**AUDITING- BBA N-605**

**UNIT 4**

**SPECIAL AUDIT**

* Audit of Banking Companies
* Audit of Insurance Companies
* Audit of Educational Institution
* Audit of Cooperative Societies

**Stages in Audit of Bank**

Preliminary Work

Evaluation of Internal Control System

Preparation of Audit Programme for Substantive Testing & Execution

Preparation & Submission of Audit Report

**BANK BOOKS OF ACCOUNTS**

* Principle books of A/cs
* Subsidiary Ledgers/Books
* Memoranda Books

**RBI’s Prudential Norms relating to Advances**

* Asset Classification
* Income Recognition
* Provisioning Norms

**Asset Classification**

* Performing Assers
* Non-Performing Assets

**Four Important Audit Points in Insurance Company Profit & Loss Account**

**1. VERIFICATION OF PREMIUM**

Verification of premium is of utmost importance to an auditor because Insurance premium is collected upon issuing policies. It is the consideration for bearing the risk by the insurance company. The auditor should apply the following procedures: –

• Before commencing verification of premium income, the auditor should look into the internal controls and compliance which are laid down for collection and recording of the premiums. • Cover notes should be serially numbered • The auditor should check whether Premium Registers have been maintained chronologically, giving full particulars including GST charged as per acceptance advice on a day -to-day basis. • The auditor should verify whether the figures of premium mentioned in the register tally with those in General Ledger. • The auditor should verify whether instalments falling due on or before the balance sheet date, whether received or not, have been accounted for as premium income as for the year under audit.

**2. VERIFICATION OF CLAIMS**

The auditor should obtain from the divisions/branches, the information for each class of business. The auditor should determine the total number of documents to be checked giving due importance to claim provisions of higher value. The claims under policies comprise the claims paid for losses incurred, and those estimated or anticipated claims pending settlements under the policies. Settlement cost of claims includes surveyor fee, legal expenses, etc. The Claim Account is debited with all the payments including repair charges, fire fighting expenses, police report fees, survey fees, amount decreed by the Courts, travel expenses, photograph charges, etc.

**3. VERIFICATION OF COMMISSION**

The remuneration of an agent is paid by way of commission which is calculated by applying a percentage to the premium collected by him. Commission is payable to the agents for the business procured and is debited to Commission on Direct Business Account. An insurance business is solicited by insurance agents. The auditor should verify-

• Voucher disbursement entries with reference to the disbursement vouchers with copies of commission bills and commission statements.

• Check whether the vouchers are authorized by the officers- in –charge as per rules and income tax is deducted at source, as applicable.

• Test check correctness of amounts of commission allowed.

• To check whether commission outgo for the period under audit been duly accounted or not.

**4. VERIFICATION OF OPERATING EXPENSES**

All the administrative expenses in an insurance company are broadly classified under 13 heads as mentioned in Schedule IV. The auditor should check-

• Expenses in excess of Rs.5 Lakhs or 1% of net premium, whichever is higher, should be shown separately; and

• Expenses not directly relating to insurance business should be shown separately for example, expenses relating to investment department, bank charges etc.

**Three Important Audit Points in Insurance Company Balance Sheet**

**1. INVESTMENTS**

The auditor should keep in mind the following provisions related to Investments  of the Insurance Act, 1938 while examining the investments-of an insurance company-

a. An insurance company can only invest in approved securities. However, it can invest otherwise than in approved securities if the following conditions are satisfied.

**2. CASH AND BANK BALANCES**

• Bank reconciliation statements shall be prepared.

• The auditor should obtain confirmation of Bank Balances for all operative and inoperative accounts.

• The auditor should physically verify Term Deposit Receipts issued by bankers. Generally all cash at year end deposited as term deposit with the bank

• The auditor should verify the deposits and withdrawals transactions at random and check whether the Account is operated by authorized persons only.

• In case of funds, in -transit, he should verify that the same are properly reflected in a reconciliation statement.

**3. OUTSTANDING PREMIUM AND AGENTS’ BALANCE**

The audit procedures, which may be followed with regards to agent’s balance, are as follows: a. Verify whether agent’s balances and outstanding balances in outstanding premium account have been listed, analyzed and reconciled for the purposes of audit. b. Verify whether recoveries of large outstanding have been made in post audit period. c. Verify whether there is any old outstanding debit or credit balances as at the yearend which require adjustment. A written explanation may be obtained from the management is to their nature. d. Verify that agent’s balances do not include employees’ balances and balances of other insurance companies. e. Verify that no credit of commission is given to agents for businesses directly procured by it.

Audit checklist for educational institutions

**RIGHTS & DUTIES OF THE AUDITORS IN EDUCATIONAL INSTITUTIONS**

* Examine and evaluate Trust Deed or Regulations by referring to the Act of Legislature given by the Government
* Record and note all the provisions affecting the accounts in the institution
* Inspect the Minutes of Meeting of institution's Meeting Committee or Governing Body
* Thoroughly examine the copies of financial statements, balance sheets, and budget plans
* Verify the receipts, and transactions of all sorts of fees (Transportation, Hostel, Academic, Registration, Admission, etc.) paid by students on a monthly and yearly basis
* Validate advance deposits and caution money
* Record Funds and Donations granted to the institutions
* Keep a track of Salary Register and examine workers and employee salaries, tax deductions, etc.
* Verify Provident Fund Register
* Vouch for institution's expenditures
* Carefully verify scholarships granted to merit students
* Validate fees paid in the form of penalties, fines, late submissions in the library, etc.
* Examine institution's bank account, transactions, passbook, etc.
* Examine expenses spent on Library items, sports equipment, books, furniture, events, and many more
* Validate petty expenditures
* Verify Fixed Assets Register
* Check capital expenditure, income from endowments and legacies, and interest & dividend from investments

**How to do audit of educational institutions?**

The traditional method of cataloging, calculating, evaluating, and examining the audits on papers and Excel Sheets is difficult, time-consuming, and laborious. Utilizing ERP Managemet Software for Eduational Institutions simplifies, digitizes, and automates the complex administrative and accounting process such as, recording and calculating incomes, expenditures, worker salaries, penalties and fines for late submissions in library; managing of admission and tuition fees; recording fee payments and transactions; generating fee receipts; and many more.

Audit of Co-operative 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 member ship 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.
* 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.

**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 Co-operative society. Following books and accounts are prescribed by the Maharashtra Government.

* Cash Book
* General Ledger
* Stock register
* Personal Ledger
* Register of Members
* Register of Shares and debentures
* Minutes books of general body meeting 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 balance sheet are same as Auditor do in any other case. We will now discuss a few important aspects related to the Audit of Co-operative societies:

* Examination of Overdue Debts
* Overdue Interest
* Valuation of Assets and Liabilities
* Adherence to Co-operative principles
* Certification of Bad-debts
* Observation of the Provisions of the Act and Rules
* By-laws
* Investment of Funds

**Efficiency Audit/Performance Audit**

Performance audit is an independent, objective and reliable examination of whether public sector undertakings, systems, operations, programmers, activities or organizations are operating in accordance with the principles of economy, efficiency and effectiveness. The main objective of performance audit is to constructively promote economical, effective and efficient governance. It also contributes to accountability and transparency. Performance audit promotes accountability by assisting those charged with governance and oversight responsibilities to improve performance through an examination of whether:

a) decisions by the legislature or the executive are efficiently and effectively prepared and implemented and
b) tax payers or citizens have received value for money.

It does not question the intentions and decisions of the legislature, but examines whether any shortcomings in the implementation of the law and framing of regulations have prevented the specified objectives from being achieved. Performance audit focuses on areas in which it can add value for citizens and which have the greatest potential for improvement.It provides constructive incentives for the responsible parties to take appropriate action.

Performance audit promotes transparency by affording all stakeholders an insight into the management and outcomes of different public sector activities. It thereby directly contributes to providing useful information to the citizen, while also serving as a basis for learning and improvements.

**Objectives/Perspective of Performance Audit**

Performance audits undertaken by SAI, India may have overlaps with other audit types(or combined audits)and
in such circumstances the following points shall be considered:

a) Elements of performance audit can be part of a more extensive audit that also covers compliance and financial auditing aspects.
b) In the event of an overlap, the primary objective of the audit shall guide the auditors as to which standards to apply.

In determining whether performance considerations form the primary objective of the audit engagement, it should be borne in mind that performance auditing focuses on activity and results rather than reports or accounts, and that its main objective is to promote economy, efficiency and effectiveness rather than report on compliance.

**STEPS IN Efficiency/PERFORMANCE AUDIT**

Performance audit process in any organization follow certain steps. Most commonly used steps are indicated below:

* Development of assessment criteria.
* Preparation schedule.
* The choice of audit tasks.
* The choice of audit objectives.
* Preparatory work.
* Performance audit planning.

**Benefits of Social Audit**

Social audit offers certain distinct benefits. The principal benefits derived from social audit are as follows:

1. It provides a recognized method for bringing the social point of view to the attention of management.

2. Person outside the company appraises the individual corporations. Hence, they can give an unbiased and disinterested view about the activities of the company employees.

3. The social audit report is made to the company and not to the public. Hence the social auditor can give a frank opinion about the social welfare schemes of the company.

Other Benefits:

1.It supplies data for comparison of policies and standards.

2. It encourages greater concern for social performance throughout the organization.

3. It provides data for comparing effectiveness of different types of social welfare programmes.

4. It helps the organization to build up the image and reputation of the organization in the minds of the public.

5. The shareholders shall realize the importance of socially beneficial schemes and extend their full cooperation to the company’s programmes of social welfare and development.

**Four step process for conducting effective social audit**

Social audit has become the necessity of time though the results cannot be easily quantified as in the case of financial audit. Though some practical difficulties are there social audit can do many things which even financial audit or cost audit cannot do.

A well-known scholar suggested a four-step process for conducting social audit effectively and to achieve the desired results. The steps suggested are

1. The firm should first itemize all the activities that have a potential impact.

2. Secondly, the circumstances leading to these actions or activities must be explained.

3. Thirdly some evaluation of the programmes should be conducted.

4. Finally the company should examine the relationship between the goals of the firm and those of the society to see how the programmes relate to each other.

**Objectives of Social Audit**

* To assess the physical and financial gaps between needs and resources available for local development.
* Creating awareness among beneficiaries and providers of local social and productive services.
* Increasing efficacy and effectiveness of local development programmes.
* Scrutiny of various policy decisions, keeping in view stakeholder’s interests and priorities, particularly of rural poor.
* Estimation of the opportunity cost for stakeholders of not getting timely access to public services.

**Benefits of Environmental Audit**

If environmental auditing is implemented in a constructive way, there are many benefits that can be derived from it. Some of the benefits are:

* To safeguard the environment and natural resources used in the plant/project
* To verify compliance with domestic and international environment laws
* Address current or potential future problems that may arise during the course of action
* Assess training programs and provide data to assist In training to poor people’s skill development initiatives
* Enable companies to build on good environmental performance, give due credit where appropriate and highlight deficiencies
* Identify potential cost savings from waste minimization and other activities
* Facilitate exchange and comparison of information between different plants or subsidiary companies of the parent company
* Demonstrate company’s commitment to environmental protection to employees, the public and the authorities

**Objectives of Environmental Audit**

Environmental audit is done to safeguard the environment and minimize risks to human health. The key objectives of an environmental audit are to:

* Determine how well the environmental management information systems and equipment are performing
* Verify compliance with the relevant national, local or other laws and regulations
* Minimize human exposure to risks from environmental, health and safety problems