

## 15 B. AUDIT OF DIFFERENT TYPES OF ENTITIES

### Q.No.1. AUDIT OF SOLE TRADER. (B)

#### A) BACKGROUND:

1. Usually sole traders are not required by any law (except u/s 44AD, 44AE, 44AB and other provisions of the Income-tax Act, 1961) to have their accounts audited.
2. But it has become customary for many of them who derive their large incomes from numerous sources and whose expenditure is vast and varied to get their accounts audited.
3. In some cases, sole traders also get their financial statements audited due to regulatory requirements, such as inventory brokers or on specific instructions of the bank for approval of loans, etc.
4. The objective and scope of the audit as well as the conditions under which it will be carried out are determined by sole trader itself since it is a Non-statutory or Voluntary audit.
5. Thus, the duties and the nature of auditor's work will depend upon the agreement that he has entered into with the sole trader. But he must obtain clear instructions from his clients in writing as to what he is expected to do.

#### B) ADVANTAGES OF AUDIT TO A SOLE TRADER:

Refer "Advantages of Independent audit" in chapter no. 1 Nature of Auditing (Except Partner's point).

#### SIMILAR QUESTION:

1. How the audit is advantageous to Sole Trader? (PM)

A. Write above advantages

### Q.No.2. AUDIT OF PARTNERSHIP FIRMS (A)

#### A) SPECIAL POINTS IN AUDIT OF A PARTNERSHIP FIRM:

1. **Letter of appointment:** Confirming that the letter of appointment,
  - signed by a duly authorized partner,
  - Clearly states the nature and scope of audit contemplated by the partners, specially the limitation, if any, under which the auditor shall have to function.
2. **Partnership deed:** Examine the partnership deed to confirm,
  - Whether it is signed by all partners and
  - Whether it is registered with the registrar of firms and also
  - To ascertain from the partnership deed about capital contribution, profit sharing ratios, interest on capital contribution, powers and responsibilities of the partners, etc.
3. **Reading the minutes:** Studying the minute book, if any, maintained to record the policy decision taken by partners relating to
  - Authorization of extraordinary and capital expenditure,
  - Raising of loans,
  - Purchase of assets,
  - Extraordinary contracts entered into and other such matters which are not of a routine nature.
4. **Business authorization:** Verifying that the business in which the partnership is engaged is authorized by the partnership agreement; or by any extension or modification thereof agreed to subsequently.

5. **Adequacy of books of account:** Examining whether books of account appear to be reasonable and are considered adequate in relation to the nature of the business of the partnership.
6. **No effect on interest of any partner:** Verifying generally that the interest of no partner has suffered prejudicially by an activity engaged in by the partnership which, it was not authorized to do under the partnership deed or by any violation of a provision in the partnership agreement.
7. **Compliance with provisions of income tax Act:**
  - Confirming that a provision for the firm's tax payable by the partnership has been made in the accounts before arriving at the amount of profit divisible among the partners.
  - Also see various requirements of legislations applicable to the partnership firm like Section 44(AB) of the Income-tax Act, 1961 have been complied with.
8. **Sharing of profits and losses:** Verifying that the profits and losses have been divided among the partners in their agreed profit-sharing ratio.

**B) ADVANTAGES OF AUDIT OF ACCOUNTS OF A PARTNERSHIP FIRM: (N14 RTP)**

- a) Audited accounts provide a convenient and reliable means of settling accounts between the partners and thereby possibility of dispute among them is mitigated.
- b) On the retirement/death of a partner, audited accounts constitutes a reliable evidence for computing the amount due to the retiring partner or representative of deceased partner.
- c) Audited accounts are generally accepted by the Income tax authorities for computing the assessable income.
- d) Audited accounts are relied upon by banks for advancing loan.
- e) Audited accounts can be helpful in the negotiation for sale or admission of a new partner.
- f) It is an effective safeguard against any unfair advantage being taken by a working partner as against the non working partners.

**RELEVANT QUESTIONS:**

1. Mention any 4 special points which you as an auditor would look into while auditing the books of a partnership firm. A. Write Point – A (Any 4 points)	MTP-M19(O) RTP-M19(N) RTP-N18(O) QP-M16-6M
2. State six important advantages if audit of partnership firm. B. Write Point – B.	MTP-M19(N) QP-N18(O)-6M

**Q.No.3. AUDIT OF LOCAL BODIES. (A)**

**A) BACKGROUND:**

1. A municipality can be defined as a unit of local self-government in an urban area.
2. **Local self-government:** By the term 'local self-government' is ordinarily understood as
  - a) The administration of a locality – a village, a town, a city or any other area smaller than a state
  - b) By a body representing the local inhabitants,
  - c) Possessing fairly large autonomy,
  - d) Raising at least a part of its revenue through local taxation and spending its income on services which are regarded as local and, therefore, distinct from state and central services.

**B) OBJECTIVES OF AUDIT:** The external control of municipal expenditure is exercised by the state governments through the appointment of auditors to examine municipal accounts. The municipal corporations of Delhi, Mumbai and a few others have powers to appoint their own auditors for regular external audit.

The important objectives of audit are to report on

1. The fairness of the content and presentation of financial statements.
2. The strengths and weaknesses of systems of financial control.
3. The adherence to legal and/or administrative requirements.
4. Whether value is being fully received on money spent and
5. Detection and prevention of error, fraud and misuse of resources.

**C) FINANCIAL ADMINISTRATION:**

1. **Budgetary Procedure:**

a) **Objective:** The objective of local bodies budgetary procedure are

- i) Financial accountability,
- ii) Control of expenditure, and
- iii) To ensure that funds are raised and moneys are spent by the executive departments in accordance with the rules and regulations and within the limits of sanction and authorization by the legislature or Council.

b) **Aspects covered:** Different aspects covered in budgeting are determining the level of taxation, fees, rates, and laying down the ceiling on expenditure, under revenue and capital heads.

2. **Expenditure Control:**

- a) At the State and Central level, there is a clear demarcation between the legislature and executive. In the local body, legislative powers are vested in the Council whereas executive powers are delegated to the officers, e.g., Commissioners.
- b) All matters of regular revenue and expenditures are generally delegated to the executive wing. For special situations like, reduction in property taxes, refund of security deposits, etc., sanction from the legislative wing is necessary.

3. **Accounting System:**

- a) Municipal Accounting System has been conventionally prepared under the cash system. In the recent past however, it is being changed to the accrual system of accounting.
- b) The accounting system is characterized by
  - i) Subsidiary and statistical registers for taxes, assets, cheques etc.,
  - ii) Separate vouchers for each type of transaction,
  - iii) Compulsory monthly bank reconciliation,
  - iv) Submission of summary reports on periodical basis to different authorities at regional and state level.

**D) AUDIT PROGRAMME:**

1. **Appointment:** The external control of municipal expenditure is exercised by the state governments through the appointment of auditors to examine municipal accounts. The municipal corporations of Delhi, Mumbai and a few others have powers to appoint their own auditors for regular external audit. So the auditor should ensure authenticity of his appointment.
2. **Regularity audit:** The auditor should ensure that the expenditure incurred conforms to the relevant provisions of the law and is in accordance with the financial rules and regulations framed by the competent authority.

3. **Audit against sanctions:** He should ensure that all types of sanctions, either special or general, accorded by the competent authority.
4. **Audit against provision of funds:** He should ensure that there is a provision of funds and the expenditure is incurred from the provision and the same has been authorized by the competent authority.
5. **Performance audit:** The auditor should check that the different schemes, programmes and projects, where large financial expenditure has been incurred, are running economically and getting the expected results.
6. **Reporting:** The auditor has to report on,
  - a) The fairness of the content and presentation of financial statements.
  - b) The strengths and weaknesses of systems of financial control.
  - c) The adherence to legal and/or administrative requirements.
  - d) Whether value is being fully received on money spent and
  - e) Detection and prevention of error, fraud and misuse of resources.

**RELEVANT QUESTIONS:**

1. Write short notes on objectives of local bodies. A. Write Point – B.	MTP-N18(O) QP-M18(N)-5M QP-M17-4M
2. Draft an audit programme for conducting audit of accounts of a local body. A. Write Point – D.	QP-M16-6M

**Q.No.4. AUDIT OF NON-GOVERNMENTAL ORGANISATION (NGO). (B)****A) BACKGROUND:**

1. **Meaning:** NGOs can be defined as non-profit making organizations
  - a) which raise funds from members, donors or contributors
  - b) And also receive donation of time, energy and skills for achieving their social objectives.
2. **Incorporation:** Non-Governmental Organizations are generally incorporated as
  - a) A societies under the Societies Registration, Act, 1860 or
  - b) A trust under the India Trust Act, 1882, or
  - c) A company under section 8 of the Companies Act, 2013.

**B) POINTS OF CONCENTRATION BY AUDITOR:**

While planning the audit of NGO, the auditor may concentrate on the following-

1. Knowledge of the NGO's work, its mission and vision, areas of operations and environment in which it operate.
2. Updating knowledge of relevant statutes including recent amendments, circulars, judicial decisions viz. Foreign Contribution (Regulation) Act 1976, Societies Registration Act, 1860, Income Tax Act 1961 etc.
3. Reviewing the legal form of the organization and its MOA, AOA, rules and Regulations.
4. Reviewing the NGO's Organization chart, Financial and Administrative Manuals, Project and Programme Guidelines, Funding Agencies Requirements and Formats, budgetary policies, if any.
5. 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.

6. Study the accounting system, procedures, internal controls and internal checks existing for the NGO and verify their applicability.

### C) AUDIT PROGRAMME:

The audit programme should include in a sequential order all assets, liabilities, income and expenditure ensuring that no material item is omitted:

1. **Corpus fund:** The contributions/grants received towards corpus are vouched with reference to the letters from the donor(s). The interest income on investment of corpus is checked with investment Register and physical investments in hand.
2. **Reserves:** Vouch transfers from projects/programmes with donor's letters and board resolutions of NGO. Also check transfers and adjustments made during the year.
3. **Ear-marked Funds:** Check requirements of donor's institutions, board resolution of NGO, rules and regulations of the schemes of the ear-marked funds.
4. **Loans:** Vouch loans with loan agreements receipt counterfoil issued.
5. **Fixed Assets:** Vouch all acquisitions/sale or disposal of assets including depreciation and the authorizations for the same. For immovable property, check title, etc.
6. **Investments:** Check Investment Register and the investments physically ensuring that investments are in the name of the NGO. Verify further investments and dis-investments for approval by the appropriate authority and reference in the bank accounts for the principal amount and interest.
7. **Cash in Hand:** Physically verify the cash in hand and imprest balance, at the close of the year and whether it tallies with the books of accounts.
8. **Bank Balance:** Check the bank reconciliation statements and ascertain details for old outstanding and unadjusted amounts.
9. **Inventory in Hand:** Verify inventory in hand and obtain certificate from the management for the quantities and valuation of the same.
10. **Programme and Project Expenses:** Verify agreement with donor/contributor (s) supporting the particular programme or project to ascertain the conditions with respect to undertaking the programme/project.
11. **Establishment Expenses:** Verify that provident fund, life 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.

### D) AUDIT OF RECEIPTS OF NGO:

#### 1. **Contribution and Grants:**

- a) All grant donations and contributions received should be checked with reference to the agreement with donors, grant letter, bank statements.
- b) Additionally, foreign contributions received should be checked to ensure that all such contributions are
  - Received as per RBI guidelines and
  - Are deposited in the foreign contribution bank account as notified under the Foreign Contribution (Regulation) Act, 1976.

#### 2. **Examination of internal controls:**

- To ascertain the persons who are responsible for collection of funds.
- To verify the mode of receipt and
- To ensure that they are properly accounted and all collections are counted and deposited in the bank daily.

**3. Membership Fees:**

- Check fees received with membership register;
- To 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.

**4. Subscription:**

- Check receipts issued with subscription register and subscription rate schedule.
- Reconcile subscription received with printing and dispatch of corresponding magazine / circulars / periodicals.

- 5. Interest and Dividends:** Check the interest and dividends received and receivable with investments held during the year.

**RELEVANT QUESTIONS:**

<p>1. 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 two 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 style="text-align: center;"><b>OR</b></p> <p>Audit of Collection of donations for Kerala Flood victims by NGO.</p> <p><b>A. Write Point – D (1,2 and 5)</b></p>	<p>MTP-M19(N) MTP-N18(N) MTP-M18(N) RTP-N18(O) QP-N18(O)-6M</p>
<p>2. 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?</p> <p><b>A. Write Point – A and D (1, 2 and 5).</b></p>	<p>RTP-N18(N)</p>

**Q.No.5. AUDIT OF CHARITABLE INSTITUTIONS: (C)**

In the case of the audit of a charitable institution, attention should be paid to the following matters-

**A) GENERAL:**

1. Studying the constitution under which the charitable institution has been set up. It may be registered as a society under the Societies Registration Act, 1860, as a company limited by guarantee or as a trust.
2. Verifying whether the institution is being managed in compliance with the law under which it has been set up.

**B) SUBSCRIPTIONS AND DONATIONS:**

1. The auditor should obtain all receipt books covering the period under review and check whether that adequate control is imposed over unused receipt books.
2. Obtaining the and agreeing them with the total collections shown in the accounts with reference to the,
  - a) Acknowledgment receipts issued
  - b) Entries made in the in cash book
  - c) Printed list of subscriptions and donations, if any and
  - d) Any figures published in reports, etc, if any issued by the charity.

3. Examine the internal controls over collections and ensure that all collections have been fully accounted for and deposited in the bank regularly and promptly.
4. Ascertaining, if any, the changes made in amount of annual or life membership subscription during the year.

**C) LEGACIES AND GRANTS:**

1. 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.
2. Vouching the amount received with the relevant correspondence, receipts and minute books.

**D) INVESTMENTS INCOME:**

(M17 - 4M)

1. Vouching the amounts received with the counterfoils of dividend and interests and schedule of investments by making special enquiries into any investments held for which no dividend or interest has been received. And also inspect securities physically.
2. Checking that the appropriate dividend has been received subsequently where any investment has been sold ex-dividend or purchased cum-dividend.

**E) RENTS:**

1. Examining the Register of rents and tenancy agreements to verify the amounts of the rents, and the due dates.
2. Vouching the rents received with reference to Rent register, counterfoils of receipt books and entries in the cash book.

**F) SPECIAL FUNCTIONS:**

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

**G) INCOME TAX REFUNDS:** 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.

**H) EXPENDITURE:**

**1. Vouching payment of grants:**

- Verifying that the grants have been paid only for a charitable purpose or purposes falling within the purview of the objects for which the charitable institution has been set up and
  - No trustee, director or member of the Managing Committee has benefited there from either directly or indirectly.
2. 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.
  3. Verifying the cash and bank balances.
  4. Ascertaining that any funds contributed for a special purpose have been utilised for the purpose.

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## Q.No.6. AUDIT OF EDUCATIONAL INSTITUTION (A)

A) GENERAL:

1. **Examination of the basic documents:** Verify the Trust Deed or Regulations in the case of school or college and in the case of a university, refer to the Act of Legislature and the Regulations framed there under.
2. **Reading the minutes:** 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.

B) FEE RECEIVED FROM STUDENTS:

(M09 – 6M)

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.
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.
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 the arrears that are irrecoverable have been written off under the sanction of an appropriate authority.
4. 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.
5. See that free studentship and concessions have been granted by a person authorized to do so, having regard to the prescribed Rules.
6. Verify that there operates a system of internal check which ensures that demands against the students are properly raised.
7. Confirm that finer for late payment or absence, etc., have either been collected or remitted under proper authority.
8. Confirm that hostel dues were recovered before students' accounts were closed and their deposits of caution money refunded.
9. Report any old heavy arrears on account of fees, dormitory rents, etc, to the Managing Committee.
10. 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.

C) LEGACIES, GRANTS AND DONATIONS:

1. 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.
2. Vouching the amount received with the relevant correspondence, receipts and minute books.
3. 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 utilized for the same purpose.

D) INVESTMENTS INCOME:

1. Vouching the amounts received with the counterfoils of dividend and interests and schedule of investments by making special enquiries into any investments held for which no dividend or interest has been received. And also inspect securities physically.



2. Checking that the appropriate dividend has been received subsequently where any investment has been sold ex-dividend or purchased cum-dividend.
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.

**E) RENTS:**

1. Examining the Register of rents and tenancy agreements to verify the amounts of the rents, and the due dates.
2. Vouching the rents received with reference to Rent register, counterfoils of receipt books and entries in the cash book.

**F) INCOME TAX REFUNDS:** 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.

**G) EXPENDITURE:**

1. Vouch all capital expenditure in the usual way and verify the same with the sanction for the Committee as contained in the minute book.
2. Vouch in the usual manner all establishment expenses and enquire into any unduly heavy expenditure under any head.
3. See that increase in the salaries of the staff have been sanctioned and minuted by the Committee.
4. Ascertain that the system ordering inspection on receipt and issue of provisions, foodstuffs, clothing and other equipment is efficient and all bills are duly authorized and passed before payment.
5. Verify the annual statements of accounts and while doing so see that separate statements of account have been prepared as regards for Boys Fund, Games Fund, Hostel and Provident Fund of Staff, etc.
6. Verify the inventories of furniture, stationery, clothing, provision and all equipment, etc. These should be checked by reference to Inventory Register and values applied to various items should be test checked.

**RELEVANT QUESTIONS:**

<p>1. What are the special steps involved in audit of education institution. A. Write above answer (Any 6 Special Points).</p>	<p>MTP-M19(O) MTP-M18(O) RTP-M18(N) RTP-M18(O)</p>
<p>2. National college, an institution managed by a trust, has received a grant of Rs.2.4 Crore from Government nodal agencies for funding a project of research on rural health systems in India. Draft an audit programme for auditing this fund in the accounts of the college. A. Write the below answer:</p> <ul style="list-style-type: none"> <li>• Check basic documents</li> <li>• Grant related documents</li> <li>• Check grant related conditions.</li> <li>• Check banks statement.</li> <li>• Compare budget with utilization of grant.</li> <li>• Capital expenses out of grant and its accounting. Shall be disclosed separately in balance sheet.</li> <li>• All revenue expenses on the said project shall be vouched with bills.</li> <li>• All expenses on the project shall not be accounted in regular Income statement.</li> <li>• In Balance sheet the fund shall be shown separately.</li> </ul>	<p>QP-M17-6M</p>

## Q.No.7. AUDIT OF HOSPITAL. (A)

A) RECEIPTS FROM PATIENTS:

1. Examine the internal check system as regards the receipts of bills from the patients.
2. Vouch the copy of bills issued by reference to the register of patients.
3. Verify the patient's attendance record to see that the bills have been correctly prepared.
4. See that the Bills have been issued to all the patients according to the rules of the hospital.
5. Check cash collections as entered in the cash book with the receipts, counterfoils and other evidence.
6. Compare the total income with the amount budgeted for the same and report to the management for significant variations which have been taken place.

B) INVESTMENTS INCOME:

1. Vouching the amounts received with the counterfoils of dividend and interests and schedule of investments by making special enquiries into any investments held for which no dividend or interest has been received. And also verify the securities physically by inspecting title deeds etc.
2. Checking that the appropriate dividend has been received subsequently where any investment has been sold ex-dividend or purchased cum-dividend.

C) LEGACIES, GRANTS AND DONATIONS:

1. 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.
2. Vouching the amount received with the relevant correspondence, receipts and minute books.
3. 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 utilized for the same purpose.

D) SUBSCRIPTIONS:

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

E) EXPENDITURE:

1. 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 authorized.
2. Compare the totals of various items of expenditure and income with the amount budgeted for them and report significant variations which have taken place.
3. Examine the internal check as regards the receipt and issue of stores; medicines, linen, apparatus, clothing, instruments, etc. so as to ensure that purchases have been properly recorded in the Inventory Register and that issues have been made only against proper authorization.
4. 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.
5. See that depreciation has been written off against all the assets at the appropriate rates.

**RELEVANT QUESTIONS:**

1. Advise any six special points in an audit of hospital. A. Write Point – A and B	MTP-M19(N) MTP-N18(N) MTP-N18(O) MTP-M18(N)
2. Mention special points to be examined by you in the audit of Income and expenditure of a charitable trust running a hospital. A. Write Point – A and B. Also write about donations received.	MTP-M18(O) RTP-M19(O)
3. 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? A. Write Point – A and B	RTP-N18(N)
4. What steps would you take into consideration in auditing the receipts from patients of a hospital? A. Write Point – A.	QP-N17(O)-6M

**Q.No.8. AUDIT OF CLUB. (B)**

A club is usually constituted as a company limited by guarantee. Therefore, various provisions of the Companies Act, 2013 relating to the audit of accounts of companies are also applicable to its audit.

The special steps involved in such an audit are stated below.

- A) **GENERAL:** Examine the constitution, powers of governing body and relevant rules relating to preparation and finalization of accounts. In case it is constituted as a company limited by guarantee, application of provisions of the Companies Act, 2013 should also be seen.
- B) **FEE FROM MEMBERS:**
1. Vouch the receipt on account of entrance fees with member's applications, counterfoils issued to them, and minutes of the Managing Committee.
  2. Vouch Members' subscription with the counterfoils of receipts issued to them. Trace receipts for a selected period to the Register of Members; reconcile the amount of total subscription due with the amount collected and the outstanding.
  3. Check totals of various columns of the Register of Members and tally them across.
  4. 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, if any should be written off.
  5. Ensure that arrears of subscriptions for the previous year have been correctly brought over and arrears for the year under audit and subscription received in advance have been correctly adjusted.
  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 service rendered such as billiards, tennis, etc.
  7. Trace debits for a selected period from subsidiary registers maintained in respect of supplies and services to members to confirm that the account of every member has been debited with amounts recoverable from him.
- C) **INVESTMENTS:** Inspect the share scrips and bonds in respect of investments, check their current values for disclosure in final accounts, also ascertain that the arrangements for their safe custody are satisfactory, check the accrual of income therefrom and provision of income tax thereon.
- D) **EXPENDITURE:**
1. Vouch purchase of sports items, furniture, crockery, etc., and trace their entries into the respective inventory registers.

2. Vouch purchases of food-stuffs, cigars, wines, etc. and test their sale price so as to confirm that the normal rates of profit have been earned on their sales. The inventory of unsold provisions and stores, at the end of the year should be verified physically and its valuation checked.
3. Check the inventory of furniture, sports material and other assets physically with the respective inventory registers or inventories prepared at the end of the year.

**RELEVANT QUESTIONS:**

1. Mention special points which an auditor will consider while conducting an audit of a club. <b>A. Write Point – B and D.</b>	MTP-N18(O) MTP-M18(N)
2. Draft an Audit Programme to audit the accounts of a Recreation Club with facilities for indoor games and in-house eating <b>A. Write Point – B and D.</b>	RTP-N17(O)

**Q.No.9. AUDIT OF CINEMA HALLS. (C)****A) AUDIT OF RECEIPTS FROM DAILY SHOW COLLECTIONS:**

1. Verify-
  - a) That entrance to the cinema hall is only through printed tickets;
  - b) Tickets are serially numbered and bound into books;
  - c) That the number of tickets issues for each show and class are different;
  - d) That for advance booking a separate series of tickets is issued and
  - e) Inventory of tickets is kept in proper custody.
2. If tickets are issued through computer, audit the system to ensure its reliability and authenticity of data generated by it.
3. System should provide that at the end of each show a proper statement should be prepared and cash collected be tallied.
4. 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 with record of tickets issued for the different shows held.
5. Cash collected is deposited in banks partly on the same day and rest on the next day depending upon the banking facility available.
6. Verify that proper record is kept for free passes issued and the same are issued under proper authority.
7. Reconcile the amount of Entertainment Tax collected with the total number of tickets issued for each class.

**B) INCOME FROM ADVERTISEMENT:** 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.

**C) RESTAURANT INCOME:**

1. 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.
2. In case the restaurant is run by the Cinema, its accounts should be checked.
3. The audit should cover sale of various items of foodstuffs, purchase of foodstuffs, cold drink, etc. as in the case of club.
4. Verify the basis of other incomes earned like car and scooter parking and display windows etc.

**D) EXPENDITURE:**

1. Vouch the expenditure incurred on advertisement, repairs and maintenance. No part of such expenditure should be capitalized.
2. Vouch the expenditure incurred on publicity of picture, electricity expenses etc.
3. Confirm that depreciation on machinery and furniture has been charged at appropriate rates which are higher, as compared to those admissible in the case of other businesses, in respect of similar assets.
4. Vouch payment of film hire with reference to agreement with distributor or producer.
5. 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.

**RELEVANT QUESTIONS:**

<p>1. 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>A. Write Point – A (3 points) and Point – D (2 points)</b></p>	MTP-N18(N)
<p>2. Cinescreen Multiplex Ltd. Is operating cinemas in different locations in Mumbai and appointed you as internal auditor. What are the areas that need to be verified in relation to receipts from sale of tickets?</p> <p><b>A. Write Point – A (Any 4 Points)</b></p>	QP-M19(O)-4M

**Q.No.10. AUDIT OF HOTEL. (B)**

**A) INTERNAL CONTROL:** Pilferage is one of the greatest problems in any hotel and it is extremely important to have a proper internal control to minimize the leakage. The following points should be checked-

1. Effectiveness of arrangement regarding receipts and disbursements of cash.
2. Procedure for purchase and inventory stocking of various commodities and provisions.
3. Procedure regarding billing of the customers in respect of room service, telephone, laundry, etc.
4. System regarding recording and physical custody of edibles, wines, cigarettes, crockery and cutlery, linen, furniture, carpets, etc.

**B) ROOM SALES AND CASH COLLECTIONS:**

1. The charge for room sales is made from the guest register, and tests are to be carried out to ensure that the correct numbers of guests are charged for the exact period of stay.
2. The total sales reported with the total bills issued at various sales points have to be reconciled.
3. Special care must be taken in respect of bills issued to customers who are staying in the hotel, because they may not be required to pay the bills immediately in cash but at a future date or by credit cards.
4. Billing is to be done room-wise. It must be ensured that all customers pay their bills on leaving the hotel or within specified dates.

5. The auditor should verify the restaurant bills with reference to KOT (Kitchen order Ticket).
  6. The occupancy rate should be worked out, and compared with other similar hotels, and with previous year. Material deviations should be investigated.
  7. The compliance with all statutory provisions and compliance with the Foreign Exchange Regulations must also be verified by the auditor, especially because hotels offer facility of conversion of foreign exchange to rupees.
- C) **RECEIPTS FROM FUNCTION HALLS:** Special receipts on account of letting out of auditorium, banquet hall, spaces for shops, boutiques, and special shows should be verified with the arrangements made.
- D) **SHARING INCOME FROM TRAVEL AGENTS:** It is common that hotels get their bookings done through travel agents. The auditor should ensure that the money is recovered from the travel agents as per credit terms allowed. Commission paid to travel agents should be checked by reference to the agreement on that behalf.
- E) **INVENTORY:** The inventories in a hotel are all saleable item like food and beverages. Therefore, following may be noted in this regard:
1. All movement and transfer of inventories must be properly documented.
  2. Areas where inventories are kept must be kept locked and the key retained by the departmental manager. The key should be released only to trusted personnel and unauthorized persons should not be permitted in the stores area.
  3. The auditor should ensure that all inventories are valued at the year end and that he should himself be present at the year-end physical verification, to the extent practicable, having regard to materiality consideration and nature and location of inventories
  4. Apart from control over inventory of edibles, control over issue and physical inventory of linen crockery, cutlery, glassware, silver, toilet items, etc. should be verified.
- F) **FIXED ASSETS:** The fixed assets should be properly depreciated, and the Fixed Assets Register should be updated.
- G) **CASUAL LABOUR:** In case the hotel employs a casual labour, the auditor should consider, whether adequate records have been maintained in this respect and there is no manipulation taking place. The wages payment of the casual labour must also be checked thoroughly.
- H) **EXPENDITURE:**
1. Consumption shown in various physical inventory accounts must be traced to the customers' bills to ensure that all issues to the customers have been billed.
  2. All payments to the foreign collaborator, if any, are to be checked.
  3. Expenses and receipts are to be compared with figures of the previous year, having regard to the average occupancy of visitors and changes in rates.
  4. Expenses for painting, decoration, renovation of building, etc. are to be properly checked.
  5. Computation and payment of salaries and wages vis-a-vis number of employees must be checked.

**RELEVANT QUESTIONS:**

1. What special steps will you take into consideration in auditing the accounts of a hotel?	RTP-N17(O)
A. Write two points each from Point – A,B,C and H.	

## Q.No.14. Write a short note on: Audit of Limited Liability Partnerships (LLP). (B)

1. **Books of Accounts:** LLP's are required to maintain books of accounts which shall contain-
  - i) Particulars of all sums of money received and expended by the LLP.
  - ii) A record of the assets and liabilities of the LLP,
  - iii) Statements of costs of goods purchased, inventories, work-in-progress, finished goods and costs of goods sold,
  - iv) Any other particulars which the partners may decide.
2. **Requirement of audit:** The accounts of every LLP shall be audited in accordance with Rule 24 of LLP, Rules 2009.

**Exceptions:** 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, then the accounts shall be audited.

### 3. Appointment of Auditor:

- a) **Authority for appointment:** The appointment of auditors of LLP, whether first or subsequent auditors including filling of casual vacancy, may be made by the designated partners of the LLP.

The other partners may appoint the auditors if the designated partners have failed to appoint them.

- b) **Time limit for appointment:**

- i) **First auditor:** At any time for the first financial year but before the end of first financial year,
- ii) **Subsequent auditor:** At least thirty days prior to the end of each financial year (other than the first financial year),

### 4. Advantages / Purpose / Need of Audit:

#### ADVANTAGES OF AN INDEPENDENT AUDIT:

- a) It safeguards the financial interest of persons who are not associated with the management of the entity, whether they are partners or shareholders.
- b) It acts as a moral check on the employees from committing frauds or errors.
- c) Audited statements of account are helpful in settlement of
  - i) Insurance claims in respect of damage suffered by property by fire or some other calamity.
  - ii) Liability for taxes,
  - iii) Trade disputes for higher wages or bonus
- d) For negotiating loans from lenders.
- e) For determining the purchase consideration for a business in case of amalgamations.
- f) For detection of weakness in internal controls those are leading to wastages and losses.
- g) To help in the settlement of accounts at the time of admission or death of partner.
- h) Government may require audited and certified statement before it gives assistance or issues a license for a particular trade.
- i) To ascertain whether the necessary books of account and allied records have been properly kept.

**5. Auditor's Duty Regarding Audit of LLP**

- a) The auditor should get definite instructions in writing as to the work to be performed by him.
- b) The auditor should mention
  - i) Whether the records of the firm appear to be correct & reliable.
  - ii) Whether he was able to obtain all information & explanation necessary for his work.
  - iii) Whether any restriction was imposed upon him.
- c) The auditor should read the LLP agreement & note the following provisions
  - i) Nature of the business of the LLP.
  - ii) Amount of capital contributed by each partner.
  - iii) Interest – in respect of additional capital contributed.
  - iv) Duration of partnership.
  - v) Drawings allowed to the partners.
  - vi) Salaries, commission etc payable to partners.
  - vii) Borrowing powers of the LLP.
  - viii) Rights & duties of partners.
  - ix) Method of settlement of accounts between partners at the time of admission, retirement, admission etc.
  - x) Any loans advanced by the partners.
  - xi) Profit sharing ratio
- d) If partners maintain minute book he shall refer it for any resolution passed regarding the accounts

**6. Additional points:**

- a) **Filing of documents with ROC:**
  - i) Every LLP would be required to file 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 Registrar.
  - ii) Every LLP is also required to submit Statement of Account and Solvency in Form 8 which shall be filed within a period of thirty days from the end of six months the financial year to which the Statement of Account and Solvency relates.
- b) **Powers of Registrar:**
  - i) Registrar would have power to obtain such information which he may consider necessary for the purposes of carrying out the provisions of the Act, from any designated partner, partner or employee of the LLP.
  - ii) He would also have power to summon any designated partner, partner or employee of any LLP before him for any such purpose, in case the information has not been furnished to him or in case the Registrar is not satisfied with the information furnished to him.

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## SELF STUDY

## Q.No.11. AUDIT OF LEASING COMPANY. (B)

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:
  - a) 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).
  - b) The tenure of lease, amount of lease rentals, dates of payment, late charges, deposits or advances etc. should be noted.
  - c) Whether the equipment shall be returned to the lessor on termination of the agreement and the cost shall be borne by the lessee.
  - d) 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.

**RELEVANT QUESTIONS:**

1. What procedure may be adopted by an auditor while auditing leasing transactions entered into by the leasing company?	MTP-M18(N)
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**A. Write above answer.**

1. What procedure may be adopted by an auditor while auditing leasing transactions entered into by the leasing company? (OLD PM, N15 RTP)

A. Write the above answer

## Q.No.12. AUDIT OF HIRE-PURCHASE COMPANY: (C)

1. The object clause of hire-purchasing 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 hire purchaser like his ability to meet the installment under hire purchase, past credit record, capital strength, availability of collateral security, etc.

3. Hire purchase agreement is in writing and is signed by all parties.
4. Hire purchase agreement specifies clearly
  - a) The hire-purchase price of the goods to which the agreement relates;
  - b) The cash price of the goods, that is to say, the price at which the goods may be purchased by the hirer for cash;
  - c) The date on which the agreement shall be deemed to have commenced;
  - d) The number of instalments by which the hire- purchase price is to be paid, the amount of each of those instalments, and the date, or the mode of determining the date, upon which it is payable, and the person to whom and the place where it is payable; and
  - e) The goods to which the agreement relates, in a manner sufficient to identify them.
5. Ensure that payments are being received regularly as per the agreement.
6. Examine the hire purchase proposal form submitted by the hire purchaser requesting the hire vendor to provide him the equipment on hire purchase.
7. Examine the acceptance letter obtained from the hire purchaser indicating that the equipment has been received in order and is acceptable to him.
8. See the Board resolution authorizing a particular director to execute the hire purchase agreement has been passed by the hire purchaser.
9. See that the copies of the insurance policies have been obtained by the hire vendor for his records.

#### Q.No.13. AUDIT OF INCOMPLETE RECORDS. (C)

1. The examination of records and documents is one of the most important techniques through which an auditor collects evidence. Therefore, in case the records and documents maintained by an enterprise are incomplete, it would prove to be a great handicap to the auditor.
2. An auditor may face the situation of incomplete records under the following circumstances:
  - a) Where records are kept on single entry basis or
  - b) Where records are kept on double entry basis, but some of the records are destroyed accidentally, or are seized by authorities, or are otherwise not available for the auditor's examination due to similar reasons.
3. **Audit approach where records are kept on single entry system:** On the other hand, when books are maintained on single entry basis, then the management of the enterprise would be asked to write up the books, to the extent possible, as they would have been written up under double entry system.
4. **Audit approach where records are kept on double entry but were lost, destroyed or seized by authorities:**
  - a) The auditor may direct the management of the enterprise to complete or reconstruct the accounting records, e.g., if vouchers are available but the cash book, journal and the ledger are not maintained, then the cash book, journal and ledger should be written up.
  - b) However, if vouchers are also not available, then cash book/journal/ledger will have to be prepared by correlating the evidence available, e.g., memoranda records, bank statements, statements from outside parties, etc.
  - c) Even though such books which are prepared may not be complete, but may still contain useful information for the auditor.
5. **Audit approach in any case:** In any case, the following steps would be required to conduct an audit:

- a) Ascertain that the balance sheet or statement of affairs as at the beginning of the year should be prepared and all the relevant accounts should be opened in the ledger. Normally, under the single entry system, cash, bank, and personal accounts are maintained.
- b) Confirming that all entries on receipt side of the cash book are posted in the ledger, even by opening new account(s) wherever necessary.
- c) Check that all entries on the payment side of cash book are posted in the ledger.
- d) Confirming that all entries appearing in bank account are posted in the ledger.
- e) Analyse personal accounts of trade receivables. This will provide vital information regarding credit sales, sales returns, discounts allowed, bills received, bills dishonored, etc. It would be necessary to post such items to relevant accounts, to complete the double entry from the debtor's accounts.
- f) Similarly, it would be necessary to analyze the trade payables' accounts and post entries relating to credit purchase made, discounts earned, purchases returns, bills payable issued to suppliers, bills payable dishonored, etc., to relevant accounts.

From an auditor's view point, the supervisory controls exercised by the owners are generally less reliable and hence while auditing incomplete records, auditor will largely depend on extensive substantive procedures and obtain external evidence, physical examination/ observation, management representation and perform analytical procedures.

**What special steps will you take into consideration in auditing the receipts from entry fees of an amusement park? Mention any four points specific to the issue.**

**Audit of receipts from Entry Fees of an Amusement Park:**

1. Evaluate the internal control system regarding entry and collection for entry tickets including rotation of staff.
2. Ensure that tickets are pre numbered.
3. Ensure that the deposit of cash collected into the bank account very same next day.
4. Compute analytical ratios in respect of the receipts pattern i.e. on weekends, holidays, etc. and make comparisons to draw conclusions.

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**THE END**