

Steering Businesses Through the ACAP Process

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The IRAS has just launched the GST ACAP aimed at encouraging GST-registered businesses (GRBs) to better manage their GST risks and improve their compliance through an effective and robust GST control framework.

Under ACAP, GRBs may volunteer to have their GST control framework reviewed and verified by an independent ACAP reviewer. Following the review, GRBs that successfully demonstrate that they have adequate and effective GST controls to prevent and detect GST errors will be awarded the ACAP status by the IRAS and can enjoy certain benefits for either three or five years. These benefits include stepped-down audit activities by the IRAS, faster GST refunds and automatic renewal of GST schemes such as the Major Exporter Scheme.

To further encourage GRBs to volunteer for ACAP, the IRAS is offering two very attractive sweeteners – co-funding of 50% of the costs (for preparing and obtaining the ACAP status (capped at \$50,000) and full waiver of penalties for errors identified from the ACAP review.

How we can assist GRBs

ACAP is certainly an attractive and exciting new IRAS initiative for GRBs. While many GRBs are keen to volunteer for ACAP, they are also likely to have many questions concerning the ACAP process.

As accredited tax professionals from CPA firms, we can assist GRBs in a variety of ways, such as assisting them in assessing their eligibility for ACAP and thereafter helping them get ready for the ACAP review. We can also undertake the role of the independent ACAP reviewer or partner with their internal audit team to perform the ACAP review. Following the review, we can assist them remediate any gaps in their GST control framework and rectify any GST errors.

Eligibility for ACAP

In order to be eligible for ACAP, GRBs must first do a self-assessment of their GST control framework by completing the IRAS self-review checklists of the GST controls at the entity, transaction and GST reporting levels.

As accredited tax professionals, we play an important role in helping GRBs understand the key controls and supporting control features required to achieve a more accurate self-assessment of their GST control framework.

For GRBs that do not have at least 60% of the supporting control features for each key control, we can help by reviewing and recommending the implementation of additional control features.

Getting ready for ACAP

Having determined that they are eligible for ACAP, the next step for GRBs is to prepare for the ACAP review.

At this stage, GRBs are required to avail various information such as documentation on the GST processes covering the process flows for the different categories of supplies and purchases at the transaction level, and the process flows for the extraction and compilation of data for GST reporting. The documentation should also include the risks identified in the process flows and the control features to prevent and detect GST errors.

From experience, many of the GRBs do not have the required process flow documentation available due to resource constraints to undertake such work internally. This may cause a delay in proceeding with the ACAP review. This is where we can assist GRBs with either the preparation or review of their process flow documentation.

In preparing or reviewing the process flow documentation for GRBs, it is important to first, understand the processes for the major classes of transactions – such as sales, purchases and imports - affecting the GST accounts (output and input tax accounts) of the GRBs.

Secondly, the process flow documentation should map out the end-to-end process flow of the transactions. For example, the sales process should begin with an order entry and GST coding, and end with the posting of the sales transactions to the general ledger account and the reporting of the sales transactions in the GST return.

The purchases process should, on the other hand, begin with the purchase order, followed by the processing of vendors' invoices, and end with the posting of the purchase transactions in the general ledger account and the reporting of the transactions in the GST return.

For the GST return reporting process, this should start with the extraction and compilation of the relevant data from the sales, purchases and other processes and end with the preparation and submission of the GST return and the payment of GST to, or collection of refunds from, the IRAS.

Our role as independent ACAP reviewer

GRBs that are ready for the ACAP review should formally notify the IRAS on their intention to apply for ACAP and a confirmation letter on their participation in ACAP will be issued by the IRAS.

Certain safeguards have been put in place for the conduct of the ACAP review. Specifically, if the ACAP period coincides with the period the CPA firm is involved in the preparation or review of the GST returns of the GRBs, the firm should assign an entirely different team to undertake the ACAP review. If the firm is involved with the design or preparation of the documentation of the process flow, the staff involved in the design or preparation of the documentation of the process flow must not be a member of the ACAP review team.

The ACAP review will cover the controls at the entity, transaction and GST reporting levels established by the GRBs, based on the IRAS guidelines.

At the entity level, the ACAP reviewer is required to establish whether GST risk management, review and monitoring are incorporated as part of the GST control framework.

At the transaction level, the ACAP reviewer is required to establish whether the controls are effective to ensure correct GST application and accurate capturing of GST transactions. The work involved at this level would include performing analytical reviews, walk-through, test of controls and substantive testing on the supplies and purchases categories.

Lastly, at the GST reporting level, the ACAP reviewer is required to establish whether the controls are effective to ensure that the GST returns submitted are complete and accurate.

In view of the significant amount of work involved, the ACAP reviewer should ensure that sufficient resources are allocated to conduct and complete the review in a timely and effective manner. It is also important to ensure that those assigned to undertake the

review possess the necessary GST technical knowledge and are trained to perform the test of controls and the substantive testing.

Based on the outcome of the ACAP review, a report is then prepared by the ACAP reviewer.

Remediation of the gaps and rectification of the errors

Following the ACAP review, any gaps in the GST control framework and GST errors noted will be documented in the “Consolidated Statement of GST Gaps and Errors”.

For the gaps identified in the GST control framework, accredited tax professionals can assist the GRBs in ascertaining their impact on the GST transactions and identifying any mitigating controls and the improvements needed to remediate the gaps.

Should GRBs consider ACAP?

Many GRBs are interested yet apprehensive about ACAP. They should not shy away from ACAP just because of the time and effort needed to prepare for the review. They should look at the benefits of ACAP from a longer-term perspective in terms of helping them manage their GST risks and improve their GST compliance.

As accredited tax professionals from CPA firms, we can assist GRBs at the different stages of the ACAP process as discussed above. This should reassure GRBs that they are not alone in their journey to obtain the ACAP status from the IRAS.