

Tax Audit Series - Version 4.0

Chapter 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. A 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 issued 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 above) the first one (getting the accounts audited) is fulfilled and only the remaining 2 requirements are to be fulfilled.

Examples where Form 3CA cannot 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 is incorporated on 1st February 2024 and requires getting the tax audit done (as say, turnover is Rs. 15 crores) will get Form 3CB issued for both periods ending 31st March 2024 as well as 31st March 2025.

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- Tax audit of a company which is converted into LLP during the financial year.
- Tax audit of a LLP, which is converted into company during the year.
- A company wound up during the financial year.

Examples where Form 3CA has 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 issued 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 of Form 3CA should contain the essence of SA 700, and 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(1)(a) 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(1)(a) 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.

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FORM 3CB

When is Form 3CB to be issued?

Form 3CB is to be issued in all other cases i.e., when financials statements of the assessee are not audited under any other law. This is so as in Form 3CB, the auditor has to give true and fair view on financial statements in Para 3 of the Form. Form 3CA does not contain auditor's 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. Any qualifications/adverse/disclaimer of opinion, non-compliance of Accounting Standards, observations, emphasis of matter, etc. must be made at this Para only.
2. **Para 5** - observation / qualification on Form 3CD. Any observation / qualification on paras of Form 3CD must be made at this Para only.

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 2023) 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 aforesaid financial statements that give true and fair view of the financial position and financial performance in accordance with the applicable Accounting Standards and financial reporting framework. The assessee is also responsible for design, implementation and maintenance of such internal controls as assessee 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, assessee 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.

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Tax Auditor's Responsibility

1. Our responsibility is to express an opinion on these financial statements based on our audit. We have conducted this audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement, whether due to fraud or error.
2. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Standards of Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.
3. As part of an audit in accordance with Standards of Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purposes of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Para 5

- **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(1)(b) of Income Tax Rules, 1962 that give true and correct particulars as per the provisions of the Income-tax Act,

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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(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.

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_20303.pdf
2	Turnover	http://lunawat.com/Uploaded_Files/Attachments/F_20304.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)

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

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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 is qualified as an 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 Certificate Course on CSR of ICAI. 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 and post qualification certificate course on Valuation of ICAI.

He is elected as Central Council Member of ICAI for 2 consecutive terms from 2019 to 2025. Apart from being member in more than 25 committees / groups / directorates of ICAI, and other Bodies he is / was:

- Chairman of Accounting Standards Board (ASB) of ICAI for 3 years from 2022 to 2025
- Deputy Convenor of Centre for Audit Quality Directorate (CAQD) for 2024-25
- Convenor - Members & Students (Grievances Handling & e-Sahayata) Directorate for 2023-24
- Chairman of Accounting & Finance Services Sectional Committee SSD-12 under the Services Sector Division Council (SSDC) of Bureau of Indian Standards (BIS) for 2023-24
- Chairman of Expert Advisory Committee (EAC) of ICAI for Year 2022-23
- Co-Chairman of Corporate Affairs Committee of PHDCCI for the year 2022-23
- Chairman of Committee on International Taxation (CITAX) of ICAI for 2021-22
- Chairman of Taxation Audit Quality Review Board (TAQRB) of ICAI for 2021-22.
- Member of Quality Review Board (QRB) for 2 terms from 2020 to 2026.
- Member of the SME Implementation Group (SMEIG) of IFRS Foundation, UK for 3 years from 2023 to 2026.
- Chairman of Valuation Standards Board (VSB) of ICAI for the year 2020-21.
- Chairman of CSR Committee of ICAI for year 2020-21.
- Vice-Chairman of Committee on MSME & Start-up of ICAI for the year 2021-22.
- Vice-Chairman of Women Members Empowerment Committee (WMEC) of ICAI for 2021-22.
- Vice-Chairman of Direct Tax Committee (DTC) of ICAI for 2 years from 2019 to 2021.
- Vice-Chairman of Committee on International Taxation (CITAX) of ICAI for 2019-20.
- Member of ICAI Disciplinary Committee for the year 2020-21.

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 36000 answers since its launch in mid of year 2018.

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He has delivered more than 1700 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 Senior Partner of M/s LUNAWAT & CO., Chartered Accountants. 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 Financial Reporting Review Board (FRRB) and Quality Review Board (QRB) and Peer Reviewer with Peer Review Board (PRB).

He has authored books on “Chartered Accountant’s Documentation and Compliance for Audits and Reviews”, *Limited liability Partnership – A Complete Resource Book*”, “Chartered Accountant’s Documentation and Compliance for Audits and Reviews”, “Importance of LLP after Companies Act, 2013”, “Chartered Accountant’s Documentation and compliance under Companies Act 2013, Peer Review and Quality Review”, “Limited Liability Partnership – Law, Procedures and Taxation”, “Documentation for Chartered Accountants”, “Limited Liability Partnership – Law and Procedures with Ready Reckoner”, “Fringe Benefit Tax & Banking Cash Transaction Tax”, “Documentation for Audits” and “Accounting Standards and CARO”.

He has written various articles on taxation, company law and audit in various journals. He has vast practical experience in income tax, audit, corporate laws and LLP.