

Working Paper Management on Tax Audit

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Audit engagement vs. Assurance engagement

Audit engagement is defined in the Code of Ethics by the ICAI as :

A reasonable assurance engagement in which a professional accountant in public practice expresses an opinion whether financial statements are prepared, in all material respects (or give a true and fair view or are presented fairly, in all material respects), in accordance with an applicable financial reporting framework, such as an engagement conducted in accordance with *Standards on Auditing*. This includes a Statutory Audit, which is an audit required by legislation or other regulation.

Assurance engagement is defined in the Code of Ethics by the ICAI as :

An engagement in which a professional accountant in public practice expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria.

Tax Audit – Whether an audit engagement

Audit report in Form 3CA :

- Requires an auditor to express an opinion as to whether the particulars reported in Form 3CD are true and correct
- The auditor does not express an opinion on the financial statements of the entity
- Documentation to be maintained to the extent applicable to reporting on particulars in Form 3CD

Audit report in Form 3CB :

- In addition to expressing an opinion as to whether particulars in Form 3CD are true and correct, requires an auditor to also express an opinion as to whether the financial statements of an entity give a true and fair view of its state of affairs and profit or loss for the period under consideration.
- SA 230 on Audit Documentation requires auditor should prepare documentation that provides a sufficient and appropriate record of the basis for the auditor's report and evidence that the audit was planned and performed in accordance with SA's and applicable legal and regulatory requirements

Documentation prescribed under the Guidance Note on Tax Audit

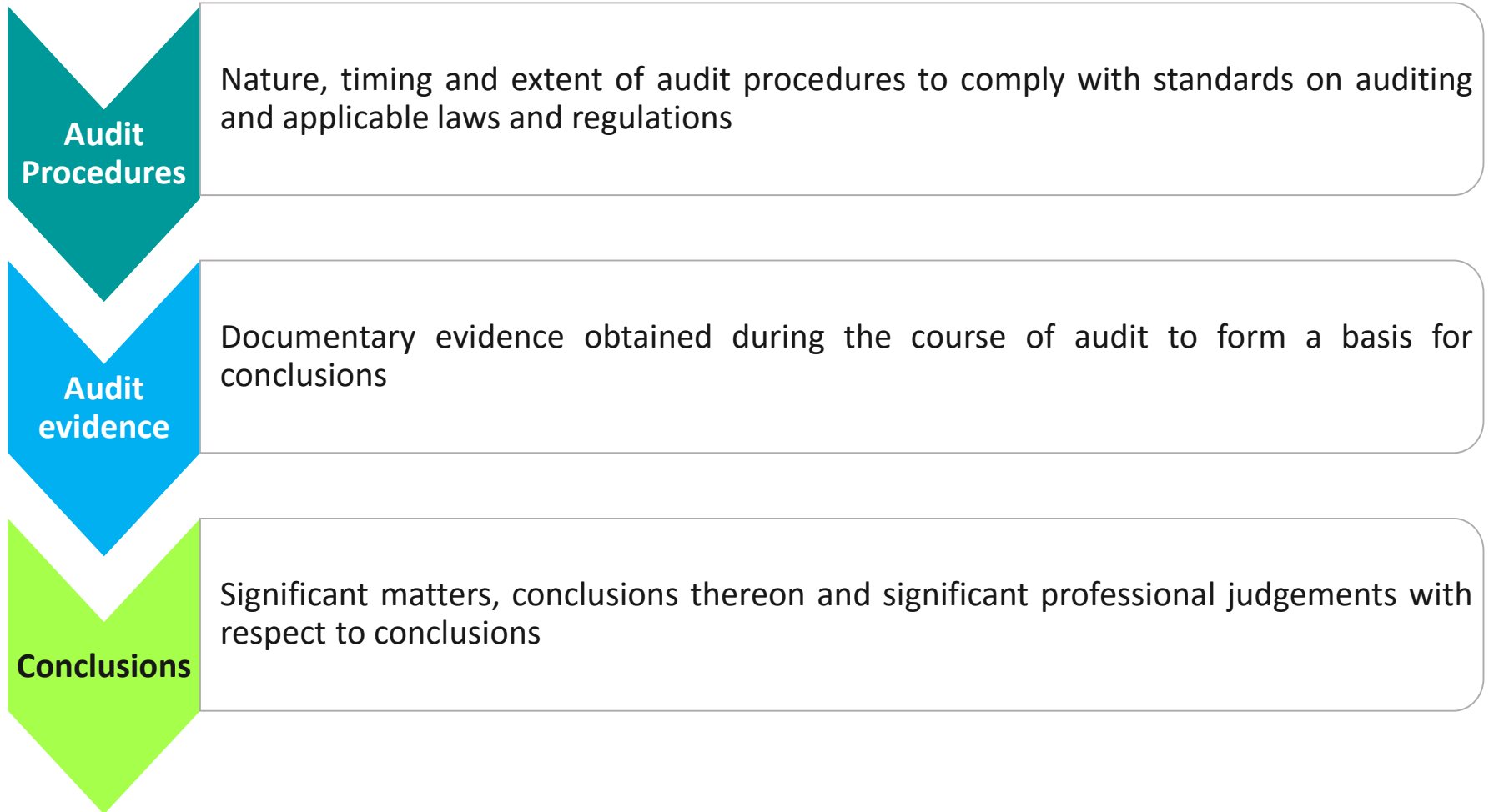
Guidance Note on Tax Audit issued by the ICAI requires an auditor to keep and maintain necessary working papers about the evidence on which he has relied upon while conducting the audit which should include his notes, inter-alia, on the following :

- work done while conducting the audit and by whom
- explanations and information given to him during the course of the audit
- decision on the various points taken
- the judicial pronouncements relied upon by him while making the audit report; and
- certificates issued by the client or management letters

Documentation with respect to the terms of Tax Audit engagement

- Section 143 of Companies Act 2013 provides that every auditor of a company shall have a right of access at all times to the books of account and vouchers of the company and shall be entitled to require from the officers of the company such information and explanation as he may consider necessary for the performance of his duties as auditor
- There is no similar provision under the Income Tax Act and therefore, it is necessary to obtain a representation from management that it acknowledges and understands its responsibilities to provide the auditor with :
 - access to all information of which the management is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters
 - additional information that the auditor may request the management for the purpose of the audit, and
 - unrestricted access to persons within the entity from whom the auditor determines it necessary to obtain audit evidence
- SA 210 on Agreeing the Terms of Audit Engagements may be referred to in this regard

Requirements of SA 230 on Audit Documentation



General consideration in respect of certain clauses

Issues requiring interpretation

- Reporting under some clause may involve analysis of facts and interpretation of law, for instance, whether a particular receipt amounts to income or categorization thereof.
- In such cases, documentation in respect of the same must be vigilantly maintained ensuring authentication, authorization and integrity of electronic evidence, if any.

Physical verification of assets

- Reliance on management representation / reports from another accountant where physical verification of stock etc. has not been done (for instance on account of ongoing COVID-19 pandemic)

Disallowance u/s 40A(3)

- Reliance on management representations in respect of payments made by account payee cheques or drafts

Certain Issues in Tax Audit in electronic environment

Certain deductions which require report on an accountant to be filed electronically for allowability of such deductions

- In order to claim certain deductions under the Income Tax Act, furnishing a report from an accountant is a pre-condition of allowability. Form 10DA for deduction under section 80JJAA.
- Similar to the inherent limitations of electronic tax audit reports, electronic formats prescribed for said reports also contain inherent limitations and an accountant may issue a physically signed report along with filing electronic forms
- While expressing an opinion on the correctness of amounts reported as allowable under the said provisions, working papers should contain such physically signed reports also as the same may be at variance with the reports filed electronically

Certain Issues in Tax Audit in electronic environment

Limitations of audit reports in electronic format

- Tax Audit reports in Form 3CA, Form 3CB and statement of particulars in Form 3CD prescribed under Rule 6G have certain inherent limitations
- For instance, the electronic audit report does not contain any field for stating the responsibilities of management and auditor etc. which are required to be stated as per SA 700
- Therefore, in appropriate cases it may be considered whether a physically signed audit report should be issued in addition to filing electronic audit report
- In case a physically signed audit report is issued, a reference of the same should necessarily be given by way of a comment in electronically filed audit report

(c) documents declared by the said act to be part of, or annexed to, the [] and balance sheet.

2. The statement of particulars required to be furnished under section 44AB is annexed herewith in Form No. 3CD.

3. In [] opinion and to the best of [] information and according to examination of books of account including other relevant documents and explanations given to [], the particulars given in the said Form No. 3CD are true and correct subject to the following observations/qualifications, if any.

S.No.	Qualification Type	Observations/Qualifications
1	<input type="checkbox"/> Select	

Name *	First Name	Middle Name
	Last Name	
Membership Number*		
FRN (Firm Registration Number)		

Certain Issues in Tax Audit in electronic environment

Limitations of accounting systems of auditee concern

- On account of limitation of the accounting system of the auditee concern, it may be difficult to verify the correctness of particulars reported under certain clauses of Form 3CD
- In such cases along with appropriate disclosures / qualifications, the documentation must include the description of the accounting system and limitations thereof
- An example of such difficulty commonly faced would be in relation to reporting under the clauses pertaining to TDS

Working papers for some relevant clauses

- Clause 4 - Obtain the list and verify the various indirect taxes payable by the assessee, (GST, Excise, Service Tax, 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
- Clause 15 - 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
 - List of assets converted in stock in trade including description,
 - Date of acquisition of each asset,
 - Cost of acquisition for each,
 - Amount at which the capital asset is converted into Stock in trade.

Working papers for some relevant clauses

- Clause 18 - Obtain a schedule in the form required under the clause. Description of asset / block of asset should be under the following heads
 - Building
 - Plant and Machinery
 - Furniture and Fixtures
 - Vehicles/Cars
 - Other Specified Assets and
 - Intangible Assets
 - Computers
- 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.

Working papers for some relevant clauses

- Identify separately and vouch for adjustments on account of the following:
 - Change in rate of exchange of currency, from the financial statements/audit work papers
 - Subsidy / grant / reimbursement, etc., verify the scheme under which it is received and ensure appropriate treatment in books.
- 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.

Working papers for some relevant clauses

- Clause 20(b) - 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 employees contribution towards the above funds with their respective due dates and actual dates of payment

- Clause 21(a) - Scrutinize audited accounts and schedules for expenditures for any expenditure of capital or personal nature
 - a. Repair & Maintenance
 - b. Travelling expenses
 - c. Salaries & Wages
 - d. Stores & spare parts consumption
 - e. Depreciation
 - f. Legal, Professional & Consultancy charges
 - g. Filing Fees
 - h. Capital losses written off
 - i. Miscellaneous Expenditure written off (Balance Sheet item)
 - j. Miscellaneous/general expenses, for capital expenditure written off.
 - k. Computer software expenses to ensure that it does not include any system software.
 - l. Penalty

Working papers for some relevant clauses

- 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 clients business
- Verify from audit work papers for expenditure in the nature of penalty, fine, illegal payments.
- Verify Income Tax, Sales Tax, excise, P.F. and other orders for penalty and other payments.

Working papers for some relevant clauses

- Clause 23 - Obtain duly certified list of persons specified under Section 40A(2)(b) and cross tally with previous years list. Also check whether the entities/parties listed in the register maintained under 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:
 - Agreements/authorization.
 - Vouchers/entries in the general ledger
 - Personal accounts of the parties

Working papers for some relevant clauses

- Clause 31(c) - 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 use of payment gateways)
- Clause 32(a) - 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.
- Get the annexure so prepared verified by the audit group.

Working papers for some relevant clauses

- Clause 34(a) - 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, rent, 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 including lower TDS certificates.

Working papers for some relevant clauses

- Clause 41 - 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.

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