



# GOODS AND SERVICES TAX (GST) ADMINISTRATION



A Better Practice Guide for the Management  
of GST Administration

MAY 2003

# Foreword



This Better Practice Guide has been prepared as a practical tool to assist Commonwealth organisations in improving Goods and Services Tax (GST) administration. However, other public sector entities and the private sector may find aspects of this guide helpful.

We encourage you to examine the guide and use the self-assessment tool provided as part of this kit of information. Self-assessment can be the first step in improving GST administration in your organisation.

The information contained in this Better Practice Guide has been gathered from a number of sources:

- ▶ ANAO audits of six agencies, the results of which were published in a report to Parliament in May 2002 – *Goods and Services Tax Administration in the Commonwealth*;
- ▶ ANAO audits of eight smaller organisations, the results of which were published in a report to Parliament in August 2002 – *Payment of Accounts and Goods and Services Tax Administration in Small Organisations*; and
- ▶ The Australian Taxation Office.

It is important that users take the ideas in this Better Practice Guide and adapt them appropriately to suit the needs of their particular organisation and the risks and operational profile of their individual GST position. Effective use of the Guide will make tax administration cheaper and easier for Commonwealth organisations.

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Questions or comments on the guide maybe referred to the ANAO at the above address.

#### **Acknowledgement**

The valuable contribution of Ernst & Young in producing this Better Practice Guide is acknowledged.

#### **Disclaimer**

This Better Practice Guide and accompanying Workbook have been reviewed by the ATO. While every effort is made to ensure the contents are accurate, the wording of examples and topics necessarily represents the general positions only and care should be taken in interpreting such wording. Please note that advice in this Guide and Workbook is not binding on the ATO. These documents reflect the position at the date of release and readers should note that the position on any issue might subsequently change.

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# Introduction



## Purpose

This guide has been prepared for managers and staff responsible for Goods and Services Tax (GST) administration in Commonwealth organisations. A reasonable working knowledge of the GST, and operational and financial systems generally, is required when using this guide.

The guide focuses on the administration of GST – how to *manage and process* GST rather than specific *technical or system* treatments. The guide addresses gaps and weaknesses in GST administration identified by the ANAO in recent audit work.<sup>1</sup>

Organisations should use this guide to assess the current status of their GST administration practices and, where necessary, consider action plans for process improvement.

## Why this guide is relevant

### *Statutory framework*

Since 1 July 2000, businesses and other entities registered for the GST have been liable to pay GST on taxable supplies and taxable importations they make in carrying on their enterprise. They have also been entitled to claim input tax credits for the GST component of the price when acquiring goods and services or when importing goods in the course of carrying on that enterprise. After the deduction of such credits, entities must remit to the ATO the net amount of GST on their sales and other taxable supplies and importations.

### *Implications*

For all organisations, GST impacts the expenditure, revenue and reporting cycles (see figure 1). GST impacts an organisation's relationships with its suppliers and customers, and most (if not all) transactions. The challenges presented by GST administration are wide reaching and varied.

In this context, as in other areas of public administration, Commonwealth organisations are expected to adhere to good practice in complying with their GST obligations. Responsibilities, defined in the *Financial Management and Accountability Act 1997* (FMA Act) and *Commonwealth Authorities and Companies Act 1997* (CAC Act), extend to developing and maintaining a GST

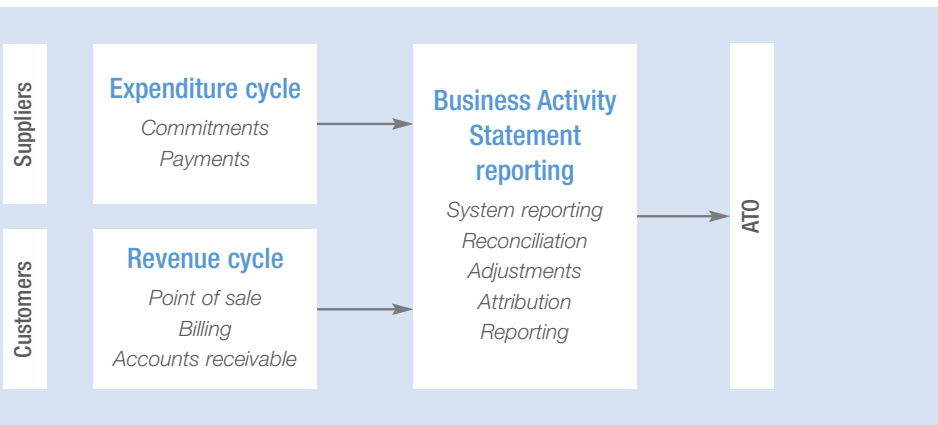
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<sup>1</sup> Audit Reports No 52 (2001–2002) and Audit Report No 22 (2002–2003).

internal control environment so that all Chief Executive Officers (and Boards) manage their organisations effectively, efficiently and economically for GST purposes. Furthermore, organisations need to continuously monitor both their legislative and business environments to ensure ongoing GST compliance.

Organisations that have not implemented proper processes to ensure timely compliance face a number of risks including the risk to reputation and of under- or over-payment of GST, and/or potential cash flow issues.

**Figure I: The impact of GST**



### **Benefits**

As noted above, legislative compliance is fundamental to GST administration. However, other benefits accrue from sound GST management, including:

- ▶ overpayment or underpayment of GST is prevented;
- ▶ processes that require fewer resources to resolve problems and queries are more cost-effective and make Business Activity Statement (BAS) preparation easier;
- ▶ employees are motivated to support the organisation's GST objectives, because they understand their tasks and have adequate tools and resources to perform them;
- ▶ understanding and streamlining the impacts of GST on transactions can facilitate relationships with other entities such as suppliers, customers and the ATO; and
- ▶ cash resources can be properly managed by matching the timing rules of legislation to processing requirements effectively.



## Six Better Practices



# Six Better Practices



Managers at organisations with effective and efficient GST processes use the following six better practices to administer their Goods and Services Tax obligations.

1. **Apply a risk management approach to GST administration**
2. **Establish an internal control environment that effectively supports GST processing**
3. **Identify and document all GST impacted transactions in the organisation's operations and the technical positions that relate to them**
4. **Process and report GST transactions in an accurate, complete and timely manner**
5. **Manage changes that impact on GST administration**
6. **Monitor and review the effectiveness of GST administration**

Because each organisation's operating context, systems and processes are different, the way that an organisation *achieves* these better practices will depend on its GST environment and operations. Clearly, each organisation will need to decide whether the additional practices suggested will be more efficient and cost-effective than their existing procedural requirements.



## Structure of the guide

Each of the guide's six chapters covers one of the better practices and provides advice on how they might be achieved.

Every chapter includes the following elements:

### ▶ Risk context

The risk management framework is described in detail under the first better practice – 'Apply a risk management approach to GST administration'. An underlying principle of the guide is that risk management frameworks are extremely useful for all organisations in managing GST. Each of the subsequent sections describes better practices that will assist in mitigating a range of GST risks and includes examples of GST risks that may be addressed through the better practice controls described.

*An underlying principle of the guide is that risk management frameworks are extremely useful for all organisations in managing GST.*

### ▶ Better practice health check

Each chapter includes a 'health check' for the better practice, in the form of a checklist of 'indicators'. These 'indicators' include example control practices that might indicate the existence of the better practice.

These better practice health checks are also summarised in the handout included with this guide. If the reader believes that an organisation has implemented the six better practices, it might be useful to start by completing a self-assessment exercise, using these better practice 'health checks'. Organisations that answer yes to most of the questions have probably implemented the better practices. If most answers are no, opportunities to improve GST administration probably exist.

### ▶ Examples from Commonwealth organisations

GST management practices used by the organisations shown on the following page have been used as case studies. These examples were noted during the two ANAO audits of GST administration. The organisations approved the use of the examples.

Case studies	Page
Special Broadcasting Services – applying risk analysis techniques	14
Administrative Appeals Tribunal – implementing a better practice procedural framework	25
Australian Federal Police – documenting the BAS preparation process	49
Australian Wine and Brandy Corporation – managing contracts	55
The then Department of Employment, Workplace Relations and Small Business – implementing continuous improvement	67

▶ **Workbook tool references**

The guide includes references to the accompanying workbook.

The workbook provides details of practical tools, checklists and templates for use in GST administration and processing. The following symbol is used to refer the reader to a workbook tool. For example:

**Workbook  
tool 1.1**

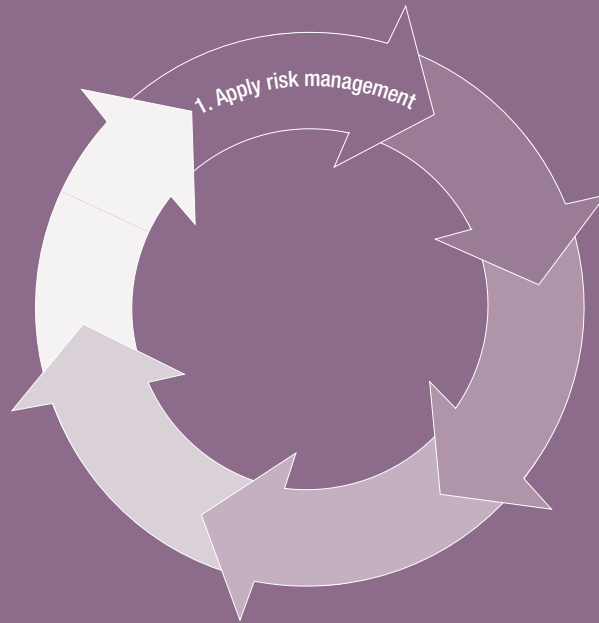
The Workbook includes a diagnostic tool – *Tool 1.1 GST risk context diagnostic* – that will assist an organisation understand the complexity of its GST environment and establish the overall risk context for the organisation.

▶ **Documentation health checks**

The guide includes ‘documentation health checks’ for each of the better practices. These can be found at the end of every chapter.

A recurrent theme of this guide is that documentation to support all areas of GST administration is a key element of effective GST administration. Clearly, all organisations need to keep records of GST transactions to evidence compliance with the legislation. Furthermore, the complexity of GST requirements, as well as their development over time, means that robust documentation is necessary to explain transactions to managers and staff, and to provide the organisation and external parties (such as the ATO) with assurance that there is evidence of a responsible approach to GST management.





## Better Practice No 1:



Apply a risk management approach  
to GST administration

# Better Practice No 1:

## Apply a risk management approach to GST administration



### Introduction

Risk management is an integral part of public sector administration, including GST administration. GST administration presents a number of risks that require management since GST decisions and treatments are required on all transactions between an organisation and its customers and suppliers, as well as most (if not all) transactions processed by an organisation.

The execution of a GST risk management plan provides an organisation with the basis for designing its control framework. If an organisation formally links its GST risks to the controls it has implemented, evaluates gaps, and subsequently introduces additional controls, it can have confidence that there is a framework for properly mitigating GST risks. Well-managed GST administration provides organisations with benefits such as:

- ▶ ensuring compliance with the legislation;
- ▶ cost efficient processing; and
- ▶ being able to deal with, and minimise the impact of, ATO audit activity.

This chapter of the guide sets out the ways in which organisations can use a risk management framework for GST administration.

### Better practice health check

An organisation that *applies a risk management approach* to GST administration will have implemented some or all of the following controls.

Indicators of better practice	Your organisation ?
1. The organisation has a formal risk management framework at the organisational level.	
2. The organisation has delegated GST risk management to an individual or group.	
3. The organisation formally assessed GST risk, as part of implementation planning.	
4. GST risks have been formally mapped and linked to existing controls and any gaps identified.	
5. These controls have been tested and the residual risk is assessed as low.	
6. The GST risk assessment is periodically reviewed for completeness and currency, as well as linked to the organisation's test plan on an ongoing basis.	

The list is not intended to be prescriptive as the activities an organisation implements to control its risks will depend upon its operating environment.

An organisation that can answer yes to most of these questions is likely to be using risk management frameworks effectively in GST administration. If most of the answers are no, the organisation needs to consider whether its current risk management practices for GST administration meet the organisation's objectives and compliance requirements.

## The risk management standard

The risk management process generally used in Australia today is modelled on the Australian/New Zealand Standard AS/NZS 4360:1999 *Risk Management*<sup>2</sup>. The Standard and *Guidelines for managing risk in the Australian and New Zealand Public Sector*<sup>3</sup> contain more detail on the process of managing risk than is included in this Better Practice Guide.

There are four key steps for establishing a better practice risk management framework for GST administration, as shown in Figure 2.

<sup>2</sup> The document is currently being updated. Further information can be obtained from other ANAO publications: the ANAO has recently undertaken a number of audits of risk management in the Australian Public Service and published several better practice guides based on the Standard.

**Figure 2: The four steps to establishing a risk management framework for GST administration**



Each of these steps is discussed below.

## Step 1: Establish Context

GST risk management should be linked to an organisation's overall risk management plan – the formal assessment of all risks facing the organisation.

The first stage in the risk management process is ensuring that the impact of GST on the organisation's external and internal activities is understood in the overall context of the organisation.

This contextual information will help define the *overall priority* of GST administration to the organisation's business and what the organisation's GST objectives might be (as discussed in *Step 2*).

The evaluation of relevant contextual information is likely to include the following:

- ▶ An overview of the organisation's structure, including functions and locations of core business activities, as well as total budget and volume of transactions, to provide an impression of the relative scale and complexity of GST operations.
- ▶ A good understanding of the size, complexity, sophistication and resourcing of the finance function, including whether processes are centralised or decentralised.
- ▶ The numbers of common versus disparate systems and processes will provide an indication of the possible impacts on GST data accuracy and efficiency of processing.

Both the ANAO and the ATO have observed that there is a direct relationship between the significance and likelihood of GST risk, and the complexity of administration and volume of transactions. Through its Cooperative Compliance program established in 2000<sup>3</sup>, the ATO has used risk assessment techniques to evaluate how much activity it should allocate to assist organisations. The amount of ATO resources allocated to organisations depends on the relative complexity of their GST context.

All organisations can use an understanding of GST risks in the context of organisational activity to decide how much risk assessment and control activity to undertake.

<sup>3</sup> *Co-operative Compliance – Working with Large Business in the New Tax System* – November 2000. The Cooperative Compliance Program is an adaptation of the ATO Compliance Model and outlines a co-operative relationship directed at large organisations based on mutual respect and responsibility. It promotes the use of tailored responses to different taxpayer groups based on their compliance risk levels and histories.

### For example:

Problems in GST administration are less likely to be encountered if an organisation uses a single information system to process all transactions and reporting, operates a few processors at a centralised location (where on the job training is easy and communication of errors straightforward), and has a simple GST technical profile. This type of organisation might assign a low risk grading to GST administration and rightly allocate more organisational resources to addressing other, more important operational risks.

The Workbook includes a diagnostic tool – *Tool 1.1 GST risk context diagnostic* – that should assist an organisation in understanding the complexity of its GST environment and establishing the overall risk context to the organisation.

Workbook  
tool 1.1

## Step 2: Determine GST Objectives

Organisations that understand the context of their GST administration, will use this information to answer the question **‘what is the organisation’s GST objective?’**

The GST objective will determine the level of priority that an organisation will allocate to GST management. This, in turn, determines the level of resources that should be provided to GST risk management and administration processes in comparison with requirements to manage the other risks faced by the organisation.

In general, an organisation’s GST objective will be to ensure effective and efficient compliance with the legislation and management of related risks.

Another approach to thinking about the GST objective is in terms of the tolerable dollar value of error that an organisation is willing to accept before introducing additional controls over GST administration. This might be established using the following formula:

$$\text{Tolerable error rate} = \frac{\text{Tolerable \$ error}}{(\text{GST on supplies}) + (\text{GST on acquisitions})}$$

*In general, an organisation’s GST objective will be to ensure effective and efficient compliance with the legislation and management of related risks.*

### For example:

If an organisation is willing to accept an error of \$100,000 per annum, its GST on supplies is \$5m, and its GST on acquisitions is \$10 million, using the formula above, its tolerable error would be 0.6% of total GST processed. For this organisation, its GST objective would be to process more than 99.4% of GST dollar transactions without error. This is a very high accuracy rate and may, or may not, require additional risk assessment and control activity.



While there is no level of error that the ATO will necessarily ignore, some organisations may only want to implement controls that cost less than the amount that might be lost without the additional controls.

However, even if an organisation can adequately define the band of error that can be tolerated, it will need to be certain that the level of error in GST processing falls within this band. In order to obtain this level of certainty, an organisation will need to implement a significant level of GST administration review and testing.

Finally, have the costs of introducing additional controls been quantified? It may be that the level of error could be easily eradicated through the implementation of highly focused, cost-effective controls. Most organisations would agree that this step would be preferable to any error.

Some organisations that assess their GST context as relatively complex, and have determined a GST objective that allows for limited error, decide to formally identify and analyse GST risks (as discussed below in *Step 3*).

### Step 3: Identify and analyse GST risks

In this step (sometimes referred to as 'process level risk assessment'), the organisation needs to identify and analyse its GST risks.

There are at least two categories of risk associated with GST administration as indicated below.

*Legislative compliance risks* are risks associated with the organisation's understanding and interaction with the requirements of the legislation, and include the risks and opportunities associated with an organisation's failure to properly analyse its GST environment. Commonwealth organisations find it difficult to control these risks partly because of the complexities of the legislation and also because until GST was introduced Commonwealth organisations had had little experience in dealing with complex taxation issues.

This level of risk has implications for the second category of risk – systems and processing risks (as described below) because implementing measures to mitigate legislative compliance risk will be part of the control framework for processing risks.

*Systems and processing risks* are the risks associated with managing the day-to-day operational requirements of GST administration and reporting. These risks relate to how an organisation has established and communicated proper policy and procedure and set up system and processing frameworks.

Clearly, there are interrelationships between the two risk areas and many of the individual risk descriptions.

*Legislative compliance risks* provide the context for *systems and processing risks*. For example, if the organisation has not completely and correctly analysed the GST technical treatment of a grant payment, the related transactions are likely to be incorrectly coded when processed.

On the other hand, the incidence of *systems and processing risks* will limit an organisation's ability to comply with legislation. For example, if data is not entered on a timely basis, the organisation may not be able to meet the requirements of the legislation, including that transactions are recorded in the right period.

These two risk categories comprise a large number of individual risks. Each organisation will need to decide which risks are relevant to its operations, analyse the potential impacts of these risks and assess exposures. In order for risk assessment to be an effective tool, it is therefore essential that all risks are identified and analysed. Detailed information gained from the GST context phase will help an organisation do this. Organisations also need to periodically update risk assessments to ensure that they are current. This should be an important element of the monitoring and review function.

The Workbook provides example risk descriptions that an organisation might consider in building up its own risk profile – *Tool 1.2 GST administration risks – example descriptions*.

Workbook  
tool 1.2

## Step 4: Evaluate risks and the design of controls

GST risk and control evaluation includes identifying a range of options for treating risk, assessing those options, and deciding which controls to use.

The treatment options<sup>4</sup> available to an organisation include:

- ▶ *accepting* the risk – where it cannot be cost-effectively managed;
- ▶ *controlling* the risk – by designing and implementing controls;
- ▶ *transferring* (or properly allocating) the risk to those able to manage it; and
- ▶ *avoiding* the risk completely – by deciding not to proceed with the activity that contains an unacceptable risk and choosing a more acceptable activity.

Some examples of how Commonwealth organisations use these options in GST administration are shown in the following Table.

---

<sup>4</sup> Standards Australia 1999 *Guidelines for managing risk in the Australian and New Zealand Public Sector*.

Treatment option	Commonwealth practices	Comment
<b><i>Accepting the risk</i></b>	Accepting that input tax credits were claimed without all tax invoices being valid in the first six months post GST implementation and deciding not to request valid tax invoices from suppliers because it would cost scarce resource time to do so.	An organisation that decided on this course of action, should ensure that an appropriate delegated authority authorised the acceptance of the risk.
<b><i>Controlling the risk</i></b>	Designing processes to require additional authorisation and review of all net GST transactions greater than \$10 000.	Organisations may find it useful to identify and require additional authorisation for all high risk and unusual transactions.
<b><i>Transferring the risk</i></b>	Transferring the risk of making GST errors on elements of salary packaging by subcontracting the transactions and calculations to an external party who are better able to manage it.	The organisation will still remain accountable, even though the extent of risk can be minimised through thorough contractual arrangements and robust documentation.
<b><i>Avoiding the risk</i></b>	Deciding not to allow GST coding of system transactions in diverse geographical locations because of increased risk of error, and limiting coding activity to a core team.	The organisation needs to make sure it has chosen the most effective option. By avoiding one risk, have managers exposed themselves to a significant risk of inefficiency?

The best way to treat risk is to ensure an effective control structure is in place to mitigate those risks, (*controlling the risk*), thus reducing the likelihood of the risks occurring. In some situations *transferring the risk* is also likely to be useful.

In the context of GST administration, organisations should consider a combination of preventative and detective controls to minimise the risks. The level and complexity of these controls will be directly proportional to the assessment of the importance of GST (risk context) and the complexity of risk (as defined in the risk assessment).

The better practices described in this guide have been designed to treat both *legislative compliance* and *systems and processing risks*. More than one better practice will be required in all cases.

## For example:

Designing processes to ensure mixed acquisitions are entered on separate transaction lines and tax coded individually (one of the controls described in *Better Practice No 4*), will help the organisation mitigate both aspects of legislative compliance risk (over claiming input tax credits) and systems and processing risk (data entry errors). But in order for this control to be effective, the staff would need to have had adequate training and be following a formal consistent process (as described in *Better Practice No 3*).

In order for an organisation to satisfactorily control its risks, it will need to have implemented **each and every one** of the better practices. The precise way in which it does this will depend on its risk profile and operating context.

### **Risk register**

Risk registers can be an effective tool in assessing risk and designing risk treatments. They provide a formal framework for the ongoing management of risks and thus, a level of assurance that risks are actively considered.

Risk registers, which may have been set up during the GST implementation phase, need to be capable of adapting to change as an organisation's risk profile will evolve over time.

The completion of a risk register table by the GST manager, using the risks described in this chapter and considering the better practices in later chapters, might take no more than a few hours to complete.

The Workbook includes an example of a simple version of a risk register that organisations could use to link GST risks with controls, as well as to document further action required – *Tool 1.3 Risk register*.

Workbook  
tool 1.3

## Better Practice Case Study 1

### **Special Broadcasting Services (SBS) – Applying risk analysis techniques**

SBS used risk management frameworks to manage its GST administration from the GST implementation stage. As part of the GST implementation project, the Information Systems Manager, the Financial Controller and the Financial Accountant documented a risk analysis framework included in the *Impact of the New Tax System on SBS* planning document. The analysis defined process level GST risks relevant to SBS, possible causes and consequences. Management considered this analysis as a key part of getting implementation planning right.

SBS also documented SBS GST Controls and Risk Assessment in a document that linked more than 20 process level GST risks with existing controls. The document further linked key GST controls to the organisational risk management plan. The organisational risk management plan was used to determine internal audit activity, which included GST audits in the first year after the GST was introduced.

The process level risk assessments provided management with additional confidence in the control framework and a basis for continuous improvement. The assessment was updated a year later.

## Implementing the GST risk management framework


An organisation that completes the steps described in this chapter will have an adequate risk management framework for implementing controls. These controls will be part of the day-to-day processing of GST transactions and reporting.

Organisations should also note that the GST risk management framework is not static and will need to be continuously updated to take account of changes that may occur in the GST environment, as well as changing risk profile. These changes are discussed further in *Better Practice No 5*.

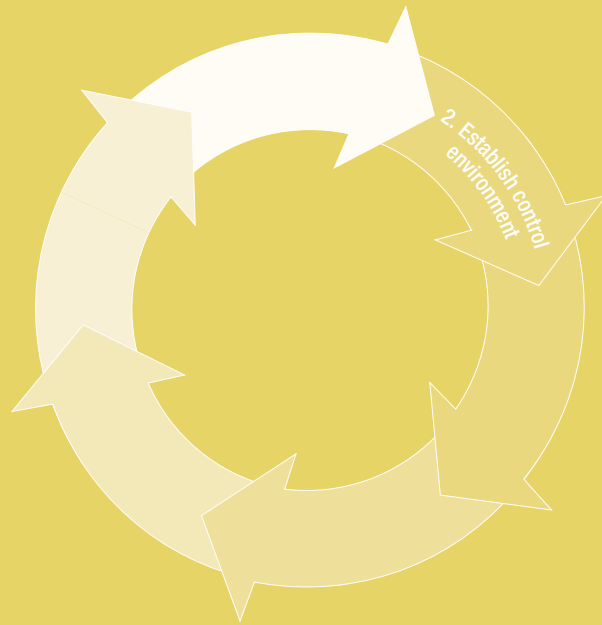
Organisations should also periodically test the controls to be certain that they are operating as intended. Testing is discussed further in *Better Practice No 6*.

## Documentation health check – Better Practice – Risk Management

Maintaining files that include the following documentation will help ensure an organisation has an adequate audit trail to support its approach to managing GST risks.

	Documentation check list	Y/N
	GST risk context diagnostic	
	GST administration risks	
	GST risk register	





## Better Practice No 2:



Establish an internal control environment that effectively supports GST processing

# Better Practice No 2:

## Establish an internal control environment that effectively supports GST processing



### Introduction

An effective internal control environment provides organisations with the basis of ensuring the integrity of GST administration. Organisations should establish a control environment that clearly sets out GST management and processing responsibilities and activities, as well as providing an information systems framework that is capable of properly supporting processing. There are four essential steps to an effective control environment.<sup>5</sup>

Steps	Objective
1. Structure GST management and processing	Responsibility for managing and processing GST should be structured in a way that efficiently and effectively meets the needs of the organisation by allowing for clear responsibilities and accountabilities.
2. Establish procedures	Complete policies and procedures should reflect an organisation's GST responsibilities and provide adequate guidance to staff and managers.
3. Ensure information systems support processing	Information system design and functionality should effectively support GST processing and obligations.
4. Train managers and staff	Key personnel should possess an appropriate level of competence and be aware of their GST responsibilities.

<sup>5</sup> Further information on these elements of an effective internal control environment can be found in the ANAO Better Practice Guide – *Controlling Performance and Outcomes*.



This section of the guide sets out the activities that an organisation may undertake in order to create an effective internal control environment by discussing each component in turn.

### Risk context

Implementing this better practice helps address a range of *systems and processing risks*. For example, it will mitigate the risks that:

- ▶ overall responsibility for GST management is not assigned and this lack of ownership hinders GST risk management;
- ▶ the organisation does not have an information systems infrastructure that effectively and efficiently produces BAS reporting; and
- ▶ procedures are incomplete, leading to inconsistent processing of transactions.

### Better practice health check

An organisation that has established an effective control environment for GST administration will have implemented some, or all, of the following controls.

	Indicators of better practice	Your organisation ?
Structure	7. Formal documented assignment of responsibility for GST management.	
	8. The GST manager has professional qualifications and experience in managing financial, administrative and taxation matters.	
	9. Documented organisation structure and responsibilities.	
	10. Central management and processing of BAS reporting to the ATO.	
	11. Management and processing responsibilities have been clearly defined and are documented in individual position descriptions.	
Procedures	12. Policies and procedures were updated during GST implementation to include all necessary changes to procedures.	
	13. Procedures are periodically reviewed for currency and completeness.	
	14. Specialist advisers have signed off on key templates.	

	Indicators of better practice	Your organisation ?
Information Systems	15. The organisation has obtained formal verification that its accounting systems are GST compliant.	
	16. The full potential of accounting systems is used to accurately capture GST related data. This will include validation, hierarchies, defaults, rounding, tax codes and reporting functionality.	
	17. Transactions cannot be processed in the information system without recording GST coding.	
	18. Review of the types of transactions processed and alignment with GST treatments through system code activation and mapping.	
	19. Formal procedures define how system changes are to be undertaken.	
	20. The system can produce exception reporting on GST transactions outside normal processing parameters.	
Training	21. There is a current GST training program.	
	22. All staff know how to access procedures.	

Assessment of the answers to these questions will provide an indication as to whether an organisation should implement further controls to achieve this indicative better practice.

## Step 1: Structure GST management and processing

Responsibility for managing and processing GST should be structured in a way that efficiently and effectively meets the needs of the organisation by allowing for clear responsibilities and accountabilities.

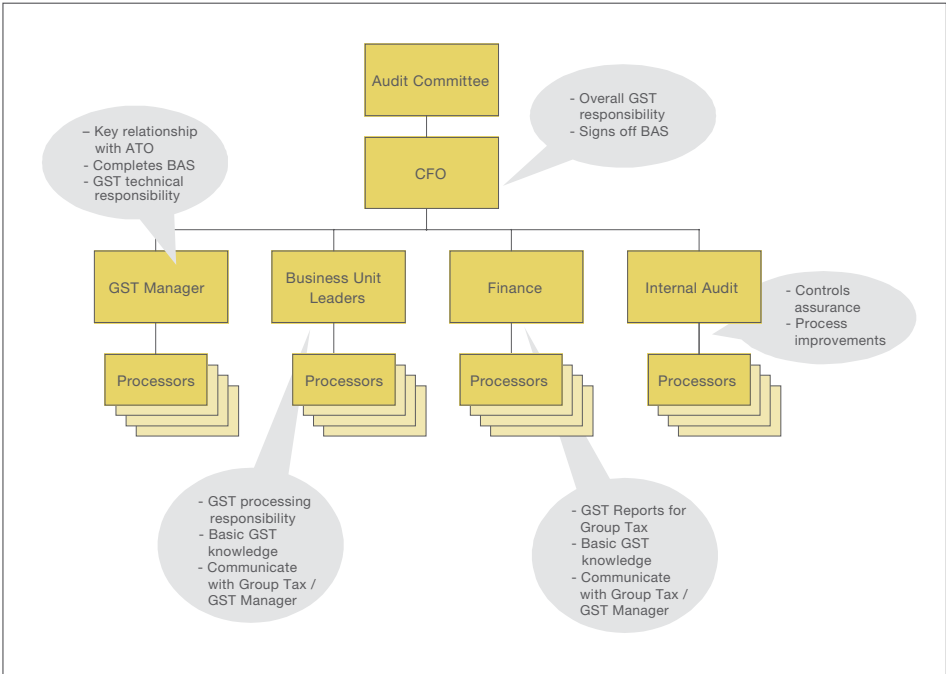
### ***GST responsibility and accountability***

Some organisations have established formal structures to manage GST administration. Documenting GST responsibilities assists in understanding how GST administration is structured. This will provide an indication as to where additional people resources, training or procedures may be required.

Organisations should clearly define and document the answers to these two questions:

- Who carries overall responsibility for GST compliance?
- Who carries specific responsibilities for GST compliance?

**Figure 3: Example of a GST structure**



**Overall GST responsibility**

In order for an organisation to implement an effective internal control structure, it **must** have formally delegated overall responsibility for GST management to a person or group. If responsibility is unclear, there will be no ownership and accountability and effective management of GST administration is unlikely to happen.

The CFO, given his/her understanding of taxation requirements, the operational requirements of processing transactions and reporting obligations, is typically the person who carries overall responsibility for the GST function. This person is therefore often a qualified accountant, and is frequently assisted by a person responsible for managing GST (referred to in this guide as the GST manager).

Depending on the size and complexity of the organisation, the GST manager may be a full-time position. Usually, GST management will be one of a number of responsibilities.

There may be a chain of responsibility for GST management, as follows:

- ▶ business unit leaders sign off to the GST manager that transactions have been processed correctly;
- ▶ the GST manager signs off to the CFO that technical issues have been settled correctly and that the BAS figures are accurate and complete (relying on sign off from business unit leaders); and
- ▶ the CFO signs off to the audit committee for proper GST management.

Some organisations document the CFO's and GST manager's responsibilities for GST management in formal position descriptions. These responsibilities can then be linked to position requirements, annual objectives, performance plans and indicators. Some organisations have also documented the authority of the GST manager in their instrument of delegations. For example, by defining authorisation of BAS reporting and authorisation of the GST elements of transactions over \$20 000.

**Workbook  
tool 2.1**

The Workbook includes a checklist of GST responsibilities – *Tool 2.1 CFO/GST Manager responsibilities*, which can be used to complete position descriptions.

### ***Specific GST responsibilities***

In structuring their GST management, organisations can either:

- ▶ centralise all GST management, transaction processing and reporting, usually within the finance function; or
- ▶ centralise responsibility for GST management and reporting within the finance function, with varying degrees of devolved responsibility for transaction processing.

However GST management is structured, all GST managers rely on a large number of staff throughout the organisation to provide input to the GST administration process.

In addition to those personnel responsible for the day to day processing of GST, the following also provide input:

- ▶ project managers or purchasing officers who enter into new contracts with GST impacts;
- ▶ information systems officers who change access rights to alter GST processing hierarchies;
- ▶ data entry personnel who process tax coding into information systems;
- ▶ certifying officers who check that tax invoices are valid and tax coding is accurate;
- ▶ customer service officers who provide adjustment notes to customers and process discounts;
- ▶ internal auditors who conduct periodic tests of controls; and
- ▶ the audit committee/risk management committee who oversee the effectiveness of the GST control framework.

All these personnel need to be aware of diverse aspects of GST administration. Some will require training to perform their functions competently.

## Step 2: Establish procedural frameworks

Organisations should have complete and up-to-date policies and procedures that reflect their GST responsibilities and provide adequate guidance to staff and managers on GST transaction processing and reporting.

### ***Are GST procedures complete?***

All organisations should revise their procedures on a regular basis to ensure that they address changing circumstances as well as problems that have been identified since the GST was introduced.

Some organisations include checklists in their procedural framework. *Better Practice No 4* includes some examples of procedures and key checklists for the revenue, expenditure and reporting cycles.

### ***Are GST templates adequate?***

Procedural frameworks will also include system templates for generating tax invoices and adjustment notes.

These templates must meet the requirements of the legislation. Some organisations ask a specialist tax adviser, to review their templates in order to ensure that they meet the requirements of the legislation.

The table opposite outlines some ways in which organisations implement better practices in using standard GST processing templates.

Better practice	Better practices used by some organisations
<p><b>Tax invoices issued comply with the legislation.</b></p>	<ul style="list-style-type: none"> <li>- Specialist adviser's 'sign off' on the standard templates.</li> <li>- The system controls around this template require the mandatory legislative requirements to be completed eg. adequate description of each good or service supplied.</li> </ul>
<p><b>Adjustment notes issued comply with the legislation.</b></p>	<ul style="list-style-type: none"> <li>- Specialist adviser's 'sign off' on the standard template.</li> <li>- The system controls around this template require the mandatory legislative requirements to be completed eg. the reason for the adjustment to be stated.</li> </ul>
<p><b>Recipient Created Tax Invoices (RCTIs) are processed in accordance with the legislation.</b></p>	<ul style="list-style-type: none"> <li>- A standard statement is included within the RCTI that the GST is payable by the supplier (if the invoice shows the total amount of GST payable).</li> <li>- A reference to a specific RCTI agreement is included within the RCTI template. This helps ensure that there are the required agreements to support all RCTIs.</li> </ul>
<p><b>Documents produced for processing purposes only cannot be inferred as tax invoices.</b></p>	<ul style="list-style-type: none"> <li>- Some organisations that process cash sales and issue hard copy receipts at the point of sale still need to issue a system produced invoice when receipting on the system. In these cases, the system-produced template can be modified to state clearly that the document is FOR INTERNAL USE ONLY. Otherwise, the organisation risks issuing two valid tax invoices for one transaction – therefore providing the customer with the opportunity to make invalid input tax credit claims.</li> </ul>

### Ongoing management of procedural frameworks

The table below indicates some of the better practices used by organisations in maintaining their GST procedural frameworks.

Better practice	Better practices used by some organisations
<p><b>Tailoring manuals to users' requirements</b></p>	<p>Many organisations have designed user manuals, specifically for their processing staff and information systems. They were adapted from ATO-provided training, and include screen prints and detailed 'how-to-process' instructions.</p>
<p><b>Periodic review of procedures</b></p>	<p>Some organisations review all their procedures on a regular periodic basis in line with the requirements of their Chief Executive's Instructions. Periodic review is especially relevant to GST procedures and manuals because minor changes may have a major impact. While it is better to review procedures on an ad hoc/as needs basis than to never review, better practice organisations establish a formal, regular process for periodic review.</p> <p>If more than one year has passed since review of an organisation's GST procedures, there is a medium/high risk that the procedures are out of date, or not as complete as they could be.</p>
<p><b>Reviewing and authorising procedures and manuals</b></p>	<p>GST manuals and any changes are subject to quality review and sign off prior to implementation. A named individual is responsible for sign-off so that review is effective.</p>
<p><b>Producing manuals in a format that is easy to use</b></p>	<p>Distributing procedures via the organisation's Intranet may save paper and appear to be efficient (and ensures that only the up to date version is available), but staff at some organisations are less likely to regularly use the Intranet. Hard copy folders may be more easily accessible and regularly used. If hard copies are used, it is critical that up-to-date versions are regularly distributed and out-of-date copies are destroyed.</p>
<p><b>Communicating changed procedures to staff</b></p>	<p>All organisations know that for procedures to be effective, they need to be formally communicated to staff. Some organisations use a one page 'procedure implementation' plan to formally decide how to communicate any changes to procedures. This helps address the risk that changes to procedures are not communicated.</p>

## Better Practice Case Study 2

### Administrative Appeals Tribunal – Implementing a better practice procedural framework

The AAT conducted GST implementation activity using in-house resources and knowledge. A central part of implementation planning was ensuring that procedures were extensively updated to meet the requirements of GST administration.

AAT's policies and procedures are comprehensive, well-structured and provide clear guidance to staff. Each policy section is headed by the 'Chief Executive's Instruction' and supported by 'Procedural Rules'. In turn, the 'Procedural Rules' are supported as required by specific information system screen prints and templates. Procedures are distributed and kept up to date via AAT's Intranet site, which is maintained by the Systems Accountant – the person responsible for GST management.

As well as the routine processing of payments and receipts for GST purposes, procedures include:

- ▶ a tax invoice compliance checklist;
- ▶ a schedule of authorised signatories;
- ▶ standard GST clauses;
- ▶ the BAS preparation process; and
- ▶ GST compliant templates for transactions, such as tax invoices, including books of tax invoices/receipts issued at the point of sale.

In addition, GST treatments of ongoing revenue sources are documented in standard price lists that are easy for both customers and staff to understand and use. Contracts with customers were updated before GST was introduced and formal Memoranda of Understanding and Agreements include GST clauses. The AAT uses an access database to maintain a register of contracts and this helps management and staff identify the GST status of related transactions and when contract renewal or updating is required.

## Step 3: Ensure information systems support processing

The third element of an effective control framework is the information system used to process transactions and reporting. Because almost all GST transactions are processed on an organisation's information system, the system control environment is essential to an effective overall control environment. Information system design and functionality should effectively support GST processing and obligations.

During the GST implementation phase most organisations adapted the ways that their systems processed data to meet the new legislative and reporting requirements. Organisations use a wide range of information systems to process GST, and the extensive range of specific controls required is beyond the scope of this document. **All organisations should have obtained formal verification of their accounting systems' GST compliance as well as independent endorsement that system tax codes were accurately mapped to BAS disclosure requirements.** Any organisation that has not obtained formal verification and endorsement, should do so as a matter of urgency.



In the post GST implementation era, a different set of control practices will be more relevant to most organisations. On an ongoing basis, there are six key control objectives:

1. Modifications of IT systems for GST are appropriate to the organisation's operational requirements;
2. GST requirements are considered in the earliest stages of system change proposals;
3. System GST functionality is used in a cost-effective manner;
4. Information systems' functionality meets user requirements;
5. System access is controlled and reviewed; and
6. The system facilitates timely BAS submission.

The Workbook provides a tool to assist organisations in evaluating their controls to support these objectives – *Tool 2.2 Information systems' GST control checklist*.

Workbook  
tool 2.2

As with other areas of GST administration, robust documentation that evidences the operation of these controls should be retained so that they can be located easily.

## Step 4: Train managers and staff

Key personnel should possess an appropriate level of competence and be aware of their responsibilities through training and communication.

Adequate training is the key mechanism for ensuring that personnel exercise due care and diligence in the exercise of their official duties in relation to GST. This will help ensure the integrity and reliability of GST information.

Most organisations conducted GST training in 2000. Some continue to use formal training as a means of keeping managers and staff up-to-date with changes, addressing identified errors and implementing continuous improvement.

The Workbook includes a description of training activities used by some organisations to ensure GST competence in staff – *Tool 2.3 GST training practices*.


Workbook  
tool 2.3

Manual controls are particularly significant in an organisation's expenditure cycle. Staff who understand processing and control requirements are likely to make fewer errors. Organisations should therefore provide specific training to payment of accounts staff. Further detail is provided in *Better Practice No 4*.

Organisations also need to make employees aware of the organisation's overall GST obligations and the implication for non-compliance. Managers and staff should therefore understand the Anti-Avoidance Provisions<sup>6</sup> so that the organisation does not enter into transactions that might be subject to the application of these provisions. These matters need to be considered when designing GST training.

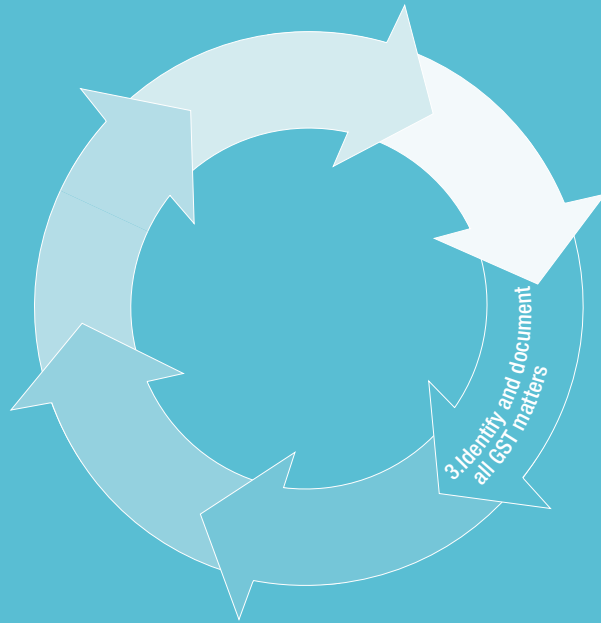
### Documentation health check – Better Practice – Internal Control Environment

Maintaining files that include the following documentation will help ensure an organisation has an adequate audit trail to support its approach to managing GST risks.

	Documentation check list	Y/N
	Detailed GST organisation structure	
	Role descriptions for all personnel involved in GST processing	
	Training needs analysis	
	Training plan and materials	
	Documented information system change controls	
	GST procedures	
	GST compliant transaction templates	

<sup>6</sup> Division 165 of GST Act





## Better Practice No 3:



Identify and document all GST impacted transactions in the organisation's operations and the technical positions that relate to them

# Better Practice No 3:

## Identify and document all GST impacted transactions in the organisation's operations and the technical positions that relate to them



### Introduction

Since GST implementation, many organisations have experienced difficulties in complying with the complexities of GST legislation. Organisations need to have well-developed processes whereby complex and changing legislation and rulings can be interpreted and applied to an organisation's particular operating environment.

This section of the guide discusses how an organisation might set about identifying all GST matters that relate to its operations and transactions and some of the tools it might find useful in doing so effectively.

### Risk context

Implementing this better practice helps address a range of *legislative compliance risks*. In particular it will help mitigate the risks that:

- ▶ issues are not identified and addressed, leading to non-compliance with taxation obligations and current taxation law;
- ▶ outdated information is relied upon, leading to non-compliance and potential revenue losses; and/or
- ▶ private rulings obtained and tax positions taken by the organisation are not followed in practice.

## Better practice health check

An organisation that *identifies and documents all GST matters that relate to its operations* will have implemented some, or all, of the following controls.

Indicators of better practice	Your organisation ?
23. The organisation has formally assigned GST management responsibility to an individual with appropriate skills.	
24. The organisation has used risk assessment tools to evaluate its technical environment.	
25. The organisation has completed a full assessment of the organisation's transactions for GST purposes. This is documented and periodically updated.	
26. The organisation has documented a policy as to when external advice should be sought on technical issues, and seeks such advice according to type or value criteria.	
27. The organisation reviews legislative changes and new/amended rulings to ensure technical positions taken are valid and current.	
28. The organisation reviews new types of transactions and business activities to ensure technical positions are complete.	
29. The organisation accesses technical tax resources from a variety of sources, including the ATO, other government departments, professional organisations and specialist consultants.	
30. The organisation documents the treatments of its transactions in formal position papers.	
31. ATO rulings are sought and copies of relevant public rulings are reviewed.	
32. The organisation has asked technical specialists or the ATO to review its tax position papers and sign off on their compliance.	
33. Managers have considered the implementation of each technical position and have provided tools for staff that apply these technical positions or guide their application.	
34. The organisation has tested the implementation of technical positions.	
35. Feedback from customers and suppliers in relation to GST treatments is recorded and reviewed.	
36. Post implementation review of technical treatments has been completed.	

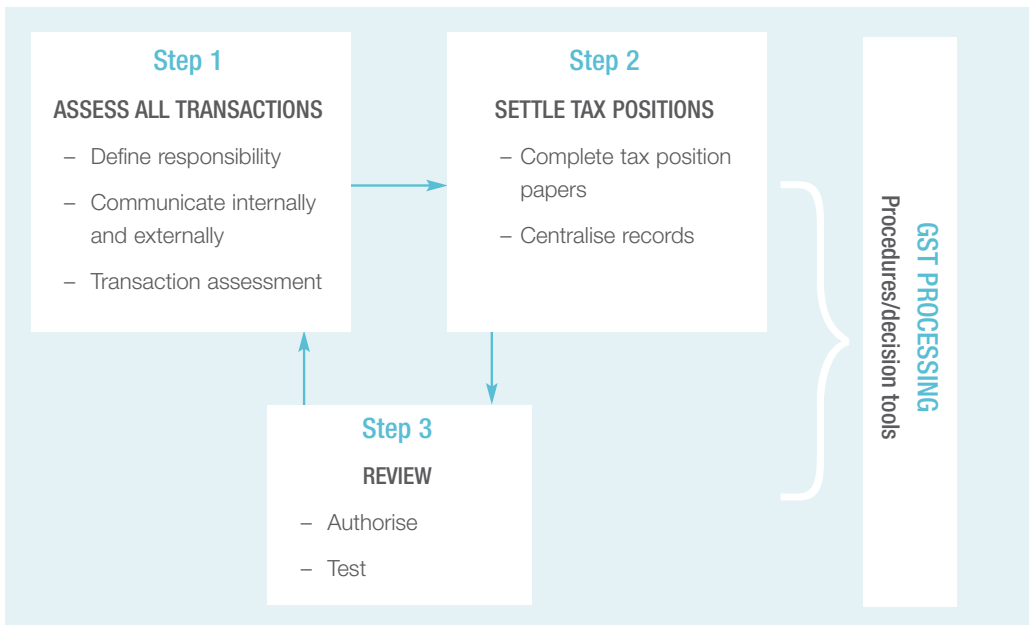
An organisation that can answer yes to all of these questions probably has processes that ensure all GST matters are identified and documented as appropriate. Negative answers may indicate that improvements are required.

There are **three** steps to making sure an organisation has processes to effectively identify its complete set of GST issues as follows:

- ▶ assess all transactions for GST impacts, including both transactions processed on an organisation's accounting system and non-monetary transactions;
- ▶ settle tax positions, including how an organisation can use position papers to document its GST positions; and
- ▶ review processes to ensure the positions are authorised, current and implemented in GST processing.

Together, these three elements provide the foundation for accurate GST processing activities. They are depicted in Figure 4 below.

**Figure 4: GST Processing**



## Step 1: Assess all transactions

### *Define responsibility*

All organisations need to ensure that a manager is responsible for assessing transactions and identifying the GST issues that impact the organisation. In order to be effective, this person will need to:

- ▶ have a current understanding of the practical impacts of the legislation and be able to interpret changes to the legislation; and
- ▶ have an in-depth understanding of the organisation's activities.

In most organisations, this responsibility would rest with the GST manager.

A critical element of this task is understanding that taxable supplies can occur even where no cash changes hands (such as barter or complementary obligation contracts). Ensuring that all taxable, input taxed, GST-free and out-of-scope GST transactions have been identified will usually require specialist knowledge.

### *Establish useful communication processes*

There are a number of mechanisms that can be established to ensure an organisation accesses and disseminates useful information for GST management. These include:

- ▶ accessing complete information on the organisation's transactions; and
- ▶ accessing knowledge that provides an informed basis for making valid and current technical decisions.

Many Commonwealth organisations use a number of mechanisms to access information from both internal and external sources, as shown in the following tables.



## Accessing internal information

Better practice	Better practices used by some organisations
<p><b>Regular communication between the GST manager and the organisation's senior management and business unit leaders.</b></p>	<p>This may take the form of regular meetings or periodic GST roundtable discussions where the organisation's GST profile is reassessed. During these meetings, business units have the opportunity to make the GST manager aware of any changes in activities that could impact GST management. Ideally, the business units are also proactive. They initiate contact and share information on changing circumstances as they understand some of the issues and know who is responsible for GST management.</p>
<p><b>There is a central point for GST communication and knowledge sharing.</b></p>	<p>Many organisations established a central help desk during GST implementation to answer GST queries. While formal GST help desks have largely been disbanded, organisations still need to check that processors and managers have access to a central source of information – either to ask for guidance on positions taken or to advise of new types of transactions. Usually, a central point of contact – the GST manager – helps ensure consistency in communication.</p>
<p><b>Specialist resources within the overall department portfolio are accessed.</b></p>	<p>Smaller scale organisations without specialist internal resources can sometimes access specialist resources that exist within the overall department portfolio. It is useful if the department communicates details of the key, competent contacts to all subsidiary agencies.</p>
<p><b>Formal procedural frameworks encourage internal information sharing.</b></p>	<p>Some organisations require business units to notify the GST manager of new transactions entered into. Examples of such transactions include: any new grants or renewal of grant contracts; all contracts with a value more than \$20 000; changes to types of goods sold; any barter relationships or joint ventures; disposal of assets; entering or renewal of leases.</p> <p>Business division leaders are required to participate in a formal six-monthly reassessment of an organisation's GST profile.</p>

## Accessing external information

Better practice	Better practices used by some organisations
<p><b>External specialist advice is accessed and used when needed.</b></p>	<p>Many organisations have an ongoing relationship with a tax adviser, who is a specialist in GST and can provide advice when additional expertise is required. Because GST matters can be complex, there will be occasions when most organisations need to be able to access external expertise.</p>
<p><b>Key personnel keep up-to-date with changes to the GST legislative environment.</b></p>	<p>GST or Finance managers subscribe to and regularly receive professional organisation or specialist firm GST newsletters. Reviewing these summary documents helps ensure that the key points of changes to legislation are noted and issues are triggered/raised.</p>
<p><b>Key personnel participate in knowledge sharing forums.</b></p>	<p>Some managers are participating members of professional organisations and public sector forums where GST knowledge and experiences are shared.</p>
<p><b>The organisation takes a proactive approach to managing its relationship with the ATO and requests advice when required.</b></p>	<p>Many organisations contact the ATO helpdesk to request advice on a wide range of matters. For larger organisations, the ATO has allocated individual key client managers and many will already have initiated contact with GST and finance managers. All organisations should ask themselves whether the name of the ATO's key client manager is known and if contact has been made.</p>
<p><b>Formal procedural frameworks encourage access to external information.</b></p>	<p>Some organisations establish an annual budget allocation for accessing specialist advice. This might be linked to a formal, annual contract with a professional service firm. At a minimum level, this may be limited to a small cost allocation to subscribe to journals or GST newsletters.</p> <p>Some organisations encourage the GST manager to keep knowledge current by including GST training and learning activities in their annual performance goals/targets.</p>

*All organisations should ask themselves whether the name of the ATO's key client manager is known and if contact has been made.*

If an organisation has made the right person responsible and established useful communication processes, it has a sound base for undertaking formal GST transaction assessment.

### ***GST transaction assessment***

GST transaction assessment refers to the formal documentation and analysis of all transactions undertaken by the organisation and their GST treatment.

If an organisation has undertaken the risk assessment activity described in the previous chapter, they should have a solid basis for understanding all of their transactions. A detailed understanding of *legislative compliance* risk as it relates to an organisation should include completion of a full assessment of the organisation's transactions for GST purposes.

In many Commonwealth organisations, full assessment was completed during GST implementation, as part of the implementation plan – even if it was not linked to a formal GST risk management process. The exercise was usually essential for systems and process redesign.

**Formal** assessment is important because:

- ▶ it provides the basis of an organisation's approach to GST treatments and these treatments are the basis of procedures and processes, systems design, commercial relationships and transactions, and BAS reporting;
- ▶ formal, documented assessment provides some level of assurance to senior management that transactions are treated consistently and appropriately; and
- ▶ an organisation that has formally and fully assessed its GST profile and documented this has a highly defensible approach to GST management in the event of ATO audit.

Some organisations use the following better practices in conducting transaction assessment.

<b>Better practice</b>	<b>Better practices used by some organisations</b>
<b>Conduct an assessment of the organisation's transactions for GST purposes.</b>	<p>Representatives from the organisation's divisions contribute to GST transaction assessment.</p> <p>GST transaction assessments are periodically updated, authorised and independently reviewed.</p> <p>Changes to operations and new dealings with outside parties have been included in updated transaction assessments.</p> <p>When omissions from earlier assessments are identified, this triggers consideration of a reassessment of all transactions.</p> <p>Organisations use individual transaction types rather than overview groupings to provide a basis for complete, consistent and correct treatments. It is important that the assessment is detailed enough to be meaningful and useful. For example:</p> <ul style="list-style-type: none"><li>▶ If disbursements include appropriations or grants, these need to be separately identified so each one can be individually assessed.</li><li>▶ If revenue sources include sales to the public, these should be separately identified, so that each one may be individually assessed and documented.</li></ul>

Organisations should note that the technical treatments of some transaction types are commonly overlooked or incorrectly treated. Common examples include:

- ▶ transitional contracts
- ▶ grants
- ▶ leases and renewal of leases
- ▶ disposal of assets
- ▶ dealing with associates
- ▶ barter/in-kind transactions
- ▶ joint venture arrangements
- ▶ agent relationships
- ▶ damages/litigation payouts
- ▶ adjustments, and the attribution of supplies, acquisitions and adjustments.

The complex technical treatments of these types of transactions is beyond the scope of this guide. However, what is important is that these transactions are identified and considered for GST purposes.

The Workbook includes a tool to record and analyse transaction types – *Tool 3.1 Assessment of transactions for GST purposes*.

Workbook  
tool 3.1

Once the listing of transaction types is complete, each transaction can then be assessed as to how it will be treated for GST purposes. This is the ‘tax position’ the organisation will adopt in processing a transaction.

## Step 2: Settle tax positions

### What is a ‘tax position’?

A tax position is the technical approach an organisation takes on a tax matter that affects the organisation. Tax positions taken by an organisation will include the determination of the GST treatment of the entity’s standard supplies and acquisitions (taxable/GST-free/input-taxed/out-of-scope), attribution and adjustment issues, the GST treatment of particular contracts or agreements entered into, and should include matters on which a private ruling has been obtained from the ATO.

For each one of its transaction types, an organisation needs to define the tax position and the rationale for this position. Usually, to make the tax position effective, it should be clearly documented – this provides a reference point for managers and processors.

The workbook tool – *Tool 3.2 Tax position paper template* – can be used as a framework for documenting tax positions and rationales.

Workbook  
tool 3.2

**Copies of all relevant documentation should be attached to the tax position paper otherwise the organisation risks not being able to support positions, as well as manage changes.**

### Examples include:

Finance Manager A spoke to the ATO help desk in May 2000 requesting advice on the GST treatment of entry fees to an ongoing exhibition. Finance Manager A states that the ATO advised that the entry fees should be treated as taxable but did not document the conversation or request a letter confirming this advice because of a perception that the treatment was straightforward. In July 2002, independent tax advisers considered the transaction in detail and advised senior management that the entry fees should be GST free. As a result, there had been an over collection of GST from the public for a period of 24 months.

Finance Manager B's organisation is part of a larger Department. Finance Manager B asked the Department to file a private ruling request with the ATO on their behalf, but did not request a copy of the documentation. Finance Manager B's contact has left the Department and Finance Manager B is unable to establish to whom the request was sent at the ATO and on what date. The ATO says it cannot find the request in its records. By this stage, there is a potential GST liability on the treatment of this transaction that is highly significant and has an impact on the organisation's financial statements.

The most useful position papers include a sufficiently detailed description of the transaction to support the treatment. They should include supporting analysis and documentation, such as:

- ▶ a specific reference to the legislation;
- ▶ details of specialist advice – when, who and how provided;
- ▶ ATO advice – when, who and how provided;
- ▶ a public ruling, issued by the ATO for general application and analysis of why it applies to the particular situation; and/or
- ▶ a private ruling, issued by the ATO for the organisation's use (or documentation to support a request for a private ruling where it has not yet been issued, including a copy of the request and any supporting documentation provided to the ATO).

Many organisations find it useful to include data in the tax position paper as to how that position is to be implemented in practice – who will be responsible for implementing the change, how systems or processes will need to be changed, templates that require updating, as well as any related communication or training procedures that are required to properly implement the position.

Referencing each position paper to a procedure helps ensure that there is a related procedure. A requirement for decision tools can also be clarified in a position paper if the situation is complex.

In some cases, a separate formal tax position paper may not be required. If the technical treatment of the transaction is truly straightforward, documented adequately in the organisation's procedures and templates, as well as included in training programs, a formal position paper may not be necessary. These kinds of procedures are discussed further in the Guide's next chapter.

### Centralise records

Tax position documentation should be stored in a single location – probably in a hard copy file or register as well as an intranet location for ease of access and referral. While separate copies may be held on individual files (for example, those of suppliers, or grantees), a dedicated tax position file will make review easier when circumstances change, such as staff turnover or changes to a contractual relationship.

## Step 3: Review

Documentation including the assessment of an organisation’s transactions for GST purposes and tax position papers needs to be authorised, and reviewed periodically to help ensure currency and accuracy.


Procedures should require sign-off on both the individual treatments – within the tax position papers – as well as on the overall assessment document. Independent “sign off” provides a level of assurance that the documents are correct and complete. In order to increase this level of assurance, organisations can request that the ATO issues a private ruling in respect of tax positions taken. Tax specialists can be contracted to sign-off on position papers as well as overall assessments.

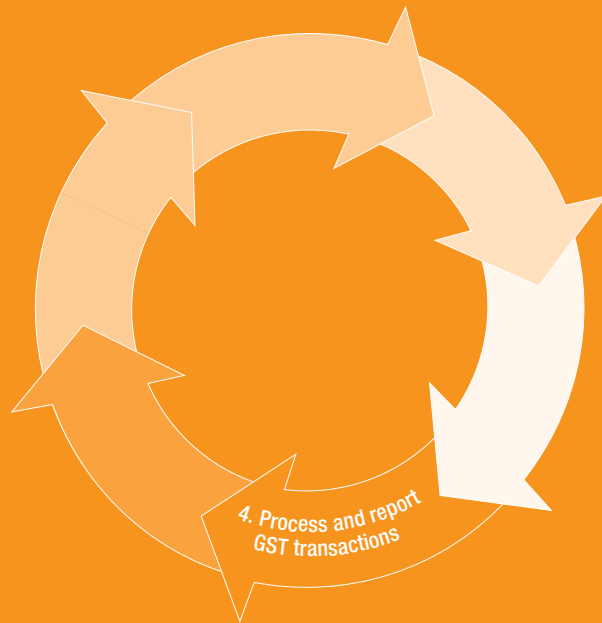
To ensure currency, position papers and assessments should be formally reviewed periodically. The GST manager should oversee this process, which is an important aspect of managing change. These matters are discussed further at *Better Practice No 5*.

Organisations also need to test that the processing of transactions is in accordance with the formal positions that have been adopted. *Better Practice No 6*.

## Documentation health check – Better Practice – GST transactions and technical positions

Maintaining files that include the following documentation will help ensure an organisation has an adequate audit trail to support its approach to GST management and transactions.

	Documentation check list	Y/N
	Assessment of transactions for GST purposes	
	Register of GST position papers	
	Procedures that require formal, periodic transaction assessment	
	Independent review of technical treatments	
	Testing of the implementation of technical treatments	



## Better Practice No 4:



Process and report GST transactions in an accurate, complete and timely manner

# Better Practice No 4:

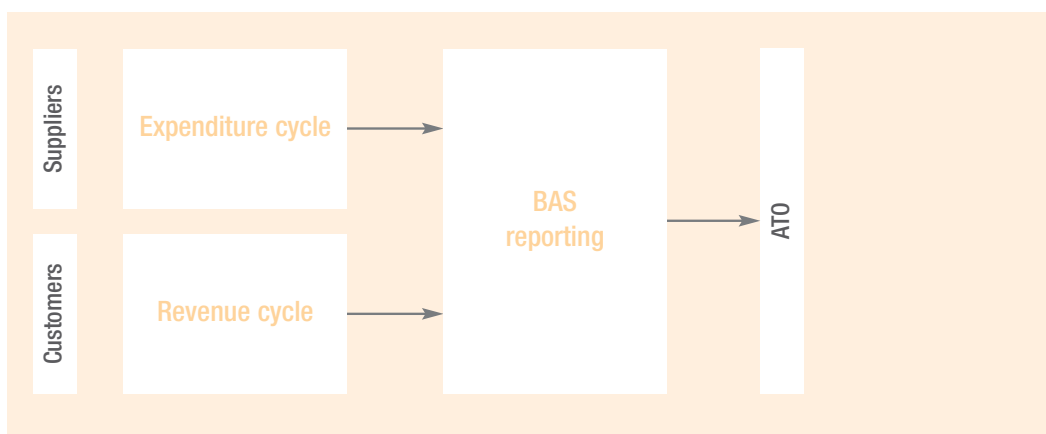
## Process and report GST transactions in an accurate, complete and timely manner



### Introduction

Because each organisation's accounting systems and processes are different, there will be differences in the specific controls each organisation needs to implement to be able to process GST transactions in an accurate, complete and timely manner. The design of the controls will depend on a number of factors, including the complexity and design of the accounting system, the level of automation and the types of supplies and acquisitions processed. However, for all organisations, GST transactions occur in the expenditure, revenue and BAS reporting cycles, as well as the internal accounting activities required to produce reporting.

Figure 5: Transactional cycles impacted by GST





This section discusses the specific controls required for organisations to process and report GST transactions in an accurate, complete and timely manner by considering each transactional cycle in turn. It should be noted that these specific control activities are only effective if an organisation has implemented an appropriate control environment. Such an environment will include organisations having: competent personnel in these functional areas; an effective information systems environment; and appropriate procedures for all GST transactions in the expenditure, revenue, BAS reporting and accounting activities. These matters were discussed in more detail in *Better Practice No 2*.

## Risk context

Implementing this better practice helps address a range of *legislative compliance risks* and *systems and processing risks*. For example, it will help mitigate the risks that:

- ▶ an incorrect GST amount is recorded in the system;
- ▶ an input tax credit is claimed without a valid tax invoice; and
- ▶ transposition errors occur on the BAS.

## Better practice health check

An organisation that processes GST transactions in an accurate, complete and timely manner will have implemented some, or all, of the following controls.

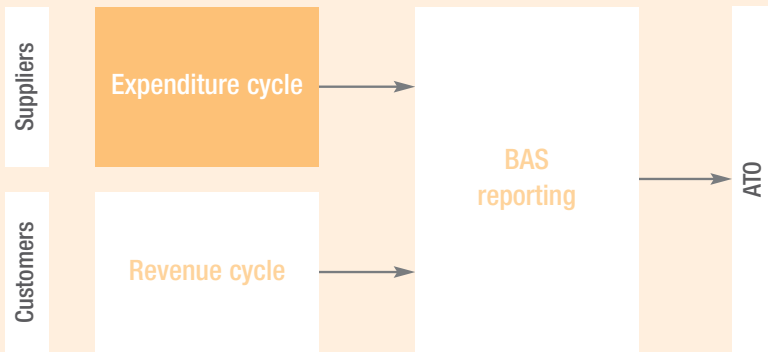
Indicators of better practice	Your organisation ?
37. Staff consistently refer to a tax invoice compliance checklist and adjustment note checklist when entering invoices into the information system.	
38. During processing, staff check that the system record of the GST amount is the same as the amount stated on the tax invoice.	
39. Procedures exist so that valid tax invoices are obtained for all payments made without an invoice (such as payments by direct debit) before the input tax credit claim is made.	
40. There is a written procedure for mixed supplies so that the whole amount is not allocated to one GST code.	
41. Decision tools and coding reference cards exist and are used to code transactions.	
42. Transactions, including payments and receipts, are processed in information systems on a timely basis.	
43. Organisations retain tax invoices for the required statutory period <sup>7</sup> in a manner that facilitates easy retrieval.	

<sup>7</sup> Generally 5 years after completion of the transaction or act: Section 70 of the *Taxation Administration Act 1953*

Indicators of better practice	Your organisation ?
44. Non-standard transactions are subject to additional review and authorisation procedures.	
45. Systems require GST coding and the issue of a tax invoice upon receipt of cash.	
46. Journal entries cannot be processed in the information system without the allocation of a GST code, and journal entry GST coding is reviewed.	
47. The sources and data flows of BAS information have been formally documented in a BAS map. This includes the mapping of system tax codes to BAS label codes.	
48. System reporting is the principal source of data for the BAS and requires minimal manual adjustment.	
49. Preparation and authorisation of the BAS is segregated between competent individuals.	
50. The preparer and authoriser of BASs have received training and are competent to understand GST and BAS requirements.	
51. The preparer and the authoriser refer to and complete a BAS checklist.	
52. Adjustments to system BAS reporting are documented in a standard format supported by an audit trail and are reviewed by the BAS authoriser.	
53. The BAS preparer and authoriser understand ATO policy on the correction of errors.	
54. Access to BAS/ATO screen is restricted to the BAS authoriser.	
55. The timing of BAS lodgement is considered in relation to due dates and cash flow.	

An organisation that answers yes to most of these questions will probably have implemented the better practice. However, because these transactional cycles include a wide range of activities and varied risks, organisations are encouraged to consider the controls discussed in the remainder of this chapter as well as in the accompanying workbook (Chapter 4).

## Expenditure cycle



The expenditure cycle includes the activities an organisation undertakes when it purchases goods and services and when it pays suppliers.

These processes may impact a number of different information systems and involve varied GST activities, depending on the organisation's operating environment.

### **Common errors**

Many organisations have a perception that GST administration related to the expenditure cycle is straightforward. However, both the ANAO<sup>8</sup> and the ATO have found that errors are very common. Organisations are responsible for ensuring that errors are prevented or detected and are encouraged to formally consider each of these errors in turn.

The Workbook includes a list of common errors in expenditure cycle processing – *Tool 4.1 Very common errors in expenditure cycle GST processing*.

Workbook  
tool 4.1

### **Useful procedures and controls**

Every organisation will require a different set of procedures and controls in order to process its expenditure cycle transactions in an accurate, complete and timely manner. Each organisation needs to understand the way in which its own systems process GST in order to identify the procedures to be put in place.

*Tool 4.2 GST procedures and controls in the expenditure cycle* provides example controls that organisations can use to properly control these transactions.

Workbook  
tool 4.2

<sup>8</sup> Goods and Services Tax Administration by Commonwealth Organisations, Audit Report No.53 2001–2002.

### Training of accounts payable staff

Manual controls are particularly significant in an organisation's expenditure cycle. Staff who understand processing and control requirements are likely to make fewer errors. Organisations should therefore provide specific training to payment of accounts staff.

Workbook  
tool 4.3

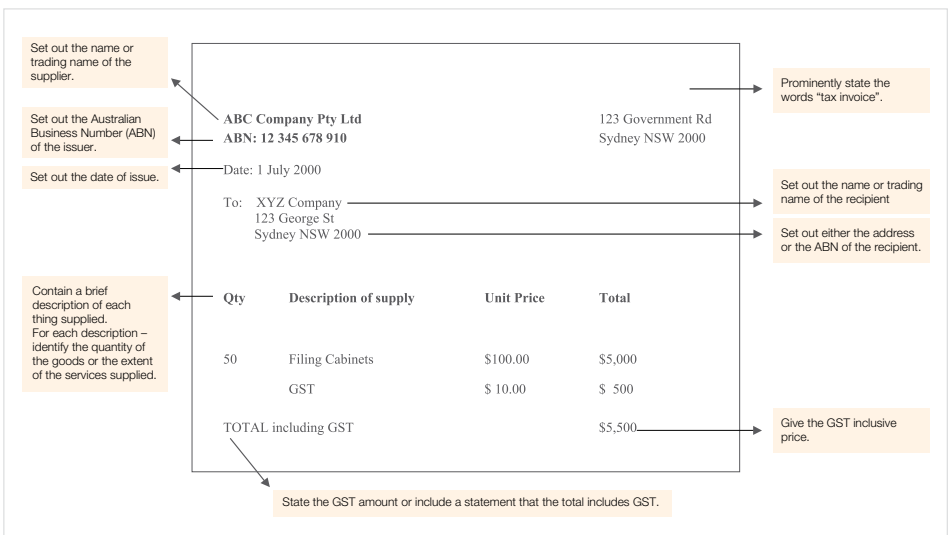
The Workbook includes a description of training activities used by some organisations to ensure GST competence in payment of accounts staff – *Tool 4.3 GST Training for Accounts Payable Staff*.

### Using checklists

A basic objective of all organisations' GST administration is to ensure that valid tax invoices support all input tax credit claims made in BAS reporting. All organisations therefore need to ensure that staff do not use invalid tax invoices to process transactions on their information systems.

The following figure shows an example valid tax invoice.

Figure 6: Example of a GST compliant tax invoice



There are several requirements that need to be met, and because, these requirements are complex, staff should consistently make reference to a tax invoice checklist.

The use of a checklist provides staff with guidance to help prevent the processing of invalid tax invoices.

Workbook  
tool 4.4

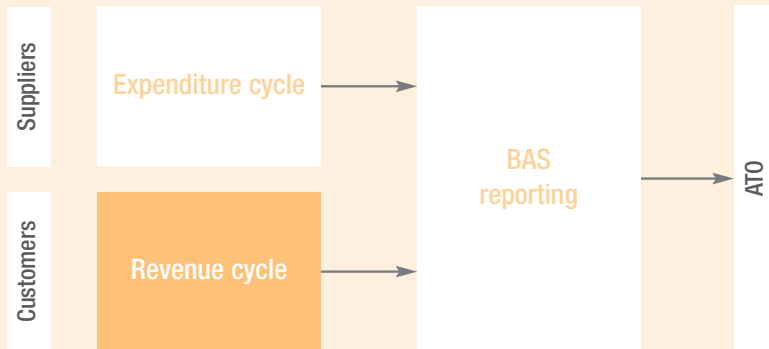
The Workbook includes a checklist that organisations can use to check that processing documents meet the requirements of the GST Act – *Tool 4.4 Is it a valid tax invoice or adjustment note?*

Another type of checklist that some organisations find useful is a coding reference card that provides examples and tips for applying tax coding to common transactions.

The Workbook includes an example coding reference card that organisations can adapt for their own operating use requirements – *Tool 4.5 Disbursement coding reference card.*

Workbook  
tool 4.5

## Revenue cycle



The revenue cycle includes the activities an organisation undertakes at the point of sale (including interaction with its customers/revenue sources) and the billing and receivable processes.

The sales, billing and receivables processes may impact a number of different information systems and involve varied GST activities, depending on the organisation's operating environment.

### **Common errors**

As with the expenditure cycle (referred to earlier), many organisations have a perception that GST administration related to the revenue cycle is straightforward. However, both the ANAO and the ATO have found that errors are very common. Organisations are responsible for ensuring that errors are prevented or detected and are encouraged to formally consider each of these errors in turn.

The Workbook includes a list of very common errors in revenue cycle processing – *Tool 4.6 Very common errors in revenue cycle GST processing.*

Workbook  
tool 4.6

### **Useful procedures and controls**

Every organisation will require a different set of procedures and controls in order to process its transactions in an accurate, complete and timely manner. Each organisation needs to understand the way in which its own systems process GST to identify the procedures to be put in place.

**Workbook  
tool 4.7**

The Workbook includes *Tool 4.7 GST procedures and controls in the revenue cycle* that organisations can use to properly process these transactions.

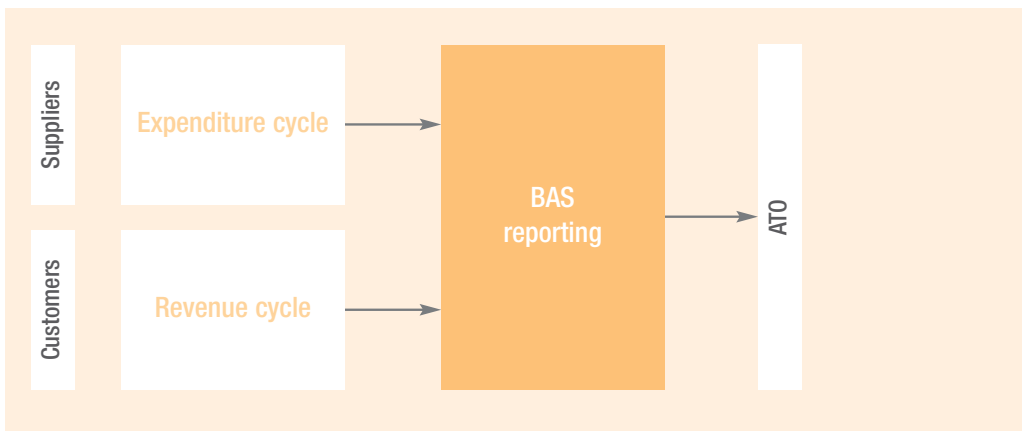
**Checklists**

Some organisations find coding reference cards a useful tool for staff to check that transactions are appropriately coded for GST purposes by providing examples and tips for applying tax coding to common transactions.

**Workbook  
tool 4.8**

The Workbook includes an example coding reference card that organisations can adapt for their own operating use requirements – *Tool 4.8 Revenue cycle coding reference card*.

## BAS reporting



**BAS reporting activities**

The BAS reporting process will depend on the information system used and takes a different form in every organisation.

At a minimum, the BAS reporting process includes the following activities:

- ▶ running system reports, in order to gather transaction data from expenditure and revenue cycles as well as internal transactions;
- ▶ analysing exception reporting;
- ▶ reconciling the General Ledger accounts with the proposed return;
- ▶ processing adjustments; and
- ▶ lodging the BAS and processing a payment or refund.

### **Better practice BAS preparation**

Better practice BAS preparation procedures include the following elements:

#### **Better practice BAS preparation**

General Ledger journal entries are properly coded for GST purposes.

Reconciliations are rigorously performed as part of every BAS preparation.

Exception reporting is used to identify errors.

Reasonableness tests are used to check the integrity of data.

A checklist is used during preparation.

An independent manager authorises the BAS lodgement with the ATO.

GST payment or refund is processed appropriately.

### **General Ledger journal entries are properly coded for GST purposes**

General ledger journal entries should be properly coded for GST purposes. Most journal entries direct to the General Ledger will be for internal accounting purposes and therefore have no financial GST impact. However, in many systems, journal entries (in common with all other transactions) require the allocation of a GST code. This means that an error in coding may eventually result in an error in BAS reporting. Some organisations use the following controls:

- ▶ Routine journal entries for accounting purposes are allocated a default GST code – out-of-scope of GST.
- ▶ Access to process journals is restricted on an as needs basis.
- ▶ Journal entries are authorised prior to processing or non-standard journal entries are reviewed at month end – reducing the possibility that unauthorised or incorrect journals, including incorrect GST impacts, are recorded in the information system.

### ***Reconciliations are rigorously performed as part of every BAS preparation***

Reconciliations should be rigorously performed as part of every BAS preparation. The reconciliation of GST control accounts to the net amount reported in the BAS is an essential part of the process. This should include two simple steps:

- ▶ Net GST refund or payment reported on the BAS should be formally and completely reconciled to the General Ledger. The net amount will either equal the net of the GST control accounts (often called GST paid and GST received accounts) or the amount of the GST summary account if a suspense account is used. This simple reconciliation is a key control. If the amounts are not equal, this should be investigated. The BAS reviewer should check that this reconciliation has been performed and evidence a review.
- ▶ The BAS cash payment or refund should be formally reconciled to the general ledger. The amount should equal that held in the GST suspense account or the net of the control accounts.

### ***Exception reporting is used to identify errors***

Exception reports can be used by organisations to make it easier to check the completeness and accuracy of data. An organisation should decide which exception reports to run and review based upon an assessment of where there is the greatest risk of error. Some examples are provided in the following table:

<b>Report example</b>	<b>What it will help you detect</b>
<b>All GST free transactions</b> <b>All GST out-of-scope transactions</b> <b>All GST input taxed transactions</b> <i>(Each of these reports should be run for both supplies and acquisitions).</i>	Since these transactions are usually less common than other transactions, it should be more straightforward to identify errors.  Running each of the separate reports may assist in the detection of transactions that have been miscoded. Miscoding between these categories is very common.
<b>All transactions where GST is not equal to one eleventh of the GST inclusive amount.</b>	If an organisation's information system allows for the manual input of GST dollar amounts, by overriding system coding, this kind of review can be useful in checking for errors. Mixed supply transactions will be included in this report and a reviewer will quickly be able to identify any transactions for which a mixed treatment is not appropriate. The report can also be used to review all transactions where GST is zero.
<b>GST transactions greater than a defined dollar amount (for example, \$10,000 or \$100,000 depending on the organisation's tolerance for error).</b>	The GST manager may wish to separately review the coding, accuracy and supporting documentation for all GST transactions greater than a defined amount. This report can facilitate this kind of review by identifying the transactions.



Report example	What it will help you detect
<p><b>Tax code reports dissected by general ledger account</b></p> <p><b>or</b></p> <p><b>General ledger accounts dissected by tax code report</b></p>	<p>These reports enable a reviewer to quickly establish errors in coding. For example, all sales in the general ledger would usually be matched by one of a discrete number of tax codes. Any rogue tax codes can be quickly identified.</p> <p>In the same way, all tax codes will probably relate to a defined group of general ledger accounts. For example, if one of these tax code reports (GST 10%) includes transactions for a salary code, this would prompt additional investigation.</p>

Reasonableness tests assist in identifying significant variances between amounts reported in BAS reporting categories (by BAS label codes) in different periods. Variances should be understandable and explainable. If they are not, further investigation and correction may be required. Some BAS label categories will be more important than others and the GST manager may find it useful to conduct variance analysis on a month by month basis, perhaps using an excel spreadsheet, on a specific group of GST codes.

For example, it might be useful to compare amounts reported against the key BAS labels on a monthly basis.

***A checklist is used during preparation***

The Workbook includes a tool to conduct periodic reasonableness tests – *Tool 4.9 BAS reasonableness tests*.

**Workbook tool 4.9**

Including the use of a BAS preparation checklist into the formal BAS preparation procedure is a way that organisations can ensure control activities take place. For example, reconciliations, review and separate authorisations ensure that checking takes place.

The Workbook includes a BAS preparation checklist that can be adapted for an organisation's operational requirements – *Tool 4.10 BAS checklist*.

**Workbook tool 4.10**

### ***An independent manager authorises the BAS lodgement with the ATO***

Better practice organisations ensure that an independent manager, who does not prepare the BAS data, authorises the BAS prior to lodgement with the ATO. This provides an opportunity to review the BAS preparation checklist to ensure all detective and checking activity has taken place. Where electronic lodgement is used, this person should be the nominated individual who has access to the ATO's BAS screen.

### ***Payment or refund is processed appropriately***

The final step of reconciling any payment or refund to the BAS as lodged will highlight the need for any further follow-up action required. For instance, a discrepancy or delay in the lodgement or refund process may require contact with the ATO.

## **Better Practice Case Study 3**

### **Australian Federal Police – Documenting the BAS preparation process**


The Australian Federal Police (AFP) documented a BAS preparation framework for managers and staff that provided clear guidance on the steps to be followed at month end.

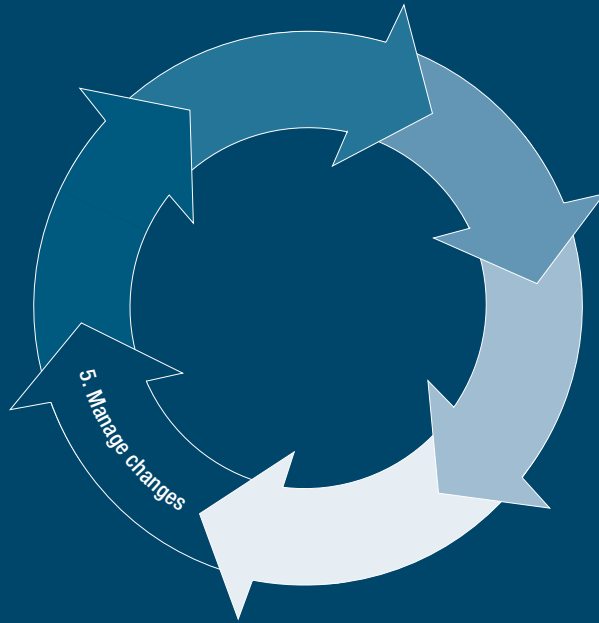
Key better practices included the following:

- ▶ A task list of all BAS preparation activities was documented and supported by detailed instructions, including SAP screen prints and clear 'how to' guidance.
- ▶ An excel workbook template was established to provide the basis of the working papers for the monthly BAS and is used throughout the monthly GST process. This excel workbook includes sections for a summary spreadsheet (linking SAP amounts to BAS reporting categories), a reconciliation sheet to reconciled SAP accounts and BAS categories, adjustments worksheet, sorted adjustments (in a format that allowed for data transfer to journal forms) and journals.
- ▶ A lever arch file was set up and utilised for the retention of hardcopy documentation of each month's BAS. The index provides a guide to the documentation and working papers that are required.
- ▶ Thresholds were defined for additional review of transactions. For some codes, only transactions greater than \$5,000 are subject to additional review while, for other codes, all transactions are reviewed.
- ▶ Formal processes to ensure that changes to procedures were approved and the number of the version updated.

## Documentation health check – Better Practice – Processing and Reporting GST transactions

Maintaining files that include the following documentation will help ensure an organisation has an adequate audit trail to support its approach to GST management and transactions.

	Documentation check list	Y/N
	BAS reporting file: including copies of all statements submitted to the ATO, all supporting reports, worksheets and complete and authorised BAS preparation checklists.	
	BAS compilation process map.	
	GST coding reference cards covering all codes and examples.	



## Better Practice No 5:



Manage changes that impact on GST administration

# Better Practice No 5:

## Manage changes that impact on GST administration



### Introduction

Managing the impact of external and internal changes on the GST environment is an ongoing issue for all organisations. These changes, which need to be managed, include:

- ▶ responding to legislative change and ATO ruling activity – including, for example, the issue of new public rulings as well as the expiry of existing private rulings;
- ▶ changes in the organisation's activities and structure – for example, entering into new transactions, changes to systems, changes to personnel and acquisitions and disposals of businesses/activity areas; and
- ▶ managing the organisation's relationship proactively with the ATO over time.

This section of the guide describes the types of activity an organisation might undertake to *effectively manage changes that impact on GST administration*.

### Risk context

Implementing this better practice, helps address a range of *legislative compliance* and *systems and processing risks*. For example, it will mitigate the risks that:

- ▶ changes to legislation and rulings are not identified and addressed for possible effect on the organisation's technical positions and procedures;
- ▶ GST implications arising from changes to the organisation's activities are not considered; and
- ▶ key GST personnel leave the organisation and subsequent errors in processing occur because new staff do not understand the history and appropriate treatment of transactions.

## Better practice health check

An organisation that manages changes that impact on GST administration will have implemented some, or all, of the following controls.

Indicators of better practice	Your organisation ?
56. The GST manager is formally responsible for the management of changes that impact on GST administration.	
57. Formal handover from the GST implementation team to the key GST manager via a list of outstanding issues.	
58. A current GST issues list is maintained and reviewed.	
59. The organisation formally monitors the termination dates of elections and private rulings, and uses this to trigger ATO interaction.	
60. The organisation has a process to review changes to legislation and public rulings, and considers any impacts on technical positions and procedures.	
61. The GST manager provides input to steering committees for major projects, including those that involve any changes to information systems.	
62. The organisation formally monitors its 'grandfathered contracts' <sup>9</sup> to ensure that review opportunities or contract terminations are identified.	
63. The organisation has identified the key individual who has the authority to interact with the ATO, and this person takes a proactive approach to building an effective relationship with the ATO.	
64. A policy exists that unauthorised staff members should not initiate contact with the ATO or respond to ATO queries.	
65. The organisation reconciles ATO account statements to ensure errors are identified and refunds issued promptly.	
66. The organisation ensures GST registration details are kept up to date.	
67. The organisation ensures all interaction with the ATO is documented and filed in an easily accessible manner.	
68. The organisation has an appropriate level of documentation to assist in the event of a GST audit.	

<sup>9</sup> See glossary.

An organisation that can answer yes to most of these questions probably manages the impacts of change on GST administration. If most of the answers are no, the organisation probably needs to do more to implement this better practice.

This chapter discusses three aspects of better practice management of changes that impact on GST administration. These are:

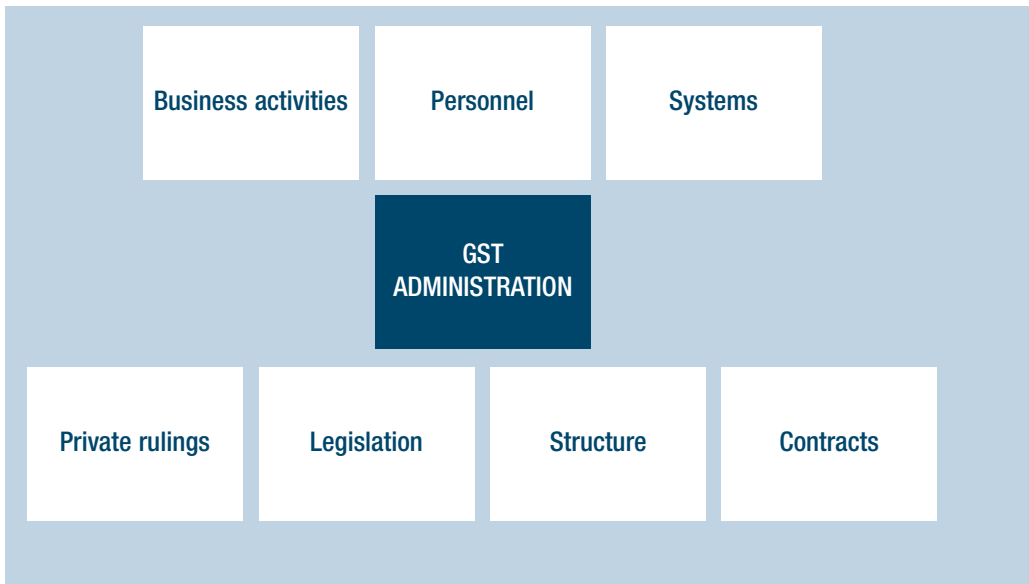
- ▶ *Managing changes with GST implications* – the particular activities organisations undertake to manage changes to the legislative, business and operational environment;
- ▶ *Managing the organisation’s relationship with the ATO over time* – ways in which organisations approach their interaction with the ATO; and
- ▶ *Providing a framework for managing change* – including some of the basic tools an organisation needs to manage change.

## Managing changes with GST implications

Many types of changes may impact GST treatments and administration. These are depicted in Figure 7 below.

**Figure 7**

*All organisations should have procedures to identify and address the impacts of these events. Some of the ways in which Commonwealth organisations manage these changes are described below.*



### ***Legislative, Public Ruling or case law changes***

In many organisations, regular contact with a professional GST adviser helps to ensure that any changes to legislation, Public Rulings or case law that might be relevant to the organisation are identified and can be built into administrative processes. Some organisations rely on competent and informed GST managers to perform this role.

The activities described in *Better Practice No 3* will assist organisations in managing this change process. For example, if an organisation has clearly documented the rationale for applying a public ruling to a transaction in its tax position papers, the necessary changes can be quickly identified and the required action taken.

It may also be appropriate for some entities to consider monitoring draft Public Rulings and to make comments to the ATO so that their views are considered in the formulation of final Public Rulings.

### ***Changes to private rulings (including expiry), statutory elections or ATO approvals***

Some organisations maintain a private ruling register within a file record of all correspondence with the ATO. These records include:

- ▶ current private rulings requested and received by the organisation;
- ▶ private ruling requests upon which a response has not yet been received; and
- ▶ copies of private ruling requests made by other parties that may have an impact on the organisation's transactions.

These private rulings should be referenced to tax position papers.

Organisations should periodically review the currency or relevance of all rulings. While, it may not be cost-effective to review all rulings on a regular periodic basis, it is likely the more significant half should be. The person who conducts this review should be competent to do so – usually this will be the GST manager, perhaps assisted by a specialist GST adviser.

The review will include ensuring that responses to all ruling requests have been received from the ATO and evaluated<sup>10</sup> and ensuring that the ATO response was followed and built into procedures. The review should also consider whether the initial facts described in the rulings have changed.

Some GST managers find it useful to diarise termination dates to ensure timely follow up. Some organisations formally require that rulings be reviewed on a quarterly basis, while others judge that annual review is satisfactory. All organisations should note that, unless otherwise advised, GST private rulings were originally issued for three years.<sup>11</sup> However as the transition period has now ended, the ATO no longer issues private rulings that expire after three years. A ruling which states that it is only valid for three years can be relied on by an organisation after the three years expires unless:

- ▶ it is withdrawn or overridden by a later public ruling;
- ▶ there is a change in the law, which affects the way the subject of the original ruling is treated;
- ▶ the factual circumstances have changed; or
- ▶ a material fact has been suppressed or misstated.

**If an organisation needs to clarify the position of a GST private ruling, contact should be made with the ATO.**

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<sup>10</sup> If an organisation is not satisfied with a private ruling from the ATO, it can request an informal review or an assessment of the net amount for a tax period and then object to the assessment.

<sup>11</sup> Goods and Services Tax Ruling GSTR 1999/1 – The GST rulings system.



### ***Changes to contracts***

Some organisations maintain a contracts register (which includes summary details such as the GST treatment to be applied) in an access database or excel spreadsheet. When staff process transactions related to the contract, they can easily reference the correct GST treatment, through the contract register. Further, if this register is periodically reviewed, the reviewer has a straightforward tool to identify any changes to GST treatment and update the register.

It is particularly important that this register includes all contracts that were treated as 'grandfathered'<sup>12</sup> under the transitional legislation. It is important that these contracts are monitored for review opportunities or for when a new contract is entered into. These events would cause the GST-free treatment to be lost and tax coding of related supplies and acquisitions will need to be changed.

## **Better Practice Case Study 4**

### **Australian Wine and Brandy Corporation – Managing contracts**

The Australian Wine and Brandy Corporation (AWBC) set up a contracts register including all contracts entered into with suppliers and customers.

The 'Register of Contracts' includes the following details for each contract:

- ▶ Responsible person
- ▶ Name of supplier and contract title
- ▶ File reference
- ▶ Contract terms, payment details and date
- ▶ Whether a GST clause is included in the contract
- ▶ Review mechanisms
- ▶ GST status and rationale for GST status
- ▶ Additional notes or issues requiring action.

This register assists the organisation in monitoring the status of contracts for GST purposes as well as providing guidance for staff that manage contracts and process payments and receipts.

### ***Change to business activities***

This type of change will include the commencement of new business activities that give rise to new types of transactions and new agreements, as well as changes to existing activities. All of these events may have impacts on GST administration.

An organisation that has a nominated GST manager who frequently communicates with other areas of the organisation (*Better Practice No 2*) and has implemented *Better Practice No 3* (identifies and documents all its GST treatments), should have a sound basis for identifying and managing the changes to GST administration that arise from changes to business activities. Further, the

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<sup>12</sup> See Glossary

maintenance of a central GST issues register (as described below) and periodic re-assessment of the organisation's risk and transaction profile, should help ensure that any gaps in control are addressed.

### ***Change to IT systems***

These changes include those to systems that interface or are linked with core FMIS<sup>13</sup> and General Ledger systems used to process and report GST. As discussed at *Better Practice No 2*, there should be a forum for the GST manager to regularly communicate with the information systems department. The GST manager should be involved at the earliest opportunity in understanding any planned changes to information systems.

### ***Change in personnel who are involved in GST processes and systems***

Succession management is one of the most frequent changes to GST administration faced by organisations. Implementing *Better Practice No 2* will assist organisations in managing personnel change. In particular, organisations should ensure position descriptions include GST requirements, there is regular training, and procedures are adequately detailed and complete.

It is also worthwhile considering the organisation's GST back-up personnel. For example, a competent individual should be nominated to prepare the BAS if the person who usually prepares it is suddenly absent.

### ***Change to functional structures***

Many organisations periodically change their business structure, including the structure of the finance area. When this occurs, senior management should ensure that the impacts of the structural changes on GST responsibilities have been considered. Maintaining an up-to-date and formally documented GST structure that considers all aspects of processing as well as current position descriptions (*Better Practice No 2*) and authorisations should assist organisations in managing the GST risks associated with this type of change.

### ***Change that affects the status of the organisation***

On occasions, the GST and legal status of an entity may alter and require changes in GST administration. These types of changes may cause previously valid tax invoices, recipient created tax invoices or recipient created tax invoice agreements to be invalid due a change in the entity making the supply, for example, the name or the ABN may be incorrect. They may also have impacts on the integrity of registration arrangements, appropriateness of grouping for GST purposes and turnover thresholds, which could impact matters such as reporting frequency. Examples of changes that may affect the status of the organisation include the transfer of an organisation in to or out of a Ministerial portfolio, entry into joint venture arrangements, the creation or closure of an organisation within a portfolio, and a change to the name of the organisation.

Organisations that implement *Better Practice No 2* have a sound framework for managing these types of change, principally because a responsible GST manager should deal with these issues. Some organisations also formally review registration and grouping arrangements from time to time, as part of compliance auditing programs.

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13 See Glossary

## Managing the relationship with the ATO

GST manager responsibilities include the maintenance of a successful relationship with the ATO. Formally assigning this responsibility to an individual will help ensure that the relationship is actively managed. Further, the responsibility needs to be restricted to authorised personnel. If unauthorised people deal with the ATO, there is a risk that the relationship will be handled poorly and the organisation's GST objectives may not be met. Large organisations should have a key client manager to contact at the ATO.

All organisations should have established file records to document the history of the relationship with the ATO and to provide evidence of activity.

The 'GST/ATO' file should include:

- ▶ all ATO correspondence and telephone contact;
- ▶ minutes of all meetings with ATO personnel;
- ▶ ATO audit activity and outcomes;
- ▶ private Rulings obtained and requested;
- ▶ elections and notifications made;
- ▶ assessments issued;
- ▶ formal and informal reviews undertaken; and
- ▶ registration, grouping and/or branching details including copies of application forms and notices of decisions.

## A framework for managing change

Usually managing the impacts of change will be part of the GST manager's responsibilities. As with the other areas of GST administration, making someone accountable is one of the keys to successfully managing changes to the GST environment.

Complete, current and easily accessible procedural frameworks (as discussed in *Better Practice No 2*) are also the basis for managing changes in personnel. Further, the GST manager will often find that keeping GST registers proves useful in managing change. These registers might include both records of *GST implementation issues and current GST issues*.

### ***Implementation issues listing***

Although this Better Practice Guide was developed more than two years after GST was introduced, some organisations have not addressed GST concerns that were identified in the implementation period. Organisations with effective and efficient GST administration used an 'outstanding issues listing' to facilitate the sharing of information between the group responsible for GST implementation and the GST manager or other responsible person. This ensured that issues that could not be fully resolved during the implementation phase were not left unresolved, but actively dealt with and formally closed upon completion.

In some cases, this 'issues listing' took the form of a post implementation audit report. The subsequent review activities of audit committees ensured all the related issues were effectively dealt with. In other organisations, there may still be outstanding issues. All organisations should consider if issues raised during the GST implementation phase have been properly and formally addressed.

### ***Current GST issues register***

A current GST issues register can be maintained in a central location to record new issues that require clarification. It should include a wide range of GST matters over which there is uncertainty. For example, the register could include issues that range from feedback from a customer that there is a disagreement over the treatment of a particular transaction to details of a planned software update that may impact GST interfaces.

In order to be effective, all sections of an organisation should have access to enter issues into the register. For example, a project officer may know that a joint venture partner is querying the GST impacts of a contract with the ATO. If this matter is not formally communicated internally, the organisation may lack the information to properly deal with any related problems.

The GST manager's role will be to resolve issues where possible and/or ensure that a person is made responsible for dealing with the issue to encourage appropriate follow up and the resolution of issues within a reasonable time frame.

**The Workbook provides a tool that can be used to record and monitor current GST issues – *Tool 5.1 GST issues register.***

**Workbook  
tool 5.1**

Maintenance of a current GST issues register will assist the GST manager in dealing with change, as well as assisting the organisation in dealing with succession management if, and when, the person performing the GST manager function changes.

### ***Contracts and Grants GST Register***

Many GST transactions are based on individual contracts and grants. As the terms of these agreements may vary widely, the GST treatment of contracts and grants is a high risk area for many organisations. Maintaining a file that includes details of all contracts and grants will assist in monitoring changes to contracts and any consequent GST implications. This file will be a useful resource for staff when processing transactions and for the GST manager in managing change and ensuring that GST treatments of contracts and grants are up to date and complete.

**The Workbook provides a tool that can be used to record and monitor different contracts and grants – *Tool 5.2 Contracts and Grants GST register.***

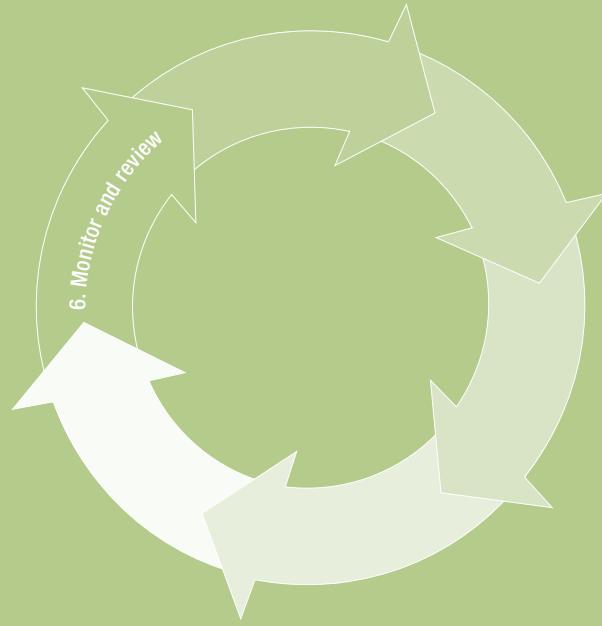
**Workbook  
tool 5.2**

## Documentation health check – Better Practice – Managing Changes

Maintaining files that include the following documentation will help ensure an organisation has an adequate audit trail to support its approach to GST management and transactions.

Documentation check list		Y/N
	GST implementation issues register, that has been closed and signed off by an appropriate authority (probably the audit committee).	
	GST current issues register.	
	Contracts and grants GST register.	
	GST/ATO file including: <ul style="list-style-type: none"> <li>▶ All ATO correspondence and telephone contact;</li> <li>▶ Minutes of all meetings with ATO personnel;</li> <li>▶ ATO audit activity and outcomes;</li> <li>▶ Private rulings obtained and requested;</li> <li>▶ Elections and notifications made;</li> <li>▶ Assessments issued;</li> <li>▶ Formal and informal reviews undertaken; and</li> <li>▶ Registration, grouping and/or branching details including copies of application forms and notices of decisions.</li> </ul>	





## Better Practice No 6:



Monitor and review the effectiveness  
of GST administration

# Better Practice No 6:

## Monitor and review the effectiveness of GST administration



### Introduction

Better practice organisations use formal review mechanisms to continually improve the effectiveness of their GST administration. Organisations that formally review the effectiveness of GST administration receive several benefits:

- ▶ Audit committees and senior management have access to an informed assessment of the integrity and effectiveness of their GST processing.
- ▶ Information gathered from review processes forms the basis for continuous improvement activity. If risks or problems are uncovered they can be sourced to root causes, resolved through the redesign of systems and procedures, and addressed through training.
- ▶ In turn, processes become more efficient and cost-effective as those processes that do not add value are reduced. Checking and review activity can also then be reduced.

This section of the guide describes how organisations might implement this better practice by using both internal and independent review mechanisms.

### Risk context

Implementing this better practice, helps address a range of *legislative compliance* and *systems and processing risks*. For example, it will mitigate the risks that:

- ▶ routine transaction errors are not identified and corrected leading to incorrect BAS reporting; and
- ▶ the organisation fails to identify financially material GST liabilities on a timely basis.



## Better practice health check

An organisation that *monitors and reviews the effectiveness of GST administration* will have implemented some or all of the following controls. This list is not intended to be prescriptive. The activities implemented by an organisation will depend upon its operating environment.

Indicators of better practice	Your organisation ?
69. A nominated individual is responsible for implementing testing programs and improvement processes.	
70. GST risks have been formally linked to controls and these controls are tested periodically.	
71. Samples of GST transactions are periodically tested for technical compliance, completeness and accuracy.	
72. Changes to procedures and systems are specifically tested in the period following their implementation.	
73. Information systems were subject to post GST implementation audit and testing.	
74. Internal audit is used as a tool to identify opportunities to improve GST processing.	
75. There is a central help desk to record issues, including queries raised by customers or other parties.	
76. There is central error log to record issues.	

An organisation that can answer yes to most of these questions probably has processes to formally review the effectiveness of GST administration. If some of the answers are no, the organisation probably needs to do more to implement this better practice.

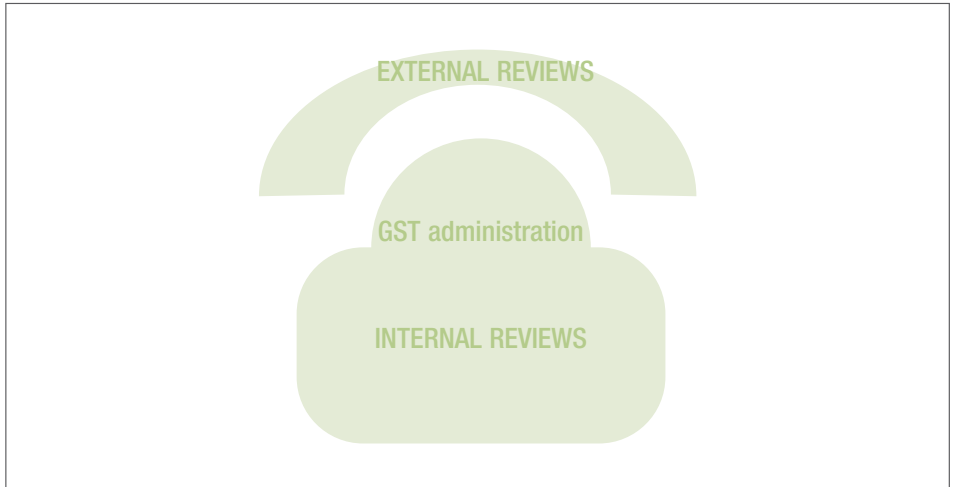
## Responsibility

As with many of the better practices discussed earlier in this document, the starting point for implementing effective and formal review of GST administration is to ensure that the responsible personnel are competent and skilled in GST issues.

In some organisations, this responsibility will rest with the GST manager, while in others, internal audit may review the effectiveness of GST administration, separately or as part of an annual program of reviewing other core business support processes.

This section of the guide considers two aspects of reviewing the effectiveness of GST administration:

- ▶ Internal reviews – ways in which the GST function monitors its activity and outputs; and
- ▶ Independent reviews – ways in which external reviews (independent of the GST function) can be used in the GST context.



## Internal reviews

Most organisations check the accuracy and integrity of GST transactions during normal day-to-day processing activities. Staff who process transactions often perform the first point of checking. For example, an accounts payable officer who enters tax invoices for payment will check that the tax invoice is valid and that GST amounts agree with system calculations. Additional checking then occurs at the time of certification – a certifying officer may identify high value payments and again perform a check for supporting documentation and accuracy. At the time of BAS preparation, the organisation may produce exception reporting and identify transactions outside normal parameters that will then be subject to additional testing. These examples are all effective ways of reviewing GST processing. The effectiveness of GST processing review is impacted by how the identified errors are recorded, analysed and subsequently addressed.

### ***Error logs***

Some organisations find maintenance of a central error log a useful tool in ensuring errors are appropriately communicated and addressed. For an error log to be useful, errors identified during day-to-day processing, as well as formal testing, must be recorded. As well, the log itself must be reviewed from time to time to ensure corrective action has been taken.

Workbook  
tool 6.1

The Workbook includes a tool – *Tool 6.1 GST error log* – that can be used to record all errors identified during processing and testing.

**Test programs**

Some organisations use formal test programs, often as part of the month end BAS preparation process, to monitor the integrity of GST processing. These organisations document their test programs and use the following better practices.

Better practice	Better practices used by some organisations
<p><b>The frequency of GST testing is based on an evaluation of the costs and benefits.</b></p>	<p>In general, the frequency of formal GST testing will depend upon several factors. These might include the organisation's tolerable error rate, the level of confidence in processors and/or the use of other detective mechanisms to identify errors such as exception reporting. Testing can be time consuming and requires the use of GST competent people. Any consideration of testing will therefore include consideration of the costs of testing and benefits to be obtained.</p> <p>Some organisations choose to test GST transactions on a monthly basis as part of standard BAS preparation procedures. Organisations that are committed to monthly testing may choose to vary the scope of testing and testing criteria on a monthly basis in order to vary the coverage of types of transactions. If the identified error rates are low regularly, the organisation might choose to reduce the frequency of testing.</p> <p>Other organisations implement GST testing on a periodic basis perhaps once a year. An organisation that identified high error rates in this kind of testing might choose to increase the frequency.</p>
<p><b>Testing objectives and criteria are defined.</b></p>	<p>A key element of any test program is establishing the objective of the testing and setting the criteria to be tested. The following criteria are commonly used in designing GST test programs:</p> <ul style="list-style-type: none"> <li>▶ Valid tax invoices are held for all input tax credit claims;</li> <li>▶ Only tax compliant invoices are processed;</li> <li>▶ GST supplies and acquisitions are attributed to the correct tax period;</li> <li>▶ Tax coding is correct and is in accordance with technical positions; and</li> <li>▶ GST calculation is accurate – eg is recorded as 1/11th of total transaction in most cases.</li> </ul>

Better practice	Better practices used by some organisations
<p><b>A sampling methodology is used to reduce the number of transactions that require testing.</b></p>	<p>Some organisations have tested all GST transactions within a defined period. Most choose to limit the size of the test group by using sample selection.</p> <p>Organisations consider a number of elements in defining the sample to be selected:</p> <ul style="list-style-type: none"> <li>▶ the period from which the sample is to be drawn (perhaps a month or a quarter); and</li> <li>▶ the types of transactions to be tested. Some organisations choose to test all transactions over a defined dollar amount every month. Other organisations choose to restrict the sample to specific areas by, for example, limiting testing to all transactions relating to a particular GST code or General Ledger account or to transactions processed by a particular functional area. In considering which types of transactions are to be tested, organisations usually focus on the transactions most likely to present errors.</li> </ul> <p>There are two main ways to select samples for testing – judgementally or statistically.</p> <p><b>Judgemental sampling</b> – a sample is selected from system reports. This sample should be representative of most transactions, by picking transactions of varied dollar amounts, coded differently for GST purposes and processed by different functional areas. The limitation of this kind of sampling is that conclusions are not statistically representative of the population of transactions. However, testing using this type of selection will provide an indication whether some controls are operating as intended. In particular, it allows for the targeting of high-risk transactions that require additional monitoring – for example, the introduction of a new tax position.</p> <p><b>Statistical sampling</b> – random, statistical sampling allows organisations to understand the likelihood and types of errors in the population of their transactions and can therefore be useful. In previous audit work, the ANAO considered that testing a sample of 160 transactions provides organisations with useful information about the total population of their GST transactions.<sup>14</sup> An organisation wishing to provide senior management with a level of assurance as to the integrity of GST processing, might therefore undertake testing of 160 transactions, drawn randomly from the population.</p>

<sup>14</sup> This approach was used in the ANAO's audit of GST administration in Commonwealth organisations. See Appendix 1 of Audit Report No 53 2001–2002.

Better practice	Better practices used by some organisations
<p><b>The rationale for areas not tested is documented.</b></p>	<p>The test program may specifically exclude some areas from testing. The organisation may find it useful to document the rationale for excluding specific areas from testing. For example:</p> <ul style="list-style-type: none"> <li>▶ <i>‘June 2002 GST testing: All receivable transactions excluded from test sample because this area was tested in May 2002 and no errors were identified.’</i></li> </ul>
<p><b>Errors are rated and these ratings are used to determine the priority of action.</b></p>	<p>Organisations that monitor errors, sometimes find it useful to rate those errors. The most common form of rating is High, Medium and Low. If an organisation uses this kind of approach, these ratings can be used to order the priority of corrective action. For example, High rated errors might represent systemic errors or represent high dollar values that require immediate correction while Low rated errors might be judged ‘one of a kind’ errors of negligible financial or compliance impact that the organisation chooses to ignore. Organisations with a comprehensive approach to GST testing monitor trends in error rates over time and use this information to adapt their approach to testing criteria and sample selection.</p>
<p><b>Errors identified in testing are addressed.</b></p>	<p>As a first step, any errors identified in testing will be corrected in BAS reporting. Then, the root cause will be identified – for instance, the absence of a control to prevent or detect an error during normal processing. Corrective action will then be defined and responsibilities and time frames established for completing this action.</p>

The Workbook includes a tool – *Tool 6.2 GST Test program* – that can be used to record GST testing.

Workbook  
tool 6.2

## Better Practice Case Study 5

### The then Department of Employment, Workplace Relations and Small Business (DEWRSB) – Implementing a GST Continuous Improvement Program

Management at DEWRSB expressed a high level of confidence in the integrity of GST and BAS processing because a GST Quality Assurance (QA) strategy was introduced from 1 July 2000. This involved substantive and analytical testing each month as part of the BAS preparation process. For example, in relation to Departmental transactions the QA process involved testing approximately 40-70% of transactions each month.

The GST manager was responsible for implementing the test program, the results of which were reviewed by the CFO as part of the normal BAS authorisation process. Management judged that the inherent risks in establishing a new process merited this detective in-built audit approach.

The first stage in testing was the extraction of data from the information system report (Sales Tax Advance Return Report) into an excel spreadsheet. The data was then sorted to obtain the test sample, including items over \$100,000, unusual transactions, rarely used codes and transactions related to the claiming of input tax credits.

As officers became more familiar with the GST, the scale of substantive testing was reduced and the focus moved to a cyclical approach for testing program areas.

As part of the proactive strategy aimed at ensuring Quality Control, procedures were promulgated to officers in advance of 1 July 2000, and these included a two-page reference sheet provided to all processing employees for use prior to processing transactions. Intranet reference cards for each tax code were also developed and made available on-line for employees as they processed transactions. As part of this proactive strategy, initial and subsequent periodic GST training was provided to managers and staff.

## Independent reviews

Most organisations completed post GST implementation reviews and ensured that all related issues were completely and satisfactorily addressed. Someone independent from the GST implementation project team – perhaps internal audit or external consultants – should have conducted the post implementation review.

Independent review is also useful on an ongoing basis. Usually this is through compliance review or internal audit programs.

These reviews help an organisation ensure that:


- ▶ ongoing compliance obligations are met; and
- ▶ the organisation's senior managers and executive are aware of potential risk exposures.

As with any audit, the organisation will need to ensure that GST audits are adequately planned, performed and supervised and that audit reports are of a consistently high professional standard. GST review function tasks should be included in strategic and annual audit plans with documentation evidencing appropriate consultation with accountable officers, senior management and external auditors as appropriate. The function should also be included in input into the process of specifying, developing and testing new information systems.

All organisations should ask themselves if their annual internal audit planning process has considered the need to conduct an audit of GST administration. While it may not always be cost-effective to conduct an internal audit of GST administration, GST risks and the effectiveness of the surrounding control framework should be formally monitored and reviewed from time to time.

### Documentation health check – Better Practice – Monitoring and Review

Maintaining files that include the following documentation will help ensure an organisation has an adequate audit trail to support its approach to GST management and transactions.

	Documentation check list	Y/N
	GST error log	
	GST test program	
	GST testing program results	

# Abbreviations/Glossary



<b>Acquisition</b>	Acquisition is defined in the GST Act as "any form of acquisition whatsoever". It is a very broad term and includes (amongst other things) goods, services, real property or rights purchased, received, accepted, transferred, assigned or otherwise acquired by a business or enterprise.
<b>ABN</b>	Australian Business Number. The number is used as an identifier for certain dealings with the ATO and other organisations.
<b>ANAO</b>	Australian National Audit Office
<b>A New Tax System</b>	The Government announced its plans for tax reform, 'A New Tax System' in August 1998. The reforms comprise wide-ranging changes over a number of years including the replacement of sales tax with the Goods and Services Tax from 1 July 2000
<b>ATO</b>	Australian Taxation Office
<b>BAS</b>	Business Activity Statement. Businesses registered for GST use this single form to report their business tax entitlements and obligations, including GST, PAYG instalments, PAYG withholding and fringe benefit tax instalments. Businesses offset tax payable against tax credits to arrive at a net amount payable/refund due.
<b>CAC Act</b>	<i>Commonwealth Authorities and Companies Act 1997</i>
<b>CFO</b>	Chief Financial Officer
<b>EFT</b>	Electronic Funds Transfer
<b>FMA Act</b>	<i>Financial Management and Accountability Act 1997</i>
<b>FMIS</b>	Financial Management Information System



## Grandfathered

A "grandfathered" agreement is one to which particular legislation does not apply because the agreement met certain conditions at the time the legislation was passed. In GST terms, a supply is said to be "grandfathered" if the supply is GST free because of the operation of the transitional GST provisions. Generally, these transitional provisions apply to a supply made under an agreement that was entered into prior to 2 December 1998 (or in some cases 8 July 1999) and that does not provide an opportunity for the supplier to take into account the imposition of GST in reviewing the consideration. Supplies made under such an agreement are treated as GST-free prior to 1 July 2005, or until a review opportunity arises.

## GST

Goods and Services Tax. The GST is a broad-based tax of 10 per cent on most supplies of goods and services consumed in Australia. On 1 July 2000, the GST commenced operation replacing wholesale sales tax.

## GST Act

A New Tax System (Goods and Services Tax) Act 1999.

## GST code

The code used in an organisation's FMIS to define the GST treatment of transactions. Examples include taxable supply, transaction with no GST effect and GST free acquisition. It is also sometimes referred to as a tax code.

## GST free supplies

No GST is payable on a GST-free supply but the supplier is entitled to an input tax credit for the GST charged to it on any acquisitions that relate to making that supply. Supplies that are GST-free include specified exports, food, health and medical care, and education and child-care.

## Input tax credits (ITCs)

Input Tax Credits are the credits a registered entity is entitled to claim for the GST component of the price paid for acquisitions or importations made in carrying on the entity's enterprise. ITCs are not available to the extent that the acquisition or importation is used to make input taxed supplies. A tax invoice is usually necessary to be able to claim an input tax credit.

## Input-taxed supplies

No GST is payable on an input-taxed supply, and the supplier cannot normally claim input tax credits for the GST charged to it on any acquisitions that relate to making that supply. Supplies that are input taxed include financial supplies and residential leases.

## Machinery of Government changes

Changes made to the portfolio of a Minister whereby one or more government related entities under the portfolio are transferred into or out of the portfolio, are newly created, cease, or have a change of name. These changes may cause a valid tax invoice, recipient created tax invoice, or recipient created tax invoice agreement to be invalid due to the change of name or new ABN.

<b>Out-of-scope (or non-taxable) supplies</b>	A number of different supplies are outside the scope of the GST legislation. No GST is payable in respect of such supplies. Out-of-scope supplies include supplies made before 1 July 2000, supplies made by any persons that are not registered or required to be registered for GST, and supplies that are not connected with Australia. They also include Government appropriations.
<b>Recipient created tax invoice</b>	<p>This is a tax invoice issued by the recipient rather than the supplier in circumstances where it is more convenient for the recipient to issue the documentation. Recipient Created Tax Invoices can only be issued when the recipient meets certain criteria or a Determination has been issued that approves their use for that type of supply. In addition a recipient created tax invoice can only be issued pursuant to a written recipient created tax invoice agreement between the supplier and the recipient.</p> <p>The Commissioner of Taxation has determined that all registered government related entities are entitled to issue Recipient Created Tax Invoices if they and the supplier also satisfy all other RCTI requirements.</p>
<b>Supply</b>	"Supply" is defined in the GST Act as "any form of supply whatsoever". It is an extremely broad definition and includes the supply of goods, services, the provision of advice or information, the granting, assignment and surrender of rights, and entry into and release from an obligation.
<b>Tax code</b>	See GST code above.
<b>Tax invoice</b>	A tax invoice is a document generally issued by the supplier. To be a valid tax invoice it must contain information as specified by legislation. The information required varies according to the total amount payable. It is generally necessary to hold a compliant tax invoice at the time of claiming an input tax credit on the BAS, except for purchases where the GST-inclusive price is \$55 or less.
<b>Taxable supplies</b>	GST is payable on a taxable supply. A taxable supply is defined in the GST legislation. Generally, you make a taxable supply if you are registered (or required to be registered) and, in the course or furtherance of your enterprise, you make a supply for consideration and that supply is connected with Australia. A supply is not a taxable supply to the extent that it is GST-free or input taxed.



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