### Chapter Five: - Tax Audit

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Chapter Five: Tax audit

5-1. Introduction:

The previous chapter (four), the researcher have studied all details for tax evasion like characteristic of tax evasion, types of tax evasion, causes and reasons of tax evasion, tax evasion according to kinds of taxation, Tax evasion in business and professions and effects of tax evasion. In this chapter the researcher will discuss all the details about tax audit according to section 44AB in Income tax act 1961.

Auditing of financial transaction is an age old concept. It occupied its prime place since civilization came to know about commerce and trade, as an organized activity, this concept developed on and on with the increased need of commerce and trade from the mere examination of cash book. (V. S. Aggarwal, 1986, p1)

Auditing has been found in the ancient Egyptians, Greeks, and Romans as well. In India has appeared some practicing for accounting and auditing in different times of India history. In the year 1494, Luca Pacioli gave a clear description of the art of double-entry book-keeping. The industrial revolution in the 18th century audit appears as need result of development in that time. In India in the year 1949 the parliament enacted the chartered accounting Act, 1949 (ACT No. XXXVIII of 1949)

Among the objectives of revenue authorities optimizing revenue collection under the law and increasing the level of voluntary compliance to pay due tax are reducing the income tax gap and maintaining high levels of compliance among the biggest challenges for tax authorities. The researcher found out that average tax revenue to GDP ratio in the developing countries is very weak, and it was approximately 15%, that it is back to many reasons. Among these reasons from my point of view and also it is representative of the main reason, it is tax evasion. Tax evasion is spread in the whole world.

Section for compulsory ‘Tax Audit’ was introduced in order to curb ‘tax evasion’ as stated by the FM in his budget speech. It was also aimed at computing the taxable income according to the law and to ensure transparency in financial statements filed by the assessees.

As the researcher saw in the Chapter Four, there are many method and ways of tax evasion. In fact this study is trying to prove that. Does tax audit curb tax evasion and it is able to detect all those way of tax evasion or a part of those method of tax evasion or not? Therefore, detecting of tax evasion by means of tax audit is a core of this study.
The principal objective of the Statutory Audit is to ensure that the financial statements i.e., Profit & Loss Account and cash flow Statement and the Balance Sheet give a true & fair view according to Accounting standards issued by ICAI and are free from any material misstatements. So mandatory audit is not object to declare taxable income according to provisions of Income tax Act, 1961.

Tax audit become very necessary in the current life for prescribed correct taxable income according to income-tax Act, 1961. Tax audit may detect tax evasion; tax evasion is the blatant act of a taxpayer understatement of his income or overstatement of his expenses by illegal means. There are more efforts and focus has been placed by the tax authority in all countries for combating tax evasion. Tax audit is a tool in the hands of tax authority for curb tax evasion, so in order to reduce noncompliance with income tax Act, 1961, and fighting tax evasion in India, Indian Government enacted tax audit section 44AB of income-tax Act, 1961.

Tax audit is in addition to the statutory audit under the Companies Act 1956, and mainly involves verification and confirmation of certain facts, figures and information that are generally required by the Tax authorities in the course of assessment proceedings in the audit of taxes, which are controlled more by laws than by financial rules and procedures. Accountants and auditors help to ensure that firms are run efficiently, public records kept accurately, and taxes paid properly and on time. The purpose of the introduction of Tax Audit was to discourage tax avoidance and tax evasion and also the books of accounts and other records should be properly maintained and they should faithfully reflect the true income of the tax payer. Tax audit has specific objective to assist both the tax payer and the tax gatherer to arrive at correct tax dues and tax audit gathered between accountancy field and Income tax law field. So tax auditor must be conversant with both fields.

Indian Chartered accountants should be well versed in tax law business. The main objective of Tax audit through Chartered Accountants is to establish an objective and effective tax audit system that will create deterrence to mis-declarations in the income tax filed by the tax payers. Such a system is expected to contribute in developing a culture of compliance with tax laws over time that will help in improving the tax collections as well as improve the tax to GDP ratio.

The purpose of tax audit also is to ensure that declarations made by the tax payers are accurate and reliable. The second objective of the tax audit is to create deterrence for under
or incorrect declarations of income by the tax payers. But all foregoing objectives do not represent only a small proportion of fighting tax evasion by assessee. The audit for financial statements is aimed at providing credible information in the hands of the assessing officers. Report of tax auditor will provide a reasonable assurance to the tax authorities, that the tax statements do not contain any material mis-statement and therefore, such statements form a valid basis for determination and payment of relevant taxes by taxpayer without any need for modification by the tax authorities.

The researcher knows that profit for accounting and profit for taxation purpose are not one and the same. General purpose financial statements certified by an auditor may not be acceptance to income tax authorities for the purpose of computing tax liability profits shown in the profit and loss account and taxable profit differ for various reasons. Thus, the audit under section 44AB is coupled with the dual responsibility of fulfilling expectations from revenue as well as providing assurance while performing the audit. The reporting is also in the form of Audit report with a questionnaire to be answered covering different aspects including computation of deductions available under the provisions of income tax. Hence, the tax audit u/s 44AB stands out differently as compared to other audits. The auditor is expected to have complete knowledge of the provisions of income tax as well as the business carried on by the auditee and then, an auditor is able to perform the role of assessing officer to a certain extent.

5-2-Differences in Accounting & Taxable Income:

After statement introduction about tax audit and it is important, in order to complete the picture in this section the researcher will discuss about accounting profit and tax profit. The question that arises is why tax authorities don’t depend up on the result of profit and loss according to accounting profit? The answer is that there are some divergences and convergence between provisions of income tax Act, 1961, and Accounting Standards issued by ICAI therefore a company’s accounting profit and taxable income can be different. While accounting profit is computed using the accrual method of financial accounting based on generally accepted accounting principles (GAAP), but taxable income is calculated using the cash method of tax accounting based on tax rules. As a result, companies report accrued revenues and expenses in financial reporting to derive accounting profit, and cash revenues and expenses in tax reporting to obtain taxable income.
AS - 22 seeks to reconcile the taxes on the income calculated as per the books of accounts with the actual taxes payable on the taxable income as per the provisions applicable to the entity for the time being in force. The differences between net profit according to principles of accountancy and profit according to income tax either temporary differences or Timing Differences. AS-22 requires classification of these differences into permanent differences and timing differences.

Permanent differences:- permanent differences are those differences which originate in one period and do not reverse subsequently. These differences will not at all reverse in subsequent periods. (i) Recognition of revenues/ gains/ expenses/ loses in the profit and loss account but not for income-tax computation. One example is goodwill, which is amortized in accounts. However, the same is not a deductible expense while computing-tax. (ii) Recognition of revenue / gains/ expenses/ losses for income-tax purpose but not in the profit and loss account for accounting purposes

Timing differences: - Timing differences are the differences between the accounting income and the taxable income that originate in one period and capable of reversal in one or more subsequent periods. Timing differences arise only in respect of income/ expenses which are considered both in the profit and loss account as well as for computation of taxable income, for example (i) Expenses debited to profit and loss but allowed for tax purposes in subsequent years. Like expenditure covered by section 43B of the income tax Act which are allowed only in the year of actual payment (ii) Differences between depreciation as per books of account and depreciation allowable for tax purposes u/s 32 (iii) A deduction which is allowed for tax purpose on the basis of a deposit made, for example. Tea/coffee/rubber development account scheme under section 33AB and site restoration fund u/s 33ABA. The withdrawal from such deposit is debited to the profit and loss account in the subsequent years.

Tax audit enacted because there are disagreement between Accounting Standards and Income tax Act 1961, regard treatments of some items in trade account and profit and loss account ( we will see in chapter six) like personal expenses, valuation of stock, method of accounting, and other matters.

General purpose financial statements certified by an auditor may not be acceptable to income tax authorities for the purpose of computing tax liability, profit for accounting and
profit for taxation purpose are not one and the same. This difference may be on account of two reasons -

i) Differences between items of revenue, expenses or deductions as appearing in Profit & Loss A/c and as considered for tax purposes. For example: Provision for sales tax or reserves for discount on debtors are not allowed at the time of calculation of taxable income but is permissible at the time of calculation of accounting income.

ii) Differences between the amount in respect of a particular item of revenue or expense as debited to the Profit & Loss A/c and as is recognised for the computation of taxable income.

(,Namarata Shah, May,2010,p2)

In general purpose financial statement profit is to be computed according to the Accounting Standards, principles and policies. On the other hand taxable profit is to be determined according to the provision of income tax Act and rules. Tax profit is adjustment of accounting profit (according to accounting policies and financial procedures) into taxable income according to income tax law and regulation after application of suitable Accounting Standards issued by ICAI. When there is objection between income tax provisions, rule, regulation and accounting standards, principles of accounting and procedures. In this case tax audit ignores accounting standards or principles of accounting and he should follows income tax provisions, so tax auditor report disclosure whether or not the financial statement gives a true and fair view of the profit or loss and the state of affairs according income tax act, 1962. There are some differences between accounting standards and income tax provisions such as capital expenditure, intangible assets, the transferee, development spending, illegal operation of the fines and confiscation of property damage and depreciation of fixed asset. The researcher will explain the convergences and divergences between income tax Act, 1961 and accounting standards in the next Chapter (six),

For these gaps between provisions of income tax act and accounting standards, the central government in India has enacted tax audit u/s 44AB in the year 1984.

5-3-Theoretical framework for tax audit:-

Tax auditor in India refer to more than one source for discharging tax audit, that are:-

(a) Income tax Act 1961,and Instructions and decisions issued by CDBT in India.
(b) accounting standards issued by the Institute of Chartered Accountants of India
(c) auditing and assurance standards issued by the Institute of Chartered Accountants of India
(d)framework for the preparation and presentation of financial statement
(e) framework of statements on standard auditing practices
(f) guidance notes on related service issued by the Institute of Chartered Accountants of India
(g) compliance of the guidance notes issued by the Institute of Chartered Accountants of India
(h) notification/directions issued by the Institute of Chartered Accountants of India including those of a self-regulatory nature
(i) compliance of the provision of the various relevant statutes and/or Regulations, which are applicable in the context of the specific engagements being reviewed (G. Ramaswamy, ICAI, 17th June, 2010)

5-4- History of Tax audit in India:-
The concept of “tax audit” originated about six decades ago. In the year 1951, the Income Tax Investigation Commission submitted its report suggested audit of business house of large income. “The C.B.D.C issued circular in April, 1955 signifying its approval of this concept. This idea further found acceptance with the Thyagi Committee in 1959 in stimulating the concept. Finally the much thought over proposition found its birth in the finance Act 1984 as ‘section 44AB’ (V.S Aggarwal, p1)

Tax audit was introduced by section 11 of the finance Act, 1984, which inserted a new section 44AB with effect 1st April, 1985 in (Assessment Year 1985-86) audit of accounts of certain persons carrying on business or profession. Tax audit refers to the audit carried out under the provisions of section 44AB of the income tax Act1961. Indian finance minister explained the rationale of tax audit in the following words “tax audit intendedly to ensure that the books of account and other records are properly maintained and faithfully reflect the true income of the taxpayer” (V.S Aggarwal, p1)

The C.B.D.T explained the rationale in circular No.487 dated 6-7-1984. The Researcher can say that, Indian tax audit is distinctive from other countries because, no government anywhere in the world has placed so much trust and confidence in Public Accountants like the Indian Government has placed on Chartered Accountants. Tax Audit by a Chartered Accountant is an Indian phenomenon and does not exist in any other country. This not only broadened the area of practice by a Chartered Accountant to an unimaginable scale but also pinned so much trust on the Chartered Accountancy Profession.
5-5-Liability to get tax audit done:-

After the researcher discussion about enacted tax audit in the last section, in this section the researcher will cover who are succumb for compulsory tax audit u/s 44AB Income tax Act 1961.

The provision for compulsory ‘Tax Audit’ was introduced in order to curb ‘tax evasion’ as stated by the then FM in his budget speech. It was also aimed at computing the taxable income according to the law and to ensure transparency in financial statements filed by the assessee. The following persons are required to get their accounts compulsorily audited by a Chartered Accountant according to u/s 44AB income tax Act, 1961.

The first category: covers any person carrying on a business whose total sales, turnover or gross receipts exceed Rupees Sixty Lakhs during the previous year. Here we should be careful about each word we said. Though the words Total Sales, Turnover and Gross Receipts seem to give the same meaning, each one has its own meaning. Various Legal forums have interpreted these words to have different meaning. The limit for this category was increased from Rs. 40 lakhs to Rs. 60 lakhs only by Finance Act, 2010 but with effect from 01.04.2011. Hence for the current Assessment Year the old limit of Rs. 40 lakhs holds good.

The Second Category: covers any person who is carrying on a profession whose gross receipts exceed Rs. 15 lakhs. This limit also was increased from Rs. 10 lakhs to Rs. 15 lakhs by Finance Act, 2010 with effect from 01.04.2011.

The Third Category: covers persons whose income is assessed on a presumptive basis under section 44AE, 44BB or 44BBB. Where such assessee declare an income lesser than that presumed under the Sections 44AE, 44BB or 44BBB, they are required get their accounts audited in accordance with Section 44AB.

The Fourth Category is of recent origin. It was brought into the act by virtue of Finance (No. 2) Act, 2009, with effect from 01.04.2011. This category covers those persons who declare a lower income than the amount presumed under section 44AD. The difference between the fourth and the third category is that, in the case of the fourth category, the assessee are subject to audit under section 44AB only if their income exceeds the basic exemption limit.

Any person who is covered by the above four categories is required to get his accounts audited by an accountants before 30th September each year. Now certain issues arise
regarding the applicability of tax audit on account of a combination of the above four categories.

ICAI has clarified quite a few of these issues through its Guidance Note on Tax Audit under Section 44AB of the Income Tax Act. 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 the Assessing Officer in carrying out routine verification like checking correctness of totals and verifying whether purchases and sales are properly vouched or not. The time of the Assessing Officer thus saved, could be utilized for attending to more important investigational aspects of a case.

We have discussed who succumb for compulsory tax audit u/s 44AB Income tax Act 1961. We found that, business, professionals, sections 44AE, 44BB or 44BBB and income under section 44AD should succumb for tax audit according to section 44AB of Income tax Act, 1961.

5-6-Exception to Tax Audit:

Once a person gets covered under any one of the four categories, Tax audit becomes mandatory. But there are two exceptions to tax audit. The first proviso to Section 44AB, exempts business covered under Section 44B and 44BBA from the purview of tax audit. But the second proviso is something more interesting. The second proviso says that if the accounts of a person are to be audited under any other law, it would be sufficient if the accounts are audited under that law before the 30th of September. The accounts need not once again be audited by an Accountant but the report in form 3CA and 3CD needs to be obtained from an Accountant.

The effects of this section arouse much fascination. Since Companies are required to be audited under the Companies Act, 1956, they need not be audited once again under Section 44AB. It is sufficient if the audit reports in the prescribed forms are obtained. This is even more fascinating in the Case of Co-operative Societies. Co-ops are required to be audited under the Co-operative Societies Act, but the auditor of a co-op need not be a CA. Even then a co-op need not be once again audited under Section 44AB.
we conclude that exception from tax audit are two cases, first one business is covered under section 44B and 44BBA, second case is if the accounts of a person are to be audited under any other law.

5-7-Tax audit u/s 44AB applicable to an assessee if he satisfies the three conditions:-
1- He should be a person with in meaning of section 2(31) of the Act
2- He must carry on business or profession and cover sections 44AE, 44BB or 44BBB
3- The total sales, turnover or gross receipts from such business or profession must exceed the specified monetary limit.

The first condition is that the assessee must be a person; section 44AB is applicable in the case of every person. The term a person as defined under section 2(31) of the Act includes an individual, a Hindu undivided family, a company, a firm, an association of persons or a body of individuals whether incorporated or not, a local authority and artificial juridical person. This section 44AB is applicable to all the persons referred above irrespective of the fact whether they are resident or non-resident under section 6 of the Act.

The second condition a person is carrying business or profession, the word business has been defined under section 2(13), and the term profession is defined inclusively in section 2(36), Business and professional are generally used in two different contexts, both terms have been used in widely different manner in different situation, hence distribution between the two may sometimes be difficult.

Business simply means production and distribution of goods and services with a view to earn profit.

Business according to section 2(13) of the Act “Business includes any trade, commerce or any adventure or concern in the nature of trade, commerce or manufacture”

Definition of business according to business dictionary:- Economic system in which goods and services are exchange for one another or money on the basis of their perceived worth, every business requires some form of investment and sufficient number of customers to whom its output can be sold at profit a consistent basis. The term professional on the other hand is generally understood as referring to an occupation which involves skill controlled by the intellect of the operator. As per section 2(36) profession includes vocation in the absence of any definition of word of vocation in the income tax Act(R K sharma, 2005,399)
Definition of professions according to business dictionary: Occupation, practice, or reaction requiring mastery of a complex set of knowledge and skills through formal education and practical experience.

In other words professions may be defined as occupation services of a specialized and expert nature on the basis of professional education competence and training. It is important to note that all the professions are covered by the tax audit provisions. The followings are covered under section 44AA by Notification: Accountancy, architectural, authorized representative, company secretary… etc In the other words profession may be defined an occupation which involves the rendering of personal services of a specialized and expert nature on the basis of professional education competence and training.

Third condition: Assesses are covered, when the total sales, turnover or gross receipts from such business or profession must exceed the specified monetary limit. Every person carrying on business whose gross turnover, receipts or total sales exceed Rs. 40 lakhs and every person carrying on profession whose gross receipts exceed Rs.10 lakhs is governed by tax audit provisions and is liable to tax audit. This Rs. 40 lakh and Rs. 10 lakh proposed to be substituted by Rs. 60 lakh and Rs.15 lakh by the finance bill, 2010. This will be effective from assessment year 2011-12.

5-8-Sales, Turnover and gross receipts

After the researcher discussed conditions for compulsory tax audit, he will now clear meaning of sales, turnover and gross receipt. The terms Sales, Turnover and Gross receipts are not defined under the Income Tax Act, 1961. Section 44AB is applicable only if the Gross receipts /Sales/ Turnover cross a certain threshold.

Section 44AB of the Income-Tax Act provides for an audit of the accounts of an assessee whose turnover or gross sales exceeds Rs 60 lakh per annum if the assessee is carrying on business or Rs 15 lakh of gross receipts if the assessee is carrying on profession.

‘total sales’, ‘turnover’ and ‘gross receipts’ are used by the Legislature and each of them is independent criterion and one does not overlap the other. The Rajasthan High Court interpreted the expression 'total sales', 'turnover' and 'gross receipt' as under. The three expressions the total 'total sales', 'turnover' and 'gross receipt', in the ordinary sense, refer to the volume of the business to which it relates and which is/are carried on by the assessee. The expression ‘total’ qualifies all the other three expressions.
**Turnover:**-the simple meaning of the turnover is sales. This term is frequently used to mean the number of times the stock has turned over. This term denotes the gross amounts flowing into the kitty of the person and includes only the amounts on which the person has absolute right to deal with. It excludes the cash inflows which are held for others.

Definitions as per IBFD tax Glossary, turnover is volume of business of an enterprise as set forth in the profit and loss account. It is usually measured by reference to the gross receipts, or gross amounts due, from the sale of goods or services supplied by the entity. Para 5.6 of 'ICAI' Guidance note on tax audit defines 'turnover' as the aggregate amount for which sales are effected or services are rendered by the enterprise. Items to be excluded from 'turnover'- Ancillary charges- packing, freight, forwarding, interest, commission- cancellation of bills for the period under audit – cash discount allowed in cash memo– price adjustment –price of good returned – sales proceeds of any shares, securities, debentures – sales proceeds of fixed assets- sales proceeds of investment property – special rebate allowed to customer – stocks surrendered during a survey – trade discount allowed in sales invoice – turnover discount –VAT recovered/ recoverable from customers

**Items to be included:**

According to ICAI, the following items should not be deducted from turnover – adjustment not related to sales-bad debts written off – cash discount should not be deducted from turnover – commission allowed to third parties on sales – sale of scrap – sale of by product – sale proceeds of shares, securities debentures - special rebate which is in the nature of commission on sales

**Gross receipt:-**

Gross receipt means total receipts from a business before deducting any expenditure. According to ICAI, all receipts whether in cash or in kind arising from carrying on of the business should be included in gross receipts.

Items to be included in ‘gross receipts’ According to ICAI's guidance note on tax audit, the following shall be included in gross receipts – advance received from customers and forfeited – cash incentives for exports – charges recovered not way of reimbursement of actual expenses incurred – commission, brokerage, service charges – consolidated amount for transportation, boarding and lodging –dividends on shares received by a dealer I shares – duty drawback – exchange difference on export sales – finance income of lessor – gross receipts including lease rent in the business of operating lease – hire charges and installment
Items not to be included in “gross receipts”:-  
According to ICAI’s guidance note tax audit, the following shall not be included in gross receipts:- advance forfeited in respect of fixed assets – advance received for services to be rendered – dividends on shares except where the assessee is a dealer in shares – interest income is not assessable – out of pocket expenses collected separately from clients– reimbursement of advertising charges received by advertising agent from clients – reimbursement of customs duty and other charges received by a clearing agent – reimbursement of payments to airlines railways – rental income which is not assessable as business income- sales proceeds of fixed assets – sales proceeds of investments – share of profit of a partner of total income – write back of amount no longer payable to creditors – write back of provisions no longer required.

5-9-Unique characteristic in tax audit in India:-  
Tax audit is imposed in all countries in the world, but there is a unique characteristic in the audit in India. This characteristic is not available in the remaining countries over the world. This merit is that, No government anywhere in this world has placed so much trust and confidence in Public Accountants like the Indian Government has placed on Chartered Accountants.

Tax Audit by a Chartered Accountant is an Indian phenomenon and does not exist in any other country. Finance Act, 1984 introduced Tax Audit under Section 44AB with effect from the assessment year 1985-86. This not only broadened the area of practice by a Chartered Accountant to an unimaginable scale but also pinned so much trust on the Chartered Accountancy Profession.

Tax audit in U.S A, U.K, Yemen, Malaysia, and Egypt, is conducted by tax officers in Department of taxes not by independent Chartered Accounting as in India.

For example Definition of tax audit in U.S.A:- A tax audit is generally defined as an investigation into the history of tax returns filed by an individual, business or tax agency. You will be asked to go over these returns in person with an IRS agent, and will also be asked to produce supporting documentation.
From the aforesaid definition, tax audit in U.S.A is conducted by tax officer in Inland Revenue Services (IRS) but in India by professional chartered accountants. Tax audit in U.S.A is investigation only, but in India it is addition audit. Tax audit is conducted into the history of tax return, but in India tax audit ensures that the books of accounting and other records are properly maintained. So as mentioned aforesaid Indian tax audit indeed is unique in the world.

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 the Assessing Officer in carrying out routine verification like checking correctness of totals and verifying whether purchases and sales are properly vouched or not. The time of the Assessing Officer thus saved, could be utilized for attending to more important investigational aspects of a case.

5-10-Engaged in business and profession:-

The liability to tax audit arises only in case the income is chargeable under the head “profits and gains from business or profession”. Income derived under the other heads of income is disregarded.

If the Assesse is engaged in business and profession at the same time, tax audit shall be applicable if his business income exceeds Rs. 60 lakh or profession income exceeds Rs. 15 lakhs for Assessment year 2010-11. If one of the limits is exceeded, then he has to get his accounts pertaining to business and profession audited u/s 44AB. (PL.Subramanian,2010,18)

Thus, a person earning a salary of more than Rs 15 lakh is not subjected to tax audit, the fact that he is a professional notwithstanding, the liability is fixed on the assessee and not for a particular business. If a person runs two separate establishments — say, a provision store and a medical shop — and if the turnover or gross sales of these two put together exceeds Rs 60 lakh per annum, the assessee would be liable for tax audit.

But if the person runs a proprietary business and is also a partner in another firm, turnovers of these two entities cannot be clubbed together since the partnership firm is a separate “person” by itself. If the turnover of the firm exceeds Rs 60 lakh, it is only the firm which is subjected to tax audit. Partners of the firm are not subjected to tax audit merely because the
firm in which they are partners has turnovers exceeding the limit. (Liability for tax audit, M.V. Kaliprasad, Sunday, 15 August 2010)

5-11-Reasons for targeting business and profession for tax audit:-
After the researcher explained characteristic Indian tax audit and the case if the taxpayer has more than one business. In this section he will explain that, why business and professional are targeted for tax audit?

Business and professions are deemed success factor in the present time and it represents the majority to earn profit in the society. Business and professions have share in development of the societies. Collaboration between private sector and public sector is interesting factor to build huge development in the countries. The large slide from private sector, either businesses or professions, both are representing activity field of trade, commerce, industry and services in the countries.

Indian lawmaker has wisdom privileged when he enacted section 44AB income tax Act, 1961, compulsory tax audit in the year 1984 because, There are three main reasons why the business and profession are common audit targets.

First: - is the high amount of cash used in their activities. Most business and professions receive a substantial part of their income and payments as cash, thereby creating an easy opportunity for under-reporting of this income or over-report of these payments. The under-reporting and over-reporting may be either planned willfully, or in some cases, it may just be the result of poor accounts management. Either way, it leads to tax evasion. Even when there is no tax evasion, the high proportion of cash received or deposited in the banks is enough to attract the attention of the tax-auditors.

Second: - and the most important reason is that the business and professions are placed at a great advantage to claim their personal expenses as business expenses, and a significant proportion of them actually abuse this privilege to lower their tax liability. For example, business and profession taxpayer is likely to use his car for both official and personal purposes, but he may claim all the expenses related to the car, like interest paid on car loan, gasoline, repairs & insurance and the depreciation on car as business expenses. Similarly, business and profession can project his personal pleasure trips as business visits and claim all expenses thereof as deduction. Many business and profession also claim expenses on their home as office expenses, while others claim deduction on account of entertainment and
gift expenses as business expenses, even though they may not be actually so. The high probabilities of such practices mean that business and profession are always a target for audit.

Third: - Many business and profession maintain their books of accounting themselves, without having the necessary understanding of accounting and law to do a perfect job. As a result, they may end up claiming more deductions than are permitted by the tax code. Sometimes, the self-employed also get involved in abusive tax-evasion schemes or practitioners who misguide them and make them vulnerable to audit.

From the above we conclude that, because of the high amount of cash used in their activities, the business and profession are placed at a great advantage to claim their personal expenses as business expenses. They may end up claiming more deductions than are permitted by the tax code so businesses and profession are prone to tax evasion. So compulsory tax audit becomes very important to detect this tax evasion

5-12-Definition of tax audit:-

In the last section the researcher discussed reasons for compulsory tax audit for business and profession. In this section he will try to make a definition of tax audit

Auditing as a profession has grown in the society to undertake the responsibility of assuring the users of financial statements regarding their accuracy, usability, reliability and transparency. Hence, this profession calls for a high level of professional capability and excellence on the part of the auditor.

Auditing is a systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between those assertions and established criteria and communicating the results to interested users.

“Financial Audits in a financial audit, the assertions about which the auditor seeks objective evidence relate to the reliability and integrity of financial and, occasionally, operating information. The examination of the objective evidence underlying the financial data as reported is called an audit”. ( Raffa, P.C., www.cof.org )

Tax Audit means, audit of accounts of a person u/s 44AB. This section makes it obligatory for a person carrying on business or profession to get his accounts audited by a Chartered Accountant and to furnish by the specified date, the report in the prescribed form of such
audit, Section 44AB of the Income-Tax Act provides for an audit of the accounts of an assessee whose turnover or gross sales exceeds Rs 60 lakh per annum if the assessee is carrying on business or Rs 15 lakh of gross receipts if the assessee is carrying on profession. Tax auditing is a very valuable strategic function in taxation; it helps in checking whether taxpayers are complying with taxation statutes and hence helps to bring to light any irregularities in the taxation processes. The ICAI has defined audit as “an independent examination of the financial information of any entity, where profit-oriented or not and irrespective of its size or legal form, when such an examination is carried out with a view to expressing an opinion thereon”

Tax audit is a thorough examination of the financial to verify the correctness of calculation of taxable profit and to proper compliance with the provisions of Income tax Act i.e various income /expenses are required to be audited from the angle of Income tax by an accountant. (D.kumar and Dr. A.Rajan. p 326)

The Oxford English Dictionary defines the noun audit as “an official examination of accounts with verification by reference to witnesses and vouchers”

Tax auditing is defined as an inquiry into all phases of a taxpayer’s business in which significant tax error could occur. Tests are made in accordance with generally accepted auditing standards. They are extensive or comprehensive only to the degree necessary to support a professional audit opinion as to the correctness of returns as filed. Tests of records where potential errors are small are normally not as comprehensive as tests where substantial errors are possible. (Audit Manual, aujust, 2008, p 402)

According to Arunajha, tax audit is an examination of financial records to assess the correctness of calculation of taxable profit, to ensure compliance with provision of the income tax act, 1961 and also to ensure fulfillment of conditions for claiming deduction under the act.

Tax audit is an examination of a tax payer’s business records and financial affairs to ascertain that the amount of tax due to be reported and paid are in accordance with tax laws and regulation. Tax audit is an audit to find out the accurate tax payable by the company as per the income tax 1961. And ensure that all statutory payments are remitted on or before the respective due dates by company. Moreover, it helps to find out the difference between Company's act and income tax act. The difference is called differed tax assets and liability of the company.
5-13-Objectives of the Tax Audit:-
It is a special of tax audit that it depends on the basis of income tax law provisions more than it depends on accounting standards. The main objective for tax audit, it is to compute the taxable income according to the income tax law, and there are some other objectives:-
1- Tax audit ensures that the books of accounting and other records are properly maintained.
2- Tax audit helps to show the income of the taxpayer correctly.
3- Claims for deduction are correctly made
4- Tax audit indicates and checks fraudulent practices in final accounts.
5- It would facilitate the administration of tax laws by a proper presentation of the accounts before the tax authorities, thus, saving time of the assessing officers in carrying out routine verifications like checking total, verifying entries with vouchers.
6- The time saved of the Assessing officers, thus, could be utilized for attending to more important investigation aspects of the work (PL.Subramanian, April 2010,p 3)
7- It checks From the income tax act point of view the allowable and disallowable expenses taxable and exempt income which facilitates the work of the revenue authorities.
8- To ensure the compliance and reliability of various income tax provisions.
9- To encourage taxpayer for voluntary compliance with the law and regulation.
10- To assist both the taxpayer and the tax gatherer to arrive at correct due tax.

5-14-Scope of section 44AB:-
After we mentioned the objectives of tax audit, now we will explain scope of tax audit, The maximum limit of Rs. 60 lakhs in section 44AB has been fixed in the case of every person who is carrying on business and whose total receipts from the business activity, which come under the head Income from the profit and gains from the business, has to be viewed as one integrated whole and not independently. The assessment of a person is on the total income and not on the income derived from the different sources separately.

The three expressions used by the legislation, viz., the ‘total sales’, ‘turnover’ or ‘gross receipts’ though not defined under the Act, in the ordinary sense, refer to the volume of the business to which it relates and which is/are carried on by the assessee and in making assessment of profits and gains from the business whether such volume is a part of the business concerns trading in commodities or otherwise the business activities where the assessee has to indulge in incurring cost before receiving the amount in relation to that
business or he is carrying on other business activities in which the cost factor is excluded by the assessee and what he is receiving as charges for the work done by him, like job work, where the raw material is provided by the other manufacturer, the assessee is merely to relate his receipts to labour charges or procuring cost incurred by him along with part of his profit. It is in that sense that business which is carried on by the assessee has to be taken in totality. The ‘sales’, ‘turnover’ and ‘gross receipts’ are not words of art used in relation to any individual transaction independently but have been used as ‘sales’, ‘turnover’ or ‘gross receipts’.

The expression ‘total’ qualifies all the other three expressions, viz., ‘sales’, ‘turnover’ and ‘gross receipts’. Total sales indicate the aggregate price of the sales of commodities carried out by the assessee as a trading business.

Obviously, it would not include such transfer of immovable or movable property by way of investment. Similarly, where the assessee is not merely selling the movable commodities, but relating to other trading activities, e.g., where assessee is a land developer and he is engaged in business of acquiring land, developing it and selling houses or purchasing or is indulged in leasing business or is indulged in stock market so on and so forth, the expression ‘turnover’ is made out to denote receipts from such activities.

There may be third or residuary category which may not be termed properly a trading activity yet it is carrying on as business activity like job works for others, without himself being the manufacturer and selling such manufactured goods, or running a motor service garage, for the receipts of such business can aptly be termed as receipts of firm. However, integral relation of receipts by a person from business, does indicate that it refers to revenue receipts only and do not include capital receipts and certainly not the receipts which are not relatable to business and may fall under the expression income to be subjected to tax as income from sources other than profits or gains from business, profession or vocation. Thus, on true interpretation of section 44AB(a), the assessee, in the instant case, was required to get his accounts audited as his gross receipts had exceeded Rs. 40 lakhs during the previous year relevant to the assessment year 1994-95. (Posted by R.Sivanesh on Aug 24, 2010, website)
5-15-Purpose of Tax Audit:-
In the last sub-section we talked about scope of section 44AB, in this sub-section we will talk about purpose of tax audit. The purpose of Tax Audit is to ensure that books of Accounts have been maintained in accordance with the provisions of the Income Tax Act. Circular No.387 issued by the Central Board of Direct Taxes which has been annexed to the material circulated also highlights this fact.
Accordingly a proper audit for tax purposes would ensure that proper records are being maintained, and that the accounts properly reflect the income reported by the Assessee. This audit effectively curbs Tax Evasion and ensures Tax Compliance. Tax Audit also ensures that the Accounts are properly being presented to the Assessing Officers when called for. The precious time of the Assessing Officers is also saved from the routine and ineffective verifications like checking of totals and vouching of Purchase and Sales transactions. They can devote their time in more important investigation aspects of a Case. Thus Tax Audit saves considerable time to the Income Tax Department.

5-16-Who can carry out Tax Audit?
After the applicability of Tax Audit, the next question arises regarding who can conduct Tax Audit. Section 44AB requires that the accounts should be audited by an Accountant. The explanation to Section 44AB states that the word accountant shall have the same meaning as the explanation to Section 288(2). The Explanation to Section 288(2) states that “accountant” means a chartered accountant within the meaning of the Chartered Accountants Act, 1949 (38 of 1949), and includes, in relation to any State, any person who by virtue of the provisions of sub-section (2) of section 226 of the Companies Act, 1956 (1 of 1956), is entitled to be appointed to act as an auditor of companies registered in that State. Section 226 of the Companies Act, 1956 says that a person holding a certificate issued by a Part B State may also be appointed as an auditor. But this provision has no relevance today. No person is eligible to be appointed as an auditor by virtue of this provision today. Hence effectively only a Chartered Accountant holding a valid Certificate of Practice can carry out Tax Audit under section 44AB. This proves the level of trust that has been entrusted. It will be in the duty of us all future Chartered Accountants to uphold this trust. After all C and A are the Alphabets of trust.
“This monopolist trust vested on Chartered Accountants was also upheld by the Supreme Court in the Case of T.D. VenkataRao v. Union of India [1999] 237 ITR 315 (SC). In this instant case, T.D. Venkata Rao, an Income Tax Practitioner, had questioned the legal validity of allowing only CAs to Audit under section 44AB. Supreme Court upheld the superiority of CAs by noting that noted that Chartered Accountants, by reason of their training have special aptitude in the matter of audits and no other person can be held eligible to conduct audit under Section 44AB. Supreme Court further held that CAs are a Class by themselves meaning that CAs are the brand for auditing itself.” (R.Sivanesh on Aug 24, 2010, p 4)

5-17- Time limit for submission of tax audit report:-
If you say that you are a Chartered Accountant to any stranger, he would say “Oh! You are one of those people who are busy in the month of September, because section 44AB provides that tax audit report has to be submitted on or before 30th September of the Assessment Year, and sometime C.B.D.T extend the time limit like the Assessment Year 2010, the C.B.D.T has extended up to 15th October

5-18-Books of Accounts – need to maintain for audit:-
In this sub-section we will explain Books of accounts that should be maintained, Sec 2(12A) of the Income Tax Act, 1961 defines, the Book of account-books or books of account includes ledgers, day-books, cash books, account-books and other books, whether kept in the written form or as print-outs of data stored in a floppy, disc, tape or any other form of electro-magnetic data storage device. (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

5-19-List of documents/papers required for Tax audit purpose:-
All above books of accounts with supporting, Bank Passbook, Balance Sheet, Profit & loss account, previous year Balance Sheet, PY Profit & Loss account & PY Tax Audit Report Forms needed for comparison study & reporting purpose
5-20-Failure to keep, maintain or retain books of account, documents, etc:-
According to section 271A Income tax Act, 1961, If any person fails to keep and maintain any such books of account and other documents as required by section 44AA or the rules made there under, in respect of any previous year or to retain such books of account and other documents for the period specified in the said rules, the Assessing Officer or the Commissioner (Appeals) may direct that such person shall pay, by way of penalty, a sum of twenty-five thousand rupees.

5-21-Failure to get accounts audited:-
Under Section 271B, If any person fails to get his accounts audited in respect of any previous year or years relevant to an assessment year or furnish a report of such audit as required under section 44AB, the Assessing Officer may direct that such person shall pay, by way of penalty, a sum equal to one-half per cent of the total sales, turnover or gross receipts, as the case may be, in business, or of the gross receipts in profession, in such previous year or years or a sum of one hundred thousand rupees, whichever is less. Further penalty on non-compliance of audit provisions u/s 271B has also been increased to Rs 1,50,000/- from Rs 1,00,000 earlier These amendments are proposed to take effect from 1st April, 2011 and will, accordingly, apply in relation to the assessment year 2011-12 and subsequent years

5-22-penalty not to be imposed in certain cases:-
Section 273B, no penalty is imposable under section 271B on the assessee for the above failure if he proves that there was reasonable cause for the said failure. The onus of proving reasonable cause is on the assessee. A few instances where Tribunals/Courts have accepted as reasonable cause are illustrated below.
1- Resignation of the tax auditor and consequent delay.
2- Death or physical inability of the partner in charge of the accounts.
3-Labour problems such as strike, lock out for a long period, etc.
4-Loss of accounts because of fire, theft, etc. beyond the control of the assessee.
5- Non-availability of accounts on account of seizure.
6- Natural calamites, commotion, etc.
5-23-Action on incomplete audit reports:-

The Government has decided that all cases where the information provided in the audit report is incomplete or such non-committal replies are furnished so as to render the remarks or the report meaningless should be reported by the Assessing Officer to the Commissioner of Income-tax.

The matter thereafter is taken up by the Commissioner of Income-tax to see if the case reflects any professional negligence on the part of the accountants signing the audit report. Action for initiation of disciplinary proceedings in terms of section 288 of the Income-tax Act should be immediately taken by the Commissioner of Income-tax with the approval of the Chief Commissioner of Income-tax, as the case may be.

The Central Board of Direct Taxes have issued instructions with immediate effect to the field officers to report any professional negligence on the part of the chartered accountants in preparing the tax audit report to the Institute of Chartered Accountants of India in terms of section 288, as the Institute of Chartered Accountants of India is entitled to institute proceedings against its member chartered accountants who submit faulty tax audit reports , (PIB Press Release, New Delhi, dated 10-12-1999).

5-24-Tax audit procedures:

In this section the researcher briefly describe tax audit procedures; a tax audit is usually not a welcome experience for anyone in business. The purpose of audit procedures is to offer detailed audit steps which are to be performed during the audit fieldwork and which will achieve the explicit audit objectives, the audit procedures and the communication of the audit results should provide taxpayers with a clear understanding of the entire audit process, their rights and responsibilities during and after the audit and what they should do upon completion of the audit, Auditors must have a clear understanding of what they are supposed to be doing and how to accomplish the task at hand.

At the same time, auditors should be encouraged to develop innovative audit approaches and use their experience and background to identify new audit initiatives.

Statutory Audit and tax audit depends on the same legal rules and professional rules issued by professional organizations or legal institution. The purpose of the statutory audit is to provide an independent opinion to the shareholders on the truth and fairness of the financial statements, also the purpose of tax audit is same as the purpose of statutory audit, but there
one thing is more in tax audit. The provisions of the income taxes law were taken into account when accounting taxable income and taxable income was calculated and adjusted according to the provisions of the Income Tax Act.

Tax auditor is discharging this kind of tax and has to do his best to find out method of frauds and tax evasion, because the purpose of tax audit is to decrease the tax evasion and frauds in books and record of accounting.

There are several factors that help the success of tax audit like, professional skepticism, Audit Teams, Professional Audit Teams, and Communication between audit team, and meeting between audit team.

Audits are most effective when performed by qualified Professionals who work together and are focused on clear objectives. A team is formed to accomplish the project. Everyone who participates in the project is part of the team. Team members are valued for their knowledge.

The key to effective teamwork is communication. Nothing else is more critical, during each phase of an audit; meetings of team members are needed. A broad view of audit enforcement must be taken to achieve that objective.

The tax auditor is required to express his opinion as to whether the financial statements give a true and fair view of the state of affairs of the assessee in the case of the balance sheet and in the case of the profit and loss account/ income and expenditure account, of the profit/loss or income/expenditure (Guidance note, para11.1, p38)

Figure (5-1) Procedures of tax audit
Method and procedure followed in the statutory audit are the same method and procedure followed in the tax audit. Tax audit is special audit, therefore tax audit uses some methods that are compatible with the nature of the objective of tax audit. Tax auditing procedures are following some accurate steps for discharging successful tax audit. These steps are, planning the tax audit, Pre-survey, Survey, gathering evidence of performance, analysis and investigation of deviation, determining corrective action, reporting of the result of an audit tax.


1. Preliminary planning:-
The preliminary planning phase is the initial step of the audit process. For successful audits, we need to know what, we want to achieve (audit objectives), determine what procedures we should follow (audit methodology), and assign qualified staff to the audit (resource allocation) the tax planning become inevitable. Audit planning enables the audit team to develop an appropriate level of knowledge concerning the entity,

2. Pre-survey :-
In the pre-survey phase the audit team determines the laws, regulations or guidelines relevant to the objectives of the audit.

3. Survey:-
The audit survey phase includes steps necessary to assemble information that will enable the audit team to make decisions concerning the nature, timing and extent of detailed audit work.

4. Gathering and analysis evidence:-
Determining corrective action the appointment activity under examination and the issues facing them, gathering evidence of performance auditor collects different type of evidence to support the proposition underling the data, the auditor should obtain sufficient appropriate audit evidence through the performance of compliance and substantive procedures to enable him to draw reasonable conclusion therefore on which to base his opinion on the financial information, analysis and investigation of deviation.

the nature of tax auditing is a synthesis of tax law and accounting and audit science, therefore inevitable appear some of differences and some of deviation, because some of
accountancy policies are following in the firms are opposite the policies are mentioned in the income tax, like depreciation, allowances, reserves, prudence principle … etc, determining corrective action after prescribed the deviation tax auditor should research on the suitable solution and corrective action like tax auditor should do recalculate some of differences and apply law conditions and taxation law is prevalent in the cases of deviation, last step is tax auditor should do report about this auditing.

During audit, CA may ask taxpayer to provide management representations – For closing stock valuation etc. All available documents must be available for examination to support several crucial areas.

The tax auditor will also have to keep in mind the concept of materiality depending upon the circumstances of each case, while conduct a tax audit, the auditor should apply the generally accepted practice and procedures of auditing as he would apply in case of other audit. the auditor should obtain from the assess, the financial statements as well as the statement of particulars duly authenticated before he verifies them, tax auditor should keep in mind that the basic objective underlying section 44AB is to assist the authorities in assessing the correct income of the assessee. (Kamal Gupta, 2007, p.916)

The auditor aims at checking the following during Audit:-

1. Sufficiency and relevance of information contained in accounts records and source documents to check the sufficiency and relevance of information contained in the accounting and source records, the auditor examines the existence of internal control and accounting system, and tests them to decide the nature, extent and timing of other audit procedures.

2. Proper disclosure of relevant information in financial statements, to determine the proper disclosure of relevant information in financial statements, the auditor compares the transactions, events represented in the source documents and accounting records with the financial statements and checks that they are properly summarized, carried down to the financial statements and adequately disclosed. In other words, the auditor checks that:
   i. The trial balance reflects the proper summary of balances and transactions,
   ii. The financial statements reflect the fair disclosure of events and transactions by proper grouping of balances, events, transactions,
iii. Information reflected in the financial statements adequately convey the messages required by narration and notes as may be desired by statute, pronouncements or requirement of the context

iv. Judgment of the management is fairly made in matters where they are inherent and implied – For example, estimation involved in making a provision, or selection of a particular accounting policy among available alternative policies (like in depreciation methods)

5-Reporting

Auditing and report writing are not separate activities but represent a single integrated process. The audit team should begin anticipating and visualizing the report as early as the preliminary planning phase. 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. 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

5-25-Audit evidence:-

Tax auditor when conducted tax audit should search about persuasion evidence for all auditing items, so we will talk in this sub-section for audit evidence,

Definition: Evidence – information used by the auditor to draw conclusions on the fair presentation of the financial statements. Audit objectives suggest the types of evidence to accumulate. Source and types of audit evidence:-Audit evidence can be obtained from internal (prepared by an auditee) or external (received from third parties) sources. The audit evidence obtained from external sources and directly from an audit team is more reliable than that prepared by an auditee.

When conducting audit procedures, the auditor is to examine various types of evidence. The evidence that, the auditor looks at is divided into the following nine areas:

1- Inspection of records or documents: consists of examining internal and external records, internal documents are considered to be less reliable than external documents, since there is no third party to review the gathered evidence.

2- Inspection of tangible assets: is about the auditor conducting a physical examination of the assets, this form of audit procedure gives assurance to the auditor that the asset exists.

3- Observation: concerns the auditor overseeing a process that is being performed by others,
such as watching the counting of an inventory being performed by the employees of the audited firm.

4- Inquiry: is about gathering information from people who possess a deeper knowledge within a specific area. The information is gathered within the firm, or outside the firm if necessary.

5- Confirmation: is, as the word implies, a process of obtaining information from a third party that the evidence (financial or non-financial) provided by the audited firm to the auditor is in fact reliable.

6- Recalculation: consists of checking the numerical accuracy of documents and records, with the help of computer programs. This procedure is considered to be highly reliable since the auditor is the one creating this form of evidence.

7- Reperformance: consists of redoing some of the procedures which the auditor finds questionable and which were previously performed by the staff of the firm. This procedure is also considered to be highly reliable.

8- Analytical procedures: are considered to be an efficient form of gathering evidence, the term consists of ‘evaluations of financial information through an analysis of plausible relationships among financial and non-financial data’

9- Scanning: is about the review of accounting records in order to identify noteworthy or unusual items. This procedure also involves the review of transaction data, such as expense accounts, in order to detect errors that might have occurred.

5-26-Requirements of Tax Audit:-

The purpose of Tax audit is to ensure proper maintenance of books of accounts and other records, in order to reflect the true income of the assessee and to facilitate the assessing officer to carry out the verification.

While conducting a tax audit, the following points need to be kept in mind:

a- It is the primary responsibility of the assessee to give classified information for the purpose of tax audit. This is in the interest of an efficient conduct of tax audit.

b- The Tax auditor has to ensure that the data he audits using is the final one.

c- Audit Program and the extent of Audit Procedures have to be planned according to the nature of business and operations of the client.
d- Particulars given in Form 3CD have to be true and correct. The emphasis is on the accuracy of data extracted.
e- The data extracted has to be further filtered to certain quantity / value limits as judged by the CA. The Concept of Materiality – AAS 13 has to be referred to while preparing the particulars to be reported.
f- Print outs of particulars reported in Form 3CD should be duly signed by the authorised signatory, and be kept as working papers. AAS 3 - Documentation - Working Papers
g- Many of the particulars require exercise of judgment by the tax auditor.
h- Tally.ERP 9 is used only to generate various reports and required information, reporting of such information or not is subject to tax auditor’s judgment.
i- The tax audit report is for an assessee. Details/ information should be consolidated where the enterprise has more than one division/ unit/ branch and accounts are maintained separately for each division/ unit/ branch. Where an auditor is required to furnish tax audit report only in respect of a division/ unit/ branch, details of the same should be mentioned in the Report.

We have learnt about procedure of tax audit, procedure steps are five, Preliminary planning, Pre-survey, Survey, Gathering and analysis evidence, determining corrective action, Reporting, then we explained audit evidence, it were Inspection of records or documents, Inspection of tangible assets, Observation, Inquiry, Confirmation, Recalculation, Reperformance, and Analytical procedures, in the last sub section we learn about Requirements of Tax Audit.

2-27-Limitation of tax audit:-
There are some of limitations of tax audit as following:-
1- The objective of an audit of financial statements is to enable the auditor to express an opinion whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework.
Owing to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements of the financial statements will not be detected, even though the audit is properly planned and performed in accordance with Indian accounting standards.
2- The risk of not detecting a material misstatement resulting from tax evasion is higher than the risk of not detecting a material misstatement resulting from error because tax evasion
may involve sophisticated and carefully organized schemes designed to conceal it, such as forgery, deliberate failure to record transactions, or intentional misrepresentations being made to the auditor. Such attempts at concealment may be even more difficult to detect when accompanied by collusion. Collusion may cause the auditor to believe that audit evidence is persuasive when it is, in fact, false.

3-Furthermore, the risk of the tax audit for not detecting a material misstatement resulting for tax evasion of management is greater than the risk for tax evasion from employee, because management is frequently in a position to directly or indirectly manipulate accounting records and present fraudulent financial information. Certain levels of management may be in a position to override control procedures designed to prevent similar frauds by other employees, for example, by directing subordinates to record transactions incorrectly or to conceal them. Given its position of authority within an entity, management has the ability to either direct employees to do something or solicit their help to assist in carrying out a fraud, with or without the employees’ knowledge.

4- The subsequent discovery of a material misstatement of the financial statements resulting from tax evasion does not, in and of itself, indicate a failure to comply with Indian ASs. This is particularly the case for certain kinds of intentional misstatements, since audit procedures may be ineffective for detecting an intentional misstatement that is concealed through collusion between or among one or more individuals among management, those charged with governance, employees, or third parties, or that involves falsified documentation. Whether the auditor has performed an audit in accordance with Indian ASs is determined by the audit procedures performed in the circumstances, the sufficiency and appropriateness of the audit evidence obtained as a result thereof and the suitability of the auditor’s report based on an evaluation of that evidence

5-28-Tax audit and Compliance with Auditing Standards:

While discharging their attest functions; it is the duty of the tax auditor to ensure that the auditing standards are followed in the audit of financial information covered by their audit reports. If for any reason the tax audit is unable to perform an audit in accordance with the generally accepted auditing standards (GAAS) his report should draw attention to any material departures there from, failing which he would be held guilty of professional misconduct under clause 9 of Part 1 of the Second Schedule to the Chartered Accountants
The auditing standards are like laws, which are to be followed by the auditor during the course of the audit. If followed properly, it will safeguard the auditor against third party action and regulatory bodies. Technical standards relating to peer review include the Auditing and assurance standards issued by the Institute of Chartered accounting on India. These AASs are a guide for maintaining the quality of the attestation services work they form. (T.H.Gupta, p310)

The AASs apply whenever an independent financial audit is carried out; that is the independent examination of financial information of the entity, whether profit oriented or not, and irrespective of its size, or legal form when such an examination is conducted with a view to departures from ASSs in their audit report, along with the reasons for such departures. So far the ICAI has issued 32 Auditing standards. Auditor will have to follow ASSs from ASS-1 to ASS-30 in tax audits involving expression of opinion on accounts. AAS-31 and AAS-32 do not apply to audit. They apply to compilation engagements. (T.H.Gupta, p 310, 2008)

We will describe as possible as the tax process with the auditing standards as following during tax audit, there are four steps of tax audit process: Pre-commencement., Understanding the entity, Audit planning, Substantive procedures Reporting

1- Pre-commencement
AAS 1 -Basic Principles Governing an Audit, Auditor should comply with certain basic principles whenever an audit is carried out
AAS 26- Terms of Audit Engagement, The auditor and the client should agree on the terms of engagement. The engagement letter could include arrangement regarding the planning of the audit and the auditor's expectation from the management regarding representations and written confirmations. Engagement letters should be obtained and acceptance letters should be sent to the client

2- Understanding the entity
AAS 6- Risk Assessments and Internal control Auditor should understand the internal control system and use professional judgment to assess audit risk and to design audit procedures. He should ascertain whether there is a control procedure and major weaknesses in internal control are corrected effectively. Written statements in questionnaire form or flow chart form should be prepared regarding internal control system. Tax auditor could apply International internal audit (IIA) for test internal control system.
AAS 20-Knowledge of the business The auditor should have knowledge of the business to identify the events that may have an impact on the financial statements.

AAS 21-Consideration of Laws and Regulations in an audit of financial statement Non-compliance of applicable laws and regulations may materially affect the financial statements. When the auditor believes that there is non-compliance, he should document the same and report it.

AAS 22 Initial engagements-opening balances The auditor should obtain evidence that the closing balances of the preceding period have been correctly brought forward and the opening balances do not contain misstatements that materially affect the financial statements for the current period.

AAS 23- Related parties The auditor should obtain sufficient audit evidence regarding the transactions of related parties that are material to the financial statements.

AAS 24- Audit considerations relating to entities using service organizations The auditor should consider how a service organization affects the accounting and internal control system of the borrower.

AAS 29- Auditing in CIS environment The auditor should consider the effect of a CIS environment on the audit. He should have sufficient knowledge of the CIS to proceed with the audit. Scope and nature of the terms of assignment and extent of responsibility should be specified.

2-Audit planning

AAS 2- Objective and Scope of the audit of financial statements, The scope of an audit will be based on the terms of engagement, relevant laws and the pronouncements of the Institute. He should plan the audit so as to cover all aspects that are relevant to the financial statements being audited.

AAS 8 -Audit Planning, Auditor should plan his work based on the client's business to enable him to conduct an effective audit in an efficient and timely manner. He could discuss elements of his overall plan and certain audit procedures with the client to improve the efficiency of the audit. Wherever necessary he could intimate his requirements as to records and information required from the company. Audit program should be clearly documented.

AAS 12 Responsibility of joint auditors The division of work should be adequately documented and matters of relevance may be communicated to the joint auditors in writing.
AAS 15 - Audit Sampling  The auditor should design and select an audit sample, perform audit procedures thereon, and evaluate sample results so as to provide sufficient appropriate audit evidence. While determining the sample size, the auditor should consider the sampling risk, the tolerable error, and the expected error.

AAS 16 - Going concern  The auditor should consider the appropriateness of the going concern assumption underlying the preparation of the financial statements. If, the auditor opines that there exists an indication of risk that the going concern assumption is inappropriate, he should obtain sufficient evidence to satisfy himself that the company will continue its operations for the foreseeable future.

AAS 17 - Quality control for Audit work  The audit firm should implement quality control policies and procedures designed to ensure that all audits are conducted in accordance with Auditing and Assurance standards. The progress of the engagement should be clearly monitored and documented.

3- Substantive procedures

AAS 3 - Documentation  Auditor should have proper working papers that will enable him to substantiate his results. The working papers are very necessary for the following reasons. It serves as an evidence that the work performed by him is based on an examination made by him. It serves as evidence that his opinion is not arbitrary but is based on the information and explanations given to him by the company. It serves as an evidence to show that the auditor has called for information before framing an opinion. It shows the various tests applied by the auditor to verify the accuracy and completeness of the information.

AAS 4 - The Auditor’s responsibility to consider Fraud and Error in an audit of financial statements  The auditor should consider the risk of material misstatements in the financial statements resulting from fraud or error. He should approach the audit with a perspective, which enables him in the process of preventing and in the process, taking corrective measures, for the probable frauds and errors that exist.

AAS 5 - Audit Evidence  The auditor should evaluate whether he has obtained sufficient appropriate evidence before he draws his conclusions.

7 - Relying upon the work of an Internal Auditor  The auditor should evaluate the internal audit function and accordingly adopt less extensive procedures than otherwise required. Reliance placed on work of internal auditor should be clearly documented.

AAS 9 - Using the work of an expert  When the auditor plans to use the services of an expert he should satisfy
himself as to the experts skill and competence. He should satisfy himself that the substance of the experts findings is properly reflected in the financial statement. If, in exceptional cases the work of an expert does not support the representations of the management, the auditor should arrange for discussions with the client and the expert and try to resolve the inconsistencies.

AAS 10- Using the work of another auditor, the principal auditor should discuss with the other auditor the audit procedures applied. There should be proper co-ordination between the two auditors. When the principal auditor bases his opinion on the financial information of the entity as a whole and relies on the reports of the other auditors, he should clearly state in his report the extent to which he has relied on such information.

AAS 11- Representations by management The auditor should use his professional judgment in determining matters on which he wishes to obtain Representations by management. Written representation from the management must be obtained on matters material to financial information.

AAS 13- Audit materiality, The auditor should consider materiality and its relationship with audit risk when conducting the audit. He should use his professional judgment in assessing what is material.

AAS 14- Analytical procedures, The auditor should apply analytical procedures at the planning and overall review stages of the audit.

AAS 18- Audit of Accounting estimates The auditor should obtain sufficient appropriate evidence on the accounting estimates contained in the financial statements.

AAS 19- Subsequent events The auditor should consider the effect of subsequent events on the audit report.

AAS 30- External confirmations The auditor should determine whether the external confirmations are necessary to support certain assertions in financial statements.

AAS 34- Audit evidence Additional considerations for specific items The auditor should perform audit procedures designed to obtain appropriate audit evidence during his presence in physical inventory counting.

5-Reporting

AAS 27- Communication of Audit matters ,The auditor should communicate matters of governance interest with those charged with governance of the entity.

AAS 28 -Auditors report on financial statements, The auditor should review and assess the
conclusions drawn from the audit evidence obtained as the basis for the expression of an opinion on the financial statements. He should express an unqualified opinion if he opines that the financial statements give a true and fair view. The basis of confirmation from outside parties should be placed on record.

Conclusion: tax auditor Commitment with auditing standards is inevitable and cannot perform tax audit without application of these standards, the auditing standards are like laws, which are to be followed by the auditor during the course of the audit. If followed properly, it will safeguard the auditor against third party action and regulatory bodies

5-29-Responsibility of taxpayer:-
Taxpayer is responsible for the preparation of accounting books and records and fair presentation information accordance with the requirements of tax auditor and Income Tax act, 1961 as well, management is responsible includes: designing, implementing and maintaining an adequate accounting system incorporate various internal control relevant to the preparation accounting books and records and fair presentation of details information about all transactions in side accounting books and accounting policies are following. Taxpayer is responsible also about any information or any ambiguity make obstacle front of performance tax audit.

5-30- Appoint a tax auditor:-
The appointment of the auditor for tax audit in the case of a company need not be made at the general meeting of the members. It can be made by the Board of Directors or even by any officer, if so authorized by the Board in this behalf. The appointment in the case of a firm or a proprietary concern can be made by a partner or the proprietor or a person authorized by the assessee.

5-31-Removal of tax auditor appointed under Sec. 44AB:-
There is no specific procedure for removal of a tax auditor appointed under section 44AB. It is, however, possible for the management to remove a tax auditor where there are any valid grounds for such removal. This may arise where the tax auditor has delayed the submission of audit report under section 44AB for an unreasonable period and if it is found that there is no possibility of getting the audit report before the specified date. In such cases, the assessee may be justified in removing the tax auditor. However, the tax auditor cannot be removed on the ground that he has given an adverse audit report or the assessee has an apprehension that the tax auditor is likely to give an adverse audit report.
5-32-Ceiling on tax audit assignments:-
Before accepting a tax audit, the chartered accountant should take into consideration the ceiling on tax audit assignments fixed under the Notification dated 13 January 1989, issued by the ICAI. In view of the said Notification, a member of the Institute in practice, shall be deemed to be guilty of professional misconduct if he accepts in a financial year more than 30 tax audit assignments or such other limit as may be prescribed by ICAI from time to time under section 44AB. The council general guidelines, 2008, dated 8-8-2008 has increase the specified number of tax audit assignment that a AC can accept from 30 to 45.

5-33-Tax audit and statutory audit:-
Statutory audit is as the mother to other auditing, and also is a root to other audits, all remaining auditors is a copy from statutory audit, despite from that there are some of differences between tax audit and mandatory audit, but a main difference between statutory audit and tax audit is that, where statutory audit objective to emphasis on fairness of accounts according to accounting standards, while tax auditing objective to emphasis on correctness of net taxable income according to income tax Act provisions. There are similarities and dissimilarities between tax audit and statutory audit, statutory audit report serve more than part whereas tax audit report serve government only for correctness taxable income, tax Audit terms used in general practice in India means audit under Income Tax Act. Generally public understand this as a absolute audit while this is not a absolute audit. This audit is only a audit as per Income Tax Act of India and angle of Auditor is also to safeguard the IT Act. (CA Pankaj Jaiswal, July 17th, 2010)

5-33-1-Similarity between tax audit and statutory audit:-
There are some of similarities between them as following:-
1- Tax audit and statutory audit depend upon same group of accounting books and same records as well, because those books are core operation audit for both of auditors and set of accounting books are source of data for goals of both auditors.
2- Statutory auditor and tax auditor has right to access to all accounting books and record, all documents and vouchers for get enough verification of accounting data.
3- Statutory audit and tax audit has right for obtain the interpretations and explanation data don’t appear in the accounting books and record, and also they have right to request necessary data and clarification for complete their assignments
4- Everyone has catch of confidentiality tax auditor and statutory should respect the confidentiality of information acquired in the course of his work and should not disclose any such information to a third party
5- Both are mandatory to do some of tests for some of accounting items and test for rely internal control system
6- Tax audit and statutory audit are same in the procedures of auditing, and both are apply auditing standards issue by (ICAI)

5-33-2- dissimilarities between tax audit and statutory audit:-
There some of dissimilarities between statutory audit and tax audit. they are as following:-
(a) objective of each, the principal objectives of the Statutory Audit is to ensure that the financial statements i.e. the Balance Sheet, Profit & Loss Account and Cash Flow Statement give a true & fair view and are free from any material misstatements whereas a Tax Audit involves an expression of the tax auditors’ opinion on the truth and correctness of certain factual details, given by assessee to the Income Tax Authorities to enable an assessment of tax.
(b) – approach of each, Approach to Statutory Audit of the financial statements is to provide reasonable assurance that the accounts have been prepared in accordance with the Generally Accepted Accounting Principles (GAAP) and are free of any misstatements, errors and discrepancies whereas approach to tax audit Certification of the books of account being in agreement with the Balance Sheet and Profit and Loss Account as per the requirements of the Income Tax Act, 1961, Checking the correctness of the Claimable deductions as allowed in the Income Tax Act, 1961, Effective reviews to see that the accounts are prepared in accordance with the tax efficient policies, Checking the various tax compliance norms as set out by the Income Tax Act, 1961. Issuing the Report of Tax Audit as required by the Income Tax Rules in the prescribed format
(c) - differences in treatment of some expenditure In tax audit the calculation and valuation of inventory is different while in statutory audit it is different, also depreciation is also differently calculated.
(d)- prepare financial balance sheet and profit loss account, statutory audit prepare his financial balance sheet and profit loss account as per Indian GAAP, tax audit prepare his financial balance sheet and profit loss account as per Indian GAAP and under provision of Indian Companies Act 1956, and make necessary adjustment according to Income act, 1961, and tax Computation chart and in Income Tax Return.

(e)- Tax auditor starts his assignments after financial year is over and before the prescribed time for submitted the tax audit report in India income tax, Act, 1961, section 44AB provides that tax audit report has to be submitted on or before 30th September of the Assessment Year, statutory auditor starts his assignment during the financial year or after the year is over.

(f)- tax auditor submits his report to tax authority, he declares correctness taxable income, whereas statutory auditor submits his report to the owner firm or to the board of management of company, he is declaring true and view of financial statements.

Conclusion:- statutory audit is mandatory but tax audit is compulsory if Sales, Turnover is 60 lakhs and gross receipts is 15 lakhs, for business and professional, statutory audit objective to emphasis on fairness of accounts according to accounting standards, while tax auditing objective to emphasis on correctness of net taxable income according to income tax Act provisions. There are some of Similarity between tax audit and statutory audit like both depend upon same group of accounting books, both have right to access to all accounting books and record, tax audit and statutory audit are same in the procedures of auditing some dissimilarities between them like, differences in treatment of some expenditure, tax auditor submits his report to tax authority whereas statutory auditor submits his report to the owner firm.

5-34-Tax auditor:-
Tax audit under section 44AB being a recurring audit assignment, for expression professional opinion on the financial statements and the particular, this is deemed as the main assignment of tax auditor according section 44AB income tax act, 1961. Section 44AB stipulates that only chartered accounting should perform the tax audit, as such the tax audit can be conducted either by the statutory auditor or by any other chartered accountant in full time practice (guidance note, 2005,22,23). Tax auditor should versed in business tax law, IACI notes that the tax auditor is not computing the income but is (a) reporting accounts, (b)
reporting on relevant information furnished in from 3CD. tax auditor is deemed as main player in tax audit conduct, because he use his professional, skill and expertise and apply such audit test, as the circumstances of the case may require in order to enable him to certify whether or not the accounts reported upon by him give a true and fair view of the state of affairs. we have to mention that tax audit in India is unique, because tax audit in India conduct by Indian independence chartered accounting but in the remaining countries in the world tax audit perfume by tax officers in department of taxation, for example in U.S.A. who discharge tax auditor? Answer for this question the tax officers in internal revenue services (IRS) who is conducted tax audit and also in U.K, French, Canada, Australia, Malaysia and all Arabian counties as well tax officers perform tax audit. Something else tax audit in other countries only for correct of tax return the evidence for that the U.S.A tax audit defined tax audit as an examination by the internal revenue service (IRS) of an individual or a corporation tax return to verify that the return is accurate and complete.

In India tax auditor has huge authorities in belong tax audit if we are comparing these authorities with another tax audit in other countries, Sec.227 of the Companies Act, 1956 prescribes the ‘Duty and Liability of the Auditor’. Statutorily, the Auditor is required to employ reasonable skill and care as with any other person having specialized knowledge

**Definition of tax auditor:**

The auditor should recognize, however, that there are many variations necessitated by application of the law, rules and regulations, taxpayer’s methods of reporting, and types of records encountered ,

Definition of "accountant":- section 288(2) of the income tax act, 1961 accountant for the purpose of section 44 AB chartered accountant within the meaning of the chartered accountant act, 1949 and including persons who under section 226(2) of the companies act, 1956 is entitled to be appointed as an auditor of company, and addition some of definition as following:-

1- Tax Auditor is the person appointed to conduct an examination of the records, to form an opinion about the authenticity and correctness of such records, by verifying the correctness and reliability of the recorded transactions from the evidences available, and statement his opinion in the report about true and correctness taxable income according to standards accountant are following and not contrary to the provisions of the Income Tax Act.
The general definition of an audit is an evaluation of a person, organization, system, process, enterprise, project or product. Audits are performed to ascertain the validity and reliability of information; also to provide an assessment of a system's internal control. (wordnetweb.princeton.)

The main duty for tax auditor is required to ensure that the correct amount of income is reported in accordance with tax law and regulation.

5-35- Powers and duties of tax auditor:-

The powers of statutory audit have been defined in the Indian Laws. Section 227 of the Companies Act, 1956 deals extensively on this topic, Subsection 1 of Section 227 of the Act states that "every auditor of a company shall have a right of access at all times to the books and accounts and vouchers of the company, whether kept at the head office of the company or elsewhere, and shall be entitled to require from the officers of the company such information and explanations as the auditor may think necessary for the performance of his duties as auditor" auditors have a legal duty to assess the adequacy and reliability of the client's internal control systems and must report weaknesses to management.

Section 227 of the companies Act given certain power to the statutory auditors to call the books of account, information, documents, explanation, etc. and to have access to all books and records. No such power are given to the auditor appointed under section 44AB.(advanced auditing, volume-1, IACA ,2006, 13.11).But we have objection on this point for these justifications

Firstly: - from the viewpoint of the researcher, as long as the law had been given certain powers, in order to statutory auditors, does not mean that, that powers are forbidden to tax auditors.

Secondly: - not merely text in the law is prohibit tax auditor from his powers, and impossible conducted tax audit without practicing these powers, but the same power should be exercised.

Thirdly: - tax audit is compulsory audit, so the powers of tax auditor become compulsory like tax audit.

Tax audit under section 44AB should obtain from the assessee a letter of appointment for conducting the tax audit, this letter should be signed by the person competent to sign the return of income in terms of the provisions of section 140, the letter should also specify the
remuneration of the tax auditor, engagement letter should be there for the interest of both client and auditor, tax auditor should communicate with the member who had done tax audit in the earlier year as provided in the chartered accountants Act, the tax auditor should get the statement of particulars, as required in the annexure to the audit report. The auditor for tax purposes will ensure the tax department that the accounts and other record are being properly maintained by the assessee, it will also help the assessing officer in completing the assessment depending on the auditor’s report covering many matters and the save time in carrying out routine matters and devote his time to more important investigation aspects of case.

Auditor will have to follow AASs from AAS-1 to AAS-30vin tax audits involving expression of opinion on accounts. The tax audit is required to verify that no items have been omitted in the information furnished to him and reasonable test checks would reveal whether or not the information furnished is correct, Tax auditor should be versed in some of knowledge and skills, like Extensive knowledge of tax law, Extensive knowledge of legal research principles and techniques, Extensive knowledge of tax return structure and classifications, General knowledge of applications for personal computers. And some of skills like, Skill analyzing financial statements and accounting records used in preparing tax returns, Skill writing, developing, testing and teaching training units about tax law changes, Skill using various investigative tools and techniques to solve problems Skill adapting and changing audit programs when unexpected developments and nonstandard circumstances warrant, Skill evaluating and understanding various computerized accounting systems.

Conclusion:- tax auditor is the stone corner in tax audit under section 44AB of Income tax Act,1961, and he is as engine for detected tax evasion committed by taxpayer. an tax audit should enjoy same statutory auditor power, Tax auditor should be versed in some of knowledge and skills, like Extensive knowledge of tax law, Extensive knowledge of legal research principles and techniques, Extensive knowledge of tax return structure and classifications, And some of skills like, Skill analyzing financial statements and accounting records used in preparing tax returns.
5-36-Responsibilities of the tax Auditor for Detecting tax evasion:-
tax auditor conducting tax audit in accordance with Indian Income tax law1961, Accounting
Standards and Indian standards auditing for obtains reasonable assurance that the financial
statements taken as a whole are free from tax evasion, tax auditor should gather information
needed to identify risks of material misstatement due to tax evasion, Tax auditor cannot
obtain absolute assurance that tax evasion in the financial statements detected because of
such factors as the use of judgment, the use of testing, the inherent limitations of internal
control and the fact that much of the audit evidence available to the auditor is persuasive
rather than conclusive in nature.

Professional Skepticism:- the auditor plans and performs an audit with an attitude of
professional skepticism recognizing that circumstances may exist that cause the financial
statements to be materially misstated. Due to the characteristics of tax evasion, the auditor’s
attitude of professional skepticism is particularly important when considering the risks of
material misstatement due to tax evasion. Professional skepticism is an attitude that includes
a questioning mind and a critical assessment of audit evidence. Professional skepticism
requires an ongoing questioning of whether the information and audit evidence obtained
suggests that a material misstatement due to tax evasion may exist.

5-37- Basic ethical should be available in tax auditor.:
Each professional has some of traditional and customs, and need some skills and knowledge,
tax audit is among those professionals, Following are some of the basic principles of ethical
which govern the tax auditors professional responsibilities and which should be complied
with whenever an audit is carried out, some the ethical are personality ethical and some of its
are belong tax audit procedures.

a- Documentation:-The auditor should document the matters, which are important in
providing audit evidence that the audit was carried out in accordance with the basic
principles, which are governing audit.

b- Professional Secrecy :-Auditors should not disclose information obtained in the auditing
process to third parties, either orally or in writing, except for the purposes of meeting with
tax authority or other identified responsibilities as part of the SSA’s normal procedures or in
accordance with relevant laws.
c- Skills and Competence :- Auditors have a duty to conduct themselves in a professional manner at all times and to apply high professional standards in carrying out their work to enable them to perform their duties competently and with impartiality. Auditors must not undertake work they are not competent to perform. Auditors should know and follow applicable auditing, accounting, and financial management standards, policies, procedures and practices. The audit should be performed and the report has to be prepared with due professional care by persons who have adequate training, experience and competence in auditing.

d- Audit evidence:- The auditor should obtain sufficient and appropriate audit evidence, which will enable him to draw reasonable conclusions there from on which base his opinion on the financial information. He should make sure that the evidence supporting the report is sufficient, reliable, and clear.

e- Confidentiality - The auditor should respect the confidentiality of information acquired in the course of his work and should not disclose any such information to a third party without specific authority or unless there is a legal or professional duty to disclose.

f- Update knowledge:- It is important for every auditor to update their knowledge, the auditor should be able to self-assess their own knowledge and make the best efforts to improve the level of their professional knowledge.

g- Independence of auditor :- Auditor independence means that it should not be affected by personal or external interests, auditor should also be objective and impartial in the issues they audit. Independence from the audited entity and other outside interest groups is indispensable for auditors. This implies that auditors should behave in a way that increases, or in no way diminishes, their independence. Auditors should strive not only to be independent of audited entities and other interested groups, but also to be objective in dealing with the issues and topics under review. It is essential that auditors are independent and impartial, not only in fact but also in appearance.

h- Integrity:- Integrity is the core value of a Code of Ethics. Auditors have and duty to adhere to high standards of behavior in the course of their work and in their relationships with the staff of audited entities. Integrity can be measured in terms of what is right and just. Integrity requires auditors to observe both the form and the spirit of auditing and ethical standards. Integrity also requires auditors to observe the principles of independence and objectivity,
maintain irreproachable standards of professional conduct, make decisions with the public interest in mind, and apply absolute honesty in carrying out their work

I- Objectivity and Impartiality:- There is a need for objectivity and impartiality in all work conducted by auditors, particularly in their reports, which should be accurate and objective. Conclusions in opinions and reports should, therefore, be based exclusively on evidence obtained and assembled in accordance with the SSA’s auditing standards

j- Due professional care:- The tax auditor should exercise due professional care in performing and reporting. All those involved should fulfill assigned responsibilities in a professional manner. Auditors should exercise due professional care in conducting and supervising the audit and in preparing related reports. Auditors should use methods and practices of the highest possible quality in their audits. In the conduct of the audit and the issue of reports, auditors have a duty to adhere to basic postulates and generally accepted auditing standards.

k- Professional Skepticism:- The auditor should maintain an attitude of professional skepticism throughout the audit, recognizing the possibility that a material misstatement due to tax evasion could exist, notwithstanding the auditor’s past experience with the entity about the honesty and integrity of management and those charged with governance.

5-38- Tax audit report:

- After we have studied the basic ethical should be available in tax auditor, we will talk about tax auditor report. This is last section in this chapter. Section 44AB read with rule 6G of the Income Tax rules, 1961 requires the tax auditor to submit the audit report before the specified date and furnish by that the report of such audit in the prescribed form duly signed and verified by such accountant and setting forth such particulars as may be prescribed.

Rule 6G provides that:-

1. The report of audit of accounts of a person required to be furnished u/s 44AB shall
   (a) In the case of a person who carries on business or profession and who is required by or under any other law to get his accounts audited, be in form No. 3CA.
   (b) In the case of a person who carries on business or profession, but not being a person referred to in clause (a), be in form No. 3CB.

2. The particulars which are required to be furnished u/s 44AB shall be in form No. 3CD.

Under form No. 3CD, particulars are to be given under 32 clauses. In some clauses, the requirement in the form id different from the corresponding section under the Income tax
Act. In the form 3CA and 3CB auditor is required to certify ‘true and fair’ view of balance sheet and profit and loss account and true and correct position of details mentioned in form 3CD and the annexure thereto.

The report should sing by auditor and also name the specific location, where the audit report is signed along with date of report.(T.H.Gupta and H.C. Gupta,2007,p210)

5-39- Conclusion:-

In this chapter the researcher discussed tax audit under section 44AB of Income Tax Act1961. There are more efforts and focus has been placed by the tax authority in all countries for combating tax evasion, tax audit is as a tool in the handed of tax authorities to curb tax evasion, so in order to reduce noncompliance and fighting tax evasion in India, government in India enacted tax audit section 44AB of income-tax Act, 1961.

Objectives of the Tax Audit are , Tax audit ensure that the books of accounting and other records are properly maintained, Tax audit helps to show the income of the taxpayer correctly, Claims for deduction are correctly made, Tax audit indicate and check fraudulent practices in final accounts, It would facilitate the administration of tax laws by a proper presentation of the accounts before the tax authorities and differences between net profit according to Indian GAAP and according to Indian income tax act 1961, To ensure the compliance and reliability of various income tax provisions, to encourage taxpayer for voluntary compliance with the law and regulation, and to assist both the taxpayer and the tax gatherer to arrive at correct tax due.

The differences between net profit according to principles of accountancy and profit according to income tax either temporary differences or timing differences. The following persons are required to get their accounts compulsorily audited by a Chartered Accountant according to u/s 44AB income tax Act, 1961. First category any person carrying on a business whose total sales, turnover or gross receipts exceed Rupees Sixty Lakhs during the previous year. The Second Category covers any person who is carrying on a profession whose gross receipts exceed Rs. 15 lakhs. The Third Category covers persons whose income is assessed on a presumptive basis under section 44AE, 44BB or 44BBB. The Fourth Category is of recent origin. It was brought into the act by virtue of Finance (No. 2) Act, 2009, with effect from 01.04.2011.

This category covers those persons who declare a lower income than the amount presumed under section 44AD , Once a person gets covered under any one of the four categories, Tax
audit becomes mandatory. But there are two exceptions to tax audit first one business covered under section 44B and 44BBA, second case if the accounts of a person are to be audit under any other law.

The terms Sales, Turnover and Gross receipts are not defined under the Income Tax Act, 1961, total sales', 'turnover' and 'gross receipts' are each of them is independent criterion and one does not overlap the other.

No government in anywhere in world has placed so much trust and confidence in Public Accountants like the Indian Government has placed on Chartered Accountants. Tax Audit by a Chartered Accountant is an Indian phenomenon and does not exist in any other country.

There are three main reasons why the business and profession are common audit targets. First:- Most business and professionals receive a substantial part of their income and payments as cash, thereby creating an easy opportunity for under-reporting of this income or over-report of these payments, it leads to tax evasion, Second:- the most important reason is that the business and profession are placed at a great advantage to claim their personal expenses as business expenses, third:- many business and profession maintain their books of accounting themselves, without having the necessary understanding of accounting and law to do a perfect job. As a result, they may end up claiming more deductions than are permitted by the tax code.

The purpose of Tax Audit is to ensure that books of Accounts have been maintained in accordance with the provisions of the Income Tax Act, This audit effectively curbs Tax Evasion and ensures Tax Compliance.

According to section 271A Income tax Act, 1961, If any person fails to keep and maintain any such books of account and other documents as required by section 44AA or the rules made there under may direct that such person shall pay, by way of penalty, a sum of twenty-five thousand rupees.

Failure to get accounts audited or to furnish a report of such audit as required u/s 44AB is Half a percent of total sales, turnover or gross receipts or Rs.1.5 lakh, whichever is less. Tax audit procedures are same procedures in the statutory audit but the nature of tax auditing is a synthesis of tax law and accounting and audit science, therefore inevitable appear some of differences and some of deviation, because some of accountancy policies are following in the firms are opposite the policies are mentioned in the income tax, like depreciation, allowances, reserves, prudence principle ....etc, determining corrective action after
prescribed the deviation tax auditor should research on the suitable solution and corrective action like tax auditor should do recalculate some of differences and apply law conditions and taxation law is prevalent in the cases of deviation.

Limitation of tax audit, owing to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements of the financial statements will not be detected. The risk of not detecting a material misstatement resulting from tax evasion is higher than the risk of not detecting a material misstatement resulting from error, so there is difficult to detected this tax evasion. Furthermore, the risk of the tax audit for not detecting a material misstatement resulting for tax evasion of management is greater than the risk for tax evasion from employee, because management is frequently in a position to directly or indirectly manipulate accounting records and present fraudulent financial information.

The auditing standards are like laws, which are to be followed by the tax auditor during the course of the tax audit.

Taxpayer is responsible for the preparation of accounting books and records and fair presentation information accordance with the requirements of tax auditor and Income Tax act, 1961, as well, Taxpayer is responsible also about any information or any ambiguity make obstacle front of performance tax audit.

The appointment of the auditor for tax audit in the case of a company need not be made at the general meeting of the members. The appointment in the case of a firm or a proprietary concern can be made by a partner or the proprietor or a person authorized by the assessee, possible for the management to remove a tax auditor where there are any valid grounds for such removal, the specified number of tax audit assignment that a AC can accept from 30 to 45.

There are some of Similarity and dissimilarity between tax audit and statutory audit, Section 227 of the Companies Act, 1956 mention powers of statutory audit these power don’t given to tax auditor. Tax auditor cannot obtain absolute assurance that tax evasion in the financial statements detected because of such factors as the use of judgment, the use of testing, the inherent limitations of internal control and the fact that much of the audit evidence available to the auditor is persuasive rather than conclusive in nature.

There some of basic ethical should be available in tax auditor like, Professional Skepticism, Professional Secrecy, Skills and Competence and …. According to Rule 6G provides that, there are three tax audit report, they form No.3CA, form No.3CB and form No.3CD.