

Chapter.9

SPECIAL AUDIT

CHARITABLE INSTITUTION (M 92, M 97)	
Constitution	- Take list of activities performed by charitable Institutions which includes religious organisations, voluntary health and welfare agencies, hospitals, old age homes, research foundations etc. - Some examples of NGOs operating in India include Child Relief & You (CRY), NORAD, UNICEF, Godhuli, Vidya, Concern India Foundation., etc - Charitable institutions are generally in the form of TRUST (India Trust Act 1882) / Society (Societies Registration Act 1860) or Section 25 Company so study relevant law. - Get details of Trust Deed/Rules/bye-laws/AOA/MOA governing entity - Get details of decision making authorities BOD/ Governing Board/ Managing Committee etc & there important decisions having financial impact. - Scrutinize the Minutes Book of the Managing Committee as regards various financial decisions - Also evaluate status of internal control system - Take list of books of accounts and accounting policy.
Major Income Checking	Donations/Subscription/Grants - Cross check from Cash Book, Counterfoil receipts, Bank Statement. - Cross check from internal report (monthly or Quarterly) - In case of donations-in-kind, ensure that they are properly recorded as per AS-12. - Take confirmations from donors. Specific purpose donations should be capitalised (CORPUS fund) or separate fund account should be maintained (Fund Based Accounting) other general purpose should be taken to Income & Expenditure Income from investments & properties - Trace it to counter foils interest & dividend warrants & Investment register. - Recompute interest/ dividend/ rent. - Cross check rates from share, debenture certificate & rent from rent agreement. Other sources - Fund raising programmes (Charity Shows), advertisements, fees from the members, technical assistance fees / fee for services rendered, subscriptions, gifts, sale of produce or publications, etc. Legacies - Check with certified copies of will.
Major	Expenses to achieve objectives of charity

Expense Checking	- All grants and expenses etc. should be authorized by the Managing Committee and are intended towards its objectives. - Ensure that the expenses are not incurred to result in the direct or direct benefit of any member of the Managing Committee or their relatives. Other Expenses - Establishment Costs (Daily routine expenses), Office and Administrative Expenses, Maintenance Expenses, Programme / Project Expenses, Charity, etc are reasonable & not unusual.
Major Assets Verification	Fixed Assets - Go for physical verification, check legal document & check depreciation. - If there is any increase check construction or acquisition cost Investments - Verify purchase and sale investments have been properly authorised. - Check share / debenture certificate. - Verify Banker's certificate if custody is with them. - Check valuation and whether there is any permanent diminution in value.
Special Points	Income Tax - Verify whether the institution enjoys exemption u/s 11 of the Income-tax Act. To enjoy exemption they have get AUDIT done. - When tax has been deducted at source from Incomes like Rent, Interest etc, see whether refund claim has been made. The Foreign Contribution (Regulation) Act 1976 has prescribed the format for foreign donations and requires that the same be furnished to the Ministry of Home Affairs within 60 days from the close of the financial year i.e. by May 30 each year Specific Funds - Note the specific conditions attached to funds operated by the Trust. - Ensure whether the objectives in operating each fund have been fulfilled. "Fund Accounts" are represented by earmarked investments

EDUCATIONAL INSTITUTION (N 95, M 00, M 07)	
Constitution	- Take list of courses and types of educational services provided. - Examples Schools, Colleges, Universities & Coaching Classes. - Examine the Trust Deed or Regulations, in the case of school or college - In the case of a university, refer to the Act of Legislature. Read minutes of the meetings of the Managing Committee or Governing Body - Also evaluate status of internal control system - Take list of books of accounts and accounting policy.
Major Income Checking	Student Fees - Check whether demand for fees is raised for all students. - Check whether fees demand as per enrolled course. - Match total fees with student fees register.

	• Check fees from counterfoils of receipts/ Cash Book • Check names of Students Fee Register from Class Registers • Total up the various columns of the Fees Register for each month or term to ascertain fees paid in advance and arrears. • Check whether late payment charges and fine are properly imposed. • Prepare monthly graph of fees collection to detect irregularities. • Check break up and accounting of fees Tuition / Bus / Sports / Books / Laboratory etc. • Check admission fees with admission slips signed by the head of the institution and confirm that the amount has been credited to a Capital fund • See that free studentship and concessions have been granted by authorized person. • Confirm that hostel dues were recovered before student's accounts were closed and their deposits of caution money refunded • Report any old heavy arrears on account of fees, dormitory rents, etc. to the Managing Committee. Rental Income Verify rental income from landed property with the rent rolls, rent agreement, cash book , pass book Investment Income Vouch income from interest and dividends from investment; match it with investment register, pass book. Donations Vouch donations, endowments and legacies, if any with the list published with the annual report.
Major Expense Checking	Capital Expenditure • Vouch all capital expenditure in the usual way and verify sanction for the Committee as contained in the minute book. Payments to teachers • Check payment as per appointment letter • Also match with standard rates approved by management • Any additional pay should be authorised by principal Establishment Costs (Routine Expenditure) • Vouch, in the usual manner, all establishment expenses and enquire into any unduly heavy expenditure under any head. • Compare expenses with annual budget. Benefits for students • Check scholarships, concessions, allowance paid (poor students) with counterfoil of receipts and letters sent to them. • Check expenses on library / sports items and prizes distributed to children
Major Assets Verification	Endowment fund & Provident Fund Investments • Investments representing endowment funds for prizes are kept separate and any income in excess of the prizes has been accumulated. • Provident Fund money of the staff has been invested in appropriate securities.

	Stock Verify the inventories of furniture, stationery, clothing, provision and all equipment etc. - These should be checked by reference to Stock Register or corresponding inventories of the previous year. Fixed Assets - Go for physical verification, check legal documents, and check depreciation - If there is any increase check construction or acquisition cost Investments - Verify purchase and sale investments have been properly authorised. - Check share/ debenture certificate - Verify Banker's certificate if custody is with them. - Check valuation and whether there is any permanent diminution in value
Special Points	Confirm that caution money and other deposits paid by students on admission, have been shown as liability in the balance sheet - 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 exempt - Finally, verify the annual statements of account and, while doing so see that separate statements of account have been prepared as regards Poor Boys Fund, Games Fund, Hostel and Provident Fund of staff, etc.

CINEMA HALL (M 93, N 98, N 06, N 07)	
Constitution	- Check whether it is single screen or multi screen - Cinemax, INOX, PVR, Adlabs are popular chains in INDIA. - Take knowledge of key provision of rules and licensing norms, Eg For Cinema Halls in Delhi it is mandatory to follow Cinematograph Act, 1952' and 'Delhi Cinematograph Rules, 2008 - Read minutes of the meetings of the Managing Committee or Governing Body - Also evaluate status of internal control system - Take list of books of accounts and accounting policy.
Major Income Checking	Sale of Tickets (Shows) - Verify - there are printed tickets; serially numbered and bound into books; - that the number & colour of tickets issued for each show and class, are different; - that for advance booking a separate series of tickets is issued; and - that the stock of tickets is kept in the custody of a responsible official. - Confirm that at the end of show, a statement of tickets sold is prepared and cash collected is agreed with it. - Match daily collection with internally generated report. - Verify that a record is kept of the 'free passes' and that these are issued under proper authority.

	- Reconcile the amount of Entertainment Tax collected - Vouch the entries in the Cash Book in respect of cash collected on sale of tickets to Daily Statements Advertisement Income - Verify the charges collected for advertisement slides and shorts by reference to the Register of Slides and Shorts Exhibited and also with the agreements. Restaurant Income - The arrangement for collection of the share in the restaurant income either a fixed sum or a fixed percentage. - In case the restaurant is run by the Cinema, its accounts should be checked. The audit should cover sale of various items of foodstuffs, purchase of foodstuffs, cold drink, cigarettes, etc.
Major Expense Checking	Movie purchase charges - Vouch payments on account of film hire with bills of distributors with concerned agreements. Promotion Charges - Vouch the expenditure incurred on advertisement, repairs and maintenance. Maintenance Expenses - Confirm that depreciation on machinery and furniture has been charged at an appropriate rate.
Major Assets Verification	Advance to distributor - Examine unadjusted balance out of advance paid to the distributors check whether they are good and recoverable. - If any film in respect of which an advance was paid has already run, it should be enquire as to why the advance has not been adjusted. The management should be asked to make a provision in respect of advances that are considered irrecoverable. Fixed Assets - Go for physical verification, check legal documents, and check depreciation - If there is any increase check construction or acquisition cost Investments - Verify purchase and sale investments have been properly authorised. - Check share/ debenture certificate - Verify Banker's certificate if custody is with them. - Check valuation and whether there is any permanent diminution in value
Special Points	Check no tax has been collected from tax free movies and ticket prices are lowered.

CLUB (M 91, N 97, N 99, N 10, M 02)	
Constitution	- Understand objective of club and nature of facilities given to members - Eg. Sports Club, Recreation Club, Ladies Club etc - A club is usually constituted as a company limited by guarantee. Therefore,

	as per Companies Act, 1956 audit is compulsory. • Read minutes of the meetings of the managing Committee or Governing Body • Also evaluate status of internal control system • Take list of books of accounts and accounting policy.
Major Income Checking	Admission Fees • Vouch the receipt on account of entrance fees with members' applications, counterfoils of receipt & minutes, of the Managing Committee. • Check accounting policy of club, normally it is credited to capital account. Subscription • Vouch member's subscriptions with the counterfoils of receipt, trace receipts to the Register of Members; • Also reconcile the amount of total subscriptions due with the amount collected. • Ensure that arrears of subscriptions for the previous year have been correctly brought over and arrears for the year under audit and subscriptions received in advance have been correctly adjusted. • Ascertain the Member's dues which are in arrear and enquire whether necessary steps have been taken for their recovery; the amount considered irrecoverable should be mentioned in the Audit Report. From Services Provided to Members • Understand how members are charged for different service such as sports, swimming & restaurants and check whether approved rates are charged to different class of members. • 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. • Ensure that non members are charged with higher rates. • Check revenue from sale of liquor, cigarettes and special services or parties.
Major Expense Checking	Purchase of food & sports items • Vouch purchase of sports items, furniture, crockery, etc. and trace their entries into the respective stock registers. • Vouch purchases of foodstuffs, cigars, wines, etc., and test their sale price so as to confirm that the normal rates of gross profit have been earned on their sales. • Check whether all purchases from approved suppliers • Trace payments to cash book Administration Expenses • Check Salary paid to staff, electricity expenses, repairs & maintenance cost • Compare them with previous period & annual budget
Major Assets Verification	Stock • Check the stock of furniture, sports material and other assets physically with the respective stock registers or inventories prepared at the end of the year. Fixed Assets • Go for physical verification, check legal documents, and check depreciation • If there is any increase check construction or acquisition cost

	Investments • Verify purchase and sale investments have been properly authorised. • Check share/ debenture certificate • Verify Banker's certificate if custody is with them. • Check valuation and whether there is any permanent diminution in value
Special Points	• Examine the financial powers of the secretary and, if these have been exceeded, report specific care for confirmation by the Managing Committee.

HOSPITAL (N 90, M 93, M 96, M 98, N 02, N 08)	
Constitution	• Understand nature of medical services given by hospital. • Eg. Heart Speciality, Neuro Speciality, Multi Specialty • Generally in the form of Trust or Company. • Read minutes of the meetings of the Managing Committee or Governing Body • Also evaluate status of internal control system • Take list of books of accounts and accounting policy.
Major Income Checking	Fees collected from patients • Match total fees with patient register. • Vouch the Register of patients with copies of bills issued to them. • Verify bills for a selected period with the patients' record to see that the bills have been correctly prepared. • Check whether bill is properly divided into various services such as operation charges, doctor consulting charges, x-ray / sonography, pathology charges, room rent, medicine etc • Ensure that concessions are given by appropriate authority under prescribed limits and purpose. • Check cash collections as entered in the Cash Book with the receipts, counterfoils and other evidence for example, copies of patients bills, Income from Rent, Interest & Dividend • Check Property and Investment Register for rent on properties, dividends, and interest on securities. • Trace collection to counterfoils of dividend and other interest warrants, copies of rent bills, etc. • Verify from cash Book Income from grants & donations • Ascertain that legacies and donations received for a specific purpose have been applied in the manner agreed upon. • Trace all collections of subscription and donations from the Cash Book to the respective Registers. • Verify that grants, if any, received from Government or local authority has been duly accounted for. Also, that refund in respect of taxes deducted at source has been claimed.
Major Expense Checking	Capital Expenditure • Vouch all purchases and expenses and verify that the capital expenditure with sanction of the Trustees or the Managing Committee .Compare the totals of various items of expenditure and income with the amount

	budgeted for them and report to the Trustees or the Managing Committee significant variations which have taken place. Administration Expenses • Check Salary paid to staff, electricity expenses, repairs & maintenance cost • Compare them with previous period & annual budget Medicine & Equipment Expenses • There should be strict control on purchase & issue • Regular stock count should be done. Discrepancy should be informed to management
Major Assets Verification	Stock • Examine the internal check as regards the receipt and issue of stores; medicines, linen, apparatus, clothing, instruments, etc. so as to insure that purchases have been properly recorded in the Stock Register and that issues have been made only against proper authorisation. • 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. Fixed Assets • Go for physical verification, check legal documents, and check depreciation • If there is any increase check construction or acquisition cost Investments • Verify purchase and sale investments have been properly authorised. • Check share/ debenture certificate • Verify Banker's certificate if custody is with them. • Check valuation and whether there is any permanent diminution in value
Special Points	Ensure permissions from local authorities are taken.

HOTELS (N 98, M 91, M94, M 05, N 09)	
Constitution	• Understand type of hotel and services provided. • Classification of Hotels: 1. Star Category Hotels: 5 Star Deluxe, 4 Star, 3 Star, 2 Star, 1 Star. 2. Heritage Category Hotels: Heritage Grand, Heritage Classic & Heritage Basic • Ratings are approved by Ministry of Tourism, it remains valid for 5 years apart from these they have to undertake multiple licences as per local laws of each place. • Generally in the form partnerships or companies so study partnership deed, AOA or MOA. • Read minutes of the meetings of the Managing Committee or Governing Body • Also evaluate status of internal control system • Take list of books of accounts and accounting policy.
Major Income Checking	Room Sales • The charge for room sales is normally posted to guest bills by the receptionist or in the case of large hotels by the night auditor. The source of

	these entries is invariably the guest register and audit tests should be carried out to ensure that the correct numbers of guests are charged for the correct period. - Any difference between the charge rates used on the guests' bills and the standard room rate should be investigated to ensure that they have been properly authorised. - In many hotels, the housekeeper prepares a daily report of the rooms which were occupied the previous night and the number of beds kept in each room. This report tends not to be permanently retained and the auditor should ensure that a sufficient number of reports are available for him to test both with the guest register and with the individual guest's bill. - The auditor should ensure that proper valuation of occupancy-in-progress at the balance sheet date is made and included in the accounts. - Foreign currency receipts should be dealt as per FEMA rules - Also check payments made online or through debit/ credit card - For customers coming through travel agents or other booking agencies the bills are usually made on the travel agents or booking agencies. The auditor should that money are recovered from the travel agents or booking agencies as per the terms of credit allowed. Restaurant Income - Cross check bills with KOTs (Kitchen Order Tickets), if there is any under billing inform management - Check whether rates as per updated menu card and discounts as per prevailing schemes - Check calculations along with taxes for few customers Rent Check rental income from banquet halls and space rented to travel agencies
Major Expense Checking	Casual Labour - The hotel trade operates to very large extent of casual labour. - The records maintained of such wage payments are frequently inadequate. - The auditor should ensure that defalcation on this account does not take place by suggesting proper controls to the management. Commission - Commission, if any, paid to travel agents or booking agents should be checked by reference to the agreement on that behalf. Renovation The auditor should see that costs of renovation and redecoration are treated as expense, where as costs of major alterations and additions to the hotel building and facilities capitalised. Administration Expenses - Check Salary paid to staff, electricity expenses, repairs & maintenance cost - Compare them with previous period & annual budget
Major Assets Verification	Stocks – The stocks in any hotel are both readily portable and saleable particularly the food and beverage stocks. Areas where large quantities of stock are held should be kept locked, the key being retained by the departmental manager. The key should be

	released only to trusted personnel and unauthorised persons should not be permitted in the stores areas except under constant supervision. • In particular, any movement of goods in or out of the stores should be checked; it is not unknown for a full crate to be removed in error as an empty crate. • Many hotels use specialized professional value's to take and value the stocks on a continuous basis throughout the year. Such a valuation is then almost invariably used as the basis of the balance sheet stock figure at the year end. • Auditor should consider attending at the physical stock taking and carrying out certain pricing and calculation tests. The extent of such tests could well be limited since the figures will have been prepared independently of the hotel. Fixed Assets • Go for physical verification, check legal documents, and check depreciation • If there is any increase check construction or acquisition cost Investments • Verify purchase and sale investments have been properly authorised. • Check share/ debenture certificate • Verify Banker's certificate if custody is with them. • Check valuation and whether there is any permanent diminution in value
Special Points	1. Pilfering is one of the greatest problems in any hotel and the importance of internal control cannot be over stressed 2. The auditor should satisfy himself that all taxes collected from occupants on food and occupation have been paid over to the proper authorities. 3. In large hotels it is usual to operate a booth to facilitate conversion of foreign currencies to Indian rupees. The auditor should ensure compliance with the various applicable provisions of FEMA and the rules framed by Foreign Exchange Dealers Association

PUBLISHING COMPANY (N 93)	
Constitution	• Understand area of publishing. • Business, Students, Housewives, Doctors, Film Industry • THE PRESS AND REGISTRATION OF BOOKS ACT, 1867 is applicable to publishers • Generally in the form partnerships or companies so study partnership deed, AOA or MOA. • Read minutes of the meetings of the Managing Committee or Governing Body • Also evaluate status of internal control system • Take list of books of accounts and accounting policy
Major Income Checking	Sale of Books/ Magazines • Vouch the receipt w.r.t. number of book sold. • Ensure that the books sold on approval are properly adjusted & NOT SHOWN as sales. • In case books have been distributed free of cost, check authorization.

	Advertisement Income • In case of publication of magazines & newspaper , a major source of income is through advertisement • Ensure that the bills have been raised for all advertisement published. • Examine the bills raised with subsequent receipt
Major Expense Checking	Production Account To be opened for each book and all printing expenses should be debited here to get proper cost per book. Royalties • To check paid or received with agreement or MOU. • Check whether it is per book or percentage of sales or fixed • Check advances made and whether they are written off to P&L on regular basis. Copyrights See that all copyrights paid on the publication are written off in full to revenue. Copyrights should not be allowed to be written up. Apportionment of expenses Where books and periodicals are published for others. Discounts: Check discount on sales allowed to the booksellers are proper. Administration Expenses Check Salary paid to staff, electricity expenses, repairs & maintenance cost • Compare them with previous period & annual budget
Major Assets Verification	Stock • Verify Sale or Return excluded from sales but included in the closing stock for balance-sheet purposes, at cost price. • Stock Valuation: is according to the cost of production per volume each book is debited with the number published and • Credited with sales and presentation copies.