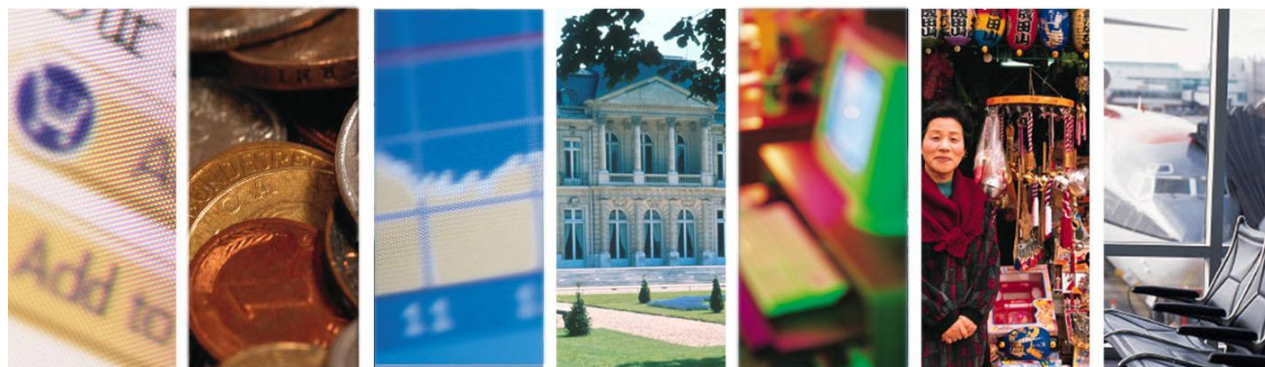ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

FORUM ON TAX ADMINISTRATION

Guidance Note:

Guidance for the Standard Audit File – Tax Version 2.0

April 2010

CENTRE FOR TAX POLICY AND ADMINISTRATION

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ABOUT THIS DOCUMENT

Purpose

The purpose of this paper is to describe the design, in the form of a XML schema, of a Standard Audit File - Tax (SAF-T) and its implementation. The objective is to enable business and accounting software to create a SAF-T, containing reliable transaction data from systems that covers a specific time period and which is easily readable by virtue of its standardisation of layout and format. SAF-T advances efficient and effective audits by internal and external auditors and by revenue bodies.

Background to the Forum on Tax Administration

The Forum on Tax Administration (FTA) was created by the Committee on Fiscal Affairs (CFA) in July 2002. Since then the FTA has grown to become a unique forum on tax administration for the heads of revenue bodies and their teams from OECD and selected non-OECD countries.

In 2009 participating countries developed the FTA vision setting out that…*The FTA vision is to create a forum through which tax administrators can identify, discuss and influence relevant global trends and develop new ideas to enhance tax administration around the world.*

This vision is underpinned by the FTA's key aim which is to…*improve taxpayer services and tax compliance – by helping revenue bodies increase the efficiency, effectiveness and fairness of tax administration and reduce the costs of compliance.*

To help carry out this mandate, the FTA's work is directly supported by specialist Sub-groups—including the Tax e-Audit Group whose work is directed at developing internationally agreed software standards designed to facilitate:

- a reduction of compliance costs for businesses;

- a reduction of administrative costs for revenue bodies;

- the enhancement of the outcomes of audits of businesses carried out by revenue bodies; and

- the provision of a platform to make it easier for revenue bodies to co-operate in areas such as joint audits.

Background to this Guidance Note

This guidance note has been produced in co-operation with representatives from revenue bodies, the accountancy and audit professions, and software developers.

The note deals with the technical aspects of the SAF-T, and provides detailed information on the key data elements of the file, together with its structure and format. This note should be read in conjunction with the companion OECD guidance notes *Guidance and Specification for Tax Compliance of Business and Accounting Software* (GASBAS)[1] and *"Guidance on Test Procedures for Tax Audit Assurance"*.[2]

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[1]   OECD (2010) www.oecd.org/dataoecd/42/33/45045404.pdf

[2]   OECD (2010) www.oecd.org/dataoecd/42/34/45045414.pdf

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One of the main principles set out in GASBAS is that software should allow auditors ready access to data to perform compliance and substantive testing, including self-testing. GASBAS also recommends the use of SAF-T as a means of exporting accurate tax accounting data in a format that can be easily read by revenue bodies. The *Guidance on Test Procedures for Tax Audit Assurance* contains a detailed inventory of audit tests. SAF-T can facilitate both compliance and substantive testing.

This guidance note also builds upon earlier papers published in the OECD FTA Tax Guidance series:

- **Transaction Information Guidance.**[3] This provides, inter alia, both a guide to international good practice and a list of key data elements that would aid substantive testing of internal controls and facilitation of compliant systems.[4]

- **Record Keeping Guidance.**[5] It is an essential pre-requisite for testing using the SAF-T for it to contain reliable records. A reliable electronic record is a record whose contents can be trusted as a full and accurate representation of the transaction. In order to achieve the appropriate level of trust, the record should also display sufficient levels of authenticity, integrity, and usability. This is most likely to be achieved by a combination of strong internal controls on data processing together with the application of suitable security techniques that ensure the reliability of the subsequent data output.

Caveat

Each revenue body faces a varied environment within which they administer their taxation system. Jurisdictions differ in respect of their policy and legislative frameworks and their administrative practices and culture. As such, a standard approach to tax administration may be neither practical nor desirable in a particular instance.

The documents forming the OECD tax guidance series need to be interpreted with this in mind. Care should always be taken when considering the practice of a country to fully appreciate the complex factors that have shaped a particular approach.

Enquiries and further information

Enquiries concerning any matters raised in this guidance note should be directed to elizabeth.goli@oecd.org.

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[3]   OECD (2003) www.oecd.org/dataoecd/29/26/31663095.pdf

[4]   International Organization for Standardization (ISO) (2001) ISO 15489-1:2001 *Information and documentation -- Records management -- Part 1: General*, ISO, Geneva, Switzerland. www.iso.org

[5]   OECD (2005) www.oecd.org/dataoecd/29/25/31663114.pdf

SUMMARY

1.   This document describes the specification of the Standard Audit File for Tax (SAF-T), and provides guidance to revenue bodies and software developers on its design, application and implementation.

2.   It encourages the production of a data file containing business accounting transactions in a standardised format. It also suggests how use of SAF-T can be applied to tax audit processes to enable them to be carried out with greater efficiency and in such a way that costs to both revenue bodies and businesses can be minimised.

3.   The document also lists a number of potential benefits to stakeholders that may accrue by use of SAF-T in business accounting software.

4.   The options for implementation of the specification by tax administrations, either directly or in partnership with others, are also examined. The implementation tasks identified and summarised in the document are aimed at both software developers and revenue bodies.

RECOMMENDATIONS

5.   Each FTA country is faced with a different environment in respect of policy, legislation, administration and culture, which will have shaped their taxation systems. It is therefore up to each country to decide how to approach the issues addressed in this report and the most appropriate response to the challenges identified. Recommendations are broken down into two parts, recommendations for revenue bodies and recommendations software developers. Recommendations are in the order that they appear in the guidance note (not necessarily in order of importance).

6.   **Revenue bodies** are encouraged to:

- Incorporate the SAF-T into their audit and verification methodologies for tax audits.

- Become aware and keep abreast of the on-going development of XBRL, which could give a more holistic approach to audit automation, and take this into consideration when formulating their overall strategic approach in this area.

- Work with Software Developers to establish a common understanding of how to implement the SAF-T schema.

- Work with Software Developers to establish a common understanding of how and when a data file based on the SAF-T specification should be produced.

- Ensure that implementation of the SAF-T in their jurisdiction is compatible with the OECD specification.

7.   **Software Developers** are encouraged to:

- Incorporate the SAF-T specification into their business and accounting software products.

- Work with revenue bodies to establish a common understanding of how to implement the SAF-T schema.

- Work with revenue bodies to establish a common understanding of how and when a data file based on the SAF-T specification should be produced.

- Provide an easy export facility of the SAF-T to enable testing and analysis.

GUIDANCE FOR THE STANDARD AUDIT FILE – TAX VERSION 2.0

1. Introduction

8.   Revenue bodies have for many years conducted tests on accounting records in order to be assured that business tax obligations have been met. Globalisation of the world economy, including the emergence of electronic commerce, has created a new environment in which multi-national businesses are subject to a number of differing legislative requirements around the world. Revenue bodies also see an increased need for international cooperation through the exchange of information and, where appropriate, multi-jurisdictional audit.

9.   One of the main principles set out in the Guidance Note *Guidance and Specification for Tax Compliance of Business and Accounting Software* (GASBAS)[6] is that the software should allow auditors ready access to data to perform compliance and substantive testing.

10.   In May 2005 the OECD Committee on Fiscal Affairs (CFA) published the first version of the SAF-T guidance. This version 1.0 was based on entries as found in a General Ledger Chart of Accounts, together with master file data for customers and suppliers and details of invoices, orders, payments, and adjustments. The revised version (2.0) in this document has been extended to include information on Inventory and Fixed Assets. The opportunity has also been taken to enhance the original SAF-T specification to take account of suggestions from OECD member countries and others.

11.   SAF-T will assist auditors in testing electronic accounting data for the purposes of identifying risks and quantifying possible errors in the way tax rules have been applied. Depending on the way in which SAF-T is implemented it may also allow for more detailed analysis of business transactions.

12.   A companion guidance note, *Guidance for the Standard Audit File- Payroll* (SAF-P) has also been produced.[7]

2. Application of SAF-T

13.   SAF-T has been designed to allow auditors access to data in an easily readable format for substantive testing of system controls and data, using proprietary audit software, as part of a methodology that also provides increased effectiveness and productivity in computer-assisted audit. SAF-T is intended to be suitable for use by businesses and their auditors across the scale from Multi-National Enterprises (MNEs) to Small to Medium Enterprises (SMEs), although there may be some differences in its application.

14.   In the case of MNEs, auditors are likely to need access to large amounts of data held in complex structures and handle these in a satisfactory manner in order to support test programmes. In these instances a bespoke or customised may be the best approach. However, this will not be the case on every occasion, so developers of the more complex enterprise resource planning (ERP) systems should be able to map their products to the requirements of the SAF-T to give the necessary data elements and thus facilitate a full range of tests using this method. For SMEs, the data structure of the SAF-T is expected to cover all of the data elements held on these systems, and their completeness or otherwise will determine the range of tests

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[6]   OECD (2010) www.oecd.org/dataoecd/42/33/45045404.pdf

[7]   OECD (2010) www.oecd.org/dataoecd/42/36/45045611.pdf

available to auditors. The design of the SAF-T takes into account that not all of its data elements will be available on every system.

15.　　Revenue body auditors using a standard audit file may still need to verify original records maintained by a business. It should be recognised that incorporation of an audit file into accounting software will not remove the requirement for businesses to keep and archive records in accordance with the requirements of law and any conditions stipulated by revenue bodies.

3. SAF-T and its uses in tax audit

16.　　The objective of an audit of the tax affairs of a business is to establish if that business has paid the correct tax at the right time, in accordance with domestic tax legislation. The auditor must obtain and evaluate the available audit evidence as part of the audit assurance process in order to reach an opinion as to whether or not a tax return is correct. Audit evidence can be obtained from an appropriate mix of compliance and substantive testing using the information found in accounting records and source documents.

17.　　The methodology adopted is largely determined by the audit policies of each tax administration in accordance with domestic legislation, but there are certain generic considerations for each audit. The examination of internal control procedures using compliance testing in order to provide assurance that entries are properly authorised and completely and correctly recorded in the business records forms a substantial part of audit programmes. Where compliance testing is inappropriate or ineffective, for example in businesses where there may be an insufficient segregation of duties, evidence of the application of internal controls may only be obtained by the use of substantive testing.

18.　　The increasing use of electronic records means that auditors are now faced with increasing challenges, primarily in understanding the complexity of the systems in which records are maintained and also in the volume of transactions processed. The established practice of testing the operation of internal control procedures from scrutiny of contemporary paper documents containing control information is therefore no longer universally applicable and is wholly inappropriate for systems containing electronic records.

19.　　The use of computer-assisted audit techniques offers an appropriate methodology for these cases, together with increased efficiency in audit coverage and productivity. Testing of internal control procedures could be performed either internally using audit facilities built into software or externally using proprietary audit programs. The implementation of SAF-T within business and accounting software will enable businesses to produce data suitable for use by both internal and external auditors in their compliance programmes with little effort and minimal IT overheads. The data can be provided electronically, thus obviating the need for the production of a large number of paper reports. Auditors will also have the option to conduct all or part of the audit remotely from the business' premises, thus reducing costs for all parties.

20.　　SAF-T is suitable for testing accounting transactions down to line level. The use of SAF-T will allow errors to be identified and quantified more efficiently in the initial stages of the audit to enable auditors to target their resources more effectively at those errors with a material impact. Targeting resources more effectively means that businesses may be confident that audit resources will be directed at those areas where analysis has indicated possible errors.

21.　　SAF-T can also be used as part of a self-testing audit programme to support voluntary compliance by businesses. Self-audit will allow businesses to review their own transactions, possibly by the automation of substantive tests and make any necessary adjustments before a tax return is filed.

22.   Note, however, that in some circumstances the determination of tax liability may require more information than is contained in the SAF-T.

4. Benefits to Stakeholders

23.   The use of SAF-T may offer the following benefits to stakeholders:

- A reduction in compliance costs for businesses that would otherwise need to devote additional resources or rely on specialist personnel or consultants to produce data as required in a readable format.

- The development of SAF-T as an international standard may lead to a reduction in compliance costs that would otherwise be incurred by MNEs in order to meet differing compliance requirements for multiple jurisdictions.

- SAF-T will enable businesses of all sizes to exchange data between different business systems. It can also be used to exchange business data between parties such as businesses, accountants, revenue bodies and other government bodies.

- Use of SAF-T data as a source for automated testing procedures will increase efficiency and effectiveness of both self-audit and external audit. Auditors can build their own software from a SAF-T that satisfies their information needs and therefore the data will always be consistent regardless from which system the data is derived. This will also improve the quality of tax declarations if performed in advance of filing.

- Use of SAF-T as an archival source will improve the quality and availability of archival data for businesses.

- Discussions between revenue bodies and businesses regarding the data content of business systems for tax purposes may be assisted by the adoption of SAF-T.

- Standardisation of the core structures will enable software developers to create multi-jurisdictional audit files without duplication of effort.

- Easy access to required information will reduce administrative costs for tax administrations.

5. Content of SAF-T

24.   SAF-T has been designed to capture data from a number of areas found in a typical business accounting system as follows:

General Ledger

- Journals

Accounts Receivable

- Customer Master Files
- Invoices
- Payments

Accounts Payable

- Supplier Master Files

- Invoices

- Payments

Fixed Assets

- Asset Master Files

- Depreciation & Revaluation

Inventory

- Product Master Files

- Movements

6. Format of SAF-T

25.   In any examination of the issues relating to the provision of data, it is very difficult to avoid the issue of the data format. This guidance note has attempted to deal with this issue in a balanced way.

26.   While SAF-T could be represented using different file formats, it should be created in a data format that meets the needs of the auditor, preferably one that is widely used internationally. Revenue bodies acknowledge that standard formats facilitate audit automation processes.

27.   It is entirely a matter for revenue bodies to develop their policies for implementation of SAF-T, including its representation in XML. However, revenue bodies should be aware of the on-going development of XBRL, which may offer a more holistic approach to audit. They should also be aware of international efforts to develop data standards for compliance needs under the formal OASIS Tax XML Committee.[8]

28.   In their implementation strategy for SAF-T, revenue bodies should consider data formats that permit audit automation today while minimising potential costs to all stakeholders when moving to new global open standards for business and financial data such as XBRL, and XBRL- GL in particular.

29.   Other formats and structures for SAF-T may be added to this technical document as business practices evolve over time.

30.   The current XML definition contains a separate structure which allows a connection to XBRL-FR, and any other taxonomy for General Ledger accounts.

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[8]   OASIS is a not-for-profit global consortium that drives the development, convergence, and adoption of e-business standards. An OASIS Tax XML Committee was established following the CFA's earlier work on the taxation impacts of electronic commerce, which had identified XML as a preferred standard for the exchange and mark-up of tax related data. More information about the OASIS Tax XML Committee can be found at: http://www.oasis-open.org/committees/tc_home.php?wg_abbrev=tax

7. Implementation of SAF-T

31.   SAF-T has been designed around commonly held business data and represents a statement of best practice in obtaining tax data for use in computer-assisted audit.

32.   Revenue bodies and software developers within each jurisdiction should establish a common understanding of how to implement the schema. Some negotiation between revenue bodies and software developers may be required in cases of difficulty.

33.   They should also establish a common understanding of how and when SAF-T should be produced. The key issue is the ability of the software to create the file in the required format with the correct content and at the required time.

34.   The current SAF-T structure assumes that information held at Master File level will remain constant for the period covered by the data file. If this information changes, appropriate arrangements will have to be made to ensure that any standing data relevant to the period of the SAF-T is recorded.

35.   In integrated systems the data will all be available from one source; in separate systems the data may be stored at several locations, e.g. order processing, financial accounting etc. SAF-T has been designed to cater for both possibilities. This means that integrated systems will produce one SAF-T with all the relevant data; separate systems will produce a SAF-T each containing the information for that system. This may involve the duplication of data to allow the records to be matched.

36.   It should also be noted that the audit assurance requirements for some business sectors would require auditors to seek additional information.

37.   The design of SAF-T does not encompass taxes such as payroll, other than only summarized information from such subsystems may be represented in SAF-T. Payroll data is dealt with in the companion Guidance note *Guidance on the Standard Audit File – Payroll (SAF-P).*[9]

38.   Great care has been taken to be consistent with the naming structure and data definitions in both SAF-T and SAF-P. Where possible, an explanation of each field has been added.

39.   The basic SAF-T specification includes only that information which is likely to be found in most business and accounting software packages. Revenue bodies would normally want all of the elements in the schema to be delivered. However, this may not be achievable in practice, and a certain amount of flexibility has been built into the specification to achieve this. (see Annex A). If information is available in a system then it should be provided in the SAF-T.

40.   Where a field is described as "mandatory" in the XML schema, it must be present for the audit file to be valid. However, on those occasions where a mandatory element as defined in the XML schema is not present in a software package, the field should still be included in the audit file with an appropriate valid value. Where an element is described as "optional" in the schema it may be omitted from individual Audit Files. This issue is discussed in more detail in Annex A.

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[9]   OECD (2010) www.oecd.org/dataoecd/42/36/45045611.pdf

8. Country-specific implementations

41.   Revenue bodies proposing to introduce a version of SAF-T should bear the following points in mind:

- This schema has been designed as an international standard to reflect current best practice. The OECD specification is considered to be the minimum necessary to extract meaningful information from a business accounting system therefore any implementation of the SAF-T should be compatible with this specification.

- Removal of any elements by a revenue body would make their version of SAF-T incompatible with the concept of an international standard based on current best practice.

- The specification includes a number of "extension points" to allow individual revenue bodies to add their own elements. However, information elements that are incompatible with the structures in SAF-T should not be included.

- Any deviations from the OECD Schema will place a corresponding burden on international software developers.

- Revenue bodies will want to ensure that Audit Files contain good quality information. Software developers will also appreciate clarity in the Audit File specification. Revenue bodies should recognize that if the specification is too rigid, developers may find it difficult to comply with all of the requirements.

42.   These issues are discussed in more detail in Annex A.

9. Recommendations for Guidance and Implementation Tasks

43.   **Revenue bodies** are encouraged to:

- Incorporate the SAF-T into their audit and verification methodologies for tax audits.

- Become aware and keep abreast of the on-going development of XBRL, which could give a more holistic approach to audit automation, and take this into consideration when formulating their overall strategic approach in this area.

- Work with software developers to establish a common understanding of how to implement the SAF-T schema.

- Work with software developers to establish a common understanding of how and when a data file based on the SAF-T specification should be produced.

- Ensure that implementation of the SAF-T in their jurisdiction is compatible with the OECD specification.

44.   **Software Developers** are encouraged to:

- Incorporate the SAF-T specification into their business and accounting software products.

- Work with revenue bodies to establish a common understanding of how to implement the SAF-T schema.

- Work with revenue bodies to establish a common understanding of how and when a data file based on the SAF-T specification should be produced.

- Provide an easy export facility of the SAF-T to enable testing and analysis.

ANNEX A: COUNTRY-SPECIFIC IMPLEMENTATIONS OF SAF-TAND SAF-P: TECHNICAL NOTES

This Annex highlights a number of technical issues which revenue bodies should consider when implementing the Standard Audit File at a national level. It is written with an audience of technical implementers in mind and should be read in conjunction with

- the more general notes on implementation given in the main body of this paper; and

- the guidance contained within the *Guidance and Specifications for Tax Compliance of Business and Accounting Software* guidance note.

1. Main principles

The main principles to be considered when implementing a Standard Audit File nationally can be summarised as follows:

- The Standard Audit File Schemas have been designed as an international standard to reflect current best practice. The OECD specification is considered to be the minimum necessary to extract meaningful information from a business accounting system. Therefore, any implementation of the SAF-T or SAF-P should be compatible with the OECD model.

- Revenue bodies should bear in mind that any *significant* deviations from the OECD schema may place a corresponding burden on international software developers.

- Flexibility has been built into the Standard Audit File schemas to allow revenue bodies to adapt the schema to suit local needs. Thus a national implementation of the Standard Audit may be compatible with the Standard Audit File schema without being identical.

- The mechanisms by which flexibility has been built into the schemas are described in the sections which follow.

2. Extension Mechanisms

The Standard Audit File schema includes a number of elements called "any ##other". These elements are not intended to hold information in themselves, but represent points at which individual revenue bodies can specify additional elements to suit their own needs. Including additional elements at other points will mean that the file is not compatible with the OECD model.

"Optional" and "Mandatory" elements

The basic assumption is that all of the elements included in the OECD model are potentially useful to auditors. Therefore it is normally expected that all of the information specified in the OECD model will be delivered. Elements designated as "optional" should only be omitted where the data specified is not available.

When deciding whether a particular element should be designated as "optional" or "mandatory" within their own implementation of the Standard Audit File, revenue bodies will wish to bear the following points in mind:

- Omitting from the country-specific implementation an element designated in the OECD model as "optional" will not cause the file to be incompatible with the OECD specification.

- Omitting from the country-specific implementation an element designated in the OECD model as "mandatory" will cause the file to be incompatible with the OECD specification.

- Changing the element designation from "optional" to "mandatory" will not cause the file to be incompatible with the OECD specification.

- Changing the element designation from "mandatory" to "optional" will cause the file to be technically incompatible with the OECD specification if the "optional" element is not delivered by software.

Other element attributes

The elements in the OECD model are defined by a number of other attributes such as the maximum number of characters available in a text field and the number of decimals to be supplied in a numeric field. The following points should be considered when reviewing these attributes:

- If attributes restrict the acceptable field contents to values selected from a predefined list, any deviation from that list may make the file incompatible with the OECD model.

- In other cases, the file will remain compatible with the OECD model if it specifies less information than the OECD model, but not if it specifies more. For example, if the OECD model specifies a text length of 9 characters, any text of 9 characters or less will be compatible with the OECD model. Text of 10 characters or more will not.

- The data provided for each element should always be of an appropriate type as specified in the schema. Where information to populate a reported element is not available meaningful placeholder information of the correct type should be supplied.

  - For text fields a piece of text such as "not available" may be considered appropriate.

  - For numeric fields and date fields revenue bodies may wish to agree a suitable reporting convention with developers.

3. Constraints

Constraints are a design feature of the SAF-T and SAF-P. These operate as a check that the file contents are complete; for example that where a customer reference is shown at transactional level there is a corresponding entry in the customer master file.

At times it may be difficult to enforce constraints strictly. Where an auditor requests an audit file based on extracted data rather than the whole data set, it may be impracticable for software to deliver information in such a way that the constraints operate correctly.

The constraints included within the OECD model reflect the ideal position where a full data file is obtained. Revenue bodies should bear this in mind when determining their policy on the use of constraints.

ANNEX B: SAF-T VERSION 2.0 XML SCHEMA

The XML Schema was produced using XMLspy 2008.

The PDF[10] and HTML files show a diagrammatic view of the Schema and give an overview of the elements, and their relationship within the hierarchical structure of the file.

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[10] See www.oecd.org/dataoecd/44/58/45167181.pdf for the PDF version of the schema.