


JTR/GAT-FAQ -

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Australian Government
Australian Taxation Office

GST Analytical Tool (GAT)

Frequently Asked Questions

GST Analytical Tool (GAT)

The GAT is one of the tools we use to obtain greater assurance you are paying the right amount of GST. The tool is one of the ways we satisfy the fourth focus area of the Justified Trust methodology by helping us understand why the accounting and tax results vary. The tool uses a standard method statement applying a “top down” approach to identify and understand variances between accounting figures reported in audited financial statements and GST reported on Business Activity Statements (BAS). The purpose of the GAT is to understand the reasons for the differences arising between accounting and GST figures, and, where available, to verify them with objective evidence. The GAT will provide us with a holistic view of the business and help us get assurance over a taxpayer’s economic activity.

In this document, we have addressed queries raised in the GAT external consultation process. This document provides context to the GAT’s application in Tax Assurance Reports in terms of the process surrounding rating adjustments and the overall calculation, the objective evidence accepted, and how the ATO assesses tolerance levels for variances found. We have also articulated how the ATO intends to work with taxpayers in calculating the GAT by reference to their different accounting systems, business models and operating circumstances.

Theme	Question	Answer
Scope of the GAT	Is the GAT integral/essential to the GST review?	The GAT is an important element in respect of assuring the GST outcomes of a taxpayer by reference to the Income Statement of the audited financial statements by analysing the GST treatment of a taxpayer’s economic activity.
	How relevant is the GAT in the overall scheme of GST reviews?	The GAT is one of the ways we satisfy the fourth focus area of the Justified Trust methodology in understanding why the accounting and tax results vary.
	It is not clear from the guidance what the impact of the assurance rating for the GAT has	A GAT analysis is required for the Top 100 GST assurance program (other than predominantly input-taxed industries).
		In respect of the Top 1000 GST assurance program (SAR), the GAT is used for most taxpayers that predominantly make taxable supplies. Taxpayers in the insurance and

	<p>on the overall assurance rating for GST Justified Trust. The ATO's explanation of the minimum expectations for governance ratings to achieve GST Justified Trust assurance stage ratings in the GST Governance Guide has been very useful for taxpayers to determine their approach to GST governance. We suggest that a similar approach would assist taxpayers understand the importance of the GAT to GST Justified Trust and guide their approach to it.</p> <p>Historically, there has been a great deal of inconsistency in how the GAT has been requested during SARs, with variances from not being requested at all to it being requested with extensive scrutiny and it solely impacting a Stage 2 to 3 rating. The ATO must ensure that the methodology is applied</p>	<p>property sectors or with very complex structures will be considered on a case by case basis. In the Top 1000 combined assurance program (CAR) we require the GAT to be completed for all taxpayers that predominantly make taxable supplies; that is, except those in the financial services industries.</p> <p>The Top 100 and Top 1000 GAT examples demonstrate the ATO's intended approach to the GAT for each program. We have set out below the considerations that underpin a GAT rating as well as the interplay between the GAT and the other focus areas in a GST assurance review.</p> <p>We have established GAT Support Networks across both the Top 100 and Top 1000 GST assurance programs to support our case teams in the application of the GAT and facilitate a consistent approach across each program. These networks include accounting specialists.</p>
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	<p>consistently amongst taxpayers.</p> <p>It would be helpful if more detail could be provided by the ATO about the skillset of the GAT team who will provide comment on the appropriateness of variances and assign any risk ratings. The taxpayer should have comfort that those at the ATO are sufficiently knowledgeable about the variances between accounting and tax treatments.</p>	
	<p>Does the GAT calculation and analysis happen concurrently during the review?</p>	<p>We seek to apply the GAT at an early stage of the GST assurance review to provide an informed basis to drive the work program across the full review.</p> <p>It is important to note that the GAT should not be looked at as a standalone measure. The fourth focus area is interconnected with the other focus areas – that is, the ATO will seek to obtain assurance over adjustments derived through the GAT through other focus areas of the review.</p>
	<p>What is the ATO’s approach to taxpayers who are unable to apply the GAT due to their size/structure/grouping?</p>	<p>The GAT provides for adjustment referable to grouping differences as between the accounting and GST groups.</p> <p>We will work collaboratively with taxpayers who have particular challenges with completing the GAT by helping them to find solutions using information from their existing systems as</p>

		<p>well as information we have gathered from our income tax assurance reviews. This includes working with our accounting specialists.</p>								
	<p>The ATO needs to clearly articulate the framework which applies to taxpayers for their GST reviews – e.g. expectations around Stage 3, how to get there, whether we need to have 100% accurate reconciliation under GAT before moving to Stage 3, whether you can reach stage 3 without the GAT (where the GAT is unworkable).</p>	<p>If the ATO agrees that the GAT should not form part of a GST assurance review, it is not taken into account in determining the overall level of assurance for the taxpayer.</p> <p>If the ATO takes the view that a GAT should form part of the GST assurance review, it will be taken into account when determining the overall level of assurance, including when a GAT analysis is not performed. However, in determining the level of assurance for the fourth focus area and the overall level of assurance, the ATO will also consider what other objective evidence is available in order to understand and explain the variance between accounting and GST results. We recognise that the GAT is a tool and a means by which an understanding as to the accounting and tax variances under the fourth focus area can be achieved, but it is not the only means by which this can be achieved.</p> <p>This is the staged rating system we use for the fourth focus area:</p> <table border="1" data-bbox="741 788 1933 1294"> <tr> <td data-bbox="741 788 913 927">Stage 3</td> <td data-bbox="913 788 1933 927">We understand and can explain the various streams of economic activity and why accounting and GST results vary and this understanding is sufficiently supported by objective evidence.</td> </tr> <tr> <td data-bbox="741 927 913 1058">Stage 2</td> <td data-bbox="913 927 1933 1058">We do not fully understand why accounting and GST results vary and/or this understanding is not sufficiently supported by objective evidence.</td> </tr> <tr> <td data-bbox="741 1058 913 1161">Stage 1</td> <td data-bbox="913 1058 1933 1161">We do not understand why accounting and GST results vary.</td> </tr> <tr> <td data-bbox="741 1161 913 1294">Red flag</td> <td data-bbox="913 1161 1933 1294">We do not understand and cannot explain the various streams of economic activity and/or why accounting and GST results vary.</td> </tr> </table>	Stage 3	We understand and can explain the various streams of economic activity and why accounting and GST results vary and this understanding is sufficiently supported by objective evidence.	Stage 2	We do not fully understand why accounting and GST results vary and/or this understanding is not sufficiently supported by objective evidence.	Stage 1	We do not understand why accounting and GST results vary.	Red flag	We do not understand and cannot explain the various streams of economic activity and/or why accounting and GST results vary.
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		<table border="1"> <tr> <td data-bbox="741 197 911 331">Not rated</td> <td data-bbox="911 197 1946 331">We have not assessed the various streams of economic activity and/or why accounting and GST results vary using the GST analytical tool.</td> </tr> </table>	Not rated	We have not assessed the various streams of economic activity and/or why accounting and GST results vary using the GST analytical tool.
Not rated	We have not assessed the various streams of economic activity and/or why accounting and GST results vary using the GST analytical tool.			
	<p>What is the 'GAT-Lite' process? How does a taxpayer get to the level</p>	<p>A Stage 3 rating for the fourth focus area is practically achievable and will depend upon factors such as:</p> <ul style="list-style-type: none"> – The extent to which adjustments can be assured directly from the audited financial statements such as depreciation, amortisation, employee expenses, interest and disposals/acquisitions of capital assets sourced from the Income Statement, Balance Sheet, Cash Flow Statement and Notes. – The ratings in respect of assurance work undertaken in relation to transactions/specific tax risks such as GST free sales and input taxed supplies that may form part of the variance between the Income Statement and Labels 1A and 1B. – Our level of assurance in respect of tax risks flagged to market in so far as they may apply to adjustments referable to the variance between the Income Statement and Labels 1A and 1B. – Objective evidence provided to verify the values disclosed for other adjustments. This could be in the form of GL codes in trial balances that are mapped to the audited financial statements which could form the basis of sample testing. <p>The assurance rating assigned to the fourth focus area will be a matter of professional judgment. It will not be required that all individual adjustments need to be at stage 3 as a precursor to an overall stage 3 for the fourth focus area, however this will depend on the nature of these adjustments.</p> <p>The Top 100 and Top 1000 GAT examples demonstrate this approach where the GAT is applied.</p> <p>The 'GAT-Lite' was initially proposed to be rolled out in our new CAR product. It involved applying the GAT to the supply (revenue) side only.</p>		

<p>of applying the ATO's 'light touch' approach?</p>	<p>After obtaining feedback from various forums and organisations (both internally and externally) we will not be proceeding with the GAT-Lite concept. We are not requiring taxpayers to complete the GAT in our CARs, however we are encouraging taxpayers to undertake the GAT and we will review it in a CAR if this has been done.</p>
<p>Frequency of GAT application by taxpayer independent of SAR process.</p> <p>It was discussed that the ATO would view application of the GAT by a taxpayer independent of the SAR process as evidence of good governance. In terms of frequency, would an annual calculation be appropriate for this purpose or is it expected that it is undertaken more regularly?</p>	<p>As the GAT seeks to understand the variances between the annual audited financials to 12 BAS', it is intended that the GAT is used annually.</p> <p>An annual calculation is sufficient to contribute to the highest possible rating for Managerial Level Control 7 - Procedures to explain significant differences.</p> <p>Taxpayers are welcome to apply an equivalent calculation more regularly at their discretion.</p>
<p>As some tax managers have noted that they would prefer not to complete the GAT themselves, could they provide the information for the ATO to undertake the</p>	<p>In an assurance review, the understanding and assuring of the accounting to BAS adjustments should be a collaborative approach.</p> <p>Whilst the ATO can make best efforts to determine and assure the basis of the adjustments based on information requested from taxpayers, we still encourage taxpayers to work with us in order to understand the nature of financial accounts, ascertain the information required, explain variances and validate any proxies used.</p>

	<p>calculation and analysis?</p>	<p>The interconnectivity between the GAT line adjustments with the balance of the assurance review means that this assurance work will be progressed in conjunction with the other 3 focus areas of the assurance review.</p>
	<p>Will the GAT seek to cover 75% of GST throughput?</p>	<p>In both the Top 100 and Top 1000 assurance reviews, the GAT will seek to match the scope of the assurance review which generally will be at least 75% of GST throughput of the economic group.</p>
	<p>Which industries are excluded from the application of the GAT? It is understood that the GAT is not intended to apply in input taxed businesses. Guidance should be given as to whether this also includes say, financial services businesses that make GST-free supplies (i.e. as a result of offshore supplies). What proportion of supplies need to be input taxed for the GAT to not be applied?</p>	<p>For the time being, industries that are predominantly input-taxed are excluded from applying the current GAT. The current GAT does not apply to businesses with “predominantly” input-taxed supplies, that is, where these represent the primary and vast majority of the source of business income.</p> <p>Where your business is substantially diversified across input-taxed and non-input taxed segments or divisions we will generally apply the GAT.</p>
	<p>How is the GAT applied to input taxed industries? Which industries are excluded</p>	<p>At this stage, we are focussing on applying the GAT on non-input taxed taxpayers. Industries that are predominantly input-taxed are excluded from the current GAT.</p>

	from the application of the GAT?	
	Are taxpayers expected to complete this themselves or do case teams prefill aspects of it?	As far as is possible, the ATO case teams can help to pre-fill the GAT workbook with specific adjustments to create a low resolution GAT analysis which will be discussed with the taxpayer to refine the calculation so that a higher rating can be achieved. However, there is an expectation as part of good governance and in relation to MLC 7 that a taxpayer has a process in place to explain BAS reporting of GST payable and GST receivable compared to business outcomes and to explain variances in comparison to financial statements (for instance, through the regular application of the GAT). We will always work collaboratively with taxpayers to complete the GAT.
	When items are pre-filled, or come straight from the financials, do we expect taxpayers to provide additional evidence?	Adjustments that are able to be assured directly from audited financial statements do not require any additional information from the taxpayer.
GAT adjustments and objective evidence	In terms of asking for a consolidation pack and trial balances for an accounting group, would this be included as part of RFI1? Is it possible to have something in the early notification letter to indicate examples of objective evidence?	The GAT would be requested through the first RFI along with objective evidence. The trial balance and consolidation pack form a key part of this evidence. In the Top 1000 program, the RFI has been recently amended to request the trial balance and financial statements. The RFI will be sent with the early notification letter.

<p>Are adjustments only derived from the financial statements or do we look at working papers as well?</p>	<p>We predominantly look at trial balance accounts mapped to financials in relation to adjustments that are not directly assured from the financial statement disclosures.</p> <p>However, we can also consider fixed asset registers, internally generated coding reports and/or income tax return working papers if we have a high level of confidence that we can rely on these materials.</p> <p>Some GAT line adjustments will also be assured through assurance work undertaken in other focus areas such as transactions/specific tax risks.</p>
<p>How do we identify intragroup transactions when quantifying grouping variances?</p>	<p>For the purposes of adding back or eliminating intragroup transactions, taxpayers may need to generate an annualised internal report by entity code, customer code (for revenue) or vendor code (for expenses).</p> <p>It may also be possible that taxpayers utilise existing tax coding to classify transactions taking place within a GST group.</p>
<p>Do we need the consolidated trial balance if the groups are matched?</p>	<p>Yes. The consolidated trial balance will provide us the details behind the financial statements. This will allow both the case team and taxpayer to identify adjustments to complete the GAT.</p>
<p>How do we resolve the issue of reverse-charging of GST through the GAT?</p>	<p>Reverse-charging would usually arise in input-taxed industries which is beyond the current scope of the GAT.</p> <p>If reverse-charged amounts do arise, they can be adjusted for under Step 4 of the GAT method.</p>
<p>Due to accounting standard changes, are there any concerns with taxpayers who may restate valuations of accounts so they may</p>	<p>Changes to accounting standards are related to the timing of revenue recognition.</p> <p>This will result in an Income Statement related adjustment to align with GST reporting.</p>

	not align with historical BAS data?	
	How far do we go in verifying annualised figures through other focus areas of the review?	<p>The assurance review will be in respect of 12 BAS' and the primary purpose of the assurance review is to assure Labels 1A and 1B for this period.</p> <p>Transactions/specific tax issues analysis will be in respect of a 12 month period.</p> <p>Correct reporting testing will generally be in respect of a 3 month period used as a representative sample of a 12 month period.</p>
	<p>What is an acceptable level of variance (1%, 2-3%, 4%?) if the ATO is willing to not require a 100% reconciliation between the BAS and the accounts?</p> <p>What is the materiality threshold for GAT in GST reviews?</p> <p>Will the ATO apply a pragmatic approach and accept a small margin of error when applying the GAT vs. expecting a full reconciliation of the BASs to the accounts?</p>	<p>There is no predetermined set variance for the percentage differences and/or dollar values in the GAT outcomes.</p> <p>Materiality is not an appropriate concept as the purpose of the GAT is to understand the variances.</p> <p>The assurance rating in respect of the GAT where it is used to satisfy the fourth focus area is based on the application of professional judgment and takes into account the following 4 key factors:</p> <ol style="list-style-type: none"> 1. Level of ATO's understanding of reasons for variance between accounting and GST results 2. Level of objective evidence provided by the taxpayer where there are gaps in our understanding 3. An assessment of the unexplained net GST dollar variance 4. An assessment of the effective net GST rate. <p>The first 2 factors are the most significant factors in determining the GAT and the fourth focus area rating. We do not expect a full reconciliation of the BAS' to the accounts. Qualitative</p>

		<p>explanations provided by the taxpayer in respect of the variances and the suitability of evidence provided will be considered.</p> <p>We will assess on a case by case basis and using professional judgment whether the explanations provided by the taxpayer in respect of variances are reasonable and whether these explanations align with our understanding of the business of the taxpayer and its industry.</p>
	<p>Is the GAT a useful control for taxpayers to indicate to them whether their BAS is complete or not?</p>	<p>The GAT provides valuable insights into the completeness of BAS reporting, as it is based on the audited financial statements, verified by independent auditors.</p> <p>The work to date demonstrates that the principal benefits derived from the tool are increased assurance of the GST outcomes of economic performance in 5 ways:</p> <ol style="list-style-type: none"> 1. Providing an understanding of a taxpayer's GST profile 2. Identifying key drivers of GST performance 3. Increased confidence that non-routine transactions are captured and that the BAS outcomes and disclosures are consistent with the financial statement disclosures 4. Assisting to assure the GST outcome of transactions from information set out in the audited financial statements such as Income Statement, Balance Sheet, Cash Flow Statement and Notes to the accounts 5. Audited financial statements assist in providing assurance in relation to quantum of GST impacted transactions. <p>We would expect taxpayers to be comparing BAS disclosures to financials as part of good tax governance.</p>
	<p>Is it possible to obtain high assurance (Stage 3) when there already is a huge divergence between the financials</p>	<p>The purpose of the GAT is to understand and explain the reasons for this variance.</p> <p>The initial divergence as between the Income Statement and the BAS disclosures is not determinative of an assurance rating.</p>

	<p>and GST figures (before adjustments)?</p>	<p>The fourth focus area rating is based on whether adjustments are well explained, linked to appropriate evidence and/or assured through other focus areas.</p>
	<p>What is the correlation between individual ratings for each adjustment and the overall assurance rating for the fourth focus area?</p>	<p>Ratings will only be individually rated for each adjustment in the Top 100 assurance program. The individual ratings in respect of the GAT adjustments will inform the overall fourth focus area rating.</p> <p>In both the Top 100 and Top 1000 assurance programs, the overall fourth focus area rating is based on the extent to which adjustments are well explained, linked to appropriate evidence and/or assured through other focus areas.</p>
	<p>During the call some of the ATO officers raised some “known” reconciliation issues that had been identified through both the GAT pilot and subsequent applications by taxpayers. We would encourage the ATO to collate these and publish them to assist and guide other taxpayers in undertaking GAT. For example, these could be added to the ATO’s website and updated regularly.</p>	<p>So far, we have observed that:</p> <ul style="list-style-type: none"> – Income Statement adjustments were relatively simple to extract – Revenue Analysis was relatively straightforward to undertake in most industries – Balance Sheet movements appropriately reflected the majority of timing differences between GST and accounting – Cash Flow Statement and Notes to the accounts are useful in assuring revenue and expense GAT adjustments. <p>However, there are some challenges we have observed to date including reconciling complex grouping variances, and the quantification of some differences (i.e. long-term construction contracts or mixed accounts where GST-bearing or non-GST bearing amounts are difficult to separate and quantify).</p> <p>We continue to work with our taxpayers collaboratively through these challenges supported by the GAT Support Networks across each program.</p>

	<p><u>Use of proxies</u></p> <p>The use of proxies was discussed during our consultation session. In relation to the detailed examples that will be provided for the Top 100 and Top 1,000 population, it would be helpful if these can address the use of proxies including commentary as to the ATO's views on the use of such proxies.</p> <p>Where there are difficulties in calculating adjustments without analysing transactional data, is this considered when assigning the assurance rating for the fourth focus area?</p>	<p>We understand there will be some adjustments that are difficult to support with objective evidence. In these circumstances, we will seek to understand how the figure is derived and expect to see the calculations behind it. Where this is not possible, we will work with the taxpayer to agree an appropriate approach.</p> <p>We will consider the use of proxies or assumptions (e.g. using an average foreign currency translation rate instead of daily) where they are appropriate and relevant. We will also consider sample testing invoices in relation to transaction accounts with entries referable to GST bearing and non-GST bearing amounts.</p>
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<p>We are aware of taxpayers in the Top 100 and Top 1,000 population that perform a periodic reconciliation as between the GST figures and the management accounts. Would this approach be considered as part of the GAT as an alternative to a reconciliation back to the financial statements?</p>	<p>The GAT is the ATO's method to understand the variances from the audited financial statements as a source of objective evidence.</p> <p>Where taxpayers are periodically reconciling to the management accounts, this will assist in the application of the GAT in terms of identifying and assuring the reasons for the variances as between the Income Statement and the BAS.</p>
<p>Would it help if a taxpayer independently undertakes the GAT as part of their internal GST governance framework?</p>	<p>Yes. There is an expectation in relation to MLC 7 that a taxpayer has a process in place to explain BAS reporting of GST payable and GST receivable compared to business outcomes and to explain variances in comparison to financial statements.</p>
<p>Feedback from clients is such that there is continued confusion over the difference between the GAT and GST transactional analytical tools. In any new guidance issued it would be helpful to explain the differences</p>	<p>The GAT and data testing are separate assurance processes.</p> <p>The GAT, as a top-down assurance approach, is designed to unpack the financial statements for the purpose of understanding the GST outcomes of the taxpayer's economic activity as reflected in the Income Statement. The GAT provides greater insight and visibility through a more granular understanding of revenue and expense categories.</p> <p>Our data analytics and e-audit testing is a bottom-up approach and focuses primarily on Accounts Payable and Accounts Receivable.</p> <p>The GAT allows us to:</p>

	<p>between the two and to explain where/why clients may be expected to complete both.</p> <p>It would also be helpful if the ATO could provide further explanation as to what GST risks the exercise is looking to address, particularly where detailed transaction testing is completed. In our view, the GAT simply identifies transactions that are included/omitted from the BAS compared to the financials. As such, where there has already been assurance provided over the accuracy of transactions and reconciliation of BAS data to GL, the additional requirement to reconcile the GL to the GAT can be seen as onerous.</p>	<ul style="list-style-type: none"> - Focus on specific risks for further analysis; - Facilitates the comparison of BAS disclosures to the audited financial statement disclosures; and - Identifies GST impacted transactions outside the Accounts Payable and Accounts Receivable modules (i.e. GST adjustment events).
	<p>Are you finding that taxpayers are applying</p>	<p>We are increasingly observing taxpayers embedding the GAT into their processes, consistent with the expectations in respect of MLC 7 being designed effectively.</p>

	<p>this already as part of their usual processes?</p>	
	<p>How many/what entities are the ATO expecting can/will get to Stage 3 (besides the banks)?</p> <p>It would be helpful if the ATO could publish any benchmarking of findings and variances so that taxpayers can have clarity on what may be considered reasonable and/or what findings result in which ratings.</p>	<p>Of the limited GATs completed to date, all of the taxpayers have reached either a stage 2 or stage 3 rating with respect to the fourth focus area.</p> <p>We will consider the publication of findings with respect to the application of the GAT as more GATs are completed.</p>
	<p>We discussed the option of the ATO providing taxpayers with the option of receiving the GAT model in both a password protected version, and an unprotected version. The unprotected version will provide greater flexibility for taxpayers when trying to capture</p>	<p>The GAT workbook is password protected in order to preserve the formula and cell references. An unprotected workbook can be provided upon request.</p>

	<p>and insert supporting documents / files.</p>	
	<p>Will the GAT apply to a GST joint venture?</p>	<p>Yes. If a GST joint venture is included in the scope of the review and a GAT forms part of the assurance review, such as for Top 100 and Top 1000 assurance reviews, there will be a separate GAT required in respect of the GST joint venture in addition to the GAT for the Taxpayer's Corporate/GST group.</p> <p>Generally, in both the Top 100 and Top 1000 assurance reviews the GAT will seek to match the scope of the assurance review. However, where more than one GST joint venture is included in the scope of the assurance review, we will select, on a case by case basis and using professional judgment, the GST joint venture(s) that the GAT will be applied to.</p>
	<p>What information is required for purposes of applying the GAT to a GST joint venture?</p>	<p>Instead of audited financial statements, we will work with the taxpayer for a suitable alternative. We are currently piloting annualised billing statements prepared by the joint venture operator for the joint venture.</p> <p>Where the BAS for the selected GST joint venture(s) is lodged as part of a Consolidated GST Joint Venture BAS, the information required may also include a breakdown of the annualised Consolidated GST Joint Venture BAS to determine the BAS figures attributable to the particular GST joint venture(s).</p>

