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Article on Tax Audit for Individual Tax payers – for Beginners

September month is a Tax audit month. Tax audit is popularly known 44AB audit. This article is intended to give insight on 44AB & help individual Tax payers (other than professionals) who are under 44AB audit with list of documents needed for tax audit & caveats on 44AB. This audit has to be completed on or before due date i.e. 30th Sept.

Introduction & background of 44AB

The tax audit was introduced by insertion of a new section 44AB to the Income Tax Act, 1961 w.e.f 1st April, 1985.

This section creates an obligation on a person carrying on business to get his accounts audited by a chartered accountant and to furnish by the specified date, the report in prescribed form of such audit,

if the total sales, turnover or gross receipts in business in the relevant previous year exceed or exceeds Rs. 40 lakhs (increased to Rs. 60 lakhs from financial year 2010-11)

44AB comprises of 2 forms – Form 3CA/CB and Form 3CD. Every 44AB assesssee need to file either Form 3CA or 3CB. But Form 3CD is must.

The purpose of tax audit

(As per CBDT Circular No. 387 dated July 6, 1984 as under)

"Compulsory audit of accounts of certain persons carrying on business or profession

17.1 Accounts maintained by companies are required to be audited under the Companies Act, 1956. Accounts maintained by co-operative societies are also required to be audited under the Co-operative Societies Act, 1912. There is, however, no obligation on other categories of taxpayers to get their accounts audited.

17.2 A proper audit for tax purposes would ensure that the books of account and other records are properly maintained, that they faithfully reflect the income of the taxpayer and claims for deduction are correctly made by him. Such audit would also help in checking fraudulent practices. It can also facilitate the administration of tax laws by a proper presentation of the accounts before the tax authorities and considerably saving the time of Assessing Officers in carrying out routine verifications, like checking correctness of totals and verifying whether purchases and sales are properly vouched or not. The time of the Assessing Officers thus saved could be utilized for attending to more important investigational aspects of a case."

Penal Provisions related to 44AB

Section 271A - Penalty for non maintenance of books of accounts is Rs.25, 000. Every Individual who are having turnover more than 1,20,000 in a year shall need to maintain books of accounts. Naturally all individuals who has 40 laks as turnover need to maintain books of accounts

Section 271 B - Penalty for not having tax audit is---0.5% of the turnover or Rs. 100,000,
Whichever is less.

Books of Accounts - need to maintain for audit

1. Cash Book 2. Bank Book 3. Journal 4.All Ledgers 5. Purchase Register 6. Sales Register 7. Stock Registers

Need to maintain supporting documents & vouchers for above accounts

List of documents/papers required for Tax audit purpose

1. All above books of accounts with supporting 2. Bank Passbook 3. Balance Sheet 4. Profit & loss account.

   PY Balance Sheet, PY Profit & Loss account & PY Tax Audit Report Forms needed for comparison study & reporting purpose

Standard Procedures or steps for Tax audit

1. Send an appointment letter to Chartered Accountant in your official letter appointing him as auditor. Your appointment should have Ca Firm registration as per recent change. Please note that only CA has legal right to do Tax audit and he can sign only 45 tax audit in a year. Please confirm with him on this.
2. Ask for Engagement Letter from Chartered Accountant for accepting your appointment. Please make sure that you maintain a copy of this letter as permanent record at least for 6 years. Get this engagement letter on his CA letter head with duly signed by him & date. Before sending engagement letter to you for your sign, CA needs to get "No **objection letter"** to previous tax auditor. This is mandatory as per ICAI guidelines & Professional code of ethics.
3. During audit, CA may ask you to provide management representations – For closing stock valuation etc. Please provide the same to auditor
4. Finally CA will give audit report in above mentioned forms – Form 3CA/Form 3CB and Form 3CD. Audit report should contain date, seal & sign of CA

5. Mention CA name, PAN, Firm registration #, ICAI membership # with audit signed date while filing ITR 4. This needs to be done on or before 30th Sept to file Regular Return.

Caveats on 44AB Audit Report

In "**Goodyear India Ltd. v. CIT [2000] 112 Taxman 419**" case law, Delhi High Court had observed that Tax audit does not provide any immunity from scrutiny or investigation by income tax department. So Tax audit **Report is not an end**. Following things need to be taken care to avoid notice or ready for scrutiny or investigation. Its responsibility of tax payer to **maintain Books of accounts & related records along with audit report**. CA is **only responsible for giving opinion on books** of accounts through 44AB audit forms

1. Give an appointment letter to Chartered Accountant in your letter & get signed from him for his acceptance
2. Ask for Engagement Letter from CA as acceptance of engagement.
3. Please have a copy of all management representations & communications with auditor should be documented & preserved for 6 years minimum.
4. Get seal & signature of Chartered Accountant on your 44AB report forms. Make sure that you get books of accounts audited before 30th Sept & Date should be mentioned in Form 3CA/3CB and Form 3CD
5. A tax audit report is not valid unless it contains CA membership # of CA who signs it. Only Chartered Accountant with full time practice (who is not working for any company as employee) & having COP certificate on the date of signing report can only sign these report. You can check details about your CA in www.icai.org in Search by membership #option if you have DOB of CA. Please note that we have come across few cases of forgery of CA sign by others. **EVEN ICAI HAD CONFIRMED ON THIS ISSUE IN JUNE EDITION of CA MAGAZINE**. It's always better to check validity of CA who is signing your tax audit forms.
6. From 2010, Tax audit forms should also contain Firm registration # if ICAI has allotted that to CA who is signing your form.