

# GUIDANCE NOTE ON TAX AUDIT UNDER SECTION 44AB OF THE INCOME-TAX ACT, 1961

(Revised 2014 Edition)



**The Institute of Chartered Accountants of India**

*(Set up by an Act of Parliament)*

New Delhi

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E-mail : [dtc@icai.in](mailto:dtc@icai.in)

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## Foreword to the Seventh Edition

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The "Guidance Note on Tax Audit u/s 44AB of the Income Tax Act, 1961" is amongst one of the important guidance issued by ICAI and is referred not only by our Chartered Accountants but also by assessing officers and in various judicial forums. It was brought out in the year 1985 immediately after the introduction of tax audit provisions and has been revised regularly to guide members in discharging their obligations in a timely and effective manner.

Since the publication of the last issue in the year 2013, the formats of tax audit reports have undergone significant changes, thereby expanding the scope of reporting and verification by our chartered accountants. Considering the need of updating the knowledge and enhancing the professional competencies of the members of our fraternity, the Direct Taxes Committee of the Institute of Chartered Accountants of India has come out with the Seventh edition of Guidance Note.

I congratulate, the Direct Taxes Committee, particularly CA. G. Sekar, Chairman and CA. Sanjiv Kumar Chaudhary, Vice-Chairman, for responsibly undertaking this revision and fulfilling this arduous task within limited time frame.

I am confident that this guidance note will be of great significance and will also provide assistance to our members on the critical issues arising out of the amendments.

**Date : 9<sup>th</sup> September, 2014**

**Place : New Delhi**

**CA. K. Raghu**

**President, ICAI**



## Preface to the Seventh Edition

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The year 1984 witnessed an important entrant to the Income tax Act, 1961 i.e. the provisions relating to tax audit. Since the main purpose of introduction of this provision was to ensure the accuracy of books of accounts maintained, which forms the basis of computation of income of the assessee, the onerous responsibility was casted on chartered accountants.

Time and again changes were made in the reporting requirements of tax audit report which not only widened the scope of audit to an incredible scale but has also indicated the trust banked upon the Chartered Accountancy Profession by the Government. The authorities also seek the suggestions of ICAI for changes to be made in the reporting requirements, which are submitted to them from time to time. In fact it was the recommendation of ICAI and persistent follow up thereof, due to which the system of e-filing of tax audit reports became a reality in the year 2013. That was the time when ICAI came out with the sixth issue of this Guidance Note.

Recently in July, 2014 the CBDT amended the formats of tax audit reports, thereby expanding the scope of audit tremendously. Majority of the changes made by the Department find its source either in the Guidance Note or recommendations made by ICAI in past few years. Since significant changes have been made in the format of tax audit reports for which members are to be guided, the Direct Taxes Committee of ICAI decided to revise the Guidance Note. Through this seventh edition of the guidance note, an effort has been made to equip our members so that they are able to effectively discharge their responsibilities with regard to the additional requirements. Although, very limited time was available for revision of the entire Guidance Note, the Direct Taxes Committee left no stone unturned to bring out this guidance at the earliest.

I am extremely thankful to CA. K. Raghu, President and CA. Manoj Fadnis, Vice President of the Institute of Chartered Accountants of India who have been the guiding force behind the revision of the Guidance Note.

Also, I wish to acknowledge the sincere contribution of all the members of the Direct Taxes Committee particularly, the members of the Delhi based study group formed under the convenorship of CA. Sanjiv Chaudhary, Vice Chairman and my following Central Council Colleagues, who spared their valuable time for providing significant inputs based upon which the revised draft of the Guidance Note has been prepared:

*Northern Region*

CA. Sanjay Agarwal

CA. Naveen N.D. Gupta

*Western Region*

CA. Dhinal Shah

CA. Tarun Ghia

I am also appreciative of the contribution made by the following co-opted members and special invitees of the Direct Taxes Committee:

CA. Manish Dafaria, Indore

CA. Ajay Wadhwa, Delhi

CA. Himanshu Goyal, Delhi

CA. Veera Babu CH, Guntur

Last but not the least, I appreciate the dedicated efforts of CA. Mukta Kathuria Verma, Secretary, Direct Taxes Committee, CA. Ravi Gupta, Executive Officer and the entire Secretariat of Direct Taxes Committee for their technical and administrative assistance in bringing out this seventh edition of the Guidance Note in limited available time.

Undoubtedly, this edition also would guide our members as the earlier edition and would be of great assistance to our members.

**Date : 9<sup>th</sup> September, 2014**

**Place : New Delhi**

**CA. G. Sekar**

**Chairman**

**Direct Taxes Committee**

## Foreword to the First Edition

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The introduction of the provisions regarding compulsory audit of accounts for tax purposes under Section 44AB of the Income Tax Act, 1961, signified a very healthy development in our tax laws. It fulfils a long felt need and seeks to rectify a weakness which was diagnosed long ago. The requirements of the provisions place a tremendous responsibility on the members of our profession in carrying out the audit and in furnishing the audit report setting forth the prescribed particulars.

I have no doubt that our profession would rise to the occasion, acquit itself well in discharging this responsibility and justify the confidence reposed by the Government in our profession.

I would like to compliment the Taxation Committee in bringing out this timely publication. I am sure this guide would be of help to our members and ensure their full contribution to the achievement of the objectives of this provision.

14-2-1985

New Delhi

**A. C. Chakrabortti**

*President*





## Preface to the First Edition

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Section 44AB has been introduced in the Income-tax Act, 1961, by the Finance Act, 1984. This section provides for audit of accounts of assessees having total sales, turnover or gross receipts exceeding the specified limits of Rs.40 lakhs for business and Rs.10 lakhs for profession. New Rule 6G, inserted in the Income-tax Rules, prescribes the Forms of Audit report for the above purpose. The requirements for the above audit will apply to accounts relating to previous year relevant to assessment year 1985-86 and subsequent years.

Audit of accounts in the corporate sector has been made compulsory by legislation over a period of years. Realising the importance of audit, in recent years, this requirement is being extended to non-corporate sector also.

The Income-tax Act already provides for audit of accounts of Public Charitable Trusts and non-corporate assessee establishing new industrial undertakings. Section 142(2A) gave wide powers to the tax authorities to get the accounts in certain specified circumstances audited by a chartered accountant. The new provision introduced by section 44AB has considerably widened the scope of audit.

The Taxation Committee of the Institute has published (i) Guide for Audit of Public Trusts under section 12A(b) and (ii) Guide to Special Audit under section 142(2A). A monograph on compulsory maintenance of accounts has also been published and the same has been updated.

Considering the fact that the scope of audit under the tax laws has considerably widened after the introduction of section 44AB, the Taxation Committee has prepared this Guidance Note on Tax Audit for the use of our members. In this guidance note an attempt has been made to explain the scope of Tax Audit requirements. It has been emphasised that in any audit assignment the general principles of audit have to be followed. The members accepting these assignments will have to use their professional skill and expertise while expressing their opinion on the financial statements and other particulars required to be stated.

I am happy that with the active co-operation of the members of the Taxation Committee, it has been possible to finalise this Guidance Note soon after the final publication of the audit report forms by CBDT. In particular, I must express my gratitude to Shri P.N. Shah, our past President, Sarvashri N.K.

Poddar, M.G. Patel and A.H. Dalal, members of the Taxation Committee and the Secretary of the Committee for the efforts put in by them in the finalisation of the guidance note. I am confident that this guidance note will be of great assistance to our members in industry or in public practice.

13<sup>th</sup> February, 1985

**G. Narayanaswamy**  
**Chairman**  
*Taxation Committee*

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## Clarification regarding authority attached to the documents Issued by the Institute

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*"Guidance Notes' are primarily designed to provide guidance to members on matters which may arise in the course of their professional work and on which they may desire assistance in resolving issues which may pose difficulty. Guidance Notes are recommendatory in nature. A member should ordinarily follow recommendations in a guidance note relating to an auditing matter except where he is satisfied that in the circumstances of the case, it may not be necessary to do so. Similarly, while discharging his attest function, a member should examine whether the recommendations in a guidance note relating to an accounting matter have been followed or not. If the same have not been followed, the member should consider whether keeping in view the circumstances of the case, a disclosure in his report is necessary".*

*(Volume I.A of the Compendium of Engagement and Quality Control Standards (9<sup>th</sup> Edition, 2012), page 3, Para 5)*