

White paper

# PROCUREMENT AND TAX

**Stakeholder alignment  
and internal controls**



## Summary

To succeed, the process of integrating tax automation with new procurement technology requires alignment. While the alignment of expectations between the tax and procurement functions is, of course, vital, the expectations of several other stakeholder groups — both inside and outside the organization — also require attention. This means understanding what corporate finance, Sarbanes-Oxley compliance groups, internal auditors, external auditors, and government tax auditors expect regarding tax compliance and tax automation. Since many of those expectations center on internal controls, indirect tax teams should identify which controls to monitor and manage.

## Stakeholder relationship management

### How tax can manage internal alignment — and internal controls — during procurement transformation

Successful procurement transformation requires considerations and adjustments that extend well beyond the procurement function.

As an important yet frequently overlooked procurement stakeholder, the tax function is well aware of the need for its involvement in major procurement changes, especially those involving the introduction of new technologies. Implementations of advanced procurement platforms can produce major efficiency gains and innovation-related benefits, but they can also give rise to troubling tax compliance risks. Optimizing those benefits and mitigating related risks require an effective partnership between tax and procurement, as well as alignment with the expectations of other tax and procurement stakeholders.

Procurement applications and enterprise resource planning (ERP) systems rarely contain the depth of functionality needed to accurately apply the correct sales and use and VAT codes. Accounts payable (AP) teams rarely possess the comprehensive expertise required to manually apply the correct tax codes. “We still see plenty of AP clerks making tax decisions,” reports EY Managing Director Michael Guelker. “You really want to take those decisions out of their hands through the integration of tax automation with procurement systems.” Otherwise, those deficiencies can cause tax-coding errors that result in overpayments and/or underpayments of tax that can give rise to larger problems, including audit penalties.

Given those risks, procurement and tax should align on the purpose, risks, and process of procurement transformation. Achieving and sustaining this alignment requires tax to understand and address the expectations of other stakeholder groups — most notably, finance functions, Sarbanes-Oxley (SOX) compliance teams (in most publicly listed companies), internal audit functions, external (or attest) auditors, and government tax auditors.

“Each of those groups has its own keen interest in the accurate determination of tax on procurement transactions,” says Vertex Chief Tax Officer for Transaction Tax Michael Bernard. “The common thread that runs through all of those expectations is the need for clean, accurate, and timely tax reporting.”

Sustaining that accuracy and timeliness also requires tax functions to adhere to the internal controls that SOX teams, internal auditors, and external auditors scrutinize when tax compliance risks arise.



## Work together early and often

While understanding and satisfying all relevant stakeholder expectations marks a major determinant of the success of a new procurement technology implementation, that alignment also drives improved procurement and tax-compliance performance and efficiencies on an ongoing basis. As a result, tax and procurement should understand, and align on, their respective expectations.

Procurement transformation initiatives are managed and driven by operational metrics related to invoicing accuracy, payment accuracy and speed, and overall procurement efficiency. Tax-focused metrics are less likely to be considered, unless the tax function is included in the effort.

“When tax is involved in procurement transformation, important indirect tax considerations are identified early in the project,” explains Deloitte Senior Manager Les Jackson. For example, procurement applications and other source systems that contain tax-relevant data have a substantial influence on tax compliance accuracy. “If that dataset is not sufficient from a tax perspective,” Jackson points out, “it makes it much more difficult for tax groups to perform the daily tasks necessary to complete tax reporting in a way that fulfills their fiduciary duty.”

That explains why Guelker advocates tax and procurement groups to collaborate early on procurement transformation efforts involving new technology. “The best practice is to have tax and procurement working together — not only when developing the initial business case, but also throughout the entire project, including the integration of tax technology with the procurement system,” he notes.

## Know your partners’ priorities

The success of the implementation and/or integration of new procurement and tax applications requires internal alignment beyond tax-procurement collaboration.

A compelling business case for this investment must be made to corporate finance partners. In many companies, SOX compliance requirements also must be identified and adhered to by the implementation teams. Internal audit is another important stakeholder. The expectations of two important external stakeholders also should be addressed. The following discussions summarize the expectations and requirements of these alignment partners:

**Finance and accounting:** The development of an effective business case is always critical. Convincing arguments for upgrading tax technology in tandem with the implementation of new procurement tools feature calculations of tax overpayments on procurement transactions as well as tallies of the costs of tax errors. That means quantifying dollar amounts for the extra legwork required to correct tax errors along



with any compliance penalties that might have been incurred. “The most effective business cases show how much money is going out the door,” Guelker notes. “When a company underpays taxes, there may be some penalties and interest involved. Overpayment also creates additional work and costs. Getting money back from a state can be a cumbersome process.” Successful business cases also quantify the reductions in work and time that tax functions can achieve by automating the determination, calculation, and validation of tax in purchasing transactions.

**SOX compliance:** SOX teams focus on the internal controls around financial reporting. When the volume of tax that is calculated, collected, and remitted reaches a certain level, errors can have a major — or, in SOX-compliance terminology, “material” — impact on the accuracy of financial statements. When making major changes to compliance processes and/or supporting technology, tax teams should ensure that relevant internal controls are in place, adhered to, and monitored.

**Internal audit:** The internal audit function’s mission is to enhance and protect organizational value through risk-based and objective assurance, advice, and insight. When internal auditors assess any aspect of the tax function, including how taxes are handled on procurement transactions, they expect to see that all controls ensuring accurate and secure tax calculations are in place. “Internal auditors want to make sure that the tax department has been de-risked as much as possible,” Bernard notes. He also points out that tax leaders can gain valuable insights from their internal audit partners regarding tax-specific risks, approaches to correcting those issues, and potential process improvement opportunities. “Internal audit reports jointly to the CFO and the audit committee of the board,” Bernard adds. “When internal auditors identify a need for tax technology improvements, their interactions with senior leaders strengthen the case for funding those improvements and investments.”

**External auditors:** External auditors in public accounting firms conduct independent reviews of an organization’s financial statements. Those reviews feature opinions concerning the reliability of the information and data within those statements. This means that external auditors — just like internal auditors and SOX compliance groups — may need to ensure that tax teams are adhering to designated policies, practices, and internal controls before offering their seal of approval.

**Government tax auditors:** When tax audits occur, government auditors need access to all the data for the tax determinations and calculations they are reviewing.



## 5 internal controls to consider

Most of the stakeholders that tax teams need to consider when implementing new technology focus on internal controls. Regardless of how large or small a company is, the internal controls that relate to filing tax returns are essentially the same. Tax teams should collaborate with their SOX and internal auditing colleagues to deepen their understanding of these controls, which address five areas:

1. **Tax data accuracy:** Tax groups must ensure that the data used in tax compliance processes are accurate and verifiable. This can be challenging when a large number of “feeder systems” — applications containing tax-relevant data that integrate with the tax system — exist. “Tax departments need to make sure they’re getting clean, accurate, and timely data from whatever systems feed into their tax reporting,” Bernard asserts. “Those applications can include procurement, sales, and AP. That translates to a lot of interactions with different functional groups — all in the service of making sure that the tax data is clean.”
2. **Data staging:** A second tax-related control area centers on the way data is staged, or fed into, the tax-reporting tool a tax department uses. This step poses greater challenges when the data the tax-reporting tool requires is not in the proper format. In those cases, the data needs to be reformatted without causing any changes to it — a process that should be as automated as possible to avoid errors associated with manual data entry and manipulation. “You really need to have the proper skills and technology to take the data and stage it into the reporting tool,” Bernard reports. “This has to be completed regardless of whether you perform tax-reporting internally or outsource it.”
3. **Maintaining a calendar:** Most tax functions are required to maintain a comprehensive calendar tool, which identifies all submission dates for all mandated tax returns (e.g., sales and use tax, VAT, income taxes, business license tax, telecommunications taxes, and so on). SOX compliance groups, internal auditors, and external auditors review the calendar tool and assess the control processes around it.
4. **Managing filing controls:** In addition to maintaining a calendar of tax-filing dates, tax functions need to have controls in place to ensure that they continually meet each of those submission deadlines. Some forms of tax automation can provide strong filing controls even as the number of tax payments soars.
5. **Maintaining an audit trail:** All data used in tax return filings must be digitally stored in a secure manner and accessible when retrieval is necessary. The data, which supports the figures on each tax return, must be shared with government auditors when they request reviews. “A common benchmark we see in tax departments with internal controls best practices is that the data is ‘audit-ready,’” Bernard explains. “That means it is stored centrally.”

Understanding and adhering to those control areas increase the odds of a smooth and successful integration of tax automation and procurement platforms.

## About Vertex

**Vertex Inc.**, is a leading global provider of indirect tax software and solutions. The company's mission is to deliver the most trusted tax technology enabling global businesses to transact, comply, and grow with confidence. Vertex provides cloud-based and on-premise solutions that can be tailored to specific industries for every major line of indirect tax, including sales and consumer use, value added, and payroll. Headquartered in North America, and with offices in South America and Europe, Vertex employs over 1,100 professionals and serves companies across the globe.

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## Conclusion: Relationship-building 2.0

A primary objective of procurement transformation is to remove inefficiencies throughout the entire procure-to-pay (P2P) cycle. Inefficient P2P processes can also hinder the accuracy of indirect tax compliance reporting while leading to tax overpayments and underpayments.

That shared interest means that tax teams and procurement groups can achieve mutual benefits by getting on the same page before implementing and integrating new procurement platforms. Setting the stage for the successful integration of tax automation and new procurement applications also requires tax functions to recognize and address the requirements of other stakeholders, most of whom also have a stake in optimizing the accuracy of tax determinations and calculations on procurement transactions.

While the right tax technology can deliver that assurance, a successful tax automation-procurement integration begins with relationship-building, communications, and mutual understanding.

