

Session 8- Audit checks for certification audit of autonomous bodies

General Checklist

General Points

1. Whether the accounts of the entity have been approved by the competent authority?
2. Whether the certificate for physical verification of cash was obtained from AB.
3. Whether confirmation of Bank Balances /Fixed Deposits from the respective Banks taken by AB/Internal Auditor.
4. Whether confirmation of Debtors/Loans and Advances from respective parties was taken.
5. Whether Significant Accounting Policies are formed in compliance of AS -1, specifically regarding basis of preparation of accounts such as accrual basis, Revenue Recognition, Valuation of Investment, Fixed Assets, Depreciation on Fixed Assets, Accounting of Earmarked funds and Endowment funds, Accounting of Grants, Retirement benefits and application of Accounting Standards.
6. Whether bank reconciliation statement is being prepared regularly. If there are very old cases appearing in the bank reconciliation than the same needs to be properly investigated. If required suitable provisions for the same needs to be made in the accounts.
7. Whether contingent losses have been accounted for as per the requirement of AS 4. The amount of a contingent loss should be provided for by a charge in the statement of I & E Account if it is probable that future events will confirm that, after taking into account any related probable recovery, an asset has been impaired or a liability has been incurred as at the balance sheet date, and a reasonable estimate of the amount of the resulting loss can be made.

The existence of a contingent loss should be disclosed in the financial statements if above conditions is not met.

8. Contingent gains should not be recognised in the financial statements.
9. Assets and liabilities should be adjusted for events occurring after the balance sheet date that provide additional evidence to assist the estimation of amounts relating to conditions existing at the balance sheet date.
10. In multi unit ABs it may be checked that accounts of all units were merged in the consolidated financial statements. Wherever accounts of all the units have not been merged, impact of the same on the accounts/Statement of I & E Accounts/assets and liabilities should be given and quantified. Further the certificate of physical verification of cash balance, bank balances, fixed deposits, investments, physical verification of fixed assets of field units should be verified.
11. In multi unit ABs, the grant transferred to field units should not be treated as expenditure until actual expenditure is done by unit by the year end. If the grant was not utilised by the field units by year end than the same should be treated as unutilised grant.
12. Whether there is change in rate/accounting policy on depreciation. If so, the same needs to be disclosed and quantified?
13. Whether autonomous body has drawn its accounts in the uniform format of accounts/new format of accounts prescribed by MHRD in case of educational institutions.

BALANCE SHEET

Fixed Assets

1. Whether all additions to assets with account heads have been carried out with proper approvals and no inadmissible expenditure has been capitalized?
2. Whether the sale and disposal records of the assets sold or disposed off during the year and the capital gain / loss thereof accounted for?

3. Whether all fixed assets are physically in existence and certificate for the same has been obtained from AB?
4. List of all works-in-progress as on 31st March with details of expenditure booked during current financial year should be checked. Whether all completed items have been removed from the work in progress and debited to concerned assets account.
5. Existence of proper record relating to ownership of land
6. Subsequent expenditures related to an item of fixed asset should be added to its book value only if they increase the future benefits from the existing asset beyond its previously assessed standard of performance in accordance with the accounting standard.
7. Material items retired from active use and held for disposal should be stated at the lower of their net book value and net realisable value and shown separately in the financial statements.
8. The assets acquired from the sponsored projects funds should be included in fixed assets schedule only if the ownership in these assets has been transferred to AB. If ownership of assets has not been transferred to AB then the same should be shown in Notes to Accounts with full detail.

Investments

1. The value of investment as depicted in investment register should tally with the value of investment depicted in Balance Sheet. The discrepancy should be thoroughly checked and commented upon.
2. The investment should be physically verified and ensure that they are in the name of entity.
3. Investments classified as short term investments should be carried in the financial statements at the lower of cost and fair value determined either on an individual investment basis or by category of investment, but not on an overall basis.
4. Investments classified as long term investments should be carried in the financial statements at cost. However, provision for diminution shall be made to

recognise a decline, other than temporary, in the value of the investments, such reduction being determined and made for each investment individual.

5. Whether any investment is pledged by ABs against a short term/long term loan. If so, the same is disclosed suitably.

Cash and Bank Balances

1. Whether the fixed deposits registers tallies with certificates/confirmation issued by the bank?

2. The figures of certificate of physical verification of cash in hand should be tallied with the figures depicted in Balance Sheet.

Debtors

1. Whether categorization is made for debtors outstanding for more than 6 months and otherwise.

2. Whether old balances outstanding for more than 5 years at the year-end checked and reviewed? Doubtful debts must be calculated by scrutinizing the overdue debtors.

3. Whether adequate provision for bad and doubtful debt has been made.

Earmarked/Endowment Funds

1. All transactions of these funds (revenue and capital in nature) should be routed through these fund.

2. It may be seen that negative balances (overspent amount out of these funds) are authorized and receivable.

3. The profit or loss on sale of investments out of Earmarked Funds should be transferred to that fund.

4. Interest earned on investment made out of these earmarked funds should be credited to the funds.

Current Liabilities

1. Whether provisions for retirement benefits had been made in the accounts on actuarial basis. Non provision/under provision of retirement benefits should be suitably commented upon.
2. Whether suitable provision for salary/allowances for the month of March has been made or not. It should be seen that AB should have made provision for these expenses during previous year also. If no opening provision had been made than suitable comment for the same also needs to be taken.
3. Whether liability for unspent grant has been provided. The advances on capital accounts should not be treated as utilization of grant and should be shown as unutilized grant.
4. Whether the assumptions made by the actuary were realistic and based on current trends.

Income & Expenditure Account

Income

1. Whether grant in aid has been properly segregated and only grant for revenue purpose is recognized as income in I & E Accounts.
2. The grant for capital expenditure should be routed through Balance Sheet.
3. Grants received before 31st March but the cheques there against received in April or next financial year should be taken in the accounts and equal amounts should be shown as recoverable from the grantor.
4. Whether loss/profit on sale of fixed assets has been properly accounted for?
5. Whether all items of income such as rent for quarters, office premises, shops, banks and post offices, electricity charges due but not received/recovered have been accounted for?

Expenditure

1. Whether the accrued expenditure for salary/rent/electricity bill etc has been booked for 12 months ending March?
2. Whether Prepaid expenses against Insurance Premium, Annual maintenance contracts and any other item of expenditure where the benefits spills over to the next financial year and the periods covered by such payments have been accounted for properly?

Receipt and Payment Account

1. It should be ensured that only actual cash transactions should be depicted in R & P Account as it is observed that sometime R & P Account included receivable/payable amounts.
2. Please check that closing balance of cash/bank balances of Receipt and Payment Accounts tally with the closing balance of cash/bank balances of Balance Sheet.

Annexure-I to Audit Report

This is an important certificate for risk assessment of an organization. Subsequent paras give some of the points to be seen in audit for drafting audit observations in respect of Annexure to the SAR. It must be ensured that these points are not merely based on the reply of Management but should be actually seen in audit.

Adequacy of Internal Audit System: Whether internal audit system is adequate and commensurate with the size and nature of the AB? Deficiencies and weakness in the system and recommendations for improvement/strengthening of internal audit system. It should , interalia be seen:

1. Whether internal audit wing is established in the autonomous body.
2. Whether internal audit covered all activities/wings of the autonomous body.
3. Whether internal audit wing is reporting to the head of the autonomous body or not.
4. Whether internal audit findings are promptly issued to the concerned wings and their response received timely.

5. Outstanding internal audit para.
6. Whether corrective measures are being taken on the findings of Internal Audit by the management.
7. If internal audit is being conducted through Chartered Accountant firms, in that case again the above conditions as well as the appointment letter may be examined to ensure that all the important decisions/activities of the autonomous body were covered in audit.

Adequacy of Internal Control System: Whether internal control system is adequate and commensurate with the size and nature of the AB? Deficiencies and weakness in the system and recommendations for improvement/strengthening of internal control system. The para should not merely say that the internal control system is not adequate it should be substantiated by specific deficiencies in internal control which may lead to substantial affect in the Accounts. The specific deficiencies which may affect particular item of Account may also be correlated. Internal audit is an important tool of internal control system. If internal audit is deficient then this should be suitably commented in internal control. The specific recommendations for improvement in the system may also be included here. Some of the illustrative items which can be included are given below:

1. Whether there is clear delegation of powers amongst the management.
2. Whether the Recruitment Policy and Rules are laid down.
3. Whether there is Governance Body/BOG/ Management Committee/BOD in place in the organization.
4. Whether number of meetings of BOG/different committees were held as per the manual provisions. Deficiencies if any may be suitably pointed out.
5. Whether the AB has its Accounting Manual.
6. Whether Cash Book is being maintained in prescribed form.
7. Whether a certificate after physical verification of cash is recorded by the officer.
8. Whether the surprise check of the cash is being carried out periodically.
9. Whether bank reconciliation statement is being prepared regularly.
10. Which Internal Control safeguards are put in place by management of an organisation to provide assurance that its activities are proceeding as planned.
11. Whether the system ensures that all the assets of the organisation and its resources are safe from all type of losses.
12. Whether Internal Control system ensures an essential information and communication within the organization.
13. Whether Internal Control system is designed to provide reasonable assurance that all operations of the entity are strived to achieve its general objectives.

14. Whether the MIS is available.
15. Whether I.T. Controls are in place such as use of automated system.
16. Whether there is standard guidelines/manual for the purchase/procurement in place in the organization.
17. Whether there is laid down procedure for the appointment of consultant on contract. Whether there is any system in vogue to assess the performance of the consultant appointed on contract.
18. Whether every transaction is supported by an authentic voucher and vouchers are serially numbered.

System of Physical verification of fixed assets:

1. System of physical verification of fixed assets. Whether done annually, biannually or otherwise. Whether fixed assets have been physically verified by the management at the end of the year.
2. Whether any material deficiencies were noticed on physical verification and if so, the same have been properly dealt with in the books of accounts?
3. Whether fixed assets register had been maintained in the proper format.
4. Who was carried out physical verification of fixed assets, independence of the persons/committee.
5. In case no PV has been conducted the period from which it has not been done may also be brought out to show the gravity.

System of Physical verification of inventory:

1. Whether the physical verification of inventory has been carried out by the management at reasonable intervals?
2. Whether the item wise, highest and lowest levels of consumable stock have been fixed and maintained.
3. Whether inventories were issued based on proper authentication.

Regularity in payment of statutory dues: Whether the AB is regular in depositing undisputed statutory dues including Provident Fund, Employees' State Insurance, Income Tax, Sales Tax, Service Tax, Custom Duty, Cess and any other statutory dues with the appropriate authorities. If not, indicate the extent of the statutory dues at the close of financial year outstanding for more than six months from the date they became payable.

Any other observation on the functioning of the AB which suggests a significant risk to financial reporting.

Following is the illustrative list of control registers to be maintained in an Autonomous Body. Any deficiency in maintenance of register should be suitably commented.

1. Register of Assets in prescribed format.
2. Expenditure control register.
3. Advance register.
4. TA and LTC bill register.
5. Medical Claim expenditure register.
6. Library accession/issue register.
7. Stationary register.
8. Investment register.
9. Register of contracts.
10. Grants-in-aid register.

