



Recent Developments In Tax Audit In The Era Of Technological Developments And Digitalisation

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ABSTRACT

Tax Audit is a process of checking the correctness of accounting records from Income Tax Law view point for business and profession. The objective of the tax audit is to ensure the accuracy of the accounting records of tax payer and due tax payable.

In India legally, only practicing Chartered Accountants can conduct the tax audit. Chartered Accountant conducting the tax audit are called as Tax Auditors. The proposed research paper is about the technological developments taken place in tax audit in the recent period in India. The objective of the study is to give an overview of developments in tax audit in the period of digitalisation and technological developments. The paper will give useful guidelines to tax payer and tax auditor for facing the present challenges of tax audit. The proposed study is based on secondary data. This paper will provide valuable information to tax auditors, businessman and professional tax payers.

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Keywords: Assessment Year, Tax Audit, Tax Auditor, Tax Payer.

I. INTRODUCTION

Major revenue sources for the Indian government are, revenue from direct and indirect taxes and from profits and dividends from public sector. In India taxes are collected in the form of Direct Taxes and in the form of Indirect Taxes from tax payer. Direct tax is an important contributor to government revenue. Direct tax collection percentage is more than 50 percent to total tax revenue in recent years. Further approximately more than 50 percent taxes are being collected through the Business Entities. Tax Revenue is important, as it further contributes to various tasks of national importance such as infrastructure development, social upliftment, defence expenses etc. Such an important revenue source is monitored through the **tax audit process** in case of business entities and professionals. The **Tax audit** has been implemented from 1985-86, u/s 44AB of **the Income Tax Act, 1961** and under the Finance Act, 1984. The section 44AB provides, that the tax audit shall be conducted for an assessee having total sales revenue or gross receipts beyond a specific limit given by the Act from time to time. The objective of tax audit is to check the accuracy of accounting record, better administration of tax and saving of tax authorities time for correct tax calculation of tax payer.

Recent assessment record shows that the assessment of financial records from tax point of view is positively contributing to direct tax collection.

Tax Audit Concept

Tax Audit is a process of checking the correctness of accounting records from Income Tax Law view point for tax payer . Tax Audit need to be conducted as per the guidelines of Income Tax Act 1961, U/S 44AB. It is applicable to tax payers from Business and Professions of specific category. As per Income Tax Act guidelines, a practising-chartered accountant is authorised to do tax audit. Chartered Accountant performing tax audit is called as tax auditor. Chartered Accountant further need to submit the Audit report in Form 3CA\3CB and 3CD online, to tax authority.

Form 3CA, 3CB and 3CD

Tax Auditor shall submit its Audit report after completion of tax audit in the Forms 3CA or 3CB as prescribed by Section 44AB .Along with this, auditor also need to submit audit details in the form 3CD. Form 3CA is used by auditor in a case, where the assessee has already done its audit under any other law, whereas Form 3CB is filled in a case, where assessee has not done any other audit of its financial record.

Tax Audit process is implemented for keeping a check on tax liability of business and profession. There are many changes and developments in tax audit process and its administration since its implementation. Recently audit process is having impact of digitalisation, technological reforms and audit standards. In this scenario it is important to study the tax audit developments.

II. OBJECTIVES OF THE STUDY

1. To study the conceptual framework of Tax Audit in the era of technological developments and digitalisation.
2. To examine various challenges faced by Tax Auditors in the tax audit process due to recent developments in tax audit and technological developments in tax audit.
3. To understand recent innovations in tax audit practices.
4. To give suggestions to overcome the challenges in tax audit in the era of digitalisation.

III. RESEARCH METHODOLOGY

Present study is based on qualitative and quantitative secondary data. The secondary data is especially collected from recognised physical and digital sources such as books, journals, Articles, research papers and authentic websites. Instructions and Guidelines issued by Institute of Chartered Accountants of India and Income Tax Department India etc. are extensively used in this research.

IV. RECENT DEVELOPMENTS IN TAX AUDIT

Finance Act, 1984 implemented the Tax Audit U/S 44AB of Income Tax Act, 1961 from 1st April 1985 in India. Main aim of bringing this section was to keep a check on accuracy of books of accounts maintained by a business organisation or professionals having their gross receipt or turnover above a specific limit. Presently, tax audit is applicable to specific category of business tax payers if their gross turnover is above Rs 1 Crore. And in case of specific category of professionals this limit is Rs. 50 Lakh. From 1st April 2021, Tax audit threshold limit is extended to Rs 10 Crores in case of businesses category, on the condition that their cash transactions shall not be exceeding 5 percent of total receipt and payment transactions.

Amendments and Changes in Tax Audit Form 3CA, 3CB, 3CD

Tax Audit reporting forms have been changed and amended over the period. Following are the important changes-

- I. The forms 3CA, 3CB and 3CD were revised in the year 2004.
- II. In the year 2006 important changes were made in the Form No. 3CD.
- III. In the year 2014 important changes have been made again in the Form no. 3CD.
- IV. In July 2014, the CBDT made amendments in the formats of tax audit reporting, and this resulted into vital enhancement of the scope of tax audit.
- V. Introduction of Ind AS and ICDS (Income Computation and Disclosure Standards) requires more detail disclosures in Form 3CD.

Auditor shall submit accurate financial information in Form 3CD, as Tax Officers are calculating taxable income of assessee on the basis of such information. Reform made in Form 3CD is bringing more transparency. Its putting more responsibility on tax auditors and on tax payers. The changes in form 3cd requires the assessee to implement more strong internal controls. These changes ultimately help the tax officers

to take prompt actions. GST registration number details are required to be included in Form 3CD after the implementation of GST in India from 1st July 2017.

Audit Standards

Audit Standards are framed by the Auditing and Assurance Standards Board of ICAI. Auditing Standards are providing the total framework for conducting an audit assignment. Audit Standards contains audit necessities, audit standards application guidance. Auditor need to fulfil the criteria of applicable audit standards. Till today total 38 Auditing standards have been issued. Audit Standards are evidence tools for audit processes, justification of audit actions, and conclusions. Degree of depth of audit processes will vary as per the scope of financial transactions. Auditor should maintain in his record the evidence of audit standards applied. Application of approved processes is an important objective of audit standards.

Table 1: Standards of Auditing

Sr. No.	Standards of Auditing (Title)	Standards of Auditing (Number)
1.	General principles & Responsibilities	SA 200 to SA 299
2.	Risk assessment & Response to the assessed risks and conclusions drawn.	SA 300 to SA 499
3.	Audit Evidence	SA 500 to SA 599
4.	Using work of others	SA 600 to SA 699
5.	Audit conclusions & Reporting	SA 700 to SA 799
6.	Specialised Areas	SA 800 to SA 810

(Source: ICAI Tax Audit Guidance Notes 2023, Overview of Standards on Auditing, CA. Sandeep Welling, THE CHARTERED ACCOUNTANT November 2018)

Changes in Threshold Limit for Tax Audit Applicability

Tax Audit is applicable to certain class of businesses and professionals. Following table is giving the tax audit applicability on the basis of Gross Receipt and Turnovers limits (Threshold Limits) of professionals and business tax payers

Table 2: Changes in Threshold Limit for Tax Audit Applicability

Sr. No.	Assessment Year	Turnover (In case of Business)	Gross Receipts (In case of Profession)
1.	1986-87 to 2010-11	More Than Rs. 40 Lakhs	More Than Rs. 10 Lakhs
2.	2011-12 to 2012-13	More Than Rs. 60 Lakhs	More Than Rs. 15 Lakhs
3.	2013-14 to 2016-17	More Than Rs. 1 Crore	More Than Rs. 25 Lakhs
4.	2017-18 to 2023-24	More Than Rs. 1 Crore	More Than Rs. 50 Lakhs

(Source: ICAI Tax Audit Guidance Notes)

From A.Y. 2020-21, if tax payers cash receipts and cash payments both are within 5 percent of total gross receipts and payments than, as per Finance Act 2020 it was proposed that the Tax Audit applicability in such cases will be increased to 5 Crores And as per Finance act 2021 from A.Y. 2021-22 tax audit applicability was increased to 10 Crores in such cases.

Digitalisation in Tax Audit Process

Digitalisation is taking place very speedily in various fields in India and auditing field is also experiencing its impact. Digitalisation has taken place in accounting record maintenance, which is impacting Tax Payers and, at Income Tax Department functioning and also at auditors end. An auditor needs to upgrade him with digital processes as clients are using digital processes in their accounting function. Robotic Automation Process is being used mainly in accounting and finance, which is around 54 percent presently. Income Tax Department also made important changes in Electronic-Filing site. They have launched new Electronic-Filing portal. This has provided separate Login facility along with E-Filing of Returns. This has definitely increased the compliance burden of Auditor. But at the same time digitalisation of processes assures the automation, transparency, safety and speed. Now E-Filing of Audit Report is compulsory, which was not the case earlier. As only returns were filed and audit report was not being submitted, many frauds, manipulation, discrepancies were taking place. Income Tax department brought more transparency and greater efficiency through digitalisation of processes.

Use of Technology Use in Audit Process

Technological developments are impacting all fields in present scenario. Auditing field is also adopting the technologies for more efficient audit processes. Now, technologies like Artificial Intelligence, Robotics processing, Big Data Analytics etc. are being used in audit processes. Future Auditors must have three important skills i.e. digital skills, changed audit methodology and people Skills. Use of technology is bringing efficiency in auditing process, reducing cost and giving competitive advantage. Some set of Audit procedures are being applied by auditors in most audit they conduct, such repetitive audit processes can be performed by Robotic Process Automation. Currently the repetitive and organised processes automation can be done, and in future some of the complex decision processes can be automated by using Robotic Process Automation. Recent technological advances have changed the audit processes significantly. The Data Analytics tools, Audit Documentation Tools, Practice Management Tools and Digital Library are important tools, which auditors shall use to get competitive edge and quality and efficiency in audit function. The technology is becoming a backbone for Auditing and several other areas in present scenario

V. FINDINGS

1. Tax Audit is implemented U/S 44 AB is, to check the accuracy of financial records and ultimately accurate tax calculation.
2. All recent developments in tax audit forms, tax e-portal, change in threshold limit, digitalisation of processes, are the efforts on the part of tax department to bring the greater transparency and efficiency.
3. Audit standards are bringing more transparency in audit process and making it more effective.
4. Recent technological developments have changed audit process significantly.
5. Digitalisation and Technological developments are making tax audit process challenging for tax auditor and tax payer.
6. Changes in threshold limit is promoting digital transactions, which is an effort for minimising tax evasions.
7. Audit report form upgrading is making tax auditors work more transparent though challenging.
8. To promote digital economy and reduce tax compliance burden of small and medium taxpayer Tax Audit Applicability limit is raised to 5 Crore and later 10crore in case of businesses having receipt and payment cash transaction upto 5% of total financial transactions.

VI. CONCLUSION AND SUGGESTION

1. Tax Audit process is important for accurate direct tax collection. Direct tax collection is an important source of revenue for government of India. Therefore, Tax auditors must perform the audit process effectively.
2. To bring the efficiency in tax audit, tax auditors shall be upgrading them with recent technological developments, digital skills and with clear understanding of tax-audit- form changes and other changes in tax audit from time to time.
5. Digitalisation and technological reforms have enhanced audit efficiency and improved accuracy in tax assessment process.
6. Tax auditors shall use recent technology such as Robotic processes, artificial intelligence etc. for competitive edge, quality in Audit and for precision and efficiency in tax audit execution.
7. E-Filing simplified the tax compliance process for tax payer and giving access to real time data to authorities.
8. Changes in Form 3CD requires tax payer to implement more internal control.

Recent technological developments have changed audit processes significantly. It requires greater transparency and accountability on the part of tax auditors and tax payers. It is imperative that the tax auditor shall do its audit work more diligently with use of recent technology. Tax payer also shall maintain their accounting records accurately to avoid further scrutiny and other legal complications. Tax payers and Tax Auditors lacking in digital processes and technological knowledge may find these reforms challenging. Researcher suggests that, they must upgrade them with tax audit technological developments and digitalisation along with changes implemented in tax audit section 44ab from time to time.

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