



ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT



FORUM ON TAX ADMINISTRATION

Guidance Note:

Guidance and Specifications for Tax Compliance of Business and
Accounting Software

April 2010



CENTRE FOR TAX POLICY AND ADMINISTRATION

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ABOUT THIS DOCUMENT

Purpose

The purpose of the guidance note is to describe in general terms the standards that should be applied in the development of business and accounting software used for tax processing.

In May 2005 the OECD Committee on Fiscal Affairs (CFA) published “Guidance on Tax Compliance for Business and Accounting Software” (GTCBAS). GTCBAS gave general guidance to revenue bodies and software developers on the principles that should be applied in the design of business and accounting software used for tax processing. It also examined the underlying technology of associated topics such as the reliability of electronic records and archival considerations.

During 2006 and 2007 the OECD Tax e-Audit Group developed the GTCBAS principles into a technical specification that is now incorporated into this paper to create a unified guidance document. The opportunity has also been taken to update some of the content of the original paper.

Background to the Forum on Tax Administration

The Forum on Tax Administration (FTA) was created by the Committee on Fiscal Affairs (CFA) in July 2002. Since then the FTA has grown to become a unique forum on tax administration for the heads of revenue bodies and their teams from OECD and selected non-OECD countries.

In 2009 participating countries developed the FTA vision setting out that...*The FTA vision is to create a forum through which tax administrators can identify, discuss and influence relevant global trends and develop new ideas to enhance tax administration around the world.*

This vision is underpinned by the FTA’s key aim which is to...*improve taxpayer services and tax compliance – by helping revenue bodies increase the efficiency, effectiveness and fairness of tax administration and reduce the costs of compliance.*

To help carry out this mandate, the FTA’s work is directly supported by specialist Sub-groups—including the Tax e-Audit Group whose work is directed at developing internationally agreed software standards designed to facilitate:

- a reduction of compliance costs for businesses;
- a reduction of administrative costs for revenue bodies;
- the enhancement of the outcomes of audits of businesses carried out by revenue bodies; and
- the provision of a platform to make it easier for revenue bodies to co-operate in areas such as joint audits.

The Tax e-Audit Group includes representatives from FTA member countries, software developers, and the accountancy and audit professions.

Background to this and related Guidance and Information Notes

This note has been produced in co-operation with representatives from revenue bodies, the accountancy and audit professions, and software developers. It complements the following guidance notes and information notes, published in the OECD FTA Tax Guidance series:

- **Tax Compliance and Tax Accounting Systems.** This information note discusses internal control frameworks for tax and how the adoption of the OECD FTA Guidance Notes on business and accounting software specifications can be an important element of such frameworks. The use by a business of an internal control framework for tax will demonstrate a willingness to deal transparently with the revenue body who should reciprocate by providing increased and timely tax certainty.¹
- **Guidance for the Standard Audit File – Tax (SAF-T) version 2.0.** SAF-T is a file containing reliable accounting data exportable from an original accounting system, for a specific time period and easily readable by virtue of its standardisation of layout and format that can be used by external auditors and revenue body staff for compliance checking purposes.²
- **Guidance for the Standard Audit File – Payroll (SAF-P) version 1.0.** SAF-P is a file containing reliable accounting data exportable from an original payroll system, for a specific time period and easily readable by virtue of its standardisation of layout and format that can be used by external auditors and revenue body staff for compliance checking purposes.³
- **Guidance on Test Procedures for Tax Audit Assurance.** This guidance note looks at the role compliance and substantive testing plays in the achievement of audit assurance by auditors, highlights some of the types of test that may be employed and examines the overall aims of a test programme.⁴
- **Record Keeping Guidance.** An essential pre-requisite for use of the SAF-T and SAF-P is that they should contain reliable records. A reliable electronic record is a record whose contents can be trusted as a full and accurate representation of the transaction. In order to achieve the appropriate level of trust, the record should also display sufficient levels of authenticity, integrity, and usability⁵. This is most likely to be achieved by a combination of strong internal controls on data processing, together with the application of suitable security and storage techniques that ensure the reliability of the subsequent data output.⁶
- **Electronic Commerce: Facilitating Collection of Consumption Taxes on Business to Consumer Cross-Border E-Commerce Transactions.** This examines, inter alia, the issues of certification of software and remote auditing.⁷

¹ OECD (2010) www.oecd.org/dataoecd/42/37/45045662.pdf

² OECD (2010) www.oecd.org/dataoecd/42/35/45045602.pdf

³ OECD (2010) www.oecd.org/dataoecd/42/36/45045611.pdf

⁴ OECD (2010) www.oecd.org/dataoecd/42/34/45045414.pdf

⁵ International Organization for Standardization, (ISO) (2001) ISO 15489-1:2001, *Information and documentation -- Records management -- Part 1: General*, ISO Geneva, Switzerland www.iso.org

⁶ www.oecd.org/dataoecd/29/25/31663114.pdf

⁷ www.oecd.org/dataoecd/51/33/34422641.pdf

Caveat

Each revenue body faces a varied environment within which they administer their taxation system. Jurisdictions differ in respect of their policy and legislative environment and their administrative practices and culture. As such, a standard approach to tax administration may be neither practical nor desirable in a particular instance.

The documents forming the OECD tax guidance series need to be interpreted with this in mind. Care should always be taken when considering a country's practices to fully appreciate the complex factors that have shaped a particular approach.

Enquiries and further information

Enquiries concerning any matters raised in this guidance note should be directed to elizabeth.goli@oecd.org.

SUMMARY

1. This document describes in general terms the standards that should be applied in the development of business and accounting software used for tax processing.
2. It sets out the high-level design principles covering the processes found in a typical computerized business or accounting system, including the integration of internal and tax protection controls; procedures to ensure the reliability of electronic records; and the facility to export data for further analysis. It also demonstrates how tax audit processes can be carried out with greater reliability and in such a way that costs to both revenue bodies and businesses can be minimized, and provides guidance on how the principles may be implemented in practice.
3. This document also sets out a Specification for controls, functions and audit reports for use in the development of business and accounting software. This includes the facility for both self-auditing of data and its download for external audit testing including use of the OECD Standard Audit File-Tax. The options for implementation of the Specification by revenue bodies, either directly or in partnership with others, are also examined. The implementation tasks identified and summarised in the document are aimed at both software developers and revenue bodies.

RECOMMENDATIONS

4. Each FTA country is faced with a different environment in respect of policy, legislation, administration and culture, which will have shaped their taxation systems. It is therefore up to each country to decide how to approach the issues addressed in this report and the most appropriate response to the challenges identified. Recommendations are broken down into two parts, recommendations for revenue bodies and recommendations for software developers. Recommendations are in the order that they appear in the guidance note (not necessarily in order of importance).

Recommendations for Revenue Bodies

Revenue bodies are encouraged to:

- consider as part of an overall implementation strategy to analyse and promulgate to stakeholders benefits that will encourage their participation;
- begin with an implementation plan, which may include bilateral or multilateral co-operation with other revenue bodies;
- work with business system developers and accounting organisations to incorporate this guidance, including the Standard Audit File-Tax, into their accounting software packages;
- to incorporate this guidance into their evaluation processes of business accounting software;
- work with business system developers to incorporate into their software the facility to file tax returns electronically;

- work with other regulatory agencies, business associations and accountancy bodies to promote the SAFs as a means of exporting accounting information;
- use the SAF-T approach in their audit and verification process;
- work with relevant regulatory agencies, business associations and other organisations, such as developers of accounting software and private auditors, to promulgate this guidance and SAF-T, including consideration of an appropriate regulatory framework; and
- work with relevant regulatory agencies, business associations and other organizations such as Standards Bodies to determine the extent to which international standards might be appropriate.

Recommendations for Software Developers

Software developers are encouraged to ensure that:

- application software incorporates adequate internal controls and tax protection controls to ensure reliability of entry processing;
- application software creates adequate audit trails to assist auditors gain audit assurance;
- all records held electronically are validated and protected by appropriate software technologies;
- software incorporates the facility to export data for use in compliance and substantive testing;
- software packages provide an electronic export facility for the information necessary to prepare tax returns;
- archive procedures ensure the integrity and readability of electronic records after an extended period, and allow auditors to retrieve records as required;
- application software features comprehensive documentation to assist auditors and users in their understanding of the system, the processing, and its environment; and
- application software contains facilities to allow audit automation to assist auditors gain audit assurance, and enable businesses to self-test their tax data.

GUIDANCE AND SPECIFICATIONS FOR TAX COMPLIANCE OF BUSINESS AND ACCOUNTING SOFTWARE

1. Scope

5. The guidance in this paper is equally applicable to direct taxes, primarily company taxes that make use of aggregated entry information as a source for tax declarations, and indirect taxes (GST/VAT) that are transaction – based. It covers the entire spectrum of software applications used to produce the full range of business and accounting records, from the Enterprise Resource Planning (ERP) systems used by large Multi-National Enterprises (MNEs) to the commercial “off the shelf” software products (COTS) used by Small to Medium Enterprises (SMEs). It is intended not only for revenue bodies but also other stakeholders including accountants, businesses, and software developers. Although the content of this guidance note is largely written from a tax auditing perspective, its requirements are compatible with existing best practices for business applications.

2. Issues

2.1 Voluntary Compliance

6. Governments, through their revenue bodies, generally seek to minimise their own long-term tax system operating costs while at the same time keeping compliance costs for taxpayers as low as possible. In order to achieve this, a balance must be struck between the costs borne by businesses in complying with tax laws and regulations and the costs borne by the revenue body in operating the tax system.

7. Enforcing compliance via frequent checks, substantive audits and prosecutions is an expensive way of ensuring adequate compliance levels, so most revenue bodies attempt to maximize ‘voluntary compliance’ where the taxpayer is encouraged to co-operate and actively comply with the tax regulations. This reduces the cost of administering the tax system but is only practicable when the requirements of the tax system are well understood, relatively easy to comply with, and generally accepted by businesses. Voluntary compliance is best enabled where tax requirements integrate with existing business records and accounting systems whose main purpose is not solely recording and accounting for tax. Providing such systems are reliable, the costs of compliance for both businesses and revenue bodies are likely to be minimised.

8. In January 2008 at its Fourth Meeting the Forum on Tax Administration (FTA) issued the Cape Town Communiqué.⁸ The Communiqué recognised, inter alia, that risk management is an essential tool for revenue bodies; that current, relevant and reliable information is necessary to achieve effective risk management; and identified the taxpayer as the most comprehensive source for this information. It also recognised that an “Enhanced Relationship” between revenue bodies and taxpayers could be developed, based upon early disclosure of potential tax issues and transparency.

⁸ OECD (2008) www.oecd.org/dataoecd/26/43/39886621.pdf

9. The implementation of software applications that incorporate the principles of this guidance in their design will contribute towards the overall adoption of a system of voluntary compliance by businesses, including the development of an “Enhanced Relationship”.⁹

10. MNEs and other large businesses are better positioned to develop an “Enhanced Relationship” with their revenue bodies and to adopt a voluntary approach by the robustness of their internal control systems, procedures, and the activities of internal and external auditors acting on behalf of stakeholders. SMEs, however, sometimes have both relatively significant compliance costs and difficulties in understanding and complying with tax requirements. The opportunity for these small and medium businesses to create, record and maintain reliable records¹⁰ and make them available for audit by tax and regulatory agencies as an integral part of their normal operations may be somewhat limited. This situation may be addressed in part by the integration into COTS products of the design principles detailed in this note.

2.2 Corporate Governance

11. This guidance note is published at a time when corporate governance is under scrutiny as never before. Governments worldwide now demonstrate a firm resolve to increase corporate responsibility and accountability through legislation such as the *Sarbanes-Oxley Act 2002* in the US and the emergence elsewhere of a number of Accounting Standards intended to address these issues. This note does not deal directly with corporate governance, but its key principles, especially the establishment of internal controls and access to entry data for compliance and substantive testing of these controls, will be a useful tool in enabling businesses to meet the essential requirements of regulatory regimes.

2.3 Tax auditing

12. Modern computerised business and accounting systems present a particular challenge to tax auditors in that key features that were once paper-based can become wholly electronic. Nevertheless, the basic objective of a tax audit remains the same: an auditor needs to obtain sufficient audit evidence as part of the assurance process. This is necessary to be able to draw reasonable conclusions on which to base an audit opinion as to whether or not tax returns are prepared in accordance with domestic legislation. The methodology adopted is largely determined by the audit policies of each revenue body in accordance with domestic legislation, but there are certain generic considerations for each audit.

13. The implementation of the recommendations in this guidance note by a revenue body offers a number of benefits to the tax auditor. These benefits include obtaining a quicker understanding of system processes through the availability of documentation describing internal controls and their application. Reliable audit data will be more easily obtained in a standard format. A major outcome is expected to be a more efficient use of audit time, thus reducing costs for both the revenue body and businesses.

⁹ For more information see OECD (2010) *Information Note: Tax Compliance and Tax Accounting Systems*. www.oecd.org/dataoecd/42/37/45045662.pdf

¹⁰ A reliable record is one whose contents can be trusted as a full and accurate representation of the transaction. In order to achieve the appropriate level of trust, the record should also display sufficient levels of authenticity, integrity, and usability. See: ISO 15489-1:2001, *Information and documentation -- Records management -- Part 1: General* (ISO, International Organization for Standardization, Geneva, 2001) www.iso.org.

2.4 Design Requirements

14. This guidance has a three-level structure:

- A high-level design principle;
- Specification of software-based controls or functions to implement each principle; and
- A list of audit reports to test the operation of each control or function.

15. The incorporation into software of design features that meet these principles will be of great value to a business attempting to achieve and maintain a satisfactory level of tax compliance. The accurate processing and recording of accounting data will also be enhanced, thus enabling such a business to control its activities, safeguard its assets, and monitor profitability. These will also assist both public and private sector auditors in their subsequent verification of the tax declarations made by businesses.

2.5 Principles

16. This guidance has been produced in accordance with the following principles as they apply to computerised business and accounting systems:

Principle 1: Integration of internal controls and tax protection controls into business and accounting software;

Principle 2: Production of audit trails to prove events and transaction values by recording the progress of individual entries from inception to final recording in the accounts (and reverse), together with amendments to standing data held in master files;

Principle 3: Procedures to ensure the reliability of electronic records;

Principle 4: The facility to export data, including the production of a SAF-T that will allow non-specialists to extract required audit data;

Principle 5: Software that allows users to file tax returns electronically;

Principle 6: Archive procedures which ensure the reliability and readability of electronic records after an extended period; and

Principle 7: Provision of comprehensive documentation for users of software products.

Principle 1: Integration of internal controls and tax protection controls into business and accounting software.

17. It is a fundamental objective for a properly run business that there should not be any unrecorded assets, liabilities, entries or events, or undisclosed items in its accounting systems.

18. Internal controls are the policies, procedures, practices and organisational structures put into place by a business in order to reduce risk and to provide a reasonable level of assurance that business objectives will be met. Internal controls are largely generic irrespective of the business type, e.g. the need to control completeness of processing is a requirement for all systems. Systems that feature specialised electronic front ends such as e-commerce and EPOS effectively require similar controls to off-line systems, although an emerging risk is to be found in the trend for integration of systems between trading parties where each may rely on the activities of each other in assessing overall risk.

19. Tax protection controls are a type of internal controls that provide assurance that all transactions are completely and correctly taxed. This is achieved by triggering tax events based upon the relevant criteria and by incorporating tax regulations on the correct tax base and rates into the software.

Specific requirements for MNEs and other large enterprises

20. The principle of support of internal controls is applicable for business and accounting software that is intended for use in larger organisations where internal control systems and procedures can be expected.

21. The examination of internal control procedures forms a substantial part of audit programmes. A review of these controls provides assurance that assets are safeguarded and that entries are properly authorised and completely and correctly recorded in the accounting records, although in businesses where there may be an insufficient segregation of duties, evidence of their application may only be obtained by use of substantive testing.

22. Although an electronic environment may change the way internal controls operate, the basic principles of each control type will still apply. In a wholly electronic system the established practice of testing the operation of internal controls by scrutiny of paper documents containing entry and control information is no longer viable, particularly where no such document may ever have existed. The proof of these internal control processes having occurred may also be held electronically, and these control records will also require some form of mechanism to validate their authenticity and reliability over a period of time. The reliability of electronic records is also one desired outcome of internal controls.

Specific requirements for SMEs

23. The majority of businesses worldwide are classified as SMEs, and issues of internal controls and the reliability and authenticity of supporting documentation are particularly pertinent for these businesses. Many internal controls that are routinely applied by large businesses may not be practical or cost-effective for SMEs. SMEs often display a particular weakness in that separation of duties can be ineffective or non-existent. This can compromise their overall internal control procedures and may also make it difficult for an auditor to detect unrecorded amendment and deletion of records. In these cases sufficient levels of reliability and authenticity are best achieved by the application of appropriate technologies to the electronic record, including the development of software with specific design features that maintain the integrity of accounting records and record their alteration if necessary.

Recommendation: Developers are encouraged to ensure that application software incorporates adequate internal controls and tax protection controls to ensure reliability of entry processing.

Principle 2: Production of audit trails to prove events and transaction values by recording the progress of individual entries from inception to final recording in the accounts (and reverse), together with amendments to standing data held in master files.

24. There is an underlying need for the business or accounting system under scrutiny to provide the auditor with an adequate audit trail for a reasonable level of audit assurance. In essence, information on a tax return should be both traceable and capable of reconciliation back to accounting and business records. The source of this audit information is largely (although not exclusively) based on transaction entries and events such as changes to system parameters such as master files.

25. The audit trail may also cross-reference against each entry any links to other associated processes and events such as receipts, payments, stock inventories, and even front-end systems, all of which may

have their own audit trails. Audits that involve specialised trade sectors may also require non-invoice information. Tax auditors for GST/VAT will also need evidence of the tax rate charged on supplies of goods and services over a period of time, together with any amendments. The audit trail should also document the operation of internal controls together with the outcomes.

26. Note that while it was for many years the mark of a good paper-based business or accounting system to have a full and visible audit trail, the practicalities of electronic records found in computerised systems means that audit trails even while complete, will now be invisible to the auditor at certain points.

27. Special reports may be needed to ensure that the auditor can identify and review the audit trail. These reports could include a history of changes to relevant standing data (such as codes, rates, product & customer liabilities and currency changes etc.), together with the identification of who made the changes.

Recommendation: Developers are encouraged to ensure that application software creates adequate audit trails to assist auditors gain audit assurance.

Principle 3: Procedures to ensure the reliability of electronic records.

28. To achieve a set of reliable electronic records and documents is one outcome of internal controls. A reliable electronic record or document is one whose contents can be trusted as a full and accurate representation of the original. In order to achieve the appropriate level of trust, the record should also display sufficient levels of authenticity, integrity and usability.¹¹

29. In modern business and accounting systems there are two types of data where the issue of reliability is particularly important and different approaches are necessary to assure the reliability for both types. Firstly, there are the entries made in a business or accounting system database. Secondly, there are a growing number of electronic source documents in many different forms, which are often located and stored outside of a database. For example, paper source documents, including documents produced externally by third parties, are increasingly being retained electronically by use of scanning technologies along with (partly) system-generated records. These must also be considered as electronic source documents.

30. In the case of electronic source documents, the two significant aspects of reliability are the authenticity of origin and integrity of the contents. Electronic source documents must therefore be subject to appropriate security controls, both in terms of access and to prevent, or at least detect, either deliberate or erroneous amendments or deletions.

31. The application of security procedures in conjunction with appropriate technologies to both the system and the records held therein is a key requirement in achieving reliable records kept and maintained to a satisfactory standard (note that such controls will not prevent any fraud involving the deliberate omission of records kept outside of a business or accounting system).

Recommendation: Developers are encouraged to ensure that all records held electronically are validated and protected by appropriate software technologies.

¹¹ International Organization for Standardization (ISO) (2001) ISO 15489-1:2001, *Information and documentation -- Records management -- Part 1: General*, ISO, Geneva, Switzerland. www.iso.org

Principle 4: The facility to export data, including the production of a SAF-T that will allow non-specialists to extract required audit data.

32. In most cases, incorporation of the SAF-T into software as an export facility as described in the companion guidance note “Guidance for Standard Audit File - Tax” would provide a ready source of data for compliance and substantive testing of accounting systems. However, in some instances auditors will have additional requirements for testing. This means that a more extensive download of accounting data will be required.

Recommendation: Developers are encouraged to ensure that software incorporates the facility to export data for use in compliance and substantive testing.

Principle 5: Software that allows users to file tax returns electronically.

33. The basic information for tax returns usually derives from business applications such as accounting systems. These systems produce both the periodic returns for VAT/GST filing and the annual financial statements that often form the basis for the reported profit in the income tax return.

34. Business and accounting software can also produce the information used for filing tax returns. An electronic means of filing and declaring tax due in the correct format is a desirable feature of software packages and is a legal requirement in some countries. The electronic provision of these items as Business to Government (B2G) and Government to Business (G2B) communications offers efficiency gains to both taxpayers and revenue bodies.

35. Generally accepted standards on standing data (e.g. EAN-codes, ISO-country codes, standard charts of accounts, etc) should be used where possible.

Recommendation: Developers are encouraged to provide an electronic export facility for the information necessary to prepare tax returns.

Principle 6: Archive procedures which ensure the reliability and readability of electronic records after an extended period.

36. Revenue bodies generally perform audits on the basis of the annual financial statements of the business. In order to keep the costs of administration at an acceptable level most (but not all) revenue bodies will audit the tax returns and financial statements of a business not on an annual basis but less frequently and cover longer periods of time. The balance between the additional costs for businesses to retain source documents and accounting records longer than strictly needed for commercial reasons and the need for revenue bodies to minimise the costs of effective administration is provided in most countries by a legislated retention period for books and records. This period will differ between jurisdictions.

37. Accounting systems should provide the user with a function to easily copy detailed information to an archive for future audit.

38. A prime concern for an auditor when reading an archived record is assurance that it is capable of being verified as an original, i.e. the record under scrutiny is identical to the one on which the original accounting entry was based. A further important requirement in this context is that the software must be able to recreate the SAF-T.

Recommendation: Developers are encouraged to ensure that archive procedures maintain the reliability and readability of electronic records after an extended period and allow auditors to retrieve records as required.

Principle 7: Provision of comprehensive documentation for users of software products.

39. Systems documentation is an important feature of computerized business and accounting software. It will help to save support time and associated costs for users while increasing their confidence in using the system. Types of documentation include printed manuals, and help facilities, both system-based and on-line. On-line help can include Knowledge Bases and Discussion Groups.

40. An auditor needs to have a clear understanding of the accounting and internal control systems in place before performing compliance and substantive tests, and therefore in turn needs access to relevant systems documentation. The ability of users and auditors to operate and understand software depends considerably on the completeness, accuracy and accessibility of documentation regardless of the delivery method.

Recommendation: Developers are encouraged to ensure that application software features comprehensive documentation to assist auditors and users in their understanding of the system, the processing and its environment.

3. Specification for Controls, Functions and Audit Reports

41. In the previous part, general principles were defined and explained. In this part, each principle will be accompanied by the most important controls and functions from an audit perspective. In addition, a business wishing to develop a system of voluntary compliance will wish to assure the correctness of its tax declarations. Therefore, where possible, the control or function will come with one or more reports necessary for self audit or internal audit. These reports are not an exhaustive list, and additional reports may be needed for specific applications.

42. This Specification only applies to the software processing functions of a business or accounting system. These functions may be supplemented by additional controls external to the computer system. The operation of these external controls is outside the scope of the Specification.

43. The Specification is intended to be equally applicable to direct and indirect taxes. However, there may, be some elements of the Specification that are more appropriate to some tax types than others and these are marked in the text accordingly.

44. It is entirely a matter for each revenue body as to which, if any, level of the Specification is suitable for use within their domestic compliance framework and to what extent they may implement the exact requirements for individual functions within the Specification.

3.1 General requirements for reports

45. The software used to produce the audit reports mentioned in this part should meet the following general requirements:

- A user shall be able to specify the date and value range of any summary or transaction detail report.

- The criteria used to produce a report shall form part of the report itself.
- Each reported transaction shall include a reference to allow full details of the transaction to be retrieved from the system.
- Any standing data (e.g. tax rate) not retained by the software shall be replaced by a recorded data item that performs an equivalent function (e.g. tax code).
- The contents of any specified report can be printed, exported, or retained electronically on request.

46. The minimum data items that should be included on transaction reports specified in this section are:

- transaction type
- transaction ID
- transaction date
- transaction posting date
- authoriser
- supplier or customer account number or other unique reference
- recipient's or issuer's transaction reference
- gross transaction value.

47. For tax reports the following data items should also be included:

- tax code
- transaction tax total
- tax return identifier

Recommendation: Developers are encouraged to ensure that application software contains facilities to allow audit automation to assist auditors gain audit assurance and enable businesses to self-test their tax data.

3.2 Internal controls and tax protection controls

48. There are a number of internal controls and tax protection controls.

Control or function: Segregation of duties through a system of access to functions and/or tasks.

Audit report Value and number of items processed by transaction type within operative ID.¹²

Control or function: Processing controls to protect and ensure the integrity of the information, and that it remains correct throughout processing.

Audit report Exception reports on changes/removals of provisional and posted transactions (risk: unauthorised change/removal of transactions).¹³

Control or function: Input and output controls to ensure accuracy and security of data created, received and transmitted and to ensure that data is processed only once.

Audit report Listings of transactions that may have been posted more than once.

Audit report Listings of any inconsistency in tax period processing dates that may lead to late or early tax claims or payments.

Audit report Listings of any inconsistency between tax and other document values.

Audit report Listings of any inconsistency between tax values and the tax status of the supplier or customer, where held by the software.

Control or function: Ability for the user to mark any period associated with a tax return as open or closed. The software will prohibit the posting of, or modification to, the tax data for any period marked as definitely closed.

Audit report Exception report on changes of tax data after closing of a period.

Audit report List of open periods.

¹² The risk is that a particular task may be performed by a user without an appropriate level of authorisation, or a user, who has authorisation, but who normally does not perform this task.

¹³ Changes and removals of posted transactions should not be allowed. If necessary, a new journal entry can be made to correct the transaction.

Control or function: Purchases (input) tax: Where the software identifies separately the elements of tax from a purchase invoice that are either:

- (i) fully deductible or recoverable tax; or*
- (ii) partly deductible or recoverable tax; or*
- (iii) non-deductible or recoverable tax;*

the software shall store the amounts of tax treated as either deductible (recoverable) or non-deductible (non-recoverable)¹⁴ and bring forward the deductible amount for tax accounting and declaration.

Audit report Transactions with total tax and recoverable and non recoverable part.

Control or function: Sales (output) tax: Where the software identifies separately the elements of tax from a sales invoice that are either:

- (i) at different positive tax rates or*
- (ii) at zero tax rates; or*
- (iii) are fully exempt from tax; or*
- (iv) are outside the scope of the tax*

the software shall store both the sales value net of tax and the amount of tax by rate and category¹⁵ and bring forward the amount due for tax accounting and declaration.

Audit report Net amount and tax by rate and category of a sales invoice.

Audit report Net amount and tax by rate and category for any goods or services, by period or year.

3.3 Audit trails

49. There are a number of audit trails.

Control or function: An audit trail that records the processing of an entry from source information or documents to final recording in ledgers (and vice versa).

Audit report Audit trail of any transaction, or any summary record to any transaction details.¹⁶

Audit report Transaction level reports that enable every value on each tax return report or related report to be traced to source documents, including any processing of associated information for each transaction (and vice versa).¹⁷

¹⁴ Tax deductibility in certain expenses categories is either partly or wholly disallowed under tax law in some jurisdictions.

¹⁵ For example, to indicate the time when tax is due.

¹⁶ Best achieved through drill down facilities from any report.

¹⁷ This applies to all tax data in accordance with the data retention requirements of domestic legislation.

- Audit report Transaction level reports that enable every value in the Trial Balance report to be traced to source documents, including any processing of associated information for each transaction (and vice versa).
- Audit report Exception report on not/not completely processed transactions, i.e. transactions where the audit trail is not complete.
- Control or function: Controls to ensure that criteria used to process data are correct (standing/configuration data controls)*
- Audit report Report of all (fiscal relevant) standing/configuration data, with an explanation of the consequences of the setting.
- Audit report Where amounts of tax are verified against or calculated from an allocated tax code: a report of the tax codes, the assigned rates, other relevant data and any effective from/to dates.
- Audit report Where the software holds a history of the exchange rates of foreign currencies to facilitate tax accounting, it shall be able to produce a report by currency detailing the rates and their applicable dates.
- Control or function A history of changes to relevant data (such as codes, rates, product & customer liabilities, and currency changes etc.), together with identification as to who made the changes.*
- Audit report List of changes to standing and configuration data.
- Control or function: An audit trail that records the operation of interface points between entry files and General Ledgers.*
- Audit report List of entries that pass through the interface control procedures.
- Audit report Entries that fail interface control procedures are reported for corrective action.
- Audit report Entries that initially failed interface control procedures with evidence on corrective actions task.
- Control or function: Electronic records of transactions covered by a trading partner agreement of Electronic Data Interchange (EDI).¹⁸*
- Audit report Transactions, triggered by EDI messages, including readable source messages, directly derived from the electronic records.
- Control or function: Upgraded software should also be capable of reading data processed by an earlier version. Audit trails should stay intact.*
- Audit report Report giving evidence that the most significant control totals of previous periods match totals calculated by the upgraded software.

18 This also applies to XML transactions that may be transformed into a human readable document by use of a style sheet, which also should be retained.

3.4 Reliability of electronic records

50. There are a number of controls concerning the reliability of electronic records.

Control or function: In the case of electronic source documents, the software is able to verify the integrity of the documents.

Audit report Exception report of instances of failures.

Control or function: Software should be able to identify unauthorized changes to the database.

Audit report Exception report of unauthorized changes.

3.5 Data export facilities

51. There are controls concerning data export facilities.

Control or function: download of complete and accurate data for tax audit purposes (from the current database, but also from an archive).

Audit report Any requested report, accompanied by a description of the structure of the data and totals.

Control or function: download of tax audit data as expressed in the SAF-T.¹⁹

Audit report Standard Audit File.

3.6 Electronic tax return filing

52. There are controls concerning electronic tax return filing.

Control or function: Tax return information.

Audit report Report of amounts used to create the tax return.

Audit report A reproduction of the report showing all the transactions which were included in the original tax return or report.

Control or function: The software should not allow any changes to the figures accounted from the system for the tax return.²⁰

Audit report Non transaction - based journal entries, influencing a tax return.

¹⁹ SAF-T or a data export can be produced either unencrypted or encrypted. Encryption can be used to maintain confidentiality of data. If encrypted, then when transmitted electronically or written to storage media such as DVD, CD, memory stick, etc. current best practice indicates the use of a Public Key Infrastructure (PKI) system. However the type and specification of such encryption will remain a matter for each revenue body.

²⁰ Where adjustments to amounts are necessary, a journal entry should be made.

3.7 Archiving

53. There are controls concerning archiving.

Control or function: Archive function that guarantees complete and correct archiving of data, and its integrity for the retention period.

Audit report List of available archive sets with details of the last test.

Control or function: Assuring the integrity of the archive for the whole retention period.

Control or function: Data conversion function must not result in a loss, destruction, or alteration of data.

Audit report Reproducible data conversion report that includes a field-to field conversion list, control totals (records, numbers, amounts) and the results of comparison of the data before and after conversion.

Control or function: To restore archived data without affecting current accounting data.

3.8 Documentation

54. All documentation should be in the language and character set of the country in which the product is being used.

Control or function: Information on how to configure the tax significant processing options and controls offered by the software. This includes any processing option that can directly or indirectly affect the input, creation, amendment, deletion or reporting of a tax value.

Control or function: Major changes to electronic record keeping systems should be properly documented in order to preserve an accurate chronological record.

Control or function: Information on the interpretation of all audit reports

Control or function: Information on how to set the criteria by which records are reported

Control or function: Information on how to download the data should be properly documented.

Control or function: Information on the data model should be available on request.

4. Options for Implementation

55. The implementation of these Guidelines at a national level will be the responsibility of individual revenue bodies. As any process of implementation will need to reflect national cultures and approaches, revenue bodies are encouraged to begin with an implementation plan.

56. The successful implementation of such a plan, if not made otherwise mandatory by legislation, will depend on the engagement and co-operation of other stakeholders such as software developers, accountancy bodies and businesses.

Recommendation: Revenue bodies may therefore wish to consider as part of an overall implementation strategy to analyse and promulgate to stakeholders benefits that will encourage their participation.

57. Examples of these include:

- Developing a clear standard to improve the accuracy of tax returns that represents best practice developed with the stakeholders themselves.
- Improvements to audit functionality within software will provide users with the necessary tools, if used correctly, to obtain assurance that the data on which their tax return is based is correct.
- Investing in compliant software could allow businesses to spend less time and resources on maintaining internal controls for tax, allowing them to spend the time saved on other areas of their business. This also applies to the production of tax returns.
- Larger businesses will be able to demonstrate improved corporate governance of tax systems through the controls applied by using compliant software.
- The production of the Standard Audit File – Tax allows users to easily extract their data for inspection. This facility should reduce the cost of supplying data to revenue bodies, or other third parties such as accountants or auditors.

58. This is not an exhaustive list, and revenue bodies may find additional items that pertain within their jurisdiction.

59. A plan may also include bilateral or multilateral co-operation with other revenue bodies. This type of approach would help reduce the differing requirements faced by businesses operating in multiple jurisdictions. It would also enable software developers to work to a standardized core implementation that could be adapted to individual country requirements.

Recommendation: Revenue bodies are encouraged to begin with an implementation plan, which may include bilateral or multilateral co-operation with other revenue bodies.

60. In order to encourage take-up of the guidance by developers and others it would be helpful for revenue bodies to work together with software developers and, where considered appropriate accounting organizations, to incorporate the guidance into their accounting software packages.

Recommendation: Revenue bodies are encouraged to work with business system developers and accounting organisations to incorporate this guidance, including the Standard Audit File-Tax, into their accounting software packages.

61. As part of a collaborative approach between software developers and revenue bodies, the latter may test and evaluate business and accounting software that is or will be used by large numbers of enterprises. In those countries where this is established practice, it would clearly be helpful for this guidance to act as one of the criteria against which such software is tested.

Recommendation: Revenue bodies are encouraged to incorporate this guidance into their evaluation processes of business and accounting software.

62. Revenue bodies increasingly look to taxpayers to submit returns electronically, reducing costs for both parties. In these circumstances it makes sense for software developers to build an electronic export facility for the information necessary to prepare tax returns. Therefore, in order that taxpayers can more

easily submit returns electronically, a consistent approach will be to the advantage of all. In order to achieve this, revenue bodies should work closely with software developers.

Recommendation: Revenue bodies are encouraged to work with business system developers to incorporate into their software the facility to file tax returns electronically.

63. Taxpayers may also have obligations towards other government agencies, such as trade departments or statistical agencies. In developing software that will support both tax accounting and the requirements of other such agencies it will be helpful if revenue bodies work in co-operation with colleagues from these agencies. Similarly, other business associations and accountancy bodies may also have an interest in ensuring that there is consistency across systems.

Recommendation: Revenue bodies are encouraged to work with other regulatory agencies, business associations and accountancy bodies to promote the SAFs as a means of exporting accounting information.

64. By using business and accounting data retained in a standard audit file for audit and verification, revenue bodies will make savings in audit resources and there will be reduced compliance burdens on business.

Recommendation: Revenue bodies are encouraged to use the SAF-T approach in their audit and verification process.

65. At present it is the responsibility of national revenue bodies to implement this guidance in line with their own domestic circumstances. However, there is a danger that in so doing the wider global perspective might be lost. Increasingly businesses are operating across national boundaries and consistency in reporting standards will help businesses meet their international tax compliance obligations. As the guidance is implemented the question of international compatibility is likely to grow and the implications for international co-operation on this guidance will become more important.

Recommendation: Revenue bodies are encouraged to work with relevant regulatory agencies, business associations and other organizations, such as developers of accounting software and private auditors, to promulgate this guidance and SAF-T, including consideration of an appropriate regulatory framework.

Recommendation: Revenue bodies are encouraged to work with relevant regulatory agencies, business associations and other organizations such as Standards Bodies to determine the extent to which international standards might be appropriate.

5. Accreditation

66. Implementation may be linked to a system of accreditation whereby compliant software is approved by Government, either directly or in partnership with others.

67. Some examples are as follows:

- i) A revenue body publishes the specification and offers an accreditation to its developers. The service offered could range from testing in-house by the revenue body to self-certification by the software house. Compliant software can then be registered with the revenue body, subject to any renewal procedure.
- ii) A revenue body publishes the specification but offers no accreditation or registration services. Developers can perform and publicise their own self-certification.
- iii) A revenue body works with a recognised national standards body to develop the specification into a Standard and manage the accreditation process. This offers the possibility of a National Standard leading to international accreditation through the International Standards Organisation (ISO).

68. Each of these approaches may be implemented to reflect the structure of this Specification. A revenue body could position its accreditation regime using any combination of the controls, functions and audit reports or production of the SAF-T.

69. However, the FTA acknowledges that for some revenue bodies implementation of a Specification for the tax processing functions of business accounting software with an associated accreditation process may be at variance with existing compliance policies.