



PANKAJ DALAL & ASSOCIATES
CHARTERED ACCOUNTANTS

Tax Audit Checklist-2014

Vide Notification 33, dated 25th July 2014, the Tax Audit Report in Form 3CD was amended. The following checklist is based on information available prior to the release of the revised Guidance Note on Tax Audit under Section 44AB. The following checklist is only a pointer especially for the new clauses as well amended clauses.

Clause No.	Points for Consideration
1	Name of the Assessee
2	Address
3	Permanent Account No.
4	Obtain the list and verify the various indirect taxes payable by the assessee, (Excise, Service Tax, VAT, and Customs etc.) and verify their registration number from the registration certificates. Consider if any other indirect taxes that may be applicable and whether they need to be reported under this clause.
5	Status
6	Previous Year Ended
7	Assessment Year
8	Relevant clause of Section 44AB under which audit is conducted. If there are more than one clause applicable, then mention both the clauses.
9	<ul style="list-style-type: none"> i. Verify Deed of Partnership for the names of the partners and their profit sharing ratios. Disclose change/s in the ratio. Ratio for sharing losses, if different from the profit sharing ratio, should be disclosed. ii. Cross verify the names of the partners and their profit sharing ratios with that in the accounts of the current year and that of the previous year to ascertain any change. <p style="text-align: center;">[Firms includes Limited Liability Partnership (LLP) also]</p>
10	<ul style="list-style-type: none"> i. Obtain list of activities /principal lines of business from client and changes from previous year (if any) (i.e. both new and discontinued businesses) ii. Verify above with the financial statements of the current year, board and general meeting minutes, and previous years Return of Income. iii. Identify and disclose new activities in pre-operative stage, even if no revenues are generated from the same. For this purpose scrutinize accounts such as capital w.i.p., pre-operative expenditure, interest costs, etc. iv. Check if the client carries out more than one business or profession during the previous year, even if discontinued with in the year. v. Disclosure : <p>1. Under broad heads viz., manufacturing, trading services and financial services</p>

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Clause No.	Points for Consideration
	2. Nature of product/ services under each broad head.
11	<p>i. For persons carrying on legal, medical, engineering or architectural professions or the profession of accountancy or technical consultancy or interior decoration or authorized representative or film artist the following books are prescribed u/s 44AA:</p> <ol style="list-style-type: none"> a. cash book; b. journal, if the accounts are maintained according to the mercantile system of accounting; c. Ledger; d. Carbon copies of bills; and e. Original bills wherever issued to the person and receipts in respect of expenditure incurred by the person. <p>ii. Obtain list of books of account maintained by the assessee. If books of account maintained on computer then obtain certificate from software developer/vendor for books of account generated by the computer.</p> <p>iii. Compare list of books maintained with previous year's schedule.</p> <p>iv. Disclose only those books that are verified.</p> <p>v. Check whether the address of place where books are kept is mentioned.</p>
12	<p>Profit and gains assessable on presumptive basis would be of the following businesses:</p> <ul style="list-style-type: none"> • Civil Construction • Plying, hiring or leasing of goods carriages • Retail business • Shipping business in case of non-residents • Business of exploration, etc. of mineral oils • Operation of aircraft in case of non-residents • Foreign companies engaged in the business of civil construction, etc., in certain turnkey projects. Also to be included in the above list: • Chapter XII-G, Tonnage Tax system • First Schedule i.e Insurance Business <p>Scrutinize the income accounts for the nature of income to ascertain whether the same would fall in any of the above categories and the conditions/requirements prescribed under the Income Tax Act, 1961 are satisfied /complied.</p>
13	<ol style="list-style-type: none"> i. Verify Notes to Account for disclosure of significant accounting policies. ii. Compare with previous year's tax audit report for basis adopted. iii. Scrutinize Notes to Accounts, Auditors' report and CARO for change in method of accounting and the quantification thereof. iv. Disclose details of deviation in the method of accounting employed (based generally on ICAI Standards) in the PY from the standards prescribed under Section 145. Presently, the following standards are prescribed: <ul style="list-style-type: none"> • <i>Disclosure of accounting policies</i>



Clause No.	Points for Consideration
	<ul style="list-style-type: none"> • <i>Prior period items</i> • <i>Extraordinary items</i> • <i>Changes in accounting policy</i>
14	<ol style="list-style-type: none"> i. Ensure disclosure is consistent with Significant Accounting Policies under Notes to Accounts. ii. Check that the following is included in the valuation of stocks: tax, duty, cess or fee (by whatever name called). iii. If the items mentioned in (ii) above are not included, then quantify the effect thereof on opening and closing stock valuation. iv. The effect on the profit and loss account of deviation from method of valuation prescribed under Section 145A should be given individually on the opening and closing stocks. Both the effects should be disclosed separately and not netted off. In case of netting off, there should be proper disclosure.
15	<ol style="list-style-type: none"> i. Verify whether the assessee has converted any capital asset into stock in trade by scrutinizing the Assets accounts, ii. Obtain the list of assets converted into stock in trade, iii. Verify the date of acquisition and cost of acquisition with the supporting documents iv. Obtain the amount at which it is converted into stock in trade v. Disclosure: <ul style="list-style-type: none"> • List of assets converted in stock in trade including description, • Date of acquisition of each asset, • Cost of acquisition for each, • Amount at which the capital asset is converted into Stock in trade.
16 a)	<ol style="list-style-type: none"> i. Scrutinize liability and capital reserve accounts to ascertain any amount in the nature of income. ii. Scrutinize audit report and notes to accounts for comments, if any, on deferment/non-accounting of income. iii. Identify whether the business of the assessee enjoys the benefit of any import license, cash assistance for exports, claims for duty drawback, Performa credits, refunds, etc. iv. Verify whether income when (i) to (iii) above is accrued, in accounts, if due. If not accounted, quantify separately. v. Review the items of financial statements that considering the propriety of transaction, would be generating revenue but are provided free of cost or at subsidized rates. Disclose such items separately and quantify the effect wherever possible. vi. Discuss with the management by making prima facie inquiry of any facilities or other benefits provided to others out of gratis or otherwise.
b)	<ol style="list-style-type: none"> i. Discuss with the management for any of the above claims admitted as due by the authorities concerned at the year end.



Clause No.	Points for Consideration
	<ul style="list-style-type: none"> ii. Verify whether the above claims have been credited to the profit and loss account and, if not, obtain reasons. iii. Scrutinize subsequent receipts of customs or excise refunds, drawbacks and refund of sales tax. Ascertain when these claims were admitted as due by the authorities concerned. iv. Verify recent sales tax assessment orders to determine whether any refund is due. v. Cross check with notes to accounts and qualifications in auditors report for such credits.
c)	Check the accounting policy followed for accounting for escalation claims as also any adverse comments in auditors' report / notes for non-accounting of claims.
d)	Scrutinize the notes to account and auditors' report for any undisclosed / unaccounted revenue / income. (Refer items listed in Section 2(24)).
e)	<ul style="list-style-type: none"> i. Review items representing credits in the nature of capital receipt particularly those credited to capital reserve. ii. Check whether any of these could be credited to revenue under tax laws. If yes, ensure appropriate disclosure.
17	<ul style="list-style-type: none"> i. Check whether any land or building or both has been transferred by the assessee during the previous year by verifying from the statement of profit or loss / balance sheet. ii. Verify the consideration received / receivable by the assessee from his bank account / agreement entered by him. iii. Obtain the assessable value of the property adopted by state government for stamp duty. The copy of the registered document will give the evidence of the same. iv. Reporting under this clause is required to be made only if consideration for transfer is less than value adopted or assessed by any authority of state government.
18	<ul style="list-style-type: none"> i. Obtain a schedule in the form required under the clause. Description of asset / block of asset should be under the following heads: <ul style="list-style-type: none"> • Building • Plant and Machinery • Furniture and Fixtures • Vehicles/Cars (acquired after 1.4.90) • Other Specified Assets and • Intangible Assets • Computers ii. Identify the opening block of WDV from previous year's return of income. iii. Check/vouch adjustments to the block of fixed assets during the year from statutory audit file or relevant supports. iv. Identify separately and vouch for adjustments on account of the following: <ul style="list-style-type: none"> • CENVAT, from RG 23A Part II and RG 23C Part II registers



Clause No.	Points for Consideration
	<ul style="list-style-type: none"> • Change in rate of exchange of currency, from the financial statements/audit work papers • Subsidy / grant / reimbursement, etc., verify the scheme under which it is received and ensure appropriate treatment in books. <p>v. Confirm whether rates and amount for claim of depreciation are as per Section 32 and Rule 5 of the Income Tax Act and Rules respectively.</p>
19	<p>i. Discuss whether any of the sections referred are applicable to the assessee. The business activities/expenditures covered are:</p> <ul style="list-style-type: none"> • Growing and manufacturing of tea (33AB) • Prospecting/extraction/production of petroleum and/or natural gas (33ABA) • Operation of ships (33AC) • Scientific research (35) • Telecommunication services (35ABB) • Eligible projects or schemes for promotion of social and economic welfare (35AC and rules 11F to 11-O) • Rural development programmes (35CCA) • Conservation of natural resources (35CCB) • Preliminary expenses (35D) • Amortization of expenditure in case of amalgamation/demerger (35DD) • Amortization of expenditure incurred under voluntary retirement scheme(35DDA) • Prospecting/extraction/production of any minerals (35E) <ul style="list-style-type: none"> i. Scrutinise general ledger for items of allowable expenses, particularly those in the nature of capital expenditure, which under tax laws are allowed as deduction (e.g. licence fees, preliminary expenses as defined under 35D) ii. Check depreciation schedule for any capitalized asset, is claimed as an allowance under tax laws and ensure separate disclosure. iii. Ensure appropriateness of deductions (particularly weighted deductions) claimed under the relevant sections iv. Additionally, the auditor is now asked to check the compliance with conditions of relevant sections, circulars, notification, guidelines issued for each of the aforesaid sections for which the deduction is claimed. <p>For items in (i) above, verify and classify items which have been charged to current statement of profit and loss, and those that are not.</p>
20 a)	<p>i. Obtain a schedule of bonus, exgratia and commission paid/payable to employees stating the name of the employee, designation, amount of bonus/exgratia/ commission paid/payable, etc.</p> <p>ii. The particulars should be disclosed only if the above are payable in lieu of dividends or profits.</p>



Clause No.	Points for Consideration
20 b)	<ul style="list-style-type: none"> i. Check payroll records for any deductions on account of provident fund, superannuation fund, ESIC or contribution towards any other fund for the welfare of employees. ii. Obtain and verify chart for employees contribution towards the above funds with their respective due dates and actual dates of payment.
21 a)	<ul style="list-style-type: none"> i. Scrutinize audited accounts and schedules for expenditures for any expenditure of capital or personal nature: <ul style="list-style-type: none"> a. Repair & Maintenance b. Travelling expenses c. Salaries & Wages d. Stores & spare parts consumption e. Depreciation f. Legal, Professional & Consultancy charges g. Filing Fees h. Capital losses written off i. Miscellaneous Expenditure written off (Balance Sheet item) j. Miscellaneous/general expenses, for capital expenditure written off. k. Computer software expenses to ensure that it does not include any system software. l. Penalty ii. Scrutinize schedules/vouchers for expenses like - Staff Welfare, Entertainment, Rent, General Expenses, Sales Promotion, Travelling, Hotel & Club bills, Guest house expenses, Drivers Salary, Telephone expenses, Electricity expenses and Motor Car expenses. iii. Make prima facie inquiry about the applicable laws to the organization with the management and also identify specific statutes based on review of clients business iv. Verify from audit work papers for expenditure in the nature of penalty, fine, illegal payments. v. Verify Income Tax, Sales Tax, excise, P.F. and other orders for penalty and other payments.
21 b)	<ul style="list-style-type: none"> i. Obtain statement of payments made outside India, (with corresponding TDS amount) on account of interest, royalty, fees for technical services or other sum paid outside India or in India to a non-resident (other than a company /foreign company) chargeable under the Act. ii. Cross check with expenditure in foreign currency disclosed in the notes to account. iii. Verify whether adequate tax has been deducted and paid on the above payments. If not, then give details of non/short deductions. iv. For the items of payments stated in (i) above where the tax deducted in subsequent year or deducted but paid after the time limit given in of section 200(1), the deduction of the amount of royalty etc. should be taken in the previous year of payment of tax. Report the list of such inadmissible amounts. v. In case of payments to residents of interest, commission or brokerage, fees for professional or technical services, contractor/sub-contractor on which tax was not deducted or deducted but not paid before the prescribed time limit such payments will be disallowed. Report the list of such inadmissible amounts. vi. FBT and STT are inadmissible for computing income. Verify the amounts based on available information and report them separately under this clause.



Clause No.	Points for Consideration
	<ul style="list-style-type: none"> vii. Disclose the amount of income tax, FBT and wealth tax charged to the statement of profit and loss. viii. Obtain an employee wise statement of salaries paid outside India with corresponding tax withheld and verify the accuracy of the deduction. ix. 40(a)(iv) Provident fund - TDS - Salaries - pending. x. Write appropriate disclaimer where it was not possible to verify or ascertain certain inadmissible amounts pertaining to any of the above categories.
21 c)	<ul style="list-style-type: none"> i. Verify the details of payments to partners/members for interest, salary, bonus, commission or remuneration with reference to the deed of partnership/other documents (in case of AOP or Body of Individuals) and books of account. ii. Work out payments in excess of limits prescribed under Section 40(b)/40(ba) and report the same in the Statement of Particulars.
21 d)	<ul style="list-style-type: none"> i. Obtain the list from client where payments were made otherwise than by a/c payee cheque/draft of amounts more than ` 20,000/- in cash or by cheques /drafts which are not crossed. ii. Cross verify the list given by the assessee with the bank statements. iii. Scrutinize cash book to ensure completeness and accuracy of list provided by the assessee. iv. Independently look for such payments in cash that may not be included in the list provided by the assessee. v. Check whether any expenditure which were allowed in any previous year on accrual basis and were in excess of 20,000/-, were paid in subsequent year by a/c payee cheque/draft only. <p>(in case of transport business as defined in this section the limit should be taken as Rs. 35,000)</p>
21 e)	<ul style="list-style-type: none"> i. Obtain schedule for provision for payment of gratuity. ii. Cross tally schedule with the amount as per audited accounts. iii. Check the provision for gratuity which has become payable to employees who have left the services. iv. Check the actual date of payment in case of funds set up by the Company and the due date as per the trust deed. v. Indicate the following separately <ul style="list-style-type: none"> a. Provision towards approved gratuity fund contribution b. Provision for gratuity that is due and payable during the year. c. Other provisions.
21 f)	<ul style="list-style-type: none"> i. Obtain list of payments made by an employer towards the setting up or formation or contribution to any fund, trust, company, etc., other than: <ul style="list-style-type: none"> a. Recognized provident fund. b. Recognized gratuity fund. c. Recognized superannuation fund. d. As required by or under any other law.



Clause No.	Points for Consideration
	<p>ii. Indicate in the Statement of Particulars the payments made by the employer other than those mentioned in (i) above</p>
21 g)	Scrutinize liability accounts to identify any liability of contingent nature debited to the profit and loss account.
21 h)	<p>i. Does the assessee have any exempt income, ii. If 'yes' then verify whether the assessee has incurred any expenditure to earn exempt income, iii. Consider the account head that are likely to contain expenditure relating to such income and scrutinize them, iv. If there is any expenditure relating to such exempt income then such expenditure incurred should be disclosed under this point and added back to the taxable income.</p> <p>In case of composite business the expenditure relating to the exempt income should be determined as per method to be specified by CBDT.</p>
21 i)	<p>i. Has the assessee accrued/paid any interest on loan borrowed, ii. Ascertain the purpose of such loan, iii. Where the amount is borrowed for capital asset which is still not put to use ensure that such amounts are not treated as expenses, iv. This inadmissible amount should be shown in this point v. In case the asset for which any amount is borrowed and it is put to use during the year under report then apportion the amount of interest on time basis.</p>
22	<p>i. Do the audited annual accounts of the assessee disclose the interest paid or payable under the Micro Small and Medium Enterprises Development Act, 2006 (MSMED Act)? ii. If the assessee is not audited under any other law, then while preparing the annual accounts the assessee would have to compile the details of amount of interest paid/payable under the MSMED Act and disclose the same in the accounts in accordance with the said Act. Ensure that a separate classification of such suppliers of goods/services is maintained by the assessee. A separate ledger account for such interest would be desirable. The auditor should verify the manner in which the amount is determined so that it is complete and correct and in alignment with the MSMED Act. iii. The amount so determined, should be reported under this clause for disallowance.</p>
23	<p>i. Obtain duly certified list of persons specified under Section 40A(2)(b) and cross tally with previous years list. Also check whether the entities/parties listed in the register maintained under Section 301 of the Companies Act, 1956 or referred to in any Board Minutes fall in category of specified persons. ii. Obtain list of expenditures in respect of which payment has been made or is to be made for goods, services and facilities (including remuneration and interest to partners) to the above mentioned category of persons and check with:</p> <ul style="list-style-type: none"> • Agreements/authorization.



Clause No.	Points for Consideration
	<ul style="list-style-type: none"> • Vouchers/entries in the general ledger • Personal accounts of the parties
24	<ol style="list-style-type: none"> i. Confirm the workings of profits and gains as per the requirement of these sections. ii. In respect of section 33ABA verify from the accountants' report required under sub section (2) of this section
25	<ol style="list-style-type: none"> i. Obtain a statement of written back during the year. Inquire whether allowance in tax returns was claimed in earlier years. ii. Scrutinize other income and reserves account and report receipts, upon succession of business. iii. For Power Companies only - In case of sale of fixed assets, check whether the sale value exceeds the WDV of that particular asset. If yes, report difference under this clause. However, this should be restricted to the difference between cost and WDV of that particular asset. iv. In case of sale of assets used for scientific research, the excess of sale proceeds (together with deduction under 35(2)(i), 35(2)(ia), 35(2B)(c)) over capital expenditure; or the amount of deduction above, whichever is lower should be reported. v. Obtain a statement of recovery of debts earlier written off. Report to the extent amount allowed as deduction in the past assessments. vi. In case assessments are not complete for the years in respect of which bad debts are recovered, ensure appropriate disclosure by way of note. vii. Obtain list of amounts withdrawn from special reserve created under section 36(1)(viii) with corresponding deduction allowed in earlier assessments. Report with note as discussed under verification point (vi) above. <p>In case business (in respect of which all the above income is received) is discontinued, any unclaimed <i>loss</i> (other than speculation loss) <i>of the year</i> in which the business is discontinued for that particular discontinued business can be set off against these incomes. Consider the effect of the same in the computation under this clause.</p>
26	<ol style="list-style-type: none"> i. Scrutinize previous year's tax audit report, current liabilities & secured/ unsecured loans (for interest accrued and due) to identify any of the following amounts pertaining to earlier years: <ul style="list-style-type: none"> • Tax, duty, cess or fee (by whatever name called) levied under any law (e.g. excise duty provision, customs duty, service tax, electricity duty, R&D cess, textile cess, municipal taxes, profession tax, octroi duty, etc); • Any sum payable by employer by way of contribution to provident fund or super-annuation fund or any fund for the welfare of employees • Bonus or commission payable to employees; • Interest payable on any loans or borrowings from public financial institution, state financial corporation or industrial investment corporation, and • Interest payable on term loans availed from a scheduled bank. • Leave encashment



Clause No.	Points for Consideration
	<ul style="list-style-type: none"> • Any sum payable by an employer in lieu of leave at the credit of employee • Verify payments relating to above (not allowed as a deduction in the earlier assessment years) with relevant supports viz. challans, receipts, bank advise, etc. Also disclose amounts unpaid out of above. • For expenditures mentioned in (i) above debited to profit and loss account (including those not routed through the profit and loss account) of the current year, determine the amount remaining unpaid (i.e. shown as liabilities) as at 31st March. Also verify amounts paid subsequently on or before the filing of return of income, and balance outstanding. • In respect of any tax, duty, cess or fee reported in clause 21(i) it is necessary to state whether it is routed through the profit and loss account. For this refer to the accounting policy on sales to confirm if sales include excise duty, sales tax, service tax, etc. <p>ii. Verify report under CARO for any statutory dues remaining unpaid.</p>
27 a)	<p><i>Purchase of goods and materials</i></p> <ul style="list-style-type: none"> i. Document the system of accounting excise at the time of purchase of goods and materials, point of availment or utilization of CENVAT credit and entries passed at the time of availment/utilization of cenvat credit. ii. Quantify and verify from excise records the amount of cenvat credit available for the year, amount utilized and the balance outstanding. iii. Provide a summary of above account with description and ensure disclosure of the same.
27 b)	<ul style="list-style-type: none"> i. Check the items under the head prior period adjustments, or check the notes on accounts to ensure whether any expenditure or income of prior year is debited or credited to profit and loss account. ii. Reference to be made to the method of accounting followed by the organization and stated at clause 11 of form 3CD. <p><i>In case of cash system of accounting, there will not be any item appearing under this clause</i></p>
28	<ul style="list-style-type: none"> i. Enquire with client and check whether during the previous year, assessee has received any property, being share of a company not being a company in which the public are substantially interested, (this clause is applicable only to firm or company in which public are not interested) ii. Check the ledger accounts for investment and stock in trade. Check for the movements in these accounts to ascertain as to whether any shares covered under this clause are received. iii. Check whether the same is received without consideration where the aggregate FMV of which exceeds 50,000 iv. or for inadequate consideration i.e at a value which is less than FMV of the property by amount exceeding 50,000 v. Scrutinize the bank payments for any payments, which are in connection with purchase of any shares.



Clause No.	Points for Consideration
29	<ul style="list-style-type: none"> i. This clause will be applicable only in case the assessee is a closely held company, which during the previous year received the consideration for issue of shares. ii. Check whether any shares were issued during the year. iii. Obtain the value at which shares are issued. iv. Obtain the Fair Market value of the shares issued. v. Check whether the issue price / consideration received of the shares is more than Fair Market value. vi. In case the issue price / consideration for issue of shares exceeds the FMV the difference shall be shown as chargeable to tax under section 56(2)(viib)
30	<ul style="list-style-type: none"> i. Obtain a statement of hundis borrowed and repaid during the year with the mode and amount of each individual payment. ii. Also, check the mode of payment of interest due on hundi during the year. iii. Obtain loan confirmations. iv. Disclose all payments made for above otherwise than by account payee cheque. The amount so borrowed or repaid shall be deemed to be the income of the person borrowing or repaying. v. Ensure disclosure of standard note of the firm for our inability to verify whether the payments are done through account payee cheque or not.
31 a)	<ul style="list-style-type: none"> i. Obtain statement in the required format and check with relevant accounts in general ledger. ii. Scrutinize loan accounts, current account and deposit accounts for similar items. iii. Scrutinize advances account to find out whether such advances are in the nature of loans/deposits. iv. Obtain loan confirmations. v. Disclose particulars of loans/deposits taken in excess of ₹ 20,000 during the year.
31 b)	<ul style="list-style-type: none"> i. Obtain statement in the required format and check with relevant accounts in general ledger. ii. Scrutinize loan accounts, current account and deposit accounts for similar items. iii. Ensure that all the items, which are covered under 31 (a) above and in respect of which repayment is made during the year, disclosure is made under this clause.
31 c)	<ul style="list-style-type: none"> i. Obtain a certificate from the assessee that all the loans or deposits or repayments of loans have been made through an account payee cheque or an account payee bank draft. ii. No certificate is required if repayment of any loan or deposit taken or accepted from Government, Government company, banking company or a corporation established by a Central, State or Provincial Act
32 (a)	<ul style="list-style-type: none"> i. Verify the last return of income filed, and make a list of all the carry forward losses. ii. Verify the recent assessment orders and ensure that the effect of such assessment, so far as applicable to the carry forward losses and depreciation, has been properly dealt in the annexure prepared. iii. Ensure disclosure of amount of carry forward loss being subject to change on account of



Clause No.	Points for Consideration
	<p>open assessments. Include status under appeal under Remarks column.</p> <p>iv. Get the annexure so prepared verified by the audit Group.</p>
32 (b)	<p>i. Is there any brought forward loss? If no b/f loss is there then skip this point,</p> <p>ii. Is the assessee other than company in which the public is substantially interested?</p> <p>iii. If 'yes', then is there any change in the share holding pattern carrying voting rights compared to the year whose loss is sought to be set off?</p> <p>iv. Is the above change is 51% or more on the last day of the year under report?</p> <p>v. If yes then report the same under this clause.</p> <p>vi. Such b/f loss will not be admissible for setoff. It should be noted in the Return of Income and suitably disclosed.</p>
32 (c)	<p>i. Verify if there is any speculation business conducted by the assessee.</p> <p>ii. Report any speculation loss incurred and falling within the ambit of section 73</p>
32 (d)	<p>i. Check the various business activities carried out by the assessee, by scrutinizing the various incomes and expenses of the assessee.</p> <p>ii. Check whether the assessee is engaged in any business, which is specified U/s 35AD of the Income Tax Act.</p> <p>iii. If the assessee has incurred any loss from such business, the same is required to be reported under this clause.</p>
32 (e)	<p>i. Check the various business activities carried out by the assessee, by scrutinizing the various incomes and expenses of the assessee.</p> <p>ii. Check whether the assessee is engaged in any business, which involves the purchase and sale of shares of companies.</p> <p>iii. If the assessee has incurred any loss from such business, the same is required to be reported in this clause.</p> <p>iv. There are however two exceptions to this deeming fiction - one is for a company whose gross total income consists mainly of income which is chargeable under the heads 'Interest on Securities', 'Income from House Property', 'Capital Gains' and 'Income from Other Sources' and the second is for a company the principal business of which is the business of banking or the granting of loans and advances.</p>
33	<p>i. Verify the return of income of earlier years to ensure that all the deductions claimed in the previous year, and if applicable in the current year, have been disclosed.</p> <p>ii. Scrutinize the current year financial statements and audit work papers for identifying any claims available under the chapter.</p> <p>iii. In respect of sections under which independent certificates are required, ensure that a copy of the same is put on the file.</p> <p>iv. Ensure full particulars of deductions with quantification thereof are verified and signed off by audit staff.</p>



Clause No.	Points for Consideration
34 (a)	<ul style="list-style-type: none"> i. Obtain a statement of TDS deducted showing the particulars of the head under which tax is deducted. ii. Identify various heads of expenses where there is a likelihood of TDS liability and scrutinize those accounts to ensure that wherever TDS was liable to be deducted, is deducted and deducted correctly, (<i>Ensure you have the correct heads and rate chart including changes if any during the year</i>) iii. Check the relevant vouchers, challans of payments. iv. Scrutinize relevant accounts for expense heads such as salaries, interest, royalties, contractors/sub-contractors, professional technical fees etc. v. Specify the section under which TDS is required to be deducted, nature of payments, and total payment of such nature. vi. Out of the above payments, check the total amount on which TDS is required to be deducted, amounts on which TDS is actually deducted and deposited. vii. Scrutinize the ledger to obtain instances where tax is deductible but it is not deducted or there is short deduction.
34 (b)	<ul style="list-style-type: none"> i. Obtain the receipts / acknowledgements of the various TDS return filed by the assessee during the year. ii. Check whether the returns are filed within the due dates specified under the act. iii. Cross verify the TDS and gross amount on which TDS is required to be deducted as specified in the acknowledgement with the books of accounts, to ensure that all transactions on which TDS was required to be deducted are shown in the quarterly returns. iv. In this regards Scrutinize the accounts as specified in clause 34(a) above. v. The details in this clause are required to be given only if the assessee has not filed the TDS returns on time.
34 (c)	<ul style="list-style-type: none"> i. Obtain the payment challans to Verify whether the TDS / TCS deducted / collected has been deposited within the time limit specified in the Act. ii. Verify in case of delay, the calculations of interest payable for default and whether such interest is paid by the assessee.
35 (a)	<ul style="list-style-type: none"> i. Verify whether the quantitative information is given as per stock records maintained by the assessee or compiled from financial statements. ii. Verify that at least the items, which constitute more than 10% of the value of purchases or consumption or turnover as the case may be are disclosed as a separate item. iii. The information about percentage of yield, shortage of raw materials as well as shortage and percentage of finished products to be given to the extent data is available from the assessee's records. Non-receipt of particulars, if any, should be stated.
35 (b)	Verify quantitative details of finished goods from the notes to account.
36	<ul style="list-style-type: none"> i. Ensure that total amount of profits distributed and the tax paid thereon is as per the audited profit and loss account. ii. Verify and obtain copy of challan for payment of tax and date of payment.



Clause No.	Points for Consideration										
	iii. Report the dates of payment in respect of tax on dividend.										
37	<p>i. Verify the Annexure to Auditors Report under CARO to see the comments in relation to cost records / accounts were made / maintained as under Section 233B of the Companies Act, 1956. Review the comments of the auditor under this clause.</p> <p>ii. In case a cost audit was required and also carried out, a copy of the same should be attached to the Tax Audit Report.</p> <p>iii. In case of any disqualification or disagreement on any matter / item / value / quantity as may be reported/identified by the cost auditor needs to be specified in this clause. <i>(The issue is vexed as to whether there exists a disqualification and same will depend upon individual skill of the tax auditor)</i></p>										
38	<p>i. Inquire with the client, whether any audit conducted under the Central Excise Act, 1944. Include whether audit under Central Excise Act, 1944 has been conducted or not in the letter of representation.</p> <p>ii. If above audit has been conducted then attach copy of the same to the Tax Audit Report.</p> <p>iii. In case of any disqualification or disagreement on any matter/item/value/quantity as may be reported/identified by the auditor needs to be specified in this clause.</p>										
39	<p>i. Inquire with the client, whether any audit conducted under the section 72A of the Finance Act 1994, in relation to value of taxable service. This audit is generally sought by the commissioner on valuation matters and therefore it appears that this clause is restricted to such matters.</p> <p>ii. If yes obtain the copy of the report.</p> <p>iii. In case of any disqualification or disagreement on any matter/item/value/quantity as may be reported/identified by the auditor needs to be specified in this clause.</p>										
40	<p>i. Verify figures required for the purpose of ratios from the audited accounts and ensure that they are consistently followed.</p> <ul style="list-style-type: none"> • Give particulars of the components of the amounts considered in the ratios. • The manner of arriving at gross profit and net profit should be disclosed and followed consistently. • Finished goods produced would be derived by the following formula : <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 70%;">Turnover</td> <td style="width: 30%;">xxx</td> </tr> <tr> <td>Less: Gross Profit</td> <td>xxx</td> </tr> <tr> <td>Add: Closing Stock Finished of goods</td> <td>xxx</td> </tr> <tr> <td></td> <td>xxx</td> </tr> <tr> <td></td> <td>xxx</td> </tr> </table>	Turnover	xxx	Less: Gross Profit	xxx	Add: Closing Stock Finished of goods	xxx		xxx		xxx
Turnover	xxx										
Less: Gross Profit	xxx										
Add: Closing Stock Finished of goods	xxx										
	xxx										
	xxx										



Clause No.	Points for Consideration				
	<table border="1" style="width: 100%;"> <tr> <td style="width: 80%;">Less: Opening stock of Finished goods</td> <td style="width: 20%;">xxx</td> </tr> <tr> <td>Finished goods produced</td> <td>xxx</td> </tr> </table> <p>The stock figures should be taken as per books of account and not the adjusted number as per section 145A. This clause requires comparative figures for the preceding previous year. In a situation where the assessee was not liable for tax audit in the preceding previous year appropriate note may be incorporated.</p>	Less: Opening stock of Finished goods	xxx	Finished goods produced	xxx
Less: Opening stock of Finished goods	xxx				
Finished goods produced	xxx				
41	<ol style="list-style-type: none"> i. Inquire for all demand or notices received during the year under income tax / wealth tax or under any other tax laws raising the demand on the assessee. ii. Check the bank statements of the assessee to ascertain any refund has been received under any tax laws. Verify 26AS to ascertain any refund has been issued under the income tax act, iii. Obtain representation from the management as regards the proceedings under various tax laws and also obtain the list of consultants who are representing the assessee in such matter. iv. If required also obtain from each such consultants confirmation about the proceedings under various tax laws. v. The details of demand or refund have to be provided even if the assessee has appealed against such proceedings. 				
	ANNEXURE 1				
Annexure 1 Part A	Repeat the details as reported in Part A of the Form 3CD.				
Annexure 1 Part B	<ol style="list-style-type: none"> i. This part should contain the relevant code applicable to the business. ii. Details of items stated in serial numbers 1 to 9 and 14 to 16 should be same as in the Annual Accounts. iii. Remaining items from Serial number 10 to 13 should be verified against relevant account head if given separately in the annual accounts or from the relevant account balances as per general ledger verified by the auditor. 				