



incisive™

MANAGING SPREADSHEET

# Risks in Tax Provisioning

BRIEF

**A**lthough the vast majority of tax errors aren't intentional, even innocent and inadvertent errors can cause significant corporate heartburn when they [flag the attention of the IRS](#)<sup>1</sup>. That truth makes the [lack of spreadsheet controls on tax-related documents even more surprising](#)<sup>2</sup>. Companies know that their tax preparations are under scrutiny virtually all the time, so it is curious that so few spend any time or attention controlling the fundamental documents upon which they base their tax returns.

For many companies, the main reason that they don't do better in managing their spreadsheet practices is that they simply don't know how to get started on that process, according to Michael Corrales, a spreadsheet and tax expert with PwC. [In a recent webinar](#)<sup>3</sup>, Corrales spoke at length about how [tax spreadsheet controls](#)<sup>4</sup> can wreak havoc on corporate fortunes, especially when they negatively impact the calculation and reporting of taxes.

### Routine Risks

According to Corrales, the underlying technology is rarely the cause of spreadsheet errors; that distinction lies with [the humans who create, develop and interact with the document](#)<sup>5</sup>. He notes several common behaviors that raise the risk of creating spreadsheet errors:

#### → Failing to clarify its purpose

Corrales says that it is critically important that everyone who touches the document understand its purpose and agrees to use it solely for that purpose. Without that clarification, users can change data within the sheet to fit their needs, which will also alter both its purpose and its functioning.

#### → Failing to clarify its intended audience

Not all spreadsheets will provide useful information for every user. Most spreadsheets are created to educate a specific body of users, and that fact should be noted so that nonaffiliated users don't make changes to suit their individual purposes.

#### → Making the sheet too complex

The larger the spreadsheet, the higher the likelihood of serious errors. Many developers add too many calculations and links within the single document. The resulting complexity will make the sheet more difficult to use and easier to misinterpret.

#### Other typical errors noted by Corrales include:

- Input errors or flawed data entries, inaccurate references and even cut-and-pasting errors that skew the sheet off course.
- Logic errors that generate and apply inappropriate formulas that result in flawed information.
- Import errors where data from other sources isn't culled to ensure that it fits with the sheet's existing methods and computations.

**Corrales asserts that when corporate spreadsheet data is in error for any of these reasons, the sheet becomes unreliable for tax purposes, including for tax provisioning or establishing appropriate tax reserves.**

When the spreadsheets are filled with errors, the corporate tax returns will be filled with errors, too.



## How to Improve Spreadsheet Management Practices

**Corrales advises that every company should establish and maintain a methodical approach for managing their spreadsheets, especially for managing its end-user computing.**

His company, PwC, suggests that a layer of consistent controls over spreadsheet development, use and sharing will mitigate the risks that arise at each of those points:

### → Collect and retain supporting documents

Future users of the spreadsheet may need or want to know the data upon which it is based. That information should be readily available.

### → Keep the sheet focused on its intended purpose and audience

This suggestion follows Corrales' recommendation to keep the sheet as simple as possible, too. The risk of inadvertent error entries rises with the number of people who are authorized to change it, each of whom can cause irreparable damage to its usability.

### → Clarify its automation opportunities

Not all functions should be automated, and Corrales suggests clarifying and modifying those that can be automated so that the nonautomated processing becomes easier to do and see.

### → Seek spreadsheet success

Corrales also suggests that spreadsheet developers keep five components in mind throughout the process:

- Invested stakeholders who will use the sheets and define their purpose.
- The resources allocated to the sheet development project from the various corporate sectors.
- Appropriate policies and procedures for how the sheet is used and by whom.
- An appropriate governance structure that tracks for possible nonconforming activities.
- A change management process that ensures that all users have appropriate training for using and communicating their use of the spreadsheet.

## Case Study: Technology Helps Spreadsheet Developers

Corrales doesn't suggest that technology can't contribute to a successful spreadsheet management implementation project, but he does caution that it should only be used in appropriate ways. He cited a case study as an example:

The vast volume of data collected by a global media company (GMC) made it impossible for individual spreadsheet managers to find and fix errors, so they knew they were at high risk of mistakes in many, if not most, of their computations and calculations. They approached Incisive for technology to help them repair their fundamental spreadsheets and spreadsheet

development practices. Incisive applied its tax [Xcellerator](#) product to the project, which evaluated the company's data in batches instead of row-by-row. The Xcellerator process revealed errors and inconsistencies within batches, which could then be compared with other batches to find additional errors and inconsistencies. The company gained greater insights into its finances, which gave it better control over its tax provisioning practice. Corrales noted that the Incisive tool was able to assist GMC even when its corporate spreadsheets exceeded Excel's one million row limit.

## Technology Rescues Companies from Human Errors

**A**ccording to [a survey by Dartmouth University<sup>6</sup>](#), more than 80 percent of reporting organizations have no standardized rules for managing their spreadsheets, and many don't even have informal guidelines. Without those controls, many ([another study<sup>7</sup>](#) suggests 88 percent) enterprises rely on erroneous information in all of their processes and functions. When those spreadsheets are used to generate tax data, those underlying errors can cause problems in both organizational functioning and compliance and reporting capacities.

Michael Corrales has been tracking spreadsheet management practices for years and has seen virtually every error that can be made in those processes. He is enthusiastic that technology such as that offered by Incisive can provide tools to streamline the spreadsheet development process while reducing the risk of spreadsheet errors and the often-disastrous consequences that those cause. His ultimate advice: don't let your people mistakes create havoc for your business. Use technological tools such as Incisive's Xcellerator, [Locator](#) and [Concourse](#) to reduce your risk of potentially fatal tax reserve and return errors.

**LEARN MORE - VIEW THE WEBINAR**

**VIEW OUR WEBINAR**

**How to effectively manage  
spreadsheets in Tax organizations**

You'll hear PWC's Michael Corrales discuss more best practices for mitigating spreadsheet risk in your Tax organization.



## ABOUT INCISIVE SOFTWARE

Incisive Software enables companies to significantly reduce their risk exposure. Our risk intelligence platform provides a modern, automated approach for gaining accuracy, control and insight into an organization's most complex, sensitive and business-critical spreadsheets. For more information about Incisive and our award-winning risk intelligence solutions, visit [www.incisive.com](http://www.incisive.com).

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## REFERENCES

<sup>1</sup> ["6 Worst Tax Mistakes Small Businesses Make"](#), Lovelady, Christy + Associates, PLLC, America's SBDC

<sup>2</sup> ["10 Biggest Mistakes Small Businesses Make"](#), Barbara Weltman, American Express Forum

<sup>3</sup> ["Incisive Webinar: How to effectively manage spreadsheets risk in Tax"](#)

<sup>4</sup> ["Excel errors: How Microsoft's spreadsheets may be hazardous to your health"](#), Robin Harris, ZDNet

<sup>5</sup> ["Eight of the worst spreadsheet blunders"](#), Thomas Wailgum, CIO

<sup>6</sup> ["A comparison of spreadsheet users with different levels of experience"](#), Barry R. Lawson, Kenneth R. Baker, Stephen G. Powell, Lynn Foster-Johnson, Tuck School of Business at Dartmouth College

<sup>7</sup> ["Spreadsheet blunders costing business billions"](#), Katrina Bishop, CNBC