

# Audit of Different Service Organisations

16

**This Module includes:**

- 16.1 Audit of Hospitals**
- 16.2 Audit of Hotels**
- 16.3 Audit of Educational Institutions**
- 16.4 Audit of Co-operative Societies**
- 16.5 Audit of Self-Help Groups**
- 16.6 Audit of Non-Government Organisations (NGOs)**
- 16.7 Audit of Local Bodies**
- 16.8 Audit of Government Expenditure**
- 16.9 Propriety Audit in the context of Government Audit**
- 16.10 Audit of Commercial Accounts**

# Audit of Different Service Organisations

## SLOB Mapped against the Module

To develop detail understanding of the audit procedure in various service organisations with an objective to facilitate risk-based performance management and maximisation of value creation or minimisation of value destruction. (CMLO 1a, b)

## Module Learning Objectives:

Currently, there is a substantially high level of potential for entrepreneurs to leave a mark with new service business ideas. Convenience-craving customers of today are searching for quicker and cheaper products or services that they can avail themselves easily. Today, the service sector contributes 55% to India's GDP. The popularity of the service industry stems from the fact that they are low-investment ideas. The break-even occurs comparatively sooner compared to other companies as a non-infrastructure-centred business in the start-up stage. After studying this module, the students will be able to –

- ✦ Identify the nature of the services provided by the service organisation and the significance of those services to the user entity
- ✦ Understand the nature and materiality of the transactions processed by the service organisation
- ✦ Analyse the effect of the transactions processed by the service organisation on the client's internal control

A strategically orientated and structured internal audit function can play a vital role in assisting the Board of Directors, Audit Committees and management in achieving these business challenges. Internal audit can add value by:

- ⦿ Focusing on risk areas through the participation in corporate governance and risk management processes.
- ⦿ Evaluating and recommending process improvement opportunities.
- ⦿ Researching best practices and making recommendations for change.
- ⦿ Monitoring the implementation of management strategic actions.
- ⦿ Organising itself as a cost-effective business unit. When designing an internal audit function, strategy must drive tactics, not the reverse.

Too often, the internal audit functions respond to immediate tactical needs. In a rush to implement responses, key strategic issues can be overlooked. The result can be a tactical internal audit function in search of a strategy.

Having discussed about Internal Audit and its concepts in the previous module, we now discuss in this study note how internal audit is to be conducted in various service organisations.

The following points are to be considered necessary for conducting an audit of Hospital.

- (i) Check the letter of appointment to ascertain the scope of responsibilities.
- (ii) Ownership and control of the institution.
- (iii) Process (e.g admission, release, outdoor check-up, pathology and other test facilities, Operation Theatre facility, vaccination etc.) and related controls till revenue generation. Normally facilities not provided for other than cash terms.
- (iv) Donation, Special Grant, Interest and/ or dividend income etc. to be validated through necessary supporting documents, should be vouched with reference to the Investment Register and Interest and Dividend warrants.
- (v) Ensure purposive donations, grants etc. spent for the particular purpose only.
- (vi) Clear distinction should be made between the items of capital and revenue nature.
- (vii) Adherence to Standard Operating procedure w.r.t Expenses (Capex and Opex)
- (viii) Verify the system of internal check as regards purchases and issue of stores, medicines , medical equipment etc.
- (ix) Examine that the appointment of the staff, visiting specialist doctors, payment of salaries etc. for expenditure booking validation.
- (x) Physically verify the investments, fixed assets and inventories.
- (xi) Check appropriateness of capitalization and depreciation rates charged and value in Books.

**Q**uality of service is the essence of hospitality sector. It is a service-oriented industry. The business is characterized by handling of large amounts of liquid cash, sufficient stock of foods and raw materials for food preparation as per taste buds of Customers, ensure service delivery to satisfy Customers by providing a variety of services, and keeping watch on customers to ensure that they do not leave hotel without settling the dues. In view of these, the following matters require special attention by the auditor.

### (i) **Internal Control**

Internal control system should address - revenue leakage; pilferage of food/utensils; prompt cash/bank collection process, appropriate billing as per service delivery and tariff, issue/consumption control, proper usage of Bar and other licence, procurement as per quality norm at appropriate market rate etc. 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:

- (a) Effectiveness of arrangement regarding receipts and disbursements of cash.
- (b) Procedure for purchase and stocking of various commodities and provisions.
- (c) Procedure regarding billing of the customers in respect of room service, telephone, laundry, etc.
- (d) System regarding recording and physical custody of edibles, wines, cigarettes, crockery and cutlery, linen, furniture, carpets, etc.

### (ii) **Room Sales and Cash Collections**

- (a) Grade-wise (Ordinary, Luxury, Super Luxury) Room tariff and booking as per Front Office and verification with Billing Desk to ensure appropriate billing for room-nights. Room Service (food drinks, laundry), Minibar (Fridge kept inside room with food, drinks and beverage) material, sports facility usage etc. recorded and billed appropriately for collection. There are various sales points scattered in a hotel and sales are both for cash and credit. The control over cash is very important. The charge for room sales is made from the guest register, and tests are to be carried out to ensure that the correct number of guests are charged for the exact period of stay. Any difference between the rate charged to the guests and standard room rent is to be investigated to see that it is properly authorized. Credit Card/Debit Card, Cash, Foreign Exchange and Cheque (special Corporate Bookings), RTGS/NEFT etc. to be tallied with Bill value.
- (b) Daily room occupancy report, Check In – Check Out Record and Billing for occupancy to be validated on daily basis. The total sales reported with the total bills issued at each sales point have to be reconciled.

- (c) Food Bills with KOT( Kitchen Order Token) and signed Customer copy as evidence for consumption, other facility charges with respective facility usage token as per prevalent tariff. 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. 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.

(iii) **Stock**

- A. Utensils purchased, records for issue to Housekeeping/Kitchen etc. to be regularly updated and periodically verified. The stocks in a hotel like all saleable items, food and beverages need to be compared with Kitchen and other relevant records, consumption of raw items etc. These should be physically verified (with or without surprise element) at periodic intervals.
  - B. The following may be noted in this regard:
    - (a) Food procurement and Issue to Kitchen, KOT validation process with Guest Orders. Stale, outdated food to throw Bin also be recorded for reference. All movement and transfer of stocks must be properly documented.
    - (b) Store Keeper is responsible for all movement records to justify stock at hand. Areas where stocks are kept must be kept locked and the key retained by the departmental manager. A key holding register (shift-wise) to be maintained to fix responsibility w.r.t noticing mishandling at the time of verification, if any.
    - (c) Unauthorized persons should not be permitted in the stores area without specific permission.
  - C. Many hotels use specialized professional valuers to count and value the stocks on a continuous basis throughout the year.
  - D. Periodical physical verification and documented valuation process need to be adhered. The auditor should ensure his presence at least for part of the time during verification process to strengthen vigil. The Auditor to consider that all stocks are valued at the year end.
  - E. Fixed Assets Register with all necessary noting as to installation date, cost, description, life class etc. to be maintained and depreciation on reporting dates to be computed. The fixed assets should be properly depreciated, and the Fixed Assets Register must be updated.
- (iv) Section-wise /Cost Centre-wise detail e.g manpower deployed, maintenance spent, wages, managerial expenses etc. to be maintained on regular basis for cost analysis and necessary help in decision making.
- (a) Casual Labour: In case the hotel employs a casual Labour, the auditor should consider, whether adequate and accurate records have been maintained in this respect. Automated time recording facility is now available in most of the hotels and time clocked there collected for considering attendance.
  - (b) The wages payment of the casual Labour must also be checked thoroughly.
- (v) Cost – Revenue comparison facility-wise (Swimming Pool, Golf Course, Spa etc.) to be monitored for service level assessment with recovery rate /change required to maintain service level.

The compliance with all statutory provisions, and compliance with the Foreign Exchange ( FE) Regulations must also be verified by the auditor, especially because hotels offer facility of conversion of foreign exchange to rupees/Receiving FE from foreign travelers.

**A. Receipt and Payment verification:**

- (a) Consumption shown in various physical stock accounts must be traced to the customers' bills to ensure that all issues to the customers have been billed.
- (b) All payments to the foreign collaborator, if any, are to be checked. Agency commission agreements and spent validation payment made to Brand Owner as per arrangement.
- (c) 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.
- (d) Special receipts on account of letting out of auditorium, banquet hall, spaces for shops, boutiques, and special shows, marriage parties etc. should be verified with bookings and the arrangements made.
- (e) In depth check should be carried out on the customers' ledgers to verify that all charges have been properly made and recovered.
- (f) The occupancy rate should be worked out, and collection made against the same. Benching of rates with other similar hotels and same quality of services, and with previous year. Material deviations should be investigated.
- (g) Expenses for painting, decoration, renovation of building, etc. are to be properly checked.
- (h) 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.
- (i) Apart from control over stock of edibles, control over issue and physical stock of linen crockery, cutlery, glassware, silver, toilet items, etc. should be verified.
- (j) The auditor should verify the restaurant bills with reference to KOT (Kitchen order Ticket).
- (k) The auditor should ensure that all taxes have been included in the client's bills.
- (l) Computation and payment of salaries and wages vis-a-vis number of employees must be checked.

**O**wnership of Educational Institutions are of varied types, Government run, Private, Trust owned etc., accordingly regulatory implications are different.

The special steps involved in the audit of an educational institution are the following:

- (i) Documents relating to formation of the institution, affiliation, Management structure, Governing Body, ownership etc. requires due attention for fund monitoring, donation, spent approval process, affiliation fees payment etc.

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

- (ii) Approving authority for expense, fund transfer, bank account operation etc. 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, especially the decisions as regards the operation of bank accounts and sanctioning of expenditure.
- (iii) Semester/Class-wise Student Register with details of Student name, address, Aadhar No./Card, Guardian details, Contact No. etc. and fee structure (full fees, half fees, sanctioned waiver etc.) mapped for ensuring accuracy of collection. Where collection through direct Banking takes place, the Bank Statement to be equated with 'fees receivable/recoverable' for completeness check and proper revenue /collection (advance/arrear) recognition. Fees collected and Fees Book counterfoil reconciliation also can be carried out, for fees collected at the Counter. Collection against every student, whose names are appearing in the 'Student Register' to be validated and unpaid ones to be followed-up.
- (iv) Updation of 'Student Register' w.r.t discontinued, transferred students, drop-outs etc. to be carried out on timely basis.
- (iv) Fees condonation by appropriate authority to be considered for reconciliation between receivable fees and received.
- (vi) Admission and other collections (late fees, transfer charges etc.) need to be tracked for separately and booked under appropriate Account Heads.
- (vii) Confirm that hostel dues were recovered before students' accounts were closed and their caution deposits appropriately adjusted/refunded.
- (viii) Verify other sources of income (rental income from landed property with the rent rolls, bank Fixed Deposit interest from Deposit Certificates etc.)

- (ix) Grants received with the relevant papers of grant.
- (x) Appropriate account head for Grant receipt and spent eligible thereunder to be checked for compliance.
- (xi) Review of Receipts and Payments, Income and Expenditure for completeness and accuracy of Fund balances and bank balances.
- (xii) Completeness and accuracy of income and expenditure need to be ensured.
- (xiii) All statutory deposits P.F, Municipal /Corporation Taxes, Affiliation Fees etc.), filing to be checked for compliance.
- (xiv) Vouch all capital expenditure in the usual way and verify the same with the sanction for the Committee as contained in the minute book.
- (xv) Vouch in the usual manner all establishment expenses, approvals and enquire into any high volume expenditure.
- (xvi) Verify the inventories of furniture, stationery, clothing, provision and all equipment, etc. against the spent booked for the period under review and physical existence. These should be checked by reference to Stock Register and values applied to various items should also be test checked.
- (xvii) Appropriate Fund Accounts are maintained to verify dedicated Bank balance tallies with the books maintained by the Organization.

# Audit of Co-operative Societies

## 16.4

Section 17 (2) of the Co-operative Societies Act, 1912 specifically requires the auditor to conduct an examination of the overdue debts, if any, and a valuation of the assets and liabilities of the society. The auditor of a co-operative society is also required to point out various irregularities, improprieties, and departures from the provisions of the Act, rules framed thereunder, and the bye-laws of the society.

The special features of co-operative societies audit, to be borne in mind while conducting the audit are as follows:

1. **Examination of overdue debts:** Overdue debts for a period from six months to five years and more than five years will have to be classified and shall have to be reported by an auditor. It affects its working capital position. They will have to be classified as good or bad. The auditor will have to ascertain whether proper provisions for doubtful debts is made and whether the same is satisfactory. The percentage of overdue debts to the working capital and loans advanced will have to be compared with last year, so as to see whether the trend is increasing or decreasing whether due and proper actions for recovery are taken, the position regarding cases in co-operative courts, District Courts etc. and the results thereof.
2. **Overdue Interest:** Overdue interest should be excluded from interest outstanding and accrued due while calculating profit. Overdue interest is interest accrued or accruing in accounts, the amount of which the principal is overdue.
3. **Certification of Bad Debts:** Bad debts and irrecoverable losses before being written off against Bad Debts Funds, Reserve Fund etc. should be certified as bad debts or irrecoverable losses by the auditor where the law so requires. Where no such requirement exists, the managing committee of the society must authorize the write-off.
4. **Valuation of Assets and Liabilities:** Regarding valuation of assets there are no specific provisions or instructions under the Act and Rules and as such due regard shall be had to the general principles of accounting and auditing conventions and standards adopted. The auditor will have to ascertain existence, ownership and valuation of assets. Fixed assets should be valued at cost less adequate provision for depreciation. The incidental expenses incurred in the acquisition and the installation expenses of assets should be properly capitalized. If the difference in the original cost of acquisition and the present market price is of far-reaching significance, a note regarding the present market value may be appended; so as to have a proper disclosure in the light of present inflationary conditions. The current assets be valued at cost or market price, whichever is lower. Regarding the liabilities, the auditor should see that all the known liabilities are brought into the account, and the contingent liabilities are stated by way of a note.
5. **Adherence to Co-operative Principles:** The auditor will have to ascertain in general, how far the objects, for which the co-operative organisation is set up, have been achieved in the course of its working. While auditing the expenses, the auditor should see that they are economically incurred and there is no wastage of funds. Middlemen commissions are, as far as possible, avoided and the purchases are made by the committee members directly from the wholesalers. The principles of propriety audit should be followed for the purpose.

6. **Observations of the Provisions of the Act and Rules:** An auditor of a co-operative society is required to point out the infringement with the provisions of Co-operative Societies Act and Rules and bye-laws. The financial implications of such infringements should be properly assessed by the auditor and they should be reported. Some of the State Acts contain restrictions on payment of dividends, which should be noted by the auditor.
7. **Verification of Members' Register and examination of their pass books:** Examination of entries in members, pass books regarding the loan given and its repayments, and confirmation of loan balances in person is very much important in a co-operative organisation to assure that the entries in the books of accounts are free from manipulation.
8. **Special report to the Registrar:** During the course of audit, if the auditor notices that there are some serious irregularities in the working of the society, he may report these special matters to the Registrar, drawing his specific attention such irregularities. The Registrar on receipt of such a special report may take necessary action against the society. In the following cases, for instance a special report may become necessary:
  - (i) Personal profiteering by members of managing committee in transactions of the society, which are ultimately detrimental to the interest of the society.
  - (ii) Detection of fraud relating to expenses, purchases, property and stores of the society.
  - (iii) Specific examples of mis-management including decisions of management against co-operative principles.
  - (iv) In the case of urban co-operative banks, disproportionate advances to vested interest groups, such as relatives of management, and deliberate negligence about the recovery thereof. Cases of reckless advancing, where the management is negligent about taking adequate security and proper safeguards for judging the credit worthiness of the party.
9. **Audit classification of society:** After a judgment of an overall performance of the society, the auditor has to award a class to the society. This judgment is to be based on the criteria specified by the Registrar. It may be noted here that if the management of the society is not satisfied about the award of audit class, it can make an appeal to the Registrar, and the Registrar may direct to review the audit classification. The auditor should be very careful, while making a decision about the class of society.

### Formation of Co-operative Societies:

Any ten persons who are competent to enter into a contract may make an application to the Registrar of Co-operative Societies as per section 6 of the Co-operative Societies Act, 1912. By-laws may be framed by each society and should be registered with Co-operative Societies. The effectiveness of change in by-laws of societies is applicable only when changes are approved by the Registrar of Societies. There are two types of societies, limited liabilities, and un-limited liabilities societies. Any member is not liable to pay more than the nominal value of the share held by them and no member can own more than 20% of shares of societies.

The government is encouraging co-operative societies to help society. Co-operative societies are operative in various sections like a consumer, industrial, service, marketing, etc.

Under the accounting system of Cooperative societies, the terms receipt and payment are used for the two-fold aspect of the double-entry system.

Members are elected at the annual general meeting of the society. The day-to-day work of a co-operative society is managed by the managing committee.

### **Audit of Co-operative Society**

The provisions for 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 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.

### **Appointment of Auditor:**

The appointment of an Auditor is done by the Registrar of Co-operative Societies. The Auditor conducts his audit on behalf of the Registrar. The Audit fees are paid by the 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 society shows a true and fair view of a business according to the information and explanation are 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 efficiently:

- ⦿ 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 the Co-operative Societies Act, 1912 and by-laws, he should immediately point out the same.
- ⦿ An Auditor should ascertain 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 the power of officers regarding loans, investment and borrowings, and advancing of the funds.
- ⦿ He should thoroughly check and vouch for 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 the borrower to check the interest due on the loan and repayment schedule. An Auditor should also check and compare the actual interest received and the repayment of the loan received with dues from them.
- ⦿ He should carefully vouch and verify that loan given to members of the society is according to the 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 the Cooperative 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 kinds 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.
- ⦿ Accounts should be according to the Co-operative Society Act and also with the provision of the Income Tax Act.
- ⦿ All the assets, expenses, income, cash-in-hand, etc. should be vouched and verified according to standard accounting procedures and principles.

### **Books, Accounts, and Other Records of the Society**

Under Section 43(h) of the Co-operative Society Act, 1912, the Government of a state can frame rules prescribing the books of accounts to be kept by a Cooperative society. Following books and accounts are prescribed by the Maharashtra Government.

- ⦿ Cash Book
- ⦿ General Ledger
- ⦿ Stock register
- ⦿ Personal Ledger
- ⦿ Register of Members
- ⦿ Register Shares and debentures
- ⦿ Minutes books of general body meetings and committee meetings
- ⦿ Property Register
- ⦿ Register recording loan applications
- ⦿ Maintenance of register of audit objections and their rectifications

### **Special Features of Co-Operative Audit**

The checking of posting, arithmetical accuracy, vouching, verification of assets and liabilities, and scrutiny of the balance sheet are the same as auditors do in any other case.

### **Examination of Overdue Debts**

An Auditor has to examine and classify overdue debts:

- ⦿ From six months to five years and,
- ⦿ Overdue above five years in two categories and shall have to report it in his audit report.

### **Overdue Interest:**

While calculating the profit of Co-operative society overdue amount of interest outstanding should be excluded.

### **Valuation of Assets and Liabilities**

General principles of accounting and auditing conventions and standards are adopted at the time of valuation of assets and liabilities. No specific provisions or instructions under the Act and Rules are provided.

### **Adherence to Co-operative principles**

An Auditor should ascertain how far the objectives, for which the Co-operative society is set up, have been achieved in course of its working. It is not necessarily in terms of profit but in terms of extending benefits to members who have formed the Society.

### **Certification of Bad-debts**

As per Rule No.49 of the Maharashtra State Co-operative Rules, 1961, it is very interesting to note that no bad debts can be written off unless they are certified as bad debts by the Auditor. Where no such requirement of law exists, the managing committee of the society must authorize the write-off.

### **Observation of the Provisions of the Act and Rules**

An Auditor should be well versed with the provisions of the Act and Rules of the Co-operative Society and the by-laws thereof. If the Auditor finds any irregularity, it should be immediately assessed and reported to the next level.

### **Verification of Members Register and Examination of their Pass Books**

This is essential, especially in rural and agricultural credit societies where members are illiterate, the Auditor should verify the passbook and members register to verify the amount of loan granted and their repayments. It will help to ensure that the books of accounts are free from any manipulation.

### **Special Report to the Registrar**

During the audit, if any irregularities are found by the Auditor they should be reported to the Registrar and appropriate action may be taken by the Registrar against the society.

### **Audit Classification of Society**

After assessing the overall performance, an Auditor has to award a class to the society. The judgment of the Auditor should be based on the criteria fixed by the Registrar. The Auditor should be very careful when making decisions related to the classes in the society; if management is not satisfied with the award, he may file an appeal to the Registrar and the Registrar may direct to review of the audit classification.

### **Discussion on Audit Draft**

After completion of the audit, minor irregularities may be settled and rectified; matters concerning policies should be discussed in detail. The audit report can never be finalized without discussion with the managing committee.

### **By-laws**

Each registered society is required to frame its by-laws which have to be registered with the Registrar of Co-operative societies. According to Section 11 of the Act, the amendment of the by-laws of a registered society shall not be valid until the same has been approved by the Registrar of the Co-operative societies.

### Investment of Funds

A registered society can invest or deposit its funds only in:

- ⦿ Saving bank accounts of Government Banks.
- ⦿ Any of the securities specified under Section 20 of the Indian Trust Act, 1882.
- ⦿ The shares or in the security of any other registered society.
- ⦿ Any bank or person carrying on the business of banking approved for this purpose by the Registrar.
- ⦿ Any other mode permitted by Section 32 of the Co-operative Societies Act.

### Restriction on Co-operative Society

#### Restriction on Shareholding

According to Section 5 of the Act, where liabilities of the members of a society are limited, no member other than a registered society can hold more than 20% of the share's capital or shares of the society worth more than Rupees one thousand.

#### Restriction on Transfer of Share

A member of a registered society with unlimited liability, cannot transfer any shares held by him or his interest in the capital of the society unless:

- ⦿ He has held that share for at least one year, and
- ⦿ The transfer and change are made to the society or a member of the society.

#### Restriction on Loan

- ⦿ According to Section 29 of the Act, a registered society cannot advance any loan to any person other than a member except with the prior permission of the Registrar.
- ⦿ A society with unlimited liability cannot lend money on the security of a movable property except with the sanction of the Registrar of Co-operative society.
- ⦿ The State Government has the power and can prohibit or restrict loans against mortgage of immovable property by any registered society or class of registered societies.

#### Restriction on Borrowings

A registered society can receive deposits and loans from persons who are not members of the society, only to such an extent and under such conditions as may be prescribed by the rules of the Co-operative Societies Act or by-laws of the concerned society.

#### Exemptions

According to Section 28, Central Government may exempt any registered societies or class of registered societies from Income Tax (Payable on the profits of the society or dividends or other profit related to payments received by the members of the society), Stamp duty or registration fees.

**Reserve Fund, Contribution to Charitable Funds, and Distribution of Profit**

- ⦿ According to Section 33, the first 25% of the net profit earned during the year should be transferred to a Reserve Fund.
- ⦿ 10% of the Balance amount of net profit after transferring 25% to the Reserve fund, a registered society can contribute for charitable purposes with the sanction of the Registrar.
- ⦿ Under such conditions as may be prescribed by the rules or by-laws, the balance amount of current profit plus past years' profit can be distributed to members of the society.
- ⦿ Dividend can be distributed according to rules and by-laws but cannot be more than 6.25%.

Only after special order of the State Government, unlimited liability society can distribute its profit, otherwise not.

# Audit of Self-Help Groups

# 16.5

Self Help Group (SHG) Movement in India has been recognized as an effective strategy for mobilization and empowerment of rural people, particularly poor women and other marginalized groups. In India, Self Help Groups or SHGs represent a unique approach to financial intermediation. The approach combines access to low-cost financial services involving a process of self-management, with an objective of social and economic development for the women SHG members. Formations of SHGs are facilitated by the Government or by NGOs. SHGs are linked not only to banks but also to wider development programmes, SHGs are seen to confer many benefits, both economic and social.

As expert accounting professionals are hardly available at Gram Panchayat level, the need of the hour is “Community Audit” and it is necessary to develop sufficient number of “Community Auditors” for the sake of financial transparency.

The Institute of Cost Accountants of India and WBSRLM have entered into a MOU to enable undertaking of various collaborative activities for establishing “Community Audit” system for Self Help Groups in West Bengal by developing sufficient number of qualities “Community Auditors” for meeting the audit needs of SHGs in the state.

## Applying the Field Balance Sheet Approach to Audit:

- 1. Background Review:** During a background review, a preliminary examination of the group level records, including the cash book, is conducted. The auditor also does a general review of the group level records and member passbooks to verify/ cross-check data entries for their accuracy and correct posting.
- 2. Prepare Field Balance Sheet:** The auditor prepares the Field Balance Sheet for the group, as on the date of the audit, based on the SHG’s internal records and then cross checks the correctness of balance sheet items. The primary objective is to ascertain the retained earnings of the SHG.

Sl. No.	Assets	Amount	Sl. No.	Liabilities	Amount
1	Cash in Hand		1	Voluntary Savings	
2	Cash at Bank		2	External loan Outstanding	
3	Loan Outstanding with Members		3	Equity:	
4	Fixed Deposit		a	Compulsory Saving	
5	Fixed Asset		b	Retained Earning	
	<b>Total</b>			<b>Total</b>	

3. **Private Meetings with Members:** The auditor conducts private interviews with 25% of total members to triangulate information collected from the background review, as well as from the Field Balance Sheet and to ascertain the decision-making pattern in the group.
4. **Meeting with the SHG Group:** If serious issues were raised during the course of the audit, the auditor will meet with the entire group for further discussion.
5. **Reporting:** Once the auditing is complete, the auditor summarizes any weak practices that put savings at risk or make records unreliable, and recommends any better methods. Auditor submits the Field Balance Sheet, along with a summary report to the MFI/bank, to all group members and adds relevant comments to enable decision making regarding provision of credit.

# Audit of Non-Government Organisations (NGOs)

16.6

**A**udit Procedure for Conducting the Audit of Non-Government Organisation NGO's can be defined as non-profit making organisations which raise funds from members, donors or contributors apart from receiving donation of time, energy and skills for achieving their social objectives.

Non-Government Organisations are generally incorporated as societies under the Societies Registration, Act, 1860 or as a trust under the Indian Trust Act, 1882, or under any other law corresponding to these Acts enforced in any part of India. NGO's can also be incorporated as a company under section 8 of the Companies Act, 2013.

While planning the audit of a Non-Government Organisation (NGO), the auditor may concentrate on the following;

- (i) Knowledge of the NGO's work, its mission and vision, areas of operations and environment in which it operates.
- (ii) Reviewing the legal form of the organisation and its Memorandum of Association, Articles of Association, Rules and Regulations.
- (iii) Reviewing the NGO's Organisation chart, Financial and Administrative Manuals, Project and Programme Guidelines, Funding Agencies Requirements and Formats, budgetary policies, if any.
- (iv) 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.
- (v) Study the accounting system, procedures, internal controls and internal checks existing for the NGO and verify their applicability.

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

- (i) **Corpus fund:** The contributions/grants received towards corpus be vouched with reference to the letters from the donor(s). The interest income be checked with investment Register and physical investments in hand.
- (ii) **Reserves:** Vouch transfers from projects/programmes with donors' letters and board resolutions of NGO. Also check transfers and adjustments made during the year.
- (iii) **Ear-marked Funds:** Check requirements of donors' institutions, board resolution of NGO, rules and regulations of the schemes of the ear-marked funds.
- (iv) **Project/Agency Balances:** Vouch disbursements and expenditures as per agreements with donors for each of the balances.
- (v) **Loans:** Vouch loans with loan agreements receipt counter –foil issued.

- (vi) **Fixed Assets:** Vouch all acquisitions/sale or disposal of assets including depreciation and the authorizations for the same. Also check donor's letters/agreements for the grants. For immovable property, check title, etc.
- (vii) **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.
- (viii) **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.
- (ix) **Bank Balance:** Check the bank reconciliation statements and ascertain details for old outstanding and unadjusted amounts.
- (x) **Stock in Hand:** Verify stock in hand and obtain certificate from the management for the quantities and valuation of the same.
- (xi) **Programme and Project Expenses:** Verify agreement with donor/contributor (s) supporting the particular programme or project to ascertain the conditions with respect to undertaking the programme/project and accordingly, in the case of programmes/projects involving contracts, ensure that income tax is deducted, deposited and returns filed and verify the terms of the contract.
- (xii) **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.

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

- (i) **Contribution and Grants for projects and programmes:** Check agreements with donors and grants letters to ensure that funds received have been accounted for. Check that all foreign contribution receipts are deposited in the foreign contribution bank account as notified under the Foreign Contribution (Regulation) Act, 1976.
- (ii) **Receipts from Fund raising programmes:** Verify in detail the internal control system and ascertain who are the persons responsible for collection of funds and mode of receipt. Ensure that collections are counted and deposited in the bank daily.
- (iii) **Membership Fees:** Check fees received with membership register, ensure proper classification is made between entrance and annual fees and life membership fees. Reconcile fees received with fees to be received during the year.
- (iv) **Subscription:** Check with subscription register and receipts issued. Reconcile subscription received with printing and dispatch of corresponding magazine/circulars/periodicals. Check the receipts with subscription rate schedule.
- (v) **Interest and Dividends:** Check the interest and dividends received and receivable with investments held during the year.

**L**ocal bodies are institutions of the local self-governance, which look after the administration of an area or small community such as villages, towns, or cities. The Local bodies in India are broadly classified into two categories. The local bodies constituted for local planning, development and administration in the rural areas are referred as Rural Local Bodies (Panchayats) and the local bodies, which are constituted for local planning, development and administration in the urban areas are referred as Urban Local Bodies (Municipalities). Article 243J of the Constitution states that the Legislature of a State may, by law, make provisions with respect to the maintenance of accounts by the Panchayats and the auditing of such accounts.

Article 243Z of the Constitution states about the audit of accounts of Municipalities. The Legislature of a State may, by law, make provisions with respect to the maintenance of accounts by the Municipalities and the auditing of such accounts.

## **Financial Administration of Local Bodies.**

### Salient Features of Financial Administration of Local Bodies

- (i) **Budgetary Procedure:** The objective of local bodies budgetary procedure are financial accountability, control of expenditure, and 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 authorisation by the legislature or Council. 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.
- (ii) **Expenditure Control:** At the State and Central level, there is a clear demarcation between the legislature and executive. In the local body, legislative powers are vested in the Council whereas executive powers are delegated to the officers, e.g., Commissioners. All matters of regular revenue and expenditures are generally delegated to the executive wing. For special situations like, reduction in property taxes, refund of security deposits, etc., sanction from the legislative wing is necessary.
- (iii) **Accounting System:** Municipal Accounting System has been conventionally prepared under the cash system.

In the recent past however, it is being changed to the accrual system of accounting. The accounting system is characterized by

- (a) subsidiary and statistical registers for taxes, assets, cheques etc.,
- (b) separate vouchers for each type of transaction,
- (c) compulsory monthly bank reconciliation,
- (d) submission of summary reports on periodical basis to different authorities at regional and state level.

The objectives of this audit are:

- ⦿ To report the content and presentation of financial statements are true and fair
- ⦿ Detection and prevention of error fraud, misuse of funds
- ⦿ To ascertain that full value received for money spent
- ⦿ Legal and administrative requirements fulfilled

The audit programme for local bodies includes the following:

- ⦿ All sanctions are accorded by competent authority
- ⦿ Expenditure incurred are according to provisions and as per regulations framed by competent authority
- ⦿ Different schemes, programmes, and projects are running economically and the purpose such programme is achieved.

# Audit of Government Expenditure

## 16.8

**Government Expenditure Audit:** Audit of government expenditure is one of the major components of government audit conducted by the office of C&AG. The basic standards set for audit of expenditure are to ensure that there is provision of funds authorised by competent authority fixing the limits within which expenditure can be incurred. Briefly, these standards are explained below:

- (i) **Audit against Rules & Orders:** The auditor has to see that the expenditure incurred conforms to the relevant provisions of the statutory enactment and is in accordance with the financial rules and regulations framed by the competent authority.
- (ii) **Audit of Sanctions:** The auditor has to ensure that each item of expenditure is covered by a sanction, either general or special, accorded by the competent authority, authorising such expenditure.
- (iii) **Audit against Provision of Funds:** It contemplates that there is a provision of funds out of which expenditure can be incurred and the amount of such expenditure does not exceed the appropriations made.
- (iv) **Propriety Audit:** It is required to be seen that the expenditure is incurred with due regard to broad and general principles of financial propriety. The auditors aim to bring out cases of improper, avoidable, or infructuous expenditure even though the expenditure has been incurred in conformity with the existing rules and regulations. Audit aims to secure a reasonably high standard of public financial morality by looking into the wisdom, faithfulness and economy of transactions.
- (v) **Performance Audit:** This involves that the various programmes, schemes and projects where large financial expenditure has been incurred are being run economically and are yielding results expected of them. Efficiency-cum-performance audit, wherever used, is an objective examination of the financial and operational performance of an organisation, programme, authority or function and is oriented towards identifying opportunities for greater economy, and effectiveness.

**Role of C&AG in the Audit of a Government company:** The auditor of a government company is appointed by the C&AG.

The C&AG have powers under section 143 of the Companies Act, 2013 as follows:

- (i) to direct the manner in which the company's accounts shall be audited by the auditor and to give such auditor instructions in regard to any matter relating to the performance of his functions as such;
- (ii) to conduct a supplementary or test audit of the company's accounts by such person or persons as he may authorize in this behalf; and for the purposes of such audit, to require information or additional information to be furnished to person or persons so authorised, on such matters, by such person or persons, and in such form, as the Comptroller and Auditor-General may, by general or special order; direct. In addition, the C&AG has a right to comment upon or supplement the audit report in such manner as he thinks fit.

# Propriety Audit in the context of Government Audit

16.9

**Propriety Audit:** Under ‘propriety audit’, the auditors try to bring out cases of improper, avoidable, or infructuous expenditure even though the expenditure has been incurred in conformity with the existing rules and regulations. However, some general principles have been laid down in the Audit Code, which have for long been recognized as standards of financial propriety. Audit against propriety seeks to ensure that expenditure conforms to these principles which have been stated as follows:

1. The expenditure should not be prima facie more than the occasion demands. Every public officer is expected to exercise the same vigilance in respect of expenditure incurred from public moneys as a person of ordinary prudence would exercise in respect of expenditure of his own money.
2. No authority should exercise its powers of sanctioning expenditure to pass an order which will be directly or indirectly to its own advantage.
3. Public moneys should not be utilized for the benefit of a particular person or section of the community unless:
  - (i) the amount of expenditure involved is insignificant; or
  - (ii) a claim for the amount could be enforced in a Court of law; or
  - (iii) the expenditure is in pursuance of a recognized policy or custom; and
  - (iv) the amount of allowances, such as travelling allowances, granted to meet expenditure of a particular type should be so regulated that the allowances are not, on the whole, sources of profit to the recipients.

The government also engages in commercial activities and for the purpose it may incorporate following types of entities:

- (i) Departmental enterprises engaged in commercial and trading operations, which are governed by the same regulations as other Government departments such as defence factories, mints, etc.
- (ii) Statutory corporations created by specific statutes such as LIC, Oil Marketing Companies (OMC) etc.
- (iii) Government companies, set up under the Companies Act, 2013. All aforesaid entities are required to maintain accounts on commercial basis. The audit of departmental entities is done in the same manner as any Government department, where commercial accounts are kept. Audit of statutory corporations depends on the nature of the statute governing the corporation. In respect of government companies, the relevant provisions of Companies Act, 2013 are applicable.

### Sum Up:

Today, in the face of economic uncertainty, companies around the world are faced with the need to maintain financial stability and competitive advantage in the market. At the same time, the service sectors are the first to suffer. In such a situation, the internal audit service can come to the aid of the business.

**Internal audit services** are created both in manufacturing enterprises and in service organisations. The main role of internal audit is to be a “business partner” and to contribute to profitable long-term growth and the achievement of other goals of the organisation.

In some organisations of the financial sector, for example, in banks and insurance companies, the presence of an internal auditor on the staff of the company is a mandatory regulatory requirement.

The main functions of internal audit are to give shareholders, the board of directors, and management an independent assessment of the effectiveness of internal control, risk management, and corporate governance systems.

### Solved Case

#### Toshiba - A Case of Internal Audit Failure

Toshiba, a 140-year-old pillar of Japan Inc. is caught up in the country’s biggest accounting scandal since 2011.

In 2011, Olympus Corp was embroiled in a scandal. In July 2015, Toshiba Corp president Hisao Tanaka and

his two predecessors quit after investigators found that the company inflated earnings by at least \$1.2 billion during the period 2009-2014. Toshiba is one of the early adopters of the corporate governance reforms initiated in Japan. The corporate governance structure met corporate governance standards. Time and again cases of corporate governance failures have provided evidence that good corporate governance structure does not necessarily lead to good corporate governance. Organisation culture is a critical determinant of the quality of corporate governance.

Some of the observations of the independent investigation committee of the company on internal audit demand discussion and debate.

The investigation committee observes, “According to the division of duties rules of Toshiba, the corporate audit division is in charge of auditing the corporate divisions, the companies, branch companies, and affiliated companies. However, in reality the corporate audit division mainly provided consultation services for the ‘management’ being carried out at each of the companies, etc (as part of the business operations audit), and it rarely conducted any services from the perspective of an accounting audit into whether or not an accounting treatment was appropriate.”

The observations of the committee give the impression that the fault of the internal audit in Toshiba was that it focused on consultation service rather than assurance service. Should internal audit avoid providing consultation service? I do not think so. It was not the fault of the internal audit that it provided consultation service. The fault was that it did not pay attention to accounting audit.

In Toshiba, the top management used to set targets that are unachievable. There was excessive pressure from the top management to achieve those targets.

The variable pay is a significant portion of the total pay. The compensation of executive officers comprises a base compensation based on title and a role compensation based on work content. Forty per cent to 45 per cent of the role compensation is based on performance of the overall company or business department. ‘Challenge’ to achieve unachievable targets and performance-based pay provide enough motivation to manage earnings. Therefore, accounting audit should have been a focus area for internal audit.

Internal audit can function independently only if the audit committee is capable, independent and effective, and the internal auditor reports to the audit committee.

In Toshiba, the audit committee was neither capable nor independent. The three external members of the audit committee had no knowledge of finance and accounting. An ex-Chief Financial Officer (CFO), who was the CFO during the timeframe when accounting irregularities occurred, was the only whole-time member of the audit committee. Therefore, the internal audit was not independent of the management. Earnings management had the tacit approval of the top management. Therefore, it is not surprising that accounting audit was excluded from the scope of internal audit. It is incorrect to infer that the accounting audit did not receive the attention of the internal audit because its focus was on providing consultation service.

Contemporary literature defines internal audit as ‘assurance and consulting service’. The issue is of balancing between consultation service and assurance service. Problem arises when the internal auditor forgets that the internal audit is primarily an assurance function. The consultation service flows from the assurance service. Although, the primary objective of operation audit is to obtain assurance that the internal control that is installed to achieve operation objectives is adequate and operating effectively, the auditees look to the internal auditor for suggestions and consultancy. Such consultation service is a by-product of the assurance service. Auditees should not be denied the benefits of internal auditor’s understanding of the industry and the business, and the challenges before the auditees in achieving operation objectives. Exclusion of consultation service from the scope of internal audit would result in sub-optimal utilisation of internal audit resources.

Organisation culture also determines the effectiveness of internal audit. The investigation committee observes, “A corporate culture existed at Toshiba whereby employees could not act contrary to the intent of their superiors”. In such a culture an upright internal auditor cannot survive, particularly if he is not independent of the management. Perhaps, it is the reason that the internal audit in Toshiba had chosen the easy path of focusing on ‘consultation service’ only without reporting internal control weaknesses.

Internal auditor is the ‘eyes and ears’ and ‘go-to man’ of the audit committee. Therefore, internal audit failure leads to corporate governance failure.

## Exercise

### A. Theoretical Questions

#### ⊙ Multiple Choice Questions

1. Management audit \_\_\_\_\_ on financial matters.
  - (a) Involves
  - (b) Only concentrate
  - (c) Does not concentrate
  - (d) None of these
2. The main objectives of management audit is to \_\_\_\_\_.
  - (a) Suggest improvement in methods of operations
  - (b) Framing basic policies for the organisation
  - (c) Setting up an organizational framework
  - (d) None of these
3. Management audit is the unique process of \_\_\_\_\_ the performance of directors, managers or the performance of Management.
  - (a) Appraising
  - (b) Calculating
  - (c) Auditing
  - (d) Planning
4. The main emphasis of Management Audit:
  - (a) Problem solving
  - (b) Problem identification
  - (c) Problem definition
  - (d) Problem avoidance
5. Management audit is normally presumed to be a \_\_\_\_\_ into a performance of a manager or group of managers.
  - (a) Routine investigation
  - (b) Non-routine investigation
  - (c) Auditing
  - (d) None of these

6. C&AG has the right to direct how the company's accounts shall be audited by the auditor and to give such auditor instructions regarding any matter relating to the performance of his functions as per section \_\_\_\_\_.
- (a) 44AB of Income Tax Act
  - (b) 143 of the Companies Act, 2013
  - (c) 173 of the Companies Act, 2013
  - (d) 134 of the Companies Act, 2013
7. Non-Governmental Organisations can be incorporated as a company
- (a) Section 25 of the Companies Act, 1956.
  - (b) Section 8 of the Companies Act, 2013.
  - (c) Section 28 of the Companies Act, 2013.
  - (d) None of the above
8. Under 'propriety audit', the auditors try to bring out what type of expenditure:
- (a) Improper
  - (b) Avoidable
  - (c) In fructuous
  - (d) All of the above
9. What is the first step to conducting a Hospital Audit?
- (a) Check the letter of appointment
  - (b) Study Trust Deed
  - (c) Examine Records
  - (d) Physical Verification
10. Co-operative Auditor has to examine the overdue debts if any, and a valuation of the assets and liabilities of the society while conducting an internal audit as per
- (a) Section 17(3) of the Cooperative Societies Act, 1912
  - (b) Section 17(2) of the Cooperative Societies Act, 1912
  - (c) Section 17(5) of the Cooperative Societies Act, 1912
  - (d) Section 37(2) of the Cooperative Societies Act, 1912

11. \_\_\_\_\_ States about the audit of accounts of Municipalities.
- (a) Article 243Z of the Constitution
  - (b) Article 243J of the Constitution
  - (c) Both (a) and (b)
  - (d) None of the above
12. Who appoints the auditor for the Government Company?
- (a) Board of Directors
  - (b) Audit Committee
  - (c) C&AG
  - (d) CBDT
13. The government also engages in commercial activities and for this purpose, it may incorporate \_\_\_\_\_ type of entities.
- (a) Five
  - (b) Three
  - (c) Many
  - (d) Various.
14. Financial Administration of Local Bodies includes
- (a) Budgetary Procedure
  - (b) Expenditure Control
  - (c) Accounting System
  - (d) All of the above
15. Field Balance Sheet Approach to audit can be applied in case of audit of the
- (a) Co-Operative societies
  - (b) Local Body Corporate
  - (c) Self-Help Group
  - (d) Club

16. Concept of KOT ( Kitchen Order Token) relates to which audit?
- (a) Audit of Hotels
  - (b) Audit of Hospitals
  - (c) Audit of Education Institutes
  - (d) Audit of Cooperative Societies
17. What maximum % of shares any members can hold in cooperative societies?
- (a) 10
  - (b) 15
  - (c) 20
  - (d) 25
18. According to Section 6 of the Coperative Societies Act,1912, how many persons can form a society?
- (a) Minimum 5 persons
  - (b) Minimum 7 persons
  - (c) Minimum 10 persons
  - (d) Minimum 14 persons
19. Foreign Contributions Receipts are to be deposited in
- (a) Savings A/c
  - (b) Current A/c
  - (c) Foreign Contribution Bank A/c
  - (d) None of the Above
20. Field Balance Sheet is prepared by Salf Help Group ( SHG) to ascertain
- (a) Cash in Hand
  - (b) Cash at Bank
  - (c) Fixed Deposit
  - (d) Retained Earnings

⊙ **Essay Type Questions**

1. Discuss Audit Procedure for Conducting the Audit of Non-Governmental Organisation NGO.
2. Discuss the Role of C&AG in the Audit of a Government company.
3. Define Local Bodies and state the financial administrative features of local bodies.
4. What is the basic objective of the local body? Discuss the audit program of the same.
5. What is the first step in the audit of educational institutions?
6. How do you classify Local Bodies?
7. What point should be checked by an internal auditor while performing an internal audit of hotels concerning the internal control system?
8. What are the point to be considered while performing an audit of the Hospital?
9. What points should be considered in the audit program of Local Bodies?
10. Write a short note on the Self-Help Group.
11. Discuss the special feature of the Co-operative Society Audit.
12. Discuss the steps involved in the Audit of an Educational Institution.
13. M/s Hotel Hindustan Ltd. appoint you as an internal auditor for the year 2021-22. What point will you consider while conducting an audit? Discuss in short.

**Answer:**

**Multiple Choice Questions**

1.	(c) Does not concentrate.
2.	(a) Suggest improvement in methods of operations.
3.	(a) Appraising.
4.	(b) Problem identification.  Management Audit pinpoints the areas requiring the attention of management, evaluates the existence of well-defined objectives, it seeks to review appraise, and, devaluates the corporate plans and policies based on certain standards of objectivity.
5.	(b) Non-routine investigation.

6.	(b) Section 143 of the Companies Act, 2013  The C&AG has powers under section 143 of the Companies Act, 2013 as follows:  To direct how the company's accounts shall be audited by the auditor and to give such auditor instructions regarding any matter relating to the performance of his functions as such;
7.	(b) Section 8 of the Companies Act, 2013.  Non-Governmental Organisations are generally incorporated as societies under the Societies Registration, Act, 1860 or as a trust under the India Trust Act, 1882, or under any other law corresponding to these Acts enforced in any part of India. NGOs can also be incorporated as a company under section 8 of the Companies Act, 2013.
8.	(d) All of the above.  Under 'propriety audit', the auditors try to bring out cases of improper, avoidable, or infructuous expenditure even though the expenditure has been incurred in conformity with the existing rules and regulations.
9.	(a) Check the letter of appointment.  Check the letter of appointment to ascertain the scope of responsibilities.
10.	(b) Section 17 (2) of the Co-operative Societies Act, 1912  Section 17 (2) of the Co-operative Societies Act, 1912 specifically requires the auditor to examine the overdue debts, if any, and a valuation of the assets and liabilities of the society.
11.	(a) Article 243Z of the Constitution.  Article 243J of the Constitution states that the Legislature of a State may, by law, make provisions concerning the maintenance of accounts by the Panchayats and the auditing of such accounts.  Article 243Z of the Constitution states the audit of accounts of Municipalities. The legislature of a State may, by law, make provisions concerning the maintenance of accounts by the Municipalities and the auditing of such accounts.
12.	(c) C&AG.  The auditor of a government company is appointed by the C&AG.
13.	(b) Three.  The government also engages in commercial activities and for this purpose, it may incorporate the following types of entities:  (a) Departmental enterprises engaged in commercial and trading operations.  (b) Statutory corporations created by specific statutes such as LIC, Oil Marketing Companies (OMC) etc.  (c) Government companies, set up under the Companies Act, 2013.

14.	(d) All of the above. Financial Administration of Local Bodies has three components Budgetary Procedure, Expenditure Control, and Accounting System.
15.	(c) Self-Help Group. Field Balance Sheet Approach to audit can be applied in the case of audit of the Self-Help Group. The auditor prepares the Field Balance Sheet for the group, as on the date of the audit, based on the SHG's internal records and then cross-checks the correctness of balance sheet items. The primary objective is to ascertain the retained earnings of the SHG.
16	(a) Audit of Hotels
17	(c) 20
18	(c) Minimum 10 persons
19	(c) Foreign Contribution Bank A/c
20	(d) Retained Earnings