

AUDIT OF DIFFERENT TYPES OF ENTITIES

Audit of Sole trader

- Generally no legal obligation to have his accounts audited.
- Individuals get their financial statement audited due to regulatory requirements, such as inventory brokers or on a specific instructions of the bank for approval of loans, etc
- Auditors shall be appointed by the sole proprietor himself.
- Incoming auditor has to communicate with the previous auditor.
- Sole proprietor will decide the scope and objective
- Contract of appointment of auditor in such a case should be in writing; also that it should clearly define the scope of the work which the auditor is expected to carry out.
- Limitations if any has to be clearly specified

Audit of Partnership firm

Appointment

- Usually appointed by the partners as per the partnership deed
- His remuneration is also fixed by the partners.
- Letter of appointment should clearly state the
 - nature and scope of audit which is to be carried out and
 - particulars of limitations, if any
- Incoming auditor to communicate with the previous auditor
- In case of statutory audit, the auditor has to qualify the report in case of non-compliance with the accounting standards.

Matters to be considered before starting audit

- Name and style of business
- The duration of the partnership,
- The amount of capital contributed by each partner
- Profit and loss sharing ratio
- Maintenance of proper books of accounts
- Borrowing capacity of the partnership
- The rate of interest on the capitals, loans and drawings and current accounts.
- Whether any salaries are payable to the partners
- Duties of the partners
- Who shall operate the bank account of the firm?
- How will the surplus funds of the partnership be invested?
- Limitations and restrictions on the rights and powers

Advantages of Audit of a Partnership Firm

- Audited accounts provide a convenient and reliable means of settling accounts between the partners.
- Audited accounts provide a reliable evidence for computing the amounts due to the retiring partner or to the representative of the deceased partner in respect of his share of capital, profits and goodwill.
- Relied upon by the banks when advancing loans and acquisition
- Can be helpful in the negotiations to admit a person as a partner
- Effective safeguard against any undue advantage being taken by a working partner

Special considerations in the audit of accounts of partnership

- Letter of appointment, signed by a duly authorised partner
- Studying the minute book, if any, maintained to record the policy decision taken by partners
- Verifying that the business in which the partnership is engaged is authorised by the partnership agreement
- Examining whether books of account appear to be reasonable and are adequate
- Interest of no partner has suffered prejudicially by an activity engaged in by the partnership
- Provision for the firm's tax payable by the partnership has been made in the accounts
- Verifying that the profits and losses have been divided among the partners in their agreed profit-sharing ratio

Audit of LLP

Audit of the Accounts of an LLP

- The accounts of every LLP shall be audited.
- Exemption from audit:
 - turnover does not exceed, in any financial year, forty lakh rupees OR
 - contribution does not exceed twenty five lakh rupees

Maintenance of Books of accounts by LLP

- Particulars of all sums of money received and expended by the LLP and the matters in respect of which the receipt and expenditure takes place,
- A record of the assets and liabilities of the LLP,
- Statements of costs of goods purchased, inventories, work-in-progress, finished goods and costs of goods sold,
- Any other particulars which the partners may decide

Returns to be maintained and filed by an LLP

- **Form 11** - annual return with ROC within 60 days of closer of financial year
- **Form 8** - Statement of Account and Solvency which shall be filed within a period of thirty days from the end of six months the financial year

Advantages

- Detection of Errors
- Disputes, if any between any partners in the matter of accounts can be settled
- Banks & financial institutions lend money to the firms only on the basis of audited accounts.
- Better Compliance and Management
- Reconstitution: For settling accounts between partners at the time of admission, death, retirement, insolvency, insanity, etc.

Appointment of Auditor

- Appointed by the designated partners of the LLP:
- First FY - At any time for the first financial year but before the end of first financial year
 - Subsequent FY - At least thirty days prior to the end of each financial year
 - Fill the casual vacancy including caused by removal of auditor

Auditor's Duty Regarding Audit of LLP

- Obtain the engagement letter
- Refer the minutes book if any
- **Read the LLP agreement:**
 - Nature of the business of the LLP.
 - Amount of capital contributed by each partner.
 - Interest in respect of additional capital contributed.
 - Duration of partnership.
 - Drawings allowed to the partners.
 - Salaries, commission etc. payable to partners.
 - Borrowing powers of the LLP.
 - Rights & duties of partners.
 - Salaries, commission etc. payable to partners.
 - Borrowing powers of the LLP.
 - Rights & duties of partners.
- Method of settlement of accounts between partners at the time of admission, retirement, admission etc.
- Any loans advanced by the partners.
- Profit sharing ratio
- **Reporting:**
 - Whether the records of the firm appear to be correct & reliable.
 - Whether he was able to obtain all information & explanation necessary for his work.
 - Whether any restriction was imposed upon him

Audit of Charitable institution

General

- Studying the constitution of charitable institution
- Verifying whether the institution is being managed as per the requirements of law.
- Examining the system of internal check
- Verifying in detail the income and confirming that the amounts received have been deposited in the bank regularly and promptly.
- Examine the Trust Deed or the Regulations

Expenditure

- Verifying that the grants have been paid only for a charitable purpose or purposes falling within the purview of the objects
- No trustee, director or member of the Managing Committee has benefited
- Verifying the
 - schedules of securities held,
 - inventories of properties both movable and immovable
 - by inspecting the securities and title deeds of property and
 - by physical verification of the movable properties
- Verifying the cash and bank payments.
- Ascertaining that any funds contributed for a special purpose have been utilised for the purpose.

Incomes

- **Subscriptions and donations**
 - Ascertaining changes made in amount of annual or life membership subscription
 - Whether official receipts are issued;
 - Verifying internal control over unused receipt books;
 - obtaining all receipt books
 - test checking the counterfoils
 - any cancelled receipts being specially looked into;
 - obtaining the printed list of subscriptions and donations
 - verify the internal controls over collections
- **Legacies** – Verifying reference to correspondence with any figures and other available information.
- **Grants**
 - Vouching with the relevant correspondence, receipts and minute books.
 - Obtaining a certificate from a responsible official
- **Investments Income**
 - Vouching the dividend and interest counterfoils.
 - Checking the calculations of interest
 - Checking that the appropriate dividend has been received where any investment has been sold ex-dividend or purchased cum-dividend.
 - special enquiries into any investments held for which no dividend has been received.
- **Rent** - Examining tenancy agreements, noting in each case amount of rent, due dates and counterfoils of receipts
- **Special function** - Vouching with such vouchers and cash statements as are necessary. Verifying that the proceeds of all tickets issued have been accounted for.
- **Income Tax Refunds** -
 - vouching with the correspondence with the Income- tax Department;
 - checking the calculation of the repayment of claims.

Points to concentrate while planning the audit

- Knowledge of the NGO's work, its mission and vision,
- Updating knowledge of relevant statutes
 - Foreign Contribution (Regulation) Act 2010,
 - Societies Registration Act, 1860,
 - Income Tax Act 1961 etc. and the Rules related to the statutes. (iii)
- Reviewing the legal form, MOA , AOA etc.
- Reviewing the
 - NGO's Organisation chart,
 - Financial and Administrative Manuals,
 - Project and Programme Guidelines,
 - Funding Agencies Requirements
 - budgetary policies if any.
- Examination of minutes of the Board/Managing Committee/Governing Body/ Management
- Study the accounting system, procedures, internal controls and internal checks
- Setting of materiality levels for audit purposes.
- The nature and timing of reports
- The involvement of experts
- Review the previous year's Audit Report

Verification of receipts

- **Contributions and Grants for projects and programmes:**
 - Check agreements with donors and grants
 - Check that all foreign contribution receipts are deposited in the foreign contribution bank account as notified under the Foreign Contribution (Regulation) Act, 2010
- **Receipts from fund raising programmes:** Verify the internal control system. Ensure that collections are counted and deposited in the bank daily.
- **Membership Fees:**
 - Check fees received with Membership Register.
 - Ensure proper classification is made between entrance and annual fees and life membership fees.
 - Reconcile fees received with fees to be received
- **Subscriptions:** Check with subscription register and receipts issued. Reconcile subscription received with printing and dispatch of corresponding magazine / circulars / periodicals. Check the receipts with subscription rate schedule.
- **Interest and Dividends:** Check the interest and dividends received and receivable with investments held during the year.

Things to be included in audit programme

- **Corpus Fund:** Vouched with special reference to the letters from the donor.
- The interest income be checked with Investment Register and Physical Investments in hand.
- **Reserves:**
 - Vouch from projects / programmes with donors letters and board resolutions of NGO.
 - Also check transfer of gross value of asset sold from capital reserve to general reserve
- **Ear-marked Funds:** Check requirements of donors institutions, board resolution of NGO, rules and regulations
- **Project / Agency Balances:** Vouch disbursements and expenditure as per agreements with donors
- **Loans:** loan agreements, counterfoil of receipt
- **Fixed Assets:** Vouch authorisations and check donor's letters/ agreements for the grant. In the case of immovable property check title, etc.
- **Investments:** Check Investment Register and do physical verification(
- **Cash in Hand:** Physically verification
- **Bank Balance:** Check the BRS
- **Inventory:** physical verification
- **Programme and Project Expenses:** Verify agreement with donor/contributor to ascertain the conditions
- **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

Audit of Local bodies

Meaning of municipality

- A unit of local self-government in an urban area. The administration of a locality
 - a village, a town, a city or any other area smaller than a state
 - by a body representing the local inhabitants, possessing fairly large autonomy,
 - raising at least a part of its revenue through local taxation and
 - spending its income on services which are regarded as local and, therefore, distinct from state and central services.

Municipal government in India covers

- the municipal corporations,
- the municipal councils,
- the notified area committees,
- the town area committees
- the cantonment committees.

Functions of Municipal authorities

- regulatory,
- maintenance and
- development activities.

Municipal expenditure

- general administration and revenue collection,
- public health,
- public safety,
- education,
- public works, and
- others such as interest payments, etc.

Financial Administration

- **Budgetary Procedure:**
 - financial accountability and control of expenditure
 - main objective is to ensure that funds are raised and moneys are spent by the executive departments in accordance with the rules and regulations
 - Municipal budget formats and heads of accounts vary from state to state.
- **Expenditure Control:**
 - At state and central government level there is a clear demarcation between the legislature and executive.
 - The integration of legislation and executive powers in the municipal council makes it difficult for its executive to function as its inquisitorial body as well.
 - This leaves the system of external audit by state government as the only instrument of controlling municipal expenditure.
- **Accounting System:** Its neither simple nor comprehensible.

Objectives/ Reporting/Concerns:

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

Audit Programme for local bodies

1. Appointment:

- Local Fund Audit Wing of the State Govt. is generally in-charge of the audit of municipal accounts
- Some bigger municipal corporations appoint their own auditor

2. Auditors concerns:

- fairness of the contents and presentation of financial statements,
- the strengths and weaknesses of system of financial control,
- the adherence to legal and/or administrative requirements;
- whether value is being fully received on money spent.
- His objective should be to detect errors and fraud and misuse of resources.

3. Rules and regulations:

The auditor should ensure that the expenditure incurred conforms to the relevant provisions of the law and is in accordance with the financial rules and regulations framed by the competent authority

4. Authorisations:

He should ensure that all types of sanctions, either special or general, accorded by the competent authority

5. Provisioning:

He should ensure that there is a provision of funds and the expenditure is incurred from the provision and the same has been authorized by the competent authority.

6. Performance:

The auditor should check that the different schemes, programmes and projects, where large financial expenditure has been incurred, are running economically and getting the expected results

Audit of Educational Institutions

General

- Examine the Trust Deed/ Regulations/Act of legislature
- Read through the minutes of the meetings of the Managing Committee/governing body

Other Receipts/Grants & Donations

- Verify rental income from landed property with the rent rolls, etc.
- Vouch income from endowments and legacies, as well as interest and dividends from investment
- Inspect the securities in respect of investments held.
- Verify any Government or local authority grant with the memo of grant.
- If any expense has been disallowed for purposes of grant, ascertain the reasons thereof.

Fee from Students

- Check names entered in the Students Fee Register with the respective Class Registers
- Verify that there operates a system of internal check
- Check fees by comparing counterfoils of receipts granted with entries in the Cash Book and tracing the collections in the Fee Register
- Ascertain that fees paid in advance have been carried forward and that the arrears that are irrecoverable have been written off
- Check admission fees with admission slips signed by the head of the institution and credited to a Capital fund, unless the Managing Committee has taken a decision to the contrary.
- See that free studentship and concessions have been granted by a person authorised
- Confirm that fines for late payment or absence, etc. have been either collected or remitted under proper authority.
- Confirm that hostel dues were recovered before student's accounts were closed and their deposits of caution money refunded

Expenditure

- Verify that the Provident Fund money of the staff has been invested in appropriate securities.
- 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.
- Vouch, all capital expenditure in the usual way and verify the same with the sanction for the Committee
- Vouch all establishment expenses and enquire into any unduly heavy expenditure under any head.
- Comparison with the budgets
- See that increase in the salaries of the staff have been sanctioned and minuted by the Committee.

Assets and Liabilities

- Report any old heavy arrears to Managing Committee.
- Confirm that caution money and other deposits have been shown as liability
- 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.
- Verifying the system ordering inspection on receipt and issue of provisions, foodstuffs, clothing etc., and all bills are duly authorised
- Verify the inventories of furniture, stationery, clothing, provision and all equipment etc.

Compliances

- Confirm that the refund of taxes deducted from the income from investment (interest on securities etc.) has been claimed
- separate statements of account have been prepared as regards Poor Boys Fund, Games Fund, Hostel and Provident Fund of staff, etc.

Audit of Hospital

- **Register of Patients:**
 - Vouch the Register of patients
 - Verify with the patients' attendance record to see that the bills have been correctly prepared.
 - Also see that bills have been issued to all patients according to the rules of the hospital.
- **Collection of Cash:** Check with the receipts, counterfoils and other evidence
- **Income from Investments, Rent etc:** See with reference to the property and Investment Register
- **Legacies and Donations:** For a specific purpose have been applied in the manner agreed upon.
- **Reconciliation of Subscriptions:**
 - Trace all collections to the Registers.
 - Reconcile the total subscriptions due
- **Authorisation and Sanctions:** Verify that the capital expenditure was incurred only with the prior sanction of the Trustees or the Managing Committee.
- **Grants and TDS:** Verify that grants has been duly accounted for. Also, that refund in respect of taxes deducted at source has been claimed.
- **Budgets:** Compare with the amount budgeted and report to the Trustees or the Managing Committee, significant variations
- **Internal Check:** Examine the internal check as regards the receipt and issue of stores; medicines, linen, apparatus, clothing, instruments, etc.
- **Depreciation:** See that depreciation has been written off against all the assets at the appropriate rates.
- **Registers:** Inspect the bonds, share scrips, title deeds of properties and compare their particulars with those entered in the property and Investment Registers.
- **Inventories:** Obtain inventories, especially of stocks and stores as at the end of the year and check a percentage of the items physically
- Get proper **Management Representation and Certificate** with respect to various aspects

Audit of Club

- **Entrance Fee:** Vouch with members' applications, counterfoils issued to them, as well as on a reference to minutes.
- **Subscriptions:** Vouch 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
- **Arrears of Subscriptions:** Ensure proper adjustments of arrears and advances
- **Arithmetical accuracy:** Check totals of various columns of the Register of members and tally them.
- **Irrecoverable Member Dues:** Enquire whether necessary steps have been taken for their recovery, and irrecoverable amounts should be mentioned in the Audit Report.
- **Pricing:** 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.
- **Member Accounts:** Trace debits from subsidiary registers maintained in respect of supplies and services to members
- **Purchases:** Vouch purchase of sports items, furniture, crockery, etc. and trace their entries into the respective inventory registers.
- **Margins earned:** Vouch purchases of foodstuffs, cigars, wines, etc., and test their sale price so as to confirm that the normal rates of gross profit have been earned on their sales.
- **Inventories :** Physical verification.
- **Investments :** Inspect the share scrips and bonds in respect of investments, current values for disclosure in final accounts; the arrangements for their safe custody
- **Management Powers:-** Examine the financial powers of the secretary and, if these have been exceeded, report specific case for confirmation by the Managing Committee.

Audit of Cinema

- **Internal control:**
 - entrance is only through printed tickets;
 - serially numbered and bound into books;
 - that the tickets issued for each show and class, are different
 - for advance booking a separate series of tickets is issued;
 - that the inventory of tickets is kept in the custody of a responsible official.
- At the end of show, a **statement of tickets** sold is prepared
- **'Free passes'** and that these are issued under proper authority.
- Reconcile the amount of **Tax collected** with the total number of tickets
- Vouch the entries in the Cash Book in respect of cash collected on sale of tickets
- Verify the charges collected for advertisement slides
- Vouch the expenditure incurred on advertisement, repairs and maintenance.
- Confirm that **depreciation on machinery and furniture** has been charged at an appropriate rate.
- Vouch **payments on account of film hire** with bills of distributors and agreements
- Examine **unadjusted balance out of advance** paid to the distributors against film hire contracts to see that they are good and recoverable.
- Enquired as to why the advance has not been adjusted. If recoverable provision should be made
- The arrangement for collection of the **share in the restaurant income** should be enquired into either a fixed sum or a fixed percentage
- **Restaurant run by cinema**, its accounts should be checked

Audit of Hotels

- **Internal control:**
 - Pilfering is one of the greatest problems in any hotel
 - It is the responsibility of management to introduce controls which will minimise the leakage as far as possible.
- **Room Sales and Hall Bookings:**
 - Room sales should be compared with guest register
 - Any difference between the charged rates used on the guests' bills and the standard room rate should be investigated
 - If the housekeeper prepares a daily report of the rooms, they are required to be verified by the auditor.
 - The auditor should ensure that proper records are maintained for booking of halls and other premises
 - Travel Agents & Shops :
 - The auditor should ensure that money are recovered from the travel agents as per the terms of credit allowed.
 - Commission paid to travel agents agents should be checked with agreement
 - The auditor should ensure that proper valuation of occupancy-in-progress at the balance sheet date is made
- **Inventories:**
 - The inventories in any hotel are particularly the food and beverage.
 - All movements and transfers of such inventories should be properly documented
 - Areas where inventory are held should be kept locked, the key being retained by the departmental manager.
 - The key should be released only to trusted personnel.
 - Auditor should consider attending the physical inventory
- **Fixed assets:** The auditor should see that costs of repairs and minor renovation and redecoration are treated as revenue expenditure, whereas costs of major alterations and additions to the hotel building and facilities capitalised.
- **Casual Labour:**
 - The hotel trade operates to very large extent on casual labour.
 - The records maintained of such wage payments are frequently inadequate.
 - The auditor should ensure that defalcation on this account does not take place

Audit of Hire Purchase and leasing companies

Hire Purchase companies

- **Hire Purchase agreement:** It includes the agreement
 - Possession of goods is delivered by the owner to a person on condition that such person pays the agreed amount in periodical instalments,
 - The property in the goods is to pass to such person on the payment of the last of such instalments, and
 - such person has a right to terminate the agreement at any time before the property so passes.
- **Hirer:** person who obtains or has obtained possession of goods from an owner under a hire- purchase agreement.
- **Owner:** person who lets or has let, delivers or has delivered possession of goods to a hirer under a hire purchase agreement
- The auditor shall examine
 - Hire purchase agreement is in writing and signed by all parties.
 - Hire purchase agreement specifies clearly-
 - The hire-purchase price of the goods
 - The cash price of the goods,
 - date on which the agreement commences
 - number of instalments
 - amount of installments
 - date of installments
 - Ensure that instalment payments are being received regularly

Leasing companies

- Verify the objects clause of the leasing company
- Whether there exists a procedure to ascertain the credit analysis of lessee
- Note the following points from the lease agreement:
 - description of the lessor, the lessee, the equipment and the location
 - amount of tenure of lease, dates of payment, late charges, deposits or advances
 - whether the equipment shall be returned to the lessor on termination of the agreement
 - whether the agreement prohibits the lessee from assigning the subletting
- Examine the lease proposal form submitted by the lessee
- Ensure that the invoice is retained safely
- Examine the acceptance letter obtained from the lessee
- See the Board resolution authorising a particular director to execute the lease agreement
- See that the copies of the insurance policies have been obtained by the lessor

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