

**COMPANY NAME**  
**Financial Policies and Procedures Manual**

<b>Tax Risk Management</b>	<b>Number</b>	
	<b>Date</b>	<b>01-January 2016</b>
	<b>Revision</b>	
	<b>Pages</b>	<b>15</b>

**1) Purpose**

- To outline a tax risk profile using the COSO risk management control framework that assists management in determining the value that can be achieved by taking risks, the costs that can be saved by reducing risks and the resources needed to manage both the upside opportunities and the downside risks, thereby ensuring that the inherent risks in the tax organization are being properly controlled within [the Company].
- To have a formal documented tax risk management framework and policy that will be agreed by the Board of Directors and monitored by the Audit Committee.

**2) Revision History**

Date	Draft	Writer:	New Document
January 1, 2016			

**3) Responsibility**

- Director of Tax
  - Global Tax Department
  - Key stakeholders:
    - CFO
    - Board of Directors
    - Audit Committee
    - Internal Audit

**4) Policy**

Tax Risk Management addresses 4 Specific risk areas:

**Types of Tax Risk**

- 1 Transactional risk
- 2 Operational risk
- 3 Compliance risk
- 4 Financial accounting risk

**Transactional risk:**

This concerns the risks and exposures associated with specific transactions undertaken by the Company. In any transaction there may be uncertainty as to how the relevant tax law will apply and uncertainty arising from analysis performed – particularly in the more complex areas. The more unusual and less routine a particular transaction is, then generally, the greater the tax risks

associated with the transaction are likely to be. One-off, non-routine transactions, such as acquisitions/divestitures of businesses or parts of a business, or significant restructuring projects and reorganizations, will generally bear greater tax risks than the routine every day business such as selling products and services. Additionally tax risks can arise from failures, such as:

- The tax department is not involved in the transaction or are brought in only at the last minute;
- There is no organizational agreed framework against which to judge acceptable risk; and/or
- There is a failure to properly document and implement a transaction.

Failure to implement and document properly what has been planned and agreed is the cause of more tax authority challenges in this area than any other. Where the tax result depends on a particular sequence of events, board meeting or wording in a documentation, there is often the risk that the 'i's are not dotted and the 't's are not crossed – and all the best planning falls down due to inadequate implementation and monitoring over the life of the issue to ensure nothing is done to prejudice the tax result. Revenue authorities are increasingly asking to see the full documentation relating to a particular transaction to test out whether the implementation has achieved the result the Company is claiming.

### **Operational risk:**

Operational risk concerns the underlying risks of applying the tax laws, regulations and decisions to the routine every day business operations of the Company. Different types of operation will have different levels of tax risk associated with them. For example, comparing normal third party product sales with intercompany cross-border products sales; there are greater tax risks associated with connected party cross-border transactions (primarily transfer pricing issues). With increasing globalization of trade there is an ever increasing risk of operational people inadvertently creating a taxable presence in a country in which they are operating.

### **Compliance risk:**

Compliance risk would primarily relate to the preparation, completion and review of the Company tax returns (of whatever type and not only corporate tax returns) and the risks within those processes. Compliance risk addresses the risks implicit in the systems, processes and procedures adopted by a company to prepare and submit its tax returns and in responding to any enquiries/issues raised in the process of reaching an agreed position with the authorities.

At potential issue is:

- the integrity of the underlying accounting systems and information,
- the processes of extracting tax sensitive information from the accounting system,
- ensuring the tax compliance analysis processes are based on up to date knowledge of the latest tax law and practice, and
- the proper and efficient use of technology in the processes.



### **Financial accounting risk:**

The Sarbanes-Oxley Act of 2002 brought the risks in the financial accounting area in focus. A requirement in Sarbanes-Oxley Section 404 requires documentation and tested internal controls over financial reporting. Avoiding negative prior year adjustments to the tax accounts is paramount. The tax department is more risk averse than not. This conservative view as to what should be provided for in the accounts may lead to whether a provision is justified [FIN48].

### **Generic risk areas**

#### **Portfolio risk:**

Portfolio risk concerns the overall aggregate level of risk when looking at transactional, operational and compliance risks as a whole and considers the interaction of these three different specific risk areas. The risks is greater when the company is involved in a number of transactions, whether tax driven or business driven.

#### **Management risk:**

The second generic area of tax risk is one of not properly managing the various risks set out above. In this new world, with tax risk management becoming increasingly important, the Company needs to ensure that those charged with managing tax risks have the skills and the ability to do so.

#### **Reputational risk:**

By their very nature such risks will impact wider business interests. The company will invoke the following **Policy Statement**: The Company will not undertake any tax planning transaction which would reflect adversely on the consolidated group if details of it were to be published in the business pages of any financial newspaper.

#### **Stakeholders:**

The Board of Directors/ Audit Committee:

Two key tax risks the board should focus on:

- Portfolio risk and
- Reputational risk.

The board must have a general understanding of the Company 'risk profile'. The portfolio risk addresses this 'profile' for tax.

The Board sets:

- the tax risk/reward philosophy of the business;
- the tax risk management framework and the whole ethos as to how risk is assessed;



- how management controls operate within the business and how they are monitored.

The Sarbanes-Oxley rules require detailed documentation of the design and operational effectiveness of internal controls to be in place – and documentation of tax risk management policies and controls is a part of this process.

#### The CEO and CFO:

The CEO and CFO, having high level input into the strategy design of the tax risk profile, should be using it as a framework for participating in significant tax related decisions both on the transactional side and also on the operational side. Both are also responsible for monitoring how tax risk is being managed and how the tax department is performing (tax management risk).

#### Director of Tax & Global Tax Department:

The Director is involved in all areas of tax risk management. However, the prime responsibility for the management risk – ensuring that the right people are in place to manage tax, ensuring these people have the right skills and ensuring that the appropriate processes and procedures are in place.

#### Business units and functional areas:

The business unit's accountability for information provided to the tax function (or responsibility for transaction taxes within the unit) is crucial to accurate tax application. In a similar manner the legal department will need to understand where the business sits on transactional risk. The finance department is involved in the implementation of significant transactions and will also often be involved in producing detailed information for the tax returns – how much detail does it need to go into, what level of materiality is appropriate for the different tax returns to be filed. Internal auditors need to understand the position on tax risk. This is applicable to any role they may have in monitoring controls or in reviewing the tax function.

#### The external auditors:

They need to understand both the policy and where risks are being taken so they can plan their audit of the financial accounts. As a result the auditors will require more time and effort to understand where the risks lie and the implications for them in reaching their opinion on the financial statements.

#### Revenue and other regulatory authorities:

Tax authorities are taking an increasingly sophisticated approach to tax risk management. Certain criteria they use when assessing an organization's tax risk profile are:

- Business and transactions
- Globalization
- Systems of compliance



- Perceptions of stakeholders
- Materiality
- Application of the law

#### Investors and analysts:

To the extent that the effective tax rate tends to fluctuate investors/analysts will wish to understand why this is so and how it might fluctuate in the future.

### **The COSO Internal Control Integrated Framework**

The COSO Framework defines internal control as:

- A process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

#### **Control environment**

The control environment is based on the individual attributes and attitudes of senior management of the Company – and will reflect their integrity, ethical values, competence and authority. The control environment is a foundation for all the other components of internal control and is the nature of the platform on which the whole organization is built.

#### **Risk assessment**

This is the awareness and response of the Company to the risks that it faces.

#### **Control activities**

Control activities are the policies and procedures that are designed and operate in order to manage and address the risks to the achievement of Company objectives.

#### **Information and communication**

Information and communication systems are required to support the other four components in order to ensure the people in an organization understand, capture, exchange and record the information needed to manage and control risk in an organization.

#### **Monitoring**

The entire process, but particularly controls and processes, must be monitored to assess their effectiveness and to identify where modifications or remedial actions are necessary.

### **COSO Framework application to tax risk management:**

#### **Effectiveness and efficiency of operations = Transactional & Operational risk:**

The effectiveness and efficiency of the management of taxes. This would include the financial and operational objectives over taxes throughout the Company.

#### **Reliability of financial reporting = Financial accounting risk:**

Relates to the preparation of reliable financial information on taxes for inclusion in the financial statements and selected financial data derived from such statements, such as earnings releases,

reported publicly. Relates to complying with those tax laws and regulations (and other related laws and regulations such as accounting standards relating to taxes) to which the entity is subject.

**Compliance with laws and regulations = Compliance risk:**

Relates to complying with those tax laws and regulations to which the Company is subject.

**Assessment tables:**

Type of tax risk	Events giving rise to tax risk
Transactional	Acquisitions Disposals Mergers Financing transactions Cross-border [ICTP] Internal reorganizations
Operational	New business ventures New operating models Operating in new locations New operating structures Impact of technological developments
Compliance	Lack of proper management Weak accounting records or controls Data integrity issues Insufficient resources System changes Legislative changes Revenue investigations
Financial accounting	Change in legislation Changes in accounting systems Changes in accounting policies & GAAP/IFRS
Portfolio	A combination of any of the events listed
Management	Changes in personnel Experienced tax staff lacking New/inexperienced resources
Reputational	Revenue authority investigation Press comments Court hearings/legal actions Political developments

**Level 1 – Unreliable**

- Unpredictable environment where controls are not designed or in place

**Level 2 – Informal**

- Controls are designed and in place but are not adequately documented
- Controls mostly dependent on people
- No formal training or communication of controls



**Level 3 – Standardized**

- Controls are designed and in place
- Controls have been documented and communicated to employees
- Deviations from controls may not be detected

**Level 4 – Monitored**

- Standardized controls with periodic testing for effective design and operation with reporting to management
- Automation and tools may be used in a limited way to support controls

**Level 5 – Optimized**

- An integrated internal control framework with real time monitoring by management with continuous improvement
- Automation and tools are used to support controls and allow the organization to make rapid changes to the control activities if needed

Types of tax risk	Chance of risk arising	Impact High, Medium, Low	Risk priority High, Medium, Low
Transactional	H	H	1
Operational	H	M	2
Compliance	L	L	5
Financial accounting	M	M	3
Portfolio	M	L	3
Management	M	L	4
Reputational	L	H	3
Event	Chance of Event happening	Impact High, Medium, Low	Risk priority High, Medium, Low
Acquisitions	H	H	1
Disposals	H	M	2
Mergers	H	L	3
Financing transactions	H	H	1
Cross-border	L	H	3
Internal reorganizations	M	H	2
New business ventures	M	H	2
New operating models	M	M	3
Operating in new locations	M	L	4
New operating structures	H	M	2
Impact of technological developments	M	H	2

Control environment

This is the attitude and culture of the board and senior management towards tax risk and their overall strategy and objectives for tax risk. This will include their commitment to tax risk management, the degree to which the tax risk policy is set and communicated and the level of



accountability for achieving and monitoring the performance of the policy. This also includes consideration of the compensation 'driver' for the tax function and their overall position within the organization.

- What influence does tax risk have when the Company's overall strategy and objectives are being established?
  - Is tax risk considered side-by-side with other business risks in evaluating proposals and making decisions about achieving the organization's goals?
- What is the organization's tax risk appetite/tolerance - where on the tax risk spectrum is it and where does it want to be?
  - What is the organization's approach, management style and attitude to tax risk –what is its risk culture?
- How does the Board of Directors/Audit Committee manage tax risk?
  - Is there a written and agreed tax risk policy and methodology?
  - How are the Board's strategy and objectives with regard to tax risk and tax risk management delegated, communicated and embedded with the people throughout the organization?
  - Is the policy understood throughout the Company?
  - How do senior management ensure their policies and objectives are met – how do they assess to whom responsibility is delegated and that responsibility is passed to sufficiently competent and experienced personnel?
- How do senior management assess whether the Company is in compliance with their strategy and objectives on tax risk management?
  - Is information on tax risk management and measurement of achievement against objectives gathered and regularly reviewed by senior management?
  - How does senior management respond to new tax risks and weaknesses or deficiencies over tax risk management?
  - Does senior management demonstrate their commitment to their tax risk management philosophy and strategy in their everyday activities?
- How do the compensation policies and organizational structure of the tax department support or conflict with the fundamental goals of the Company?

### Risk assessment

This is the awareness and response of the Company to the different types of tax risk facing the organization. This will include the processes and procedures for identifying and evaluating the tax risks and how those risks are managed and mitigated consistent with the overall objectives of the Company on tax risk.

- How are tax risks identified, evaluated, and recorded?
  - How are the consequences of external factors such as economic, environmental, political, technological and social factors considered within the assessment and evaluation of tax risk?

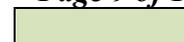


- What policies and procedures are there in place to ensure tax risks/issues/exposures are identified?
- What risk assessment techniques are used and do they consider past and future events?
- Who assesses the risk, what tax skills are brought to bear to ensure risks are properly assessed and is there an escalation process for predetermined large amounts?
- How is information obtained/gathered on operations and other internal activities to ensure tax risks are identified?
- Although certain tax risks may be risks to one organization there can be instances where those risks fall on a different organization in certain circumstances. Are secondary risks included in the risk assessment?
- How is the effectiveness of judgements assessed?
  - How are the likelihood of events and the impact of events estimated/modeled?
  - Is scenario planning used?
  - Are appropriate individuals with relevant experience and seniority involved?
- Are risks aggregated to enable a portfolio view to be considered?
- How are responses to identified risks designed and implemented?
  - How are the risk avoidance/risk reduction responses to mitigating tax risks assessed and evaluated – how is residual risk quantified?
- How is the tax risk assessment documented?

### Monitoring tax risk

These are the procedures put in place to review the effectiveness of the operating of the internal controls over tax risks, and to enable conclusions on the effectiveness of the controls over taxes to be reached. Monitoring will identify where controls are not operating effectively and where the organizations objectives are not being met. This allows remedial action to be taken where controls are not operating effectively and may identify where new risks are not being properly managed.

- How is the effectiveness of the operation of internal controls over tax risks assessed?
  - How is tax risk assessment monitored on an ongoing basis?
  - What review/testing procedures are there in place that can be used as a basis for reaching conclusions as to the effectiveness of the risk assessment process and the design of controls to mitigate identified risks?
  - How are conclusions reached?
- Who receives the results of the monitoring process and what action do they take with them?
  - What remedial actions are taken if internal control procedures are found not to be operating effectively?
  - How do the findings of the monitoring process impact the control environment, risk assessment, and control activity functions?
- Is there any independent review of the monitoring process?



How is the monitoring process documented?

Tax risk objectives	
Strategic objectives	The Director of Tax will take responsibility for all taxes on a global basis [except employment level taxes]
	The company will implement tax planning strategies that will impact positively on day-to-day business activities
	The company will file the appropriate tax returns in relevant jurisdictions in accordance with tax laws and regulations
Operational objectives	The company will not implement more than six significant tax planning ideas in any one year
	The tax function must be involved in all transactions over [insert, i.e.\$400K]
	No new subsidiaries may be set up without tax function input onto the structuring/financing
	External opinions will be taken on any issue where the tax at stake is greater than [insert i.e.1 million]
	The financial tax figures needs to be accurate to within [insert, i.e. \$100K]
	The tax department will provide a [20%] valuation allowance on all tax credits unless the statute has closed or agreed on audit review.
	Total portfolio risk should at no time exceed more than [25%] of all open year filings and taxes paid in those years.
	The cost of any revenue authority investigation/adjustment should not exceed 4% of taxes paid in open statute years.
	Penalties for late filings of tax returns will not exceed [insert, i.e. \$10,000] in any one year

Exceptions to policy above:

- CFO – has the authority to approve policy exception from [insert, i.e. \$100K - \$500K].
- CEO – has the authority to approve policy exceptions from [insert, i.e. >\$500 – 2 million].
- Audit Committee – Must approve policy exceptions exceeding [insert, i.e.>\$2 million].

Response to tax risk:

The specific response to each identified risk will vary depending on factors such as:

- The ease of mitigating the risk
- It's potential impact on the business



- The availability of alternative mitigating techniques

Avoidance	Taking alternative action such that the risk no longer arises, for example by operating using a different model such as: <ul style="list-style-type: none"> <li>– using arms length transfer price to avoid a transfer pricing tax risk; or</li> <li>– restructuring an asset disposal to be a sale of a shareholding in a company owning those same assets; or</li> <li>– to operate through a legal entity with a different taxable status in a particular location</li> </ul>
Sharing	Taking action to reduce the likelihood or impact of the risk by transferring or sharing the risk in some way. This generally achieved through the techniques such as the obtaining of warranties or indemnities, obtaining professional opinions, or outsourcing of tax functions
Reduction	Taking action to reduce the likelihood of the occurrence and/or the impact of the risk, for example by: <ul style="list-style-type: none"> <li>– carrying out appropriate tax planning; or</li> <li>– obtaining documentary evidence or opinions in support of the proposed tax treatment such as a tax valuation, or</li> <li>– restructuring the event to give a more favorable tax treatment e.g. by leasing rather than buying a capital asset; or</li> <li>– carrying out a detailed review of potentially disallowable expenditure to ensure all potentially allowable amounts have been identified and claimed</li> </ul>

Control Activities:

Objective/risk	Who is responsible	What needs to be done	How does it get done	When
Ensure there is a group tax risk management policy	Chairman of Audit committee	Agree broad parameters with rest of the Board	Delegate detail to Director of Tax	Immediate
The Director of Tax will take responsibility for all tax risk management	Director Tax	Full group tax risk assessment Design control activities around all major risks	Seek external advice on best practice procedures for this exercise	Short horizon
The tax function must be involved in all transactions over	Executive team, Divisional Controllers, Legal Department,	Involve the tax department when any such transaction	Formal notification Required	At the start of any negotiations



[insert, i.e.\$300K]	Finance Department	arises		
Revenue investigations	Director Tax	Monitor all involvement with revenue authorities where tax at risk is [insert, i.e.>\$25,000]	Overview role, but involved in detail for major issues	Ongoing

### Review Cycle

Who is responsible	What for	Review Cycle
The Board of Directors	The overall control activities of the company	Annually
The Audit Committee	Review of tax risk management policy and confirmation that the internal control framework is being operated and monitored	Semi-annual
CFO/Controller	All control activities relating to the finance function including all control activities over taxes and tax risks	Quarterly
Director Tax	Control activities over tax risk and tax risk management	Monthly
Divisional Controllers	Control activities over the finance function for the country /subsidiary/business unit	Monthly
Internal audit	Review of application of controls and procedures	Bi annually
Tax managers	Responsibility for the control activities over taxes and tax risk within their area of responsibility both Domestic and Internationally	Ongoing – at a minimal on a monthly basis



Tax Processes:	Head Office Country	USA	[Foreign sub1]	[Foreign sub2]	[Foreign sub3]	[Foreign sub4]	Other
Tax Provisions – External TP Sign off?	USA	HeadOffice Yes	HeadOffice Yes	HeadOffice Yes	HeadOffice Yes	HeadOffice Yes	HeadOffice No
Corporate Income Tax	USA	HeadOffice	HeadOffice & External Provider	HeadOffice & External Provider	HeadOffice & External Provider	External Provider	External Provider
Excise/ Franchise	USA	HeadOffice	N/A	N/A	N/A	N/A	N/A
Capital	USA	HeadOffice	HeadOffice & External	External Provider	External Provider	External Provider	External Provider
Branch	USA	N/A	N/A	External Provider	N/A	External Provider	External Provider
Sales/Use	USA	HeadOffice	N/A	N/A	N/A	N/A	N/A
VAT	USA	HeadOffice	HeadOffice	LocalOffice	LocalOffice	LocalOffice	External Provider
Property	USA	HeadOffice	HeadOffice	LocalOffice	LocalOffice	LocalOffice	External Provider
Withholding	USA	HeadOffice	HeadOffice	HeadOffice/ LocalOffice	HeadOffice/ LocalOffice	HeadOffice/ LocalOffice	External Provider
Duty	USA	HeadOffice	HeadOffice	LocalOffice	LocalOffice	LocalOffice	External Provider

**Tax Risk Management Checklist**

Internal Control Component	Question	Yes	No
<b>Control environment</b>	Do you have a documented tax risk management policy?		
	Are there specific tax risk management objectives?		
	Have all relevant stakeholders had input to the policy?		
	Have all tax risks areas been included?		
	Has the tax risk management policy been discussed and agreed at Audit Committee level?		
	Has the policy and objectives been communicated to stakeholders?		
	Is there an appetite in the business to implement the		



	policy?		
	Does the Board review the position annually?		
	Is the tax risk management policy aligned with the wider objectives of the business?		
<b>Risk assessment</b>	Are there procedures in place to assess the tax risks in the business?		
	Do they cover all areas of tax risk?		
	Do they cover all taxes?		
	Do they cover all significant countries in the group?		
	Do you know who are the key creators of tax risk in the organization?		
	Do you have processes in place to manage these people?		
	Do you know what the five key tax risks are in the business?		
	Do you use scenario planning to assess tax risk?		
	Are tax risks considered in aggregate to allow an overall portfolio view of risk to be considered?		
	Is the tax risk assessment documented?		
<b>Control activities</b>	Are risk control procedures in place?		
	Are the five key tax risks in the business being properly managed?		
	Is it clear to the business when they need to consult the tax department?		
	Is it clear when the tax department needs to consult the Audit Committee?		
	Are control activities communicated and embedded throughout the organization?		
	Is it clear who in the organization has responsibility for individual control activities?		
	Is the detailed control activities documented agreed at Audit Committee level?		
	Is there mitigating controls and support of these controls?		
<b>Information &amp; Communication</b>	Is the Audit Committee kept aware of key tax risks in the business?		
	Is the Audit Committee consulted on major tax risk matters?		
	Is there a central place people can find out about the tax risk policy?		
	Is there training in place to ensure key individuals understand their role in tax risk management?		



	Are processes in place to ensure the tax department is kept aware of operational changes to the business?		
<b>Monitoring</b>	Is there a process in place to ensure tax risk management control activities are operating effectively?		
	Is Internal Audit involved?		
	Are the results of monitoring activities reported back to senior management?		
	Is the monitoring process documented?		
	Is remedial action taken where risk assessment and control activities are not found to be operating effectively?		

