FORUM ON TAX ADMINISTRATION

Guidance Note:

Guidance on Test Procedures for Tax Audit Assurance

APRIL 2010

CENTRE FOR TAX POLICY AND ADMINISTRATION

TABLE OF CONTENTS

ABOUT THIS DOCUMENT

Purpose

The purpose of this note is to provide guidance on the compliance and substantive testing of transaction data held in accounting applications that facilitate the production and retention of tax accounting records and declarations.

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.

The Tax e-Audit Group includes representatives from FTA member countries, software developers, and the accountancy and audit professions.

Background to this Guidance Notes

This guidance note has been produced in co-operation with representatives from revenue bodies, the accountancy and audit professions, and software developers. It should be regarded as a "living document" in that the inventory of tests may become suitable for amendment or addition to over time as and when implemented by tax authorities and others.

Additional papers to support the standards proposed in this guidance note will be published as needed.

Caveat

Each revenue body faces a varied environment within which they administer their taxation system. Jurisdictions differ in respect of their policy and legislative environment 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 a country's practices 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.

SUMMARY

1. All tax auditors need to obtain reasonable assurance that tax returns are free from any material misstatement, whether due to fraud or error.

2. The risk of an auditor giving an incorrect audit opinion when the tax returns are materially misstated is known as "audit risk". The auditor reduces audit risk by designing and performing audit procedures to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base an audit opinion. Reasonable assurance is obtained when the auditor has reduced audit risk to an acceptably low level.

3. This guidance note looks at the role compliance and substantive testing plays in the achievement of audit assurance by auditors; highlights some of the types of test that may be employed; and examines the overall aims of a test programme. The Annexes contain a substantial inventory of tests, categorized into audit objectives.

Guidance on Test Procedures for Tax Audit Assurance

1. Scope

4.   This guidance note provides guidance on the compliance and substantive testing of transaction data held in accounting applications that facilitate the production and retention of tax accounting records and declarations, which range from the complex software used by Multi-National Enterprises (MNEs) to the standard packages used by Small to Medium Enterprises (SMEs).

5.   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. This function has in the past been performed by external auditors from both the private and public sectors. However, there is a growing trend towards voluntary compliance where businesses will self-audit their tax returns prior to filing in order to ensure as far as possible the correctness of a declaration.

6.   All tax auditors need to obtain reasonable assurance that tax returns are free from any material misstatement, whether due to fraud or error. An auditor must obtain and evaluate the available audit evidence as part of the assurance process in order to reach an opinion as to whether or not a tax return is correct.

7.   The risk of an auditor giving an incorrect audit opinion when the tax returns are materially misstated is known as "audit risk".[1] The auditor should plan and perform the audit to reduce audit risk to an acceptably low level that is consistent with the objectives of an audit. The auditor reduces audit risk by designing and performing audit procedures to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base an audit opinion. Reasonable assurance is obtained when the auditor has reduced audit risk to an acceptably low level.

8.   The audit evidence to support an opinion can be obtained from a number of sources including examination of accounting and financial records; from the results of an appropriate mix of compliance and substantive testing of data using computer assisted audit techniques; or from a combination of these.

9.   In the case of e-commerce, system audit trails may be wholly electronic and contain large volumes of complex data which may be more easily altered or destroyed than their paper equivalents, leaving no record of such actions. In paper-based systems, documents from an external source are usually regarded as possessing an inherently higher degree of credibility than internal documents even before internal controls are applied during entry processing. In e-commerce systems the credibility of any external electronic document used as audit evidence will depend less on its origins and form and more on the nature, source and reliability of internal controls applied during processing and any additional measures applied to ensure its integrity. In the absence of internal controls and additional measures, an auditor should regard any external electronic record produced as audit evidence as being of little more value than an internal electronic record. Auditors will therefore need to test system controls to validate audit evidence in order to form an opinion of the reliability of the records.

10.   This guidance, and the detailed list of tests in the Annexes, is intended to be equally applicable to direct taxes (primarily corporate taxes that make use of aggregated entry information as a source for tax

---

[1] This definition equally applies to other areas of auditing such as financial statements.

declarations), and indirect taxes (GST/VAT) that are transaction – based. However, some tests will be more appropriate to some tax types than others.

2. Types of test

Compliance tests

11.   Compliance testing is used to test the operation of internal controls to determine if they are being applied consistently and correctly. An auditor will seek to achieve a reasonable level of audit assurance that such controls are operating properly.

Substantive tests

12.   Substantive tests are applied to determine if transactions comply with legislative requirements and are completely and accurately recorded. The degree of substantive testing applied will be influenced by the results of earlier compliance testing, in that strong controls may require less substantive testing whilst weaker controls may require more.

Sampling techniques

13.   Statistical sampling is commonly used to test for validity in a manner which then allows for evaluation across a population. Tests that refer to physical documentation of assets rather than just computer records require an appropriate statistical sampling technique to be used.

14.   Sampling can be performed by applying proprietary audit software or by programs embedded within a system. It is important that embedded programs are thoroughly evaluated before use. Software should feature an appropriate export facility if external programs are used.

3. Aims of testing

Testing in support of audit objectives

15.   One common outcome of testing is the identification of individual entries that may indicate the possibility of error and which may therefore warrant further investigation of internal control procedures. Testing in isolation will therefore not necessarily replace other audit activities such as observational procedures, but rather form part of an overall assurance programme.

Testing as part of software package evaluation

16.   The traditional method employed in the evaluation of software packages by tax authorities has been the adoption of a systematic approach to acquire a full understanding and appreciation of coding, potential configuration and processing rules. An alternative approach could be to evaluate software using a set of tests that achieve a satisfactory level of audit assurance based on actual transactions resulting from a combination of coding, configuration and processing in terms of their completeness, accuracy, authority and timeliness. This set of tests would be presented to the software developer who would be asked to confirm that each of the tests can be carried out and how they would be achieved. Ideally they would go a step further and build all relevant tests into their software.

17.   Annexes B to G of this guidance note contain descriptions of tests designed to meet a number of assurance objectives.

4. Implementation of tests

18.   These tests may be used by:

   a)   businesses as part of a voluntary tax compliance programme where the self-testing of data may help businesses to easily and quickly confirm their tax data before filing returns;

   b)   private and public sector auditors when developing a substantive test programme for both direct and indirect taxes by the application of audit software combined with a defined set of tests; or

   c)   independent audit software developers when implementing these tests in their proprietary audit programs.

19.   The implementation of these tests could also be included in the development of the following specialized audit techniques:

- Resident Audit Programs that build compliance into business and accounting systems to ensure improvements in taxpayer compliance behaviour and allow them to self-audit their tax declarations without having to expend any additional effort. Modern business and accounting systems typically include flexible reporting functionality that would allow both the business and the tax auditor to monitor tax areas of specific risk in an efficient and effective way.

- Continuous Audit Techniques. This is a special case of Resident Audit Programs. As the name suggests, continuous audit programs would monitor tax entries "as they happen", and could immediately notify the business, its external auditors, or the revenue body of potential problems. The ability to monitor and correct, if necessary, tax entries prior to making a revenue declaration could provide the business with significant compliance cost savings. Real-time notification of selected tax entries could also result in more efficient use of revenue body resources since it would bring the assurance event closer in time to the actual tax event.

20.   The audit automation efficiencies offered by implementation of these tests can be expected to reduce compliance costs for business, administrative costs for revenue bodies, and increase audit efficiency for external auditors.

ANNEX A: OVERVIEW OF ASSURANCE OBJECTIVES

The assurance objectives and associated tests in Annexes B - G of this Guidance Note are as follows:

Annex B: Analytical Review

B1. To confirm all reporting units are included in tax declarations

B2. To confirm data is in line with expectations for an entity's business

B3. To assess the general credibility of data against business activities

B4. To confirm the completeness, accuracy, and timeliness of tax declarations

B5. To confirm currency conversions are correctly applied

Annex C: Sales (Output) Tax

C1. To identify all sources of sales (output) tax

C2. To assess the credibility of sales (output) tax

C3. To confirm all sales are invoiced

C4. To monitor all sales transactions that originate from related parties

C5. To confirm all sales transactions are properly authorised

C6. To confirm tax liability correctly recorded on sales invoices

C7. To confirm the correct tax point is applied

C8. To confirm tax correctly calculated on invoices and credit notes

C9. To confirm invoices are correctly and accurately posted to ledgers

C10. To confirm the facility to trace source documents through the accounting system

C11. To confirm journal entries are correctly accounted for

C12. To confirm the correct treatment and reporting of export invoices

C13. To assess the credibility of reported cash sales

C14. To confirm the correct treatment and reporting of Reverse Charge/Withholding/Self-assessed Tax Invoices

C15. To confirm the correct treatment and reporting of bad debt relief for VAT

Annex D: Purchases (Input) Tax

D1. To identify all sources of purchases (input) tax

D2. To assess the general credibility of purchases (input) tax

D3. To confirm all purchase transactions are properly authorised

D4. To confirm a supply or service has taken place

D5. To confirm the correct tax liability has been applied at invoice line level

D6. To confirm purchase invoice values are correctly recorded

D7. To confirm invoices are correctly and accurately posted to ledgers

D8. To confirm the correct tax point is applied

D9. To confirm the facility to trace source documents through the system

D10. To confirm journal entries are correctly accounted for

D11. To confirm the correct treatment and reporting of Reverse   Charge/Withholding/ Self-assessed Tax Invoices

D12. To confirm the correct treatment and reporting of bad debt relief for VAT

Annex E: Tax declarations and audit trails

E1. To reproduce and reconcile tax declarations

E2. To confirm the existence of an audit trail

E3. To confirm that the tax declaration contains "right tax at right time"

E4. To confirm the correct reconciliation of tax returns on change of accounting method (cash/ accrual)

E5. To confirm the correct tax treatment of manual adjustments

Annex F: Stock

F1. To confirm stock movements are correctly recorded

F2. To confirm the method and accuracy of stock valuation

Annex G: Depreciation

G1. To confirm depreciation values are correctly recorded

Annex H: Payroll Tests

H1. To confirm that the payroll information supplied is complete

H2. To assess the credibility of the payroll information supplied

H3. To check any adjustments made

H4. To confirm that tax is deducted at the correct time

H5. To confirm tax correctly calculated on payroll transactions

H6. To identify the amount of pay subject to tax

H7. To confirm the facility to trace source documents through the system

ANNEX B: ANALYTICAL REVIEW

B1. To confirm all reporting units are included in tax declarations

Test Ref	Concern	Suggested Test	Notes
B 1.1	Are all entities identified	List entities held in system by Tax Registration Number or by some other means of identification.	
B 1.2	Are all entities mapped to correct reporting group for tax	List entities by country and internal tax groups	
B 1.3	Are all entities reporting in same country as tax returns are filed	List entities by tax authority where filing made.	
B 1.4	Are all GL tax Accounts identified and declared	List GL tax account values by company and period	

B2. To confirm data is in line with expectations for an entity's business

Test Ref	Concern	Suggested Test	Notes
B.2.1	Is data recorded in line with expectations for the type of business	Create profile of data content, e.g. Number of different values, grand totals (numbers), maximum and minimum values, number of zero's, null's, some examples of values.	For descriptions only report of missing values where necessary, e.g. empty account descriptions. Relevant if transaction amounts are in separate debit and credit fields.
	Are there any negative amounts in the general ledger	List all transaction lines where debit amount < 0 or credit amount <0	

B3. To assess the general credibility of data against business activities

Test Ref	Concern	Suggested Test	Notes
B 3.1	Are business activities reflected within GL Codes	Summary report of values by GL code and description	
B 3.2	Are GL codes linked to appropriate tax codes	Report alignment of GL code to tax code	
B 3.3	Are correct rates applied to tax codes	Summary report of net and tax values by tax code	
B 3.4	Are tax codes correctly applied to standing data	Summary report of tax code applied to Products, Customers, Delivery Addresses, Suppliers Detailed report of tax code applied to Products, Customers, Delivery Addresses, Suppliers Report of changes to tax codes applied to Products, Customers, Delivery Addresses, Suppliers	If any change made to codes show the from/to dates
B 3.5	Do transaction types reflect expected activities	Summary report by tax code within transaction type. Summary report of transaction type by default posting account	
B 3.6	Does the GL balance	Report indicating GL balance (expected 0.00)	Ensure that clear down balances within the nominal ledger tax accounts have been performed accurately and have not affected the period declarations.
B 3.7	Do tax return values appear credible and consistent with known or expected trading activities	Create comparative analysis reports.	e.g. comparative ratios.
B 3.8	Do GL descriptions contain words or phrases that relate to activity types that should not be included in tax returns	Report transactions containing these wordings in the description field.	

B 3.9	Are GL large adjustments made correctly	Report journal vouchers and other adjustment transactions where the individual posting value is over a certain level, to confirm their tax treatment is correct.	Optionally restrict to transactions dated Year End ± 1 month.
B 3.10	Are key trading ratios and trends reasonable	Analyse and report ratios such as: Turnover and gross margins (several years) for relevant product groups, establishments, Turnover against capital acquisitions Bad debt ratio	
B.3.11	Have important changes in the activities of the company occurred	Summary report of values by GL code and description for past years.	Analysis by relative percentages can be useful

B4. To confirm the completeness, accuracy, and timeliness of tax declarations

Test Ref	Concern	Suggested Test	Notes
B4.1	Are all appropriate tax accounts identified and included in tax returns. Are GL tax accounts identified as non-deductible excluded from tax returns Are non-domestic GL tax accounts identified and excluded from domestic tax returns where appropriate.	Report tax account balances by tax period and match to tax declarations by period.	
B4.2	Does the system reporting calendar match tax return periods	Report system beginning and end dates	

Guidance on Test Procedures for Tax Audit Assurance
B5. To confirm currency conversions are correctly applied

Test Ref	Concern	Suggested Test	Notes
B 5.1	Are currencies other than the home currency used	Report each currency used	
B 5.2	Are foreign currency values reported or converted to home currency	Appropriate summary report of all currency values	
B 5.3	Are correct currency conversion rates applied	Report past changes in currency conversion rates	
B 5.4	Are tax declarations made in currencies other than home currency	Report currencies used in declarations	
B 5.5	Are mandatory gains or losses through currency conversion reported.	Report all currency conversions identifying gains or losses	At transaction or ledger account (summary) level

ANNEX C: SALES (OUTPUT) TAX

C1. To identify all sources of sales (output) tax

Test Ref	Concern	Suggested Test	Notes
C 1.1	Completeness of data sources	Summary report by data source by period.	

C2. To assess the credibility of sales (output) tax

Test Ref	Concern	Suggested Test	Notes
C2.1	Is data consistent within expected volumes and trends	Summary report of output tax	Identify income reported on non-working days
C2.2	Is all trading activity recorded	Report all sources of income (invoice, cash, credit card etc) Report days with no sales and / or tax Report gaps in the sequence of sales invoice unique numbers for further investigation.	The tests suggested are examples. It is important that results are critically evaluated, and unusual items, irregularities, and trends are investigated further.
C2.3	Are feeder systems properly interfaced	Report control totals for all interfaces (values, record counts, run controls)	
C2.4	Are outputs broadly as expected in terms of liability and arithmetical accuracy	Summary report of net and tax values by tax code	
C2.5	Do negative cash balances occur	Report cash account with balance per day.	If the cash account is summarised (e.g. totals per

			week, month) use the reverse lines of the transactions from the cash journal to generate the report.

C3. To confirm all sales are invoiced

Test Ref	Concern	Suggested Test	Notes
C3.1	To identify cancelled, held or long outstanding orders	Report orders fulfilled but not invoiced Report Order / Work in Progress status	
C3.2	Items supplied and Dispatch Note issued but without related invoice	Report Dispatch note/ Invoice status	
C3.3	Are there any deposits / pre-paid items / cash received that are not invoiced	Report payments received with no related invoice	
C3.4	Are items created in system, but not printed / posted	Report invoices not printed / posted	
C3.5	Do credit notes cross-reference to a previously issued sales invoice	Report selection of credit notes with tax	
C3.6	Are trading sales accounted for daily by retailers	Report Daily Gross Takings by day Report items not recognised by EPOS system	

C4. To monitor all sales transactions that originate from related parties

Test Ref	Concern	Suggested Test	Notes
C 4.1	Have correct sales values been declared	Comparison of unit prices for transactions between related and third parties	According to "arm's length" principle

C5. To confirm all sales transactions are properly authorised

Test Ref	Concern	Suggested Test	Notes
C5.1	Has data been input / amended by an authorised person	Summary report of value & number of items processed by transaction type within operative ID	Look for: valid ID but invalid transaction type; unknown IDs; transactions with no ID; and exceptional or unexpected IDs for a certain transaction type.

C6. To confirm tax liability correctly recorded on sales invoices

Test Ref	Concern	Suggested Test	Notes
C6.1	To confirm general accuracy of tax liability coding	Summary report of sales by required parameter	Examples of parameters: Tax code, tax rate, tax value, invoice date, invoice type, unit price, transaction type, product group, product, GL code, customer, delivery address, etc.
C6.2	Goods diverted to non-standard addresses	To confirm goods delivered address matches goods invoiced address	Report exceptions
C6.3	To identify potential variations in applied liability	Summary level consistency reports e.g. report of products sales by tax code where more than one code	

C6.4	To confirm tax correctly applied to transactions at a material level for business under review	Report selected net value transactions with required tax codes	
C6.5	To confirm correct treatment of tax on credit notes	Report high value credit notes with tax	
C6.6	To confirm liability of non-standard transactions	Report retrospective bonuses / discounts etc.	
C6.7	To identify non-standard tax transactions	Report all tax-only transactions	

C7. To confirm the correct tax point is applied

Test Ref	Concern	Suggested Test	Notes
C7.1	Are accounting periods closed at correct date to align with tax accounting period	Report period cut off / end dates	
C7.2	Which of the several dates in a system drives postings and declarations	Report transactions where appropriate tax point date earlier than declaration period start date	
C7.3	Is the correct tax point date applied to transactions	Report transactions where elapsed time between date of supply / delivery date, invoice date/ tax point date exceeds x days	
C7.4	Are transactions declared in the correct period	Report forward or back posting of transactions to non-current period	
C7.5	A GST/VAT tax liability may be generated by monies received in advance of any supply of goods or services.	Report on monies received through an aged unallocated cash report	
C7.6	Is any cash accounting declared in the correct period	Report matched and unmatched cash receipts to declared sales	
C7.7	Are sales posted to the correct accounting year	Report year-end adjustments / new year accruals	

C8. To confirm tax correctly calculated on invoices and credit notes

Test Ref	Concern	Suggested Test	Notes
C8.1	Are tax values created from net values or derived from gross values	Report method employed / Produce sample transactions and summaries	
C8.2	To confirm accuracy within source documents and between source documents and reports	Report discrepancies within or between files	Do invoice lines totals agree with invoice totals and do invoice totals agree with summary totals (daybooks etc)
C8.3	Do large values become truncated or lose leading digits during processing / on reports	Report field sizes used for net and tax values	
C8.4	Are settlement discounts applied correctly	Report Net and tax values where settlement discount offered but tax not on discounted value	
C8.5	Are all transactions at a valid rate of tax	Report transactions where tax is not equal to published rates(allowing for settlement discount if applied)	Potential transposition, data entry errors.
C8.6	Have values been manipulated	Apply Chi-square calculation or Benford's Law calculation to invoice values	

C9. To confirm invoices are correctly and accurately posted to ledgers

Test Ref	Concern	Suggested Test	Notes
C9.1	To confirm completeness of posting	Report transaction sequences / report gaps in sequences	
C9.2	To confirm transactions posted in correct period	Report invoices on "hold" or otherwise not posted to GL accounts	
C9.3	To confirm all ledgers updated	Report of reconciliation between Sales and General Ledgers	
C9.4	To identify invoices created but not posted	Report un-posted items	
C9.5	To identify changes	Report deleted/amended transactions	

C9.6	To reconcile monies received against invoices	Report Bank, Cash and Credit Card receipts by period / account etc	
C9.7	To ensure posting at customer level	Report customers with credit balances	
C9.8	To ensure received self-billed invoices accounted for.	Report all self-billed invoices are brought to account	

C10. To confirm the facility to trace source documents through the accounting system

Test Ref	Concern	Suggested Test	Notes
C10.1	Ability to follow two way audit trail – declaration to source document and vice versa	Create audit trail reports with appropriate summary totals	
C10.2	Access to source document	Report transaction key fields enabling location of physical document or / drill down to electronic facsimile	

C11. To confirm journal entries are correctly accounted for

Test Ref	Concern	Suggested Test	Notes
C11.1	Are taxable journals correctly entered	Report taxable journals and GL codes	
C11.2	Are all taxable journals postings made directly by the operator to the nominal tax accounts valid	Reconciliation between journal postings and source documents demonstrating why the journal exists and how its value was established	
C11.3	Are non-taxable journals correctly entered	Report non-taxable journals	
C11.4	Have journals been posted to the tax account	Report tax GL journals to accounts not used in tax return production	
C11.5	If large numbers of journals – confirm accuracy of liability by selection of keywords	Report tax adjustments using text searches	

C12. To confirm the correct treatment and reporting of export invoices

Test Ref	Concern	Suggested Test	Notes
C12.1	Does turnover match with zero rate values in tax declarations	Summary of zero rate turnover per tax period	

C13. To assess the credibility of reported cash sales

Test Ref	Concern	Suggested Test	Notes
C13.1	Are daily cash sales figures manipulated to show false values	Apply Chi-square calculation or Benford's Law calculation to digits of the daily cash earnings	

C14. To confirm the correct treatment and reporting of Reverse Charge/Withholding/Self-assessed Tax Invoices

Test Ref	Concern	Suggested Test	Notes
C14.1	Are supplies subject to reverse charge/withholding tax/self assessed correctly identified	Report invoices relating to supplies of goods and services subject to reverse charge/withholding tax/self assessment and confirm treatment method	

C15. To confirm the correct treatment and reporting of Bad Debt Relief for VAT

Test Ref	Concern	Suggested Test	Notes
C15.1	Has any adjustment of tax relating to Bad Debt Relief been correctly applied.	Report all Bad Debt Relief adjustments with reference to the original invoice on which tax was declared and to any associated payment.	

ANNEX D: PURCHASES (INPUT) TAX

D1. To identify all sources of purchases (input) tax

Test Ref	Concern	Suggested Test	Notes
D1.1	Completeness of data sources	Summary report by data source by period	

D2. To assess the general credibility of purchases (input) tax

Test Ref	Concern	Suggested Tests	Notes
D2.1	Is data consistent within expected volumes and trends	Summary report of input (purchases) tax by day / period	
D2.2	Is all trading activity recorded	Report days with no purchases and / or tax entries	
D2.3	Are all feeder systems correctly interfaced	Report control totals for all interfaces (values, record counts, run controls)	
D2.4	Are inputs broadly as expected in terms of liability and arithmetical accuracy	Summary report of net and tax values by tax code	
D2.5	Are there any risks regarding the largest tax claims	Report all purchase invoices with tax over a certain value, for further investigation.	

D3. To confirm all purchase transactions are properly authorised

Test Ref	Concern	Suggested Test	Notes
D 3.1	Has data been input / amended by an authorised person	Summary report of value & number of items processed by transaction type within operative ID	Look for: valid ID but invalid transaction

			type; unknown IDs; transactions with no ID; and exceptional or unexpected IDs for a certain transaction type.

D4. To monitor all purchase transactions that originate from related parties

Test Ref	Concern	Suggested Test	Notes
D 4.1	Have correct purchase values been declared	Comparison of unit prices for transactions between related and third parties	According to "arm's length" principle

D5. To confirm a supply or service has taken place

Test Ref	Concern	Suggested Test	Notes
D5.1	To identify frequency of cancelled, held or long outstanding orders	Report Order status	
D5.2	Are goods received without an invoice	Report unmatched Goods Received Notes	
D5.3	To confirm receipt of supply and that quantity and price are correctly posted.	Report 3-way match between order, despatch note and invoice	
D5.4	Are supplies completely and accurately recorded	Summary report of payments by supplier and payment type	
D5.5	To identify potential suppression of supplies	Report gaps in posted cheque sequences Report method of payment not cheque or bank transfers etc	
D5.6	To identify transactions that may not be inputs to the business or if no supply is made	Report tax accruals of transactions not posted / paid – allowing date tolerance	

D5.7	To reconcile payments to invoices	Report Bank, Cash and Credit Card payments by period / account etc Report payments made with no related invoice	
D5.8	To identify potentially fictitious postings	Report Net, tax and Gross values, e.g. ending in 00.00 / 000.00 using Benford's Law	
D5.9	To confirm validity of tax claimed on items unpaid for long periods	Aged creditors report Report items remaining unpaid after x days	

D6. To confirm the correct tax liability has been applied at invoice line level

Test Ref	Concern	Suggested Test	Notes
D6.1	To confirm appropriate coding and to identify potential variations in liability – e.g. one product / service more than one tax Code used	Summary report of purchases by required parameters.	Examples of parameters: Tax code, tax rate, tax value, invoice date, invoice type, unit price, transaction type, product group, product, GL code, supplier, delivery address, etc.
D6.2	To identify non-deductible tax properly blocked	Report input (purchases) tax disallowed for confirming.	

D7. To confirm purchase invoice values are correctly recorded

Test Ref	Concern	Suggested Test	Notes
D7.1	Are all transactions at a valid rate of tax	Report transactions where tax is not equal to published rates or tax identifier indicates a manual override (allowing for settlement discount if applied)	
D7.2	Incorrect coding of tax amounts	Test to identify one tax being claimed as another	

D7.3	Have net and tax values been transposed	Report all purchase invoices or purchase invoice detail lines for further investigation where: • The input (purchases) tax recorded differs from that recalculated at the appropriate rate; AND • The difference is greater than a tolerance set to allow for settlement discounts, rounding, etc.	
D7.4	Are tax-only items valid	Report tax- only transactions	
D7.5	Has tax on gross value expense items / simplified tax invoices been calculated correctly	Report all purchase invoices or purchase invoice detail lines for further investigation where: • The input tax recorded differs from that recalculated at the appropriate rate; AND • The difference is greater than a tolerance set to allow for settlement discounts, rounding, etc.	If significant / frequent errors found then report lower value purchase transactions with tax
D7.6	Confirm there is separate account / accounting for non-deductible tax	Report non-deductible tax items	
D7.7	Is tax adjusted correctly on credit notes	Report purchase credits notes with either no tax or an amount of tax that increases the input tax (credit note with incorrect sign) summarised by account	
D7.8	Are imports correctly treated	Report imports	
D7.9	Are settlement discounts recorded correctly	Report Net and tax values where settlement discount received	

D8. To confirm invoices are correctly and accurately posted to ledgers

Test Ref	Concern	Suggested Test	Notes
D8.1	Are input tax claims duplicated	Report all purchase invoices that appear to have been processed (and hence tax possibly claimed) twice, for further investigation. The criteria for inclusion of a transaction on the report shall be specified by the user who, selecting from the following data items can cause to be reported, any two or more records with matching duplicate field(s): a) tax amount b) invoice date c) total value d) supplier account reference e) supplier invoice reference.	The logic should allow for confirming the same amount but in different periods. If an ineligible claim is made in one period it may well have been repeated in earlier or later periods, particularly where it relates to an expense rather than a purchase.
D8.2	Are tax accruals treated correctly	Report tax accrual and reversals	
D8.3	Are tax accruals valid	Report accruals by age of transaction	The report must identify the relevant transactions to enable their existence/occurrence to be proved.
D8.4	If using cash accounting method has tax been claimed before payment made	Report invoice, payment and posting dates for cash accounting	
D8.5	Are postings accurate	Generate statistically valid random/stratified sample of invoices	See D10.3

D9. To confirm the correct tax point is applied

Test Ref	Concern	Suggested Test	Notes
D9.1	Is purchases (input) tax posted early	Report posting date earlier than transaction date	
D9.2	Is purchases (input) tax claimed early	Report invoice date later than tax period end	
D9.3	Are purchases posted to correct accounting year	Report year-end adjustments / new year accruals	
D9.4	Are invoices entered on a date in advance of tax period thus claiming tax early	Identify invoices paid near end of tax year	May relate to following year.

D10. To confirm the facility to trace source documents through the system

Test Ref	Concern	Suggested Test	Notes
D10.1	Ability to follow two way audit trail – declaration to source document and vice versa	Create audit trail reports with appropriate summary totals	
D10.2	Can source documents be accessed	Report transaction key fields enabling location of physical document or / drill down to electronic facsimile	
D10.3	Is there a source document to substantiate tax declared or claimed	Create random sample to trace	See also D8.6.

D11. To confirm Journal entries are correctly accounted for

Test Ref	Concern	Suggested Test	Notes
D11.1	Are taxable journals correctly entered	Report taxable journals and GL codes	
D11.2	Are non-taxable journals correctly entered	Report non-taxable journals	

D11.3	Have journals been posted to the tax account	Report tax GL journals to accounts not used in tax return production	If large numbers of journals – confirm accuracy of liability by selection of keywords

D12. To confirm the correct treatment and reporting of Reverse Charge/Withholding/Self-assessed Tax Invoices

Test Ref	Concern	Suggested Test	Notes
D12.1	Are supplies subject to reverse charge/withholding tax/self assessed correctly identified	Report invoices relating to supplies of goods and services subject to reverse charge/ withholding tax/ self assessment and confirm treatment method	

D13. To confirm the correct treatment and reporting of bad debt relief for VAT

Test Ref	Concern	Suggested Test	Notes
D13.1	Has any adjustment of tax relating to Bad Debt Relief been correctly applied.	Report all Bad Debt Relief adjustments with reference to the original invoice on which tax was declared and to any associated payment.	

ANNEX E: TAX DECLARATIONS AND AUDIT TRAILS

E1. To reproduce and reconcile tax declarations

Test Ref	Concern	Suggested Test	Notes
E1.1	Can tax returns for each period be re-run	Re-run tax return, reporting transactions included	
E1.2	Can discrepancies between declarations and re-run tax returns be reconciled	Report transactions included / not included on returns e.g. flagged / date stamped / changed since original return date	
E1.3	Differences between declared fiscal and commercial balances, and profits/losses.	Details of all differences	

E2. To confirm the existence of an audit trail

Test Ref	Concern	Suggested Test	Notes
E2.1	Are values from each source system included in tax return	Create audit trail report at summary and detail level enabling confirmation of controls totals from source systems to declaration and vice versa	Identify all nominal ledger tax accounts. Reconcile the working papers with the nominal ledger tax accounts. NB suggest this is done using fresh reports from the nominal ledger to combat any instances of back posting.

E3. To confirm that a tax declaration contains "right tax at right time"

Test Ref	Concern	Suggested Test	Notes
E3.1	Are all reporting units included in declarations.	Report declared net and tax values by reporting unit by period	

E3.2	Are all source systems included in declarations	Report declared net and tax values by source system by period and reconcile to tax Account / working papers	
E3.3	Is the correct period reported	Report declared net and tax values by reporting unit by period	
E3.4	Do reports accurately reflect the content of the GL	Create a report of all sources and comparison with GL tax accounts by period	

E4. To confirm the correct tax treatment of manual adjustments

Test Ref	Concern	Suggested Test	Notes
E5.1	Are all manual adjustments to the tax return valid	Identify supporting documentation for all manual adjustments. Trace adjustments postings in records and ensure their tax effect is not duplicated in later tax returns.	
E5.2	Are all changes to transactions made within valid parameters	Analyse system audit trail logs. Report any transactions where unusual changes have been made.	

ANNEX F: STOCK

F1. To confirm stock movements are correctly recorded

Test Ref	Concern	Suggested Test	Notes
F 1.1	Are all incoming goods transactions for wholesalers and retailers reflected in all outgoing goods transactions, allowing for losses and adjustments. How are adjustments, write-offs etc. recorded?	Report Material in the store Goods in the store Material and goods damages Incoming goods by material/goods type Outgoing goods by material/goods type Final status in warehouse according to material/goods type	
F1.2	What is the frequency and method of physical stocktaking and how are results recorded in the business records?	Report all stock adjustments arising from physical stocktaking. Report large (by number or value) adjustments.	
F1.3	Closing and opening stock balances not in agreement	Compare opening stock (product and owner) balances to previous closing balances	
F1.4	On-hand stock balances are not as stated	Identify stock balances by comparison of receipts by product and batch code, and compare to dispatches by product and batch code.	
F1.5	Stock balance may not equal the actual stock	Take a random sample of stock to hand and compare to physical stock in warehouse.	
F1.6	Incorrect product Commodity Code Classification	Take sample commodity code description to verify or otherwise on both a quantity and value basis.	
F1.7	Stock may be held outside time limits (Customs)	Identify consignment receipt dates. Compare to authorisation.	
F1.8	Unauthorised tariffs entered into Customs regimes (Customs)	Compare product Commodity Codes to authorisation	

F1.9	Not all duty suspended consignments may be under control in an Inventory management system (Customs)	Comparison of consignment receipts to declarations.	

F2. To confirm the method and accuracy of stock valuation

Test Ref	Concern	Suggested Test	Notes
F 2.1	Is the method employed by the business to value stock acceptable	Ascertain the method of valuation. Report any revaluation adjustments to stock records. Test check valuation by comparison of stock consignment with invoice value. Identify if any periodic stock value adjustments are made. Compare fiscal and commercial valuations	Check for any change in stock valuation method during financial year.
F2.2	Security or Bond requirements may not be adequate (Customs)	Calculate inventory duty exposure by applying a duty rate (commodity code) to stock value for specific purposes.	

ANNEX G: DEPRECIATION

G1. To confirm depreciation values are correctly recorded

Test Ref	Concern	Suggested Test	Notes
G 1.1	Are depreciation values correctly recorded	Report Fiscal Commercial depreciations, and comparisons Immovable property by depreciation groups Movable property by depreciation groups Reconstructed property Fixed asset additions Property disposals	
G 1.2	Incorrect depreciation rate and method applied to items	Report rates and methods used for each asset.	Check for any change in asset valuation method during financial year.
G1.3	Assets at component level are treated differently	List of assets and depreciation applied, by component	
G1.4	Assets are taken out of accounting system	List of withdrawals by category and reason	

ANNEX H: PAYROLL TAXES

Unless otherwise noted, this section should also be considered to apply to Social Security Contributions.

H1. To confirm that the payroll information supplied is complete

Test Ref	Concern	Suggested Test	Notes
H1.1	Completeness of data sources	Summary report by data source by period.	
H1.2	Are feeder systems properly interfaced	Report control totals for all interfaces (values, record counts, run controls)	

H2. To assess the credibility of the payroll information supplied

Test Ref	Concern	Suggested Test	Notes
H2.1	Is data consistent within expected volumes and trends	Summary report of employment income Summary report of taxes / social security deductions	
H2.2	Are all payroll transactions recorded	Report tax periods in which no payroll transactions take place and / or periods in which no tax deductions are made.	Investigate unusual items, trends etc.
H2.3	Are transactions broadly as expected in terms of liability and arithmetical accuracy	Summary report of gross income and tax values	
H2.4	Do transactions include negative amounts	Report negative amounts	Depending on how tax refunds are dealt with, it may be

			necessary to restrict the report.
H2.5	To confirm completeness of postings	Report gaps in sequence of tax periods	

H3. To check any adjustments made

Test Ref	Concern	Suggested Test	Notes
H3.1	Does the data include deleted / amended / duplicated transactions	Report potential duplicate transactions	
H3.2	Does the data include adjustments	Report adjustments (for example, where a transaction includes a tax amount but no employment income)	

H4. To confirm that tax is deducted at the correct time

Test Ref	Concern	Suggested Test	Notes
H4.1	Are tax periods closed at correct time	Report tax period start and end dates	
H4.2	Are tax deductions calculated at the correct time	Report transactions where payment is made significantly earlier or later than the date on which payment is due	
H4.3	Is tax paid over to the tax authority at the correct time	Check amounts deducted against record of amounts received by tax authority	

H5. To confirm tax correctly calculated on payroll transactions

Test Ref	Concern	Suggested Test	Notes
H5.1	To confirm that tax has been applied against all taxable items	For each tax period, compare total taxable payments with the amount on which tax has been deducted	
H5.2	Do large values become truncated or lose leading digits during processing / on reports	Report field sizes used for income and tax values	

| H5.3 | Are all transactions at a valid rate of tax | Report transactions where tax is not equal to published rates | Potential transposition, data entry errors. |
| H5.4 | Have values been manipulated | Apply Chi-square calculation, Benford's Law calculation or trend analysis to income values | |

H6. To identify the amount of pay subject to tax

Test Ref	Concern	Suggested Test	Notes
H6.1	Have payroll elements been treated correctly for tax purposes	Identify payroll elements and their treatment for tax purposes	
H6.2	Are specific classes of employee treated differently for the purposes of operating the payroll	Report employee by class	Specific classes will vary from tax authority to tax authority. May include • Company director • Length of employment • Pensioner

H7. To confirm the facility to trace source documents through the system

Test Ref	Concern	Suggested Test	Notes
H7.1	Ability to follow two way audit trail – declaration to source document and vice versa	Create audit trail reports with appropriate summary totals	
H7.2	Access to source document	Report transaction key fields enabling location of physical document or / drill down to electronic facsimile	