

Tax Audit Series v. 3.0

Ch. 3 – Audit Report Format



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Namaste

In Chapter 3 of this series, we would discuss what are the audit reports and which report format is to be used by an auditor. Few professionals / stakeholders think that the reporting format is Form 3CD, however the fact is different. Section 44AB requires three things:

1. Getting the accounts audited;
2. Furnishing of Audit Report; and
3. Furnishing of prescribed particulars.

Form 3CD is only the 3rd requirement i.e., prescribed particulars as Rule 6G(2).

Audit report has to be in either Form 3CA as per Rule 6G(1)(a) or Form 3CB as per rule 6G(1)(b). In this chapter we would discuss about the Audit Reports i.e., Form 3CA / Form 3CB.

FORM 3CA

When is Form 3CA to be issued?

Few of the stakeholders believe that Form 3CA is to be issued when the tax audit is to be done of a Company. However, the fact is different. Most of us are aware that Form 3CA is to be issued by the auditor in case:

- the person is carrying on business or profession; and
- is required by or under any other law to get his accounts audited.

In such a case, out of the 3 requirements of s. 44AB as discussed initially in this chapter is fulfilled and only the remaining 2 requirements is to be fulfilled u/s 44AB.

Examples where Form 3CA should not be issued

Below are few examples, where even though the person is a company, still it cannot get the report in Form 3CA:

- A company having a different financial year under the Companies Act 2013 as approved by RD
- A company incorporated on or after 1st January (in such case the 1st financial year would end on next 31st March as per Companies Act). For example a company incorporated on 1st February 2021 and requires to get the tax audit done will get Form 3CB issued for both period ending 31st march 2021 as well as 31st March 2022.
- A Company converted into LLP during the financial year.
- A company wound up during the financial year.

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- A person required to get the GST Audit done would not form the basis for issue of Form 3CA because in GST Audit the auditor does not audit the accounts to give an opinion on true and fair view on the financial statements.

Examples where Form 3CA is to be issued

- A company whose accounts are audited under Companies Act 2013 for the period for which ITR is to be filed.
- An LLP when its turnover exceeds Rs. 40 Lakhs whose accounts are audited under LLP Act 2008 for the period for which ITR is to be filed.
- A society registered under the Societies Registration Act, 1860 (SRA) where it is required to get its accounts audited under SRA.

Form 3CA is used in such cases as financial statements are audited under their respective law, where the auditor gives his opinion on true and fair view on the financial statements under that law. Form 3CA contains 3 Paras and any observation / qualification on Form 3CD should be given at Para 3 only.

Para 3 should contain the essence of SA 700, which should include the following:

- **Assessee's Responsibility for Statement of Particulars in Form 3CD**
 1. 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(2) 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.
- **Tax Auditor's Responsibility**
 1. We are 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 (2) 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.

FORM 3CB

When is Form 3CB to be used?

Form 3CB is to be used in all other cases i.e., when financials statements of the entity are not audited under any other law. This is so as in Form 3CB, the auditor gives his true and fair

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view on financial statements in Para 3 of the Form. Form 3CA does not contain auditor opinion on financial statements, as the same is given while issuing the auditor report under the other law.

Form 3CB contains 5 Paras and any observation / qualification have to be given at 2 places:

1. Para 3 - observation / qualification related to true and fair view on financial statements. All qualifications, non-compliance of Accounting Standards, etc. should be made at this Para.
2. Para 5 - observation / qualification on Form 3CD

Essence of SA 700

Auditors should issue the Form 3CB containing the essence of SA 700/705/706, as applicable. The same is also suggested in the ICAI Tax Audit Guidance Note (Revised 2014) too. The matter in the Paras may be as under:

Para 3

Assessee's Responsibility for the Financial Statements

1. The assessee is responsible for the preparation and fair presentation of the financial statements in accordance with the Accounting Standards issued by the ICAI, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
2. In preparing the financial statements, management is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.
3. Those charged with governance are responsible for overseeing the entity's financial reporting process.

Tax Auditor's Responsibility

1. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if,

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individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these FS

2. As part of an audit in accordance with SAs, we exercise professional judgment and maintain professional skepticism throughout the audit.
3. We also:
 - Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
 - Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
 - Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
 - Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
 - Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
4. We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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- We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Para 5

- Assessee's Responsibility for Statement of Particulars in Form 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(2) 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.
- Tax Auditor's Responsibility**
 - We are 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 (2) 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.

I hope this document is of use to you. I thank CA. Shreya Jain in assisting me to compile this part of the series. Your suggestions and comments would be highly appreciated

Best Regards

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EARLIER CHAPTERS

Chapter No.	Title	Link
1	Applicability	http://lunawat.com/Uploaded_Files/Attachments/F_11036.pdf
2	Turnover	http://lunawat.com/Uploaded_Files/Attachments/F_11037.pdf

(Disclaimer: Though full efforts have been made to state the interpretations correctly, yet the author is not responsible / liable for any loss or damage caused to anyone due to any mistake / error / omissions)

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ABOUT CA. PRAMOD JAIN

He is a commerce graduate [B. Com (H)] from Shri Ram College of Commerce (SRCC). He is a fellow member of the Institute of Chartered Accountants of India (FCA). He is a fellow member of the Institute of Companies Secretaries of India (FCS). He is a fellow member of the Institute of Cost Accountants of India (FCMA). He is a Bachelor of Law (LL.B). He has qualified Information System Auditor [DISA (ICAI)]. He is also a member of All India Management Association (MIMA). He is also an Insolvency Professional (IP). He has also passed the Proficiency Self-Assessment Test for Independent Director's Databank. He has passed certification course NCFM of National Stock Exchange of India (NSE). He has also done certification course CAAT of ICAI. He has also done post qualification certificate course on Valuation of ICAI.

He has been elected as Central Council Member of ICAI for the period 2019 – 2022. Apart from being member in more than 25 committees / groups / directorates of ICAI, he is / was:

- Chairman of Committee on International Taxation (CITAX) for Year 2021-22
- Chairman of Taxation Audit Quality Review Board (TAQRB) for the year 2021-22.
- Chairman of Valuation Standards Board (VSB) for the year 2020-21.
- Chairman of CSR Committee of ICAI for year 2020-21.
- Vice-Chairman of Committee on MSME & Start-up for the year 2021-22.
- Vice-Chairman of Women Members Empowerment Committee (WMEC) - 2021-22.
- Vice-Chairman of Direct Tax Committee (DTC) for year 2019-20 and 2020-21.
- Vice-Chairman of Committee on International Taxation (CITAX) for Year 2019-20.
- Member of ICAI Disciplinary Committee Bench 1 for year 2020-21.
- Nominated as Member of Quality Review Board (QRB) for 3 years from 2020 to 2022.

He is the conceptualizer of the portal www.expertspanel.in which is a one stop solution for all professional queries which has given more than 31000 answers since its launch in mid of year 2018.

He is delivered more than 1400 lectures and articles on various topics of Income Tax, Corporate Laws, LLP, Audits, Peer Review, Quality Review, etc. at more than 200 forums throughout the country. Most of his presentations and articles since 2013 are available for free download from www.lunawat.com and from 2018 at www.expertspanel.in also.

He is president, founder convener and member of various Boards, Directorate, Committees, Study Circles, etc. of ICAI, ICSI and other prestigious bodies and associations. He has been a Technical Reviewer with FFRB and Quality Review Board and Peer Reviewer with Peer Review Board. He has authored books 13 books including “Chartered Accountant’s Documentation and Compliance for Audits and Reviews”, Limited liability Partnership – A Complete Resource Book”, and “Accounting Standards and CARO”.