Senior Accounting Officers Legislation – Are you compliant?

The Senior Accounting Officer (SAO) rules require the appointment of an SAO for every qualifying UK company to take personal responsibility for their company's tax accounting arrangements. Over the last couple of years, it is apparent that the key concern for many SAOs lies with their lack of personal oversight coupled with a lack of independent monitoring to identify whether the existing accounting arrangements are adequate and that they are working as intended.

KPMG has considerable experience, having worked with clients across all sectors, to help guide you through this process.

Schedule 46 of The Finance Act 2009 made senior accounting officers of large companies personally responsible for the management of their company's tax accounting arrangements. As part of HMRC's wider "Tax in the Boardroom" agenda, the SAO is required to be a Board member or Officer of the company. If you are the SAO (and it is usually the CFO or FD who fulfils this role) then the Act requires you to certify that the framework of responsibilities, policies, people and procedures that ensures compliance with tax law is appropriate to calculate all tax liabilities accurately.

Following the "light touch" approach to the first year's certificates, HMRC now expects the SAOs to be able to demonstrate that tax risks are properly understood, controlled and managed throughout the company, from the correct processing of an invoice up to the Board having an appropriate understanding of tax risk for the business as a whole.

The areas that we have seen generating most concern are those which rely on input from people who are not tax specialists. Employment taxes, VAT and Customs & Duties are all common weak spots. The SAO requirement states that there needs to be regular and frequent monitoring over the appropriateness of the accounting arrangements across all areas and simply relying on annual assurances from the various stakeholders that their systems are working well is unlikely to satisfy HMRC.

What are the rules?

The SAO requirements came into force for accounting periods beginning on or after 21 July 2009 and apply to companies that in the preceding financial year either alone or when its results are aggregated with other UK group companies has turnover of more than £200m or has a relevant balance sheet total of more than £2bn. The legislation stipulates that the SAO of a qualifying company must take "reasonable steps" to ensure that the company establishes and maintains "appropriate tax accounting arrangements" and in particular, monitors the accounting arrangements of the company to identify any aspects in which those arrangements are not appropriate. The SAO must certify the position annually to HMRC, and there is an expectation that the SAO will need to retain adequate supporting evidence to demonstrate that 'reasonable steps' have been taken. Failure to adhere to the rules risks a personal penalty of £5,000 in the event of a failure to comply with either of the above.

Questions that HMRC may ask SAOs include:

- What steps did you take and what evidence did you obtain to assess whether the wording on your certificate was appropriate?
- Are the SAO requirements sufficiently understood by the key stakeholders (including the Board), bearing in mind SAO encompasses the end to end accounting arrangements?
- Have you identified your key tax risks and how are these monitored?
- What independent advice was taken to help you with regard to the SAO certificate?
- Has the role of the internal audit function changed in response to SAO?

How can we help?

KPMG's Audit and Tax practices can help support SAOs manage their obligations. This assistance includes:

- helping companies gain an in-depth understanding of what 'good' looks like
- undertaking an independent review of the tax accounting arrangements in part or across all taxes, to determine whether there is an appropriate framework of responsibilities, policies, people and procedures in place
- providing practical recommendations where weaknesses or gaps are identified.

KPMG's Audit and Tax practices have designed the **SAO Diamond**, an assessment tool that provides a snapshot of the robustness of the existing tax framework within your company. Benefits include:

- Highlighting weaknesses that require immediate attention
- Comparing your company's current position against KPMG's view of best practice and against other businesses
- Commentary tailored to your specific answers giving you suggestions for improvement
- Providing information to help you assess whether you can safely take personal responsibility by signing the SAO certificate

Our approach

Our extensive experience of assessing tax accounting arrangements gives us the ideal background to identify potential areas of weakness; to benchmark your organisation against best practice; and to provide you with information to help the SAO to assess whether they have taken reasonable steps before signing their certificate. Our methodology is flexible and can be adapted to your situation depending on whether you wish to have a comprehensive review across the end to end tax accounting arrangements for all taxes, or whether you simply have concerns over one specific tax. However, at the core is a top down approach to provide the SAO with sufficient insight over their governance arrangements such that they can assess whether they can reasonably sign their SAO certificate.

At a more granular level, following a review of the tax accounting arrangements we would provide you with a set of clear, practical and sustainable recommendations for those areas where potential improvement opportunities have been identified.

Potential benefits include:

- The opportunity for an independent assessment of your tax governance framework and how tax processes, risks and interdependencies are managed
- Improved and aligned tax risk management across the organisation, with Board engagement
- Defined responsibilities, policies and procedures, aligned with those of the wider organisation
- Smarter use of the limited tax/finance resources available
- A closer understanding of the business and working relationships of the different areas of your business
- Standardisation and automation opportunities, driving out cost and improving efficiencies
- Tax as a key part of an integrated management information system.

KPMG's approach in action

KPMG in the UK has exceptional credentials in advising businesses as they design, implement and sustain the governance and accounting arrangements that Schedule 46 is seeking to enforce. KPMG has an established methodology, a global set of principles, and the required experience to help you achieve compliance with the SAO legislation.

Case study

A company falling within the SAO regime had submitted a 'clean' certificate in year 1. Practical responsibility for ensuring compliance had been given to the financial controller who had prepared some documentation summarising the company's approach to tax and some of the controls in place and this was thought to be sufficient given HMRC's light touch in year 1. However, the Finance Director who is the SAO was concerned that he did not know whether this would satisfy the requirements of year 2 and he thought that there would be value in undertaking a benchmarking exercise.

He therefore asked KPMG to go through the SAO Diamond with himself and the Financial Controller. The Diamond indicated the framework of policies, procedures, roles and responsibilities would not withstand close scrutiny from HMRC. KPMG then ran a meeting with the finance team to help assess the gaps and what remediation was required. An example was the employment tax process where KPMG helped identify the key risks within the payroll and HR processes for tax purposes, map how these were being managed and what the gaps were; for example, in how they dealt with the split of responsibilities between HR and payroll. The end result was that the finance Director was able to submit the SAO certificate with confidence by the deadline and in a meeting with the CRM, evidence how the key risks were being addressed.

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