



Date:- MARCH 2022

# **Virtual coaching Classes** *Organised by BoS, ICAI*

## **Intermediate Level ( BATCH – 3)**

### **Paper 6: Auditing and Assurance**

**Topic :- *AUDIT OF DIFFERENT TYPES OF ENTITIES***

**(CHAPTER – 13 FROM THE STUDY Material)**

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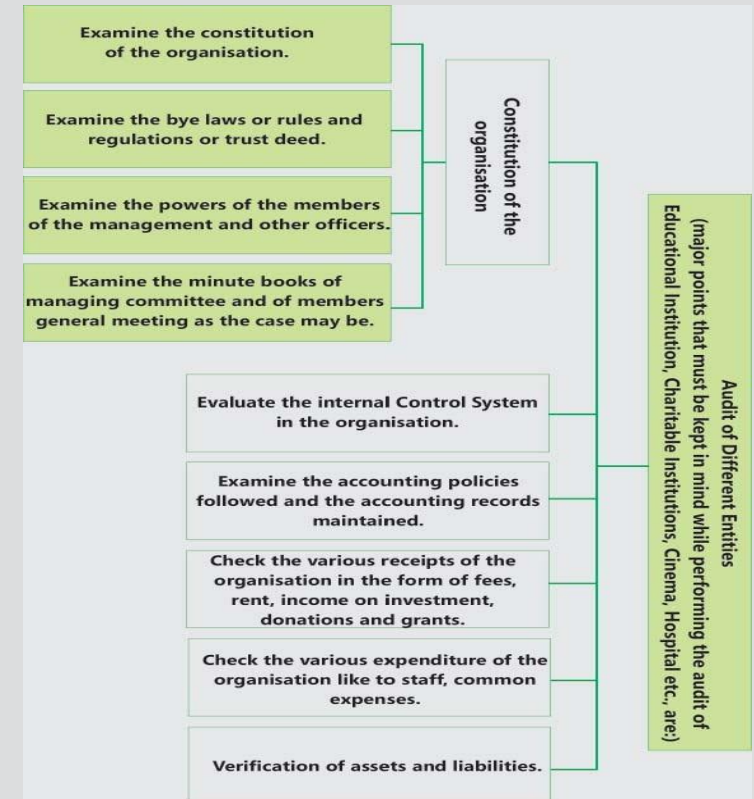
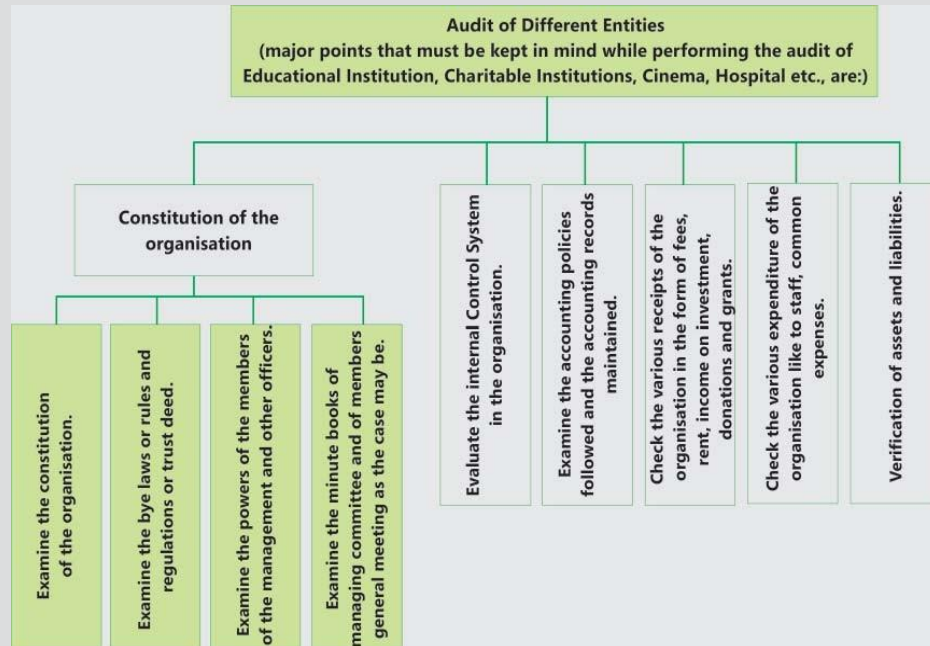


# TOPICS





# COMMON POINTS





# 1. THE SOLE PROPRIETOR

- a) A Sole trader is under no legal obligation to have his accounts audited.
- b) However, he may get this financial statements audited due to regulatory requirements, such as inventory brokers or on a specific instructions of the bank for approval of loans, etc.
- c) Auditors of sole- proprietary concern shall be appointed by the Sole proprietor himself.
- d) Sole proprietor can determine the scope of the audit as well as the conditions under which it will be carried out.
- e) It is desirable that the contract of appointment of auditor in such a case should be in writing; & should clearly define the scope of the work which the auditor is expected to carry out.
- f) If the appointment of the auditor is not in writing, the auditor should write to his client explaining the scope of his duties. While doing so, he should state the limitations, if any, placed upon his work to obtain the client's confirmation.
- g) In case of change of auditor, it would be duty of incoming auditor to communicate with the previous auditor.



## 2. A PARTNERSHIP FIRM

### A) Appointment of Auditors

- a) The auditor to a firm is usually appointed by the partners either on the basis of a decision taken by them or to comply with a condition in the Partnership agreement.
- b) His remuneration is also fixed by the partners.
- c) The letter of appointment should clearly state the nature and scope of audit which is to be carried out and particulars of limitations, if any, under which he would have to function.
- d) In case of change of auditor, it would be duty of incoming auditor to communicate with the previous auditor.
- e) The auditor may, particularly, ensure application of accounting standards prescribed by the Institute
- f) In case the firm is required to get its accounts audited under the requirements of any statute, the auditor will have to qualify the report in case of non-compliance with the accounting standards.
- g) Alternatively, only disclosure of non-compliance with the accounting standards, would be sufficient without making it a subject matter of qualification.





## 2. A PARTNERSHIP FIRM

### **B) Matters to be considered before starting audit**

1. The name and style under which the business shall be conducted.
2. The duration of the partnership, if any, that has been agreed upon.
3. The amount of capital that shall be contributed by each partner—whether it will be fixed or could be varied from year to year.
4. The period at the end of which the accounts of the partnership will be closed periodically and the proportions in which the profit shall be divided among the partners or losses shall have to be contributed by them; whether the losses shall be borne by the partners or whether any of the partners will not be required to do so.
5. The provisions as regards maintenance of books of account and the matters which must be taken into account for determining the profits of the firm available for division among the partners *e.g.*, creation of reserves, provision for depreciation, etc. also the period within which accounts can be reopened for correcting a manifest error.
6. Borrowing capacity of the partnership (when it is not implied as in the case of non-trading firms).
7. The rate at which interest will be allowed on the capitals and loans provided by partners and the rate at which it will be charged on their drawings and current accounts.
8. Whether any salaries are payable to the partners or withdrawals are permitted against shares of profits and, if so, to what extent?
9. Duties of the partners as regards the management of business of the firm; also, the partners who shall act as managing partners.
10. Who shall operate the bank account of the firm? How will the surplus funds of the partnership be invested?
11. Limitations and restrictions that have been agreed upon, the rights and powers of partners and on their implied authority to pledge the firm's credit or to render it liable.



# 2. A PARTNERSHIP FIRM

## C) Advantages of Audit of a Partnership Firm

- (1) **DISPUTES** :- Audited accounts provide a convenient and reliable means of settling accounts between the partners and, thereby, the possibility of occurrence of a dispute among them is mitigated. On this consideration, it is usually provided in and accepted by the partners, shall be binding upon them, unless some manifest error is brought to light within a specified period subsequent to the accounts having been signed.
- (2) **DISSOLUTION** :- On the retirement or death of a partner, audited accounts, which have been accepted by the partners, constitute a reliable evidence for computing the amounts due to the retiring partner or to the representative of the deceased partner in respect of his share of capital, profits and goodwill.
- (3) **RELIABILITY** :- Audited statement of accounts are relied upon by the banks when advancing loans, as well as by prospective purchasers of the business, as evidence of the profitability of the concern and its financial position.
- (4) **ADMISSION** :- Audited statements of account can be helpful in the negotiations to admit a person as a partner, especially when they are available for a number of past years.
- (5) **CONTROL** :- An audit is an effective safeguard against any undue advantage being taken by a working partner or partners especially in the case of those partners who are not actively associated with the working of the firm.



## 2. A PARTNERSHIP FIRM

### D) Special Points in Audit of a Partnership Firm:

- 1) **Appointment :-** Confirming that the letter of appointment signed by a partner duly authorised clearly states the nature and scope of audit contemplated by the partners, specially the limitation, if any, under which the auditor shall have to function.
- 2) **Partnership Deed :-** Examine the partnership deed signed by all partners and its registration with the registrar of firms. Also ascertain from the partnership deed about capital contribution, profit sharing ratios, interest on capital contribution, powers and responsibilities of the partners, etc.
- 3) **Minutes Book :-** Studying the minute book, if any, maintained to record the policy decision taken by partners specially the minutes relating to authorisation of extraordinary and capital expenditure, raising of loans, purchase of assets, extraordinary contracts entered into and other such matters which are not of a routine nature.
- 4) **Objects :-** Verifying that the business in which the partnership is engaged is authorised by the partnership agreement.
- 5) **Books of Account :-** Examining whether books of account appear to be reasonable and are considered adequate in relation to the nature of the business of the partnership.
- 6) **Mutual Interest :-** Verifying generally that the interest of no partner has suffered prejudicially by an activity engaged in by the partnership which, it was not authorised to do under the partnership deed or by any violation of a provision in the partnership agreement.
- 7) **Tax Provision :-** Confirming that a provision for the firm's tax payable by the partnership has been made in the accounts before arriving at the amount of profit divisible among the partners. Also see various requirements of legislations applicable to the partnership firm like Section 44AB of the Income-tax Act, 1961 have been complied with.
- 8) **Division of Profits :-** Verifying that the profits and losses have been divided among the partners in their agreed profit-sharing ratio.





# 3. LLP



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## A) DISTINCTIVE FEATURES OF AN LLP

- a) LLP is an alternative corporate business form that gives the benefits of limited liability of a company and the flexibility of a partnership
- b) A Limited Liability Partnership, popularly known as LLP combines the advantages of both the Company and Partnership into a single form of organization.
- c) LLP is governed by the **Limited Liability Partnership Act 2008**, which has come into force with effect from April 1, 2009. *The Indian Partnership Act, 1932 is not applicable to LLP.*
- d) LLP is a body incorporate and a legal entity separate from its partners having perpetual succession. can own assets in its name. sue and be sued.
- e) The partners have the right to manage the business directly, unlike corporate shareholders.
- f) One partner is not responsible or liable for another partner's, misconduct or negligence.
- g) Minimum of 2 partners and no maximum limit.
- h) The rights and duties of partners in an LLP, will be governed by the agreement between partners and the partners have the flexibility to devise the agreement as per their choice. The duties and obligations of Designated Partners shall be as provided in the law.
- i) Atleast 2 Partners should be the DESIGNATED PARTNERS who will be under an obligation to obtain the **DPIN** (*Designated Partner Identification number*).

### STEPS TO FORM A LIMITED LIABILITY PARTNERSHIP



cleartax



# 3. LLP



## **B) RULES REGARDING ACCOUNTS , AUDIT & RETURNS**

- 1) **ACCOUNTS** :- An LLP shall be under obligation to maintain annual accounts reflecting true and fair view of its state of affairs. **LLP's are required to maintain books of accounts which shall contain-**
  1. *Particulars of all sums of money received and expended by the LLP and the matters in respect of which the receipt and expenditure takes place,*
  2. *A record of the assets and liabilities of the LLP,*
  3. *Statements of costs of goods purchased, inventories, work-in-progress, finished goods and costs of goods sold,*
  4. *Any other particulars which the partners may decide.*
- 2) **RETURNS** :-
  1. A **"Statement of Accounts and Solvency"** in **Form-8** shall be filed by every LLP with the Registrar every year within a period of **30 days** from the end of six months the financial year to which the Statement of Account and Solvency relates. It contains a declaration on the state of **solvency** of the LLP by the designated partners and also information related to **statement** of assets and liabilities and **statement** of income and expenditure of the LLP.
  2. Every LLP would be required to file annual return in **Form 11** with ROC within **60 days** of closer of financial year which will be available for public inspection on payment of prescribed fees to the Registrar.
- 3) **AUDIT OF LLP'S** :- The accounts of every LLP shall be audited in accordance with **Rule 24 of LLP, Rules 2009** which provide that any LLP, whose **turnover** does not exceed, in any financial year, **40 lakh Rupees**, or whose **contribution** does not exceed **25 lakh rupees**, is not required to get its accounts audited. However, if the partners of such limited liability partnership decide to get the accounts of such LLP audited, the accounts shall be audited only in accordance with such rule.



### 3. LLP



## **B) RULES REGARDING ACCOUNTS , AUDIT & RETURNS**

#### 4) POWERS OF THE REGISTRAR :-

- a) Registrar would have power to obtain such information which he may consider necessary for the purposes of carrying out the provisions of the Act, from any designated partner, partner or employee of the LLP.
- b) He would also have power to summon any designated partner, partner or employee of any LLP before him for any such purpose, in case the information has not been furnished to him or in case the Registrar is not satisfied with the information furnished to him.

**5) DOCUMENTS AVAILABLE FOR PUBLIC INSPECTION :-** The following documents/information will be available for inspection by any person. The fees for such inspection of an LLP is ₹ 50/- & fee for certified copy or extract of any document u/s 36 shall be ₹ 5/- per page.

- Incorporation document**
- Names of partners and changes, if any, made therein**
- Statement of Account and Solvency**
- Annual Return**

**6) DEFAULT :-** a) It has been provided that in case LLPs file relevant documents after their due dates with additional fees upto 300 days, no action for prosecution will be taken against them.

- b)** In case there is delay of 300 days or more, the LLPs will be required to pay normal filing fees, additional fee and shall also be liable to be prosecuted.
- c)** The Act also contains provisions for compounding of offences which are punishable with fine only.



## 3. LLP

### C) APPOINTMENT OF AUDITOR

The auditor may be appointed by the designated partners of the LLP –

1. At any time for the first financial year but before the end of first financial year,
2. At least thirty days prior to the end of each financial year (*other than the first financial year*),
3. To fill the causal vacancy in the office of auditor,
4. To fill the casual vacancy caused by removal of auditor.

However, the **Partners** may appoint the auditors if the **Designated Partners** have failed to appoint them.



## 3. LLP

### D) Advantages / Purpose / Need of Audit

1. **Detection of errors :-** *Auditing the accounts of a LLP helps in detecting errors & frauds & verification of financial statements.*
2. **Disputes :-** *Disputes, if any between any partners in the matter of accounts can be settled with the help of audited accounts.*
3. **Reliability :-** *Banks & financial institutions lend money to the firms only on the basis of audited accounts.*
4. **Better Compliance & Management :-** *Periodical visits & suggestions by the auditor will be helpful in improving the management of the LLP.*
5. **Reconstitution :-** *For settling accounts between partners at the time of admission, death, retirement, insolvency, insanity, etc. audited accounts are accepted by those concerned who have dealings with the LLP.*





# 3. LLP



## E) Auditor's Duty Regarding Audit of LLP

1. **Engagement Letter** :- The auditor should get definite instructions in writing as to the work to be performed.
2. **Minutes Book** :- If partners maintain minute book he shall refer it for any resolution passed regarding the accounts
3. **LLP Agreement** :- The auditor should read the LLP agreement & note the following provisions:-
  - (a) *Nature of the business of the LLP.*
  - (b) *Amount of capital contributed by each partner.*
  - (c) *Interest – in respect of additional capital contributed.*
  - (d) *Duration of partnership.*
  - (e) *Drawings allowed to the partners.*
  - (f) *Salaries, commission etc payable to partners.*
  - (g) *Borrowing powers of the LLP.*
  - (h) *Rights & duties of partners.*
  - (i) *Method of settlement of accounts between partners at the time of admission, retirement, admission etc.*
  - (j) *Any loans advanced by the partners.*
  - (k) *Profit sharing ratio*
4. **Reporting** :- The auditor should mention :-
  - (a) *Whether the records of the firm appear to be correct & reliable.*
  - (b) *Whether he was able to obtain all information & explanation necessary for his work.*
  - (c) *Whether any restriction was imposed upon him.*



# 4. COOPERATIVE SOCIETIES



## A) THE COOPERATIVE PRINCIPLE & FEATURES OF A CO-OPERATIVE SOCIETY

1. A **Cooperative** (also known as **co-operative**, **co-op**, or **coop**) is "an autonomous **association** of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned enterprise".
2. Co-operative society is a business organisation with a special mode of doing business, by pulling together all the means of production co-operatively, elimination of middlemen and exploitation from outside forces.
3. The philosophy of cooperative society is to serve the common man and to liberate him from the oppression of the economically strong people and organizations. **Mutual assistance and service** are the objectives as distinguished from the aim of the other forms of organization, which is primarily making of profit. People can enter it as their wish, and also, they are free to leave a cooperative society, but they cannot transfer their share.
4. The cooperative organizations are subject to the rules and regulations of the government because it is registered. **The Co-operative Societies Act, 1912**, a Central Act, contains the fundamental law regarding the formation and working of the co-operative societies in India and is applicable in many states with or without amendments.
5. In many states, viz., Maharashtra, West Bengal, Orissa, the co-operative societies are governed by specific state Acts. An auditor of a co-operative society should be familiar with the provisions of the particular Act governing the society under audit.
6. The capital of a cooperative society is raised from its members in the form of share capital. As the share capital is not sufficient to meet its operational cost, it borrows loan from the government or apex cooperative organization. In a cooperative society, each member is given one vote irrespective of the number of shares held by him. In this organization, nobody can control society based on his share capital.



# 4. COOPERATIVE SOCIETIES



## B) AUDIT OF A CO-OPERATIVE SOCIETY

### a) Audit as per Section 17 of the Co-Operative Societies Act, 1912 :-

- (1) The **“Registrar”** shall audit or cause to be audited by some person authorised by him by general or special order in writing in this behalf the accounts of every registered society once at least in every year.
- (2) The audit under sub-section (1) shall include an examination of overdue debts, if any, and a valuation of the assets and liabilities of the society.
- (3) The Registrar, the Collector or any person authorised by general or special order in writing in this behalf by the Registrar shall at all times have access to all the books, accounts, papers and securities of a society, and every officer of the society shall furnish such information in regard to the transactions and working of the society as the person making such inspection may require.

**“Registrar”** *means a person appointed to perform the duties of a Registrar of Co- operative Societies under this Act.*



# 4. COOPERATIVE SOCIETIES



## B) AUDIT OF A CO-OPERATIVE SOCIETY

### b) Role of a Chartered Accountant :-

- A **Chartered accountant** has to play a significant role in the development of co-operative organisations on scientific lines.
- *Apart from audit, some other professional services could be rendered by chartered accountants such as-*
  - (1) *guidance in accounts writing,*
  - (2) *installation of accounting system,*
  - (3) *internal audit,*
  - (4) *management accounting services,*
  - (5) *taxation etc.*



# 4. COOPERATIVE SOCIETIES



## B) AUDIT OF A CO-OPERATIVE SOCIETY

c) Points to be kept in mind w.r.t. the Audit of a Co-operative Society :- *(Refer Study Mat)*

1. Qualification of Auditors
2. Appointment of the Auditor
3. Books , Accounts & Other Records
4. Restrictions on Share holdings
5. Restrictions on Loans
6. Restrictions on Borrowings
7. Investment of Funds
8. Contributions to Charitable Purposes
9. Investment of Reserve Fund outside the Business
10. Contribution to Education Fund
11. Appropriation of Profits



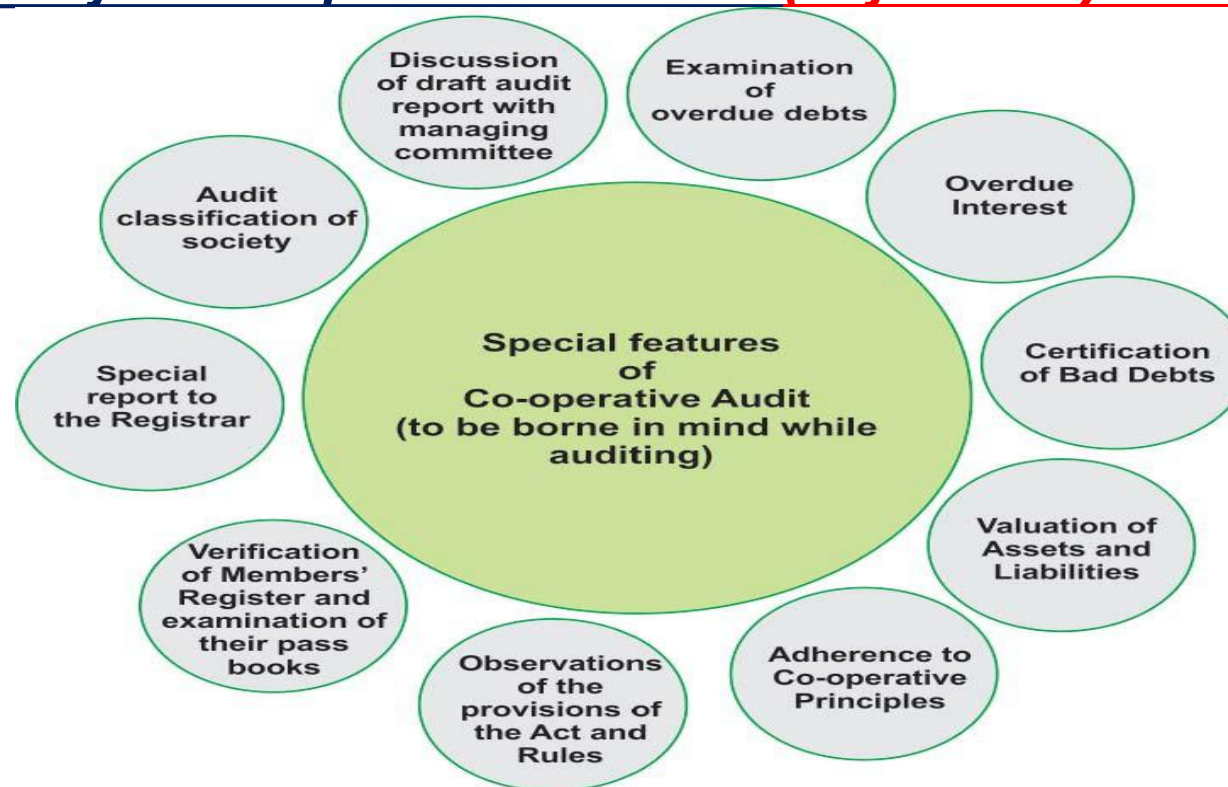


# 4. COOPERATIVE SOCIETIES



## B) AUDIT OF A CO-OPERATIVE SOCIETY

### d) Special Features of a Co-operative Audit :- (Refer Study Mat)





# 4. COOPERATIVE SOCIETIES



## B) AUDIT OF A CO-OPERATIVE SOCIETY

### e) AUDIT REPORT & its FORM :- *The auditor has to state:-*

- (a) Whether he has obtained all the necessary information and explanations which to the best of his knowledge and belief were necessary for the purpose of audit.
- (b) Whether in his opinion and to the best of his information and according to the explanations given to him, the said accounts give all the information required by the Act.
- (c) Whether the Profit and Loss Account of the society gives a true and fair view of the Profit and Loss made by the society.
- (d) Whether the Balance Sheet drawn up as at the end of the year gives a true and fair view of the state of affairs of the society as on the given date.
- (e) Whether in his opinion, proper books of account as required by the Act, the Rules and the bye-laws of the society have been properly maintained.
- (f) Whether the Balance Sheet and the Profit and Loss Account examined by him are in agreement with the books of account and returns of the society.
- (g) The auditor will have to give qualifying observations, if any of the answers to the above mentioned matters are negative.



# 4. COOPERATIVE SOCIETIES



## B) AUDIT OF A CO-OPERATIVE SOCIETY

### e) AUDIT REPORT & its FORM :-

- ✓ On completion of the audit, the auditor has to submit his audit report to the society, and copies thereof to the respective authorities such as District Special Auditor, District Deputy Registrar etc.
- ✓ The Audit Report has to be submitted in the prescribed form specified by the Registrar or as given in the related Rules.
- ✓ The form of the audit report to be submitted by the auditor, as prescribed in various states, contains a number of matters which the auditor has to state or comment upon. For example, the Rules formed under the Maharashtra State Co-operative Societies Act requires the auditor to make the usual affirmation pertaining to proper maintenance of books of accounts, true and fair nature of financial statements, etc .
- ✓ In addition to the above, the auditor will have to attach schedules to the report regarding the following information:-
  - (1) All transactions which appear to be contrary to the provisions of the Act, the rules and bye-laws of the society.
  - (2) All sums, which ought to have been, but have not been brought into account by the society.
  - (3) Any material, or property belonging to society which appears to the auditor to be bad or doubtful of recovery.
  - (4) Any material irregularity or impropriety in expenditure or in the realisation or monies due to society.
  - (5) Any other matters specified by the Registrar in this behalf.

***In the case of Nil report in any of the above matters, the auditor will have to give a Nil report.***



# 4. COOPERATIVE SOCIETIES



## B) AUDIT OF A CO-OPERATIVE SOCIETY

### e) AUDIT REPORT & its FORM :-

- ✓ *Further in addition to the audit certificate in the prescribed form and various schedules stated above, the auditor of Co-operative society in the applicable State has to answer two sets of questionnaires called as **Audit memos** :-*
  - The first set of audit memo or questionnaire is of general nature and is applicable to all types of societies such as urban banks, consumers' stores, credit societies etc.
  - The second set of questionnaire is specific for a particular type of society. These questionnaires are drafted in detail and serve the practical purpose of audit programme.
- ✓ *The audit report in a narrative form is also required to be submitted by the auditor addressed to the Chairman of the society. Generally the narrative audit report as per convention is divided into two parts styled as **Part I and Part II** :-*
  - **Part I** of the report is very important which throws a light on comparative financial position, capital structure, solvency position and the profitability or otherwise of the society. It may contain comments on the working of the society and the suggestions for future improvements. It must be suitably divided into paragraphs. mistakes having an impact on the profitability of society should be pointed out in Part I as it has got a consequential effect on the financial position of society.
  - **Part II** of the report points out the observations of routine nature, which are the finished products of the routine vouch and post audit such as missing vouchers, loan bonds, inadequacies of documents, mistakes of principles in accounting etc.



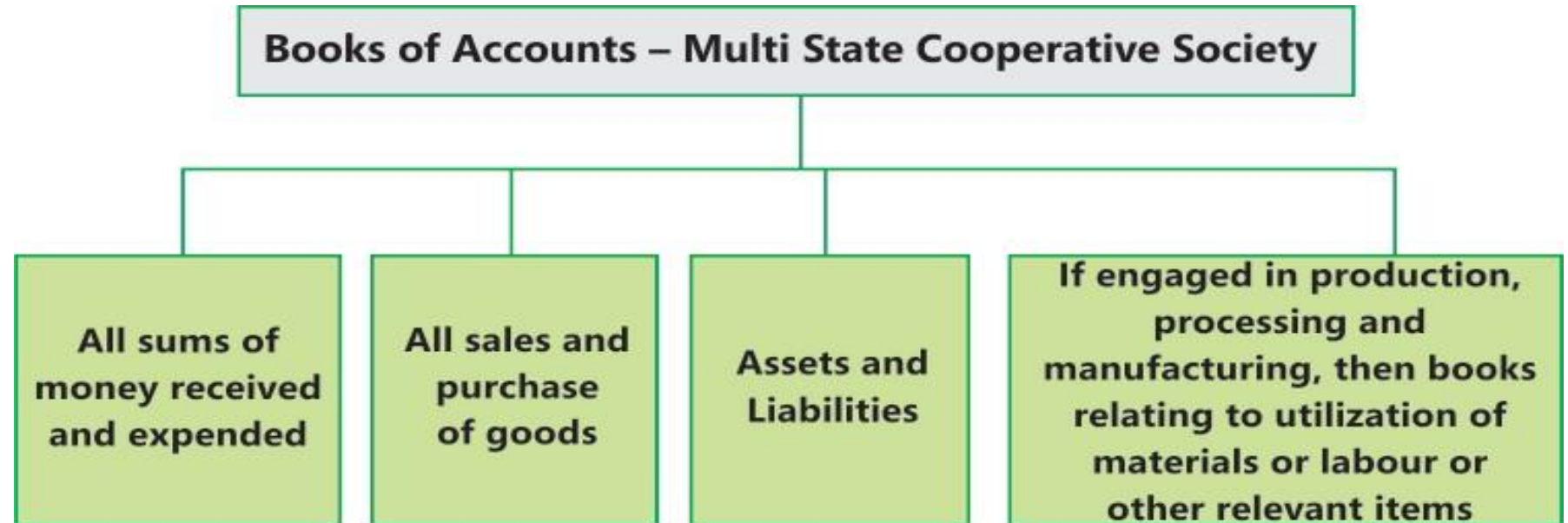


# 4. COOPERATIVE SOCIETIES



## C) MULTI-STATE COOPERATIVE SOCIETIES (MSCS)

1. **What :-** Co-operative societies whose objects are not confined to one State.
2. **Regulation :-** The Multi-State Co-operative Societies Act, 2002, which came into force in August, 2002 applies and contains detailed provisions regarding registration, membership and management of such societies.
3. **Books of Accounts :-**







# 4. COOPERATIVE SOCIETIES



## C) MULTI-STATE COOPERATIVE SOCIETIES (MSCS)

### 4. AUDIT OF A MSCS :- *(Refer Study Mat)*

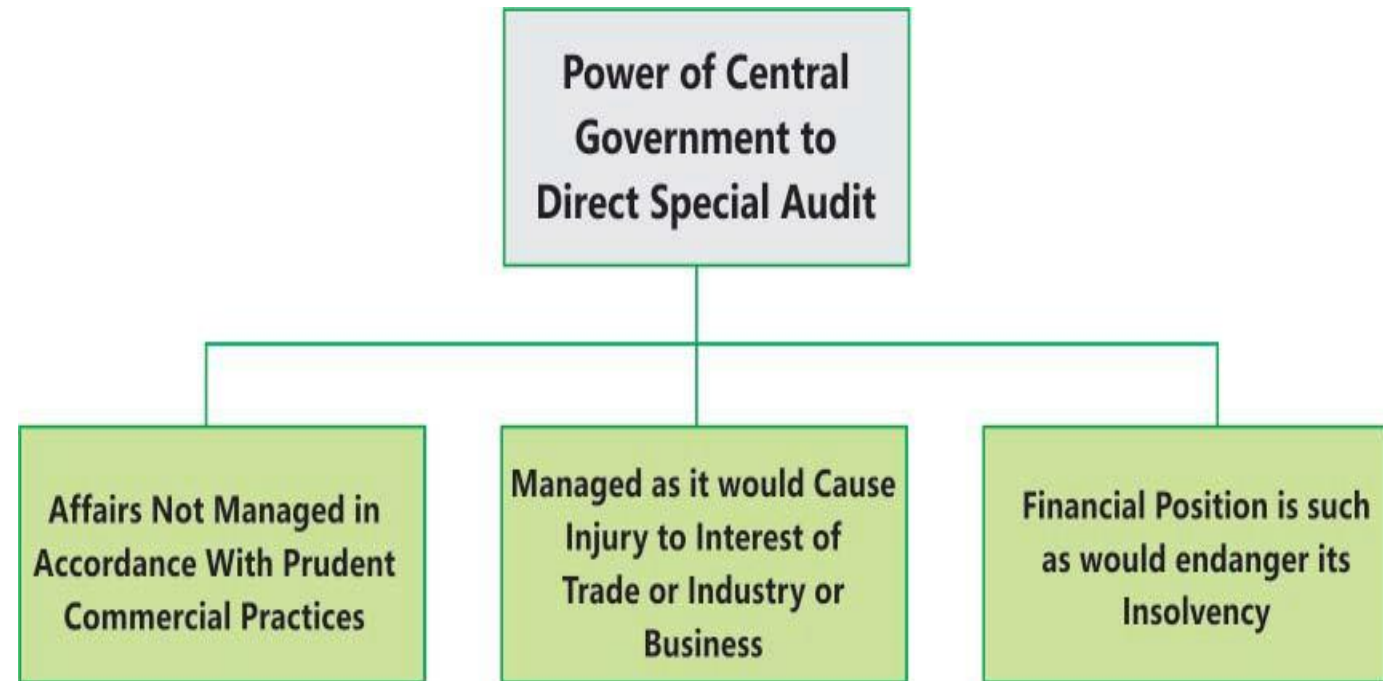
1. Qualification of Auditors

2. Appointment of the Auditor

3. Powers & Duties of the Auditor

4. Contents of the Auditor's Report

5. Power of the Central Government to direct Special Audit in certain cases





# 4. COOPERATIVE SOCIETIES



## C) MULTI-STATE COOPERATIVE SOCIETIES (MSCS)

### 4. SPECIAL AUDIT OF A MSCS under SECTION 77 :-

1. **CG Order** :- The Central Government may at any time by order direct that a special audit of the Multi-State co-operative society's accounts for such period or periods as may be specified in the order shall be conducted.
2. **Condition of Shareholding** :- However, Central Government shall order for special audit only if that Government or the State Government either by itself or both hold **51% or more** of the paid-up share capital in such Multi-State co-operative society.
3. **Appointment of the Auditor** :- It may appoint either a chartered accountant or the Multi-State co-operative society's auditor himself to conduct the special audit. The special auditor shall have the same powers and duties in relation to the special audit as an auditor of a Multi-State co-operative society has under section 73.
4. **Contents of the Auditor's Report** :- The Special auditor shall instead of making his report to the members of the Multi-State co-operative society make the report to the Central Government. The report of the special auditor shall, include all the matters required to be included in the auditor's report under section 73 and any other matter as directed by the Central Government.
5. **Action by the CG** :- On receipts of the report of the special auditor the Central Government may take such action on the report as it considers necessary in accordance with the provision of the Act or any law for the time being in force. However, if the Central Government does not take any action on the report within four months from the date of its receipt, that Government shall send to the Multi-State Co-operative society either a copy of, or relevant extract from, the report with its comments thereon and require the Multi-State Co-operative society either to circulate that copy or those extracts to the members or to have such copy or extracts read before the Multi-State Co-operative society at its next general meeting.
6. **Expenses of conducting Special Audit** :- The expenses of, and incidental to, any special audit under this section (including the remuneration of the special auditor) shall be determined by the Central Government which determination shall be final and paid by the Multi-State Co-operative society and in default of such payment, shall be recoverable from the Multi-State Co-operative society as an arrear of land revenue.



## 4. COOPERATIVE SOCIETIES



### C) MULTI-STATE COOPERATIVE SOCIETIES (MSCS)

#### 5. Inquiry by Central Registrar under Section 78 :-

1. **WHEN :-** *The Central Registrar may, on a request from :-*  
a federal co-operative to which a Multi- State Co-operative society is affiliated or  
a creditor or not less than one-third of the members of the board or  
not less than one-fifth of the total number of members of a Multi-state co-operative society,
2. **How :-** hold an inquiry or direct some person authorized by him by order in writing in his behalf to hold an inquiry into the constitutions, working and financial condition of a Multi-State Co-operative society.
3. **Opportunity of being Heard :-** However, before holding such inquiry fifteen days notice must be given to the Multi-State co-operative society.



## 4. COOPERATIVE SOCIETIES



### C) MULTI-STATE COOPERATIVE SOCIETIES (MSCS)

**4. Powers given :-** *The Central Registrar or the person authorized by him shall have the following powers, namely:*

- (a) he shall at all reasonable times have free access to the books, accounts, documents, securities, cash and other properties belonging to or in the custody of the Multi-State co-operative society and may summon any person in possession or responsible for the custody of any such books, accounts, documents securities, cash or other properties to produce the same at any place specified by him.
- (b) he may, notwithstanding any bye-law specifying the period of notice for a general meeting of the Multi-State co-operative society, require the officers of the society to call a general meeting of the society by giving notice of not less than seven days at such time and place at the head quarters of the society to consider such matters as may be directed to him, and where the officers of the society refuse or fail to call such a meeting, he shall have power to call it himself.
- (c) he may summon any person who is reasonably believed by him to have any knowledge of the affairs of the Multi-State co-operative society to appear before him at any place at the headquarters of the society or any branch thereof and may examine such person on oath.

**5. Follow up :-** The Central Registrar shall, within a period of three months of the date of receipt of the report, communicate the report of inquiry to the Multi-State co-operative society, the financial institutions, if any, to which the society is affiliated, and to the person or authority, if any at whose instance the inquiry is needed.



## 4. COOPERATIVE SOCIETIES



### C) MULTI-STATE COOPERATIVE SOCIETIES (MSCS)

#### **6. Inspection of Multi-State Co-operative societies under Section 79 :-**

- 1. WHEN :-** *The Central Registrar may, on a request from :-*  
a federal co-operative to which a Multi- State Co-operative society is affiliated or  
a creditor or not less than one-third of the members of the board or  
not less than one-fifth of the total number of members of a Multi-state co-operative society,
- 2. How :-** By general or special order in writing in this behalf inspect or direct any person authorized by him by order in writing in this behalf to make an inspection into the constitution, working and financial condition of a Multi- State co-operative society.
- 3. Opportunity of being Heard :-** However, before carrying out such Inspection , fifteen days notice must be given to the Multi-State co-operative society.





## 4. COOPERATIVE SOCIETIES



### C) MULTI-STATE COOPERATIVE SOCIETIES (MSCS)

**4. Powers given :-** *The Central Registrar or the person authorized by him shall have the following powers, namely: -*

- (a) He shall at all times have access to all books, accounts, papers, vouchers, securities, stock and other property of that society and may, in the event of serious irregularities discovered during inspection, take them into custody and shall have power to verify the cash balance of the society and subject to the general or special order of the central registrar to call a meeting of the society where such general meeting is, in his opinion necessary.
- (b) Every officer or member of a Multi-State Co-operative society shall furnish such information with regard to the working of the society as the central registrar or the person making such inspection may require.

**5. Inspection Report :-** A copy of the report of inspection under this section shall be communicated to the Multi-State Co-operative society within a period of three months from the date of completion of such inspection.



# 5. LOCAL BODIES

## 1. MEANING & FEATURES :-

- a) A Municipality can be defined as a unit of local self-government in an urban area.
- b) By the term 'local self-government' is ordinarily understood the administration of a locality – a village, a town, a city or any other area smaller than a state – by a body representing the local inhabitants, possessing fairly large autonomy, raising at least a part of its revenue through local taxation and spending its income on services which are regarded as local and, therefore, distinct from state and central services.
- c) Municipal government in India covers five distinct types of urban local authorities, viz., the municipal corporations, the municipal councils, the notified area committees, the town area committees and the cantonment committees.
- d) The taxation powers of the corporations are confined to a few items and are of a generally compulsive nature; on the other hand, the tax powers of other types of urban local authorities cover a wider range, optional in nature and subject to a procedure for their imposition requiring the final sanction of the state governments.
- e) Property taxes and octroi are the major sources of revenue of the municipal authorities; other municipal taxes are profession tax, non-mechanised vehicles tax, taxes on advertisements, taxes on animals and boats, tolls, show-tax, etc.
- f) Municipal authorities are endowed with specific local functions covering (a) regulatory, (b) maintenance and (c) development activities.
- g) Expenditure incurred by the municipalities and corporations can be broadly classified under the following heads:- (a) general administration and revenue collection, (b) public health, (c) public safety, (d) education, (e) public works, and (f) others such as interest payments, etc.



# 5. LOCAL BODIES

## 2. TYPES OF GRANTS RECEIVED:-

- (a) **General purpose grants**: These are primarily intended to substantially bridge the gap between the needs and resources of the local bodies.
- (b) **Specific purpose grants**: These grants which are tied to the provision of certain services or performance of certain tasks.
- (c) **Statutory and compensatory grants**: These grants, under various enactments, are given to local bodies as compensation on account of loss of any revenue on taking over a tax by state government from local government.

## 3. FINANCIAL ADMINISTRATION:-

- Budgetary Procedure
- Expenditure Control
- Accounting System



# 5. LOCAL BODIES

## Budgetary Procedure

- ☐ The main objective is to ensure that funds are raised and moneys are spent by the executive departments in accordance with the rules and regulations and within the limits of sanction and authorisation by the legislature or council.
- ☐ Budget preparation is usually the occasion for determining the levels of taxation and rates and the ceilings on expenditure.
- ☐ Municipal budget formats and heads of accounts vary from state to state. There are variations between the corporation and municipalities.
- ☐ There is no strict separation between revenue and capital items; usually there is a 'head' called extraordinary items which cover most of the capital transactions.
- ☐ A number of special funds (e.g. roads) or in some cases separate budgets for specific municipal functions (e.g. education) or enterprise activities (e.g., water supply and sanitation, transport, electricity, etc.)



# 5. LOCAL BODIES

## Expenditure Control

- In the system of financial control existing in the state and central government level ,there is a clear demarcation between the legislature and executive.
- The integration of legislation and executive powers in the municipal council makes it difficult for its executive to function as its inquisitorial body as well.
- Moreover the separation of executive powers and functions in municipal government cannot accommodate the existence of an independent finance officer responsible to the municipal council or its executive committee. This leaves the system of external audit by state government as the only instrument of controlling municipal expenditure.
- Matters of regular revenues and expenditures are generally delegated to executives like Municipal Commissioners.

## Accounting System

- Municipals usually follow CASH System of Accounting.





# 5. LOCAL BODIES

## 4. Objectives of Audit of Local Bodies:-

- (a) reporting on the fairness of the content and presentation of financial statements;
- (b) reporting upon the strengths and weaknesses of systems of financial control;
- (c) reporting on the adherence to legal and/or administrative requirements;
- (d) reporting upon whether value is being fully received on money spent; and
- (e) detection and prevention of error, fraud and misuse of resources.



# 5. LOCAL BODIES



## 4. Audit Programme for Local Bodies :-

- (i) **APPOINTMENT** :- The external control of municipal expenditure is exercised by the state governments through the appointment of auditors to examine municipal accounts. However, The municipal corporations of Delhi, Mumbai and a few others have powers to appoint their own auditors for regular external audit. So the auditor should ensure his appointment.
- (ii) **AUDITOR'S AREAS** :- *The auditor while auditing the local bodies should report on:-*
- the fairness of the contents and presentation of financial statements,
  - the strengths and weaknesses of system of financial control,
  - the adherence to legal and/or administrative requirements;
  - whether value is being fully received on money spent.
- His objective should be to detect errors and fraud and misuse of resources.
- (iii) **RULES & REGULATIONS** :- The auditor should ensure that the expenditure incurred conforms to the relevant provisions of the law and is in accordance with the financial rules and regulations framed by the competent authority.
- (iv) **AUTHORIZATIONS** :- He should ensure that all types of sanctions, either special or general, accorded by the competent authority.
- (v) **PROVISIONING** :- He should ensure that there is a provision of funds and the expenditure is incurred from the provision and the same has been authorized by the competent authority.
- (vi) **BUDGETED PERFORMANCE** :- The auditor should check that the different schemes, programmes and projects, where large financial expenditure has been incurred, are running economically and getting the expected results.



# 6. GOVERNMENT AUDIT

## **B) DEFINITION** *(As per the The U.N. Handbook on Government Auditing and Developing Countries)*

### **Government Audit is :-**

1. **(WHAT)** :- the objective, systematic, professional and independent examination
2. **(WHICH)** :- of financial, administrative and other operations
3. **(WHOSE)** :- of a public entity
4. **(WHEN)** :- made subsequently to their execution
5. **(WHY)** :- for the purpose of evaluating and verifying them
6. **(HOW)** :- presenting a report containing explanatory comments on audit findings together with conclusions and recommendations for future actions
7. **(BY WHOM)** :- by the responsible officials
8. **(SPECIAL CASE)** :- and in the case of examination of financial statements, expressing the appropriate professional opinion regarding the fairness of the presentation.



# 6. GOVERNMENT AUDIT

## B) OBJECTIVES

- 1) **Accounting for Public Funds** :- *It serves as a mechanism or process for public accounting of government funds.*
- 2) **Appraisal of Govt. Policies** :- *It also provides public accounting of the operational, management, programme and policy aspects of public administration as well as accountability of the officials administering them.*
- 3) **Corrective Actions** :- *Audit observations based on factual data collection also serve to highlight the lapses of the lower hierarchy, thus helping supervisory level officers to take corrective measures.*
- 4) **Administrative Accountability** :- *The main objective of audit is a combination of ensuring accountability of administration to legislature and functioning as an aid to administration*

# 6.. GOVERNMENT AUDIT

## C) COMPTROLLER & AUDITOR GENERAL OF INDIA (C&AG)

*In India, the function of Government Audit is discharged by the independent statutory authority of **the Comptroller and Auditor General** through the agency of the **Indian Audit and Accounts Department**. The Comptroller and Auditor General (C&AG), in the discharge of his functions, watches that the various authorities act in regard to financial matters in accordance with the Constitution and the laws made by Parliament, and conform to the rules or orders made thereunder :-*

- 1) APPOINTMENT
- 2) REMUNERATION
- 3) TERM
- 4) REMOVAL OR RESIGNATION
- 5) OTHER LEGAL PROVISIONS
- 6) DUTIES
- 7) POWERS



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# 6. GOVERNMENT AUDIT

## C&AG OF INDIA

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1. APPOINTMENT :- The PRESIDENT of India shall appoint the C&AG of India.
2. REMUNERATION :- The Parliament is competent to make laws to determine salary and other conditions of service and they cannot be varied to his disadvantage after his appointment. He shall be paid a salary which is equal to the salary of the Judge of the Supreme Court.
3. TERM :- 6 Years or upto the age of 65 Years whichever is less.
4. REMOVAL or RESIGNATION :-
  - a) He shall not be removed from office except on the ground of proven mis-behaviour or incapacity
  - b) He can be removed only when each House of Parliament decides to do so by a majority of not less than 2/3rd of the members of the House present and voting.
  - c) He can resign anytime through a Resignation Letter addressed to the President of India.



## 6. GOVERNMENT AUDIT C&AG OF INDIA

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### 5. OTHER CONSTITUTIONAL PROVISIONS :-

✓ **Article 149** states that the C&AG shall perform such duties and exercise such powers in relation to the accounts of the Union and of the States and of any other authority or body as may be prescribed by or under any law made by the Parliament. The Comptroller & Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 defines these functions and powers.

✓ **Article 150** of the Constitution provides that the accounts of the Union and of the States shall be kept in such form as the President may on the advice of the C&AG prescribe.

✓ **Article 151** requires that the reports of the C&AG relating to the accounts of the Union/State shall be submitted to the President/Governor who shall cause them to be laid before House of Parliament/State Legislature.



# 6. GOVERNMENT AUDIT

## C&AG OF INDIA

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6. **DUTIES:-** *The Comptroller & Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 defines functions and powers in detail. The relevant provisions w.r.t. **DUTIES** are discussed hereunder :—*

### **1). Compile and submit Accounts of Union and States – The C&AG shall**

- be responsible for compiling the accounts of the Union and of each State from the initial and subsidiary accounts rendered to the audit and accounts offices under his control by treasuries, offices or departments responsible for the keeping of such account.
- from the accounts compiled by him , prepare in each accounts showing under the respective heads , the annual receipts and disbursements for the purpose of the Union, of each State and of each Union Territory having a Legislative Assembly,
- and shall submit those accounts to the President or the Governor of a State or Administrator of the Union Territory having a Legislative Assembly, as the case may be, on or before such dates as he may, with the concurrence of the Government concerned, determine.
- shall, in so far as the accounts, for the compilation or keeping of which he is responsible, enable him so to do, give to the Union Government, to the State Government or to the Governments of Union Territories having Legislative Assemblies, as the case may be, such information as they may, from time to time, require and render such assistance in the preparation of the annual financial statements as they may reasonably ask for.



# 6. GOVERNMENT AUDIT

## C&AG OF INDIA

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6. **DUTIES:-** *The Comptroller & Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 defines functions and powers in detail. The relevant provisions w.r.t. **DUTIES** are discussed hereunder :—*

### **2). General Provisions Relating to Audit – The C&AG shall be under a duty-**

- (a) **Money Utilisation** :- to audit and report on all expenditure from the Consolidated Fund of India and of each State and of each Union Territory having a Legislative Assembly and to ascertain whether the moneys shown in the accounts as having been disbursed were legally available for and applicable to the service or purpose to which they have been applied or charged and whether the expenditure conforms to the authority which governs it;
- (b) **Funds maintained** :- to audit and report all transactions of the Union and of the States relating to Contingency Funds and Public Accounts;
- (c) **Financial Statements** :- to audit and report on all trading, manufacturing and profit and loss accounts and balance-sheets and other subsidiary accounts kept in any department of the Union or of a State.



# 6. GOVERNMENT AUDIT

## C&AG OF INDIA

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6. **DUTIES:-** *The Comptroller & Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 defines functions and powers in detail. The relevant provisions w.r.t. **DUTIES** are discussed hereunder :—*

**3). Audit of Receipts and Expenditure** - Where anybody or authority is substantially financed by grants or loans from the Consolidated Fund of India or of any State or of any Union Territory having a Legislative Assembly, the C&AG shall

- audit all receipts and expenditure of that body or authority , and
- to report on the receipts and expenditure audited by him.

**Meaning of Substantially Financed** :- *Where the grant or loan to a body or authority from the Consolidated Fund of India or of any State or of any Union Territory having a Legislative Assembly in a financial year is not less than ₹ 25 Lakhs and the amount of such grant or loan is not less than 75 % of the total expenditure of that body or authority, such body or authority shall be deemed, for this purpose to be substantially financed by such grants or loans as the case may be.*





## 6. GOVERNMENT AUDIT C&AG OF INDIA

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6. **DUTIES:-** *The Comptroller & Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 defines functions and powers in detail. The relevant provisions w.r.t. **DUTIES** are discussed hereunder :—*

**4). Audit of Grants or Loans** - Where any grant or loan is given for any specific purpose from the Consolidated Fund of India or of any State or of any Union Territory having a Legislative Assembly to any authority or body, not being a foreign State or international organisation, the C&AG shall

- *scrutinise the procedures by which the sanctioning authority satisfies itself as to the fulfillment of the conditions subject to which such grants or loans were given and*
- *for this purpose have right of access, after giving reasonable previous notice, to the books and accounts of that authority or body.*

**5). Audit of Accounts of Stores and Inventory** - The C&AG shall have authority to audit and report on the accounts of stores and inventory kept in any office or department of the Union or of a State.



# 6. GOVERNMENT AUDIT C&AG OF INDIA

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6. **DUTIES:-** *The Comptroller & Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 defines functions and powers in detail. The relevant provisions w.r.t. **DUTIES** are discussed hereunder :—*

## 6). **Audit of Government Companies and Corporations –**

- The duties and powers of the C&AG in relation to the audit of the accounts of government companies shall be performed and exercised by him in accordance with the provisions of the Companies Act, 2013.
- He shall appoint the auditor under sub-section (5) or sub-section (7) of section 139 (***i.e. appointment of First Auditor or Subsequent Auditor***) and direct such auditor the manner in which the accounts of the Government company are required to be audited and thereupon the auditor so appointed shall submit a copy of the audit report to him which, among other things, include
  - ✓ the directions, if any, issued by the C&AG ,
  - ✓ the action taken thereon and
  - ✓ its impact on the accounts and financial statement of the company.



# 6. GOVERNMENT AUDIT

## C&AG OF INDIA

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### Expenditure Audit ( Briefly)

The audit of government expenditure is one of the major components of government audit. The basic standards set for audit of expenditure are to ensure that there is provision funds authorised by competent authority fixing the limits within which expenditure can be incurred. These standards are—

- 1) **Audit against Rules & Orders** :- that the expenditure incurred conforms to the relevant provisions of the statutory enactment and in accordance with the Financial Rules and Regulations framed by the competent authority. Such an audit is called as the audit against 'rules and orders'.
- 2) **Audit of Sanctions** :- that there is sanction, either special or general, accorded by competent authority authorising the expenditure. Such an audit is called as the audit of sanctions.
- 3) **Audit against Provision of Funds** :- that there is a provision of funds out of which expenditure can be incurred and the same has been authorised by competent authority. Such an audit is called as audit against provision of funds.
- 4) **Propriety Audit** :- that the expenditure is incurred with due regard to broad and general principles of financial propriety. Such an audit is also called as propriety audit.
- 5) **Performance Audit** :- that the various programmes, schemes and projects where large financial expenditure has been incurred are being run economically and are yielding results expected of them. Such an audit is termed as the performance audit.



# 6. GOVERNMENT AUDIT

## C&AG OF INDIA

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### Expenditure Audit ( In Detail )

- (1) **Audit against Rules & Orders** - Audit against rules and orders aims to ensure that the expenditure conforms to the relevant provisions of the Constitution and of the laws and rules made thereunder. It also seeks that the expenditure is in accordance with the financial rules, regulations and orders issued by a competent authority. Audit of expenditure against regularity is of a quasi-judicial type of work performed by the audit authorities. It involves interpretation of the Constitution, statutes, rules, regulations and orders. The final power of interpretation of these, however, does not vest with the C&AG.

**These rules, regulations and orders against which regularity audit is conducted mainly fall under the following categories:-**

- (i) Rules and orders regulating the powers to incur and sanction expenditure from the Consolidated Fund of India or of a State (and the Contingency Fund of India or of a State);
- (ii) Rules and orders dealing with the mode of presentation of claims against government, withdrawing moneys from the Consolidated Fund, Contingency Fund and Public Accounts of the Government of the India and of the States, and in general the financial rules prescribing the detailed procedure to be followed by government servants in dealing with government transactions; and
- (iii) Rules and orders regulating the conditions of service, pay and allowances, and pensions of government servants.
- (iv) to carry out examination of the various rules, regulations and orders issued by the executive authorities to see that:-
  - (a) they are not inconsistent with any provisions of the Constitution or any laws made thereunder;
  - (b) they are consistent with the essential requirements of audit and accounts as determined by the C&AG;



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### Expenditure Audit ( In Detail )

- (iv) to carry out examination of the various rules, regulations and orders issued by the executive authorities to see that:-
- (a) they are not inconsistent with any provisions of the Constitution or any laws made thereunder;
  - (b) they are consistent with the essential requirements of audit and accounts as determined by the C&AG;
  - (c) they do not come in conflict with the orders of, or rules made by, any higher authority; and
  - (d) in case they have not been separately approved by competent authority, the issuing authority possesses the necessary rule-making power.

***NOTE:- 1. It is the function of the executive government to frame rules, regulations and orders, which are to be observed by its subordinate authorities. The job of audit is to see that these rules, regulations and orders are applied properly by the subordinate authorities. It is not the function of audit to prescribe what such rules, regulations and orders shall be.***

***2. It is the responsibility of the executive departments to enforce economy in public expenditure. The function of audit is to bring to the notice of the proper authorities of wastefulness in public administration and cases of improper, avoidable and infructuous expenditure***





# 6. GOVERNMENT AUDIT C&AG OF INDIA

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## Expenditure Audit ( In Detail )

### (2) Audit of Sanctions –

- The auditor has to ensure that each item of expenditure is covered by a sanction, either general or special, of the competent authority.
- The audit of sanctions is ensures that the expenditure is properly covered by a sanction, and also to satisfy that the authority sanctioning it is competent for the purpose by virtue of the powers vested in it by the provisions of the Constitution and of the law, rules or orders made thereunder, or by the rules of delegation of financial powers made by an authority competent to do so.

### (3) Audit against Provision of Funds - *Audit against provision of funds aims at ascertaining that:-*

- the expenditure incurred has been on the purpose for which the grant and appropriation had been provided, and
- that the amount of such expenditure does not exceed the appropriation made.



# 6. GOVERNMENT AUDIT C&AG OF INDIA

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## Expenditure Audit ( In Detail )

**(4) Propriety Audit** — According to 'propriety audit', the auditors try to bring out cases of improper, avoidable, or infructuous expenditure even though the expenditure has been incurred in conformity with the existing rules and regulations.

**Some general principles have been laid down in the Audit Code recognised as standards of financial propriety :-**

- (a) The expenditure should not be *prima facie* more than the occasion demands. Every public officer is expected to exercise the same vigilance in respect of expenditure incurred from public moneys as a person of ordinary prudence would exercise in respect of expenditure of his own money.
- (b) No authority should exercise its powers of sanctioning expenditure to pass an order which will be directly or indirectly to its own advantage.
- (c) Public moneys should not be utilised for the benefit of a particular person or section of the community unless:-
  - (i) *the amount of expenditure involved is insignificant; or*
  - (ii) *a claim for the amount could be enforced in a Court of law; or*
  - (iii) *the expenditure is in pursuance of a recognised policy or custom; and*
  - (iv) *the amount of allowances, such as travelling allowances, granted to meet expenditure of a particular type should be so regulated that the allowances are not, on the whole, sources of profit to the recipients.*



# 6. GOVERNMENT AUDIT

## C&AG OF INDIA

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**(5) Performance Audit** – It covers *efficiency*, *economy* and *effectiveness* audit, also termed as **Full scope audit**. The procedure for conducting performance audit covers **Identification of topic, Preliminary study, Planning and Execution of audit & Reporting.**

**a) Efficiency audit** looks into

- ✓ whether the various schemes/projects are executed and their operations conducted economically and whether they are yielding the results expected of them, *i.e.*, the relationship between goods and services produced and resources used to produce them;
- ✓ and examination aimed to find out the extent to which operations are carried out in an economical and efficient manner.

**b) Economy audit** looks into

- ✓ whether government have acquired the financial, human and physical resources in an economical manner,
- ✓ and whether the sanctioning and spending authorities have observed economy.

**c) Effectiveness audit** is an appraisal of the performance of programmes, schemes, projects with reference to the overall targeted objectives as well as efficiency of the means adopted for the attainment of the objectives.

**d) Efficiency- cum-performance audit** is an objective examination of the financial and operational performance of an organisation, programme, authority or function and is oriented towards identifying opportunities for greater economy & effectiveness.



# 6. GOVERNMENT AUDIT

## C&AG OF INDIA

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### Audit of Receipts

- (i) whether all revenues or other debts due to government have been correctly assessed, realised and credited to government account by the designated authorities;
- (ii) whether adequate regulations and procedures have been framed by the department/agency concerned to secure an effective check on assessment, collection and proper allocation of cases;
- (iii) whether such regulations and procedures are actually being carried out;
- (iv) whether adequate checks are imposed to ensure the prompt detection and investigation of irregularities, double refunds, fraudulent or forged refund vouchers or other loss of revenue through fraud or willful omission or negligence to levy or collect taxes or to issue refunds; and
- (v) review of systems and procedures to see that the internal procedures adequately secure correct and regular accounting of demands collection and refunds and pursuant of dues up to final settlement and to suggest improvement. The basic principle of audit of receipts is that it is more important to look at the general than on the particular, though individual cases of assessment, demand, collection, refund, etc. are important within the area of test check. A review of the judicial decisions taken by tax authorities is done to judge the effectiveness of the assessment procedure.



# 6. GOVERNMENT AUDIT

## C&AG OF INDIA

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### Audit of Stores & Inventories

- 1) To ascertain whether the Regulations governing purchase, receipt and issue, custody, sale and inventory taking of stores are well devised and properly carried out.
- 2) To bring to the notice of the government any deficiencies in quantities of stores held or any defects in the system of control.
- 3) That purchase of stores are properly sanctioned, made economical and in accordance with the Rules for purchase laid down by the competent authority.
- 4) To ensure that the prices paid are reasonable and are in agreement with those shown in the contract for the supply of stores, and that the certificates of quality and quantity are furnished by the inspecting and receiving units.
- 5) To bring about cases of uneconomical purchase of stores and losses attributable to defective or inferior quality of stores are Accounts of receipts, issues and balances are checked regarding accuracy, correctness and reasonableness of balances in inventories with particular reference to the specified norms for level of consumption of inventory holding. Any excess or idle inventory is specifically mentioned in the report and periodical verification of inventory is also conducted to ensure their existence.
- 6) When priced accounts are maintained, the auditor should see that the prices charged are reasonable and have been reviewed from time to time. The valuation of the inventories is seen carefully so that the value accounts tally with the physical accounts and that adjustment of profits or losses due to revaluation, inventory taking or other causes is carried out.





# 6. GOVERNMENT AUDIT C&AG OF INDIA

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## Audit of Commercial Accounts

**Public enterprises are required to maintain commercial accounts and are generally classified under three categories :—**

### **(a) Departmental enterprises :-**

- engaged in commercial and trading operations, which are subject to the same laws, financial and other regulations as other government departments and agencies;
- The audit of departmental concerns is undertaken in the same manner as any department of government where commercial accounts are kept

### **(b) Statutory bodies & Corporations:-**

- created by specific statutes mostly financed by government in the form of loans, grants, etc.
- Audit of statutory bodies or corporations depends on the nature and type of the statute governing the bodies or corporations.
- Both financial and accounts audit are conducted by the C&AG, and where compilation of accounts is vested with the C&AG, functions, norms and standards of works usually followed by the professional auditors are adopted *mutatis mutandis*.



# 6. GOVERNMENT AUDIT C&AG OF INDIA

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## Audit of Commercial Accounts

**Public enterprises are required to maintain commercial accounts and are generally classified under three categories :—**

### **(c) Government Companies set up under the Companies Act, 2013 :-**

- Government companies have their own auditors under the statute appointed by C&AG.
- In addition, the C&AG conducts a supplementary test audit of the accounts, as well as periodical financial audit and appraisal of performance.
- The C&AG also issues direction to the company auditors for reporting on specific aspects of their audit work. These are reviewed, and condensed in the audit reports to the government/legislatures.
- C&AG has adopted the mechanism of an Audit Board-comprising of representatives of the audit and nominees of government including functional specialists to process reviews or appraisals on performance.



# 6. GOVERNMENT AUDIT

## C&AG OF INDIA

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### 7. POWERS :- GENERAL POWERS

- (a) To inspect any office of accounts under the control of the Union or a State Government including office responsible for the creation of the initial or subsidiary accounts.
- (b) To require that any accounts, books, papers and other documents which deal with or are otherwise relevant to the transactions under audit, be sent to specified places.
- (c) To put such questions or make such observations as he may consider necessary to the person in charge of the office and to call for such information as he may require for the preparation of any account or report which is his duty to prepare.
- (d) In carrying out the audit, the C&AG has the power to dispense with any part of detailed audit of any accounts or class of transactions and to apply such limited checks in relation to such accounts or transactions as he may determine.



# 6. GOVERNMENT AUDIT

## C&AG OF INDIA

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### 7. POWERS :- SPECIFIC POWERS

#### a) Section 143(5) of the Act :-

- It states that, in the case of a Government company or any other company owned or controlled, directly or indirectly, by the Central Government, or by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments, the comptroller and Auditor-General of India shall appoint the auditor under sub-section (5) or sub-section (7) of section 139 i.e. appointment of First Auditor or Subsequent Auditor and
- direct such auditor the manner in which the accounts of the Government company are required to be audited and
- thereupon the auditor so appointed shall submit a copy of the audit report to the Comptroller and Auditor-General of India which, among other things, include the directions, if any, issued by the Comptroller and Auditor-General of India,
  - the action taken thereon and
  - its impact on the accounts and financial statement of the company.



## 6. GOVERNMENT AUDIT C&AG OF INDIA

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### 7. POWERS :- SPECIFIC POWERS

**b) Section 143(6) of the Act :- The Comptroller and Auditor-General of India shall within 60 days from the date of receipt of the audit report have a right to:-**

**(a) Conduct a Supplementary audit under section 143(6)(a) :-**

- (a) of the financial statement of the company
- (b) by such person or persons as he may authorize in this behalf;
- (c) and for the purposes of such audit, require information or additional information to be furnished to any person or persons, so authorised, on such matters, by such person or persons, and in such form, as the Comptroller and Auditor-General of India may direct; and

**(b) Comment upon or Supplement such audit report under section 143(6)(b):-**

- (a) Any comments given by the Comptroller and Auditor-General of India upon, or supplement to, the audit report
- (b) shall be sent by the company to every person entitled to copies of audited financial statements under section 136 i.e. every member of the company, to every trustee for the debenture-holder of any debentures issued by the company, and to all persons other than such member or trustee, being the person so entitled
- (c) and also be placed before the annual general meeting of the company at the same time and in the same manner as the audit report.





## 6. GOVERNMENT AUDIT C&AG OF INDIA

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### 7. POWERS :- SPECIFIC POWERS

#### c) Section 143(7) of the Act :- TEST AUDIT

Without prejudice to the provisions relating to audit and auditor, the Comptroller and Auditor- General of India may, in case of any company covered under sub-section (5) or sub-section (7) of section 139, if he considers necessary, by an order, cause test audit to be conducted of the accounts of such company and the provisions of section 19A of the Comptroller and Auditor- General's (Duties, Powers and Conditions of Service) Act, 1971, shall apply to the report of such Test Audit.



## 7. NON-GOVERNMENTAL ORGANISATIONS (NGO'S)

### Some Light thrown on the concept of NGO's :-

- 1) **DEFINITION** :- NGOs can be defined as
  - non-profit making organisations which raise funds from members, donors or contributors apart from receiving donation of time, energy and skills
  - for achieving their social objectives like imparting education, providing medical facilities, economic assistance to poor, managing disasters and emergent situations.
- 2) **SCOPE & COVERAGE** :- They include religious organisations, voluntary health and welfare agencies, charitable organisations, hospitals, old age homes, research foundations etc.
- 3) **LEGAL STATUS(I)** :- Non-Governmental Organisations are generally incorporated as societies under the Societies Registration Act, 1860 or as a trust under the India Trust Act, 1882 in India. However , no Act warrants a mandatory registration under them for an NGO. But if it is created as a trust and trust relates to immovable property worth more than ₹ 100, the provision of Section 17(1) of the Registration Act, 1908 read with Section 123 of the Transfer of Property Act, 1882 must be complied with and the registration of trust becomes mandatory.  
**For Example** :- In some states, such as the states of Maharashtra and Gujarat, where Public Trusts Acts have been passed, such as the Bombay Public Trusts Act 1950, all charitable trusts have to be registered under these specific Public Trusts Acts.



## 7. NON-GOVERNMENTAL ORGANISATIONS (NGO'S)

### Some Light thrown on the concept of NGO's :-

4. **LEGAL STATUS(II)** :- Registration under the Income Tax Act, 1961 and the Foreign Contribution (Regulation) Act, 1976 would also be invoked in many cases.
5. **LEGAL STATUS(III)** :- NGO's can also be incorporated as a Company under section 8 of the Companies Act, 2013. NGOs registered under the Companies Act, 2013 must maintain their books of account under the accrual basis as required by the provisions of section 128 of the said Act. If the accounts are not maintained on accrual basis, it would amount to non-compliance of the provision of the Companies Act, 2013. However, the NGOs which are not registered under the Companies Act, 2013 are allowed to maintain accounts either on an accrual basis or cash basis.
6. **SOURCES OF FUNDS** :- The main sources of funds include grants and donations, fund raising programmes, advertisements, fees from the members, technical assistance fees / fee for services rendered, subscriptions, gifts, sale of produce or publications, etc. W.r.t. Grants & Donations, following points should be known :-
  - a) **Corpus Contribution** :- Donations and grants received in the nature of promoter's contribution are in the nature of capital receipts and shown as liabilities in the Balance Sheet of NGO. These may either be in the form of corpus contribution or a contribution towards revolving fund. A contribution made towards the capital or the corpus of an NGO is known as corpus contribution. The donors are generally required to specify whether the donation/grant given by him shall form part of the corpus of the NGO. Such contributions are generally given with reference to the total funds required by an NGO.



## 7. NON-GOVERNMENTAL ORGANISATIONS (NGO'S)

### Some Light thrown on the concept of NGO's :-

- b) Voluntary Contribution :-** Section 11(1)(d) of the Income Tax Act 1961 states that income in the form of voluntary contributions made with a specific direction that they shall form part of the corpus of the trust or institution shall not be included in the computation of total income.
- c) Revolving Fund :-** The objective of a contribution or grant towards a Revolving Fund is to rotate the amount by giving temporary loans from the fund to other NGO or beneficiaries for their projects and then recover the loan so as to give temporary loans again and so on. However, any interest earned from the beneficiary on such temporary loans from the revolving fund could be either added back to the fund or credited to the Income and Expenditure Account depending on restrictions laid down by the authority providing the contribution (for the revolving fund) or by the rules and regulations laid down by the concerned NGO in this regard.
- d) Donations for Specific Purpose :-** Donations & grants received for acquisition of specific fixed assets are those grants whose primary condition is that an NGO accepting them should purchase, construct or acquire the assets for which the grant is given.
- e) Contributions in kind :-** Many a times NGOs receive contributions in kind. These contributions include assets such as land, buildings, vehicles, office equipment, etc. and articles related to programmes / projects such as food, books, building materials, clothes, beds, and raw material for training purposes, e.g., Wool, reeds, cloth, etc.



## 7. NON-GOVERNMENTAL ORGANISATIONS (NGO'S)

### Some Light thrown on the concept of NGO's :-

7. **APPLICATION OF FUNDS** :- *The areas of application of funds for an NGO include-*

- ✓ Establishment Costs,
- ✓ Office & Admin. Expenses,
- ✓ Maintenance Expenses,
- ✓ Programme / Project Expenses,
- ✓ Charity, Donations & Contributions given, etc.

8. **EXAMPLES** :- *Child Relief and You (CRY), UNICEF, Concern India Foundation, Vidya, etc.*



HELPING PEOPLE HELP THEMSELVES







## 7. NON-GOVERNMENTAL ORGANISATIONS (NGO'S)

### AUDIT OF AN NGO :-

#### (A) APPOINTMENT OF THE AUDITOR & AUDIT REPORT

- a) The auditors of an NGO registered under the Societies Registration Act, 1860 or the Indian Trusts Act 1882 are normally appointed by the Management of the Society or Trust.
- b) The auditors of NGO registered under section 8 of the Companies Act, 2013 are appointed by the members of the company.
- c) Some of the statutes such as the Companies Act, 2013, Foreign Contribution (Regulation) Act 1976, Income Tax Act 1961 required that the accounts of the NGO be audited and submitted to the prescribed authorities and failure to do so could lead to forfeiture of certain exemptions and benefits.
- d) Different statutes have specified certain audit reports. The Foreign Contribution (Regulation) Act 1976 has prescribed the format and requires that the same be furnished to the Ministry of Home Affairs within 60 days from the close of the financial year i.e. **by May 30 each year.**



## 7. NON-GOVERNMENTAL ORGANISATIONS (NGO'S)

### AUDIT OF AN NGO :-

#### (B) AUDIT PLANNING BY THE AUDITOR

**While planning the audit, the auditor may concentrate on the following:-**

- a) Knowledge of the NGO's work, its mission and vision, areas of operations and environment in which it operate.
- b) Updating knowledge of relevant statutes especially with regard to recent amendments, circulars, judicial decisions viz. Foreign Contribution (Regulation) Act 1976, Societies Registration Act, 1860, Income Tax Act 1961 etc. and the Rules related to the statutes.
- c) Reviewing the legal form of the Organisation and its Memorandum of Association, Articles of Association, Rules and Regulations.
- d) Reviewing the NGO's Organisation chart, then Financial and Administrative Manuals, Project and Programme Guidelines, Funding Agencies Requirements and formats, budgetary policies if any.
- e) Examination of minutes of the Board/Managing Committee/Governing Body/ Management and Committees thereof to ascertain the impact of any decisions on the financial records.
- f) Study the accounting system, procedures, internal controls and internal checks existing for the NGO and verify their applicability.
- g) Setting of materiality levels for audit purposes.
- h) The nature and timing of reports or other communications.
- i) The involvement of experts and their reports.
- j) Review the previous year's Audit Report.



## 7. NON-GOVERNMENTAL ORGANISATIONS (NGO'S)

### AUDIT OF AN NGO :-

#### (C) AUDIT PROGRAMME - I. THE BALANCE SHEET ITEMS ( LIABILITIES )

- 1) **Corpus Fund:-** The contributions / grants received towards corpus be vouched with special reference to the letters from the donor(s). The interest income be checked with Investment Register and Physical Investments in hand.
- 2) **Reserves:** - Vouch transfers from projects / programmes with donors letters and board resolutions of NGO. Also check transfer of gross value of asset sold from capital reserve to general reserve and adjustments during the year.
- 3) **Ear-marked Funds :** - Check requirements of donors institutions, board resolution of NGO, rules and regulations of the schemes of the ear-marked funds.
- 4) **Project / Agency Balances:** - Vouch disbursements and expenditure as per agreements with donors for each of the balances.
- 5) **Loans:-** Vouch loans with loan agreements, counterfoil of receipt issued.



## 7. NON-GOVERNMENTAL ORGANISATIONS (NGO'S)

### AUDIT OF AN NGO :-

#### (C) AUDIT PROGRAMME - II. THE BALANCE SHEET ITEMS (ASSETS)

- 6) **Fixed Assets** :- Vouch all acquisitions / sale or disposal of assets including depreciation and the authorisations for the same. Also check donor's letters/ agreements for the grant. In the case of immovable property check title, etc.
- 7) **Investments** :- Check Investment Register and the investments physically ensuring that investments are in the name of the NGO. Verify further investments and dis- investments for approval by the appropriate authority and reference in the bank accounts for the principal amount and interest.
- 8) **Cash in Hand** :- Physically verify the cash in hand and imprest balances, at the close of the year and whether it tallies with the books of account.
- 9) **Bank Balance** :- Check the bank reconciliation statements & ascertain details for old o/s & unadj. amounts.
- 10) **Inventory** :- Verify inventory in hand and obtain certificate from the management for the quantities and valuation of the same.



## 7. NON-GOVERNMENTAL ORGANISATIONS (NGO'S)

### AUDIT OF AN NGO :-

#### (C) AUDIT PROGRAMME - III. THE INCOME & EXPENDITURE ITEMS (INCOMES)

- 11) Contributions and Grants for Projects and Programmes:** Check agreements with donors and grants letters to ensure that funds received have been accounted for. Check that all foreign contribution receipts are deposited in the foreign contribution bank account as notified under the Foreign Contribution (Regulation) Act, 1976.
- 12) Receipts from fund raising programmes:** Verify in detail the internal control system and ascertain who are the persons responsible for collection of funds and mode of receipt. Ensure that collections are counted and deposited in the bank daily.
- 13) Membership Fees:** Check fees received with Membership Register. Ensure proper classification is made between entrance and annual fees and life membership fees. Reconcile fees received with fees to be received during the year.
- 14) Subscriptions:** Check with subscription register and receipts issued. Reconcile subscription received with printing and dispatch of corresponding magazine / circulars / periodicals. Check the receipts with subscription rate schedule.
- 15) Interest and Dividends:** Check the interest & dividends received & receivable with investments held during the year.





## 7. NON-GOVERNMENTAL ORGANISATIONS (NGO'S)

### AUDIT OF AN NGO :-

#### (C) AUDIT PROGRAMME - IV. THE INCOME & EXPENDITURE ITEMS (EXPENSES)

##### 10) Programme and Project Expenses:-

- a) Verify agreement with donor/contributor(s) supporting the particular programme or project to ascertain the conditions with respect to undertaking the programme/project ; and
- b) accordingly, in the case of programmes/projects involving contracts, ensure that income tax is deducted, deposited and returns filed and verify the terms of the contract.

##### 11) Establishment Expenses:-

- a) Verify that provident fund, life insurance premium, employees state insurance and their administrative charges are deducted, contributed and deposited within the prescribed time.
- b) Also check other office and administrative expenses such as postage, stationery, travelling, etc.





## 8. CLUB

*The special steps involved in such an audit are stated below-*

**(1) Entrance Fee :-** Vouch the receipt on account of **entrance fees** with –

- ✓ members' applications and counterfoils issued to them,
- ✓ on a reference to minutes of the Managing Committee.

**(2) Member Subscriptions :-** Vouch members' **subscriptions** with –

- ✓ the counterfoils of receipt issued to them,
- ✓ trace receipts for a selected period to the Register of Members;
- ✓ also reconcile the amount of total subscriptions due with the amount collected and that outstanding.

**(3) Subscription Arrears/in Advance :-** Ensure that –

- ✓ **arrears** of subscriptions for the previous year have been correctly brought over,
- ✓ **arrears** for the year under audit and subscriptions received in advance have been correctly adjusted.
- ✓ Subscriptions received in advance should have been properly accounted for.



## 8. CLUB

*The special steps involved in such an audit are stated below-*

**(4) Arithmetical accuracy**:- Check totals of various columns of the Register of members and tally them across.

**(5) Register of Members**:- See the ***Register of Members*** to ascertain –

- ✓ the Member's dues which are in arrear and
- ✓ enquire whether necessary steps have been taken for their recovery;
- ✓ the amount considered irrecoverable should be mentioned in the Audit Report.

**(6) Pricing Policy**:- Verify the internal check as regards –

- ✓ members being charged with the ***price*** of foodstuffs and drinks provided to them and their guests
- ✓ with the ***fees*** chargeable for the special services rendered, such as billiards, tennis, pool etc.



## 8. CLUB



*The special steps involved in such an audit are stated below-*

**(7) Member Accounts :-** Trace debits for a selected period from subsidiary registers maintained in respect of supplies and services to members to confirm that the account of every member has been debited with amounts recoverable from him.

**(8) Margins maintained:-**

- ✓ Vouch purchases of foodstuffs, cigars, wines, etc., and test their sale price so as to confirm that the normal rates of gross profit have been earned on their sales.
- ✓ The inventory of unsold provisions and stores, at the end of year, should be verified physically and its valuation checked.

**(9) Inventory Register :-** Vouch-

- ✓ purchase of sports items, furniture, crockery, etc. and trace their entries into the respective inventory registers to verify whether they have been purchased after proper sanction.
- ✓ inventory of furniture, sports material and other assets physically with the respective inventory registers or inventories prepared at the end of the year and also the valuation of the closing stock.





## 8. CLUB



*The special steps involved in such an audit are stated below-*

### **(10) Investments:-**

- ✓ Inspect the share scrips and bonds in respect of investments,
- ✓ check their current values for disclosure in final accounts;
- ✓ ascertain that the arrangements for their safe custody are satisfactory.



**(11) Management Powers:-** Examine the financial powers of the secretary and, if these have been exceeded, report specific case for confirmation by the Managing Committee.



## 9. CHARITABLE INSTITUTION

*The special steps involved in such an audit are stated below-*

### (1) General:-

- a) Studying the constitution under which the charitable institution has been set up.
- b) Verifying whether the institution is being managed in the manner contemplated by the law under which it has been set up.
- c) Examining the system of internal check, especially as regards accounting of amounts collected.
- d) Verifying in detail the income and confirming that the amounts received have been deposited in the bank regularly and promptly.

### (2) Subscriptions & Donations:-

- a) Ascertaining, if any, the changes made in amount of annual or life membership subscription during the year.
- b) Whether official receipts are issued:-
  - confirming that adequate control is imposed over unused receipt books;
  - obtaining all receipt books covering the period under review;
  - test checking the counterfoils with the cash book; any cancelled receipts being specially looked into;
  - obtaining the printed list of subscriptions and donations and agreeing them with the total collections shown in the accounts;
  - examining the system of internal check regarding moneys received from box collections, flag days, etc. and checking the amount received from representatives, with the correspondence and the official receipts issued; paying special attention to the system of control exercised over collections and the steps taken to ensure that all collections made have been accounted for; and
  - verifying the total subscriptions and donations received with any figures published in reports, etc. issued by the charity.



## 9. CHARITABLE INSTITUTION

*The special steps involved in such an audit are stated below-*

### (3) Legacies & Grants :-

- a) Verifying the amounts received by reference to correspondence with any figures and other available information.
- b) Vouching the amount received with the relevant correspondence, receipts and minute books.
- c) Obtaining a certificate from a responsible official showing the amount of grants received.

### (4) Income from Investments:-

- a) Vouching the amounts received with the dividend and interest counterfoils.
- b) Checking the calculations of interest received on securities bearing fixed rates of interest.
- c) Checking that the appropriate dividend has been received where any investment has been sold ex-dividend or purchased cum-dividend.
- d) Comparing the amounts of dividend received with schedule of investments making special enquiries into any investments held for which no dividend has been received.

### (5) Rent:-

- a) Examining the rent roll and inspecting tenancy agreements, noting in each case:
  - the amounts of the rent, and
  - the due dates.
- b) Vouching the rent on to the rent roll from the counterfoils of receipt books and checking the totals of the cash book.



## 9. CHARITABLE INSTITUTION



*The special steps involved in such an audit are stated below-*

### (6) Sundry Receipts:-

- a) Vouching gross receipts and outgoings in respect of any special functions, e.g. concerts, dramatic performance, etc., held in aid of the charity with such vouchers and cash statements as are necessary.
- b) In particular, verifying that the proceeds of all tickets issued have been accounted for, after making the allowance for returns.

### (7) Expenditure :-

- a) Vouching the payment of grants, also verifying that the grants have been paid only for a charitable purpose or purposes falling within the purview of the objects for which the charitable institution has been set up and that no trustee, director or member of the Managing Committee has benefitted there from either directly or indirectly.
- b) Verifying the schedules of securities held, as well as inventories of properties both movable and immovable by inspecting the securities and title deeds of property and by physical verification of the movable properties on a test- basis.
- c) Verifying the cash and bank balance payments.
- d) Ascertaining that any funds contributed for a special purpose have been utilised for the purpose.
- e) Check payment along with supporting documents in regard to salary and other expenses. Verify that all payments are made after proper sanction by appropriate authority.



## 9. CHARITABLE INSTITUTION



*The special steps involved in such an audit are stated below-*

**(8) Taxation & Tax Refunds :-** Check whether the Institution enjoys exemption under the Income Tax Act , 1961 & if payment of taxes has been made , under what circumstances. Where tax has been deducted from the Investment income, it should be seen that a refund thereof has been obtained since charitable institutions are exempt from payment of Income-tax. *This involves:*

- a) vouching the Income-tax refund with the correspondence with the Income- tax Department; and
- b) checking the calculation of the repayment of claims.







# 10. HOTEL



*The special steps involved in such an audit are stated below-*

## **(1) Internal Controls**

- a) Pilfering is one of the greatest problems in any hotel and the importance of internal control cannot be undermined. It is the responsibility of management to introduce controls which will minimise the leakage as far as possible.
- b) Evidence of their success is provided by the preparation of regular or weekly, trading accounts for each sales point and a detailed scrutiny of the resulting profit percentages, with any deviations being reported. The auditor should obtain these regular trading accounts for the period under review, examine them and obtain explanations for any apparent deviations.
- c) If the internal control in a hotel is weak or perhaps breaks down, then a very serious problem exists for the auditor. As a result of the transient nature of many of his clients' records, the auditor must rely to a very large extent on the gross margin shown by the accounts. As a result, the scope of his audit tests will necessarily be increased and, in the event of a material margin discrepancy being unexplained, he will have to consider qualifying his audit report.
- d) The auditor should satisfy himself that all taxes collected from occupants on food and occupation have been paid over to the proper authorities.



# 10. HOTEL



*The special steps involved in such an audit are stated below-*

## **(2) Room Sales**

- a) The charge for room sales is normally posted to guest bills by the receptionist/ front office or in the case of large hotels by the night auditor.
- b) The source of these entries is the guest register and audit tests should be carried out to ensure that the correct numbers of guests are charged for the correct period.
- c) Any difference between the charged rates used on the guests' bills and the standard room rate should be investigated to ensure that they have been properly authorised.
- d) In many hotels, the housekeeper prepares a daily report of the rooms which were occupied the previous night and the number of beds kept in each room. This report tends not to be permanently retained and the auditor should ensure that a sufficient number of reports are available for him to test both with the guest register and with the individual guest's bill.
- e) Ensure compliance with the provisions of FEMA and RBI if receipts are in foreign currency. Ensure application of proper Conversion rate.
- f) Special emphasis to be laid on receipts through Credit Cards.
- g) The auditor should ensure that proper valuation of occupancy-in-progress at the balance sheet date is made and included in the accounts.



# 10. HOTEL



*The special steps involved in such an audit are stated below-*

## **(3) Inventories**

- a) The inventories in any hotel are both readily portable and saleable particularly the food and beverage inventories. So , all movements and transfers of such inventories should be properly documented to enable control to be exercised over each individual stores areas and sales point. The auditor should carry out tests to ensure that all such documentation is accurately processed.
- b) Areas where large quantities of inventory are held should be kept locked, the key being retained by the departmental manager. The key should be released only to trusted personnel and unauthorised persons should not be permitted in the stores areas except under constant supervision. Any movement of goods in or out of the stores should be checked.
- c) Many hotels use specialised professional valuers to take and value the inventories on a continuous basis throughout the year. Such a valuation is then used as the basis of the balance sheet inventory figure at the year end. Although such valuers are independent of the audit client, it is important that the auditor satisfies himself that the amounts included for such inventories are reasonable.
- d) The auditor should consider attending the physical inventory taking and carrying out certain pricing and calculation tests.



# 10. HOTEL



*The special steps involved in such an audit are stated below-*

## **(4) Fixed Assets**

- a) The accounting policies for fixed assets of individual hotels are likely to differ. For Example :- Many hotels account for certain quasi-fixed assets such as silver and cutlery on inventory basis which can lead to confusion between each inventory items and similar assets which are accounted for on a more normal fixed assets basis. In such cases, it is important that very detailed definitions of inventory items exist and the auditor should carry out tests to ensure that the definitions have been closely followed.
- b) The auditor should see that costs of repairs and minor renovation and redecoration are treated as revenue expenditure, where as costs of major alterations and additions to the hotel building and facilities capitalised.
- c) Physically check the Cash & obtain Bank Reconciliation Statement.

## **(5) Restaurant & Banquet Halls**

- a) The auditor should ensure that proper records are maintained for booking of halls and other premises for special parties and recovered on the basis of the tariff structure.
- b) The auditor should verify a few restaurant bills by reference to K.O.T.s (Kitchen Order Tickets) or basic record. This would enable the auditor to ensure that controls regarding revenue cycle are in order.





# 10. HOTEL



*The special steps involved in such an audit are stated below-*

## **(6) Casual Labour & Staff Expenses**

- a) The hotel trade operates to very large extent on casual labour. The records maintained of such wage payments are frequently inadequate. The auditor should ensure that defalcation on this account does not take place by suggesting proper controls to the management by checking their attendance records & wage payment registers.
- b) A Few Salary payments could be Test checked with entries in the cashbook and comparisons be made with that of Previous periods using Analytical Procedures.

## **(7) Travel Agents & Shops**

- a) For ledgers coming through travel agents or other booking agencies the bills are usually made on the travel agents or booking agencies. The auditor should ensure that money are recovered from the travel agents or booking agencies as per the terms of credit allowed.
- b) Commission, if any, paid to travel agents or booking agents should be checked by reference to the agreement on that behalf.
- c) In case , spaces have been let out to such persons , the agreement entered into them should be checked and it is to be ensured that the collections received from them under such agreement are properly accounted for.



# 11. EDUCATIONAL INSTITUTION

*The special steps involved in such an audit are stated below-*

## (1) General Considerations:-

- a) Examine the Trust Deed or Regulations, in the case of school or college and note all the provisions affecting accounts. In the case of a university, refer to the Act of Legislature and the Regulation framed thereunder.
- b) Read through the minutes of the meetings of the Managing Committee or Governing Body, noting resolutions affecting accounts to see that these have been duly complied with, specially the decisions as regards the operation of bank accounts and sanctioning of expenditure.

## (2) Receipts from Students:- **Check**

- a) admission fees with admission slips signed by the head of the institution and confirm that the amount has been credited to a Capital fund, unless the Managing Committee has taken a decision to the contrary.
- b) names entered in the Students Fee Register for each month or term, with the respective Class Registers, showing names of students on rolls and test amount of fees charged; and verify that there operates a system of internal check which ensures that demands against the students are properly raised.
- c) fees received by comparing counterfoils of receipts granted with entries in the Cash Book and tracing the collections in the Fee Register to confirm that the revenue from this source has been duly accounted for.
- d) Total up the various columns of the Fees Register for each month or term to ascertain that fees paid in advance have been carried forward and that the arrears that are irrecoverable have been written off under the sanction of an appropriate authority.
- e) that fines for late payment or absence, etc. have been either collected or remitted under proper authority.



# 11. EDUCATIONAL INSTITUTION

*The special steps involved in such an audit are stated below-*

## (3) Miscellaneous Receipts :-

- a) **Hostel :-** Confirm that hostel dues were recovered before student's accounts were closed and their deposits of caution money refunded.
- b) **Rent :-** Verify rental income from landed property with the rent rolls, etc.
- c) **Investments :-** Vouch income from endowments and legacies, as well as interest and dividends from investment; also inspect the securities in respect of investments held.

## (4) Grants & Donations:- Vouch & Verify-

- a) any Government or local authority grant with the memo of grant. If any expense has been disallowed for purposes of grant, ascertain the reasons thereof.
- b) donations, if any with the list published with the annual report. If some donations were meant for any specific purpose, see that the money was utilised for the purpose.

## (5) Investments:-

- a) See that the investments representing endowment funds for prizes are kept separate and any income in excess of the prizes has been accumulated and invested along with the corpus.
- b) Confirm that the refund of taxes deducted from the income from investment (interest on securities etc.) has been claimed and recovered since the institutions are generally exempted from the payment of income-tax.



# 11. EDUCATIONAL INSTITUTION

*The special steps involved in such an audit are stated below-*

## **(6) Authorizations & Sanctions:-** Vouch-

- a) all capital expenditure in the usual way and verify the same with the sanction for the Committee as contained in the minute book.
- b) all establishment expenses and enquire into any unduly heavy expenditure under any head. If there was any annual budget prepared, see that any excess under any head over the budgeted amount was duly sanctioned by the Managing Committee. If not, bring it to the Committee's notice in your report.
- c) that free studentship and concessions have been granted by a person authorised to do so, having regard to the Rules prepared by the Managing Committee.

## **(7) Staff Payments:-** Vouch -

- a) Verify that the Provident Fund money of the staff has been invested in appropriate securities.
- b) See that increase in the salaries of the staff have been sanctioned and minuted by the Committee.

## **(8) Assets :-** Verify-

- a) that the inventories of furniture, stationery, clothing, provision and all equipment etc. These should be checked by reference to Inventory Register or corresponding inventories of the previous year and values applied to various items should be test checked.
- b) that the system ordering inspection on receipt and issue of provisions, foodstuffs, clothing and other equipment is efficient and all bills are duly authorised and passed before payment.



# 11. EDUCATIONAL INSTITUTION



*The special steps involved in such an audit are stated below-*

**(9) Liabilities:-** Confirm that **caution money** and other deposits paid by students on admission, have been shown as liability in the balance sheet not transferred to revenue, unless they are not refundable.

## **(10) Internal Controls:-**

- a) Report any old heavy arrears on account of fees, dormitory rents, etc. to the Managing Committee.
- b) Verify the annual statements of account and, while doing so see that separate statements of account have been prepared as regards Poor Boys Fund, Games Fund, Hostel and Provident Fund of staff, etc
- c) Vouch payments against Electricity & Water Bills.
- d) Verify the Capital Fund for increase or decrease wrt previous year figures.







# 12. CINEMA HALL



*The special steps involved in such an audit are stated below-*

## **(1) Internal Controls :-** *Verify the internal control mechanism-*

- a) that entrance to the cinema-hall during show is only through printed tickets;
- b) that they are serially numbered and bound into books;
- c) that the number of tickets issued for each show and class, are different though the numbers of the same class for the show on the same day, each week, run serially;
- d) that for advance booking a separate series of tickets is issued; and
- e) that the inventory of tickets is kept in the custody of a responsible official.

## **(2) Receipts from Shows**

- a) Confirm that at the end of show, a statement of tickets sold is prepared and cash collected is agreed with it.
- b) Verify that a record is kept of the 'free passes' and that these are issued under proper authority.
- c) Reconcile the amount of Entertainment Tax collected with the total number of tickets issued for each class and vouch and verify the entertainment tax returns filed each month.
- d) Vouch the entries in the Cash Book in respect of cash collected on sale of tickets for different shows on a reference to Daily Statements which have been test checked with record of tickets issued for the different shows held.



# 12. CINEMA HALL



*The special steps involved in such an audit are stated below-*

**(3) Advertisements :-** Vouch the –

- a) charges collected for advertisement slides and shorts by reference to the Register of Slides and Shorts Exhibited kept at the cinema as well with the agreements, entered into with advertisers in this regard.
- b) expenditure incurred on advertisements and promotional campaigns to ascertain that it should not have been capitalised.

**(4) Income from Restaurants & Stalls :-**

- a) The arrangement for collection of the share in the restaurant income should be enquired into either a fixed sum or a fixed percentage of the taking that may be receivable annually.
- b) In case the restaurant is run by the Cinema, its accounts should be checked and the audit should cover sale of various items of foodstuffs, purchase of foodstuffs, cold drink, etc. as in the case of club.

**(5) Fixed Assets :-** Verify the-

- a) existence of all the Fixed assets with the Assets Register maintained
- b) depreciation on machinery and furniture has been charged at an appropriate rate.
- c) the expenditure incurred on repairs and maintenance should not be capitalized.



## 12. CINEMA HALL



*The special steps involved in such an audit are stated below-*

### **(6) Agreement with the Distributors :-**

- a) Vouch payments on account of film hire with bills of distributors and in the process, the agreements concerned should be referred to.
- a) Examine unadjusted balance out of advance paid to the distributors against film hire contracts to see that they are good and recoverable. If any film in respect of which an advance was paid has already run, it should be enquired as to why the advance has not been adjusted. The management should be asked to make a provision in respect of advances that are considered irrecoverable.







# 13. HOSPITAL



*The special steps involved in such an audit are stated below-*

## **(1) Register of Patients:-** Vouch the

- a) Register of patients with copies of bills issued to them.
- b) Bills for a selected period with the patients' attendance record to see that the bills have been correctly prepared and bifurcated into rent charges , service charges & medicine payments.
- c) Bills whether that have been issued to all patients from whom an amount was recoverable according to the rules of the hospital

## **(2) Collection of Cash :-** Check

- a) cash collections as entered in the Cash Book with the receipts, counterfoils and other evidence for example, copies of patients bills, counterfoils of dividend and other interest warrants, copies of rent bills, etc.
- b) the receipts of OPD and IPD are being accounted for as per the policy of the Hospital and there are separate registers maintained for each

## **(3) Legacies , Grants & Donations:-**

- a) Ascertain that legacies and donations received for a specific purpose have been applied in the manner agreed upon.
- b) Verify that grants, if any, received from Government or local authority has been duly accounted for.
- c) Obtain Written Representations w.r.t. the use of such grants.



# 13. HOSPITAL

*The special steps involved in such an audit are stated below-*

## **(4) Subscriptions:-**

- a) Trace all collections of subscription and donations from the Cash Book to the respective Registers.
- b) Reconcile the total subscriptions due (as shown by the Subscription Register and the amount collected and that still outstanding).

## **(5) Income from Investments:-**

- a) See by reference to the property and Investment Register that all income that should have been received by way of rent on properties, dividends, and interest on securities have been collected.
- b) Also, that refund in respect of taxes deducted at source has been claimed.

## **(6) Inventories:-**

- a) Obtain inventories, especially of stocks and stores as at the end of the year and check a percentage of the items physically.
- b) Compare their total values with respective ledger balances.
- c) Special examination of the authorizations over purchase , storage & issue of high value stock.

## **(7) Taxation :-** Check whether the Hospital is eligible for Income Tax Exemption.



# 13. HOSPITAL



*The special steps involved in such an audit are stated below-*

## **(8) Authorizations & Sanctions:-** Vouch

- a) all purchases and expenses and verify that the capital expenditure was incurred only with the prior sanction of the Trustees or the Managing Committee
- b) that appointments , salary packages and increments to staff have been duly authorised.
- c) bills raised at concessional rates are duly authorized.

## **(9) Fixed Assets :-** Verify

- a) whether Fixed assets registers are being maintained properly or not and tally all of them by physical inspection.
- b) That their purchases have been made after proper sanction by the appropriate authority and from the approved vendor.
- c) See that depreciation has been written off against all the assets at the appropriate rates.

## **(10) Internal Controls :-**

- a) Compare the totals of various items of expenditure and income with the amount budgeted for them and report to the Trustees or the Managing Committee, significant variations which have taken place.
- b) Examine the internal check w.r.t receipt and issue of stores; medicines, linen, apparatus, clothing, instruments, etc. to check that purchases have been properly recorded in the Inventory Register & issues have been made only against proper authorisation.
- c) Get proper Management Representation and Certificate with respect to various aspects covered during the course of audit.



# 14. HIRE PURCHASE & LEASING COMPANIES

## (1) HIRE - PURCHASE

### (A) The Concept :-

- i. Hire-purchase agreement means an agreement under which
  - goods are let on hire and
  - the hirer has an option to purchase them in accordance with the terms of the agreement.
- ii. Hirer means the person who obtains or has obtained possession of goods from an owner under a hire- purchase agreement and
- iii. owner means the person who lets or has let, delivers or has delivered possession of goods to a hirer under a hire-purchase agreement ;
- iv. in order to complete the purchase of, or the acquisition of property in the goods of which the agreement relates;
- v. and includes any sum so payable by the hirer under the hire- purchase agreement by way of a deposit or other initial payment.



# 14. HIRE PURCHASE & LEASING COMPANIES



## (1) HIRE - PURCHASE

### (B) The Hire-Purchase Agreement :- It includes the following T & C -

- (i) possession of goods is delivered by the owner thereof to a person on condition that such person pays the agreed amount in periodical instalments,
- (ii) the property in the goods is to pass to such person on the payment of the last of such instalments, and
- (iii) such person has a right to terminate the agreement at any time before the property so passes.





# 14. HIRE PURCHASE & LEASING COMPANIES

## (1) HIRE - PURCHASE

### (C) The Auditor's Considerations :-

While checking the hire- purchase transaction, the auditor may examine the following:-

(i) **FORM** :- Hire purchase agreement is in writing and is signed by all parties.

(ii) **HP AGREEMENT PARTICULARS** :- Hire purchase agreement specifies clearly-

- The hire-purchase price of the goods to which the agreement relates;
- The cash price of the goods, that is to say, the price at which the goods may be purchased by the hirer for cash;
- The date on which the agreement shall be deemed to have commenced;
- The number of instalments by which the hire- purchase price is to be paid, the amount of each of those instalments, and the date, or the mode of determining the date, upon which it is payable, and the person to whom and the place where it is payable; and
- The goods to which the agreement relates, in a manner sufficient to identify them.

(iii) **REGULAR INSTALMENTS** :- Ensure that instalment payments are being received regularly as per the agreement.



# 14. HIRE PURCHASE & LEASING COMPANIES

## (2) LEASES

### (A) The Concept :-

- a) In a lease agreement, a party (called 'lessee') acquires the right to use an asset for an agreed period of time in consideration of payment of rent to another party (called 'lessor').
- b) In certain lease agreements, the legal ownership of the asset remains with the lessor (the leasing company), but in substance, all the risks and rewards of ownership of the asset are transferred to the lessee.
- c) In other words, the lease is, in effect, a financing arrangement. Such leases are termed as finance leases. An operating lease, on the other hand, is a simple arrangement where, in return for rent, the lessor allows the lessee to use the asset for a certain period.
- d) **AS-19** defines that lease arrangements could be of 2 types i.e. **Finance Lease** and **Operating Lease**. (Difference between the two – REFER STUDY MATERIAL TABLE)



# 14. HIRE PURCHASE & LEASING COMPANIES



## (2) LEASES

### **(B) The MODALITY/PROCEDURE :-**

- a) The lessee will select the equipment, and satisfy himself about its functional fitness and specifications, the lessor has no participation at this stage.
- b) Having chosen the equipment, the lessee approaches a lessor, either directly or through a lease-broking agency.
- c) The lease agreement is broadly negotiated and the rates are finalised. The lessor places an order on the manufacturer as chosen by the lessee.
- d) The manufacturer delivers the equipment at the site of the lessee, and the latter gives notice of acceptance to the lessor.
- e) The lease agreement giving detailed terms of contract is signed between the parties. Leases will normally be full pay-out, with term varying as per requirements.
- f) During the lease period, the lessee:
  - i. Will pay rentals regularly at periods agreed-upon, which are usually each calendar month;
  - ii. Will keep the equipment in good repair and working condition, etc.
  - iii. Will be entitled to any manufacturer's warranties or after-sales services.
- g) At the end of the lease period, the equipment shall retreat to the lessor. The lessee may, however, be given a renewal right, or may be allowed to participate in purchase of the equipment when the lessor intends to sell it. No purchase option shall be given to the lessee in the lease agreement itself.



# 14. HIRE PURCHASE & LEASING COMPANIES



## (2) LEASES

### (C) The Audit Considerations :-

- 1) The object clause of leasing company to see that the goods like capital goods, consumer durables etc. in respect of which the company can undertake such activities. Further, to ensure that whether company can undertake financing activities or not.
- 2) Whether there exists a procedure to ascertain the credit analysis of lessee like lessee's ability to meet the commitment under lease, past credit record, capital strength, availability of collateral security, etc.
- 3) The lease agreement should be examined and the following points may be noted:-
  - (i) the description of the lessor, the lessee, the equipment and the location where the equipment is to be installed. (The stipulation that the equipment shall not be removed from the described location except for repairs. For the sake of identification, the lessor may also require plates or markings to be attached to the equipment).
  - (ii) the amount of tenure of lease, dates of payment, late charges, deposits or advances etc. should be noted.
  - (iii) whether the equipment shall be returned to the lessor on termination of the agreement and the cost shall be borne by the lessee.
  - (iv) whether the agreement prohibits the lessee from assigning the subletting the equipment and authorises the lessor to do so.



# 14. HIRE PURCHASE & LEASING COMPANIES

## (2) LEASES

### (C) The Audit Considerations :-

- (4) Examine the lease proposal form submitted by the lessee requesting the lessor to provide him the equipment on lease.
- (5) Ensure that the invoice is retained safely as the lease is a long-term contract.
- (6) Examine the acceptance letter obtained from the lessee indicating that the equipment has been received in order and is acceptable to the lessee.
- (7) See the Board resolution authorising a particular director to execute the lease agreement has been passed by the lessee.
- (8) See that the copies of the insurance policies have been obtained by the lessor for his records.



# PRACTICE QUESTIONS

**Q :- 1** An audit of Expenditure is one of the major components of Government Audit. In the context of 'Government Expenditure Audit', write in brief, what do you understand by:-

- Audit against Rules and Orders
- Audit of Sanctions
- Audit against Provision of Funds
- Propriety Audit
- Performance Audit.

**ANSWER :-** [SLIDE NO. - 46](#)

**Q :- 2** Explain in detail the duties of Comptroller and Auditor General of India. **ANSWER :-** [SLIDE NO. – 41-45](#)

**Q :- 3** What are the special steps involved in conducting the audit of an Educational Institution? **ANSWER :-** [SLIDE NO. – 82-85](#)

**Q:- 4** As per Multi-state Co-operative Societies Act, 2002, the auditor shall make a report to the members of the Multi-State co-operative society on the accounts examined by him and on every balance-sheet and profit and loss account and on every other document required to be part of or annexed to the balance-sheet or profit and loss account. Explain. **ANSWER :-** [SLIDE NO. – 24\(4\)](#)

# PRACTICE QUESTIONS

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**Q :- 5** Explain the powers and duties of auditors under the Multi-State Co-operative Societies Act, 2002.

**ANSWER :- SLIDE NO. – 24 (3)**

**Q :-6** You have been appointed as an auditor of an NGO, briefly state the points on which you would concentrate while planning the audit of such an organisation?

**ANSWER :- SLIDE NO. - 65**

**Q :-7** The general transactions of a hospital include patient treatment, collection of receipts, donations, capital expenditures. You are required to mention special points of consideration while auditing such transactions of a hospital?

**ANSWER :- SLIDE NO. – 89-91**

**Q:-8** Audit of government expenditure is one of the major components of government audit conducted by the office of C&AG. The basic standards set for audit of expenditure are to ensure that there is provision of funds authorised by competent authority fixing the limits within which expenditure can be incurred. Explain those standards.

**ANSWER :- SLIDE NO. - 46**

# PRACTICE QUESTIONS

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**Q :-9** In the case of audit of a charitable institution, what attentions should be paid by the auditor regarding audit of expenditure items? (4 Marks)  
ANSWER :- [SLIDE NO. – 76\(7\)](#)

**Q :-10** You have been appointed auditor of M/s. Divine Children Hospital. Discuss any four important points that would attract your attention while audit. (4 Marks)  
ANSWER :- [SLIDE NO. – 90-92](#)

**Q :-11** There are certain points which are required to be considered specially in the audit of accounts of a partnership. Discuss any three points briefly. (3 Marks)  
ANSWER :- [SLIDE NO. – 8](#)

**Q:-12** Define the different types of lease agreements as per Accounting Standard. (4 Marks)  
ANSWER :- [SLIDE NO. - 96](#)

# PRACTICE QUESTIONS

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**Q :-13** Central Govt. hold 55% of the paid up share Capital in Kisan Credit Co-operative Society, which is incurring huge losses. Advise when the Central Government can direct Special Audit under Section 77 of the Multi State Co-operative Society Act. (3 Marks) **ANSWER :- [SLIDE NO. – 25](#)**

**Q :-14** Discuss the power of C & AG in Government audit. (3 Marks) **ANSWER :- [SLIDE NO. – 56](#)**

# PRACTICE QUESTIONS

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**Q :-1 CORRECT/INCORRECT :-** Bhartiya Gas Ltd. a Government Company, the Comptroller and Auditor-General of India shall, in respect of a financial year, appoint an auditor duly qualified to be appointed as an auditor of companies under this Act, within a period of 180 days from the end of the financial year, who shall hold office till the end of the next Financial year.

**A:- Incorrect-** As per section 139(5), in the case of a Government company or any other company owned or controlled, directly or indirectly, by the Central Government, or by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments, the Comptroller and Auditor-General of India shall, in respect of a financial year, appoint an auditor duly qualified to be appointed as an auditor of companies under this Act, within a period of 180 days from the commencement of the financial year, who shall hold office till the conclusion of the annual general meeting.

**Q.:-2 CORRECT/INCORRECT :-** The accounts of every LLP shall be audited in accordance with rule 24 of LLP Rules 2009.

**A:- Incorrect-** Rule 24 of LLP Rules 2009 provides that any LLP, whose turnover does not exceed, in any financial year, forty lakh rupees, or whose contribution does not exceed twenty five lakh rupees, is not required to get its accounts audited. However if the partners of such limited liability partnership decide to get the accounts of such LLP audited, the accounts shall be audited only in accordance with such rules.





# THANK YOU

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## CA VIPUL SABOO