



Chartered Accountants Association, Surat



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To,
The President,
The Institute of Chartered Accountants of India,
ICAI Bhawan, Indraprastha Marg,
Post Box No.7100
New Delhi - 110002

Sub: Equitable Allocation of Tax Audit Assignments

Respected Sir,

With reference to the above captioned subject, we at Chartered Accountants Association Surat (CAAS) would like to draw your attention towards measures needed for a fair and equitable allocation of tax audit assignments, particularly in the light of the recent judicial pronouncement by the Apex Court with reference to number of tax audit and feedback sought by the Direct Tax Committee from Members.

CAAS has always supported and promoted in adopting ethical practice by CA fraternity. As a natural corollary to this very ideology, the allocation of Tax Audits should not be numbered in specific terms like at present 60 Tax Audit Assignments. These matrices vary based on the development index of the country at any given point of time. However, the Tax Audit, which was introduced in 1984, for the sole purpose of assisting the Income Tax Department in





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efficient and effective assessment of taxes, should be treated as a serious exercise. This entails the following issues for consideration:

1. Recommendatory fee for tax audit be in line with the fee prescribed in rule 14B of the Income Tax Rule:

Section 142(2A) empowers the Assessing officer to get the accounts audited by a chartered accountant in certain circumstances. Audit report in such scenario should be in form no 6B whereas normal tax audit u/s 44AB should be in form 3CD. Form 3CD contains reporting of more details than details to be reported in form no 6B.

Section 142(2D) mandates that audit fee and expenses shall be bear by the Auditee but will be determined by the PCIT etc. Rule 14B(2) also prescribes the fee structure which cannot be less than 3,750/- Per Hours of time spend which can be increased up to 7,500/- Per Hours. Thus, on similar lines the Tax Audit Fees should be prescribed by CBDT.

A few years ago, NFRA has issued a consultation paper on Audit quality and invite comments on certain issues from stakeholders. The main eye-catching point and theme of the consultation paper was based on low fee payment to the Auditors which is compromising the quality of the Audit. In Tax Audit, ICAI in consultation with the Government should fix the remuneration at least in line with fee prescribed fee standard as per rule 14B despite the fact that 3CB contains compilation and reporting of more details compared to form 6B.



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Tax Audit was introduced to get efficient and effective information in sequential manner for ease of assessment of correct income. Government is immensely benefited and to further escalate this benefit, A revenue sharing model can be involved as in vogue in various areas. Auditor can be rewarded with sharing of tax attributed on account of leakage reported by the Tax Auditor.

2. Centralized Automated Allotment:

Independence of Auditor is a buzz word which is frequently draw attentions of the stakeholders, to reduce the Auditor's independence risk, we suggest that an Audit Allocation Committee of ICAI should be formed in co-ordination with CBDT, to allocate Tax Audit Assignments using randomized allocation software, results whereof are visible on a live website, to ensure transparency. Parameters like distance between auditor-auditee, state, size of entities etc should be considered in grouping and allocating to individual auditors or firms suiting the criteria.

This will ensure equitable allocation of Tax Audits to the members in practice. It is also worth considering the following information for taking such informed decision.

No. of Tax Audits Completed and Uploaded on ITD Portal for AY 2023-24 *	3528175
No. of CA Members in Practice *	150240
Per capita Tax Audit Assignments per CA Member in Practice	23.48

*Source: [ICAI UDIN Report 2023-24](#)

It is worth pondering the question while allowing upto 60 Tax Audit assignments, that will it not result into an unequitable allocation of an essential



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quality service.? At present, the per capita tax audit assignment completed is 1/3rd of the maximum permissible limit. Also, a question needs to be pondered is how the newly added CA Practitioners may be awarded the tax audit assignments, compared to the old stalwarts, if the limit of tax audit is not regulated.

3. Stakeholder should be the payer:

It is a normal practice that the Auditor reports to the stakeholders. In Companies Act, this idea is highly streamlined and as a result the Independent Auditor's Report is addressed to the shareholders (owners) of the company who do not manage the affairs of the company. In turn, the Company pays the auditor. Here, the auditors enjoy considerable liberty and independence to report financial anomalies. However, under Tax Audit Assignments, which are treated as equivalent to Statutory Audits for non-corporates, the auditors do not enjoy this liberty or independence. Here, the payer may be the colluder. The process of obtaining the work order/appointment for Tax Audit from the auditee as well as the final payment is looked after by the management, which is the party of interest against which the reporting is to be made, whereas the mandate for Tax Audit is that of the Central Government. There seems to be clear conflict of interest which has been deliberately made unseen for years.

In this scenario, the risk of auditor's independence is the highest. It is thus, suggested that the payer of the remuneration should be the person who is the stakeholder or the beneficiary of the exercise. Hence, a mechanism can be devised where:



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- a. the audit task is evaluated for audit fees based on the parameters of turnover, capital and other key items of complexity;
- b. since under the centralized automated allotment, the auditor and the auditee are both unknown entities to each other, to ensure timely payment of audit fees mandated under the Income Tax Act, the auditee deposits with the Government, the amount of prescribed audit fees through a prescribed challan;
- c. on completion of 30 days of upload of Tax Audit Report on the Income Tax Portal, the account of the Tax Auditor is credited with the amount of fees deposited by the audited in para b above;
- d. hence, when the payer of fees is the auditee, but pays through the Government, not only the independence of auditor is protected, but the quality of reporting also improves.

4. Benefits of Equitable Allocation:

At present we do not press upon any specific number, since our suggestion is the implementation of centralized allotment system, which will automatically cater to the needs of Government against the number of CA Members in Practice. This will have multifold benefits, which are:

- i. Ample time is needed for quality audit, and as a result of centralized allocation, time will start ticking for the auditee, and the task to be completed by the Auditors shall get completed in a time bound manner, which may not entail any requests for extension to CBDT;
- ii. When fees are being paid through the Government (CBDT) prescribed rate, there shall be no scope for negotiation on either side, the



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independence of the auditor is bound to improve, without any fears or apprehension;

- iii. When ample time is available, the quality of audit is also bound to improve as the work load is distributed amongst the peers. It is pertinent to note that orders issued against any Auditors by regulatory agencies like NFRA are not very encouraging, since they bring profession to bad light, even though facts may be true. To balance the same, a mantra for limited work, but quality work should be adopted by ICAI.
- iv. Peers of the profession are professional brothers and all should get benefit from the professional body like ICAI, instead of getting benefit by soliciting work through relations, which are never documented but are always detrimental to the audit profession. A centralized allocation can automatically ensure that the audits are randomly allotted.
- v. Not only big corporates may benefit from a transparent corporate tax governance but also MSMEs may benefit when auditors are randomly allotted by interaction with multiple knowledgeable professionals, and while at present businesses lag behind in compliance, may actively grasp the understanding on the key areas of compliance to focus.
- vi. It would have already been evident to the Disciplinary Committee of ICAI that several audit firms have been resorting to more tax audit assignments than permitted which is sub-contracted to other professionals, resulting into professional exploitation. Here again, such things can be easily regulated by ICAI.

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5. Independence:



Independence does not come with empty pockets. It is a must that the fees structure of the tax audit assignments should undergo substantial change duly linked with the tax leakage, while it is in the hands of the proposed allotment committee in consultation with CBDT. A limited number of Tax Audit with remuneration as per recommended standards of ICAI, is highly desirable for the independence of the tax audit.

We hope that our suggestions/recommendations shall be incorporated in your decision making.

Thanks & Regards,

For Chartered Accountants Association, Surat.

Rasesh Shah | *Lalit Hirpara*

President | Secretary



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