SSON'S REPORT: HARMONIZING GLOBAL FINANCIAL REPORTING AND TAX

Statutory Reporting & Tax Compliance
in Shared Services, APAC

Value-add potential makes these functions
ripe for centralizing into Shared Services

THE WORLD'S LARGEST SHARED SERVICES & OUTSOURCING NETWORK

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Introduction

Even before the events surrounding the COVID-19 pandemic hit global markets, the finance function was under significant pressure to transform. As markets became more fluid and opportunities had to be grasped quickly, enterprises relied on finance to execute transactions, ensure cashflow, and become a partner in delivering intelligence across the business.

Today, this challenge has only become more acute.

The opportunity finance needs to leverage now is to integrate and streamline processes that improve transparency, agility, and business intelligence. This transformation is driven by data, implemented by people, and supported by process; *but it's enabled by technology*.

We see this approach reflected across all parts of finance. However, whereas transactional activities traditionally led the change, there is currently a surge of activity across what might be referenced as "core compliance and reporting" processes, which don't naturally fall into the "transactional improvement" bucket. In fact, many of these activities have previously been held back by their perceived complexity or requirement for local intelligence. As a result, they've been slow to assimilate into a centralized Shared Services model.

Today, however, many organizations are looking for new areas through which to drive *not just savings and efficiencies* but also *value-add* – for example in the form of improved compliance and reduced exposure to risk. **Statutory reporting** and **tax compliance** have both emerged as strong candidates for centralization, standardization, and delivery through a central, global technology platform, with modern solutions able to overcome many of the concerns that historically limited their assimilation.

The truth is that at a time when business support services are increasingly being integrated into global service delivery models, statutory reporting and tax compliance risk falling behind.

"With technology as your enabler, moving these business-critical functions to Shared Services Centers helps create a consistent process across the organization and allows teams to focus on key strategic activities," explains Vishal Parekh, Regional Head for South Asia & Southeast Asia at Thomson Reuters.

One factor weighing in today is that governments are changing regulations more frequently than in the past, and are embracing technology. Significant is also that governments are *mandating embracing technology*. This not only drives the adoption of technology but also centralization – whereby the challenges around centralization relate mainly to local regulatory issues. Here, the solution is not necessarily 'out of the box' technology but expert, tailored solutions that integrate content with technology.

This report leverages the results of a recent survey of leading enterprises across the Asia-Pacific region, specifically focusing on the extent to which Shared Services are moving up the value chain to incorporate additional finance processes. It highlights finance practitioners' priorities in terms of performance, investments, and results, and exposes critical gaps that are impacting the ability to optimize end-to-end performance.

The Shared Services Model: A Leading Enabler of Value-Add

The Shared Services model is well-established and adopted across multinational organizations for nigh on three decades to provide cost-effective, "back-office" business support services, via a centralized delivery model. In its early days of implementation, *cost* was the primary driver, along with the quality assurance provided by process standardization. In the Shared Services and Outsourcing Network's 2020 survey, however, 74% of respondents identified *control* as the leading benefit (SSON State of the Global Shared Services Industry Report 2020).

In addition, Shared Services Organizations (SSOs) are striving to incorporate more functions by expanding their *scope of service* support (42% of SSON's global 2020 survey respondents indicated they planned to expand their scope of service over the next year).

The current crisis unleashed by the COVID-19 virus has only fueled the drive to adopt digitization as a means of protecting the business against disruptions, maintain performance, and expand value-add across a broader scope. Automation has emerged as something of a buffer to maintain consistent services across finance and tax processes that might otherwise be more severely disrupted. Within remote work scenarios, in particular, automated processing improves efficiencies and offers the ability to work with minimum disruption. We can expect these lessons to be translated into more SSOs leveraging automation alongside standardization to offer resiliency in future.

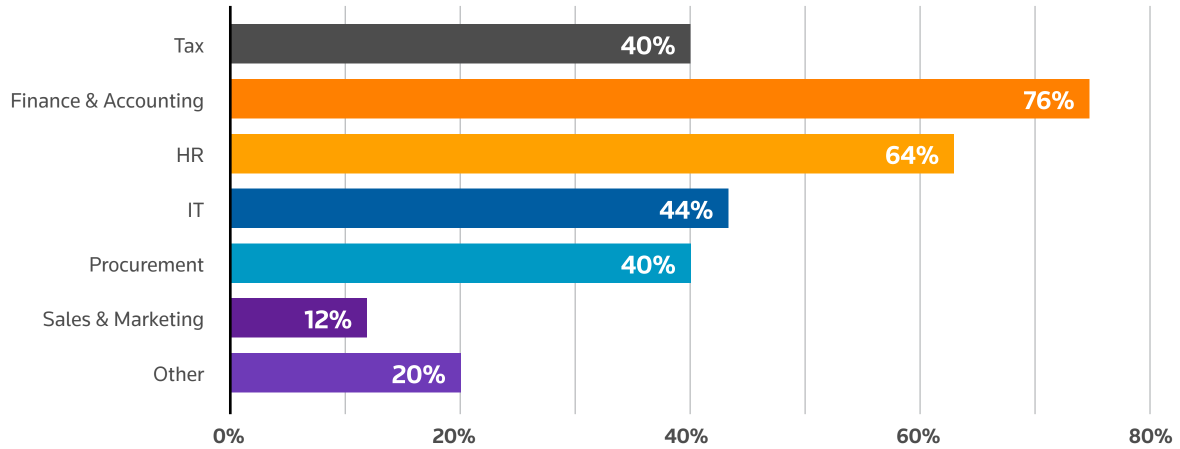
The results of SSON's recent **Statutory Reporting and Tax Compliance** survey clearly show that, across the APAC region, Shared Services still prioritize Finance and Accounting (F&A) for functional support (76%). And while, within Finance, the procure-to-pay process has traditionally been the first to be assimilated into a Shared Services model, we are now seeing more interest in record-to-report – including the 'last mile' activities around statutory reporting – coming under the spotlight for integration. In addition, there is a consistent trend to leverage performance through process automation across all areas.

However, while Shared Services' value proposition has long been the standardization of processes for global deployment, there is a parallel trend of providing more localized services, for example in tax and reporting. Indeed, according to SSON's survey, 40% of APAC-based SSOs already offer tax as a service in addition to other "traditional" Finance support.

"It is interesting that corporations are taking small but crucial steps towards centralizing statutory financial reporting and tax compliance in order to create efficiencies," explains Hari Ganesh Kumar, Enterprise Proposition Lead for ONESOURCE™ at Thomson Reuters. "One key component to success is maintaining local knowledge in order to achieve compliance across jurisdictions these corporations operate in. That is a crucial requirement that has been highlighted by this survey, as well."

Which functional services does your SSO provide?

[multiple options chosen]



Statutory Reporting Powered through Centralization and Automation

While the majority of F&A services delivered through Shared Services are still focused on transactional processing per traditional models, there is significant growth in higher-value functions like *statutory reporting*, *regulatory reporting*, and especially *tax compliance,* as Shared Services moves up the value chain.

Indeed, this trend of moving up the value curve will only continue: Nearly three-quarters of respondents indicate they have either already centralized statutory reporting or plan to centralize it within the next three years.

A similar survey run by SSON a year ago querying *global AP executives* (Harmonizing Global Financial Reporting) found that 23% of respondents had *no plans to centralize statutory reporting at that time*. This year, that percentage has shrunk to 11% across APAC, as seen in the chart below.

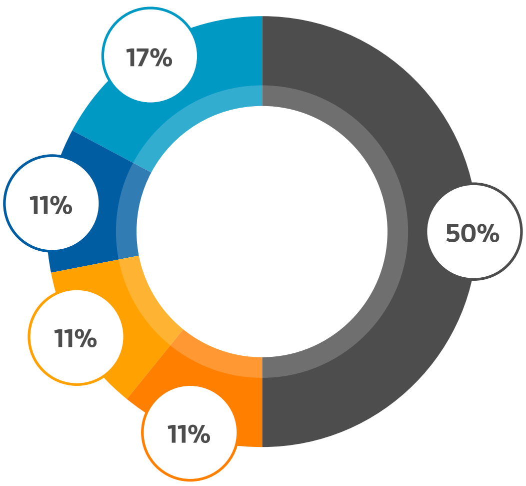
THE REAL GAME-CHANGER IS WHEN CENTRALIZATION AND AUTOMATION MERGE TO DELIVER SERVICES.

Centralization, however, is only part of the story. Even within a Shared Services model, much of this activity could still be manually driven. The real game-changer is when centralization and automation merge to deliver services. So, while centralization is the first step in moving compliance and reporting to higher-value processes, true efficiencies derive from technology.

"Managing statutory reporting across multiple jurisdictions is certainly complex," explains Thomson Reuters' Hari Ganesh Kumar, "but centralization via a low-cost jurisdiction helps contain costs. Adding automation into the mix drives additional value-add beyond that, and creates new ways to leverage data."

"A technology-driven strategy helps achieve improved efficiencies through reductions in data collection, iterations of reports, and compliance cycle-time," he adds. "A key differentiator for scaling performance dramatically through technology is the ability to support local language and local regulations across multiple countries built into your global technology platform."

What stage are you at, regarding centralizing the Statutory Reporting process?



We already centralize statutory reporting via a SSO	50%
Aiming to centralize in the next 12 months	11%
Aiming to centralize in the next 2-3 years	11%
No plans to centralize at present	11%
N/A	17%

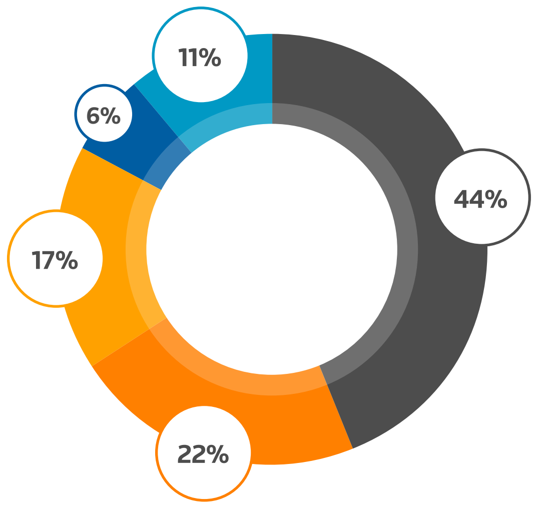
What's Preventing Statutory Reporting from Being Optimized through a Centralized Model?

When we evaluate how the statutory reporting process is currently being supported, the survey shows that *insourcing* via a Shared Services Organization is the most popular approach across APAC, with 44% of respondents currently managing the process *entirely through Shared Services*. However, to account for more complex jurisdictions at the country level, there is still significant reliance on in-country teams to review part of the process or even manage it entirely (39%). This segment reflects the professed concerns around Shared Services' ability to understand local regulations, provide the necessary insights, and ensure this awareness is always up to date. On-the-ground knowledge is still perceived as a reason to maintain decentralized support, in other words.

Apart from local knowledge around regulatory issues, another factor impacting the ability to drive greater standardization across statutory reporting is the internal technology landscape, which is still predominantly supported through a combination of ERP and different software or system solutions.

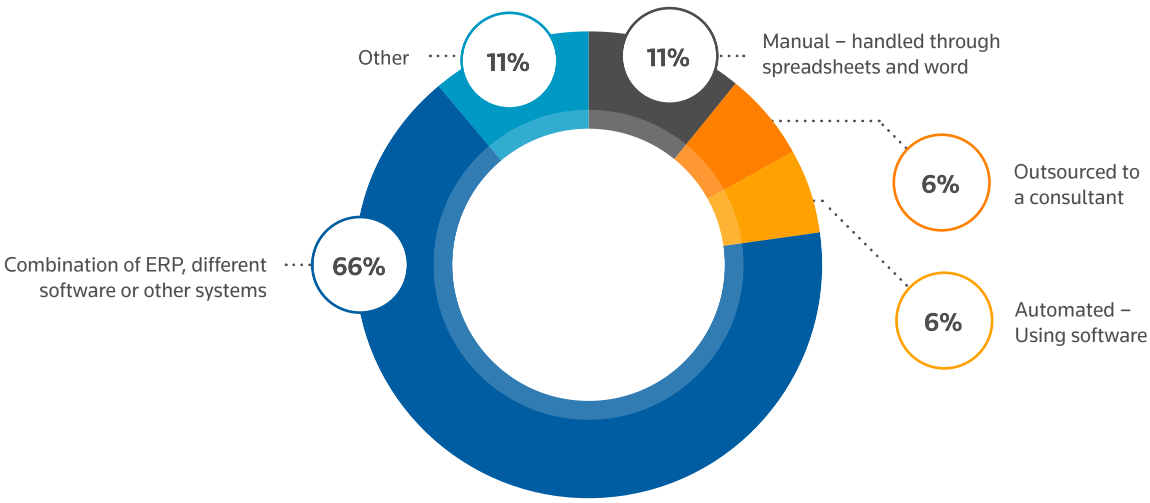
Few organizations have as of yet taken true advantage of automation, and a significant segment still rely on manual processing. This results in inefficiencies that are most easily measured in terms of the of time taken to complete the statutory reporting process.

What is your current approach to Statutory Reporting?

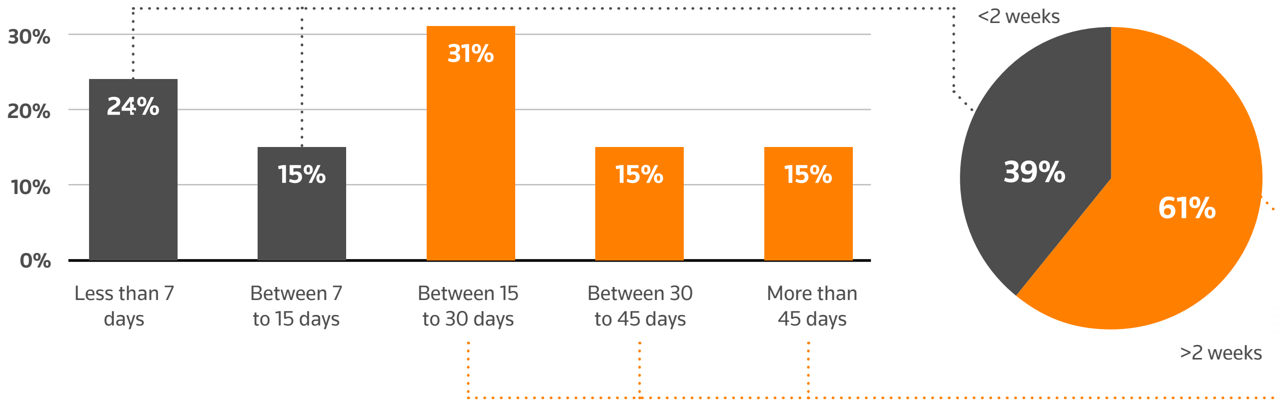


We use our SSO for the whole process	44%
We use the SSO for preparation and in-country team for review	22%
We use local/country finance teams for the whole process	17%
We outsource the statutory reporting process to a provider/consultant	6%
Other	11%

How would you describe your current process for creating financial statements and completing Statutory Reporting?



How long does it currently take you to complete the Statutory Reporting process?



Of those respondents that shared the time it took to complete statutory reporting, more than 60% said that it took upwards of two weeks – some, indeed, indicating the activity extended well beyond a month.

The inherent *cost* of time is a significant factor in statutory reporting, possibly reducing the focus on value-add activities and increasing the likelihood of errors or missed deadlines. These inefficiencies should be a priority for organizations focused on streamlining their financial processes.

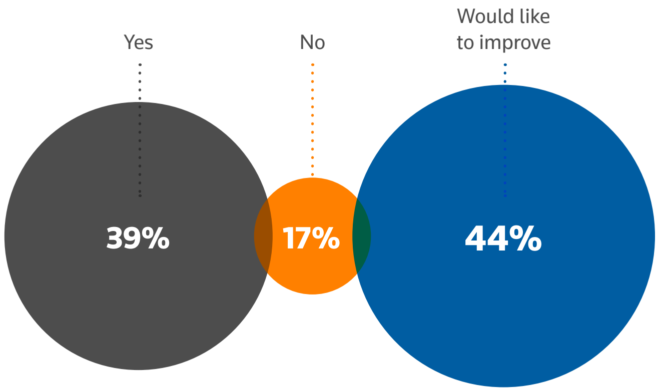
"Simple things like roll-over, notes and page referencing, rounding etc., can cause significant delays in your statutory financial report generation process," explains Hari Ganesh Kumar. "These can add tremendous pressure on finance professionals who are already burdened with meeting the ever-shrinking financial close window. Furthermore, there are reputational risks associated with inaccuracies, as statutory financial reports are on public records in most countries."

"The challenge is that with different teams involved in the process to manage multiple entities across the globe, there is often a lack of standard approach, which, in turn, leads to more time spent on internal and external reviews. A manually-driven process involving multiple rounds of iterations, both internal as well as with auditors, is enormously time-consuming and inefficient."

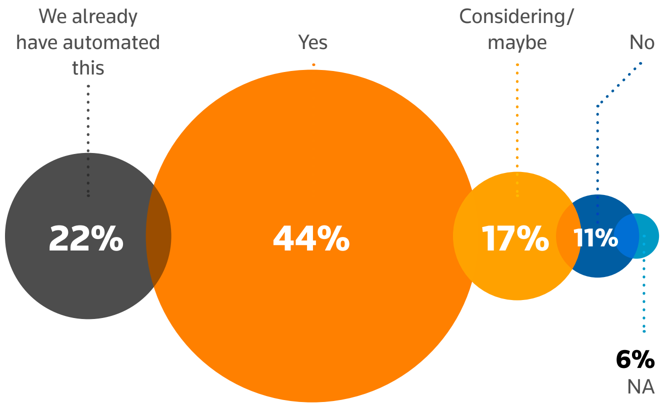
Current Statutory Reporting Process "Unsatisfactory"– Automation is Key

As a result, the current process is clearly unsatisfactory to most organizations: Six out of 10 respondents indicate their current approach requires improvement. The clearest indicator of the *path to improvement* is the fact that 2/3 of respondents recognize automation as a critical tool to drive performance forward.

Are you satisfied with your current process of creating financial statements and completing Statutory Reporting?



Are you planning to automate your Statutory Reporting process?

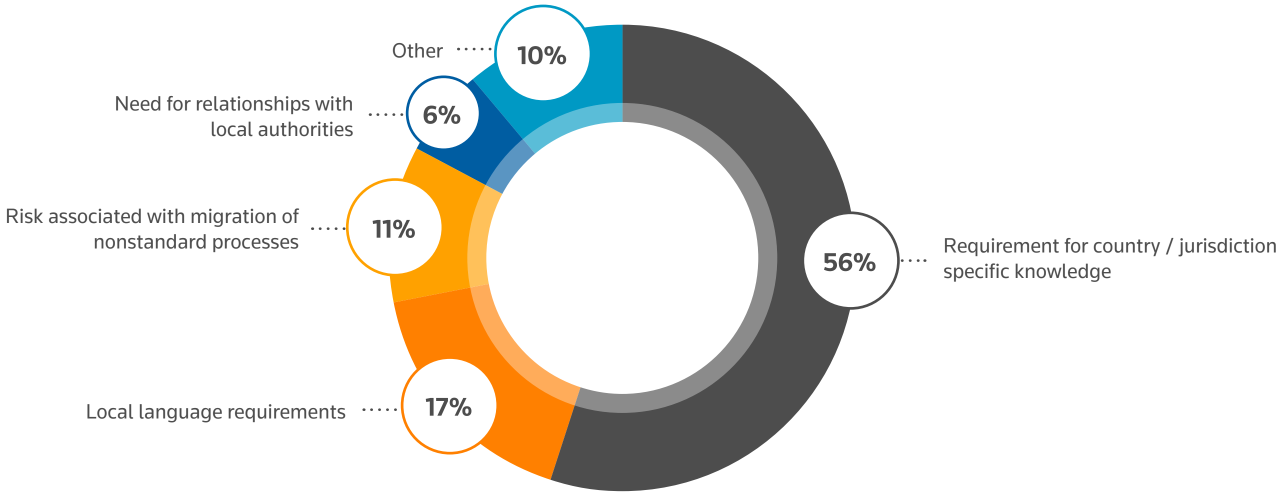


According to the survey, there are two critical hurdles to overcome that would pave the way for the next tier of more localized finance processes to shift into a centralized delivery model. The most significant of these is an *automated workflow* with its associated transparency, followed by the ability to adopt best practices in *knowledge or content management* for jurisdiction-specific reporting. In addition improving visibility across deadlines and reporting requirements, as well as greater clarity over where resources are allocated, would drive more confidence in a centralized model.

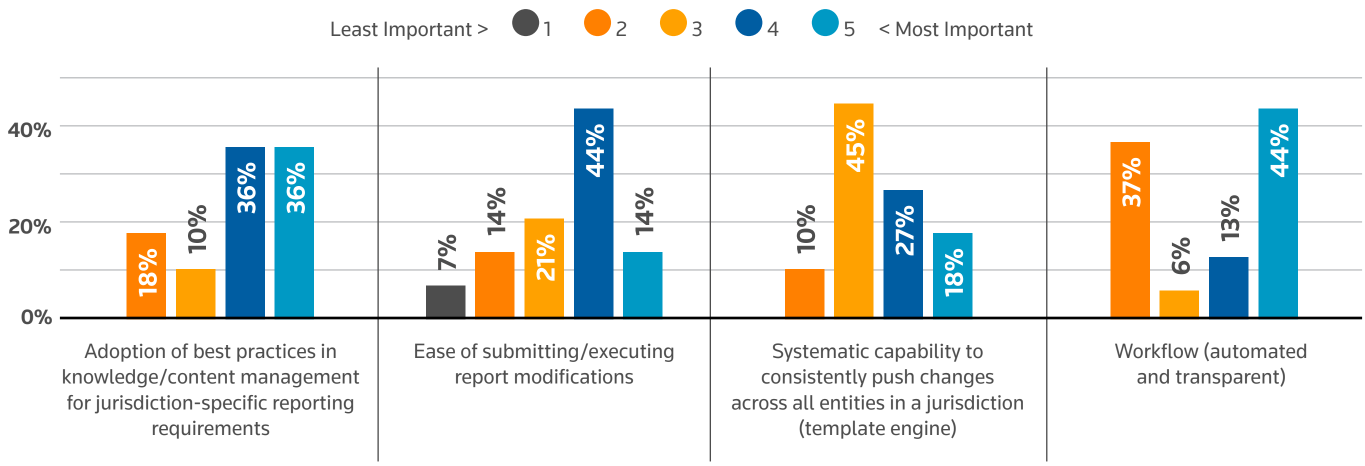
If you have not centralized Statutory Reporting, what is holding you back?

[multiple options chosen]

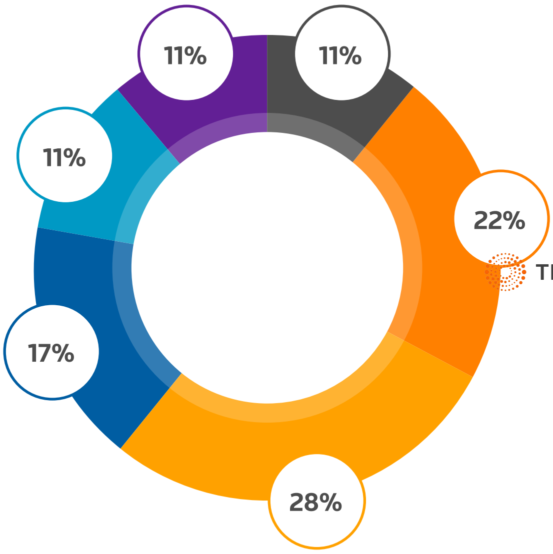
What do you consider the main challenge in moving Statutory Reporting to a centralized/SSO model?



Regarding centralizing Statutory Reporting: How important are the following?



For Tax and Finance processes, what is the current investment priority?



	Data clean-up	11%
	ERP consolidation / globalization	22%
	Optimizing Record to Report / Account Reconciliation	28%
	Tax compliance processes	17%
	Statutory Reporting	11%
	Other	11%

ALTHOUGH THE SURVEY TELLS US THAT SERVICES ARE SHIFTING UP THE VALUE CURVE IN TERMS OF TAKING ON MORE COMPLEX AND LOCALIZED ACTIVITIES THAT REQUIRE SPECIFIC KNOWLEDGE – THIS OBJECTIVE IS NOT BEING SUPPORTED OR EVEN REFLECTED IN INVESTMENT DECISIONS.

As referenced earlier, technology is a key enabler of performance. What's interesting, however, is that although the survey tells us that services are shifting up the value curve in terms of taking on more complex and localized activities that require specific knowledge – this objective is not being supported or even reflected in investment decisions. On the contrary, investment is still by-and-large focused on transactional activities for the near future, while tax compliance, statutory reporting and ERP consolidation – all of which are key areas for moving finance services up the value chain – appear much lower down the list. The survey data highlights, in other words, that the investment priority, for now at least, is still the transactional element of account reconciliation.

It is also interesting to note that *data management* – so critical to enabling new automation solutions – is not yet being prioritized. This finding alone warrants significant attention as it threatens to undermine, or at the very least hold back, future automation strategies.

"A key takeaway from this survey data is that the entire end-to-end process should be considered from the start," explains Hari Ganesh Kumar. "Bringing the 'last mile' of statutory reporting and tax compliance into the fold is an important step in driving improved performance across the entire process workflow, especially as we are operating in an increasingly integrated and seamless ecosystem."

Tax: Perceived Complexity Limiting Optimization

As is the case in statutory reporting, tax compliance, too, is limited by the perceived complexity of managing compliance across multiple jurisdictions. This, in fact, emerged in the survey as the leading challenge for organizations – and one that is keeping tax compliance at a local level.

At the same time, there is a pressure to drive efficiency through process management and improved workflows. With tax authorities benefiting from digital transparency, it's critical that in-house compliance teams are able to keep up.

Here too, the solution is to deploy technology that can leverage the increasingly cognitive elements of automation. However, given that investment priorities (see chart on previous page) are still predominantly focused on transactional activities like account reconciliation, real progress is still limited. The opportunities in tax compliance all lie further down the path, in terms of ensuring regulatory compliance, process workflow, and quality, in the face of increased scrutiny.

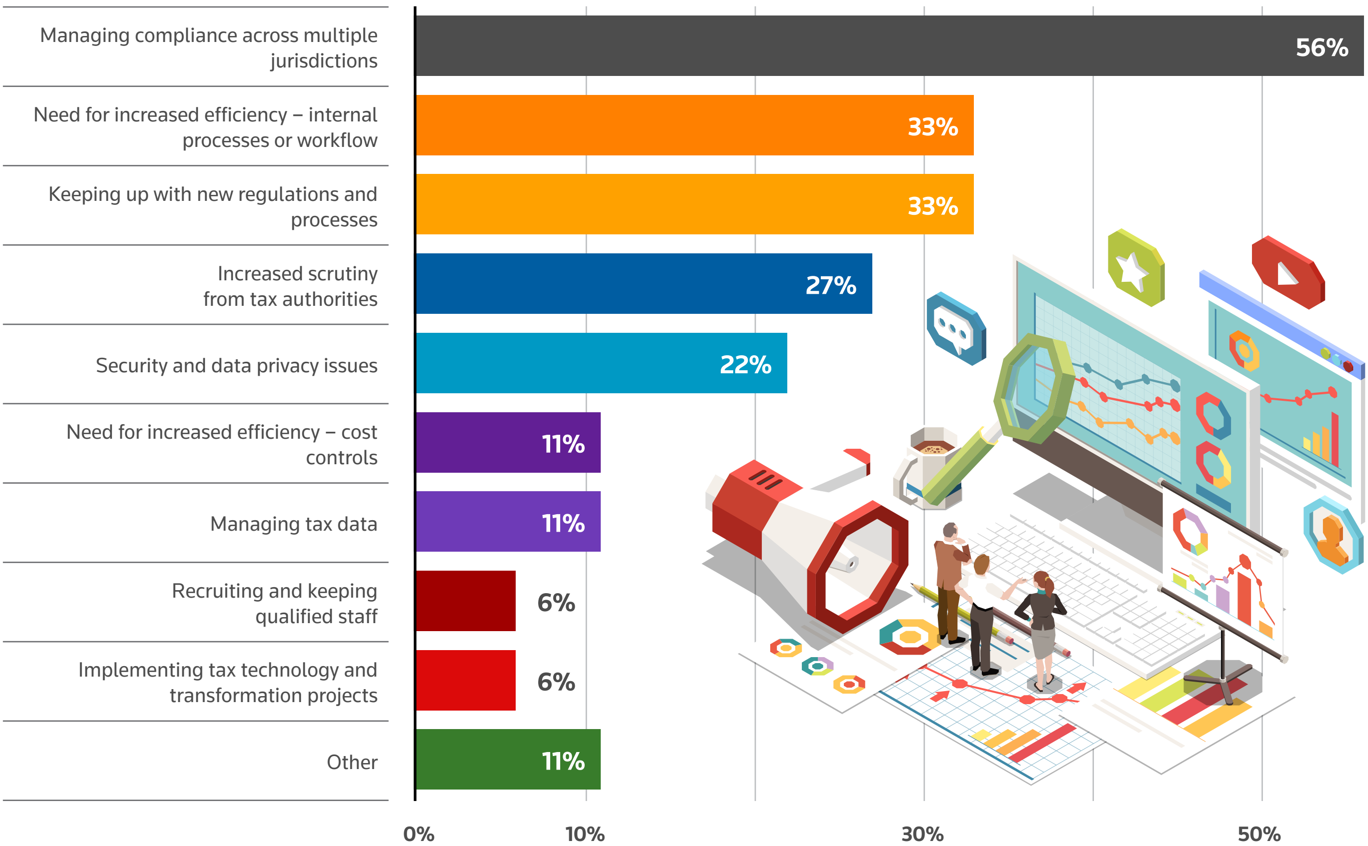
Perhaps the more surprising finding is the fact that *people* are not perceived as a problem (recruiting and retaining qualified staff does not rank within the top five challenges faced by the tax department) but managing compliance is. Technology can solve for this, and also drive necessary transformation.

Again, we see data management ranking low, which presents another gap as far as scrutiny is concerned. However, the scrutiny problem is also affected by data not being consolidated in one place due to multiple systems. That is a weakness which may prove significant in the face of more detailed inspection by tax authorities.

"Moving to a Shared Services environment isn't a choice anymore. You really have to scale your accounting control and compliance functions. You just cannot do them efficiently locally. Automation is fundamental... It's critical to find the right tools that enable you to drive the efficiency from scaling."
Former head of finance operations

What are the top challenges faced by your tax department?

[multiple options chosen]



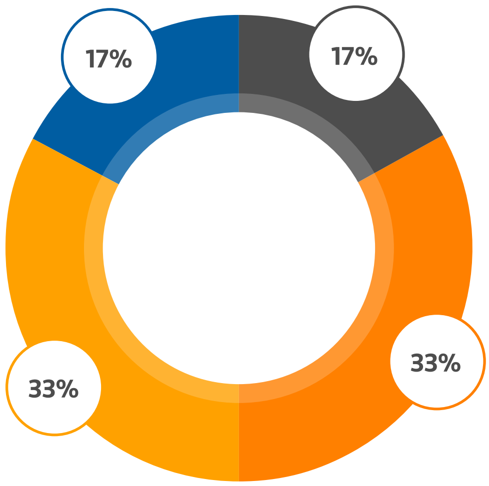
Tax Technology: Strategy is Essential

Despite the fact that technology and automation provide reassurance against inconsistencies, the survey confirms that most enterprises are currently only at a *basic* or *intermediate* level when it comes to adopting relevant tax technology. This means they are still relying predominantly on manual processes and spreadsheets, or on specific solutions.

Only a very small segment of respondents confirm that most of their tax processes are covered by relevant technology. This, despite the fact that technology is recognized as being critical to the success of the tax department, as confirmed by three-quarters of respondents. And yet, *nearly half of these respondents don't yet have a relevant strategy or roadmap in place*.

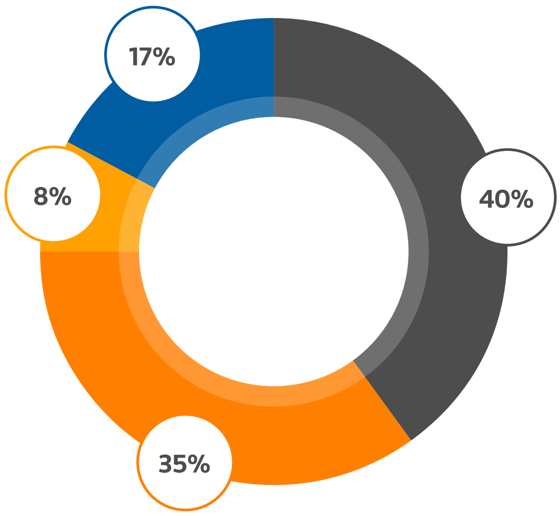
The technology *is* available, however, and those responsible for ensuring a reliable and seamless tax process should be prioritizing its adoption – instead of waiting for mistakes to drive urgent decisions.

How would you describe your current adoption of tax technology?



Advanced, most processes are covered by tax technology	17%
Intermediate, some areas using tax solutions, but we still have manual processes and spreadsheets	33%
Basic, mainly reliant on manual processes and spreadsheets	33%
Not applicable (i.e. SSO does not provide tax services)	17%

Do you see tax technology as critical to your success as a tax department?

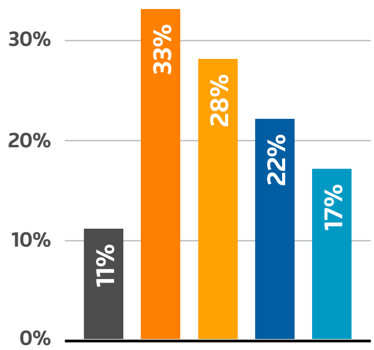


Yes – and we have a tax strategy/roadmap	40%
Yes – but we don't have a tax strategy/roadmap	35%
No – we can still be effective with manual processes and spreadsheets	8%
N/A / don't know	17%

Of the technology solutions already adopted, indirect tax/compliance and country-by-country reporting emerge as the most common applications. The survey data shows scattered point solutions deployed – a quick fix for a specific process – but notably absent is a recognition of the value of a platform tech approach.

When looking to invest in new tax technology, which criteria are most important?

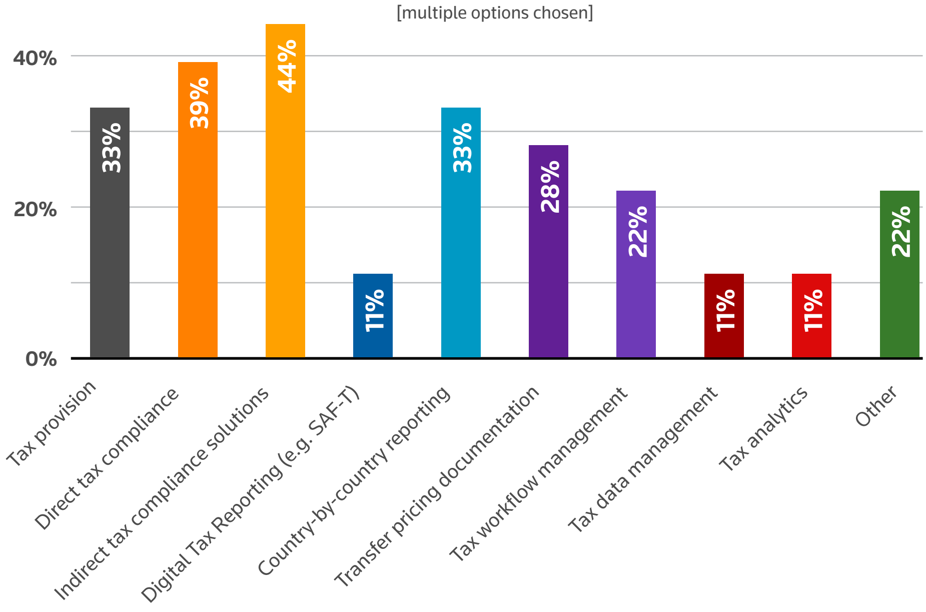
[multiple options chosen]



- We are looking for an integrated tax technology platform from one vendor
- Tax solutions that work best or are certified by our chosen ERP provider
- The solution needs to meet high data security standards and/or be approved by our Information Security & Technology
- Solution that has depth of coverage in the jurisdictions in which we operate
- Other

Which of the following tax technology solutions have you implemented?

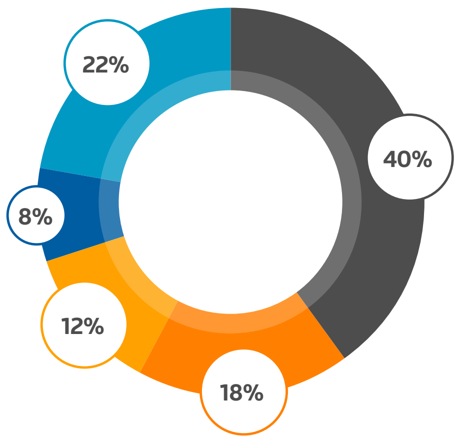
[multiple options chosen]



What we also see is that the key criteria determining tax technology is heavily slanted towards aligning with ERP solutions ("certified by ERP") and depth of coverage; and that while security is not necessarily seen as a challenge, the need to align with certain criteria *is* recognized.

[One point to note: This survey was taken before the COVID-19 pandemic hit, and therefore does not reflect the significantly increased awareness and scrutiny around resilience and security that have since emerged.]

As in statutory reporting, centralization offers the opportunity to capitalize on technology investments as well as adopt best practices globally. Forty percent of survey respondents already centralize their tax processes through Shared Services, the survey tells us. Roughly another 30% plan to centralize this activity within the next three years. The momentum for integrating tax into global Shared Services models is therefore already strong and continuing, we note.



What stage are you at regarding centralizing the tax process?

We already use SSO to centralize tax	**40%**
Aiming to centralize in next 12 months	**18%**
Aiming to centralize in the next 2-3 years	**12%**
No plans to centralize at present	**8%**
N/A - I don't know	**22%**

Summary

While, globally, the trend to incorporating additional scope into Finance Shared Services is gathering momentum, the APAC region has been a little slower to adopt such initiatives (compare the findings of SSON's global statutory reporting survey of 2019). However, once this market shifts to embracing new opportunities it tends to ramp up fast, in order to drive value.

In this respect, APAC practitioners have recognized the power of a centralized delivery model as a key enabler. And while transactions processing has been a natural first step for Shared Services, leading organizations are already eyeing additional opportunities around statutory reporting and tax compliance.

Before statutory reporting and tax compliance can be integrated into modern Shared Services, certain barriers will need to be overcome:

- reservations of in-country teams regarding centralization;
- concerns around risk of non-compliance based on moving work out of local jurisdictions.

Both risks can be successfully addressed through a combination of technology, automation, and work allocation.

Sensitivity to local concerns, proactively addressing risk, and leveraging best practices will drive key benefits in time, cost, data analytics, and transparency.

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