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GST/HST ADMINISTRATION CHECKLIST

A self-assessment tool for the management of
GST/HST Administration

Foreword

This GST/HST Administration Checklist has been prepared as a practical tool to assist large and medium sized Municipalities, Universities, Schools and Hospitals (MUSH) in evaluating their management of the Goods and Services Tax /Harmonized Sales Tax (GST/HST) administration. However, other public sector entities and the private sector may find aspects of this checklist useful.

Self-assessment is an important step in improving GST/HST administration in your organization. Therefore, we encourage all organizations to use this self-assessment tool to assess the current status of their GST/HST administration practices.

Acknowledgement

The information contained in this GST/HST Administration Checklist has been adapted from a document entitled "GOODS AND SERVICES TAX (GST) ADMINISTRATION". The author of this publication was the Australian National Audit Office (ANAO) and it was published in May 2003.

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DISCLAIMER

This document is for information purpose only. Proper completion/filing of returns, and compliance with the taxing legislation is the responsibility of the tax filer.

Introduction

Purpose

This self-assessment tool has been prepared for managers and staff responsible for Goods and Services Tax and Harmonized Sales Tax (GST/HST) administration in large and medium sized MUSH organizations. A reasonable working knowledge of the GST/HST, and operational and financial systems is required when using this checklist.

This document briefly describes six better practices that can help organizations improve their management of the GST/HST administration. Below each practice a *Better Practice Checklist* is included in order to determine if this practice exists in your organization. An organization that can answer yes to most of the indicators is likely to be using the better practices effectively in GST/HST administration. If most of the answers are negative responses, the organization needs to consider whether its current practices for GST/HST administration meet the organization's objectives and compliance requirements.

In addition to the administration checklist, a detailed guide *Goods and Services Tax and Harmonized Sales Tax Administration* is available through the Canada Revenue Agency (CRA) to help organizations improve on their current practices. The guide focuses on the administration of GST/HST – how to **manage and process** GST/HST rather than specific **technical or system** treatments. If an organization formally links its GST/HST 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/HST risks.

Organizations should first use the self-assessment tool to assess the current status of their GST/HST administration practices and, where necessary, consider action plans for process improvement.

Why this Better Practice Checklist is relevant

GST/HST impacts the expenditure, revenue and reporting cycles. Also, GST/HST impacts an organization's relationships with its suppliers and customers, and most transactions. The challenges presented by GST/HST administration are wide reaching and varied.

In this context, as in other areas of public administration, MUSH organizations are expected to adhere to good practice in complying with their GST/HST obligations. Responsibilities extend to developing and maintaining a GST/HST internal control environment so that all Chief Executive Officers (and Boards) manage their organizations effectively, efficiently and economically for GST/HST purposes. Furthermore, MUSH organizations need to continuously monitor both their legislative and business environments to ensure ongoing GST/HST compliance.

MUSH organizations 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/HST, and/or potential cash flow issues.

Six Better Practices

Managers at MUSH organizations with effective and efficient GST/HST processes use the following six better practices to administer their GST/HST obligations.

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

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

Better Practice No 1

Apply a risk management approach to GST/HST administration

Introduction

Risk management is an integral part of MUSH administration, including GST/HST administration. GST/HST administration presents a number of risks that require management since GST/HST decisions and treatments are required on most transactions between an organization and its customers and suppliers, as well as most transactions processed by an organization.

The execution of a GST/HST risk management plan provides an organization with the basis for designing its control framework. If a MUSH organization formally links its GST/HST 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/HST risks. Well-managed GST/HST administration provides organizations with benefits such as:

- ensuring compliance with the legislation;
- cost efficient processing;
- fewer problems in GST/HST administration; and
- being able to deal with, and minimize the impact of CRA interactions.

Better practice checklist

A MUSH organization that **applies a risk management approach to GST/HST administration** will have implemented some or all of the following controls. This list is not intended to be prescriptive. The activities implemented by an organization will depend upon its operating environment.

Indicators of better practice	Your organization?
The organization has a formal risk management framework at the organizational level.	
The organization has delegated GST/HST risk management to an individual or group.	
GST/HST risks have been formally documented and linked to existing controls and any gaps identified.	
These controls have been tested and the risk is assessed as low.	
The GST/HST risk assessment is periodically reviewed for completeness and currency, as well as linked to the organization's test plan on an ongoing basis.	

An organization that can answer yes to most of these indicators is likely to be using risk management frameworks effectively in GST/HST administration. If most of the answers are no, the organization needs to consider whether its current risk management practices for GST/HST administration meet the organization's objectives and compliance requirements. The detailed guide *Goods and Services Tax and Harmonized Sales Tax Administration* is available through CRA to help organizations improve on their current practices.

Better Practice No 2

Establish an internal control environment that effectively supports GST/HST processing

Introduction

An effective internal control environment provides MUSH organizations with the basis of ensuring the integrity of GST/HST administration. Organizations should establish a control environment that clearly sets out GST/HST management and processing responsibilities and activities, as well as providing an information systems framework that is capable of properly supporting processing.

Better practice checklist

An organization that has established an effective control environment for GST/HST administration will have implemented some, or all, of the following controls. This list is not intended to be prescriptive. The activities implemented by an organization will depend upon its operating environment.

Indicators of better practice	Your organization?
Formal documented assignment of responsibility for GST/HST management.	
The GST/HST manager has professional qualifications and experience in managing financial, administrative and taxation matters.	
Documented organization structure and responsibilities.	
Centralise management, transaction processing and GST/HST reporting.	
Management and processing responsibilities have been clearly defined and are documented in individual position descriptions.	
Procedures are periodically reviewed for currency and completeness.	
Specialist advisers have signed off on system templates for generating invoices etc, in order to ensure that they meet the documentary requirements of the legislation.	
The organization has obtained an independent review to ensure that its accounting systems are GST/HST compliant.	
The full potential of accounting systems is used to accurately capture GST/HST related data. This will include validation, hierarchies, defaults , rounding, tax codes and reporting functionality.	
Transactions cannot be processed in the information system without recording GST/HST coding.	
The various types of transactions processed were reviewed to ensure the correct GST/HST treatments and it was confirmed that the correct coding was activated within the systems.	
Formal procedures define how system changes are to be undertaken.	
The system can produce exception reporting on GST/HST transactions outside normal processing parameters and responsibility for reviewing these reports is assigned.	
There is a current GST/HST training program to ensure that key personnel exercise due care and diligence.	
All staff has an understanding of the processing and control requirements for GST/HST related transactions.	

Assessment of the answers to these indicators will provide information as to whether an organization should implement further controls to achieve this better practice. The detailed guide *Goods and Services Tax and Harmonized Sales Tax Administration* is available through CRA to help organizations improve on their current practices.

Better Practice No 3

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

Introduction

Organizations need to have well-developed processes whereby complex and changing legislation and rulings can be interpreted and applied to a particular organization's operating environment. This better practice requires the identification, documentation and review of an organization's GST/HST transactions and related treatments.

Better practice checklist

An organization that **identifies and documents all GST/HST matters that relate to its operations** will have implemented some, or all, of the following controls. This list is not intended to be prescriptive. The activities implemented by an organization will depend upon its operating environment.

Indicators of better practice	Your organization?
The organization has formally assigned GST/HST management responsibility to an individual with appropriate skills.	
The organization has used risk assessment tools to evaluate its technical environment.	
The organization has completed a full assessment of the organization's transactions for GST/HST purposes. This is documented and periodically updated.	
The organization has documented a policy as to when external advice should be sought on technical issues.	
The organization reviews legislative changes and new/amended rulings to ensure technical positions taken are valid and current.	
The organization reviews new types of transactions and business activities to ensure technical positions are complete.	
The organization accesses technical tax resources from a variety of sources, including the CRA, professional organizations and specialist consultants.	
The organization documents the treatments of its transactions in formal position papers.	
CRA rulings are sought and copies of relevant rulings are reviewed.	
The organization has asked technical specialists to review its tax position papers and sign off on their compliance.	
Managers have considered the implementation of each technical position and have provided tools for staff that apply these technical positions or guide their application.	
The organization has tested the implementation of technical positions.	
Feedback from customers and suppliers in relation to GST/HST treatments is recorded and reviewed.	
The organization reviews position papers periodically in order to ensure currency.	

An organization that can answer yes to most of these indicators probably has processes that ensure GST/HST matters are identified and documented as appropriate. Negative answers may indicate that improvements are required. The detailed guide *Goods and Services Tax and Harmonized Sales Tax Administration* is available through CRA to help organizations improve on their current practices.

Better Practice No 4

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

Introduction

Because each organization's accounting systems and processes are different, there will be differences in the specific controls each organization needs to implement to be able to process GST/HST 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 organizations, GST/HST transactions occur in the expenditure, revenue, and reporting cycles and certain control requirements need to be met.

Better practice checklist

An organization that processes GST/HST transactions in an accurate, complete and timely manner will have implemented some, or all, of the following controls. This list is not intended to be prescriptive. The activities implemented by an organization will depend upon its operating environment.

Indicators of better practice	Your organization?
Staff consistently refers to a supporting documentation compliance checklist when entering invoices into the information systems.	
During processing, staff checks that the system record of the GST/HST amount is the same as the amount stated on the supporting documentation.	
Procedures exist so that adequate documentation is obtained for all payments made (such as payments by direct debit) before the input tax credit or rebate is claimed.	
There is a written procedure for mixed supplies so that the whole amount is not allocated to one GST/HST code.	
Decision tools and coding reference cards exist and are used to code transactions.	
Transactions, including payments and receipts, are processed in information systems on a timely basis.	
Organizations retain supporting documentation for the required statutory period in a manner that facilitates easy retrieval.	
Non-standard transactions are subject to additional review and authorization procedures.	
Systems require GST/HST coding and the issue of an invoice document upon receipt of cash.	
Journal entries cannot be processed in the information system without the allocation of a GST/HST code, and a review of the GST/HST coding on the journal entry.	
The sources and data flows of the GST/HST return information have been formally documented.	
System reporting is the principal source of data for the GST/HST return and requires minimal manual adjustments.	
GST/HST return preparation and authorization is segregated between competent individuals and both have received adequate training.	
The preparer and the authorizer refer to and complete a GST/HST checklist in order to ensure that the information recorded on the return is accurate and complete.	

Adjustments to GST/HST reporting are documented in a standard format supported by an audit trail and are reviewed by the authorizer.	
The GST/HST return preparer and authorizer understand CRA policy on the correction of errors.	
Access to CRA data is restricted to the authorized contact person.	
The timing of the filing of the GST/HST return is considered in relation to due dates and cash flow.	

A MUSH organization that answers yes to most of these indicators will probably have implemented the better practice. The detailed guide *Goods and Services Tax and Harmonized Sales Tax Administration* is available through CRA to help organizations improve on their current practices.

Better Practice No 5

Manage changes that impact on GST/HST administration

Introduction

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

- responding to legislative change and CRA ruling activity – including, for example, the issue of new GST/HST technical publications as well as the expiry of existing GST/HST rulings and interpretations;
- changes in the organization’s activities and structure – for example, entering into new transactions, changes to systems, changes to personnel and acquisitions and disposals of real property/businesses/activity areas; and
- managing relationships proactively with CRA over time.

Better practice checklist

A MUSH organization that manages changes that impact on administration will have implemented some, or all, of the following controls. This list is not intended to be prescriptive. The activities implemented by an organization will depend upon its operating environment.

Indicators of better practice	Your organization?
The GST/HST manager is formally responsible for the management of changes that impact on GST/HST administration.	
A current GST/HST issues list is maintained and reviewed.	
The organization formally monitors the continued validity of elections and uses this review to trigger CRA interaction.	
The organization has a process to review changes to legislation and CRA rulings, and considers any impacts on technical positions and procedures.	
The GST/HST manager provides input to steering committees for major projects, including those that involve change to information systems.	
The organization has identified the key individual who has the authority to interact with the CRA, and this person takes a proactive approach to building an effective relationship with the CRA.	
A policy exists that unauthorised staff members should not initiate contact with the CRA or respond to CRA queries.	
The organization reconciles CRA account statements to ensure errors are identified and refunds issued promptly.	
The organization ensures GST/HST registration details are kept up to date.	
The organization ensures all interaction with the CRA is documented and filed in an easily accessible manner.	
The organization has an appropriate level of documentation to assist in the event of any interactions with CRA.	

A MUSH organization that can answer yes to most of these indicators probably manages the impacts of change on GST/HST administration. If most of the answers are no, the organization probably needs to do more to implement this better practice. The detailed guide *Goods and Services Tax and Harmonized Sales Tax Administration* is available through CRA to help organizations improve on their current practices.

Better Practice No 6

Monitor and review the effectiveness of GST/HST administration.

Introduction

Better practice MUSH organizations use formal review mechanisms to continually improve the effectiveness of their GST/HST administration. MUSH organizations that formally review the effectiveness of GST/HST administration receive several benefits:

- Audit committees and senior management have access to an informed assessment of the integrity and effectiveness of their GST/HST 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.

Better practice check

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

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

A MUSH organization that can answer yes to most of these indicators probably has processes to formally review the effectiveness of GST/HST administration. If some of the answers are no, the organization probably needs to do more to implement this better practice. The detailed guide *Goods and Services Tax and Harmonized Sales Tax Administration* is available through CRA to help organizations improve on their current practices.

Conclusion

The use of this *GST/HST Administration Checklist* will provide confidence to organizations that they are managing their GST/HST administration in an effective and efficient manner. Organizations that identify gaps and weaknesses in the management of their GST/HST administration should review the detailed guide for assistance in improving on their current practices.