

CAPSTONE PROJECT PUBLIC SUMMARY

Improving the Statutory Financial Statement and Tax Return
Filing Processes for the United Kingdom Scope

Adam Kovacs

Submitted for the Postgraduate Degree of Master of Science (MS) in Finance

Faculty Supervisor: Peter Szilagyi

22 June 2020



Introduction

General Information

The Capstone Project is undertaken with XYZ Company, located in Budapest, operating as a shared service center. The project will address some issues in the statutory processes, and touch on the process of tax return preparation. To provide some background, I would like to give an overview on what the statutory finance team does, what responsibilities it has.

XYZ Company functions as a shared-service center in Budapest, meaning that a majority of the processes have been migrated to Hungary from several XYZ subsidiaries from countries in Europe. The statutory finance team is responsible for preparing the annual financial statements of the legal entities in different countries. The number one goal as a statutory finance specialist is to make sure that the legal entities in scope are filed on time according to local GAAP regulations. As XYZ's parent company is located in the USA, the consolidated financial statements are prepared according to USGAAP regulations, in the United States.

Often there are differences between USGAAP accounting and a specific local GAAP regulation. This is what the statutory finance person needs to consider when preparing the financials. As a statutory accountant a very strong cooperation is needed with the controllership team, who are responsible for the USGAAP accounting, as those numbers are the starting point of the statutory financials. The importance of this will be discussed at a later stage, as this is a part where significant improvements could be made.

Many of the legal entities undergo the yearly local/statutory audit. The coordination of this local audit with the external auditing company is also one of the main responsibilities of that statutory owner. Process improvements will be implemented here as well.

A specific legal entity registered in the United Kingdom is used as an example, where the annual accounts are prepared according to IFRS. This Legal Entity, later LE, will be referred to throughout the project and the improvement ideas will be presented on this LE.

Scope and Purpose

To give a brief understanding on what timeline the statutory team works according to, please consider the following:

The financial year is equivalent to the calendar year for this LE, lasting from 1 January until 31 December. The deadline for the statutory financial statements to be filed is always next year 30th September.

The statutory cycle began in November 2019, this is when the planning for the LE was conducted. There is an internal deadline within XYZ Company to perform the planning process until 30 November. The planning for the statutory cycle of the LE includes looking at prior-year take-aways, setting internal and external deadlines, and conducting a planning meeting. It also gives a chance to discuss the details on the local audit.

Once the USGAAP books are closed for the year (usually by the third week of January), the statutory preparation can be started. There are approximately 2-3 months to finalize the statutory numbers, and after this the auditing company starts the work on the LE, in the United Kingdom. The statutory audit ideally lasts around three to five weeks for this LE.

Last year several inefficiencies were encountered during the course of this, which need to be taken into account and improved in the current year.

After the local audit is conducted, the tax team starts the tax calculation, then the local auditing company audits the tax numbers as well. After this is done, the financial statements are ready to be prepared and reviewed.

The final step in the statutory cycle is to organize a Board of Directors meeting during which the numbers in the financial statement need to be explained in detail and to get approved by the directors. Once this is done, the financial statement can be filed to the local authorities.

Issues, proposed improvements

Improvement areas

As the statutory cycle is just at its peak, the majority of the project is being implemented now/over the next couple of weeks.

The LE used in this project was filed with a delay last year. (End of November instead of end of September)

After analyzing last year's statutory cycle, there have been some conclusions drawn. Some of them can only be implemented later this year, when the planning for the cycle for the 2020 statutory financials begins, but the majority will be of benefit for the local audit and FS filing for 2019 financials.

The planning of the LE will be done in November 2020 for the 2020 financial year. A suggestion here is to include more stakeholders than in prior years. People to be involved: statutory team - organizer, USGAAP controllership, tax team, external auditing company. By including all these key contacts, deadlines can be agreed in a more efficient way to make sure the LE's financials are completed on time. Making sure the planning is not delayed is also of key importance, for the 2019 FY planning was completed end of January 2020, with a two-month of delay.

As mentioned above, the statutory team is highly dependent on on-time and good quality USGAAP numbers and reconciliations. This had some inefficiencies last year. To keep track on these a decision was made to use a platform where workflows can be created, into which the data owners can upload the requested documents. These will have a deadline and daily status reports can be extracted. Weekly reminders are sent to the respective data owners, which also enhances efficiency.

Another area where process improvements are being implemented is the local/statutory audit in the United Kingdom. Here the idea is that the local audit finishes in 3-5 weeks. Last year this

took 6 months. There was a very inefficient communication between the statutory team and the local audit team. To solve this, here as well the same platform is used in which workflows are created and the documents are uploaded there directly. This is important because any delays in the audit can be challenged. Especially because such delays cause an overrun in the audit fee. If the provision of the documents is tracked, this overrun can be challenged. The setting up of two status meetings weekly with the local audit team and sending out the status of the requests daily proved to be successful.

Another move is early escalation to the statutory manager and to the external auditing company's signing partner.

Also, very important for this UK legal entity: there are very complex accounting reconciliations between USGAAP and statutory GAAP. To make things go smoother in the following years, accounting memos are being drafted to describe these reconciliations. This will speed up the statutory work in the following years.

Tax return

As mentioned in the topic, the tax return process also needs to be improved. I would like to highlight that the statutory team is not responsible for the filing of the tax return directly, however the team cooperate with the tax team while preparing the document. The return is prepared by the tax team, but heavily relies on the statutory numbers. They send queries to understand the balances and the numbers. This document needs to be filed until 31 December in the United Kingdom. An earlier start date for the tax team to prepare the queries for the statutory team is proposed, and weekly catch-up meetings to keep track on the status.

Conclusion of the Project

This LE has been in focus for the past 2 months and it can be confidently stated that there are already significant improvements and a very good chance of this entity getting filed way before the deadline.

Highlighting some of them:

- The local auditing company has been pushed to provide a decent list of requests which the statutory team has to provide to be able to conduct the audit in a timely manner. Last year the statutory team received 22 of these requests, this year this number reached 65. This is important because by having a decent set of queries that can be used as guideline significantly improves the process of the audit. Last year the statutory team ended up receiving new-and new question each week.
- Workflows have been created for all the requests that the statutory team received from auditing company and as of 22 June there are no outstanding requests. This means the statutory team has provided all the necessary input that is needed for the conduction of the local audit.
- The local audit of the LE is almost complete, with the final audit meeting happening at the end of June. Last year the same happened at the end of October.
- Once the local auditing company gives us a sign-off on the statutory numbers, the financial statements can be prepared. The LE is very likely to get filed at the end of July, two months before the regulatory deadline.

Table of Contents

Introduction	1
General Information	1
Scope and Purpose.....	1
Issues, proposed improvements.....	2
Improvement areas.....	2
Tax return.....	3
Conclusion of the Project.....	4