

CHAPTER 13 - AUDIT OF DIFFERENT ENTITIES

Q	Reference	Question	Answer
1	ICAI Module	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>While planning the audit of an NGO, the auditor may concentrate on the following:</p> <p>(i) Knowledge of the NGO's work, its mission and vision, areas of operations and environment in which it operate.</p> <p>(ii) Updating knowledge of relevant statutes especially with regard to recent amendments, circulars, judicial decisions related to the statutes.</p> <p>(iii) Reviewing the legal form of the Organisation and its Memorandum of Association, Articles of Association, Rules and Regulations.</p> <p>(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.</p> <p>(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.</p> <p>(vi) Study the accounting system, procedures, internal controls and internal checks existing for the NGO and verify their applicability.</p>
2	ICAI Module	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?	<p>Special points of consideration while auditing certain transactions of a hospital are stated below</p> <p>(i) Register of Patients: Vouch the Register of patients with copies of bills issued to them. Verify bills for a selected period with the patients' attendance record to see that the bills have been correctly prepared. Also see that bills have been issued to all patients from whom an amount was recoverable according to the rules of the hospital.</p> <p>(ii) Collection of Cash: 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.</p>

			<p>(iii) Legacies and Donations: Ascertain that legacies and donations received for a specific purpose have been applied in the manner agreed upon.</p> <p>(iv) 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).</p> <p>(v) 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.</p>
3	ICAI Module	Mention the special points to be examined by the auditor in the audit of a charitable institution running hostel for students pursuing the Chartered Accountancy Course and which charges only ₹ 500 per month from a student for his lodging/boarding.	<p>1. General</p> <p>(i) Study the constitution under which the charitable institution has been set up whether under the Society Registration Act, as a trust or as a company limited by guarantee.</p> <p>(ii) Examine the internal control structure particularly with reference to admission to hostel, expenses incurred on different kinds of activities.</p> <p>(iii) Verify the broad nature of expenses likely to be incurred with reference to the previous year's annual audited accounts</p> <p>2. Verification of the receipts</p> <p>(i) Check the amounts received on account of, monthly rentals, etc., and receipts issued for the same.</p> <p>(ii) Ascertain that there is adequate internal control over the issue of official receipts, custody of unused receipt books, printing of receipt books, etc.</p> <p>3. Verification of expenses</p> <p>(i) Check the day-to-day administration expenses incurred along with the necessary vouchers, supporting for the same like salary registers, repairs register, etc.</p> <p>(ii) Verify whether the expenses incurred are in conformity with the budgets prepared internally or filed with the relevant authorities.</p>

			<p>4. Verify investments made from surplus funds as well as existing investments by physically verifying the same and that they are in the name of the institution and that there is no charge/pledge against the same</p> <p>5. Verify all capital expenditure and expenditure on repairs, etc., incurred with the vouchers and also whether proper tenders, etc., were invited for the same. See that all furniture, glass, cutlery, kitchen utensils, liner, etc. are adequately depreciated</p> <p>6. Verify whether the institution is eligible for income tax exemption and if not, whether provision for taxation has been made</p>
4	ICAI Module	Explain in detail the duties of Comptroller and Auditor General of India	<p>The Comptroller & Auditor General’s (Duties, Powers and Conditions of Service) Act, 1971 lays down duties of the C&AG as under</p> <p>(i) 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</p> <p>ii) to audit and report all transactions of the Union and of the States relating to Contingency Funds and Public Accounts</p> <p>iii) 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</p> <p>iv) 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</p>

			<p>scrutinise the procedures by which the sanctioning authority satisfies itself as to the fulfillment of the condition</p> <p>v) 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 condition.</p> <p>vi) 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.</p> <p>vii) 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>
5	ICAI Module	<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>Receipt of Donations:</p> <p>(i) Internal Control System: 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.</p> <p>(ii) Custody of Receipt Books: 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.</p> <p>(iii) Receipt of Cheques: 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. (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.</p>

			<p>(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.</p> <p>(vi) Foreign Contributions, if any, to receive special attention to compliance with applicable laws and regulations.</p> <p>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.</p> <p>(ii) Confirming Receipt of Remittance: All remittances are supported by receipts and acknowledgements</p> <p>(iii) Identity: Recipient NGO is a genuine entity. Verify address, 80G Registration Number, etc.</p> <p>(iv) Direct Confirmation Procedure: Send confirmation letters to entities to whom donations have been paid.</p> <p>(v) Donation Utilisation: Utilisation of donations for providing relief to Tsunami victims and not for any other purpose.</p> <p>(vi) System of NGOs' Selection: System for selecting NGO to whom donations have been sent.</p>
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