

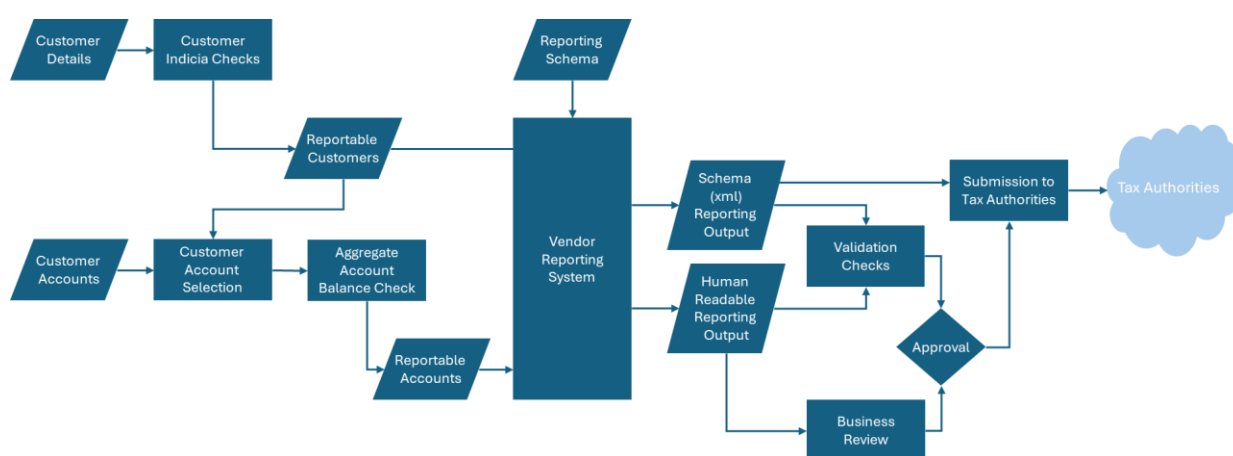
Case Study: Remediating a Global Tax Reporting Process

Background

A global banking group's operational tax reporting process faced significant challenges because procedures and IT infrastructure were deployed hastily and were not fit for purpose, leading to high error rates and making the business extremely nervous about its ability to comply with regulations without over-reporting to tax authorities.

Averruncus was engaged less than twelve months before the first reporting deadline to lead the diagnosis of the reporting process and, if viable, to remediate it ahead of submission.

The reporting tool and associated procedures had been developed as a solution for FATCA and CRS operational tax reporting to the US IRS and other government tax authorities. This process comprised internally built IT systems that sourced data from business-line customer and account systems, which in turn fed a vendor-operated reporting tool that produced output files in the correct format for the bank to report directly to relevant tax authorities. The project had been sponsored by the COOs from the bank's global lines of business and regions, led by the Group COO.



Unfortunately, the output from the reporting process had numerous errors, resulting in global business lines, regions and local entities becoming uncomfortable with what was being reported to the authorities, with over- and under-reporting of customer accounts and balances being issues.

There were a number of reasons for the problems, outlined below.

- **Poor Quality Data:** Data provided by front-line business line systems was often incomplete or with erroneous entries. This created significant issues when key fields were used by the reporting tool.

- **Automated Data Enrichment:** To address the front-line data issues, Tax IT had created several processes to enrich the data as it passed through the process. Unfortunately, the enrichment process hadn't been reviewed by the business lines, creating confusion as to where some of the data output by the system originated from.
- **Lack of Documentation:** The vendor's tax reporting system was, in effect, a "black box" which contained proprietary code with minimal documentation, making it challenging to understand the logic that was being used to arrive at the reporting output.
- **Reporting Schema Changes:** During this initial period of customer account reporting, various jurisdictions were refining their reporting schema, requiring numerous updates to the system to ensure it was compliant with the most recent schema formats.
- **Difficulty in Reviewing Reporting Output:** Due to the volume of customer balances being reported, it was challenging for relationship managers tasked with reviewing the output manually, increasing concern over the quality of the reporting that was to be submitted to tax authorities.
- **Time Taken to Process:** The vendor reporting process took several hours to run, making resubmission cumbersome and challenging when deadlines were tight.
- **Lack of Trust in the Solution:** The reporting errors had been identified for some time, but each time that Tax IT presented a fix to the problems, the output was still found to have issues. This undermined confidence that the business lines had in the solution, leading them to consider other options, potentially resulting in one or two business lines funding the entire Group solution and/or writing off millions of dollars of investment.

Approach

A thorough analysis was required to address the problems identified and ascertain if they were terminal or whether they could be fixed.

1. Review of Process Documentation:

A thorough examination of the existing process documentation to identify gaps, inconsistencies, and areas needing improvement.

Update so that the documentation accurately reflects the current process steps and components.

2. Interviews with Personnel Performing the Process:

Engagement with the individuals directly involved in the process to understand their day-to-day activities, pain points, and challenges.

Gathering insights on any manual workarounds, bottlenecks, or inefficiencies encountered.

3. Interviews with Management:

Conversations with management stakeholders to grasp their expectations and requirements for the process.

Gain an understanding of their concerns related to quality, timeliness, compliance, and overall effectiveness.

Document their feedback and priorities.

4. Breakdown of the Process:

Decomposition of the entire process into granular steps to identify subprocesses and dependencies.

Creation of a process flow to visualise the sequence of activities.

5. Identification of Periodic Aspects:

Determined the frequency of the process elements (e.g. daily, monthly, annually).

Identified any specific steps that occurred regularly (e.g. month-end and year-end activities).

6. Documentation of Internal Process Components:

Data Attributes, Sources and Formats:

Compilation of a list of all data attributes (customer details, account, indicia, etc.), their sources (business systems, core banking systems, etc.) and formats.

Systems Used:

Identification of the various software and tools involved in the process, noting any integrations or interfaces between systems.

Manual Actions Required:

Documentation of all manual elements (data entry, reconciliation, approvals), highlighting areas where human intervention was necessary.

Controls and Approvals:

Identification of control points (validation checks, sign-offs, reconciliations).

Understanding the approval hierarchy and any compliance requirements.

7. Review of External Process Components:

Interfaces:

Understanding of the point of handoff to the 3rd party vendor system and the subsequent receipt of the processed data.

System Logic:

Gain appreciation of the logic used by the vendor in its reporting solution and why this may give rise to issues.

Assumptions:

Understand the assumptions used by the 3rd party vendor and whether these assumptions are aligned with Tax IT's.

8. Assessment of the Solution's Overall Viability:

Summarisation of the problems identified with the reporting system components and process and proposal as to how each should be addressed to make the reporting solution viable.

Review of the summary with the stakeholder group to ascertain the appetite for remediating the reporting solution or demising it.

Solution

The solution was to work closely with the business sponsors, Group Tax, Tax IT and the 3rd party software vendor to address the following areas.

- **Requirements**

Establish exactly what needed to be reported and by when.

- **Data**

Identify who was responsible for each element of the reporting process.

Determine the data attributes required and the quality of the data populating these.

Where data enrichment was used, understand the process and impact of such enrichment.

- **Processing**

Understand the logic used in each stage where data processing occurs.

Work with the vendor to obtain consistent output and identify reasons for anomalies.

Determine why processing times are excessively lengthy

- **Output**

Create a mechanism to interpret XML directly into a human-readable format and compare with existing readable output

- **Approval**

Review validation check logic

Create logic tool to assist business review

- **Test**

Extensive testing of process using a variety of test data

Monitoring of processing times with various data loads

- **Second Line of Defence**

Design and implement SLOD procedure for reporting process assurance

The requirements were confirmed, ensuring that all stakeholders were aware of what needed to be reported and when.

The data attributes were confirmed and clarity obtained as to who was responsible for the quality of the data.

For customers identified as being reportable, data quality was reviewed and, where identified as a potential issue with the reporting, data remediation activities were undertaken. Where appropriate and agreed, data enrichment processes were used and additional reviews undertaken to ensure that the data was of the required quality ahead of the reporting cycle.

The logic applied in the main processing steps was reviewed and tested. Where anomalies in the processing were discovered, updated code was written and tested.

Extensive testing was undertaken with the vendor to ensure that the reporting logic was working as expected and standards were agreed for the quality of data entering the process.

Testing was undertaken to understand why some batches took significant time to execute. Data issues were found which, when addressed, resolved the issues.

Code was written to convert the XML output to a human-readable format and to compare this with the existing human-readable output. Some anomalies were identified, and changes were implemented and tested to address these.

Once all identified issues had been addressed, end-to-end testing was undertaken using a variety of test cases to ensure that the reporting process would run as expected for all business lines in various locations.

Actual reporting submissions were scheduled two weeks in advance of the relevant regulatory authorities' deadlines to ensure that any last-minute issues could be addressed in a timely manner. Business lines ensured that key staff were made available to oversee the process for their customer accounts.

An assurance process was designed together with Group Tax so that sample reporting can be performed in a test environment periodically.

Results

Undertaking the work above and making the required changes to the reporting process resulted in.

- **Data Quality Improvements:** The overall quality of customer record data was improved, improving reporting across the board, not just for operational tax.
- **Completed Reporting:** The initial reporting round was completed successfully with only a few minor issues.
- **Confidence in the Reporting Process:** The business was encouraged by the successful remediation of the tax reporting process and was happy to stay with it rather than seek alternative processes.
- **Effective Handover of the Reporting Process:** The upgraded reporting capability was handed over to Global Operations to manage going forward.
- In summary, the remediation of the tax reporting process ensured that the bank effectively complied with the necessary regulations globally and avoided sanctions and associated costs and reputational damage from the regulatory authorities.

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Key lesson

The problem was not just the reporting tool. It was the absence of a shared understanding about what the process was actually doing. The vendor had assumptions, Tax IT had assumptions, the business lines had assumptions, and none of them matched. Once the process was documented end-to-end and the assumptions were tested, the errors became explicable and therefore fixable.

This is a common pattern in complex reporting failures. The technology is usually capable. What is missing is a single, agreed view of what the process is meant to do, who owns each step, and how the output will be evidenced. Establishing that view is not a technical exercise. It is an exercise in alignment. The same discipline applies to any reporting process where the output is not trusted: do not start by fixing the system. Start by documenting the process, testing the assumptions, and agreeing what correct looks like.

About Averruncus

Averruncus is a boutique consultancy led by Daniel Eiloart, a senior transformation and operational finance professional with 20+ years in global financial services. Daniel spent twelve years at HSBC at Director level, including as acting COO of Group Treasury and head of the Global Banking & Markets regulatory change portfolio, and five years at Accenture as a Senior Manager.

Averruncus works in three main areas: **programme recovery and turnaround, finance transformation and CFO advisory, and digital transformation**. Each is grounded in delivery experience rather than theory, and each begins with a practical diagnosis rather than a methodology.

If you would like to discuss a programme that has gone off-track, a finance function that needs to work differently, or a digital change that is not landing, get in touch.

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