Tax Audit – Non Corporate Entities Applicability of AS & Guidance Note

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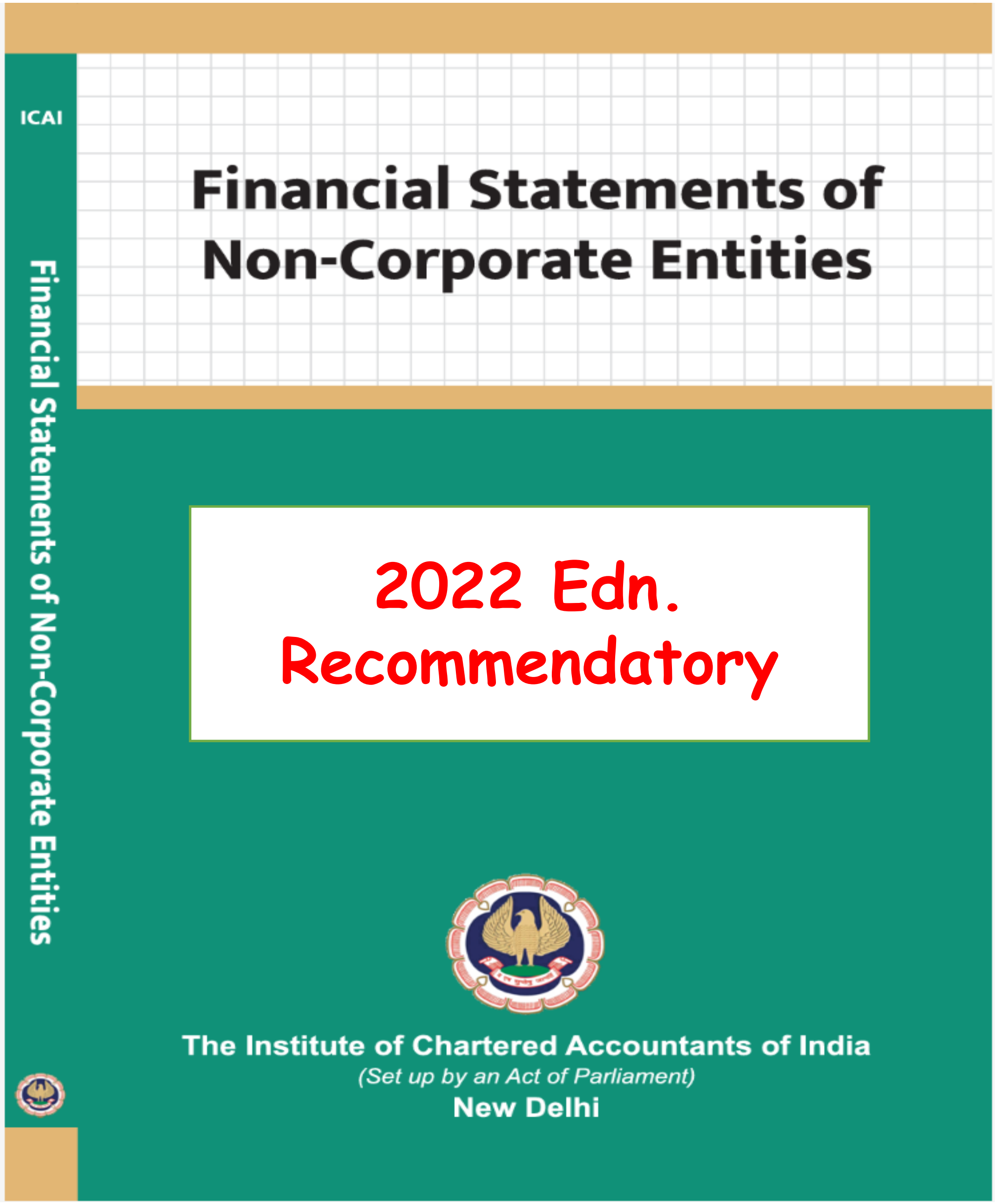
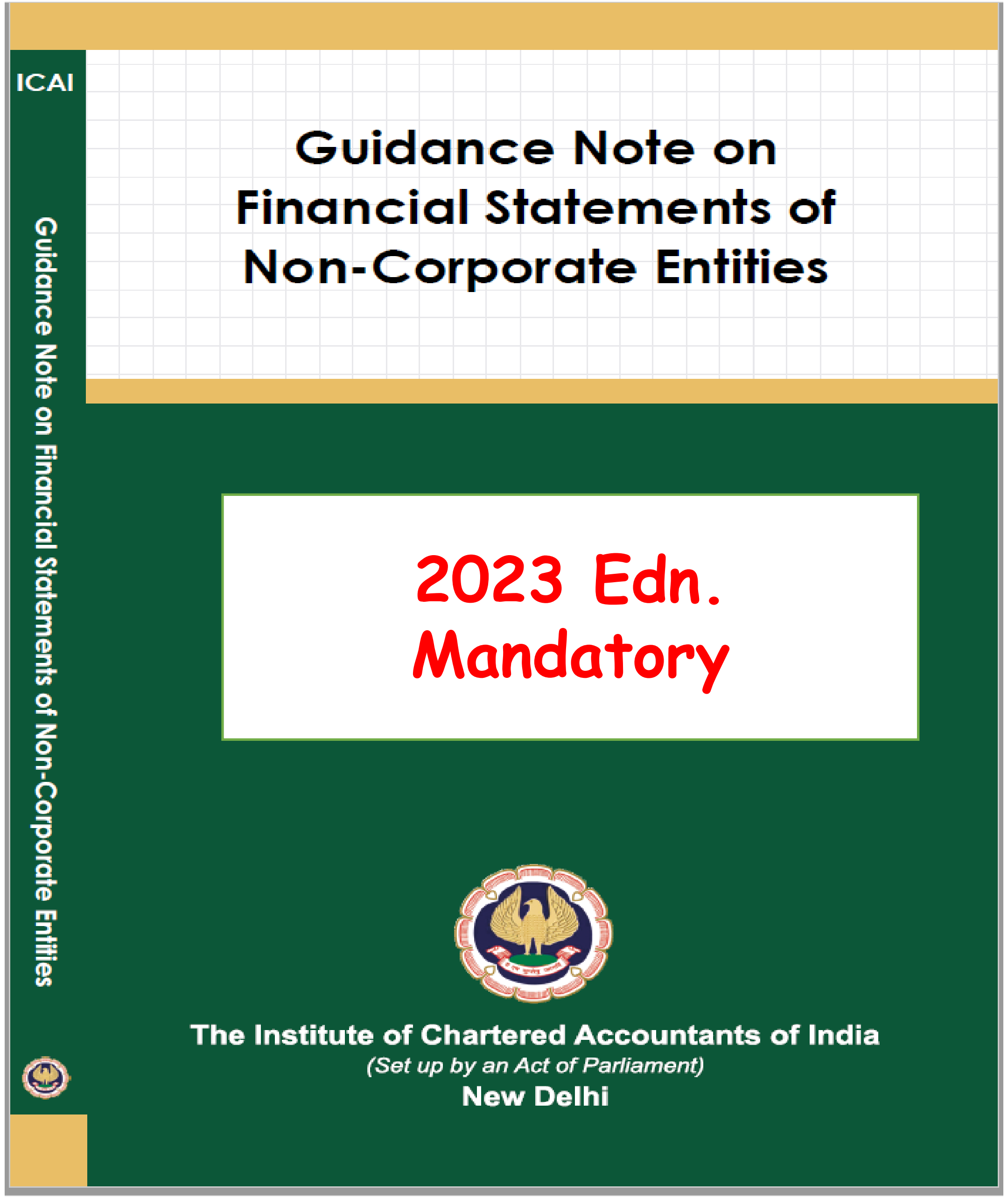

ICAI
Financial Statements of Non-Corporate Entities
2022 Edn.
Recommendatory
Financial Statements of Non-Corporate Entities
The Institute of Chartered Accountants of India
(Set up by an Act of Parliament)
New Delhi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Guidance Notes – status thereof

Clarification Regarding Authority Attached to Documents Issued by the Institute[1]

1. The Institute has, from time to time, issued 'Guidance Notes' on a number of matters. With the formation of the Accounting Standards Board and the Auditing and Assurance Standards Board, 'Accounting Standards' and 'Standards on Auditing' are also being issued.

2. Members have sought guidance regarding the level of authority attached to the various documents issued by the Institute and the degree of compliance required in respect thereof. This note is being issued to provide this guidance.

3. Guidance Notes, though recommendatory in nature, are issued to assist professional accountants in implementing the Engagement Standards and the Standards on Quality Control issued under the authority of the Council. Guidance Notes are also issued to provide guidance on other generic or industry specific audit issues, not necessarily arising out of a Standard. Professional accountants should be aware of and consider Guidance Notes applicable to the engagement. A professional accountant who does not consider and apply the guidance included in a relevant Guidance Note should take reasonable and adequate care in performing the alternate procedures adopted by him to deal with the objectives and basic principles set out in the Guidance Note. In such situations, a professional accountant should also document the rationale in performing the alternate procedures. Similarly, while discharging his attest function, a member should examine whether the recommendations in a Guidance Note relating to an accounting matter have been followed or not. If the same have not been followed, the member should consider whether keeping in view the circumstances of the case, a disclosure in his report is necessary in accordance with Engagement Standards.

- Source: https://resource.cdn.icai.org/75574aasb61153-app1.pdf

Guidance Note on Financial Statements of Non-Corporate Entities ~ Introduction

- While recognition and measurement **principles laid down in the Accounting Standards issued by the ICAI are applicable to non-corporate entities** and certain disclosures and presentation aspects have also been dealt with under the Accounting Standards, **formats for presentation of financial statements of NCEs have not been prescribed**.
- Moving forward in the direction of effective implementation of Accounting Standards, **the ASB of ICAI has now prescribed the formats for preparation of financial statements for NCEs** in form of **Guidance Note on Financial Statements of Non-Corporate Entities and which is effective for financial statements covering periods beginning on or after April 1, 2024 (April 1, 2025 vide ASB announcement Dated September 19th, 2025)**
- **NCEs ~ meaning:** All Business or Professional Entities, *other than Companies incorporated under Companies Act and Limited Liability Partnerships incorporated under Limited Liability Partnership Act* are considered to be Non-Corporate entities

ICAI's announcement for applicability of 'Guidance Note on Financial Statements of NCEs' (31-3-2026)

Phase	Applicable from	Criteria
1	Accounting periods beginning on or after April 1, 2025	Entities whose turnover **exceeds** Rs. 5 crores
2	Accounting periods beginning on or after April 1, 2026	All entities

Announcement regarding Revised Criteria for classification of Non-company entities for applicability of Accounting Standards - (08-11-2024)

Classification

Non-Company Entity

Micro, Small and Medium Sized Entity (MSME) – at the **end of the relevant accounting period**	equity or debt securities are not listed or are not in the process of listing	
	not a bank, financial institution or an insurance company	
	T.O. (excluding other income) ≤ Rs. 250 cr. in the immediately preceding accounting year	
	Borrowings ≤ Rs. 50 cr. at all times during the immediately preceding accounting year	
	not a holding or subsidiary of an entity which is not a micro, small and medium-sized entity	
Large entity	that is not an MSME	

Case Study 1

- **Entity:** XYZ & Co. (Proprietorship) – whether MSME for FY 2025-2026
- **Nature:** Non-company entity
- **Listed Status:** Not listed and not in the process of listing
- **Turnover (FY 2024-25):** ₹250 crores (including FD Interest of ₹10 lakhs)
- **Borrowings (FY 2024-25):** ₹35 crores
- **Not a financial institution or insurer**
- **No holding or subsidiary relationship with a non-MSME entity**

Case Study 2

- **Entity:** XYZ & Co. (Proprietorship) – whether MSME for FY 2025-2026
- **Nature:** Non-company entity
- **Listed Status:** Not listed and not in the process of listing
- **Turnover (FY 2024-25):** ₹180 crores
- **Borrowings (FY 2024-25):** ₹51 crores
- **Not a financial institution or insurer**
- **No holding or subsidiary relationship with a non-MSME entity**

Case Study 3

- **Entity:** Samriddhi Education Trust – whether MSME for FY 2025-2026
- **Nature:** Non-company entity - Provides education and skill development programs in rural areas
- **Turnover (FY 2024-25):** ₹80 crores
- **Borrowings (FY 2024-25):** ₹10 crores
- **Listing Status:** Not yet listed, but in the process of listing its Zero Coupon Zero Principal Instruments on the Social Stock Exchange (SSE) in FY 2025–26

Compliance with AS

MSME

a) **AS 3:** not applicable
b) **AS 10:** temporarily idle PPE, fully depreciated PPE, RFAU but NHD
c) **AS 11:** foreign currency risk management policy
d) **AS 15:** not required to perform actuarial valuation
e) **AS 17:** not applicable
f) **AS 19:** maturity analysis of MLP, description of lease – disclosures
g) **AS 20:** not applicable
h) **AS 22:** current tax requirements only, while deferred tax is exempt
i) **AS 24:** not applicable
j) **AS 26:** impairment provided/ reversed disclosures, fully amortised disclosures
k) **AS 18:** not applicable if in P.Y, the T.O. ≤ Rs. 50 cr. **and** Borrowings ≤ Rs. 10 cr.
l) **AS 28:** not applicable if in P.Y, the T.O. ≤ Rs. 50 cr. **and** Borrowings ≤ Rs.10 cr.; other cases VIU may be estimated rather than applying PV technique
m) **AS 29:** disclosures for movement schedule and description

Large Entity

- **comply in full** with all the AS

Transitional requirements for AS 22

- On the first occasion when an MSME avails this exemption, the **accumulated deferred tax asset/ liability** appearing in the financial statements of immediate previous accounting period, shall be **adjusted against the opening revenue reserves/ owner’s funds**.

Additional Requirements

- MSMEs availing exemptions must **disclose their MSME status** and **applicable AS compliance** in the F.S.;
- If an entity **ceases to qualify as an MSME**, full AS compliance applies from the current period, with disclosure of past MSME status and unchanged previous period figures in the F.S.;
- An entity **must remain an MSME for 2 consecutive years** before availing AS exemptions/ relaxations for MSMEs;
- MSMEs **partially availing exemptions from any AS**, must disclose the specific standards for which exemptions were taken;
- MSMEs **choosing not to avail exemptions** must fully comply with the relevant AS;
- MSMEs **may avail partial AS exemptions within it**, but that must not mislead financial statement users

Case Study 4

- **Entity:** XYZ & Co. (Proprietorship) – whether MSME for FY 2025-2026
- **Nature:** Non-company entity
- **Listed Status:** Not listed and not in the process of listing
- **Not a financial institution or insurer**
- **No holding or subsidiary relationship with a non-MSME entity**

F.Y.	Turnover	Borrowings	
2023–24	₹260 crores	₹52 crores	Not MSME (assumed)
2024–25	₹240 crores	₹45 crores	Not MSME
2025–26	₹200 crores	₹35 crores	MSME
Question: Can it claim AS Relaxations in FY 2025–26			

F.Y.	Turnover	Borrowings	
2022–23	₹248 crores	₹50 crores	Not MSME (assumed)
2023–24	₹246 crores	₹45 crores	Not MSME
2024–25	₹240 crores	₹43 crores	MSME
2025–26	₹200 crores	₹35 crores	MSME
Question: Can it claim AS Relaxations in FY 2025–26			

F.Y.	Turnover	Borrowings	
2022–23	₹248 crores	₹48 crores	Not MSME (assumed)
2023–24	₹246 crores	₹45 crores	MSME
2024–25	₹240 crores	₹43 crores	MSME
2025–26	₹260 crores	₹50 crores	MSME
Question: Can it claim AS Relaxations in FY 2025–26			

F.Y.	Turnover	Borrowings	
2022–23	₹248 crores	₹48 crores	Not MSME (assumed)
2023–24	₹246 crores	₹45 crores	MSME
2024–25	₹240 crores	₹43 crores	MSME
2025–26	₹260 crores	₹50 crores	MSME
2026-27	₹248 crores	₹46 crores	Not MSME
Question: Can it claim AS Relaxations in FY 2026–27			

Case Studies on AS vs. ICDS

Case Study 1 — ICDS I vs AS 1: Mark-to-market loss

- Rajan Exports has open forward contracts at year-end. Based on market rates, it recognises a **mark-to-market loss of ₹18 lakh** in books on prudence grounds.
- **Question:** Can the ₹18 lakh loss be claimed while computing taxable income?
- **AS angle:** Under accounting principles, anticipated losses may be recognised where required by the relevant AS and supported by prudence.
- **ICDS angle:** ICDS I specifically restricts recognition of **mark-to-market loss or expected loss**, unless permitted by another ICDS. Therefore, the tax computation should examine whether the loss is specifically allowable; otherwise, **add back ₹18 lakh** while computing taxable income.
- **Note:** Book prudence does not automatically become tax deduction.

Case Study 2 — ICDS II vs AS 2: Service work-in-progress

- A consultancy firm undertakes a six-month implementation project. At year-end, it has incurred **₹12 lakh direct employee and supervision cost**, but no invoice has been raised. In books, no revenue is recognised and the cost is charged to P&L.
- **Question:** Is any tax adjustment required under ICDS II?
- **AS angle:** Depending on the accounting policy and revenue recognition assessment, the books may not show service inventory separately. AS does not apply to work in progress arising in the ordinary course of business of service providers
- **ICDS angle:** ICDS II covers inventories and includes **cost of services**, consisting of labour and other personnel costs directly engaged in providing the service. If the service cost is not matched with recognised revenue, the tax computation may require recognition of service WIP/inventory, subject to valuation principles.
- **Likely adjustment:** If ₹12 lakh is already expensed in books but should be carried as closing WIP for ICDS purposes, taxable income increases by **₹12 lakh**.

Case Study 3 — ICDS III vs AS 7: Retention money in construction contract

- Buildwell Contractors has a ₹10 crore road contract. The client withholds **10% retention money**, payable after defect liability period. The project is 40% complete. Books recognise revenue excluding retention money.
- **Question:** Should retention money be considered for tax revenue?
- **AS angle:** Under construction contract accounting, revenue recognition depends on reliable measurement and collection certainty.
- **ICDS angle:** ICDS III states that contract revenue includes the initial contract amount **including retentions**, and revenue is recognised by the percentage-of-completion method when there is reasonable certainty of ultimate collection.
- **Likely adjustment:** If collection is reasonably certain, tax revenue may include **40% of retention**, i.e. ₹40 lakh, even if not recognised in books.
- **Note:** Retention is not ignored merely because cash will be received later.

Case Study 4 — ICDS IV vs AS 9: Service contract beyond 90 days

- A professional firm enters into an eight-month advisory contract for **₹80 lakh**. At year-end, 50% of work is complete. The firm follows completed service method in books and recognises no revenue.
- **Question:** Can the firm defer entire revenue for tax also?
- **AS angle:** Books may follow completed service or proportionate completion depending on facts and accounting policy.
- **ICDS angle:** ICDS IV requires service transactions to be recognised using the **percentage completion method**, except where the service contract duration is **not more than 90 days**, in which case completed service method may be used.
- **Likely adjustment:** Recognise **₹40 lakh** revenue for tax, subject to related cost matching.

Case Study 5.1 — ICDS V vs AS 10: Standby equipment and spares

- A manufacturing unit buys a standby generator for **₹30 lakh** and special machine spares for **₹6 lakh**. The spares are usable only with a specific imported machine and are expected to be used irregularly. Books expense the spares.
- **Question:** Can the entire amount be claimed as revenue expenditure?
- **AS angle:** Under AS 10, judgement is applied to determine whether spares qualify as PPE or inventory.
- **ICDS angle:** ICDS V states that standby equipment and servicing equipment are to be capitalised. Machinery spares are generally charged to revenue when consumed, but if they can be used only with a tangible fixed asset and use is expected to be irregular, they are capitalised. Depreciation is then governed by the Income-tax Act.
- **Likely adjustment:** Disallow immediate deduction for relevant capital items; add them to the tax block and claim depreciation.
- **Note:** AS 10 allows judgement and materiality, whereas ICDS V is more rule-based for tax computation

Case Study 5.2 — ICDS V vs AS 10: Standby equipment and spares

- Beta Textiles, a non-company entity, has a dyeing machine. During the year it purchases the following:

Item	Cost	Nature
Emergency spare motor	₹8,00,000	Usable only with the dyeing machine; expected to be used only if the main motor fails
Routine filters and belts	₹4,00,000	Consumed regularly in monthly maintenance
Special servicing equipment	₹6,00,000	Used by maintenance team for servicing the dyeing machine; expected life 3 years

- Beta Textiles has a book capitalisation policy that items below ₹10 lakh are expensed unless management considers them major assets.

- **Book treatment under AS 10:** Management applies AS 10 judgement and materiality:

Item	AS 10 book treatment
Emergency spare motor ₹8 lakh	Expensed/ treated as stores because below capitalisation threshold
Routine filters and belts ₹4 lakh	Inventory/ expense when consumed
Servicing equipment ₹6 lakh	Expensed because individually below book capitalisation threshold

- Book P&L charge: ₹8,00,000 + ₹4,00,000 + ₹6,00,000 = **₹18,00,000**

- **Tax treatment under ICDS V:** For tax computation:

Item	ICDS V treatment
Emergency spare motor ₹8 lakh	Capitalise, because it is usable only with a tangible fixed asset and use is irregular
Routine filters and belts ₹4 lakh	Revenue when consumed; closing unconsumed stock, if any, remains inventory
Servicing equipment ₹6 lakh	Capitalise, because ICDS V specifically says servicing equipment is to be capitalised

- Assume depreciation rate is **15%** and assets are eligible for full-year depreciation: 15% of ₹14 lakh: ₹2,10,000
- Amount debited in books for these two items: ₹14,00,000
- Net tax add-back: ₹11,90,000

Case Study 6 — ICDS VI vs AS 11: Foreign branch translation reserve

- An Indian entity has a foreign branch. In books, exchange differences on translation are taken to a foreign currency translation reserve instead of P&L.
- **Question:** Can tax computation also ignore the exchange difference because it is not in P&L?
- **AS angle:** AS 11 treatment depends on the nature of the foreign operation and may involve translation reserve presentation.
- **ICDS angle:** Foreign exchange gain or loss is treated as income or loss and computed according to ICDS. It covers monetary items, non-monetary items, translation of foreign operations, forward contracts and foreign currency translation reserves.
- **Likely adjustment:** Recompute the exchange gain/ loss under ICDS VI for tax; do not merely adopt book reserve treatment.

Case Study 7 — ICDS VII vs AS 12: Capital subsidy for machinery

- A unit purchases plant for **₹2 crore** and receives a State Government capital subsidy of **₹50 lakh**. In books, the subsidy is treated as deferred income and credited to P&L over the useful life.
- **Question:** How should the subsidy be treated for tax?
- **AS angle:** AS 12 permits accounting treatment through deferred income or reduction from asset cost, depending on the nature of grant and policy.
- **ICDS angle:** Under ICDS VII, recognition of government grant is generally not postponed beyond actual receipt where conditions are met. Where the grant relates to a depreciable asset, it is adjusted against the actual cost or written down value/ block of assets.
- **Likely adjustment:** Reduce the tax block by **₹50 lakh** and compute depreciation on the reduced amount, rather than following the book deferred-income pattern.

Case Study 8 — ICDS VIII vs AS 13: Securities held as stock-in-trade

- A share trader holds two listed equity shares as stock-in-trade:

Security	Cost	F.V.
Share A	₹100	₹70
Share B	₹100	₹130

- In books, Share A is written down to ₹70 and Share B is carried at cost ₹100. Closing value is **₹170**.
- **Question:** Will the same valuation always apply for tax?
- **AS angle:** Books generally apply lower of cost and fair value, depending on the applicable accounting standard and valuation policy.
- **ICDS angle:** ICDS VIII deals specifically with securities. For tax, securities held as stock-in-trade require ICDS-based classification and valuation rather than automatic adoption of book valuation.
- **Likely adjustment:** If ICDS category-wise valuation results in a higher closing value than books, the difference is added to taxable income. In this example, if the relevant ICDS category is valued on aggregate basis and cost and NRV are both ₹200, closing value may be ₹200 instead of ₹170, leading to a **₹30 lakh/₹30 adjustment**, depending on units used.
- **Note:** For share traders, securities valuation is one of the most common AS vs ICDS reconciliation areas

Case Study 9 — ICDS IX vs AS 16: Borrowing cost on machinery

- A firm borrows **₹1 crore at 12%** on 1 July to acquire machinery. The machine is installed and put to use on 1 October. Books expense interest because the asset does not take a substantial period to get ready.
- **Question:** Is the book interest expense fully deductible?
- **AS angle:** AS 16 focuses on qualifying assets that take a substantial period of time to get ready for intended use or sale.
- **ICDS angle:** ICDS IX has its own rules for capitalisation of borrowing costs. For certain tangible assets, borrowing costs may be capitalised from the date of borrowing/ acquisition until the asset is first put to use.
- **Likely adjustment:** Interest from 1 July to 1 October: ₹1 crore × 12% × 3/12 = **₹3 lakh**. Add ₹3 lakh to asset cost/ block for tax and claim depreciation as per the Income-tax Act.

Case Study 10 — ICDS X vs AS 29: Warranty provision and contingent asset

- A manufacturer sells appliances with warranty. Based on past data, it recognises a **₹20 lakh warranty provision** in books. Management says outflow is probable but not “reasonably certain.” Separately, it has an insurance claim of **₹30 lakh** that is reasonably certain but not virtually certain.
- **Question:** How will ICDS X affect tax computation?
- **AS angle:** AS 29 recognises a provision when there is a present obligation, probable outflow and reliable estimate. Contingent assets are recognised only when realisation is virtually certain.
- **ICDS angle:** ICDS X uses the “reasonably certain” threshold for provisions and contingent assets. Therefore, a provision recognised in books may be disallowed for tax if the outflow is not reasonably certain; conversely, a contingent asset may be taxed earlier if inflow is reasonably certain.
- **Likely adjustment:** Add back the ₹20 lakh warranty provision if it does not meet ICDS X. Consider recognising the ₹30 lakh insurance claim for tax if it meets the ICDS X threshold.
- **Note:** “Probable” is a lower threshold, “reasonably certain” is stronger, and “virtually certain” is the highest threshold. Therefore, AS 29 may recognise some provisions earlier than ICDS X, while ICDS X may recognise some contingent assets earlier than AS 29.

What if NCE does not comply with the GN

Qualification required (illustrative)

Basis for Qualified Opinion	Qualified Opinion
The financial statements of [Name of Entity] have not been prepared in accordance with the 'Formats of Financial Statements' prescribed in the Guidance Note on Financial Statements of Non-Corporate Entities issued by the Institute of Chartered Accountants of India (ICAI). In our opinion, while this represents a departure from the prescribed presentation framework, it does not materially affect the information presented regarding the entity's financial position, financial performance, or owner's funds for the year ended [date].	In our opinion and to the best of our information and according to the explanations given to us, except for the matter described in the 'Basis for Qualified Opinion' paragraph, the financial statements present fairly, in all material respects, the financial position of [Name of Entity] as at [date], and its financial performance for the year then ended, in accordance with [applicable financial reporting framework].

Case Study

ABC & Co. is a partnership firm. The depreciation was provided in the books of account in accordance with the rates prescribed under the Income Tax Act, 1961/ 2025. What audit considerations should be observed by the auditors in this regard.

Where Financial Impact is Determinable

- The firm has provided depreciation on Property, Plant and Equipment (PPE) at the rates prescribed under the Income-tax Act, 1961/ 2025, instead of depreciating the assets over their estimated useful lives as required by Accounting Standard (AS) 10 'Property, Plant and Equipment', issued by the Institute of Chartered Accountants of India. As a result of this departure, the depreciation expense for the year is lower/ higher by ₹______, and the carrying amount of PPE as at the balance sheet date is higher/ lower by ₹_________, with a corresponding impact on the net profit.

Where Financial Impact is Not Determinable

- The firm has provided depreciation on Property, Plant and Equipment (PPE) at the rates prescribed under the Income-tax Act, 1961/ 2025, rather than on the basis of their estimated useful lives as required by Accounting Standard (AS) 10 'Property, Plant and Equipment', issued by the Institute of Chartered Accountants of India. The firm has not maintained records of the estimated useful lives of individual PPE. Further, no technical assessment or management estimate of useful lives has been made available to us. In the absence of the necessary records and estimates relating to the useful lives of Property, Plant and Equipment (PPE), it is impracticable to reliably quantify the impact on the depreciation expense, carrying amount of PPE, and the net profit.

Form 3CA/ 3CB and Compliance with SA 700 (Revised)

Compliance with Revised SA 700

- SA 700 prescribed a revised format of the auditor's report on financial statements;
- Form No. 3CA and Form No. 3CB are required to be filed online in a preset form. The same are not in line with the requirements of revised SA 700 as there is no specifically allocated field for providing information relating to the respective **responsibilities** of the **assessee** and the **tax auditor** as required by revised SA 700;
- Para 13.10 of ICAI's Guidance Note recommends that, having regard to the importance of these respective responsibility paragraphs from the perspective of the readers of the tax audit report, these respective responsibility paragraphs can be provided in the space provided for giving observations, etc., under clause (3) of Form No. 3CA or clause (5) of Form No. 3CB as the case may be.
- **Caution:** reference should not be given to attached notes/report which contained Paragraphs relating to assessee's responsibility and tax auditor's responsibility as required by Revised SA 700 – specific reporting required in Clause (3) of Form No.3CA or Clause (5) of Form No.3CB, as the case may be

Form 3CA/ 3CB and Compliance with Guidance Note on Audit Reports and Certificates for Special Purposes

What does GN on Tax Audit states

- Para 13.1 of 2022 GN provided that, for the purposes of performing audit procedures for verifying particulars in Form 3CD and reporting in Form 3CD, the tax auditor ~~**"would also be well advised"**~~ **to refer** to the other Standards on Auditing (SAs) as may be relevant, issued by ICAI, as well as the **"Guidance Note on Audit Reports and Certificates for Special Purposes"**.
- 2023 GN replaces the words "would also be well advised" in Para 13.1 with the word **"should"**.
- Hence, tax auditor would have to comply with SAs and "Guidance Note on Audit Reports and Certificates for Special Purposes" for the purposes of performing audit procedures for verifying particulars in Form 3CD and reporting in Form 3CD.

Guidance Note on Audit Reports and Certificates for Special Purposes

Remarks to be added in Para 3 of Form 3CA	Remarks to be added in Para 5 of Form 3CB
1. Reference to LOE with date;	1. Reference to LOE with date;
2. Identification of Statement of Particulars in Form 3CD;	2. Identification of Statement of Particulars in Form 3CD;
3. Assessee's Responsibility for the Statement of Particulars in Form 3CD;	3. Assessee's Responsibility for the Statement of Particulars in Form 3CD;
4. Tax Auditor's Responsibility;	4. Tax Auditor's Responsibility;
5. Restriction on Use	5. Restriction on Use

Clause 22 and Clause 26 of Form No. 3CD

Clause 22 of Form No. 3CD

- Clause 22 of Form No. 3CD requires the tax auditor to state:

  "Amount of interest inadmissible under section 23 of the Micro, Small and Medium Enterprises Development Act, 2006 or any other amount not allowable under clause (h) of section 43B of the Income-tax Act, 1961"

- The words "*or any other amount not allowable under clause (h) of section 43B of the Income-tax Act, 1961*" have been inserted by the IT (Fourth Amdt.) Rules, 2024, w.e.f. 5-3-2024 [as corrected by Corrigendum G.S.R. 223(E), dated 19-3-2024].
- The corrigendum made changes to Clause 22 of Form 3CD, and nullified the changes made to Clause 26. Amended Clause 22 requires the tax auditors to report disallowances u/s 43B(h) and interest on delayed payments to MSEs. This effectively separates the reporting of delayed payments to MSEs from other types of payments covered u/s 43B.
- It must be noted that only micro and small enterprises are considered suppliers for the purpose of Section 43B(h). **Medium enterprises are not regarded as suppliers and are not entitled to enforce prompt payment and interest for delayed payment**

Revised MSME payment reporting in Clause 22 w.e.f. 1-4-2025

22. Amount of interest inadmissible under section 23 of the Micro, Small and Medium Enterprises Development Act, 2006 [7a][*or any other amount not allowable under clause (h) of section 43B of the Income-tax Act, 1961*].

22. [7a][*(i) Amount of interest inadmissible under section 23 of the Micro, Small and Medium Enterprises Development Act, 2006 (MSMED Act); or*

(ii) Total amount required to be paid to to a micro or small enterprise, as referred to in section 15 of the MSMED Act, during the previous year;

(iii) Of amount referred to in (ii) above, amount -

(a) paid up to time given under section 15 of the MSMED Act;

(b) not paid up to time given under section 15 of the MSMED Act and inadmissible for the previous year.]

Modifications in Clause 26 — Deduction under Section 43B – w.e.f. 1-4-2025

26. In respect of any sum referred to in clause (*a*), (*b*), (*c*), (*d*), (*e*) [9][, (*f*) or (*g*)] of section 43B, the liability for which:—

(*A*) pre-existed on the first day of the previous year but was not allowed in the assessment of any preceding previous year and was

(*a*) paid during the previous year;

(*b*) not paid during the previous year;

(*B*) was incurred in the previous year and was

(*a*) paid on or before the due date for furnishing the return of income of the previous year under section 139(1);

(*b*) not paid on or before the aforesaid date.

26. In respect of any sum referred to in [9][***] section 43B, the liability for which:–

(*A*) pre-existed on the first day of the previous year but was not [9a][*allowable*] in the assessment of any preceding previous year and was

(*a*) paid during the previous year;

(*b*) not paid during the previous year;

(*B*) was incurred in the previous year [9b][*and (for clauses other than clause* (h) *of section 43B) was,*]

(*a*) paid on or before the due date for furnishing the return of income of the previous year under section 139(1);

(*b*) not paid on or before the aforesaid date.

S. No.	Supplier Name	MSME Type	Invoice Date	Date of Acceptance	Agreement Period	Due Date u/s 15	Payment Date	Invoice Amount	Paid Within Time?	Intt. Payable (u/s 16) (assumed cal.)
1	A-One Tools Ltd.	Micro	01-04-2025	01-04-2025	No agreement	15-04-2025	10-04-2025	1,00,000	✅ Yes	Nil
2	Beta Electric Works	Small	20-02-2026	20-02-2026	No agreement	07-03-2026	30-04-2026 (40%)	2,00,000	❌ No	₹5,500
3	Gamma Fasteners	Micro	20-02-2026	20-02-2026	No agreement	07-03-2026	31-03-2026	3,00,000	❌ No	₹18,000
4	Delta Supplies	Small	01-01-2026	01-01-2026	45 days	15-02-2026	10-02-2026	1,50,000	✅ Yes	Nil
5	Epsilon Co.	Micro	01-02-2026	01-02-2026	45 days	17-03-2026	25-03-2026	2,50,000	❌ No	₹1,200

Suggested Reporting

Clause 22(i)	Clause 22(ii)	Clause 22(iii)
Amount of interest inadmissible u/s 23 of the MSMED Act = ₹24,700 (Sum of interest payable under Section 16 for Beta, Gamma, and Epsilon)	Total amount required to be paid to a micro or small enterprise, as referred to in section 15, during the PY = ₹10,00,000	Of the amount referred to in (ii), amount— (a) Paid up to time given u/s 15 = ₹1,00,000 (A-One) + ₹1,50,000 (Delta) = ₹2,50,000 (b) Not paid up to time given u/s 15 and inadmissible for the PY = ₹2,00,000 (Beta)

Summary Table

Clause	Amount (₹)
22(i): Interest u/s 23	₹24,700
22(ii): Total Payables	₹10,00,000
22(iii)(a): Paid in Time	₹2,50,000
22(iii)(b): Paid Late/ Unpaid and inadmissible	₹2,00,000

Clause 26(A)

In respect of any sum referred to in section 43B, the liability for which:	
(A) pre-existed on the first day of the previous year but was not allowable in the assessment of any preceding previous year and was	
(a). paid during the previous year	₹80,000
(b). not paid during the previous year	₹1,20,000
Total	**₹2,00,000**

- It is the **responsibility of the auditee** (and not that of the auditor) to classify and identify those suppliers who are covered by section 2(n) of the MSMED Act, 2006;
- According to section 23 of the MSMED Act, 2006, the **amount of interest payable or paid by any buyer u/s 16** of the MSMED Act, 2006, shall not, for the purposes of computation of income under the Income-tax Act, 1961, **be allowed as deduction**;
- To seek the benefit under MSMED Act, the **seller should have registered under the provisions of the Act, as on the date of entering into the contract**. In any event, for the supplies pursuant to the contract made before the registration of the unit under provisions of the MSMED Act, no benefit can be sought by such entity, as contemplated under MSMED Act – *M/s. Silpi Industries etc. v. Kerala State Road Transport Corporation & Anr. etc.* Judgment, dated 29-6-2021;
- The **tax auditor needs to report the amount of interest inadmissible** u/s 23 of the MSMED Act, 2006 **irrespective of whether the amount of such interest has been debited to P & L account** or not;
- In **balance Confirmation requests sent out to creditors, tax auditor can include a request to confirm MSE status** and attach a copy of Udyam Registration if supplier is MSE;
- Verify that **TDS under section 194A** is deducted from interest credited/ paid to MSEs and deposited with Central Government – Clause 34 of Form No. 3CD;

Clause 22 vs. Clause 26 vs. Section 43B(h) – w.e.f. 1-4-2025 1/5

- **Clause 22: MSME Reporting (Based on MSMED Act)**
- This clause is introduced to report **payments due to micro and small enterprises** under the **MSMED Act**.
- It requires disclosure of:
  a) Interest inadmissible under Section 23 of the MSMED Act.
  b) Total payments required to be made to MSMEs under Section 15.
  c) Payments made **within time** and **not within time** as per MSMED Act.
- **Clause 22(iii)(b)** focuses on amount **not paid within the time prescribed under Section 15 of the MSMED Act** and hence **inadmissible under Section 43B(h)**.

Clause 22 vs. Clause 26 vs. Section 43B(h) – w.e.f. 1-4-2025 2/5

- **Clause 26: Section 43B Compliance Reporting**
- **Clause 26(A):**
  a) Captures liabilities under Section 43B pre-existing on the first day of the previous year, and whether:
     - they were paid or not paid in the current year.

  b) Includes 43B(h) because it's tracking prior year disallowances, regardless of clause type.
- **Clause 26(B):** Deals with current year liabilities. It explicitly excludes Section 43B(h) from its scope because Section 43B(h) has a distinct payment timing requirement (15–45 days) based on MSMED Act, not the due date of return filing under Section 139(1).
- **Conclusion:** Thus, Section 43B(h) is only tracked in Clause 22 and Clause 26(A), not in Clause 26(B).

Clause 22 vs. Clause 26 vs. Section 43B(h) – w.e.f. 1-4-2025 3/5

- **Reporting w.r.t. Sections 30 to 37(1), 40, or 40A for MSE payments**
- If a payment to a micro/ small enterprise fails the test of Sections 30–37(1) (say, not wholly and exclusively for business), or is disallowed under Section 40 or 40A (e.g., cash payment > ₹10,000 under 40A(3), or payment to a relative under 40A(2)), then:
  a) It will be inadmissible regardless of Section 43B(h).
  b) Clause 21 of Form 3CD is the right place to report such general disallowances under these sections.
  c) Clause 22 and Clause 26 focus specifically on timing disallowances due to late payments under 43B(h).
- So, even if an MSE payment is timely under MSMED Act and hence allowed under 43B(h), it may still be disallowed under other provisions and needs to be reported accordingly

Clause 22 vs. Clause 26 vs. Section 43B(h) – w.e.f. 1-4-2025 4/5

- If payments to micro or small enterprises are **not made within the time limit prescribed under Section 15 of the MSMED Act**, such payments must be reported under **Clause 22(iii)(b)** as they were **delayed**. However, if these payments were **actually made on or before 31-03-20XX**, they will still be **allowed as a deduction** under Section 43B(h) in A.Y. 2025-26;
- The **reporting in Clause 22 is not to imply disallowance**, but to ensure disclosure of **non-compliance with MSMED payment timelines;**
- Additionally, **interest on such delayed payments**, which is **inadmissible under Section 23**, must be reported under Clause 22(i)

Clause 22 vs. Clause 26 vs. Section 43B(h) – w.e.f. 1-4-2025 5/5

- **Reporting in respect of assessee following cash basis of accounting:** There is no question of reporting any amounts disallowable under Section 43B(h) in respect of such assesses under Clause 22 or Clause 26, since they will anyway claim deductions for such amounts on actual payment basis only. Interest on delayed payments to MSEs payable u/s 16 of the MSMED Act will be liable to be disallowed u/s 23 of the MSMED Act only when these are debited to the profit and loss account on a cash basis in the year of payment;
- The **amount inadmissible as per sub-clause (iii) for a financial year would be the opening balance in the subsequent financial year** for purpose of reporting reported in clause 26(A), i.e. any sum referred to in section 43B(h) which pre-existed on the first day of the previous year but was not allowed in the assessment of any preceding previous year.

Audit Procedures

- Enter into **appropriate LOE** in terms of SA 210 to incorporate Section 43B(h) implications/ consequent responsibilities of the Assessee and the Tax Auditor;
- **Verify whether suppliers** who were micro/ small in the last three years and **upgraded** to medium are treated as micro/ small for 3 years as per Para 8(5) of Notification No 2119(E), Dated 26-06-2020;
- In the case of the company assessee, **verify whether Form MSME-I was filed** with MCA on a half-yearly basis.

Audit Procedures

- **Verify the bank reconciliation statement (BRS)** regarding cheques issued but not presented for a long time and whether these pertain to MSE suppliers;
- **Verify that each purchase of goods/ services is paid individually within the due date** as per Section 15 of the MSMED Act. **Payment made on an average due date basis is not in compliance with Section 15** of the MSMED Act;
- Verify that the assessee has paid **MSE suppliers of capital goods** within the time allowed by Section 15 of the MSMED Act. Although **delays in payments for capital goods may not attract disallowance under Section 43B(h)**, such delays also attract interest on delayed payments under Section 16 of the MSMED Act;
- In the case of the assessee, following the accrual basis of accounting, verify whether such interest payable is provided for in accounts and report such interest provided in clause 22 as amounts inadmissible under Section 23 of the MSMED Act;

Disqualifications of Tax Auditor under Income Tax Act, 1961

Introduction

- Explanation (i) below Section 44AB states that "**accountant**" shall have the same meaning as in the Explanation below **Section 288(2)**;
- The Explanation below section 288(2) had been substituted by the **Finance Act, 2015**, w.e.f. 1-6-2015;
- **CBDT gave following commentary on Finance Act, 2015** vide its Circular No. 19/ 2015, dated 27-11-2015:
    a) The audit/ certification function under the Income-tax Act is mainly provided for protecting the interests of revenue.
    b) An auditor who is not independent cannot meaningfully discharge his function of protecting the interests of revenue.
    c) Therefore, the provisions of Section 288 have been amended;
    d) However, it is provided that the ineligibility for carrying out any audit or furnishing of any report/ certificate in respect of an assessee shall not make an accountant ineligible for attending income-tax proceeding referred to u/s 288(1) as Authorised Representative on behalf of that assessee

Comparable Sections

- **Income Tax Act 1961**
- Section 44AB: Audit of accounts of certain persons carrying on business or profession
- Section 288: Appearance by authorised representative
- **Income Tax Act 2025**
- Section 63: Tax audit
- Section 515: Appearance by authorized representative

Classification of Assessees

- Company Assessee
- Other Assessees
  - Individual
  - Firm/ AOP/ HUF
  - Trust/ Institution
  - Special Cases

Company Assessee

If a person is disqualified to be appointed as Statutory Auditor of that company assessee then he cannot be appointed as Tax Auditor of such company assessee

Statutory Audit cum Tax Audit

- Do you have Board Resolution for being appointed as Tax Auditor?

- RST (P) Limited
- You are appointed as Statutory Auditor at the AGM
- You have filed ADT 1 for the same
- You are also carrying out the tax audit of RST (P) Limited (However, the same was not discussed at BM or AGM)
- **Question:** Is there any requirement to have Board Resolution for appointment as Tax Auditor of the same company of which you are the Statutory Auditor

Section 144

- ***<u>An auditor appointed under this Act shall provide to the company only such other services as are approved by the Board of Directors</u>*** or the audit committee, as the case may be, but which shall not include any of the following services……………………….

- Board Resolution required for appointment as tax auditor of the Company Assessee – Section 144
- Such BR is not required to be filed with RoC
- Tip: Whenever you take LOE for tax audit ensure that the certified copy of such BR is accompanying the LOE – this must be documented

Ceiling on Number of Statutory Audits

- Section 141(3)(g) of the Companies Act, 2013 ~ one auditor can carry out maximum 20 statutory audits
- MCA Notification GSR 464(E), Dated 5-6-2015, stated that the following companies will not be included in count of ‘20’:
  1) OPC
  2) DC
  3) Small Co.
  4) Pvt. Co. having paid up capital < Rs. 100 cr.

Chapter VIII of Council General Guidelines (now Chapter V of Guidelines on Ethical issues, 2026, w.e.f. 1st April, 2026)

- One auditor can take maximum of 30 **[40]** statutory audits in which the following are not included
  1. OPC
  2. DC

Steps

- Step 1: first compute limits u/s 141(3)(g)
- Step 2: then compute limits under Council Guideline
- Step 3: total number of eligible ceiling on audits
- Limits u/s 141(3)(g) + Exemptions u/s 141(3)(g) [Other than OPC and DC] $\leq$ 30 **[40] audits**

Case Study

- Mr. X, a CA in practice is already having statutory audits of 15 public companies and 3 private companies having paid up capital of Rs. 105 crores
- The following companies are now offering him their statutory audits:
  1. 4 private companies having paid up capital of Rs. 115 crores
  2. 5 OPCs
  3. 10 DCs
  4. 25 Small Companies
  5. 18 private companies having paid up capital of Rs. 90 crores

Case Study

- Mr. X, a CA in practice is already having statutory audits of 15 public companies and 3 private companies having paid up capital of Rs. 105 crores = 18 companies covered by Sec 141(3)(g)
- The following companies are now offering him their statutory audits:
  1. 4 private companies having paid up capital of Rs. 115 crores = accept 2 companies covered by Sec 141(3)(g)
  2. 5 OPCs
  3. 10 DCs
  4. 25 Small Companies = make a choice*
  5. 18 private companies having paid up capital of Rs. 90 crores = make a choice*

  *Choice = out of 25 + 18 = 43 companies = which one to accept or decline so that the total is not exceeding 20 = such that this 20 + previous 20 = 40

Question

- Say, while making choice u/s 141(3)(g) read with Council Guidelines, Mr. X declined to audit DEF (P) Limited (small company)
- DEF (P) Limited, however, offered him to undertake its tax audit for the FY 2025-2026
- Can Mr. X accept this tax audit (assume that as on date he has only 56 tax audits of various assessees ~ note that A Chartered Accountant in practice can conduct 60 tax audits relating to an assessment year – The Chartered Accountants (Limit on Number of Tax Audits) Guidelines, 2025)
- Ans.: ________ ?

Question

- Say, while making choice u/s 141(3)(g) read with Council Guidelines, Mr. X declined to audit DEF (P) Limited (small company)
- DEF offered him to undertake its tax audit
- Can Mr. X accept the tax audit (assume that as on date he as only 56 tax audits of various assessees)
- Ans.: No ~ refer Section 288 of Income Tax Act, 1961 ~ if a CA is disqualified to be appointed as statutory auditor of a company, then he is also disqualified to be appointed as tax auditor of such company

Question

- RST (P) Limited
- Mr. X is the statutory auditor
- Mr. Y is providing book keeping services
- Question: Can Mr. Y be appointed as tax auditor of RST (P) Limited.

Question

- RST (P) Limited
- Mr. X is the statutory auditor
- Mr. Y is providing authorised representation services before ITAT
- Question: Can Mr. Y be appointed as tax auditor of RST (P) Limited.

Chapter IX: Minimum Fee in respect of Professional Services (w.e.f. 1st April, 2026)

- A member of the Institute in practice **shall not charge fees less than the minimum fees mandated** by the Central or State government or a Regulator, or prescribed by the Council for any professional service prescribed under any law, rule or regulation for the time being in force.

Audit fees by Digital modes or through Banking channels

- The Council is of the view that the Institute, being the regulatory authority for the profession, should proactively encourage digital modes of financial transactions within the profession in line with the policy of Government of India to promote digital economy;

- Accordingly, the Council has recommended that the **members or firms should accept audit fees only through digital modes or banking Channels** – Para 4.7 of Chapter 5

- **Other Assessees:**

A. **Individual:**
   - He himself cannot be auditor for himself

B. **Firm/ AOP/ HUF:**
   - Its Partner/ Member, as the case may be, can not be auditor

C. **Trust/ Institution:**
   - Its Author/ Its Founder/ Any Person who made substantial contribution/ Member of HUF, if HUF is Author or Founder/ Its Trustee/ Its Manager

Special Points:

1. Any relative of these persons shall also be disqualified;
2. A person who is competent to verify the return u/s 140, shall also be disqualified

Relative – Expln. below Section 288(7)

a) spouse of the individual;
b) brother or sister of the individual;
c) brother or sister of the spouse of the individual;
d) any lineal ascendant or descendant of the individual;
e) any lineal ascendant or descendant of the spouse of the individual;
f) spouse of a person referred to in clause (b), clause (c), clause (d) or clause (e);
g) any lineal descendant of a brother or sister of either the individual or the spouse of the individual.

D. An officer or employee of the assessee		
E. Partner or Employee of such an officer or employee of the assessee		
F. Individual Himself or His Relative or His Partner:		
holding any security of, or interest in the assessee	indebted to the assessee	given a guarantee or provided any security in connection with the indebtedness of any third person to the assessee
Exceptions only for Relatives if:		
Holding upto Rs. 1 Lakh of Face Value	Indebtedness upto Rs. 1 Lakh	Guaranteed or Securitised for upto Rs. 1 Lakh
G. A person who, whether directly or indirectly, has business relationship with the assessee of such nature as may be prescribed		
H. A person who has been convicted by a Court for fraud and 10 years have not elapsed from the date of such conviction		

Question 1

- CA. X ~ in practice and holds valid COP
- ABC Cooperative Society Limited which was incorporated under Cooperative Societies Act, 1912;
- It had issued 10,000 shares @ Rs. 10 each for its various shareholders;
- Brother of CA. X holds 10 shares in ABC Cooperative Society Limited
- Question: Can CA. X be appointed as ‘tax auditor’ of such society

Question 2

- CA. X ~ in practice and holds valid COP
- Brother of CA. X purchased goods on credit from ABC Traders, local departmental store and the amount outstanding is Rs. 70,000
- Question (a): Can CA. X be appointed as 'tax auditor' of ABC Traders
- Question (b): Can CA. X be appointed as 'tax auditor' of ABC Traders if the amount outstanding had been from Brother of CA. X = Rs. 40,000 and Sister of CA. X = Rs. 70,000

Question 3

- CA. X ~ in practice and holds valid COP
- ABC Credit and Thrift Society registered under Societies Registration Act, 1860;
- Mr. Y has borrowed Rs. 2.50 Lakhs from such society;
- Brother of CA. X is friend of Mr. Y and has given guarantee to such society for:
  - Case 1: Rs. 90,000
  - Case 2: Rs. 1,50,000
  - Case 3: Rs. 2,50,000

Question 4

- CA. X ~ in practice and holds valid COP
- ABC Credit and Thrift Society registered under Societies Registration Act, 1860;
- Sister of CA. X has borrowed Rs. 2.50 Lakhs from such society;
- Brother of CA. X has given guarantee to such society for:
  - Case 1: Rs. 90,000
  - Case 2: Rs. 1,50,000
  - Case 3: Rs. 2,50,000

Question 5

- CA. X ~ in practice and holds valid COP
- ABC Credit and Thrift Society registered under Societies Registration Act, 1860;
- Sister of CA. X has borrowed Rs. 80,000 from such society;
- Brother of CA. X has given his scooter as security to such society for and the market value of such scooter is Rs. 90,000;
- Would your answer be different if the market value had been Rs. 1,10,000.

Question 6

- CA. X ~ in practice and holds valid COP
- ABC Credit and Thrift Society registered under Societies Registration Act, 1860;
- Sister of CA. X has borrowed Rs. 80,000 from such society;
- CA. X has given guarantee for Rs. 80,000 to such society

Question 7

- CA. X ~ in practice and holds valid COP
- ABC and Co, a partnership firm which is registered under Indian Partnership Act, 1932;
- CA. X has received Rs. 10,000 as advance towards his tax audit fees for the FY 2025-2026. The total fees agreed upon was Rs. 30,000
- Would your answer be different if the proportionate fees was received in FY 2026-2027 on completion of 60% of the FY 2025-2026 tax audit

Question 7

- CA. X ~ in practice and holds valid COP
- He purchased grocery items from ABC Traders, a local departmental store, for Rs. (say) 15,000
- Can he be appointed as tax auditor of ABC Traders

Question 8

- CA. X ~ in practice and holds valid COP
- He purchased grocery items from ABC Traders, a local departmental store, for Rs. (say) 15,000
- However, the same grocery items were sold to others by ABC Traders for Rs. 17,000. He charged Rs. 15,000 from CA. X as a matter of his respect and regard of him being his tax auditor
- Is he eligible as tax auditor of ABC Traders

Question 9

- CA. X ~ in practice and holds valid COP
- He purchased grocery items from ABC Traders, a local departmental store, for Rs. (say) 15,000
- However, the amount was requested to be adjusted with the tax audit fees payable for the FY 2025-2026
- Is he eligible as tax auditor of ABC Traders

Clause 4 – Part I – Second Schedule

Misconduct

Expression o
opinion on F.S.
an entity with
presence of
substantial interest
(either himself/ his
firm/ his partner)

st

- Spouse;
- Parents;
- Children;
- Brother(s);
- Sister(s)

ts

Relatives of CA also covered

Example 1

- CA. X ~ in practice and holds valid COP
- There is a partnership firm in which his spouse is having 25% share as a partner
- Can he be appointed as tax auditor of such partnership firm (assume that such 25% entitles her to not more than Rs. 1,00,000 p.a. as her entitlement)

Example 2

- CA. X ~ in practice and holds valid COP
- There is a partnership firm in which his spouse is having 15% share as a partner
- Can he be appointed as tax auditor of such partnership firm (assume that such 15% entitles her to not more than Rs. 5,00,000 p.a. as her entitlement)

Question 1

- CA. X is holding full time COP and is also having right to receive 10% share from another partnership firm of Chartered Accountants, on account of work being referred to them through his connections.
- Can he be appointed as tax auditor of such partnership firm.
- Would your answer be different if he is proposed to be appointed as their tax consultant or authorised representative for taxation hearing matters.

Question 1.1.

- CA. X is holding full time COP
- He has lend some amount (say) Rs. 50,000 to ABC Traders, a proprietorship fim
- Can he be appointed as tax auditor of such firm.

Question 2

- ABC and Sons (HUF) comprises of Karta and other family members including CA. ‘B’ who recently qualified his CA examination and obtained COP from ICAI after obtaining necessary permission to continue as member in such HUF.
- Can he be appointed as tax auditor for this HUF.

Question 3

- CA. X and CA. Y joined hands together as founders and registered a society under Societies Registration Act, 1860 as “All India Chartered Accountants Society”.
- Advise whether CA. ‘X’ can be appointed as tax auditor for this society.
- Would your answer be different if his relative or partner is proposed to be appointed as tax auditor instead of him being appointed in that capacity.

Question 4

- CA. X agreed with M/s DEF and Associates LLP to undertake the tax audit at fee of Rs. 25,000;
- He also charged Rs. 10,000 from such LLP for discussing the tax audit inputs that he need from such auditee. This fee was part of overall fee of Rs. 25,000;
- Can he be appointed/ continued as tax auditor
- Would your answer be different if the auditee had been:
  a) Partnership firm;
  b) Proprietorship firm

Chapter VI: Ethical Guidelines

- If fees for other work > statutory audit fees = professional misconduct
- Other work will not include the following:
  a) Audits carried out under any other statute (e.g. tax audits)
  b) Certification work under any law
  c) Representation services
- Applicability for statutory audits of:
  a) Listed company
  b) PSUs
  c) Govt. Co.
  d) Public Companies having T.O. ≥ Rs. 50 [250] crores

Question

- Client = ONGC (Listed Company)
- Mr. X, CA in practice and its statutory cum tax auditor
- Statutory Audit Fees = Rs. (say) 5,00,000
- Tax Audit Fees = Rs. (say) 6,00,000

Question

- Client = ONGC (listed company)
- Mr. X, CA in practice and its statutory auditor
- Statutory Audit Fees = Rs. (say) 5,00,000
- Payroll Audit Services = Rs. (say) 6,00,000

Question 5

- CA. X regularly purchases his travelling tickets from a sole proprietor travelling agent;
- The travelling agent charges his fees on concessional basis from CA. X as a matter of respect and regard towards his tax audit services;
- Is CA. X eligible as tax auditor of such sole proprietor.

Question 6

- Mr. X, a Chartered Accountant accepted his appointment as tax auditor of a firm under Section 44AB, of the Income-tax Act, and commenced the tax audit within two days of his appointment since the client was in a hurry to file Return of Income before the due date;
- After commencing the audit, Mr. X realised his mistake of accepting this tax audit without sending any communication to the previous tax auditor;
- In order to rectify his mistake, before signing the tax audit report, he sent a registered post to the previous auditor and obtained the postal acknowledgement;
- Will Mr. X be held guilty under the CA Act ?

Question 7

- CA. X, a Chartered Accountant accepted his appointment as tax auditor of a Company under Section 44AB, of the Income-tax Act, and commenced the tax audit within two days of his appointment since the client was in a hurry to file Return of Income before the due date;
- Last year the tax audit was carried out by the Statutory Auditor himself;
- During the Current Year, the Statutory Auditor was not reappointed as Tax Auditor;
- Whether CA. X needs to communicate with the Statutory Auditor before accepting the appointment as tax auditor?

Question 8

- CA. X, a Chartered Accountant accepted his appointment as tax auditor of a Company under Section 44AB, of the Income-tax Act, and commenced the tax audit within two days of his appointment since the client was in a hurry to file Return of Income before the due date;
- Last year the tax audit was carried out by the Statutory Auditor himself, while CA. X was the company's internal auditor;
- During the Current Year, the Statutory Auditor was not reappointed as Tax Auditor and CA. X was not appointed as internal auditor;
- Whether CA. X can be appointed as tax auditor; and if yes, whether he needs to communicate with the Statutory Auditor?

Question 8.1

- RST & Co. LLP
- The tax audit was carried out by Mr. X for FY 2024-2025
- During FY 2025-2026, RST & Co. LLP was converted in RST (P) Limited
- Mr. Y is proposed to be appointed as tax auditor for FY 2025-2026
- Is Mr. Y required to communicate with Mr. X before accepting the appointment as tax auditor?

Question 9

- CA. X is a tax auditor of the partnership firm for last 10 years
- Can he continue as tax auditor even for FY 2025-2026?
- If yes, then whether any audit considerations need to be kept in mind?

Code of Ethics – Vol. II (2026 Edn.)

- Long association with the auditee results in ‘familiarity threat’ to independence
- SA 200 read with Code of Ethics = if independence is impaired then audit shall not be undertaken

Question 9.1

- CA. X is the tax auditor of partnership firm for last 10 years
- This partnership firm also invested in 15% equity share capital of RST (P) Limited
- Can CA. X be appointed as tax auditor of RST (P) Limited (assume that he incurs no disqualification u/s 141(3) of the Companies Act, 2013)?

Question 10

- CA. X is proposed to be appointed as tax auditor of ABC and Co., a partnership firm engaged in jewellery business
- His son who is pursuing jewellery designing course was employed as trainee with such partnership firm at a stipend of Rs. 10,000 per month
- Can CA. X be appointed as tax auditor of such partnership firm?

Question 10.1

- Y & Co., a proprietorship firm
- CA. X is the tax auditor of this firm
- During FY 2025-2026, the son of CA. X got married to daughter of proprietor Y
- Can CA. X continue as tax auditor of Y & Co., a proprietorship firm ?

Question 11

- CA. X is proposed to be appointed as tax auditor of ABC & Co., a partnership firm on whom tax audit is applicable for the first time in FY 2025-2026;
- Till last year, the ITR of this firm was filed by CA. Y another CA in practice;
- Question 1: whether CA. X needs to communicate with CA. Y before accepting tax audit of this partnership firm
- Question 2: whether in the current alongwith tax audit, CA. X is also allowed to file ITR of such partnership firm

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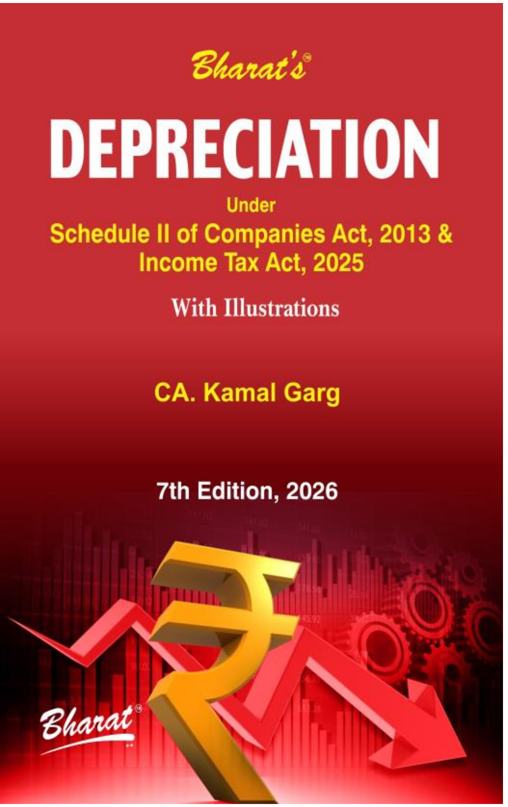

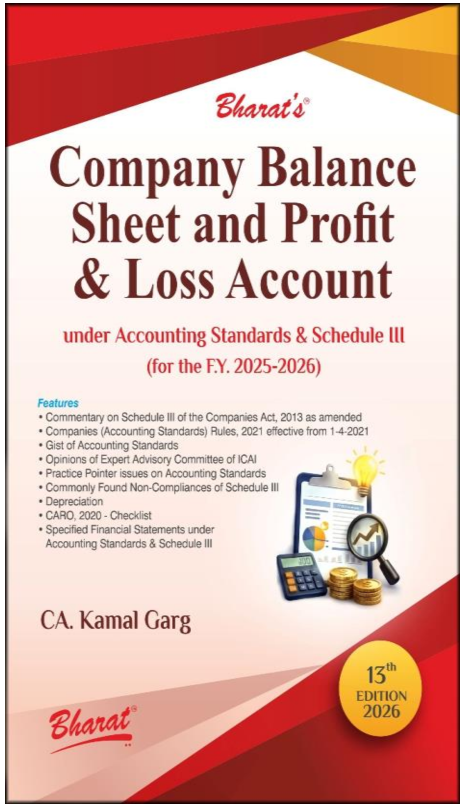

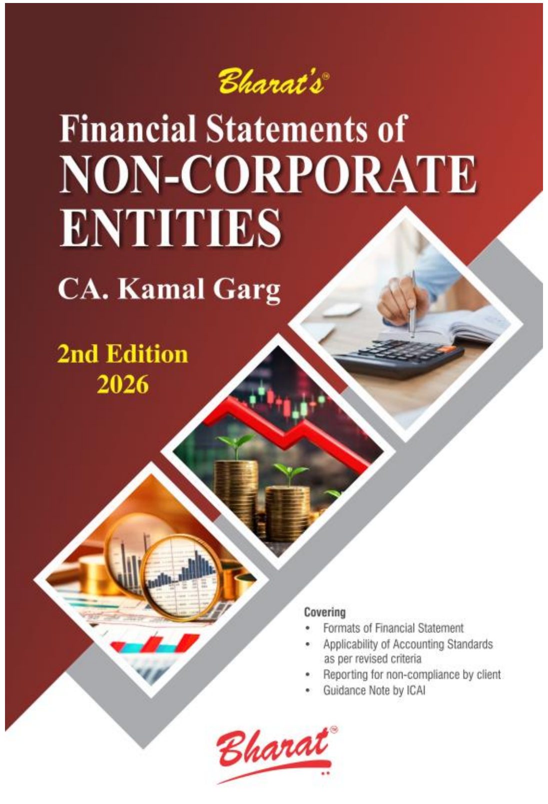

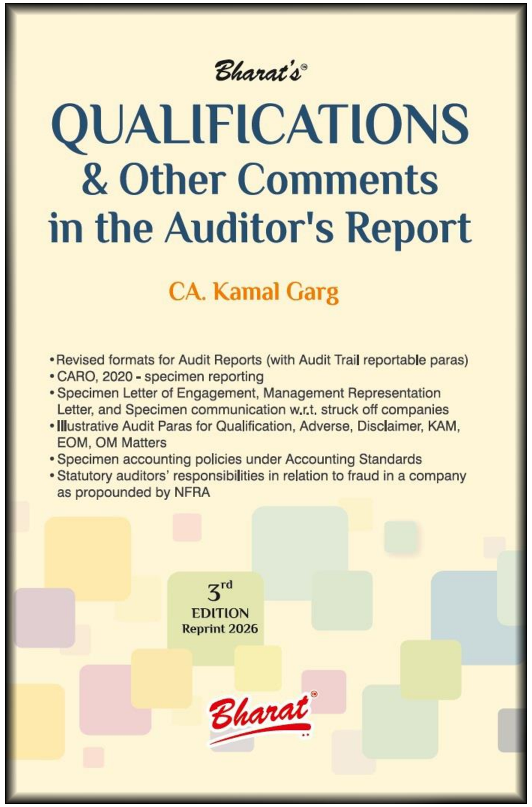

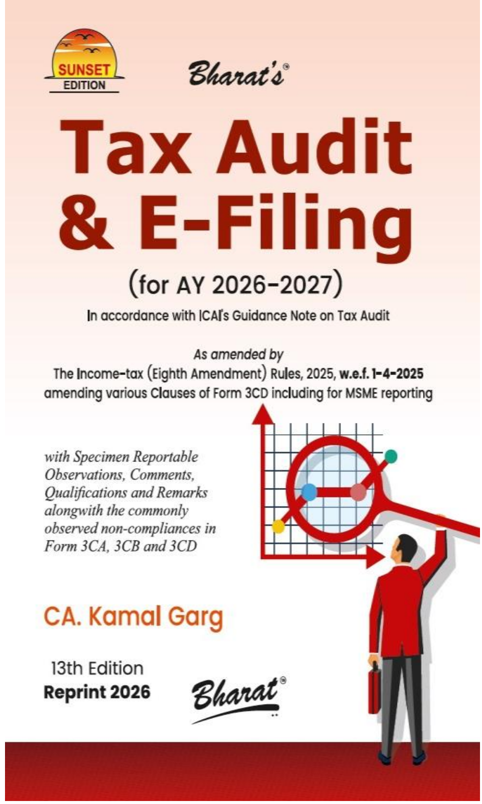

Thank you