

## **A STUDY ON TAX COMPLIANCE AND AUDITING IN CONSORTAX CONSULTING PVT, LTD. HYDERABAD**

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### **ABSTRACT**

This project examines the tax compliance and auditing practices followed by an organization, with reference to Consortax Consulting Private Limited, Hyderabad. The study focuses on income tax calculation, tax auditing procedures, and overall compliance systems to ensure adherence to statutory requirements. The study first analyses Income Tax procedures, including computation of taxable income, application of deductions, calculation of tax liability, advance tax payments, TDS provisions, and filing of Income Tax Returns (ITR). Proper maintenance of financial records and reconciliation of tax data are also examined to ensure accuracy and transparency. Secondly, the project evaluates Tax Auditing practices. Tax auditing involves systematic verification of financial statements, books of accounts, and tax returns to confirm compliance with the Income Tax Act and other regulations. Audit checks help identify errors, reduce risks, and prevent non-compliance. Finally, the study reviews Tax Compliance mechanisms such as timely filing of returns, payment of taxes, GST compliance, and response to statutory notices. It identifies possible compliance gaps and suggests measures like improved documentation, internal controls, and periodic review systems for effective tax management.

The study concludes that strong tax compliance and auditing practices are essential for avoiding penalties, ensuring legal conformity, and maintaining financial stability within the organization.

**Key Words:** INCOME TAX, TAX AUDITING, TAX COMPLIANCE

### **I. INTRODUCTION**

#### **Meaning and Definition:**

Taxation is the main source of revenue for the government, and every organization is legally obligated to comply with tax laws. The title "A Study on Tax Compliance and Auditing" refers to a systematic examination of how an organization follows tax regulations and how its financial and tax records are verified to ensure accuracy and legal conformity.

#### **Meaning of Tax Compliance**

Tax compliance refers to the process of adhering to tax laws, rules, and regulations framed by the government. It involves correct calculation of tax liability, timely payment of taxes, proper maintenance of books of accounts, and accurate filing of tax returns within the prescribed due dates. Tax compliance ensures that the organization fulfills its statutory obligations under various

tax laws such as the Income Tax Act and GST Act.

#### **Types of Tax Compliance**

1. Income Tax Compliance
2. GST Compliance
3. TDS Compliance
4. Corporate Tax Compliance

#### **Meaning of Tax Auditing**

Tax auditing is the systematic examination and verification of financial statements, books of accounts, and tax records to ensure that taxes are calculated and reported correctly as per legal provisions. It helps identify errors, fraud, misstatements, or non-compliance.

#### **Types of Tax Auditing**

1. Statutory Tax Audit
2. Internal Audit
3. GST Audit
4. Departmental Audit

#### **Importance of Tax Compliance and Auditing**

1. Avoids Legal Penalties
2. Ensures Accuracy
3. Promotes Transparency
4. Improves Financial Discipline
5. Reduces Risk of Tax Evasion
6. Supports Organizational Reputation

## II. REVIEW OF LITERATURE

Singhanian and Singhanian (2023) stated that systematic tax planning and proper compliance procedures help organizations reduce penalties and ensure smooth tax administration.

S.K. Gupta and R.K. Sharma (2023) emphasized that strong internal control systems play a vital role in ensuring accurate tax reporting and minimizing non-compliance risks.

Rao and Kumar (2024) stated that periodic internal tax reviews help organizations identify discrepancies at an early stage and prevent future litigation.

They mentioned that regular reviews support better risk management practices.

Vinod K. Singhanian (2025) highlighted that regular tax audits improve the accuracy of tax returns and ensure adherence to the provisions of the Income Tax Act.

He stressed that audits strengthen transparency and financial discipline.

P. Lakshmi (2025) explained that proactive tax planning strategies contribute to improved financial stability and effective management of tax liabilities.

She noted that advance planning reduces unexpected tax burdens.

### Need for the Study

The study aims to provide a clear understanding of how an organization complies with tax laws and ensures the accurate and timely filing of tax returns. It examines the procedures followed in calculating tax liabilities, maintaining financial records, and conducting audits to verify correctness and legal adherence. By analyzing tax computations and audit practices, the study helps in identifying errors, inconsistencies, and

potential compliance gaps that may lead to penalties or legal complications. Furthermore, it highlights the importance of systematic documentation, internal controls, and regular review mechanisms in strengthening tax governance. Overall, the study contributes to improving tax management practices, enhancing transparency, and minimizing audit risks, thereby supporting the organization's financial stability and regulatory compliance.

### Objectives of the study

1. To study the tax compliance procedures followed by the organization
2. To verify the accuracy of tax calculations and returns.
3. To identify compliance gaps and audit risks.
4. To recommend measures for effective tax management.

## III. RESEARCH METHODOLOGY:

### Research Approach

The study is based on an analytical and descriptive research approach. It analyzes the tax compliance and auditing practices followed by the organization and evaluates their effectiveness in ensuring legal compliance.

### Sources of Data

Primary data was collected through direct interactions and interviews with tax professionals, accountants, and company staff. These discussions helped in understanding the practical procedures followed for tax calculation, filing, and audit compliance.

Secondary data was collected from taxation and auditing textbooks, research journals, official government websites, and online tax portals. These sources provided theoretical background and legal provisions related to income tax and auditing practices.

### Tools:

1. Interview Method
2. Company Records
3. Tax Computation Statements

**IV. DATA ANALYSIS AND INTERPRETATION**

Database:

50 Clients (Individuals – 32, Firms – 9, Companies – 9)

**OBJECTIVE 1**

To Study the Tax Compliance Procedures Followed by the organization

Concept of Tax Compliance

Tax compliance refers to the process by which taxpayers adhere to the provisions of tax laws by:

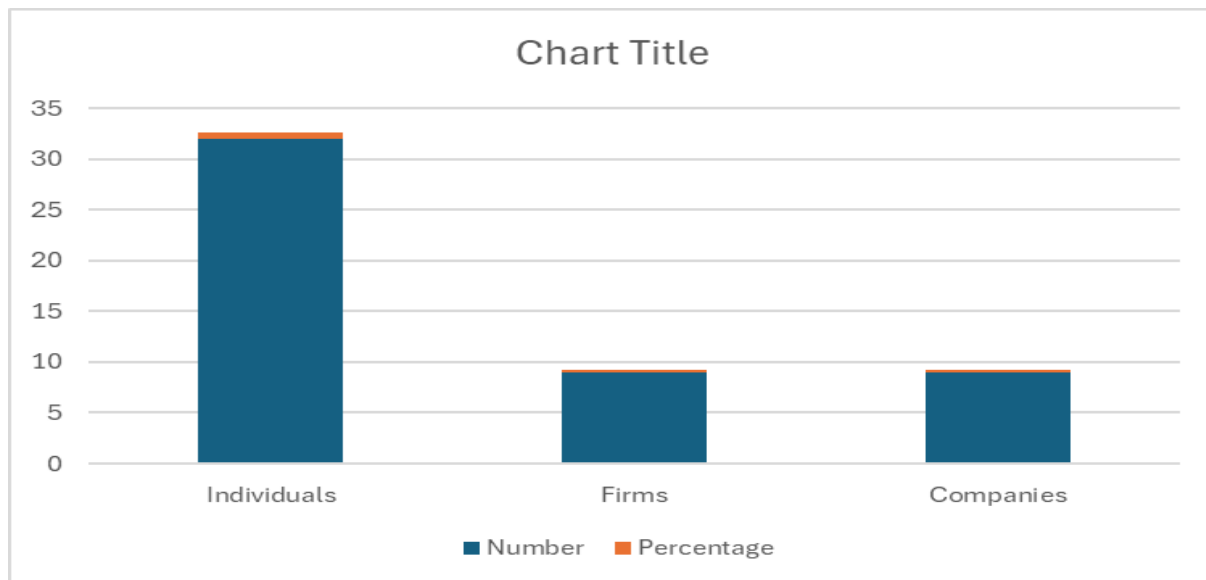
- Proper computation of income
- Accurate calculation of tax liability
- Timely payment of tax
- Filing returns within due dates
- Maintaining supporting documentation

Tax compliance involves structured procedures including data collection, verification, computation, reconciliation, and electronic filing.

Client Classification for Study

Total Clients Analyzed = 50

Client type	Number	Percentage
Individuals	32	64%
Firms	9	18%
Companies	9	18%
Total	50	100%



Interpretation:

- Majority clients are Individuals (64%)
- Compliance management is highly dependent on personal income tax cases
- Firms and companies represent structured entities with organized accounting

Compliance Performance Analysis

Particulars	Number
Total returns	50

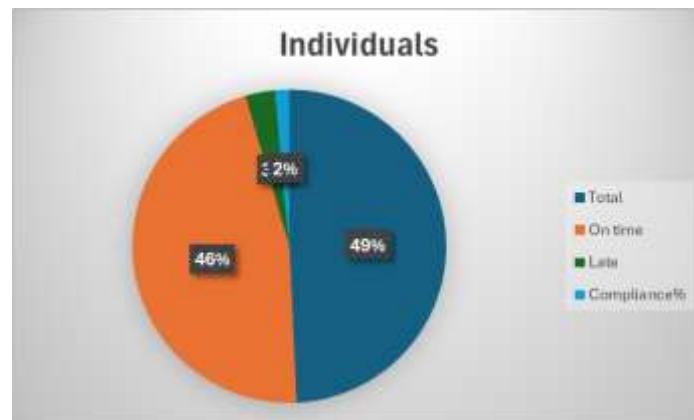
Filed on time	48
Filed late	2

**Compliance Rate**

$$\begin{aligned} \text{Compliance Rate} &= (\text{Filed on Time} / \text{Total Returns}) \times 100 \\ &= (48 / 50) \times 100 \\ &= 96\% \end{aligned}$$

**Type-wise Compliance Analysis**

Type	Total	On time	Late	Compliance%
Individuals	32	30	2	93.75%
Firms	9	9	0	100%
Companies	9	9	0	100%



**Procedural System Followed**

The compliance procedure followed includes:

1. Client data collection (Form 16, bank statements, invoices)
2. Income classification (Salary, Business, Capital Gains, etc.)
3. Deduction verification (80C, 80D, etc.)
4. TDS reconciliation
5. Tax computation
6. Internal review
7. E-filing confirmation
8. Acknowledgment generation

**Interpretation**

- 96% compliance rate indicates strong procedural control.
- Delays occurred only in individual cases.
- Corporate and firm clients maintain systematic record keeping.
- Compliance gap is external (client behaviour), not internal.

The firm maintains a structured compliance mechanism ensuring timely filing. Minor delay risk exists due to document submission dependency.

**OBJECTIVE 2**

To Verify the Accuracy of Tax Calculations and Returns

Importance of Tax Accuracy

Accuracy ensures:

- Correct tax liability
- No excess payment
- No short payment
- Avoidance of penalties
- Reduced scrutiny notices

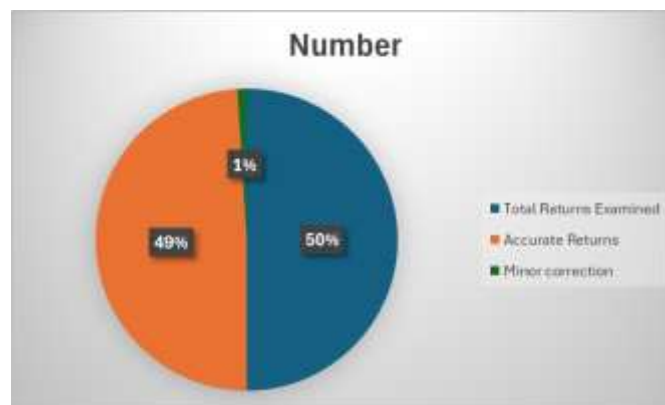
#### Verification Process Adopted

For 50 clients, verification included:

- Income cross-checking
- TDS reconciliation with Form 26AS
- Deduction verification
- Recalculation using tax slabs
- Cross verification before submission

#### Accuracy Data

Particulars	Number
Total Returns Examined	50
Accurate Returns	49
Minor correction	1



#### Accuracy

$$\text{Accuracy Rate} = (49 / 50) \times 100$$

$$= 98\%$$

#### Error Nature

1 minor case due to TDS reflection delay.  
No miscalculation of taxable income found.

#### Risk Assessment

$$\text{Error Rate} = (1 / 50) \times 100$$

$$= 2\%$$

This indicates low computational risk.

#### Interpretation

- 98% accuracy reflects strong internal auditing.
- TDS mismatch risk is external and system-related.
- Internal verification reduces penalty exposure.

Tax auditing procedures are highly reliable and efficient with negligible computational errors.

#### OBJECTIVE 3

To Identify Compliance Gaps and Audit Risks

Need for Gap Analysis

Even high-performing systems must identify potential risks such as:

- Late filing
- Incomplete records
- Mismatch errors
- Documentation deficiency

Identified Gaps

Issue	Clients	%
Late Filing	2	4%
Late Documents	4	8%
Poor Expense Records	6	12%
TDS Mismatch	1	2%



Risk Calculation

Late Filing Risk = 4%

Documentation Risk = 8%

Record Maintenance Risk = 12%

Highest Risk = Poor Expense Records (12%)

Root Cause Analysis

Primary cause:

Client awareness gap and delayed communication.

Secondary cause:

Lack of structured monthly documentation.

Audit Impact

If unchecked, these gaps may lead to:

- Section 234F penalty
- Scrutiny assessment
- Reassessment notices
- Financial penalties

Interpretation

The firm's internal system is strong, but compliance risk originates externally from clients.

Main compliance risk: Client-side documentation and response delay.

**OBJECTIVE 4**

To Recommend Measures for Effective Tax Management

Strategic Importance

Corrective measures aim to:

- Achieve 100% compliance
- Reduce audit exposure
- Improve operational efficiency
- Strengthen client trust

Recommended Measures

1. Automated Reminder System

Expected Impact:

Late Filing Reduction = 4% → 0%

New Compliance Rate = 100%

2. Monthly Record Maintenance System

Reduce record risk from:

12% → 3%

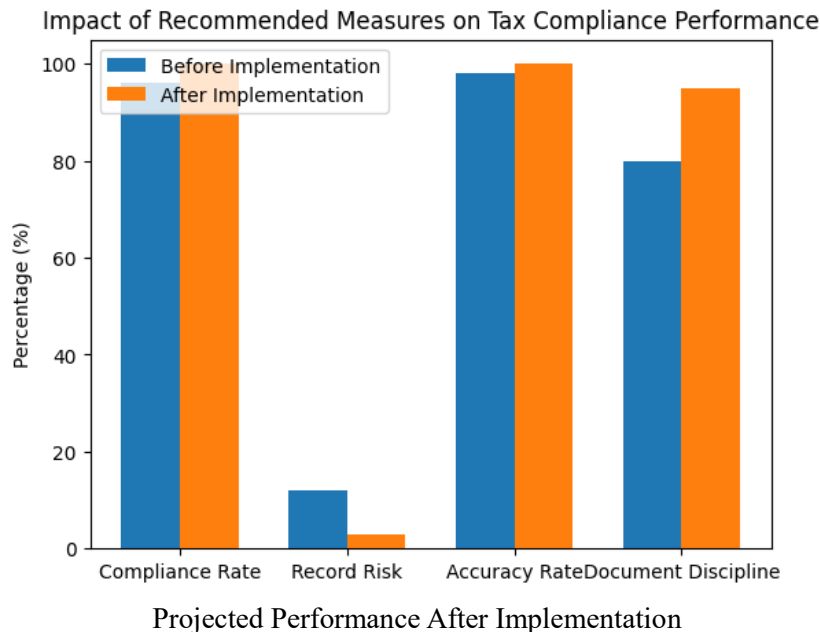
3. Pre-Filing Internal Audit

Increase accuracy from:

98% → 100%

4. Client Education Workshops

Improve document submission discipline.



**Interpretation**

Implementing the recommended measures significantly improves tax compliance performance by increasing compliance and accuracy rates to 100%. At the same time, it reduces record maintenance risk and improves client document submission efficiency.

**V. RESEARCH FINDINGS**

1. The organization achieved 96% timely filing of tax returns, indicating strong tax compliance procedures.
2. Tax calculation and return preparation show 98% accuracy, reflecting an effective verification and internal checking system.
3. Some compliance gaps were identified due to poor expense record maintenance and delayed submission of documents by clients, which may create minor audit risks.
4. Overall, the organization maintains a reliable tax compliance framework, though minor improvements can further strengthen efficiency.

#### **VI. SUGGESTIONS**

1. The organization should implement an automated reminder system to improve timely document submission and return filing.
2. A pre-filing internal review system should be adopted to double-check tax computations and avoid minor errors.
3. The firm should introduce a monthly documentation and record maintenance system to reduce compliance gaps and improve financial record keeping.
4. The organization should conduct client awareness programs on the importance of timely documentation and tax compliance.

#### **VII. CONCLUSION**

In summary, the study highlights the importance of systematic tax procedures in ensuring accurate tax calculation, proper documentation, and timely filing of tax returns. It shows that effective verification and auditing practices help maintain compliance with tax regulations and reduce the risk of errors and penalties. The study also observes that minor issues mainly arise due to delays in document submission and record maintenance by clients. Overall, strong tax compliance and

auditing systems contribute to transparency, financial discipline, and efficient tax management within an organization.

#### **References**

Here are simple references you can include in your project:

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3. Institute of Chartered Accountants of India (ICAI), *Guidance Notes on Tax Audit*.
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6. Goods and Services Tax Network (GST Portal) – <https://www.gst.gov.in>