

Chairperson and Committee Members
AUDIT AND RISK COMMITTEE

16 FEBRUARY 2017

Meeting Status: **Public**

Purpose of Report: For Noting

TAX STRATEGY AND IMPROVEMENT PROGRAMME UPDATE

PURPOSE OF REPORT

1. This report informs the Audit and Risk Committee of the Tax Governance Framework and Operational Tax Risk Management Strategy that has been actioned since the last progress update provided in August 2016.

DELEGATION

2. The Audit and Risk Committee has delegated authority to consider this report under the following delegation in the Governance Structure and Delegations, Section B.3.

Ensuring that Council has in place a current and comprehensive risk management framework and making recommendations to the Council on risk mitigation;

BACKGROUND

3. In late 2015, the Inland Revenue Department (IRD) focussed on Local Government and initiated a tax compliance review of Kāpiti Coast District Council. To best position Council with this review, PricewaterhouseCoopers (PwC) were engaged to complete a full review of Council's tax compliance. PwC determined that generally, the Council maintained a high-level of tax compliance but recommended several areas for improvement.
4. Although Council is currently exempt from paying corporate income tax, it is required to correctly account for Goods and Services Tax (GST), Fringe Benefit Tax (FBT), PAYE, and a range of other withholding taxes. The view is that Audit and Risk Committees of public sector organisations are too often overlooking their organisation's tax risk, despite such organisations administering a significant amount of tax.
5. Inland Revenue has signalled its expectation that all large organisations should have tax risk management incorporated within their governance framework. This is consistent with international best practice and tax authorities in foreign jurisdictions, including Australia and the United Kingdom, advocating that this approach is taken by large public and private sector organisations.
6. In response to this growing push for improved tax governance practices, Council officers have worked closely with PwC to develop tax governance framework and strategy that outlines the Council's approach and/or controls to tax risk management.

TAX GOVERNANCE FRAMEWORK

7. The Council's tax governance framework was developed to best ensure that the Council effectively manages its tax obligations and potential risks and achieves an open and honest working relationship with the Inland Revenue Department.
8. The tax governance framework is based on a "best practice" framework for the delegation, review and reporting of tax responsibilities and includes the following key aspects:
 - *Responsibility for Tax Issues:* The Chief Financial Officer has the overall responsibility for the management of the tax issues of the Council. As appropriate, this may be delegated to appropriately qualified person/s.
 - *Reporting Tax Risks to the Audit and Risk Committee:* Any significant tax risks will be reported to the Chair of the Audit and Risk Committee within two weeks of being identified.
 - *Tax Awareness and Training:* All relevant staff will be provided with adequate training and resources to effectively identify and manage the Council's tax obligations and risks.
 - *Meeting and Correspondence with the Inland Revenue Department:* Council will endeavour to maintain strong working relationships with the Inland Revenue Department, other government bodies and related third parties.
 - *Tax advice and rulings:* Council will seek external expert tax advice if any uncertainty is identified in respect of a filing position where the amount of tax exceeds \$10,000.
 - *Tax Returns and Payments:* Council will file all tax returns and pay any resulting tax liability on, or before, the stipulated due dates. All returns will be supported by detailed tax computations.
 - *Filing and Record Keeping:* Council will retain all tax records in terms of the Tax Administration Act 1994. To enable efficient retrieval, the Council will maintain a detailed Index of relevant tax files.
 - *Regular reviews:* To ensure that the tax compliance procedures used by the Council are up to date and accurate, an independent external review of GST, PAYE/Withholding Taxes and FBT should be undertaken every three years.
 - *Penalties and voluntary disclosures:* Council must make a voluntary disclosure when a tax discrepancy is identified and thereby minimise any penalties and Use of Money Interest.
 - *Tax policies:* Council must maintain a tax policy that ensures consistent treatment and application across the organisation.

TAX RISK MANAGEMENT STRATEGY

9. The tax governance framework informs an operational tax management strategy which must be reviewed annually. This strategy identifies the following:

- key areas of tax compliance risks relevant to the Council;
 - Detail the required actions to reduce and/or mitigate these risks; and
 - Provide clear timeframes to complete these actions.
10. For the year ending 30 June 2017, the following actions will be undertaken:
- review the matters identified in Council's comprehensive tax compliance review in 2016;
 - Seek external advice on major tax issues; and
 - Provide tax awareness training to relevant staff members. PwC are hosting two training sessions to budget holders during February 2017. The first session took place on 7 February and was attended by 39 staff members.
11. An annual update will be provided to the Audit and Risk Committee. This will detail the relevant tax developments during the financial year and provide external assurance regarding the steps that Council has undertaken during the year to manage or mitigate any identified risks.

CONSIDERATIONS

Policy considerations

12. There are no policy considerations arising from this report at this stage.

Legal considerations

13. There are no legal implications arising from this report.

Financial considerations

14. The consultancy costs incurred to action the tax governance framework and operational tax risk management strategy are provided for in the 2016/17 Annual Plan. No new money is required.

Tāngata whenua considerations

15. There are no Tāngata whenua considerations arising from this report.

SIGNIFICANCE AND ENGAGEMENT

Degree of significance

16. This matter has a low level of significance under Council policy.

Publicity

17. There are no publicity considerations arising from this report.

RECOMMENDATIONS

18. That the Audit and Risk Committee notes the Tax Governance Framework and Operational Tax Risk Management Strategy that has been actioned since the last progress report in August 2016.

Report prepared by:

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