

Chairperson and Subcommittee Members
AUDIT AND RISK SUBCOMMITTEE

18 AUGUST 2016

Meeting Status: **Public**

Purpose of Report: For Information

PROGRESS UPDATE OF INLAND REVENUE COMPLIANCE REVIEW

PURPOSE OF REPORT

- 1 This report provides the Subcommittee with a progress update on the taxation compliance review completed by the Inland Revenue Department (IRD) in July 2016.

DELEGATION

- 2 The Audit and Risk Subcommittee has delegated authority to consider this report under the following delegation in the Governance Structure, Section C.3.7 - Without limiting the generality of this delegation the Subcommittee has the following functions, duties and powers:

Internal Control Framework

- 7.1 *Review whether management's approach to maintaining an effective internal control framework is sound and effective*

BACKGROUND

- 3 On the 17 November 2015, the IRD notified the Kāpiti Coast District Council that they were undertaking an initial risk review of the Council's tax obligations and compliance for the year ended 30 June 2014.
- 4 Specifically, the IRD's compliance review was focussed on all taxation matters relating to Goods and Service Tax (GST) and remuneration.
- 5 Council was required to complete a risk review questionnaire by 12 February 2016. This provides the IRD with a preliminary review of Council's records and is used to determine whether a formal tax audit is required.
- 6 External taxation consultants, PricewaterhouseCoopers (PwC), was engaged to complete a full taxation compliance review, assist Council with the timely completion of the risk review questionnaire and to assist Council to notify the IRD of any tax errors (if any were determined).
- 7 PwC determined that Council had incorrectly accounted for tax in relation to several GST, PAYE and FBT matters. PwC also recommended Council-wide taxation training, sufficient to the level of seniority and responsibility of council employees.
- 8 The completed risk review questionnaire together with a proposed GST apportionment methodology was submitted to the IRD in February 2016.
- 9 On Council's behalf, PwC submitted a voluntary disclosure of all identified taxation errors to the IRD in April 2016.

ISSUES

- 10 The IRD require all taxation errors to be retrospectively back-dated up to a maximum period of four years (if applicable). The Commissioner of the IRD considers whether resources needed to amend tax assessments exceed the monetary value of the requested amendments.
- 11 In late July 2016, The IRD notified the Council that their review of Council's risk review questionnaire, voluntary disclosure and proposed GST apportionment methodology (including all supplementary information provided), had been completed.
- 12 By agreement with Council, the IRD assessed Council's requested tax amendments on specific basis and for specific periods only. In summary, the IRD findings were as follows:
 - 12.1 Council's GST apportionment methodology produces a fair and reasonable GST apportionment; and
 - 12.2 No penalties were found to be applicable to the tax shortfalls disclosed;
 - 12.3 Use of money interest is payable/charged on the tax overpayments/shortfalls from the relevant original due dates; and
 - 12.4 Council must ensure that system and processes must be in place to prevent non-compliance in the future; and
 - 12.5 No further audit investigation / audit was required.

CONSIDERATIONS

Policy considerations

- 13 There are no policy implications arising from this report.

Legal considerations

- 14 There are no legal implications arising from this report.

Financial considerations

- 15 The IRD has not completed their calculation of the total tax shortfall and the use of money interest at the time of issuing this report. An estimated tax shortfall (including interest) of \$97,000 was included in the 2015/16 financial year.

Tāngata whenua considerations

- 16 There are no tāngata whenua considerations.

SIGNIFICANCE AND ENGAGEMENT

Degree of significance

- 17 This matter has a low level of significance under the Council policy.

Publicity

18 There are no publicity considerations.

RECOMMENDATIONS

- 19 The Audit and Risk Subcommittee notes that the Inland Revenue Department has completed their review of Council's risk review questionnaire and has found that no further investigation/audit is required
- 20 The Audit and Risk Subcommittee notes that regular progress reports on implementing the tax compliance recommendations will be provided.

Report prepared by

Approved for submission

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**Anelise Horn
Manager, Financial
Accounting**

**Mark de Haast
Acting Group Manager
Corporate Services**

**Sean Mallon
Group Manager
Infrastructure Services**