

Operationalizing Transfer Pricing

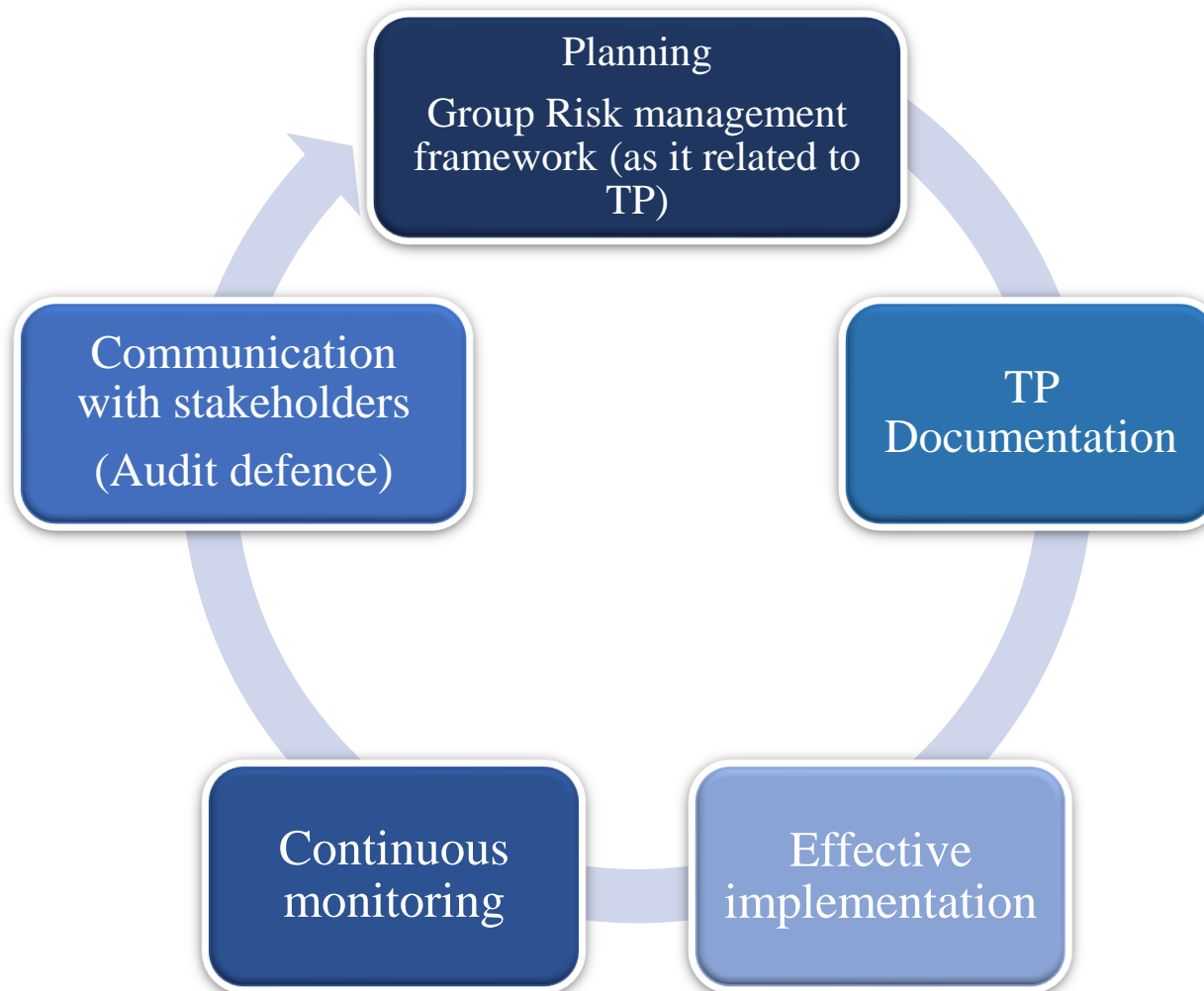
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Presentation outline

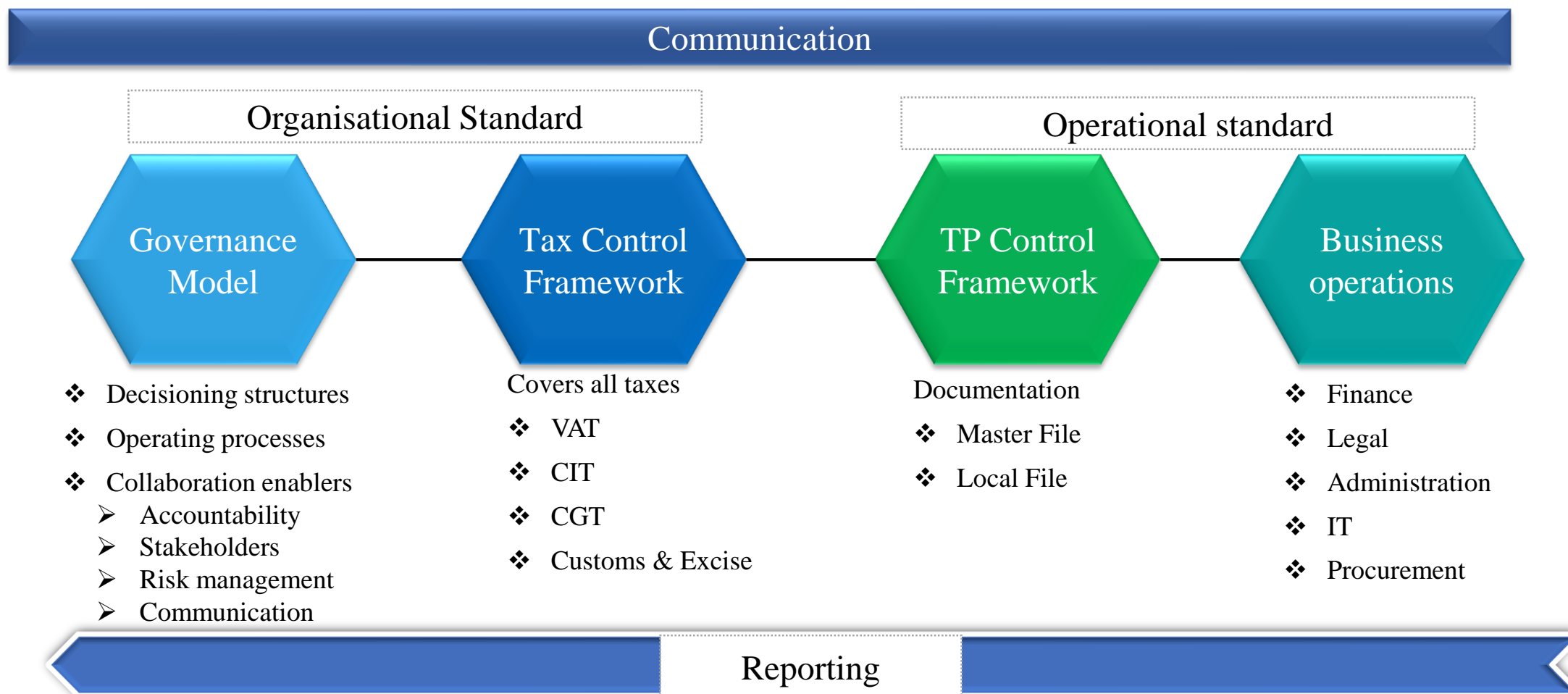
- ❖ TP Life cycle
- ❖ TP Governance and Organisation
- ❖ Processes & controls
- ❖ Operational TP strategy and process framework
- ❖ Role of IT
- ❖ Monitoring and compliance



Transfer pricing life cycle



TP Governance in the organisation



Setting-up a governance model



Encompasses the allocation of the responsibilities detailed above to different staff

Four key type of personnel (RACI) are vital

- ❖ **Responsible** – person assigned part of the work
- ❖ **Accountable** – responsible of approving the work before it is effective
- ❖ **Consulted** – provides information or expertise to complete the work
- ❖ **Informed** – persons who need to be notified

The responsibilities include **Setting up the TP strategy, Developing and maintain TP** documentation, Risk management, systems and data management, **approving TP policies**, capacity planning as well as entering into **legal agreement/contracts**

The key staff - the Head of Tax, Head of TP, Central Finance Team, Legal Team as well as Board

Processes and controls



Developments in the TP environment

- ❖ BEPS Action Plans
- ❖ Changes in domestic legislations
- ❖ Cross-border information sharing
- ❖ Public scrutiny
- ❖ Political agendas
- ❖ Media pressure

Internal processes

- ❖ Tax risk management systems (TRMS)
- ❖ Internal roles and cross-departmental coordination
- ❖ Governance and stakeholder management

Processes & controls



Tax (TP) control system should be embedded in the overall business control system

Business control framework often based on “**COSO Model**” - An Enterprise Risk Management model aimed at managing business financial and other risks

COSO Model’s objectives:

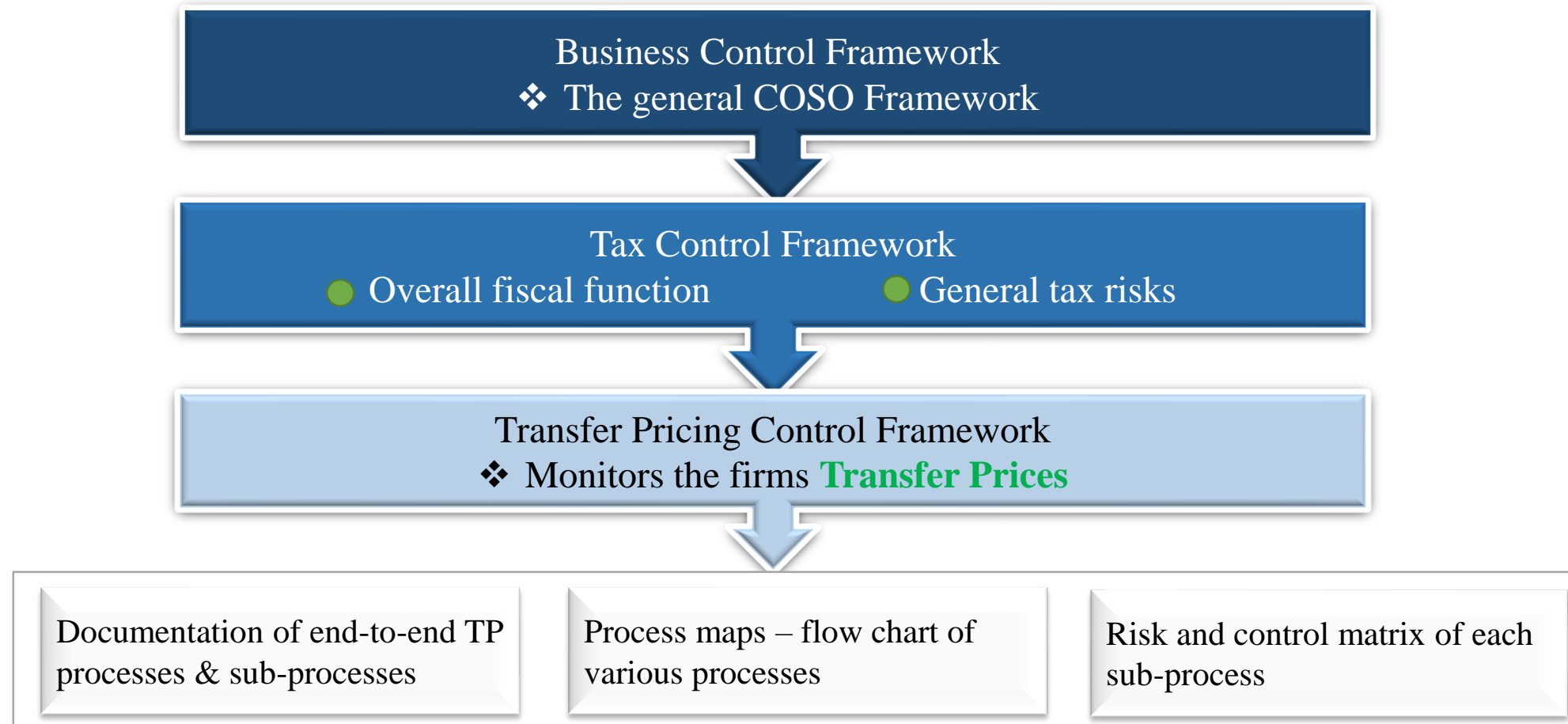
- ❖ Effectiveness and efficiency of operations;
- ❖ Reliability in financial reporting; and
- ❖ Compliance with applicable laws and regulations

Elements of the COSO Framework

Committee of Sponsoring Organizations of the Treadway Commission (COSO)

- Control environment;
- Risk assessment;
- Control activities (policies and procedures);
- Information and communication; and
- Monitoring

Processes and controls



Operational TP strategy and process framework

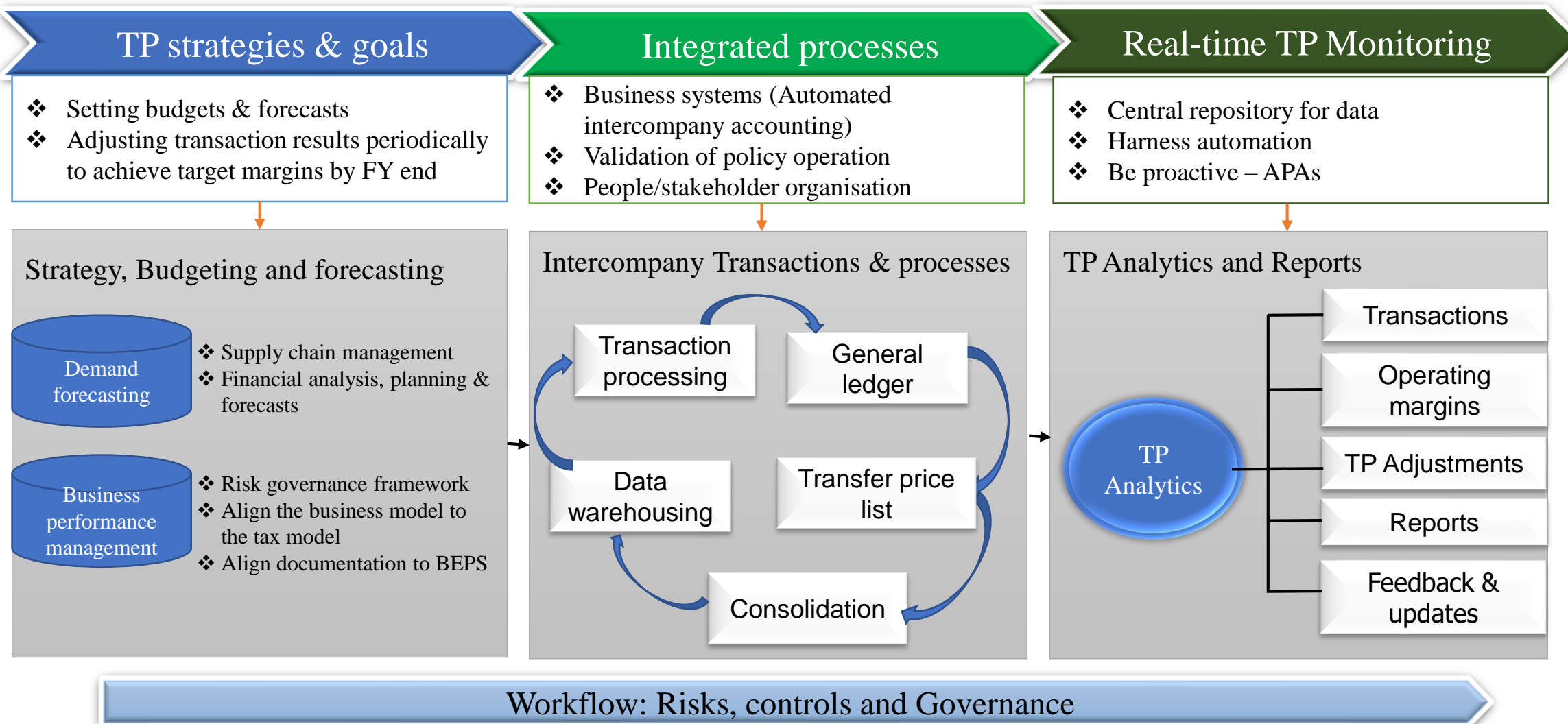


- ❖ Challenge of managing TP practices to satisfy the **legal requirements** while meeting **business objectives**
- ❖ This inability to align TP requirements and business models may result in *sub-optimal business operations* and **economic leakages**
- ❖ With new laws to curtail base erosion and profit shifting being enacted, **transparency** has become the new buzzword

Operationalising TP should focus on aligning, managing and controlling the implementation of TP strategies in a manner that:

- ❖ Enhances business value;
- ❖ Manages compliance and risk effectively; and
- ❖ Optimises business operations

Operational TP strategy & process framework



Role of IT

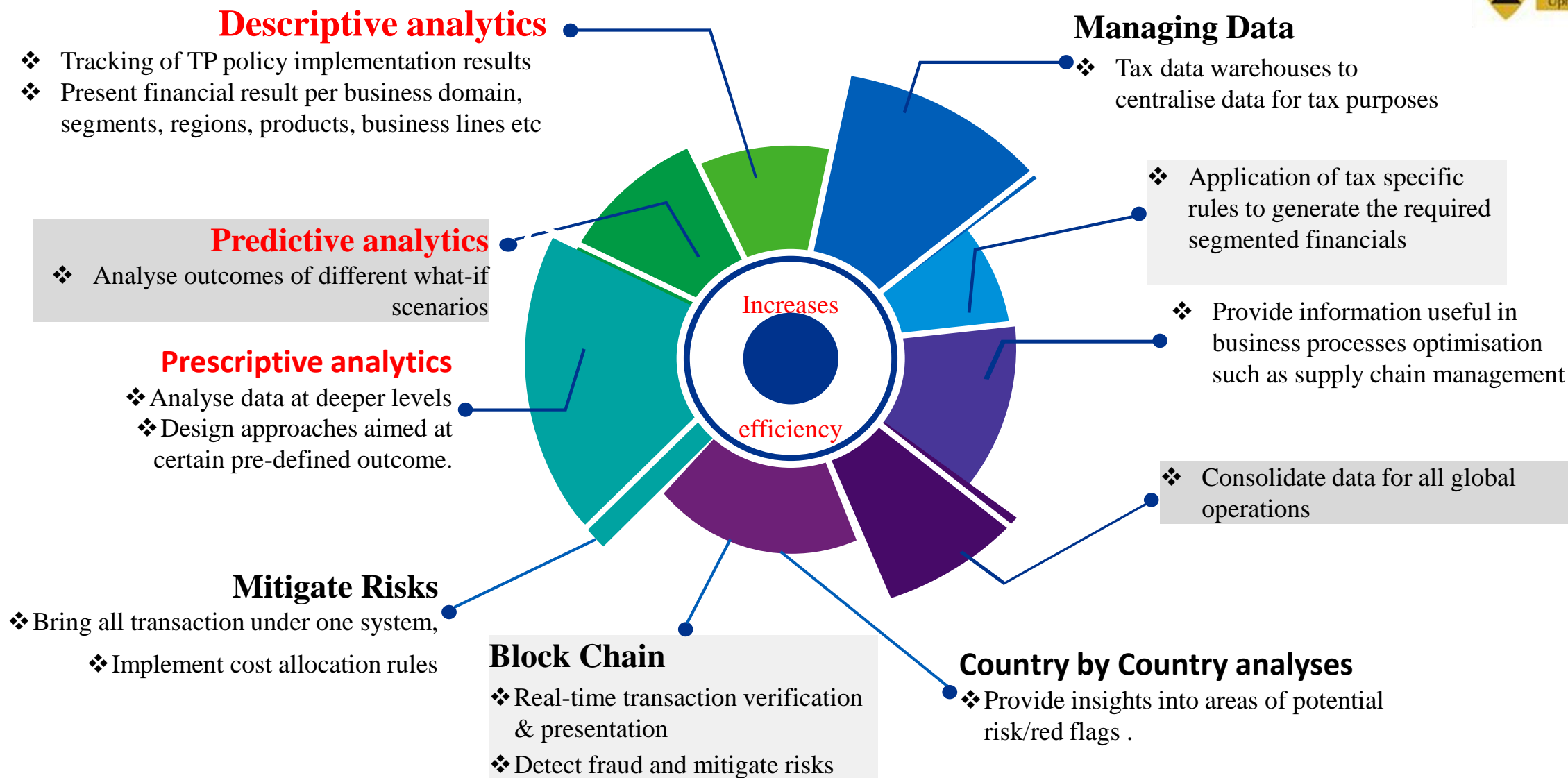


- ❖ The **world is at a point of inflection**: The 4th digital revolution has changed the environment
- ❖ Today, the world is virtually being run by software and data is increasingly becoming the new currency
- ❖ These trends offer the right set of circumstance for organisations to offer multiple services

In this new environment, companies will need leverage on technology to assist in all areas of regulatory compliance and business processes optimisation

The primary role of technology is providing **sufficient meaningful data** – Access to data that enables a firm monitor compliance, is vital in designing optimal transfer pricing processes & controls

Role of IT



Monitoring & Compliance



Once firm has a proper TP policy, monitoring becomes the central focus

This encompasses a Transfer Pricing Compliance Review (TPCR)

The major goals of the TPCR includes:

- ❖ Monitoring adherence and implementation of the TP policy
- ❖ Effective responses to regulatory/tax authorities queries
- ❖ Minimising disruptions eg massive true-up or true downs

The overall goal is **reducing compliance costs and financial statements risks**

Monitoring & Compliance

Implementation of the TP Policy

- ❖ Ensure that the transfer prices results in the desired **arm's-length outcome**
- ❖ Periodical comparison of budgeted financials with actual outcomes
- ❖ Ensure **adjustment capabilities** are in place to ensure transfer prices are adjusted timely
- ❖ Ensure key data is **fully reconciled**

Comprehensive Story

- ❖ Ensure the *Master file* and the *Local file* speak the same story?
- ❖ Ensure data consistency across all functional units
- ❖ Ensure the intercompany agreements reflects the actual intercompany transactions executed

Continuous improvement

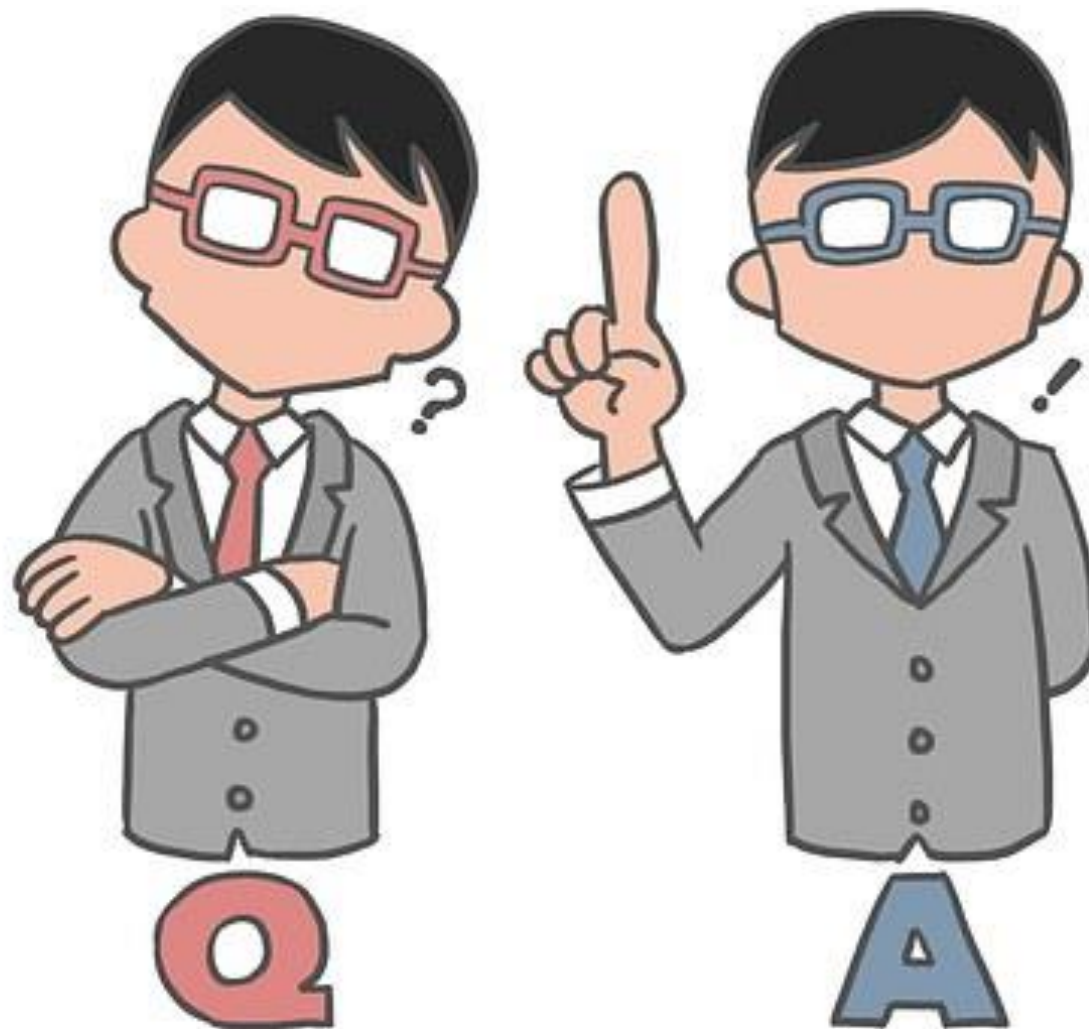
- ❖ Identify improvement opportunities
- ❖ Update the TP Policy with changes in transactions
- ❖ Respond to tax authorities queries

Points to note

To achieve the desired results companies should leverage on technology and automated monitoring

The benefits of a good TP lifecycle are the invisible gains in the form of **risk mitigation** and **tax saving**

Interactive Session



Interactive Session



Uphold public interest

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