

COMMONLY FOUND IRREGULARITIES IN TAX AUDIT REPORT

LEGISLATION FOR AY 2023-24

S. 44AB

- Business– exceeds Rs. 1 Crs./ 2Crs./ 10 Crs.
- Profession– exceeds Rs. 50 Lakhs
- Business u/s 44AE, 44BB, 44BBB; income < deemed profits
- Profession u/s 44ADA; deemed profit < 50% & TI > ANCT
- Business u/s 44AD (4) & TI > ANCT

Rule 6G

- Prescribing the Forms for Report u/s 44AB

Form No. 3CA

- Report in case of a person who is required to get his A/cs audited under any law

Form No. 3CB

- Report in any other case

Form No. 3CD

- Particulars as required in Form No. 3CA or 3CB

S. 271B

- Penalty ½%, maximum Rs. 1.50 Lakhs

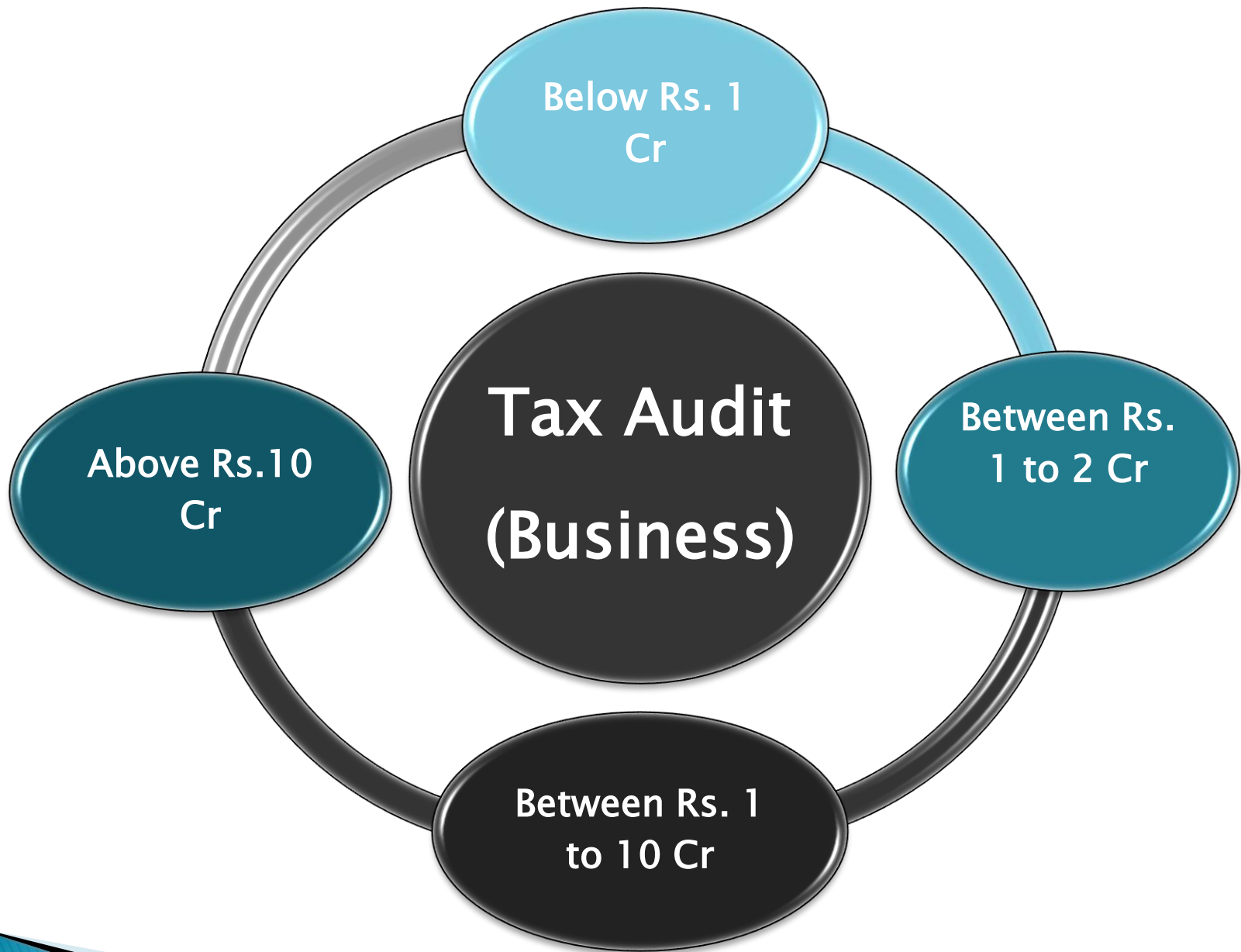
Section – 44AB(a)

Limit increased from 1 Cr. to 5 Cr. to 10 Cr !!!

Limit of 10 Cr. ONLY if:

- **aggregate of all amounts received** including amount received for sales, turnover or gross receipts, **in cash, does not exceed 5%** of the said amount;
- AND
- **aggregate of all payments** made including amount incurred for expenditure, **in cash, does not exceed 5%** of the said payment.

Non –A/c Payee Cheque/ Draft – Cash



FORM No.- 3CA

- **Total 3 Paras**
- **Examination of books by auditor included before giving opinion**
- **Opinion to be given subject to observations/ qualifications, no annexures- Para 3**

FORM No. – 3CA

- Total 5 Paras
- Same as Form No. 3CA except examination of books
- Opinion subject to observations/ qualifications to be given:
 - Financial statements – 3(a)
 - Form No. 3CD– 5
- Auditor gives his opinion related to books in Para 3(b)
 - Have obtained Information
 - Proper books have been kept
 - True & Fair view
- **SA 700 ?**

COMMONLY FOUND IRREGULARITIES

FORM NO. 3CA/ 3CB



SA 700 – Clause (3) of Form No.3CA or Clause (5) of Form No.3CB

As per Para 11.9 of the Guidance Note–

The ICAI had pursuant to the issuance of the Revised SA 700, Forming an Opinion and Reporting on Financial Statements, prescribed a revised format of the auditor's report on financial statement. Since Form No. 3CA and Form No. 3CB are required to be filed online in a preset form and the same are not in line with the requirements of SA 700, there is no specifically allocated field for providing information relating to the respective responsibilities of the assessee and the tax auditor as required in terms of the principles laid out in SA 700.

However, having regard to the importance of these respective responsibility paragraphs from the perspective of the readers of the tax audit report, it is suggested that these respective responsibility paragraphs relating can be provided in the space provided for giving observations, etc., under clause (3) of Form No.3CA or Clause (5) of Form No.3CB as the case may be.

SA 700 – Clause (3) of Form No.3CA or Clause (5) of Form No.3CB

The illustrative Assessee's responsibility paragraph and Tax Auditor's responsibility paragraphs in respect of Form No.3CB has been given in the Guidance Note. The same are suitably re-worded to meet the situation envisaged in Form No.3CA.

- In most of the cases, these **respective responsibilities of the assessee and the tax auditor** are **not reported** under clause (3) of Form No.3CA or Clause (5) of Form No.3CB as the case may be.
- In few Tax Audit Reports, it has been reported to *read along with manually signed TAR or notes attached with it*. These **notes also contained paragraphs complying with the requirement of SA 700**. However, as per the Guidance note on Tax Audit under section 44AB of the Income tax Act, the **same were specifically required to be mentioned / reported under clause (3) of Form No.3CA or Clause (5) of Form No.3CB as the case may be**.

SA 700 – Illustrative- Assessee's Responsibility for the Financial Statements and the Statement of Particulars in Form No. 3CD

- ❖ The assessee is responsible for the preparation of the statement of particulars required to be furnished under **section 44AB** of the Income-tax Act, 1961 annexed herewith in **Form No. 3CD** read with Rule 6G(1)(b) of Income Tax Rules, 1962 that give true and correct particulars as per the provisions of the Income-tax Act, 1961 read with Rules, Notifications , circulars etc. that are to be included in the Statement.

SA 700 – Illustrative- Tax Auditor's Responsibility

- ❖ We are also responsible for verifying the statement of particulars required to be furnished under section 44AB of the Income-tax Act, 1961 annexed herewith in Form No. 3CD read with Rule 6G (1) (b) of Income-tax Rules, 1962. We have conducted my/our verification of the statement in accordance with Guidance Note on Tax Audit under section 44AB of the Income-tax Act, 1961, issued by the Institute of Chartered Accountants of India.

TA u/s 44 AB

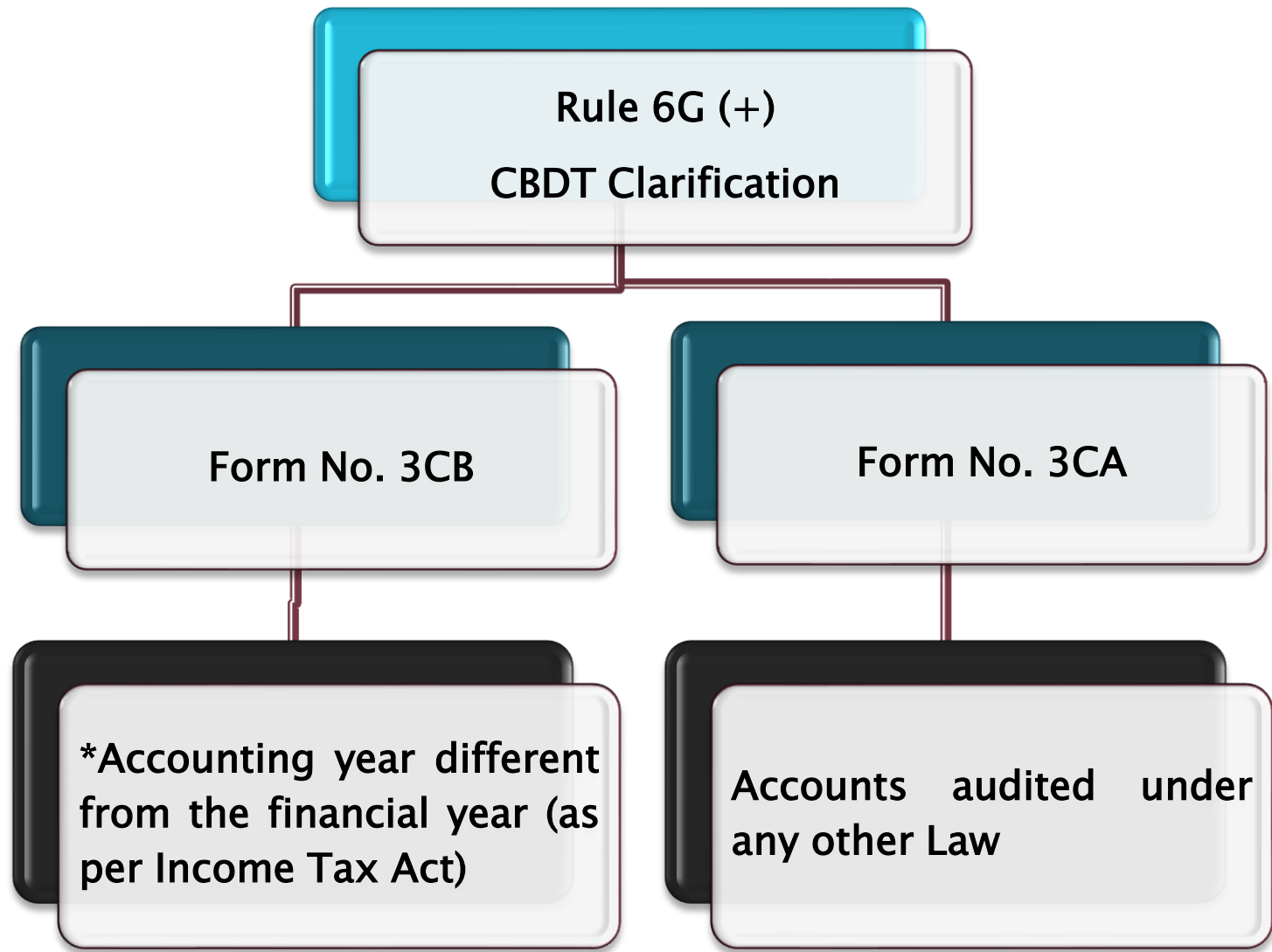
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graph TD; A[TA u/s 44 AB] --> B[Form No. 3CB]; A --> C[Form No. 3CA]; B --> D[Any clause from (a) to (e)]; C --> E[3rd Proviso];
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Form No. 3CB

**Any clause
from (a) to (e)**

Form No. 3CA

3rd Proviso



***Accounts of the financial year** are required to be **prepared and audited**.

Disallowance u/s 40A (3) (+) As per GN

33.3 The tax auditor has to take into account the technological advancements in the field of banking and information technology where payments have been taken other than through an account payee cheque or bank draft. Rule 6DD of the Rule specifically exempts the cases where the payment is made by any letter of credit arrangements through a bank; a mail or telegraphic transfer through a bank; a book adjustment from any account in a bank to any other account in that or any other bank; a bill of exchange made payable only to a bank; the use of electronic clearing system through a bank account; a credit card; a debit card.

33.4 Practically, it may not be possible to verify each payment, reflected in the bank statement, as to whether the payment has been made through account payee cheque, demand draft, pay order or not, it is thus desirable that the tax auditor should **obtain suitable certificate from the assessee** to the effect that the payments for expenditure referred to in section 40A(3) and section 40A(3A) were made by account payee cheque drawn on a bank or account payee bank draft, as the case may be. **Where the reporting has been done on the basis of the certificate of the assessee, the fact shall be reported as an observation in clause (3) of Form No. 3CA and clause (5) of Form No.3CB, as the case may be.**

Amount involved u/s 269SS & 269T (+) As per GN

51.5 Practically, it may not possible to verify each payment, reflected in the bank statement, as to whether the payment/ acceptance of deposits or loans has been made through account payee cheque, demand draft, pay order or not, it is thus desirable that the **tax auditor should obtain suitable certificate from the assessee** to the effect that the payments/ receipts referred to in section 269SS and 269T were made by account payee cheque drawn on a bank or account payee bank draft as the case may be. Where the **reporting has been done on the basis of the certificate of the assessee, the same shall be reported as an observation in clause (3) of Form No. 3CA and clause (5) of Form No.3CB,** as the case may be.

Amount involved u/s 269SS & 269T (+) As per GN

In many cases, wherever the reporting under **clause 21(d) and 31 series** has been done on the basis of certificate of assessee, the same has **not been reported** as an **observation** in **clause (3) of Form No. 3CA** and **clause (5) of Form No.3CB**, as the case may be.

Form No. 3CA/ 3CB- Qualification Para

Tax Deduction or collection

A reconciliation for non-deduction or short deduction of tax which requires reporting under clause 34 and clause 21b may be provided as an attachment and maintained in the working paper file of the auditor. There may be differences due to different threshold limits.

An observation regarding short deduction, if any can be given under clause 3/ clause 5 of Form No. 3CA/3CB as the case may be.

Qualification Para-Commonly found irregularities

- In certain tax audit reports that were examined, it has been observed that the **qualification paragraph** i.e., Para 3 of Form No.3CA or Para 5 of Form No.3CB, as the case may be, **contained a reference to Notes to Form No. 3CD. These notes did not mainly contain the qualifications but also contain general additional information.**
- As per the Guidance Note (paragraphs mentioned above) **only qualifications/ observations should be reported in the space provided in the Form No. 3CA/3CB itself while the additional information which are not in the nature of qualification could be attached as notes.**

FORM NO. 3CD

Clause 1 - Name of the assessee

As per para 17.1 of the Guidance Note: “Under clause (1) the name of the assessee whose accounts are being audited under section 44AB should be given. However, if the **tax audit is in respect of a branch**, name of such **branch should be mentioned along with the name of the assessee.**”

Clause 2- Address

As per para 17.2 of the Guidance Note, the tax audit report should contain the address as has been **communicated** by the assessee **to the Income-tax Department for assessment purposes as on the date of signing of the audit report.**

In certain tax audit reports 'address' reported under this clause, is **different from the one mentioned in Annual report or as registered under MCA** which is expected to be the address with the Income tax Department.

Clause 4 - Whether the assessee is liable to pay indirect tax like excise duty, service tax, sales tax, goods and services tax, customs duty, etc. if yes, please furnish the registration number or, GST number or any other identification number allotted for the same

This clause requires reporting of registrations under indirect tax law. In certain tax audit reports, **registrations under all the other Indirect Tax Laws** which have been **mentioned in CARO have not been reported** under this clause.

In cases, where it is **traceable from the Annual Report** that the company is registered under the GST Laws, the **GST registration no. should have been reported**. In certain cases, the same was not done.

Also, in some cases, **Registration no. based on PAN did not match with the PAN as reported under clause 3** in some cases.

Clause 8-Indicate the relevant clause of section 44AB under which the audit has been conducted

As per the provisions of the **third proviso to section 44AB** in a case where such person is **required by or under any other law to get his accounts audited**, it shall be sufficient compliance with the provisions of this section if such person **gets the accounts of such business or profession audited under such law before the specified date and furnishes by that date the report of the audit as required under such other law and a further report by an accountant in the form prescribed under this section.**

... (Cont..)

Clause 8-Indicate the relevant clause of section 44AB under which the audit has been conducted

In respect of the majority of tax audit report of **companies** (which are required to get their accounts audited under Companies Act, 2013) **option (a) was selected** [Clause 44AB(a)–Total sales/turnover/gross receipts in business exceeding specified limits”] **instead of option “Third Proviso to section 44AB: Audited under any other law”**.

Clause 10a - Nature of business or profession (if more than one business or profession is carried on during the previous year, nature of every business or profession)

As per Para 19.1 of the GN, the **principal line of each business is to be determined & stated** in this clause.

Further, as per Para 19.2, **information has to be furnished in respect of each business.**

In few tax audit reports, **codes for business or profession for principle line of each of the businesses have not been reported.**

Clause 11a-Whether books of accounts are prescribed under section 44AA, if yes, list of books so prescribed

Under section 44AA **NO** Books of accounts are prescribed for a company.

Also, the Companies Act, 2013 **does not specifically prescribes** books of accounts for a Company.

In respect of a **business, the tax audit report should report 'NO'** under this sub – clause.

Clause 11b - List of books of account maintained and the address at which the books of accounts are kept

Location of maintenance of Books of Accounts or records has **not** been specified.

Fact that the Books of Accounts are **maintained in computer system is not mentioned** in some cases. Also, **location of server also has not been reported** in case of maintenance of records in ERP based computer system.

Clause 11c-List of books of account and nature of relevant documents examined

All the relevant documents examined are not mentioned like Invoices, receipts, vouchers, bills, secretarial, confirmation, certificates, internal & external.

As per Guidance Note, **reference to all such supporting evidence/ relevant documents** is also **required** to be made under this clause.

Clause 13d-Whether any adjustment is required to be made to the profits or loss for complying with the provisions of income computation and disclosure standards notified under section 145(2)

&

Clause 13e -If answer to (d) above is in the affirmative, give details of such adjustments

Details required are not fully disclosed.

While reporting is done in respect of some of ICDS, others are just left blank. In order to ensure clarity, if no adjustments are there to be reported, “0” or “Nil” should be mentioned.

Clause 13f-Disclosure as per ICDS

- **Reference to the disclosures made in the financial statements is given** under these sub-clauses particularly in case of **ICDS-I**. Disclosure requirement is to **report information pertaining to each ICDS notified** and not only where any deviation from the notified ICDS is encountered.
- As per the disclosure requirement under ICDS, reporting is to be done in respect of all of the notified ICDS except:
 - ICDS VI (Changes in Foreign Exchange Rates) and
 - ICDS VIII (Securities)
- For ICDS V (Tangible Fixed Assets), the prescribed disclosure requirement is similar to the requirements of clause 18 of Form No. 3CD. Accordingly, reference to reporting as done under clause 18 may be given.

Clause 13f-Disclosure as per ICDS

As per disclosure requirements of ICDS – II (Valuation of Inventories), ‘the accounting policies adopted in measuring inventories including the cost formulae used’ are to be reported.

Further, as per Para 3 of the ICDS –II

— inventories shall be valued at “cost OR net realisable value whichever is lower”.

As per Para 5 of the Revised AS 2

— inventories shall be valued at “lower of cost AND net realisable value”.

In few cases, the **accounting policies reported were as per the language prescribed in Para 5 of the Revised AS-2** (or IND AS-2 wherever applicable) and **not as per Para 3 of the ICDS –II**. The reporting under clause 13(f) is required to be done as prescribed by the ICDS, which was not done.

**Clause 14a-Method of valuation of closing stock employed in
the previous year**

The method of valuation of closing stock is to be stated under this clause.

The method of valuation has **not been mentioned separately** for **each item of stock**.

Clause 14b-In case of deviation from the method of valuation prescribed under section 145A, and the effect thereof on the profit or loss, please furnish

Inclusive method for valuation of inventory is **prescribed** under the **taxation laws** and thus **effects of inclusion of duties & taxes are to be properly reported** under this clause.

Deviations from 145A remained to be reported while following **exclusive** method in certain cases especially in case of corporates.

For Inclusive / Exclusive method – Refer Para 26 of ICAI Guidance Note on Tax Audit (2022 edition).

Cross reporting should be verified from reporting done in footnote to clause 26 and clause 27a.

Clause 16- Amounts not credited to the profit and loss account, being:-

a) The items falling within the scope of section 28

In certain cases, **GST realised not credited to profit and loss account** have been reported under this clause. Since, the same is **not an item of income falling within the scope of section 28**, thus the same was not required to be reported under this clause.

Clause 17- Where any land or building or both is transferred during the previous year for a consideration less than value adopted or assessed or assessable by any authority of a State Government referred to in section 43CA or 50C, please furnish:

Reporting under this clause is required where any land or building or both is transferred during the previous year for a **consideration less than value adopted** or assessed or assessable by any authority of a State Government referred to in section 43CA or 50C.

However, in some cases reporting under this clause was done when **consideration received** on transfer of land, or building, or both **& the value adopted u/s 43CA or 50C were same, which was not required.**

Clause 18-Particulars of depreciation allowable as per the Income-tax Act, 1961 in respect of each asset or block of assets, as the case may be, in the following form:

- In few cases, the details of **additions/ deletions reported** in Tax Audit Report are **not in line** with the figures of additions/ deletions **disclosed in Audited financial statements.**
- A separate column has been provided for reporting, the **'amount of adjustment on account of Exchange Fluctuation** (due to change in rate of exchange, if any)' under the column 'Additions'. In few cases, the said amount was **not shown in the Tax audit report e-filing utility** while the same was reported in the annexure attached and uploaded with the Tax audit report.

Clause 18d-Additions/deductions during the year with dates; in the case of any addition of an asset, date put to use; including adjustments on account of:

- In some reports, in respect of ‘additions’ to the block of assets, ‘**date of purchase**’ and ‘**date of put to use**’ were reported as **same in respect of each item under each block of asset purchased**, which is practically not possible in all the cases.
- Likewise, in respect of ‘deductions’ from the block of assets, ‘**date of sale**’ reported were **same in respect of each item under each block of asset sold**, which again is practically not possible in all the cases.

... (Cont..)

Clause 18d-Additions/deductions during the year with dates; in the case of any addition of an asset, date put to use; including adjustments on account of:

- In certain cases, **single consolidated amount** was disclosed at the **end of each half part of the financial year** as date of addition, **instead of actual date of addition** of each asset of the block.
- In certain cases, **incorrect classification of assets** were made. This will result in higher/ lower claim of depreciation as actually allowed under the Income-tax Act.

**Clause 19-Amounts admissible under sections:
(32AC, 33AB, 33ABA, 35(1)(iii), etc.)**

- **Para 31.2 of the GN**, In case the assessee has **obtained a separate Audit Report** for claiming deductions under any of these sections, he must **make a reference to that report while giving the details** under this clause.
- In various tax audit reports it was observed that where the assessee has obtained a separate Audit report, **reference of that separate Audit report** for claiming deductions was **not made in Form No. 3CA** as per the requirement of the Guidance Note.

Clause 20-Details of contributions received from employees for various funds as referred to in section 36(1)(va)

- In various tax audit reports details pertaining to provident fund have been reported under clause 20(b) but **nothing was reported for ESI Fund**, while regular contribution to the same was clearly reflecting in the Annual report of the company.
- “**Due date**” reported for the relevant fund was not correct in some cases.
- Under this clause, **only employees share of contribution** to any provident fund or superannuation fund or gratuity fund or any other fund for the welfare of employees **needs to be reported**, while under **clause 26** only **employers share** needs to be reported.

Clause 21a-Please furnish the details of amounts debited to the profit and loss account, being in the nature of capital, personal, advertisement expenditure etc

- ‘Expenditure incurred at clubs being entrance fees and subscriptions’ was clubbed with ‘expenditure incurred at clubs being cost for club services and facilities used’ and reported together under this sub-clause. The two expenses are to be separately reported as per the requirement of the prescribed format of tax audit report as well as the Guidance Note.
- Penalty charged under various acts is to be shown separately for each Act which was not found in many Tax Audit Reports.
- Late filing fee of TDS return, paid during the year, was reported under this sub-clause, under the sub-heading ‘as any other penalty or fine not covered above’. As per MCQ on Income-tax website, it is not penalty, but it is a late filing fee. Thus, the same is not required to be reported under this sub-clause.

Clause 21b-Amounts inadmissible under section 40(a)(i)/40(a)(ia): -

- In certain cases, the reporting has been done in respect of provision for various expenses of sundry parties under a **random date**. Since the **amount is yet to be paid the date of crediting the amount of provision in the books** of account should have been mentioned.
- Reporting under this clause is required **separately for each of the individual payee**. Consolidated reporting for the heads under which Tax has not been deducted has been done in certain cases which should not be done.
- Taxes deducted for **resident and non-resident payee** are to be reported **appropriately under respective sub-clauses**, which was not done in few cases.
- **Complete address of the payee** was not reported in few cases.

Clause 21d-Disallowance/deemed income u/s 40A(3):

On the basis of the examination of books of account and other relevant documents/evidence, whether the expenditure covered under section 40A(3) read with rule 6DD were made by account payee cheque drawn on a bank or account payee bank draft. If not, please furnish the details :

- Where the reporting has been done on the **basis of the certificate** of the assessee, the fact shall be clearly **reported** as an **observation in clause (3) of Form No. 3CA or clause (5) of Form No.3CB**, as the case may be.
- In few cases, the **observation/ qualification** under this clause have been provided in the notes attached to Form 3CA. However, the same **should be reported under clause (3) of Form No. 3CA or clause (5) of Form No.3CB**, as the case may be.

Clause 21g-Particulars of any liability of a contingent nature

Particulars of **contingent liabilities** are to be **reported** and **not provision created in the Books** of accounts, which has been done in certain cases.

Contingent liabilities which are **mentioned in notes to accounts** are **not to be reported** here as they are not debited to profit and loss account.

Clause 22-Amount of interest inadmissible under section 23 of the Micro, Small and Medium Enterprises Development Act, 2006

In some cases, it has been observed that interest paid to MSME has been **mentioned in Annual Report**. However, the same was **not reported in Tax Audit Report**.

Clause 23-Particulars of payments made to persons specified under section 40A(2)(b)

In certain cases:

- **Name** and **PAN** of persons as specified under section 40A(2)(b) were **not reported**.
- The **amount reported** under this clause **did not match** with the amount **as mentioned in Annual Report**.
- Consolidated figures were reported instead of **respective transaction with respective persons specified under section 40A(2)(b)**.

Clause 25-Any amount of profit chargeable to tax under section 41 and computation thereof.

Details of **all the amounts chargeable** under **section-41** is to be reported here, whether the same have been credited to the profit and loss account or not. In some cases, it was evident from the annual report but not reported in tax audit report.

As per the Guidance Note the same is **required to be reported irrespective** of the fact whether the relevant amount has been credited to the profit and loss account or not.

Clause 26-In respect of any sum referred to in clause (a), (b), (c), (d), (e), (f) or (g)of section 43B, the liability for which:-

If excise duty is **passed through profit & loss account**, it has to be **reported appropriately** under this clause **and clause 27a** which was not done in many reports.

Clause 27a-Amount of Central Value Added Tax Credits/ Input Tax Credit(ITC) availed of or utilised during the previous year and its treatment in profit and loss account and treatment of outstanding Central Value Added Tax Credits/Input Tax Credit (ITC) in accounts

This clause requires reporting of amount of Central Value Added Tax credits **availed of or utilised** during the previous year and its **treatment** in the profit and loss account and treatment of outstanding Central Value Added Tax credits in the account. In few Tax Audit reports **computation shown** under this clause **was incorrect**. Some reports **did not mention** the **CENVAT utilized** while **some missed reporting** treatment of the same in Profit and Loss Account and also **treatment of outstanding Central Value Added Tax credits in the accounts**.

Clause 31a-Particulars of each loan or deposit in an amount exceeding the limit specified in section 269SS taken or accepted during the previous year: -

- There were cases where the ‘**name**’ of the persons/concerns from whom loan had been taken, was **not mentioned. Consolidated figures were reported** mentioning ‘various parties’ under this clause instead of **details of loan received person-wise.**
- In **Observations/Qualifications** paragraph i.e., clause (3) of Form No.3CA or Clause (5) of Form No.3CB as the case may be, the **language used in Para 49.6** of the Guidance Note **has been used**, as it is, **without making the necessary change** in respect to “**me/us**”. Since the **general language is provided** in the Guidance Note, the report in Form No. 3CA/ 3CB **should be reworded** as applicable.

Clause 31c-Particulars of each repayment of loan or deposit or any specified advance in an amount exceeding the limit specified in section 269T made during the previous year: -

- As per the Guidance Note on Tax Audit in case of company, “loan or deposit” means any deposit of money which is repayable after notice or repayable after a period and, for persons other than company, includes loan or deposit of any nature. In certain cases, **repayment of fixed deposits and term loans reflecting in Annual report were not reported.**
- In **Observations/Qualifications** paragraph i.e., clause (3) of Form No.3CA or Clause (5) of Form No.3CB as the case may be, the **language used in Para 51.5** of the Guidance Note **has been used**, as it is, **without making the necessary change** in respect to “**me/us**”. Since the **general language is provided** in the Guidance Note, the report in Form No. 3CA/ 3CB **should be reworded** as applicable.

Clause 32a-Details of brought forward loss or depreciation allowance, in the following manner, to extent available

Section under which Assessment Order is passed, **date of order** and **Demand Identification No. (DIN)** is required to be reported under this clause. However, complete details were missing in many audit reports.

Clause 34b- Whether the assessee is required to furnish the statement of tax deducted or tax collected. If yes, please furnish the details:

In certain cases, **Not Applicable** has been reported under this clause whereas details of tax deducted and details of interest paid u/s 201(1A) or section 206C(7) have been reported under clauses 34a and 34c respectively. In such cases, **Yes** should have been reported under this clause along with the details of furnishing the statement of tax deducted or tax collected.

Clause 34c-Whether the assessee is liable to pay interest under section 201(1A) or section 206C(7). If yes, please furnish:

In certain cases, the **date of payment** with respective amount has **not been mentioned** under the relevant columns of this sub-clause.

Clause 35a-In the case of a trading concern, give quantitative details of principal items of goods traded

- Details to be reported under this clause if “**Trading**” is one of the **natures of business** of the assessee as reported **under clause 10a**. The same has not been done in some reports.
- Even if the **closing stock** of goods acquired for trading is “**NIL**” the quantitative details of **opening, purchases & sales** made during the year are **required to be reported** under this clause, which has not been done in certain cases.

Clause 35b-In the case of a manufacturing concern, give quantitative details of the principal items of raw materials, finished products and by-products :

- In certain cases where assessee is engaged in “**manufacturing**”, neither ‘**percentage of yield**’ and ‘**shortage/excess**’ has been **reported nor** any **qualification** has been given in the Tax Audit Report.
- In some cases, details of ‘**Finished products**’ were **erroneously reported** as ‘**raw materials**’ under clause 35b(A) instead of clause 35b(B). Also, **raw materials**, which were **clearly traceable** from the **financial statements**, were not reported at all.

Clause 37-Whether any cost audit was carried out, if yes, give the details, if any, of disqualification or disagreement on any matter/item/value/quantity as may be reported/identified by the cost auditor

- **Representation from the management was relied upon to report** as to whether or not there is a disqualification or disagreement on any matter. As per the Guidance Note, **copy of the audit report should have been obtained** from the management and **note of the details of disqualification or disagreement** on any matter/item/value/quantity, as the case may be, **reported/identified** under this clause **should have been taken**.
- In certain cases, it was mentioned in **Clause (3) of Form No.3CA or Clause (5) of Form No.3CB**, as the case may be, that the **cost audit report is attached** herewith. While under this clause **'NO'** was reported, both being **contradictory statements**.

Clause 38-Whether any audit was conducted under the central excise act, 1944, if yes, give the details, if any, of disqualification or disagreement on any matter/item/ value/quantity as may be reported/ identified by the auditor

- **Representation from the management was relied upon to report** as to whether or not there is a disqualification or disagreement on any matter. As per the Guidance Note, **copy of the audit report should have been obtained** from the management and **note of the details of disqualification or disagreement** on any matter/item/value/quantity, as the case may be, **reported/identified** under this clause **should have been taken**.
- In certain cases, it was mentioned in **Clause (3) of Form No.3CA or Clause (5) of Form No.3CB**, as the case may be, that the **excise audit report is attached** herewith. While under this clause **'NO'** was reported, both being **contradictory statements**.

Clause 40-Details regarding turnover, gross profit, etc., for the previous year and preceding previous year:

- In respect of **service sector**, “**not applicable**” should be reported under this clause instead of leaving the same blank.
- As per the Guidance Note on tax audit “Sale proceeds of **scrap, wastage** etc. is **to be included in the turnover** unless treated as part of sale or turnover, whether or not credited to miscellaneous income account”. In certain cases, scrap sale was not considered while arriving at the turnover for Tax Audit report.
- As per the Guidance Note, Net profit **to be shown** is **net profit before tax**. However, in certain cases net profit after tax was reported under this clause.

Clause 40-Details regarding turnover, gross profit, etc., for the previous year and preceding previous year:

- In certain cases, for calculating stock in trade/ Turnover ratio, **average stock was taken instead of calculating stock** as per guidance given in the Guidance Note.
- In certain cases, the amount of **material consumed** reported under this clause **did not include stores, spare parts and loose tools**.
- In case of **manufacturing units**, reporting under sub-clause (e) - **ratio of material consumed/ finished goods produced is required**, which was missing in many reports.

Clause 40-Details regarding turnover, gross profit, etc., for the previous year and preceding previous year:

- There should be **consistency between the numerator and the denominator** while calculating the above ratios. Any **significant deviation** thereof **should be pointed out**.
- While reviewing various tax audit reports it was observed that there were **mismatch of figures** in the **material consumed** reported in respect of **preceding previous years**. However, **nothing** was mentioned / reported under **Clause (3) of Form No.3CA** or **Clause (5) of Form No.3CB**, as the case may be.

Others

In respect of sub-clauses where no information is to be given, instead of leaving the same blank, “Nil”, “0” or “NA” could be mentioned for better reporting.

