B.com 4th semester.

Auditing (BCOMHACCC402) Core course: 9

Unit 4: Audit of different institutions

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Q .what is bank auditing? And it's process?

'Audit' or 'Auditing' is an activity which is undertaken by any business organization on its own or by the requirement under any law – to go through its accounts, transactions, and documents – to ensure correctness, legality of it.

It is an examination of the accounts and can be conducted by internal or external agencies – known as the auditors.

Bank Audit can be classified into 3 broad categories :-

1. Concurrent Audit
2. Internal Audit/ Information Systems Audit
3. Statutory Audit

Concurrent Audit

- Concurrent Audit means – the audit or examination of transactions happening as and when a transaction actually happens.
- It is a continuous audit, which goes on all the year around, usually conducted by external auditors (Chartered Accountants) on monthly basis.
- In concurrent audits daily basis transactions are in and checked – this ensures any irregularities are nipped at the bud.
- Banks have a huge number of daily transactions – they also have many documentations and other formalities that they have to conform too – through concurrent audit any irregularities or nonconformities are easily found out as and when it happens and rectified immediately; this avoids piling up of irregularities which may become a huge problem for any branch when the year end audit comes around!
- Concurrent Auditors check for daily maximum cash balance adherence compliance, KYC norm compliance, proper documentation of new loan disbursement, checking if new loans have been made as per rules and regulations, income leakage etc. among other things like

putting any new RBI instruction to work!; these are reported on in the ‘concurrent audit report’.

- Concurrent Audit is a measure to help a Branch to work smoothly and rectify any mistakes to avoid cascading effect of the irregularities.

Internal Audit/ Information Systems Audit

- Many banks instead of having concurrent audit or even in addition to having concurrent audits may use ‘internal auditing’.
- Internal Auditing is when any organization, including a bank, constitutes an audit team within its own organization to cater to its auditing requirements.
- These internal auditors will visit branches one by one where and when required and carry out auditing.
- Internal Audit may focus on any specified area or cover every aspect of the branch, depending on its audit programme and requirement; main thing is it is conducted by the bank itself.
- However one important thing in internal audit is – information systems audit; information systems audit is a new area gaining prominence in the last few years.
- With rapid computerization in banking sector – core banking, ATMs, mobile banking, internet banking, completely computerized banking functions – it becomes necessary to have a periodical review of how these systems are working.
- Internal Control audit looks are the information flow, the channels, the security (of information) etc.
- It also checks for the workability of new banking softwares and how it rates on security and access.

Statutory Audit

- ‘Statutory Audit’ is conducted by a ‘Statutory Auditor’ – the word ‘statute’ means – mandated or compulsorily required by any law or Act; in Bank’s case it is the RBI’s mandate.
- Every year around the very last days of March (end of financial year) and the beginning of April (first two weeks of April) – in every branch of every bank a very rigorous activity is held – know as the year end audit or the statutory audit!
- This audit is the most important event for a bank as this decides among other things – the NPA!
- Which by now, I think most of you would know and appreciate how important it is for any bank – NPA and its provisioning affect the profits of a bank and hence the Balance Sheet and Profit and Loss Account and finally the shareholder’s dividends.
- Thus Statutory Audit is very important.
- Statutory Auditors are appointed by RBI in association with the ICAI, to empanel Chartered Accountants for the job.
- Statutory Audit does not look at the nitty-gritties of the banking transactions (these are looked at by concurrent and internal audits); instead they rely on the concurrent audit reports and test checking to form their opinion.
- Statutory Audit mainly looks at the loans and advances, compliance with PSL requirements, CRR, SLR etc. and other statutory norms compliance as per the latest RBI circulars.

Q. Bank legislation relating to Audit of banks?

Ans. Prior to the introduction of the banking companies (Acquisition and transfer of undertaking) Act. All banking companies in India were governed by the Banking regulation Act, 1949. This Act I'd henceforth amended as banking regulation (Amendment) and miscellaneous provision Act, 2004.so it appears that the nationalised banks are governed by the provision of the former Act. While non- nationalised banks are governed by the latter Act.

The rural banks are governed by the regional rural bank Act, 1976. The state banks of India is governed by the provisions of the state bank of India Act, 1995 while it's subsidiaries are governed by the provision of the state bank of India Act, 1959. Certain specified provisions Act, 2004 are also applicable to the state bank of India and it's subsidiaries, to other nationalised banks as well as to regional rural banks. Moreover, the provision of the companies Act, 1956 also apply to the banking companies except in so far as they are not inconsistent with that of the banking regulation (Amendment) and miscellaneous provision Act, 2004.

The co operative banks are regulated by the co – operative societies Act, 1912, or the co – operative societies Act, in which they are situated as well as certain provisions Act, 2004. Certain provisions of the banking regulation Act have been modified in their application to the co- operative banks, while certain others have been omitted.

Thus, it appears that the provisions of banking regulation (Amendment) And miscellaneous provision Act, 2004 are applicable partly or wholly to all types of banks .so , the auditor of bank must be familiar with the relevant provisions of the banking of the banking regulation Act before he undertakes the audit work of banks.

Q. Internal control evaluation?

Ans. Proper control over cash and related transaction are essential because these are items that form a major part of the transactions of a bank. The auditors should satisfy himself about the existence and effective operations of the control stated below:

A. There should be adequate arrangement for safe custody of cash, securities, bullion etc. And there are kept in joint custody of at least two responsible officials
B. Everyday the actual cash in hand should be agreed with the balance shown in the books and a responsible officer not related with cash department, inspects the
C. Cashiers are not allowed to handle the customers ledger and the day – book except insofar as the teller is in force.
D. In addition to the person receiving cash , the documents in respect of cash receipts i.e the counterfoils of pay – in – slips are designed by a responsible officer.

E. When the cheques or demand drafts Etc. Have been paused for payment by a responsible officer and entries are properly made in the customers account the cash payments are made.
F. The total of cash receipt and cash payment sheets are compared with the entries in the cash columns of the day- book.

G there is proper authorization for lending of money at call or short notice .

Q. Internal check & internal audit .

Ans. Numerous cash transactions take place daily in a Banking company. So , it is not possible for an external auditor to check every transaction of the bank. The nature, volume and process of recording banking transactions are such that the checking of every transaction in the ordinary course may be considered an impossibility. That is why , it necessitates the application of a high degree of internal check system and the banking companies usually appoint their own internal auditor to check every transaction recorded in the book every day in detail throughout the financial period .Moreover , the transaction of the bank are checked daily in detail by its own staff.

Before commencing the actual work of audit, the external auditor himself must go though the system of internal audit and look into what rules and regulations have been constituted have been strictly followed by the staff.

Regarding internal audit of a bank , the research committee of the institute of chartered Accountants of India has recommended the following suggestions

1. The internal auditor should fix up the audit programme in consultation with the external auditor so that maximum amount of advantage may be derived.
2. In consideration of the prevailing circumstances and the experience gained form time to time ,the programme to be adopted should be changed .
3. If he deems it necessary, the external auditor may call for the report of the internal auditor submitted to the management and go though it. This procedure will be quite useful both to the statutory auditor and the management.

Auditor's report.

The contents of auditor's report for different types of banks are somewhat different.

Banking companies: the auditor is required to state in his report as per companies act about different matters. It addition to this , the auditor of a Banking company incorporated in India has to state the

Audit of Educational institution?

Ans. The Audit of Educational Intuitions, sometimes referred to as Audit of Books in the education industry, is a process of systematic evaluation and documentation of financial statements, taxes, expenditures, and incomes, obtained by the educational organizations such as schools, colleges and universities from Registration & Academic Fee, Payment Transactions, Fines & Penalties, Funds & Donations, Hostel Accommodation, Assets & Investments, Grants from Government or other local bodies, and via other sources.

1. **Internal Audit**

The Internal Audit is an internal process performed by the auditors and accountants, working as employees inside the organization, to evaluate and record institution's annual reports on financial income cumulated via various sources, and expenditures spent on pays of employees as salaries, taxes, Statuary Compliances i.e. PF, Income Tax, etc., maintenance, and many more. Conducting this type of auditing simplifies the preparation of audit procedures at the planning stages; provides foresight of risk factors; improves internal procedures, administrative operations, risk control & management, and governance whilst ensuring quality assurance in higher education.

2. **External Audit**

The External Audit is a process of examining accounts and financial records of an institution performed by an outside professional auditing organization. The law mandates and regulates every private, public, non-profit, Section 8, charitable trust, and other types of educational institutions to undergo External Audit.

Audit checklist for 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. Utilising ERP Management Software for Educational Institutions simplifies, digitises, 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.

Reference:

1.P.L GANGOPADHYAY (DEY BOOK CONCER)

2. https://www.edusys.co/blog/audit-of-educational-institution.