



To Study The Provisions & Procedure Regarding Tax Audit

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Abstract:

Tax audit is very important and so the understanding of the same. The research paper is intended to focus on the understanding the provisions and procedures of the tax auditing. The study discusses on the various clause under which the payee can file tax return. The paper also discusses on the process of filing tax return. For the present study a well structured questionnaire were distributed using simple random sample method and 70 responses were considered for the analysis. The study conclude that the payees are well aware about the tax audit and auditing procedure.

Keywords: Tax Audit, Tax filing Procedure, Tax Provisions, Tax Clauses

Introduction

The term 'audit' refers to a check, review, verification or inspection of a record, transaction, account etc. A tax audit is the process of verification and inspection of the accounts of a taxpayer to confirm their adherence to the provisions of the Income Tax law. Section 44AB of the Income Tax Act, 1961 deals with the Audit of the Accounts of a certain category of persons carrying on a business or engaged in a profession. The class of taxpayers listed under this section compulsorily has to get their accounts audited by a Chartered Accountant. The CA will check and verify that these accounts comply with the various provisions of the Income Tax law. Simply put, the audit that is required as per Section 44AB of the Income Tax Act, 1961 is called a tax audit. The outcome of the audit is an audit report. This report is drawn by the Chartered Accountant where he or she gives his findings and observations about the compliance of the person under audit.

Maintain and ensure the accuracy of books of accounts, and have them certified by a tax auditor

The purpose of reporting prescribed information is to ensure that you follow the various provisions of income tax law.

Moreover, tax audits also ensure that the records reflect the actual income of the taxpayer and that the claims for deductions made are accurate.

Who is subject to a tax audit?

Tax audits are required if a taxpayer's sales, turnover, or gross earnings are more than ₹ 1 Crore in a given financial year. A taxpayer may, however, be required to get their accounts audited in certain other circumstances. The following categories of taxpayers that must participate in a tax audit

Tax Audit Services

There are many laws drafted in India that govern different kinds of audits like an income tax audit, cost audit, tax audit, company, or statutory audit as per the companies' act, 2013. Income tax audit evaluates whether an individual or company has filed tax returns of the assessment year appropriately. Section 44B on the Income Tax Act of 1961 lays down the Provisions for an income tax audit.

Taxpayers who need to get their accounts audited under any law other than section 44B of the Income Tax Act 1961 do not have to get accounts checked for the purpose of an income tax audit report for income tax filling. The audit report must be submitted before the stipulated due date.

The following other sections under the Income Tax Act of 1961 also lay down regulations related to an income tax audit in India.

- **Section 44BB :**
For Non-Resident Indians (NRIs) involved in the business specializing in the mineral oils industry, like exploration.
- **Section 44BBB :**
International Company that is involved in the business of civil construction etc. or in specified power projects.
- **Section 44AD :**
Any business except those businesses that are specified under section 44AE.
- **Section 44ADA :**
This section covers the regulations with regard to the regulations with regard to the income tax audits for eligible professionals.
- **Section 44AE :**
This section focuses on businesses specializing in leasing, hiring, and playing of goods carriages.

Who cannot be a tax auditor?

There are specifically specified prohibitions on the appointment of tax auditors, which are enumerated below

- Any member in part-time practice is not eligible to perform a tax audit.
- A chartered accounts of a person to whom he is indebted for more than Rs 10,000
- A statutory auditor will be deemed to be guilty of professional misconduct if he/she accepts the appointment of public sector Undertaking/Government company/listed company.

Steps to Conduct Tax Audit

Step 1: Get all the books of accounts of your client for the previous year whose audit is being conducted.

Step 2: Read the form 3CD & try to keep in mind or make a separate checklist of the details which are required to completely fill up the form 3CD. Some of this information can be about – the details of fixed asset, details of inventory, previous report data, payments made to related persons, payments exceeding Rs. 20,000/- made during this previous year, etc. Also, Don't forget to take the details about TDS deducted by the assessed and also the details of Indirect Taxes paid by the assessed.

Step 3: VOUCHING

This is one of the most important steps in doing a Tax Audit. Vouching involves the complete checking of all the vouchers of the enterprise. Detecting the possibility of any misrepresentation or fraud done by the client is very probable at this step. Utmost care should be taken & all the vouchers should be thoroughly checked. Commonly we do cash expenses vouching, bank expenses vouching, purchase vouching, sales vouching, etc.

Step 4: Bank Reconciliation. In order to verify whether all the transactions related to bank have been duly accounted, we verify the bank book with the bank statements. If there is a mismatch of some transactions, we prepare a BRS i.e., a Bank Reconciliation Statement.

Step 5: Check whether payments exceeding Rs. 20,000/- in cash have been made? If the same are done, they need to be reported in our report. Also, we should make sure that cash is not going negative in the books of accounts in any part of the year.

Step 6: Prepare the Balance Sheet & the Profit & Loss Account.

As we have to upload the scanned copies of the financial statements with our Tax audit report, make sure we make CA certified Financial Statements first & get scanned copies of the same ready. **Step 7: Ledger Scrutiny.** Make sure all the ledgers of your client have been carefully overlooked by you. The general nature of the ledger & the transactions present in the ledger do not show anything unusual or exceptional. In case, it does, make sure

you receive satisfactory explanation of the same from your client. Otherwise, the auditor should appropriately classify his report.

Step 8: Proper Notes & Disclosures.

If you find anything worth mentioning in Step 8 or non – compliance of any of the Accounting Standards, the same should be properly reported by you, the auditor.

Step 9: You need to fill up the form 3CA-3CD or 3CB-3CD, as required and generate .xml to be uploaded. Also, make sure you have up to date DSC of the auditing CA as well as of the client assessed.

Step 10: Go to Sign in from your client's profile & Go to ADD CA option from My Account drop down menu. After Adding your CA, the auditor needs to sign in from his profile made for uploading the report & upload the tax audit report along with the scanned copies of financial statements. After this done, we need to again go the client's profile & approve the tax audit report. With this, we complete the submission of the Tax Audit Report with the CBDT.

Literature Review:

(Tilahun, 2019), Taxes are undoubtedly the most significant source of income for governments in both developed and developing nations. The revenue, among other things produced from taxes is based on how well the nation adheres to tax laws. Tax observance is the behaviour of taxpayers with regard to the tax laws, whereas tax non observance refers to violations of the nation's tax laws and regulations. Tax evasion is socially detrimental because it can lower revenues, skew the labour market, and erode state stability by enhancing the perception of deceit and fraud. To effectively reduce tax noncompliance, the causes of noncompliance should be identified in advance (increasing the level of compliance).

(Hauptman, 2000), That can result in further evasion. When tax hikes are required to meet severe financial obligations, this is a concern. Consolidation problems Thus, reducing tax evasion and increasing tax compliance are of utmost importance. especially significant at this point. The objective of the taxing authority is to obtain the entire amount of according to the law, taxes and duties are due. Tax authorities should work to lower the tax

(Permana, 2000), This study makes an effort to give a thorough examination of the level of response of Nigerian corporations to tax audits, particularly with regard to tax compliance. Following a thorough analysis of pertinent literature on tax audits and business tax compliance in various climes, and additionally The study's findings were used to draw the conclusion that tax audits have not yet had a significant effect on Nigeria's low corporate tax compliance culture. Therefore, in order to increase the impact of tax audits on corporate tax compliance in Nigeria and increase government income, it is imperative that the appropriate authorities look for more practical and efficient solutions.

(Niu, 11 May 2010), The audit and voluntary compliance do have a good link, according to this study. The results imply that the audit productivity may have been overstated in several research published in the literature. It serves as a reminder that in assessing the audit work's productivity, in addition we should also take into account how direct audit collections would affect voluntary compliance. In order to boost the audit power and better structure the audit organisations and increase revenue for the State, the finding may offer tax experts and tax authorities incentives.

(Paul, 1996), An expressive game with a long history is auditing. In a battle over the "truth" of the taxpayer's return, the auditor and the taxpayer are at odds. For both parties and the general public, there will be significant repercussions. The real action begins here, no doubt about it. However, most studies of this crucial issue have stayed comfortably above the fray, avoiding the intricacy that lurks in the fine print. In particular, formal economic analyses presumptuously ignore the game's central competition. It would appear that the simplifications required to "solving" games of this kind by computing typically optimal tactics confuse our understanding of how the game is played, what moves are feasible, and what the potential outcomes may be in practise tax

Objectives of the study:

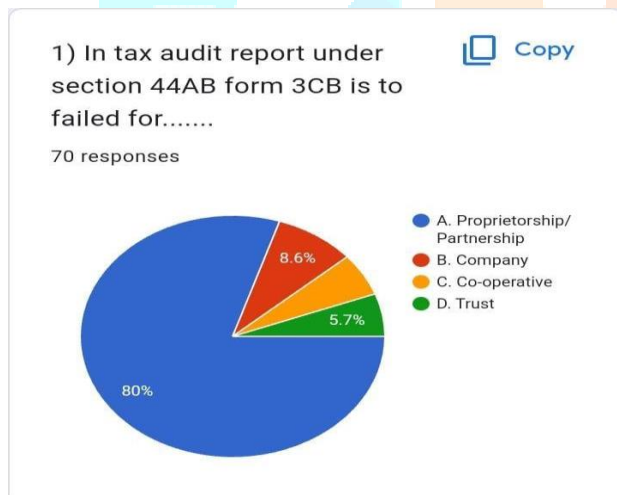
- To study the provisions & procedure regarding verification of details related to income, expenses & tax expenses information entered by the business entry.
- To analysis of the accuracy of income tax returns filed in the assessment year by companies and maintenance of records by the Chartered Accountant (CA).
- To study how to report the findings by the tax auditor after making precise analysis of accuracies or inaccuracies in the filed tax returns
- To study how to report the essential details with regard to compliance, tax depreciation, etc., as per the income tax laws.
- To assess the accuracy of the income tax return filed by the individual or company

Research Methodology

The present study is exploratory in nature and explores the different dimensions of tax audit from a client's point of view. A well-structured questionnaire was developed and circulated among the clients of a chartered account and primary data was collected. Questionnaire were circulated through google form & 70 responses were considered for the present study. Secondary data were collected from google and various books, magazines and published data. A random sampling method is used for data collection.

Data Analysis & Interpretation:

In tax audit report under section 44B form 3CB is too filed for



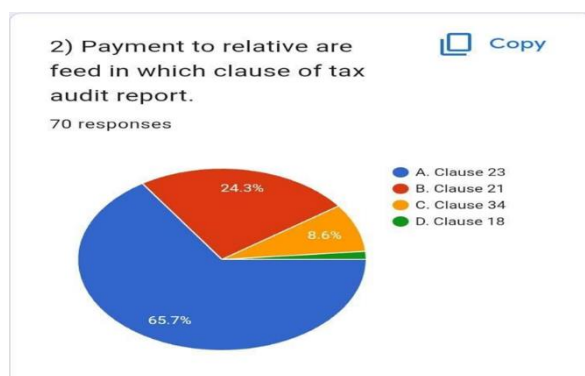
It is

Particular	Responses	Percentage
Proprietors hip/ Partnership	56	80%
Company	6	8.6%
Co operative	4	5.7%
Trust	4	5.7%
Total	70	100%

observed that in tax audit report under section 44B form 3CB is to filed for Proprietorship/ Partnership which is more (80%).

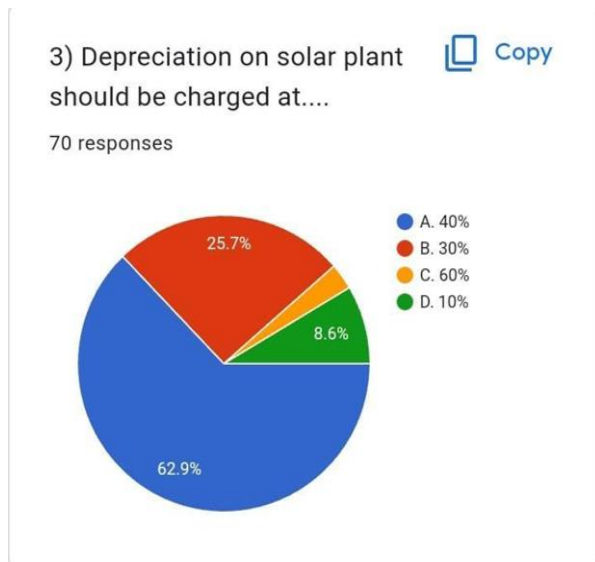
Payment to relative are feed in which clause of tax audit report

Particular	Responses	Percentage
Clause 23	47	65.7%
Clause 21	17	24.3%
Clause 34	5	8.6%
Clause 18	1	1.4%
Total	70	100%



The clause of tax audit report is 65.7% for clause 23, 24.3% for clause 21 than 8.6% for clause 34 and 1.4% for clause 18.

Depreciation on solar plant should be charged at



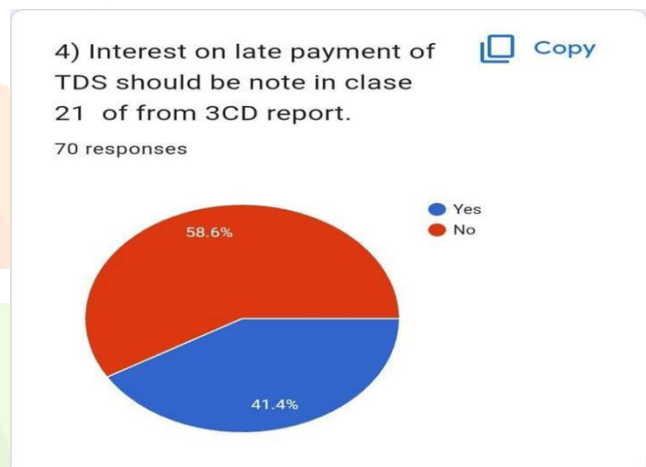
Particular	Responses	Percentage
40%	45	62.9%
30%	18	25.7%
60%	1	2.8%
10%	6	8.6%
Total	70	100%

Depreciation on solar plant charged at 62.9% for 40%, 25.7% for 30%, 2.8% for 60% and 8.6% for 10%

Interest on late payment of TCS should be note in clause

21of 3CD report

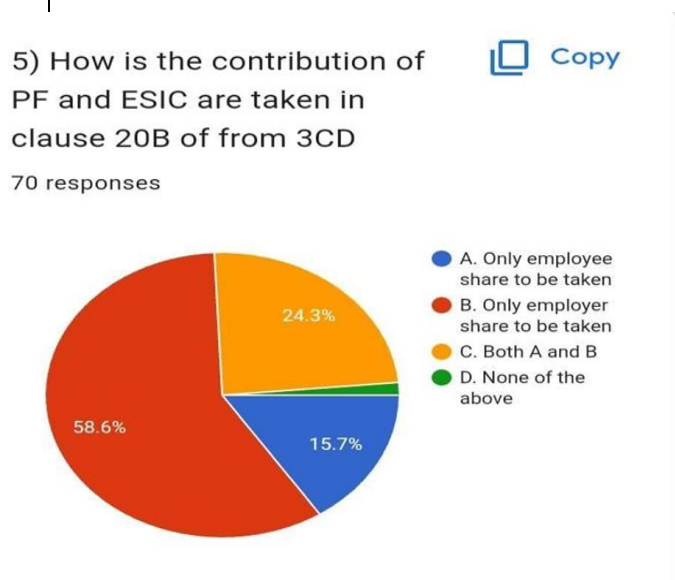
Particular	Responses	Percentage
Yes	42	58.6%
No	28	41.4%
Total	70	100%



Interest on late payment of TCS should be note in clause 21of 3CD report.58.6% of people say yes and 41.4% say no.

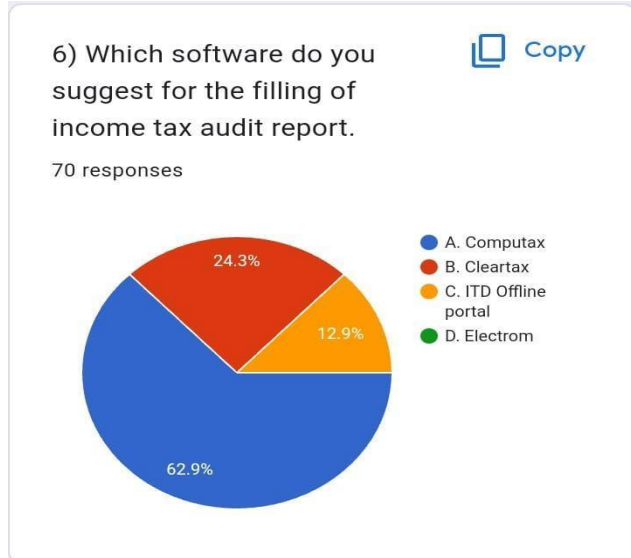
The contribution of PF and ESIC are taken in clause 20B of from 3CD

Particular	Responses	Percentage
Only employee share to be taken	11	15.7%
Only employer share to be taken	41	58.6%
Both employee & employer	17	24.3%
None of the above	1	1.4%
Total	70	100%



contribution of PF and ESIC (employee state insurance corporation) are taken in clause 20B of from 3CD. 15.7% for only employee share to be taken, 58.6% for only employer share to be taken, 24.3% for both employee and employer and 1.4% says none of the above.

Software Used for the filing of income tax audit report

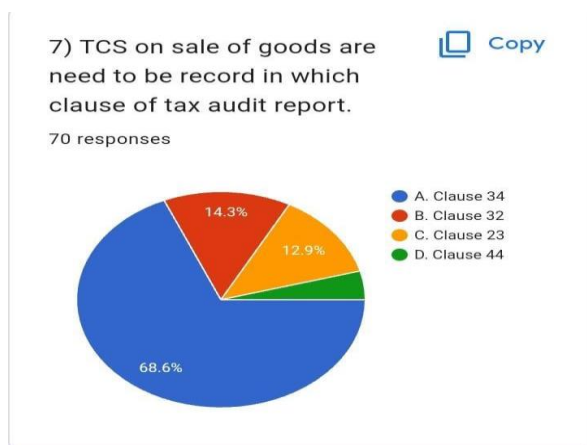


Software suggests for the filling of income tax audit report. 62.9% for

Particular	Responses	Percentage
Computax	45	62.9%
Cleartax	17	24.3%
ITI offline portal	8	12.9%
Electrom	0	0%
Total	70	100%

compute, 24.3% for clear tax, 12.9% for ITD offline portal and no one say for electrum

TCS on sale of goods are need to be record in which clause of tax audit report

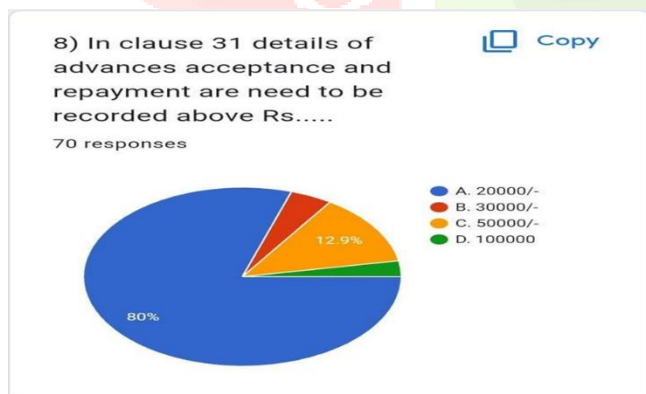


TDS on sale of goods of goods are need

Particular	Responses	Percentage
Clause 34	49	68.6%
Clause 23	10	14.3%
Clause 32	9	12.9%
Clause 44	2	4.2%
Total	70	100%

to be record in which clause of tax audit report. 68.6% for clause 34, 14.3% for clause, 12.9% for clause and 4.2% for clause 44.

In clause 31 details of advances acceptance and repayment are need to be recorded above Rs.

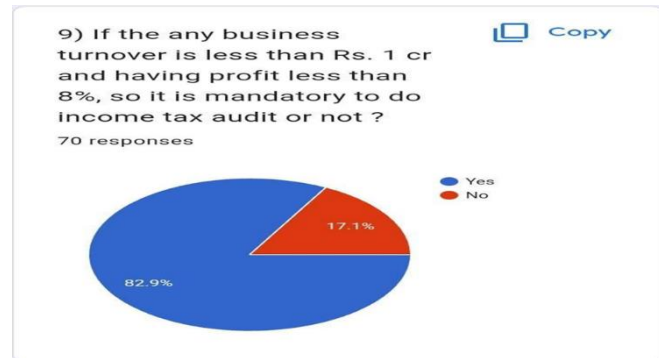


Particular	Responses	Percentage
Rs. 20000/-	56	80%
Rs. 30000/-	3	4.2%
Rs. 50000/-	9	12.9%
Rs. 100000/-	2	2.9%
Total	70	100%

In clause 31 details of advances acceptance and repayment are need to be recorded above Rs 80% for 20000/-, 4.2% for 30000/-, 12.9% for 50000 and 2.9% for 100000.

In case of, the any business turnover is less than Rs. 1 cr and having profit less than 8%, so it is mandatory to do income tax audit or not

Particular	Responses	Percentage
Yes	59	82.2%
No	11	17.1%
Total	70	100%



If any business turnover is less than Rs. 1 cr and having profit less than 8% , so it is mandatory to do income tax audit or not. 82.9% people says yes and 17.1% people says no.

Conclusion

The primary goal of this study was to identify the need and the requirement for a company to conduct tax audit. Its shows that unless and until the companies conduct of their accounts how will the assessors are able to ensure that the figures and the data mentions in the financial statement of the companies are actual.

The study conducted helped in examining the areas which are of utmost importance to be considered while preparation of the audit report. The in-depth analysis of the particular client's financial statements helped in analysing their growth, performance and any abnormal losses occurrence.

The Study also discussed about how chartered accountant conduct tax audit of the clients' companies account which statutory in nature and what are the various types of tax auditing which companies can incorporate which that so that growth, performance is increase. Hence, this study could be concluded with the mentioning of there is a liability for the assessed irrespective of their taxable income of Tax Audit

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