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GOODS AND SERVICES TAX AND HARMONIZED SALES TAX (GST/HST) ADMINISTRATION

A Better Practice Guide for the Management of GST/HST Administration

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Foreword

This Better Practice Guide has been prepared as a practical tool to assist large and medium sized municipalities, universities, schools, and hospitals (MUSH) in evaluating and improving their Goods and Services Tax and Harmonized Sales Tax (GST/HST) administration. However, other public sector bodies and the private sector may find aspects of this document helpful.

Users can take the ideas in this Better Practice Guide and adapt them to suit the needs of their particular organization. The guide is not mandatory, however, if users implement the better practices in this guide, they could end up with better GST/HST administration.

Acknowledgement
The information contained in this Better Practice Guide 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.

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

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Introduction

Purpose

The Better Practice Guide 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 municipalities, universities, schools, and hospitals (MUSH). A reasonable working knowledge of the GST/HST and operational and financial systems is required when using this guide. For the remainder of this document, the term GST will be used in place of, and will be considered synonymous with, the term GST/HST.

The guide focuses on the administration of GST – how to **manage and process** GST rather than specific **technical or system** treatments. The document provides an ideal framework for internal control over the management of GST administration. If an organization formally links its GST 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 risks.

Organizations should use the document to assess the current status of their GST administration practices and, where necessary, consider action plans to improve their practices. Depending on the size of the organization and the operating environment, it may not be cost effective to implement all aspects of this guide.

Why this guide is relevant

Statutory framework

Since January 1, 1991, organizations registered for the GST have been liable to charge GST on taxable supplies. They have also been entitled to claim input tax credits when acquiring or importing property and services for use in commercial activities. After the deduction of such credits, organizations must remit the net amount of GST to the Canada Revenue Agency (CRA).

In addition, MUSH organizations that meet the definition of a “selected public service body” under the *Excise Tax Act* (ETA) are entitled to claim a rebate on certain purchases of goods and services. It is important that these organizations record and claim all of their entitlements.

Implications

GST impacts an organization’s expenditures, revenue, and reporting cycles as well as its relationships with its suppliers and customers. The challenges presented by GST administration are wide reaching and varied.

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

In 2001, a MUSH audit project was started to test the level of compliance in this sector. Information was collected and is being provided to sector associations and members for education purposes to enhance future compliance with the ETA. The review also identified a need for compliance instruments that can be offered to the MUSH sector to assist them in meeting their obligations under the ETA.

Benefits

As noted above, legislative compliance is fundamental to GST administration. However, other benefits accrue from sound GST management, including:

- prevention of overpayment or underpayment of GST;
- processes that require fewer resources to resolve problems and queries are more cost-effective and make preparing a GST return easier;
- employees are motivated to support the organization’s GST objectives because they understand their tasks and have adequate tools and resources to perform them;
- understanding and streamlining the impacts of GST on transactions can facilitate relationships with other entities such as suppliers, customers, and the CRA; and
- cash resources can be properly managed by matching the timing rules of legislation to processing requirements effectively.

Six Better Practices

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

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

Because each MUSH organization's operating context, systems, and processes are different, the way that an organization **achieves** these better practices will depend on its GST 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.

Structure of the guide

Each of the guide's six chapters covers one of the better practices and gives advice on how to achieve them. Every chapter includes the following elements.

Risk context

The risk management framework is described in detail under the first better practice – *Apply a risk management approach to GST administration.* An underlying principle of the guide is that risk management frameworks are extremely useful for all organizations in managing GST. Each of the subsequent sections describes better practices that will assist in mitigating a range of GST risks and includes examples of GST risks that can be addressed through the better practice controls described.

Better Practice Checklist

Each chapter includes a checklist for the better practice in the form of **indicators**. These **indicators** include example control practices that might indicate the existence of the better practice. Organizations that do not have these controls in place recognise that opportunities to improve GST administration probably exist.

Documentation checks

The guide includes **documentation checks** for each of the better practices. These can be found at the end of every chapter.

A recurrent theme in this guide is that documentation to support all areas of GST administration is a key element of effective GST administration. Clearly, all MUSH organizations need to keep records of GST transactions to show compliance with the legislation. Furthermore, the complexity of GST requirements, as well as their development over time, means that robust documentation is necessary to explain transactions to managers and staff, and to provide the organization and external parties (such as the CRA) with assurance that there is evidence of a responsible approach to GST management.

Better Practice No. 1

Apply a risk management approach to GST administration

Introduction

Risk management is an integral part of administration by a public sector body, including GST administration. GST risk management 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 risk management plan provides an organization with the basis for designing its control framework. If a MUSH organization formally links its GST 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 risks. Well-managed GST administration provides organizations with benefits such as:

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

This chapter of the guide sets out the ways in which MUSH organizations can use a risk management framework for GST administration.

Better practice checklist

A MUSH organization that **applies a risk management approach to GST 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 risk management to an individual or group.	
GST 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 risk assessment is periodically reviewed for completeness and being up to date, and it is linked to the organization's test plan on an ongoing basis.	

An organization with most of these indicators is likely to be using risk management frameworks effectively in GST administration. If an organization doesn't have most of these indicators, it needs to consider whether its current risk management practices for GST administration meet the organization's objectives and compliance requirements.

There are four key steps to establishing a better practice risk management framework for GST administration:

Step 1 Establish context

Step 2 Determine GST objectives

Step 3 Identify and analyze GST risks

Step 4 Evaluate risks and the design of the controls

Each of these steps is discussed below.

Step 1: Establish context

GST risk management should be linked to an organization's overall risk management plan – the formal assessment of all risks facing the organization.

The first stage in the risk management process is ensuring that the impact of GST on the organization's external and internal activities is understood in the overall context of the organization.

This contextual information will help define the **overall priority** of GST administration to the organization's business and what the organization's GST objectives might be (as discussed in *Step 2*).

The evaluation of relevant contextual information is likely to include the following:

- An overview of the organization's structure, including functions and locations of core business activities, as well as total budget and volume of transactions, to provide an impression of the relative scale and complexity of GST operations.
- A good understanding of the size, complexity, sophistication, and resourcing of the finance function, including whether processes are centralized or decentralised.
- The numbers of common versus disparate systems and processes will indicate the possible effects on GST data accuracy and efficiency of processing.

There is a direct relationship between the significance and likelihood of GST risk, and the complexity of administration and the volume of transactions. All MUSH organizations can use an understanding of GST risks in the context of organizational activity to decide how much risk assessment and control activity to undertake.

For example:

Problems in GST administration are less likely to be encountered if a MUSH organization uses a single information system to process all transactions and reporting, operates a few processors at a centralized location (where on-the-job training is easy and communication of errors straightforward), and has a simple GST technical profile. This type of organization might assign a low risk grading to GST administration and rightly allocate more organizational resources to addressing other, more important operational risks.

To establish the level of GST risk, an organization should ask a number of questions such as the following:

- How has the GST structure been organized?
- How many information systems are used for each entity in the group structure?
- What is the monthly value and volume of GST transactions processed for each system, including acquisitions, supplies, and adjustments?
- How many personnel are able to enter GST-related data for each system?
- What are the main categories of revenue (e.g., taxable, exempt, zero-rated) by typical monthly value /volume?
- What are the main categories of expenditure by typical monthly value/ volume?

Organizations can establish indicators and allocate a **risk evaluation** grading of between one and five to each of the indicators where **one** represents a simple, low-risk attribute, and **five** represents complex, high-risk attributes. Consideration of the grading allocated to each of these questions should provide an organization with an indication of the significance of GST administration in the context of other risks facing the organization. If any of the answers range between three and five, an organization probably has GST risks that require active management (an example of this tool is provided in **Appendix 1.1**).

Step 2: Determine GST objectives

MUSH organizations that understand the context of their GST administration will use this information to answer the question **"What is the organization's GST objective?"**

The GST objective will determine the level of priority that an organization will allocate to GST management. This, in turn, determines the level of resources that should be provided to GST risk management and administration processes in comparison with requirements to manage the other risks faced by the organization.

In general, a MUSH organization's GST objective will be to ensure effective and efficient compliance with the legislation and management of related risks.

Another approach to thinking about the GST objective is in terms of the tolerable dollar value of errors that an organization is willing to accept before introducing additional controls over GST administration. This might be established using the following formula:

$$\text{Tolerable Error Rate} = \frac{\text{Tolerable Dollar Error}}{\text{(GST on supplies)} + \text{(GST on acquisitions)}}$$

For example:

If a MUSH organization is willing to accept an error of $100,000 per annum, its GST on supplies is $5m, and its GST on acquisitions is $10 million, using the formula above, its tolerable error would be 0.6% of the total GST processed. For this organization, its GST objective would be to process more than 99.4% of GST dollar transactions without error. This is a very high accuracy rate and may require additional risk assessment and control activity.

While there is no level of error that the CRA will necessarily ignore, organizations may find it necessary to weigh the amount of risk against the cost to implement additional controls. However, even if an organization can adequately define the margin of error that it can tolerate, it will need to be certain that the level of error in GST processing falls within this margin. To reach this level of certainty, an organization will need to implement a significant level of GST administration review and testing.

Finally, have the costs of introducing additional controls been quantified? It may be that the level of error could be easily eradicated through the implementation of highly focused, cost-effective controls. Most organizations would agree that this step would be preferable to any error.

Some organizations that have assessed their GST context as relatively complex and have determined a GST objective that allows for limited error decide to formally identify and analyze GST risks (as discussed below in *Step 3*).

Step 3: Identify and analyse GST risks

In this step (sometimes referred to as "process level risk assessment"), the organization needs to identify and analyze its GST risks.

There are at least two categories of risk associated with GST administration.

First, **legislative compliance risks** are risks associated with the organization's understanding and interaction with the requirements of the legislation, and include the risks and opportunities associated with an organization's failure to properly analyse its GST environment. MUSH organizations find it difficult to control these risks partly because of the complexities of the legislation and also because until GST was introduced, MUSH organizations had little experience in dealing with complex taxation issues.

This level of risk has implications for the second category of risk – systems and processing risks (as described below) because implementing measures to mitigate legislative compliance risk will be part of the control framework for processing risks.

Systems and processing risks are the risks associated with managing the day-to-day operational requirements of GST administration and reporting. These risks relate to how an organization has established and communicated proper policy and procedure and set up system and processing frameworks.

Clearly, there are interrelationships between the two risk areas and many of the individual risk descriptions.

Legislative compliance risks provide the context for systems and processing risks. For example, if a MUSH organization has not completely and correctly analysed the GST technical treatment of a grant payment, the related transactions are likely to be incorrectly coded when processed

On the other hand, the incidence of **systems and processing risks** will limit a MUSH organization's ability to comply with legislation. For example, if data is not entered on a timely basis, the organization may not be able to meet the requirements of the legislation, including the requirement that transactions be recorded in the right period.

These two risk categories comprise a large number of individual risks. Each organization will need to decide which risks are relevant to its operations, analyse the potential implications of these risks, and assess exposures. For risk assessment to be an effective tool, it is essential that all risks be identified and analysed. Detailed information gained from the GST context phase will help an organization do this. MUSH organizations also need to periodically update risk assessments to ensure that they are current. This should be an important element of the monitoring and review function (an example of this tool is provided in **Appendix 1.2**).

Step 4: Evaluate risks and the design of controls

GST risk and control evaluation includes identifying a range of options for treating risk, assessing those options, and deciding which controls to use.

The treatment options available to an organization include:

- **accepting** the risk – where it cannot be cost-effectively managed;
- **controlling** the risk – by designing and implementing controls;
- **transferring** (or properly allocating) the risk to those able to manage it; and
- **avoiding** the risk completely – by deciding not to proceed with the activity that contains an unacceptable risk and choosing a more acceptable activity.

Some examples of how MUSH organizations use these options in GST administration are shown in the following table.

Treatment option	MUSH practices	Comment
Accepting the risk	Accepting that input tax credits were claimed without all invoices being valid and deciding not to request invoices from suppliers because it would cost scarce resource time to do so.	A MUSH organization that decided on this course of action should ensure that an appropriate delegated authority authorized the acceptance of the risk.
Controlling the risk	Designing processes to require additional authorization and a review of all net GST transactions greater than $10,000.	MUSH organizations may find it useful to identify and require additional authorization for all high risk and unusual transactions.
Transferring the risk	Transferring the risk of making GST errors on elements of payroll benefits by subcontracting the transactions and calculations to an external party who is better able to manage it.	The MUSH organization will still remain accountable, even though the extent of risk can be minimized through contractual arrangements and robust documentation.
Avoiding the risk	Deciding not to allow GST coding of system transactions in diverse geographical locations because of increased risk of error, and limiting coding activity to a core team.	The MUSH organization needs to make sure it has chosen the most effective option. By avoiding one risk, have managers exposed themselves to a significant risk of inefficiency?

The best way to treat risk is to ensure an effective control structure is in place to mitigate those risks, (**controlling the risk**), thus reducing the likelihood of the risks occurring. In some situations **transferring the risk** is also likely to be useful.

In the context of GST administration, organizations should consider a combination of preventative and detective controls to minimize the risks. The level and complexity of these controls will be directly proportional to the assessment of the importance of GST (risk context) and the complexity of risk (as defined in the risk assessment).

The better practices described in this guide have been designed to treat both **legislative compliance** and **systems and processing risks**. More than one better practice will be required in all cases.

For example:

Designing processes to ensure mixed acquisitions are entered on separate transaction lines and tax coded individually (one of the controls described in *Better Practice No. 4*), will help the organization mitigate both aspects of legislative compliance risk (over claiming input tax credits) and systems and processing risk (data entry errors). But, for this control to be effective, the staff will need to have had adequate training and be following a formal consistent process (as described in *Better Practice No. 3*).

For a MUSH organization to satisfactorily control its risks, it should have implemented **each and every one** of the better practices. The precise way in which it does this will depend on its risk profile and operating context.

Risk register

Risk registers can be an effective tool in assessing risk and designing risk treatments. They provide a formal framework for the ongoing management of risks and thus, a level of assurance that risks are actively considered.

Risk registers need to be capable of adapting to change as an organization's risk profile will evolve over time.

The completion of a risk register table by the GST manager, using the risks described in this chapter and considering the better practices in later chapters, should take no more than a few hours to complete (a sample template is provided in **Appendix 1.3**).

Implementing the GST risk management framework

An organization that completes the steps described in this chapter will have an adequate risk management framework for implementing controls. These controls will be part of the day-to-day processing of GST transactions and reporting.

MUSH organizations should also note that the GST risk management framework is not static and will need to be continuously updated to take account of changes that may occur in the GST environment, as well as changing risk profile. These changes are discussed further in *Better Practice No. 5*.

Organizations should also periodically test the controls to be certain that they are operating as intended. Testing is discussed further in *Better Practice No. 6*.

Documentation check – Better practice – Risk management

Maintaining files that include the following documentation will help ensure a MUSH organization has an adequate audit trail to support its approach to managing GST risks.

Documentation check	**Y/N**
GST risk context diagnostic	
GST administration risks	
GST risk register	

Better Practice No. 2

Establish an internal control environment that effectively supports GST processing

Introduction

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

Steps	**Objective**
1. Structure GST management and processing	Responsibility for managing and processing GST should be structured in a way that efficiently and effectively meets the needs of the organization by allowing for clear responsibilities and accountabilities.
2. Establish procedures	Complete policies and procedures should reflect an organization's GST responsibilities and provide adequate guidance to staff and managers.
3. Ensure information systems support processing	Information system design and functionality should effectively support GST processing and obligations.
4. Train managers and staff	Key personnel should possess an appropriate level of competence and be aware of their GST responsibilities.

This section of the guide sets out the activities that an organization can undertake to create an effective internal control environment and discusses each component in turn.

Risk Context

Implementing this better practice helps address a range of systems and processing risks. For example, it will mitigate the risk that:

- overall responsibility for GST management is not assigned and this lack of ownership hinders GST risk management;
- the organization does not have an information systems infrastructure that effectively and efficiently produces GST reporting; and
- procedures are incomplete, leading to inconsistent processing of transactions.

Better practice checklist

An organization that has established an effective control environment for GST 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 management.	
The GST manager has professional qualifications and experience in managing financial, administrative, and taxation matters.	
Documented organization structure and responsibilities.	
Centralise management, transaction processing, and GST reporting.	
Management and processing responsibilities have been clearly defined and are documented in individual position descriptions.	
Policies and procedures were updated during GST implementation to include all necessary changes to procedures.	
Procedures are periodically reviewed for currency and completeness.	
Specialist advisers have signed off on system templates for generating invoices etc. 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 compliant.	
The full potential of accounting systems is used to accurately capture GST 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 coding.	
The various types of transactions processed were reviewed to ensure the correct GST 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 transactions outside normal processing parameters and responsibility for reviewing these reports is assigned.	
There is a current GST 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 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.

Step 1: Structure GST management and processing

Responsibility for managing and processing GST should be structured in a way that efficiently and effectively meets the needs of the organization by allowing for clear responsibilities and accountabilities.

GST responsibility and accountability

Some organizations have established formal structures to manage GST administration. Documenting GST responsibilities assists in understanding how GST administration is structured. This will provide an indication as to where additional people resources, training, or procedures may be required.

MUSH organizations should clearly define and document the answer to the following two questions:

Who carries overall responsibility for GST compliance?

Who carries specific responsibilities for GST compliance?

Overall GST responsibility

Formally delegate overall responsibility for GST management to a person or group. If responsibility is unclear, there will be no ownership and accountability and effective management of GST administration is unlikely to happen.

The Chief Financial Officer (CFO), given his/her understanding of taxation requirements, the operational requirements of processing transactions, and reporting obligations, is typically the person who carries the overall responsibility for the GST function. This person is, therefore, often a qualified accountant and is frequently assisted by a person responsible for managing GST (referred to in this guide as the GST manager).

Depending on the size and complexity of the MUSH organization, the GST manager may be a full-time position. Usually, GST management will be one of a number of responsibilities

There may be a chain of responsibility for GST management, as follows:

- business unit leaders sign off to the GST manager that transactions have been processed correctly;
- the GST manager signs off to the CFO that technical issues have been settled correctly and that the return figures are accurate and complete (relying on sign off from business unit leaders);
- the CFO signs off to the audit committee for proper GST management.

Some organizations document the CFO's and GST manager's responsibilities for GST management in formal position descriptions. These responsibilities can then be linked to position requirements, annual objectives, and performance plans and indicators. Some organizations have also documented the authority of the GST manager in their instrument of delegations. For example, by setting authorization limits of the GST transactions of $20,000 for certain employees.

Organizations can use the list below to understand who performs the functions within an organization and to identify any gaps.

Checklist of GST responsibilities:

- Managing GST risk assessment activity.
- Assessing and managing the impact of legislative change.
- Maintaining all GST registers: tax position registers, contract registers, issue listings.
- Providing advice to business units and processors on GST matters. Establishing GST professional development and training programs. Ensuring policies and procedures related to GST are complete and current.
- Authorizing GST return reporting.
- Supervising the GST return preparation process.
- Managing the CRA relationship for GST purposes.
- Responsibility for ensuring that the GST elements of reporting meet the legislative requirements.
- Establishing and monitoring test programs.
- Implementing a continuous improvement process around GST administration.

Specific GST responsibilities

In structuring their GST management, MUSH organizations can either:

- centralize all GST management, transaction processing and reporting, usually within the finance function; or
- centralize responsibility for GST management and reporting within the finance function, with varying degrees of devolved responsibility for transaction processing.

However GST management is structured, all GST managers rely on a large number of staff throughout the organization to provide input to the GST administration process. In addition to those personnel responsible for the day-to-day processing of GST, the following also provide input:

- project managers or purchasing officers who enter into contracts with GST impacts;
- information systems officers who change access rights to alter GST processing hierarchies;
- data entry personnel who process tax coding into information systems;
- certifying officers who check that invoices are valid and tax coding is accurate;
- customer service officers who provide adjustment notes to customers and process discounts;
- internal auditors who conduct periodic tests of controls; and
- the audit committee/risk management committee who oversee the effectiveness of the GST control framework.

All these personnel need to be aware of diverse aspects of GST administration. Some will require training to perform their functions competently.

Step 2: Establish procedural frameworks

MUSH organizations should have complete and up-to-date policies and procedures that reflect their GST responsibilities and provide adequate guidance to staff and managers on GST transaction processing and reporting.

Are GST procedures complete?

All MUSH organizations should revise their procedures on a regular basis to ensure that they address changing circumstances as well as problems that have been identified.

Some organizations include checklists in their procedural framework. Better Practice No. 4 includes some examples of procedures and key checklists for the revenue, expenditure, and reporting cycles.

Are GST templates adequate?

Procedural frameworks will also include system templates for generating invoices and adjustment notes. These templates must meet the documentation requirements of the ETA legislation. Some MUSH organizations ask a specialist tax adviser, to review their **templates** in order to ensure that they meet the requirements of the legislation. Also, many organizations use templates to ensure all the information necessary to prepare accurate returns is gathered. The template would summarize all general ledger accounts that need to be summarized and reported on the GST return.

Ongoing management of procedural frameworks

The list below shows some of the better practices used by organizations in maintaining their GST procedural frameworks.

- Supply invoices comply with the legislation

Specialist advisers should sign off on all standard templates. The system controls around this template require that the documentation requirements of the legislation be met.

- Tailoring manuals to users' requirements

Many organizations have designed users manuals specifically for their processing staff and information systems. These manuals could be adapted from CRA technical information and include screen prints and detailed how-to-process instructions.

- Periodic review of procedures

Some organizations periodically review all their procedures in line with the requirements of their chief executive's instructions. Periodic review is especially relevant to GST procedures and manuals because minor changes may have a major impact. While it is better to review procedures on an ad hoc/as needs basis than to never review, better practice organizations establish a formal, regular process for periodic review. If more than one year has passed since a review of an organization's GST procedures, there is a medium/high risk that the procedures are out of date or not as complete as they could be.

- Reviewing and authorizing procedures and manuals

GST manuals and any changes are subject to quality review and sign off prior to implementation. A named individual is responsible for sign-off so that the review is effective.

- Producing manuals in an easy-to-read format

Distributing procedures via the organization's intranet may save paper and appear to be efficient (and ensures that only the up to date version is available), but staff at some organizations are less likely to regularly use the Intranet. Hard copy folders may be more easily accessible and regularly used. If hard copies are used, it is critical that up-to-date versions are regularly distributed and out-of-date copies are destroyed.

- Communicating changed procedures to staff

MUSH organizations know that for procedures to be effective, they need to be formally communicated to staff. Some organizations use a one-page procedure implementation plan to formally decide how to communicate any changes to procedures. This helps address the risk that changes to procedures are not communicated.

Step 3: Ensure information systems support processing and obligations

The third element of an effective control framework is the information system used to process transactions and reporting. Because almost all GST transactions are processed on an organization's information system, the system control environment is essential to an effective overall control environment. Information system design and functionality should effectively support GST processing and obligations.

Organizations use a wide range of information systems to process GST, and the extensive range of specific controls required is beyond the scope of this document. All organizations should verify that their accounting systems provide sufficient audit trails and that system tax codes were accurately setup, mapped, and established.

When the controls are established, adequate documentation that evidences the operation of these controls should be retained so that they can be located easily.

On an ongoing basis, there are six key control objectives:

1. Modifications of IT systems for GST are appropriate to the organization's operational requirements;
2. GST requirements are considered in the earliest stages of system change proposals;
3. System GST functionality is used in a cost-effective manner;
4. Information systems' functionality meets user requirements;
5. System access is controlled and reviewed; and
6. The system facilitates timely GST return submission.

Organizations can use the checklist (see **Appendix 2.1)** to evaluate information systems controls that support GST administration. If an answer to a question shows that these specific **controls do not exist**, organizations may find it useful to document the alternative mechanisms used to ensure that information system control objectives are met.

Step 4: Train managers and staff

Key personnel should possess an appropriate level of competence and be aware of their responsibilities through training and communication.

Adequate training is the key mechanism for ensuring that personnel exercise due care and diligence in the exercise of their official duties in relation to GST. This will help ensure the integrity and reliability of GST information.

Manual controls are particularly significant in an organization's expenditure cycle. Staff who understand processing and control requirements are likely to make fewer errors. MUSH organizations should therefore provide specific training to payment of accounts staff. Further detail is provided in *Better Practice No. 4*.

MUSH organizations also need to make employees aware of the organization's overall GST obligations and the implications for non-compliance.

Organizations can use the list below to identify any gaps in training for GST purposes.

Training needs analysis

Formal analysis helps ensure that all GST training requirements are identified, budgeted, and planned for.

Training plans

Training plans and manuals need regular updating to take into account changes to procedures and personnel.

Introduction Training

Even if they are experienced and understand the legislation, new employees need introduction training to understand GST management in the organization.

Refresher training

If there has been no GST training at an organization since its implementation, an opportunity to address some of the errors that will have been a normal part of the organization's adoption of new processes may have been missed. Some organizations use specific refresher training to rectify problems that have been identified in formal testing.

Personalized training programs

Some GST Managers provide one-on-one training for key personnel related to their particular areas of GST responsibility. For example, a project officer who needs to understand how to code project expenses requires a detailed training session, probably limited to types of acquisitions and an understanding of attribution. A project officer who manages grant programs has a different set of GST knowledge needs**.**

Training feedback

Formal questionnaires that assess whether the training goals have been met are useful for all types of training. In this case, they will help assess if GST training goals have been met.

Documentation check – Internal control environment

Maintaining files that include the following documentation will help ensure an organization has an adequate audit trail to support its approach to managing GST risks.

Documentation check	**Y/N**
Detailed GST organization structure	
Role descriptions for all personnel involved in GST processing	
Training needs analysis	
Training plan and materials	
Documented information system change controls	
GST procedures	
GST system templates	

Better Practice No. 3

Identify and document all GST 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 transactions and related treatments.

Risk context

Implementing this better practice helps address a range of **legislative compliance risks**. In particular it will help mitigate the following risks:

- issues are not identified and addressed, leading to non-compliance with taxation obligations and current taxation law;
- outdated information is relied upon, leading to non-compliance and potential revenue losses; and/or
- rulings obtained and tax positions taken by the organization are not followed in practice.

Better practice checklist

An organization that identifies and documents all GST 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 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 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 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 questions probably has processes that ensure all GST matters are identified and documented as appropriate. Negative answers may indicate that improvements are required.

There are **three** steps to making sure an organization has processes to effectively identify its complete set of GST issues as follows:

- assess all transactions for GST impacts, including both transactions processed on an organization's accounting system and non-monetary transactions;
- settle tax positions, including how an organization can use position papers to document its GST positions; and
- review processes to ensure the positions are authorized, current, and implemented in GST processing.

Together, these three elements provide the foundation for accurate GST processing activities.

Step 1: Assess all transactions

Define responsibility

All organizations need to ensure that a manager is responsible for assessing transactions and identifying the GST issues that impact the organization. To be effective, this person will need to:

- have a current understanding of the practical impacts of the legislation and be able to interpret changes to the legislation; and
- have an in-depth understanding of the organization's activities.

In many organizations, this responsibility would rest with a finance or accounting manager.

Establish useful communication processes

There are a number of mechanisms that can be established to ensure an organization accesses and disseminates useful information for GST management. These include:

- accessing complete information on the organization's transactions; and
- accessing knowledge that provides an informed basis for making valid and current technical decisions.

Many organizations use a number of mechanisms to access information from both internal and external sources, as shown below.

Information from internal sources includes:

- Regular communication between the GST manager and the organization's senior management and business unit leaders.
- There is a central point for GST communication and knowledge sharing.
- Specialist resources within the overall department portfolio are accessed.
- Formal procedural frameworks encourage internal information sharing.

Information from external sources would include:

- The organization takes a proactive approach to managing its relationship with the CRA and requests advice when it is required.
- External specialist advice is accessed and used when needed.
- Key personnel keep up-to-date with changes to the GST legislative environment through newsletters etc.

- Key personnel participate in knowledge sharing forums through their respective associations or with other MUSH organizations.
- Formal procedural frameworks encourage access to external information.

GST transaction assessment

GST transaction assessment refers to the formal documentation and analysis of all transactions undertaken by the organization and their GST treatment.

If an organization has undertaken the risk assessment activity described in the previous chapter, they should have a solid basis for understanding all of their transactions. A detailed understanding of **legislative compliance** risk as it relates to an organization should include completion of a full assessment of the organization's transactions for GST purposes.

Formal assessment is important because:

- it provides the basis of an organization's approach to GST treatments and these treatments are the basis of procedures and processes, systems design, commercial relationships and transactions, and GST reporting;
- a formal documented assessment provides some level of assurance to senior management that transactions are treated consistently and appropriately; and
- an organization that has formally and fully assessed its GST profile and documented this will have strong support for their position in any interaction with CRA.

Organizations should note that the technical treatments of some transaction types are commonly overlooked or incorrectly treated. Common examples include:

- disposal of assets
- dealing with associated organizations
- barter/in-kind transactions
- joint venture arrangements
- agent relationships
- purchase and supply of real property
- apportionment of rebates and input tax credits
- grants

The complex technical treatment of these types of transactions is beyond the scope of this guide. However, what is important is that these transactions are identified and considered for GST.

Once the listing of transaction types is complete, each transaction can then be assessed as to how it will be treated for GST purposes. This is the tax position the organization will adopt in processing a transaction.

Example

Transaction Type	Detail	GST treatment	Treatment rationale	Tax position required	Authorisation Date
Revenue					
Grant	Annual funding from government	No supply	Refer to position paper	Y	
Commission from vending machines	Right to use space in a PSB building	GST taxable	Refer to position paper and detailed conclusions	Y	
Expenditure					
Consultant	Boston University provided advice on research	Required to self-assess the GST and then claim a GST Rebate	Refer to position paper	Y	

Step 2: Settle tax positions

What is a "tax position"?

A tax position is the technical approach an organization takes on a tax matter that affects the organization. Tax positions taken will include the determination of the GST treatment of the entity's various types of supplies (taxable, zero-rated, and exempt) and purchases. It should also include the GST treatment of particular contracts or agreements entered into, and matters on which a ruling has been obtained from the CRA.

For each one of its transaction types, an organization needs to define the tax position and the rationale for this position. Usually, to make the tax position effective, it should be clearly documented – this provides a reference point for managers and processors. Copies of all relevant documentation should be attached to the tax position paper otherwise the organization risks not being able to support their positions, as well as manage changes. Due to the decentralization of many larger organizations, this information should be available electronically. Also, there should be a contact person who can access further available information.

The most useful position papers include a sufficiently detailed description of the transaction to support the treatment. They should include supporting analysis and documentation, such as:

- a specific reference to the legislation;
- CRA advice – when, who, and how provided;
- details of specialist advice – when, who, and how provided;
- a publications issued by the CRA for general application and analysis of why it applies to the particular situation; and/or
- a GST/HST ruling or interpretation, issued by the CRA for the organization's use (or documentation to support a request for a GST/HST ruling or interpretation where it has not yet been issued, including a copy of the request and any supporting documentation given to the CRA).

Many organizations find it useful to include data in the tax position paper as to how that position is to be implemented in practice – who will be responsible for implementing the change, how systems or processes will need to be changed, templates that require updating, as well as any related communication or training procedures that are required to properly implement the position.

Referencing each position paper to a procedure helps ensure that there is a related procedure. A requirement for decision tools can also be clarified in a position paper if the situation is complex.

In some cases, a separate, formal tax position paper may not be required. If the technical treatment of the transaction is truly straightforward, documented adequately in the organization's procedures and templates, and included in training programs, a formal position paper may not be necessary. These kinds of procedures are discussed further in the Guide's next chapter.

Example

GST Position Paper Number 43	
Version no. **Date**	Version 2, September 2002 This document replaces position paper 43, Version 1, April 1993.
Issue	Admissions to seminars.
GST Position	To be treated as GST taxable where specified criteria are met.
Support for position	Refer to paragraph 2(m) Part VI of Schedule V of the *Excise Tax Act*. Specialist advice from A & B Partner, see letter August 24, 2002. GST Ruling issued to the organization
Business units/divisions impacted	Marketing (note also printing material impacts) Finance and Administration
Information systems impacted	SAP V 3
Processes impacted	Marketing, ticket sales, and accounts receivable.
Personnel impacted	Marketing manager – Special exhibitions, deputy head of department, ticket sales, accounts officer.
Decision tool required?	No, all seminars are taxable for this organization.

Communication strategy	Posted on intranet in Policy and Procedure, tax position papers. Revenue procedure 1.5.3 to be updated to include the requirements. Individual training for personnel.
Testing	GST manager to review spreadsheet prior to entry fees being confirmed for each exhibition.
Authoriser **Date**	Jill Brown, GST Manager. 16 September 2002

Centralize records

Tax position documentation should be stored in a single location – probably in a hard copy file or register as well as an intranet location for ease of access and referral. While separate copies may be held on individual files (for example, those of suppliers or grantees), a dedicated tax position file will make review easier when circumstances change, such as staff turnover or changes to a contractual relationship.

Step 3: Review

Documentation including the assessment of an organization's transactions for GST purposes and tax position papers needs to be authorized, and reviewed periodically to help ensure currency and accuracy.

Procedures should require sign-off on both the individual treatments – within the tax position papers – as well as on the overall assessment document. Independent sign off provides a level of assurance that the documents are correct and complete. To increase this level of assurance, organizations can ask the CRA to issue a ruling in respect of tax positions taken. Tax specialists can be contracted to sign-off on position papers as well as overall assessments.

To ensure currency, position papers and assessments should be formally reviewed periodically. The GST manager should oversee this process, which is an important aspect of managing change. These matters are discussed further in *Better Practice No. 5*.

Organizations also need to test that processing the transactions follows the formal positions that have been adopted. *Better Practice No. 6*.

Documentation check – Better Practice – GST transactions and technical positions

Maintaining files that include the following documentation will help ensure an organization has an adequate audit trail to support its approach to GST management and transactions.

Documentation check	Y/N
Assessment of transactions for GST purposes	
Register of GST position papers	
Procedures that require formal, periodic transaction assessment	
Independent review of technical treatments	
Testing of the implementation of technical treatments	

Better Practice No. 4

Process and report GST 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 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 transactions occur in the expenditure, revenue and reporting cycles and certain control requirements need to be met.

This section discusses the specific controls required for organizations to **process and report GST transactions in an accurate, complete, and timely manner** by considering each transactional cycle in turn. These specific control activities are only effective if an organization has implemented an appropriate control environment. Such an environment will include organizations having competent personnel in these functional areas, an effective information systems environment, and appropriate procedures for all GST transactions in the expenditure and revenue reporting and accounting activities. These matters were discussed in more detail in *Better Practice No. 2*.

Risk Context

Implementing this better practice helps address a range of **legislative compliance risks** and **systems and processing risks**. For example, it will help mitigate the following risks:

- an incorrect GST amount is recorded in the system;
- an input tax credit is claimed without supporting documentation; and
- transposition errors.

Better practice checklist

An organization that processes GST 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 on its operating environment.

Indicators of better practice	Your organization?
Staff consistently refer to a supporting documentation compliance checklist when entering invoices into the information systems.	
During processing, staff check that the system record of the GST 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 claim is made.	
There is a written procedure for mixed supplies so that the whole amount is not allocated to one GST 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 before processing.	

Systems require GST coding and the issue of an invoice upon receipt of cash.	
Journal entries cannot be processed in the information system without the allocation of a GST code, and a review of the GST coding on the journal entry.	
The sources and data flow of the GST return information have been formally documented.	
System reporting is the principal source of data for the GST return and requires minimal manual adjustments.	
GST 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 checklist to ensure that the information recorded on the return is accurate and complete.	
Adjustments to GST reporting are documented in a standard format supported by an audit trail and are reviewed by the authorizer.	
The GST return preparer and authorizer understand CRA policy on the correction of errors.	
Access to CRA data is restricted to the authorized contact person.	
When the GST return is filed is considered in relation to due dates and cash flow.	

A MUSH organization that answers yes to most of these questions will probably have implemented the better practice. However, because these transactional cycles include a wide range of activities and varied risks, organizations are encouraged to consider the controls discussed in the remainder of this chapter.

Expenditure cycle

The expenditure cycle includes the activities an organization undertakes when it acquires or purchases goods and services and when it pays suppliers. These processes may affect a number of different information systems and involve varied GST activities, depending on the organization's operating environment.

Common errors

Many organizations have a perception that GST administration related to the expenditure cycle is straightforward. However, the CRA has found that errors are very common. Organizations are responsible for ensuring that errors are prevented or detected and are encouraged to formally consider each of these errors in turn.

Common errors in the expenditure cycle include:

- Processing incorrect documentation (e.g., documentation that does not meet the prescribed requirements for input tax credits).
- Using quotations to enter transactions and record input tax credits or rebates.
- Invoices containing both taxable and non-taxable acquisitions are entered as either entirely taxable or entirely non-taxable.
- The amount of GST entered in the information system does not correspond to the GST amount on the invoice.
- The system-generated GST amount is overridden and the wrong dollar amount is recorded.
- Foreign exchange invoices are processed using an inappropriate exchange rate.
- Rebates of the GST are recorded at the incorrect rebate rate.

Useful procedures and controls

Every MUSH organization will require a different set of procedures and controls to process its expenditure cycle transactions in an accurate, complete, and timely manner. Each organization needs to understand how its own systems process GST to identify the procedures to be put in place.

An organization's GST manager can use the checklist (see **Appendix 4.1)** to identify possible control gaps. Internal audit functions may also find this checklist useful when conducting reviews or audits of the organization's GST administration.

Training accounts payable staff

Manual controls are particularly significant in an organization's expenditure cycle. Staff who understand processing and control requirements are likely to make fewer errors. Organizations should, therefore, provide specific training to payment of accounts staff.

Organizations should consider whether the employees have received training in the subjects listed in **Appendix 4.2**. Using gap analysis to design additional training programs.

Using checklists

A basic objective of GST administration is to ensure that valid invoices support all input tax credit and/or rebate claims. All organizations therefore need to ensure that staff use valid invoices to process transactions on their information systems.

There are several requirements that need to be met under the *Excise Tax Act Regulations*, and because these requirements are complex staff should consistently refer to a checklist. The use of a checklist provides staff with guidance to help prevent the processing of transactions with inadequate supporting documentation.

Revenue Cycle

The revenue cycle includes the activities an organization undertakes at the point of sale (including interaction with its customers/revenue sources) and the billing and receivable processes.

The sales, billing and receivables processes may impact a number of different information systems and involve varied GST activities, depending on the operating environment.

Common errors

As with the expenditure cycle (referred to earlier), many MUSH organizations have a perception that GST administration related to the revenue cycle is straightforward.

However, the CRA has found that errors are very common. MUSH organizations are responsible for ensuring that errors are prevented or detected and are encouraged to formally consider each of these errors in turn.

Common errors discovered by the CRA in MUSH audits include the following:

- complex contractual situations are not analyzed to ensure that the correct documentation is issued or received;
- re-supplies of expenses (particularly on charges of labour costs) are treated as non-taxable supplies;
- incorrect tax coding on miscellaneous revenues such as printing and commissions;
- incorrect tax coding of some core revenues; and
- incorrect tax coding on the supply of real property by way of a license.

Useful procedures and controls

Every organization will require a different set of procedures and controls to process its transactions in an accurate, complete, and timely manner. Each organization needs to understand the way in which its own systems process GST to identify the procedures to be put in place.

An organization's GST manager can use the checklist (see **Appendix 4.3)** to identify possible control gaps. Internal audit functions may also find this checklist useful when conducting reviews or audits of the organization's GST administration.

Checklists

Some organizations find coding reference cards a useful tool for staff to check that transactions are appropriately coded for GST purposes by providing examples and tips for applying tax coding to common transactions. Coding reference cards that are unique to the various supplies of their organization should be developed for easy reference.

GST reporting activities

The reporting process will depend on the information system used and takes a different form in every organization.

At a minimum, the reporting process includes the following activities:

- running system reports, in order to gather transaction data from expenditure and revenue cycles as well as internal transactions;
- analyzing exception reporting;
- reconciling the general ledger accounts with the proposed return; processing adjustments; and
- processing a payment or refund.

Better practice GST return preparation

Better practice return preparation procedures include the following elements:

- ***General ledger journal entries are properly coded for GST purposes***

General ledger journal entries should be properly coded for GST purposes. Most journal entries direct to the General Ledger will be for internal accounting purposes and, therefore, have no financial GST impact. However, in many systems, journal entries (in common with all other transactions) require the allocation of a GST code. This means that an error in coding may eventually result in an error in GST reporting. Some organizations use the following controls:

  - Routine journal entries for accounting purposes are allocated a default GST code.
  - Access to process journals is restricted on an as-needed basis.
  - Journal entries are reviewed at month end – reducing the possibility that unauthorised or incorrect journals, including incorrect GST impacts, are recorded in the information system.

- ***Reconciliations are rigorously performed***

  Reconciliations should be rigorously performed as part of every GST return or rebate preparation. The reconciliation of GST control accounts to the net amount reported in the return is an essential part of the process. This should include two simple steps:

  - Net GST refund or payment reported on the return should be formally and completely reconciled to the General Ledger. The net amount will either equal the net of the GST control accounts (often called GST paid and GST refund accounts) or the amount of the GST summary account if a suspense account is used. This simple reconciliation is a key control. If the amounts are not equal, this should be investigated. The reviewer should check that this reconciliation has been performed and documented.
  - The cash payment or refund should be formally reconciled to the general ledger. The amount should equal the net amount in the control or suspense account.

- ***Exception reporting is used to identify errors***

Exception reports can be used by organizations to make it easier to check the completeness and accuracy of data. An organization should decide which exception reports to run and review based upon an assessment of where there is the greatest risk of error. Some examples are:

  - **All GST free transactions**

    Running each of the separate reports may assist in the detection of transactions that have been miscoded. Miscoding is a very common error.

  - **All transactions where GST is not equal to 6/106th or 14/114th of the GST inclusive amount (Beginning January 1, 2008, the GST rate will be reduced by 1%, from 6% to 5%)**

    If an organization's information system allows for the manual input of GST dollar amounts by overriding system coding, this feature can be useful when checking for errors

  - **GST transactions greater than a defined dollar amount (for example, $10,000 or $100,000 depending on the tolerance for error)**

    The GST manager may wish to separately review the coding, accuracy, and supporting documentation for all GST transactions greater than a defined amount. This report can facilitate this kind of review by identifying the transactions.

- **Tax code reports dissected by general ledger account**

  In the same way, all tax codes will probably relate to a defined group of general ledger accounts. For example, if one of these tax code reports includes transactions for a salary code, this would prompt additional investigation.

  These reports also enable a reviewer to quickly establish errors in coding. For example, all sales in the general ledger would usually be matched by one of a discrete number of tax codes. Any rogue tax codes can be quickly identified.

- ***Reasonableness tests are used to check the integrity of data***

Reasonableness tests assist in identifying significant variances between amounts reported in the GST reporting categories in different periods. Variances should be understandable and explainable. If they are not, further investigation and correction may be required. Some categories will be more important than others and the GST manager may find it useful to conduct variance analysis on a month-by-month basis, perhaps using an Excel spreadsheet, on a specific group of GST codes.

- ***A checklist is used during preparation of returns and rebate claims***

Including the use of a preparation checklist into the formal preparation procedure is a method that MUSH organizations can use to ensure control activities take place. For example, reconciliation's reviews and separate authorizations ensure that checking takes place. Organizations should use the checklist in **Appendix 4.4.**

- ***An independent manager authorizes filing the returns***

Better practice organizations ensure that an independent manager, one who does not prepare the return data, authorises the amounts prior to filing. This provides an opportunity to review the preparation checklist to ensure all detective and checking activity has taken place.

- ***Payment or refund is processed appropriately***

The final step of reconciling any payment or refund to the return as filed will highlight the need for any further follow-up action required. For instance, a discrepancy or delay in the payment or refund process may require contact with the CRA.

Documentation check – Processing and reporting GST transactions

Maintaining files that include the following documentation will help ensure an organization has an adequate audit trail to support its approach to GST management and transactions.

Documentation check	**Y/N**
A GST reporting file: including copies of all statements submitted to the CRA, all supporting reports, worksheets, and complete and authorized GST preparation checklists	
GST Return preparation checklist	
GST coding reference cards covering all codes and examples	

Better Practice No. 5

Manage changes that impact on GST administration

Introduction

Managing the effect of external and internal changes on the GST environment is an ongoing issue for all MUSH organizations. The changes that need to be managed include the following:

- 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.

This section of the guide describes the types of activity a MUSH organization might undertake to **effectively manage changes that impact on GST administration**.

Risk context

Implementing this better practice, helps address a range of **legislative compliance and systems and processing risks**. For example, it will mitigate the risks that:

- Changes to legislation and rulings are not identified and addressed for possible effect on the organization's technical positions and procedures;
- GST implications arising from changes to the MUSH organization's activities are not considered; and
- Key GST personnel leave and subsequent errors in processing occur because new staff do not understand the history and appropriate treatment of transactions.

Better practice checklist

A MUSH organization that manages changes that impact on GST 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 on its operating environment.

Indicators of better practice	Your organization?
The GST manager is formally responsible for the management of changes that impact on GST administration.	
Formal handover from the GST implementation team to the key GST manager with a list of any outstanding issues.	
A current GST 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 manager provides input to steering committees for major projects, including those that involve any changes 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 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 a GST audit.	

A MUSH organization that can answer yes to most of these questions probably manages the impacts of change on GST administration. If most of the answers are no, the organization probably needs to do more to implement this better practice.

This chapter discusses three aspects of better practice management of changes that impact on GST administration. These are:

- **Managing changes with GST implications** – the particular activities organizations undertake to manage changes to the legislative, business and operational environment;
- **Managing the organization's relationship with CRA over time** – ways in which organizations approach their interaction with CRA; and
- **Providing a framework for managing change** – including some of the basic tools an organization needs to manage change.

Managing changes with GST implications

Many types of changes may affect GST treatments and administration. These are discussed below.

Legislative, GST/HST technical publication, or case law changes

In many organizations, regular contact with a professional GST adviser helps to ensure that any changes to legislation, GST/HST technical publications, or case law that might be relevant to the organization are identified and can be built into administrative processes. Some organizations rely on competent and informed GST managers to perform this role.

The activities described in *Better Practice No. 3* will assist organizations in managing this change process. For example, if a MUSH organization has clearly documented the rationale for applying a GST/HST technical publication to a transaction in its tax position papers, the necessary changes can be quickly identified and the required action taken.

It may also be appropriate for some entities to consider monitoring draft GST/HST technical publications and to make comments to the CRA so that their views are considered in the formulation of final GST/HST technical publications.

Changes to rulings (including expiry), statutory elections, or CRA approvals

Some organizations maintain a ruling register within a file record of all correspondence with the CRA. These records include the following:

- current rulings requested and received by the organization;
- ruling requests upon which a response has not yet been received; and
- copies of ruling requests made by other parties that may have an impact on the organization's transactions.

These rulings should be cross-referenced to tax position papers.

MUSH organizations should periodically review the currency or relevance of all rulings. While it may not be cost-effective to review all rulings on a regular periodic basis, the more significant rulings should be. The person who conducts this review should be competent to do so – usually this will be the GST manager, perhaps assisted by a specialist GST adviser.

The review will include ensuring that responses to all ruling requests have been received from the CRA and evaluated and ensuring that the CRA response was followed and built into procedures. The review should also consider whether the initial facts described in the rulings have changed.

Some GST managers find it useful to list dates to ensure timely follow up. Some organizations formally require that rulings be reviewed on a quarterly basis, while others judge that annual review is satisfactory. Rulings should be reviewed to ensure they are still current. Rulings may have changed if:

- they are withdrawn or overridden by a later ruling;
- there is a change in the law that affects the way the subject of the original ruling is treated;

- the factual circumstances have changed; or
- a material fact has been suppressed or misstated.

If an organization needs to clarify the position of a GST ruling, contact should be made with the CRA.

Changes to contracts

Some organizations maintain a contracts register (which includes summary details such as the GST treatment to be applied) in an access database or excel spreadsheet. When staff process transactions related to the contract, they can easily reference the correct GST treatment, through the contract register. Further, if this register is periodically reviewed, the reviewer has a straightforward tool to identify any changes to GST treatment and update the register.

Change to business activities

This type of change will include the start of new business activities that give rise to new types of transactions and new agreements, as well as changes to existing activities. All of these events may have impacts on GST administration.

A MUSH organization that has a nominated GST manager who frequently communicates with other areas of the organization *(Better Practice No. 2)* and has implemented *Better Practice No. 3* (identifies and documents all its GST treatments), should have a sound basis for identifying and managing the changes to GST administration that arise from changes to business activities. Further, the maintenance of a central GST issues register (as described below) and periodic re-assessment of the organization's risk and transaction profile should help ensure that any gaps in control are addressed.

Change to IT systems

These changes include those to systems that interface or are linked with core systems used to process and report GST. As discussed in *Better Practice No. 2,* there should be a forum for the GST manager to regularly communicate with the information systems department. The GST manager should be involved at the earliest opportunity in understanding any planned changes to information systems.

Change in personnel who are involved in GST processes and systems

Succession management is one of the most frequent changes to GST administration faced by MUSH organizations. Implementing *Better Practice No. 2* will assist organizations in managing personnel change. In particular, organizations should ensure position descriptions include GST requirements, that there is regular training, and that procedures are adequately detailed and complete.

It is also worthwhile considering the organization's GST back-up personnel. For example, a trained individual should be nominated to prepare the GST returns if the person who usually prepares it is suddenly absent.

Change to functional structures

Many organizations periodically change their business structure, including the structure of the finance area. When this occurs, senior management should ensure that the impact of the structural changes on GST responsibilities has been considered. Maintaining an up-to-date and formally documented GST structure that considers all aspects of processing as well as current position descriptions *(Better Practice No. 2)* and authorizations should assist organizations in managing the GST risks associated with this type of change.

Change that affects the status of the organization

On occasions, the GST and legal status of an entity may alter and require changes in GST administration. These types of changes may cause previously valid tax treatments to be incorrect. They may also affect the integrity of the registration arrangements, appropriateness of grouping for GST purposes, and turnover thresholds, which could affect matters such as reporting frequency. Examples of changes that may affect the status of the organization include a school authority applying for and becoming a registered charity. The school authority will then be a public institution under the ETA and be subject to additional exemptions on supplies. Other possible examples include joint venture arrangements, the creation or closure of a division and a change to the name of the organization.

MUSH organizations that implement *Better Practice No. 2* have a sound framework for managing these types of change, principally because a responsible GST manager should deal with these issues. Some organizations also formally review registration and grouping arrangements from time to time as part of compliance auditing programs.

Managing the relationship with the CRA

GST managerial responsibilities include maintaining a successful relationship with the CRA. Formally assigning this responsibility to an individual will help ensure that the relationship is actively managed. Further, the responsibility needs to be restricted to authorized personnel. If unauthorized people deal with the CRA, there is a risk that the relationship will be handled poorly and the organization's GST objectives may not be met. Large organizations should have a key client manager to contact the CRA.

All organizations should have established file records to document the history of the relationship with the CRA and to provide evidence of activity.

The **GST/CRA** file should include:

- all CRA correspondence and telephone contact;
- minutes of all meetings with CRA personnel;
- CRA audit activity and outcomes;
- GST/HST rulings and interpretations obtained and requested;
- elections and notifications made;
- assessments issued;
- formal and informal reviews undertaken; and
- registration, grouping and/or branching details including copies of elections, application forms and notices of decisions.

A framework for managing change

Usually, managing the impacts of change will be part of the GST manager's responsibilities. As with the other areas of GST administration, making someone accountable is one of the keys to successfully managing changes to the GST environment.

Complete, current, and easily accessible procedural frameworks (as discussed in *Better Practice No. 2)* are also the basis for managing changes in personnel. Further, the GST manager will often find that keeping GST registers proves useful in managing change.

GST issues register

A GST issues register can be maintained in a central location to record issues that require clarification. If GST issues are detailed in a single register it makes it easier for the GST manager, CFO, and senior management to check that all outstanding issues are resolved on a timely basis. It should include a wide range of GST matters over which there is uncertainty. For example, the register could include issues that range from feedback from a customer that there is a disagreement over the treatment of a particular transaction to details of a planned software update that may impact GST interfaces.

To be effective, all sections of an organization should have access to enter issues into the register. For example, a project officer may know that a joint venture partner is querying the GST impact of a contract with the CRA. If this matter is not formally communicated internally, the organization may lack the information to properly deal with any related problems.

The GST manager's role will be to resolve issues where possible and/or ensure that a person is made responsible for dealing with the issue to encourage appropriate follow up and the resolution of issues within a reasonable time frame.

Maintenance of a GST issues register will assist the GST manager in dealing with change, as well as assisting the organization in dealing with succession management if, and when, the person performing the GST manager function changes. A GST Issues Register template is provided in **Appendix 5.1**.

Contracts and Grants GST Register

Many GST transactions are based on individual contracts and grants. As the terms of these agreements may vary widely, the GST treatment of contracts and grants is a high-risk area for many MUSH organizations. Maintaining a file that includes details of all contracts and grants will assist in monitoring changes to contracts and any consequent GST implications. This file will be a useful resource for staff when processing transactions and for the GST manager in managing change and ensuring that GST treatments of contracts and grants are up to date and complete. A Contracts and Grants Register template is provided in **Appendix 5.2**.

Documentation check – Better practice – Managing changes

Maintaining files that include the following documentation will help ensure an organization has an adequate audit trail to support its approach to GST management and transactions.

Documentation check	**Y/N**
GST issues register that has been signed off by an appropriate authority	
Contracts and grants GST register	
GST/CRA file including: All CRA correspondence and telephone contact; Minutes of all meetings with CRA personnel; CRA audit activity and outcomes; GST/HST rulings and interpretations requested and obtained; Elections and applications made; Assessments issued; Formal and informal reviews undertaken; and Registration, branches and/or division details, including copies of application forms and notices of decisions.	

Better Practice No. 6

Monitor and review the effectiveness of GST administration

Introduction

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

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

This section of the guide describes how MUSH organizations might implement this better practice by using both internal and independent review mechanisms.

Risk context

Implementing this better practice, helps address a range of **legislative compliance**, and **systems and processing risks**. For example, it will mitigate the following risks:

- routine transaction errors are not identified and corrected leading to incorrect reporting; and
- the organization fails to identify financially material GST liabilities on a timely basis.

Better practice checklist

A MUSH organization that **monitors and reviews the effectiveness of GST 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 risks have been formally linked to controls and these controls are tested periodically.	
Samples of GST 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 processing.	
There is a central help desk to record issues, including queries raised by customers or other parties.	
There is central error log to record issues.	

A MUSH organization that can answer yes to most of these questions probably has processes to formally review the effectiveness of GST administration. If some of the answers are no, the organization probably needs to do more to implement this better practice.

Responsibility

As with many of the better practices discussed earlier in this document, the starting point for implementing effective and formal review of GST administration is to ensure that the personnel responsible are competent and skilled in GST issues.

In some MUSH organizations, this responsibility will rest with the GST manager, while in others, internal audit may review the effectiveness of GST administration, separately or as part of an annual program of reviewing other core business support processes.

This section of the guide considers two aspects of reviewing the effectiveness of GST administration:

- Internal reviews – ways in which the GST function monitors its activity and outputs; and
- Independent reviews – ways in which external reviews (independent of the GST function) can be used in the GST context.

Internal Reviews

Most MUSH organizations check the accuracy and integrity of GST transactions during normal day-to-day processing activities. Staff who process transactions often perform the first check. For example, an accounts payable officer who enters invoices for payment will check that the invoice is valid and that GST amounts agree with system calculations. Additional checking then occurs at the time of certification – a certifying officer may identify high value payments and again perform a check for supporting documentation and accuracy. When preparing the return, the organization may produce exception reporting and identify transactions outside normal parameters that will then be subject to additional testing. These are all examples of effective ways of reviewing GST processing. The effectiveness of GST processing review is affected by how the identified errors are recorded, analysed, and subsequently addressed.

Error logs

Some MUSH organizations find that maintaining a central error log is a useful tool to ensure errors are appropriately communicated and addressed. For an error log to be useful, errors identified during day-to-day processing, as well as formal testing, must be recorded. As well, the log itself must be reviewed from time to time to ensure corrective action has been taken. A sample template is provided in **Appendix 6.1**.

Test programs

Some MUSH organizations use formal test programs often as part of the month-end GST return preparation process, to monitor the integrity of GST processing. Testing some transactions for the GST treatments provides a level of confidence that the processes and controls are operating as management intends them to. Formally recording GST test program results helps provide information needed to decide if further testing should be undertaken.

These organizations document their test programs and use the following better practices.

1) The frequency of GST testing is based on an evaluation of the costs and benefits.

- In general, the frequency of formal GST testing will depend on several factors. These might include the organization's tolerable error rate, the level of confidence in processors, and/or the use of other detective mechanisms to identify errors such as exception reporting. Testing can be time consuming and requires the use of GST-competent people. Any consideration of testing will, therefore, include consideration of the costs of testing and benefits to be obtained.
- Some organizations choose to test GST transactions on a monthly basis as part of the preparation procedures for filing a GST return. Organizations that are committed to monthly testing may choose to vary the scope of testing and testing criteria on a monthly basis to vary the coverage of types of transactions. If the identified error rates are low regularly, the organization might choose to reduce the frequency of testing.
- Other organizations implement GST testing on a periodic basis, perhaps once a year. An organization that identified high error rates in this kind of testing might choose to increase the frequency.

2) Testing objectives and criteria are defined.

- A key element of any test program is establishing the objective of the testing and setting the criteria to be tested. The following criteria are commonly used in designing GST test programs:
  - Valid invoices are held for all input tax credit and rebate claims;
  - Only tax compliant invoices are processed;
  - GST supplies and acquisitions are attributed to the correct tax period;

- Tax coding is correct and is in accordance with technical positions; and
- GST calculation is accurate.

3) A sampling methodology is used to reduce the number of transactions that require testing.

- Some organizations test all GST transactions within a defined period. Most choose to limit the size of the test group by using sample selection.
- Organizations consider a number of elements when defining the sample to be selected:
  - the period from which the sample is to be drawn (perhaps a month or a quarter); and
  - the types of transactions to be tested. Some organizations choose to test all transactions over a defined dollar amount every month. Other organizations choose to restrict the sample to specific areas by, for example, limiting testing to all transactions relating to a particular GST code or General Ledger account or to transactions processed by a particular functional area. In considering which types of transactions are to be tested, organizations usually focus on the transactions most likely to present errors.
- There are two main ways to select samples for testing – judgementally or statistically.

  Judgemental sampling – a sample is selected from system reports. This sample should be representative of most transactions, by picking transactions of varied dollar amounts, coded differently for GST purposes and processed by different functional areas. The limitation of this kind of sampling is that conclusions are not statistically representative of the population of transactions. However, testing using this type of selection will provide an indication whether some controls are operating as intended. In particular, it allows for the targeting of high-risk transactions that require additional monitoring – for example, introducing a new tax position.

  Statistical sampling – random, statistical sampling allows organizations to understand the likelihood and types of errors in their transactions and can therefore be useful. An organization wishing to provide senior management with a level of assurance as to the integrity of GST processing, might, therefore, undertake testing e.g., 160 transactions drawn randomly from the population.

4) The rationale for areas not tested is documented.

- The test program may specifically exclude some areas from testing. The organization may find it useful to document the rationale for excluding specific areas from testing. For example:
  - June 2004 GST testing: All receivable transactions excluded from test sample because this area was tested in May 2004, and no errors were identified.

5) Errors are rated and these ratings are used to determine the priority action.

- MUSH organizations that monitor errors, sometimes find it useful to rate those errors. The most common form of rating is High, Medium, and Low. If an organization uses this kind of approach, these ratings can be used to order the priority of corrective action. For example, errors rated as High might represent systemic errors or represent high dollar values that require immediate correction while errors rated as Low might be judged **one of a kind** errors of negligible financial or compliance impact that the organization chooses to ignore. MUSH organizations with a comprehensive approach to GST testing monitor trends in error rates over time and use this information to adapt their approach to testing criteria and sample selection.

6) Errors identified in testing are addressed.

- As a first step, any errors identified in testing will be corrected in GST return reporting. Then, the root cause will be identified – for instance, the absence of a control to prevent or detect an error during normal processing. Corrective action will then be defined and responsibilities and time frames established for completing this action.

Independent Review

Independent review is useful on an ongoing basis. Usually this is performed through compliance review or internal audit programs. These reviews help an organization ensure that:

– ongoing compliance obligations are met; and

– the organization’s senior managers and executive are aware of potential risk exposures.

As with any audit, the organization will need to ensure that GST audits are adequately planned, performed, and supervised and that audit reports are of a consistently high professional standard. GST review functions should be included in strategic and annual audit plans with documentation showing appropriate consultation with accountable officers, senior management, and external auditors as appropriate. The function should also be included in input into the process of specifying, developing, and testing new information systems.

All organizations should ask themselves if their annual internal audit planning process has considered the need to conduct an audit of GST administration. While it may not always be cost effective to conduct an internal audit of GST administration, GST risks, and the effectiveness of the surrounding control framework should be formally monitored and reviewed from time to time.

Documentation check – Better practice – Monitor and review

Maintaining files that include the following documentation will assist organizations to continually improve the effectiveness of their GST administration.

Documentation check	**Y/N**
GST error log	
GST test program	
GST testing program results	

Appendix 1.1

Example of GST risk context – diagnostic

Diagnostic question	**Attribute(s) of LOW Evaluation.**	**EVALUATION**					**Attribute(s) of HIGH Evaluation**
		LOW 1	2	3	4	HIGH 5	
How has the GST reporting structure been organised? Consider: – grouping of entities for GST purposes; – reporting periods used; and – number of business numbers used.	One organization has been registered as one entity for GST purposes with one business number						Several entities have been grouped. Different tax periods are used by non-grouped entities. Different business numbers are administered.
How many organizational or functional units are affected?	GST impacts the finance function and no other functional areas. The finance function is physically centralised.						Many units are involved in GST activities – coding, reporting, contracting, and pricing. These units are geographically spread.
How many information systems are used for each entity in the Group structure for all areas of the business where there is a GST impact? Brand and version should be identified.	One system is used for recording all transactions.						Multiple systems are used. Processes include interfaces and download of data. System data needs extensive adjustment for reporting. Brands and versions are unknown.
What is the monthly value of GST transactions processed for each system, including acquisitions, supplies, and adjustments?	Negligible in the context of total revenues.						Significant in the context of total revenues. Data unknown.
What is the monthly volume of transactions processed for each system, including acquisitions, supplies, and adjustments?	Few – several hundred. All transactions subject to review processes.						Many – several thousand. Data unknown.

Appendix 1.2

GST administration risks – example descriptions

Why? This tool will assist in defining the GST risks facing an organization. Once risks have been defined, they can be matched to controls.

When? Complete and update on an annual basis. Also, use this tool at times of major organizational, systems, and process change.

How? Consider the sample risk descriptions provided below and decide if they could apply to the organization. Completing a list of all those risk descriptions that are relevant provides an organization with a GST administration risk profile.

1. Legislative compliance risks

Risk type	Risk description	Applies?
	The risk that the organization inadequately identifies and captures all transactions that may have a GST impact. This includes the following risks: ETA is incorrectly interpreted in its application to the organization's systems and processes, leading to non-compliance; Changes to ETA are not noticed and acted upon; Relevant GST issues are not identified; The GST elements of some supplies and acquisitions are not captured by the organization; and A change in the organization's operations gives rise to new transactions that are not properly treated for GST purposes.	
	The risk that the organization's transactions are not supported by documents that comply with the ETA. This includes the following risks: The sales (billing/accounts receivable) department produces invoices and adjustment notes to record supplies and adjustments that do not meet documentary requirements; and The accounts payable department processes payment and adjustment transactions on the basis of invoices that do not meet minimum documentary requirements.	
	The risk that the organization does not effectively comply with the timing rules of the ETA. This includes the following risks: GST payable is attributed to the wrong reporting period; and Input tax credits and or rebates are claimed in the wrong reporting period.	

2. Systems and processing risks

Risk type	Risk description	Applies?
	This includes the following risks: The organization does not have the infrastructure (i.e., hardware, networks, software, people, and processes) it needs to effectively support the current and future information requirements of the organization in an efficient, cost-effective, and well-controlled fashion;	
	Overall responsibility for management of GST is not assigned to a key individual.	
	The personnel responsible for managing, controlling, and processing GST transactions do not possess the requisite knowledge, skills, or experience to ensure that transactions are processed appropriately;	
	Processes for capturing and sharing knowledge with respect to GST across the organization are either non-existent or ineffective. This may result in repeated mistakes, resulting in slow response time, high costs, slow competence development, constraints on growth, and unmotivated employees; Interfaces between individual systems and the general ledger are incomplete; System generated reporting is inaccurate and incomplete; System incorrectly calculates GST amounts based on the assigned tax code; System configuration in relation to rounding and discounts does not meet the requirements of legislation; System errors impact the integrity of data; and Failure to adequately restrict access to information (data or programs) may result in unauthorized changes being made to master files.	
	The risk that data processed in the organization's information system is inaccurate (i.e., not the same as the transaction), unauthorised, or duplicated. This includes the following risks: GST exclusive, GST inclusive, and GST amounts recorded in transactions do not match hard copy source or output documents; Transactions (including real property) are entered without recording the GST impacts; Unauthorised transactions are processed; and ITCs and or rebates are claimed twice due to duplicate data entries.	
	The risk that processors apply incorrect tax codes to individual transactions. This includes the following risks: Tax codes have been incorrectly defined; Tax codes have been inaccurately set-up in the organization's information system; Incorrect default tax codes are assigned to some transactions; and Incorrect tax codes are manually processed against some transactions.	
	The risk that GST reporting is inaccurate, inefficient, or untimely. This includes the following risks: Transposition errors occur during the transfer of data from system reports used to compile the return/rebate form or entry screen; Transactions are processed after the source reports are run and the GST impacts of these transactions are not included in the return/rebate; Failure to disclose transactions that are required to be disclosed because there is no impact on the net amount of GST payable; The return/rebate is filed late with the CRA due to unnecessary or inefficient activities; Processes used to prepare the return/rebate are time-consuming and involve manual manipulation of data; and Potential damage to organization's reputation following incorrect reporting of GST.	

Appendix 1.3

Risk register

Why? This tool can be used to match controls to risks, define responsibilities, and document further action plans.

When? Complete and update on an ongoing basis.

How? Document GST risks in the left hand column and then complete the listing of controls – usually, several controls will be required to mitigate each risk description.

The information can then be assessed and a decision made as to whether further action is required and who should be responsible. A sample risk register template is provided.

Risk No	**Risk description**	**Controls**	**Responsible individual**	**Further action required** **Describe**	**Responsible individual**

Appendix 2.1

Evaluation of information system controls

Why? Organizations can use this checklist to evaluate information systems controls to support GST administration.

When? Complete and update on an annual basis. Also, use this tool at times of major organizational, systems, and process change.

How? If an answer to a question indicates that these specific controls do not exist, organizations may find it useful to document the alternative mechanisms used to ensure that information system control objectives are met.

Control requirement 1 – Modifications of IT systems for GST are innovative, cost-effective, and appropriate to the organization's operational requirements.

	CONTROL EXISTS?
System developers and administrators have adequate experience to understand the systems they work with.	
GST system modifications are formally authorised and operate as intended.	
All changes in relation to GST, including those initiated by data processing personnel are subjected to rigorous integrity testing.	
Evidence that GST related test results have been reviewed and approved by data processing personnel and users following testing.	
Evidence that all systems and program changes are given to all personnel affected by these changes.	
Prompt incorporation or update of GST changes in relevant system user manuals.	
The system has the capacity for possible future GST requirements.	

Appendix 2.1 (continued)

Control requirement 2 – GST requirements are considered in the earliest stages of system change proposals.

	CONTROL EXISTS?
The GST Manager is in regular contact with the information systems department.	
The GST Manager participates in project teams for system change.	

Control requirement 3 – Ensure information systems provide the right information to users according to their GST requirements.

	CONTROL EXISTS?
Adequate establishment and execution procedures over loading on-line application systems and systems software relating to GST.	
Use of checklists, control statements, and system parameters in data entry and internal processing that agree with approved protocols and procedures.	
System can produce exception reporting of transactions that are outside of established parameters.	

Control requirement 4 – System access is controlled and reviewed.

	CONTROL EXISTS?
System access to change inherent controls such as coding rates, defaults, and authorisation hierarchy is controlled and reviewed.	
System access for GST return information is restricted to authorised personnel only.	

Control requirement 5 – Ensure the GST/HST return is submitted on time.

	CONTROL EXISTS?
System downtime is infrequent and of short duration and is, thus, not significantly impacting work flows.	
The system is available to process transactions, run reports, and generate the return information when required for timely transaction processing, reconciliation, and validation tasks.	
Continuity planning has occurred so that, in the event that system failure occurs, the GST return can be filed.	

Appendix 4.1

A checklist of GST procedures and controls in the expenditure cycle organizations may want to implement.

Why? An organization's GST manager can use this checklist to identify possible control gaps. Internal audit functions may also find this checklist useful when conducting reviews or audits of the organization's GST administration.

When? Complete periodically. Also, use this tool at times of major organizational, systems, and process change.

How? Consider if the normal **control requirements** associated with an organization's commitments to purchase goods and services are in place. If the suggested controls are not in place, it may be useful to document the different ways in which the organization ensures the control objectives are met.

Expenditure cycle controls and procedures	**Y/N**
A policy on receiving quotes and processing purchase orders on either a GST inclusive or exclusive basis is documented and communicated to staff and major suppliers.	
Delegation levels have been defined to approve the GST inclusive value of purchases if the organization may not be able to fully claim an input tax credit for the GST component.	
The system does not allow processing of transactions without a valid tax code.	
Only relevant tax codes are activated for accounts payable processing.	
The accounts payable system calculates GST automatically at 6/106th or 14/114th when taxable codes are used **(Beginning January 1, 2008, the GST rate will be reduced by 1%, from 6% to 5%)**.	
The system-coding framework provides the basis for GST disclosure requirements.	
The GST hierarchy has been activated and the system displays a warning if taxable codes are assigned to non-taxable suppliers.	
There is cross validation of GST amounts to line, invoice, and batch totals and to tax codes entered.	
If the automatically generated GST amount can be overridden (to enable a mixed-supply invoice to be entered as a single transaction), the system should display an appropriate warning to the processor.	
The design of system GST reporting ensures that input tax credits are only claimed when details of an invoice have been entered.	
Wherever possible, system controls are the principal control mechanism.	
Authorized suppliers are defined in the accounts payable system to ensure that non-authorized suppliers are not contracted. Setting these suppliers up within the system includes entering a valid GST registration number.	
Manual payments are recorded in the relevant period for GST purposes. Normal month-end procedures may include reviewing manual payments to check they have been updated in the system prior to return completion.	
Manual payment processes include documentation of the GST treatment of the transaction for accurate recording in the financial system, as well as ensuring supporting documentation is complete.	
Procedures are in place to ensure input tax credits or rebates from purchases made by credit card cannot be claimed twice. Reconciliation processes as well as system controls can be useful.	
Procedures include a checklist for invoice requirements.	
When invalid invoices are received, there are procedures to request a correct invoice and to monitor future invoices received from this supplier.	
Invoices (electronic or paper) are stored in a secure location for future reference or auditing purposes.	

Checks occur to ensure that all accounts paid include processing a valid invoice.	
Where payments are made in the absence of a valid invoice, a special **register of payments without an invoice** is maintained to track unclaimed input tax credits. This register is updated monthly and appropriate officers are informed of the status of invoices not received.	
The taxable and non-taxable components of a mixed supply are entered separately.	
There is a procedure for translating foreign exchange invoices and a standard template for processing.	
Authorization of payment runs includes reasonableness checks for GST purposes. Any certification of the correctness of the transaction should include a reasonableness check of GST coding and that a valid invoice is held. These may have been issued in advance e.g., rent payments.	
Documented procedures are in place for processing the return of goods including consideration of GST impacts.	
Documented procedures are in place on the treatment for recording adjustments and attributing them to the correct period.	
Adjustment notes are retained in a secure location for future reference or for auditing purposes.	

Appendix 4.2

Training

Why? The accounts payable department often takes responsibility for the accuracy of GST processing. Training is a useful tool to prevent manual/human error.

When? Complete and update periodically. Also, use this tool at times of major organizational, system, and process change.

How? Consider whether the organization's employees have received training in these subjects. Use gap analysis to design additional training programs.

A list of practices that may assist in meeting staff training needs:

- How to identify a valid invoice, including how to identify a valid invoice when the invoice contains both taxable and non-taxable supplies.
- A specific instruction as to what action to take when no invoice is received from a supplier or an invoice received is invalid.
- What to do in situations where the system generated GST amount is different from the GST amount specified on the invoice.
- Procedures for processing invoices containing both taxable and non-taxable supplies.
- Requesting valid invoices prior to payment. This will help ensure valid invoices support all claims for input tax credits or rebates.
- The use of the non-taxable tax codes activated in the accounts payable system to ensure that zero-rated or exempt acquisitions are correctly coded.
- Dealing with invoices where an adjustment event has occurred – e.g., goods have been returned or the incorrect price was charged.
- Reimbursing employee expenses and/or paying employee allowances.
- Purchasing staff have been trained in GST issues and requirements.
- Providing GST training to payroll staff and ensuring that there are documented procedures that detail the impact on processing.
- Processing credit card statements and the requirements to hold a valid invoice.
- Recording adjustments and reconciling adjustments for the GST return.

* This training should include examples of the types of suppliers who might make both taxable and non-taxable supplies.

These procedures should include identification of the person responsible for contacting the supplier for a replacement invoice, a standard letter to specify why the invoice is invalid, and a policy for dealing with suppliers who regularly provide invalid invoices.

Appendix 4.3

GST procedures and controls in the revenue cycle

Why? An organization's GST manager can use this checklist to identify possible control gaps. Internal audit functions may also find this checklist useful when conducting reviews or audits of the organization's GST administration.

When? Complete periodically. Also, use this tool at times of major organizational, system, and process change.

How? Consider if the normal **control requirements** associated with an organization's revenue raising activities are in place. If the suggested controls are not in place, it may be useful to document the different ways in which the organization ensures the control objectives are met.

	Y/N/NA
Assessment of all supplies made and documented GST treatment.	
A documented procedure to ensure revision or introduction of new fees and charges is assessed for GST treatment.	
Policies are in place and communicated to staff on regularly reviewing GST treatments.	
Staff have been trained to identify taxable supplies and apply GST treatments.	
Supplies are classified or coded as taxable, zero-rated, or exempt supplies.	
System calculation of GST payable by the customer.	
Default coding is applied to the product master file or default coding is applied to the customer master file thus reducing the need for decision making at the time of processing.	
A procedure has been developed to determine and amend tax codes assigned to master files and to restrict access rights to authorised staff only.	
All information required for a valid invoice or adjustment note as mandatory fields in the system templates has been set up.	
Valid invoices should be produced as a standard practice for all taxable supplies, without being requested by the recipient and should be issued within a reasonable time.	
Compliant invoices are issued for taxable supplies.	
Staff are able to accurately categorise the type of supply and apply the appropriate GST treatment.	
Staff check system-produced invoices for reasonableness of GST amount stated.	
Manual receipts also document the GST treatment of the transaction for accurate recording in the financial system.	
GST compliant documentation is issued for manual receipts.	
Manual receipts are recorded in the relevant period for reporting purposes.	
Bad debt processing includes an appropriate GST adjustment	

Appendix 4.4

Checklist to use during GST Return preparation

Why? Better practice organizations ensure that GST return preparation includes a number of reconciliation and review activities, as well as independent authorisation. Using a checklist helps ensure these activities take place.

When? Whenever the GST return is completed.

How? Adapt this checklist for the organization's operational and system requirements. Then complete the detail for each return. A copy of the completed checklist should be filed with the GST return working papers.

Period:		
Task:	**Responsible Officer**	**Initial**
All Invoices Entered		
Standard Journals Complete		
Run GST Reporting, trial balance reports, reconcile		
Exception reporting		
Complete GST calculations worksheet		
Detailed adjustments from system reporting in excel workbook		
Adjustment journals		
File all documentations		
Payment or refund reconciled to GST and processed appropriately		

Prepared by:____

Authorised by: ____

Appendix 5.1

GST issues register

Why? If GST issues are detailed in a single register, it makes it easier for the GST manager, CFO, and senior management to check that all outstanding issues are resolved on a timely basis.

When? Complete and update on an ongoing basis. Also, use this tool at times of major organizational, system, and process change.

How? Record and describe GST issues.

Issue No #	Description	Date	Business Unit	Action	Responsibility	Date to be closed	Date closed	Resolution	Authorization

Appendix 5.2

Contracts and grants GST register

Why? Different contracts and grants attract different GST treatments and these will often vary over time. This tool provides a central repository of contract data. It helps in managing changes as well as providing a reference tool for staff.

When? Complete and update on a continual basis.

How? Record all contracts. Use a database to make the details easily available to processing staff.

Responsible person	Contract with	Contract number	Contract title	Contract term	Payment details	GST clause	Review opportunity	GST status	Notes

Appendix 6.1

GST Error log

Why? Formally recording GST errors helps ensure that they are analyzed and addressed.

When? Complete and update on an ongoing basis.

How? Record all errors noted during routine processing and formal testing.

Error number	Description	Date	Comment on cause	Recorded by	Reviewed by	Date	Action taken

Abbreviations/Glossary

Terms we use in this document:

Business Number (BN)	The number is used as an identifier for certain dealings with CRA and other organizations.
Commercial activity	A business and adventure or concern in the nature of trade (other than one carried on without a reasonable expectation of profit by certain individuals, trusts, or partnerships) carried on by a person to provide taxable goods and services. This includes taxable sales of real property, but does not include making exempt supplies.
CRA	Canada Revenue Agency
CFO	Chief Financial Officer
ETA	*Excise Tax Act*
Exempt supplies	Goods and services that are not subject to GST/HST. You cannot claim input tax credits for GST/HST paid on expenses related to these supplies. However, as a PSB, you may be eligible to claim a rebate for such expenses.
FMIS	Financial Management Information System
GST/HST code	The code used in an organization's FMIS to define the GST treatment of transactions. Examples include taxable supply, zero-rated supply, and exempt supply. It is also sometimes referred to as a tax code.
GST/HST	Goods and Services Tax/Harmonized Sales Tax
GST/HST risks	There are at least two categories of risk associated with GST administration. **Legislative compliance risks** are risks associated with the organization's understanding and interaction with the requirements of the legislation, and include the risks and opportunities associated with an organization's failure to properly analyse its GST environment. **Systems and processing risks** are the risks associated with managing the day-to-day operational requirements of GST administration and reporting.
GST return checklist	Formal document used to ensure that all control activities take place during the preparation of the GST/HST return and rebate claims.
Input tax credits	A credit GST/HST registrant can claim to recover the GST/HST they have paid or owe to their suppliers for goods or services they acquired, imported, or brought into a participating province to provide taxable goods and services.
Internal control environment	Sets out GST management and processing responsibilities and activities, as well as providing an information systems framework that is capable of properly supporting processing.
Mixed supplies	A supply of products (taxable, exempt and/or zero-rated) combined together and supplied for one consideration.
Public service body	A non-profit organization, a charity, a municipality, a school authority, a hospital authority, a public college or a university.
Risk assessment	Tools used throughout the document to determine the level of GST/HST risk.
Selected public service body	A hospital authority, a school authority that is established and operated otherwise than for profit, a university that is established and operated otherwise than for profit, a public college that is established and operated otherwise than for profit, a municipality, a facility operator, or an external supplier.
Supply	The provision of property or a service in any way, including sale, transfer, barter, exchange, license, rental, lease, gift, and disposition.
Taxable supplies	Goods and services that are provided in the course of a commercial activity and that are subject to GST/HST at the rate of 6%, 14%, or 0% (zero-rated). **Beginning January 1, 2008, the GST/HST rate will be reduced by 1%, to 5%, 13%, or 0%.**
Tax code	See GST/HST code above.
Zero-rated supply	A limited number of goods and services that are taxable at the rate of 0%. This means that there is no GST/HST charged on the sale of these goods and services, but GST/HST registrants can claim input tax credits for the GST/HST they pay or owe on purchases and expenses made to provide them.