

# Income Tax & Company FINANCIALS AUDITS



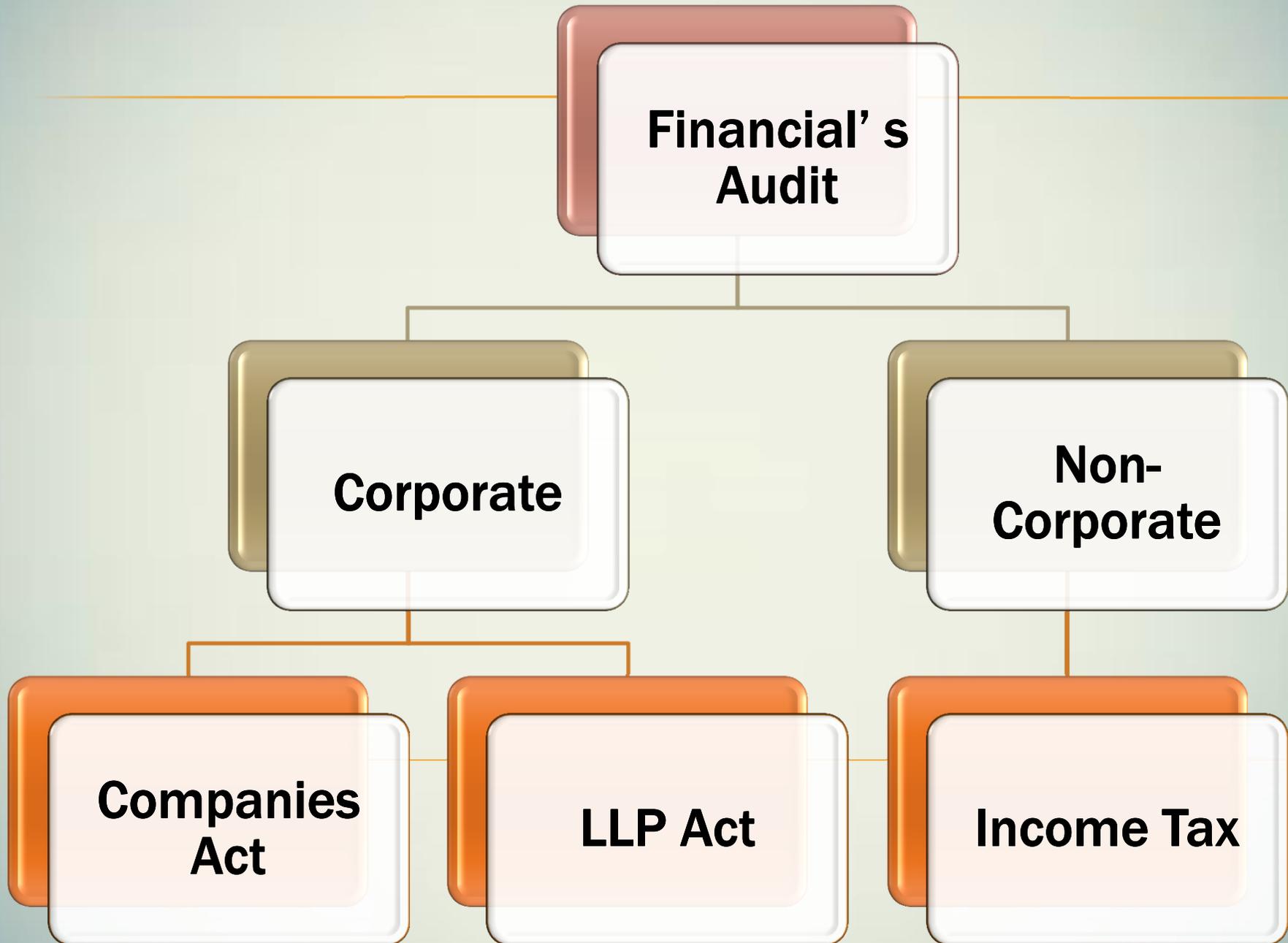
**CA. PRAMOD JAIN**

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Shared at

Dwarka CPE Study Circle of NIRC of ICAI

11<sup>th</sup> October 2019





# LEGISLATION FOR AY 2018-19

## S. 44AB

- Business - exceeds Rs. 1 Crore
- Profession - exceeds Rs. 50 L
- Business u/s 44AE /44BB /44BBB; income < deemed profits;
- Profession u/s 44ADA; deemed profit < 50% & TI > ANCT
- Business u/s 44AD (4)

## Rule 6G

- Prescribing the Forms for Report u/s 44AB

## Form 3CA

- Report in case of a person who is required to get his A/cs audited under any law

## Form 3CB

- Report in any other case

## Form 3CD

- Particulars as required u/F 3CA or 3CB

## S. 271B

- Penalty  $\frac{1}{2}\%$  maximum Rs. 1.50 L

# APPLICABILITY OF 44AD(44ADA) / 44AB

Mr. A started Mfg – 1<sup>st</sup> Yr - Turnover – 150L;  
NP – 8 L; TI - 8.50 L

- AD - No
- AB - Yes

Mr. B - Trading - Turnover – 90L; NP - 10L;  
Doctor- Fee – 45 L; NP- 25 L; TI -32L

- AD – No
- ADA - Yes
- AB - No

Mr. X – Trading Turnover – 80L - NP – 4 L; TI-  
3 L

- AD – No
- AB - No

Mr. D - Trading; Turnover -95L; Commission –  
6 L; NP- 15L; TI - 14L

- AD - No
- AB - Yes

Qualified  
or  
Disqualified

# **WHO CAN CONDUCT AUDIT**

- **W.e.f. 1<sup>st</sup> June 2015**
- **Accountant as defined in Explanation below S. 288 (2)**
- **A Chartered Accountant as defined in section 2 (1) (b) of the Chartered Accountants Act, 1949 who holds a valid certificate of practice u/s 6 (1) of that Act**
- **CA in practice (can represent)**

# DISQUALIFICATION - COMPANIES



# DISQUALIFICATION – OTHERS

- **Assessee himself**
- **In case of a firm - any partner of the firm**
- **In case of AOP - member of the association**
- **In case of HUF - member of the family**
- **Person referred to in section 13(3)(a),(b),(c), (cc);**
- **Relative of any of above persons**
- **Other than above, person who is competent to verify return u/s 139/140;**
- **Officer or employee of assessee;**

# **RELATIVE – INCOME TAX AUDITOR**

- **Spouse of the individual;**
- **Brother or sister of the individual;**
- **Brother or sister of the spouse of the individual;**
- **Any lineal ascendant or descendant of the individual;**
- **Any lineal ascendant or descendant of the spouse of the individual;**
- **Spouse of a person referred above**
- **Any lineal descendant of a brother or sister of either the individual or of spouse of individual**

# DISQUALIFICATIONS - OTHERS

- Who is a partner, or who is in employment, of an officer or employee of assessee;
- Who has been convicted by a court of an offence involving fraud and a period of 10 years has not elapsed from the date of such conviction
- An individual who, or his relative or partner
  - Is holding any security of or interest in assessee –  
Relative face value - Rs. 1 L
  - Is indebted to the assessee. Relative – Rs. 1 L
  - Has given a guarantee / provided security . Relative –  
1 L

# DISQUALIFICATIONS – TAX AUDITOR

- A person or a firm who, whether directly or indirectly, has business relationship with assessee. i.e., any transaction entered into for commercial purpose except:
  - In nature of professional services permitted
  - In the **ordinary course of business of co.** at ALP like
    - sale of products or
    - services
  - To **auditor, as customer, in the ordinary course of business**, by companies engaged in business of telecommunications, airlines, hospitals, hotels & such other similar businesses



- **Can a CA in practice who is giving accounting services to a subsidiary, conduct tax audit of its holding company?**
- **Can an internal auditor of a company issue Form 15CB certificate for that company?**
- **Can a CA in practice who is giving accounting services to holding company issue certificate for MAT in Form 29B to its subsidiary company?**

# FORM 3CB

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- × Total 5 Paras
- × Same as Form 3CA except examination of books
- × Opinion subject to observations / qualifications to be given:
  - + Financial Statements – 3(a)
  - + Form 3CD – 5
- × SA 700?

# SA 700 – PARA 3

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

# SA 700 PARA 3

- ✘ **Tax Auditor's Responsibility**
- ✘ 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, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these FS

# SA 700 PARA 3

- × As part of an audit in accordance with SAs, we exercise professional judgment and maintain professional skepticism throughout the audit.
- × 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.

# SA 700 PARA 3

- + 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.

# SA 700 PARA 3

- + 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.
- ✘ 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.
- ✘ 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.

# SA 700 – PARA 5

- 2. 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, 1961 read with Rules, Notifications, circulars etc that are to be included in the Statement.**

# SA 700 – PARA 5

- × 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. 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 3CD - ????

- × **Clause 27(a) - CENVAT**
- × **Clause 31 - 269SS / 269T**
- × **Clause 31(ba) - 269 ST**
- × **Clause 29 (b) - 56(2)(x)**

# AUDIT

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# AUDIT CONCLUSIONS AND REPORTING

SA. No.	Sub-division
700	Forming an Opinion and Reporting on Financial Statements
701	Key Audit Matters
705	Modifications to the Opinion in the Independent Auditor's Report
706	Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor
710	Comparative Information—Corresponding Figures and Comparative Financial Statements
720	The Auditor's Responsibility in relation to other information in Documents containing Audited Financial Statements

# AUDIT REPORT FOR FY 2019-20

- × SA 700, 705, 706, 720 revised
- × SA 701 – Key Audit matters applicable for:
  - + Listed entities
  - + Circumstances when the auditor otherwise decides to communicate key audit matters in the auditor's report

# TYPES OF AUDIT REPORTS

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**Unmodified**



**Modified**

# AUDIT REPORT FOR FY 2019-20

## × Revised 700–Illustrations of Auditor’s Report on Financial Statements of:

1. A **listed entity** prepared in accordance with a fair presentation framework
2. A **listed company** prepared in accordance with a fair presentation framework
3. An **Unlisted Company** Prepared in Accordance with a Fair Presentation Framework
4. A **Non-Corporate Entity** Prepared in Accordance with a Fair Presentation Framework
5. A **Non-Corporate Entity** Prepared in Accordance with a **General Purpose Compliance Framework**

# PRIVATE COMPANIES AR

- × **Illustration 3 would be applicable. Few assumptions:**
  - + **Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with SA 570 (Revised)**
  - + **The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with SA 701.**

# PRIVATE COMPANIES AR

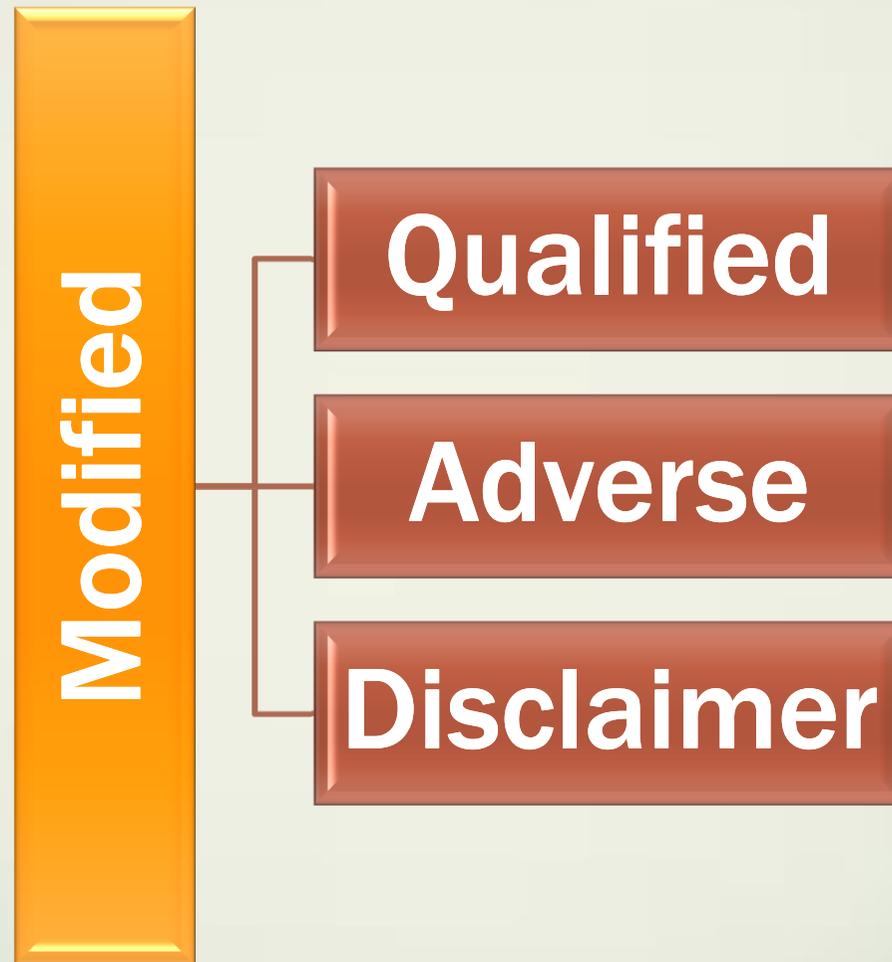
× It's a Report on the Audit of the Standalone Financial Statements. Paras sequence changed

1. Opinion
2. Basis for Opinion
3. Responsibility of Management for Standalone Financial Statements
4. Auditor's Responsibilities for the Audit of the FS
5. Other Matter
6. Report on Other Legal and Regulatory Requirements

## S. 197(16) REPORTING

- Report on Other Legal and Regulatory Requirements:
- *“The auditor of the company shall, in his report under section 143, make a statement as to whether the remuneration paid by the company to its directors is in accordance with the provisions of this section, whether remuneration paid to any director is in excess of the limit laid down under this section and give such other details as may be prescribed”*
- **Its ONLY FOR PUBLIC COMPANIES**

# MODIFIED AUDIT REPORTS



# MODIFIED AUDIT REPORTS

	Auditor's judgment about the pervasiveness of the matter	
Nature of the matter	Material <b>but NOT</b> Pervasive	Material <b>AND</b> Pervasive
Financial statements are <b>Materially misstated</b>	Qualified opinion (...except for...)	Adverse opinion (...do not present true & fair...)
Unable to obtain sufficient <b>Appropriate audit Evidence</b>	Qualified opinion (...except for...)	Disclaimer of opinion (...we do not express an opinion...)

# AUDITING STANDARDS

- Auditor to comply with auditing standards
- NFRA to notify auditing standards. Till NFRA does – as by ICAI
- Total 38 SAs

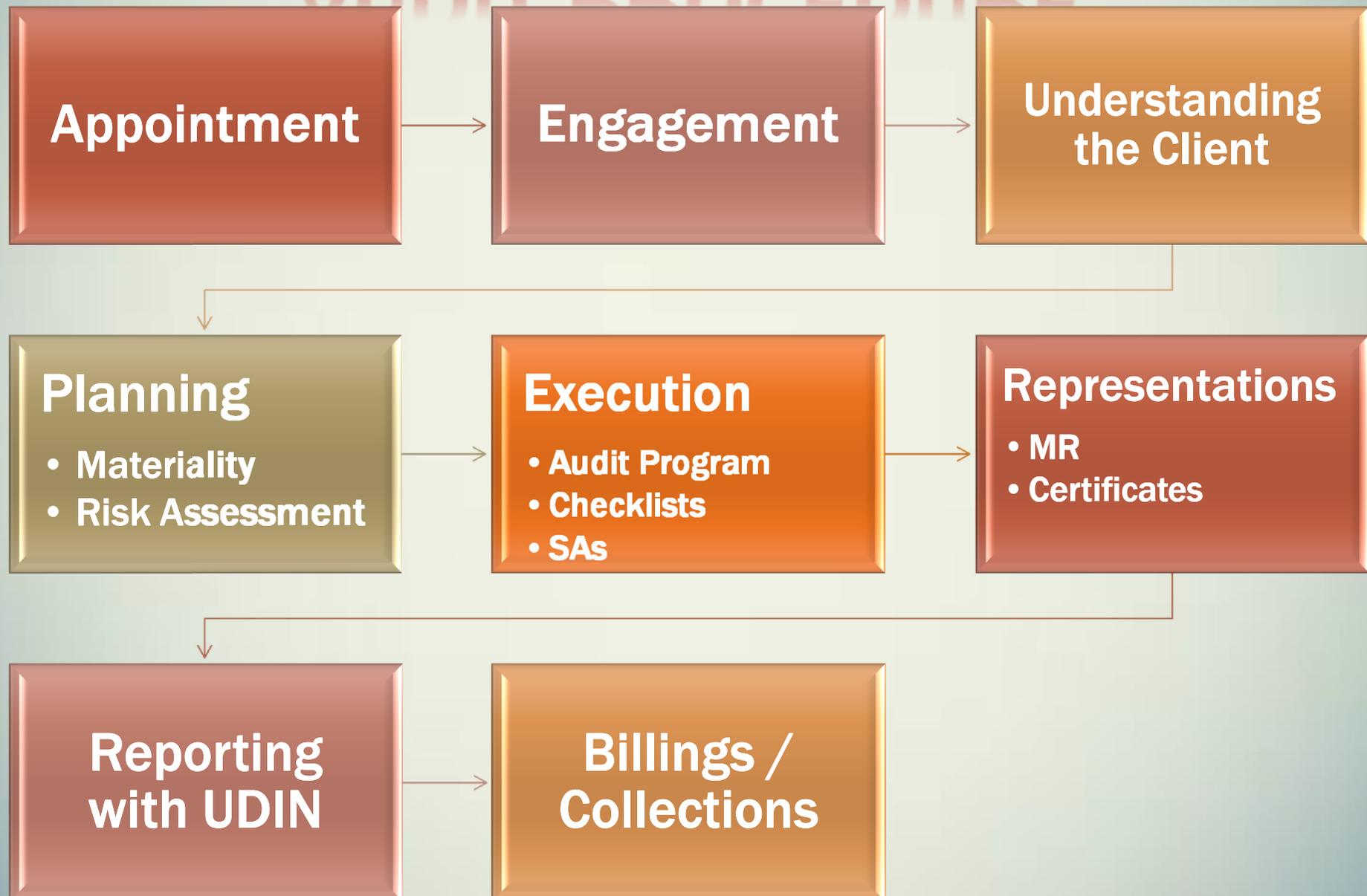
SA. No.	Sub-division	No.
100-199	Introductory Matters	0
200-299	General Principles & Responsibilities	9
300-499	Risk Assessment and Response to Assessed Risks	6
500-599	Audit Evidence	11
600-699	Using Work of Others	3
700-799	Audit Conclusions and Reporting	6
800-899	Specialized Areas	3

# OTHER IMPORTANT POINTS

No.	Standard
SAE 3400	The Examination of Prospective Financial Information
SRS 4410	Compilation Engagements

- × **SREs, SAEs and SRSs**
- × **Guidance Note on Reports or Certificates for Special Purposes**
- × **UDIN**

# AUDIT PROCEDURE



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Income Tax

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Corporate Matters/LLP

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Audit & Assurance and Accounting Standards

(208)

Bank / Insurance / Stock / Debtors Audit

(60)

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answer

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Question added 1 hour ago Income Tax By Vijay Kumar, CA, New delhi

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answers

Q. How I file income tax return

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