Senior Accounting Officer Certification

Benchmarking your approach
Background

HMRC introduced the Senior Accounting Officer (SAO) regime in 2009 to encourage all large businesses to actively monitor their risk management and governance mechanisms over their tax compliance, referred to as the ‘tax accounting arrangements’. Over time, HMRC’s approach to evaluating the appropriateness of the tax accounting arrangements of businesses has evolved significantly from the initial ‘light touch’ approach to a more thorough review process, and businesses have had to respond accordingly.

Additionally, businesses are currently facing other drives for more transparency such as the publication of tax strategy legislation and Country by Country reporting, coupled with increased stakeholder and Revenue authority scrutiny of the management of tax risk. Therefore it is clear that taking a leading approach to SAO compliance will have wider benefits for businesses when it comes to meeting other obligations.

HMRC has recently issued internal guidance on what is considered best practice when preparing for SAO certification. In this document we help you to benchmark your approach to SAO certification against leading practice and HMRC expectations.

1 The SAO legislation impacts companies and groups with a UK turnover of at least £200m or assets of £2bn. Failure to comply with the obligations can lead to a personal and corporate penalty.
HMRC’s new guidance on “what good looks like” for SAO compliance outlines what businesses should be doing in order to demonstrate effective compliance with the SAO legislation and includes reference to risk based testing programmes, the importance of effective tax governance mechanisms and the need to highlight tax accounting failures to CRMs at HMRC in advance of certification.

The business will demonstrate effective compliance with the SAO legislation by:

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<td>Maintaining evidence that the Board and senior decision makers in the business have understood and agreed the tax impact of business decisions.</td>
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<td>Identifying the qualifying entities, relevant tax &amp; duty liabilities, and material tax accounting processes requiring main duty activity and sign off.</td>
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<td>Properly communicating tax governance procedures covering all relevant UK tax and duty liabilities with clear guidance on control framework standards and responsibilities.</td>
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<td>Monitoring key UK tax risks throughout the year, taking into account changes in the business and applicable tax legislation.</td>
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<td>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.</td>
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<td>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.</td>
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<td>Implementing, maintaining and monitoring a risk-based testing programme addressing all material processes over an appropriate timeframe and evidencing what has been done.</td>
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<td>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</td>
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<td>Promptly taking remedial action including disclosure where issues are identified.</td>
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The CRM or Caseworker will fully consider compliance with the SAO’s main duty by:

| 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. |
| Being proactive in ensuring the SAO addresses significant emerging issues affecting tax governance. |
| Ensuring discussions around discharge of main duty obligations are integral to the business risk review process. |
| Using audit resource appropriately to assess the discharge of the main duty obligations |
| Maintaining an appropriate level of engagement with the SAO throughout the period, conducted in a timely manner. |
| Ensuring the customer is aware of HMRC main duty guidance and requirements for assurance through notifications and certificates. |
| Involving governance specialists when main duty issues are being considered. |
Key themes from leading practice

From our experience of working with businesses and HMRC, we consider that there is no ‘one size fits all’ answer to SAO certification. The response should balance the requirements of the guidance against the inherent level of tax risk in the business to deliver a bespoke response.

Common themes from the best practice approached to SAO certification are however as follows.

Businesses and tax do not stand still. By embedding a rolling programme of risk identification, management and testing businesses are able to evidence an approach to tax risk management which does not require additional work when a certificate is filed as evaluating whether the tax accounting arrangements are ‘appropriate’ is undertaken on an ongoing basis. This process of continuous improvement - a cycle of identification, mitigation and testing - allows the business both to evidence a robust approach to SAO certification and negates the need to undertake an annual exercise to evidence what happened in the previous year ahead of certification.

1. It is crucial that a business has a framework in place to ensure that tax risk can be identified in real time. Tax risks can arise both from internal factors, for example an acquisition of a new business, or external factors such as changes in tax legislation or HMRC practice. Businesses need to be able to evidence that they can identify tax risks through a combination of internal communications, knowledge and clear roles and responsibilities.
2. Having identified the tax risks that the business faces, it is important to identify how the tax risks are being controlled and whether those controls are ‘appropriate’. Often businesses will consider both the inherent risk, i.e. the impact that the risk could have on the business, and the control effectiveness together in order to form an overall evaluation of whether the controls are sufficient. Where new risks emerge or controls are considered to not be effective it is important to capture a plan for remediation. Many businesses look to capture this through a tax risk and controls matrix.

3. The previous step will help to identify both the most material risks and where there are potential weaknesses in key controls. The next stage is to consider a testing programme for tax controls which is achievable and seeks to address the most material risks. Best practice is to obtain independent assurance, for example by utilising the internal audit function of the business to carry out a testing programme of the key controls as a third line of defence.
Benefits

Why consider this now?
The best practice guidance is being used to train CRM’s and HMRC has indicated that it is likely to scrutinise the appropriateness of tax accounting arrangements in more detail. Therefore, businesses should consider how their current approach benchmarks to this guidance and how they can address any gaps in their existing SAO compliance process.

Benefits of being able to evidence a best practice approach to SAO include:

► Greater degree of certainty in certification
► Ability to focus resource on key areas of tax risk
► Supports a ‘low risk’ rating as part of a business risk review
► Provides robust support for a tax strategy
How EY can help

Our approach is to work with businesses to understand their current approach, compare this to where they aspire to be, and provide tailored support based on their requirements to deliver the goals.

Examples of the different ways in which we have helped businesses are as follows.

1. A high growth retailer required assistance in complying with SAO legislation for the first time. Through risk focussed workshop sessions with the finance team, we were able to develop SAO support documentation, including process maps and tax risk registers for corporation tax, VAT and employment taxes. The framework is now being delivered by the business enabling the SAO certification process to be completed without the need to rely on advisors.

2. We supported a group to introduce a process for separate divisions of the business to provide the SAO with documented support for the certification process, including their HR, Treasury, Legal, Group Accounting and Procurement functions. This process was supported with SAO training sessions to ensure that the respective functions fully grasped their responsibilities in supporting the SAO.

3. We successfully advised the internal audit team of a group to provide assurance that the business’ tax compliance controls were both designed and operating effectively to support SAO certification. This project involved determining if the Group had sufficiently robust controls in place over the principal areas of risk across the different taxes, and obtaining evidence that the controls in place were being executed in practice and in a timely manner.
Our Tax Governance and Assurance network support businesses in responding to the challenges of increased transparency and regulatory change. Please contact any of our specialists to discuss further.

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