Tax Audit under section 44AB of the Income Tax Act, 1961

A brief about tax audit

Tax Audit is an audit of financial statements to ensure the accuracy of the financial records & check if there was any fraud or tax evasion. Tax audit is done in compliance to section 44AB of the Income Tax Act, 1961. Report to the tax audit is required to be signed & filed electronically by a Chartered Accountant in practise. While giving the tax audit report the tax auditor will have to use his professional skill and expertise and apply such audit tests as the circumstances of the case may require, considering the contents of the audit report. The tax Auditor will have to conduct the audit by applying the generally accepted auditing procedures which are applicable for any other audits.

Applicability of tax audit

As per Section-44AB of Income Tax Act, following people are required to get their accounts audited

- Any person involved in Business, whose annual gross turnover/receipts exceeds Rs.1 crore should get his accounts audited.
- Any person involved in Profession, whose annual gross turnover/receipts exceeds Rs.50 lakhs should get his accounts audited.

This is the general rule as per Section 44AB of the Income Tax Act, 1961. However, there are certain exceptions to this rule, as under:

- If a person opts for presumptive taxation scheme under section 44AD & his annual gross turnover/receipts does not exceeds Rs.2 crore need not get his accounts audited. However, if the person opting for section 44AD & choose to show income less than that required as per section 44AD then the accounts need to be audited.

- As per recent budget, any person having gross turnover/receipts up to Rs.10 crores is not required to get his accounts audited if more than 95% of his business transactions i.e., receipts and payments are done through a mode other than cash. This relaxation is a big boon for new and small undertaking and also in line with government's Digital India initiative.

Applicable forms for tax audit report

- Form-3CA: This form is used for entities that are required to get their accounts audited as per provisions of any other law e.g., Companies to get their accounts audited as per Company Act, 2013. Form-3CA contains auditor's qualifications/observations with some basic details of the assessee. Also, UDIN for the tax audit should be mentioned in Form-3CA/3CB.
- Form-3CB: This form is required to be furnished for assessee's who are required to get their accounts audited as per only Income Tax Act and not any other act. This form contains details similar as contained in Form-3CA. Also UDIN for the tax audit should be mentioned in Form-3CA/3CB.
- Form-3CD: This form is required to be submitted with both Form-3CA or Form-3CB (as applicable). This form contains many points where auditor needs to provide his remarks on the basis of records available to him. Basically, the points that auditor needs to report in Form-3CD becomes the scope of audit and defines the tax audit checklist. The same is described in detail in the SOPs further.

- **How to approach tax audit**

  Here we can see what all points auditor will need to check to prepare his tax audit report. We can see that to analyse all these aspects what are procedures that will be followed:

  - **Obtaining all records -** First and foremost all the documents and financial statements should be obtained. The opening balances should be verified with the previous years audited statements. Check previous remarks and points as reported in previous year's Form-3CD.
  - **Checking compliance of tax laws-** All the details for payments of direct and indirect tax liabilities i.e., TDS, GST etc. should be verified. It should be ensured that all applicable provisions of Tax laws have been complied with.
  - **Vouching -** Vouching means checking all the vouchers of the entity with books of accounts. This helps us to understand that if all the expenses are properly categorised and also tells what are the normal credit terms etc. entered into by the party. Vouching is done for purchase, bank, cash book etc.
  - **Cross verification of details-** These days due to varied compliance requirements under various laws, details can be cross-verified. E.g., Purchase and Sales can be cross-verified from GSTR-2A/GSTR-3B. Similarly, a part of income can be verified from entries appearing in Form 26AS/AIS/TIS available in the income tax login.
  - **Details of deductions and allowances claimed-** Details of deductions and allowances claimed by the assessee should be verified and eligibility should be checked.
  - **Checking other important transactions-**
    - ✓ Other transactions like sale/purchase of capital asset, receipt of loans and advances should be thoroughly checked.
    - ✓ The ageing of debtors, creditors should be checked.
    - ✓ It should be ensured that all accounting policies are being followed consistently, change and effect of such change should be reported in the audit report.
  - **Thorough ledger scrutiny-** Besides following all these steps, thorough ledger scrutiny should be done to ensure that there is nothing unusual or exceptional in the ledger. In relation to audit of financial statements, auditor should ensure compliance of Accounting Standards issued by the ICAI, Standards on Auditing & Framework for presentation of financial statements issued by the ICAI.
  - **Preparing audit report and providing remarks-** Once all the details are verified, the auditor needs to prepare the remarks against the points in checklist and provide his observations/qualifications.

- **Commonly found errors in Form-3CA/3CB**

  In certain tax audit reports that were examined, it has been observed that the qualification paragraph i.e., clause (3) of Form No.3CA or Clause (5) of Form No.3CB, as the case may be, contained a reference to Notes to Form-3CD. These notes did not mainly contain the qualifications but also contain general additional information.

  As per the Guidance Note, only qualifications/ observations should be reported in the space provided in the Form-3CA/3CB itself while the additional information which are not in the nature of qualification could be attached as notes.

- **Detailed checklist report of tax audit & replies to the observations**

1	Name of the Assessee - Name of Assessee (Should match the same with PAN Database to avoid JSON validation error)
2	Address: …………
3	Permanent Account No.: ABCDE1234F
4	Whether the assessee is liable to pay indirect tax like excise duty, service tax, sales tax, goods and service tax, customs duty, etc. if yes, please furnish the registration number or any other identification number allotted for the same- Obtain the list and verify the various indirect taxes payable by the assessee, (GST, VAT, and Customs etc.) and verify their registration number from the registration certificates. Consider if any other indirect taxes that may be applicable and whether they need to be reported under this clause.
5	Status: Individual/HUF/Firm/AOP/BOI/Company etc as applicable.
6	Previous Year Ended: from 01-Apr-20XX to 31-MAR-20XX
7	Assessment Year: **20XX-XX**
8	Indicate the relevant clause of section 44AB under which the audit has been conducted- Relevant clause of Section 44AB under which audit is conducted should be reported. If there are more than one clause applicable, then mention both the clauses. a) Whether the assessee has opted for taxation under section 115BA/115BAA/115BAB/115BAC/115BAD? If yes, Assessee have to provide details about date of opting taxation under above mentioned sections.
9	a) If firm (Includes LLP) or association of persons, indicate names of partners/members and their profit-sharing ratios- • Verify Deed of Partnership for the names of the partners and their profit-sharing ratios. • Disclose change/s in the ratio. Ratio for sharing losses, if different from the profit-sharing ratio, should be disclosed.
9	b) If there is any change in the partners or members or in their profit-sharing ratio since the last date of the preceding year, the particulars of such change- • Cross verifies the names of the partners and their profit-sharing ratios with that in the accounts of the current year and that of the previous year to ascertain any change. • Here reporting should be done of date of change, type of change & old and new profit-sharing ratio.
10	a) Nature of business or profession If more than one business or profession is carried on during the previous year, nature of every business or profession.
10	b) If there is any change in the nature of business or profession, the particulars of such change- Obtain list of activities /principal lines of business from client and changes from previous year (if any) (i.e. both new and discontinued businesses)

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	• Identify and disclose new activities in pre-operative stage, even if no revenues are generated from the same. For this purpose, scrutinize accounts such as capital WIP, pre-operative expenditure, interest costs, etc. • Check if the client carries out more than one business or profession during the previous year, even if discontinued with in the year. • Here business & change in nature of business, if any are to be reported with sector, sub-sector & code.
11	Clause 11(a), 11(b) & 11(c): Here reporting relating to maintenance of books of accounts u/s. 44AA should be done. • For persons carrying on legal, medical, engineering or architectural professions or the profession of accountancy or technical consultancy or interior decoration or authorized representative or film artist, books are prescribed u/s 44AA. • Obtain list of books of account maintained by the assessee. If books of account maintained on computer, then obtain certificate from software developer/vendor for books of account generated by the computer. • Compare list of books maintained with previous year's schedule. Here disclose only those books that are verified with address of the place where books are kept.
12	Whether the profit and loss account include any profits and gains assessable on presumptive basis, if yes, indicate the amount and the relevant section (44AD, 44ADA, 44AE, 44AF, 44B, 44BB, 44BBA, 44BBB, Chapter XII-G, First Schedule or any other relevant section)- Scrutinize the income accounts for the nature of income to ascertain whether the same would fall in any of the above categories and the conditions/requirements prescribed under the Income Tax Act, 1961 are satisfied /complied.
13	Method of accounting employed, any change in the method employed & if yes then effect of the same. Any adjustment required with provisions of ICDS under section 145(2)- • Prior period items, extraordinary items & any changes in accounting policy should be reported here. Also, disclosure as per ICDS should be given here for the applicable ICDSs. • Verify Notes to Account for disclosure of significant accounting policies. • Compare with previous year's tax audit report for basis adopted. • Scrutinize Notes to Accounts, Auditors' report and CARO for change in method of accounting and the quantification thereof. • Disclose details of deviation in the method of accounting employed (based generally on ICAI Standards) in the PY from the standards prescribed under Section 145.
14	Method of valuation of closing stock employed & if there is deviation from method employed as prescribed under section 145A, then financial effect of the same on Profit & Loss Account should be reported. • Check that the following is included in the valuation of stocks: tax, duty, cess or fee (by whatever name called). • If the items mentioned are not included, then quantify the effect thereof on opening and closing stock valuation. • The effect on the profit and loss account of deviation from method of valuation prescribed under Section 145A should be given individually on the opening and closing stocks. Both the effects should be disclosed separately and not netted off. In case of netting off, there should be proper disclosure.

15	Capital assets converted into stock in trade • Verify whether the assessee has converted any capital asset into stock in trade by scrutinizing the Assets accounts. • Obtain the list of assets converted into stock in trade. • Verify the date of acquisition and cost of acquisition with the supporting documents. • Obtain the amount at which it is converted into stock in trade. • Here list of assets converted into stock in trade, date of acquisition, cost of acquisition & amount at which the capital asset is converted into stock in trade should be reported.
16	Amounts not credited to the profit and loss account, being, - a) the items falling within the scope of section 28; • Scrutinize liability and capital reserve accounts to ascertain any amount in the nature of income. • Scrutinize audit report and notes to accounts for comments, if any, on deferment/non-accounting of income. • Identify whether the business of the assessee enjoys the benefit of any import license, cash assistance for exports, claims for duty drawback, Performa credits, refunds, etc. • Verify whether above incomes is accrued, in accounts, if due. If not accounted, quantify separately. • Review the items of financial statements that considering the propriety of transaction, would be generating revenue but are provided free of cost or at subsidized rates. • Disclose such items separately and quantify the effect wherever possible. • Discuss with the management by making prima facie inquiry of any facilities or other benefits provided to others out of gratis or otherwise.
16	b) the proforma credits, drawbacks, refunds of duty of customs or excise or service tax or refunds of sales tax or value added tax or Goods & Service Tax, where such credits, drawbacks or refunds are admitted as due by the authorities concerned- • Discuss with the management for any of the above claims admitted as due by the authorities concerned at the year end. • Verify whether the above claims have been credited to the profit and loss account and, if not, obtain reasons. • Scrutinize subsequent receipts of customs or excise refunds, drawbacks and refund of sales tax. • Ascertain when these claims were admitted as due by the authorities concerned. • Verify recent sales tax assessment orders to determine whether any refund is due. • Also, cross check with notes to accounts and qualifications in auditors report for such credits.
16	c) escalation claims accepted during the previous year; Check the accounting policy followed for accounting for escalation claims as also any adverse comments in auditors' report / notes for non-accounting of claims.

16	d) any other item of income; Scrutinize the notes to account and auditors' report for any undisclosed / unaccounted revenue / income.
16	e) capital receipt, if any. • Review items representing credits in the nature of capital receipt particularly those credited to capital reserve. • Check whether any of these could be credited to revenue under tax laws. If yes, ensure appropriate disclosure.
17	Where any land or building or both is transferred during the previous year for a consideration less than value adopted or assessed or assessable by any authority of a State Government referred to in section 43CA or 50C, please furnish: • Check whether any land or building or both has been transferred by the assessee during the previous year by verifying from the statement of profit or loss / balance sheet. • Verify the consideration received / receivable by the assessee from his bank account / agreement entered by him. • Obtain the assessable value of the property adopted by state government for stamp duty. The copy of the registered document will give the evidence of the same. • Reporting under this clause is required to be made only if consideration for transfer is less than value adopted or assessed by any authority of state government. If yes, property details, consideration received & complete address of the property to be reported here.
18	Particulars of depreciation allowable as per the Income-tax Act, 1961 in respect of each asset or block of assets, as the case may be, in the following form- • Obtain a schedule in the form required under the clause. • Identify the opening block of WDV from previous year's return of income. • Check/vouch adjustments to the block of fixed assets during the year from statutory audit file or relevant supports. • Confirm whether rates and amount for claim of depreciation are as per Section 32 and Rule 5 of the Income Tax Act and Rules respectively.
19	Amounts admissible under the following sections- • Discuss whether any of the sections referred are applicable to the assessee. The business activities/expenditures covered are- i. Growing and manufacturing of tea (33AB) ii. Prospecting/extraction/production of petroleum and/or natural gas (33ABA) iii. Operation of ships (33AC) iv. Scientific research (35) v. Telecommunication services (35ABB) vi. Eligible projects or schemes for promotion of social and economic welfare (35AC and rules 11F to 11-O)

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vii. Rural development programmes (35CCA)
viii. Conservation of natural resources (35CCB)
ix. Preliminary expenses (35D)
x. Amortization of expenditure in case of amalgamation/demerger (35DD)
xi. Amortization of expenditure incurred under voluntary retirement scheme(35DDA)
xii. Prospecting/extraction/production of any minerals (35E)

• Scrutinise general ledger for items of allowable expenses, particularly those in the nature of capital expenditure, which under tax laws are allowed as deduction (e. g. licence fees, preliminary expenses as defined under 35D)
• Check depreciation schedule for any capitalized asset, is claimed as an allowance under tax laws and ensure separate disclosure.
• Ensure appropriateness of deductions (particularly weighted deductions) claimed under the relevant sections
• Additionally, the auditor is now asked to check the compliance with conditions of relevant sections, circulars, notification, guidelines issued for each of the aforesaid sections for which the deduction is claimed.
• For expenditures relating to sections referred above, verify and classify items which have been charged to current statement of profit and loss, and those that are not.
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a) Any sum paid to an employee as bonus or commission for services rendered, where such sum was otherwise payable to him as profits or dividend. [Section 36(1)(ii)]-

• Obtain a schedule of bonus, ex-gratia and commission paid/payable to employees stating the name of the employee, designation, amount of bonus/ex-gratia/ commission paid/payable, etc.
• The particulars should be disclosed only if the above are payable in lieu of dividends or profits.
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b) Details of contributions received from employees for various funds as referred to in section 36(1)(va)-

• Check payroll records for any deductions on account of provident fund, superannuation fund, ESIC or contribution towards any other fund for the welfare of employees.
• Obtain and verify chart for employee's contribution towards the above funds with their respective due dates and actual dates of payment.
• Only employee's contributions should be reported which was not paid to the government up to the due date.
• Here employee's contribution is not allowed if it is paid after due date in respective statute's due date.
• Employer's contributions to such funds are allowed if it is paid before filing return of income under section 139(1). Such employer's contribution will be disallowed if the same is not paid till date of return filing.
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21	a) Please furnish the details of amounts debited to the profit and loss account, being in the nature of capital, personal, advertisement expenditure etc.- • Scrutinize audited accounts and schedules for expenditures for any expenditure of capital or personal nature. • Scrutinize schedules/vouchers for expenses like – Staff Welfare, Entertainment, Rent, General Expenses, Sales Promotion, Travelling, Hotel & Club bills, Guest house expenses, Drivers Salary, Telephone expenses, Electricity expenses and Motor Car expenses. • Make prima facie inquiry about the applicable laws to the organization with the management and also identify specific statutes based on review of client's business. • Verify from audit work papers for expenditure in the nature of penalty, fine, illegal payments. • Verify Income Tax, GST, excise, PF and other orders for penalty and other payments.
21	b) Amounts inadmissible under section 40(a)- • Obtain statement of payments made outside India, (with corresponding TDS amount) on account of interest, royalty, fees for technical services or other sum paid outside India or in India to a non-resident (other than a company /foreign company) chargeable under the Act. • Cross check with expenditure in foreign currency disclosed in the notes to account. • Verify whether adequate tax has been deducted and paid on the above payments. If not, then give details of non/short deductions. • For the items of payments stated above, where tax was not deducted or deducted but not paid before the prescribed time limit in section 139(1) such payments will be disallowed and such sum shall be allowed as a deduction in computing the income of the previous year of payment of tax. Report the list of such inadmissible amounts. • In case of payments to residents of interest, commission or brokerage, fees for professional or technical services, contractor/sub-contractor on which tax was not deducted or deducted but not paid before the prescribed time limit such payments will be disallowed to the extent prescribed in section 40(a)(ia). Report the list of such inadmissible amounts. • STT are inadmissible for computing income. Verify the amounts based on available information and report them separately under this clause. • Disclose the amount of income tax and wealth tax charged to the statement of profit and loss. • Obtain an employee wise statement of salaries paid outside India with corresponding tax withheld and verify the accuracy of the deduction. • Write appropriate disclaimer where it was not possible to verify or ascertain certain inadmissible amounts pertaining to any of the above categories. E.g., PF, TDS, Salaries etc. • Interest on late payment of PF/TDS etc. should be reported here.

21	c) Amounts debited to profit and loss account being, interest, salary, bonus, commission or remuneration inadmissible under section 40(b)/40(ba) and computation thereof- • Verify the details of payments to partners/members with reference to the deed of partnership/other documents. • Work out payments in excess of limits prescribed under Section 40(b)/40(ba) and report the same.
21	d) Disallowance/deemed income under section 40A(3): • Obtain the list from client where payments were made otherwise than by a/c payee cheque/draft of amounts more than ₹ 10,000/- (₹ 35,000/- in case of transport business) in cash or by cheques /drafts which are not crossed. • Cross verifies the list given by the assessee with the bank statements. • Scrutinize cash book to ensure completeness and accuracy of list provided by the assessee. • Independently look for such payments in cash that may not be included in the list provided by the assessee. • Check whether any expenditure which were allowed in any previous year on accrual basis and were in excess of ₹ 20,000/- were paid in subsequent year by a/c payee cheque/draft only.
21	e) Provision for payment of gratuity not allowable under section 40A(7); • Obtain schedule for provision for payment of gratuity. • Cross tally schedule with the amount as per audited accounts. • Check the provision for gratuity which has become payable to employees who have left the services. • Check the actual date of payment in case of funds set up by the Company and the due date as per the trust deed. • Provision done for gratuity disallowed here. The same is allowed only on the actual payment.
21	f) any sum paid by the assessee as an employer not allowable under section 40A(9); • Obtain list of payments made by an employer towards the setting up or formation or contribution to any fund, trust, company, etc., other than: i. Recognized provident fund. ii. Recognized gratuity fund. iii. Recognized superannuation fund. iv. As required by or under any other law. • Indicate in the Statement of Particulars of the payments made by the employer other than those mentioned above.
21	g) particulars of any liability of a contingent nature- Scrutinize liability accounts to identify any liability of contingent nature debited to the profit and loss account.

21	h) amount of deduction inadmissible in terms of section 14A in respect of the expenditure incurred in relation to income which does not form part of the total income- • Does the assessee have any exempt income, if 'yes' then verify whether the assessee has incurred any expenditure to earn exempt income? • Consider the account head that are likely to contain expenditure relating to such income and scrutinize them, If there is any expenditure relating to such exempt income then such expenditure incurred should be disclosed under this point and added back to the taxable income. • In case of composite business, the expenditure relating to the exempt income should be determined as per method to be specified by CBDT.
21	i) amount inadmissible under the proviso to section 36(1)(iii)- • Has the assessee accrued/paid any interest on loan borrowed, if yes then ascertain the purpose of such loan. • Where the amount is borrowed for capital asset which is still not put to use ensure that such amounts are not treated as expenses & this inadmissible amount should be shown in this point. • In case the asset for which any amount is borrowed and it is put to use during the year under report then apportion the amount of interest on time basis.
22	Amount of interest inadmissible under section 23 of the Micro, Small and Medium Enterprises Development Act, 2006. • Do the audited annual accounts of the assessee disclose the interest paid or payable under the Micro Small and Medium Enterprises Development Act, 2006 (MSMED Act)? • If the assessee is not audited under any other law, then while preparing the annual accounts the assessee would have to compile the details of amount of interest paid/payable under the MSMED Act and disclose the same in the accounts in accordance with the said Act. Ensure that a separate classification of such suppliers of goods/services is maintained by the assessee. A separate ledger account for such interest would be desirable. • The auditor should verify the manner in which the amount is determined so that it is complete and correct and in alignment with the MSMED Act. The amount so determined, should be reported under this clause for disallowance.
23	Particulars of payments made to persons specified under section 40A(2)(b). • Obtain duly certified list of persons specified under Section 40A(2)(b) and cross tally with previous year's list. Also check whether the entities/parties listed in the register maintained under Section 189 of the Companies Act, 2013 or referred to in any Board Minutes fall in category of specified persons. • Obtain list of expenditures in respect of which payment has been made or is to be made for goods, services and facilities (including remuneration and interest to partners) to the above-mentioned category of persons and check with.
24	Amounts deemed to be profits and gains under section 32AC or 32AD or 33AB or 33ABA or 33AC.

	• Confirm the workings of profits and gains as per the requirement of these sections. • In respect of section 33ABA verify from the accountants' report required under sub section (2) of this section.
25	Any amount of profit chargeable to tax under section 41 and computation thereof. • Inquire whether allowance in tax returns was claimed in earlier years. • Scrutinize other income and reserves account and report receipts, upon succession of business. • **For Power Companies only** - In case of sale of fixed assets, check whether the sale value exceeds the WDV of that particular asset. If yes, report difference under this clause. However, this should be restricted to the difference between cost and WDV of that particular asset. • In case of sale of assets used for scientific research, the excess of sale proceeds (together with deduction under 35(2)(i), 35(2)(ia), 35(2B)(c)) over capital expenditure; or the amount of deduction above, whichever is lower should be reported. • Obtain a statement of recovery of debts earlier written off. Report to the extent amount allowed as deduction in the past assessments. • In case assessments are not complete for the years in respect of which bad debts are recovered, ensure appropriate disclosure by way of note. • Obtain list of amounts withdrawn from special reserve created under section 36(1)(viii) with corresponding deduction allowed in earlier assessments. • In case business (in respect of which all the above income is received) is discontinued, any unclaimed loss (other than speculation loss) of the year in which the business is discontinued for that particular discontinued business can be set off against these incomes. Consider the effect of the same in the computation under this clause.
26	In respect of any sum referred to in clause (a), (b), (c), (d), (e), (f) or (g) of section 43B, the liability for which, a) Pre-existed on first day of previous year but was not allowed in the assessment of any of the preceding previous years & was paid during the previous year. b) Pre-existed on first day of previous year but was not allowed in the assessment of any of the preceding previous years & was not paid during the previous year. c) Or was incurred in the previous year & was paid before the date of return filing under section 139(1). d) Or was incurred in the previous year & was not paid before the date of return filing under section 139(1). • Scrutinize previous year's tax audit report, current liabilities & secured/ unsecured loans (for interest accrued and due) to identify any of the following amounts pertaining to earlier years. • Tax, duty, cess or fee (by whatever name called) levied under any law (e.g., excise duty provision, customs duty, GST, electricity duty, R&D cess, textile cess, municipal taxes, profession tax, etc). • Any sum payable by employer by way of contribution to provident fund or super-annuation fund or any fund for the welfare of employees. • Bonus or commission payable to employees.

	• Interest payable on any loans or borrowings from public financial institution, state financial corporation or industrial investment corporation, and Interest payable on term loans availed from a scheduled bank. • Leave encashment. • Any sum payable by an employer in lieu of leaves at the credit of employee. • Verify payments relating to above (not allowed as a deduction in the earlier assessment years) with relevant supports viz. challans, receipts, bank advise, etc. Also disclose amounts unpaid out of above. • For expenditures mentioned above, debited to profit and loss account (including those not routed through the profit and loss account) of the current year, determine the amount remaining unpaid (i.e., shown as liabilities) as at 31st March. Also verify amounts paid subsequently on or before the filing of return of income, and balance outstanding. • In respect of any tax, duty, cess or fee reported in clause 21(i) it is necessary to state whether it is routed through the profit and loss account. For this refer to the accounting policy on sales to confirm if sales include excise duty, sales tax, service tax, etc. • Verify report under CARO for any statutory dues remaining unpaid.
27	a) Amount of Central Value Added Tax credits availed of or utilised during the previous year and its treatment in the profit and loss account and treatment of outstanding Central Value Added Tax credits in the accounts. • Document the system of accounting excise at the time of purchase of goods and materials, point of availment or utilization of CENVAT/GST credit and entries passed at the time of availment/utilization of CENVAT/GST credit. • Quantify and verify from excise records the amount of CENVAT/GST credit available for the year, amount utilized and the balance outstanding. • Provide a summary of CENVAT/GST account with description and ensure disclosure of the same.
27	b) Particulars of income or expenditure of prior period credited or debited to the profit and loss account. • Check the items under the head prior period adjustments, or check the notes on accounts to ensure whether any expenditure or income of prior year is debited or credited to profit and loss account. • Reference to be made to the method of accounting followed by the organization and stated at clause 11 of Form-3CD. • In case of cash system of accounting, there will not be any item appearing under this clause.
28	Whether during the previous year the assessee has received any property, being share of a company not being a company in which the public are substantially interested, without consideration or for inadequate consideration as referred to in section 56(2)(viia), if yes, please furnish the details of the same. • Enquire with client and check whether during the previous year, assessee has received any property, being share of a company not being a company in which the public are substantially interested, (this clause is applicable only to firm or company in which public are not interested).

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	• Check the ledger accounts for investment and stock in trade. Check for the movements in these accounts to ascertain as to whether any shares covered under this clause are received. • Check whether the same is received without consideration where the aggregate FMV of which exceeds ₹ 50,000. • Or for inadequate consideration i.e. at a value which is less than FMV of the property by amount exceeding ₹ 50,000 • Scrutinize the bank payments for any payments, which are in connection with purchase of any shares.
29	Whether during the previous year the assessee received any consideration for issue of shares which exceeds the fair market value of the shares as referred to in section 56(2)(viib), if yes, please furnish the details of the same. • This clause will be applicable only in case the assessee is a closely held company, which during the previous year received the consideration for issue of shares. • Check whether any shares were issued during the year. • Obtain the value at which shares are issued. • Obtain the Fair Market value of the shares issued. • Check whether the issue price / consideration received of the shares is more than Fair Market value. • In case the issue price / consideration for issue of shares exceeds the FMV the difference shall be shown as chargeable to tax under section 56(2)(viib).
30	Details of any amount borrowed on hundi or any amount due thereon (including interest on the amount borrowed) repaid, otherwise than through an account payee cheque. [Section 69D] a) Whether primary adjustments to transfer price, as referred to in sub section (1) of section 92CE, has been made during the previous year? b) Whether the assessee has incurred expenditure during the previous year by way of interest or of similar nature exceeding one crore rupees as referred to in sub section (1) of section 94B c) Whether the assessee has entered into an impermissible avoidance arrangement, as referred to in section 96 during the previous year (This Clause is kept in abeyance till 31st March,2022) • Obtain a statement of hundis borrowed and repaid during the year with the mode and amount of each individual payment. • Also, check the mode of payment of interest due on hundi during the year. • Obtain loan confirmations. • Disclose all payments made for above otherwise than by account payee cheque. The amount so borrowed or repaid shall be deemed to be the income of the person borrowing or repaying. • Ensure disclosure of standard note of the firm for our inability to verify whether the payments are done through account payee cheque or not.
31	a) Particulars of each loan or deposit in an amount exceeding the limit specified in section 269SS taken or accepted during the previous year.

b) Particulars of each specified sum in an amount exceeding the limit specified in section 269SS taken or accepted during the previous year.

b) (a) Particulars of each receipt in an amount exceeding the limit specified in section 269ST, in aggregate from a person in a day or in respect of a single transaction or in respect of transactions relating to one event or occasion from a person, during the previous year, where such receipt is otherwise than by a cheque or bank draft or use of electronic clearing system through a bank account.

b) (b) Particulars of each receipt in an amount exceeding the limit specified in section 269ST, in aggregate from a person in a day or in respect of single transaction or in respect of transaction relating to one event or occasion from a person, received by cheque or bank draft, not being an account payee cheque or an account payee bank draft, during the previous year.

b) (c) Particulars of each payment made in an amount exceeding the limit specified in section 269ST, in aggregate to a person in a day or in respect of a single transaction or in respect relating to one event or occasion to a person, otherwise than by a cheque or bank draft or use of electronic clearing system through a bank account during the previous year.

b) (d) Particulars of each payment in an amount exceeding the limit specified in section 269ST, in aggregate to a person in a day or in respect of single transaction or in respect relating to one event or occasion to a person, made by a cheque or bank draft, not being an account payee cheque or an account payee bank draft, during the previous year.

c) Particulars of each repayment of loan or deposit or any specified advance in an amount exceeding the limit specified in section 269T made during the previous year.

d) Particulars of repayment of loan or deposit or any specified advance in an amount exceeding the limit specified in section 269T received otherwise than by a cheque or bank draft or use of electronic clearing system through a bank account during the previous year.

e) Particulars of repayment of loan or deposit or any specified advance in an amount exceeding the limit specified in section 269T received by a cheque or bank draft which is not an account payee cheque or account payee bank draft during the previous year.

- Obtain statement in the required format and check with relevant accounts in general ledger.
- Scrutinize loan accounts, current account and deposit accounts for similar items.
- Scrutinize advances account to find out whether such advances are in the nature of loans/deposits/specified sum*.
- Obtain loan confirmations.
- Disclose particulars of loans/deposits/specified sum* taken in excess of ₹ 20,000 during the year.
- Ensure that all the items, which are covered above and in respect of which repayment (including specified advance*) is made during the year, disclosure is made under this clause.
- Obtain a certificate from the assessee that all the loans or deposits or repayments of loans have been made through an account payee cheque or an account payee bank draft or by use of electronic clearing system through a bank account (i.e., by way of internet banking facilities or by us of payment gateways).
- No certificate is required if repayment of any loan or deposit taken or accepted from Government, Government company, banking company or a corporation established by a Central, State or Provincial Act.

**“Specified sum” means any sum of money receivable, whether as advance or otherwise, in relation to transfer of an immovable property, whether or not the transfer takes place.*

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	**"Specified advance" means any sum of money in the nature of advance by whatever name called, in relation to transfer of an immovable property, whether or not the transfer takes place.*
32	a) Details of brought forward loss or depreciation allowance, in the following manner, to the extent available: • Verify the last return of income filed, and make a list of all the carry forward losses. • Verify the recent assessment orders and ensure that the effect of such assessment, so far as applicable to the carry forward losses and depreciation, has been properly dealt in the annexure prepared. • Ensure disclosure of amount of carry forward loss being subject to change on account of open assessments. Include status under appeal under Remarks column.
32	b) Whether a change in shareholding of the company has taken place in the previous year due to which the losses incurred prior to the previous year cannot be allowed to be carried forward in terms of section 79. • Is there any brought forward loss? If no brought forward loss is there then skip this point. • Is the assessee other than company in which the public is substantially interested? If 'yes', then is there any change in the share holding pattern carrying voting rights compared to the year whose loss is sought to be set off? • Is the above change being 51% or more on the last day of the year under report? If yes then report the same under this clause. Such brought forward loss will not be admissible for setoff. It should be noted in the Return of Income and suitably disclosed.
32	c) Whether the assesse has incurred any speculation loss referred to in section 73 during the previous year, if yes, please furnish the details of the same. • Verify if there is any speculation business conducted by the assessee. • Report any speculation loss incurred and falling within the ambit of section 73.
32	d) Whether the assesse has incurred any loss referred to in section 73A in respect of any specified business during the previous year, if yes, please furnish details of the same. • Check the various business activities carried out by the assessee, by scrutinizing the various incomes and expenses of the assessee. • Check whether the assessee is engaged in any business, which is specified U/s 35AD of the Income Tax Act. • If the assessee has incurred any loss from such business, the same is required to be reported under this clause.

32	e) In case of a company, please state that whether the company is deemed to be carrying on a speculation business as referred in explanation to section 73, if yes, please furnish the details of speculation loss if any incurred during the previous year. • Check the various business activities carried out by the assessee, by scrutinizing the various incomes and expenses of the assessee. • Check whether the assessee is engaged in any business, which involves the purchase and sale of shares of companies. • If the assessee has incurred any loss from such business, the same is required to be reported in this clause. • There are however two exceptions to this deeming fiction — one is for a company whose gross total income consists mainly of income which is chargeable under the heads 'Interest on Securities', 'Income from House Property', 'Capital Gains' and 'Income from Other Sources' and the second is for a company the principal business of which is the business of banking or the granting of loans and advances.
33	Section-wise details of deductions, if any, admissible under Chapter VIA or Chapter III (Section 10A, Section 10AA). • Verify the return of income of earlier years to ensure that all the deductions claimed in the previous year, and if applicable in the current year, have been disclosed. • Scrutinize the current year financial statements and audit work papers for identifying any claims available under the chapter. • In respect of sections under which independent certificates are required, ensure that a copy of the same is put on the file. • Ensure full particulars of deductions with quantification thereof are verified and signed off by audit staff.
34	a) Whether the assessee is required to deduct or collect tax as per the provisions of Chapter XVII-B or Chapter XVII-BB, if yes please furnish: • Obtain a statement of TDS deducted showing the particulars of the head under which tax is deducted. • Identify various heads of expenses where there is a likelihood of TDS liability and scrutinize those accounts to ensure that wherever TDS was liable to be deducted, is deducted and deducted correctly. • Check the relevant vouchers, challans of payments. • Scrutinize relevant accounts for expense heads such as salaries, interest, royalties, contractors/sub-contractors, professional technical fees etc. • Specify the section under which TDS is required to be deducted, nature of payments, and total payment of such nature. • Out of the above payments, check the total amount on which TDS is required to be deducted, amounts on which TDS is actually deducted and deposited. • Scrutinize the ledger to obtain instances where tax is deductible but it is not deducted or there is short deduction.

34	b) Whether the assesse is required to furnish the statement of tax deducted or tax collected. If yes please furnish the details • Obtain the receipts / acknowledgements of the various TDS return filed by the assessee during the year. • Check whether the returns are filed within the due dates specified under the act. • Cross verify the TDS and gross amount on which TDS is required to be deducted as specified in the acknowledgement with the books of accounts, to ensure that all transactions on which TDS was required to be deducted are shown in the quarterly returns. • In this regard Scrutinize the accounts as specified in clause 34(a) above. • The details in this clause are required to be given only if the assessee has not filed the TDS returns on time.
34	c) whether the assessee is liable to pay interest under section 201(1A) or section 206C(7). If yes, please furnish: • Obtain the payment challans to Verify whether the TDS / TCS deducted / collected has been deposited within the time limit specified in the Act. • Verify in case of delay, the calculations of interest payable for default and whether such interest is paid by the assessee.
35	a) In the case of a trading concern, give quantitative details of principal items of goods traded- • Verify whether the quantitative information is given as per stock records maintained by the assessee or compiled from financial statements. • Verify that at least the items, which constitute more than 10% of the value of purchases or consumption or turnover as the case may be are disclosed as a separate item. • The information about percentage of yield, shortage of raw materials as well as shortage and percentage of finished products to be given to the extent data is available from the assessee's records. Non-receipt of particulars, if any, should be stated.
35	b) In the case of a manufacturing concern, give quantitative details of the principal items of raw materials, finished products and by-products- Verify quantitative details of finished goods from the notes to account.
36	Whether the assessee has received any amount in the nature of dividends as referred to in sub-Clause (e) of clause (22) of section 2 • Ensure that total amount of profits distributed and the tax paid thereon is as per the audited profit and loss account. • Verify and obtain copy of challan for payment of tax and date of payment. • Report the dates of payment in respect of tax on dividend.
37	Whether any cost audit was carried out, if yes, give the details, if any, of disqualification or disagreement on any matter/item/value/quantity as may be reported/identified by the cost auditor.

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	• Verify the Annexure to Auditors Report under CARO to see the comments in relation to cost records / accounts were made / maintained as under Section 233B of the Companies Act, 1956. Review the comments of the auditor under this clause. • In case a cost audit was required and also carried out, a copy of the same should be attached to the Tax Audit Report. • In case of any disqualification or disagreement on any matter / item / value / quantity as may be reported/identified by the cost auditor needs to be specified in this clause.
38	Whether any audit was conducted under the Central Excise Act, 1944, if yes, give the details, if any, of disqualification or disagreement on any matter/item/value/quantity as may be reported/identified by the auditor. • Inquire with the client, whether any audit conducted under the Central Excise Act, 1944. Include whether audit under Central Excise Act, 1944 has been conducted or not in the letter of representation. • If above audit has been conducted then attach copy of the same to the Tax Audit Report. • In case of any disqualification or disagreement on any matter/item/value/quantity as may be reported/identified by the auditor needs to be specified in this clause.
39	Whether any audit was conducted under section 72A of the Finance Act,1994 in relation to valuation of taxable services, if yes, give the details, if any, of disqualification or disagreement on any matter/item/value/quantity as may be reported/identified by the auditor • Inquire with the client, whether any audit conducted under the section 72A of the Finance Act 1994, in relation to value of taxable service. This audit is generally sought by the commissioner on valuation matters and therefore it appears that this clause is restricted to such matters. • If yes obtain the copy of the report. • In case of any disqualification or disagreement on any matter/item/value/quantity as may be reported/identified by the auditor needs to be specified in this clause.
40	Details regarding turnover, gross profit, etc., for the previous year and preceding previous year- • Before or after tax should be clearly reported. • Verify figures required for the purpose of ratios from the audited accounts and ensure that they are consistently followed. • Give particulars of the components of the amounts considered in the ratios. • The manner of arriving at gross profit and net profit should be disclosed and followed consistently. • The stock figures should be taken as per books of account and not the adjusted number as per section 145A. This clause requires comparative figures for the preceding previous year. In a situation where the assessee was not liable for tax audit in the preceding previous year appropriate note may be incorporated.
41	Please furnish the details of demand raised or refund issued during the previous year under any tax laws other than Income-tax Act, 1961 and Wealth tax Act, 1957 along with details of relevant proceedings-

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	• Inquire for all demand or notices received during the year under income tax / wealth tax or under any other tax laws raising the demand on the assessee. • Check the bank statements of the assessee to ascertain any refund has been received under any tax laws. Verify 26AS to ascertain any refund has been issued under the income tax act. • Obtain representation from the management as regards the proceedings under various tax laws and also obtain the list of consultants who are representing the assessee in such matter. • If required also obtain from each such consultants confirmation about the proceedings under various tax laws. • The details of demand or refund have to be provided even if the assessee has appealed against such proceedings.
42	Whether the assesse is required to furnish statement in Form No.61 or Form 61A or Form No 61B If yes, then reporting identification no, date of reporting & due date of reporting to be reported here.
43	Whether the assessee or its parent entity or alternate reporting entity is liable to furnish the report as referred to in sub section 2 of section 286- Every parent entity or the alternate reporting entity, resident in India, shall, for every reporting accounting year, in respect of the international group of which it is a constituent, furnish a report, to the prescribed authority.
44	Break-up of total expenditure of entities registered or not registered under the GST (This Clause is kept in abeyance till 31st March,2022)

Thanks & Regards

Ashok Kumar Suthar

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(Tax & Management Consultant)

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