CHAPTER 20

TAX AUDIT AND ETHICAL COMPLIANCES



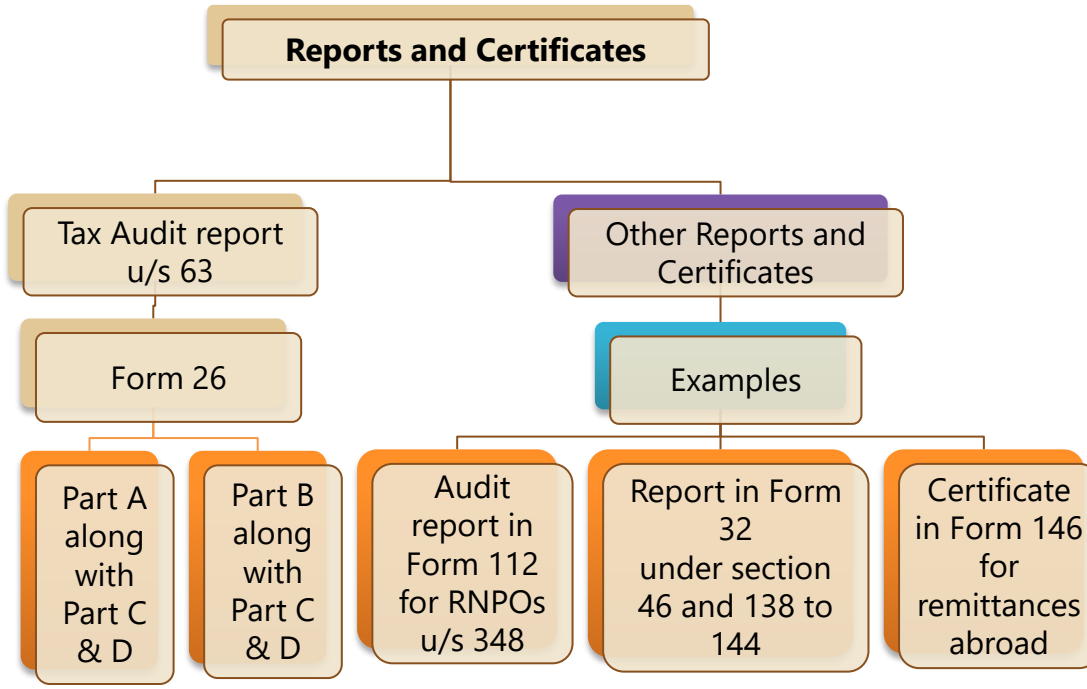
LEARNING OUTCOMES

After studying this chapter, you would be able to -

- **appreciate** the provisions relating to tax audit and other audit reports and certificates under the Income-tax Act, 2025;
- **examine** the cases where the assessee is mandatorily required to get the books of accounts audited;
- **comprehend** the provisions of section 63 read with Rule 47 to understand the framework of tax audit report;
- **comprehend** the clause-by-clause reporting requirements in Form 26;
- **analyse** the ethical implications in case of failure to comply with the reporting requirements.

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CHAPTER OVERVIEW



20.1 INTRODUCTION



The provisions of Tax Audit are contained in Section 63 of the Income-tax Act, 2025. These provisions were first inserted in the Income-tax Act, 1961 by the Finance Act, 1984 applicable w.e.f. 01.04.1985, marking a milestone in the history of chartered accountancy profession in the realm of professional opportunity in direct taxes. Since tax audit was introduced to ensure the accuracy of books of accounts maintained, which forms the basis of computation of income, this significant responsibility was entrusted by the Government to chartered accountants.

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Time and again changes were made in the reporting requirements of tax audit report widening the scope of tax audit. Considering the significant responsibility entrusted by the Government to chartered accountants, the ICAI has issued Guidance Note on Tax Audit u/s 44AB of the repealed Income-tax Act, 1961 offering guidance to members for conduct of tax audit, making of report and related matters.

The provisions of Tax Audit u/s 44AB of the repealed Income-tax Act, 1961 have been continued in section 63 of the Income-tax Act, 2025, with an enhanced reporting requirement in Form 26.

Audit Reports & Reports and Certificates under the provisions of the Income-tax Act, 2025

In addition to section 63, there are other provisions in the Income-tax Act, 2025 which require furnishing of report by a chartered accountant.

- Section 348 requires audit of accounts of a Registered Non-profit organisation and furnishing of audit report in Form 112 one month prior to the due date for furnishing return of income under section 263(1) for claiming the benefit of special provisions of Chapter XVII-B.
- Also, the provisions of section 46 with respect to Capital Expenditure of Specified Business and provisions permitting deductions in respect of certain incomes under sections 138 to 144 of the Income-tax Act, 2025 require audit of accounts and furnishing of audit report in Form No. 32 before the specified date.
- Further, every company to which the provisions of minimum alternate tax under section 206(1) applies has to furnish a report in Form 66 from a chartered accountant certifying the correctness of computation of book profit. There is a similar requirement for every person to whom the provisions of alternate minimum tax under section 206(2) are applicable. The report, in this case, would be in Form 67 certifying that the adjusted total income and alternate minimum tax have been computed in accordance with the provisions of the Act.

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- In case of slump sale under section 77, the assessee has to furnish in Form 28, a report of a chartered accountant certifying the correctness computation of the net worth of the undertaking or division.

Also, there are certain provisions under the Income-tax Act, 2025 which require certification by a chartered accountant. For instance, certificate from a chartered accountant in Form 146 is required in case of remittances to non-residents where the remittance or aggregate of such remittances exceed ₹ 5 lakh during the financial year and the remittances are chargeable under the provisions of the Income-tax Act, 2025.

Government's trust on competence and integrity of Chartered Accountants

The requirement of audit of accounts and furnishing of report of chartered accountant certifying the correctness of computations under different provisions of the repealed Income-tax Act, 1961 and also Income-tax Act 2025 indicate the trust reposed by the Government on a chartered accountant. Also, Revenue Authorities rely upon the integrity of the chartered accountant to assist tax authorities. The decision rendered by the Delhi High Court in the case of *Additional CIT v. Jay Engineering Works Ltd. (1978) 113 ITR 389* indicates the extent to which the income-tax authorities place reliance on the audit reports -

"It is quite competent for the income-tax authorities not only to accept the auditor's report but also to draw proper inference from the same. The income-tax authorities can, therefore, come to the conclusion that, since the auditors were required by the statute to find out if the deductions claimed by the assessees were supported by the relevant entries in their account books, the auditors must have done so and must have found that the account books supported the claims for deductions.

Where the original account books of the assessee had been destroyed in a fire, it was held that the Appellate Tribunal, in allowing a deduction, could rely upon other material mainly consisting of the auditor's reports from which it could be inferred that the deductions were properly supported by the relevant entries in the account books".

This clearly demonstrates the faith which the Government and the Revenue Authorities have in the competency and integrity of a chartered accountant due to which various statutory duties and responsibilities have been cast upon them

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under the provisions of the Act. It is in this context that the conduct of the chartered accountant has to be appreciated. Chartered accountants cannot be oblivious to their professional duties and sign audit reports and certificates in a mechanical manner.

Paras 13.3 and 13.4 of the Guidance Note on Tax Audit under section 44AB of the Income-tax Act 1961 (Revised 2025) read as follows -

"The audit report given under section 44AB (of the Income-tax Act 1961) is to assist the income-tax department to assess the correct income of the assessee. The tax auditor should keep necessary working papers about the evidence on which he has relied upon while conducting the audit and also maintain all the necessary working papers. Such working papers should include the auditor's notes on the following, amongst other matters:

(a) work done while conducting the audit and by whom;

(b) explanations and information given to him during the course of the audit and by whom;

(c) decision on the various points taken;

(d) the judicial pronouncements relied upon by him while making the audit report; and

(e) certificates issued by the assessee/management letters

The requirements of documentation are applicable in respect of tax audit conducted by chartered accountants. For this purpose, attention is also invited to SA 230, Audit Documentation, which provides that the tax auditor should prepare documentation that provides a sufficient and appropriate record of the basis for the auditor's report and evidence that the audit was planned and performed in accordance with SA's and applicable legal and regulatory requirements."

A chartered accountant in practice would be deemed to be guilty of professional misconduct under clauses (7) of Part I of the Second Schedule to the Chartered Accountant Act, 1949, if he does not exercise due diligence, or is grossly negligent in the conduct of his professional duties. Further, as per clause (8) of Part I of the Second Schedule to the Chartered Accountants Act, 1949, a chartered accountant in practice shall be deemed to be guilty of professional misconduct, if he fails to obtain sufficient information which is necessary for expression of an

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opinion or its exceptions are sufficiently material to negate the expression of an opinion.

It may be noted that in certain clauses the tax auditor, in addition to the reporting requirements under the said clauses, has to qualify his report in part A or part B of Form 26, as the case may be.

It may also be noted that penalty under section 463 would be attracted in the hands of, *inter alia,* an accountant for furnishing incorrect information in any report or certificate furnished under any provision of the Income-tax Act, 2025 or Income-tax Rules, 2026. The quantum of penalty is ₹ 10,000 for each such report or certificate.

20.2 TAX AUDIT UNDER SECTION 63

Tax Audit [Section 63]

Under section 63, it is obligatory in the following cases for a person carrying on business or profession to get his accounts audited before the "specified date" by a Chartered Accountant:

(1) As per section 63(1), every person -

(i) carrying on business if the total sales, turnover or gross receipts in business exceeds ₹ 1 crore in any tax year.

However, tax audit is not required in case of such person carrying on business whose total sales, turnover or gross receipts in business ≤ ₹ 10 crore in the relevant tax year (T.Y.), if -

- aggregate of all cash receipts including amount received for sales, turnover, gross receipts in the relevant tax year ≤ 5% of such receipts; **and**
- aggregate of all cash payments including amount incurred for expenditure in the relevant T.Y. ≤ 5% of such payments.

Payment or receipt by a cheque or by a bank draft which is not account payee, would be deemed to be made in cash.

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The twin conditions of paragraph with respect to cash receipts and cash payments is to be satisfied together. Further, if the total sales, turnover or gross receipts is > 10 crores, the person is required to get his accounts audited even if these conditions are fulfilled.

(ii) carrying on profession if the gross receipts in profession exceed ₹ 50 lakhs in any tax year.

(iii) If the person is carrying on business or profession, referred to in section 58(2) or 61(2) (Table: Sl. Nos. 4 and 5) and the profits and gains from such business or profession are claimed to be lower than the deemed profits as referred to in the said sections

(2) Tax audit provisions under section 63 **would not apply** where profits and gains of business or profession declared by the assessee are as per section 58(2) or 61(2).

(3) **Furnish audit report by specified date:** The persons mentioned above has to get his accounts audited by an accountant **before one month prior to the due date of filing return of income specified under section 263** and furnish by that date, the report of such audit in the prescribed form duly signed and verified by such accountant and setting forth such particulars as may be prescribed.

Form of Audit Report

For the purpose of section 63, the CBDT has prescribed Form No. 26 under Rule 47. The Form has got 4 parts- A, B, C and D.

- In case of a person who carries on business or profession and who is required by or under any other law to get his accounts audited (e.g. a Company), Parts A, C and D of Form 26 are to be filled up.
- In case of a person who carries on business or profession, but not required by or under any other law to get his accounts audited, Parts B,C and D of Form 26 are to be filled up.

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Sales, Turnover and Gross Receipts

The provisions relating to tax audit under section 63 apply to every person carrying on business, if his total sales, turnover or gross receipts in business exceed the prescribed limit (₹ 1 crore or, ₹ 10 crore, in certain specified cases) and to a person carrying on a profession, if his gross receipts from profession exceed the prescribed limit (₹ 50 lakhs) in the tax year. However, the terms "sales", "turnover" or "gross receipts" are not defined in the Act, and therefore, the meaning of the aforesaid terms has to be considered for the applicability of the section.

The words "Sales", "Turnover" and "Gross receipts" are commercial terms, they should be construed in accordance with the method of accounting regularly employed by the assessee. Section 276(1) provides that income chargeable under the head "Profits and gains of business or profession" or "Income from other sources" should be computed in accordance with either cash or mercantile system of accounting regularly employed by the assessee. The method of accounting followed by the assessee is also relevant for the determination of sales, turnover or gross receipts.

Applying the above generally accepted accounting principles, a few typical cases may be considered:

(i) Discount allowed in the sales invoice will reduce the sale price and, therefore, the same can be deducted from the turnover.

(ii) Cash discount otherwise than that allowed in a cash memo/sales invoice is in the nature of a financing charge and is not related to turnover. The same should not be deducted from the figure of turnover.

(iii) Turnover discount is normally allowed to a customer if the sales made to him exceed a particular quantity. This being dependent on the turnover, as per trade practice, it is in the nature of trade discount and should be deducted from the figure of turnover even if the same is allowed at periodical intervals by separate credit notes.

(iv) Special rebate allowed to a customer can be deducted from the sales if it is in the nature of trade discount. If it is in the nature of commission on sales, the same cannot be deducted from the figure of turnover.

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(v) Price of goods returned should be deducted from the figure of turnover even if the returns are from the sales made in the earlier year/s.

(vi) Sale proceeds of fixed assets would not form part of turnover since these are not held for resale.

(vii) Sale proceeds of property held as investment property will not form part of turnover.

(viii) Sale proceeds of any shares, securities, debentures, etc., held as investment will not form part of turnover. However, if the shares, securities, debentures etc., are held as stock-in-trade, the sale proceeds thereof will form part of turnover.

The term "gross receipts" is also not defined in the Act. It will include all receipts as per books of account whether in cash or in kind arising from carrying of the business or profession which will normally be assessable under the head "Profit and gains of business and profession". Broadly speaking, the following items of income and/or receipts would be covered by the term "gross receipts in business":

(i) Cash assistance (by whatever name called) received or receivable by any person against exports under any scheme of the Government of India;

(ii) Duty drawback or duty remission, or any other export incentive to any person against exports.

(iii) The aggregate of gross income by way of interest received by the money lender;

(iv) Commission, brokerage, service and other incidental charges received in the business of chit funds;

(v) Reimbursement of expenses incurred (e.g. packing, forwarding, freight, insurance, travelling etc.) and if the same is credited to a separate account in the books, only the net surplus on this account should be added to the turnover for the purposes of section 63;

(vi) The net exchange rate difference on export sales during the year on the basis of the principle explained in (v) above will have to be added;

(vii) Hire charges of cold storage;

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(viii) Liquidated damages;

(ix) Insurance claims - except for fixed assets;

(x) Sale proceeds of scrap, wastage etc. unless treated as part of sale or turnover, whether or not credited to miscellaneous income account;

(xi) Gross receipts including lease rent in the business of operating lease;

(xii) Finance income to reimburse and reward the lessor for his investment and services;

(xiii) Hire charges and instalments received in the course of hire purchase;

(xiv) Advance received and forfeited from customers;

(xv) The value of any benefit or perquisite, whether convertible into money or not, arising from business or the exercise of a profession.



Where the assessee carries on more than one business activity, the results of all business activities should be clubbed together. In other words, the aggregate sales, turnover and/or gross receipts of all businesses carried on by an assessee would be taken into consideration in determining whether the prescribed limit (i.e., ₹ 1 crore & ₹ 10 crore for certain specified cases) as laid down in section 63 has been exceeded or not.

However, where the business is covered by section 61, turnover of such business shall be excluded. Similarly, where the business or profession is covered by section 58 and the assessee opts to be assessed on presumptive basis, the turnover thereof shall be excluded.



DB & Co., a firm, has a total turnover of ₹ 10.25 crore for the T.Y. 2026-27. Its receipts and payment during the T.Y. 2026-27 are made otherwise than by way of cash.

DB & Co. has to mandatorily get its books of account audited under section 63, since its turnover for the T.Y. 2026-27 exceed ₹ 10 crores, irrespective of the fact that its entire receipts and payments are in a mode other than cash.

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XY & Co., a firm, has a total turnover of ₹ 9 crores for the T.Y.2026-27. Out of this, only ₹ 7 crores is received during the tax year 2026-27. These amounts are received through account payee cheque/bank draft and other permissible electronic modes. Apart from this, it also received advance of ₹ 4 crores for the future supply of goods. Out of such advance, it received ₹ 46 lakhs in cash. Assume that all payments are made otherwise than by way of cash. Is XY & Co. mandatorily required to get its accounts audited?

For the purpose of computing the threshold limit of cash receipts, total receipts including the amount received for turnover need to be considered. Since in the present case, ₹ 46 lakhs do not exceed ₹ 55 lakhs i.e., 5% of total receipts of ₹ 11 crores (₹ 7 crores plus ₹ 4 crores), XY & Co. is not required to mandatorily get its accounts audited.

20.3 FORM NO. 26 – PART A AND PART B

As mentioned earlier, Form No. 26 under Rule 47 has been prescribed as form of audit report and particulars to be furnished under section 63. The form has been divided into 4 parts - A, B, C and D. While part C and D are applicable in all the cases, Part A applies in case of a person who carries on business or profession and who is required by or under any other law to get his accounts audited and Part B applies in case of other persons. A detailed discussion in this regard is as follows:

	Part A	Part B
Applicability	Part A of Form No. 26 is applicable in a case where the accounts of the business or profession of a person have been audited under any other law like the Companies Act, 2013 or the Limited Liability Partnership Act, 2008.	Part B of Form No. 26 in case of a person who carries on business or profession but who is not required by or under any other law to get his accounts audited. In the case of companies having their accounting year which is different from the financial year, accounts of the financial year are required to be prepared and audited. The audit report shall

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		be in Form No. 3CB (Now Part B). This has been clarified vide Circular No. 561 dated 22.5.1990.
Requirement	In this case, it is not required for the tax auditor appointed under section 63 to give his opinion, as to whether or not the accounts give a true and fair view. It would only be necessary for him to annex a copy of the audited accounts as well as a copy of the audit report given by the statutory auditor along with statement of particulars required to be furnished in Part D of Form No. 26. The tax auditor is required to give his opinion whether the prescribed particulars given in Part D of Form No. 26 are true and correct, subject to observations and qualifications, if any.	In this case, the tax auditor is required to give his opinion as to whether or not the accounts audited by him give a true and fair view: (i) in the case of the balance sheet, of the state of affairs as at 31st March. (ii) in the case of the profit and loss account/ income and expenditure account, of the profit/loss or surplus/deficit of the assessee for the year ended on that date. The tax auditor is also required to give his opinion whether the prescribed particulars given in Part D of Form No. 26 are true and correct, subject to observations and qualifications, if any.
	The tax auditor may have a difference of opinion with regard to the particulars furnished in part D. These differences are to be reported in Para 5 of Part A or Part B, as the case may be. [Para 18.6 of the Guidance Note on Tax Audit[1]]	
Impact of Audit Qualification	Tax Auditor is also required to mention in the below format:	Tax Auditor is also required to mention in the below format:

[1] *The guidance note referred to in this study material is the Guidance Note issued by ICAI in terms of Section 44AB of the Income-tax Act, 1961.*

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	(a) whether any observations/ qualifications/ adverse remark/ disclaimer/ emphasis of matter has been made by the statutory auditor which would result in variation in income or loss or book profit. (b) If yes, effect of such observations/qualifications/ adverse remark/ disclaimer/ emphasis of matter in income or loss or book profit, which has not been considered in particulars filed in Part D of Form No. 26.	(a) whether any observations/ qualifications/ adverse remark/ disclaimer/ emphasis of matter has been made which would result in variation in income or loss or book profit. (b) If yes, effect of such observations/qualifications/ adverse remark/ disclaimer/ emphasis of matter in income or loss or book profit, which has not been considered in particulars filed in Part D of Form No. 26.

Sl. No.	Nature of observation/ qualification/ adverse remark/ disclaimer/emphasis of matter	Increase in profit/ Decrease in loss	Decrease in profit / Increase in loss	Net Impact	Remarks

Revision of Tax audit report	As per Rule 47(3), the report of audit furnished in Form 26 may be revised by the person by getting revised report of audit from an accountant, duly signed and verified by such accountant, if there is payment by such person after furnishing of such report which necessitates recalculation of disallowance under section 35 or section 37. The revised report of audit has to be furnished before the end of the financial year succeeding the tax year for which the report pertains.

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	Thus, a scenario may arise where, after issuing the audit report, but before the due date for filing the return u/s 263(1), the assessee may make payment of sums referred to in section 35 and 37, deduction of which is allowed only on actual payment basis, which may require revision of Tax Audit Report. As per the law, there is no restriction for the number of times for revision of tax audit reports. The same can be revised a number of times, but revision should be done only to meet some technical requirements or amendments in law. It should be ensured that the revised report should carry the reference of old reports and should be signed in the current date. It is recommended that all the revisions required should be done at a time. However, there may reasons, like, a court ruling subsequent to the signing and uploading of the revised tax audit report which may necessitate further revision of tax audit report. In such cases, the auditor may, if he deems fit, amend the tax audit report. The tax auditor must ensure that the latest amended report must contain the reference to the earlier report(s) and he must sign the same on the present date and generate a new UDIN. The tax auditor should also ensure that Guidance Notes and SA-560 as well as the guidelines and the rules specified for revision for tax audit report by the CBDT are being followed. The tax auditor is required to mention in the revised books of account and in the Revised Tax Audit Report that the report is the Revised Tax Audit Report giving the reference of the tax report. The tax auditor is also required to mention the reason for revision both in the revised books of account as well as in the Revised Tax Audit Report. The e-filing portal permits uploading the revised audit reports via CA login id. Further, the e-filing utility permits insertion of comments under the heading OTHERS in the tab and uploading it on the e-filing portal. The tax auditor should insert the comments or observations in Form No. 26 in the space given in the e-form.

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20.4 FORM 26 PART D – STATEMENT OF PARTICULARS REQUIRED TO BE FURNISHED UNDER SECTION 63

Part D of Form 26 prescribes the particulars required to be furnished in case of both corporate and non-corporate assessees carrying on business orprofession. This form has been designed to facilitate the determination of assessee's income from business or profession.

As per Para 19.3[2] of the Guidance Note on Tax Audit, while verifying the statement of particulars required in tax audit report, it would be advisable for the tax auditor to consider the following:

(a) Where in respect of any particular aspect, reporting is required at more than one clause, in that case, the tax auditor may ensure that information may be furnished at any one of the clauses and reference may be given in the other clause.

(b) If there is any difference in the opinion of the tax auditor and that of the assessee in respect of any information furnished by the assessee, the tax auditor may consider stating both the view points and also the relevant information related to matter in his report in order to enable the tax authority to take a decision in the matter.

(c) In computing the allowance or disallowance, he should keep in view the law applicable in the relevant year, even though the form of audit report may not have been amended to bring it in conformity with the amended law.

(d) In case the assessee has furnished prescribed particulars in part or piecemeal or relevant form is incomplete or the assessee does not give the information against all or any of the clauses, the auditor should not withhold the audit report. In such a case, he should qualify his report in para 5 of part A or part B as applicable, on matters in respect of which information is not furnished or if furnished, are inadequate/insufficient.

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[2] *The guidance note referred to in this study material is the Guidance Note issued by ICAI in terms of Section 44AB of the Income-tax Act, 1961.*

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(e) The information in Part D should be based on the books of accounts, records, documents, information and explanations made available to the tax auditor for his examination. In case it is not in accordance with the books and documents, he has to mention the same in his observations.

(f) In case the auditor relies on a judicial pronouncement, he may mention the fact as his observations in para 5 of part A or part B, as the case may be.

Clause by clause analysis of Part C and D of Form 26

Clause	Particulars	Reporting requirements in relation to the relevant clause
		PART C
1.	Name of the assessee	(i) The name of the assessee whose accounts are being audited under section 63 should be given as specified in PAN. (ii) In case there is a different trade name, the same should be reported. (iii) In case of individual, the first, middle and last name should be provided in full without any abbreviations. In any other case, the name shall be provided in full. (iv) If the tax audit is in respect of a branch, name of such branch should be mentioned along with the name of the assessee. (v) In case of change in the name of the assessee, if the change has taken place during the tax year, name at the end of the tax year should be stated. However, if the change in name has taken place after the close of the tax year but before signing of tax audit report, name as at the year ending date should be mentioned. In either case, fact of name change should be suitably clarified by the tax auditor as an observation in audit report.
2.	Address	(i) The address to be mentioned should be the same as has been communicated by the assessee to the Income-tax Department as on

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		the date of signing of the audit report. (ii) The address should contain (i) Country/Region, (ii) Flat/ door/ building, (iii) road/street/ block/sector, (iv) PIN/ZIP code, (v) Area/ Locality, (vi) District, (vii) State. (iii) If the tax audit is in respect of a branch or a unit, the address of the branch or the unit should be given. (iv) In the case of a company, the address of the registered office should be stated. (v) In the case of new assessee, the address of the principal place of business should be stated. *The tax auditor should verify the relevant details of the assessee from the available income tax records or from the profile of the assessee on Income-tax portal. In case of difference, the same should be given as an observation in the audit report.*
3.	Permanent Account Number	(i) The permanent account number (PAN) allotted to the assessee should be indicated. (ii) Clause further asks to mention Aadhaar number (in case of Individuals) as an alternative. (iii) It may be noted that in the e-filing format, PAN is a mandatory field and Aadhaar is an optional field.
4.	Status	As per Note 3 of Form 26, the status of the assessee is to be mentioned as (i) Individual (ii) Hindu undivided family (iii) Company (iv) Firm (v) Association of persons, whether incorporated or not (vi) Body of individuals, whether incorporated or not

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		(vii) Local authority (viii) Artificial juridical person (ix) Government (x) Trust. It should not be confused with the residential status. In case of proprietorship concern, the status shall be quoted as individual.
5.	Residential status	Residential status is to be mentioned as (i) Resident (ii) Non-resident (iii) Resident but not ordinarily resident
6.	Email id	The Email id to be mentioned should be the same as has been communicated by the assessee to the Income-tax Department as on the date of signing of the audit report. Email id as is appearing in the profile of the assessee on the Income tax portal may be mentioned here.
7	Contact number	The contact number to be mentioned should be the same as has been communicated by the assessee to the Income-tax Department as on the date of signing of the audit report. Contact number as is appearing in the profile of the assessee on the Income tax portal may be mentioned here.
8	Tax year	The relevant tax year should be mentioned i.e., starting from 1st April to 31st March. In case of amalgamations, demergers, reconstitution, new business, closure of existing business etc., the date of beginning and ending of the tax year may be different, accordingly, the relevant date of beginning and ending of the tax year may be mentioned.

PART D		
A-General Information		
9	Relevant provision under which the audit	Following 4 options are available in this clause:

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	has been conducted (any one option needs to be selected)	(i) total sales, turnover or gross receipts of business exceeding specified limits under section 63. (ii) gross receipts in profession exceeding specified limits under section 63. (iii) profits and gains from specified business or profession, referred to in section 58(2) or 61(2) (Table: Sl. No. 4 and 5) claimed to be lower than the deemed profits. (iv) provisions of section 58(8) are applicable. The relevant option under which the audit has been conducted has to be selected here - • In case the assessee is carrying on business and his total sales, turnover or gross receipts as the case may be, exceeds ₹ 1 crore in the relevant tax year, first option above needs to be selected. Also, in case of a person whose – ➢ aggregate of all amounts received including amounts received from sales, turnover or gross receipts during the tax year, in cash (including receipts by way of cheque/bank draft other than account payee cheque/bank draft), does not exceed 5% of the said amount; and ➢ aggregate of all payments made including amount incurred for expenditure, in cash (including payments by way of cheque/bank draft other than account payee cheque/bank draft), does not exceed 5% of the said payment, the specified limit of total sales/turnover or gross receipts of business above which tax audit would be mandatory under this clause would be ₹ 10 crore (instead of ₹ 1 crore).

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		• If the assessee is carrying on profession and his gross receipts exceed ₹ 50 lakhs in the relevant tax year, the 2nd option above needs to be selected. • Likewise, if the audit under section 63 is being conducted by virtue of provisions of presumptive taxation contained in section 58(2) or 61(2) (Table: Sl. No. 4 and 5), 3rd option above needs to be selected i.e., where the assessee earns profits and gains from the specified business or profession which are lower than the deemed profits computed under the respective presumptive provision and his total income exceeds the basic exemption limit. • For audit being conducted by virtue of provisions of section 58(8), 4th option is to be selected. i.e., where an eligible assessee, after having declared profits as per the presumptive provisions in any tax year, declares profits in contravention of the said provisions for any of the 5 succeeding tax years, then, he would not be eligible for declaring profits as per the presumptive provisions for 5 tax years succeeding the tax year in which the contravention took place. Accordingly, he has to get his accounts audited under this section, if his total income exceeds the basic exemption limit.
10	Whether the assessee has opted for taxation under section 199/ 200/ 201/ 202/ 203/ 204 (Yes/No)	Assessee is required to pay income-tax at the rates specified in the annual Finance Act. However, sections 199, 200, 201, 203 and 204 provide option to the assessee to pay tax at special rates and forego certain deductions, exemptions etc. The assessee can opt to pay tax under the rates prescribed in the Finance Act or the one made available by any of the

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		aforesaid sections. Sections 199, 200 and 201 are applicable to domestic companies fulfilling the prescribed conditions and sections 203 and 204 are applicable to resident co-operative societies fulfilling the prescribed conditions. Further for an individual, HUF, Association of persons, Body of Individual and Artificial Juridical Person), the new tax regime under section 202 is the default tax regime. However, he may opt out from the provisions of that section and pay tax as per normal provisions. In this clause, it needs to be selected as Yes or No, whether assessee has exercised any option under sections 199 to 204. The tax auditor has to examine the income tax return of the earlier tax year to verify the option which has been exercised by the assessee.
11	(a) If assessee is a firm or association of persons, indicate name of partners/ members, Permanent Account Numbers and their profit sharing ratios.	Where the assessee is a firm or association of persons (AOP) or body of individuals, the names of partners of the firm or members of the AOPs or BOIs, their PAN and their profit-sharing ratios (%) have to be stated. In case where the partner of a firm or the member of AOP/ BOI acts in a representative capacity, the name and PAN of the beneficial partner/member should be stated. Thus, the details of partners or members during the entire tax year will have to be furnished. As per section 2(45), the term "firm" shall have the same meaning assigned to it in section 4 of the Indian Partnership Act, 1932, and shall include a "limited liability partnership" as defined in section 2(1)(n) of the Limited Liability Partnership Act, 2008.

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		 ❑ The particulars in this clause should be verified from the instrument or agreement or any other document evidencing partnership or AOPs including any supplementary documents or other documents effecting such changes. ❑ The tax auditor should obtain certified copies of the deeds, documents, understanding, notice of changes etc. including certified copies of the acknowledgment, if any, evidencing filing of documents with the concerned authorities, if registered. ❑ In case of certain AOPs/BOIs, where shares are not precisely ascertainable during the tax year resulting in a situation wherein the shares of members are indeterminate or unknown, the relevant fact should be stated.
	(b) Whether there is any change in the partners or members or in their profit sharing ratio since the last date of the preceding tax year. – Yes/ No If yes, provide details in Schedule General Information *(Refer Form 26 along with Schedule given as Annexure at the end of this module)*	If there is any change in the partners of the firm or members of the AOPs/ BOIs or their profit or loss sharing ratio since the last date of the preceding year, the particulars of such change must be stated. All the changes occurring during the entire tax year must be stated.

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12.	(a) Furnish nature of all businesses or professions carried on during the tax year. *(Refer Form 26 along with Schedule given as Annexure at the end of this module)*	The principal line of each business is to be reported. If the assessee is in more than one business, the information has to be furnished in respect of all business. Information has to be furnished in respect of each business and profession carried on during the tax year based on review of profit and loss account. The code is to be mentioned against the description of every business in Schedule - General Information
	(b) If there is any change in the nature of business or profession, the particulars of such change. Yes/No If yes - provide details in Schedule General Information *(Refer Form 26 along with Schedule given as Annexure at the end of this module)*	Any material change in the business should be precisely set out in the Schedule -General Information giving the nature of change, code and description. The change will include change from manufacturer to trader as well as change in principal line of business. Likewise, any addition to or other than temporary discontinuance of, a particular line of business may also amount to change requiring reporting. However, temporary suspension of the business may not amount to change and therefore need not be reported.  A review of business report or the minutes of meetings would enable the tax auditor to note the changes, if any. He may make necessary enquiries on this basis and seek information to determine whether any change has occurred or not. If need be, the tax auditor should get a declaration from the assessee regarding change in the nature of business. In case of a business reorganization/ reconstruction, if there is a similar line of activity, no reference needs to be made. However, if a new line of activity emerges, the same may be stated. If any line of activity is being hived off in case of restructuring, the same may be reported.

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	(c) Whether any cost audit was carried out for the tax year? [Yes/No] If yes (i) attach copy of such audit report. (ii) Impact, if any, of disqualification / disagreement on any matter/ item/ value/ quantity *(Refer Form 26 along with Schedule given as Annexure at the end of this module)*	The tax auditor should ascertain from the management whether a cost audit was carried out and if yes, a copy of the cost audit report is required to be attached with form 26. Even though the tax auditor is not required to make any detailed study of such a report, he has to take note of the details of **disqualification or disagreement on any matter/ item/ value/ quantity as may be reported/ identified by the cost auditor.** He needs to ensure that impact of disagreement/disqualification in cost audit has been correctly disclosed in the schedule – General Information in the form of : • Increase in Profit/ Decrease in Loss • Decrease in Profit/Increase in Loss • Net Effect  The information is required to be given in respect of that cost audit report which is received upto the date of tax audit report.
	(d) Furnish particulars regarding turnover, gross profit, etc. for the tax year and preceding tax year: 1. Total turnover of the assessee 2. Gross profit/ turnover 3. Net profit/ turnover 4. Stock-in-trade/ turnover	While calculating these ratios, meaning has to be assigned to the terms used in the above ratios having due regard to the generally accepted accounting principles. All the ratios mentioned in this clause are to be calculated in terms of value only. For the purpose of calculating the ratio mentioned in (4), only closing stock is to be considered. The term stock-in-trade' used therein does not include stores and spare parts or loose tools. The term "stock-in-trade" would include only finished goods and would not include the stock of raw material and work-in-progress since the objective here is to compute the stock-turnover ratio. Material consumed would, apart from raw material consumed, include stores, spare parts and loose tools.

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	5. Material consumed/ finished goods produced (The details required to be furnished for principal items of goods traded or manufactured or services rendered)	Under this clause, calculation of the ratios is also to be stated. As such, computation of various components based upon which these ratios have been worked out is required to be stated under this clause. There should be consistency between the numerator and the denominator while calculating the above ratios. Any significant deviation thereof should be pointed out in para 5 of part A or part B, as the case may be. The relevant tax year figures are to be taken from last tax year audit report or the reinstated figures, to make the ratios comparable with current year. In case the preceding tax year is not subject to audit, nothing should be mentioned in the relevant column and the same should be disclosed in the observation para of part A/part B. The ratios has to be given for the business as a whole and need not be given product wise.
B - Particulars of books of account and method of accounting		
13	List of books of account maintained (including those maintained in computer system)	List of all the books of accounts maintained by the assessee including those maintained in a computer system needs to be mentioned. As per the definition in section 2(19), "books or books of account" includes ledgers, day-books, cash books, account-books and other books, whether kept - (a) in written form; or (b) in electronic or any digital form, or on cloud based storage, or on any electromagnetic data storage device, such as floppy, disc, tape, portable data storage device, external hard drives, or memory cards; or (c) as print-outs of data stored in electronic or digital form or on storage devices mentioned in sub-clause (b);

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14	(a) Address at which the books of account are kept. (If maintained at multiple locations, furnish particulars of all such locations) • Address of each location • List of books of account maintained at each location.	The address at which the books so maintained are kept is required to be mentioned under this clause. In case the books of accounts are kept at more than one location then the details of address of each such location along with the detail of books of account maintained thereof is required to be mentioned. In case, where books of account are maintained and generated through computer system, the details of address of the place where the server is located or the principal place of business/Head office or registered office by whatever name called is to be mentioned under this clause. It is required by the auditor to verify the specification to which books of account have been maintained in computer system and which of the records have been maintained in hard copy form.  The tax auditor should obtain from the assessee a complete list of books of account and other documents maintained by him (both financial and non-financial records) and make appropriate marks of identification to ensure the identification of the books and records produced before him for audit. The list of books of account maintained by the assessee should be given under this clause. In case of a company assessee, the auditor should also verify as to whether any forms are filed under the Companies Act, 2013 for maintenance of books of account at a place other than the registered office.
	(b) The accounting software used for maintenance of books of account	If books of accounts are being maintained using any accounting software, the name of such software is required to be mentioned.

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	in computer system	
	(c) Details of any cloud or any other software used for storage of books of accounts, along with location (internet protocol address and country) of such storage	Where the books of account are stored on cloud or online, details of the same along with IP address and country of the same may be reported.
	(d) Whether provisions of rule 46(8) have been complied with? Yes/No (e) If yes, furnish address of location where backup server is located in India	Rule 46(8) provides that the books of account and other documents maintained in electronic mode shall remain accessible in India at all times, and the backup of such books of account and other documents maintained in electronic mode, shall be kept on a daily basis in servers physically located in India. It may be noted that the above requirement is also applicable to persons carrying on business and non-specified profession who maintain books of account in electronic mode. Tax auditor should obtain from the management the details of frequency and location of backup servers and verify the same to ensure reporting in this clause is correct.
15.	(a) Method of accounting employed in the tax year. • Mercantile system • Cash system	Section 276 provides that the income chargeable under the head "Profits and gains of business or profession" or "Income from other sources" must be computed in accordance with either cash or mercantile system of accounting regularly employed by the assessee. The hybrid system of accounting, viz. a mixture of cash and mercantile, is not permitted. However, the assessee may adopt a cash system of accounting for one business and

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		mercantile system of accounting for other business. Once the choice of method of accounting is decided, the assessee must follow consistently the method of accounting employed.
	(b) Whether there had been any change in the method of accounting employed vis-à-vis the method employed in the immediately preceding tax year. If yes, details are to be furnished as per Schedule Accounting Information *(Refer Form 26 along with Schedule given as Annexure at the end of this module)*	If there is any change in the method of accounting, is the particulars are to be reported and the increase in profit/decrease in loss or decrease in profits/increase in loss as well as the net effect has to be stated in the "Schedule -Accounting Information" to this clause.  The tax auditor should apply reasonable checks to the earlier year's accounts to ascertain whether there is any change in the method of accounting as compared to that of the year under audit, after obtaining a written confirmation from the assessee as to the method of accounting followed. As regards the impact on profit the concept of materiality is the basic governing factor. If it is not possible to quantify the effect of the change in the method of accounting, appropriate disclosure should be made in para 5 of part A or part B. It may be noted that in view of section 128 of the Companies Act, 2013, every company is required to keep books of account on accrual basis. ***Note -*** *A change in an accounting policy does not amount to change in method of accounting. A change in the method of valuation of stock will be a change in accounting policy and hence, such change need not be mentioned in clause 15(b).*

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16.	(a) Method of valuation of inventory employed in the tax year for (i) Finished goods (ii) Raw material • At Cost • At Net Realisable Value • Lower of Cost and Net Realisable Value	Ascertain the method of valuation of closing stock employed during the year. Where there is change in the basis of determining cost, market value or net realizable value even though there is no change in the method of valuation. The auditor should study the procedure followed by the assessee in taking the inventory of closing stock at the end of the year and valuation thereof. In case of any change in method of valuation of inventory, the impact thereof in the form of increase/decrease in profit/loss needs to be reported separately for each clause of Sec. 277(1).  The tax auditor should – ❑ obtain the inventory of closing stock, indicating the basis of valuation thereof for verifying the reporting on the method of valuation of closing stock. ❑ review the methods of valuation adopted for valuation of closing stock and compare the same with the method prescribed under section 277(1). ❑ obtain from the assessee, the inventory valuation sheet of the stock in trade giving quantitative details, method of valuation, rate and total value of each item. ❑ ascertain whether the method of valuation is such that the value of closing stock includes the amount of any tax, duty or cess actually paid or incurred by the assessee to bring the goods to the place of its location and conditions as on the date of valuation. ❑ Report the Increase in Profit/Decrease in loss or Decrease in Profit/Increase in Loss,
	(b) In case of deviation from the method of valuation prescribed under section 277, whether any adjustment is required to be made to the profits or loss for complying with the provisions of said section (Yes/No) If yes, details are to be furnished as per Schedule Accounting Information. *(Refer Form 26 along with Schedule given as Annexure at the end of this module)*	

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		Net effect and remarks under section 277(1) in Schedule "Accounting Information"
17.	Whether any adjustment is required to be made to the profits or loss for complying with the provisions of Income Computation and Disclosure Standards (ICDS notified under section 276(2). [Yes/No] If yes, details are to be furnished as per Schedule Accounting Information *(Refer Form 26 along with Schedule given as Annexure at the end of this module)*	The Central Government notified the ICDSs to be followed by all assessees (who are required to get their books of account audited) following the mercantile system of accounting, for the purposes of computation of income chargeable to income-tax under the head "Profits and gains of business or profession" or "Income from other sources". This clause requires the auditor to state whether any adjustment is required to be made to profit and loss for complying with the provisions of income computation and disclosure standards (ICDS). If yes, then the impact of such adjustment is required to be stated separately.  For the purpose of verifying this clause, the tax auditor should obtain draft computation of total income and disclosures required under ICDS. Based on information and books of account, the tax auditor should consider whether any adjustment is required to be made to the profit or loss and accordingly, if the answer is in affirmative, whether 'yes' has been stated; or if otherwise 'no' has been stated. While verifying the reporting, the auditor has to consider the draft of income computation provided by the assessee. This fact should be mentioned in the audit report in paragraph 5 of part A or part B. If answer is in affirmative, the impact of adjustment mentioning the Increase in Profit/Decrease in loss, Decrease in profit/increase in loss, net effect (amount) and remarks needs to be reported in the schedule against each ICDS.

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		 Tax auditor may refer to the technical guide on ICDS issued by the ICAI in July, 2017. In the working paper file of ICDS, checklist should be prepared and maintained alongwith computation working for any increase/ decrease in income as per ICDS. Also, last year's tax audit report should be reviewed to ascertain any effect in the current year.
18.	Whether any disclosure is required as per ICDS (Yes/No) If yes, details are to be furnished as per Schedule Accounting Information *(Refer Form 26 along with Schedule given as Annexure at the end of this module)*	This clause requires disclosure of significant income computation and disclosure policies adopted by a person for computation of income chargeable under the head "Profits and gains from business or profession" or "Income from other sources". Disclosures are to be given in the Schedule separately for each ICDS.  In this clause, if information furnished is based on income computation furnished by the assessee, appropriate disclosure of this fact should be mentioned in part A or part B, as the case may be.
19.	Whether the profit and loss account includes any profits and gains assessable on presumptive basis (Yes/No) If yes, details are to be furnished as per Schedule Accounting Information. *(Refer Form 26 along with Schedule given as Annexure at the end of this module)*	If the profit and loss account includes any profits and gains assessable on presumptive basis, then, the tax auditor has to verify the amount so included in the profit and loss account. This amount needs to be reported in the schedule, separately for every section. Sl. 19 in Schedule "Accounting Information" requires section-wise reporting of particulars of profits and gains assessable on presumptive basis. The tax auditor will have to verify if the assessee is covered by any of the provisions section 58 of section 61 and the assessee will be offering to tax profits under presumptive taxation, where applicable.

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		If the profit and loss account does not include profit assessable on presumptive basis, then, there is no requirement to furnish the particulars under this clause.  Even where the assessee opts for presumptive taxation, the tax auditor should consider to impress upon the assessee that it would be advisable to maintain some basic records to support the turnover/gross receipts declared for presumptive taxation.
C - Particulars of receipt/income		
20.	Amount chargeable to income-tax under the head "income from other sources" as per section 92(2)(m) but not credited to profit & loss account. (Yes/No) If yes, details are to be furnished as per Schedule Computation of receipt/income *(Refer Form 26 along with Schedule given as Annexure at the end of this module)*	This clause requires reporting as to whether any amount is to be included as income chargeable under the head 'income from other sources' as referred to in section 92(2)(m). Section 92(2)(m) provides that where any person receives in any tax year, from any person or persons money, immovable property, or other property and conditions stated in the clause are satisfied, then, it is treated as income of the recipient. Receipt of assets, other than immovable property or assets included within the purview of property under the said section, would not be covered by the provisions of this section, and would, therefore not be required to be reported. For e.g., Stock-in-trade, not being a capital asset, is not covered by this provision.  The tax auditor should obtain a representation from the assessee regarding any such receipts during the year, either received in his business or profession or recorded in the books of account of such business or profession. He should also scrutinise the books of account to verify whether receipt of any such amount or asset has been recorded therein. Based on such

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		verification, tax auditor has to consider whether the question is to be answered in affirmative or otherwise. In case answer to this clause is yes, then the following details have to be furnished, • Type of Asset • Details of Asset • Name of Transferor/ Payer • PAN of transferor/ Payer • Consideration paid • Amount includible as income under section 92(2)(m) It is also to be noted that "any amount **not to be included** as income chargeable under the head income from other sources' as per section 92(2)(m)" is required to be reported separately under clause 44.
21.	Amounts chargeable to income-tax (other than covered in Sl. No. 20 above) but not credited to profit & loss account. (Yes/No) If yes, details are to be furnished as per Schedule: Computation of receipt/income. *(Refer Form 26 along with Schedule given as Annexure at the end of this module)*	Any other item which is considered as an income based on verification of records and other documents and information gathered, but which has not been credited to the profit and loss account needs to be reported. Schedule – Computation of receipt/income lists out - deemed dividend [Section 2(40(e)] - deemed profits and gains (tea development account), - deemed profits and gains (site restoration fund), - advance forfeited, - amount received from business trust, - interest on compensation or enhanced compensation - Escalation of price or export incentive. - subsidy, grant etc., - capital receipt, if any,

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22.	Any capital asset converted into stock-in-trade (Yes/No) If yes, details are to be furnished as per Schedule Computation of receipt/income *(Refer Form 26 along with Schedule given as Annexure at the end of this module)*	For furnishing the particulars required under this clause, the provisions of section 2(109) [meaning of transfer] and section 67(6) [conversion of capital asset into stock-in trade deemed to be transfer of the tax year in which conversion took place] need to be considered. The particulars to be stated under this clause should be furnished with respect to the tax year in which the capital asset has been converted into stock in trade. The clause does not require the details regarding the taxability of capital gains or business income arising from deemed transfer. If the answer is yes, following details are required to be mentioned in Schedule Computation of receipt/income : • Description of capital asset • Date of acquisition • Cost of acquisition • Amount at which the asset is converted into stock-in trade  The description of the capital assets is required to be mentioned, for example, shares, securities, land, building, plant, machinery etc. For ascertaining the correct date of acquisition, the tax auditor will have to refer the accounts of the tax year in which such capital assets are acquired. The date is important to determine whether assets is long term capital asset or short-term capital asset. In this clause, the cost of acquisition as per books of accounts is to be mentioned. In case of depreciable assets, the carrying cost appearing in the books will be written down value. But the value to be reported should be the original cost of acquisition. The amount

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		recorded in the books at which the asset is converted into stock in trade should be stated. Such an amount may not be fair market value as on the date of conversion. The valuation of stock-in-trade is to be examined with reference to AS-2: Valuation of Inventories or Ind AS-2: Inventories, as applicable.
23.	Any land or building or both transferred during the tax year for a consideration less than stamp duty value as referred to in section 53 or 78. (Yes/No) If yes, details are to be furnished as per Schedule Computation of receipt/income *(Refer Form 26 along with Schedule given as Annexure at the end of this module)*	Where any land or building or both is transferred during the tax year for a consideration less than the value adopted or assessed or assessable by any authority of a State Government referred to in section 53 or 78, the auditor is required to verify the following details: (a) Type (land/ building/ land and building both) (b) Address of transferred property (c) Share in the transferred property (d) Consideration received or accrued (e) Stamp duty value (d) Whether the provisions of section 53 or 78 is applicable? The details about the nature of property i.e., whether the property transferred during the year is land or building along with the address of such property have to be furnished. The tax auditor should obtain the list of all properties transferred by the assessee during the tax year. The tax auditor has to verify the amount of consideration received or accrued, during the relevant tax year of audit, in respect of land/building transferred during the year as disclosed in the books of account of the assessee. For verifying the stamp duty value, the tax auditor should obtain from the assessee relevant information with regard to

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		sale of Land or Building or both during the tax year. In case the property is not registered, the auditor may verify relevant documents from relevant authorities or obtain third party expert like lawyer, solicitor representation to satisfy the compliance of section 53 or section 78. In exceptional cases where the auditor is not able to obtain relevant documents, he may state the same through an observation in his report in part A/B.
24.	Any amount borrowed through a negotiable instrument or on a hundi which is deemed income as per section 106. [Yes/No] If yes, state the amount	Details of the amount borrowed through a negotiable instrument or on hundi and details of amount repaid (including interest on borrowed amount) through a negotiable instrument or on a hundi otherwise than by an account payee cheque, which is deemed income as per section 106, are required to be indicated under this clause.
25.	Any amount repaid (including interest on borrowed amount) through a negotiable instrument or on a hundi, which is deemed income as per section 106. [Yes/No] If yes, state the amount	 The tax auditor should obtain a complete list of borrowings and repayments of hundi loans otherwise than by account payee cheques and verify the same with the books of account. The tax auditor should verify the borrowing/repayments with reference to such evidence which may be available and in the absence of conclusive or satisfactory evidence, the auditor may obtain suitable certificate/ management representation in this regard. In case of reporting based on management representation, the same needs to be mentioned in para 5 of part A or part B as the case may be.
D - Particulars of expenses		
26.	Amount of deduction inadmissible in respect of the expenditure incurred in relation to	Section 14 provides for inadmissibility of the expenditure incurred in relation to income which does not form part of the total income under the Act, even if such income has not

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	income which does not form part of the total income under the Act, even if such income has not been accrued or received during the tax year? [Yes/No] If yes, amount of the same needs to be stated.	been accrued or received during the tax year Rule 14 lays down the method for determining the amount of expenditure in relation to income not includable in total income. An assessee may claim that no expenditure has been incurred by him in relation to income which does not form part of total income, even in such case the provision of section 14 will apply. The tax auditor has to verify the amount of inadmissible expenditure as estimated by the assessee with reference to established principles of allocation of expenditure based on logical parameters like proportion of exempt and taxable income recorded, turnover, man hours spent to earn the relevant income etc. For allocation of interest between taxable and non-taxable income, the quantum of investment, the period and the rate of interest are generally the relevant factors to be considered. It is primarily the responsibility of the assessee to furnish the details of amount of deduction inadmissible in terms of section 14 i.e., in respect of the expenditure incurred in relation to income, which does not form part of the total income. The tax auditor has to examine the details of amount of inadmissible expenditure as furnished by the assessee. While carrying out such examination the tax auditor is entitled to rely on the management representation.
27.	Amount debited to the profit and loss account, to the extent disallowable -	
	(a) under sections 29, 31 & 32 [Yes/No] If yes, details are to be furnished as per	Tax Auditor needs to examine applicability of provisions of - Section 29 - Deductions related to employee welfare

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	Schedule Computation of Expenses. *(Refer Form 26 along with Schedule given as Annexure at the end of this module)*	- Section 31 - Deduction for bad debt and provision for bad and doubtful debt and - Section 32 - Other Deductions, on various expenditure debited to the profit and loss account of the assessee. If any amount is found not deductible under the provisions of these sections, the amount disallowable as deduction needs to be reported in Schedule Computation of Expenses. It may be noted that these details are to be given only when the corresponding amount has been debited in the profit and loss account. Further only disallowed amount is to be reported and not the total expenditure. Apart from amounts disallowed under section 29, 31 and 32, the assessee is also required to furnish particulars of any liability of a contingent nature debited to the profit and loss account. The tax auditor, for verifying the details of contingent liability debited to the profit and loss account, may conduct a detailed scrutiny of various account heads e.g., outstanding liabilities, provision etc., if required. Accounting policy followed and disclosed would be helpful in ascertaining and verifying details. The tax auditor may also verify reporting under CARO and disclosure in the Notes on accounts.  The tax auditor should verify that the Contingent liability shown in Notes to Accounts is not required to be reported, as the amounts debited to Profit and Loss account are required to be reported in this sub-clause.
	(b) under section 29(1)(e). [Yes/No]	Section 2(49)(o) includes within the scope of income any sum received by the assessee from his employees as contributions to any

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	If yes, details are to be furnished as per Schedule Computation of Expenses. *(Refer Form 26 along with Schedule given as Annexure at the end of this module)*	provident fund or superannuation fund or ESI fund or any other fund for employee's welfare. Section 29(1)(e) permits deduction of any sum received by the assessee from his employees to which the provisions of section 2(49)(o) are applicable, if it is credited by the assessee to the account of the employees in the relevant statutory fund on or before the due date of filing of return of income under section 263(1) for the tax year. Under this clause, details regarding the nature of fund and the amount disallowed i.e. the amount not paid upto the due date of filing of return u/s. 263(1) is to be reported.  The tax auditor should get a list of various contributions recovered from the employees which come within the scope of this clause and the date on which it is deposited. He should also verify the documents relating to provident funds and other welfare funds. He should verify the agreement under which employees have to make contributions to provident fund and other welfare funds. The ledger account of contributions from employees should be reviewed and the actual dates of payment should be verified with the evidence available. In view of the voluminous nature of the information, the tax auditor can apply test checks and compliance tests to satisfy himself that the system of recovery and remittance is proper. It is possible that some of the amounts covered u/s. 29(1)(e) have not been paid by the assessee at the time of submission of the tax audit report, in which case such amounts would have to be stated in form 26. However, if these amounts are paid by the assessee, after the submission of

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		tax audit report but before the due date of filing of return u/s 263, the tax audit report may be revised.
	(c) under section 34 [Yes/No] If yes, details are to be furnished as per Schedule Computation of Expenses. *(Refer Form 26 along with Schedule given as Annexure at the end of this module)*	Section 34 lays down general conditions for allowable deductions. Tax Auditor should examine expenditure debited to profit and loss account to ensure they comply with the requirements of Section 34. If there is any violation of any condition of section 34, the disallowable amount needs to be reported in Schedule Computation of Expenses. - Capital expenditure is not allowable in computing business income unless specifically provided in any sections of the Act. Any capital expenditure debited to the profit and loss account which is not specifically allowed under any section of the act needs to be stated under this clause in form 26. - Personal expenses debited to the profit and loss account are to be specified under this sub-clause as they are not deductible in the computation of total income under section 34. **Note** - Section 143(1)(e) of the Companies Act 2013 specifically requires the auditor to inquire whether personal expenses have been charged to revenue account. In the case of a person whose accounts of the business or profession have been audited under any other law, the tax auditor will have to verify in respect of personal expenses debited in the profit and loss account. In the case of a person who carries on business or profession but who is not required by or under any other law to get his accounts audited, the tax auditor will have to verify the personal expenses, if debited in the expenses account, while conducting the audit and verify the

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		amount of expenses mentioned under this clause. - Section 34(2)(c) provides that no allowance shall be made in respect of expenditure incurred by an assessee on advertisement in any souvenir, brochure, tract, pamphlet or the like published by a political party. Therefore, the expenditure of this nature should be segregated and reported under this clause. - This clause also requires separate reporting of any expenditure incurred by an assessee for any purpose which is an offence or which is prohibited by law is to be reported. - This clause requires specifically to report any benefit or perquisite, in whatever form, to a person, whether or not carrying on a business or exercising a profession, where acceptance of such benefit or perquisite by such person is in violation of any law or rule or regulation or guideline, as the case may be, for the time being in force, governing the conduct of such person. The tax auditor should obtain the list of beneficiaries in respect of whom tax has been deducted at source under section 393(1) [Table Sl. No. 8(iv)] to form an opinion as to whether any benefits and perquisites are inadmissible and require reporting under this clause. - The tax auditor has to also verify and report any expenditure incurred by the assessee during the year to compound an offence under any law for the time being in force, in India or outside India and also settling proceedings initiated in relation to contravention under any law notified by the Central Government in this behalf

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	(d) under section 35 [Yes/No] If yes, details are to be furnished as per Schedule Computation of Expenses. *(Refer Form 26 along with Schedule given as Annexure at the end of this module)*	Tax Auditor has to verify amounts debited to the profit and loss account and ensure that any amount debited therein which is disallowed under different clauses of section 35, has been correctly reported. (i) Tax paid on income, or by employer, or in any other country for which relief is eligible. (ii) Payment to a provident fund or other fund established for the benefit of employees of the assessee. (iii) Payment chargeable under the head "Salaries" payable outside India or to a non-resident. (iv) Amount paid by way of royalty, licence fee, etc., which is levied on or which is appropriated, directly or indirectly, from a State Government Undertaking by the State Government (v) Expenditure incurred by a firm in the nature of remuneration to a partner (vi) Expenditure incurred by an AOP or BOI to a member.
28.	Any penalty levied under any law in force in or outside India. [Yes/No] If yes, details are to be furnished as per Schedule Computation of expenses. *(Refer Form 26 along with Schedule given as Annexure at the end of this module)*	- The clause requires reporting of expenditure by way of penalty or fine for violation of any law (enacted in India or outside India). The tax auditor should obtain in writing from the assessee, the details of all payments by way of penalty or fine for violation of any laws have been made and paid or incurred during the relevant tax year and how such amounts have been dealt with in the books of accounts produced for audit. In this clause, law under which penalty is levied, section and amount of penalty is to be stated. This clause covers only penalty or fine for violation of law and not the payment for

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		contractual breach or liquidator damages. The tax auditor should keep in mind the difference between the amount prohibited by law and the amount paid which is compensatory in nature under the relevant statue. Supreme Court in *Mahalakshmi Sugar Mills Co. Ltd. vs CIT 123 ITR 429 and CIT vs Hyderabad Allwyn Metal Works Ltd 172 ITR 113 (SC)* wherein it was held that when an amount paid by assessee could be regarded as compensatory in character then it would be allowable u/s 34 and if it were penal in nature it was not allowable.
29	Whether any payment has been made or to be made to a specified person as mentioned in section 36(3). [Yes/No] If yes, details are to be furnished as per Schedule Computation of expenses. *(Refer Form 26 along with Schedule given as Annexure at the end of this module)*	Under this clause, the particulars of payments stated to be made to persons (related person) covered under section 36(3) should be examined. Following details are required to be furnished under this clause: • Name • Permanent Account Number • Relation with assessee • Nature of transaction • Amount debited to profit & loss account The tax auditor in this connection should : (a) Obtain full list of specified persons i.e., related persons as contemplated in this section. (b) Obtain details of payments made to the specified persons. (c) Scrutinise all items of payments to the above persons. (d) Call for all the contracts or agreements entered into by the assessee and list out the contracts and agreements entered into with the specified persons and segregate the items of payments made to them under these agreements.

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		Where the transactions are voluminous or the list contains several names, scrutiny to be made to the extent possible. In that case, reliance may be made on the information supplied by the client with adequate disclosure in the report.
30	Amount debited to the profit and loss account, to the extent disallowable under section 36(4) [Yes/No] If yes, details are to be furnished as per Schedule Computation of expenses. *(Refer Form 26 along with Schedule given as Annexure at the end of this module)*	Disallowance would be made if the payment or aggregate of payments, exceeding ₹ 10,000 (₹ 35,000 in case of plying, hiring or leasing of goods carriage) is made to a person in a day otherwise than through specified banking or online mode. However, no disallowance would be attracted in respect of cases and circumstances prescribed under Rule 26.  The tax auditor should obtain the following particulars of all payments made otherwise than through specified banking or online mode in respect of expenditure exceeding the prescribed limit under section 36(4)/36(5) Date of payment, nature of payment, Amount disallowable as deduction u/s 36(4)/Amount deemed as income u/s 36(5), as the case may be, name of payee, if available, PAN of payee, or if the same is not available, Aadhar number of the Payee. The list should be verified by the tax auditor with the books of accounts in order to ascertain whether the conditions for specific exemption granted under Rule 26 are satisfied. Details of payments which do not satisfy the above conditions should be stated under this clause. Audit tools are available to find out such payments expeditiously and accurately. These tools may be employed in case data is voluminous.
31	Amounts debited to profit and loss account in any preceding tax year which is deemed to be income under section 36(5) for this tax year [Yes/No]. If yes, details are to be furnished as per Schedule Computation of expenses *(Refer Form 26 along with Schedule given as Annexure at the end of this module)*	

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		Practically, it may not be possible to verify each payment, reflected in the bank statement, as to whether the payment has been made through specified banking or online mode, it is, thus, desirable that the tax auditor should obtain suitable certificate from the assessee to the effect that the payments for expenditure referred to in section 36(4) were made by through specified banking or online mode. Where the tax auditor has relied on certificate of the assessee, the fact has to be reported as an observation in clause 5 of Part A/ Part B, as the case may be. The tax auditor, in his report, may comment on such violation as under:- "It is not possible for me/us to verify whether the payments in excess of ₹ 10,000 have been made through specified banking or online mode, as the necessary evidence is not in the possession of the assessee".
32	(a) Amounts debited to the profit and loss account, to the extent disallowable as per provisions of section 37(2)(a) to 37(2)(f) [Yes/No] If yes, details are to be furnished as per Schedule Computation of expenses *(Refer Form 26 along with Schedule given as Annexure at the end of this module)*	As per section 37(2)(a) to 37(2)(f), deduction in respect of certain expenditure is allowable only on the basis of actual payment made within the tax year itself or upto the due date of filing of ITR u/s. 263(1). The amount covered u/s 37(2)(g) is to be reported separately in clause 33. Under this clause, section number, nature of liability and amount disallowable as deduction is to be stated. Section 37 is applicable in respect of expenditure for which a deduction is otherwise allowable under the Act. Therefore, where any expenditure is reported under any other clause indicating that deduction is otherwise not allowable, there is no need of reporting such expenditure under this clause.

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		If the assessee is maintaining its books of accounts on the mercantile system, the tax auditor should verify the aforesaid particulars of section 37(2)(a) to 37(2)(f) from the books of account for the year under audit as well as from the books of account, vouchers and documents of the immediately succeeding tax year to ensure that the information about the aforesaid payments made in the subsequent year have been correctly reported. In case of GST liability under reverse charge mechanism (RCM), if liability is booked but not paid on or before the due date of filing return under section 263(1), the amount must be reported under this clause. Auditor must obtain and verify the same with GST payable ledger or GSTR-3B reconciliations. The amount paid during the year in respect of all the specified sums should be clearly distinguished from the payment against the liability that pre-existed on the first day of the relevant tax year. Such amount needs to be reported in clause 32(b) below.
	(b) Amounts disallowed under section 37(2)(a) to 37(2)(f) in any preceding tax year but allowable during the tax year [Yes/No] If yes, details are to be furnished as per Schedule Computation of expenses. *(Refer Form 26 along with Schedule given as Annexure at the end of this module)*	The amount covered under section 37(2)(a) to 37(2)(f) which was not allowed in any preceding tax year is allowable as deduction if paid during the current tax year. This is required to be reported in this clause.

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33.	(a) Amount of interest not allowable under section 23 of the Micro, Small and Medium Enterprises Development Act, 2006 (MSMED Act) to the extent debited to profit and loss account [Yes/No] If yes, amount of the same needs to be reported.	The Micro, Small and Medium Enterprises Development Act, 2006 (MSMED Act). MSMED is an Act to provide for facilitating the promotion and development and enhancing the competitiveness of micro, small and medium enterprises and for matters connected therewith or incidental thereto. Irrespective of anything contained in the Income-tax Act, the amount of **interest payable or paid by the buyer**, under or in accordance with the provisions of this Act, **shall not be allowed as a deduction** while computing income under the Income-tax Act. The inadmissible interest has to be determined on the basis of the provisions of the MSMED Act. Section 16 of the MSMED Act provides for the date from which and the rate at which the interest is payable. Accordingly, where a buyer fails to make payment of the amount to the supplier, being micro and small enterprise, as required under section 15, the buyer shall, notwithstanding anything contained in any agreement between the buyer and the supplier or any law for the time being in force, be liable to pay compound interest with monthly rests to the supplier on that amount from the appointed date or, as the case may be, from the date immediately following the date agreed upon, at three times of the bank rate notified by the Reserve Bank. Section 24 of MSMED Act provides that sections 15 to 23 shall have effect notwithstanding anything inconsistent therewith contained in any other law for the time being in force. Sections 15 to 24 of the MSMED Act make a buyer liable to pay interest but they, by themselves, do not require the buyer to make payment to the

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		supplier. However, as payment of such interest is considered as penal in nature, no deduction is allowed in the Income Tax Act.  *The tax auditor, while verifying the reporting in respect of this clause should take the following steps:* *(a) obtain a full list of suppliers of the assessee which fall within the purview of the definition of "Supplier" under section 2(n) of the MSMED Act. It is the responsibility of the auditee to correctly classify and identify those suppliers who are covered by this Act.* *(b) In respect of payments made to such suppliers, obtain a list of all instances where there was delay in payment beyond the time limit specified under Section 15 of the MSMED Act, the interest payable for such delay and the interest actually paid.* *(c) Review the list so obtained and verify the accuracy thereof on test check basis including the calculation of interest. Also, cross check the disclosure made in the financial statements in terms of Section 22 of the MSMED Act with the list so obtained. In case of company auditees, reference may also be made to half-yearly Form MSME-1, if any, furnished by such companies to the ROC.* *(d) Verify from the books of account and Financial Statements whether any interest payable or paid to the supplier(s) in terms of section 16 of the MSMED Act has been provided for in the books of account or has been debited to the Profit & Loss Account.* (e) *Verify that only interest paid or payable in terms of Section 16 of the MSMED Act which has been debited to the Profit & Loss*

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		account is reported under clause 33(a). Such interest is not allowable as deduction for the purposes of computation of income under the Income-tax Act in terms of Section 23 of the MSMED Act.
	(b) Amount debited to the profit and loss account, to the extent disallowable under section 37(2)(g) [Yes/No] If yes, amount of the same needs to be reported.	Section 37(2)(g) provides for allowability of amount payable by the assessee to a micro or small enterprise beyond the time limit specified in section 15 of the Micro, Small and Medium Enterprises Development Act, 2006 only in the tax year in which such sums are actually paid. Thus, the amount to be reported under (b) is the payment which satisfies following conditions cumulatively, namely: a) it is an amount debited to the profit and loss account, b) It is payable to a micro or small enterprise c) it is payable beyond the time given under section 15 of the MSMED Act d) has not been paid during the tax year. The amount which has been paid in the next year but has been paid within the time allowed in section 15 of the Micro, Small and Medium Enterprises Development Act is not required to be reported. Similarly, the amount which has been paid during the same tax year even though paid after the time allowed in section 15 of the Micro, Small and Medium Enterprises Development Act is also not required to be reported. While verifying the amounts reported under this clause, the tax auditor should note that the benefit available u/s 37(3) for payments made upto the due date of filing the return is not available for payments covered under section 37(2)(g). Hence, any payment beyond the time limit specified u/s 15 of MSMED Act

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		(and which has not been paid during the tax year) will be inadmissible. ***Note -*** *Section 15 of the of the Micro, Small and Medium Enterprises Development Act, 2006 mandates payment of goods or services to supplier, being a micro or small enterprises by the buyer on or before the date agreed upon between them in writing i.e., as per the written agreement, which cannot be more than 45 days. If there is no such written agreement, the payment shall be made before the appointed day i.e., within 15 days.* *If the sum payable by the assessee to a micro or small enterprise is paid as per written agreement (maximum within 45 days) or within 15 days in case of no agreement, the deduction can be claimed on accrual basis if mercantile method of accounting is followed by the assessee.* *However, if the sum payable by the assessee to a micro or small enterprise is not paid as per written agreement or within 15 days in case of no agreement, the deduction would be allowed in the tax year in which it is actually paid.*
	(c) Amount disallowed under section 37(2)(g) in any preceding tax year but allowable during the tax year [Yes/No] If yes, amount of the same needs to be reported.	The amount needs to be reported here is the amount which fulfils following conditions cumulatively: a) Amount was payable by the assessee to a micro or small enterprise beyond the time limit specified in section 15 of the Micro, Small and Medium Enterprises Development Act, 2006. b) The same has been disallowed in any earlier tax year u/s 37(2(g). c) The same has been paid during the current tax year.

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34.	Amount allowable as deduction under various sections [Yes/No] If yes, details are to be furnished as per Schedule Computation of expenses. *(Refer Form 26 along with Schedule given as Annexure at the end of this module)*	The amounts admissible under various sections as mentioned in Schedule Computation of expenses Sl. No. 34 (a) and (b) are required to be stated here. In case the assessee has obtained a separate audit report for claiming deductions under any of these sections, he must make a reference to that report while giving the details under this clause. The Tax Auditor should verify the amount debited to the Profit & Loss Account and the amount actually admissible in accordance with the applicable provisions of law. An assessee may be eligible for deduction under one or more sub sections of section 45 (relating to expenditure on scientific research). Accordingly, the deduction allowable under each sub-section should be stated separately. Further, deduction Under section 44 (preliminary expenses), u/s 46 (Capital expenditure of specified business), u/s 47(1)(a)/(b) (expenditure incurred on agricultural extension project by any assessee and any skill development project by a company), u/s 51 (expenditure for prospecting certain minerals) and u/s 52(1) (amortization of expenditure for telecommunication services, amalgamation, demerger, scheme of voluntary retirement etc.) The part(a) of relevant reporting requirement in schedule requires reporting of following: a) Amount debited to P&L account b) Amount of deduction allowable c) Deduction allowable in excess of the amount debited to P&L account Accordingly, the amount not debited to the Profit & Loss Account but admissible under any of the sections mentioned in the clause has also to be stated.

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		Further part(b) of relevant reporting requirement in schedule – deduction u/s. 48 read with Schedule IX and deduction u/s. 49 read with Schedule X- requires reporting of only amount of deduction allowable. Both the sections i.e. section 48 read with Schedule IX and sections 49 read with Schedule X allow deduction in respect of the amount deposited in designated account for specified purposes which as per the accounting principles are not debited to the Profit and Loss A/c. In this connection, on the basis of the conditions prescribed in the concerned section, the amount admissible there under has to be worked out and reported. The tax auditor should also examine the eligibility of the expenditure/payment for deduction and compliance of the conditions prescribed in every section including approval from the relevant/prescribed authority, notification issued by the Central Government, any other guideline circular etc. issued in this behalf.  *In case the auditor relies on a judicial pronouncement, he may mention the fact in his observations para provided in part A or Part B of form 26, as the case may be.*
E - Particulars of Prior Period		
35.	(a) Any amount of income of prior period credited to the profit and loss account [Yes/No] If yes, details are to be furnished as per Schedule Prior Period *(Refer Form 26 along*	It may be noted that information under this clause would be relevant only in those cases where the assessee follows mercantile system of accounting. Under cash system of accounting, expenses debited/ income credited to the profit and loss account would be current year's expenses/income even though they may relate to earlier years.

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	with Schedule given as Annexure at the end of this module)	 The tax auditor should obtain the particulars of expenditure or income of any earlier year debited or credited to the profit and loss account of the relevant tax year when mercantile system of accounting is followed.
	(b) Any amount of expenditure of prior period debited to the profit and loss account [Yes/No] If yes, details are to be furnished as per Schedule Prior Period *(Refer Form 26 along with Schedule given as Annexure at the end of this module)*	In case income of prior period, nature of such income, amount and preceding tax year to which it relates is to be stated. With respect to particulars of expenditure of prior period, the nature of expenditure, amount of expenditure debited to P & L A/c, preceding tax year to which it relates, whether complete amount of such expenditure is allowable in this year and if no, amount of expenditure allowable as deduction in this tax year is to be stated.
F - Particulars of Losses, Depreciation, and Deductions		
36.	Depreciation allowable as per the Act in respect of each asset or block of assets, as the case may be. [Yes/No] If yes, details are to be furnished as per Schedule Losses, Depreciation and Deductions *(Refer Form 26 along with Schedule given as Annexure at the end of this module)*	With respect to this clause, the tax auditor is required to examine the following: (a) Classification of the asset (b) Classification thereof to a block (c) actual cost or written down value (d) Additions during the year- classified into for a period of 180 days or more and for less then 180 days (e) The applicable rate of depreciation (f) Consideration or other realization during the tax year. (g) Additional depreciation, if any in case of Plant and Machinery (h) Proportionate aggregate depreciation allowable in the event of succession, amalgamation, demerger etc. (i) Expenditure incurred in connection with transfer of asset/ assets. (j) Capital gains/ loss under section 74 or written down value on the last day of tax year.

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		For the purpose of determining the rate of depreciation, the tax auditor has to examine the classification of the assets into various blocks. The tax auditor should ensure that the classification as made by the assessee is in consonance with legal principles. In this connection, he should traverse through judicial pronouncements as well as through the past assessment history of the assessee, and upon an analysis thereof, if he comes to the conclusion that the matter is not free from doubt or controversy, he has to indicate the fact in his report by way of suitable qualification. It may also be necessary to rely upon technical data for determining the proper classification of the block. Once the classification has been ascertained and checked properly the rates applicable as per the Income-tax Rules, 2026 follow as a natural corollary. The tax auditor must have due regard to the Income-tax Rules, 2026, relevant clarifications from the Department and judicial decisions.  The details to be furnished include information about the existing assets. In respect of the existing assets, the computation of depreciation would involve stating the opening written down value of the block of assets which should be taken from the relevant income-tax records. The tax auditor should ensure the opening block of assets matches with the income-tax return filed for the immediately preceding tax year. For the purpose of determination of actual cost, the tax auditor has to be guided by the relevant legal provisions. Since determination of actual cost has got accounting implications, he can rely

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		on the relevant Accounting Standards and Guidance Notes. Depreciation is also allowable on intangible assets like know-how, patents, copyrights, trademarks, licenses, franchises or any other business or commercial rights of similar nature. There may be intangible assets like know-how, patents, copyrights, trademarks, licences, franchises or any other business or commercial rights of similar nature for which the assessee might have incurred costs. Intangible asset being goodwill does not qualify for depreciation. The tax auditor should examine this and the basis on which the cost of such intangible assets has been arrived at. In case an asset is purchased in foreign currency on deferred payment basis, the auditor should verify the actual cost on the basis of section 42. Addition or reduction will be limited to the exchange difference actually paid during the tax year. The tax auditor is required to verify that the adjustments in the cost of fixed assets on account of changes in the rate of exchange of currency in the schedule of fixed assets prepared for computation of depreciation as per Income-tax Rules are in accordance with the provisions of section 42.  To ascertain when the asset has been put to use, the tax auditor could call for basic records like production records/installation details/goods and service tax records/records relating to power connection for operating the machine, title deeds or building completion certificate etc. in case of immovable assets and any other relevant evidence. In the absence of any specific documentation with regard to the effective date from which the asset is put to use, he could get a representation letter from

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		the management, in respect of the assets acquired. In respect of assets sold, transferred, demolished, destroyed or discarded, consideration or other realization during the tax year should be mentioned. Tax auditor need to verify that the amount of depreciation and written down value of the block at the year-end is calculated correctly by taking the relevant figure at the beginning of the year and adjusted in respect of the additions/deductions during the year. The tax auditor shall verify the WDV at the beginning of the year in respect of each block of assets.  *Wherever a claim for depreciation involves any reliance on any judgement or opinion or other contentions (as to its classification, rate applicable, cost, date on which put to use etc.), it may be advisable for tax auditor to disclose full particulars thereof and the basis on which the depreciation allowable has been determined and vouched by him.*
37.	(a) Any brought forward loss or depreciation allowance [Yes/No] If yes, details are to be furnished as per Schedule Losses, Depreciation and Deductions *(Refer Form 26 along with Schedule given as Annexure at the end of this module).*	In this clause, the amount of brought forward loss or depreciation allowance as per Income tax return and amount as assessed both are required to be reported. The copy of relevant assessment order is required to be attached. However, if the assessed depreciation or loss is less and no appeal is pending, then the assessed depreciation or loss may be taken as the "Amount as returned". Brought forward losses may relate to different heads of income such as property income, information about the pending assessment or appellate proceedings or about delay in filing loss returns should be given.

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		For giving the above information, the auditors should study the assessment records i.e., the income-tax returns filed, assessment orders, appellate orders, orders giving effect to appellate order and rectification/revisional orders for the earlier years and ascertain if the figures given in the above clause are correct. The tax auditor should keep in mind the provisions of section 110 regarding carry forward and set-off of loss from house property, section 114 regarding carry forward and set-off of losses by specified business and also section 119(1) and (2) regarding carry forward and set-off of losses in case of change in constitution of firm or on succession. The tax auditor should also verify whether any revised or updated return has been filed under, and its impact on the claim of carry forward of losses. The tax auditor should obtain all the assessment orders or appellate orders completed and pending during the audit. If the consequential order for any revision / appellate order is yet to be passed, the same can be disclosed along with the impact thereof, if material. Tax auditor should examine whether any losses/ allowances are not allowed under Section 200/ 201/203/204 and if yes, the same have been reported correctly. Similarly, any withdrawal of additional depreciation on account of opting out of default tax regime under section 202 needs to be reported separately.
	(b) (i) Whether a change in shareholding of the	The tax auditor should obtain the details of changes in shareholding of the company year-on-year, if any, and verify the reasons for any such changes to determine whether any losses

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	company has taken place during the tax year due to which the losses incurred prior to the tax year, cannot be allowed to be carried forward as per section 119?	incurred prior to the tax year are not allowed to be carried forward as per section 119. The tax auditor should obtain necessary representation to this effect wherever it is not feasible to verify or cross-check the shareholding pattern and changes therein. The comparison of the composition of the shareholding is to be done with reference to the last day of the current tax year and the last day of every tax year in which the loss was incurred. The carry forward of the loss incurred in respect of different tax years is to be determined with respect to the individual tax years. Such comparison of the shareholding can be done by referring to the Register of Members and other requisite forms and documents filed with MCA and other statutory authorities. The comparison must be carried out for **each year of loss separately**, and disallowability, if any, must be evaluated **year-by-year**, rather than in aggregate.
	(ii) If yes, mention amount of brought forward loss that cannot be allowed to carried forward	
	(c) Whether the assessee has incurred any speculation loss as per section 113(1) during the tax year? If yes, amount thereof to be reported.	Having regard to the definition of "speculative business", the tax auditor has to verify from the books of account and other relevant documents as to whether the assessee is carrying on any speculation business. On verification if the auditor is of the opinion that the auditee is carrying on speculation business, under this clause, the tax auditor has to verify that the details regarding speculation loss referred to in section 113, if any incurred by the assessee during the tax year, have been correctly furnished in this clause. It may be noted that it is not necessary that same speculation business needs to be continued to set off its loss of earlier year(s) against profit of same speculation business. It can be 'any' speculation business i.e.,

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		a different speculation business.
	(d) In case of a company, whether the company is deemed to be carrying on a speculation business as per section 113(5)? If yes, amount of speculation loss incurred during tax year, if any is to be reported.	In the case of a company, the tax auditor has to verify from the books of account and other relevant documents as to whether any part of the business of the assessee consists of purchase and sale of shares of other companies. If yes, any loss from such business needs to be reported in this clause unless the company is covered by the exceptions given in section 113(6).
	(e) Whether the assessee has incurred any loss as per section 114 in respect of any specified business during the tax year? If yes, amount thereof to be reported.	Under this clause, the tax auditor has to verify from the books of accounts and other relevant documents as to whether the assessee is carrying on specified business as referred to under section 46. In case the auditor is of the opinion that the assessee is carrying on such specified business, he has to verify that the details of the loss incurred, if any, in respect of any specified business during the tax year have been furnished correctly in this clause. In case the assessee carries on more than one specified businesses and losses have been incurred in both the business, the details of the loss incurred with respect of each business are to be specified separately.
38.	Any deductions admissible under Chapter VIII of the Act If yes, details are to be furnished as per Schedule Losses, Depreciation and Deductions	The tax auditor has to ensure that the assessee fulfils all the conditions specified in the sections under which deduction is claimed. For ascertaining this, the tax auditor has to obtain all necessary evidence which would enable him to express the opinion regarding the admissibility of deductions. In order to ascertain the fulfillment of the conditions, the tax auditor may have to check all documentary

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	(Refer Form 26 along with Schedule given as Annexure at the end of this module)	evidence. There may be cases where there is difference between the amount claimed by the assessee and the amount computed by the tax auditor. In such cases, it is quite possible that the assessee's claim is based on some judicial pronouncement on the subject. In such cases, it may be advisable to report the amount admissible. The amount claimed and the background behind and the basis of the claim of the assessee may form part of the working papers. If the claim of the assessee is well-founded and settled by judicial pronouncement, the tax auditor may accept the claim, but he has to record in his working papers that admissible amount has been reported on the basis of such judicial pronouncement. In appropriate circumstances, such judicial pronouncements etc. should be mentioned in the report. It may be noted that separate audit report or certificate is required to be obtained under certain sections of Chapter VIII. While giving information with regard to the deduction allowable under these sections, the tax auditor should refer to separate audit reports/ certificates obtained by the assessee. These audit reports/ certificates may have been given by the tax auditor or by any other auditor. The figures given in such separate audit reports/certificates should be taken into consideration while giving information with regard to income covered by these sections. Some sections in Chapter VIII such as section 133 (donations), Section 136/137 (contributions to political parties), section 146 (wages of new workmen) etc. relate to the expenditure incurred by an assessee. There are other sections such as section 149 (income of

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		cooperative societies), etc. which relate to income of the assessee. In respect of all these sections, the tax auditor should ascertain whether there is any expenditure or income covered by the above sections recorded in the books of accounts audited by him. Section 200 to 204 provide that no deductions under Chapter VIII can be claimed by the assessee opting for taxation under any of these sections except deductions mentioned under section 146 and 150. Admissibility of deductions should be examined accordingly.
39.	Any utilisation of MAT/AMT credit available [Yes/No] If yes, details are to be furnished as per Schedule Losses, Depreciation and Deductions *(Refer Form 26 along with Schedule given as Annexure at the end of this module)*	In this clause, a tax year wise break up of gross MAT/ AMT credit, its set-off in earlier years, utilization during the current tax year and balance being carried forward is required to be given. The tax auditor should verify these details from the returns of the earlier years and also from the Form 66/67 filed with respect to MAT/AMT Credit. Tax auditor need to ensure that if due to assessment, the amount of MAT/AMT credit has been reduced and no appeal has been filed against such assessment, only the amount so reduced has been furnished in this clause. However, if the appeal has been filed against the assessment, the amount as per ITR of original tax year may be furnished and details of assessment and appeal thereagainst may be mentioned in the Remarks column.
G - International Taxation		
40.	Any primary adjustment to transfer price, as per section 170(1), has been made	This clause requires reporting of whether primary adjustment to transfer price, as referred to in section 170(1), has been made during the tax year. Thus, the tax auditor is

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	during the tax year? [Yes/No] If yes, details are to be furnished as per Schedule - International Taxation *(Refer Form 26 along with Schedule given as Annexure at the end of this module)*	required to verify whether any primary adjustment is 'made' in terms of section 170(1) during the tax year under consideration. The primary adjustment made may not necessarily relate to tax year under consideration. Disclosure under this clause may need to be done is respect of each and every type of primary adjustment made in the relevant tax year, irrespective of the tax year to which this adjustment pertains to. For instance, an assessment order in relation to say, T.Y. 2026-27 may be passed in during T.Y. 2028-29 wherein AO has made a primary adjustment and the same has been accepted by the taxpayer. Such primary adjustment may need to be reported in the tax audit report of T.Y. 2028-29. The relevant clause of section 170 under which the relevant adjustment falls, and the amount of adjustment have to be reported. There is also requirement to report whether the excess money available with the associated enterprise is required to be repatriated to India as per the provisions of section 170(2). In case any such primary adjustment has taken place, which requires repatriation of the excess money or part thereof, the tax auditor should verify whether the excess money has been received, and whether it has been received within the prescribed time. In case the excess money or part thereof has not been repatriated within the prescribed time and the assessee has not opted to pay additional income-tax, the imputed interest income on such excess money, needs to be computed. Since the reporting is for the tax year, it is advisable for the tax auditor to ensure that the amount of interest imputed till

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		the end of the tax year is furnished. In case the interest up to the date of furnishing of the tax audit report is given, it is advisable to provide a break-up of the amount of interest imputed till end of the relevant tax year and for the period post the end of the relevant tax year ending with the date of furnishing tax audit report. It is possible that interest income may be imputed during the relevant tax year in connection with primary adjustment made during the earlier tax years. Such interest income arising from primary adjustment made in earlier year is also taxable during the tax year under consideration and will be included in the return of income of the concerned tax year. Thus, it may be advisable for the taxpayer to furnish and tax auditor to verify and report the information pertaining to such primary adjustments in respect of interest income which is chargeable under section 170(2).  The tax auditor should obtain a certificate from the assessee, as to what transfer pricing adjustments have been made in the return/(s) of income filed during the tax year, whether any advance pricing agreement was entered into during the tax year, whether any transfer pricing adjustment was made/confirmed in an assessment order/appellate authority order passed during the tax year, or whether any agreement has been arrived at under a Mutual Agreement Procedure during the tax year. The tax auditor should also verify tax records to check whether there is any such occurrence. In this regard, the auditor should also obtain a prior management representation on the information obtained to be true and accurate, on the basis which he should verify the

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		amount of adjustment reported. Hence, the primary onus should be with the management. In case the excess money has not been repatriated within the prescribed time, there is also requirement to report the expected date of repatriation of money. Tax Auditor should obtain a representation letter from the assessee about the expected date and make a suitable disclosure in Part A or Part B of Form 26 regarding his reliance on management representation in this regards.
41.	(a) Any expenditure incurred during the tax year by way of interest etc. exceeding the specified limit as per section 177(1)? [Yes/No] If yes, details are to be furnished as per Schedule International Taxation *(Refer Form 26 along with Schedule given as Annexure at the end of this module)* (b) Any interest expenditure brought forward as per section 177(5) [Yes/No] If yes, details are to be furnished as per Schedule International Taxation	This clause requires reporting for the purposes of examining allowability of expenditure by way of interest in respect of debt issued by a non-resident Associated Enterprises under section 177 while computing income under the head "Profits and gains from business and profession". The reporting is to be done only if the amount of expenditure exceeds limit as per section 177(1) which is ₹ 1 Crore. The excess interest is to be calculated as the lower of total interest paid or payable in excess of 30% of earning before interest, taxes, depreciation and amortization (EBITDA) of the borrower in the tax year or interest paid or payable to associated enterprises for that tax year. In computing the limit of ₹ 1 crore, only interest and expenditure of similar nature which is deductible while computing income under the head "Profits and Gains of Business or Profession" should be considered, and not interest deductible under any other head of income or interest which is otherwise not deductible. Therefore, any interest disallowable under section 14, under section 32(b), under section 35(b)(ii) or section 36(2)

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	(Refer Form 26 along with Schedule given as Annexure at the end of this module)	should not be considered as interest for the purposes of section 177(1). Similarly, interest disallowed on account of transfer pricing under section 161, should also not be considered, since such interest is not allowable in computing income under the head "Profits and Gains of Business or Profession".
	(c) Any interest expenditure carried forward as per section 177(5) [Yes/No] If yes, details are to be furnished as per Schedule International Taxation *(Refer Form 26 along with Schedule given as Annexure at the end of this module)*	In case such interest etc. exceeds ₹ 1 crore, details as per Schedule International Taxation Sl. No. 41(a) need to be given. In column A of this schedule, expenditure incurred by way of interest or of similar nature paid to its non-resident AE or to the lender to whom the AE has provided an implicit or explicit guarantee or has deposited a matching amount of funds, has to be reported, out of the total interest and similar expenditure claimed as deduction. Column B requires reporting of Earnings before interest, tax, depreciation and amortization (EBITDA) during the tax year, which should be verified from the Audited Statement of Profit and Loss Account of the assessee. The amount of expenditure by way of interest or of similar nature which exceeds 30% of EBITDA needs to be reported in Column C. As per section 177(5) read with section 177(6), the excess interest which is disallowed, is allowed to be carried forward for a period of 8 tax years following the tax year of disallowance, to be allowed as a deduction against profit and gain of any business in subsequent years, to the extent of maximum allowable interest expenditure under this section. A tax year wise details of any such interest brought forward from earlier tax years needs to be reported in clause 41(b) and interest carried forward to subsequent years is to be

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		reported in clause 41(c). Tax auditor should verify from the records of earlier year to ensure that reporting in the current year is being done correctly.
42.	Amount debited to the profit and loss account, to the extent disallowable as per section 60 [Yes/No] If yes, amount thereof to be reported.	In the case of a non-resident assessee, any expenditure in the nature of head office expenditure are allowed upto 5% of the adjusted total income of the assessee and in case of loss, allowed upto 5% of the average adjusted total income of the assessee. Tax auditor needs to verify that all the expenditure in the nature of head office expenditure, debited under different heads of profit and loss account, have been correctly quantified. Such total expenditure then needs to be compared with the upper limit mentioned in section 60 and any excess amount thereof needs to be reported in this clause. Tax auditor should consider that as per section 60(3)(c), head office expenditure" means executive and general administration expenditure incurred by the assessee outside India and specifically include expenditure mentioned in section 60(3)(c)(i) to (iv). Accordingly, he needs to verify that all such expenditure has been included in the quantification of "Head Office Expenditure". As what is required to be reported is only the amount disallowable, the total working of the Head Office Expenditure should be preserved by the tax auditor in the working papers.
43.	Any remittances reported in Part-D of Form 145 during the tax year [Yes/No] If yes, details are to be	In case of foreign remittances made by the assessee, Part D of form 145 is to be filled up if the remittance is not taxable under the Act. Tax auditor may obtain from the income tax portal of the assessee, the details of all the Form 145 filed during the tax year. The

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	furnished as per Schedule International Taxation *(Refer Form 26 along with Schedule given as Annexure at the end of this module)*	information furnished in this clause may be verified from these details. As per the format of the schedule, the information to be furnished in this clause needs to be consolidated for each type of remittance and total number of transactions for each type of remittances along with total amount of remittances for each type is required to be reported on a consolidated basis.
H - Other Key Parameters		
44.	Any amount not to be included as income chargeable under the head 'income from other sources' as per section 92(2)(m)? [Yes/No] If yes, details are to be furnished as per Schedule Other Key Parameters *(Refer Form 26 along with Schedule given as Annexure at the end of this module)*	Particulars of amounts **not** includible as income under section 92(2)(m) are required to be reported in this clause. Following details are required to be reported in this regards : i. Type of Asset: Sum of Money, Immovable Property , Movable Property. ii. Details of Asset iii. Name and PAN of Transferor / Payer iv. Relationship of transferor/payer with assessee v. Nature of transaction vi. Consideration paid vii. Amount not includible under section 92(2)(m) and reasons of such non-inclusion. The tax auditor should obtain from the assessee details of all such assets/sum of money received during the year without consideration/for a lesser consideration and enquire about the reasons of non-inclusion of the same in the income of the assessee.
45.	(a) Whether any loan, deposit or specified sum taken or accepted during the tax year in excess of limit	This sub clause seek certain particulars of each loan or deposit in an amount exceeding the limit specified in section 185(1) taken or accepted during the tax year. Reporting is also required of particulars of any specified sum taken or accepted in relation to

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	specified in section 185(1)? [Yes/No] If yes, details are to be furnished as per Schedule Other Key Parameters *(Refer Form 26 along with Schedule given as Annexure at the end of this module)*	transfer of an immovable property, whether or not the transfer takes place has been dealt with. Such specified sum may be any sum of money receivable whether or not the transfer takes place. Each individual transaction of receipt of loan, deposit or specified sum has to be reported separately by selecting the code from the drop down, even if it is from the same person. Tax auditor should obtain and verify the details of Code against each transaction of receipt of loan, deposit or specified sum. Reporting is required only where loan, deposit or specified sum is in an amount of ₹ 20,000 or more severally or in aggregate. This sub-clause requires specific particulars in respect of each loan, deposit or specified sum including the permanent account number or Aadhaar number of the lender/depositor/ payer, if available with assessee. The tax auditor should obtain the details from the assessee in respect of each reportable loan, deposit or specified sum and verify if the same amount reported as per the records and evidence available with the assessee.  With respect to "Specified sum", the tax auditor should ascertain whether the assessee has any immovable property which has been transferred or was proposed to be transferred during the year and review the relevant agreements, documents etc. in this regard. The auditor should satisfy himself that the proceeds arising from such transfer, based on the review of documents has been duly credited to the bank account by an account payee cheque or account payee bank draft or use of electronic clearing system through a

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		bank account or through such other electronic mode as may be prescribed. There will be practical difficulties while verifying the loan, deposit or specified sum taken or accepted by the account payee cheque or an account payee bank draft. In such cases, the tax auditor should verify the transactions with reference to such evidence which may be available. In the absence of satisfactory evidence, for answering, as to whether bank cheque or bank draft was 'account payee', the tax auditors should make a suggested comment in his report. The suggested comment is as follows: "It is not possible for me/us to verify whether loan, deposit or specified sum have been taken or accepted otherwise than by an account payee cheque or account payee bank draft, as the necessary evidence is not in the possession of the assessee".
	(b) Whether there was any receipt of amount in excess of limit specified in section 186(1) during the tax year, where such receipt is otherwise than by modes specified in said section? [Yes/No] If yes, details are to be furnished as per Schedule Other Key Parameters *(Refer Form 26 along with Schedule given*	Clause 45(b)/(c) deal with reporting of transactions of receipts and payments in excess of the specified limit made otherwise than by the modes specified in section 186. Sub-clause (b) requires particulars to be furnished in respect of transactions exceeding ₹ 2 lakh where assessee has received the amount from a person, whereas sub-clause (c) requires information about the transactions exceeding ₹ 2 lakh where the payment has been made by the assessee to a person. Section 186 does not distinguish between receipt on capital account and revenue account. Accordingly, sub-clause (b) and (c) do not distinguish between receipts and payments on capital account and revenue account. Once the receipt or the payment, as

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	as Annexure at the end of this module) (c) Whether there was any payment of amount in excess of limit specified in section 186(1) during the tax year, where such payment is otherwise than by modes speci- fied in said section? If yes, details are to be furnished as per Schedule Other Key Parameters	the case may be, exceeds the limit specified in section 186, the particulars of such transactions will have to be reported under these clauses. The tax auditor should bear this in mind while examining the books of account and records of the assessee. Particulars are required to be given if receipts or payments, even though individually are lower than ₹ 2 lakh but in aggregate amount to ₹ 2 lakh or more if such receipts or payments are - • to or from one person in a day (whether related to a single transaction or otherwise) • or relate to a single transaction (even if the receipts or the payments, as the case may be, are on different dates and individual receipts or payments are less than ₹ 2 lakh) • or are in respect of more than one transaction but are to or from one person and relate to a single event or occasion (even if the receipts or the payments, as the case may be, are on different dates and individual receipts or payments are less than ₹ 2 lakh). While it is comparatively simple to work out receipts or payments to or from a single person in a day, the tax auditor will have to exercise care and caution while verifying the particulars of receipts or payments pertaining to a single transaction or relating to a single event or occasion. The tax auditor will need to link all receipts and payments, as the case may be, otherwise than by the modes specified in this section received/ made in respect of single transaction and verify if the aggregate amount exceeds the limits specified in section

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		186. A single invoice may relate to multiple transactions and vice-a-versa, multiple bills may relate to a single transaction. The tax auditor will have to exercise his judgement to decide whether the receipts/payments is pertaining to a single transaction. Similarly, the tax auditor will have to exercise judgement in deciding whether receipts/ payments though pertaining to more than one transaction, pertain to a single event or occasion. For example, for a function organized by a person, assessee contractor may have been given catering contract as well as contract for flower decoration. In such a case, while the transactions may be different, the occasion or event would be the same and provisions of section 186 will be attracted if the receipts exceeding the limits specified under section 186 are by mode other than those specified in the section. It is possible that the assessee may have purchased goods or services while simultaneously he may have sold goods or services to the same party, consideration for which exceeds ₹ 2 lakh. In such a case, if the amount of consideration for purchase is set off against the amount receivable for the sale of goods or services, such set off is not a receipt as contemplated under section 186. If the amount of such set off exceeds ₹ 2 lakh, the tax auditor may give appropriate note to the effect that such set-off not being a receipt or payment has not been included in the particulars given and the relevant sub-clause. The particulars required under these sub-clauses need not be given in case of a receipt by a or payment to a government company,

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		banking company, a post office saving bank, co-operative bank or in the case of transactions referred to in section 185.
	(d) Whether there was any repayment of any loan, deposit or specified advance during the tax year, in excess of limit specified in section 188(1), where such repayment is otherwise than by modes specified in said section? [Yes/No] If yes, details are to be furnished as per Schedule Other Key Parameters *(Refer Form 26 along with Schedule given as Annexure at the end of this module)*	This sub-clause requires particulars of each repayment of loan, deposit or specified advance in an amount exceeding the limit specified in section 188 made during the tax year. Section 189 defines "specified advance" to means any sum of money in the nature of advance, by whatever name called, in relation to transfer of an immovable property, whether or not the transfer takes place. Section 188 is attracted where repayment of the loan or deposit is made to a person, where the aggregate amount of loan or deposits held by such person either in his own name or jointly with any other person on the date of such repayment together with interest, if any, payable on such deposit is ₹ 20,000 or more. Similarly, the section is attracted when the aggregate amount of specified advances received by such person either individually or jointly on the date of such repayment together with interest, if any, payable on such advances is ₹ 20,000 or more. In the case of company assessee, loan or deposit is defined to mean deposit repayable after notice or loan or deposit repayable after a period. Therefore, in case of a company, loan or deposit repayable on demand will not be considered for the purpose of this section as loan or deposit. However, in the case of non-company assessee, loan or deposit is defined to mean loan or deposit of any nature. This distinction will have to be kept in mind while giving information under this sub-clause. Loan or deposits discharged by means of transfer entries or journal entries in the books

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		of account constitute repayment of loan or deposits otherwise than by account payee cheque or account payee bank draft. Hence, such entries have to be reported under this clause. Each individual transaction of loan or deposit or specified advance repaid has to be reported separately by selecting the code from the drop down, even if it is from the same person. Tax auditor should obtain and verify the details of Code against each transaction of repayment of loan or deposit or specified advance, as the case may be. The monetary limit of ₹ 20,000 or more is applicable in respect of a banking company or a co-operative bank with reference to each branch and in all other cases, assessee as a whole. Further the limit of ₹ 20,000 stands increased to ₹ 2,00,000 in the case of any deposit or loan where - (a) such deposit is repaid to a member by a primary agricultural credit society or a primary co-operative agricultural and rural development bank; or (b) such loan is repaid by a member to a primary agricultural credit society or a primary co-operative agricultural and rural development bank.
46.	Whether the assessee is required to furnish a statement in Form No. 98 or Form No. 165 or Form No. 166 or Form No. 167? [Yes/No] If yes, details are to be furnished as per	This clause is applicable where the taxpayer is required to furnish a statement in Form 98, 165, 166 or 167. As per Rule 160(1), every person referred to in SI. No. 11 to 14 of the column 4 of the table in rule 159 or referred to in SI. No. 15 or 16 of that table and who is required to get his accounts audited under section 63, who has received any declaration in Form 97 (this form

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	Schedule Other Key Parameters *(Refer Form 26 along with Schedule given as Annexure at the end of this module)*	is used by an individual or a person other than a company or a firm who does not have PAN and who enter into any of the transactions specified in rule 159), is required to furnish statement in Form No. 98 containing particulars of such declaration. The Annual Information Return or Statement of financial transaction required to be furnished under section 508(1) is to be furnished in Form No. 165. Statement of Reportable Account under section 508(1) is to be furnished by a reporting financial institution in Form No. 166 in respect of each account which has been identified pursuant to due diligence procedure as a reportable account. Statement of transactions of crypto asset under section 509 is to be furnished in Form No. 167.  The tax auditor should verify that whether the assessee is liable to report the transaction in the prescribed form or not, if yes, whether the assessee has filed the same. The tax auditor is further required that if any transactions have not been reported in the form, total number of transactions not reported, and their total amount has been mentioned in the Schedule for this clause. He may rely on management representation in this regard. Form No. 98, 165, 166 and 167 uploaded on the income tax portal should be examined by the tax auditor for purpose of verifying the reporting under this clause. If the forms have been revised, then, the auditor must verify whether all the transactions required to be reported have been reported in the revised form.
47.	Any transactions in	Tax Auditor needs to verify that if there any

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	unquoted share [Yes/No] If yes, details are to be furnished as per Schedule Other Key Parameters *(Refer Form 26 along with Schedule given as Annexure at the end of this module)*	unquoted shares have been acquired or transferred by the assessee, the necessary details have been reported in this clause. For each case of acquisition or transfer of unquoted shares, following details are to be given: • Name and PAN of the company which issued unquoted shares • Date of acquisition/transfer • Number of shares, face value and book value and fair market value per share • Total cost of acquisition/ Total consideration received Further, in case of acquisition at a price less then FMV, amount chargeable to income-tax under section 92(2)(m) also needs to be reported. In case of transfer, deemed full value of consideration under section 79 and amount chargeable to tax under the head "Capital Gains" is also required to be reported.
48.	Whether the assessee has paid any amount as advance or loan as per section 2(40)(e)? [Yes/No] If yes, details are to be furnished as per Schedule Other Key Parameters	This clause is applicable in the case of a company other than a company in which public are substantially interested. The tax auditor should obtain from the assessee a certificate containing a list of • All the persons who are the beneficial owner of shares holding not less than 10% of the voting power • any concern in which such shareholder is a member or a partner and in which he has a substantial interest Tax auditor should verify from the books of accounts that whether assessee has paid any amount as advance or loan to any of the above persons/concerns. If yes, then the name and PAN of recipient along with date of payment and amount paid is required to be reported in this clause.

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I - Particulars of TDS/TCS		
49.	Furnish all Tax deduction and collection account numbers (TAN held by the assessee)	Tax auditor should obtain from the management a list of all TAN held by the assessee and ensure that same has been correctly reported in this clause.
50.	(a) Whether the assessee is required to deduct or collect tax as per the provisions of Chapter XIX-B of the Act? [Yes/No] If yes, details are to be furnished as per Schedule TDS/TCS *(Refer Form 26 along with Schedule given as Annexure at the end of this module)*	While answering the issue of applicability of the provisions of Chapter XIX-B, a number of debatable issues may arise before the assessee as well as the tax auditor. The auditor may have a difference of opinion with regard to the applicability of the provisions of TDS/TCS on a particular payment. In such a case, the tax auditor has to report the difference of opinion appropriately as an observation in the para 5 of the part A of part B of Form No. 26 as the case may be. It is essential to note that it is the primary responsibility of the assessee to prepare the information in such a manner that the tax auditor can verify the compliance as required in the clause. The tax auditor is required to verify that no items have been omitted in the information furnished to him and reasonable test checks would reveal whether or not the information furnished is correct. The extent of check undertaken would have to be indicated by the tax auditor in his working papers and audit notes. The tax auditor would be well advised to so design his tax audit programme as would reveal the extent of checking and to ensure adequate documentation in support of the information being certified. It may be noted that while determining the amount to be reported in this clause, the tax auditor has to check and verify the payments made by the assessee and should not only restrict to verification of expenses debited to

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		Profit & Loss or the TDS/TCS returns filed and provided by the assessee e.g., an advance payment made to any contractor may also be liable for deduction of tax. In the case of payment to non-residents, the applicable rate of tax deduction at source is to be read along with the Double Taxation Avoidance Agreement. This clause also requires furnishing of the total amount out of the amount deductible or collectible, at which the tax was deducted or collected at the rate less than the specified rate. The lesser deduction is required to be reported in this clause. This will include deduction at a lower rate than what is prescribed, application of wrong section for deduction of tax at source, etc. For example, section 393(1) [Table SI. No. 6(i)] requires deduction @2% in case payment is made to a person other than individual or HUF, but the deductor deducts only 1%, the same has to be reported under this clause. The tax auditor should also consider applicability of higher rate of TDS/TCS. The tax auditor should verify the cases where the tax has been deducted at source but not paid to the credit of the Central Government till the date of the audit. It may be seen that tax deducted but deposited late will not be required to be reported.  Tax auditor should obtain a copy of TDS/TCS returns filed by the assessee and reconcile the same with the books of accounts, which shall form the basis of reporting under this clause. The tax auditor should take into consideration the relevant sections, rules, notifications,

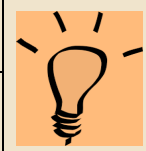
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		circulars and various judicial pronouncements in relation to transactions of relevant payment or collections. If the tax auditor has not agreed with the interpretation/ views taken by the assessee, he should report the same in part A/part B of form 26.
	(b) Whether the assessee is required to furnish the statement of tax deducted, or tax collected? [Yes/No] If yes, details are to be furnished as per Schedule TDS/TCS *(Refer Form 26 along with Schedule given as Annexure at the end of this module)*	This clause deals with the information pertaining to statement of tax deducted and collected at source. The tax auditor has to ascertain whether the assessee is required to furnish the statement of tax deducted or tax collected at source, and if so, whether he has furnished the same within the prescribed time. The tax auditor has to verify the details given in the table contained in Schedule with respect to clause 50(b). Depending upon transactions that require tax deduction or collection, the tax auditor should ascertain which statements the assessee was required to furnish for the financial year under audit. He should check which statements have been furnished by the assessee for tax deducted as well as collected. The reporting requirement is notwithstanding the fact that the assessee has furnished the statements of tax deducted at source and tax collected at source. Tax Auditor should verify that all the transactions on which TDS has been done/TCS has been collected have been reported in the relevant statements. If any transactions have not been reported, total number of transactions not reported and amount in relation to transactions not reported is required to be mentioned in the schedule to this clause.  The tax auditor should keep in

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		mind laws relating to tax deductions/ collections at source and various case laws so as to detect any case of contravention or default in the provisions of Chapter XIX-B. If the information is voluminous, then the tax auditor should consider reporting significant deficiencies with appropriate remarks in paragraph (5) of part A/part B of Form 26.
	(c) Whether the assessee is liable to pay interest under section 398(3)(a)? [Yes/No] If yes, details are to be furnished as per Schedule TDS/TCS *(Refer Form 26 along with Schedule given as Annexure at the end of this module)*	Under this clause, detailed information has to be furnished in case the assessee is liable to pay interest under section 398(3)(a) of the Act. Where the assessee is liable to pay interest u/s 398(3)(a), the tax auditor should verify such amount from the books of account as on 31st March of the relevant tax year and also from the information available on TRACES portal. In case the assessee had disputed the levy or calculation of interest under TRACES, the auditor may re-calculate the amount of interest under section 398(3)(a) up to the date of audit report for reporting under this clause and also mention the fact in his observations paragraph provided in part A/part B, as the case may be.
51.	(a) Amount debited to the profit and loss account, to the extent disallowable under section 35(b)(i) [Yes/No] If yes, details are to be furnished as per Schedule TDS/TCS *(Refer Form 26 along with Schedule given as Annexure at the end of this module)*	Under section 35(b)(i), 30% disallowance is attracted with respect to sum paid or payable to a resident payee and under section 35(b)(ii), 100% disallowance attracted with respect to sum paid or payable to a non-resident and on which tax is deductible at source and such tax has not been deducted or after deduction has not been paid on or before the due date of furnishing return of income under section 263(1). Under clause 51, the tax auditor is required to report the details of payment on which tax is not deducted at source, tax short deducted at source and also the details of payment on

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	(b) Any amount disallowed under section 35(b)(i) in any preceding tax year but allowable during the tax year [Yes/No] If yes, details are to be furnished as per Schedule TDS/TCS *(Refer Form 26 along with Schedule given as Annexure at the end of this module)*	which tax has been deducted but not paid during the tax year or before due date of filing return of income specified under section 263(1). The details under this clause are to be given for each individual payee. The details include the nature of expenditure, the name of the payee, PAN of the payee and the disallowable amount. Any amount disallowed under section 35(b)(i) and under section 35(b)(ii) in any preceding tax year but allowable during the tax year is also required to be reported. Tax auditor should verify from the ITRs of earlier years that amounts have been disallowed in the earlier year. He should also verify that required TDS has been deposited in the tax year under audit so as to generate allowability in this year. The amount of salary which is paid outside India or to a non-resident in respect of which tax has not been deducted but which is required to be deducted under the applicable provisions of the Income-tax Act, 2025 or tax has not been paid after deduction is not allowed as a deduction u/s 35(c). The same is not required to be reported under this sub-clause.  For this purpose the tax auditor may examine the books of accounts and tax deduction returns. In case where the assessee submits that any sum debited to profit and loss account is not inadmissible under the provisions of section 35(b), the tax auditor may exercise his judgement in the light of the applicable laws and report accordingly about the compliance of this provision. The tax auditor may rely upon the judicial pronouncements while taking any particular
	(c) Amount debited to the profit and loss account, to the extent disallowable under section 35(b)(ii) [Yes/No] If yes, details are to be furnished as per Schedule TDS/TCS *(Refer Form 26 along with Schedule given as Annexure at the end of this module)*	
	(d) Any amount disallowed under section 35(b)(ii) in any preceding tax year but allowable during the tax year [Yes/No] If yes, details are to be furnished as per Schedule TDS/TCS	

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	(Refer Form 26 along with Schedule given as Annexure at the end of this module)	view. In case of difference of opinion between the tax auditor and the assessee, the tax auditor should state both the view points. In case of voluminous nature of the information, the tax auditor can apply materiality principles, tests checks and compliance tests for verifying the information required to be provided under this clause.
J - Particulars of indirect taxation		
52.	Whether the assessee is liable to pay indirect tax like excise duty, goods and service tax (GST), customs duty, etc.? [Yes/No] (a) If yes, details are to be furnished as per Schedule GST *(Refer Form 26 along with Schedule given as Annexure at the end of this module)*	The auditor is required to examine from the appropriate evidence, the registration number or any other identification number, if any. For any indirect tax, if multiple registration numbers are available, all registration numbers should be ensured by the tax auditor are duly reported. Also, the particulars of expenditure related to entities registered under GST, expenditure related to entities not registered under GST and expenditure relating to goods or services exempt from GST are to be reported.  The auditor should obtain from the assessee the list of indirect taxes applicable on him if the different types of indirect taxes are leviable on him and that too in multiple states. It is recommended that the tax auditor should obtain from the assessee: - list of indirect taxes applicable on him - copy of registration certificates issued by the various authorities clearly mentioning the registration number under that relevant law. Where indirect tax law does not require any registration, appropriate identification number may be reported in this clause. For example, in Customs Act, 1962 since there is no registration number, a copy of Importer Exporter Code (IEC) may be obtained, and information be

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		accordingly furnished.
	(b) Furnish break-up of expenditure incurred during the year as under (Refer Schedule – GST] *(Refer Form 26 along with Schedule given as Annexure at the end of this module)*	This clause requires to provide details of the expenditure • relating to entities registered under GST • relating to entities not registered under GST • relating to goods or services exempt from GST It is important to differentiate the 'current status' of supplier's registration from their status as it was at the time of supply. There are several instances where registration may be cancelled with effect from an earlier date which may be prior to the date of supply to assessee. Events occurring after balance sheet date that alter the data relating to year under audit does not alter the nature of the expenditure, that it is from registered suppliers. Auditors may elect to extend their review up to a certain cut-off date or not at all. In either case, disclosure of notes of the position with regard to (i) known cancellations and (ii) treatment in the disclosure considering possibility of such cancellations would go a long way in making the report meaningful and unambiguous. Under this clause, the language used is "expenditure inurred". Since, the word used is 'expenditure', it is necessary that the capital expenditure should also be reported in the format prescribed. In case of multiple GST registrations of an entity, there is likelihood of inter-branch supply, which is eliminated at the consolidated financials. Proper reconciliation for such type of transactions may be kept on record. This report may be prepared for an entity as a whole or for a branch thereof, as may be audited and accordingly the information in these columns may have to be filled up consolidating the

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		expenditure incurred under various GST registrations. ***Note -*** *It may be noted that any expenditure that is incurred, wholly and exclusively for business or profession of the assessee qualifies for the deduction under the Act. Registration or otherwise of the payee under the GST Act has no relevance in considering allowability of expenditure.*
K - Quantitative Details		
53.	(a) Whether the assessee has a trading unit [Yes/No] If yes, details are to be furnished as per Schedule Quantitative Details *(Refer Form 26 along with Schedule given as Annexure at the end of this module)*	The tax auditor should examine whether the enterprise is a trading concern or not. If yes, the tax auditor should obtain certificates from the assessee in respect of the principal items of goods traded, the balance of the opening stock, purchases, sales and closing stock (alongwith its measurement unit) and the extent of shortage/ excess/damage and the reasons thereof. The entire quantitative information should be examined by the auditor from the records.
	(b) Whether the assessee has a manufacturing concern [Yes/No] If yes, details are to be furnished as per Schedule Quantitative Details (i) for raw materials (ii) for finished products, by-products, and scrap *(Refer Form 26 along with Schedule given as*	The tax auditor should ascertain whether the enterprise is a manufacturing concern. If yes, this sub-clause is applicable. The tax auditor should obtain certificate from assessee in respect of principal items of raw materials, finished goods and by-products (alongwith its measurement unit) and quantitative information required to be reported in this sub-clause. The particulars of raw materials include opening stock, purchases during the tax year, consumption during the tax year, sales during the tax year, closing stock, yield of finished products, percentage of yield and shortage/excess, if any. The particulars of principal items of finished

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	Annexure at the end of this module)	products, by-products and scrap include opening stock, purchases during the tax year, quantity manufactured during the tax year, sales during the tax year, closing stock and shortage/excess, if any. **Note -** This clause requires that quantitative details of "principal items" of raw materials and finished goods should be given. Therefore, information about petty items need not be given. What would constitute principal items will depend on the facts of each case. Normally, items which constitute more than 10% of the aggregate value of purchases, consumption or turnover, as the case may be, may be classified as principal items.

20.5 FFES FOR FAILURE TO FURNISH TAX AUDIT REPORT

As per section 428(c), if any person fails to get his accounts audited in respect of any tax year or years and furnish a tax audit report as required under section 63, he shall be liable to pay following fees:

Amount	Particulars
₹ 75,000	Delay up to one month for which such failure continues
₹ 1,50,000	Delay beyond one month.

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TEST YOUR KNOWLEDGE

Questions

1. *Sunlight & Co., a partnership firm engaged in trading of electronic goods, has a turnover of ₹ 265 lakhs for the T.Y. 2026-27. Examine whether Sunlight & Co. is required to get its books of account audited mandatorily as per section 63 from the information given below–*

	Particulars	**₹**
(i)	*Total turnover of T.Y.2026-27*	*2,65,00,000*
(ii)	*Aggregate of all receipts during the year (including amount received for turnover mentioned in (i) above)*	*3,25,00,000*
(iii)	*Cash receipts out of (i) above*	*14,00,000*
(iv)	*Cash receipts out of (ii) above (This is inclusive of the figure mentioned in (iii) above)*	*16,00,000*
(v)	*Aggregate of all payments during the year*	*1,35,00,000*
(vi)	*Cash payments out of (v) above*	*6,95,000*

Would your answer change if the cash receipts indicated in (iii) is ₹ 13 lakh instead of ₹ 14 lakh?

2. *Mr. Abhinav Ahuja runs a travel agency business since the year 2010. His total commission receipts for the T.Y. 2026-27 is ₹ 287 lakhs. The details of receipts and payments made by him during the tax year 2026-27 are as follows:*

Particulars	**Amount (₹)**	**Mode of receipt/ payment**
Date of Receipt		
15.4.2026	*15,65,000*	*BHIM UPI*
27.4.2026	*13,80,000*	*A/c payee cheque*
7.5.2026	*13,35,000*	*Bearer cheque*
6.6.2026	*18,21,000*	*A/c payee cheque*
15.8.2026	*15,25,000*	*NEFT*
19.9.2026	*16,72,000*	*NEFT*

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18.10.2026	*15,35,600*	*UPI*
15.2.2027	*16,25,350*	*UPI*
17.3.2027	*18,19,450*	*NEFT*
Other aggregate receipts not exceeding ₹ 2,000 per person on certain occasions from various customers. Out of this, receipts of ₹ 52,500 are received in cash.	*1,44,21,600*	*A/c payee cheques, NEFT and UPI*
Payments		
Aggregate of all payments made during the T.Y. 2026-27	*2,58,00,000*	
Amount incurred for expenditure in cash (not exceeding ₹ 10,000 per person in each case)	*20,58,000*	

Mr. Abhinav contended that he is not required to get his accounts audited since his turnover does not exceed ₹ 3 crores and he is eligible to declare his income as per presumptive provisions of section 58. Examine the contention of Mr. Abhinav Ahuja.

3. *X Ltd., an Indian company, paid interest of ₹ 95 lakhs to X Inc., a non-resident associated enterprise in the T.Y.2026-27 on loan borrowed from it. X Ltd. also obtained loan of ₹ 5 crore@10% p.a. on 1.4.2026 from Y Inc., a foreign company in which it holds 20% voting power. X Inc. deposits ₹ 2 crore with Y Inc. X Ltd. contends that the provisions of section 177 are not attracted in its case, since the interest paid to non-resident associated enterprise does not exceed ₹ 1 crore in the T.Y.2026-27. The tax auditor is, however, of the opinion that the interest of ₹ 20 lakh (i.e., 10% of ₹ 2 crore) also has to be considered for the purpose of section 177. X Ltd. contends that X Inc. has not deposited a corresponding and matching amount of ₹ 5 crore with Y Inc, and hence, the provisions of section 177 will **not** be attracted in this case. Examine the reporting requirement, if any, of the tax auditor in this case.*

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4. *ABC Ltd. is engaged in transportation of building material and transportation of goods to contractors. It made payment for hiring dumpers for this purpose. The company has not deducted tax at source on the ground that since the payment was for transportation of goods and not renting out machinery and equipment, such payments could not be termed as rent paid for use of machinery under section 393(1) [Table SI. No. 2(ii)] and hence, no tax was deductible at source.*

   The tax auditor is, however, of the view that the transactions being in the nature of contracts for shifting of goods from one place to another would be covered under works contracts, thereby attracting the provisions of section 393(1)[Table SI. No. 6(i)]. He relied upon the Gujarat High Court ruling in CIT (TDS) v. Shree Mahalaxmi Transport Co. (2011) 339 ITR 484.

   What is the reporting responsibility of the tax auditor in such a case and the consequent ethical implications? Examine.

5. *A search was conducted u/s 247 of the Income-tax Act, 2025 in the case of LMN Jewellers (P) Ltd., a gold jewellery retail chain, on 28.4.2027. As part of the post search enquiries, data from the billing software was analysed. On analysis of this data, it was found that the company was involved in violation of section 36(4) in a major way to the tune of ₹ 20 crores in the purchase of old gold.*

   In order to verify the findings culled from digital data, some of the customers whose whereabouts were available from computer records were contacted and their statements were recorded under oath. These customers admitted under oath that they had sold old gold and received the amounts (all exceeding ₹ 10,000) in cash. The fact which emerged from the enquiries is that LMN Jewellers (P) Ltd. purchase old gold and make payments for these purchases in cash, even if they exceed ₹ 10,000.

   However, the tax auditor had mentioned "No" in response to the clause 30 in form 26- "Amount debited to the profit and loss account, to the extent disallowable under section 36(4)". The tax auditor submitted that standing instructions were given by the management of the entity to the employees to make payments above ₹ 10,000 only through account payee cheques and/or bank drafts or other permissible electronic modes; and copy of these instructions were verified by him. He further submitted that he had also taken

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a representation from the Management that net payment in cash to any person in a day did not exceed ₹ 10,000. Also, he mentioned that the test checks conducted by him did not reveal any violation.

Examine the ethical implications in this case and the consequences thereof.

6. *XYZ & Co, a firm engaged in interior decoration business, employed 20 new employees on 1.4.2026 on a monthly salary of ₹ 25,000 to be paid by account payee cheque. In addition, each employee was entitled to 10% employer contribution to recognised provident fund. The employees were also entitled to transport allowance of ₹ 3,000 p.m. paid in cash. The gross total income of XYZ & Co. included profits and gains from business of ₹ 62 lakhs.*

The firm claimed deduction under section 146 of ₹ 18 lakh, being 30% of 60 lakh (20 new employees x ₹ 25,000 p.m. x 12) on the basis of the report of the chartered accountant issued in Form 34. The same chartered accountant was also the tax auditor of the firm. The chartered accountant contended that "emoluments" do not include employer contribution to PF. Also, cash payments were not to be considered as "additional employee cost" for the purpose of section 146. Hence, only ₹ 25,000 p.m. per employee paid by account payee cheque has to be treated as additional employee cost. Since the same does not exceed the limit of ₹ 25,000 p.m. and the employees have been employed for more than 240 days in the T.Y.2026-27, the employees would qualify as "additional employees" for the purpose of deduction under section 146 for T.Y.2026-27.

Is his contention correct? Examine the ethical implications in this case.

7. *The Income-tax department collected documents from ABC Bank which revealed that M/s. Alpha Travels and Consultancy Services (Alpha Travels) had remitted substantial amounts abroad. The documents collected include Form 146 issued by the chartered accountant, list of passengers, copy of their passports, date of travel and invoice raised by the foreign party. On enquiring from the passengers and verifying their passports, it is found that they did not travel abroad during the dates mentioned in the documents. Further, the passengers denied any sort of transactions with Alpha Travels. The department, therefore, concluded that the amounts were remitted abroad on the basis of false invoices and for wrong reasons, leading to FEMA violations and that the Form 146 issued by the chartered accountant facilitated such*

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violations. During the nine-month period in question, the chartered accountant had issued 120 certificates in Form 146 approximately involving remittances of ₹ 30 crores in favour of Alpha Travels.

The chartered accountant submitted that he had issued Form 146 based on invoices produced by the company and verifying the KYC documents of the signatory to the invoices. He however, failed to bring on record the invoices. He further submitted that since he was not the statutory auditor of the company, he did not examine the books of account before issue of Form 146 or conduct due diligence of its business activities. He had charged ₹ 3,000 per certificate. Mostly, the fees was collected in cash. Some part of the fee was credited to his bank account.

Examine the ethical implications in this case.

Answers

1. As per section 63, every person carrying on business or profession is required to get his accounts audited before the "specified date" by a Chartered Accountant, if the total sales, turnover or gross receipts in business exceeds ₹ 1 crore in any tax year.

However, tax audit is not required in case of such person carrying on business whose total sales, turnover or gross receipts in business ≤ ₹ 10 crore in the relevant tax year (T.Y.), if:-

- aggregate cash receipts including amount received for sales, turnover, gross receipts in the relevant tax year ≤ 5% of such receipts; **and**
- aggregate cash payments including amount incurred for expenditure in the relevant P.Y. ≤ 5% of such payments or

In this case, the turnover of Sunlight & Co. exceeds ₹ 1 crore but does not exceed ₹ 10 crore. Accordingly, it has to be seen whether cash receipts exceed 5% of aggregate receipts and cash payments exceed 5% of aggregate payments, to determine whether tax audit is compulsory.

In this case, the percentage of cash receipts of ₹ 16 lakhs to aggregate receipts of ₹ 325 lakhs is 4.92% and the percentage of cash payments to aggregate payments is 5.148%.

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Since the cash payments made during the year exceed 5% of aggregate payments, the firm is required to get its accounts audited under section 63 and furnish audit report before the specified date, irrespective of the fact that its turnover does not exceed ₹ 10 crores and its cash receipts do not exceed 5% of total receipts.

It may be noted that, in this case, Sunshine & Co. cannot declare profits as per the presumptive provisions of section 58, since the percentage of turnover receipts in cash of ₹ 14 lakhs to the total turnover of ₹ 265 lakhs is 5.28%.

If the cash receipts indicated in (iii) is ₹ 13 lakhs instead of ₹ 14 lakhs, the percentage of turnover receipts in cash of ₹ 13 lakhs to the total turnover of ₹ 265 lakhs would be 4.91%. In such a case, Sunshine & Co. can declare profits as per the presumptive provisions of section 58, in which case, it need not get its books of account audited under section 63.

2. As per section 63, every person *inter alia* carrying on business or profession is required to get his accounts audited before the "specified date" by an accountant, if total sales, turnover or gross receipts in business exceeds ₹ 1 crore in any tax year.

However, tax audit is not required in case of such person carrying on business whose total sales, turnover or gross receipts in business ≤ ₹ 10 crore in the relevant tax year (T.Y.), if -

- aggregate cash receipts including amount received for sales, turnover, gross receipts in the relevant tax year ≤ 5% of such receipts; **and**
- aggregate cash payments including amount incurred for expenditure in the relevant P.Y. ≤ 5% of such payments or

As per section 58, a resident individual, HUF or Partnership firm (but not LLP) engaged in eligible business and whose total turnover/ gross receipts in the T.Y. ≤ ₹ 200 lakhs (where cash receipts do not exceed 5% of total turnover, higher threshold limit of ₹ 300 lakhs applicable) can declare 8%/6%, as the case may be, of total turnover/ sales/gross receipts or a sum higher than the aforesaid sum claimed to have been actually earned by the assessee. However, a person *inter alia* carrying on any agency business are not eligible for presumptive provisions of section 58.

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In the present case, since Mr. Abhinav Ahuja is carrying on travel agency business, he is not eligible for presumptive provisions of section 58, though his turnover does not exceed ₹ 3 crores.

In this case, the turnover of Mr. Abhinav Ahuja exceeds ₹ 1 crore but does not exceed ₹ 10 crore. Accordingly, it has to be seen whether cash receipts exceed 5% of aggregate receipts and cash payments exceed 5% of aggregate payments, to determine whether tax audit is compulsory. During the T.Y. 2026-27, his cash receipts are ₹ 13,35,000 plus ₹ 52,500 totalling to ₹ 13,87,500, which is 4.83% of total receipts of ₹ 2,87,00,000. Cash payments made during the T.Y. 2026-27 are ₹ 20,58,000 which is 7.98% of aggregate payments of ₹ 2,58,00,000. Since his cash payments during the T.Y. 2026-27, exceed 5% of aggregate payments made during the year, he is required to get the accounts audited under section 63 and furnish tax audit report on or before the specified date i.e., one month prior to the due date of filing return of income under section 263(1).

3. **Relevant provision of law** - Section 177(2) provides that where the debt is issued by a lender which is not associated but an associated enterprise either provides an implicit or explicit guarantee to such lender or deposits a corresponding and matching amount of funds with the lender, such debt shall be deemed to have been issued by an associated enterprise.

In this case, the debt issued by Y Inc. is ₹ 5 crore and the deposit made by the associated enterprise, X Inc. with Y Inc. is ₹ 2 crore. Since the deposit is not of a matching amount, the X Ltd. contends that provisions of section 177 will not be attracted in respect of interest payable by it to Y Inc. The tax auditor is of the opinion that interest on ₹ 2 crore amounting to ₹ 20 lakhs will have to be considered for the purpose of section 177. Accordingly, the interest payable/paid by X Ltd. to non-resident associated enterprises during the year would be ₹ 115 lakhs and hence, the provisions of section 94B would be attracted, since the same exceeds the threshold of ₹ 1 crore. This appears to be the legislative intent, since otherwise it is possible to escape the application of this provision even by depositing a marginally lower amount than the loan taken.

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Relevant clause of Form 26 - Clause 41(a) of Part D of Form 26 requires the tax auditor to state whether the assessee has incurred any expenditure during the tax year by way of interest or of similar nature exceeding the specified limit (one crore rupees) as referred to in section 177(1).

Relevant paras of the Guidance Note on Tax Audit - As per para 18.6 of the Guidance Note on Tax Audit, the tax auditor may have a difference of opinion with regard to the particulars furnished by the assessee. These differences are to be reported in para 5 of part A or part B of Form 26. As per para 19.3, if there is any difference in the opinion of the tax auditor and that of the assessee in respect of any information furnished in Part D of Form 26 by the assessee, the tax auditor may consider stating both the view points and also the relevant information related to matter in order to enable the tax authority to take a decision in the matter.

Therefore, the tax auditor has to report the difference of opinion appropriately as an observation in Para 5 of Part A or Part B of Form 26, as the case may be.

Accordingly, in this case, the tax auditor may state both the viewpoints in Clause 41(a) as well as report the difference of opinion appropriately as an observation in para 5 of part A to enable the tax authority to take a decision in the matter.

4. In Clause 50(a) of Form 26, the tax auditor is required to report whether the assessee is required to deduct or collect tax as per the provisions of Chapter XIX-B, and if yes, to furnish the details mentioned thereunder. While answering the issue of applicability of the provisions of Chapter XIX-B, a number of debatable issues may arise before the assessee as well as the tax auditor. The tax auditor may have a difference of opinion with regard to the applicability of the provisions of TDS/TCS on a particular payment. In such a case, the tax auditor has to report the difference of opinion appropriately as an observation in para 5 of part A of Form 26. This requirement is contained in the Guidance Note on Tax Audit.

Also, in clause 51(a) of Form 26, the amount inadmissible under section 35(b)(i) has to be mentioned.

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In case the tax auditor does not comply with the reporting requirements under these clauses and fails to mention the difference of opinion appropriately as an observation in para 5 of part A of Form 26, clause (7) of Part I of the Second Schedule to the Chartered Accountants Act, 1949 for not exercising due diligence may be invoked.

5. As per section 36(4), where the assessee incurs any expenditure, in respect of which payment or aggregate of payments made to a person in a day otherwise than through specified banking or online mode exceeds ₹ 10,000, such expenditure shall not be allowed as a deduction.

Clause 30 of Form 26 requires the tax auditor to report amount debited to the profit and loss account, to the extent disallowable under section 36(4).

The Guidance Note on Tax Audit issued by ICAI states that there may be practical difficulties in verifying whether each payment is made through specified banking or online mode. Where the reporting has been done on the basis of the certificate of the assessee, the fact has to be reported as an observation in Para 5 of Part A of Form 26.

The tax auditor is required to point out in tax audit report, the disallowable amount u/s 36(4) involving expenditure to a person in a day exceeding ₹ 10,000 otherwise made through specified banking or online mode. However, in this case, the tax auditor has certified that there was no such instance, though such instances aggregate to a large quantum of ₹ 20 crores.

The tax auditor should have considered the nature of business i.e., jewellery business of the assessee and accordingly undertaken necessary checks to verify whether there are cash payments in violation of section 36(4). He should have made use of the audit tools which are available to find out such payments expeditiously and accurately where the data is voluminous.

In this case, considering the nature of business of the assessee, namely, jewellery business, the onus was on the tax auditor to verify the same before reporting in Form 26. Mere reliance on certificate issued by the management is not acceptable in such a case. Also, even in a case where the reporting has been done on the basis of the certificate of the assessee, the

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fact has to be reported as an observation in Para 5 of Part A/Part B of Form 26, which he had failed to do.

Thus, in the case, the tax auditor had failed to exercise due diligence in the conduct of his professional duties. He had also failed to obtain sufficient information which is necessary for expression of opinion. On account of such failure, clauses (7) and (8) of Part I of the Second Schedule to the Chartered Accountants Act, 1949 may be invoked.

6. Deduction under section 146 is allowable to an assessee to whom section 63 applies and whose gross total income includes any profits and gains derived from business, in respect of employment of new employees. The amount of deduction is 30% of additional employee cost incurred in the course of such business in the tax year, for three consecutive tax years beginning from the tax year in which such employment is provided.

"Additional employee cost" means the total emoluments paid or payable to additional employees employed during the tax year. However, in the case of an existing business, the additional employee cost shall be nil, if emoluments are paid otherwise than by an account payee cheque or account payee bank draft or use of ECS through bank account or other prescribed electronic mode.

"Emoluments" means any sum paid or payable to an employee in lieu of his employment by whatever name called but does not include, *inter alia,* contribution by employer to provident fund.

"Additional employee" means an employee who has been employed during the tax year and whose employment increases the total number of employees employed by the employer as on the last day of the preceding tax year, but does not include, *inter alia*, an employee whose total emoluments are more than ₹ 25,000 p.m.

In this case, the contention of the chartered accountant that the emoluments do not include employer contribution to PF is correct. However, emoluments include ₹ 3,000 paid in cash by way of transport allowance to the employee. Hence, the total emoluments per employee is ₹ 28,000 p.m. Due to this reason, the 20 employees employed on 1.4.2025 will not qualify as "additional employees" for the purpose of deduction

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under section 146, since their total emoluments are more than ₹ 25,000 p.m. Hence, XYZ & Co. is not eligible for any deduction under section 146 due to failure to fulfil the condition for being treated as an "additional employee". In this case, the chartered accountant has failed to ensure compliance with the condition stipulated for claim of deduction under section 146 and has wrongly issued the report in Form 34 certifying the deduction claimed by the assessee under section 146.

Also, clause 38 of Part D of Form 26 requires section-wise details of deductions, if any, admissible under Chapter VIII. Here again, the tax auditor has to ensure that the assessee fulfils all the conditions specified in the section under which the deduction is claimed. However, in this case, the tax auditor has failed to do so.

On account of such failure, clause (7) of Part I of the Second Schedule to the Chartered Accountants Act, 1949 may be invoked.

7. Form 146 is a certificate of an accountant wherein he certifies that he has examined the agreement between the remitter and the beneficiary requiring such remittance as well as the relevant documents and books of account required for ascertaining the nature of remittance and for determining the rate of deduction of tax at source. The chartered accountant certifying the form undertakes to have verified the agreement between the remitter and the beneficiary as well as the relevant documents and books of account to ascertain the nature of remittance and determine the rate of TDS. In this case, however, the chartered accountant mentioned that he had only verified KYC of signatory to invoice and the invoices thereof. He had not only failed to justify as to how verification of invoices was considered as sufficient compliance for certifying the forms but also failed to bring on record the said invoices. Thus, he failed to provide any basis on which he relied for issuing Form 146 certificates to the company.

On account of such failure, clauses (7) and (8) of Part I of the Second Schedule to the Chartered Accountants Act, 1949 for failure to exercise due diligence in discharging his professional responsibilities and failure to obtain sufficient information may be invoked.

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