

Tax Audit Series - 2 – Audit Report Format



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Namaste

In series - 2 we would discuss what are the audit reports and which report format is to be used by an auditor.

FORM 3CA / FORM 3CB

We all know that tax audit report u/s 44AB has to be either in Form 3CA or Form 3CB. The annexure to both reports is in Form 3CD, which is prepared by the management and auditor certifies it to be true and correct in Form 3CA/3CB.

When is Form 3CA to be used?

Form 3CA is to be used when the financial statements of the entity are audited under any other law. For example a Company could be audited under Companies Act 2013.

One may have a view that every company financials are audited under the Companies Act 2013. However, there could be few cases that a financial statement of a company is not audited under Companies Act, some cases could be:

- A company having a different financial year under the Companies Act 2013 as approved by NCLT
- A company incorporated on or after 1st January (in such case the 1st financial year would end on next 31st March)

A LLP under tax audit would always use Form 3CA as its accounts are audited under LLP Act, 2008 when its turnover exceeds Rs. 40 Lakhs.

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.

When is Form 3CB to be used?

Form 3CB is to be used in all other cases i.e., when financial 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 view on financial statements in S. No. 3 of the Form. Form 3CA does not contain auditor opinion on financial statements.



SA 700

It is pertinent to note that all auditors should invariably comply with Standards on Auditing including SA 700/705/706 while conducting audit as they are mandatory on them.

SA 700 'Forming an Opinion and Reporting on Financial Statements', prescribes a format of the auditor's report on financial statements, which has been made effective in respect of audits of financial statements for periods beginning on or after 1st April 2012. However, having regard to the importance of these respective responsibility, it is suggested that these respective responsibility paragraphs relating may be provided in the space provided for giving observations, etc., **under clause (3) of Form No.3CA or Clause (5) of Form No.3CB as the case may be.** The suggested paras as per ICAI Tax Audit Guidance Note (Revised 2014) are as under:

Assessee's Responsibility for the Financial Statements and the Statement of Particulars in Form 3CD

- The assessee is responsible for the preparation of the aforesaid financial statements that give a true and fair view of the financial position and financial performance (if applicable) in accordance with the applicable Accounting Standards issued by the Institute of Chartered Accountants of India. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.
- The assessee is also responsible for the preparation of the statement of particulars required to be furnished under section 44AB of the Income-tax Act, 1961 annexed herewith in Form No. 3CD read with Rule 6G(1)(b) of Income Tax Rules, 1962 that give true and correct particulars as per the provisions of the Income-tax Act, 1961 read with Rules, Notifications, circulars etc that are to be included in the Statement.

Tax Auditor's Responsibility

- My/ Our responsibility is to express an opinion on these financial statements based on my/our audit. I/We have conducted this audit in accordance with the

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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.

- 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.
- I/We believe that the audit evidence I/we have obtained is sufficient and appropriate to provide a basis for my/our audit opinion.
- I/We are also responsible for verifying the statement of particulars required to be furnished under section 44AB of the Income-tax Act, 1961 annexed herewith in Form No. 3CD read with Rule 6G (1) (b) of Income-tax Rules, 1962. I/ 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 *Ms. Ria Agarwal* in assisting me to compile this part of the series. Your suggestions and comments would be highly appreciated

Best Regards

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