INDICATIVE CHECKLIST FOR TAX AUDIT-2007

Clause No.	Points for Consideration
1	Name of the Assessee
2	Address
3	Permanent Account No.
4	Status
5	Previous Year Ended
6	Assessment Year
7	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.
8	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 scrutinise accounts such as capital w.i.p., pre-operative expenditure, interest costs, etc. iv Disclosure : (a) Under broad heads viz., manufacturing, trading services and financial services, (b) Nature of product/ services under each broad head.
9	i. For persons carrying on legal, medical, engineering or architectural professions or the profession of accountancy or technical consultancy or interior decoration or authorised representative or film artist the following books are prescribed u/s 44AA: 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.

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.

iii. Compare list of books maintained with previous year's schedule.

iv. Disclose only those books that are verified.

10 Profit and gains assessable on presumptive basis would be of the following businesses:

- 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.

Scrutinise 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.

11 i. Verify Notes to Account for disclosure of significant accounting policies.

ii. Compare with previous year's tax audit report for basis adopted.

iii. Scrutinise 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:

- *Disclosure of accounting policies*
- *Prior period items*
- *Extraordinary items*
- *Changes in accounting policy*

12 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.

13 a) i. Scrutinise liability and capital reserve accounts to ascertain any amount in the nature of income.

ii. Scrutinise 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 licence, cash assistance for exports, claims for duty drawback, proforma 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 subsidised 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) i. Discuss with the management for any of the above claims admitted as due by the authorities concerned at the year end.

ii. Verify whether the above claims have been credited to the profit and loss account and, if not, obtain reasons.

iii. Scrutinise 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) i. 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) i. Scrutinise the notes to account and auditors' report for any undisclosed/unaccounted revenue / income. (Refer items listed in section 2(24).

e) 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.

14 i. Obtain a schedule in the form required under the clause. Description of asset/block of asset should be under the following heads:

- Building
- Plant and Machinery
- Furniture and Fixtures
- Vehicles/Cars (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:

- CENVAT, from RG 23A Part II and RG 23C Part II registers
- 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.

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.

15 i. Discuss whether any of the sections referred are applicable to the assessee. The business activities/expenditures covered are:

- 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)

- Prospecting/extraction/production of any minerals (35E)

ii. 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)

iii. Check depreciation schedule for any capitalised asset, is claimed as an allowance under tax laws and ensure separate disclosure.

iv. Ensure appropriateness of deductions (particularly weighted deductions) claimed under the relevant sections.

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.

16 a) i. Obtain a schedule of bonus, ex gratia and commission paid/payable to employees stating the name of the employee, designation, amount of bonus/ex gratia/ commission paid/payable, etc.

ii. The particulars should be disclosed only if the above are payable in lieu of dividends or profits.

b) 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.

17 a) i. Scrutinise audited accounts and schedules for expenditures:

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.

b) i. Verify whether Directors' remuneration and perquisites covered by contractual obligations.

ii. Scrutinise report under CARO for any personal expenses being reported.

iii. Scrutinise earlier years assessment orders for any expenses being disallowed as personal expenses by the Income-Tax Department, whether disputed or not by the assessee.

iv. Scrutinise 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.

c) i. Refer to audit file for comments on contribution to political parties, if the audit carried out by the firm.

ii. Verify the supporting documents such as souvenirs or pamphlets issued by the political party. Contribution to trade unions affiliated to a political party should be reported.

d) i. Check the payments to clubs for expenditure of personal nature or entertainment. Exclude payments to Diners, Lions, Rotary, Giants, etc..

ii. Check the other revenue heads of account for payments to clubs.

e) i. Make prima facie inquiry about the applicable laws to the organisation with the management and also identify specific statutes based on review of clients business.

ii. Verify from audit work papers for expenditure in the nature of penalty, fine, illegal payments.

iii. Verify Income Tax, Sales Tax, excise, P.F. and other orders for penalty and other payments.

f) 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.

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.

g) 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.

h) i. Obtain list of all payments (including those to employees for salaries, LTA etc.) exceeding
Rs. 20,000/- in cash or by cheques/drafts which are not crossed and cross verify the same with the bank statements.

ii. Scrutinise cash book to ensure completeness of list provided by the assessee.

iii. Ensure disclosure for disclaimer with regard to cheque/draft payments through bank. (See note below)

i) 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

a. Provision towards approved gratuity fund contribution

b. Provision for gratuity that is due and payable during the year.

c. Other provisions.

j) 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:

a. Recognised provident fund.

b. Recognised gratuity fund.

c. Recognised superannuation fund.

d. As required by or under any other law.

Indicate in the Statement of Particulars the payments made by the employer other than those mentioned in (i) above

k) i. Scrutinise liability accounts to identify any liability of contingent nature debited to the profit and loss account.

18 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:

- Agreements/authorisation.
- Vouchers/entries in the general ledger
- Personal accounts of the parties

19 i. Confirm the workings of profits and gains as per the requirement of these sections. In respect of section 33ABA verify from the accountants' report required under sub-section (2) of this section

20 i. Obtain a statement of written back during the year. Inquire whether allowance in tax returns was claimed in earlier years.

ii. Scrutinise 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.

In case business (in respect of which all the above income is received) is discontinued, any unclaimed loss (other than speculation loss) of the year 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.

21 i) i. Scrutinise previous years tax audit report, current liabilities & secured/ unsecured loans (for interest accrued and due) to identify any of the following amounts pertaining to ***earlier years***:

- 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);
- 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.

ii. 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.

iii. 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.

iv. 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.

Verify report under CARO for any statutory dues remaining unpaid.

ii) i. This clause applies to employers' contribution to provident fund, gratuity fund or any other fund that has been established for the welfare of employees.

ii. Scrutinise previous years tax audit report and current liabilities to identify amounts pertaining to earlier years.

iii. Verify payments during the year pertaining to the above amounts (not allowed as a deduction in the earlier assessment years) with challans, receipts, bank advise, etc. Also ascertain amounts unpaid out of the above.

iv. Where payment made by cheque, etc. whether the sum has been realised within fifteen days of due date.

v. For each of the expenditures mentioned in (i) above that are debited to profit and loss account of current year, determine amount remaining unpaid (i.e. shown as liabilities) as at 31st March. Also verify amounts subsequently paid on or before due date.

Due dates:

- *PF/FPF/EDLI/admin charges – 15th of the next month.*
- *ESIC – 21st of the following month.*
- *Gratuity fund – if funded with the LIC, the date as mentioned in the premium letter. If the employer has established a separate gratuity trust, the date mentioned in the trust deed/ regulations.*

22 a) *Purchase of goods and materials*

i. Document the system of accounting excise at the time of purchase of goods and materials, point of availment or utilisation of CENVAT credit and entries passed at the time of availment/utilisation of cenvat credit.

ii. Quantify and verify from excise records the amount of cenvat credit available for the year, amount utilised and the balance outstanding.

iii. Provide a summary of above account with description and ensure disclosure of the same.

b) 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.

In case of cash system of accounting, there will not be any item appearing under this clause

23 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.

24 a) i. Obtain statement in the required format and check with relevant accounts in general ledger.

ii. Scrutinise loan accounts, current account and deposit accounts for similar items.

iii. Scrutinise 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 Rs. 20,000 during the year.

b) i Obtain statement in the required format and check with relevant accounts in general ledger.

ii. Scrutinise loan accounts, current account and deposit accounts for similar items.

iii. Ensure that all the items, which are covered under 24 (a) above and in respect of which repayment is made during the year, disclosure is made under this clause.

25 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 open assessments. Include status under appeal under Remarks column.

iv. Get the annexure so prepared verified by the audit Group.

26 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.

ii. Scrutinise the current year financial statements and audit work papers for identifying any claims available under the chapter.

iii. In respect of sections under which independent certificates are required, ensure that a copy of the same is put on the file.

iv. Ensure full particulars of deductions with quantification thereof are verified and signed off by audit staff.

27 i. Obtain a statement of TDS deducted showing the particulars of the head under which tax is deducted, amount deducted, due date of payment, payment date and amount and the delay in payment.

ii. Check the relevant vouchers, challans and returns submitted of the tax so deducted.

iii. Scrutinise other relevant accounts for expense heads such as salaries, interest, royalties, contractors/sub-contractors etc.

iv. Report only tax deducted and not paid within the prescribed limits. Where tax was liable to be deducted and has not been deducted, no details under this clause are to be furnished.

28 a) 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.

b) Verify quantitative details of finished goods from the notes to account.

29 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.

iii. Report the dates of payment in respect of tax on dividend.

30 i. Verify the CARO for any cost audit conducted under section 233B of the Companies Act, 1956. Include whether cost audit has been conducted or not in the letter of representation.

ii. If yes, whether a copy of the same has been attached to the Tax Audit Report.

iii. In case where the audit should have been conducted but not done, the fact should be reported.

31 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.

ii. If above audit has been conducted then attach copy of the same to the Tax Audit Report.

32 i. Verify figures required for the purpose of ratios from the audited accounts and ensure that they are consistently followed.

ii. Give particulars of the components of the amounts considered in the ratios.

iii. The manner of arriving at gross profit and net profit should be disclosed and followed consistently.

iv. Finished goods produced would be derived by the following formula :

Turnover	xxx
Less: Gross Profit	xxx
	xxx
Add: Closing stock of finished goods	xxx

	xxx
Less: Opening stock of finished goods	<u>xxx</u>
Finished goods produced	<u>xxx</u>

The stock figures should be taken as per books of account and not the adjusted number as per section 145A.

ANNEXURE A

Part A Repeat the details as reported in Part A of the Form 3CD.

Part B
- i. This part should contain the relevant code applicable to the business.
- ii. Details of items stated in serial number 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.