

Dear Sir/Madam

In this communication, I am exploring on the ways that the profession of a tax auditor may be made more independent and thus more relevant for the general good of the profession and Nation. I hope my suggestion will find an audience with you.

Making Tax Audits more relevant:

When the provision of Tax Audit by a Chartered Accountant was inserted into Income Tax Statute, the same was inserted with major motive of curbing Tax Evasion by audited assessees. The Government relied upon the skills, competence, knowledge and independence of Chartered Accountants while entrusting them with an important task towards tax collections.

The Chartered Accountant has the necessary skill, competence and knowledge to detect any sort of misrepresentation in books of assessee. However, one important aspect that forms the core of auditing profession is lacking – Independence. Though in theory much promulgations have been made that emphasise on independence of a Chartered Accountant, but practically speaking, and we all professionals know of how independent a professional Chartered Accountant is while performing his duties as tax auditor. If the Chartered Accountants were actually independent while performance of their duties as tax auditors, there would have been no significant tax evasion in this country... but the actual situation, we all know of that.

How can a Chartered Accountant be expected to be independent so long as he is appointed by an auditee and paid by such client whose books, such professional is supposed to report on?

Many (I am using the word to sound more diplomatic, but as fellow professional you can understand what I mean, when I say 'Many') professionals are actually acting as tax planners (here again the choice of words is diplomatic) for the assessee rather than tax auditors, and if this continues, it might not be long for Govt to finish off with the system of Tax Audits.

However, as a fellow professional and a person with much more exposure of reality, even you will understand that a Chartered Accountant can prove to be much more competent and effective means towards Government efforts of curbing Tax evasion - just if he is actually made more independent of an auditee.

When the profession of Chartered Accountants was given Statutory Approval in 1949 and when the profession was entrusted with the important role of curbing direct tax evasion through tax audits, appropriate technology was not available towards this end, but of now necessary resources are already available and **it is actually a very simple task to make a Chartered Accountant more independent just if a process be formulated whereby each year (or after a period of say, every 3 years initially) assessees whose books are supposed to be audited are assigned to a Chartered Accountant through a centralised agency, which may even decide the fees for such audit.** The process can work as defined in below lines.

As of now, all the assessees whose books are to be audited, mention the address with postal PIN code at which their books are lying. Similarly, all the Chartered Accountants have their office address, of which they are person-in-charge, with its postal PIN code in ICAI's records. Having this information, it should be very simple process to identify the Chartered Accountant firms that lie in vicinity (the definition vicinity may be 25KM or more depending upon the geographical area and size of operations of assessee) of an assessee whose books are to be audited under Income Tax provisions. It will just take a simple software to be developed just on the lines of software that has been made for allotment of bank branches amongst CAs. All it needs is a simple

algorithm to be made that shall automatically assign the books of an assessee to a Chartered Accountant taking care that an assessee is not assigned same Chartered Accountant after completion of tenure (which may be 1 year or 3 years as discussed earlier). The algorithm shall also take care that the work is distributed evenly amongst the CA firms depending on criteria like no of partners and staff members at an office of a CA firm and the professional experience of partners and geographical vicinity of place where books are kept to the office of a Chartered Accountant.

So in effect this will mean that an assessee in the normal course will be assigned a Chartered Accountant who is located not more than 25 KM away, but if the size of business operations of an assessee is large enough that no Chartered Accountant in vicinity has handled before, a Chartered Accountant from a farther area may be appointed - thus an assessee with a turnover of say 1Lakh Crore shall be assigned to a firm of Chartered Accountants that have already handled such big clients before. The algorithm can take care that each Chartered Accountant may be eligible to audit assessees whose turnover may be up to 125% to 150% of the turnover of largest client that such professional has handled in last 3 years.

Devising such an algorithm/software shall actually be very simple and can address concerns of all stakeholders - If need be, I can participate in devising such an algorithm or can get such an algorithm devised at my side with necessary budget allocated.

My suggestions will address the concerns of all the members. As of now, there are many members who are too much into tax audits and others who are not having too many clients. It's a ground reality that many members are charging such lowly figures that can't even be quoted here, for the purpose of tax audits. In these cases, the members are not actually doing any audit, but are just pasting their stamp. The people who are doing innumerable tax audits, many of them are the ones who are getting the work from accountants and advocates and are just supposed to stamp. This process is bringing in disrepute, to the peril of profession. Once the audit work is allotted harmoniously and fee fixed by the central agency, the number of audits for some CA firms may reduce and for some increase - but the total fees earned by all members, as fixed on the basis of a harmonious standard, shall increase significantly.

The fixing of fees for tax audit by a central agency is actually again a very simple process. The same may be based on the total turnover/profits of assessee (as in case of banks) further taking consideration of no. of entries available in GST returns. Considering that more than 95% of Tax Audit Assesseees are subject of GST, the algorithm can extract the total no of entries in form GSTR-1 & GSTR-2 and identify the work involved by an auditor. Such an identification coupled with the turnover and profits (though ICAI regulations bar charging fees on basis of working results - but the same criteria is used in case of bank audits) can be a reasonable basis for identifying the fees that shall be payable to a tax auditor. The same shall be deposited by the assessee with the centralised agency before commencement of audit and shall be transferred by centralised agency to the account of Chartered Accountant Firms account once the Tax Audit report is duly submitted.

Some alternative mechanism can be defined for assesseees who are subject to tax audit but which are not registered under GST.

The centralised system will be such as to automatically assign assesseees, whose ITRs have been subject to tax audit during previous year to the Chartered Accountants by say, December 31st of the assessment year. The assesseees may get time till end of relevant financial year to declare if they don't fall under the tax audit requirements. Similarly, Chartered Accountants may be allowed time till end of financial year to withdraw from appointment for any reason.

To facilitate the process, the first-time auditees may be allowed to choose a Chartered Accountant of their choice till such assessee is allotted an auditor through centralised process after the first audited return is filed.

To act as deterrent, heavy penalties may be imposed on a Chartered Accountant if any addition is made to the assessable income of an auditee by the Income Tax Department and the same arises out of negligence of an auditor.

Any further issue or concern in above scheme may be deliberated upon and addressed, but in my opinion, such a system if implemented shall bring in the necessary repute for the profession and also lead to more compliant economy. The members in general will benefit as the work will be distributed harmoniously and professional earnings, if fee fixed systematically by appointing authority, for most of members will increase.

The process will make an auditor much more independent to actually cherish the audit profession.

In case you have any concerns, I may be provided an opportunity to resolve.

Looking forward towards hearing from you.

Yours truly

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