

## UNIT-4 COMPANY AUDIT AND AUDIT OF OTHER ENTITIES

### Company Auditor

#### Appointment of Auditor

After incorporation of a company in the first annual general meeting, an Auditor must be appointed by the Board of Directors. The Auditor will typically hold term till the conclusion of 6th AGM or 5 years. The appointment of an Auditor can also be made for a period of 1 year, renewable at each annual general meeting.

#### Company Auditor

##### Definition:

Company Auditor is an individual appointed for preparing an independent audit report of the company. They can be either appointed by the company's Board of Directors, Shareholders, Central Government or Comptroller and Auditor General of India (C&AG) accordingly. An individual must have expert knowledge and a practising certificate from the Indian Institute of Chartered Accountants for becoming a company auditor.

It is mandatory for the companies to get their financial statements audited for every financial year for which Companies Act 2013, states all the provisions associated to company's audit in Sec 139 to Sec 142, whereas; Sec 128 to Sec 132 reported the provisions linked with the accounts of the company.

#### Qualification and Disqualification of Company Auditor

Qualification and Disqualification of company auditor are regulated by the Companies Act, 2013 (Sec 141), and these provisions are pertinent for all kinds of appointments.

##### Qualifications

For becoming a company auditor one should have any one of the following qualifications: 1. Chartered Accountant

■ According to Sec 141(1) of the Companies Act an individual holding a practising certificate of being a certified chartered accountant from the ICAI (Indian Institute of Chartered Accountancy) is qualified for being an auditor of a company.

■ Chartered accountancy firm where all partners are practising in India is also qualified for being a company's auditors. However, any partner of the firm acting on behalf of their firm can work as company auditor.

##### 2. Confined State Auditor

The certificate holder issued by the law entitling him to act as a company's auditor in India holds the right to become an auditor of a company.

##### Disqualifications

The following individuals are not qualified to become a company auditor:



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- A Corporate Body as it has limited liability.
- Working employees or officers of the company.
- Partners of officers who are working in the company.

■ Individual holding security of the company.

■ A person disqualified by any subsidiary company from acting as a company auditor. In case of a partnership firm, if any of the partners is disqualified because of any above reasons, the firm will also be disqualified from being appointed as company auditor.

### Rights OR Powers of Company Auditor

#### 1. Right of Examining Books and Vouchers

The auditor has a full right to ask for any document of business if required by him for performing his work. He can ask for all the documents of the head office or any other branch in the working hours of the company for verifying the vouchers to prepare his audit report. The company cannot refuse to present the asked documents by the company auditor.

#### 2. Right to Acquire Information

The company auditor can ask for any information regarding company from the officers of the company to perform his duty accurately and precisely and if the proper information is not received the auditor has a right to report it to the members of the company.

#### 3. Right to Access Accounts and Visit Branches

The company auditor has a right to visit the branches of the company and access their accounts if he feels to go through it for his report generation even if another auditor audits the accounts of branches. He has full right to access vouchers and books of accounts of the branches whenever required.

#### 4. Right to attend General Meetings

The company auditor has a right to receive the notices regarding General Meetings of the company; although it's not his duty to take part in the discussion, he can give clarification on any part where his consent is required as an auditor. However, he cannot outbreak responsibility of any omission in his report.

### Duties of an Auditor

#### 1. Provide an Audit Report

The fundamental duty of a company's auditor is to make a report regarding accounts and financial statements examined by him and present the same to the members of the company.

Such an opinion of the auditor enhances the credibility of the financial statements. This is because it provides reasonable assurance from the auditor that the financial statements give a true and fair view of the company's state of affairs.

Furthermore, such an auditor's opinion assures that the report has been prepared taking into account the accounting and auditing standards.

#### 2. Make Proper Enquiry

It is the duty of every auditor to seek access to books of accounts, vouchers and other information and explanation from the company. Furthermore, an auditor can also inquire



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information regarding the following matters from the company at any time:

■ whether the loans and advances made by the company on the basis of security have been properly secured. Furthermore, he needs to inquire whether the terms and conditions on the basis of which such loans and advances have been made are not unfair.

☛ if the transactions of the company represented only by book entries have actually taken place and are not unjust to the company in any way

☛ whether loans and advances made by the company are shown as deposits

☛ if the personal expenses (expenses not associated with the company) are charged to the revenue amount

☛ whether cash has been received for the shares that were issued for cash. However, if no cash has actually been received, the auditor shall verify that the company's position as stated in the books of accounts is correct, regular and not misleading.

### 3. Assist in Branch Audit

The accounts of a branch office can be audited by:

☛ a company's auditor

☛ any individual appointed as the branch auditor as per the act

☛ company's auditor or accountant or any competent person appointed as per the laws of the foreign country in case of a foreign branch

Thus, a branch auditor needs to prepare a report with regards to the accounts of the branch examined by him. He needs to ensure that proper books are maintained and hence give reasons of qualification in the report.

After preparing the report, the branch auditor needs to submit this to the company's auditor. Furthermore, the company's auditor shall examine such a report in a manner as he deems fit.

### 4. Compliance With Auditing Standards

The central government establishes the auditing standards in consultation with the ICAI and National Financial Reporting Authority (NFRA).

These standards help the auditors to examine the books of accounts effectively and with great accuracy. Thus, every auditor must comply with the established auditing standards while examining a company's books of accounts.

### 5. Reporting of Frauds

A company's auditor while performing his duties might encounter fraudulent situations. In such circumstances, the auditor may believe that an offence equivalent to a fraud has been committed against the company.

And such a fraud has been committed by any of the officers or the company's employees. Thus,



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in such situations, it is the duty of the auditor to report such matters to the central government within 60 days of his knowledge.

## 6. Provide Assistance in Investigation

Investigation refers to checking of specific records of a business systematically and critically.

Such an examination is conducted when a fault on the part of the company already exists and the intent of the investigation is to find out a reason and person involved in such an activity.

Thus, it is the duty of an auditor to assist the officers undertaking such an investigation.

## Professional Ethics Of An Auditors

### 1. Integrity

A professional accountant should be straightforward and honest in all professional and business relationships.

### 2. Objectivity

A professional accountant should not allow bias, conflict of interest, or undue influence of others to override professional or business judgments.

### 3. Professional Competence and Due Care

A professional accountant must maintain professional knowledge and skill at the level required to ensure that a client or employer receives competent professional service based on current developments in practice, legislation, and techniques.

Professional accountants should act diligently and by applicable technical and professional standards when providing professional services.

### 4. Confidentiality

A professional accountant should respect the confidentiality of information acquired from professional and business relationships and should not disclose any such information to third parties without proper and specific authority unless there is a legal or professional right or duty to disclose it.

Confidential information acquired from professional and business relationships should not be used for the professional accountant's or third parties' advantage.

### 5. Professional Behavior

A professional accountant should comply with relevant laws and regulations and avoid any action that discredits the profession.

## Liabilities of an Auditor:

A Chartered Accountant is associated with the valuable profession. His primary duty is to present a report on the accounts and statements submitted by him to members of the company. He is responsible not only to the members of the company but also to the third parties of the company, i.e., creditors, bankers etc

### 1. Liability for Negligence:

Negligence means breach of duty. An auditor is an agent of the shareholders. He has to perform his professional duties. He should take reasonable care and skill in the performance of his duties. If he fails to do so, liability for negligence arises. An auditor will be held liable if the client has suffered loss due to his negligence. It should be noted that an auditor will not be liable to compensate the loss or damage if his negligence is not proved.



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### 2. Liability for Misfeasance:

Misfeasance means breach of trust. If an auditor does something wrongfully in the performance of his duties resulting in a financial loss to the company, he is guilty of misfeasance. In such a case, the company can recover damages from the auditor or from any officer for breach of trust or misfeasance of the company. Misfeasance proceedings can be initiated against the auditor for any untrue statement in the prospectus or in the event of winding up of the company.

## 2. Liabilities under Companies Act

The following are the liabilities of an auditor under the provisions of the Companies Act. (1) Liability for Misstatements in the Prospectus [Sec.35]:

An auditor shall be held liable to compensate every person who subscribes for any shares or debentures of a company on the faith of the prospectus containing an untrue statement made by him as an expert. The auditor shall be liable to compensate him for any loss or damages sustained by him by reason of any untrue statement included therein. The auditor may escape from liability if he proves that:

The prospectus is issued without his knowledge or consent.

He withdrew his consent, in writing before delivery of the prospectus for registration.

He should have withdrawn his consent after issue of prospectus but before allotment of shares and reasonable public notice has given by him regarding this.

### (i) Criminal Liability of Auditor under Companies Act:

#### 1. Untrue statement in Prospectus [Sec.34]

The auditor is liable when he authorizes a false or untrue prospectus. When a prospectus includes any untrue statement, every person who authorizes the issue of prospectus shall be imprisoned for a period of six months to ten years or with a fine, which may be three times the amount involved in the fraud or with both.

#### 2. Non compliance by auditor [Sec. 143 and 145]:

If the auditor does not comply regarding making his report or signing or authorization of any document and makes willful neglect on his part he shall be punishable with imprisonment up to one year or with fine not less than ₹. 25,000 extendable to ₹. 5,00,000.

#### 3. Failure to assist investigation [Sec.217 (6)]:

When Central Government appoints an Inspector to investigate the affairs of the company, it is the duty of the auditor to produce all books, documents and to provide assistance to the inspectors. If the auditor fails to do so he shall be punishable with imprisonment up to one year

and with fine up to ₹.1,00,000.

#### 4. Failure to assist prosecution of guilty officers [Sec.224]:



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An auditor is required to assist prosecution when Central Government takes any action against the report submitted by the Inspector. If he fails to do so, he is found guilty and is punishable.

#### 5. Penalty for falsification of books [Sec.336]:

An auditor when destroys, mutilates, alters or falsifies or secretes any books of account or document belonging to the company. He shall be punishable with imprisonment and also liable to fine.

#### 6. Prosecution of auditor [Sec.342]:

In the course of winding up of a company by the Tribunal, if it appears to the Tribunal that an auditor of the company has been guilty of an offence, it shall be the duty of the auditor to give all assistance in connection with the prosecution. If he fails to give assistance he shall be liable to fine not less than ₹ 25,000 extendable up to ₹ 1,00,000.

7. Penalty for deliberate act of commission or omission [Sec.448]: If an auditor deliberately make a statement in any report, certificate, balance sheet, prospectus, etc which is false or which contains omission of material facts, he shall be punishable with imprisonment for a period of six months to ten years and fine not less than amount involved in fraud extendable to three times of such amount.

### 3. Criminal Liability under Indian Penal Code

If any person issues or signs any certificate relating to any fact which such certificate is false, he is punishable as if he gave false evidence. According to Sec.197 of the Indian Penal Code, the auditor is similarly liable for falsification of any books, materials, papers that belong to the company.

### 4. Liability under Income Tax Act [Sec.278]

For tax evasion exceeds ₹ 1,00,000, rigorous imprisonment of six months to seven years.

A person who induces another person to make and deliver to the Income Tax authorities a false account, statement or declaration relating to any income chargeable to tax which he knows to be false, he shall be liable to fine and imprisonment of three months to three years. An auditor may also be charged in case of wrong certification of account.

A Chartered Accountant can represent his clients before the Income Tax Authorities. However, if he is guilty of misconduct he can be disqualified from practicing.

An auditor can face imprisonment up to two years for furnishing false information.

### 5. Liability for Professional Misconduct



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The Chartered Accountant Act, 1949 mentions number of acts and omissions that comprise professional misconduct in relation to audit practice. The council of ICAI may remove the auditor's name for five years or more, if he finds guilty of professional misconduct.

### 6. Liability towards Third Parties

There are number of persons who rely upon the financial statements audited by the auditor and enter into transactions with the company without further enquiry viz. creditors, bankers, tax authorities, prospective shareholders, etc.

### 1. Liability for Negligence:

It has been held in the court that auditor is not liable to third parties, as there is no contract between auditor and third parties. He owes no duty towards them.

### 2. Liability for Frauds:

The third parties can hold the auditor liable, if there is fraud on the part of auditor even if there is no contractual relationship between auditor and third parties. In certain cases negligence of auditor may amount to fraud for which he may be held liable to third parties. But it must be proved that auditor did not act honestly and he knew about it.

### Auditing procedure for NGO's

NGOs are not owned by any particular person. They cannot distribute profits by way of dividends. Whatever profits are earned by NGOs from the economic activities are reinvested or spent on appropriate non-profit activities.

The Auditor needs to conduct the following tasks while conducting an NGO Audit.

- ☛ Since the NGO has its own memorandum the Auditor while conducting NGO Audit must have few insights about the company.

- ☛ The Auditor, while conducting NGO Audit, must investigate about the amount received as subscription ratifying with counterfoils of the receipts.

- ☛ The Auditor during an NGO Audit must evaluate the decisions taken by the executives. ☛ The Auditor must make physical verification of assets ratifying with store ledger. ☛ The Auditor shall check the liabilities and also that its assets during NGO Audit and whether its transfer is proper or not.

- ☛ NGOs receive grant from foreign institutions as well. So it is the duty of the Auditor to check whether it is accepted as per the provision of financial rules and regulations of the nation or not.

- ☛ The Auditor during the NGO Audit should check the use of Government grants. It should



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also look if the accounts are adequately maintained or not for recording the grants. ☛ In case such an institution has received the donation from any individual or organization, an auditor should

check accounting of such amount and its use.

#### Auditing procedure for Charitable Institution.

Charitable Institutions can be a Public Trust, Society, Section 8 Company, Co-operative Society, Multi State Co-operative Society, Non-Profit Organizations etc.

Audit procedure.

1. Constitution of Charitable Institution under which it has been set up and their scope. 2. Examine the laws which is properly followed or not by the institution. 3. Verify the Accounting of collections under Internal Check System.
4. Proper utilization of income and their supporting where they used. 5. Subscriptions and donations are the important source of Income which must be accounted properly.
6. Examine the frequency or movement of life membership subscription during the year. 7. Verification of official receipts.
8. Control check over unused receipt books.
9. Verify the sequence of all receipt books.
10. Give proper attention on counterfoils of Cash book.
11. Examine the source of subscriptions & donation as well as their list of names. 12. Check the total subscriptions and donations with the books & tally with figures. 13. Examine the process of Cash management and their accounting with books. 14. Examine the available resource and verify them in figures with amounts received. 15. Grants play a key role in the income of any charitable Institutions because as per Income Tax Act there is a provision to use the grant for their purpose. So, it must be checked carefully.

#### Auditing procedure for Educational Institution.

Audit of books of educational institutions i.e. Schools, Colleges, Universities etc is known as audit of educational institutions. This type of audit comes under the category of special audit.

Audit procedure.

- o Study of the trust deed or regulations.
- o Examine the previous financial statements.
- o Noting of provisions applicable.
- o Evaluation of internal control system.
- o Examine the minute of the meeting and resolution.
- o Verification of students fee register.
- o Authorization for fee concessions .
- o Verification of cashbook with respect of counterfoils of receipts and payments. o Examination of capital fund regarding admission fees.
- o Verify free studentship and concessions .
- o Confirmation of fines for late payment or absence.



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- o Check hostel dues recovery.
- o Verification of rental income or expenses.
- o Examine the bank pass book of different nature.
- o Verification of investment register and also ask about any interest and dividend from investment if



any.

- o Verify grants from any local bodies or Government with reference to memo or sanction letter.
- o Reporting of any arrears.
- o Vouch counterfoils of receipts taken from donors.
- o Confirmation of any deposits and caution money and its treatment.
- o Examination of expenses for library books and sports equipments.
- o Checking of acknowledgement letter if any with regards to scholarship.
- o Examination of payments with respect to prizes if any.
- o Examine the salary register.
- o Verify the Provident Fund Register.
- o Check annual report with accurate supporting documents.
- o Vouching of all establishment expenses.
- o Vouch payment for electricity and water bill.
- o Examination of payment for hostel maintenance and any other miscellaneous expenses.

### Auditing procedure for Government

Government auditing is the objective, systematic, professional and independent examination of financial, administrative and other operations of a public entity made subsequently to their execution for the purpose of evaluating and verifying them, presenting a report containing explanatory comments on audit findings together with conclusions and recommendations for future actions by the responsible officials and in the case of examination of financial statements, expressing the appropriate professional opinion regarding the fairness of the presentation.

### RE-APPOINTMENT OF RETIRING AUDITOR Section 139 (9)

At any annual general meeting, a retiring auditor shall be re-appointed as auditor of the company except under the following circumstances

(a) he is not qualified for re-appointment

(b) he has given the company a notice in writing of his unwillingness to be re-appointed.

(c) a special resolution has been passed at that meeting appointing somebody else instead of him or providing expressly that retiring auditor shall not be re-appointed. Section 139 (10) lays that where at any annual general meeting, no auditor is appointed or re-appointed, the existing auditor shall continue to be the auditor of the company.

### ROTATION OF AUDITORS-Section 139(3)

Members of a company can provide for following by passing a resolution: (a) In the audit firm appointed by it, the auditing partner and his team shall be rotated at such intervals as may be resolved by members, or (b) The audit shall be conducted by more than one auditor. A transition



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period of 3 years from the commencement of the Act has been prescribed for the company existing on or before the commencement of the Act, to comply with the provisions of the rotation of auditor

### ROTATION OF AUDITORS ON EXPIRY OF THEIR TERM

Section 139 (4) and Rule 6 Rotation of auditors on expiry of auditor's term then same procedure will be followed

required for appointment of auditors. The procedure is as under:

(1) The Audit Committee shall recommend to the Board, the name of an individual auditor or of an audit firm who may replace the incumbent auditor on expiry of the term of such incumbent.

(2) Where a company is required to constitute an Audit Committee, the Board shall consider the recommendation of such committee, and in other cases, the Board shall itself consider the matter of rotation of auditors and make its recommendation for appointment of the next auditor by the members in annual general meeting.

REMOVAL OF AUDITOR-Section 140 (1) and Rule 7

The auditor appointed under section 139 may be removed from his office before the expiry of the term only by-

- (1) Obtaining the prior approval of the Central Government by Audit and Auditors 9 filling an application in form ADT-2 within 30 days of resolution passed by the Board
- (ii) The company shall hold the general meeting within sixty days of receipt of approval of the Central Government for passing the special resolution.
- (iii) The auditor concerned shall be given a reasonable opportunity of being heard.

RESIGNATION OF AUDITOR-Section 140 (2), 140 (3) and Rule 8 The auditor who has resigned from the company shall file a statement in Form ADT-3 indicating the reasons and other facts as may be relevant with regard to his resignation as follows: (i) In

case of other than Government Company, the auditor shall within 30 days from the date of resignation, file such statement to the company and the registrar. (ii) In case of Government Company or government controlled company, auditor shall within 30 days from the resignation, file such statement to the company and the Registrar and also file the statement with the Comptroller and Auditor General of India (CAG). The onus to file such statement containing relevant facts and reasons for resignation is on the resigning auditor and any contravention of sub clause (2) is punishable with monetary fine which could be minimum Rs. 50,000 and maximum Rs. 5 lakh.

Audit Procedure of Local Bodies.

Audit of the accounts of all Local Bodies (Both Urban and Rural at all levels) may be done under the technical guidance and supervision (TGS) of the Comptroller and Auditor General of



India.

Local bodies include gram panchayat, Municipality, Urban corporation, etc Duties of the Auditor

1. The Accounts of the local body shall be examined and audited by the auditor at least once a year,
2. It shall be the duty of the Auditor to see that

3. The accounts have been kept and are presented in approved forms; 4. The particular items of receipts and expenditure, are stated in sufficient detail; 5. The payments are supported by adequate vouchers and authority;
6. All sums received are brought into account and entered in the Cash Book, and 7. The receipts and expenditure in all cases are such as are authorised by law
8. The auditor shall also verify the cash balance in the hand of the custodian of the GP Fund on the date of commencement of audit.
9. The accounts of a local body Fund shall be audited after the close of the financial year. Within two months from the date on which the audit is completed, the auditor shall prepare a para-wise report containing his objections and send the same along with audit evidence to the Pradhan of the Local body for rectification and a copy thereof to the District Panchayat Officer for onward transmission to the State Government through the Director of the local body.

### Audit procedure of Cooperative Societies

#### Audit as Per Section 17 of the Co-operative Society Act, 1912

- The Registrar shall audit or cause to be audited by some person authorized by him by general or special order in writing on his behalf, the accounts of every registered society once at least every year.
- The Audit under sub-section (1) shall include an examination of overdue debts, if any, and a valuation of the assets and liabilities of the society.
- The Registrar, the Collector or any person authorized by general or special order in writing on his behalf by the Registrar, shall at all-time have access to all the books, accounts, papers and securities of a society, and every officer of the society shall furnish such information concerning the transactions and working of the society as the person making such inspection may require.

### Qualification of Auditor

- A chartered accountant within the meaning of the Chartered Accountant Act-1949, Or, ■ A person who holds a government diploma in Co-operative Accounts or in Cooperation and Accountancy; or,
- A person who has served as an Auditor in the co-operative society department of the State Government and whose name has been included by the Registrar on the Panel of Certified Auditors maintained and published by him in the official Gazette at least once



every year.

### Appointment of Auditor

The appointment of an Auditor is done by Registrar of Co-operative Societies. The Auditor conducts his audit on behalf of the Registrar. The Audit fees is paid by co-operative society according to the statutory scale of fees prescribed by the Registrar in this regard according to the category of society. The Auditor is required to submit his audit report directly to the Registrar and one copy of the audit report is submitted to the concerned society.

## Rights of an Auditor

- As per Section 17, an Auditor can access all the books, accounts, documents and securities of the society.
- He has to see that Balance-sheet of the society shows a true and fair view of a business according to information and explanation given to him.
- Every officer of the society is bound to give all information regarding working and transactions of the society.

## Duties of An Auditor

An Auditor needs to consider the following points to be able to perform his duties in an efficient way –

- An Auditor should be well-versed with the Co-operative Society Act, 1912 and the by laws of the society.
- If there is any type of irregularities and improprieties found by an Auditor during his audit regarding Co-operative Societies Act, 1912 and by-laws, he should immediately point out the same.
- An Auditor should ascertain that how many shares are held by each member of the society; for this, he should check the membership registers.
- An Auditor should be well aware of power of officers regarding loan, investment, borrowings, advancing of the funds.
- He should thoroughly check and vouch the cash book and bank book. ■ An Auditor should check all the receipts and payments of the society according to standard auditing practice.
- He should go through the agreements between society and borrower to check the interest due on loan and repayment schedule. An Auditor should also check and compare the actual interest received and the repayment of loan received with dues from them.
- He should carefully vouch and verify that loan given to members of the society is according to agreement, regulation and resolution passed by the Managing Committee of the society or not.
- An Auditor has to assure that a loan given to a non-member is not without the permission of the Registrar.
- He should verify the loan given by Co-operative bank should be according to the prescribed limit.
- An Auditor should physically examine and verify the assets of a society. ■ He should adopt different methods for different kind of societies.
  - Balance-sheet, profit and loss account and Auditor report should be according to the proforma given by the Chief Auditor of the Co-operative Society of the State.



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- Accounts should be according to the Co-operative Society Act and also with the provision of Income Tax Act.
- All the assets, expenses, income, cash-in-hand, etc. should be vouched and verified according to standard accounting procedures and principles.

## Audit procedure of Hospital

There are many types of facilities that are provided by the hotels to their customers these days. Hotels generate their income from room rent, room service, laundry, restaurants, swimming pool, bar-room, sports room, health clubs, conference halls and banquet hall for marriages, parties and seminars. In addition to these, few hotels are also letting out shops to companies to promote and sell their products and services.

## Audit procedure.

- An Auditor should determine the scope of his audit from his letter of appointment. It should be seen whether he is asked to express his opinion on financial statements only or some additional responsibility being assigned to him.
- An Auditor should obtain list of books of accounts, documents and registers maintained by hotel.
- He should see whether relevant hotels have independent status or a part of chains of hotels.
- An Auditor should study the Memorandum of Articles and the Memorandum of Association.
- He should obtain the title deed and other related documents to verify the land and building.
- He should also obtain Minutes of meeting of the Board of Directors to note down the important decisions relating to accounts, finance and audit.

### Revenue from Telephone & Internet

An Auditor needs to consider the following points and verify the Revenue from Telephone and Internet –

- Telephone bills are charged through EPABX system and internet service is charged through internet service providing system.
- For internet charges, Service Tax is charged.
- In some states like Kerala, Luxury Tax is charged on telephone bills. [Revenue from](#)

### Housekeeping

This revenue is normally charged for sale of wardrobes and baby-sitting, etc. [Revenue](#)

### from Laundry

An Auditor needs to consider the following points and verify the revenue from Laundry –

- Laundry service is provided to employees of hotel and resident guests. ■ Billing is done through accounting software according to the rate provided.



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- An Auditor should get the rate list to verify the rates and the billing should be verified with the housekeeping record.

### Revenue from Beauty Parlors and Health Clubs

An Auditor needs to consider the following points and verify the Revenue from Beauty Parlors and Health Clubs –

- These facilities are provided to resident guests, walk-in guests or through membership. ■ An Auditor should verify the rate charged for service provided and guest attendance register.
- He should ensure the all services should be charged and recovered from customers. [Revenue](#)

### from Sale of Scrap and Disposal of Empties

An Auditor needs to consider the following points and verify the Revenue from Sale of Scrap and Disposal of Empties –

- Scrap and empties can be sold on the basis of contract price or on the basis of onetime evaluation at the time of sale.
- An Auditor should verify the agreement for contract price in case where there is a timebound agreement between hotels and scrap buyer.
- Sale of dry scrap is also very important in hotels like sale of empty cans, bottles and other containers.
- He should verify the outward register, weighing slips, etc. and the rate charged for the same.
- An Auditor should verify the cash receipt & cash book, etc.

### Audit of Expenses

An Auditor needs to consider the following points and verify the Revenue from Expenses -

- An Auditor should verify the appointment letter, policy of increment, time record, salary register, cash book and bank book to verify the salary payments of employees. ■ He should verify all purchases through requisition slip, quotations, purchase order, inward register, quality control verification record and stock ledger.
- Every purchase should be passed by appropriate authority in this regard. ■ Vouching should be done properly and should be verified with documentary evidences. ■ At times, there may be a contract between a seller and a buyer (hotel) to sell a particular product at the same rate for a specific period like a week or a month, especially in case where the supply of material is done on daily basis like milk, bakery products, fresh vegetables, etc. The Auditor should verify purchases on the basis of such agreement.
- An Auditor should apply all other precautions and experience to audit the expenses as he does in any other industries.
- Verification of purchases, consumption and stocking is very crucial in hotel industry and it is a real challenge for an Auditor to verify all these very carefully. An Auditor should apply all his experience and knowledge to do audit of it.

### Audit of Income of Hospitals

An Auditor should check the bill book, bill register and copy of bills. It should be verified that



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bills are prepared properly according to visit charges of doctors, medicine, stay charges, room rent, etc.

### Audit procedure.

- He should obtain a list of books, documents, register and other records as maintained by the Hospitals.
- He should examine the audit report of last year and should note down qualifications, if any.
- He should examine the system of receiving grants and donations, whether received through cheque or otherwise.
- According to the overall objectives of audit, he should examine the scope of responsibilities.
- He should note down the important clause of Trust Deed or Charter, which may affect the audit and accounts of hospitals.
- He should examine the Minutes of Meetings of the Board of Directors/Trustees or the Managing

Committee. He should note down the important decisions concerning the financial transactions relating to fixed assets, investment and financial powers as required by him during his audit.

- He should examine the internal control system regarding purchase of fixed assets, medicines, stores, consumables, clothing and provisions, etc.
- He should examine the internal control system for recording of purchases, issue and storage of all items and physical verification of them.
- He should obtain the rate structure for fees, medicine and other services, power to do concession or waiver of fees. There should be an adequate system for charges and waiver. ■ He should calculate and examine the input-output ratios.
- An Auditor should adopt the usual way to vouch purchases and other expenses of the hospitals.
- Clear distinction should be made between capital and revenue expenses. ■ Salary of staff should be vouched according to general auditing principles. ■ Title documents and other records relating to land and building should be carefully examined by the Auditor.
- Resolution of Trustees/Managing committee should be verified for sale and purchase of fixed assets.
- Depreciation should be charged on the basis of the policies of the Managing Committee. ■ Liabilities should be verified in the usual manner.
- An Auditor should physically verify the investments like shares, debentures, bonds and security certificates. He should also verify them with the investment register. ■ Stock and stores of medicines, clothing, consumables, etc. should be physically verified at the end of the year.
- An Auditor should check the bill book, bill register and copy of bills. ■ It should be verified that bills are prepared properly according to visit charges of doctors, medicine, stay charges, room rent, etc.
- Bills should be verified with the fees/charges structure.
- Concession and waiver on account of fees and other charges should be verified. ■ Bills should be verified with cash receipt book, counterfoil of receipts and cash book.

### Audit of Club

Similar to a typical account audit, a club audit examines the effectiveness of a club's internal reporting procedure and identifies any instances of fraudulent reporting.



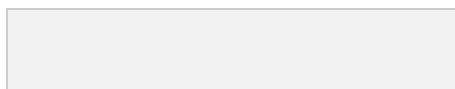
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### Audit procedure.

The following points need to be considered while conducting Audits of Clubs –

- An Auditor should decide his scope of work from his appointment letter. ■ He should know whether he is engaged for only accounting and financial matter or some other assignment too.
- He should know about the constitution and the legal status of the Club under which Act the club is registered.
- A Club may be registered under the Companies Act, the Societies Registration Act or the Public Trust Act.
- An Auditor should note down all the related provisions of the applicable Act relating to the accounts and audit.
- He should study the Memorandum of Association and the Articles of Association to know the powers of executive committee.
- An Auditor should be aware of the important decisions relating to accounts, finance, sale and purchase of fixed assets and investment from the minute book of meeting of the Board of Directors or the Trustees or the Managing Committee.

- 📌 He should obtain a list of books of accounts, related documents and other records maintained by that club.
- 📌 He should study the letting out system of the club premises, equipment and other facilities.
- 📌 The Auditor should know the bills raising system.
- 📌 He should study the rate and the basis of guest house charges, temporary membership charges, eatables, sports equipment.
- 📌 If Auditors find that the internal control system is adequate in club, he may opt for test checking, otherwise he might have to go for detailed vouching.
- 📌 Membership fees should be vouched with counter foil of receipts, membership register and cash book.
- 📌 Annual subscription of members should be vouched from counterfoil of receipt and cash book.
- 📌 On the basis of the members register, annual subscription dues received in advance and arrears of subscription should be reconciled.
- 📌 Verification of rent received and outstanding rent may be verified with the rental agreement, receipt book and cash book. An Auditor should ensure that the provision for rent outstanding has been provided in books of accounts.
- 📌 Income received on account of interest and dividend on investment should be verified with cash book, investment register and documents.
- 📌 Bills raised for sports, canteen, health club and restaurant should be verified and he should check the payment against these bills are duly accounted for in cash book and ledger accounts.
- 📌 Capital expenditure should be verified from minutes of meeting of managing committee. 📌 Auditor should verify in due course of audit purchases on account of eatables, sports equipment, health club equipment, general provisions, stationery and printing expenses, etc.
- 📌 Staff salary and annual increment to staff should be verified from appointment letters, attendance register, salary register, time records, etc.
- 📌 Physical verification is recommended for food items, wines, crockery, sports equipment etc. on the basis of stock register
- 📌 The donation received by club will be verified with the counterfoils of receipt, donation



register and cash book.

- 📌 To verify whether it is a capital donation or a revenue donation, an Auditor should know the policy of the Managing Committee.
- 📌 To know the policy regarding membership fees of the new members, an Auditor should check the policy of club, whether membership fees will be treated as revenue receipt or capital receipt.

### Audit procedure of Banks.

An audit of banking is a routine examination of the services provided by the organization to ensure their compliance with the standard and laws of the industry. It helps to uncover the breaching of laws and regulations of the financial institutions.

here are many types of bank audits: risk-based internal audit, statutory audit and tax audit, stock audit, credit audit, RBI inspection system audit, forensic audit, concurrent audit, snap audit, and foreign exchange.

- 📌 Risk-based internal audits provide reasonable assurance to top management and the Board about the effectiveness and adequacy of the risk management and control framework in the institutions' operations

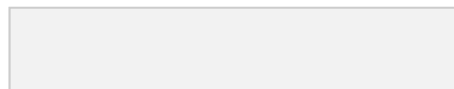


- 📌 A statutory audit is carried out by chartered accountants instructed by a statute or law to ensure that the books of accounts presented to different regulators and the public are fair
- 📌 RBI inspection of bank branches empowers the Reserve Bank of India to supervise and inspect commercial banks
- 📌 Credit audit can bring out the spaces in the processing and sanctioning loans and monitoring loan accounts and wrong documentation
- 📌 According to the bank's stock audit policy, the bank's external auditors shall inspect assets charged to the bank once or twice a year as desired by the bank
- 📌 A forensic audit examines a company's financial records to derive evidence from them and use it in a court of legal proceedings
- 📌 The forensic auditor's report can help prosecute the parties involved in embezzlement, fraud, or other financial misappropriations

### Statutory Audit of Banks

A statutory audit of banks is a type of banking that ensures that the financial statements and books of account conferred to the regulators and the public are fair and precise.

Statutory auditors are usually given a time frame within which they have to audit the bank's branches allocated. An auditor should accept the appointment immediately and send a formal intimation to the branch manager about the information necessary to conduct and complete an audit. The assigned auditor should ensure that their report qualifies for advances, interest expenses, deposits, etc. The essential elements to verify in a statutory audit of a bank are tax-related objects, verification of cash procedures and loan accounts.



### Process of Audit

The audit of banking involves various stages to complete the procedure successfully.

- 📌 The first stage is the initial consideration by the statutory auditor by the declaration of Indebtedness, engagement risks, team discussion
- 📌 The second stage is to identify the risk of misstatement and access the risk management
- 📌 The third stage is understanding the institution's environment and control system to process the next step, accounting
- 📌 The next steps are team discussions to plan an overall strategy to develop an audit plan
- 📌 Reviewing the previous year's audit reports and internal inspection reports is very beneficial.

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