevant processes and controls, the use of internal audit, the maintenance of tax risk registers, and how all of this supports the SAO in fulfilling the 'main duty' requirement under the legislation.

In addition, HMRC's Making Tax Digital (MTD) initiative is requiring businesses to consider their financial systems, processes and ways of working to ensure a digital link is retained from their financial records through to their submitted tax returns.

Businesses caught by the SAO legislation should not take an informal or ad-hoc approach to managing their tax relevant data. They need to consider their tax operating model and ensure they have real rigour around it, including appropriate governance and documented processes and controls which are implemented in a sustainable manner and kept under continuous review. There is no 'one-size fits all' approach. SAOs need to be able to demonstrate that their in-year governance and the process underpinning their post year-end assessment of their tax accounting arrangements meet the requirements of the legislation.



SAO HEALTHCHECK

Benchmarking your approach to SAO compliance

With HMRC's increased focus on tax governance and process and systems management, now is a good time for businesses to reassess their approach to SAO compliance.

We are actively working with businesses who are managing their SAO compliance in house, in order to benchmark the appropriateness of their SAO compliance process and the underlying documentation in place to support their SAO filing position, via our SAO Healthcheck.

TYPICAL SAO HEALTHCHECK APPROACH

PHASE 1 DESKTOP REVIEW

- ▶ Initial information request and questionnaire
- ▶ Desktop review of questionnaire responses and existing documentation supporting SAO filing position.

PHASE 2: STAKEHOLDER MEETING

- ▶ Meeting with key stakeholders within the business to further explore the work conducted to support the SAO filing position and to answer any questions arising out of the desktop review.

PHASE 3: REPORT

- ▶ Detailed report, benchmarking your approach to:
 - HMRC SAO guidance, HMRC's document "What Good Looks Like" (see below)
 - SAO related BRR+ low risk indicators
 - Our knowledge from performing SAO reviews with hundreds of peer group businesses.



SAO HEALTHCHECK

Benchmarking your approach to SAO compliance

HMRC: WHAT GOOD LOOKS LIKE



HMRC SAO – April 2016 “what good looks like”

SAO main duty – what does good compliance look like and how is it delivered? ¹

The SAO main duty is to take reasonable steps (relative to the scale of the business and nature of the tax risks) to ensure that a qualifying company establishes and maintains appropriate tax accounting arrangements. These include an on-going application of governance with internal controls to substantially reduce tax risk to materially acceptable levels. Reasonable steps may also involve considering the impact of internal and third party reviews, M&A activity or other significant business events, any voluntary disclosures, error correction notices, Sch. 24 FA 2007 penalties and HMRC activity.

SAO compliance needs to be integrated in the relationship between the business and HMRC so the CRM or Caseworker is aware of compliance issues before they appear on a certificate. The SAO's certificate after year end provides assurance of main duty compliance.

Responsibilities of the Business (SAO)

The SAO is a senior figure (for example the FD) accountable for the company's tax matters, is aware of SAO legislation, guidance and extent of associated responsibilities. The SAO should evidence the way the business manages tax risk as part of the overall approach to risk management by:

1. Maintaining evidence that the Board and senior decision makers in the business have understood and agreed the tax impact of business decisions.
2. Identifying the qualifying entities, relevant tax & duty liabilities, and material tax accounting processes requiring main duty activity and sign off.
3. Properly communicating tax governance procedures covering all relevant UK tax and duty liabilities with clear guidance on control framework standards and responsibilities.
4. Monitoring key UK tax risks throughout the year, taking into account changes in the business and applicable tax legislation.
5. Ensuring sufficient capability and resource in terms of people, processes and systems (e.g. in the tax, finance and internal audit teams) to deliver effective tax compliance.
6. Consulting with specialists (e.g. the tax team, Finance, Internal Audit, Supply Chain or advisors) and HMRC to identify areas for review and to test the design and operating effectiveness of SAO controls
7. Implementing, maintaining and monitoring a risk-based testing programme addressing all material processes over an appropriate timeframe and evidencing what has been done.
8. Establishing and maintaining sufficient information and communication channels to ensure the overall control framework is robust, particularly where the effectiveness of relevant controls depends on the interaction of staff in different parts of the business or geographical locations
9. Promptly taking remedial action including disclosure where issues are identified.

Responsibilities of HMRC (Large Business CRM or Mid-size Business Caseworker)

The CRM or Caseworker will fully consider compliance with the SAO's main duty by:

1. Holding the business, and the SAO, to account for the discharge of the main duty obligations for all relevant liabilities and qualifying companies in a group by obtaining and reviewing evidence that the SAO has taken reasonable steps to discharge their main duty throughout the financial year.
2. Ensuring discussions around discharge of main duty obligations are integral to the business risk review process.
3. Maintaining an appropriate level of engagement with the SAO throughout the period, conducted in a timely manner.
4. Being proactive in ensuring the SAO addresses significant emerging issues affecting tax governance.
5. Ensuring the customer is aware of HMRC main duty guidance and requirements for assurance through notifications and certificates.
6. Using audit resource appropriately to assess the discharge of the main duty obligations
7. Involving governance specialists when main duty issues are being considered.

Good SAO main duty compliance will deliver benefits to both the business and HMRC through improved governance, more effective risk reviews and fewer tax enquiries.

¹ A collaborative non-prescriptive model developed by HMRC & external advisors. This complements, but does not override Sch 46 FA09 or the SAO Guidance



BDO SAO FULL SCOPE COMPLIANCE APPROACH

BDO FULL SCOPE

Where you believe your business would benefit from a fully outsourced service, BDO have a robust SAO methodology, using our Tax Risk Assurance Matrix methodology (TRAM) which provides a clear benchmark on the effectiveness of your controls for all relevant tax sub-processes. If this is something you are interested in, please see our 'Senior Accounting Officer Compliance' flyer, together with an overview below for more detail.



| No. | Process | Risk Rating | Regular Assurance | | | | | | | | | | Weighted Score | SAO Assurance |
|-----|------------------|-------------|---------------------------------|-------------------|------------------------------|----------------|---------------|------|----------------|----------------|-----------------|-------------|----------------|---------------|
| | | | Resources/ Experience/ Training | Internal Controls | Documented Policy/ Processes | Initial Review | Second Review | HMRC | External Audit | Internal Audit | External Advice | UAT Testing | | |
| 1. | Payroll | 4 | 4 | 3(4) | 3 | 3(3) | 1(2) | 4 | 2 | 1 | 5 | 3(3) | 40 | 30 |
| 2. | Termination | 3 | 3 | 3 | 2 | 3 | 1 | 3 | 1 | 1(2) | 5 | 3 | 1(10) | 10 |
| 3. | Salary Sacrifice | 5 | 3 | 4 | 2 | 3 | 2 | 3(3) | 0 | 1(2) | 4(5) | 3 | 2(10) | 10 |
| 4. | Expenses | 4 | 3 | 3(4) | 4 | 3(3) | 2(2) | 5 | 2 | 1 | 5 | 3(3) | 30 | 20 |
| 5. | PIA | 5 | 1(2) | 3(3) | 1(1) | 1 | 0 | 1(2) | 0 | 1(2) | 5 | 3(3) | 10 | 10 |
| 6. | STBA | 4 | 3 | 4 | 1(2) | 0 | 0 | 2 | 0 | 1 | 1(1) | 3 | 1(10) | 10 |
| 7. | Share Options | 4 | 3 | 4 | 1(2) | 7 | 1 | 2 | 0 | 1 | 3 | 3 | 1(10) | 10 |



TAX RISK ASSURANCE MATRICES 'TRAM'

Our SAO assurance is centred around our TRAM methodology incorporating a classic Internal Audit approach.

TRAMs have been designed to capture and assess the control environment over the main tax processes for relevant taxes.

It provides 'traffic light' assurance scores that benchmarks your SAO processes to leading practices.

BESPOKE SAO REPORT AND SUPPORT

We will provide you with all you need to support your SAO compliance including the TRAM matrices, process narratives, overview of tax governance, process maps and an opinion in advance of SAO certification. The TRAM can also be shared as a separate document with HMRC.

Our report and methodology has been reviewed and recognised by HMRC as meeting the requirements of the SAO legislation.

PROVISION OF 'BDO OPINION'

Our SAO methodology provides a robust approach and evidence of SAO compliance.

This includes not just our report but also a formal opinion on the appropriateness of your tax accounting processes.

We will also support you with the wording of the notification and certificate in advance of submission.

BDO CREDENTIALS

BDO CREDENTIALS

BDO has worked with over 250 businesses on SAO. This includes a variety of businesses from all sectors, including FTSE 100 and FTSE 250 businesses and a wide range of other large UK and multinational corporates. This puts us in a good position to benchmark businesses against their peers with regards to their approach to SAO compliance, together with assessing you against HMRC expectations.

When the SAO legislation was announced in the Budget 2009, BDO LLP (“BDO”), became heavily involved in the consultation process that ensued, including representation on the HMRC working party advising on the drafting of SAO guidelines and acting as an observer on the training of HMRC Customer Compliance Managers (CCMs) around the new SAO rules.

This offered a unique insight into HMRC’s approach and perspective on the legislation, which has helped shape BDO’s view of what a proportionate response to the regulations for a compliant company might look like. Our relationship with HMRC directors in this area has remained strong and we attend regular focus group meeting with HMRC to discuss current SAO matters - this included helping HMRC to develop the “What Good Looks Like” document.

BDO have a specialist SAO, governance and tax risk team, including four dedicated tax risk partners. This team has developed a best in class risk-based SAO methodology that has been shared with and accepted by HMRC as meeting the requirements of SAO.



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