



ICAI WEBINAR · TAX AUDIT UNDER SECTION 44AB

Clauses 36 to 44 of Form No. 3CD

What is Asked · What We Report · How to Verify · Disclosures · Documentation for Peer Review & ICAI



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Based on the ICAI Guidance Note on Tax Audit u/s 44AB (Revised 2026 — Eleventh Edition)

Agenda

For every clause allotted to today's session, we will cover the same five practitioner questions:

WHAT IS ASKED 	WHAT WE REPORT 	STEPS TO VERIFY 	DISCLOSURES 	DOCUMENTATION 
The precise statutory / e-filing utility question	How the answer must be framed and disclosed	Evidence and certificates the auditor should obtain	What goes into Form 3CA / 3CB observations	The working-paper file for peer review & ICAI

Clauses covered today

- 36A & 36B — Deemed dividend (loans/advances; buy-back of shares)
- 37, 38, 39 — Cost / Excise / Service Tax audit cross-references
- 40 — Accounting ratios
- 41 — Demands raised or refunds issued under other tax laws
- 42 — Furnishing of Form Nos. 61, 61A and 61B
- 43 — Country-by-Country Reporting (Section 286)
- 44 — GST-wise break-up of total business expenditure
- Closing: common quality-review errors, a documentation framework, and a one-page checklist



Form No. 3CD — Where Clauses 36 to 44 Fit

Form 3CD in brief

- Statement of particulars required under section 44AB, annexed to the audit report in Form 3CA (assessee whose accounts are audited under another law) or Form 3CB.
- Runs from Clause 1 to Clause 44 (with several lettered sub-clauses) — from basic assessee details to GST-linked expenditure.
- Section 44AB thresholds: business turnover > ₹1 crore (₹10 crore where cash receipts and cash payments each ≤ 5% of the total); profession gross receipts > ₹50 lakh; plus specified presumptive-taxation triggers (44AD/44ADA/44AE/44BB/44BBB).

Clauses 36–44 — the cross-law & miscellaneous compliance block

- Deemed dividend reporting — Clauses 36A, 36B
- Cross-references to other statutory audits — cost, excise, service tax — Clauses 37, 38, 39
- Business ratios — Clause 40
- Cross-law demands/refunds — Clause 41
- Third-party information returns (Form 61/61A/61B) — Clause 42
- International tax — Country-by-Country Reporting — Clause 43
- GST-linked expenditure break-up — Clause 44

Source: Guidance Note, Paras 1–3 and Contents (Sr. Nos. 70–79)

Form 3CD: Recent Changes Affecting Our Clauses

- **2018 — 8th Amendment Rules (Notification 33/2018):** Clauses 30C and 44 inserted into Form 3CD.
 - 2021 — Circular No. 5/2021 (25-3-2021): reporting under Clauses 30C and 44 kept in abeyance till 31-3-2022.
- **2021 — Notification 28/2021 (1-4-2021):** Clauses 8A, 17, 18, 32 and 36 amended — the erstwhile DDT-reporting Clause 36 is reshaped around this date.
- **2024 — Notification 27/2024 (5-3-2024, 4th Amendment Rules):** Clauses 8A, 12, 18(ca), 19, 21(a), 21(b)(ii)(B)(IV), 22, 26 and 32(a) amended.
- **2025 — Notification 23/2025 (28-3-2025, 8th Amendment Rules):** Clauses 12, 19, 21(a), 22, 26, 31(a)(ii), 31(b)(ii), 31(c)(ii) amended; new Clause 36B inserted after Clause 36A; Clauses 28 and 29 omitted.

Net effect for today's session

- Clause 44 is now fully live — the 2021–22 abeyance has long ended.
- Clause 36B is the newest reporting requirement among all the clauses we cover today.



SETTING THE CONTEXT

Source: Guidance Note, Para 2.3(h)–(l)

From Clause 36 to Clauses 36A and 36B

Why the history matters for today's audience

- The erstwhile Clause 36 called for the amount of Dividend Distribution Tax (DDT) paid under section 115-O, and its date of payment.
- The Finance Act, 2020 abolished DDT and moved dividend taxation back into the hands of shareholders — the old Clause 36 lost its purpose.
- Notification No. 28/2021 dated 1-4-2021 (Income-tax 8th Amendment Rules, 2021) amended Clause 36 along with Clauses 8A, 17, 18 and 32 of Form 3CD.

Result — two focused clauses in force today

- Clause 36A — amounts in the nature of deemed dividend under section 2(22)(e): loans/advances by closely-held companies to substantial-interest shareholders or concerns.
- Clause 36B — deemed dividend on buy-back of shares under section 2(22)(f), inserted by the Income-tax (Eighth Amendment) Rules, 2025, applicable to buy-backs completed on or after 1-10-2024.



CLAUSE 36 FAMILY

Source: Guidance Note, Para 2.3(i) & (l); Para 70.1; Para 71.1

Clause 36A — What Is Asked

? WHAT IS ASKED

The statutory trigger — section 2(22)(e)

- Deems certain payments by a closely-held company (one in which the public are not substantially interested) as 'dividend'.
- Conditions: payment by way of loan/advance (or on behalf of / for the benefit of a shareholder) to a 'specified shareholder' who is the beneficial owner of $\geq 10\%$ of the voting power.
- Or, a loan/advance to a concern in which that shareholder is a member/partner and has a substantial interest ($\geq 20\%$ share of income).
- The company must possess accumulated profits on the date of payment — the deemed dividend is restricted to that extent.

Clause 36A wording

- (a) Has the assessee received any amount in the nature of dividend referred to in section 2(22)(e)? (Yes/No)
- (b) If yes — the amount received, and the date of receipt, for each such amount.



CLAUSE 36A

Clause 36A — What We Must Report

WHAT WE REPORT

Reporting mechanics

- Answer sub-clause (a) Yes/No based on whether any amount in the nature of dividend u/s 2(22)(e) was received.
- If 'Yes', sub-clause (b) requires each such amount and its date of receipt to be stated individually — a consolidated/aggregate figure is not sufficient.
- Not required: the auditor's opinion on taxability, or the taxable amount after adjusting for accumulated profits — only the amount received need be reported.
- Individuals/HUF: no reporting needed if the deemed-dividend amount is not accounted for in the assessee's (business) books, unless disclosed to the auditor through the Management Representation Letter.

A CBDT relief worth remembering

- Circular No. 19/2017 (12-6-2017): ordinary business/trade advances between closely-held companies and concerns with substantial interest are outside the purview of section 2(22)(e) — need not be reported here.



CLAUSE 36A

Source: [Extract] Ch. 59, points (2)–(4), (10)–(11); Guidance Note Para 70.3, 70.7, 70.9



Clause 36A — Steps to Verify

Q STEPS TO VERIFY

Certificates to obtain from the assessee

- List of closely-held companies in which the assessee is a beneficial owner of $\geq 10\%$ voting-power shares.
- List of concerns in which the assessee has a substantial interest ($\geq 20\%$ share of income).
- Particulars of any loans/advances received by such a concern from a closely-held company in which the assessee is a $\geq 10\%$ beneficial owner.

Other verification steps

- Cross-check Form 26AS / AIS / TIS for TDS deducted by the closely-held company under section 194 — indicates the payer's own view of the payment.
- Examine current-account transactions with the closely-held company to separate normal trade dealings from loans/advances.
- Where the registered holder is not the beneficial owner, obtain an undertaking to that effect and verify compliance filings under the Companies Act, 2013.
- Note: the Supreme Court has referred to a larger bench the question of whether a partnership holding shares through a partner is a 'shareholder' for section 2(22)(e) (National Travel Services v. CIT) — exercise and document professional judgment.

Source: Guidance Note, Para 70.3–70.8; [Extract] Ch. 59, points (12)–(14)

Clause 36A — Disclosures & Documentation

⚠ DISCLOSURES

📁 DOCUMENTATION

Disclosures in Form 3CA / 3CB

- Where the auditor cannot independently verify certified information from the books, state this limitation and the reliance placed on the assessee's certificates — in Clause (3) of Form 3CA / Clause (5) of Form 3CB.
- Disclose the methodology adopted where accumulated profits are estimated on a time basis, or where a judicial view has been relied upon.

Documentation to retain (peer review / ICAI file)

- Certificates obtained — closely-held companies list, substantial-interest concerns, loan/advance particulars.
- Form 26AS / AIS / TIS extracts examined, and the conclusion drawn from them.
- Working papers recording each reportable amount, date of receipt, and the basis for treating it as dividend under section 2(22)(e).
- Copy of the Management Representation Letter covering this clause.



CLAUSE 36A

Clause 36B — What Is Asked

? WHAT IS ASKED

The statutory trigger — section 2(22)(f)

- Inserted w.e.f. 1-10-2024 to widen 'dividend' to include any payment by a company on purchase of its own shares from a shareholder, made under section 68 of the Companies Act, 2013 (buy-back).
- Section 68 conditions to keep in view: buy-back authorised by articles/special resolution; sourced only from free reserves, securities premium or share proceeds; within prescribed limits of paid-up capital and free reserves; debt-equity ratio limits; solvency declaration; extinguishment of shares within 7 days of completion.

Clause 36B wording

- (a) Has the assessee received any amount for buy-back of shares referred to in section 2(22)(f)? (Yes/No)
- (b) If yes — amount received, and cost of acquisition of the shares bought back.



CLAUSE 36B

Clause 36B — What We Must Report

WHAT WE REPORT

Reporting mechanics

- Only buy-backs completed on or after 1-10-2024 are reportable — amounts received for buy-backs completed earlier are outside this clause.
- Report (i) the amount received, and (ii) the cost of acquisition of the shares bought back — both feed directly into the assessee's computation of income.
- Item (i) affects 'dividend income'; item (ii) affects 'capital loss' (or business income, if the shares were held as stock-in-trade).

Applicability nuance for individuals/HUF

- If the shares/securities form part of personal (non-business) accounts, ideally no reporting is required, as they fall outside the accounts covered by tax audit.
- If the business accounts hold the shares, reporting is required even if the assessee claims to be a trader in shares/securities.



CLAUSE 36B

Source: Guidance Note, Para 71.3, 71.5–71.6

Clause 36B — Verify, Disclose & Document

 STEPS TO VERIFY

 DISCLOSURES

 DOCUMENTATION

Verification

- Cross-verify with TIS/AIS, which may already reflect the buy-back transaction.
- For listed companies, buy-backs from any person (other than open-market purchases) aggregating ₹10 lakh or more in a year must be reported to the Registrar via Form SH-8/SH-9 — compare with public-domain/ROC filings.
- As a procedural safeguard, always insist on disclosure of the amount received and cost of acquisition through a Management Representation Letter.

Disclosure & documentation

- Where reliance is placed on the offer letter, ROC filings, or 26AS/AIS/TIS rather than the books, state this basis of reporting in Clause (3) of Form 3CA / Clause (5) of Form 3CB.
- Retain: offer/buy-back letter, SH-8/SH-9 (if listed), TIS/AIS extract, and the Management Representation Letter.



CLAUSE 36B

Source: Guidance Note, Para 71.4; [Extract] Ch. 60, point (12)



Clause 37 — Cost Audit Report

- ? WHAT IS ASKED
- WHAT WE REPORT
- Q STEPS TO VERIFY
- DOCUMENTATION

What is asked

- Whether any cost audit was carried out under section 148 of the Companies Act, 2013 during the period covered by the tax audit; if yes, details of any disqualification or disagreement reported by the cost auditor.
- Applies only to companies — not to non-corporate assessees.

Reporting & verification

- Ascertain from management whether a cost audit was ordered and carried out; if yes, obtain a copy of the report.
- Note (without evaluating the merits of) any disqualification/disagreement — summarised within the e-filing utility's 500-character limit.
- Not required: a detailed study of the report, or an opinion on whether the disagreement/disqualification is justified.
- If cost audit was ordered but the report is not received by the tax-audit date, record that fact as an observation in Clause (3) of Form 3CA.

Documentation — and a peer-review caution

- Retain the cost audit report (or evidence that none was received), and notes on how the 500-character summary was arrived at.
- TAQRB observation: reporting based only on management representations — without obtaining/examining the cost audit report — and contradictory reporting (report referred to elsewhere but 'No' stated here) have both been flagged in quality reviews.

Source: [Extract] Ch. 61, points (1)–(24); Guidance Note Para 72.1–72.3 and TAQRB observations



Clause 38 — Central Excise Audit Report

? WHAT IS ASKED

Q STEPS TO VERIFY

What is asked

- Whether any audit was conducted under the Central Excise Act, 1944; if yes, details of disqualification/disagreement reported by that auditor.

Current relevance — read carefully before marking ‘Not Applicable’

- Central Excise now applies only to goods kept outside GST — petroleum crude, high-speed diesel, motor spirit, natural gas, aviation turbine fuel, and tobacco products.
- For assessee dealing in these specified goods, an excise audit — and this clause — can still be relevant; for all other assessee the answer will ordinarily be ‘No’/‘Not Applicable’.

Verification & documentation — same discipline as Clause 37

- Ascertain from management whether an excise audit was ordered/carried out; obtain a copy of the report if so, and summarise disqualifications/disagreements without evaluating their merits.
- If ordered but not received by the tax-audit date, record that fact as an observation in Clause (3) of Form 3CA.
- TAQRB observation: the same two errors as Clause 37 — reliance solely on management representation, and contradictory Yes/No reporting — recur here.

Source: Guidance Note, Para 73.1–73.3 and TAQRB observations

Clause 39 — Service Tax Audit (Section 72A, Finance Act 1994)

? WHAT IS ASKED

What is asked

- Whether any audit was conducted under section 72A of the Finance Act, 1994 in relation to valuation of taxable services; details of disqualification/disagreement, if any.

Why this clause has largely gone quiet

- “With service tax subsumed in GST, and no longer in operation, the relevance of this clause has substantially diminished” — reporting will, in most cases, simply not arise.
- Some residual relevance survives only for legacy pre-GST matters — for example, a service-tax demand adjudicated or concluded during the year under audit.

Practical approach

- Confirm with management whether any such legacy audit/proceeding exists for the year; in the overwhelming majority of current audits the answer will be ‘No’/‘Not Applicable’.
- Where a legacy matter does exist, apply the same verification and documentation discipline as Clauses 37 and 38.



CLAUSE 39

Source: Guidance Note, Para 74.1 (quoted)

Clause 40 — What Is Asked

? WHAT IS ASKED

Five items, for the current and preceding year

- Total turnover of the assessee
- Gross Profit / Turnover (%)
- Net Profit / Turnover (%)
- Stock-in-trade / Turnover (%)
- Material consumed / Finished goods produced (%)

Applicability differs by nature of business — Clause 10(a)

- Manufacturing: all five items apply.
- Trading: all except item 5 (material consumed/finished goods produced).
- Service providers: only items 1 and 3 (turnover and Net Profit ratio).
- Job-work (manufacturing to a client's specifications/materials): item 5 not required.
- Construction companies: only items 1 and 3 — construction is a service activity, not manufacturing.



CLAUSE 40

Source: [Extract] Ch. 63, points (1), (10), (11), (12), (23)–(26); Guidance Note Para 75.1



Clause 40 — How the Ratios Are Computed

WHAT WE REPORT

Key definitions

- Gross Profit: excess of proceeds of goods sold/services rendered over their cost, before administration, selling, distribution and financing expenses; a negative result is a gross loss.
- Net Profit: excess of revenue over expenses for the period — use Net Profit before tax, not after tax.
- Stock-in-trade: only closing finished-goods stock (not the average of opening and closing, and not raw material/WIP/stores/spares).
- Material consumed: raw materials plus stores, spares and loose tools actually consumed.

Mechanics in the e-filing utility

- Figures are entered in value terms only — no product-wise or quantity-wise detail is required; the utility auto-calculates all four ratios once turnover, GP, NP, stock and material-consumed/finished-goods figures are entered and saved.
- Preceding-year figures should come from last year's audited report (or restated figures); if the preceding year was unaudited, leave the ratio blank and explain in the observations.

Source: [Extract] Ch. 63, points (2)–(9), (32)–(46); Guidance Note Para 75.2–75.8



Clause 40 — Verification & Common Pitfalls

Q STEPS TO VERIFY

Verification checklist

- Ensure consistency between numerator and denominator for each ratio — mandatory; report any inconsistency in Clause (3) of Form 3CA / Clause (5) of Form 3CB.
- Reconcile the net-profit figure used here with net-profit-after-tax shown in notes to accounts under Schedule III, and flag any difference.
- Include scrap sales within turnover.

TAQRB observations — errors seen in quality reviews

- 'Not Applicable' not reported for service-sector entities — clause left blank instead.
- Scrap sales excluded from turnover, in some cases.
- Net profit after tax wrongly reported instead of net profit before tax.
- Stock-in-trade/turnover ratio computed using average stock rather than the closing balance prescribed.
- Material consumed figure excluding stores, spares and loose tools; material-consumed/finished-goods ratio not reported at all, in certain cases.
- Mismatch in preceding-year figures, with no corresponding remark in Form 3CA/3CB.

Source: Guidance Note, Para 75.2, 75.7 and TAQRB observations under Clause 40

Clause 40 — Documentation & Practical Issues

DOCUMENTATION

Practical issue: item-wise detail vs. e-filing reality

- The Note to Clause 40 calls for detail by principal item traded/manufactured/service rendered, but the e-filing utility has no field for item-wise entry.
- Practical solution: report turnover-based ratios for the business as a whole; where there is more than one principal item, draw reference to item-wise figures in the notes to accounts, with a suitable disclaimer remark in Clause (5) of Form 3CB.

Working papers to retain

- Computation sheet for turnover, gross profit, net profit, closing stock-in-trade and material consumed/finished goods produced, for both years.
- Reconciliation with the audited financial statements and with the ratios required in notes to accounts under Schedule III.
- Evidence that entries were saved in the e-filing utility, and that the consistency check was performed.



CLAUSE 40

Source: [Extract] Ch. 63, points (50)–(51)

Clause 41 — Demands Raised or Refunds Issued (Other Tax Laws)

? WHAT IS ASKED

WHAT WE REPORT

What is asked

- Particulars of any demand raised or refund issued during the previous year under any tax law other than the Income-tax Act, 1961 and the (now-repealed) Wealth-tax Act, 1957, together with details of the relevant proceedings.
- Typically covers GST, Customs Duty, (legacy) Central Excise/Service Tax, VAT, CST and Professional Tax — apply professional judgment on what qualifies as a 'tax law'.

What we report

- Report even where the demand/refund order pertains to a period other than the relevant previous year — the timing of issue during the year is what matters.
- Report any adjustment of refund against an outstanding demand under this clause as well.



CLAUSE 41

Source: Guidance Note, Para 76.1–76.2

Clause 41 — Verification & Documentation

 STEPS TO VERIFY

 DOCUMENTATION

Verification steps

- Obtain copies of all demand/refund orders received by the assessee up to the tax-audit date, and verify against the books of account.
- Cross-verify demands/refunds on the online portals of the respective departments (e.g. the GST portal), wherever feasible.
- Cross-check against contingent liability disclosures in the audited financial statements and, for corporate assessees, CARO disclosures.
- Obtain a Management Representation Letter confirming completeness of the demands/refunds disclosed.

Suggested working-paper format

- Columns: Financial year to which the demand/refund relates | Applicable Act | Demand/Refund order no. | Date of order | Amount | Remarks (authority before which the matter is pending).



CLAUSE 41

Clause 42 — Furnishing of Form Nos. 61, 61A and 61B

? WHAT IS ASKED

Applies to every assessee entering specified transactions

- Governed by section 139A(5)(c) and section 285BA of the Act, read with Rules 114B, 114E, 114F, 114G and 114H.

The three forms at a glance

- Form 61 — filed by persons receiving Form 60 declarations, including tax-audit assessees billing cash > ₹50,000 for hotel/restaurant, foreign travel/forex, or sale/purchase of goods/services (outside Rule 114B's list) exceeding ₹2 lakh per transaction.
- Form 61A — Statement of Financial Transactions (SFT) under section 285BA and Rule 114E.
- Form 61B — filed by 'reporting financial institutions' under Rules 114F–114H (FATCA/CRS-type reporting).



CLAUSE 42



Clause 42 — What We Report

WHAT WE REPORT

Sub-clause (a)

- Whether the assessee is required to furnish a statement in Form 61 / Form 61A / Form 61B — Yes/No, based on the applicable section and rule.

Sub-clause (b) — if ‘Yes’, for each applicable form

- Income-tax Department Reporting Entity Identification Number (ITDREIN)
- Type of form (61 / 61A / 61B)
- Due date for furnishing
- Date of actual furnishing, if furnished
- Whether the form contains information about all details/transactions required to be reported (Yes/No); if ‘No’, a list of what is not reported.

Due dates to keep handy

- Form 61: 31 October (declarations received 1 Apr–30 Sep) or 30 April (declarations received 1 Oct–31 Mar).
- Form 61A and Form 61B: 31 May of the immediately following financial year.

Source: Guidance Note, Para 77.1–77.3



Clause 42 — Verification & Documentation

 STEPS TO VERIFY

 DOCUMENTATION

A key distinction from Clause 43 — read this carefully

- Unlike Clause 43 (CbCR), here the tax auditor must verify the completeness and accuracy of the filings themselves — not merely whether they were filed.

Verification steps

- Cross-check cash receipts exceeding ₹2,00,000 reported under Clause 31(ba)/(bb) (section 269ST) against what is actually reported in Form 61A.
- For a listed company, check whether any buy-back of shares (Rule 114E) required reporting in Form 61A.
- Examine Forms 61/61A/61B as actually uploaded on the income-tax portal; if a form was revised, verify all required particulars appear in the revised version.
- If unreported transactions are numerous, state illustrative deficiencies in sub-clause (b) and add an appropriate remark in Clause (3) of Form 3CA / Clause (5) of Form 3CB.

Documentation

- Filed forms with acknowledgement numbers, ITDREIN registration proof, and the Management Representation Letter confirming completeness of reporting.

Source: Guidance Note, Para 65.2 (items 3–4, 13–17); Para 77.4–77.5



Clause 43 — Country-by-Country Reporting (Section 286)

? WHAT IS ASKED

The underlying obligation

- Section 286(2) requires the Indian parent entity, or the Indian Alternate Reporting Entity (ARE), of an 'international group' to furnish a Country-by-Country Report (CbCR) for the reporting accounting year.
- Exemption: not required if the group's total consolidated revenue in the preceding accounting year does not exceed ₹6,400 crore (Rule 10DB).

When Clause 43(a) must be answered 'Yes'

- The assessee itself is the Indian-resident parent entity of the international group; or
- The assessee is resident in India and has been designated as the Alternate Reporting Entity; or
- The assessee is a constituent whose Indian parent has not designated any other resident constituent as ARE — obligation falls on the parent; or
- Another Indian-resident constituent of the group has been designated as ARE.

If 'Yes' — sub-clause (b) requires

- Whether the report has been furnished by the assessee/parent/ARE; name of parent entity; name of ARE (if applicable); date of furnishing.

Source: Guidance Note, Para 78.1–78.5, 78.8



Clause 43 — Verification & Documentation

 STEPS TO VERIFY

 DOCUMENTATION

A key distinction from Clause 42 — read this carefully

- Here the tax auditor's role is limited: state whether the CbCR has been filed — the auditor is not required to audit or verify the correctness of the CbCR's contents.

Verification steps

- Verify whether Form No. 3CEAC (notifying the reporting entity) has been filed — due within 10 months of the reporting accounting year-end, typically 31 January, which falls after the tax-audit due date.
- Because of this timing gap, base reporting on Form 3CEAC filed for the immediately preceding previous year, or on information available up to the specified date.
- Examine Form 3CEC, which shows whether the assessee or another constituent entity has been designated as the reporting entity.
- Obtain a certificate from the assessee on the constitution of the international group and residential status of its constituents.
- If a report has been filed by the parent/ARE, obtain a copy of the report and its filing acknowledgement.

Documentation

- Certificate on group constitution, Form 3CEAC/3CEC copies examined, and the filing acknowledgement retained on file.

Source: Guidance Note, Para 65.2(14); Para 78.6–78.9

Clause 44 — What Is Asked

? WHAT IS ASKED

Applies to every tax-audit assessee — no exemption

- Applies whether or not the assessee is registered under GST, and whether or not exempt from registration — a plain reading gives no carve-out.

The seven-column format

- Col 1: Sl. No. Col 2: Total expenditure incurred during the year on 'supplies' as defined in GST law.
- Cols 3–5 (break-up of GST-registered spend): (3) exempt from GST, (4) from composition-scheme dealers, (5) from other registered entities.
- Col 6: Total payment to registered entities (= Col 3 + Col 4 + Col 5).
- Col 7: Expenditure relating to entities not registered under GST.
- **Key relationship: Col 2 = Col 6 + Col 7.**



CLAUSE 44

Source: [Extract] Ch. 67, applicability note; Guidance Note Para 79.6–79.7 and Table



Clause 44 — Reconciling ‘Total Expenditure’ (Column 2)

WHAT WE REPORT

What Column 2 does NOT mean

- It is not the total expenditure debited to the Profit & Loss Account — it covers only expenditure on ‘supplies’ as defined under GST law (both capital and revenue).

Suggested reconciliation working paper

- Total expenditure in P&L for the year
- Less: non-cash charges (depreciation, amortisation, bad debts written off, impairment, etc.)
- Less: expenditure on transactions in securities and transactions in money
- Less: expenditure excluded under Schedule III to the CGST Act, 2017 (e.g. remuneration to employees)
- Add: capital expenditure on ‘supplies’ not included in the P&L for the year
- = **Total amount of expenditure incurred during the year (Column 2)**

Practical points

- Personal expenses debited to the P&L account (of an assessee otherwise subject to statutory audit) should be excluded from total revenue expenditure for this clause.
- Purchase of land/completed buildings is excluded from capital expenditure, being outside Schedule III’s scope of ‘supply’.

Source: Guidance Note, Para 79.2–79.3; [Extract] Ch. 67, points (13)–(17)



Clause 44 — Column-wise Reporting Rules



WHAT WE REPORT



STEPS TO VERIFY

Populating Columns 3–7

- Col 3 — Exempt from GST: nil-rated, wholly-exempt and non-taxable inward supplies (e.g. alcoholic liquor, petroleum crude, HSD, motor spirit, natural gas, ATF).
- Col 4 — Composition-scheme dealers: verify the bill of supply carries ‘composition taxable person, not eligible to collect tax on supplies’ — such dealers cannot issue a tax invoice or charge GST.
- Col 5 — Other registered entities: value of remaining inward supplies from registered dealers.
- Col 6 — Total payment to registered entities: sum of Columns 3, 4 and 5 (read ‘payment’ here as ‘expenditure’).
- Col 7 — Not registered under GST: value of inward supplies from unregistered persons.

A recurring practical issue

- Small/medium taxpayers often do not capture suppliers’ GSTIN in their accounting software. Suggested remark: “The assessee has not identified GSTIN of the Composition Taxpayer at the time of procurement of goods and services, and hence the said information is not reported under Clause 44.”

Source: [Extract] Ch. 67, points (20)–(31); Guidance Note Para 79.8–79.15



Clause 44 — Verification & Documentation

 STEPS TO VERIFY

 DOCUMENTATION

Verification steps

- Verify Columns 6 + 7 reconcile with Column 2, subject only to the non-cash-charge and Schedule III exclusions already netted off.
- Test-check the particulars furnished against underlying purchase/expense records and GST returns on a sample basis.
- Watch the registration-status cut-off: a supplier's GST registration may have been cancelled after the date of supply — disclose the cut-off date adopted and the treatment of known cancellations.

Documentation to retain

- The assessee's reconciliation of P&L expenditure to the Column 2 total, and the working for each column (3 to 7).
- Evidence of the test-check performed and the assessee's own reconciliation relied upon.
- Remarks recorded in Form 3CA/3CB regarding GSTIN-identification gaps or registration-status cut-offs.

Suggested Working Papers — Appendix IXC, Items 35 & 36 [Guidance Note Para 79.4, Para 79.20]



What Quality Reviews Are Finding — Clauses 37 to 40

Clauses 37 & 38 (Cost / Excise Audit Reports)

- Reporting based solely on management representations, without obtaining and examining the actual cost/excise audit report.
- Contradictory reporting — the audit report is referred to elsewhere in Form 3CA/3CB, yet 'No' is stated under these clauses.

Clause 40 (Accounting Ratios)

- 'Not Applicable' not reported for service-sector entities — left blank instead.
- Scrap sales omitted from turnover.
- Net profit after tax reported instead of net profit before tax.
- Stock-in-trade/turnover ratio computed on average stock rather than the closing balance.
- Material consumed excluding stores, spares and loose tools; the material-consumed/finished-goods ratio not reported at all, in some cases.
- Mismatch in preceding-year figures, with no corresponding remark in Form 3CA/3CB.

The common thread

- Every one of these is avoidable with (a) primary evidence rather than representations alone, and (b) a second reviewer cross-checking Form 3CA/3CB observations against every Yes/No answer in Form 3CD before signing.

Source: TAQRB Observations, Guidance Note under Clauses 37, 38 and 40



Building a Peer-Review-Ready Working Paper File

SA 230 — the audit documentation standard applies to tax audit too

- SA 230 defines audit documentation as ‘the record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached’.
- It is the primary evidence that the audit was planned and performed in accordance with legal and regulatory requirements — and the auditor’s principal shield in any later quality review, peer review, or legal challenge.

What every clause file should contain

- Details of audit procedures actually performed, and who performed them.
- Information and explanations obtained, and from whom.
- Significant matters considered, and the conclusions/decisions reached on them.
- Judicial pronouncements relied upon while forming the view taken.
- Certificates issued by the assessee and Management Representation Letters obtained.
- The extent of check adopted, wherever sampling techniques are used.

For peer review and ICAI purposes

- Maintain a signed engagement letter and clause-wise working papers, cross-referenced to the specific Form 3CD entry they support.
- Retain evidence of the review performed before signature — especially for clauses answered ‘No’/‘Not Applicable’, which quality reviews scrutinise closely.

Source: Appendix IXC — general principles, Items 1–2



Quick-Reference Checklist — Clauses 36A to 44

Clause	Trigger / When It Applies	Key Verification Step
36A	Loan/advance by closely-held co. to ≥10% shareholder / substantial-interest concern	Certificates + 26AS/AIS/TIS + CBDT Circular 19/2017 check
36B	Buy-back of shares u/s 68 Companies Act, completed on/after 1-10-2024	TIS/AIS + SH-8/SH-9 (listed) + MRL
37	Cost audit ordered u/s 148 Companies Act (companies only)	Obtain report; note disqualifications, don't opine on merits
38	Excise audit u/s Central Excise Act (non-GST goods only)	Same discipline as Clause 37; check goods dealt in
39	Service tax audit u/s 72A — legacy matters only	Confirm no live/legacy proceeding exists
40	Manufacturing / trading / service assesseees — always applicable	Numerator-denominator consistency; NP before tax
41	Any demand/refund during the year under a non-Income-tax law	Orders + department portal cross-check + CARO
42	Statement required in Form 61 / 61A / 61B	Verify completeness & accuracy of the filings
43	Assessee / parent / ARE liable for CbCR u/s 286(2)	Verify only whether filed — not its correctness
44	All tax-audit assesseees — expenditure vs. GST status of payee	Reconcile Col.2 = Col.6 + Col.7; test-check

Key Practical Takeaways

- Never answer purely from memory or last year's file — Clauses 36B, 40 and 44 in particular have changed materially in recent amendments.
- Certificates and Management Representation Letters are essential wherever the auditor cannot independently verify a fact from the books — but they never substitute for primary evidence where it is available (cost/excise audit reports, TIS/AIS, portal records).
- Distinguish 'verify completeness' clauses (42) from 'verify only whether filed' clauses (43) — the extent of your work, and your exposure, differs materially between the two.
- Consistency checks matter — numerator/denominator in Clause 40, and Column 2 = Column 6 + Column 7 in Clause 44 — inconsistencies are a leading quality-review finding.
- When in doubt, disclose: use Clause (3) of Form 3CA / Clause (5) of Form 3CB liberally to record limitations, reliance placed, and the basis of judgment calls.
- Build the working paper file as you go — for peer review and ICAI purposes, a clause-wise, well cross-referenced file is worth more than a strong memory in an inspection room.



CLOSING

References & Further Reading

Primary source for this session

- ICAI Guidance Note on Tax Audit under Section 44AB of the Income-tax Act, 1961 (Revised 2026 — Eleventh Edition), Direct Taxes Committee, ICAI.

Specifically referred to

- Chapters/Paragraphs 70–79 (Clauses 36A to 44) and the Contents pages.
- Appendix IXC — Suggested Working Papers (Items 33–36 relate to our clauses).
- TAQRB Observations recorded under Clauses 37, 38 and 40.

Also referred to

- Published practitioner commentary/extract material on Clauses 36 to 44 of Form No. 3CD (Chapters 59–67).



CLOSING



Thank You

Questions & Discussion

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