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The Top Ten Tax Controls

At year end, external auditors heading into the tax department do not generally rely on internal controls to reduce testing; a great deal of effort is focused on substantively testing the income tax balances on the financial statements. Tax processes are notoriously manual in nature with numerous adjustments required to manipulate general ledger information into useable tax information. We have compiled a list of the top ten tax controls every company should have in place with the emphasis (as expected) on monitoring controls. By proving these internal controls are reliable, a company should be able to argue that less testing is required by its external auditors thereby reducing audit fees.

1. ***Ensure source information gathered from the accounting and other external departments is accurate.*** Does your tax process ensure that raw data is referenced back to the trial balance to ensure there are no material differences?

2. ***Ensure tax rates used for current and future tax calculations are correct.*** Does your tax process ensure that rates used in calculations have been checked to an external source such as a current version of *Income Tax Act* or taxing authority web site (domestic and foreign)?

3. ***Ensure the accuracy of the tax calculations.*** How does you tax department keep abreast of any changes in domestic and foreign tax legislation? Does your tax process ensure that calculations are correct by re-calculating material numbers? Does your department restrict access to spreadsheets used for calculations? Are changes made to spreadsheets tracked and reviewed separately to ensure errors do not occur?

4. ***Ensure that tax contingencies are adequately supported.*** Does your tax process ensure that every contingency item is supported with a dollar amount, a related taxation year and the rationale for the contingency? Does your company have to comply with FIN 48 requirements?

5. ***Ensure the book to actual ("BTA") adjustment has been made.*** Does your tax process ensure that two separate adjustments are recorded (i) prior year's tax provision estimate to tax return filed adjustment and (ii) prior year's tax return filed to the assessed amount? Furthermore have you considered why there are significant differences (if any) and can the provision process be improved to reduce these adjustments.

6. ***Ensure inputs for future tax balances are accurate and reasonable.*** The decision of whether and where (short or long term) to record a future tax asset/liability may be partially based on the company's revenue forecast in specific jurisdictions, financing plans, planned acquisitions and divestitures, etc. Does your tax process ensure that tax is involved in these strategic discussions and has the most current information?

7. ***Ensure that tax entries are properly authorized and posted correctly to general ledger and tax accounts.*** This has two parts as payments into and adjustments between tax accounts (taxing authority accounts) should be properly authorized and reconciled on a monthly basis to ensure balances correct for each legal entity and taxation year. The second part is to ensure that the journal entries made to record the payments, adjustments, accruals, and expense, etc are properly authorized and the general ledger accounts reconcile to tax working papers.

8. ***Ensure that the income tax balances are recorded according to generally accepted accounting principles.*** Does your tax process ensure there is adequate documentation to support that taxes are recorded correctly? How does the tax department keep abreast of changes to accounting for its domestic and foreign companies? Have accounting tax policies been approved by the chief financial officer and agreed to by external auditors?

9. ***Ensure that all tax-related figures used for public dissemination have been agreed.*** Does your tax process ensure the tax department reviews and agrees all other tax-related figures in the MD&A, annual report and annual information return?

10. ***Ensure that a Tax Plan Implementation Review[1] is performed.*** Does your tax process ensure that tax plans implemented have been appropriately authorized, implemented and measured?

The Claret Partners Limited

Ensuring your organization has strong internal controls over its income tax balances is part of the CEO/CFO certification process. We can assist you with the following type of work.

- Drafting mandates, policies and procedures for tax related processes.
- Design and implementation, and testing of internal controls over income tax balances.
- Improve performance of the tax processes by reducing time required to complete and/or enhance information obtained by applying our proprietary operational risk methodology (The Claret Process™©).
- Completing a Tax Plan Implementation Review.

*The Claret Partners Limited is a consulting firm dedicated to providing the best in regulatory compliance, tax, risk and governance services as consultants and project managers creating workable and practical solutions. For more information please contact us at **contact@theclaretpartners.com**.*

[1] Please ask for our article “Why your organization needs a Tax Plan Implementation Review” for more information.