

Implication of Auditing Standards on Indirect Taxes

Auditing Standard	Auditing Standard	Indirect Tax Audit Implications
SA-500	Audit Evidence	<p>It is auditor's responsibility to obtain sufficient appropriate audit evidence to draw reasonable conclusions. Other important points are below:</p> <ul style="list-style-type: none"> • A check on accounting entries and supporting records such as invoices, Major service contracts/Agreement and other adjustment to the financial statement. • Audit evidence in case of Indirect tax audit can be obtained through inspection, observation, confirmation, recalculation, re-performance and by performing analytical procedures • Audit evidence in documentary form is more reliable than obtained orally (Major Agreements entered by entity) • Audit evidence provided by original documents is more reliable than audit evidence provided by photocopies for the purpose of taking Cenvat or input tax credit as the case may be. • The work of a management expertise can be relied based on the Capabilities, objectivity, work performed & based on knowledge in the area of Indirect taxes. • The sufficiency and appropriateness of audit evidence is based on the measure of quantity and quality of audit evidence obtained during audit.
	Example	<ol style="list-style-type: none"> 1. Inspection involves examining records or documents as per part of audit evidence with respect to eligibility of taking credit. 2. Observation could understand a process undertaken by the manufacturer to understand the levy of Excise Duty. 3. Confirmation of the terms of agreements or transactions an entity has with third parties
Links	Auditing Standard	SA 570 "Going Concern" SA 520 "Analytical Procedures" SA 200 "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing" SA 505- "External Confirmations" SA 580 "Written Representations".
	Accounting Standard	AS-7 Construction Contracts in case of audit of construction company. AS -22 Taxes on Income AS-2 Valuation of Inventories AS-6 Depreciation Accounting

Auditing Standard	Auditing Standard	Indirect Tax Audit Implications
SA 501	Audit Evidence-Specific Consideration for selected item	<p>The objective is to obtain sufficient appropriate audit evidence regarding the Existence and condition of inventory and Completeness of litigation and their claims. Other important points are below:</p> <ul style="list-style-type: none"> • The auditor shall observe the performance of management’s count procedure and also conducting physical verification of inventory. • The auditor shall check if the inventories are under the custody and control of a third party • The auditor shall review legal expense accounts and also the correspondence between the entity and external legal counsel. • The auditor shall seek direct communication through a letter with the entity direct legal counsel. • The auditor shall request the management to provide written representation letter that all known possible Indirect tax litigation and claims are considered while preparing the financial statements.
	Example	<ul style="list-style-type: none"> • Control over the movement of inventory before, during and after the count. • Ascertaining whether separate litigation file has been maintained by the entity.
Links	Auditing Standard	<ul style="list-style-type: none"> • SA 200 Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing” • SA 540 “Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures”. • SA 330 “The Auditor’s Responses to Assessed Risks”
	Accounting Standard	<ul style="list-style-type: none"> • AS-2 Valuation of Inventories to check whether proper valuation of inventory is been performed by entity. • AS-5 Net profit or loss for the period, prior period items and changes in Accounting Policies in case of litigation settlements separate disclosure to be given .