

Chapter 9 – Special Features of Audit of Different Types Of Entities

Government Audit

Meaning

- **Objective**, systematic, professional and independent examination,
- of **financial**, **administrative** and other **operations** of a public entity
- for the purpose of **evaluating** and **verifying** them, and
- presenting a **report** on audit findings together
 - with **conclusions** and
 - **recommendations** for future actions by the responsible officials, and
 - in the case of examination of FS, expressing the appropriate professional **opinion** regarding the fairness of the presentation.

Objectives

Accounting for Public Funds

Government audit serves as a **mechanism** or process for public accounting of government funds.

Appraisal of Government policies

It also provides public accounting of the **operational**, management, programme and **policy aspects** of public administration as well as **accountability** of the officials administering them.

Base for Corrective actions

Audit observations based on **factual data collection** also serve to highlight the lapses of the lower hierarchy, thus helping supervisory level officers to take **corrective measures**.

Administrative Accountability

The main objective of audit is a combination of ensuring **accountability** of administration to legislature and **functioning** as an **aid** to administration.

Legal Framework and Comptroller & Auditor General

The Constitution of India contains specific provisions regarding the appointment, salary and duties and powers of the C&AG.

Appointment

The **President** of India shall appoint CAG.

Removal or resignation

- He can be removed from the office only on the ground of **proven misbehaviour** or **incapacity**.
- Moreover, he can be removed from office only when each house of parliament decides to do so by a majority of at least **two third** of members present and voting.

Remuneration

- The parliament is competent to make laws to determine salary and other conditions of service.
- As per The Comptroller & Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 he shall be paid a salary which is **equal** to the salary of the **Judge** of the **Supreme Court** thereby further strengthening his **independence**.
- CAG shall hold office for **six years** or upto age of **65** years whichever is **earlier**.

Duties and Power

- **Article 149** states that the C&AG shall perform such **duties** and exercise such **powers** in relation to the **accounts** of the **Union** and of the **States** and of any **other authority** or **body** as may be **prescribed** by or under any law made by the Parliament.
- **Article 150** of the Constitution provides that the **accounts** of the Union and of the States shall be kept in such **form** as the **President** may on the **advice** of the C&AG prescribe.

Reporting Procedures

- **Article 151** of the Indian Constitution states that the C&AG shall **report** on the **accounts** of the Union and of each of the States to the **President** or the **Governor** concern and the **report** to be **laid** before the **legislatures**.
- The reports should not only be presented to the legislatures but thereafter **also publicised adequately** in order to create a proper climate of **public opinion** for taking remedial action where necessary, on the findings of the Auditor General.

Duties of Comptroller & Auditor General

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

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 and
- **submit** those accounts to the **President** or the **Governor** or Administrator.

General Provisions Relating to Audit

It shall be the duty of the C&AG –

- 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** disbursed was **legally available** for and **applicable** to the **purpose** to which they have been applied and
 - whether the expenditure conforms to the **authority** which governs it;

- to audit and report
 - all transactions of the Union and of the States relating to Contingency Funds and Public Accounts;
- to audit and report on
 - all trading, manufacturing profit and loss accounts and balance-sheets and other accounts kept in any department of the Union or of a State.

Audit of Receipts and Expenditure of body or authority substantially financed CFI/S/UT-LA

- The C&AG shall, Audit and report on all receipts and expenditure of body or authority 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
- Substantial Finance** – Grant or loans in a FY is not less than ₹ 25 lakhs and such grant or loan is not less than 75% of the total expenditure.

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;
- C&AG shall
 - scrutinize the procedures by which the sanctioning authority satisfies itself as to the fulfilment 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.

Audit of Receipts of Union or States

- It shall be the duty of the C&AG
- 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

Audit of Accounts of Stores and Stock

C&AG shall have authority to audit and report on the accounts of stores and stock kept in any office or department of the Union or of a State.

Audit of Government Companies and Corporations

The duties and powers of the C&AG in relation to the audit of the accounts of government companies shall be performed and exercised by him in accordance with the provisions of the Companies Act, 2013.

Power of C&AG in performance of duties

Inspect

- To inspect any office of accounts under the control of the Union or a State Government including office responsible for the creation of the initial or subsidiary accounts.

Require (ABPO)

- 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.

Put Question / Make Observations / Call Info

- To put such questions or make such observations as he may consider necessary
- to the person in charge of the office and to call for such information as he may require for the preparation of any account or report which is his duty to prepare.

Power to Dispense

- In carrying out the audit, the C&AG has the power to dispense with any part of detailed audit of any accounts or class of transactions and to apply such limited checks in relation to such accounts or transactions as he may determine.

Expenditure Audit

Audit of government expenditure is one of the major components of government audit conducted by the office of C&AG. Basic standards set for audit of expenditure are explained below

- Audit against Rules & Orders.** 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.
- Audit of Sanctions:** The auditor has to ensure that each item of expenditure is covered by a sanction, either general or special, by the competent authority, authorising such expenditure.
- Audit against Provision of Funds:** Its objective is to ensure whether the expenditure
 - is made for the purpose for which the grant and appropriation has been provided.
 - Does not exceed the appropriation made.
- Propriety Audit**
 - 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.

5. Performance Audit

- This involves 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.

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 and orders issued by a competent authority.
- These rules, regulations and orders against which regularity audit is conducted mainly fall under the following categories:
 - Rules and orders regulating the powers to incur and sanction expenditure from the Consolidated Fund of India or of a State.
 - Rules and orders dealing with the mode of presentation of claims in general the financial rules prescribing the detailed procedure to be followed by government servants in dealing with government transactions; and
 - Rules and orders regulating the conditions of service, pay and allowances, and pensions of government servants.

Function of Audit w.r.t rules and regulation

- 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:
 - they are not inconsistent with any provisions of the Constitution or any laws made thereunder;
 - they are consistent with the essential requirements of audit and accounts as determined by the C&AG;
 - they do not come in conflict with the orders of, or rules made by, any higher authority; and
 - 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.

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 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.

Audit against propriety

Audit against propriety seeks to ensure that expenditure conforms to these principles which have been stated as follows:

1. 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.
2. No authority should exercise its powers of sanctioning expenditure to pass an order which will be directly or indirectly to its own advantage.
3. Public moneys should not be utilized for the benefit of a particular person or section of the community unless:
 - The amount of expenditure involved is insignificant; or
 - A claim for the amount could be enforced in a Court of law; or
 - The expenditure is in pursuance of a recognized policy or custom; and
 - 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

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

Audit against provision of funds

Its objective is to ensure whether the expenditure

- is made for the purpose for which the grant and appropriation has been provided.
- Does not exceed the appropriation made.

Performance audit / Full Scope Audit

The scope of audit has been extended to cover efficiency, economy and effectiveness audit or performance audit, or full scope audit

- Efficiency audit looks into whether the various schemes/projects are executed and their operations conducted economically and whether they are yielding the results expected of them,
- Economy audit looks into whether government have acquired the financial, human and physical resources in an economical manner, and whether the sanctioning and spending authorities have observed economy.
- Effectiveness audit is an appraisal of the performance of programmes, schemes, projects with reference to the overall targeted objectives as well as efficiency of the means adopted for the attainment of the objectives.
- Efficiency- cum-performance audit is an objective examination of the financial and operational performance of an organisation, programme, authority or function and is oriented towards identifying opportunities for greater economy, and effectiveness.

The procedure for conducting performance audit covers

- identification of topic
- preliminary study,
- planning,
- execution of audit, and
- Reporting.

Audit of the accounts of stores and inventories

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&AG. Audit is conducted:-

- to ascertain whether the Regulations governing purchase, receipt and issue, custody, sale and inventory taking of stores are well devised and properly carried out.
- to bring to the notice of the government any deficiencies in quantities of stores held or any defects in the system of control.
- to verify that the purchases are properly sanctioned, made economical and in accordance with the Rules for purchase laid down by the competent authority.
- 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 to notice by the audit.
- to check accuracy, correctness and reasonableness of balances in Inventories
 - Any excess or idle inventory is specifically mentioned in the report.

- 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.

Audit of Receipts

The audit of receipts is neither all pervasive or as old as audit of expenditure but has come to stay in some countries. Audit of receipts include checking:

- whether all revenues or other debts due to government have been correctly assessed, realised and credited to government account by the designated authorities;
- whether adequate regulations and procedures have been framed by the concerned department/agency to secure an effective check on assessment and collection.
- whether such regulations and procedures are actually being carried out;
- whether adequate checks are imposed to ensure the prompt detection and investigation of irregularities, or other loss of revenue through fraud or wilful omission or negligence to levy or collect taxes or to issue refunds; and
- review of systems and procedures to ensure correct and regular accounting of demands collection and refunds and pursuant of dues up to final settlement and to suggest improvement.

- The extent and quantum of audit required to be done under each category of audit are determined by the C&AG. These are neither negotiable nor questioned.
- 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&AG to ensure that the work assigned to each employee is carried out as prescribed.
- 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

Audit of Commercial Accounts

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

- departmental enterprises engaged in commercial and trading operations, which are subject to the same laws, financial and other regulations as other government departments and agencies;
- statutory bodies, corporations, created by specific statutes mostly financed by government in the form of loans, grants, etc.; and
- Government companies set up under the Companies Act, 2013.

The audit of :-

- a. departmental concerns is undertaken in the same manner as any department of government where commercial accounts are kept.
- b. statutory bodies or corporations depends on the nature and type of the statute governing the bodies or corporations. Audit is conducted by the C&AG, functions, norms and standards of works usually followed by the professional auditors are adopted.
- c. Government companies is conducted by their own auditors under the statute appointed by C&AG. In addition, the C&AG conducts a supplementary test audit of the accounts, as well as periodical financial audit and appraisal of performance. The C&AG also issues direction to the company auditors for reporting on specific aspects of their audit work. C&AG has adopted the mechanism of an Audit Board – comprising of representatives of the audit and nominees of government including functional specialists to process reviews or appraisals on performance.

Role of C&AG under the Companies Act, 2013

Section 143(5)

- In the case of a Government company, C&AG shall appoint the auditor and direct such auditor the manner in which the accounts of the Government company are required to be audited.
- The auditor so appointed shall submit a copy of the audit report to the CAG which, among other things, include the following:
 - directions, if any, issued by the C&AG,
 - the action taken thereon and
 - its impact on the accounts and FS of the company.

Supplementary Audit Section 143(6)

- C&AG shall within 60 days from date of receipt of the audit report have a right to,
 - conduct a supplementary audit of the FS of the company by such person as he may authorise; and for the purposes of such audit, require information or additional information to be furnished to any person, so authorised, in such form, as the C&AG direct; and
 - comment upon or supplement such audit report – Any comments given by C&AG upon, or supplement to, the audit report shall be sent by the company to every person entitled to copies of audited FS under section 136(1) and also be placed before the AGM of the company at the same time and in the same manner as the audit report.

Test Audit – Section 143(7)

- C&AG may, in case of Government Company and Government owned or controlled companies, if he considers necessary, by an order, cause test audit to be conducted of accounts of such company and the provisions of section 19A of the CAG (Duties, Powers and Conditions of Service) Act, 1971, shall apply to the report of such test audit.

Statutory auditors shall submit a copy of their audit report to the C&AG who shall have a right to comment upon or supplement the audit report in such manner as he may think fit. Section 134(3) of the Companies Act, 2013 imposes a duty on the BOD to give an explanation or comments on every reservation, or adverse remarks or disclaimer contained in the auditors' report. In the absence of similar provisions requiring the company to give reply on the reservation made by the C&AG, the BOD is not bound to give information or explanation in respect of such comments.

Audit of Local Bodies

Background

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

Objective of Audit of Local Bodies

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

This kind of audit focuses upon assessment of whether urban institutions are fulfilling their responsibilities with efficiency, economy and effectiveness (sometimes known as 'the three Es').

Audit Programme For Local Body**Appointment**

The **Local Fund Audit Wing** of the **State Govt.** is generally in charge of the audit of municipal accounts. Sometimes bigger municipal corporations e.g. Delhi, Mumbai etc have power to appoint their own auditors for regular external audit. So the auditor should ensure authenticity of his appointment.

Auditor's Concerns

Same as Objective of Audit of Local Bodies

Rules & Regulations

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

Authorisations

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

Provisioning

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

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**.

Features of Financial Administration of Local bodies**Budgetary Procedure**

- The objective of local bodies budgetary procedure are
 - financial **accountability**,
 - **control** of expenditure,

- **and** to ensure that **funds** are **raised** and **monies** are **spent** by the executive departments in accordance with the **rules** and regulations and within the **limits** of **sanction** and **authorisation** by the legislature or Council.
- There is no strict separation between revenue and capital items; usually there is a 'head' called extraordinary items which cover most of the capital transactions.

Expenditure Control

- 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.
- 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.

Accounting System

- 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.
- The accounting system is characterized by
 - subsidiary and statistical **registers** for taxes, assets, cheques etc.,
 - separate **vouchers** for each type of transaction,
 - compulsory monthly bank **reconciliation**,
 - submission of **summary reports** on **periodical basis** to different authorities at **regional** and **state** level.

Types of Grants Received by Local Authority

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

Audit of NGO Background

NGO		
Meaning	NGOs can be defined as non-profit making organisations	which raise funds from members, donors or contributors
		apart from receiving donation of time, energy and skills
		for achieving their social objectives like imparting education, providing medical facilities, economic assistance to poor, managing disasters
Include	religious organisations, voluntary health and welfare agencies, charitable organisations, hospitals, old age homes, research foundations etc.	
Incorporated as	Society under the societies registration act, 1860	Auditors are appointed by management of society or trust
	Trust under India Trust Act, 1882	Auditors are appointed by management of society or trust
	Section 8 of the companies act, 2013	Auditors are appointed by Members of the company

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 on an accrual basis or cash basis.

Provisions Relating to Audit

- Companies Act, 2013, Foreign Contribution (Regulation) Act 2010, Income Tax Act 1961 required that the accounts of the NGO be audited and submitted to the prescribed authorities
- Foreign Contribution (Regulation) Act 2010 requires that the report be furnished to the Ministry of Home Affairs within 60 days from the close of the financial year i.e. by May 30 each year.

Planning the Audit

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

- Knowledge** of the NGO's work, its mission and vision, areas of operations and environment in which it operate.
- Updating** knowledge of relevant statutes especially with regard to recent amendments, circulars, judicial decisions viz. Foreign Contribution (Regulation) Act 2010, Societies Registration Act, 1860, Income Tax Act 1961 etc. and the Rules related to the statutes.
- Reviewing** the **legal form** of the Organisation and its MOA, AOA, Rules and Regulations.
- Reviewing** the NGO's Organisation chart, then Financial and Administrative Manuals, Project and Programme Guidelines, Funding Agencies Requirements and formats, budgetary policies if any.
- 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.
- Study** the accounting **system procedures** internal **controls** and internal **checks** existing for the NGO and verify their applicability.

- Setting** of **materiality** levels for audit purposes.
- The nature and timing of **reports** or other communications.
- The involvement of **experts** and their reports.
- Review the **previous year's** Audit Report.

Assets, Liabilities, Income and expenditure to be included in Audit Programme

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

- Corpus Fund:** The contributions / grants received towards corpus be vouched with special reference to the letters from the donor(s). The interest income be checked with Investment Register and Physical Investments in hand.
- Reserves:** 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.
- Ear-marked Funds:** Check requirements of **donors** institutions, board resolution of NGO, rules and regulations of the schemes of the ear-marked funds.
- Project / Agency Balances:** Vouch **disbursements** and **expenditure** as per agreements with donors for each of the balances.
- Loans:** Vouch loans with loan **agreements**, counterfoil of receipt issued.
- Fixed Assets:** 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.
- 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.
- Cash in Hand:** **Physically verify** the cash in hand and imprest balances, at the close of the year and whether it tallies with the books of account.
- Bank Balance:** Check BRS and ascertain details for old outstanding and unadjusted amounts.
- Inventory:** Verify inventory in hand and obtain **certificate** from the management for the quantities and valuation of the same.
- 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 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.
- 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, traveling, etc.

Checking / Audit of Receipts of NGO

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

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

Audit programme for audit of receipts of donations and remittance of the collected amount to different NGOs

Receipt of Donations

1. **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.
2. **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.
3. **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.
4. **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.
5. **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.

6. **Foreign Contributions**, if any, to receive special attention to compliance with applicable laws and regulations.

Remittance of Donations to Different NGOs

1. **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.
2. **Confirming Receipt of Remittance:** All remittances are supported by receipts and acknowledgements.
3. **Identity:** Recipient NGO is a genuine entity. Verify address, 80G Registration Number, etc.
4. **Direct Confirmation Procedure:** Send confirmation letters to entities to whom donations have been paid.
5. **Donation Utilisation:** Utilisation of donations for specified purpose and not for any other purpose.
6. **System of NGOs' Selection:** System for selecting NGO to whom donations should be unbiased.

Sources and Applications of Funds

The main sources of funds include grants and donations, fund raising programmes, advertisements, fees from the members, technical assistance fees / fee for services rendered, subscriptions, gifts, sale of produce or publications, etc.

1. Donations and grants received in the nature of promoter's contribution are in the nature of capital receipts and shown as liabilities in the Balance Sheet of NGO. These may either be in the form of corpus contribution or a contribution towards revolving fund. A contribution made towards the capital or the corpus of an NGO is known as corpus contribution.
2. Section 11(1)(d) of the Income Tax Act 1961 also states that income in the form of voluntary contributions made with a specific direction that they shall form part of the corpus of the trust or institution shall not be included in the computation of total income.
3. The objective of a contribution or grant towards a Revolving Fund is to rotate the amount by giving temporary loans from the fund to other NGO or beneficiaries for their projects and then recover the loan so as to give temporary loans again and so on. However, any interest earned from the beneficiary on such temporary loans from the revolving fund could be either added back to the fund or credited to the Income and Expenditure Account as per the conditions or rules or regulation of NGO.
4. Donations and grants received for acquisition of specific fixed assets.
5. Many a times NGOs receive contributions in kind. These contributions include assets such as land, buildings, vehicles, office equipment, etc. and articles related to programmes / projects.

The areas of application of funds for an NGO include Establishment Costs, Office and Administrative Expenses, Maintenance Expenses, Programme / Project Expenses, Charity, Donations and Contributions given, etc.

Audit of a Sole Trader

- A sole trader is under no legal obligation to have his accounts audited.
- However, many such individuals get their FS audited due to regulatory requirements, such as on a specific instructions of the bank for approval of loans, etc.
- In case of sole proprietor the scope and other conditions of audit are stipulated by the sole proprietor.
 - Auditors of sole proprietary concern shall be appointed by the sole proprietor himself.
 - In case of change of auditor, it would be the duty of the incoming auditor to communicate with the previous auditor.

Audit of Partnership Firms

Basics

- Appointed by the partners
 - either on the basis of a decision taken by them or
 - to comply with a condition in the partnership agreement.
- Remuneration also fixed by the partners.
- In case of change of auditor, it would be duty of incoming auditor to communicate with the previous auditor. (CA Final Professional Ethics)
- The auditor may, particularly, ensure application of accounting standards prescribed by the Institute.
- In case the firm is required to get its accounts audited under the requirements of any statute, the auditor will have to qualify the report in case of non-compliance with the accounting standards.
- Alternatively, only disclosure of non-compliance with the accounting standards, would be sufficient without making it a subject matter of qualification.

Matters to be considered before starting audit

Also, before starting the audit, he should examine the partnership agreement and note the provisions therein as regards the following matters:

1. The name and style under which the business shall be conducted.
2. The duration of the partnership, if any, that has been agreed upon.
3. The amount of capital that shall be contributed by each partner—whether it will be fixed or could be varied from year to year.
4. The period at the end of which the accounts of the partnership will be closed periodically and profit or loss sharing ratio of partners.
5. The provisions as regards maintenance of books of account and the matters which must be taken into account for determining

the profits of the firm available for division among the partners e.g., creation of reserves, provision for depreciation, etc. also the period within which accounts can be reopened for correcting a error.

6. Borrowing capacity of the partnership (when it is not implied as in the case of non-trading firms).
7. The rate at which interest will be allowed on the capitals and loans provided by partners and the rate at which it will be charged on their drawings and current accounts.
8. Whether any salaries are payable to the partners or withdrawals are permitted against shares of profits and, if so, to what extent?
9. Duties of the partners as regards the management of business of the firm; also, the partners who shall act as managing partners.
10. Who shall operate the bank account of the firm? How will the surplus funds of the partnership be invested?
11. Limitations and restrictions that have been agreed upon, the rights and powers of partners and on their implied authority related to business of the firm.

Advantages of audit of accounts of a partnership firm

Advantages are as follows

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

Important points which auditors will consider while conducting audit of accounts of a partnership firm are:

1. Confirming that the letter of appointment, signed by a partner, duly authorised, clearly states the nature and scope of audit contemplated by the partners, specially the limitation, if any, under which the auditor shall have to function.
2. 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 etc
3. Verifying that the business in which the partnership is engaged is authorised by the partnership agreement
4. Examining whether books of account appear to be reasonable and are considered adequate in relation to the nature of the business of the partnership.

5. 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.
6. 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.
7. Verifying that the profits and losses have been divided among the partners in their agreed profit-sharing ratio.

Audit of LLP

Basics

- LLP is governed by the Limited Liability Partnership Act 2008.
- It is a form of business organisation having the advantages of both the Company and Partnership forms of Organisation.
- Minimum of 2 Partners can form an LLP and at least two partners would be Designated Partners who would be required to take DPIN (Designated Partner Identification Number)
- The Partners in an LLP and their rights and duties are governed by way of an agreement between them .

Definition of Small LLP

Any LLP

- a. the Contribution of which, does not exceed ₹ 25,00,000 or such higher amount, not exceeding ₹ 5 crore, as may be prescribed; and
- b. the Turnover of which, as per the Statement of Accounts and Solvency for the immediately preceding financial year, does not exceed ₹ 40,00,000 or such higher amount, not exceeding ₹ 50 crore, as may be prescribed;

Books of Accounts

LLP's are required to maintain books of accounts which shall contain-

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

Audit of the Accounts of an LLP

- The accounts of every LLP shall be audited in accordance with Rule 24 of LLP, Rules 2009.
- 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 rule.

Appointment of Auditor

- The auditor may be appointed by the designated partners of the LLP –
 - a. At any time for the first financial year but before the end of first financial year.
 - b. At least thirty days prior to the end of each financial year (other than the first financial year),
 - c. To fill the casual vacancy in the office of auditor,
 - d. To fill the casual vacancy caused by removal of auditor.
- The partners may appoint the auditors if the designated partners have failed to appoint them.

Auditor's Duty Regarding Audit of LLP

Engagement Letter

- The auditor should get definite instructions in writing as to the work to be performed by him.

Minutes Book

- If partners maintain minute book he shall refer it for any resolution passed regarding the accounts

LLP Agreement

The auditor should read the LLP agreement & note the following provisions

- 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.
- 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

The auditor should mention

- 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.

Advantages / Purpose / Need of Audit

1. Detection of errors & frauds
2. Resolving disputes among the partners in relation to accounting matters.
3. Verification of FS and better reliability for the purpose of taking loans etc.
4. Better Compliance and Management

- Periodical visits & suggestions by the auditor will be helpful in improving the management of the LLP.

5. **Reconstitution**

- For **settling accounts** between partners at the time of admission, death, retirement, insolvency, insanity, etc audited accounts are accepted by those concerned who have dealings with the LLP.

Returns to be maintained and filed by an LLP

- 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.
- Every LLP is also required to submit **Statement of Account** and **Solvency** in **Form 8** which shall be filed within a period of **30 days** from the end **of six months the financial year** to which the Statement of Account and Solvency relates.

Audit of Charitable Institution

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

General Constitution

Studying the constitution under which the charitable institution has been set up.

Managed As Per Law

Verifying whether the institution is being managed in the manner prescribed by the law under which it has been set up.

Internal Check

Examining the system of internal check, especially as regards accounting of amounts collected.

Verify Income

Verifying in detail the income and confirming that the amounts received have been deposited in the bank regularly and promptly.

Trust Deed / Regulations

Examine the Trust Deed or the Regulations as laid down.

Subscriptions and donations

Change In Amount

Ascertaining, if any, the changes made in amount of annual or life membership subscription during the year.

Whether official receipts are issued

- CONTROL – UNUSED**
 - confirming that adequate control is imposed over unused receipt books;
- OBTAIN ALL**
 - obtaining all receipt books covering the period under review;

c. **COUNTERFOILS – CANCELLED SPECIALLY**

- test checking the counterfoils with the cash book; any cancelled receipts being specially looked into;

d. **PRINTED LIST – S&D – Agreeing**

- obtaining the printed list of subscriptions and donations and agreeing them with the total collections shown in the accounts;

e. **INTERNAL CHECK – BOX COLLECTION, FLAG DAY**

- examining the system of internal check regarding moneys received from box collections, flag days, etc. 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. **RECEIVED WITH PUBLISHED**

- verifying the total subscriptions and donations received with any figures published in reports, etc. issued by the charity.

Legacies (Amount Received – Corresponding Figures, other information)

Verifying the amounts received by reference to correspondence with any figures and other available information.

Grants

1. Vouching the **amount received** with the relevant **correspondence, receipts** and **minute books**.
2. Obtaining a **certificate** from a responsible official showing the amount of grants received.

Investments Income

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

Rent

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

Special functions, etc.

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. In particular, verifying that the proceeds of all tickets issued have been accounted for, after making the allowance for returns.

Income Tax Refunds

Where income-tax has been deducted from the Investment income, it should be seen that a refund thereof has been obtained since charitable institutions are exempt from payment of Income-tax. This involves

1. vouching the Income-tax refund with the correspondence with the Income- tax Department; and
2. checking the calculation of the repayment of claims.

Expenditure

1. Vouching payment of grants, also verifying that the grants have been paid only for a charitable purpose or purposes falling within the purview of the objects for which the charitable institution has been set up and that no trustee, director or member of the Managing Committee has benefitted there from either directly or indirectly.
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. 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.
4. Verifying the cash and bank payments.
5. Ascertaining that any funds contributed for a special purpose have been utilised for the purpose.

Audit of Educational Institution – School, College, University

The special steps involved in their audit are the following–

General

- Examine the Trust Deed or Regulations, in the case of school or college and note all the provisions affecting accounts.
- In the case of a university, refer to the Act of Legislature and the Regulation framed thereunder.
- 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.

Fee from Students

- 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

- 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.
- 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.
- 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.
- 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.
- 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.

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; also 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.

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 as contained in the minute book.
- Vouch, in the usual manner, all establishment expenses and enquire into any unduly heavy expenditure under any head. If there was any annual budget prepared, see that any excess under any head over the budgeted amount was duly sanctioned by the Managing Committee. If not, bring it to the Committee's notice in your report.
- See that increase in the salaries of the staff have been sanctioned and minuted by the Committee.

Assets & Liabilities

- **Report** any **old heavy arrears** on account of **fees**, dormitory rents, etc. to the Managing Committee.
- **Confirm** that **caution money** and other deposits paid by students on admission, have been shown as **liability** in the balance sheet not transferred to revenue, unless they are not refundable.
- **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.
- **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.
- **Verify** the **inventories** of furniture, stationery, clothing, provision and all equipment etc. These should be checked by reference to Inventory Register or corresponding inventories of the previous year and values applied to various items should be test checked.

Compliances

- **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.
- **Finally**, verify the annual statements of account and, while doing so see that separate statements of account have been prepared as regards Poor Boys Fund 🙏, Games Fund, Hostel and Provident Fund of staff, etc.

Audit of Hospital

The special steps involved in such an audit are as follows:

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.

Cash Collection

- Check cash collections as entered in the Cash Book with the **receipt**, **counterfoils** and other evidence for example, copies of patients bills, counterfoils of dividend and other interest warrants, copies of rent bills, etc.

Property and Investment

- 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 settled on the hospital has been collected.

Specific Purpose Legacies and Donations

- **Ascertain** that legacies and donations received for a **specific purpose** have been applied in the manner agreed upon.

Collection From Cash Book To Register

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

Purchases and Expenses

- **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**.

Grants From Government and Refund Of Taxes

- Verify that grants, if any, received from **Government** or **Local** authority have been duly **accounted** for. Also that **refund** in respect of taxes deducted at source has been **claimed**.

Compare Actual Vs. Budgeted

- 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.

Internal Check For Receipts and Issues

- Examine the internal check as regards the receipts and issue of **stores**, **medicines**, apparatus, clothing, instruments, etc. so as to insure that purchases have been properly recorded in the Stock Register and that issues have been made only against proper authorisation.

Depreciation – Appropriate Rates

- See that **depreciation** has been written off against all the assets at the appropriate rates.

Bonds, Shares, Properties (Inspect and Compare)

- Inspect the **bonds**, share scripts, title deeds of properties and **compare** their particulars with those entered in the Property and Investment **Register**.

Inventories

- Obtain inventories, specially 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.

Management Representation and Certificate

- Get proper Management Representation and Certificate with respect to various aspects covered during the course of audit.

Audit of Club

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

Entrance Fee

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.

Subscriptions

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

Arrears of Subscriptions

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.

Arithmetical accuracy

Check totals of various columns of the Register of members and tally them across.

Irrecoverable Member Dues

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.

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 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.

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. The inventory of unsold provisions and stores, at the end of year, should be verified physically and its valuation checked.

Inventories

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.

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.

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

The special steps involved in its audit are as follows:-

1. Verify the internal control mechanism-
 - a. that entrance to the cinema hall during show is only through printed tickets;
 - b. that they are serially numbered and bound into books;
 - c. that tickets for each class is different;
 - d. that for advance booking a separate series of tickets is issued;
 - e. and that the stock of tickets is kept in the custody of a responsible official.
2. Confirm that at the end of show, a statement of tickets sold is prepared and cash collected is agreed with it.
3. Verify that a record is kept of the 'free passes' and that these are issued under proper authority.
4. Reconcile the amount of Tax collected with the total number of tickets issued for each class and vouch and verify the tax returns filed each month
5. Verify the charges collected for advertisement slides by reference to the Register of Slides kept at the cinema as well with the agreements, entered into with advertisers in this regard.
6. Vouch the expenditure incurred on advertisement, repairs and maintenance. No part of such expenditure should be capitalised except redecoration, and that should be adjusted as deferred revenue expenditure the expenditure on extensive redecoration, and that should be adjusted as deferred revenue expenditure.
7. Confirm that depreciation on machinery and furniture has been charged at an appropriate rate.
8. Vouch payments on account of film hire with bills of distributors and in the process, the agreements concerned should be referred to.
9. 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 enquire 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.

10. 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, cigarettes, etc. as in the case of club.

Auditing of Leasing Transaction

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:
 - 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, 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.

Types of Lease Agreements

Criteria	Operating Lease	Financial Lease
Examples	Computers, Laptops, Coffee Dispensers	Land, Building, Plant, Machinery
Asset Ownership	Stays with lessor	May transfer to lessee at end
Accounting	Seen as renting; payments are expenses	Seen as a loan; assets/liabilities recorded by lessee
Buy Option	No purchase option	Purchase option at reduced value
Expenses Responsibility	Lessee covers lease payments only	Lessee responsible for additional costs, repair maintenance etc
Tax Advantages	Payments treated as expenses; no depreciation	Interest and depreciation deductible

Auditing of Hire Purchasing Companies

Hire-purchase agreement means an agreement under which goods are let on hire and under which the hirer has an option to purchase them in accordance with the terms of the agreement

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

1. Check Memorandum of Association – Object clause to ascertain whether the hire purchase business can be carried on by company
2. Hire purchase agreement is in writing and is signed by all parties.
3. Before signing the HP agreement credit worthiness must be evaluated, auditor will check whether proper policy and procedure exist for the same and whether they are followed are not.
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, upon which it is payable, and the person to whom and the place where it is payable.
5. Ensure that instalment payments are being received regularly as per the agreement
6. Ensure that adequate resolution has been passed authorizing a particular director to execute the hire purchase agreement.

7. Explain the adequacy of provision for doubtful debts against the hire purchase debtors
8. Examine the case of repossession of goods and their treatment afterwards. Check how and when they were sold or disposed.
9. Check whether accounting treatment of amount due, amount received, loss on repossession and other related items are done as per applicable financial reporting framework.

Auditor should also understand the following w.r.t Hire Purchase and design his audit procedures accordingly

1. Possession of goods is delivered by the owner thereof to a person on condition that such person pays the agreed amount in periodical instalments.
2. The property in the goods is to pass to such person on the payment of the last of such instalments.
3. Such person has a right to terminate the agreement at any time before the property so passes

Auditing of Hotels

The special considerations in a hotel audit can be summarised as follows

Internal Controls

Pilfering

- Pilfering is a major problem in hotels, making internal control crucial.
- Management is responsible for introducing controls to minimise leakage.

Trading Accounts and Profit Percentages

- Regular trading accounts for each sales point help monitor success.
- The auditor should review these accounts, examining deviations and obtaining explanations.

Revenue Cycle Controls

- Auditors should verify restaurant bills with K.O.T. (Kitchen Order Tickets) or basic records, ensuring proper controls are in place.

Tax Compliance

- Auditors need to ensure taxes collected on food and occupation are paid to proper authorities.

Auditor's Challenges

- Weak internal controls pose a serious problem for auditors.
- They must rely on the gross margin shown by accounts, which may lead to increased audit tests and possible report qualifications if discrepancies remain unexplained.

Room Sales & Hall Bookings

Room Sales and Guest Bills

- Room sales charges are posted by receptionists, front office, or night auditor in large hotels.
- Audit tests should ensure correct guest numbers are charged for the correct period.
- Investigating differences between charged and standard room rates to ensure that they have been properly authorised.

Housekeeper's Daily Report

- Housekeepers prepare daily reports of occupied rooms and beds.
- Auditors need sufficient reports to test against guest registers and individual bills.

Valuation of Occupancy-in-Progress

- Auditors should ensure proper valuation of occupancy-in-progress at the balance sheet date.

Records for Booking Halls and Premises

- Proper records for booking halls and premises for special parties should be maintained.
- Auditors must ensure recovery is based on the tariff.

Inventories

Hotel inventories, especially food and beverage, are readily portable and saleable. Proper documentation of all inventory movements and transfers is crucial for control over individual stores' areas and sales points. Following points must be considered by the auditors

- All movement and transfer of inventories must be properly documented.
- 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.
- Many hotels use specialized professional valuers to count and value the inventories on a continuous basis throughout the year.
- 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..

Fixed Assets

Fixed Assets Accounting Policies

- Hotels may have different accounting policies for fixed assets like silverware and cutlery.
- Auditors should ensure detailed definitions of inventory items and test adherence to these definitions.

Expenditure Classification

- Auditors should verify that costs for repairs, minor renovations, and redecoration are treated as **revenue** expenditure.
- Costs for major alterations and additions to the hotel building and facilities should be **capitalized**.

Casual Labour

Casual Labour in Hotel Trade

- The hotel industry heavily relies on casual labour with often inadequate wage payment records.
- Auditors should ensure no defalcation occurs by suggesting proper controls to management

Travel Agents & Shops

Ledgers from Travel Agents and Booking Agencies

- Auditors must ensure that money is recovered from travel agents or booking agencies according to the **terms of credit** allowed.
- Commission paid to these agents should be checked by referring to the relevant **agreements**.

Audit of Co-Operative Society

Background

Audit of Co-Operative Society		
Background	The Co-operative Societies Act, 1912, a Central Act, contains the fundamental law regarding the formation and working of the cooperative societies in India and is applicable in many states with or without amendments. In many states, viz., Maharashtra, West Bengal, Orissa, the co-operative societies are governed by specific state Acts.	
What is cooperative society	Co-operative society is a business organisation	
	with a special mode of doing business,	by pulling together all the means of production cooperatively, elimination of middlemen and exploitation from outside forces.

Chartered Accountant's Role – Professional Services Offered

1. Guidance in accounts writing
2. Installation of accounting system
3. Internal audit
4. Management accounting services
5. Taxation

Audit as per Section 17 of the Co-Operative Societies Act, 1912

- A. Registrar's Responsibility
 - Audit accounts of every registered society **annually**
 - Authorize a person for conducting the audit
- B. Audit Scope
 - Examination of **overdue debts**
 - **Valuation** of **assets** and **liabilities**
- C. Access to Records
 - **Registrar**, Collector, or authorized person has **access** to **all** books, accounts, papers, and securities
 - Society officers to **furnish required information** on transactions and working.

Key Points for Co-operative Society Audit

Qualifications of Auditors

- Chartered **Accountant** as per Chartered Accountants Act, 1949
- Some of the **state co-operative acts – Government diploma** in co-operative accounts or co-operation and accountancy
- Experience as an auditor in the co-operative department of a government

Appointment of the Auditor

- Appointed by the **Registrar** of Co-operative Societies
- Conducts audit on **behalf** of the Registrar
- Submits **report to** both Registrar and society
- Audit **fees** paid by the society based on statutory scale prescribed by the Registrar

Books, Accounts, and Other Records

- Section 43(h) The Co-operative Societies Act, 1912 (Central Act) allows **state government** to frame rules for books and accounts to be kept by co-operative societies
 - Maintenance of Books and Accounts
 - Sums of **money** received and expended
 - **Sales** and **purchases** of goods
 - **Assets** and **liabilities** of the society
 - **Additional records** according to convenience and clarity
 - Daily Cash Sales Summary Register
 - Debtors Collection Register
 - Loans Recovery Register
 - Loan Disbursement Register

Restrictions on Share Holdings

- Watch for breaches relating to holding of shares
- No member of a society other than a registered society can hold such portion of the share capital of the society as would exceed a **maximum of 20%** of the total number of shares or of the value of shareholding to **₹1,000**
- Ensure bye-laws are not contrary to statutory provisions

Restrictions on Loans

- Loans **only to members** or
- other **registered societies** with special sanction from the Registrar
- Examine State Government **restrictions** on loaning powers

Restrictions on Borrowings

- Accept loans and deposits from non-members subject to bye-laws restrictions and limits

Investment of Funds

- According to section 32 of the Central Act, a society may invest its funds in any one or more of the following:
 - In the Central or State Co-operative **Bank**.

- In any of the securities specified in section 20 of the Indian Trusts Act, 1882.
- In the shares, securities, bonds or debentures of any other society with limited liability.
- In any co-operative bank, other than a Central or State co-operative bank, as approved by the Registrar on specified terms and conditions.
- Other investment instruments as permitted by the Central or State Government.
- In the principal provision relating to the investments of funds of a co-operative society, the Central as well as State Acts does not mention anything about the investment of reserve fund outside the business specifically.

Appropriation of Profits

- Transfer a prescribed percentage of profits to Reserve Fund before distribution as dividends or bonus to members

Contributions to Charitable Purposes

- Registered society may, with the sanction of the Registrar, contribute up to 10% of net profits remaining after the compulsory transfer to the reserve fund.

Investment of Reserve Fund

- Use Reserve Fund in the business, invest as per provisions of the Act, or for public purposes promoting the object of the society.

Contribution to Education Fund

- Contribute annually towards the Education Fund of the State Federal Society, as per the class of the society
- Contribution to the Education Fund is a charge on profits and not an appropriation.

Special Features of Co-Operative Audit

Examination of Overdue Debts in Credit Societies

1. Classification of Overdue Debts:
 - 6 months to 5 years
 - More than 5 years
2. Implications of Overdue Debts:
 - Affects working capital position
 - Impacts credit society's operations
3. Analysis of Overdue Debts:
 - Assess chances of recovery
 - Classify as good or bad debts
4. Auditor's Responsibilities:
 - Ensure proper provisions for doubtful debts
 - Evaluate the adequacy of provisions

Overdue Interest

1. Exclusion of Overdue Interest
 - Exclude from interest outstanding and accrued
 - Affects profit calculation

2. Definition of Overdue Interest
 - Interest accrued or accruing on overdue principal amounts
3. Practical Approach
 - Creation of an overdue interest reserve
 - Reduction of overdue interest credited to interest account

Writing off of Bad Debts

1. Maharashtra State Co-operative Rules, 1961
 - Writing off bad debts requires auditor's certification
2. Bad Debts and Irrecoverable Losses
 - Must be certified as bad debts or irrecoverable losses by the auditor, if required by law
 - If not required by law, managing committee of the society must authorize the write-off

Valuation of Assets, Liabilities

1. Valuation of Assets
 - No specific provision under the act
 - Follow general accounting and auditing principles
 - Verify existence, ownership, and valuation
 - Fixed assets: cost less adequate provision for depreciation incidental expense must also be capitalised.
 - Current assets: cost or market price, whichever is lower
 - Note on market value, if significant difference
2. Valuation of Liabilities
 - Ensure all known liabilities are accounted for
 - Disclose contingent liabilities as a note

Adherence to Co-operative Principles

1. Adherence to Co-operative Principles:
 - Auditor will
 - Assess achievement of co-operative organization's objectives
 - Focus on extending benefits to members
 - Consider social benefits and sales at lower prices
2. Auditing of Expenses
 - Ensure economical spending and no wastage of funds
 - Avoid middlemen commissions
 - Follow principles of propriety audit

Observations of Provisions of the Act, Rules, and Bye-Laws

1. Auditor's Responsibilities:
 - Identify infringements of Co-operative Societies Act, Rules, and bye-laws
 - Assess financial implications of such infringements
 - Report infringements and their consequences
2. Dividend Restrictions:
 - Be aware of restrictions on dividend payments in certain State Acts
 - Ensure compliance with such restrictions

Verification of Members' Register and Examination of Pass Books

1. Examination of Member Pass Books
 - Review loan entries and repayments in members' passbooks
 - to confirm loan balances and
 - ensure accuracy in bookkeeping.

Special Report to the Registrar

1. Purpose of Special Report
 - Report serious irregularities in the society's working
 - Alert Registrar for necessary action
2. Instances Requiring Special Report
 - Personal Profiteering
 - By managing committee members in society transactions detrimental to society's interest
 - Fraud Detection
 - In expenses, purchases, property, and stores of the society
 - Mismanagement
 - Urban Co-operative Banks
 - Disproportionate advances to vested interest groups
 - Deliberate negligence in recovery
 - Reckless advancing with inadequate security and safeguards.

Audit Classification of Society

1. Auditor's Responsibility:
 - Award a class to the society based on overall performance
 - Use criteria specified by the Registrar
2. Appeal Process:
 - Society can appeal to the Registrar if dissatisfied with audit class
 - Registrar may direct a review of audit classification
3. Auditor's Consideration:
 - Exercise caution while determining the society's class

Discussion of Draft Audit Report with Managing Committee

1. Auditor's Responsibility:
 - Request Secretary to convene managing committee meeting
 - Discuss draft audit report with the committee
2. Importance of Discussion:
 - Avoid finalizing audit report without committee input
 - Settle and rectify minor irregularities
 - Discuss policy matters in detail

The Multi-State Co-operative Societies Act, 2002

- The Multi-State Co-operative Societies Act, 2002 applies to co-operative societies whose objects are not confined to one State.
- The Act contains detailed provisions regarding registration, membership and management of such societies.

- The funds of a Multi-State co-operative society cannot be utilised for any political purpose. The Act contains detailed provisions regarding the investment of funds and restrictions on loans, borrowings, etc.

Books of Accounts

As per Multi-State Co-operative Society Rules 2002, every Multi-State Co-operative society shall keep books of account with respect to

- a. all sum of money received and expended and matters in respect of which the receipt and expenditure take place;
- b. all sale and purchase of goods;
- c. the assets and liabilities;
- d. in the case of a Multi-State Co-operative society engaged in production, processing and manufacturing, particulars relating to utilization of materials or labour or other items of cost as may be specified in the bye-laws of such a society

Audit of Multi-State Co-operative Society

Qualification of Auditors

- 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 co-operative society-
 - A body corporate.
 - An officer or employee of the Multi-State co-operative society.
 - A person who is a member or who is in the employment of an officer or employee of the Multi-State co-operative society.
 - 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 ₹1,000

If an auditor becomes subject, after his appointment, to any of the disqualifications specified above, he shall be deemed to have vacated his office as such.

Appointment of Auditors

- Section 70 of the Multi-State Co-operative Societies Act, 2002 provides that the first auditor or auditors of a Multi-State cooperative society shall be appointed by the
 - board within one month of the date of registration of such society and the auditor so appointed shall hold office until the conclusion of the first annual general meeting.
 - If the board fails, society may appoint the first auditor at general meeting

- The subsequent auditor is appointed at each annual general meeting. The auditor so appointed shall hold office from the conclusion of that meeting until the conclusion of the next annual general meeting.

Power and duties of Auditors – Section 73

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.

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

- 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 MultiState co-operative society or its members,
- 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,
- Whether personal expenses have been charged to revenue account, and
- 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.

Content of Auditor's Report

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,
- which are laid before the Multi-State co-operative 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:
 - 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
 - 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
 - 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.
 - 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 cooperative society not visited by him.
 - Whether the report on the accounts of any branch office audited by a person other than the Multi-State co-operative society's auditor has been forwarded to him and how he has dealt with the same in preparing the auditor's report.
 - Whether the Multi-State co-operative society's balance sheet and profit and loss account dealt with by the report are in agreement with the books of account and return.

Where any of the matters referred above is answered in the negative or with a qualification, the auditor's report shall state the reason for the answer.

Power of Central Government to direct special audit in certain cases – Section 77

Where the Central Government is of the opinion

- 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
- 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
- that the financial position of any Multi-State co-operative society is such as to endanger its solvency.

Central Government's Order

The Central Government may at any time by order direct that a special audit of the Multi-State co-operative society's accounts for

such period or periods as may be specified in the order shall be conducted.

Appointment of the Auditor

It may appoint either a chartered accountant or the Multi-State co-operative society's auditor himself to conduct the special audit.

Shareholding Restriction

CG shall order for special audit only if that Government or the State Government either by itself or both hold 51% or more of the paid-up share capital in such Multi-State co-operative society.

Special Auditor's Powers, Duties & Report

- The special auditor shall have the same powers and duties in relation to the special audit as an auditor of a Multi-State co-operative society has under section 73.
- A special auditor makes the report to the Central Government
- The report of the special auditor shall include all the matters required to be included in the auditor's report under section 73 and any other matter as directed by the Central Government.

Action by the Central Government

- On receipts of the report of the special auditor the CG may take such action on the report as it considers necessary in accordance with the provision of the Act or any law for the time being in force.
- If no action is taken within 4 months, CG sends report or extracts with comments to the society.
- Society must circulate or read the report/extracts at the next general meeting.

Expenses pertaining to the Special Audit

The expenses of, and incidental to, any special audit under this section (including the remuneration of the special auditor) shall be determined by the Central Government which determination shall be final and paid by the Multi-State Co-operative society and in default of such payment, shall be recoverable from the Multi-State Co-operative society as an arrear of land revenue.

Inquiry by Central Registrar under Section 78

When & Who?

The Central Registrar may, on a request from :-

- a federal co-operative to which a Multi-State Co-operative society is affiliated or
- a creditor or
- not less than one-third of the members of the board or
- not less than one-fifth of the total number of members of a Multi-state co-operative society,
- Hold an inquiry or
- direct some person authorized by him
 - by order in writing in his behalf
 - to hold an inquiry into the

- constitutions,
- working and
- financial condition of a Multi-State Co-operative society.

Opportunity of being Heard – OOBH

However, before holding such inquiry fifteen days notice must be given to the Multi-State co-operative society.

Powers in case of investigation

The Central Registrar or the person authorized by him shall have the following powers, namely:

Free access and Summon

- he shall at all reasonable times have free access
- to the books, accounts, documents, securities, cash and other properties belonging to or in the custody of the Multi-State co-operative society and
- may summon any person in possession or responsible for the custody of any such books, accounts, documents, securities, cash or other properties to produce the same at any place specified by him.

Call General Meeting

- He may,
 - notwithstanding any bye-law specifying the period of notice for a general meeting of the Multi-State co-operative society,
- require the officers of the society to call a general meeting of the society
- by giving notice of not less than seven days
 - at such time and at the headquarters of the society
- to consider such matters as may be directed to him, and where the officers of the society refuse or fail to call such a meeting, he shall have power to call it himself.

Summon

- he may summon any person
 - who is reasonably believed by him to have any knowledge
 - of the affairs of the MSCOS
- to appear before him
- at any place
 - at the headquarters of the society or
 - any branch thereof and
- may examine such person on oath.

Follow up

The Central Registrar shall,

- within a period of 3 months of the date of receipt of the report,
- communicate the report of inquiry
 - to the MultiState co-operative society.

- the **financial institutions**, if any, to which the society is affiliated,
- and to the **person** or **authority**, if any at whose instance the inquiry is needed.

Inspection of Multi-State Co-operative societies under – Section 79 When & Who?

The **Central Registrar** may, on a request from

- **federal co-operative** to which a Multi- State Co-operative society is affiliated or
- a **creditor** or
- not less than **one-third** of the **members** of the **board** or
- not less than **one-fifth** of the total number of **members** of a Multi-State co-operative society

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.

Opportunity of Being heard

No inspection shall be made unless a notice of not less than **15 days** has been given to the multi-state co-operative society.

Powers available

The Central Registrar or the person authorized by him shall have the following powers:

Access, Taking into custody , Verify, Calling of Meeting

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.

Entitled to Required Information

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.

Inspection Report

A copy of the report of inspection under this section shall be communicated to

- the Multi-State Co-operative society
- within a period of **3 months** from the date of completion of such inspection.

Audit of Trusts & Societies

Legal Framework of Charitable Entities

- The legal framework governing the charitable institution will depend on the form of business organization the charitable institution takes.
 - If the charitable institution is formed as a Public Trust, it will be governed by the Public Trust Act applicable in the relevant State. However, if no Public Trust Act exists in that state, then the applicable legislation will be the Indian Trusts Act, 1882.
 - If the charitable institution is formed as a Society, it will be governed by the Societies Registration Act, 1860.
 - The charitable institution can also be formed as a non-profit company under section 8 of the Companies Act, 2013.
- Apart from the above legislations,
 - Income Tax Act 1961 will be applicable to charitable institutions and
 - Foreign Contribution (Regulation) Act, 2010 will be applicable in the case of foreign contributions

Books of Account

The Auditor is required to report whether the Trust has maintained proper books of accounts, including the following, namely: -

1. **cash** book;
2. **ledger**;
3. **journal**;
4. **copies** of **bills**, whether machine numbered or otherwise serially numbered
5. **original bills** wherever issued to the person and receipts in respect of payments made by the person;
6. any **other** book that may be required to be maintained in order to give a true and fair view of the state of the affairs of the person and explain the transactions effected;

FSs

- Every year the trust has to prepare FS like the Balance sheet and Income and expenditure statements based on its books of accounts.
- The format for preparation and presentation of FS is prescribed under respective state laws.
- Charitable Organisations are governed by different laws as well as different forms of organisations also necessitate different accounting aspects to be complied.

Auditor's responsibility

- The auditor should obtain the **list** of the books and records maintained by the Trust. The list should be matched with the requirement for maintaining mandatory books and records as may be applicable in each case.

- The auditor has to comply with the Accounting Standards (AS) and Standards on Auditing (SA) prescribed and made mandatory by ICAI.
- The auditor shall use his professional skill and expertise and apply such audit tests as the circumstances of the case may require.
- The auditor shall conduct the audit by applying the generally accepted auditing procedures.
- The auditor can apply the test checks depending on the evaluation of internal control procedures
- The auditor shall keep in mind the concept of materiality depending upon the circumstances of each case.
- The auditor should keep detailed notes about the evidence on which he has relied upon and also maintain all his working papers.

Notes forming part of Working papers

Working papers should include notes on the following, amongst other matters:

1. work done while conducting the audit and by whom;
2. explanation and information given to him during the course of the audit and by whom;
3. decision on the various points taken;
4. judicial pronouncements relied upon by him while drafting the audit report; and
5. certificates issued by the client / management letters.

Nature of Working Papers

It is important that the audit working papers prepared and/or obtained by the auditor provide evidence that

1. the opinion expressed by the auditor is based on the examination made by him;
2. in arriving at his opinion, the auditor has given due cognizance to the information and explanations given by the assessee and that his opinion is not arbitrary;
3. the information and explanations obtained were full and complete that is, the auditor has called for all the information and explanations which were necessary to be considered before arriving at his opinion; and
4. the auditor did not merely rely upon the information or explanations given by the assessee but that he subjected such information and explanations to reasonable tests to verify their accuracy and completeness

Points that should be taken into account while conducting audit of Trusts

- a. Whether accounts are maintained regularly and in accordance with the provisions of the applicable Act and the rules;
- b. Whether receipts and disbursements are properly and correctly shown in the accounts and donations received is being applied as per the objects of the trust and as per the specific direction by the donor, if any.

- c. Whether the cash balance and vouchers in the custody of the manager or trustee on the date of audit were in agreement with the accounts;
- d. Whether all books, deeds, accounts, vouchers or other documents or records required by the auditor were produced before him;
- e. Whether a register of movable and immovable properties is maintained, the changes therein are communicated from time to time to the regional office, and the defects and inaccuracies mentioned in the previous audit report have been duly complied with and rectified.
- f. Whether the manager or trustee or any other person required by the auditor to appear before him did so and furnished the necessary information required by him;
- g. Whether any property or funds of the Trust were applied for any object or purpose other than the object or purpose of the Trust;
- h. Amounts of outstanding for more than one year and the amounts written off, if any;
- i. Whether any money of the public trust has been invested contrary to the provisions of applicable Act which have come to the notice of the Auditor
- j. Ascertain all cases of irregular, illegal or improper expenditure, or failure or omission to recover monies or other property belonging to the public trust or of loss or waste of money or other property thereof, and whether such expenditure, failure, omission, loss or waste was caused in consequence of breach of trust or misapplication or any other misconduct on the part of the trustees
- k. Whether the maximum and minimum number of the trustees is maintained;
- l. Whether the meeting are held regularly as provided in such instrument
- m. Whether the minute books of the proceedings of the meeting is maintained
- n. Whether any of the trustees has any interest in the investment of the trust
- o. Whether any of the trustees is a debtor or creditor of the trust.
- p. Whether anonymous donations received are properly accounted for and donations in cash are not received by the Trust over and above the prescribed limit of accepting cash donations.
- q. Whether the irregularities pointed out by the auditors in the accounts of the previous year have been duly complied with by the trustees during the period of audit
- r. Any special matter which the auditor may think fit or necessary to bring to the notice of the Deputy or Assistant Charity Commissioner

Points that should be taken into account while conducting audit of Societies

- a. The auditor should ascertain governing legislation of society i.e. Societies Registration act, 1860 or any applicable state law under which it has been registered.

- b. Object of society needs to be ascertained from its memorandum of association/bye laws.
- c. Ascertain whether society has obtained registration under Foreign Contribution (Regulation) Act, 2010 in case of foreign contributions.
- d. Ascertain whether it is also registered under relevant provisions of Income Tax Act which may make it eligible for tax exemption on its income.
- e. Obtain an understanding of internal control to design audit procedures with special reference to donations and various expenditures incurred.
- f. Evaluate appropriateness of accounting policies with special reference to donations and grants.
- g. In case some expenses incurred by society are reimbursed by donors, determine how these are recognized in FSs.
- h. Ascertain, if any inquiry has been held by Registrar under applicable law in the working or financial condition of society and its implications for auditor's opinion.
- i. Ascertain all cases of irregular, illegal or improper expenditure or failure or omission to recover monies or other property belonging to society or of loss or waste of money or other property thereof and whether such expenditure was caused in consequence of breach of trust or misapplication or any other misconduct on the part of governing body