Module 16 · Audit of Different Service Organisations P17 · 16.1–16.10

SM pp. 690–713, exercise 714–720. **52 marks in 7 papers. Q8(b), 7 marks, is a service-organisation audit in every paper since Dec'23**, plus one MCQ. The ICMAI answers (PTP hospitals, MQP education) are the SM lists copied out: **learn each list in SM order**.

Paper	Question	Paper	Question
Jun'23	Q9(a) **co-operative society: overdue debts, valuation** (8)	Jun'25	Q8(b) **audit programme for NGOs**
Dec'23	Q8(b) **educational institution + students** · MCQ field balance sheet = SHG	Dec'25	Q8(b) **hotels: receipt and payment verification**
Jun'24	Q8(b) **self-help group: audit procedure**	Jun'26	Q8(b) **audit programme for hospitals**
Dec'24	Q8(b) **hospitals: points to consider**	Dec'26?	MQP Q8(b) **educational institution** · PTP Q8(b) **hospitals**

DEC'26 PREDICTION · Q8(b), 7 MARKS

- Most likely: **educational institution** (16.3, chance about 35%: the MQP asks it; last asked Dec'23). Then **co-operative society** (12%), hospitals, hotels, SHG, NGO (about 10% each), local bodies or government expenditure (never asked long, 5%).
- Q8(b) has never asked the same organisation in two papers running; only hospitals has come twice (Dec'24, Jun'26).
- MCQ facts: KOT = hotels · field balance sheet = SHG · s.17(2) of the 1912 Act · 10 persons · 20% · s.8 company · Art. 243J / 243Z · C&AG appoints · three types of government commercial entity.

HOW TO WRITE A 7-MARK "AUDIT PROGRAMME"

- One line of context (what the organisation is, what makes it risky: cash, grants, members, stock).
- Then **8–12 numbered steps in SM order**, each starting with a verb: *check, vouch, verify, reconcile, examine, ensure*.
- Always open with the **appointment letter / scope** and the **constitution documents and minutes**; always close with **physical verification**, **statutory compliance** and **fund / bank balances**.
- Add the one item unique to that body (KOT for hotels, overdue debts for co-operatives, field balance sheet for SHGs, FC bank account for NGOs).

16.1 Audit of hospitals · Dec'24, Jun'26 Q8(b), PTP Q8(b)

POINTS FOR A HOSPITAL AUDIT (SM ORDER = THE PTP ANSWER)

1. Check the **letter of appointment** to ascertain the scope of responsibilities (SM MCQ 9: the **first step**).
2. **Ownership and control** of the institution.
3. **Process** (admission, release, outdoor check-up, pathology and tests, operation theatre, vaccination) and related **controls till revenue generation**; facilities are normally given only on cash terms.
4. **Donations, special grants, interest, dividends**: validate with supporting documents; vouch with the **Investment Register** and interest and dividend warrants.
5. Ensure **purposive donations and grants** are spent for that purpose only.
6. Clear distinction between **capital and revenue** items.
7. Adherence to the **standard operating procedure** for expenses (capex and opex).
8. Verify the **internal check over purchases and issue of stores, medicines, medical equipment**.
9. Examine the **appointment of staff and visiting specialist doctors** and payment of salaries, to validate expenditure booking.
10. **Physically verify** investments, fixed assets and inventories.
11. Check **capitalisation and depreciation rates** and values in the books.

[SM 690]

MEMORY HOOK

Letter → Owner → Process → Donations → Purpose → Capital/revenue → SOP → Stores → Staff → Physical → Depreciation: **"LOP-DP-C-SSS-PD"**: the patient's path from admission to the asset register.

16.2 Audit of hotels · Dec'25 Q8(b) receipt and payment verification

- SM WORDS **Quality of service is the essence** of hospitality; the business handles **large amounts of liquid cash**, food stocks, many services, and must see that guests do not leave without settling dues. [SM 691]
- **(i) Internal control** must address revenue leakage, **pilferage** of food and utensils (one of the greatest problems), prompt collection, billing per tariff, issue and

A. RECEIPT AND PAYMENT VERIFICATION (THE DEC'25 ANSWER, SM ORDER)

a. Consumption in stock accounts **traced to customers' bills** (all issues billed).
b. Payments to the **foreign collaborator**, agency commission and payments to the **brand owner** as per the arrangement.

consumption control, bar licence, purchase at market rate. Check: (a) receipts and disbursements of cash; (b) purchase and stocking of provisions; (c) **billing of room service, telephone, laundry**; (d) custody of edibles, wines, cigarettes, crockery, cutlery, linen, furniture, carpets. [SM 691]

- **(ii) Room sales and cash collections**: grade-wise tariff (ordinary, luxury, super luxury) checked between Front Office and Billing Desk; room service and minibar billed; charge for rooms from the **guest register** for the exact stay; rate differences authorised; cards, cash, foreign exchange, cheques tallied with bills; **daily room occupancy report** and check-in/check-out validated; sales at each point reconciled with bills issued. [SM 691]
- Food bills with **KOT** (Kitchen Order Token) and the signed customer copy; resident guests' bills room-wise; all guests pay on leaving or within the set dates. [SM 692]
- **(iii) Stock**: utensils, food and beverages compared with kitchen records and **physically verified** (with or without surprise); stores locked, a shift-wise **key holding register**; no unauthorised persons; professional valuers; the auditor present for part of the count; Fixed Assets Register and depreciation. **(iv)** cost-centre records; **casual labour** records and wages. **(v)** cost-revenue per facility (pool, golf, spa). Also **statutory and FE (foreign exchange) compliance**. [SM 692]

c. Expenses and receipts **compared with the previous year**, given average occupancy and rate changes.
d. **Special receipts** (auditorium, banquet hall, shop space, boutiques, shows, marriage parties) verified with bookings.
e. **In-depth check of customers' ledgers**: all charges made and recovered.
f. **Occupancy rate** worked out and collection matched; rates **benchmarked** with similar hotels and the previous year; deviations investigated.
g. **Painting, decoration, renovation** expenses checked.
h. **Travel agents**: money recovered per credit terms; commission per agreement.
i. Control over **linen, crockery, cutlery, glassware, silver, toilet items**.
j. **Restaurant bills verified with the KOT**.
k. **All taxes** included in the bills.
l. **Salaries and wages** against the number of employees.

[SM 693]

16.3 Audit of educational institutions · Dec'23 Q8(b), MQP Q8(b) · the Dec'26 favourite

Ownership varies (government, private, trust), so the regulations differ. **Special steps**: [SM 694]

1. **Formation documents**: affiliation, management structure, governing body, ownership (for fund monitoring, donations, spending approval, affiliation fees). Examine the **Trust Deed or Regulations** (school or college) and note provisions affecting accounts; for a **university, the Act of Legislature** and its Regulations.
2. **Approving authority** for expenses, fund transfers, bank operation: read the **minutes** of the Managing Committee or Governing Body; check compliance, especially bank operation and sanction of expenditure.
3. **Student Register** semester- or class-wise (name, address, Aadhaar, guardian, contact) mapped to the **fee structure** (full, half, waiver); bank statements equated with fees receivable; **fee-book counterfoils reconciled** for counter collections; unpaid fees followed up.
4. Student Register updated for **discontinued, transferred students and drop-outs**.
5. **Fee condonation** by the proper authority considered in the receivable-received reconciliation.
6. **Admission and other collections** (late fees, transfer charges) tracked under proper heads.
7. **Hostel dues recovered** before students' accounts are closed; **caution deposits** adjusted or refunded.
8. **Other income**: rent with the **rent rolls**, FD interest with deposit certificates.
9. **Grants** with the grant papers; correct account head and **eligible spending** under the grant.
10. Review **Receipts and Payments and Income and Expenditure** accounts for completeness and accuracy of fund and bank balances.
11. **Statutory dues** (PF, municipal taxes, affiliation fees) and filings.
12. **Capital expenditure** vouched and checked with the committee's **sanction in the minute book**.
13. **Establishment expenses** vouched; enquire into any high-volume spending.
14. **Inventories** of furniture, stationery, clothing, provisions, equipment verified with the **Stock Register** and physically; values test-checked.
15. **Fund accounts**: dedicated bank balances tally with the books.

[SM 694–695]

DEC'23 ALSO ASKED "... AND THAT OF STUDENTS"

The student part = steps 3–7: Student Register vs fee structure, bank and counterfoil reconciliation, drop-outs, condonation, other collections, hostel dues and caution deposits. The ICMAI MQP answer uses the older wording: check names in the **Students' Fee Register** month by month; compare **receipt counterfoils** with the cash book; trace collections to the Fee Register.

16.4 Audit of co-operative societies · Jun'23 Q9(a)

- SM WORDS **Section 17(2)** of the Co-operative Societies Act, 1912 requires the auditor to examine the **overdue debts**, if any, and make a **valuation of the assets and liabilities**; he must also point out irregularities, improprieties and departures from the Act, rules and bye-laws. [SM 696]

SPECIAL FEATURES (SM ORDER)

1. **Overdue debts**: classify those overdue **six months to five years** and **more than five years**; good or bad; provision adequate; % of overdue debts to working capital and loans **compared with last year** (trend); recovery action and court cases. [SM 696]
2. **Overdue interest** is excluded from interest outstanding when calculating profit. [SM 696]
3. **Certification of bad debts** by the auditor where the law requires (Maharashtra Rule 49 of 1961: no write-off without it); otherwise the managing committee authorises. [SM 696, SM 700]
4. **Valuation**: no rule in the Act, so general accounting principles: fixed assets at **cost less depreciation** (incidental and installation costs capitalised; note market value if very different); current assets at **cost or market, whichever is lower**; all known liabilities in; contingent liabilities by note. [SM 696]
5. **Co-operative principles**: how far the objects are achieved (benefit to members, not profit); economy, no waste; avoid middlemen; **propriety audit**. [SM 696, SM 700]
6. **Infringements** of the Act, rules and bye-laws reported with their financial effect; some State Acts restrict dividends. [SM 697]
7. **Members' register and pass books**: loans and repayments confirmed in person (vital in rural credit societies with illiterate members). [SM 697, SM 700]
8. **Special report to the Registrar** on serious irregularities: personal profiteering by committee members; fraud in expenses, purchases, property, stores; mismanagement against co-operative principles; in urban co-operative banks, disproportionate advances to relatives of management and reckless lending. [SM 697]
9. **Audit classification**: the auditor awards a **class** on the Registrar's criteria; management may appeal to the Registrar. [SM 697]
10. **Discussion of the audit draft** with the managing committee before the report is final. [SM 700]

LAW AND MCQ FACTS

- **Any ten persons** may apply to the Registrar (**s.6**); bye-law changes valid only when the Registrar approves (**s.11**); no member may hold more than **20%** of the shares. [SM 697, SM 700]
- **s.17**: the Registrar audits, or has audited, every society **at least once every year**; the audit includes overdue debts and valuation; access to all books. The **Registrar appoints** the auditor; fees on the Registrar's scale, paid by the society; report goes **to the Registrar**, a copy to the society. [SM 698]
- **s.5**: in a limited-liability society no member (other than a registered society) holds more than **20%** of the capital or shares worth more than **Rupees one thousand**. **s.29**: no loan to a non-member without the Registrar's permission. **s.28**: Central Government may exempt from income tax, stamp duty, registration fees. [SM 701]
- **s.33**: first **25%** of net profit to the **Reserve Fund**; up to **10%** of the balance to charity with the Registrar's sanction; dividend not more than **6.25%**. [SM 702]

16.5 Audit of self-help groups · Jun'24 Q8(b), Dec'23 MCQ

- SHGs mobilise and empower rural people, especially **poor women**; low-cost financial services with self-management; formed with help from the Government or NGOs and linked to banks. Accountants are scarce at Gram Panchayat level, so the need is **"Community Audit"** by trained **"Community Auditors"**; ICMAI has an **MOU with WBSRLM** (West Bengal). [SM 703]

Assets	Liabilities
Cash in hand · cash at bank · loans outstanding with members · fixed deposit · fixed asset	Voluntary savings · external loan outstanding · equity: compulsory saving + **retained earning**

The field balance sheet (SM 703). Its **primary objective: ascertain the retained earnings** (SM MCQ 20).

FIELD BALANCE SHEET APPROACH (THE JUN'24 ANSWER)

1. **Background review**: preliminary examination of group records incl. the **cash book**; cross-check member **passbooks** for accurate entries and posting.
2. **Prepare the Field Balance Sheet** as on the audit date from the SHG's records and cross-check each item; objective: the **retained earnings**.
3. **Private meetings with members**: interview **25%** of members to triangulate and see how decisions are made.
4. **Meeting with the whole group** if serious issues arise.
5. **Reporting**: weak practices that put savings at risk or make records unreliable, with better methods; the Field Balance Sheet + summary report go to the **MFI/bank** and all members, to help credit decisions.

[SM 703–704]

16.6 Audit of NGOs · Jun'25 Q8(b) audit programme

- SM WORDS NGOs are **non-profit making organisations which raise funds from members, donors or contributors**, apart from donations of time, energy and skills, for social objectives. Formed as a **society** (Societies Registration Act, 1860), a **trust** (Indian Trust Act, 1882) or a **section 8 company** (Companies Act, 2013). [SM 705]
- **Planning**: (i) knowledge of the NGO's work, mission, vision, area, environment; (ii) legal form, MoA, AoA, rules; (iii) organisation chart, financial and administrative manuals, project guidelines, **funding agencies' requirements and formats**, budgets; (iv) **minutes** of the Board / Governing Body; (v) accounting system, internal controls and checks. [SM 705]

INCOME CHECKS

1. **Contributions and grants** checked with donors' agreements and grant letters; **foreign contributions deposited in the foreign contribution bank account** notified under the FCRA. [SM 706]
2. **Fund-raising receipts**: internal control, who collects, mode; collections counted and **banked daily**.
3. **Membership fees** with the membership register; entrance vs annual vs life fees; reconcile.
4. **Subscriptions** with the subscription register and receipts; reconcile with magazines dispatched; check rates.
5. **Interest and dividends** with investments held. [SM 706]

> ⚠ **FCRA: THE SM CITES THE 1976 ACT**
> The SM says "Foreign Contribution (Regulation) Act, 1976". It was replaced by the **FCRA 2010**; since the 2020 amendment every foreign contribution must first be received in the **"FCRA Account" at SBI, New Delhi Main Branch**. In the exam write the SM line and add "(now FCRA 2010)".

AUDIT PROGRAMME: EVERY ASSET, LIABILITY, INCOME, EXPENSE (SM ORDER)

1. **Corpus fund**: vouch with the donors' letters; interest with the Investment Register and investments in hand.
2. **Reserves**: transfers from projects with donors' letters and board resolutions.
3. **Ear-marked funds**: donors' conditions, board resolution, scheme rules.
4. **Project / agency balances**: disbursements per donor agreements.
5. **Loans**: loan agreements, counterfoils of receipts issued.
6. **Fixed assets**: acquisitions, disposals, depreciation and authorisations; donors' grant letters; title of immovable property.
7. **Investments**: register and physical check, **in the NGO's name**; approvals; principal and interest in the bank.
8. **Cash in hand** and imprest physically verified at year end.
9. **Bank balance**: reconciliation; old outstanding items.
10. **Stock in hand**: verify; management certificate for quantity and value.
11. **Programme and project expenses**: donor agreement conditions; for contracts, **TDS deducted, deposited, returns filed**.
12. **Establishment expenses**: PF, life insurance deducted and deposited on time; postage, stationery, travel.

[SM 705–706]

16.7–16.10 Local bodies · government expenditure · propriety · commercial accounts (never asked long)

- **Local bodies**: local self-government of villages, towns, cities: **Rural Local Bodies (Panchayats)** and **Urban Local Bodies (Municipalities)**. **Article 243J**: the State Legislature may provide for accounts and audit of **Panchayats**; **Article 243Z**: of **Municipalities**. [SM 707]
- **Financial administration** (SM MCQ 14: all three): (i) **budgetary procedure** (accountability, expenditure control, taxation levels, ceilings on revenue and capital spending); (ii) **expenditure control** (Council legislates, officers such as Commissioners execute; special items like tax reductions or deposit refunds need the Council); (iii) **accounting system**: traditionally cash, moving to accrual; subsidiary registers, separate vouchers, **compulsory monthly bank reconciliation**, periodic summary reports. [SM 707]
- **Objectives**: true and fair statements; detect and prevent error, fraud, misuse of funds; **full value for money spent**; legal and administrative requirements met. **Audit programme**: sanctions by the competent authority; spending per provisions and regulations; schemes run economically and achieve their purpose. [SM 708]

AUDIT OF GOVERNMENT EXPENDITURE (C&AG STANDARDS)

1. **Audit against rules and orders**: spending conforms to the statute and financial rules.
2. **Audit of sanctions**: every item covered by a general or special sanction of the competent authority.
3. **Audit against provision of funds**: funds provided and spending within the appropriation.
4. **Propriety audit**: brings out **improper, avoidable or infructuous** expenditure even if within the rules (SM MCQ 8: all of the above); wisdom, faithfulness, economy.
5. **Performance audit**: big programmes run economically and give the expected results.

[SM 709]

- **C&AG and a government company**: the **auditor is appointed by the C&AG**; under **section 143** the C&AG may (i) **direct the manner** of audit and instruct the auditor; (ii) conduct a **supplementary or test audit**; and may **comment upon or supplement** the audit report. [SM 709]
- *Not in the SM, from the Act:* s.139(5) appointment within 180 days of the start of the year; s.143(6) supplementary

- **Commercial accounts** (SM MCQ 13: **three** types): (i) **departmental enterprises** (defence factories, mints), audited like any department; (ii) **statutory corporations** (LIC, OMCs), audit per their statute; (iii) **government companies** under the Companies Act, 2013. [SM 711]

audit within 60 days of receiving the audit report.

- **Canons of financial propriety**: (1) spending not more than the **occasion demands** (the prudence of a person spending his own money); (2) no sanction to **one's own advantage**; (3) public money not for a particular person or section unless the amount is insignificant, the claim is enforceable in court, or it follows a recognised policy or custom; allowances must not be a **source of profit**. [SM 710]

SOLVED CASE · TOSHIBA, AN INTERNAL AUDIT FAILURE

Earnings inflated by at least **$1.2 billion** over **2009-2014**; the president and two predecessors quit in July 2015. Internal audit gave **consultation** to management and rarely did an **accounting audit**; unachievable targets ("Challenge") and pay of which **forty** to **45** per cent of the role part depended on performance pushed earnings management; the audit committee was neither capable nor independent (three outside members without finance knowledge; the ex-CFO the only whole-time member). Lessons: internal audit is primarily an **assurance** function, consulting flows from it; it needs an **independent, capable audit committee** to report to; it is the "**eyes and ears**" of the audit committee, so its failure is a governance failure. [SM 711–713]

SM EXERCISE KEYS (SM 718–720)

1 management audit **does not concentrate** on financial matters · 2 suggest improvement in methods · 3 **appraising** · 4 problem **identification** · 5 **non-routine** investigation (MCQs 1–5 are management-audit questions; see Module 9) · 6 **s.143** · 7 **section 8** of the 2013 Act · 8 all of the above · 9 **letter of appointment** · 10 **s.17(2)** · 11 **Article 243Z** · 12 **C&AG** · 13 **three** · 14 all of the above · 15 and 20: **SHG**, to find **retained earnings** (= Dec'23 MCQ) · 16 **KOT = hotels** · 17 **20**% · 18 **minimum 10** persons · 19 **foreign contribution bank account**. [SM 718–720]