

10. SPECIAL AUDIT

Q.No.1. Audit of sole trader. (B)

A) BACKGROUND:

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

B) ADVANTAGES OF AUDIT TO A SOLE TRADER:

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

SIMILAR QUESTIONS:

1. **How the audit is advantageous to Sole Trader? (PM)**
- A. Write above advantages

Q.No.2. AUDIT OF PARTNERSHIP FIRMS. (A) (PM, M13, M15 - 8M, M16 - 6M)

A) SPECIAL POINTS IN AUDIT OF A PARTNERSHIP FIRM:

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

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

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

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

SIMILAR QUESTIONS:

1. **Mention any eight special points which you as an auditor would look into while auditing the books of a partnership firm. (PM, MTP N17)**
 - A. Write point no. (A) in above.
2. **You are approached by a partnership firm to list out the advantages that will accrue to them, if the accounts are audited. State five important advantages. (PM, N14 RTP)**
 - A. Write point no. (B) in above.

Q.No.3. AUDIT OF LOCAL BODIES. (A) (PM, M 10 - 5M, M14 - 8M, M16 - 6M)

A) BACKGROUND:

1. A municipality can be defined as a unit of local self-government in an urban area.
2. **Local self-government:** By the term 'local self-government' is ordinarily understood as
 - a) The administration of a locality – a village, a town, a city or any other area smaller than a state –

- b) By a body representing the local inhabitants,
- c) Possessing fairly large autonomy,
- d) Raising at least a part of its revenue through local taxation and spending its income on services which are regarded as local and, therefore, distinct from state and central services.

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

The important objectives of audit are to report on

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

C) FINANCIAL ADMINISTRATION:

1. **Budgetary Procedure:**

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

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

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

2. **Expenditure Control:**

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

3. **Accounting System:**

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

D) AUDIT PROGRAMME:

1. **Appointment:** The external control of municipal expenditure is exercised by the state governments through the appointment of auditors to examine municipal accounts. The municipal corporations of Delhi, Mumbai and a few others have powers to appoint their own auditors for regular external audit. So the auditor should ensure authenticity of his appointment.
2. **Regularity audit:** The auditor should ensure that the expenditure incurred conforms to the relevant provisions of the law and is in accordance with the financial rules and regulations framed by the competent authority.
3. **Audit against sanctions:** He should ensure that all types of sanctions, either special or general, accorded by the competent authority.
4. **Audit against provision of funds:** He should ensure that there is a provision of funds and the expenditure is incurred from the provision and the same has been authorized by the competent authority.
5. **Performance audit:** The auditor should check that the different schemes, programmes and projects, where large financial expenditure has been incurred, are running economically and getting the expected results.
6. **Reporting:** The auditor has to report on,
 - a) The fairness of the content and presentation of financial statements.
 - b) The strengths and weaknesses of systems of financial control.
 - c) The adherence to legal and/or administrative requirements.
 - d) Whether value is being fully received on money spent and
 - e) Detection and prevention of error, fraud and misuse of resources.

SIMILAR QUESTIONS:

1. **State the background of "Local Bodies" and also Draft an audit programme for conducting audit of account of a Local Body. (PM)**
A. Write "background and "Audit programme" in above answer.
2. **Describe the salient features of Financial Administration of Local Bodies. (PM)**
A. Write "Financial administration" in above answer.
3. **State the important objectives of local body's audit. (PM M17- 4M)**
A. Write "objectives of Audit" in above answer.

Q.No.4. AUDIT OF NON-GOVERNMENTAL ORGANISATION (NGO). (B)
(PM, M13 - 8M, N10 - 4M)

A) BACKGROUND:

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

B) POINTS OF CONCENTRATION BY AUDITOR:

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

1. Knowledge of the NGO's work, its mission and vision, areas of operations and environment in which it operate.
2. Updating knowledge of relevant statutes including recent amendments, circulars, judicial decisions viz. Foreign Contribution (Regulation) Act 1976, Societies Registration Act, 1860, Income Tax Act 1961 etc.
3. Reviewing the legal form of the organization and its MOA, AOA, rules and Regulations.
4. Reviewing the NGO's Organization chart, Financial and Administrative Manuals, Project and Programme Guidelines, Funding Agencies Requirements and Formats, budgetary policies, if any.
5. Examination of minutes of the Board/Managing Committee/Governing Body/Management and Committees thereof to ascertain the impact of any decisions on the financial records.
6. Study the accounting system, procedures, internal controls and internal checks existing for the NGO and verify their applicability.

C) AUDIT PROGRAMME:

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

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

D) AUDIT OF RECEIPTS OF NGO:

(N14 RTP)

1. **Contribution and Grants:**

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

2. **Examination of internal controls:**

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

3. **Membership Fees:**

- Check fees received with membership register;
- To ensure proper classification is made between entrance and annual fees and life membership fees.
- Reconcile fees received with fees to be received during the year.

4. **Subscription:**

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

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

SIMILAR QUESTIONS:

1. **State any five special points which you, as an auditor, would look into while examining the income and collection of fund by an NGO engaged in providing relief work for flood victims.** (PM, N14 RTP)

A. Write "Audit of receipts" in above.

2. **Explain the audit procedure for conducting the audit of a NGO.** (PM, MTP N17)

A. Write above answer.

3. **Draft an audit Programme for audit of NGO?**

A. Write point no. (c) in above

4. **State any five special points that the auditor of NGO aims to concentrate while auditing the accounts of a NGO.**

A. Refer point no. B in above.

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

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

A) GENERAL:

1. Studying the constitution under which the charitable institution has been set up. It may be registered as a society under the Societies Registration Act, 1860, as a company limited by guarantee or as a trust.

2. Verifying whether the institution is being managed in compliance with the law under which it has been set up.

B) SUBSCRIPTIONS AND DONATIONS:

1. The auditor should obtain all receipt books covering the period under review and check whether that adequate control is imposed over unused receipt books.
2. Obtaining the and agreeing them with the total collections shown in the accounts with reference to the,
 - a) Acknowledgment receipts issued
 - b) Entries made in the in cash book
 - c) Printed list of subscriptions and donations, if any and
 - d) Any figures published in reports, etc, if any issued by the charity.
3. Examine the internal controls over collections and ensure that all collections have been fully accounted for and deposited in the bank regularly and promptly.
4. Ascertaining, if any, the changes made in amount of annual or life membership subscription during the year.

C) LEGACIES AND GRANTS:

1. Verify any Government or local authority grant with the relevant papers of grant. If any expense has been disallowed for purposes of grant, ascertain the reasons and compliance thereof.
2. Vouching the amount received with the relevant correspondence, receipts and minute books.

D) INVESTMENTS INCOME:

(M17 - 4M)

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

E) RENTS:

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

F) SPECIAL FUNCTIONS:

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

- G) INCOME TAX REFUNDS:** Confirm that the refund of taxes deducted from the income from investment (interest on securities, etc.) has been claimed and recovered since the institutions are generally exempted from the payment of income-tax.

H) EXPENDITURE:

1. Vouching payment of grants:

- Verifying that the grants have been paid only for a charitable purpose or purposes falling within the purview of the objects for which the charitable institution has been set up and

- No trustee, director or member of the Managing Committee has benefited there from either directly or indirectly.
2. Verifying the schedules of securities held, as well as inventories of properties both movable and immovable by inspecting the securities and title deeds of property and by physical verification of the movable properties on a test-basis.
 3. Verifying the cash and bank balances.
 4. Ascertaining that any funds contributed for a special purpose have been utilised for the purpose.

SIMILAR QUESTIONS:

1. How will you vouch the following in an audit of charitable institutions

- a) Subscriptions and donations. b) Legacies and grants.

A. Write point no. (B) and (C) in above.

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

(PM, N15 RTP, M12 - 8M, N 14 - 8M, RTP-M17)
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A) GENERAL:

1. **Examination of the basic documents:** Verify the Trust Deed or Regulations in the case of school or college and in the case of a university, refer to the Act of Legislature and the Regulations framed there under.
2. **Reading the minutes:** Read through the minutes of the meetings of the Managing Committee or Governing Body, noting resolutions affecting accounts to see
 - that these have been duly complied with
 - specially the decisions as regards the operation of bank accounts and sanctioning of expenditure.

B) FEE RECEIVED FROM STUDENTS:**(M 09 – 6M)**

1. Check names entered in the Students' Fee Register for each month or term, with the respective class registers, showing names of students on rolls and test amount of fees charged.
2. Check fees received by comparing counterfoils of receipts granted with entries in the cash book and tracing the collections in the Fee Register to confirm that the revenue from this source has been duly accounted for.
3. Total up the various columns of the Fees Register for each month or term to ascertain that fees paid in advance have been carried forward and the arrears that are irrecoverable have been written off under the sanction of an appropriate authority.
4. Check admission fees with admission slips signed by the head of the institution and confirm that the amount had been credited to a Capital Fund, unless the Managing Committee has taken a decision to the contrary.
5. See that free studentship and concessions have been granted by a person authorized to do so, having regard to the prescribed Rules.
6. Verify that there operates a system of internal check which ensures that demands against the students are properly raised.
7. Confirm that finer for late payment or absence, etc., have either been collected or remitted under proper authority.
8. Confirm that hostel dues were recovered before students' accounts were closed and their deposits of caution money refunded.
9. Report any old heavy arrears on account of fees, dormitory rents, etc, to the Managing Committee.

10. Confirm that caution money and other deposits paid by students on admission have been shown as liability in the balance sheet and not transferred to revenue.

C) LEGACIES, GRANTS AND DONATIONS:

1. Verify any Government or local authority grant with the relevant papers of grant. If any expense has been disallowed for purposes of grant, ascertain the reasons and compliance thereof.
2. Vouching the amount received with the relevant correspondence, receipts and minute books.
3. Vouch donations, if any, with the list published with the annual report. If some donations were meant for any specific purpose, see that the money was utilized for the same purpose.

D) INVESTMENTS INCOME:

1. Vouching the amounts received with the counterfoils of dividend and interests and schedule of investments by making special enquiries into any investments held for which no dividend or interest has been received. And also inspect securities physically.
2. Checking that the appropriate dividend has been received subsequently where any investment has been sold ex-dividend or purchased cum-dividend.
3. See that the investments representing endowment funds for prizes are kept separate and any income in excess of the prizes has been accumulated and invested along with the corpus.

E) RENTS:

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

F) INCOME TAX REFUNDS: Confirm that the refund of taxes deducted from the income from investment (interest on securities, etc.) has been claimed and recovered since the institutions are generally exempted from the payment of income-tax.

G) EXPENDITURE:

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

SIMILAR QUESTIONS:

1. Mention the special steps involved in the audit of an Educational Institution. (PM)

A. Write above answer.

2. How will you verify fees received from students in case of Educational institution?

A. Write point no. (B) in above answer

3. What are the special steps involved in conducting the audit of a university?

A. Refer Above Answer.

(N15 - RTP)

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

(PM, N17 – 6M, N15 RTP, M16 RTP, M11- 8M, M14 – 8M, N12 – 8M)

A) RECEIPTS FROM PATIENTS:

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

B) INVESTMENTS INCOME:

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

C) LEGACIES, GRANTS AND DONATIONS:

1. Verify any Government or local authority grant with the relevant papers of grant. If any expense has been disallowed for purposes of grant, ascertain the reasons and compliance thereof.
2. Vouching the amount received with the relevant correspondence, receipts and minute books.
3. Vouch donations, if any, with the list published with the annual report. If some donations were meant for any specific purpose, see that the money was utilized for the same purpose.

D) SUBSCRIPTIONS:

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

E) EXPENDITURE:

1. Verify that the capital expenditure was incurred only with the prior sanction of the Trustees or the Managing Committee and that appointments and increments to staff have been duly authorized.
2. Compare the totals of various items of expenditure and income with the amount budgeted for them and report significant variations which have taken place.
3. Examine the internal check as regards the receipt and issue of stores; medicines, linen, apparatus, clothing, instruments, etc. so as to ensure that purchases have been properly recorded in the Inventory Register and that issues have been made only against proper authorization.

4. Obtain inventories, especially of stocks and stores as at the end of the year and check a percentage of the items physically; also compare their total values with respective ledger balances.
5. See that depreciation has been written off against all the assets at the appropriate rates.

SIMILAR QUESTIONS:

1. What are the special audit points to be considered by the auditor during the audit of a Hospital? (PM, RTP N17, M 16 RTP)
 - A. Write above answer
2. What steps would you take in to consideration in Auditing the receipts from patients of a Hospital? (PM)
 - A. Write "Receipts from patients" in above
3. Mention any ten special points to be examined by you in the audit of Income and Expenditure of a charitable institution running a hospital. (PM,N16 RTP, M15 RTP)
 - A. Refer point no. A and E in above.

Q.No.8. AUDIT OF CLUB.**(B)****(PM, N10 - 8M, N11 - 8M)**

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

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

- A) **GENERAL:** Examine the constitution, powers of governing body and relevant rules relating to preparation and finalization of accounts. In case, it is constituted as a company limited by guarantee, application of provisions of the Companies Act, 2013 should also be seen.
- B) **FEE FROM MEMBERS:**
 1. Vouch the receipt on account of entrance fees with member's applications, counterfoils issued to them, and minutes of the Managing Committee.
 2. Vouch Members' subscription with the counterfoils of receipts issued to them. Trace receipts for a selected period to the Register of Members; reconcile the amount of total subscription due with the amount collected and the outstanding.
 3. Check totals of various columns of the Register of Members and tally them across.
 4. See the Register of Members to ascertain the Member's dues which are in arrear and enquire whether necessary steps have been taken for their recovery. The amount considered irrecoverable, if any should be written off.
 5. Ensure that arrears of subscriptions for the previous year have been correctly brought over and arrears for the year under audit and subscription received in advance have been correctly adjusted.
 6. Verify the internal check as regards members being charged with the price of foodstuffs and drinks provided to them and their guests as well as with the fees chargeable for the special service rendered such as billiards, tennis, etc.
 7. Trace debits for a selected period from subsidiary registers maintained in respect of supplies and services to members to confirm that the account of every member has been debited with amounts recoverable from him.
- C) **INVESTMENTS:** Inspect the share scrips and bonds in respect of investments, check their current values for disclosure in final accounts, also ascertain that the arrangements for their safe custody are satisfactory, check the accrual of income therefrom and provision of income tax thereon.

D) EXPENDITURE:

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

SIMILAR QUESTIONS:

1. **Draft an Audit Programme to audit the accounts of a Recreation Club with facilities for indoor games and in-house eating.** (PM, RTP N17)
A. Write above answer.
2. **Draft an Audit Programme to audit the fees received from members in case of audit of club?**
A. Write point no. (B) in above.

Q.No.9. AUDIT OF CINEMA HALLS.

(C)

(PM, M 11 – 8M)

A) AUDIT OF RECEIPTS FROM DAILY SHOW COLLECTIONS:

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

B) INCOME FROM ADVERTISEMENT: Verify the charges collected for advertisement slides and shorts by reference to the Register of Slides and Shorts Exhibited kept at the cinema as well with the agreements, entered into with advertisers in this regard.

C) RESTAURANT INCOME:

1. The arrangement for collection of the share in the restaurant income should be enquired into either a fixed sum or a fixed percentage of the taking may be receivable annually.

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

D) EXPENDITURE:

1. Vouch the expenditure incurred on advertisement, repairs and maintenance. No part of such expenditure should be capitalized.
2. Vouch the expenditure incurred on publicity of picture, electricity expenses etc.
3. Confirm that depreciation on machinery and furniture has been charged at appropriate rates which are higher, as compared to those admissible in the case of other businesses, in respect of similar assets.
4. Vouch payment of film hire with reference to agreement with distributor or producer.
5. Examine unadjusted balance out of advance paid to the distributors against film hire contracts to see that they are good and recoverable. If any film in respect of which an advance was paid has already run, it should be enquired as to why the advance has not been adjusted. The management should be asked to make a provision in respect of advances that are considered irrecoverable.

SIMILAR QUESTIONS:

1. **What special steps are involved in audit of a Cinema Hall?** (PM)
A. Write the above answer.
2. **Draft an audit programme to Audit the receipts from daily show collections in case of audit of cinema hall.**
A. Write point no. (A) in above.
3. **Draft an audit programme to audit the receipts of a cinema theatre owned by a partnership firm.** (PM)
A. Write point no. (A) in above.

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

(PM, N 09 – 5M)

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

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

B) ROOM SALES AND CASH COLLECTIONS:

1. The charge for room sales is made from the guest register, and tests are to be carried out to ensure that the correct numbers of guests are charged for the exact period of stay.
2. The total sales reported with the total bills issued at various sales points have to be reconciled.

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

SIMILAR QUESTIONS:

1. What special steps will you take into consideration in auditing the accounts of a hotel? (PM, RTP N17)
 - A. Write the above answer
2. Draft an audit programme to audit the receipts from room collections in case of audit of hotels?
 - A. Write point no. (B) in above.

Q.No.11. AUDIT OF LEASING COMPANY. (B)**(PM, N15 RTP)**

1. The object clause of leasing company to see that the goods like capital goods, consumer durables etc. in respect of which the company can undertake such activities. Further, to ensure that whether company can undertake financing activities or not.
2. Whether there exists a procedure to ascertain the credit analysis of lessee like lessee's ability to meet the commitment under lease, past credit record, capital strength, availability of collateral security, etc.
3. The lease agreement should be examined and the following points may be noted:
 - a) the description of the lessor, the lessee, the equipment and the location where the equipment is to be installed. (The stipulation that the equipment shall not be removed from the described location except for repairs. For the sake of identification, the lessor may also require plates or markings to be attached to the equipment).
 - b) the tenure of lease, amount of lease rentals, dates of payment, late charges, deposits or advances etc. should be noted.
 - c) whether the equipment shall be returned to the lessor on termination of the agreement and the cost shall be borne by the lessee.
 - d) whether the agreement prohibits the lessee from assigning the subletting the equipment and authorises the lessor to do so.
4. Examine the lease proposal form submitted by the lessee requesting the lessor to provide him the equipment on lease.
5. Ensure that the invoice is retained safely as the lease is a long-term contract.
6. Examine the acceptance letter obtained from the lessee indicating that the equipment has been received in order and is acceptable to the lessee.
7. See the Board resolution authorising a particular director to execute the lease agreement has been passed by the lessee.
8. See that the copies of the insurance policies have been obtained by the lessor for his records.

SIMILAR QUESTIONS:

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

Q.No.12. AUDIT OF HIRE-PURCHASE COMPANY: (C) (FOR STUDENTS SELF STUDY)

1. The object clause of hire-purchasing company to see that the goods like capital goods, consumer durables etc. in respect of which the company can undertake such activities. Further, to ensure that whether company can undertake financing activities or not.

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

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

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

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

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

SIMILAR QUESTIONS:

1. Mention the special points in the case of an audit of the entity from Incomplete Records. (PM)

A. Write the above answer.

APPLICATION ORIENTED QUESTIONS

Q.No.14. What special steps will you take into consideration in auditing the receipts from entry fees of an amusement park? Mention any four point's specific to the issue.

(B)

(PM)

Audit of receipts from Entry Fees of an Amusement Park:

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

Q.No.15. Medical Council of India organised a three-day International Conference of Doctors in Delhi. You are asked to audit the accounts of the conference. Draft the audit programme for audit of receipt of participation fees from delegates to the conference. Mention any six points, peculiar to the situation, which you will like to include in your audit programme. (A)

(PM)

Audit of Receipts of Participation Fees:

1. Internal Control System

- a) Examine the organization structure of special cell created for the International Conference, if any, and division of responsibilities amongst persons and control/custody over receipt books.

- b) Verify the internal control system for restricting the participation of unregistered delegates.

2. Rate of Participation Fees

- a) Verify with reference to resolution passed by the Organizing Committee/Medical Council of India.
- b) Also verify the rate from the literature/registration form circulated for promotion of conference.

3. Receipts of Participation Fees

- a) Verify counter foil of the receipts issued for individual registration.
- b) Ensure that receipts are issued for all the registration received in cash.
- c) Trace the receipts in Bank Statement or Cash Book – as the case may be.
- d) Verify Bank Reconciliation Statement and list out dishonoured cheques.
- e) Verify subsequent recovery in respect of dishonoured cheques.

4. **Foreign Delegates:** In case of foreign delegates – if registration fees are higher – ensure that they are registered at higher fees.

5. Special Issues

- a) Take out list of absentees and in case of nil absentees, probe the issue further.
- b) If certain participants are exempted from payment of fees – obtain the list along with proper authorization in this regard.

Q.No.16. The Vidhwat College, an institution managed by Dayal Trust, has received a grant of Rs. 1.35 crore from Government nodal agencies for funding a project of research on rural health systems in India. Draft an audit programme for auditing this fund in the accounts of the college. (A) (PM)

Audit Programme for Audit of Grant Fund of a College:

1. The auditor should obtain the basic documents about the constitution of the college, objectives of the trust, rules of college etc.
2. The government policy on grant should be checked with the relevant application, brochure, and sanction advices.
3. The conditions stipulated in award of grant should be studied.
4. The purchase of capital items covered within the project should be correctly capitalized. The same should be properly and distinctly shown in the balance sheet of the college. The cost of the asset should be adjusted for the grant amount.
5. The expenses should be accounted as withdrawal of amounts from the fund. It is to be checked that these expenses are not accounted in income and expenditure of the college.
6. In balance sheet, the fund account should be shown as a liability with a separate schedule indicating the receipts, payments and balance as on the date of closing of accounts.

Q.No.17. Mention the special points to be examined by the auditor in the audit of a charitable institution running hostel for students pursuing the Chartered Accountancy Course and which charges only Rs. 500 per month from a student for his lodging/boarding. (B) (PM)

1. General

- a) Study the constitution under which the charitable institution has been set up whether under the Society Registration Act, as a trust or as a company limited by guarantee.

- b) Verify whether it is managed as contemplated by the law and rules and regulations made thereunder.
- c) Examine the internal control structure particularly with reference to admission to hostel, expenses incurred on different kinds of activities.

2. Verification of the receipts

- a) Check the amounts received on account of, monthly rentals, etc., and receipts issued for the same.
- b) Cross - tally the rent received along with the number of students (from the student register) staying in the hostel during the year.
- c) Check the amounts received from additional services rendered like guest fees, receipts for breakage, fines, penalties, etc.

3. Verification of expenses

- a) Check the day-to-day administration expenses incurred along with the necessary vouchers, supporting for the same like salary registers, repairs register, etc.;
 - b) Verify whether the expenses incurred are in conformity with the budgets prepared internally or filed with the relevant authorities.
 - c) Check the amount spent on provisions of hostel facilities with reference to bills, etc.
 - d) See that whenever heavy expenditure has been incurred on renovation of the hostel, computer centre, etc. the same is accounted for properly. (if such facilities are being provided by the hostel)
4. Verify all capital expenditure and expenditure on repairs, etc., incurred with the vouchers and also whether proper tenders, etc., were invited for the same. See that all furniture, glass, cutlery, kitchen utensils, liner, etc. are adequately depreciated.
5. **Library Facilities:** See that proper library register are maintained. The system regarding issue and receipt of books is in order. Late fee fines and money received on account of lost book is accounted for properly. Obsolete books are written off only after proper authorisation. Expenses incurred on newspapers and weekly magazines as compared to Journals and periodicals have been accounted for properly.
6. Check the provision of other additional facilities like computer facilities, etc. Ensure that proper registers are maintained for charging fees, based on monthly or hourly basis. In case such facility is extended to each room, whether the charges are payable on lumpsum basis or on actual usage basis. Also ensure that amounts spent have been allocated properly.
7. Verify whether the institution is eligible for income tax exemption and if not, whether provision for taxation has been made.

Q.No.18. State any six important points to be examined by you, as an auditor, in verifying the correctness of bank balance of an Educational Institution which deposits all its collection/receipt in separate collection account of a bank. (B) (PM)

Verification of Bank Balance of an Educational Institution: For verifying the balances lying with bank in collection account, the auditor should adopt following procedure:

- a) Examine and compare the pay-in-slips with the entries in the ledger account of the educational institute.
- b) Check the casting, carry forwards and balancing of ledger account.
- c) Compare the entries in the ledger account with the bank statement.
- d) Review the bank reconciliation statement for its correctness.

- e) Scrutiny the subsequent period bank statement to ensure that items of reconciliation are subsequently cleared.
- f) Verify the balance confirmation certificate.

Q.No.19. Draft an Audit Programme to audit the accounts of a Recreation Club with facilities for indoor games and in-house eating. (C) (PM)

Audit Programme to Audit the Accounts of a Recreation Club:

1. Examine the constitution, powers of governing body and relevant rules relating to preparation and finalisation of accounts. In case, it is constituted as a company limited by guarantee, application of provisions of the Companies Act, 2013 should also be seen.
2. Vouch the receipt on account of entrance fees with members' applications, counterfoils issued to them, and minutes of the Managing Committee.
3. Vouch Members' subscription with the counterfoils of receipts issued to them. Trace receipts for a selected period to the Register of Members; reconcile the amount of total subscription due with the amount collected and the outstanding.
4. (iv) Ensure that arrears of subscriptions for the previous year have been correctly brought over and arrears for the year under audit and subscription received in advance have been correctly adjusted.
5. Verify the internal check as regards members being charged with the price of foodstuffs and drinks provided to them and their guests as well as with the fees chargeable for the special service rendered such as billiards, tennis, etc.
6. Vouch purchase of sports items, furniture, crockery, etc., and trace their entries into the respective inventory registers. Vouch purchases of food-stuffs, cigars, wines, etc. and test their sale price so as to confirm that the normal rates of profit have been earned on their sales.
7. The inventory of unsold provisions and stores, at the end of the year should be verified physically and its valuation checked.
8. 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.
9. Inspect the share scrips and bonds in respect of investments, check their current values for disclosure in final accounts, also ascertain that the arrangements for their safe custody are satisfactory, check the accrual of income therefrom and provision of income tax thereon.

Q.No.20. An NGO operating in Delhi had collected large scale donations for Tsunami victims. The donations so collected were sent to different NGOs operating in Tamil Nadu for relief operations. This NGO operating in Delhi has appointed you to audit its accounts for the year in which it collected and remitted donations for Tsunami victims. Draft audit programme for audit of receipts of donations and remittance of the collected amount to different NGOs. Mention six points each, peculiar to the situation, which you will like to incorporate in your audit programme for audit of said receipts and remittances of donations. (C) (PM, RTP N17)

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 crosschecked 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 providing relief to Tsunami victims and not for any other purpose.
6. **System of NGOs' Selection:** System for selecting NGO to whom donations have been sent.

Q.No.21. Your firm has been appointed as an auditor of Hind College. Before initiating any audit work, you want to analyse the internal control system of the college for collection of tuition fees from the students. Mention the points you would consider for such analysis. (A)

(PM, RTP N15)

INTERNAL CONTROL POINTS FOR COLLECTION OF TUITION FEES: While analysing internal control system of Hind College regarding collection of tuition fees from students, the following points may be considered-

- a) There must be a clear cut tuition fee structure approved by the college council.
- b) The challan or paying in slip should contain necessary fields for identifying the roll number of the student, class, and period for which fees is paid etc. The slips should have such number of counterfoils to cross check the remittance.
- c) The paying in slip when filled by the students should be checked for its correctness as to applicable amount etc. by one clerk and the amount should be entered in a scroll. He must initial the slip which authorises the cashier to accept the fees as per slip.
- d) The cashier scroll and the authorising officers scroll should be checked by an officer daily.
- e) All remittance should be banked each day. No amount should be allowed to be spared for meeting any type of expense.
- f) Alternatively, the fees may be directly remitted into bank and banker's daily remittance slip should be scrutinised by college officers.

- g) Arrears list should be periodically prepared from the students rolls. Any concession, remission of tuition fees should have approval of competent authority.
- h) Delayed remittance should carry fines or compensating charges for delay.
- i) When students are readmitted after removal for non-payment of fees, the admission should carry the permission of competent authority.

SIMILAR QUESTIONS:

1. **Mention any six points to be considered for good internal control for collection of tuition fees from students of college. (PM)**
- A. Refer above answer.

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THE END

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