

# Chapter 13

## Question Bank

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### 13.1 Government Audit

Q1.	<p>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:</p> <ul style="list-style-type: none"> <li>(i) Audit against Rules and Orders</li> <li>(ii) Audit of Sanctions</li> <li>(iii) Audit against Provision of Funds</li> <li>(iv) Propriety Audit</li> <li>(v) Performance Audit.</li> </ul> <p><b>(RTP, May 2018, NA)</b></p> <p><b>OR</b></p> <p>Audit of government expenditure is one of the major components of government audit conducted by the office of C&amp;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.</p> <p><b>(RTP, Nov 2019, NA) (MTP1, May 2022, 4 marks)</b></p> <p><b>OR</b></p> <p>The audit of government expenditure is one of the major components of government audit. Explain the basic standards set for such audit of expenditure.</p> <p><b>(MTP1, May 2021, 4 marks)</b></p>
<p><b>Government Expenditure Audit:</b> Audit of government expenditure is one of the major components of government audit conducted by the office of C&amp;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. Briefly, these standards are explained below:</p> <ul style="list-style-type: none"> <li>i) <b>Audit against Rules &amp; Orders:</b> The auditor has to see that the expenditure incurred conforms to the relevant provisions of the statutory enactment and is in accordance with the financial rules and regulations framed by the competent authority.</li> <li>ii) <b>Audit of Sanctions:</b> The auditor has to ensure that each item of expenditure is covered by a sanction, either general or special, accorded by the competent authority, authorising such expenditure.</li> <li>iii) <b>Audit against Provision of Funds:</b> It contemplates that there is a provision of funds out of which expenditure can be incurred and the amount of such expenditure does not exceed the appropriations made.</li> <li>iv) <b>Propriety Audit:</b> It is required to be seen that the expenditure is incurred with due regard to broad and general principles of financial propriety. The auditor aims to bring out cases of improper, avoidable, or in fructuous expenditure even though the expenditure has been incurred in conformity with the existing rules and regulations. Audit aims to secure a reasonably high standard of public financial morality by looking into the wisdom, faithfulness and economy of transactions.</li> <li>v) <b>Performance Audit:</b> This involves that the various programmes, schemes and projects where large</li> </ul>	

financial expenditure has been incurred are being run economically and are yielding results expected of them. Efficiency-cumperformance audit, wherever used, 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, and effectiveness.

Q2. Explain in detail the duties of Comptroller and Auditor General of India.

**(RTP, May 2018, NA) (RTP, May 2019, NA) (RTP, Nov 2019, NA)**

**Duties of C&AG: The Comptroller & Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 lays down duties of the C&AG as under-**

- i) **Compilation and submission of accounts** - 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.
- ii) **General Provisions Relating to Audit** - It shall be the duty of the C&AG –
  - a) 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) to audit and report all transactions of the Union and of the States relating to Contingency Funds and Public Accounts;
  - c) to audit and report on all trading, manufacturing profit and loss accounts and balance-sheets and other subsidiary accounts kept in any department of the Union or of a State.
- iii) **Audit of Receipts and Expenditure** - Where any body 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 Comptroller and Auditor General shall, subject to the provisions of any law for the time being in force applicable to the body or authority, as the case may be, audit all receipts and expenditure of that body or authority and to report on the receipts and expenditure audited by him.
- iv) **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 Comptroller and Auditor General 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 shall for this purpose have right of access, after giving reasonable previous notice, to the books and accounts of that authority or body.
- v) **Audit of Receipts of Union or States** - It shall be the duty of the Comptroller and Auditor General to audit all receipts which are payable into the Consolidated Fund of India and of each State and of each Union Territory having a Legislative Assembly and to satisfy himself that the rules and procedures in that behalf are designed to secure an effective check on the assessment, collection and proper allocation of revenue and are being duly observed and to make this purpose such examination of the accounts as he thinks fit and report thereon.
- vi) **Audit of Accounts of Stores and Inventory** - The Comptroller and Auditor General 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.
- vii) **Audit of Government Companies and Corporations** - The duties and powers of the CAG 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. 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
Q3.	<p>Write basic standards set for Expenditure Audit of Government. <b>(SA, Nov 2018, 5 marks)</b></p> <p>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 are provision funds authorised by competent authority fixing the limits within which expenditure can be incurred. These standards are—</p> <ol style="list-style-type: none"> <li>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 the audit against 'rules and orders'.</li> <li>that there is sanction, either special or general, accorded by competent authority authorising the expenditure. Such an audit is called the audit of sanctions.</li> <li>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 an audit against provision of funds.</li> <li>that the expenditure is incurred with due regard to broad and general principles of financial propriety. Such an audit is also called a propriety audit.</li> <li>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.</li> </ol>
Q4.	<p>Discuss the power of C &amp; AG in Government audit. <b>(SA, May 2019, 3 marks)</b></p> <p><b>OR</b></p> <p>The C&amp;AG Act gives powers to the C&amp;AG in connection with the performance of his duties. Explain. <b>(MTP2, May 2020, 4 marks)</b></p> <p><b>OR</b></p> <p>The Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 provides certain powers to the C &amp; AG in connection with performance of his duties. Discuss <b>(MTP2, Nov 2021, 4 marks)</b></p> <p><b>Powers of C &amp; AG in performance of his duties:</b> The Comptroller and Auditor General's (Duties, Powers and Condition of Service) Act, 1971 gives the following powers to the C&amp;AG in connection with the performance of his duties:</p> <ol style="list-style-type: none"> <li>To inspect any office accounts under the control of the union or a State Government including the office responsible for creation of initial or subsidiary accounts.</li> <li>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.</li> <li>To ask 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 preparation of any account or report, which is his duty to prepare.</li> </ol> <p>In carrying out the audit, the C&amp;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.</p>
Q5.	<p>Audit against the propriety seeks to ensure that expenditure conforms to certain principles. Explain <b>(MTP1, Nov 2019, 4 marks)</b></p> <p><b>Audit against propriety:</b> Audit against propriety seeks to ensure that expenditure conforms to these principles which have been stated as follows:</p> <ol style="list-style-type: none"> <li>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.</li> <li>No authority should exercise its powers of sanctioning expenditure to pass an order which will be</li> </ol>

	<p>directly or indirectly to its own advantage.</p> <p>3. Public moneys should not be utilized for the benefit of a particular person or section of the community unless:</p> <ul style="list-style-type: none"> <li>• The amount of expenditure involved is insignificant; or</li> <li>• A claim for the amount could be enforced in a Court of law; or</li> <li>• The expenditure is in pursuance of a recognized policy or custom; and</li> <li>• 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</li> </ul>
Q6.	<p>Correct/Incorrect</p> <p>All entities that are under common control by a state (i.e., national, regional or local government) are considered related party.</p> <p><b>(SA, Nov 2019, 2 marks)</b></p>
	<p><b>Incorrect:</b></p> <p>Entities that are under common control by a state (i.e., a national, regional or local government) are not considered related unless they engage in significant transactions or share resources to a significant extent with one another</p>
Q7.	<p>Correct/Incorrect</p> <p>Government audit does not serve as a mechanism or process for public accounting of government funds.</p> <p><b>(RTP, May 2020, NA)</b></p>
	<p><b>Incorrect:</b></p> <p>Government audit serves as a mechanism or process for public accounting of government funds. 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.</p>
Q8.	<p>Correct/Incorrect</p> <p>Article 150 of the Constitution provides that the accounts of the Union and of the States shall be kept in such form as the Finance Minister may on the advice of the C&amp;AG prescribe.</p> <p><b>(MTP1, May 2020, 2 marks) (MTP2, May 2021, 2 marks)</b></p>
	<p><b>Incorrect:</b></p> <p>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&amp;AG prescribe.</p>
Q9.	<p>Correct/Incorrect</p> <p>The Constitution of India contains no specific provisions regarding the appointment, salary and duties and powers of the C&amp;AG. Moreover, the constitution does not guarantee the independence of the C&amp;AG of India.</p> <p><b>(RTP, Nov 2020, NA) (MTP2, May 2022, 2 marks)</b></p>
	<p><b>Incorrect:</b></p> <p>The Constitution of India contains specific provisions regarding the appointment, salary and duties and powers of the C&amp;AG. The constitution guarantees the independence of the C&amp;AG of India by prescribing that he shall be appointed by the President of India and shall not be removed from office except on the ground of proven mis-behaviour or incapacity.</p>
Q10.	<p>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. The job of audit is to see that these rules, regulations and orders are applied properly by the subordinate authorities. It is, however, not the function of audit to prescribe what such rules, regulations and orders shall be. Analyse and Explain</p> <p><b>(RTP, Nov 2020, NA) (MTP2, May 2022, 4 marks)</b></p>

**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 to satisfy that the expenditure is in accordance with the financial rules, regulations and orders issued by a competent authority. 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.

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, however, not the function of audit to prescribe what such rules, regulations and orders shall be. But, it is the function of audit 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.

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.

Q11. The auditor of a Govt Company has to ensure that each item of expenditure is covered by a sanction, either general or special, of the competent authority. Explain  
**(RTP, Nov 2020, NA)**

**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 directed both in respect of ensuring 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.

Q12. The Comptroller and Auditor General 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. Explain.  
**(MTP1, Nov 2020, 4 marks)**

**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 accounts.
- The C&AG shall, from the accounts compiled by him or [by the Government or any other person responsible in that behalf] prepare in each accounts (including, in the case of accounts compiled by him, appropriation 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

	<p>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.</p> <ul style="list-style-type: none"> <li>• The C&amp;AG Act of 1971 has provisions for relieving him of this responsibility to give information and render assistance to the Union and States: The Comptroller and Auditor General 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.</li> </ul>
<p>Q13.</p>	<p>The audit of receipts of government is not as old as audit of expenditure but with the rapid growth of public enterprises audit of receipts tax or non-tax has come to stay. Discuss audit of receipts with respect to Government Audit.</p> <p><b>(SA, Nov 2020, 3 marks)</b></p> <p><b>Audit of Receipts:</b></p> <p>Basic principle of audit of receipts is to look at the general rather than the particular, though individual cases of assessment, demand, collection, refund etc are important within the area of test check. Audit of receipts include checking:</p> <ol style="list-style-type: none"> <li>whether all revenues or other debts due to government have been correctly assessed, realised and credited to government account by the designated authorities;</li> <li>whether adequate regulations and procedures have been framed by the concerned department/agency to secure an effective check on assessment and collection.</li> <li>whether such regulations and procedures are actually being carried out;</li> <li>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 wilful omission or negligence to levy or collect taxes or to issue refunds; and</li> <li>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.</li> <li>The extent and quantum of audit required to be done under each category of audit are determined by the C&amp;AG. These are neither negotiable nor questioned. The prescribed extent and quantum of audit are structured in accordance with the design of test check, random sampling, general review ,in-depth study of specified areas, etc .as may be warranted by the nature of transactions, its importance in the scheme of activities of a department and the totality of its transactions, the frequency of check and total plan of audit to be executed during a period.</li> <li>Institutional mechanism provides for primary check by the auditor, test check by the supervisor and control and direction by the group leader. Planning, executing and reporting of work is directed and monitored at middle and top levels of the audit hierarchy. There are built –in arrangements within the C&amp;AG to ensure that the work assigned to each employee is carried out as prescribed.</li> <li>The audit is conducted both centrally where accounts and original vouchers are kept and locally where the drawing and disbursing functions are performed depending on the organisational and institutional arrangements obtaining.</li> </ol>
<p>Q14.</p>	<p>What is the function of audit while examining various rules, regulations and orders with regard to Audit against Rules &amp; Orders by C&amp;AG?</p> <p><b>(SA, Nov 2020, 3 marks) (MTP2, Nov 2021, 4 marks)</b></p> <p><b>Audit against Rules &amp; Orders</b> – 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 there under. It also seeks to satisfy that the expenditure is in accordance with the financial rules, regulations and orders issued by a competent authority.</p>

	<p>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, however, not the function of audit to prescribe what such rules, regulations and orders shall be. But, it is the function of audit to carry out examination of the various rules, regulations and orders issued by the executive authorities to see that:</p> <ol style="list-style-type: none"> <li>they are not inconsistent with any provisions of the Constitution or any laws made there under;</li> <li>they are consistent with the essential requirements of audit and accounts as determined by the C&amp;AG;</li> <li>they do not come in conflict with the orders of, or rules made by, any higher authority; and</li> <li>in case they have not been separately approved by competent authority, the issuing authority possesses the necessary rule-making power.</li> </ol>
<p>Q15.</p>	<p>Correct/Incorrect</p> <p>Article 151 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&amp;AG prescribe.</p> <p><b>(RTP, May 2021, NA)</b></p> <hr/> <p><b>Incorrect:</b></p> <p>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&amp;AG prescribe.</p> <p>Article 151 requires that the reports of the C&amp;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.</p>
<p>Q16.</p>	<p>Government audit has not only adopted the basic essentials of auditing as known and practised in the profession to suit the requirements of governmental transactions but has also added new concepts, techniques and procedures to the audit profession. Explain stating clearly the definition of Government auditing as discussed in U.N. Handbook on Govt Auditing and Developing Countries and also state Objectives of Govt audit.</p> <p><b>(RTP, May 2021, NA) (MTP2, May 2022, 4 marks)</b></p> <p><b>OR</b></p> <p>Define Government Audit and explain its objectives.</p> <p><b>(SA, July 2021, 4 marks)</b></p> <hr/> <p>Government auditing is</p> <ul style="list-style-type: none"> <li>the objective, systematic, professional and independent examination</li> <li>of financial, administrative and other operations</li> <li>of a public entity</li> <li>made subsequently to their execution</li> <li>for the purpose of evaluating and verifying them,</li> <li>presenting a report containing explanatory comments on audit findings together with conclusions and recommendations for future actions</li> <li>by the responsible officials</li> <li>and in the case of examination of financial statements, expressing the appropriate professional opinion regarding the fairness of the presentation.</li> </ul> <p><b>OBJECTIVES of Govt Audit are:</b></p> <ol style="list-style-type: none"> <li><b>Accounting for Public Funds:</b> Government audit serves as a mechanism or process for public accounting of government funds.</li> <li><b>Appraisal of Government policies:</b> 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.</li> <li><b>Base for Corrective actions:</b> 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</li> </ol>

	<p>measures.</p> <p>d) <b>Administrative Accountability:</b> The main objective of audit is a combination of ensuring accountability of administration to legislature and functioning as an aid to administration.</p>
Q17.	<p>Government audit is neither equipped nor intended to function as an investigating agency, to pursue every irregularity or misdemeanour to its logical end. Explain <b>(RTP, May 2021, NA)</b></p> <p>Government audit is neither equipped nor intended to function as an investigating agency, to pursue every irregularity or misdemeanour to its logical end. The main objective of audit is a combination of ensuring accountability of administration to legislature and functioning as an aid to administration.</p> <p>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. Audit is a necessary function to ensure accountability of the executive to Parliament, and within the executives of the spending agencies to the sanctioning or controlling authorities. The purpose or objectives of audit need to be tested at the touchstone of public accountability.</p> <p>The Comptroller and Auditor General (C&amp;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.</p>
Q18.	<p>"Public moneys should not be utilised for the benefit of a particular person or section of the community". List out the exceptions to this rule while audit against propriety. <b>(MTP1, Nov 2021, 3 marks)</b></p> <p><b>Exceptions to the rule – Audit Against Propriety:</b> Public moneys should not be utilised for the benefit of a particular person or section of the community unless:</p> <ol style="list-style-type: none"> <li>i) the amount of expenditure involved is insignificant; or</li> <li>ii) a claim for the amount could be enforced in a Court of law; or</li> <li>iii) the expenditure is in pursuance of a recognised policy or custom; and</li> <li>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.</li> </ol>
Q19.	<p>PQR Ltd., a government company, constructed a building in conformity with rules and regulations for installing a telephone exchange but not used for the same purpose resulting in the infructuous expenditure. Considering the above case, explain the type of expenditure audit to be performed to curb the situation. <b>(MTP2, Nov 2021, 2 marks)</b></p> <p><b>Propriety audit:</b> 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. Further, it may so happen that a transaction may satisfy all the requirements of regularity audit insofar as the various formalities regarding rules and regulations are concerned but may still be highly wasteful.</p> <p>In the given situation, PQR Ltd. being a government company, constructed a building in conformity with rules and regulations for installing a telephone exchange but not used for the same purpose resulting in an infructuous expenditure.</p> <p>Thus, propriety audit should be done for PQR Ltd. to bring out improper, avoidable, or infructuous expenditure even though the expenditure has been incurred in conformity with the existing rules and regulations to the notice of the proper authorities of wastefulness in public administration.</p>
Q20.	<p>In case of Government entities, audit of accounts of stores and inventories has been developed as a part of expenditure audit. Discuss about the duties and responsibilities entrusted to C&amp;AG. <b>(SA, Dec 2021, 3 marks)</b></p>



	<p><b>Audit of Accounts of Stores and Inventories in Government Companies:</b></p> <p>Audit of the accounts of stores and inventories has been developed as a part of expenditure audit with reference to the duties and responsibilities entrusted to C&amp;AG. Audit is conducted:-</p> <ol style="list-style-type: none"> <li>i) to ascertain whether the Regulations governing purchase, receipt and issue, custody, sale and inventory taking of stores are well devised and properly carried out.</li> <li>ii) to bring to the notice of the government any deficiencies in quantities of stores held or any defects in the system of control.</li> <li>iii) to verify that the purchases are properly sanctioned, made economical and in accordance with the Rules for purchase laid down by the competent authority.</li> <li>iv) 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. Cases of uneconomical purchase of stores and losses attributable to defective or inferior quality of stores are specifically brought by the audit.</li> <li>v) to check the accounts of receipts, issues and balances 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. 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.</li> </ol>
Q21.	<p>Correct/Incorrect</p> <p>The duties and powers of the Comptroller and Auditor General 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 The Comptroller &amp; Auditor General's (Duties, Powers and Conditions of Service) Act, 1971</p> <p><b>(RTP, May 2022, NA)</b></p> <hr/> <p><b>Incorrect:</b></p> <p>The duties and powers of the Comptroller and Auditor General 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</p>
Q22.	<p>Article 151 requires that the reports of the C&amp;AG relating to the accounts of the Union/State shall be submitted to the _____ who shall cause them to be laid before House of Parliament/State Legislature</p> <ol style="list-style-type: none"> <li>(a) President/Governor</li> <li>(b) Prime Minister/ Chief Minister</li> <li>(c) Union Finance Minister/State Finance Minister</li> <li>(d) Union Cabinet</li> </ol> <p><b>(MTP2, May 2022, 1 mark)</b></p> <hr/> <p><b>Correct answer:</b> (a) President/Governor</p>

## 13.2 Audit of Local bodies

Q1.	<p>State the objectives of audit of Local Bodies.</p> <p><b>(SA, May 2018, 5 marks)</b></p> <p><b>OR</b></p> <p>The external control of municipal expenditure is exercised by the state governments through the appointment of auditors to examine municipal accounts. Explain stating important objectives of audit of such bodies.</p> <p><b>(RTP, Nov 2021, NA)</b></p>
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	<p><b>OR</b></p> <p>Local Fund Audit Wing of a State of a State Government has appointed you to audit the accounts of one of the Local body governed by it. As an auditor, what will be your reporting areas?</p> <p><b>(SA, Dec 2021, 4 marks)</b></p>
	<p><b>Reporting areas in audit of Local Fund:</b></p> <p>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.</p> <p><b>The important objectives of audit are:</b></p> <ol style="list-style-type: none"> <li>reporting on the fairness of the content and presentation of financial statements;</li> <li>reporting upon the strengths and weaknesses of systems of financial control;</li> <li>reporting on the adherence to legal and/or administrative requirements;</li> <li>reporting upon whether value is being fully received on money spent; and</li> <li>detection and prevention of error, fraud and misuse of resources</li> </ol>
Q2.	<p>Explain the different types of revenue grants which local bodies may receive.</p> <p><b>(SA, Nov 2020, 3 marks)</b></p> <p><b>OR</b></p> <p>List out the types of Revenue Grants received by local bodies from the State.</p> <p><b>(MTP2, Nov 2021, 2 marks)</b></p>
	<p><b>Revenue grants received by Local Bodies:</b></p> <p>Local bodies may receive different types of grants from the state administration. Broadly the revenue grants are of three types:</p> <ol style="list-style-type: none"> <li><b>General purpose grants:</b> These are primarily intended to substantially bridge the gap between the needs and resources of the local bodies.</li> <li><b>Specific purpose grants:</b> These grants which are tied to the provision of certain services or performance of certain tasks.</li> <li><b>Statutory and compensatory grants:</b> 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.</li> </ol>

### 13.3 Audit of Non-Governmental Organisation

Q1.	<p>An NGO operating in Delhi had collected large scale donations for Tsunami victims. The donations so collected were sent to different NGOs operating in Tamil Nadu for relief operations. This NGO operating in Delhi has appointed you to audit its accounts for the year in which it collected and remitted donations for Tsunami victims. Draft audit programme for audit of receipts of donations and remittance of the collected amount to different NGOs. Mention six points each, peculiar to the situation, which you will like to incorporate in your audit programme for audit of said receipts and remittances of donations.</p> <p><b>(MTP1, May 2018, 5 marks) (MTP2, Nov 2018, 5 marks) (MTP1, May 2019, 4 marks)</b></p>
	<p><b>Receipt of Donations:</b></p> <ol style="list-style-type: none"> <li><b>Internal Control System:</b> Existence of internal control system particularly with reference to division of responsibilities in respect of authorised collection of donations, custody of receipt books and safe custody of money.</li> <li><b>Custody of Receipt Books:</b> Existence of system regarding issue of receipt books, whether unused receipt books are returned and the same are verified physically including checking of number of receipt books and sequence of numbering therein.</li> <li><b>Receipt of Cheques:</b> Receipt Book should have carbon copy for duplicate receipt and signed by a responsible official. All details relating to date of cheque, bank's name, date, amount, etc. should be clearly stated.</li> </ol>

- iv) **Bank Reconciliation:** Reconciliation of bank statements with reference to all cash deposits not only with reference to date and amount but also with reference to receipt book.
- v) **Cash Receipts:** Register of cash donations to be vouched more extensively. If addresses are available of donors who had given cash, the same may be cross-checked by asking entity to post thank you letters mentioning amount, date and receipt number.
- vi) **Foreign Contributions,** if any, to receive special attention to compliance with applicable laws and regulations.

**Remittance of Donations to Different NGOs:**

- i) **Mode of Sending Remittance:** All remittances are through account payee cheques. Remittances through Demand Draft would also need to be scrutinised thoroughly with reference to recipient.
- ii) **Confirming Receipt of Remittance:** All remittances are supported by receipts and acknowledgements.
- iii) **Identity:** Recipient NGO is a genuine entity. Verify address, 80G Registration Number, etc.
- iv) **Direct Confirmation Procedure:** Send confirmation letters to entities to whom donations have been paid.
- v) **Donation Utilisation:** Utilisation of donations for providing relief to Tsunami victims and not for any other purpose.
- vi) **System of NGOs' Selection:** System for selecting NGO to whom donations have been sent.

Q2. 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?

**(RTP, Nov 2018, NA)**

**OR**

While planning the audit of an NGO, the auditor may focus on Knowledge of the NGO's work, its mission and vision, Updating knowledge of relevant statutes especially with regard to recent amendments, circulars etc. Explain the other relevant points the auditor needs to focus while planning the audit of NGO

**(RTP, Nov 2021, NA)**

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

- i) Knowledge of the NGO's work, its mission and vision, areas of operations and environment in which it operate.
- ii) 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.
- iii) Reviewing the legal form of the Organisation and its Memorandum of Association, Articles of Association, Rules and Regulations.
- iv) Reviewing the NGO's Organisation chart, then Financial and Administrative Manuals, Project and Programme Guidelines, Funding Agencies Requirements and formats, budgetary policies if any.
- v) 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.
- vi) Study the accounting system, procedures, internal controls and internal checks existing for the NGO and verify their applicability.
- vii) Setting of materiality levels for audit purposes.
- viii) The nature and timing of reports or other communications.
- ix) The involvement of experts and their reports.
- x) Review the previous year's Audit Report.

Q3. As an Auditor of NGO, how do you check/verify atleast four receipts of income during the year?

**(SA, Jan 2021, 4 marks)**

**The receipt of income of NGO may be checked on the following lines:**

- i) **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

	<p>Foreign Contribution (Regulation) Act, 1976.</p> <p>ii) <b>Receipts from fund raising programmes:</b> 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.</p> <p>iii) <b>Membership Fees:</b> 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.</p> <p>iv) <b>Subscriptions:</b> 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.</p> <p>v) <b>Interest and Dividends:</b> Check the interest and dividends received and receivable with investments held during the year</p>
<p>Q4.</p>	<p>Correct/Incorrect</p> <p>All Non-Governmental Organisations (NGOs) are allowed to maintain accounts either on accrual basis or cash basis.</p> <p><b>(MTP1, May 2021, 2 marks)</b></p> <hr/> <p><b>Incorrect:</b></p> <p>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. The NGOs which are not registered under the Companies Act, 2013 are allowed to maintain accounts either an accrual basis or cash basis.</p>
<p>Q5.</p>	<p>The audit programme of NGO should include in a sequential order all assets, liabilities, income and expenditure ensuring that no material item is omitted. Explain.</p> <p><b>(MTP1, May 2021, 3 marks)</b></p> <hr/> <p>The audit programme should include in a sequential order all assets, liabilities, income and expenditure ensuring that no material item is omitted.</p> <ol style="list-style-type: none"> <li>1. <b>Corpus Fund:</b> 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.</li> <li>2. <b>Reserves:</b> Vouch transfers from projects / programmes with donor letters and board resolutions of NGO. Also check the transfer of gross value of assets sold from capital reserve to general reserve and adjustments during the year.</li> <li>3. <b>Ear-marked Funds:</b> Check requirements of donors institutions, board resolution of NGO, rules and regulations of the schemes of the ear-marked funds.</li> <li>4. <b>Project / Agency Balances:</b> Vouch disbursements and expenditure as per agreements with donors for each of the balances.</li> <li>5. <b>Loans:</b> Vouch loans with loan agreements, counterfoil of receipt issued.</li> <li>6. <b>Fixed Assets:</b> Vouch all acquisitions / sale or disposal of assets including depreciation and the authorisations for the same. Also check the donor's letters/ agreements for the grant. In the case of immovable property check title, etc.</li> <li>7. <b>Investments:</b> 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.</li> <li>8. <b>Cash in Hand:</b> Physically verify the cash in hand and imprest balances, at the close of the year and whether it tallies with the books of account.</li> <li>9. <b>Bank Balance:</b> Check the bank reconciliation statements and ascertain details for old outstanding and unadjusted amounts.</li> <li>10. <b>Inventory:</b> Verify inventory in hand and obtain certificate from the management for the quantities and valuation of the same. (xi) Programme and Project Expenses: Verify agreement with</li> </ol>

donor/contributor(s) supporting the particular programme or project to ascertain the conditions with respect to undertaking the programme/project and 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:** Verify that provident fund, life insurance premium, employees state insurance and their administrative charges are deducted, contributed and deposited within the prescribed time. Also check other office and administrative expenses such as postage, stationery, travelling, etc.

### 13.4 Audit of Sole Trader

Q1. The Auditor of a Sole Proprietor Concern is appointed by

- (a) CAG
- (b) Bank
- (c) Sole Proprietor himself
- (d) District Administration

**(MTP2, May 2022, 1 mark)**

**Correct answer:** (c) Sole Proprietor himself

### 13.5 Audit of Firm

Q1. Correct/Incorrect

If an LLP (Limited Liability Partnership Firm) is appointed as an auditor of a company, every partner of a firm shall be authorized to act as an auditor.

**(RTP, May 2018, NA)**

**Incorrect:**

As per section 141(2) of the Companies Act, 2013, where a firm including a limited liability partnership (LLP) is appointed as an auditor of a company, only the partners who are Chartered Accountants shall be authorised to act and sign on behalf of the firm.

Q2. Discuss the matters which should be specially considered in the audit of accounts of a partnership.

**(RTP, May 2019, NA)**

**OR**

There are certain points which are required to be considered specially in the audit of accounts of a partnership. Discuss any three points briefly.

**(SA, Nov 2019, 3 marks)**

**Matters which should be specially considered in the audit of accounts of a partnership:**

- i) 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.
- ii) 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 as are not of a routine nature.
- iii) Verifying that the business in which the partnership is engaged is authorised by the partnership agreement; or by any extension or modification thereof agreed to subsequently.

	<ul style="list-style-type: none"> <li>iv) Examining whether books of account appear to be reasonable and are considered adequate in relation to the nature of the business of the partnership.</li> <li>v) 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 agreements.</li> <li>vi) 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.</li> <li>vii) Verifying that the profits and losses have been divided among the partners in their agreed profit-sharing ratio.</li> </ul>
Q3.	<p>State six important advantages of audit of accounts of a Partnership firm. <b>(MTP2, May 2019, 4 marks)</b></p> <p><b>Advantages of Audit of Accounts of a Partnership:</b> On broad considerations, the advantages of audit of accounts of a partnership could be stated as follows:</p> <ol style="list-style-type: none"> <li>1. 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.</li> <li>2. On the retirement or death of a partner, audited accounts, which have been accepted by the partners, constitute 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.</li> <li>3. The accounts of a partnership, which have been audited, are generally accepted by the Income Tax Department as the basis for computing the assessable income of the partners.</li> <li>4. Audited statements 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.</li> <li>5. Audited statements of account can be helpful in the negotiations for sale or admission of a new partner.</li> <li>6. It is an effective safeguard against any undue advantage being taken by a working partner as against the non-working partner.</li> </ol>
Q4.	<p>Correct/Incorrect The accounts of every LLP shall be audited in accordance with rule 24 of LLP Rules 2009. <b>(SA, May 2019, 2 marks)</b></p> <p><b>Incorrect:</b> 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</p>
Q5.	<p>Correct/Incorrect LLP need not file a "Statement of Accounts and Solvency". <b>(MTP1, May 2020, 2 marks) (MTP2, May 2021, 2 marks)</b></p> <p><b>Incorrect:</b> A LLP shall be under obligation to maintain annual accounts reflecting a true and fair view of its state of affairs. A "Statement of Accounts and Solvency" in prescribed form shall be filed by every LLP with the Registrar every year.</p>
Q6.	<p>Correct/Incorrect Every LLP is required to submit Statement of Account and Solvency in Form 8, which shall which be filed within a period of sixty days from the end of three months of the financial year to which the Statement of</p>

	Account and Solvency relates. <b>(SA, Nov 2020, 2 marks)</b>
	<b>Incorrect:</b> Every LLP is required to submit a Statement of Account and Solvency in Form 8 which shall be filed within a period of thirty days from the end of six months of the financial year to which the Statement of Account and Solvency relates.
Q7.	Tomo Construction Engineering LLP approached CA K to understand various returns to be maintained and filed by them. Guide/Discuss the various returns to be maintained and filed by them. <b>(SA, July 2021, 3 marks)</b>
	<b>Returns to be maintained and filed by an LLP:</b> <ul style="list-style-type: none"> <li>• Every LLP would be required to file an annual return in Form 11 with ROC within 60 days of closer of financial year. The annual return will be available for public inspection on payment of prescribed fees to the Registrar.</li> <li>• Every LLP is also required to submit a Statement of Account and Solvency in Form 8 which shall be filed within a period of thirty days from the end of six months or the financial year to which the Statement of Account and Solvency relates .</li> </ul>

### 13.6 Audit of Charitable Institutions

Q1.	In the case of audit of a charitable institution, what attentions should be paid by the auditor regarding audit of expenditure items? <b>(SA, Nov 2019, 4 marks)</b>
	<b>Audit of Expenditure of Charitable Institution:</b> <ol style="list-style-type: none"> <li>i) If any grant is being allowed to any person, verify whether 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 management committee has benefited there from either directly or indirectly.</li> <li>ii) 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.</li> <li>iii) 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.</li> <li>iv) Ascertaining that any funds contributed for a special purpose have been utilised for the purpose.</li> <li>v) Verifying the cash and bank balances/payments.</li> </ol>
Q2.	CA A is appointed as the auditor of a charitable institutions. Discuss the audit procedure undertaken by him while auditing the Subscription and Donation received by the charitable institution <b>(SA, Dec 2021, 3 marks)</b>
	<b>Audit Procedure in audit of Subscriptions &amp; donations:</b> Audit Procedure to be undertaken by CA A in respect of Subscriptions and donations received by a Charitable Institution is: <ol style="list-style-type: none"> <li>i) Ascertaining, if any, the changes made in amount of annual or life membership subscription during the year.</li> <li>ii) Whether official receipts are issued; <ol style="list-style-type: none"> <li>a) confirming that adequate control is imposed over unused receipt books;</li> <li>b) obtaining all receipt books covering the period under review;</li> <li>c) test checking the counterfoils with the cash book; any cancelled receipts being specially looked into;</li> </ol> </li> </ol>

- d) obtaining the printed list of subscriptions and donations and agreeing them with the total collections shown in the accounts;
- e) 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
- f) verifying the total subscriptions and donations received with any figures published in reports, etc. issued by the charity.

### 13.7 Audit of Educational Institutions

- Q1. What are the special steps involved in conducting the audit of an Educational Institution?  
**(RTP, May 2018, NA) (RTP, Nov 2019, NA)**  
**OR**  
 What are the special steps involved in conducting the audit of an Educational Institution? (Write any 12 points)  
**(MTP2, May 2022, 6 marks)**

**The Special Steps Involved in the Audit of an Educational Institution are the following:**

- i) Examine the charters, trust Deed, applicable Act etc containing the rules and regulations. Particular attention should be given to those rules and regulations that have a bearing on the accounts.
- ii) 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.
- iii) Check 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.
- iv) Check 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.
- v) 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 the arrears that are irrecoverable have been written off under the sanction of an appropriate authority.
- vi) Check admission fees with admission slips signed by the head of the institution and confirm that the amount had been credited to a Capital Fund, unless the Managing Committee has taken a decision to the contrary.
- vii) Verify that free studentship and concessions have been granted by a person authorised to do so, having regard to the prescribed Rules.
- viii) Confirm that fines for late payment or absence, etc., have either been collected or remitted under proper authority.
- ix) Confirm that hostel dues were recovered before students' accounts were closed and their deposits of caution money refunded.
- x) Examine rental income from landed property with the rent rolls, etc.
- xi) Vouch income from endowments and legacies, as well as interest and dividends from investment; also inspect the securities in respect of investments held.
- xii) Verify any Government or local authority grant with the relevant papers of grant. If any expense has been disallowed for purposes of grant, ascertain the reasons and compliance thereof.
- xiii) Report any old heavy arrears on account of fees, dormitory rents, etc, to the Managing Committee.
- xiv) Confirm that caution money and other deposits paid by students on admission have been shown as liability in the balance sheet and not transferred to revenue.
- xv) Check that the investments representing endowment funds for prizes are kept separate and any



	<p>income in excess of the prizes has been accumulated and invested along with the corpus.</p> <p>xvi) Verify that the Provident Fund money of the staff has been invested in appropriate securities.</p> <p>xvii) Vouch 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.</p> <p>xviii) Vouch all capital expenditure in the usual way and verify the same with the sanction for the Committee as contained in the minute book.</p> <p>xix) Vouch in the usual manner all establishment expenses and enquire into any unduly heavy expenditure under any head.</p> <p>xx) Verify that increase in the salaries of the staff have been sanctioned and minuted by the Committee.</p> <p>xxi) Ascertain 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.</p> <p>xxii) Verify the inventories of furniture, stationery, clothing, provision and all equipment, etc. These should be checked by reference to the Inventory Register and values applied to various items should be test checked.</p> <p>xxiii) 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.</p> <p>xxiv) Verify the annual statements of accounts and while doing so see that separate statements of account have been prepared as regards different funds for example PF to the staff, building fund etc</p>
Q2.	<p>GSR &amp; Co. has been appointed as an auditor of Tagore School. Engagement team wants to verify Fees from students in detail. Advise the audit procedure to be followed by the engagement team.</p> <p><b>(MTP1, May 2021, 3 marks)</b></p> <p><b>Fee from Students :-</b></p> <ol style="list-style-type: none"> <li>1. Check 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.</li> <li>2. Check 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.</li> <li>3. 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.</li> <li>4. Check 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.</li> <li>5. See 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.</li> <li>6. Confirm that fines for late payment or absence, etc. have been either collected or remitted under proper authority.</li> <li>7. Confirm that hostel dues were recovered before student's accounts were closed and their deposits of caution money refunded.</li> </ol>
Q3.	<p>You have been appointed as an auditor of VJM Schools. Discuss the points which merit your consideration as an auditor while verifying Assets and Liabilities of VJM Schools</p> <p><b>(SA, July 2021, 4 marks)</b></p> <p><b>Verification of Assets &amp; Liabilities of VJM Schools:</b></p> <ol style="list-style-type: none"> <li>1. Report any old heavy arrears on account of fees, dormitory rents, etc. to the Managing Committee.</li> <li>2. Confirm that caution money and other deposits paid by students on admission, have been shown as liability in the balance sheet and not transferred to revenue, unless they are not refundable.</li> </ol>

3. 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
4. Ascertain that the system ordering inspection on receipt and issue of provisions, food stuffs, clothing and other equipment is efficient and all bills are duly authorised and passed before payment.
5. Verify the inventories of furniture, stationery, clothing, provision and all equipment etc. These should be checked by reference to the Inventory Register or corresponding inventories of the previous year and values applied to various items should be test checked.

### 13.8 Audit of Hospital

- Q1. Advise any five special points in an audit of hospital.  
**(MTP1, May 2018, 5 marks) (MTP1, Nov 2018, 5 marks) (MTP2, Nov 2018, 5 marks)**  
**OR**  
 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?  
**(RTP, Nov 2018, NA) (MTP1, Nov 2019, 4 marks)**  
**OR**  
 Advise any six special points in an audit of hospital.  
**(MTP1, May 2019, 6 marks)**  
**OR**  
 You have been appointed auditor of M/s. Divine Children Hospital. Discuss any four important points that would attract your attention while audit.  
**(SA, Nov 2019, 4 marks)**  
**OR**  
 You have been appointed auditor of Dr. Prem Ratan Hospital. Discuss any eight important points that would attract your attention while audit.  
**(MTP1, Nov 2021, 4 marks)**  
**OR**  
 You have been appointed auditor of M/s. BLK Hospital. Discuss important points that would attract your attention while audit.  
**(MTP1, May 2022, 6 marks)**  
**OR**  
 You have been appointed as an auditor of a health care service provider. Briefly discuss the special points that should be kept in mind as an auditor for developing an audit programme.  
**(SA, July 2021, 4 marks)**

**The special points to be kept in mind as an auditor for developing an audit programme of healthcare service provider are:**

1. **Register of Patients:** Vouch the entries in the patient's bill register with copies of bills issued. Test check the selected bills to see that these bills have been correctly prepared taking into account the period of stay of each patient as recorded in the attendance schedule.
2. **Collection of Cash:** Auditor to check 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.
3. **Income from Investments, Rent etc:** 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.
4. **Legacies and Donations:** Ascertain that legacies and donations received for a specific purpose have been applied in the manner agreed upon.
5. **Reconciliation of Subscriptions:** Trace all collections of subscription and donations from the Cash

- Book to the respective Registers. Reconcile the total subscriptions due (as shown by the Subscription Register and the amount collected and that still outstanding).
6. **Authorisation and Sanctions:** Vouch all purchases and expenses and verify that the capital expenditure was incurred only with the prior sanction of the Trustees or the Managing Committee and that appointments and increments to staff have been duly authorised.
  7. **Grants and TDS:** Verify that grants, if any, received from Government or local authority has been duly accounted for. Also, that refund in respect of taxes deducted at source has been claimed.
  8. **Budgets:** 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.
  9. **Internal Check:** Examine the internal check as regards the receipt and issue of stores; medicines, linen, apparatus, clothing, instruments, etc. so as to insure that purchases have been properly recorded in the Inventory Register and that issues have been made only against proper authorisation.
  10. **Depreciation:** See that depreciation has been written off against all the assets at the appropriate rates.
  11. **Registers:** Inspect the bonds, share scrips, title deeds of properties and compare their particulars with those entered in the property and Investment Registers.
  12. **Inventories:** Obtain inventories, especially of stocks and stores as at the end of the year and check a percentage of the items physically; also compare their total values with respective ledger balances.
  13. **Management Representation and Certificate:** Get proper Management Representation and Certificate with respect to various aspects covered during the course of audit.

### 13.9 Audit of Clubs

Q1. Discuss the special points you would consider in the audit of club.

**(MTP2, May 2018, 5 marks)**

**OR**

You have been appointed as internal auditor of 'City Club' in Delhi. The receipts of the club were 50 lakhs during the previous year ending 2019-20. You are required to mention special points of consideration while auditing such receipts of the club.

**(SA, Jan 2021, 4 marks)**

**The special steps involved, to be considered by the Internal Auditor of City Club in conducting the audit of receipts of the club are stated below-**

1. Vouch the receipt on account of entrance fees with members' applications, counterfoils issued to them, as well as on a reference to minutes of the Managing Committee.
2. 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. Ensure that arrears of subscriptions for the previous year have been correctly brought over and arrears for the year under audit and subscriptions received in advance have been correctly adjusted.
4. Check totals of various columns of the Register of members and tally them across
5. 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. Verify the internal check as regards members being charged with the price of foodstuffs and drinks provided to them and their guests, as well as, with the fees chargeable for the special services rendered, such as billiards, tennis, etc.

**13.10 Audit of Cinema**

Q1.	<p>BPL Ltd. is running a "RAGHU PALACE CINEMA." Your firm of Chartered Accountants has been appointed to get its accounts audited. Assistant appointed on the job to conduct audit asks the audit in charge as to how to go about conducting an audit and seeks your guidance on it. Keeping in view the above you are required to explain to the assistant special steps (any five) involved in the Audit of Cinema.</p> <p><b>(MTP1, Nov 2018, 5 marks)</b></p> <p>The special steps involved in the audit of Cinema are stated below-</p> <ol style="list-style-type: none"> <li>i) Verify the internal control mechanism- <ul style="list-style-type: none"> <li>• that entrance to the cinema-hall during show is only through printed tickets;</li> <li>• that they are serially numbered and bound into books;</li> <li>• 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;</li> <li>• that for advance booking a separate series of tickets is issued; and</li> <li>• that the inventory of tickets is kept in the custody of a responsible official.</li> </ul> </li> <li>ii) Confirm that at the end of show, a statement of tickets sold is prepared and cash collected is agreed with it.</li> <li>iii) Verify that a record is kept of the 'free passes' and that these are issued under proper authority.</li> <li>iv) 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.</li> <li>v) 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 as aforementioned with record of tickets issued for the different shows held.</li> <li>vi) Verify the 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.</li> <li>vii) Vouch the expenditure incurred on advertisement, repairs and maintenance. No part of such expenditure should be capitalized.</li> <li>viii) Confirm that depreciation on machinery and furniture has been charged at an appropriate rate.</li> <li>ix) Vouch payments on account of film hire with bills of distributors and in the process, the agreements concerned should be referred to.</li> <li>x) 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.</li> <li>xi) 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 may be receivable annually. In case the restaurant is run by the Cinema, its accounts should be checked. The audit should cover sale of various items of foodstuffs, purchase of foodstuffs, cold drink, etc. as in the case of club.</li> </ol>
Q2.	<p>Cinescreen Multiplex Ltd. is operating cinemas in different locations in Mumbai and has appointed you as an internal auditor. What are the areas that need to be verified in relation to receipts from sale of Tickets?</p> <p><b>(MTP2, May 2020, 4 marks) (MTP2, May 2021, 4 marks)</b></p> <p><b>Audit of Cinema:</b> The special steps involved in its audit are stated below-</p> <ol style="list-style-type: none"> <li>i) Verify that entrance to the cinema-hall during show is only through printed tickets;</li> <li>ii) Verify that they are serially numbered and bound into books;</li> <li>iii) Verify 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;</li> <li>iv) Verify that for advance booking a separate series of tickets is issued;</li> <li>v) Verify that the inventory of tickets is kept in the custody of a responsible official.</li> <li>vi) Confirm that at the end of show, a statement of tickets sold is prepared and cash collected is agreed with it.</li> <li>vii) Verify that a record is kept of the 'free passes' and that these are issued under proper authority.</li> </ol>

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|  | <p>viii) Reconcile the amount of Entertainment Tax collected with the total number of tickets issued for each class.</p> <p>ix) 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 as aforementioned with record of tickets issued for the different shows held.</p> |
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### 13.11 Audit of Hire purchase and leasing companies

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| Q1. | <p>In July, 2018, M/s Tom &amp; Co. entered into an agreement with M/s Jerry &amp; Co. under which a machinery would be let on hire and M/s Jerry &amp; Co. would have the option to purchase the machinery in accordance with the terms of the agreement. Thus, M/s Jerry &amp; Co. agreed to pay M/s Tom &amp; Co. a settled amount in periodical instalments. The property in the goods shall be passed to M/s Jerry &amp; Co. on the payment of last of such instalments. While checking such hire-purchase transaction, what would the auditor examine?</p> <p>(a) That the periodical instalments paid are charged as an expenditure by M/s Jerry &amp; Co.</p> <p>(b) That the hire purchase agreement specifies clearly the hire-purchase price of the machinery to which the agreement relates.</p> <p>(c) That M/s Tom &amp; Co. charges depreciation throughout the life of the machinery.</p> <p>(d) All of the above.</p> |
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**(Sample MCQs) (RTP, May 2019, NA)**

**Correct answer:** (b) That the hire purchase agreement specifies clearly the hire-purchase price of the machinery to which the agreement relates.

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| Q2. | <p>In respect of leasing transaction entered into by the leasing company, describe the procedures adopted by the auditor.</p> |
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**(MTP2, May 2018, 5 marks)**

**In respect of leasing transaction entered into by the leasing company, the following procedures may be adopted by the auditor:**

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.
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.

## 13.12 Audit of Hotels

Q1.	<p>MeLeredian is a renowned hotel operating in the city. The charge for room sales is posted to guest bills by Mr. Charlie, the night auditor. He has the responsibility for balancing the revenue and expense transactions, occurring during the day. He is also required to respond to guests' complaints and handling emergencies that may arise. While vouching the room sales, what special points may be considered by you as an auditor of the hotel?</p> <p>(a) Audit tests to be carried out to ensure that the correct numbers of guests are charged for the correct period.</p> <p>(b) Any deviation 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.</p> <p>(c) Testing of reports, containing details of the rooms which were occupied the previous night and the number of beds kept in each room, with the guests' register and with the individual guest's bill.</p> <p>(d) All of the above.</p> <p><b>(Sample MCQs)</b></p>
	<p><b>Correct answer:</b> (d) All of the above.</p>
Q2.	<p>Pilfering is one of the greatest problems in any hotel and the importance of internal control cannot be undermined. Explain.</p> <p><b>(RTP, May 2022 ,NA)</b></p>
	<p>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 minimize the leakage as far as possible. Evidence of their success is provided by the preparation of regular, perhaps weekly, trading accounts for each sales point and a detailed scrutiny of the resulting profit percentages, with any deviation from the anticipated form being investigated. The auditor should obtain these regular trading accounts for the period under review, examine them and obtain explanations for any apparent deviations.</p> <p>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.</p> <p>The auditor should satisfy himself that all taxes collected from occupants on food and occupation have been paid over to the proper authorities. 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.</p>

## 13.13 Audit of Co-operative societies

Q1.	<p>Section 73 of the Multi-State Co-operative Societies Act, 2002 discusses the powers and duties of auditors. According to this, every auditor of a Multi-State co-operative society shall have a right of access at all times to the books accounts and vouchers of the Multi-State co-operative society, whether kept at the head office of the Multi-State co-operative society or elsewhere, and shall be entitled to require from the officers or other employees of the Multi-State co-operative society such information and explanation as the auditor may think necessary for the performance of his duties as an auditor.</p> <p>You are required to answer the inquiries an auditor would make under Section 73(2)</p> <p><b>(MTP2, May 2018, 5 marks)</b></p> <p><b>OR</b></p> <p>Explain the powers and duties of auditors under the Multi-State Co-operative Societies Act, 2002.</p> <p><b>(RTP, May 2020, NA)</b></p>
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**Section 73 of the Multi-State Co-operative Societies Act, 2002** discusses the powers and duties of auditors. According to this, every auditor of a Multi-State co-operative society shall have a right of access at all times to the books accounts and vouchers of the Multi-State co-operative society, whether kept at the head office of the MultiState co-operative society or elsewhere, and shall be entitled to require from the officers or other employees of the Multi- State co-operative society such information and explanation as the auditor may think necessary for the performance of his duties as an auditor.

**As per section 73(2), the auditor shall make following inquiries:**

- a) Whether loans and advances made by the Multi-State co-operative society on the basis of security have been properly secured and whether the terms on which they have been made are not prejudicial to the interests of the Multi-State co-operative society or its members,
- b) Whether transactions of the Multi-State co-operative society which are represented merely by book entries are not prejudicial to the interests of the Multi-State co-operative society,
- c) Whether personal expenses have been charged to revenue account, and
- d) Where it is Stated in the books and papers of the Multi-State co-operative society that any shares have been allotted for cash, whether cash has actually, been received in respect of such allotment, and if no cash has actually been so received, whether the position as stated in the account books and the balance sheet as correct regular and not misleading.

- Q2. Mr. M, has served as an auditor in the Co-Operative Department of a Government, is appointed as a statutory auditor by a Co-Operative Society that has receipts over Rs 3 crores during the financial year. He is not a Chartered Accountant. Mr. D, Chartered Accountant is appointed to conduct tax audit of the society under section 44AB of the Income Tax Act, 1961. Comment.

**(SA, May 2018, 5 marks)**

Proviso to Sec. 44AB of Income Tax Act, 1961 lays down that where the accounts of an assessee are required to be audited by or under any other law, it shall be sufficient compliance with the provisions of this section, if such person get the accounts of such organisation audited under such other law before the specified date and furnishes by that date, the report of the audit as required under such other law and a further report by an Accountant in the form prescribed under this section.

The term "accountant" as defined under section 288 under the Income Tax Act, 1961 means a chartered accountant within the meaning of the Chartered Accountants Act, 1949, who holds a valid certificate of practice.

Apart from a chartered accountant within the meaning of the Chartered Accountants Act, 1949, some of the State Co-operative Acts have permitted persons holding a government diploma in co-operative accounts or in cooperation and accountancy and also a person who has served as an auditor in the cooperative department of a government to act as an auditor.

An auditor of a co-operative society is appointed by the Registrar of Co-operative Societies and the auditor so appointed conducts the audit on behalf of the Registrar and submits his report to him as also to the society.

Thus, in view of above provisions, appointment of Mr. M as statutory auditor and Mr. D as tax auditor under Section 44 AB is in order. Tax audit u/s 44AB of Income tax Act, 1961 can be performed only by a Chartered Accountant.

- Q3. Multi-State Co-operative Societies Act, 2002 states that a person who is a Chartered Accountant within the meaning of the Chartered Accountants Act, 1949 can only be appointed as auditor of Multi-State co-operative society. Explain stating also the persons who are not eligible for appointment as auditors of a Multi-State co-operative society.

**(MTP1, Nov 2018, 5 marks)**

**OR**

Briefly explain the provisions for qualification and appointment of Auditors under the MultiState Co-operative Societies Act, 2002.

**(SA, Nov 2018, 5 marks) (MTP2, May 2021, 4 marks)**

**Qualification of Auditors of MultiState Co-operative Societies:**

Section 72 of the Multi-State Co-operative Societies Act, 2002 states that a person who is a Chartered Accountant within the meaning of the Chartered Accountants Act, 1949 can only be appointed as auditor of Multi-State co-operative society.

However, the following persons are not eligible for appointment as auditors of a Multi-State cooperative society-

- i) A body corporate.
- ii) An officer or employee of the Multi-State co-operative society.
- iii) A person who is a member or who is in the employment, of an officer or employee of the MultiState co-operative society.
- iv) A person who is indebted to the Multi-State co-operative society or who has given any guarantee or provided any security in connection with the indebtedness of any third person to the Multi-State co-operative society for an amount exceeding Rs 1,000

**Appointment of Auditors of MultiState Co-operative Societies:**

Section 70 of the Multi-State Co-operative Societies Act, 2002 provides the provisions as to appointment of auditors of Multi-State co-operative societies. Accordingly,

- First auditor or auditors of a Multi-State co-operative society shall be appointed by the board within one month of the date of registration. If the board fails, company may appoint the first auditor at the general meeting. The auditor so appointed shall hold office till the conclusion of first AGM.
- The subsequent auditor or auditors are appointed at each annual general meeting. The auditor or auditors so appointed shall hold office from the conclusion of that meeting until the conclusion of the next annual general meeting.

Q4. 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.

**(SA, May 2019, 3 marks)**

Central Government shall order for special audit only if that Government or the State Government either by itself or both hold fifty-one percent or more of the paid-up share capital in such Multi -State co-operative society. Under section 77 of the Multi-State Cooperative Societies Act, 2002, where the Central Government is of the opinion:

- i) that the affairs of any Multi-State co-operative society are not being managed in accordance with self-help and mutual deed and co-operative principles or prudent commercial practices or with sound business principles; or
- ii) that any Multi-State co-operative society is being managed in a manner likely to cause serious injury or damage to the interests of the trade industry or business to which it pertains; or
- iii) that the financial position of any Multi-State co-operative society is such as to endanger its solvency.

Thus, in the given case since the Central Govt is holding 55% shares and the financial position of Kisan Credit co- operative society is in danger, the Central government can direct for special audit.

Q5. 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

**(RTP, May 2020, NA)**

As per section 73(3) and 73(4) of 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



	<p>annexed to the balance-sheet or profit and loss account, which are laid before the Multi-State cooperative society in general meeting during his tenure of office, and the report shall state whether, in his opinion and to the best of his information and according to the explanation given to him, the said account give the information required by this act in the manner so required, and give a true and fair view:</p> <p>a) In the case of the balance-sheet, of the state of the Multi-State co-operative society's affairs as at the end of its financial year; and</p> <p>b) In the case of the profit and loss account, of the profit or loss for its financial year. The auditor's report shall also state:</p> <p>i) Whether he has obtained all the information and explanation which to the best of his knowledge and belief were necessary for the purpose of his audit.</p> <p>ii) Whether, in his opinion, proper books of account have been kept by the Multi- State co-operative society so far as appears from his examination of these books and proper returns adequate for the purpose of his audit have been received from branches or offices of the Multi-State co-operative society not visited by him.</p> <p>iii) Whether the report on the accounts of any branch office audited by a person other than the Multi-State cooperative society's auditor has been forwarded to him and how he has dealt with the same in preparing the auditor's report.</p> <p>iv) Whether the Multi-State cooperative society's balance sheet and profit and loss account dealt with by the report are in agreement with the books of account and return.</p> <p>v) Where any of the matters referred to in section 73(3) and 73(4) is answered in the negative or with a qualification, the auditor's report shall state the reason for the answer.</p>
Q6.	<p>You are appointed as an auditor of co-operative society. State the special features of the co-operative audit to be borne in mind by the auditor, concerning:</p> <p>(1) Audit classification of society.</p> <p>(2) Discussion of draft audit report with the management committee.</p> <p><b>(SA, Nov 2020, 4 marks)</b></p> <p><b>(1) Audit classification of society</b> - After a judgment of an overall performance of the society, the auditor has to award a class to the society. This judgment is to be based on the criteria specified by the Registrar. It may be noted here that if the management of the society is not satisfied about the award of audit class, it can make an appeal to the Registrar, and the Registrar may direct to review the audit classification. The auditor should be very careful, while making a decision about the class of society.</p> <p><b>(2) Discussion of the draft audit report with the managing committee</b> – On conclusion of the audit, the auditor should ask the Secretary of the society to convene the managing committee meeting to discuss the audit draft report. The audit report should never be finalized without discussion with the managing committee.</p>
Q7.	<p>Correct/Incorrect</p> <p>The first auditor of a Multi-State co-operative Society will be appointed in Annual General Meeting</p> <p><b>(SA, July 2021, 2 marks)</b></p> <p><b>Incorrect:</b></p> <p>Section 70 of the Multi-State Co-operative Societies Act, 2002 provides that the first auditor or auditors of a Multi-State co-operative society shall be appointed by the board within one month of the date of registration of such society and the auditor or auditors so appointed shall hold office until the conclusion of the first annual general meeting. If the board fails to exercise its powers under this sub-section, the Multi-State Co-operative Society in the general meeting may appoint the first auditor or auditors</p>
Q8.	<p>Under section 43(h) of the Central Act, who can frame rules prescribing the books and accounts to be kept by a co-operative society?</p> <p>(a) Central Government</p>

	<p>(b) State Government (c) Management Committee of the Society. (d) Secretary of the Co-operative Society. <b>(RTP, Nov 2021, NA)</b></p>
	<b>Correct answer:</b> (b) State Government
Q9.	<p>Correct/Incorrect The first auditor or auditors of a Multi-State co-operative society shall be appointed by the board within one month of the date of registration of such society <b>(RTP, Nov 2021, NA)</b></p>
	<p><b>Correct:</b> Section 70 of the Multi-State Co-operative Societies Act, 2002 provides that the first auditor or auditors of a Multi-State co-operative society shall be appointed by the board within one month of the date of registration of such society and the auditor or auditors so appointed shall hold office until the conclusion of the first annual general meeting. If the board fails to exercise its powers under this sub-section, the Multi-State co-operative society in the general meeting may appoint the first auditor or auditors</p>
Q10.	<p>Before holding inquiry by the Central Registrar thirty days' notice must be given to the Multi-State co-operative society. <b>(RTP, May 2022, NA)</b></p>
	<p><b>Incorrect:</b> Before holding an inquiry by the Central Registrar fifteen days' notice must be given to the Multi-State co-operative society.</p>
Q11.	<p>No inspection under Section 79 of Multi-State Co-operative Societies Act, 2002 shall be made unless a notice has been given to the multi-state co-operative society. Explain stating clearly when and how such inspection can be made. Also state the powers available with the Central Registrar in this regard along with provisions relating to communication of the inspection report under the said section <b>(RTP, May 2022, NA)</b></p>
	<p><b>Inspection of Multi-State Co-operative societies under Section 79</b></p> <ol style="list-style-type: none"> <li>1. <b>When:</b> The Central Registrar may, on a request from       <ol style="list-style-type: none"> <li>i) federal co-operative to which a Multi-State Co-operative society is affiliated or a creditor or</li> <li>ii) not less than one-third of the members of the board or</li> <li>iii) not less than one-fifth of the total number of members of a Multi-State co-operative society</li> </ol> </li> <li>2. <b>How:</b> 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.</li> <li>3. <b>Opportunity of Being heard:</b> No inspection shall be made unless a notice of not less than fifteen days has been given to the multi-state co-operative society.</li> <li>4. <b>Powers available:</b> The Central Registrar or the person authorized by him shall have the following powers:       <ol style="list-style-type: none"> <li>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.</li> <li>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.</li> </ol> </li> <li>5. <b>Inspection Report:</b> A copy of the report of inspection under this section shall be communicated to</li> </ol>

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	the Multi-State Co-operative society within a period of three months from the date of completion of such inspection.
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