

# **Technical Guide on Internal Audit of Educational Institutions**



**The Institute of Chartered Accountants of India**  
*(Set up by an Act of Parliament)*  
**New Delhi**

# Technical Guide on Internal Audit of Educational Institutions

**DISCLAIMER:**

The views expressed in the Technical Guide are those of the authors. The Institute of Chartered Accountants of India may not necessarily subscribe to the views of the authors.



**The Institute of Chartered Accountants of India**  
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## FOREWORD

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Education is the starting point of every successful human activity. Education makes a person right thinker and a correct decision maker. The role played by educational institutions in the process of growth and persistent advancement of countries is accepted by everybody and education is regarded as a main base of advancement and progress. In a way the educational institutions at various levels constitute the foundation of the technological, administrative, civic, legal and other domains of a country.

In India education is rendered both by the government institutions and private institutions, partly aided or unaided, at primary, secondary and higher levels. In order to ensure sustainable growth of this sector of national importance, adherence to the fundamental principles of efficient management, governance and accountability of financial resources assumes significant importance.

Internal audit has emerged as an important tool to assist the educational institutions in achieving their goals and maximising value to the society as a whole. I am happy to note that Internal Audit Standards Board of the Institute is issuing this "Technical Guide on Internal Audit of Educational Institutions" that primarily deals with the operational as well as internal audit aspects relevant for various types of educational institutions.

At this juncture, I congratulate CA. Shantilal Daga, Chairman, Internal Audit Standards Board and other members of the Board for bringing out publication on such an important topic of national relevance.

I am sure that this Technical Guide, like other publications of the Board, would be warmly received and appreciated by the members and other interested readers.

February 3, 2010  
New Delhi

**CA. Uttam Prakash Agarwal**  
*President, ICAI*



## PREFACE

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Education plays vital role in building up a strong nation. Education refers to any act or experience that has a formative effect on the mind, character, or physical ability of an individual. It is the process by which society, through schools, colleges, universities, and other institutions, deliberately transmits its cultural heritage – its accumulated knowledge, values, and skills – from one generation to another. Indian constitution provides directives regarding the development of education throughout the country. The Government of India has identified areas in which the respective Central and State Governments have domain as the Central list, State list and concurrent list.

An effective internal audit function in educational institutions is undoubtedly a fundamental component of good governance. Internal audit assists in achieving efficiency and effectiveness in educational institutions, ensuring that processes and systems produce results that meet the needs of society while making the best use of resources at their disposal. Keeping this in view, the Internal Audit Standards Board is issuing “Technical Guide on Internal Audit of Educational Institutions” that would help the internal auditors to better understand the intricacies of this sector and discharge their onerous responsibilities with utmost efficiency.

The Technical Guide is divided into four chapters. The first chapter deals with the scope and objective of the Guide and overview of education in India. The second chapter of the Guide explains the technical aspects of the educational institutions in the country. It gives an overview on various aspects like, evolution of education in post independence period, types of management, stages of education, organisational structure of the educational institutions. It also covers the regulatory framework, technical and operational aspects, finance and accounting features, sources of income and expenditure of educational institutions. The third chapter of the Guide deals with the overall approach of internal audit with reference to Standards on Internal Audit issued by the Board, and the procedures to be undertaken by the internal auditors with regard to peculiar aspects related to educational institutions. The fourth chapter of the Guide provides guidance regarding internal audit of special aspects such as corporate governance, frauds, transactions with related parties, statutory and legal compliances, etc. It also provides in-depth understanding of internal audit in

information technology environment and internal audit using computer assisted audit techniques. For better understanding of the readers, the Guide also contains Appendix which includes organisational structure of Ministry of Human Resource Development as well as of educational institution, illustrative reporting format under Bombay Trust Rules, Internal Control Checklist, etc.

At this juncture, I express my thanks to CA. Verendra Kalra, member of the Internal Audit Standards Board and convenor of the study group and its members, viz., CA. Ajay Khattak, CA. Vimal Kishore and CA. Deepak Jain for squeezing time out of their pressing preoccupations to share their wealth of knowledge and experience with us and preparing the basic draft of the Guide.

I also wish to thank CA. Uttam Prakash Agarwal, President and CA. Amarjit Chopra, Vice President for their continuous support and encouragement to the initiatives of the Board. I must also thank my colleagues from the Council at the Internal Audit Standards Board, viz., CA. Rajkumar S. Adukia, CA. Ved Jain, CA. Abhijit Bandyopadhyay, CA. Bhavna G. Doshi, CA. Pankaj I. Jain, CA. Sanjeev K. Maheshwari, CA. Mahesh P. Sarda, CA. S. Santhanakrishnan, CA. Vijay K. Garg, Shri Krishna Kant, Shri Manoj K. Sarkar and Shri K. P. Sasidharan for their vision and support. I also wish to place on record my gratitude for the co-opted members on the Board, viz., CA. N. K. Aneja, CA. M. Guruprasad, CA. Dilip Kumar Vadilal Shah and CA. K. S. Sundara Raman as also special invitees on the Board, viz., CA. K. P. Khandelwal, CA. S. Sundarraman, CA. Ravi H. Iyer, CA. Rajiv Dave, CA. Pawan Chagti, CA. Ram Mohan Johri and CA. Arindam Guha for their devotion in terms of time as well as views and opinions to the cause of the professional development. I also wish to place on record the efforts put in by CA. Jyoti Singh, Secretary, Internal Audit Standards Board and her team of officers, viz., CA. Arti Aggarwal and CA. Gurpreet Singh, Senior Executive Officers, for their inputs in giving final shape to the publication.

I am sure that the readers would find the Technical Guide extremely useful.

February 8, 2010  
Hyderabad

**CA. Shantilal Daga**  
*Chairman*  
*Internal Audit Standards Board*

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# CHAPTER 1

## INTRODUCTION

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1.1 An old Sanskrit adage states, “*That is education which leads to liberation – liberation from ignorance which shrouds the mind; liberation from superstition which paralyzes effort, liberation from prejudices which blind the vision of the truth.*”

### **Objective and Scope of the Technical Guide**

1.2 The objective of the technical guide is to provide guidance to members to carry out the internal audit of educational institutions in India. These institutions are providing education from the primary level to the higher level and depending upon the level, operate as schools, colleges, universities, and other places of learning. This technical guide attempts to provide information about the structure of education in India, the environment in which it operates, the technical and operational details related to the functioning of educational institutions, and the internal audit aspects to be kept in mind by the members of the Institute of Chartered Accountants of India in conducting internal audit of such institutions.

1.3 The size, structure of management, the governing legislations, manner of functioning and nature of activities may vary from one educational institution to another. This technical guide cannot cover all the intricacies that might be involved in different practical situations. Therefore, the various aspects and principles enunciated in this guide should be applied *mutatis mutandis*, exercising professional judgement.

1.4 This guide is not intended to dwell on the basic internal audit procedures, which are common to all types of organisations/industries. It purports to provide insight into peculiar aspects of the educational sector for internal audit purpose. The guide also discusses special areas of compliance peculiar to this sector that call for internal auditor’s scrutiny.

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### **Overview of Education in India**

1.5 Education holds the key to development for any nation. It lays the foundation for a continuous and equitable growth of any country. In India, at the time of independence, less than one-fifth of the population was literate. After independence, many efforts were made to provide access to education to the general public. However, due to lack of educational institutions and teachers as well as poverty, customs and social barriers, there was not much development in education sector. As of today, significant progress has been made by the Government to develop and maintain the education system in the country. From time to time the Government of India has introduced various measures to provide quality education to all.

1.6 Today, education in India has expanded many folds, bringing a significant increase in the schools, universities, colleges, teaching staff and strength of students. India has made considerable achievement in 'Green Revolution', 'Space Technology', 'Nuclear Energy', 'Information Technology', etc. due to the development of higher education. The success of the Indian education system is nowhere more visible than in the important positions held by Indian professionals, managers and entrepreneurs worldwide in cutting edge sectors such as those driven with the support of information technology, biotechnology and medical sciences.

# TECHNICAL ASPECTS

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## Evolution of Education in Post Independence India

### Education and Constitution of India

2.1 The citizens of India have a fundamental right to education. The said right flows from Article 21A of Part III of Fundamental Rights of the Constitution of India, which was inserted by the Constitution (Eighty-sixth) Amendment Act in 2002<sup>1</sup>. Article 21A states that “*The State shall provide free and compulsory education to all children of the age of six to fourteen years in such manner as the State may, by law, determine*”. Subsequently, to enforce this right, The Right of Children to Free and Compulsory Education Act, 2009 was legislated in August, 2009.

2.2 The right to education is also mentioned in the Directive Principles contained in Part IV of the Constitution under Article 45. The Constitution (Eighty-sixth) Amendment Act, 2002, also amended Article 45 to state that “*The State shall endeavour to provide early childhood care and education for all children until they complete the age of six years.*”

Hence, the Constitution gives right to each citizen to free compulsory education up to the age of 14 years. However, thereafter, the right is not so absolute and it is circumscribed by Article 41 that reads as follows:

*“State shall, within the limits of its economic capacity and development, make effective provisions for securing the right to work, to **education** and to public assistance in cases of unemployment, old age, sickness and disablement, and in other cases of undeserved want.”*

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<sup>1</sup> It shall come into force on such date as the Central Government may, by notification in the Official Gazette, appoint. The notification is yet to be done.



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2.3 'Education' earlier was only in the State List. The Constitution (42<sup>nd</sup> Amendment) Act of 1976 has included education in the concurrent list. Para 25 of List 3 of Schedule VII to the Constitution reads as under:

*"Education including technical education, medical education and Universities, subject to the provisions of Entries 63, 64, 65 and 66 of List 1: Vocation and Technical Training of Labour"*

### Regulatory Framework<sup>2</sup>

2.4 The origin of the Indian Education Department dates back to pre-independence days when for the first time a separate department was created in 1910 to look after education. However, soon after India achieved its independence on 15<sup>th</sup> August, 1947, a full-fledged Ministry of Education was established on 29<sup>th</sup> August, 1947. The nomenclature and responsibilities of the Education Department has undergone changes from time to time since Independence. At present, the Ministry of Human Resource and Development (MHRD) regulates education in India and it operates mainly through two departments namely:

- (i) **Department of School Education and Literacy** - It is responsible for making policies on Elementary Education, Basic Education, Bal Bhawan Children's Museum, Social Education, Adult Education, Audio Visual Education, Books, Educational Research, Teachers Training and National Council for Teacher Education.
- (ii) **Department of Higher Education** – The Central Government is responsible for major policy relating to higher education in the country. It provides grants to University Grant Commission (UGC) and establishes Central Universities in the country. The Central Government is also responsible for declaration of educational institutions as 'Deemed to be University' on the recommendation of the UGC. The Central Government has also been empowered by Entry 66 of Union subject list of the Constitution<sup>3</sup> to maintain a particular standard conducive to the educational health of the country. The Central Government lays special emphasis on research and development carried out in technical as well as other institutions. The organisation chart of Department of Higher Education has been enclosed as **Appendix 1** to this Guide.

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<sup>2</sup> Source: <http://india.gov.in/sectors/education/index.php>

<sup>3</sup> Source: <http://www.education.nic.in/HIgedu.asp>

## Technical Aspects

The State Governments are responsible for establishment of State Universities and Colleges, and provide plan grants for their development and non-plan grants for their maintenance.

### National Policy of Education

2.5 The Central Government has reviewed educational policy and progress from time to time. In its resolution in the National Policy on Education in 1968, an emphasis on quality improvement and a planned, more equitable expansion of educational facilities and the need to focus on the education of girls was stressed. About a decade ago and a half later, the National Policy on Education (NPE-1986) was formulated which was further updated in 1992. The NPE 1986 provided for a comprehensive policy framework for the development of education up to the end of the century. The Plan of Action (POA) 1992, assigned specific responsibilities for organising, implementing and financing the proposals contained in the 1986 policy.

### Education and Charity

2.6 Though the Constitution of India enjoins upon the state to provide education compulsorily up to the age of 14, the private sector today is playing a vibrant role in the field of education.

2.7 In India, the concept of education has always been synonymous with charity. It was stated in the judgment delivered in *The State of Bombay v. RMD Chamarbaugwala* [(1957) SCR 874; AIR (1957) SC 699], that "Education is per se regarded as an activity that is charitable in nature". As a result, the regulatory framework has always striven to ensure that the educational institutions, even though being run by the private sector and despite their autonomous management status partake the character of non-profit institutions such as, public trusts or societies registered under the Societies Registration Act, 1860. This objective is achieved in the following ways:

- (i) Institutions receiving grant in aid from the Government have to follow the guidelines laid down for being eligible for such grants and *inter alia* such conditions require that such institutions be run on charitable basis.
- (ii) Institutions, even though not dependent on Government grants but seeking affiliation/recognition have to follow the guidelines laid down

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for being eligible for recognition and *inter alia* such conditions require that such institutions are run on charitable basis. Registration authorities constituted by the Government for this purpose are the Inspector of Schools, the Central Board of Secondary Education, UGC, etc.

2.8 The role of the Government in the functioning of private educational institutions has been the subject of perennial litigation. However, following two landmark judgments of the Supreme Court have been instrumental in defining this role:

- (i) The first judgment was delivered in the case of *Unni Krishnan J.P. vs. State of AP* [(1993) 1 SCC 645] in which it was held that private unaided recognised/affiliated educational institutions running professional courses could not charge a fee that exceeded the maximum limit fixed by the State and the manner of admissions could also be regulated. About private aided recognised/affiliated institutions, the Court went a step further and upheld the power of the Government to regulate matters of recruitment and conditions of service of teachers and staff as well.
- (ii) In the recent judgment the Apex Court in *TMA Pai Foundation and Others v. State of Karnataka and others* [(2002) 8 SCC 481], has partially reversed the aforesaid judgment. The Court held that the decision in the Unni Krishnan's case, in so far as it framed the scheme relating to the grant of admission and the fixing of the fee, was not correct, and to that extent, the said decision and the consequent directions given to UGC, Medical Council of India, Central and State Governments, etc., are overruled. The Court further held that the decision on the fees to be charged must necessarily be left to the private educational institutions that does not seek or is not dependent on any funds from the Government and a reasonable revenue surplus, may be generated for the purpose of development of education and expansion of the institutions. In respect of the aided institutions, the court was of the view that the Government can make rules and regulations that promote good administration and management of the institution.

2.9 The recent judgment, by concluding that the object to run such an institution should not be to make a profit, continues to uphold the necessity

for maintaining the charitable nature of the educational institutions. Yet, at the same time, it has removed a number of restrictions on such institutions, resulting in dilution of Government interference in the functioning of educational institutions.

### **Statutes Applicable to Educational Institutions**

#### **Statutes Governing Creation of the Institutions**

##### ***Societies Registration Act, 1860***

2.10 The educational institutions are generally registered as societies under the Societies Registration Act, 1860. In addition to the Central Act, various states have framed their respective Acts and Rules for example, The West Bengal Societies Registration Act 1961, The Andhra Pradesh Societies Registration (Validation) Act, 1959, The Karnataka Societies Registration Act, 1960, etc. Registration is as such done both under the Central Act as well as State enactments and in cases where the State Act exists registration is done by the State Governments in whose territories the society is located. The societies to be registered must have been established for literary, scientific or charitable purposes. Section 20 further elaborates to include for this purpose "*Societies established for the promotion of science, literature or the fine arts, for instruction, the diffusion of useful knowledge...*".

##### ***Public Trusts Act [State enactment]***

2.11 The institutions may also be established as Public Charitable Trusts. To create a trust, there must be few essential elements present. These are namely an author, the trustees, property to be held under the trust, purpose of the trust, beneficiaries and objects with which the trust is to be administered. The Charitable Endowment Act, 1890 defines charitable purpose as a purpose for "*relief of the poor, education, medical relief and advancement of any object of general public utility*" but excludes a purpose exclusively to religious teachings. The Central legislation governing trusts is the Indian Trust Act, 1882. It, however, does not govern public trusts.

2.12 Registration of a Trust is made as per the provisions of the Indian Trust Act, 1882 and the trust deed (and not the trust) has to be registered with the registration department of the respective State Governments. In some of the states, such as state of Maharashtra and Gujarat, where public trust acts have been passed, all the societies registered under the

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Societies Registration Acts, are required to be simultaneously registered under the Public Trusts Act.

### ***Companies Act, 1956***

2.13 The educational institutions may also be incorporated as a Company under section 25 of the Companies Act, 1956. Such institutions may be given a license by the Central Government when it is incorporated as a company with the limited liability. Section 13(1)(a) makes it necessary that the name of a limited company must end with the word '*limited*' in the case of a public company and with the words '*private limited*' in the case of private company. However, section 25 permits the registration under a license granted by the Central Government to all '*associations not for profit with limited liability*' without being required to use the word '*limited*' or the words '*private limited*' at the end of their names. Such license may be granted, if the Central Government is satisfied that the company is to be formed for promoting commerce, art, science, religion, charity or any other useful object and it intends to apply its profit, if any, or other income in promoting its objects and to prohibit the payment of any dividend to its members. Such a company is registered without payment of any stamp duty on its Memorandum or Articles. Further, such companies are also allowed numerous exemptions from the provisions of the Companies Act, 1956.

## **Statutes Regulating Education in India**

### ***Central and State Enactments***

2.14 Both Central and State Government are responsible to make policies to provide for the planned development of educational institutions, inculcation of healthy educational practice, maintenance and improvement in the standards of education and better organisation, discipline and control over educational institutions with a view to fostering the harmonious development of the mental and physical faculties of students and cultivating a scientific and secular outlook through education.

## Technical Aspects

2.15 Some examples of Central/Constitutional Enactments are as follows<sup>4</sup>:

S. No.	Bureau	Acts and Subordinate Legislation	Purpose
(i)	Distance Learning	➤ Indira Gandhi National Open University Act, 1985	An Act to establish and incorporate an Open University at the national level for the introduction and promotion of open university and distance education systems in the educational pattern of the country and for the co-ordination and determination of standards in such systems.
(ii)	University and Higher Education	➤ The Central Educational Institutions (Reservation in Admission) Act, 2006	An Act to provide for the reservation in admission of the students belonging to the Scheduled Castes, the Scheduled Tribes and the Other Backward Classes of citizens, to certain Educational Institutions established, maintained or aided by the Central Government, and for matters connected therewith or incidental thereto.
		➤ The University Grants Commission Act, 1956	An Act to make provision for the co-ordination and determination of standards in Universities and for that purpose, to establish a

<sup>4</sup> Source: [www.education.nic.in/Acts/actssubleg.asp](http://www.education.nic.in/Acts/actssubleg.asp)

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			University Grants Commission.
		➤ The National Council for Minority Educational Institutions Act, 2004	An Act to constitute a National Commission for Minority Education Institutions and to provide for matters connected therewith or incidental thereto.
(iii)	Technical Education	➤ The All India Council for Technical Education Act, 1987	An Act to provide for the establishment of an All India Council for Technical Education with a view to ensure proper planning and co-ordinated development of the technical education system throughout the country, the promotion of qualitative growth and the regulation and proper maintenance of norms and standards in the technical education system and for matters connected therewith.
		➤ The Institutes of Technology Act, 1961	An Act to declare certain institutions of technology to be institutions of national importance and to provide for certain matters connected with such institutions.
		➤ National Institutes of Technology Act, 2007	An Act to declare certain institutions of technology to be institutions of national importance and to provide for instructions and

## Technical Aspects

			research in branches of engineering, technology, management, education, sciences and arts and for the advancement of learning and dissemination of knowledge in such branches and for certain other matters connected with such institutions.
		➤ The Architects Act, 1972	An Act to provide for the registration of architects and for matters connected therewith.
		➤ The Apprentices Act, 1961	An Act to provide for the regulation and control of training of apprentices and for matters connected therewith.
(iv)	Book Promotion and Copyright	➤ The Copyright Act, 1957	An Act to amend and consolidate the law relating to copyright.
(v)	Languages	➤ The English and Foreign Languages University Act, 2006	An Act to establish and incorporate a teaching University for promotion and development of English and other Foreign Languages and their Literature, and to provide for matters connected therewith or incidental thereto.



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2.16 Some examples of State Enactments<sup>5</sup> are as follows:

S. No.	State	Acts
(i)	Gujarat	The Ganpat University Act, 2005
(ii)	Haryana	The Punjab University Act, 1947
(iii)	Uttarakhand	Doon University Act, 2005
(iv)	Himachal Pradesh	The Himachal Pradesh Compulsory Education Act, 1992
(v)	Tamil Nadu	The Tamil Nadu State Council for Higher Education Act, 1992
(vi)	Rajasthan	The Rajasthan Private University Act, 2005
(vii)	Uttar Pradesh	UP Act No. 1248(2)XVII-V-I-I-19-2000 Uttar Pradesh Adhinyam Sankhya 23, 2000
(viii)	Punjab	Punjab Technical University Act 1996

2.17 Since the State Governments establish and plan for the colleges and universities in the states and the Central Government does it for the Central Universities, it is essential that there is adequate co-operation between the State Governments and the Central Government in the field of higher education. The *Central Advisory Board of Education (CABE)* has, therefore, been constituted to assist in the functioning of the two Governments and ensure that parity is maintained.

### **Other Enactments - An Illustrative List**

2.18 The educational institutions imparting higher education have to comply with laws of the concerned Statutory Professional Councils, for example an engineering college has to comply with the rules and regulations of *All India Council for Technical Education (AICTE)*, a hospital has to follow rules and regulations of *Medical Council of India (MCI)* for setting up a medical college, etc. In cases where the educational institutions are in receipt of donations from foreign sources, statutory reporting compliances will have to be made under the *Foreign Contribution (Regulation) Act, 1976*; for example, application for registration under the *Foreign Contribution (Regulation) Act, 1976* for the acceptance of foreign

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<sup>5</sup> Source: <http://india.gov.in/govt/acts.php>

## Technical Aspects

contribution has to be filed in Form FC-8. The format of Form FC-8 has been enclosed as **Appendix 2** to this Guide.

2.19 Educational institutions will also have to comply with *Prevention of Food Adulteration Act and Rules, 1954*, local *Shop and Establishment Acts* and the *State VAT Acts* in case of establishment of a canteen. The educational institutions, like any other establishments are governed by all the relevant labour laws such as *Employees' Provident Fund and Miscellaneous Provisions Act, 1952*, *The Payment of Bonus Act, 1965*, *Payment of Gratuity Act, 1972*, *Minimum Wages Act, 1948*, etc.

### **Laws Governing Tax Exemptions**

#### *Income Tax Act, 1961*

2.20 The income of an educational institution is subject to income tax, except where the provisions for grant of exemption are applicable. Such provisions are contained in Chapter III of the Income Tax Act, 1961. A special set of provisions governing the taxability of income from property held under trust for charitable purpose is contained in Section 11 to 13 of the Income Tax Act, 1961. Section 10(23C) also provides exemption to educational institutions under certain circumstances, not necessarily being trusts or societies, provided however that such institution exists solely for the purpose of education and not for the purpose of profit. Institutions having receipts more than the prescribed limits have to specifically apply for such exemption.

2.21 Section 2(15) of the Income Tax Act, 1961 defines charitable purpose to include 'education'. It was held by the Supreme Court in the case of *Sole trustee; Loka Shikshana Trust V. CIT (1975) 101 ITR 234* that term 'education', for the purpose of Income Tax Act, 1961 should be in the nature of systematic instruction, schooling or training given to the young in preparation for the work of life. It also connotes the whole course of scholastic instruction that a person has received. Similar view has been taken in the following two cases:

- *CIT Vs. Oxford University Press (Bom) (1996) 221 ITR 77*
- *Samaj Kalyan Parishad Vs. ITO (2007) 107 TTJ 302*

2.22 Approved charitable institutions whose income is not liable to be taxable under the provisions of section 11 to 12 or 10(23C) are also eligible for further benefits in the shape of deduction available to donors to such

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societies. The donors upon making donations to such institutions can claim deductions from their income at the prescribed rates, from their taxable incomes, subject to other provisions contained in section 80G. The donee institutions have to apply for this benefit to the Commissioner of Income Tax. The approval granted by the Commissioner of Income Tax shall continue to be valid in perpetuity from 1<sup>st</sup> October, 2009. This facilitates the receipt of donations by such institutions from individual, corporate donors, etc.

2.23 The benefits given are, however, subject to certain restrictions, so as to ensure that the institutions spend their funds on charitable causes only. As per Section 13 of *Income Tax Act, 1961*, the following incomes of the charitable/religious trusts/institutions will not qualify for exemption under section 11:

- (i) Any part of the income from property held under a trust for private religious purposes which does not ensure for the benefit of the public. [Section 13(1)(a)]
- (ii) Entire income of a charitable trust/institution (established on or after 1<sup>st</sup> April, 1962) created for the benefit of the any particular religious community or caste. [Section 13(1)(b)]
- (iii) Entire income of a charitable trust/institution (established on or after 1<sup>st</sup> April, 1962) if it enures directly or indirectly any part of its income for the benefit of any interested person, or if the income/property is used/applied for the direct/indirect benefit of interested person. [Section 13(1)(c)]

2.24 Under section 13(3), following are considered as interested persons:

- (i) The author of the trust or the founder of the institution,
- (ii) Any person who has made a total contribution of an amount exceeding Rs. 50,000 to the trust or institution,
- (iii) A member of HUF, where such author or founder or substantial contributor is a Hindu Undivided Family,
- (iv) Any trustee of the trust or manager (by whatever name called) of the institution,
- (v) Any relative of any such author, founder, substantial contributor, member, trustee or manager, and

- (vi) Any concern in which any of the persons referred above has a substantial interest.

### *Wealth Tax Act, 1957*

2.25 Similarly, the Wealth Tax Act, 1957 is equally applicable to any charitable or religious trust as to any other assessee. However, Section 5 of the Act allows exemption from wealth tax to such trusts subject to certain conditions. These conditions are identical to the conditions prescribed under section 11 to 13 of the Income Tax Act, 1961.

### *Customs Duty*

2.26 The Government is empowered under section 25(2) of the Customs Act, 1962<sup>6</sup> to allow exemption to charitable institutions that are providing their services free or on 'no profit no loss' basis. Such institutions include educational institutions. The exemption is granted subject to the condition that the institution should be certified by the concerned district authorities. Further, the imported goods should not be put to any commercial use and the same should be available for charitable purposes without any distinction on account of caste, creed, religion, race or gender. The exemption is not available on the items of general use and the imported goods should not be sold, gifted or exchanged without prior permission of the Ministry of Finance.

### *Service Tax*

2.27 Service Tax exemption for providing training or coaching under section 65(105)(zzc) is available for pre-school coaching and training centers and those awarding legally recognised certificates/diploma/degree or any educational qualification, i.e., the certificates/diploma/degree should be 'recognised by the law for the time being in force'.<sup>7</sup>

2.28 Further, the vocational training institutions are exempted from service tax<sup>8</sup>. The exemption is available only to such institutions that impart training to enable the trainee to seek employment or self-employment. The institutions offering general course on improving communication skills, personality development, how to be effective in group discussions or personal interviews, general grooming and finishing, etc., are not covered under the said exemption.

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<sup>6</sup> Source: Customs Circular No. 81/2001, dated 12<sup>th</sup> December, 2001

<sup>7</sup> Source: [www.servicetax.gov.in](http://www.servicetax.gov.in) [Circular No. 107/01/2009-ST dated: 28<sup>th</sup> January, 2009]

<sup>8</sup> Source: Notification No. 24/2004-ST, dated: 10<sup>th</sup> September, 2004

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### *Exemptions from Local Taxes*

2.29 Registered charitable societies are also eligible for exemptions/relief from payment of local taxes such as to municipal authorities, development authorities depending upon the policy of the state in which such societies operate.

## **Applicability of Accounting Standards issued by ICAI**

### **Overview of Accounting Standards**

2.30 The accounting principles and practices, in India, are governed, *inter alia*, by the Accounting Standards, Guidance Notes, etc., issued from time to time by the Institute of Chartered Accountants of India (ICAI). Para 6.1 of “*Preface to the Statements of Accounting Standards*”, lays down that *the Accounting Standards will be mandatory from the respective date(s) mentioned in the Accounting Standard(s). The mandatory status of an Accounting Standard implies that while discharging their attest functions, it will be the duty of the members of the Institute to examine whether the Accounting Standard is complied with in the presentation of financial statements covered by their audit. In the event of any deviation from the Accounting Standard, it will be their duty to make adequate disclosures in their audit reports so that the users of financial statements may be aware of such deviation. Ensuring compliance with the Accounting Standards while preparing the financial statements is the responsibility of the management of the enterprise.*

2.31 Sound accounting principles under accrual basis of accounting, albeit in the context of business, industrial and commercial enterprises, have been laid down in the Accounting Standards issued by the Institute of Chartered Accountants of India. With respect to applicability of Accounting Standards to various types of enterprises paragraph 3.3 of “*Preface to the Statements of Accounting Standards*” states as follows:

*“3.3 Accounting Standards are designed to apply to the general purpose financial statements and other financial reporting, which are subject to the attest function of the members of the ICAI. Accounting Standards apply in respect of any enterprise (whether organised in corporate, co-operative<sup>9</sup> or*

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<sup>9</sup> With the issuance of this revised Preface, General Clarification (GC) – 12/2002, Applicability of Accounting Standards to Co-operative Societies, issued by the Accounting Standards Board in October 2002, stands superseded.

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*other forms) engaged in commercial, industrial or business activities, irrespective of whether it is profit oriented or it is established for charitable or religious purposes. Accounting Standards will not, however, apply to enterprises only carrying on the activities which are not of commercial, industrial or business nature, (e.g., an activity of collecting donations and giving them to flood affected people). Exclusion of an enterprise from the applicability of the Accounting Standards would be permissible only if no part of the activity of such enterprise is commercial, industrial or business in nature. Even if a very small proportion of the activities of an enterprise is considered to be commercial, industrial or business in nature, the Accounting Standards would apply to all its activities including those which are not commercial, industrial or business in nature<sup>10</sup>.”*

2.32 Since in most cases, an educational institution is normally run for charitable purposes by a society or a trust, unless the circumstances warrant otherwise, the Accounting Standards would not apply to such educational institution. However, if the society/trust is also undertaking business activity, the Accounting Standards would apply to all its activities, including charitable activities.

For detailed guidance on these aspects reference may be made to “Guidance Note on Accounting by Schools” issued by the Institute of Chartered Accountants of India.

### **Applicability of Accounting Standards to Educational Institutions Registered under Section 25 of the Companies Act 1956**

2.33 Educational Institutions registered under Section 25 of the Companies Act, 1956, are required to comply with Accounting Standards by virtue of sub-section (3A) of Section 211 of the Companies Act, 1956. Further, Section 211(3B) requires that where the profit and loss account (income and expenditure account in the case of educational institutions) do not comply with the Accounting Standards, the company shall disclose the fact of such deviations from the accounting standards, the reasons thereof and the financial effect, if any, arising due to such deviation.

2.34 Section 227(3)(d) also requires the auditor to state whether profit and loss account and balance sheet comply with Accounting Standards referred

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<sup>10</sup> With the issuance of this revised Preface, Announcement of ‘Applicability of Accounting Standards to Charitable and/or Religious Organisations’, approved by the Council (published in ‘The Chartered Accountant’, September 1995 (page 79)), stands superseded.

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to in sub-section (3C) of section 211. Sub-section (3C) of Section 211 provides that for the purposes of this section, the expression '*Accounting Standards*' means the standards of accounting recommended by the ICAI constituted under The Chartered Accountants Act, 1949 (38 of 1949), as may be prescribed by the Central Government in consultation with the National Advisory Committee on Accounting Standards (NACAS) established under sub-section (1) of section 210A. Proviso to Sub-section (3C) of the section provides that the standards of accounting specified by the ICAI shall be deemed to be the Accounting Standards until the Accounting Standards are prescribed by the Central Government under this sub-section. It may also be noted that on the recommendation of NACAS, the Ministry of Corporate Affairs, has issued a Notification dated 7<sup>th</sup> December, 2006, whereby it has prescribed Accounting Standards 1 to 7 and 9 to 29 as recommended by the ICAI which are included in the said Notification.

### **Standards on Internal Audit (SIAs)**

2.35 Internal Audit Standards Board of the Institute of Chartered Accountants of India has, till date, issued seventeen Standards on Internal Audit (SIAs) which are as follows:

- SIA 1, Planning an Internal Audit
- SIA 2, Basic Principles Governing Internal Audit
- SIA 3, Documentation
- SIA 4, Reporting
- SIA 5, Sampling
- SIA 6, Analytical Procedures
- SIA 7, Quality Assurance in Internal Audit
- SIA 8, Terms of Internal Audit Engagement
- SIA 9, Communication with Management
- SIA 10, Internal Audit Evidence
- SIA 11, Consideration of Fraud in an Internal Audit
- SIA 12, Internal Control Evaluation
- SIA 13, Enterprise Risk Management

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- SIA 14, Internal Audit in an Information Technology Environment
- SIA 15, Knowledge of the Entity and its Environment
- SIA 16, Using the Work of an Expert
- SIA 17, Consideration of Laws and Regulations in an Internal Audit

These Standards codify the best practices in the field of internal audit. “*Framework for Standards on Internal Audit*” provides a frame of reference for the internal audit standards being issued by the Institute.

2.36 Paragraph 3 of the ‘*Preface to the Standards on Internal Audit*’ deals with the scope of the SIAs. It reads as under:

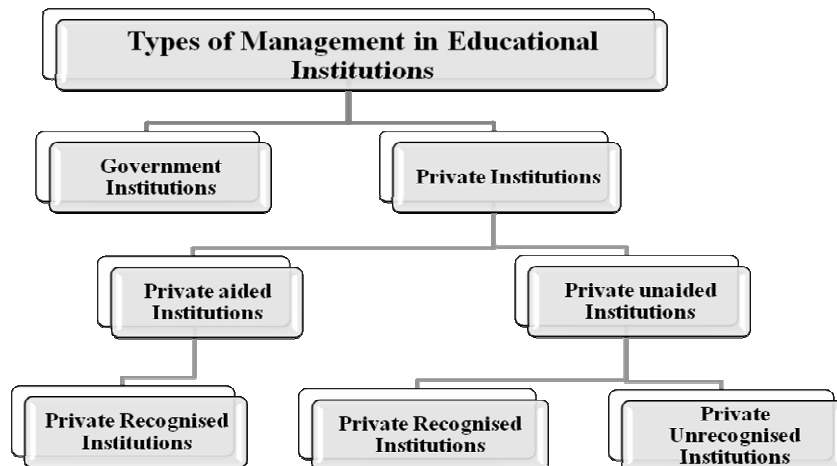
*“The Standards on Internal Audit shall apply whenever an internal audit is carried out. Internal audit is an independent management function, which involves a continuous and critical appraisal of the functioning of an entity with a view to suggest improvements thereto and add value to and strengthen the overall governance mechanism of the entity, including the entity’s strategic risk management and internal control system. Internal audit, therefore, provides assurance that there is transparency in reporting, as a part of good governance.”*

Presently, the Standards on Internal Audit issued by the ICAI are recommendatory in nature.



## Types of Management in Educational Institutions

2.37 The different types of management in educational institutions is as follows:



(a) **Government Institutions** – Government institutions are also known as state institutions or public institutions. These institutions are run by the Central or State Government or Local Government bodies like, Municipality Council. These types of institutions are 100% funded and managed by some level of Government, state or local. In these institutions, the respective state board syllabus is adopted.

(b) **Private Institutions** – These types of institutions are not run by the Central Government, State Government, a local authority or any other authority designed or sponsored by the Central Government, State Government or a local authority.

(c) **Private Aided Institutions** – These types of institutions are in receipt of recurring financial aid or assistance in the form of maintenance grant from the Central Government, State Government, a local authority or any other authority designed or sponsored by the Central Government, State Government, or a local authority. Though, these institutions are privately managed, they are funded by the government. They are entitled to financial aid only if they are recognised by the appropriate authorities.

(d) **Private Unaided Institutions** – These institutions do not receive any aid and are entirely privately managed and privately funded. Private unaided institutions are of two types, recognised and unrecognised.

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(i) **Recognised Institutions** – These are those institutions which are recognised by the appropriate authority. The appropriate authority is the Central Government or State Government or a local authority. These institutions have to meet the regulatory requirements of the Central or State Government.

(ii) **Unrecognised Institutions** – These are those institutions which are not recognised by any appropriate authority. They are in effect operating in the informal sector of the economy. Unrecognised institutions can offer only certificate and diploma courses, unlike recognised institutions, which in appropriate cases, can also be authorised to grant degrees.

### Stages of Education in India

2.38 The present education system in India mainly comprises of primary/elementary education, secondary education, senior secondary education and higher education. Elementary education consists of eight years of education. Each of secondary and senior secondary education consists of two years of education. Higher education in India starts after passing the higher secondary education or the 12<sup>th</sup> standard. Graduation courses can take three to five years depending on the stream. Post graduate courses are, generally, of two to three years of duration.

2.39 The table<sup>11</sup> below highlights the stages of education in India with the corresponding age group of students in each stage.

S. No.	Stages	Classes/ Duration	Corresponding age group of students
I	<b>School Education</b>		
I.1	<b>Elementary Education</b>		
I.1.1	Primary Education	I – V	6 - 11 years
I.1.2	Upper Primary Education	V – VIII	11 - 14 years
I.2	<b>Secondary Education</b>		
I.2.1	High School	IX – X	14 - 16 years
I.2.2	Higher/ Senior Secondary School	XI - XII	16 - 18 years

<sup>11</sup> Source: [www.education.nic.in/sector.asp](http://www.education.nic.in/sector.asp)

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II	<b>Higher/University Education</b>		
II.1	<b>Non-professional Degree Courses</b>		18 - 24 years <sup>12</sup>
II.1.1	Undergraduate	3 years	
II.1.2	Post-Graduate	2 years	
II.2	<b>Technical Education</b>	As per nature of course	

### School Education System

2.40 The Indian education system is based upon 12 years of schooling (10+2), which includes primary and secondary education. Secondary Schools are affiliated with Central or States boards for conduct of examination. Most of the private schools as well as many Government schools are affiliated with the Central Board of Secondary Education (CBSE). All the Indian universities and other institutions of higher education recognise the various 10+2 qualifications from different states as well as All India Boards like the CBSE and CISCE.

### Elementary Education<sup>13</sup>

2.41 Elementary education is the foundation on which the development of every citizen and the nation as a whole hinges. According to the Constitution of India, elementary education is a fundamental right. The Government has made elementary education compulsory and free. The Government has rolled out many plans to increase the penetration of elementary education such as, Sarva Siksha Abhiyan (SSA), District Primary Education Program (DPEP), Operation Blackboard, Mid Day Meal, etc.

### Secondary Education

2.42 Secondary Education<sup>14</sup> serves as a link between the elementary and higher education. A significant feature of India's secondary school system is the emphasis on inclusion of the disadvantaged sections of the society. Professionals from established institutions are often called to support in

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<sup>12</sup> 18-24 years are usually taken as the age group of students corresponding to university education.

<sup>13</sup> Source: [www.india.gov.in/citizen/primary\\_education.php](http://www.india.gov.in/citizen/primary_education.php)

<sup>14</sup> Source: [www.india.gov.in/citizen/secondary\\_education.php](http://www.india.gov.in/citizen/secondary_education.php)

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vocational training. Another feature of India's secondary school system is its emphasis on profession based vocational training to help students attain skills for finding a vocation of his/her choice. The secondary level of education includes children between the age group of 14-18 years, studying in classes 9-10<sup>th</sup> leading to higher secondary classes of 11<sup>th</sup> and 12<sup>th</sup>. A host of programmes and organisations that support Secondary Education under the administrative control of the Union Department of Education are:<sup>15</sup>

- (a) National Council of Educational Research and Training (NCERT)
- (b) Central Institute of Education Technology (CIET)
- (c) Central Board of Secondary Education (CBSE)
- (d) National Institute of Open Schooling (NIOS)
- (e) Kendriya Vidyalaya Sangathan (KVS)
- (f) Navodaya Vidyalaya Samiti (NVS)
- (g) Central Tibetan Schools Administration (CTSA)

2.43 The following types of school curricula are available in India:

- (I) International Curricula:
  - a) International Baccalaureate (IB) curriculum from International Baccalaureate Organisation is an internationally recognised school system made up of three educational programs:
    - PYP - The Primary Years Program (Kindergarten to Grade 5).
    - MYP - The Middle Years Program (Grade 6 to Grade 10).
    - DP - The Diploma Program (Grade 11 to Grade 12).
  - b) International General Certificate of Secondary Education (IGCSE) is an internationally recognised qualification, taken at the Grade 10 level, similar to the Grade 10 examinations of the CBSE and ICSE or the middle years program of the IB. IGCSE assessment is conducted by two UK assessment bodies, Edexcel (*formerly known as London Examinations*) and Cambridge International Examinations (CIE).

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<sup>15</sup> Source: [www.india.gov.in/citizen/secondary\\_education.php](http://www.india.gov.in/citizen/secondary_education.php)

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(II) Central/ National Curricula:

- a) Central Board of Secondary Education, Government of India (CBSE) is the most prominent and central board of school in India. The CBSE prepares the syllabus for Class 1 to Class 12 for schools affiliated to it. It also conducts all India level entrance examinations for higher studies.
- b) Council for Indian School Certificate Examinations, New Delhi (CICSE) is a private, non-governmental board for Anglo Indian Studies in India. It conducts two examinations '*Indian Certificate of Secondary Education*' and '*Indian School Certificate*'.
- c) The National Open Schools are known as National Institute of Open Schooling. It was established by the Government of India in 1989 for those students who cannot attend formal schools.

(III) State Curricula:

- a) Apart from CBSE and CISCE, each state in India has its own State Board of Education, which looks after the educational issues.
  - SSC - Secondary School Certificate for 10<sup>th</sup> Grade.
  - HSC - Higher Secondary Certificate for 12<sup>th</sup> Grade.
- b) Islamic Madrasah Schools, whose boards are controlled by the Local State Governments, or are autonomous, or affiliated with Darul Uloom Deoband.

## Higher Education

### ***Key Players in the Higher Education System in India***<sup>16</sup>

2.44 The University Grant Commission (UGC), a national body, is not only the lone grant agency, but also co-ordinates and looks after the maintenance of standard of university education in India. Apart from the UGC there are various statutory professional councils that are responsible for recognising courses, promoting professional institutions and providing grants and various awards to undergraduate programmes. Some of them are as follows:

- (a) All India Council for Technical Education (AICTE)

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<sup>16</sup> Source: [http://india.gov.in/citizen/higher\\_education.php](http://india.gov.in/citizen/higher_education.php)

- (b) Distance Education Council (DEC)
- (c) Indian Council for Agriculture Research (ICAR)
- (d) Bar Council of India (BCI)
- (e) National Council for Teacher Education (NCTE)
- (f) Rehabilitation Council of India (RCI)
- (g) Medical Council of India (MCI)
- (h) Pharmacy Council of India (PCI)
- (i) Dental Council of India (DCI)
- (j) Central Council of Homeopathy (CCH)
- (k) Central Council of Indian Medicine (CCIM)

### Academic Courses

2.45 India's higher education system is the third largest in the world, after China and the United States.<sup>17</sup> As of 2009, India has 20 central universities, 215 state universities, 100 deemed universities, 5 institutions established and functioning under the State Act, and 13 institutions which are of national importance.<sup>18</sup> Other institutions include 17000 colleges, including 1800 exclusive women's colleges, functioning under these universities and institutions. Though State Governments are responsible for establishment of State Universities and running them, Government of India is primarily responsible for framing major policies relating to higher education in the country. Higher education in India starts after the higher Secondary or 12<sup>th</sup> standard. The university education in India starts with undergraduate courses. Depending upon the nature of course pursued its duration may vary from three to five years.

2.46 The academic degree courses are, principally, divided into three levels namely:

- (a) **Undergraduate or Bachelor's Level (e.g., B.Sc., B.A., B.E., M.B.B.S., L.L.B., etc.)** – The undergraduate course in India is of three years' duration. After completing this course, students get a Bachelor's degree in the subject studied such as Bachelor of Arts, Bachelor of

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<sup>17</sup> "India Country Summary of Higher Education". World Bank.

<sup>18</sup> India 2009: A Reference Annual (53<sup>rd</sup> edition), 237

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Commerce or Bachelor of Science. Bachelor's degrees in science, arts and commerce take three years of study but in vocational subjects like pharmacy, dentistry, architecture, medicine and technology the duration may vary between four to five years (with six months of additional compulsory internship).

(b) **Postgraduate or Master's Level (e.g. M.Sc., M.A., M.Tech, M.S., LL. M., etc.)** – Postgraduate courses, generally, are of two-three years of duration. The Postgraduate programme could either be course or research based.

(c) **Doctoral (Ph. D)** - Entrance examinations are held for almost all the universities for admission to doctoral level degrees. Some universities also consider undergraduate degrees for entrance to doctorate level degrees. The duration of the coursework and thesis for award of the degree is about 5 years. The most commonly awarded doctoral level degree is Ph.D. There are some other doctoral level degrees such as D.B.A. (Doctorate of Business Administration), LL.D (Doctorate in Laws) and D.Sc. (Doctorate in Science).

### Technical Education

2.47 The history of imparting formal technical education in India can be traced back to mid 19<sup>th</sup> century, although it got momentum in 20<sup>th</sup> century with the set up of Constitution of Technical Education Committee of the Central University Board of Education (CABE) in 1943; preparation of Sergeant Report in 1944 and formation of All India Council of Technical Education (AICTE) in 1945. The setting up of Indian Institutes of Technology, Indian Institutes of Management and Indian Institutes of Science was a major step in the development of technical education in India. In order to maintain the standard of technical education, a statutory authority, The All India Council for Technical Education (AICTE), was set up. AICTE is responsible for planning, formulation and maintenance of norms and standards, quality assurance through accreditation, funding in priority areas, monitoring and evaluation, maintaining parity of certification and awards and ensuring coordinated and integrated development and management of technical education in the country.

2.48 The courses, which are known as '*technical*' in India and, therefore, come under the purview of AICTE, are:

(a) Degree and Diploma courses in Engineering

- (b) Master Degree courses in Engineering
- (c) Master of Computer Application (MCA)
- (d) Master of Business Administration (MBA)
- (e) Pharmacy Courses
- (f) Courses in Architecture and Applied Arts
- (g) Hotel Management and Catering Technology Courses.

### **Foreign Institutions/Universities**

2.49 AICTE also regulates the entry and the operations of the foreign educational institutions imparting technical education in India. Foreign institutions already offering Technical programmes in India at Diploma, Undergraduate, Postgraduate and Doctoral level directly or through collaborative arrangements with Indian institutions will have to seek approval from AICTE before commencement of ensuing academic session. AICTE carries out the necessary inquiries and inspection of the foreign educational institutions in India and then grants approval by approving the courses to be offered, the maximum intake of students in the course and the period of validity of the approval.

### **Other Diploma and Certificate Courses**

2.50 A diploma is a specific academic award usually awarded in professional/vocational courses for example, Engineering, Pharmacy, Designing, etc. A diploma is lower in rank than a specific Bachelor's degree of that discipline but equivalent to general degree in that discipline. Diploma courses are offered by the educational institutions at the undergraduate level and the duration of their study may vary from 1 to 3 years. Postgraduate level diploma courses are also offered which are generally of one year duration.

### **Distance Education in India**

2.51 Indian Education system offers distance education to those who cannot join regular schools or colleges. Not only students, but working professionals are also enrolling for various distance learning degree or diploma programs in order to enhance their qualifications and skills. National Institute of Open Schooling offers school education to students all over the country through distance learning. The Distance Learning Courses



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offered at institutions can be categorised under the several disciplines, namely Arts, Science and Commerce. Students can opt for both undergraduate and post graduate degree as well as diploma courses.

### **Organisational Structure of an Educational Institution**

2.52 Generally, the educational institutions are registered as public trust or societies. The trust is created through endowment of property by the founder trustee and is managed by a Board of Trustees, out of which some trustees may be designated as office bearers. Societies are autonomous bodies, generally, incorporated with minimum of seven founder members, out of which typically four members may be appointed as office bearers such as President, Vice President, Secretary and Treasurer. They together with other three members normally constitute the first executive committee. Subsequently, more members may be inducted in the general body of the society and such general body shall be comprised of all the members of the society. The executive committee may also take members from the general body from time to time and shall be responsible for managing day-to-day affairs of the society. The executive committee of the society is empowered to appoint separate governing bodies for managing the affairs of each school, college etc. run by it. Normally, the academic head/senior teachers of such educational institutions are inducted as members of the governing body. The governing body is entrusted with the responsibility of managing the affairs of each such individual educational institution. Such governing bodies are in themselves supported in their functioning by various committees, such as the finance committee, sports committee, academics committee, building committee, etc. The composition of these committees consists of members from the governing body, teaching faculty and administrative staff as well as students.

### **Technical and Operational Features**

#### **Departments and Organisational Structure**

2.53 The following is an illustrative list of departments in educational institutions:

- (a) Principals/Dean's/Academic Department
- (b) Admission Department
- (c) Billing/Fees Collection Department

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- (d) Examination Department
- (e) Hostel Management Department
- (f) Canteen/Mess Management Department
- (g) Transport Management Department
- (h) Infirmary Department
- (i) Library Management Department
- (j) Human Resources Department
- (k) Payroll Department
- (l) Accounts Department
- (m) Administration Department
- (n) Purchase /Assets Procurement Department
- (o) Inventory Management Department
- (p) Estate Management Department
- (q) Information Technology Department.

Usually, the activities in most educational institutions fall under two clear cut verticals, i.e., academics and administration. The organisational structure is, thus, built around these two verticals, which may be headed by separate authorities. The organisation structure of educational institution has been enclosed as **Appendix 3**.

### Students

2.54 There are normally following types of students:

- (a) **General/Normal/Ordinary Students** – Those students who do not fall under any of the other categories mentioned hereunder are considered as general category students.
- (b) **Concessional Students** – The educational institutions may allow concession to certain students based on certain criteria like, sibling concession, staff concession, meritorious students concession, need based concession, concession for the disabled, armed forces concession, management concession, etc.

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(c) **SC/ST/OBC Students** – This category normally comprises of students that are to be admitted based on certain quotas fixed by the State or Central Government. Apart from the preference to the vacancies, such students are also allowed concessions by certain institutions.

(d) **Donor/HNI Students** – Under this category, fall such students whose family members have been contributing to the development of the infrastructure of the educational institution or fall under a prospective list of such family members.

(e) **Sports Quota Students** – Under this category are mainly students who are admitted due to certain statutory regulations.

2.55 All the above type of students can be further classified as follows:

(a) *Day Scholars* are students who normally attend the educational institution during the normal academic hours but do not live in its premises.

(b) *Day Boarders* are students whose timings are extended as compared to the day scholars and who have their afternoon meals in the educational institution, and stay back for extended coaching hours, games, etc. The fees paid by them covers the cost of these items as well. However, such students do not stay in the hostel at night.

(c) *Boarders* are students who avail the hostel facilities of the educational institutions for residential purposes. The fee paid by them includes their boarding as well as lodging costs. The accounting in respect of such students has to be more detailed as the educational institutions are supposed to keep track of various expenses incurred on them throughout the year on heads such as uniform, housekeeping, medical expenses, pocket money, etc.

(d) *Staff Wards* are those who attend the educational institutions like day scholars and enjoy boarding and lodging facilities at the institution's premises with their parents.

### Admission Procedure

2.56 On submission of admission form, birth certificate, transfer certificate, previous academic records and other necessary documents, a student becomes eligible to appear for an entrance examination and/or interview. Immediately after a student clears the entrance examination and/or interview or fulfills the criteria for admission under any other scheme

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promulgated by the institution such as, cut-off marks of the qualifying examination, he is required to deposit the admission fees. Generally, to keep track of the students opting for admission, the educational institution accepts the admission fees (either directly or through authorised collecting bank) only after allotting a unique ID in a register maintained for that purpose by the admission department. This ID is then forwarded to the accounting department/collecting banker for controlling all accounting entries related to that student. This ID is also forwarded internally to all other departments such as, the class teachers, sports in charge, hostel in charge, library, logistics, etc.

### Billing Procedure

2.57 Once a student has been granted admission and has been allotted an ID, the wards of the student are intimated the fee to be deposited by them. The fee is normally collected in advance for the term, which might be monthly, quarterly, half yearly or yearly. Intimation of fee due may be done in various manners such as, printed fee schedules for that academic term, fee bills, fee cards, etc. Fee bills are made term wise and contain details of all fees due from that student. Fee Cards are printed for the entire academic year and are updated term wise for the fees due under various heads. The detail of fee deposited such as, amount, date and mode of payment are also recorded in these cards. Some institutions retain these cards as part of their records whereas others allow the wards of the students to retain them as acknowledgement of the fee deposited by them. A duplicate card or other record may in such cases be kept by the institution to keep track of fees due.

2.58 In case of boarding institutions, the procedure becomes more elaborate and, normally, takes shape of bills raised in the beginning of the term. These bills contain two types of amounts due. One is the advance fee due for the following term and the second part consists of the imprest to be deposited for the expenses which may have to be incurred during the following term such as on uniform, infirmary, housekeeping, etc. A lump-sum amount of the imprest is normally fixed on the basis of expenses estimated to be incurred during the term. The imprest takes the shape of a revolving fund and the amount charged in each term bill is calculated to maintain the imprest at the fixed amount at the beginning of each term. A single imprest account may be maintained for all expenses or different imprest accounts may be maintained for expenses such as infirmary,

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uniform, pocket money, etc. Receipts are issued for the amount received from the students where such receipt are collected in-house and not outsourced to a collection agency.

### Procedure for Fee Collection

2.59 With the rapid advent of technology, most of the large institutions prefer to outsource the collection and accounting of the fees through their designated bankers. This results in considerable reduction of risks and documentation on the part of the institution. The collection may be limited to a single branch of the agent. In such a case, generally the bank opens its extension counter within the institution's premises to provide dedicated services. However, with rapid inroads of the foreign and private banks, a new dimension to banking has been added with constant up gradation of the facilities with use of the latest technology. Now, the concept of 'anywhere' banking is the in-thing. This facility has revolutionised the concept of the fees collection through authorised banks. Now institutions of middle to large scale, prefer to appoint collection banks having branches all over the country with the facility of anywhere banking. Under this facility, the students/parents may remit the fees at any of the bank's branch anywhere in the country or at the designated branches. The fee is credited to the centralized account of the institution instantly or after the realisation of the cheques/demand draft as the mutually agreed terms may be. The information as to the remittance is available to the institution in 'real time'. The procedure, generally, followed by the institution for outsourcing the fees collection is given hereunder:

- (a) A collection agent is identified. The choice of the banker to act as a collection agent, generally, depends on a number of factors such as the network of the banker, the service charges (generally, these services are provided free of cost, with a rider that the institution shall maintain a predetermined minimum balance with the bank), the reporting procedure, the scale of the institution, etc.
- (b) Designated bank accounts are opened. These accounts may be different for different types of fees receipts. For example, separate bank accounts may be opened for the caution money, tuition fees, hostel fees, miscellaneous fees, etc.
- (c) Each student who is granted admission to the institution is allotted enrollment number that is a unique student identification number.

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(d) The pay-in-slip (which is, generally, customised for the institution) bears this unique student identification number mandatorily and the same is used for remitting the fees into the bank account of the institution.

(e) Generally, the pay-in-slip has three copies, one each for the student, the bank and the institution. The institution's and the banker's copy is retained by the bank and it is handed over to the institution after appropriate intervals. However, with the concept of the paper less offices catching the imagination in today's high-tech world, the pay-in-slip methodology is getting outdated and now the fees can even be remitted through the ATMs of the banks in which no such physical documentation is generated except for acknowledgment to the remitter.

(f) The bank reports the collection on daily basis to the institution through conventional methods or online.

### Charge Out of Expenses to the Students

2.60 As discussed above, a number of expenses are incurred by the institution for the students such as, cost of uniform, stationery, medical expenses, picnic expenses, housekeeping items, cost of tokens, etc. In all such cases, the expenses, which can be identified directly to a particular student account, are charged to that student based on charge slips, which contain the description of such expenses, the amount of expenses, and the name and ID no. of the students on whose behalf this expenditure was incurred. The charge slips are also countersigned by the concerned in-charge, under whose authority such expense was incurred. The original bills for expenses incurred together with the charge slips are forwarded to the accounts section, which debits the account of the student with that amount. At times, certain recoverable expenses are incurred for example expenses on picnic for a class. The recoverability of such expenses is worked out by distributing the cost on to the number of students on whom it was incurred and charging it to their individual accounts. Sometimes, a lump sum estimated amount is recovered from each student for the expense incurred on their account. In such cases, the total cost is first debited to the expenditure account of the institution. Subsequently, the recoveries on that account are credited to the income account by passing a corresponding debit to the individual accounts of the students, for example, in case of supply of books to the students, the institution may debit the total cost of the books

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supplied to the expenditure account and the amount recovered from the students to the income account.

2.61 To ensure integrity of the matching principle, it must be ensured that the expense must be charged to the income and expenditure account in the period in which such expenditure is incurred. Given these peculiar characteristics of an educational institution, special precautions needs to be taken at the end of the financial period while preparing the financial statements.

### **Mess Facilities**

2.62 This facility is provided either to the boarders or day borders. The mess is an integral part of the residential or day-residential institutions. The mess operations may be handled in-house or may be outsourced to an outside contractor. The trend now is on outsourcing these services to outside specialised agencies. The diet served in the mess is evaluated by doctors, nutritionists, etc., after taking into account the average calorie consumption of a particular age group of students.

2.63 The pattern and menu of food to be served on different days of the week is normally fixed in advance, such as non-vegetarian food may be served on alternative days. The day boarders are normally provided their afternoon meals in the institution itself. The in house running of mess substantially increases the workload of the institution. Apart from the infrastructure required in the shape of kitchen equipment, crockery and cutlery, staff will have to be hired for jobs of cooks, mess in-charge, for purchasing daily rations, for store keeping, etc. A number of accounting records will have to be correspondingly maintained such as, stock registers for cutlery, crockery, consumables, dry rations, etc. Often the food is also consumed by the staff of the institution and such consumption is charged and deducted from the salary of such persons on per meal basis. In such cases, to calculate such deductions, records will have to be maintained for keeping track of the consumptions. In case the kitchen is outsourced, then the terms usually take shape of per head charges for breakfast, lunch, evening tea and evening meals. The outsourcing may require the contractor to set up his own kitchen equipment or the institution may provide the equipment. The count of students and staff who consume the food is kept by the staff of the contractor, who raises the bill accordingly at end of each

month. In such cases, the institution must have a system of cross verifying the number of persons specified in the bill of the contractor.

### **Hostel Facilities**

2.64 The residential institutions charge fees from the students for providing them residential accommodation in the premises of the institution. This fee charged is, normally, not demarcated separately in the fee structure and the coaching, boarding and hostel fee is charged as a consolidated amount. The residential facilities may be in the premises of the institution or may be hired near the premises. In case they are hired by the institution, the institution will charge the fees directly from the students and in turn pay to the lessor of the premises on monthly basis as a lump sum amount or calculated on per head basis of the students who reside in the accommodation provided by that lessor. In case the hostel is run in-house, then the appointment of staff such as, hostel in charge, housekeepers and cleaning staff is required. Infrastructure in the shape of furniture such as beds, study tables, bedding, linen, etc. will have to be procured. The residential facility may take shape of a dormitory, twin sharing rooms, etc.

### **Centralised Purchase Department**

2.65 Depending upon the nature and spread of activities, the purchasing activities of an institution can range from items of daily consumption in the hostel, mess, administrative office, educational aids to capital items like, furniture, equipment, building material, etc. In all large institutions, this purchasing activity is normally centralised and formally structured and documented to ensure adequate internal control and prevention of leakages.

2.66 Setting up an educational institution today involves substantial amount of funds and this is also true for the running expenditure to be incurred to maintain the same. Constant up-gradation of infrastructure takes place in the shape of more buildings to house the classes, provide residential accommodation, etc. as well as other items of fixed assets such as, furniture, equipment, teaching aids, buses, expansion of library, games equipment, etc. Normally, the purchase activity is controlled through an independent Purchase Manager. The control and maintenance of the infrastructure and property is done by an Estate Manager.



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### Capital Expenditure in an Educational Institution

2.67 Fixed Assets in an educational institution primarily consists of:

- (a) Land
- (b) Buildings/Building Renovations (Classrooms, Hostels, Cafeterias, Labs, Administrative Building, Staff Quarters, etc.)
- (c) Infrastructure (Roads, Parking Lots, Outside Lighting, Sidewalks, etc.)
- (d) Plant and Machinery (Office Equipment, ACs, Power backup units, etc.)
- (e) Furniture and Fixture
- (f) Computers, printers, servers, etc.
- (g) Vehicles.

Fixed assets may further be grouped into movable and immovable assets. With regard to the movable assets, assets should be capitalised as soon it is installed at the premises. All incidental costs incurred with respect to put the asset ready to use should be capitalised.

2.68 With regard to the immovable assets, the cost of asset and initial acquisition shall include all expenses related directly to the acquisition or construction. Construction costs include materials, labor, overhead directly related to the construction, interest on loans, building permits, and fees, i.e. attorney and architecture. The amount of borrowing costs eligible for capitalisation should be determined in accordance with Accounting Standard (AS) 16, "*Borrowing Costs*".

2.69 A separate Capital Work in Progress (CWIP) account for each project should be opened to track the cost incurred in a specific project. Further, this account should be segregated to track the cost of assets in the block of assets as specified. For example, construction of a student lab will involve civil and sanitary work, electrical fittings, furniture and fixture, installation of computers, wires and servers, etc. Different ledger accounts should be opened to segregate the costs under a group account Student Lab-CWIP so that it is easy to capitalise the value of total assets on a given date. Accounting Standard (AS) 10, "*Accounting for Fixed Assets and Guidance Note on Accounting by Schools*" should be referred for

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accounting and disclosure requirements of the fixed assets. In case any grant is received for the fixed asset acquired, Then Accounting Standard (AS) 12, "*Accounting for Government Grants*" should be referred.

2.70 The educational institution is responsible for maintaining appropriate records of control and accountability of its capital assets. All records in regard to additions and deletions of fixed assets should be maintained. Further, the institution must perform a periodic physical verification of fixed assets and reconcile any differences to the fixed asset records. Generally, the storekeeper maintains stock registers of the construction material containing the details of receipts of material and issues of material to construction sites. The item-wise details of materials are recorded in the stock registers. The consumption of materials made by various departments/ construction sites is assessed through these stock registers. Then, the store keeper periodically submits the consumption of materials to the accounts department.

### **Canteen/Tuck Shops**

2.71 The educational institution, normally, allows a tuck shop to operate on its premises to sell stationery, refreshments, etc., for its students. The tuck shop may be operated by the institution or may be given on contract/lease to an outside party. Tokens of various denominations are issued by the institution to the students for making payments to the tuck shop. The accounts of the students are debited with the value of the tokens so issued. The tuck shop in-charge at the end of a fixed period, submits the tokens collected by him to the accounts section and collects the payment against them. The accounts section reconciles the same with its issue records and destroys the tokens. The students at any time before leaving the institution may return the unused tokens and get a credit against them in their accounts. The use of tokens facilitates control of the institution on the tuck shop, as well as ensures that the students do not handle any cash that may be used for making purchases from any other unauthorised source.

2.72 If the institution has a centralised computerised accounting system, the use of the token may be eliminated. The tuck shop is provided with an online terminal and the student is allowed to make purchase within the preset limits. Any purchase is instantly debited to his account. This system

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obviously mitigates the internal control risks of the manual environment; moreover, it also reduces the administrative costs.

### **Library**

2.73 A library is an integral part of any educational institution. Generally, a qualified librarian, who might be assisted by helper staff, runs the library. Library books are systemised on two types of classification Dewey Decimal Classification (DDC) and Universal Decimal Classification (UDC). DDC is a proprietary system of library classification. This system organises books on library shelves in a specific and repeatable order that makes it easy to find any book and return it to its proper place. UDC is a system of library classification, based on the DDC, but which uses auxiliary signs to indicate various special aspects of a subject and relationships between subjects.

2.74 Library security deposit may be charged separately from the students apart from the caution money deposit. The institution may follow a policy of making this security deposit a part of the fees structure and as such make it compulsory for all students. On the other hand, some institutions allow use of these library facilities only to students who opt to deposit the security money and become members thereof. Apart from the security deposit, library fees may be charged along with other fees from the students. Fines are also recovered from the students for returning the books after the expiry of the loaning period or for damage to books.

### **Refund of Caution Money Deposits and Other Fees**

2.75 The educational institutions collect a fixed amount as caution/security money from the students at the time of admission. This security is refundable immediately at the time the students leave the institution. The caution money by its very nature has to be repaid on demand any time the student takes a transfer from the institution. It should not be considered as income but as a current liability in the financial statements. Students are entitled to refund of the caution money deposits as well as any credit balance standing in their favour at the time of leaving the educational institution. A deduction for any loss or payment due to the institution is made from the security. Normally, the institutions follow a policy restricting the claim of such fees to a specific period say up to 3 years from the date of leaving the institution. Such terms and conditions are printed on the admission receipts, etc.

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2.76 Care should be taken to grant such refunds only after ascertaining that no dues with regard to fees, charge out of expenses, fines, recoveries on account of lost library books, breakages in laboratories, damage to property of the institution, etc., stand recoverable from that student. Since all this information has to be communicated by different agencies operating within the institution, to the accounts department, necessary internal controls should be implemented to ensure that there is no loss of revenue due to non-communication. This would effectively mean that the refund should be granted only after the student furnishes no dues certificate from all the departments, wherever so prescribed. In case, the institution does not have such a system, the accounts department should communicate with all the agencies to ascertain the dues of the students and grant the refund only thereafter. In case, the system of charge out of expenses, billing, etc., is computerised, then it will facilitate immediate settlement of the account of the student to a great extent.

### **Fund Flow Management of an Educational Institution**

2.77 The fund flow of the educational institution may often be much skewed owing to the fact that the institution may be collecting the fees in advance in the beginning of the year and the expenditure have to be incurred throughout the year. To overcome this polarisation, the institutions manage their funds by deploying them in short-term investments/deposits whereby the maturity of the same matches the expected expenditure. In such cases, the interest income may be appropriately accounted for keeping in view the fund accounting concept. Hence, the income on investment of special funds may be credited to the respective fund and similarly the interest on revenue fund investments may be booked under the revenue fund account.

### **Management Information System in an Educational Institution**

2.78 Of late with the onset of the computerisation, the number of manual records maintained by an educational institution like any other enterprise has reduced considerably. Now, a number of registers and ledgers have outlived their utility and, generally, common software is used in an online environment to control activities as diverse as admission procedures, issue of I-cards, maintenance of academic records and other background details of students, generation of results as well as accounting records. The

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integrated features ensure that there is no duplicity in respect of crucial issues such as, number of students enrolled. Now days, educational institutions are equipped with Management Information System (MIS) which helps in control of the management of the institution as well as integration of all departmental jobs.

2.79 The Management Information System (MIS) is usually divided into the following modules:

(a) **Student Registration Module** – This module manages the student registration class-wise or batch-wise. The module features the interview details, registration status, results, and auto transfer of selected student details from Registration Module to Admission Module.

(b) **Student Admission Module** – The student admission module manages the admission process of both new and the old students. It is usually fully integrated with the accounts section, and helps in managing the entire procedure. One of the main feature of this module is multi-option of student search with respect to name, parent's name, subject, receipt number, qualifications, etc. The module generates reports regarding the total number of students (class/batch/subject wise).

(c) **Fees Collection Module** – The fees collection module automatically calculates the pending fees, last fee payment details, advance fees paid, deductions and concessions, if any, applicable to the selected student. The fee module is useful in automatic generation and printing of receipts as well as automatic generation of fees collection register as required i.e., head wise, receipt wise, class wise, section wise, or division wise reports. There is separate provision for collection of miscellaneous fees, boarding fees, etc.

(d) **Time Table Management** – This module helps in generating time tables on the input of basic information regarding allocation of subject to the teachers, teacher to the classes and number of lectures for each subject to each class. The time table can easily be modified as per changing requirements. The time table report displays the reports regarding time table.

(e) **Attendance Module** – The attendance module is used to keep track of presence of students as well as employees. Student's attendance details are used to identify irregularities in the academic interests of the students, whereas employee's attendances are used to keep track of leaves taken

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and automatically update the payroll department. The daily attendance register is maintained by this module which helps in reporting attendance status month/term wise.

(f) **Examinations Management Module** – Besides helping in allotment of examination roll numbers; this module processes the final result on a formula basis which helps in analyzing the students' performance. The module generates reports of toppers, failures, analysis of results, etc.

(g) **Hostel Management Module** – It is used to manage the allotment of rooms to students, hostel clearance and administrative expenses incurred.

(h) **Mess Management Module** – It is a fully functional mess management tool for managing direct purchases by mess, details of provisions and other consumables, list of suppliers, number of students availing mess facilities, preparation of mess menu, eligible diner list, issue of mess slips, daily attendance management, daily consumption pattern, mess facilities availed by guests and staff, preparation of list of outstanding dues and defaulters, etc.

(i) **Transport Module** – It is used to manage the transport infrastructure of the institution. The module has facilities to report the fuel consumption, route details, number of vehicles, maintenance overdue, profile of drivers, insurance information and permit information management. It is also integrated in to the fee structure and accounts so that the transport charges are automatically charged from the students. To the management, the system provides vital information regarding the expiration of insurance, renewal of permits, details of fuel consumption and fuel economy of the vehicle, etc.

(j) **Infirmary Management Module** – It is used to manage the infirmary in an educational institution. The module helps in managing the registration of patient, scheduling of appointments, bed management, reporting duties of doctors and nurses, stock management of medicines and blood, electronic medical records, patients' dietary records, housekeeping/laundry services, management of insurance of students, patient's billing, details of discharged patients, etc.

(k) **Library Module** – It is a fully functional library management tool containing detailed options for entering information about the books, periodicals and electronic media. Barcode enabled library system manages issues and returns of books without any user intervention. It includes

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advanced search software for finding and tracking status of the books. The system is capable of calculating automatically, the fines due from students on the late return of books.

(l) **HR Management Module** – It manages the generation of recruitment advertisement, search the data bank for the appropriate applicant, short listing of candidates, detail particulars of employees (their education, training records, etc.), results of interview and generation of appointment letter along with the terms and conditions.

(m) **Payroll Module** – Usually a fully functional payroll management system is available, which is fully compliant with the rules as laid down by various laws. Various calculation parameters and the allowances are also configurable as per the user requirements. The payroll module is capable of calculating the working days, payable amount, deductions, etc. The payroll module helps to keep workflow costs in check and ensure that all employees are paid on time in any circumstances. Various reports are also available to assist the management in calculating the expenses on salary as well as reports needed for departmental processes like, provident fund forms.

(n) **Financial Accounts Module** – The Integrated Accounting Package allows comprehensive management of accounts without the need of cumbersome posting of vouchers. It is used to maintain books of account on computers. The software can be used to record transactions, maintain account balances, and prepare financial statements and reports. Integrated with fee module, the accounts module automatically manages posting of fees into appropriate accounts heads. There is availability of many financial reports that provide a detailed snapshot of various financial activities. One can view the ledger statements, fee collection, balance sheet, drill down reports leading to individual transactions, voucher reports and various management level reports to provide a more abstract view of the institution's financial position.

(o) **Administration Module** – This tool helps in overall administration of an educational institution. It helps in making managerial decision by making available useful information from the large database as well as helps in staying up to date with the current status of institution's activities. The module generates two different types of reports; first regarding student's personal and academic details and other employee personal details.

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(p) **Asset Management and Procurement Module** – Asset management module is used in controlling the assets by providing the total list of assets, their total costs and their details of physical presence. The Asset management module is helpful in better management of assets while providing the feature of grouping and item classification, multiple supplier support, multiple department transaction support, generation of purchase order, etc.

(q) **Inventory Module** – It is helpful in managing and sorting all the consumables as well as durables. Reports regarding the issue of the stock items to the employees are available to the management. Periodical consumption summary with respective costs records can be deduced and efforts may be made for improvement.

(r) **I-Cards System** – ID card system allows creating photo ID Cards, membership badges and employee ID cards.

(s) **Web Modules** – Web Modules enable educational institutions to become more organised, improve communications, streamline processes, and track common happenings. Some of the features available to students are:

- (i) Attendance Records
- (ii) Status of Homework
- (iii) Fees Details
- (iv) Time Table for classes and examination
- (v) Events and scheduling
- (vi) List of Holidays
- (vii) Discussion Forum
- (viii) Notice Board
- (ix) Online Results
- (x) E-mail/E-chat facility
- (xi) Photo Album
- (xii) Alumni Information
- (xiii) Placement information



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(t) **User Rights** – User rights administration allows full control on delegation of authority to the various employees so that their domain of operation may be restricted to their own department only. No employee is able to see/edit/modify the information that is not pertinent to his/her role in the institution. The information is provided on need to know basis. This acts as a great management tool and allows authorities to have direct control over the employees' access to the software and to the institution's information resources in general.

An illustrative list of modules of MIS in an educational institution is enclosed as **Appendix 4**.

# FINANCE AND ACCOUNTING FEATURES

### Typical Flow of Transactions in Case of an Educational Institution

3.1 As the educational institutions are not akin to manufacturing or trading organisations, much of the processes are simple and linear. Thus, the primary flow of transactions may involve the following processes:

- (a) Student Admission → Up gradation → Suspension/Graduation → Alumni
- (b) Staff Recruitment → Hiring → Maintenance → Promotion → Golden Handshake
- (c) Inventory Procurement → Issues / Consumption
- (d) Fixed Assets → Purchase / Construction → Utilisation → Maintenance → Disposal

3.2 If these processes are converted into financial transactions, they may result into the following:

**(i) Student Process Flow – Primary Source of Revenue**

- (a) Security Deposit/Caution Money
- (b) Levy of various types of Fees as per the Fees Chart
- (c) Student Fee Matrix (Grade-Wise and Student-Wise)
- (d) Collection/Dues/Penalty/Fines levied from time to time
- (e) Promotion of Student may involve change of Fee Structure
- (f) While leaving the institution, a student is required to clear all the dues
- (g) Refund of Security Deposit/Caution Money.

**(ii) Human Resource Process**

- (a) Advertisement/Recruitment Agency expenses

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- (b) Staff Induction and Continuous Training
- (c) Salaries, Allowances, Perquisites and Deductions as per Staff Service Rules
- (d) Statutory Compliances – Income Tax on Salaries, PF, ESIC, Gratuity, etc
- (e) Promotion/Retirement Schemes/Staff Advances
- (f) Leave Encashment / Gratuity / Ex-Gratia Payments / PF / Recovery.

### **(iii) Inventory**

- (a) Approval of Budget
- (b) Obtaining Quotations and Bids
- (c) Selection of Supplier
- (d) Preparation of Purchase Order
- (e) Sanction of Purchase Order
- (f) Procurement as per requirement
- (g) ABC Analysis/Level Setting
- (h) Sale/Issue to Students/Consumption in the Institution.

### **(iv) Fixed Assets**

- (a) Purchase of Furniture/Fixture/Vehicles/Machinery
- (b) Fixed Asset Register/Marking of Assets/Asset Movement
- (c) Construction of Building and premises
- (d) Involvement of Contractors
  - Bidding/Allotment
  - Capital Work-in-Progress
  - Advances
- (e) Completion/Retention of Caution Deposit.

## **Principal Books of Accounts Maintained by an Educational Institution**

3.3 An educational institution, normally, maintains the books of accounts similar to those maintained by other enterprises. However, some additional records to address its specific requirements are also maintained, and to this

## Finance and Accounting Features

end, the conventional accounting records may also be appropriately modified. The type of students may also dictate the requirements. The accounting records for residential institutions are more elaborate than those that provide education only to day scholars. The following is an illustrative list of books of accounts/records, normally, maintained by an educational institution:

- General Ledger
- Day books such as cash books, bank books, expense register, cheques in hand register
- Journal (if the books are maintained on accrual basis)
- Creditors Ledger
- Stock Register (for stationery, books, uniform, eatables, prospectus, etc.)
- Payroll Summaries
- Fixed Assets Register
- Investments Register
- Minutes Book
- Library Registers
- Vehicle Log Records

The books/records typically maintained only by an educational institution has been discussed in the following paragraphs:

### **Students Ledger (to record outstanding of students)**

3.4 This record is, normally, maintained to keep track of the fees and other dues to be received from the boarders/residential students. An account/ ledger folio is allotted to each student immediately after admission. The admission fees, tuition fee for the ensuing academic session, the expenses incurred from time to time such as uniform, stationery, and infirmary are debited to this account and the fee received together with imprest is credited to this account. The student accounts are, normally, expected to have a credit balance in the shape of unutilised imprest received for making expenses.

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3.5 In a computerised environment, normally, the billing as well as accounting record is integrated through single software. Once a bill is generated through the software, it automatically results in debit to the account of the student and a corresponding credit to the various revenue accounts of the institution. In institutions where manual records are maintained, control on all transactions relating to a student is kept in the shape of columnar ledger, with columns on the left hand side recording receipts of fees and columns allocated on the right hand side recording different expense heads. Column for balance outstanding is also included to keep track of the amounts due from or payable to the student. This register is usually called as '*Charging Register*' or '*Students Register*' and is, normally, made to keep track of the financial transactions pertaining to residential students, such as fee due, charge out of various expenses incurred or items issued from stores, etc., during the stay of such students in the institution. For day scholars, the control is normally exercised through fee collection register.

3.6 The institutions often follow an accounting system where a control account is opened in the main ledger for the receivable/dues to the students and a subsidiary ledger is maintained for individual accounts of the students. The reconciliation of both these records on periodic basis is essential to determine the accuracy of the accounting transactions.

### **Fees Collection Registers (for keeping track of fee collection)**

3.7 This register is used for recording the names and roll numbers of the non-residential students and against their names, columns are allocated for the period for which fees is to be received (monthly, quarterly, etc.). The fees received for a particular month is entered under that column and the blank entries enable the accountant to keep track of the outstanding dues.

### **Caution Money Registers (for recording security deposit from students)**

3.8 This is a ledger in which an individual account is opened for security received from each student including details of cheque no. and date of receipt, etc. Similarly, when the security is refunded, the full details of refund are entered in that account.

### **Fund Ledgers (for keeping track of fund balances)**

3.9 This ledger is used for recording fund balances of building, library, laboratory, games, furniture, equipment, endowment, provident fund, poor students fund, etc.

## **Financial Reporting Requirements**

### **Financial Statements**

3.10 As discussed in detail earlier, educational institutions are expected to provide education on charitable basis. As such, the provisions discussed here are in the context of not-for-profit institutions. In view of the absence of the profit motive, the trusts/society are not supposed to draw up financial statements such as profit and loss account normally prepared by a commercial enterprise. However, absence of profit motive does not mean absence of deficit or surplus. It has been upheld in a number of judgments delivered by various high courts and the apex court that the charitable institutions have a right to earn surplus, so long as such surplus is utilised for the charitable purpose for which such institution exists and has not been distributed to the trustees or members of the trust/society. Further, no charitable institution can ever continue to exist solely on its dependence on grants and donations and should, therefore, generate enough surpluses so as to sustain its organisational objectives. Thus, as a measure of accountability and performance, they will be preparing an Income and Expenditure account and a Balance Sheet. This Income and Expenditure account is essential to calculate the deficit/surplus resulting from the activities carried out by the trust/society during a financial year. The balance sheet will reflect the state of asset and liabilities as on the date of balance sheet.

3.11 Such financial statements should be accompanied with notes to accounts, significant accounting policies and other statements and explanatory material that are an integral part of the financial statements. Such statements should disclose every material transaction of an exceptional and extraordinary nature. The financial statements should be prepared in conformity with relevant statutory requirements, the accounting standards and other recognised accounting principles and practices, the basic objective being to give a true and fair view of the surplus or deficit in the case of income and expenditure account and the state of affairs in the case of balance sheet.

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### Reporting Requirements Dictated by Law

3.12 At times, financial reporting requirements may be dictated by law, or even by donors such as in the case of Government aided institutions. For e.g., the financial year can be a period other than ending on 31<sup>st</sup> of March each year, but in view of the income tax provisions, for tax purposes, the accounts in such a case, will have to be prepared for a period of 12 months ending 31<sup>st</sup> March every year. Another example is the case of educational institutions incorporated under Section 25 of the *Companies Act, 1956*. In such cases, the reporting has to comply with the formats set out in Schedule VI, to the extent possible. Similar reporting requirements are prescribed by the *Bombay Trusts Rules, 1951*, as well as the *Gujarat Grants in Aid Code*. To illustrate, the reporting format under the *Bombay Trusts Rules, 1951* is enclosed as **Appendix 5**.

3.13 Apart from serving as a tool of measurement of performance, such statements serve another very important objective, i.e., to verify as to whether the institution utilised its funds for the charitable objective for which it exists and that no part of its funds were distributed for the personal benefit of members or trustees, etc. The donors of endowment funds scrutinize them to verify as to whether the funds were spent for the purposes for which they were granted or donated. Often such donors or government agencies prescribe additional reporting formats that need to be certified by auditors with a view to being assured about the utilisation of funds. Such reporting may be annual or for periods less than that. In case of a society registered under the *Societies Registration Act, 1860*, it is mandatory to submit annually, the audited financial statements and list of governing bodies along with the requisite fees. Under the *Foreign Contribution (Regulation) Act, 1976*, if the educational institutions are in receipt of donations from foreign sources, Form FC-3, Yearly account of foreign contribution received and utilised has to be submitted every year. The format of Form FC-3 has been enclosed as **Appendix 6**.

3.14 The educational institutions are also required to submit audited financial statements and other reports in the prescribed format every year, within the due date, to the *Fee Regulatory Committee of State Governments* to whom it is affiliated for renewal of registration, regulation of admission and fixation of fees. Special reporting requirements are also prescribed for Government approved technical institutions, for example, AICTE approved institutions are required to submit every year and display on their websites,

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mandatory disclosures of information regarding affiliated university, governance, fees structure, number of admission seats, admission procedures, results, details of infrastructure facilities, etc. This information can be useful for the internal auditor for the purpose of his work.

3.15 The illustrative cases in respect of which disclosure as per Accounting Standard (AS) 1, “*Disclosure of Accounting Policies*”, is required for accounting policies in case of educational institutions will be in respect of recognition of income such as, endowment grants, various fees from students, treatment of deferred expenses, valuation of inventories, investments, fixed assets, classification of liabilities such as endowment funds, capital reserves, treatment of contingent liabilities, etc.

### Basis of Accounting

3.16 The societies /trusts can follow a method of accounting of their choice. Normally, the cash system is adopted by smaller trusts/societies in view of the simplicity involved in maintaining the accounts. Under cash basis of accounting, transactions are recorded when the cash receipts or cash payments take place. At the end of a period, a statement of receipt and payment is drawn, which reflects the total receipts and payments under different heads during that period with opening and closing balances of funds such as cash and bank balances.

3.17 Under accrual basis of accounting, also known as ‘*mercantile*’ basis of accounting, the transactions relating to assets, liabilities, revenues and costs are recorded and reflected in the accounts in the period in which they accrue. However, at times this choice is not available to the assessee and may be dictated by legal requirements as may be applicable to the institution.

3.18 The Income Tax Act, 1961, restricts the method of accounting to be employed to mercantile or cash basis in all cases. As a result, institutions required to file returns under the Income Tax Act, 1961 will have to prepare their accounts for income tax purposes keeping this in mind. Further, in case of educational institutions registered under Section 25 of the Companies Act, 1956, the books of accounts of the companies are required to be maintained by following accrual basis of accounting only.

3.19 The entities to which Accounting Standards are applicable are also required to maintain accounts on accrual basis. The Accounting Standards issued by ICAI are based on the fundamental assumption of accrual. These



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standards, thus, reflect what can be construed as the appropriate application of accrual accounting to different types of transactions and events. In application of the accrual basis of accounting, it is extremely important for the educational institutions to follow the guidelines laid down in Accounting Standard (AS) 9, "*Revenue Recognition*" issued by ICAI which deals with issues relating to revenue recognition for items such as, income from other sources, viz., interest, sale of products, franchisee and affiliation fees, etc.

### Fund Accounting

3.20 The educational institution, generally, follow fund accounting concept while preparing the financial statements. Fund Accounting is a method of accounting and presentation whereby assets and liabilities are grouped according to the purpose for which they are to be used. A fund is either created by law or by management or by donor. Funds are represented by the assets whether in the form of Fixed Assets, Investments, Inventory, Bank account, etc. Fund Accounting does not necessarily involve opening of a new bank account for its operations. Funds are just the restriction imposed for utilisation of asset.

3.21 Fund based accounting essentially involves preparation of financial statements fund-wise and consolidation of those statements to represent the financial results/position of the institution as a whole. This is quite similar to the fund accounting for government institutions. The basic difference between the fund accounting for the government and private institutions is that in the case of the government institutions, most of the funds are earmarked, and as compared to this, in a private institution the funds may be restricted or free depending upon the source.

3.22 The educational institution may maintain separate ledgers for each fund. An educational institution may receive funds the use of which is unrestricted, i.e., these funds can be used for the general purposes of the institution or the use of which is subject to the restrictions imposed by the contributors, i.e., the funds can only be used for specific purposes. An educational institution may, on their own, earmark certain funds for specific purposes. The different types of fund are as under:

**(a) Restricted Funds** - When the donor or the governing body restrict the usage of the funds or income earned from the funds or both and the

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funds can be used only as per the instruction of the donor, then those funds are known as restricted funds.

(b) **Endowment Funds** – They are a form of restricted funds which have been received from the donor with a stipulation that the amount received should not be used for any purpose and only the income earned from investments of these funds can be utilised for general or specific purposes. There may be two types of endowments – perpetual endowment and term endowment. In the first case, such endowments are given in perpetuity and the fund principal is never spent or repaid. Interest earned on Perpetual Endowment Fund may be transferred directly to the Endowment fund, if specified. Term endowments are gifts for which the donor has specified a date or event after which the funds may be spent.

(c) **Unrestricted Funds** - It refers to funds contributed to an institution with no specific restrictions. The unrestricted fund is augmented by the income from the operations of the institution, such as tuition fees, income from investments, besides unrestricted donations/gifts/grants from individuals/government or income from auxiliary services such as, canteen, bookstores, etc. The Unrestricted funds are utilised for the day-to-day operations of the institution. The Unrestricted funds are further classified into following two categories:

- (i) **Designated Funds** – These are unrestricted funds which have been set aside by the institutions for specific purposes or to meet future commitments e.g., library fund for purchase of books, Development funds for acquiring building and equipment, etc. The designated funds are self imposed and not legally binding.
- (ii) **General Fund** - Unrestricted funds other than the designated funds are a part of the General fund. It represents the Corpus of the Society and is not subject to any restrictions on its utilisation.

### Inter-Fund Transfers

3.23 Educational institutions may make inter-fund transfers subject to certain conditions. The legal agreements or grant agreements may force the institutions to make transfers from the revenue funds mandatorily. Similarly, the Governing Body also transfers funds from revenue fund to special funds to undertake some specific activities. There is a peculiar practice on the treatment of capital expenditure in case the educational institution's income is exempt under Section 11(1) of Income Tax Act, 1961. As per this practice,

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many societies and trusts transfer from the income and expenditure account, an amount equal to the cost of fixed asset purchased during the year, to the fixed asset fund account. Income Tax Act, 1961 requires that the society should utilise a minimum prescribed percentage of income during the year so as to fulfill conditions for exemption of income from income tax. Purchase of fixed assets is also considered as one of the modes of utilisation of funds. The practice of transferring the amount from the income and expenditure account to the fixed asset fund account is often followed to ensure that the end surplus reflected in the accounts is arrived at after reflecting such utilisation. Even though this practice is followed, the concept of fund accounting requires earmarking of the funds with the objective of identifying funds as may be required for specified purposes or projects. In such cases, the underlying idea is to park these funds in investments/specific bank accounts for subsequent utilisation for the earmarked purposes.

3.24 In transferring the amount from the Income and Expenditure account to fund accounts, whether to fixed asset fund or other earmarked funds, the correct method is to do it from the income and expenditure appropriation account, i.e., below the line and not above the line. In cases where the practice of transferring to the fixed asset fund account, an amount equal to the amount of addition to the fixed assets during the period is followed, the following procedure is followed for ensuring that the balance of the fixed asset fund matches with the value of the fixed assets. Where the institution is following the procedure of reducing the value of depreciation from the gross value of the fixed assets, an amount corresponding to the depreciation charged during the year is credited to the income and expenditure appropriation account by debiting the fixed asset fund account with the same amount. In case the institution is following the procedure of crediting the depreciation charged during the period to the depreciation fund account, then no adjustment is required.

3.25 It is hereby apprised that, accounting is governed by the Accounting Standards and the expenses in the nature of capital expenditure need to be capitalised under fixed assets and not charged to the revenue accounts. To comply with the requirements of Income Tax Act, 1961, for working out the utilisation of income for charitable purposes, a separate working sheet may be attached with the computation of income in which the cost of fixed assets purchased may be reduced for working out the end surpluses left after making such utilisation. The balances of earmarked funds should always tally

with the balances of bank accounts in which such funds are retained or with the value of fixed assets/investments that have been acquired against such funds.

### Sources of Income and Expenditure

#### Sources of Income from Students

##### *Tuition Fees*

3.26 The major source of revenue of the educational institution is the tuition fees. Tuition fees is recognised on the due date for the receipt of fees and apportioned over the term of the student on a time proportion basis. Generally, tuition fees are received on a periodic basis, i.e. monthly, quarterly, half yearly or annually, in advance as per the semester period followed by the institution. In case of day scholars, it may be received on monthly basis, while in the case of boarders, it may be received half yearly. Therefore, at the end of the financial year, there is always a portion of the fees, which may pertain to the period falling in the next financial year. The fees pertaining to the next financial year should not be booked as income during the year, but should be shown as Advance Fees received from students under the head '*Current liabilities*' and should be charged off to Income and Expenditure Account in the next financial year.

##### *Hostel Fees*

3.27 The educational institutions charge fees from the students for the hostel facility in addition to the tuition and other fees. It is quite possible that the hostel fees will exceed the tuition fees many fold. Hence, the hostel fee takes a very important pie in the total revenue. The hostel may be run by the educational institution itself or on contract basis by an outside party. Normally, a consolidated fee is charged from the students for hostel as well as tuition fee. The hostel fee, whether separately charged or not, is collected in advance from the students along with the tuition and other fees.

3.28 In case the hostel is run in-house, separate set of books of account may be maintained for the hostel. The expenditure for running the hostel is booked as and when incurred. In cases where the hostel fee is charged separately, it will be possible to identify the income from running of the hostel. In such a case, at the year-end, a separate set of financial statements may be prepared to ascertain the total surplus/deficit from such activities.

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Care should be taken while auditing such financial statements that the matching concept has been consistently followed.

### ***Boarding Fees***

3.29 The charges for the boarding are not segregated from the tuition and hostel fees and are recovered as a lump sum charge at the beginning of term. In such cases, it will not be possible to ascertain the revenues against the boarding facilities provided by the institution. The educational institutions also separately earn income in the form of mess charges and laundry charges from the students who avail these facilities.

### ***One Time Charges***

3.30 The following are one time charges received from the students:

(i) *Registration Fees* - Registration fees is received from the students who wish to apply for admission in the institution and is generally charged to cover the costs involved in taking admission, examinations, etc. It is booked as income in the year in which it is received.

(ii) *Admission Fees* - The admission fee is paid by the students at the time of initial admission to the institution. Generally, admission fees is booked as an income of the year in which it received, since it does not pertain to a specific academic year, but is in the nature of one time fee paid at the time of admission into the institution.

(iii) *Affiliation and Development Fees* - The educational institutions may be charging the students affiliation and development fees, which may have to be paid to the University/Affiliation body. Such fees is generally collected on actual basis and paid in full to such authorities. The fees collected must be reconciled with the fees paid/payable to such authorities.

### ***Other Periodic Charges***

3.31 The following are other periodic charges received from the students:

(i) *Examination Fees* - The examination fee is, generally, collected in advance for the year. This fee has to be paid to the exam conducting authority in parts at the time of conducting exams or before that. Hence, the fees collected can easily be reconciled with the fees paid/payable to such authority. The examination roll list may prove to be a reliable record for the verification of fees paid/payable.

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(ii) *Sports Fees* – It is received from the students for the purpose of making expenditure on sports material, practice schedules, safety, medical facilities, team meetings, etc.

(iii) *Income from Transportation Facility* - Transportation income may be received by the educational institution by one of the following methods:

- Transportation fees received from students where the transportation facility is provided by the institution itself,
- Contract charges where the contract of providing transportation facility has been given to an outside party.

### ***Fines***

3.32 Another source of income for an educational institution is from the collection of fines from the students. List of fines due from students is made by each Department-in-charge and communicated to the Accounts Department for charging the fines to the respective student's account. The fines are booked in the income and expenditure account on accrual basis. An illustrative list of fines imposed on the students is as under:

- Fees Fine – for non-deposit or deposit of fees after the prescribed due date.
- Library Fine – for non-return or late return of books and periodicals.
- Laboratory Fine – for breakage or mis-utilisation of laboratory equipment.
- Dress Fine – for non-adherence to dress code of the institution.
- Fine for non-submission of leave application by students.
- Fine for ragging students.
- Fine for use of mobile phones in the institution's premises.

### **Sources of Income from Ancillary Activities**

#### ***Canteen Income***

3.33 Canteen income may be received by the educational institution by one of the following methods:

- (a) Sale of products where the canteen is owned and run by the institution itself.

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- (b) Contract charges, where the contract of running the canteen has been given to an outside party.
- (c) Mess charges received from the students living in the hostel.

### **Bookstores**

3.34 Educational institution may also be running the bookstores where the books, notebooks, and other stationery items are sold to the students. The bookstores may sometimes be given on contract basis. In such a case, there are no complicated accounting issues. However, if the books store is run by the institution itself, separate books of account for such activity may be maintained following the generally accepted accounting principles and standards issued by the ICAI. Further, inventory registers, may also be maintained, with periodic verification of the same by the management.

### **Publications**

3.35 Some of the large educational institutions are also engaged in publication of books and periodicals, case studies, curriculum material, research paper, etc. The publication may be done through in-house printing press or the services may be outsourced. An honorarium/royalty may also be paid to the authors. It should be ensured that the provision of such payments which are based on the terms of agreement entered with such parties, be done following the matching concept. The magazines and newsletter may carry advertisement of various outside parties. The charges recovered from the outside parties form the income of the institution. Further, the inventory registers reflecting the sales, production and stock in hand at any point of time may also be maintained. The identification of books in various stages of printing as work in progress will have to be done to facilitate the valuation thereof in accordance with Accounting Standard (AS) 2, "Valuation of Inventories".

### **Income from Seminars, Workshops, Consultancies and Management Development Programmes**

3.36 Educational institutions, imparting higher and technical education, engage in conducting seminars, workshops, on-the-spot events, competitions, exhibitionsmanagement development programs, technical festivals and also undertake industrial and other consultancies. For example, IIMs actively carry out research and consultancy for various industries, including the needs of non-corporate and under-managed sectors such as

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agriculture, rural development, public systems management, energy, health education, habitat, etc. These may form significant part of revenue of the institution.

3.37 These activities are essentially in the nature of services rendered by the institution and the revenue there from is to be recognised accordingly. In case performance consists of the execution of more than one act, revenue should be recognised proportionately by reference to the performance of each act. If performance consists of the execution of a single act, or if it consists of performance of more than one act and the acts yet to be performed are very significant in relation to the transaction as a whole, revenue should be recognised only on the completion of the performance of the sole or the final act.

3.38 If an educational institution provides service in relation to the 'Intellectual Property Service', it will be liable to charge service tax on the value of taxable service. The educational institution may also get covered under the 'Consulting Engineer Services' or 'Management Consultants Services'.

### ***Revenue from Franchisee Fees***

3.39 Franchising has emerged as a very important model for business expansion. Under the franchise arrangement, the owner of the business model (known as the franchisor) permits the use of business rights comprised in brand, processes, products, etc., to the other person (known as the franchisee) against pre-agreed monetary consideration (known as franchisee fee). The franchisor benefits from business expansion without having to invest in infrastructure and establishment at off locations. At the same time franchisee derives the advantage of using an established brand and tested business techniques which eventually helps him to weather crisis easily.

3.40 Franchising is widely used as a business model in the education sector. In respect of educational institutions, who give franchisees of their courses, the revenue from such activities is to be recognised. The educational institutions will be required to charge service tax on the '*Franchise Services*' provided. The franchisee fee generally comprise of a product fee, i.e. a one-time fee payable by the franchisee at the time of signing of the franchisee agreement, and a regular fee payable as a percentage share in the revenue by the franchisee. The revenue



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recognition criteria for the two type of fee by the franchisor could be as follows:

(a) *Product fee* - This is the lump sum fee paid as an initial sign up amount and is valid for a stated period of time. The same should be recognised as deferred income and should be systematically recognised in the Income Statement over the period for which the product fee has been received.

(b) *Share in revenue* - The share in revenue is regularly received by the franchisor as a percentage of total revenues earned by the franchisee. The revenue on account of share in gross receipts of the franchisee is to be recognised for period to which receipts pertain.

### **Revenue from Placement Services**

3.41 A Placement Cell for students publicises information about employment opportunities. The educational institutions provide career guidance, pre-placement training and personality development programmes to graduates to enable them to achieve their career growth. The placement cell conducts various value based programs, guest lectures, mock interviews, orientation and strategy meetings, etc. In addition to that, the Placement Cell provides direct placement services by Multinational Companies and National companies. Placement talks and campus interviews are arranged for students. These companies provisionally select the candidates and wait for them to join them after the completion of their courses.

3.42 For rendering the placement services, the educational institution charge fees from the corporate recruiting candidates through campus interviews. The educational institutions will be liable for service tax for placement fee under the "*Manpower Recruitment or Supply Service*". The Central Board of Excise and Customs clarified that educational institutions, even though they are not a commercial concern, are liable to pay service tax under the category of "*Manpower Recruitment or Supply Service*" on the fees charged from prospective employers like corporate, who come to these institutions for recruiting candidates through campus interview<sup>17</sup>.

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<sup>17</sup> Source: Circular No. 86/4/2006-ST, dated 1<sup>st</sup> November, 2006.

### **Sponsorship Fees**

3.43 Sponsorship fees is received by an educational institution from the outside parties for sponsoring the institution's functions or display of banners. The educational institutions will be liable for service tax for sponsorship fees received under the "Sponsorship Services".

### **Other Miscellaneous Receipts**

3.44 The following are other miscellaneous receipts of an educational institution:

(a) *Sale of Prospectus* - The sale proceeds of the prospectus are booked as income of the year in which it is received. Some of the prospectus are also distributed free of cost as promotional material by the institution.

(b) *Premises given on rent to outside parties* - Income of the educational institutions may arise from renting of premises to outside parties for holding examinations, functions, running coaching institutions on part-time basis, etc. The educational institution, in such cases, will be liable for service tax on the services of 'Event Management' and 'Renting of Property Services'. The educational institutions may also earn income for providing Guest House accommodation to the parents or relatives of staff.

(c) Other sources of income for an educational institution may arise from sale of handicraft items, paintings, drawings, etc., made by the students. Educational Institutions may earn income from sale of scrap which should be accounted on the actual receipt basis.

### **Recognition of Other Receipts**

#### **Grant in Aid**

3.45 It will be pertinent to refer to Accounting Standard (AS) 12, "Accounting for Government Grants" issued by the Institute. Since there are a number of educational institutions that are substantially or partially dependent on government grants and from other agencies, it is desirable even in cases where the AS 12 is not mandatory that they should follow the Standard. Even though the Standard refers only to government grants, the principles enunciated therein can serve as a guide for grants from other donor agencies as well.

3.46 AS 12 states that the donee should not recognise the grant until there is reasonable assurance that the donee will comply with the conditions

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attached thereto and that the donations and grants will be received, as ascertained on the basis of all available evidence in that respect. In case such reasonable assurance is attained only when cash is received, then recognition in such case on cash basis will not vitiate the accrual basis of accounting.

3.47 AS 12 states that grants received to meet the cost of non-depreciable fixed assets should be credited to capital reserve. In case of depreciable assets, it requires the grant to be treated as deferred income, which should be recognised in the profit and loss account by allocating it over the periods and in proportions in which depreciation on the asset concerned is charged. AS 12 states that grants in the form of non-monetary assets should be recorded based on their acquisition cost (in case received at concessional rates) and at a nominal value (e.g. rupee one) in case of assets received free of cost.

3.48 The grant-in-aid may be received from the Central or State Government or from any other non-profit organisation. If the educational institution receives grant from foreign sources; it will be treated as 'foreign contribution' under the *Foreign Contribution (Regulation) Act, 1976* and the educational institution will be required to comply with the statutory provisions of the said Act. The grant-in-aid, whether capital or revenue in nature, is always granted for certain earmarked purposes. Examples of revenue grants could be for salary of staff, or special literacy projects, etc. Usually such grant comes with a number of conditions attached, which need to be fulfilled by the institution.

3.49 The concept of fund accounting comes into play in case of such grants. The unutilised grants are shown as liabilities in the balance sheet of the institution. Unutilised grants often have to be refunded back in case the conditions for utilisation have not been met by the grantee. At times, the grants are released according to a specific period of the project. In such cases, there might be a difference between the amount of grant actually released according to the project timeframe and the actual execution of the project activities. In such cases, for example, if the project has been completed for 9 months, but the grant has been released only for 6 months, then to follow the matching concept, 3 months grant shall have to be booked as receivable in the balance sheet. It is important that the grants are recognised as receivable and consequently as income only on the fulfillment of the conditions with which the donors sanction them. Voluntary contribution

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may be received in either cash or kind. Such contributions, unless earmarked for a specific purpose are taken to the income account of the institution.

### Expenditures

#### ***Educational and Academic Expenditure***

3.50 An educational institution incurs expenditure on educational and academic expenditure which includes all costs of providing the faculty with the physical supplies for imparting education to students, such as stationery, teaching aids, computer rentals, laptops, travelling, field trips, laboratories, equipment repair and maintenance, scholarships, medical facilities, fees to visiting faculties and consultants, sports expenses, recreational facilities, celebration expenses for Founder's Day, Annual Day, etc.

#### ***Mess Expenses***

3.51 As far as mess expenses are concerned, as mentioned earlier, the boarding facilities may be run in-house or it may be outsourced to a contractor. In the first case, the expenses incurred in the shape of dry rations, food articles, fuel and gas, etc., may be recorded under the main head of '*Mess Expenses*'. At the year-end, an exercise may be carried out to ascertain the surplus or deficit for the year from such activities, in cases where the boarding fees is charged separately from the tuition and other fees. Deduction made from the staff for the meals consumed by them in the hostel is normally credited to the '*Mess Income*' and should not be netted off against the salary paid to the employees or the '*Mess Expenses*'. Accounting records will have to be maintained to keep a track of meals consumed by the staff during a particular period, which may be monthly so as to facilitate deduction from the salary disbursements.

#### ***Boarding Expenses***

3.52 Boarding expenses in an educational institution includes the costs of providing residential facilities to the students. If the residential facilities are hired by the institution, then the institution will have to pay lump sum monthly charges to the lessor. In cases where the hostel is run in-house, then they are managed by the hostel in charge, housemasters, housemistress and residential advisors supported by matrons and house tutors. Besides the accommodation facility, the educational institutions are required to maintain dormitories, dining room, library, study rooms, computer rooms, common rooms for recreation, etc. The institutions will

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also have to incur expenses on providing furniture like beds, study tables, cupboards, bedding, linen, etc., to the students.

### ***Laundry Expenses***

3.53 Educational institutions incur laundry expenses on behalf of the students who avail the facility of laundry. The laundry services can be provided in-house or are contracted to a third party. In case the laundry service is contracted, the institution will have to pay monthly charges to the third party.

### ***Library***

3.54 An educational institution incurs heavy expenditure on the library for purchase of books, magazines, journals, periodicals, CD-Rom, etc. It may also install the library software for managing issue and returns of books, advance search options, automatic creation of dues, etc., as the library is required to be constantly maintained and updated. Educational institutions are required to purchase new books every year and pay annual subscriptions for periodicals. An educational institution may also receive a library grant for setting up library for a particular course.

### ***Discount and Scholarships***

3.55 The fees waiver and scholarships to the students should be booked under separate head in the Income and Expenditure account and should not be netted off against the Fee receipts. This method of accounting will be beneficial as a control tool in two ways. Firstly, it will enable the accountant to generate the percentage of fee waivers granted against the total fee receipts during the year, which in turn will highlight any excessive expenditure incurred on this account. Secondly, it will enable the gross fees receipts to be recorded without any distortions. These gross fee receipts then can be cross verified by analytical procedures such as by dividing the gross fees with the per head fees to arrive at the number of students and then comparing the same with the muster roll.

### ***Extra Coaching***

3.56 Accounting records by way of registers will have to be maintained to keep track of the extra hours/classes taken by the teachers so as to arrive at the remuneration to be given to them on this account.

### ***Salary and Allowances to Staff***

3.57 A substantial portion of the revenue of an educational institution is applied towards the payment of salaries, allowances, etc., to staff. The institution may also be allowing its employees to take advances/loans against salary. The advances/loans/reimbursements are generally paid based on the standard operating policies formulated by the HRD department of the institution and approved by the Governing Body. The revenue items such as, salaries/allowances/reimbursement must be booked as expenditure in the period in which the employee renders service. Further, the payments to the employees may be subject to various statutory/voluntary deductions such as Provident Fund, Income Tax deducted at Source, Professional Tax, Loan repayment installment, etc. Usually, the educational institutions prefer to use the payroll bank account for making the payment of remuneration to the employees, whereby standing/monthly instructions are given to the bank to credit the employees with the monthly remuneration.

### ***Retirement Benefits to Staff***

3.58 For the accounting treatment, valuation and disclosure of the retirement benefits, an educational institution should follow Accounting Standard (AS) 15, "*Employee Benefits*". Similarly, the advances/loans etc., should be reflected as Loans and Advances in the Balance Sheet. In case of claiming deduction of expenses incurred on the retirement benefits under Section 36(1)(iv) of Income Tax Act, 1961, the employer must contribute to the recognised provident fund or an approved superannuation fund. Similarly, under Section 36(1)(v), employer's contribution is an allowable deduction only if the contribution is made to the approved gratuity fund created exclusively for the benefit of employees under an irrevocable trust. Therefore, an educational institution must create a trust for providing retirement benefits to the employees and get it recognised from the Income Tax department for claiming deduction of expenses.

### ***Other Staff - Related Expenses***

3.59 Other staff-related expenditure in an educational expenditure may comprise of:

- (i) Expenditure on staff uniforms
- (ii) Laundry expenditure

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(iii) Staff recruitment expenses.

### Utilities

3.60 The educational institution may incur expenditure on utilities in nature of electricity charges, power, fuel, generator running and maintenance, telephone expenses, etc. The purposes for which the expenditure of this nature is incurred may be multiple and the classification of expenses in the income and expenditure account is often done in accordance with the purpose for which it was incurred. For example, fuel consumption may be reflected under the head Mess Expenses. Similarly, power consumption for academic block and administrative block may be reflected under the group head '*Educational Expenses*' and '*Administrative Expenses*' respectively.

### Promotional Expenses

3.61 The educational institutions, normally, incurs heavy expenditure during the initial years of set-up in order to promote themselves which can take shape of road shows, advertisements in print and electronic medias, etc.

### Repair and Maintenance

3.62 The running of an educational institution involves substantial investment in infrastructure such as, buildings, equipment, vehicles, etc. All these items are subject to constant wear and tear and as such expenditure on repair and maintenance constitutes a major outflow of funds. The estate maintenance forms a huge expenditure for an educational institution. The repair and maintenance expenditure may be classified under various group heads in the income and expenditure account in accordance with the functional purpose of the asset in respect of which such expenditure was incurred.

3.63 Expenditure incurred in replacement of capital assets and which do not result in any incremental benefit may be classified under this head and should not be capitalised. An example could be replacement of damaged roof of the institution's gym. Estate maintenance in an educational institution comprises of the following types of expenses:

- Maintenance of school campus
- Maintenance of equipment

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- Landscaping
- All maintenance expenses pertaining to civil, electrical, plumbing work, effluent treatment plant, water treatment plant, generators, swimming pools, carpentry work, etc.
- Pest Control expenses.

### Financial Expenses

3.64 As the educational institution incurs a huge amount of expenditure on the acquisition and construction of fixed assets, it obtains the required funds from the construction of fixed assets from the financial institutions. The borrowing costs that are directly attributable to the acquisition or construction of the asset should be capitalised as part of the cost of that asset, and other borrowing costs should be recognised as an expense in the income and expenditure account in the period in which they are incurred. The amount of borrowing costs eligible for capitalisation as well as to be recognised as an expense should be determined in accordance with Accounting Standard (AS) 16, "*Borrowing Costs*".

### Research and Development

3.65 Educational institutions imparting technical educations like, IITs usually set up research and development units for carrying out research project activities in subjects of national importance, for example, Atmospheric and Ocean Studies, Industrial Textiles, Biotechnology, Fly-ash Management, Optical Communication, Transportation, Microprocessor Applications, Signal Processing, Condition Monitoring, Artificial Intelligence and Robotics, etc. These are usually sponsored research from Government, International Bodies or collaborative research from an industry. For carrying out the research, the institutions are required to make a heavy expenditure to set up modern laboratories with the supporting infrastructure facilities. Students are encouraged to take part in the research activities while pursuing studies. They are also required to submit research proposals. Though, the research is usually funded from outside funding agencies, the educational institution may provide consultancy services or develop an intangible asset in the form of designs, software, patents, etc.

### Depreciation

3.66 Accounting Standard (AS) 6, "*Depreciation Accounting*" enunciate principles, which can also serve as a useful guide in cases of not-for-profit



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organisations. It is often seen that the charitable institutions do not charge depreciation in their accounts, when the capital expenditure has been considered as application of income. As per section 11(2), in order to claim full tax exemption, a charitable trust or institution has to apply at least 85% of the income to charitable or religious purposes. The application of income can be for revenue as capital expenditure. The income of the trust has to be understood in its commercial sense. Depreciation on assets is allowed even if the costs of the assets have been fully allowed as application of income under section 11.

3.67 As per the “*Guidance Note on Audit of Public Charitable Institutions under the Income Tax Act, 1961*” issued by the ICAI, even when the whole of the capital expenditure may be treated as an application of income towards charitable or religious purposes for the purposes of section 11, the depreciation is allowed in respect of the assets used by it for its purposes on the basis of normal commercial principles. Merely because the cost of acquisition of an asset has been applied as an application of income for charitable purposes in the year of acquisition, a charitable trust cannot be denied depreciation in respect of such asset. The expenditure should be understood as necessary outgoing. The depreciation is nothing but decrease in value of property through wear, deterioration or obsolescence and allowance is made for the purpose in book-keeping and accountancy.

3.68 The educational institutions may calculate the cost of depreciable asset over its useful life and accordingly charge depreciation to the income and expenditure account. The depreciation rates to be applied may be taken as those specified under the Income Tax Act 1961 or that under the *Companies Act, 1956*. Section 349(4)(k) read with Section 350 of the *Companies Act 1956* requires public limited company and private limited company being a subsidiary of a public company to follow rates not less than those prescribed in Schedule XIV of the *Companies Act, 1956*. The rates prescribed under the *Income Tax Act, 1961* are in the nature of allowances available to a person while computing taxable income under that Act. Since, the charitable organisations are also expected to calculate their income and expenditure based on normal commercial principles, they may adopt rates specified in schedule XIV of the *Companies Act 1956* as a general guide to depreciate their fixed assets, in absence of any exercise carried out by them to calculate the useful life of the assets independently. It is important to note that the “*Guidance Note on Accounting by Schools*”

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published by the ICAI prescribes the depreciation rates to be charged in case of the schools.

### **Utilisation of Grant in Aid**

3.69 The Grant-in-aid received from the Government Bodies or other agencies has conditions attached for the utilisation of the same. The Grant-in-aid may be for specific purpose or for meeting the regular expenditure of the educational institution. The grant-in-aid received for the specific purpose would have to be reflected as liability till such time the conditions attached at the time of sanction are fulfilled. The correct procedure for accounting of utilisation of grants is to charge the expenditure incurred against the grant to the appropriate head for which the grant was sanctioned in the Income and Expenditure account. A corresponding amount should be transferred from the grant received account to the credit of the Income and Expenditure account being grant utilised. It must be recognised that there is no possibility of earning any surplus out of funds received on account of restricted grants. This is because the balance left in the grant account will have to be reflected as unutilised grant in the balance sheet. On the other hand, the possibility of incurring a deficit is very much there on account of excess expenditure incurred by the recipient out of own resources for the purpose for which the grant was sanctioned.

### **Donations Given to Other Societies/Trusts**

3.70 Sometimes, an educational institution makes donation to a trust having the same set of objectives. The donations made are to be utilised for specific purposes. These donations are to be recognised as an expense in the Income and Expenditure account of the educational institutions. If the donation has not been fully utilised, then it is to be shown as advances in the Balance Sheet.

# INTERNAL AUDITING ASPECTS

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### **Overall Approach of Internal Audit of an Educational Institution with reference to Standards on Internal Audit**

4.1 Internal audit is a management function having the high level objective of serving management's needs through constructive recommendations in areas such as, internal control, risk, utilisation of resources, compliance with laws, management information system, etc. An effective and continuous internal audit function plays a key role in assisting the board to discharge its responsibilities of accomplishment of objectives and goals of the organisation through ethical and effective governance. Internal audit also plays an important role in providing assurance to management on the effectiveness of risk management.

4.2 A successful internal audit is based on sound planning and an environment of positive alliance and communication between the auditee and the internal auditor. The internal audit procedure is similar in most engagements. Auditee involvement is important at all stages of the internal audit process. The following paragraphs describe the steps to be followed for conducting internal audit of an educational institution.

#### **Engagement Letter**

4.3 Before the commencement of audit, the internal auditor must obtain an engagement letter from the auditee. The engagement letter should be approved by an appropriate level of management i.e., the Board of Directors or Board of Trustees or a relevant Committee thereof such as the Audit Committee, to ensure that the objective of independence of the internal auditor and corporate governance is met while carrying out the internal audit activity. Standard on Internal Audit (SIA) 8, "*Terms of Internal Audit Engagement*" provides guidance in respect of terms of engagement of the internal audit activity.

### **Specific Considerations while Planning Internal Audit of an Educational Institution**

4.4 Standard on Internal Audit (SIA) 1, *“Planning an Internal Audit”* explains the planning process to be followed by an internal auditor before the start of internal audit. While preparing the internal audit programme of an educational institution, the internal auditor should give due consideration to the accounting system and the internal control system in place. The audit tests planned by the internal auditor will vary with the level of the accounting systems and the internal control systems deployed in the educational institutions.

4.5 In case of educational institutions run as not-for-profit organisations, honorary office bearers generally run such organisations. These office-bearers are usually pre-occupied with their own affairs and they do not have any pecuniary interest in the organisation as office bearers. Therefore, such institutions can be highly susceptible to frauds by the lower and middle level employees. While planning the audit the internal auditor must take into consideration these factors and apply the compliance and substantive procedures accordingly. It may, thus, be concluded that the internal auditor needs to exercise an extra bit of safeguard while planning and conducting the internal audit of an educational institution.

### **Knowledge of the Educational Institution and its Environment**

4.6 As per Standard on Internal Audit (SIA) 15, *“Knowledge of the Entity and its Environment”*, for reviewing key risks and entity-wide processes, systems, procedures and controls and determining the nature, timing and extent of internal audit procedures, an internal auditor must have knowledge of the economy, the entity’s business and the entity’s operating and regulatory environment.

4.7 An illustrative list of information required during the internal audit of an educational institution is as under:

- (a) Legal form of the organisation and its Memorandum of Association, Articles of Association, Rules and Regulations.
- (b) Laws, regulations, rules and standards that regulate an educational institution.
- (c) Current industry developments.

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- (d) Organisational structure.
- (e) Administrative and accounting personnel.
- (f) Changes in nature of activities e.g., change in number and type of courses offered by the educational institution.
- (g) Chart of accounts and accounting manual.
- (h) Policy and procedures manual.
- (i) Long term leases, contracts and commitments.
- (j) License agreements and recognitions.
- (k) Enrollment procedure.
- (l) Physical facilities offered by the institution, e.g., library, canteens, playgrounds, furniture, computers, mess, workshops, laboratories, dormitories, staff quarters, etc.
- (m) Placement and training programmes offered.
- (n) Inspection reports of license authorities such as, AICTE, MCI, affiliating universities.
- (o) Opinions in prior audit reports and other reports of statutory auditor e.g., report under section 10(23C) and 12 in Form 10B.
- (p) Observations in external auditor's management report.

### Risk Assessment and Internal Control in an Educational Institution

4.8 According to Standard on Internal Audit (SIA) 13, "*Enterprise Risk Management*", the role of the internal auditor in relation to risk management is to provide assurance to management on the effectiveness of risk management. The role of the internal auditor is to ascertain that risks are appropriately defined and managed. Some of the common risks recognised in an educational institution are as under:

- (i) **Regulatory Risks** - Risks which affect the sector e.g., compulsory regulatory non-compliances under various statutes, changes in the Government policies, etc. The non-compliances can result into revocation of recognition leading to closure of institution, levy of penalties, loss of funding for expenditure incurred or loss of tax exemption benefits, etc.

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(ii) **Institution-wide risk** - Risks which affect the institution, e.g., enrollment growth, additional capital requirement, additional requirement of funds for operating activities, non-availability of information, high turnover in key personnel, reputation risk with parents, major financial problems, competition, etc.

4.9 As per Standard on Internal Audit (SIA) 13, “*Enterprise Risk Management*”, the scope of the internal auditor’s work in assessing the effectiveness of the enterprise risk management would, normally, include:

- (a) Assessing the risk maturity level both at the entity level as well as the auditable unit level;
- (b) Assessing the adequacy of and compliance with the risk management policy and framework; and
- (c) For the risks covered by the internal audit plan:
  - (i) Assessing the efficiency and effectiveness of the risk response, and
  - (ii) Assessing whether the score of the residual risk is within the risk appetite.

4.10 Standard on Internal Audit (SIA) 12, “*Internal Control Evaluation*”, the onus of designing, maintaining, and documenting an internal control system is on the management. The internal auditor should examine the continued effectiveness of the internal control system through evaluation and make recommendations, if any, for improving that effectiveness.

4.11 As mentioned before, the educational institutions are generally susceptible to frauds more than other types of organisations. It is also generally observed that in such organisations the internal controls are either very weak or not in place due to lack of proper management and administration. It is very important that the internal auditor should obtain an understanding of the control environment in which the institution operates. As per Standard on Internal Audit (SIA) 12, “*Internal Control Evaluation*”, the broad areas of review by the internal auditor in evaluating the internal control system, inter alia, are:

- Mission, vision, ethical and organisational value system of the entity;
- Personnel allocation, appraisal system, and development policies;

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- Accounting and financial reporting policies and compliance with applicable legal and regulatory standards;
- Objective of measurement and key performance indicators;
- Documentation standards;
- Risk management structure;
- Operational framework;
- Processes and procedures followed;
- Degree of management supervision;
- Information systems, communication channels; and
- Business Continuity and Disaster Recovery Procedures.

4.12 Perhaps one control that has universal application in any environment and in any circumstances is segregation of duties. The flow of activities must be regulated in such a manner that no single person in the organisation is able to control all the activities in that chain and for this purpose, all non-compatible duties must be in different hands. Separate persons should be involved in issuing the receipt and receiving the cash, recording the transaction and maintaining the physical control over the cash/cheques in hand. The fees is the major source of income for the educational institutions, therefore, controls must be high in this area.

### **Management Control Aspects**

#### ***Students Count is the Key Control Mechanism***

4.13 The main source of revenue in an educational institution is from the students. The control on the student's records is the key control mechanism for ensuring that the revenue is recorded completely and correctly. Since various departments, viz., accounts department, academic (daily attendance), registrar, examination department, etc. maintain separate records for the students on roll, it is imperative that all these records are reconciled to ensure that the student's strength is the same at all places.

4.14 The second important factor is the prompt charging of expenditures to the student accounts. As discussed earlier, expenses are incurred on the students continuously by various departments, such as the class teacher, the games section, the housekeeping section/the hostel warden, etc. All such expenses must be promptly charged to the account of the student, as

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sometimes the students may leave the educational institution in the middle of the term. Before handing over the transfer certificate and refunding the security, it must be ensured that the student has paid all his dues. The controls and procedures for forwarding of such details by the various departments to the centralised accounts section must be very clear, so that there is no loss on this account.

### ***Budgetary Control***

4.15 The financial management of the educational institution, like any other entity, may effectively be undertaken by resorting to budgeting. Apart from serving as a tool for forecasting and planning, it also serves as an important feedback tool at the end of the financial period through generation of variance analysis. Control on revenue items can be effectively exercised through budgets and periodic variance reporting serves as an important management information report.

4.16 Another crucial aspect, which may be taken into account in the preparation of budgets, are the provisions contained in Section 11 of the Income Tax Act, 1961, which require an institution to utilise a prescribed percentage of its funds for charitable purposes so as to be eligible for exemption from the income tax. It is essential that the management should be aware of the provisions of the Income Tax Act, 1961, so as to be able to gauge the impact of non-utilisation of funds in accordance therewith. Monthly track of the variances should be kept by the management so as to ensure that the application of the required percentage is done before the year-end. Non-utilisation of funds would entail tax liabilities on the unutilised portion. A sample computation of income with details of calculation of application of income under section 11 has been enclosed as **Appendix 7**.

4.17 The internal auditor may perform the following steps in checking the budgeted prepared by the institution:

- (a) The internal auditor should study the reasons for variances between the budgeted and the actual figures periodically.
- (b) The internal auditor should look out for significant variances.
- (c) Detailed analysis should be made for significant variances by the internal auditor.



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- (d) The internal auditor should suggest appropriate actions for the variances so found.
- (e) In case the budget is revised, the internal auditor should study the amendments made to the existing budget.
- (f) The internal auditor should verify that both favourable and unfavourable variances were duly approved by the appropriate level of authority.

### ***Internal Audit Evidence***

4.18 Standard on Internal Audit (SIA) 10, "*Internal Audit Evidence*" lays down that the internal auditor obtains evidence by performing one or more of the following procedures:

- Inspection
- Observation
- Inquiry and confirmation
- Computation
- Analytical Review

4.19 The internal auditor should evaluate whether he has obtained sufficient appropriate audit evidence before he draws his conclusions therefrom. The internal audit evidence should enable the internal auditor to form an opinion on the scope of the terms of the engagement.

### ***Sampling***

4.20 In forming an opinion, the internal auditor may obtain internal audit evidence on a selective basis by way of statistical or non-statistical sampling methods, in accordance with the principles laid in Standard on Internal Audit (SIA) 5, "*Sampling*". The internal auditor should design and select an audit sample, perform audit procedures thereon, and evaluate sample results so as to provide sufficient appropriate audit evidence to meet the objectives of the internal audit engagement.

### ***Analytical Procedures***

4.21 The Analytical Procedures have special significance in the internal audit of an educational institution. This is for the simple reason that most of the expenses incurred or revenue earned has direct correlation with a key

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statistic, i.e., the number of students on roll of the institution. Standard on Internal Audit (SIA) 6, "*Analytical Procedures*", deals with the nature and purpose of analytical procedures, analytical procedures as risk assessment procedures and in planning the internal audit, analytical procedures as substantive procedures, analytical procedures in the overall review at the end of the internal audit, extent of reliance on analytical procedures and investigating unusual items or trends.

4.22 At the planning stage, the analytical procedure may serve as a very important guide to obtain an understanding of the entity and its environment and in identifying specific risk areas. These procedures are meant to be used on the financial information in conjecture with the non-financial information. The internal auditor may use these procedures to establish relationship between variables such as, students and receipts, teachers and students, boarders and area of hostel, boarders and mess expenditure, etc.

4.23 In case, the significant fluctuations or relationships are inconsistent with other relevant information or that deviate from predicted amounts, the internal auditor should investigate and obtain adequate explanations and appropriate corroborative evidence. For example, the per head mess expenditure may have increased substantially despite no change in the prescribed diet by the management or the total fees receipts may not have increased in the same proportion as the increase in number of students, despite no significant increase in fees waiver given by the management during the current year. In all such cases, the internal auditor should investigate and document all such inconsistencies with all the corroborative evidence collected during the course of the internal audit. An illustrative list of Analytical Ratios for an educational institution has been given as **Appendix 8**.

### **Documentation**

4.24 Standard on Internal Audit (SIA) 3, "*Documentation*" states that the internal auditor should document matters, which are important in providing evidence that the audit was carried out in accordance with the Standards on Internal Audit and support his findings or the report submitted by him. Internal audit documentation should also record the internal audit charter, the internal audit plan, the nature, timing and extent of audit procedures performed, and the conclusions drawn from the evidence obtained. The internal auditor retains the ownership of the internal audit documentation. Management and other designated personnel may seek access to the

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internal audit documentation of the internal audit department subject to the approval of the internal auditor and client or such other third party may seek access if there is any legal or regulatory requirement or as may be permitted by the client.

### ***Reporting***

4.25 As per Standard on Internal Audit (SIA) 4, “*Reporting*”, after the performance of internal audit procedures, the internal auditor summarizes the audit findings, conclusions and suggestions and issues the report to the appointing authority. If there is a limitation on the scope of the internal auditor’s work, the internal auditor’s report should describe the limitation.

4.26 In case the educational institutions are being run as companies, the Board of Directors will constitute the persons who are charged with governance. Similarly, in the case of societies or trusts, the members of the Governing Body/Board of Trustees shall constitute such group. The internal auditor may find the possibility that some members of the management may be involved in the fraud or misappropriation of the institution’s funds. In such cases, the internal auditor shall have to exercise his judgment in taking a decision regarding the person to whom such misdeeds may be communicated.

4.27 The internal auditor may also be required to report the audit findings to the donors of the grants to the educational institutions for verifying as to whether the institution utilised its funds for the charitable objective for which it exists and that no part of its funds were distributed for the personal benefit of members or trustees, etc. Chances of misutilisation of funds may be high in cases where the Board members are inter-related or from the same family. The donors of endowment funds scrutinize the audited statements to verify as to whether the funds were spent for the purposes for which they were granted or donated.

Often such donors or government agencies prescribe additional reporting formats that need to be certified by auditors with a view to being assured about the utilisation of funds. Such reporting may be annual or for periods less than that.

### ***Follow-up Review and Report***

4.28 Follow-up review is performed by the internal auditor to ensure that all internal audit issues mentioned in the internal audit report were resolved. The review will be concluded with a follow-up report with details

of action taken by the auditee in resolving the original audit issues as well as unresolved audit issues. The follow-up report will then be issued to the auditee.

### Internal Audit Procedures

4.29 The general procedures of an internal audit have not been purposely covered in the following paragraphs. The procedures are illustrative in nature and would require adequate modification to address internal audit requirements of a particular educational institution depending upon the nature, size and other factors.

#### Revenue

4.30 An internal auditor should study and evaluate the system of internal control relating to revenue in an educational institution, particularly the following aspects:

- (i) The systems and procedures relating to generation of revenue including authority to fix fees structure, offer scholarships/fees concessions and other terms of collection.
- (ii) Accounting procedures relating to recognition of revenue.

#### *Receipt Books*

4.31 In a manual environment, a receipt is issued to the student in lieu of the payment received. It is imperative that a physical control over the receipt books is maintained. In case of most of the frauds, it has been observed that the cashier maintains parallel sets of receipt books to siphon off the money. The receipt books must be in the custody of the stores and it must be serially numbered. A new receipt book should be issued only when the old receipt book is exhausted. Cancelled receipts should be available in the receipt book with all copies. In no case, more than one receipt book should be used at one time. Another very effective control to manage the fees would be to compulsorily receive the fees through bank demand drafts, and fees should be received in cash only for petty amounts.

#### *Billing Control*

4.32 The system of billing being followed by the educational institution should be watertight and should ensure that bills are raised to each and every student at the end of the term. It must be also be ensured that accounts of all students are being debited with the fee that is to be

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recovered from them, and the cases wherever exceptions are found, are supported by appropriate management authorisations.

### *Discount/Scholarships*

4.33 The educational institution may sometimes conceive a policy of allowing discounts to poor students or scholarship to meritorious students. It should be ensured that any such discount/scholarship be allowed only with authorisation from the appropriate designated authority for this purpose.

### *Fee Waiver*

4.34 The management, generally, has clear policy for the defaulters which encompasses imposing fine for late payment and more severe consequences by way of striking off the name from the roll for continuous default. It must be ensured that any relief from such penalties be allowed only with proper authorisation. The collection of the fine, therefore, in all the defaulting cases should be ensured unless relief has been granted in written.

4.35 It is imperative on the part of the internal auditor to invariably communicate internal control weaknesses to the management and his opinion on the possible effect of such weakness in institution's control environment. An illustrative Internal Control Checklist has been enclosed as **Appendix 9**.

## **Verification**

### *Examination of Records*

4.36 The internal auditor should examine the adequacy and efficacy of cut-off procedures to ensure that the transactions of receipt pertaining to the period under internal audit are recorded in that period and not in a preceding or subsequent period. The internal auditor may examine the admission documents and receipts pertaining to a few days immediately before the year-end and verify that the related receipts have been recorded as income of the period under internal audit.

4.37 The internal auditor should examine selected entries in the receipt records with reference to the related receipts, university roll sheets, other supporting documents such as the attendance registers and concession/scholarship approval notes, and admission records. He should

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compare the actual fees charged with authorised fees structure or with the authorisation by the appropriate official of the institution, as appropriate.

4.38 Selected entries in the fees refunded account should be examined with reference to the attendance register and authorisation from appropriate authority as per the terms and conditions governing the refund policies. Selected scholarship/concession cases should be examined with reference to entries in the receipt records and authorisation from appropriate authority. It should be examined that in the case of provisional admissions, revenue is recognised only when the admission is regularised on compliance with the conditions prescribed. Where the fees is receivable in installments and includes an element of interest, the internal auditor should examine whether the interest element has been excluded from the amount recorded as fees income.

4.39 The internal auditor should also carry out the following additional procedures in the case of fees received in foreign currency:

- (a) Examine that fees received in foreign currency is recorded at the exchange rates prevailing at the time of receipt.
- (b) Obtain a written representation from the management to the effect that the institution has complied with the legal and regulatory requirements relating to FEMA/FCRA.

4.40 Revenue arising from services rendered (e.g., books provided, examination fees, library fees, lab charges, tuck shop, stationery, etc.) and from interest, dividends and royalties should be examined with reference to the related agreements and other supporting documents.

4.41 The internal auditor should verify realisations subsequent to the date of the balance sheet. This would help him in identifying cases of unrecorded revenue. If the fees collection is outsourced by the institution to a collection agent, the internal auditor should at regular intervals closely scrutinize fees collection records for any omission or erroneous collection of fees.

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### *Analytical Procedures*

4.42 The internal auditor may carry out the following analytical procedures in relation to revenue:

- (a) Compare the amount of revenue for the current year, class-wise and batch-wise, with the corresponding figures for previous years with appropriate adjustments for the change in fees structure and new students/drop outs.
- (b) Compare the ratio of concessions and scholarships to total receipts for the current year with the corresponding figures for previous years.
- (c) Compare the amount of dividend/interest/royalty for the current year with the corresponding figures for previous years.
- (d) Compare the ratio of income on investments to average investments for the current year (separately for each major type of investment) with the corresponding figures for previous years.

### **Procedures for Specific Areas**

#### *Tuition Fees*

4.43 The major portion of the revenues of an educational institution is contributed by the tuition fees from the students. The analytical procedures may prove to be extremely effective and efficient method for auditing the total fees collected during the year. In order to verify the tuition fees collected from the students it is imperative that the number of students on the roll is first verified. Normally, these roll lists are available from a number of sources, viz., accounts department, registrar, university enrollment lists, teacher's attendance registers, examination roll lists, etc. Each of these records is prepared by different departments and, therefore, the reconciliation of all these records may serve as a check giving a very high degree of reliability.

4.44 The next important step in verification of the tuition fees would be to obtain the fees structure adopted by the institution which has been approved by the appropriate authority, for example Governing Body, Government/Approving authority, as applicable to the institution. The total fees collected may now be verified by using the above figures. A very useful method of checking the total fees is by multiplying the per head fees with the

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number of students and thus arriving at the gross figure. This gross figure may be verified with the total balance under that ledger account and if any variance is found, the investigation thereof may result in more information coming out before the internal auditor. There may be variance because of discount/scholarship or dropouts, etc. The internal auditor must verify whether the discount/scholarships have been given based on management approvals or guidelines prescribed for this purpose. Any other variance must also be reconciled keeping in mind the concept of materiality and risks involved. Other substantive procedure may be adopted after evaluating the results of the compliance procedures.

4.45 Similarly, other fees such as Admission fees, Affiliation and Development fees, Examination fees, Sports fees, Hostel fees, Boarding Charges, Mess Income, Transportation Income, etc. may be verified adhering to the above mentioned procedure.

### *Registration Fees/Sale of Prospectus*

4.46 Unlike tuition fees, the registration charges/sale of prospectus cannot be verified with reference to the number of students. This is often a weak area where revenue leakage can occur. The management generally ignores the sale proceeds of prospectus, and other miscellaneous receipts. This in turn encourages malpractices in the recording and collection of such revenue. Further, it is observed in many of the educational institutions a large number of copies of prospectuses are distributed complimentary to attract students. The internal auditor therefore, cannot fully verify the revenue recorded under this head. Appropriate procedures to audit the revenue under this head would be to evaluate the total prospectus issued during the year with the prospectus issued free of cost. A variance with the results for the previous years may be significant and the internal auditor may evaluate it appropriately. Secondly, the internal auditor can compare the percentage of number of students who took admission during the year to the total number of students who paid the registration charges from last year.

### *Fines*

4.47 The internal auditor may apply the following internal audit procedures to audit the income from fines:

- (a) Check the procedure of identification of fines due and ensure that all fines are levied and collected as per policies laid down by the appropriate authority.



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- (b) Check the list of fines to be charged from students.
- (c) Verify the number of students and the amount of fine due per student.
- (d) Check the internal control procedures to ensure that there is no leakage of fines collected directly by the respective department.
- (e) In case, fines are directly paid by students to the Head of department, verify the appropriateness of method of communication and deposit of funds to the Accounts Department.

### *Canteen Income*

4.48 The internal auditor may apply the following internal audit procedures to audit the canteen income earned:

- (a) Check the records maintained for the canteen operations to support all financial transactions.
- (b) Verify the inventory controls and the physical counts.
- (c) Verify and check the allocation of expenses, such as, equipment depreciation, rental charges, breakage, theft, spoilage and administrative expenses.
- (d) Review the agreements and contracts in case the canteen is run by an outside party.
- (e) Verify leakages that may take place, e.g., by way of non-deductions from staff or excessive consumption of food in the mess, despite fixed menus which are helpful in providing some measurement of the likely consumption of food articles.
- (f) Review the approvals/disapprovals of the changes in the operation of the canteen, for example change in the price of goods, shift in responsibilities of the Canteen Staff, etc.
- (g) Compliance with laws and regulations applicable for operation of canteen, for example, The Prevention of Food Adulteration Act & Rules, 1954, The Shops and Establishment Act, VAT Act, Service Tax, etc.
- (h) Review of Inspection and Maintenance Reports

### *Revenue from Sale of In-House Publications*

4.49 In respect of sale of publication material, the internal auditor should evaluate the system of recording sales, maintaining inventory of publications, MIS reports, if any, etc. The evidence in the form of publisher's statements, VAT returns, third party confirmations, etc. may be relied upon.

### *Revenue from Seminars, Workshops, Consultancies and Management Development Programmes*

4.50 Revenue from seminars, workshops, consultancies and management development programmes should be verified by the internal auditor by charting the list of all the events organised department-wise during the relevant period. The internal auditor should also examine the attendance record of participants. The internal auditor should verify the entrance/registration fees and the course fees charged from the participants. The registration fee will comprise of amount recovered from participants on account of seminar kit, beverages and lunch. The cost of accommodation, local travel, pre/post seminar tours are separately charged from the participants.

### *Revenue from Franchisee Fees*

4.51 In respect of franchising revenue, the internal auditor should examine the basic records maintained by the franchisor in respect of the franchisee, the agreements entered into with them, the product fee and regular fee chargeable. The product fee from all franchisees should be tabulated and the amount attributable to the relevant period should be worked out. In respect of franchise fee in the form of percentage share in revenue, the internal auditor should examine the audited financial statements/certificates of the franchisees. The internal auditor should also examine the calculations and compliance with service tax regulations.

### *Grants/Donations*

4.52 The internal auditor may apply the following audit procedures to audit the donations/grants received:

- (a) Check the donations received with the copies of receipts.
- (b) Check sanction letters for any conditions attached with the donations.

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- (c) Verify the grants received from the Government or other authorities with reference to all the correspondences.
- (d) Examine the statements submitted for utilisation of grant.

### **Expenses**

#### *Internal Control Evaluation*

4.53 The internal auditor examines the internal controls over payments with reference to the following:

- (a) Review of vision, mission, ethical and organisational value system of the institution;
- (b) Segregation and rotation of duties;
- (c) Procedures for authorisation;
- (d) Maintenance of records and documents;
- (e) Accountability for, and safeguarding of, assets; and
- (f) Independent checks.

An illustrative Internal Control Checklist has been enclosed as **Appendix 9**.

### **Verification**

4.54 The substantive procedure for verification of the expenses involves:

- (a) Test of individual transactions which are often carried out on a sampling basis, depending on the internal auditor's assessment of the effectiveness of the internal controls.
- (b) Examine the entries in the cash book/cash payments summary with reference to the related payment vouchers.
- (c) In respect of payments by cheque, examine the numerical sequence of the cheques issued during the specified period, i.e., whether all the cheques issued during the period had been properly accounted for.
- (d) Review the cash book or cash payment summary sheets for any unusual items and look into the same.
- (e) Apply appropriate analytical procedures to judge the overall reasonableness of the recorded payments.

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- (f) Examine whether the payments have been properly classified and disclosed under appropriate account heads in the financial statements in accordance with the recognised accounting principles.

4.55 In case the statute governing the organisation lays down any guidelines in this behalf, also examine whether the disclosure of the payments in the financial statements complies with such requirements. For example, if the exemption is claimed under section 12A of the *Income Tax Act, 1961*, the internal auditor has to report all the payments made to the specified persons.

### *Verification of Expenses Based on Student Strength*

4.56 A number of expenses also have correlation with the student strength. Such expenses can be verified by multiplying per student charges with the respective student strength. An example could be mess food bill paid to the catering contractor, which can be correlated with the number of students in the hostel. Another example could be of transport charges paid to a bus contractor, which could be correlated with the number of students using institution-arranged transport.

### **Procedures for Specific Areas**

#### *Payroll and Benefits*

4.57 Some of the basic points to consider while auditing the payroll and benefits are:

- (a) Review organisational structure, payroll operation procedures, and the sufficiency that there exists proper separation of duties and proper supervisory reviews in the organisation, to ensure that an effective payroll function has been established by the organisation.
- (b) Obtain the list of current employee information relating to name, designation, unique employee number, payroll account number, and salary amount.
- (c) Verify the documentation of rate of pay, rate of overtime, total input hours, authorisation policies, payroll deductions, preparation and approval of time sheets, leave tracking system (including approvals), termination procedures of employees.

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- (d) Check the employee data maintained in the information system for its accuracy and appropriateness as well as ensure that proper documentation is also maintained.
- (e) Verify the procedure of periodically updating the employee data with the necessary approvals.
- (f) Verify the procedure of maintaining the confidentiality of the employee data.
- (g) Obtain an understanding of employee benefits and post-employment benefits like pension, provident fund, etc. offered to the employees by the institution.
- (h) Verify the procedure of valuation and disclosure of employee benefits with reference to Accounting Standard (AS 15), '*Employee Benefits*'.
- (i) Obtain a general understanding of the hiring and termination process and how payroll is affected.
- (j) Review the personnel records maintained by HR and Payroll.
- (k) Review the required hiring documents (for example, applications received, offers made, accepted and declined, personnel requisition, etc.) for employees hired.
- (l) Ensure that any new employee related to the management or Board or owners is hired on the approval from the higher authority as well as disclosed as related party in the financial statements.
- (m) Ensure all employees' current job descriptions are as per requirements of the institutions.
- (n) Review the procedure of considering reference checks provided while recruitment of personnel.
- (o) Review the personnel file maintained for work records (for example, hours worked, time reports, etc.)
- (p) Review the contracts of the employees hired on part time basis and ensure that they are paid for the period they are employed as per the terms of their contract.
- (q) Review the standard operating policy to ensure reporting of any work related grievances. (For example, stress, bias, etc.)

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- (r) Review the policy pertaining to payment of employees for overtime and test check the following:
  - (i) Necessary prior approval from authorised supervisor is obtained.
  - (ii) Proper documentation of overtime details is maintained.
  - (iii) Determine and document how the payment of overtime is made.
- (s) Examine the budget approved and reconcile the budgeted figures with actual payroll costs and where applicable, obtain the reasons for significant deviations. Check the reporting procedure of all significant deviations.
- (t) Check the monthly reconciliations between financial records and payroll prepared by both the departments.
- (u) Check the procedures for ensuring compliance with laws and regulations, for example, deduction of TDS.
- (v) Scrutinize HR database (for hiring and firing of employee) and payroll database (for paying employee) to ensure that there are no ghost employees.

### **Other Expenditure**

4.58 Other than payroll, an educational institution incurs Educational and Academic expenditure, Administrative expenditure, Occupancy expenditure and Promotional expenditure. The internal auditor should follow the following procedures while auditing these types of expenses:

- (a) Compare the balances of each significant expense account with the comparable balance for the preceding period and with the budgeted balance for the current period. Examine unusual fluctuations.
- (b) Compare current period relationships between accounts (e.g., total expenses as a percentage of revenue, etc.) with the comparable relationships for the prior period and with budgets. Examine unusual fluctuations.
- (c) Analyze comparative expense calculations on a per unit basis (e.g., academic expenditure or cost of utilities per student, transportation

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expenses per student, space utilisation ratios, etc.). Examine unusual fluctuations.

- (d) Review all expense accounts to determine whether year end accrual is appropriately recorded.
- (e) Check expense account balances to the appropriate analyses of balance sheet accounts (e.g., rent expense to accrued rent, etc.).
- (f) Check source documents (invoices) along with supporting forms and documents of all major expenses with amounts recorded in accounting records to ensure that all expenditures incurred during the period have been properly recorded.
- (g) Ensure that the capital expenditure has not been booked as revenue expenses and vice-versa.
- (h) Authorisation by appropriate authority to all the expenses should be confirmed.
- (i) Check to ensure that no expenditure on personal account is debited as expenses.

### **Fund Balances**

4.59 The fund balances of an institution may exist in various forms. The internal auditing aspects to be kept in mind in respect of each of these are elaborated as under:

#### **Restricted Funds**

4.60 Restricted Funds normally consist of donations received and grants sanctioned with conditions attached to the manner of the utilisation. This restriction may specify that the funds be spent only for specified purposes, whether revenue or capital in nature. The correspondence attached to each receipt as well as the sanction letters accompanying the grants need to be verified by the internal auditor to ascertain the restrictions and verify the utilisation of the grants in accordance therewith. Any misutilisation of funds may lead to claims against the institution, which may in extreme cases affect the financial viability of the institution.

#### **Designated Funds**

4.61 Designated Funds represents appropriation made by the institution with the purpose of accumulating funds for specific purposes. The internal

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auditor must evaluate evidences to establish the authority under which such appropriation was carried out as well as the purposes for which it was done. Extremely reliable evidence in respect thereof is the minutes of the meeting of the governing body of the institution in which the appropriation of the funds was approved. Normally, all such appropriations are recorded in the Board meetings called for approving the financial statements. The internal auditor must verify that the classification of funds appropriated has to be in accordance with the purposes and amounts approved in the Board meetings.

4.62 The internal auditor should also verify that the fund balances and the bank accounts in which the funds so appropriated are parked, reconcile with each other. Any discrepancy will mean that the accounting treatment has not been correctly followed or it may require verification of the actual utilisation of funds.

### **Liabilities**

4.63 The internal auditor may employ the following procedures for verifying liabilities:

- (a) Examination of records
- (b) Direct confirmation procedure
- (c) Examination of disclosure
- (d) Analytical Procedures
- (e) Obtaining management representations

### **Loans and Borrowings**

4.64 For an educational institution, the major outflow of funds is for the capital expenditure. Therefore, the borrowings of an educational institution comprise of the term loans taken for construction of buildings, infrastructure facilities, acquisition of plant and machinery, furniture, etc.

4.65 The following points are important in internal audit of loans and borrowings:

- (a) The internal auditor should verify that the loans obtained are within the borrowing powers of the institution and in accordance with the Memorandum and Articles of Association/Rules/Bye-laws of the institution.



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- (b) The internal auditor should examine the relevant records to evaluate the validity and accuracy of the loans. The examination of minute books would constitute an important source of audit evidence for the same.
- (c) The internal auditor should examine the reconciliation of the book balances with the statements of the lenders. Balance confirmation procedures should also be adopted.
- (d) The internal auditor should examine the documents, if any, evidencing any charge created in respect of loans and borrowings. He should particularly examine compliance with the requirements of the applicable statute regarding creation and registration of charges in case of companies formed under section 25 of the Companies Act, 1956.
- (e) In case the institution has accepted deposits, the internal auditor should examine whether the applicable directives issued by the Reserve Bank of India or other appropriate authorities are complied with.
- (f) The internal auditor should examine whether the loan is classified as secured only when the same is secured against any asset belonging to the institution.
- (g) In case the installments of long term loans falling due within the next twelve months have been disclosed in the financial statements, the internal auditor should verify the correctness of the amount of such installments.
- (h) The internal auditor should examine the hire purchase agreements for the purchase of assets to verify the correctness of the outstanding amounts. The future installments under hire purchase agreements for the purchase of assets may be shown as secured loans.
- (i) The deferred payment credits should be verified with the relevant agreements. The internal auditor should also verify the copies of hundies/bills accepted.

**Creditors and Other Current Liabilities**

4.66 The following points can be useful in internal audit of creditors and other liabilities:

- (a) The internal auditor should carry out appropriate procedures to judge the adequacy of the relevant cut-off procedures e.g., he may examine the documents relating to goods received a few days immediately before the year end and check whether the related invoices have been recorded as purchase in the year under audit.
- (b) The internal auditor should look into the difference, if any, between the total of the creditors balances as per creditor's ledger with the related control account.
- (c) The internal auditor should examine the relevant correspondence /other documentary evidence to verify the validity, accuracy and completeness of creditors/ acceptances.
- (d) The internal auditor should pay special attention to long outstanding items, unadjusted claims for short supplies, poor quality, discount, commission, etc., and liabilities not correlated/adjusted against related advances. He should also examine authorisation and correctness of transfers from one account to another.
- (e) The internal auditor should examine any unusual payments around the year-end, especially if the entries have been reversed in the subsequent period.
- (f) The internal auditor should review transactions in the immediately succeeding period to identify/ confirm material liabilities outstanding at the balance sheet date.

**Fees Received in Advance**

4.67 Usually an educational institution charges fees before the semester gets started. Such fees is received in advance from the students and as it does not relate to the period under internal audit, it should not be treated as income but shown as liability in the financial statements. Further, this fees should also be not shown in the respective student accounts because the amount is not required to be repaid back to the student but is to be disclosed in the Current Liabilities as 'Fees received in Advance'.

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4.68 The following are important points in audit of fees received in advance:

- (a) Obtain and examine the list of students from whom fees has been received in advance.
- (b) Check the opening balance outstanding in the 'Fees received in Advance' account and ensure that the said amount is reversed and charged to income and expenses account.
- (c) In case where the student at the time of admission has deposited fees for more than one year, obtain the detailed year wise list of students and examine the balance outstanding at the 'Fees received in Advance' account as well as year-wise income to be recognised.
- (d) In case any student has left the institution, ensure the fees received in advance from that student have been transferred to his/her respective student's account.

### **Caution Money and Security Deposits**

4.69 The following are important points can be useful in audit of caution money and security deposits:

- (a) Confirm that caution money and other deposits paid by the students on admission have been shown as liability in the balance sheet and not transferred to revenue, unless they are not refundable.
- (b) Examine the accounting procedure of caution money received from and paid to the students.
- (c) Verify the caution money registers for entries made for receipts and payments and ensure that the registers reconcile with the financial records. Verify the details mentioned in the registers, like student's name, year of receipt, total amount, cheque details, due date of payment, etc.
- (d) Check the documentation required to be maintained for the caution money paid to the students.
- (e) Examine the communication procedure between various departments of the institution before the caution money is paid, for example, how does the library in-charge communicates with the accounts department regarding library fines.

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- (f) Verify whether the deposits, such as caution money, security, laboratory security, etc. are received from the students.
- (g) Ensure that such deposits are not mixed up with the fees received account.
- (h) Check the student's account to whom the caution money is being paid, to ensure that no dues like fees, fines, recoveries for on account of lost library books, etc. are recoverable. Verify that only net amount is being paid to the student.
- (i) Check whether the No Dues Certificate has been obtained from all departments of the institution.
- (j) Check that all the necessary approvals have been obtained from the appropriate authority before the payment of caution money.

## Unutilised Grants

4.70 In case the grant received earlier was not utilised for the designated purpose, then the grant may become refundable. In such instance, the internal auditor should obtain the original donor letter and its specification. In case, the grant becomes refundable, the accounting treatment will depend upon the mode followed by the educational institution at the time of receipt of income. Accounting Standard (AS) 12 "*Accounting for Government Grants*", issued by ICAI.

## Assets

### Fixed Assets

4.71 Fixed Assets in the shape of land, building, and equipment constitute a major chunk of the assets of an educational institution. The audit procedures with respect to verification, valuation and disclosure are discussed in following paragraphs:

### Verification

4.72 The verification of fixed assets consists of (a) examination of records, and (b) review of physical verification of such assets conducted by the management. The following are important procedures in this regard:

- (a) The opening balances of fixed assets should be verified from relevant records e.g., schedule of fixed assets, ledger or register balances.

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- (b) Check whether the institution is in compliance with Accounting Standard (AS) 10, "*Accounting for Fixed Assets*".
- (c) Acquisition of fixed assets and improvements to the existing ones should be verified with reference to supporting documents such as, orders, invoices, receiving reports and title deeds.
- (d) Review of the lease agreements, valuation and disclosure of fixed assets acquired on lease with respect to Accounting Standard (AS) 19, "*Leases*".
- (e) Self constructed fixed assets, improvements and capital work-in-progress should be verified with reference to the supporting documents such as contractor's bills, work-order records and independent confirmation of the work performed. All incidental costs incurred with respect to use should be capitalised.
- (f) Expense accounts (e.g., repairs and renewals) should be scrutinized to ascertain that new capital assets and improvements have not been included therein.
- (g) Where fixed assets have been written-off or fully depreciated in the year of acquisition/ construction, the internal auditor should examine whether these were recorded in the fixed register before being written-off or depreciated.
- (h) In respect of fixed assets retired i.e., destroyed, scrapped or sold, the internal auditor should examine whether:
  - (i) The retirements have been properly authorised and appropriate procedures for invitation of quotations have been followed, wherever applicable;
  - (ii) The asset and depreciation accounts have been properly adjusted;
  - (iii) The sale proceeds, if any, have been fully accounted for; and
  - (iv) The resulting gains or losses, if material, have been properly adjusted and disclosed in the profit and loss account.

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4.73 It is possible that certain assets, which were destroyed, scrapped or sold during the year have not been recorded. The internal auditor may use the following procedures to ascertain such omissions:

- (a) Review of work orders/physical verification reports to trace any retirements.
- (b) Examination of major additions to ascertain whether they represent additional facilities or replacement of old assets, which may have been retired.
- (c) Making enquiries of key management and supervisory personnel.
- (d) Obtaining a certificate from a senior official and/or managers that all assets scrapped, destroyed or sold have been recorded in the books.

4.74 Ownership of assets such as, land and buildings should be verified by examining the original title deeds. The title deed should be in the name of the Society/Company, where they own the educational institutions. In case, other persons such as solicitors or bankers hold the original title deeds, confirmation should be obtained directly by the internal auditor through a request signed by the client. The internal auditor should also verify if the vehicles are registered in Road Transport Office (RTO) in the name of the institution.

4.75 It is the responsibility of the management to carry out physical verification of fixed assets at appropriate intervals in order to ensure that they are in existence. However, the internal auditor should satisfy himself that such verification was done. For this purpose, he should observe the verification being conducted by the management, wherever possible. He should also examine the written instructions issued to the staff by the management and the relevant working papers. The internal auditor should also satisfy himself that the persons conducting the verification, whether the employees of the organisation or outside experts (if employed), had the necessary competence.

4.76 The internal auditor should examine whether the method of verification was reasonable in the circumstances relating to each asset. Where the fixed assets can be moved and where verification of all assets cannot be conducted at the time, they should be marked with distinctive numbers.

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4.77 The internal auditor should examine whether the frequency of verification was reasonable in the circumstances of each case. Where the assets are few and can be easily verified, an annual verification may be considered reasonable. However, where the assets are numerous and difficult to verify, verification, say, once every three years by rotation so that all assets are verified at least once in every three years, may be sufficient. The internal auditor should test-check the records of fixed assets with the physical reports. He should examine whether the discrepancies noticed on physical verification have been properly dealt with.

### ***Valuation and Disclosure***

4.78 The internal auditor should ensure that fixed assets have been valued and disclosed in the financial statements according to the generally accepted bases of accounting which are determined by law, professional pronouncements and prevailing practices governing educational institutions.

4.79 The internal auditor should test check the calculation of depreciation. The total depreciation arrived at should be compared with that of the preceding years to identify reasons for variations. The internal auditor should, particularly, examine whether the depreciation charge is adequate, keeping in view the generally accepted basis on accounting for depreciation.

4.80 Revaluation of fixed assets implies restatement of their book values on the basis of a systematic scientific appraisal, which would include ascertainment of working condition of each unit of fixed assets, technical estimate of future working life and the possibility of obsolescence. Independent and qualified persons such as engineers, architects, etc usually make such an appraisal. To the extent possible, the internal auditor should examine these appraisals. As long as the appraisals appear reasonable and based on adequate facts, he is entitled to accept the revaluation made by the experts.

4.81 Where several assets have been purchased for a consolidated price, the internal auditor should examine the method by which the consideration has been apportioned to the various assets. In case this has been done on the basis of an expert valuation, he should examine whether the same appears reasonable and is based on adequate facts. Where an organisation owns assets jointly with others (e.g., the office building being

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owned jointly by two companies), the internal auditor should examine the relevant organisation's share in such assets.

4.82 The internal auditor must review the fixed assets for impairment; wherever changes in circumstances indicate that the carrying amount may not be recoverable. Valuation of the impaired asset should be made as per Accounting Standard (AS) 28, "*Impairment of Assets*", where the assets whose carrying value exceeds the recoverable value are written down to the recoverable amount and the impairment loss is recognised.

### Intangible Assets

4.83 An educational institution may develop or acquire an intangible asset like copyrights, patents, designs, trademarks, etc. during its course of activity or it may develop application software like an Accounting Software, Library Software, etc. The scope of work of an internal auditor may cover the development of an intangible asset starting from its inception stage to its implementation in the organisation covering monitoring of operations, racking progress, recommending improvements, etc. The "*Technical Guide on Internal Audit of Intangible Assets*" covers these aspects in details. Some important procedures to be carried out by an internal auditor are as follows:

- (a) Review the policies and procedures relating to intangible assets for example authorisation policy, purchase policy/in-house development, deployment process, retirement and disposal policy, etc.
- (b) Review the efficiency and effectiveness of use of intangible assets.
- (c) Review the systems established to ensure compliance with laws, regulations, contracts, policies and procedures relating to intangible assets including copyrights, trademarks, patents and designs to determine whether the institution has complied with them or not. Monitor compliance with laws and regulations relating to intangible assets with particular reference to unauthorised use of intangible assets of others, e.g., patents, trademarks, computer software, etc. Review in-house procedures for protecting intangible assets e.g., implementation of code of conduct to be followed by employees, vendors, consultants etc.
- (d) Review the means of safeguarding intangible assets.
- (e) Review the recordkeeping and accounting of intangible assets.



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4.84 The internal auditor should examine whether items included as intangible assets in the financial statements meet the definition of, and recognition criteria for, intangible assets as laid down in Accounting Standard (AS) 26, '*Intangible Assets*'. The internal auditor should also scrutinize whether any amount of intangible assets which was supposed to be capitalised, have not been charged off to revenue account.

### **Investments**

4.85 Investments constitute a significant portion of the assets of an organisation. The investments are held under statutory requirement such as Section 11(5) of the *Income Tax Act, 1961* and may also be required to be maintained in case of restricted funds as per the directions of the donor. Sometimes the University requires a college to maintain investments for a particular course.

4.86 The investments could be short term or long term in nature. Short term investments are, normally, made to deploy temporary surplus funds in view of the peculiar fund flow position of an educational institution. The short term investments may be classified as current assets and normally valued at market value. The decline in the value of long term investments, other than permanent, is normally not adjusted from the book values. The following paragraphs cover internal audit procedures with respect to investments.

### **Verification of Transactions**

4.87 The internal auditor must verify the transactions of investments with regards to the investment policy of the organisation. The internal auditor should examine whether the legal requirements relating to investments have been complied along with any other conditions relating to investments which restrict or qualify the right of ownership and/or disposal of investments. Where the organisation is claiming exemption from income tax, the internal auditor must examine whether the compliance with the provisions of the *Income Tax Act, 1961*, regarding the investment of the surplus funds is complied with or not. Where the amount of purchase/sales of investments are substantial, the internal auditor may check the prices paid/received with reference to the market rate.

### ***Physical Inspection***

4.88 The internal auditor should carry out a physical inspection of investments in the form of fixed deposits, shares, debentures or other securities. The physical inspection of scrips should normally be carried out at the close of business on the last day of the year. If this is not possible, of course, in such a case adjustments for transactions during the intervening period will be required. The internal auditor must check whether the investments held are in the name of the educational institution. The internal auditor should also consider the following important aspects:

- (a) Where a substantial number of investments are held by the institution in its custody, the internal auditor should carry out a surprise inspection of investments in hand at least once during the year, in addition to the year-end verification.
- (b) Where investments belonging to third parties are also held by the institution besides its own investments (e.g., banks may hold share scrips of customers as security against loans and advances), the internal auditor should ensure that such investments are properly identified and segregated at the time of physical inspection.
- (c) Where the scrips relating to shares, debentures or other securities are with a custodial/depository organisation, the internal auditor should examine the certificate issued by it confirming the holdings of the institution. He should also examine the reconciliation of balances as per the records of the institution and those as per the certificate of the custodial or depository organisation.
- (d) Where banks on behalf of the institution hold the investments, the internal auditor should examine the certificates/ confirmations received from the banks. Such certificates/ confirmations should preferably be received directly by the internal auditor.
- (e) Where investments are held by a third party other than banks on behalf of the institution the internal auditor should examine whether there is a justification for such other party to hold the scrips. In such a case, physical inspection of the relevant documents may be made to the extent possible. In any case, evidence of securities held by third parties should be examined.

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- (f) If investments are held otherwise than in the name of the institution (e.g., in the name of nominees/ trustees), the internal auditor should ascertain the reasons therefor and examine the relevant documentary evidence supporting real/ beneficial interest of the institution in the investments e.g., written confirmations from the nominees/ trustees.

### ***Valuation and Disclosure***

4.89 The internal auditor should examine whether the investments have been valued according to the recognised accounting principles. Accounting Standard (AS) 13, '*Accounting for Investments*', issued by the ICAI, deals with accounting for investments in the financial statements of enterprise and related disclosure requirements. The internal auditor should also examine whether the disclosure of investments in the financial statements is in accordance with the statutory requirements, if any. For example, Schedule VI to the Companies Act, 1956, contains detailed requirements relating to disclosure of investments.

4.90 To ascertain the fair value market value of investments (this may be required while determining the value of investments for balance sheet purposes), reference may be made to the official quotations of the stock exchange in the case of quoted securities. In the case of unquoted securities, the internal auditor should examine whether the method adopted is one of the recognised methods of valuation of securities, e.g., break-up value method, capitalisation-of-yield method, yield-to-maturity method, etc.

4.91 The internal auditor should examine whether any specific aspects relating to investments are required to be reported upon as per the provisions of the relevant statute governing the institution. For example, as per the provisions of section 227(1A) of the Companies Act, 1956, the internal auditor of a company (other than an investment company or a banking company) should enquire whether so much of the assets of the company as consist of shares, debentures and other securities have been sold at a price less than that at which they were purchased by the company.

### **Inventories**

4.92 An illustrative list of inventory registers maintained in an educational institution is as under:

- (a) Printing and Stationery

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- (b) Hardware
  - (c) Sanitary
  - (d) Electrical
  - (e) Fixtures and Furniture
  - (f) New Construction (for construction materials)
  - (g) Mess Equipments and Utensils
  - (h) General
  - (i) Lab Equipments
  - (j) Sports and Gym
  - (k) Physics Lab (for items issued to Lab)
  - (l) Chemistry Lab (for items issued to Lab)
  - (m) Daily maintenance receipt (for items issued for maintenance)
  - (n) Repairs (for items sent for repairing).
- 4.93 An internal auditor should:
- (a) Examine the internal control over the receipt, issue, maintenance, leakage, etc. of the inventories.
  - (b) Verify the above mentioned inventory registers from the following documents:
    - (i) Copy of Purchase Orders
    - (ii) Challans/Duplicate Bills File
    - (iii) Stores Issue Slips
    - (iv) Material Inward Register
    - (v) Bill Dispatch Register (for bill sent to accounts/purchase department)
    - (vi) Issue and Received Register (for items issued but to be returned back).
  - (c) Check the opening balances of the items.

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- (d) Verify the Gate Entry Register for items purchased or sent outside the premises for repairs, etc.
- (e) Verify the list of defective/scrapped/destroyed items and the loss to be recognised in the income and expenditure account.
- (f) Inspect reports of physical inspections carried out by the Inventory Management Department, Accounts Department, etc.
- (g) Check that the inventory has been valued and disclosed in the financial statements according to the generally accepted bases of accounting which are determined by law, professional pronouncements and prevailing practices governing educational institutions. The internal auditor may refer to Accounting Standard (AS) 2, "*Valuation of Inventories*".

### **Cash and Bank Balances**

4.94 The internal auditor should carry out the following procedures:

- (a) The internal auditor should carry out physical verification of cash at the year-end. Where this is not feasible, verification may be carried out, on a surprise basis, at any time around the date of the balance sheet. In such a case, the internal auditor should examine whether the cash balance as shown in the balance sheet reconciles with the physically verified cash after making adjustments for cash receipts and payments during the interim period. Besides physical verification at or around the date of the balance sheet, the internal auditor should also carry out surprise verification of cash during the year. The following aspects of physical verification of cash may be noted:
  - (i) All cash balances in the same location (petty cash, cash of sister concerns/ staff societies, etc.) should be verified simultaneously.
  - (ii) If IOUs or other similar documents are found during physical verification, the internal auditor should seek explanations from the management regarding the reasons for such documents remaining pending. These should not be shown as cash in hand (but classified as short term advances).

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- (iii) The quantum of torn or mutilated currency notes should be examined to determine whether any provision for loss on this account is required.
- (b) If the internal auditor finds that the organisation is consistently maintaining an unduly large balance of cash-in-hand, he should carry out surprise verification of cash more frequently. The internal auditor must be familiar with the written policies on the limits of holding cash. He should also examine the reasons for maintaining such large balances having regard to the normal working requirements of the organisation. Normally, the educational institution follow the policy of depositing the fees received in cash on the following day into the bank account maintained for the purpose. A large balance of cash in hand may point to possession of unrecorded funds by members.
- (c) The internal auditor should vouch the cash payments made over the limits assigned requiring appropriate approvals.
- (d) The internal auditor should advise the organisation to send a letter to all its bankers to confirm the balances directly to the internal auditor including those relating to dormant accounts as well as accounts closed during the year.
- (e) The internal auditor should examine the bank reconciliation statements as at the year end. He may also examine the reconciliation statements as at other dates during the year. He should, particularly, examine whether the cheques issued but not presented and the cheques deposited but not cleared have been duly accounted for in the bank statements of the subsequent period. In case this is not so, he should examine whether the entries need to be reversed. The internal auditor should pay special attention to items, which are outstanding for unduly long periods and should consider whether such items require an adjustment/ write off.
- (f) Where post dated cheques have been shown as collections, the internal auditor should ask for reversal of the entries. Similarly, post dated cheques issued by the organisation should not be accounted for as payments.
- (g) The internal auditor should examine the bank statements relating to accounts which are apparently inoperative to ensure that no

## **Technical Guide on Internal Audit of Educational Institutions**

transactions have taken place in such accounts which have not been recorded in the books of account.

- (h) In case of unduly large number of deposits or issue of cheques in the last few days of the year, the internal auditor may consider obtaining confirmations from the parties concerned. Similarly, where there are a large number of cheques on hand at the date of the balance sheet and a sizeable proportion has subsequently remained un-deposited/ un-cleared, the internal auditor may consider obtaining confirmations.
- (i) The internal auditor should examine relevant receipts/ certificate /bank advices in respect of fixed deposits or other types of deposits.
- (j) Remittances in transit should be examined with reference to their adjustments in the bank statements of the subsequent period.

### **Other Current Assets**

#### ***Fees Receivable***

4.95 An educational institution, if following an accrual based accounting shall charge the students for the fees due in the current financial year. Such fees if not received can either be represented in the name of Fees receivable or the balances of students in the Balance Sheet. Such amount should be evidenced with the list of student accounts from which the fees has not been received. The internal auditor may follow the following steps for audit of fees receivables:

- (a) Check that the opening balances of fees receivable account have been transferred to the respective student accounts.
- (b) Verify whether the fees receivable is recorded correctly during the current periods.
- (c) Examine the next year's transactions and fees receipt books to ensure that the current year fees have been booked.

#### ***Security Deposits***

4.96 As stated above, an educational institution may be required to deposit some security to other institution, government, local authority for conducting some course or exam. Further, an amount may be placed before any other department/agency for obtaining connection such as

## Internal Auditing Aspects

telephone connection, gas connection, etc. At the time of giving a security deposit, the receipt should be obtained and retained till such deposit gets refunded. A list should be prepared for the security deposits given and should be verified with the evidences.

### ***Contingent Liabilities***

4.97 Some of the contingent liabilities arising in case of an educational institution are:

- (a) Amount indeterminable in respect of pending income tax assessments.
- (b) Additional liability arising due to sales tax, service tax demand on completion of assessments or non-deduction of Provident Fund/ESI by the contractors.
- (c) Amount indeterminable in respect of pending court cases by/against ex-employees or students.
- (d) Claims against the institution in the courts/consumer courts not acknowledged as debts.
- (e) Guarantees given.
- (f) Guarantees issued by banks on behalf of the Institution.
- (g) Non-deduction of TDS on provisions due to pending payments with the parties.
- (h) Claim of refunds by the students.
- (i) Claims of retirement benefit by employees.
- (j) Cause of action arising out of breach of laws and regulations under which the institution operates or due to non-fulfillment of conditions for getting recognitions.
- (k) Capital commitments.

4.98 The internal auditor should:

- (a) Inquire the management about their knowledge of unrecorded commitments or contingent liabilities.
- (b) Ascertain the amount of contingent liability as discussed with the management.



### **Technical Guide on Internal Audit of Educational Institutions**

- (c) Ensure that all contingent liabilities are raised or disclosed in the financial statements.
- (d) Verify last year's contingent liabilities and ensure that these have been duly considered for the current year's account.

# SPECIAL INTERNAL AUDIT ASPECTS IN AN EDUCATIONAL INSTITUTION

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### Internal Auditor's Role in Corporate Governance

5.1 Corporate Governance may be defined as a set of systems, processes and principles which ensure that an entity is governed in the best interest of all the stakeholders. It ensures commitment to values and ethical conduct of business; transparency in business transactions; statutory and legal compliance; adequate disclosures and effective decision making to achieve corporate objectives. Corporate Governance is about promoting corporate fairness, transparency and accountability.

5.2 Corporate Governance in an educational institution means emphasising on accountability, transparency, strict costing measures and quality education, student security, bringing in latest technology to benefit students and being self-sufficient. The internal auditors are required to evaluate and offer recommendations to improve governance processes by delivering:

- (a) Assessment of governance policy of the management.
- (b) Assessment of mission, objectives and goals of the institution.
- (c) Evaluation of Risk and Internal control framework and suggesting best practices ideas.
- (d) Detailed analysis of business processes and controls, policies and procedures and code of conduct.
- (e) Sources of information for fraud and irregularities, and reporting their effectiveness to the audit committee.
- (f) Review of compliance framework, their activities and issues.

**Reporting of Frauds, Errors, Irregularities and Illegal Acts in an Educational Institution**

5.3 The following types of frauds, errors, irregularities and illegal acts are commonly found in an educational institution:

- (a) Charging capitation fees from students, where not allowed.
- (b) Plagiarism - Availability of restricted data, violation of intellectual property rights or leakage of critical information on internet, for example, examination papers, course papers, essays or research notes.
- (c) Sale of question papers and answers by employees, faculty, publisher, etc.
- (d) Reproduction and distribution of unauthorised valuable documents, such as college diploma certificates or transcripts of student's records.
- (e) Professional misconduct, educational malpractice including inappropriate changes in institution's curriculum, misuse of institution's resources and deliberate falsification of records.
- (f) Teachers accepting cash payments for giving candidates extra time or other kind of assistance during examinations.
- (g) Theft and tampering of records.
- (h) Fabrication with falsification of data, records and credentials by a faculty member at the time of employment.
- (i) Misappropriation of assets.
- (j) Phantom Billing – Billing for work that was not performed or services that were never rendered.
- (k) Double Billing – Error of charging a student twice for fees of a year.
- (l) Phantom Employees – Charging for employees that were not on the job.
- (m) Obtaining a contract through kickbacks, for example, accepting bribes from publishing houses for ordering text books.
- (n) Improper use of grant money or misuse of government funding.

## **Special Internal Audit Aspects in an Educational Institution**

- (o) Sanction of grant through improper means such as inflate the number of students or publish superior results of student performance.

### **Responsibilities of the Internal Auditor**

5.4 Standard on Internal Audit (SIA) 11, "*Consideration of Fraud in an Internal Audit*", lays down that the primary responsibility for prevention and detection of frauds rests with management and those charged with governance. They achieve this by designing, establishing and ensuring continuous operation of an effective system of internal controls. An internal auditor should use his knowledge and skills to reasonably enable him to identify indicators of frauds. However, the internal auditor cannot be expected to possess the expertise of a person with specialised knowledge and skills in detecting and investigating frauds. It is essential for the internal auditor to gain an understanding of the components of the system of internal control which would keep him to assess the risk of frauds.

5.5 The internal auditor should help the management fulfill its responsibilities relating to fraud prevention and detection. The following paragraphs discuss the approach of the internal auditor regarding this:

- (a) The internal auditor should obtain an understanding of the various aspects of the control environment and evaluate the same as to the operating effectiveness.
- (b) The internal auditor should obtain an understanding of the policies and procedures adopted by the management to identify risks that can affect the achievement of the objectives of the entity and to distinguish risks from opportunities and evaluate the effectiveness of these policies and procedures. In the context of prevention of frauds, the internal auditor should, specifically evaluate the policies and procedures established by the management to identify and assess the risk of frauds, including the possibility of fraudulent financial reporting and misappropriation of assets.
- (c) The internal auditor should assess the operating effectiveness of the policies and procedures established by the management to identify, capture and communicate relevant information to the concerned persons in the entity to enable them to make timely and effective decisions and discharge their responsibilities efficiently.

## Technical Guide on Internal Audit of Educational Institutions

- (d) The internal auditor should assess whether the controls implemented by the management to ensure that the risks identified are responded to as per the policy, or the specific decision of the management, as the case may be, are in fact working effectively and whether they are effective in prevention or timely detection and correction of the frauds or breach of internal controls.
- (e) The internal auditor should evaluate the mechanism in place for supervision and assessment of the internal controls to identify instances of any actual or possible breaches therein and to take corrective action on a timely basis.
- (f) The internal auditor should carefully review and assess the conclusions drawn from the audit evidence obtained, as the basis for his findings contained in his report and suggest remedial action. In case, the internal auditor comes across any actual or suspected fraud or any other misappropriation of assets, he should immediately bring the same to the attention of the management.
- (g) The internal auditor should document fraud risk factors identified as being present during the internal auditor's assessment process and document the internal auditor's response. If during the performance of the internal audit fraud risk factors are identified that cause the internal auditor to believe that additional internal audit procedures are necessary, the internal auditor should document the same.

5.6 The internal auditor should carry out the following procedures which would help him to identify fraud risk factors:

- (a) Review of personal accounts of employees and officers.
- (b) Ensure that the management has taken the following steps:
  - (i) Incorporate a formal fraud control policy.
  - (ii) Ensure that there is proper system of prevention and detection of fraud, e.g., whistleblower policy should be made with the objective of providing employees, investors, suppliers, lenders, service providers, etc. an avenue to raise complaints.
  - (iii) Train employees, such as train tellers not to accept unusual transactions from insiders.

### **Special Internal Audit Aspects in an Educational Institution**

- (iv) Encourage questioning and reporting of unusual transactions.
- (v) Place a confidential hotline.
- (vi) Sharing of information.
- (vii) Exercise due care and reasonable safeguards to prevent fraud.
- (viii) Direct supervision and control.
- (ix) Communication of fraud to vendors and business partners.

### **Transactions with Related Parties**

5.7 As per Accounting Standard (AS) 18, “*Related Party Disclosures*” issued by the Institute of Chartered Accountants of India, related parties are considered to be related if at any time during the reporting period one party has the ability to control the other party or exercise significant influence over the other party in making financial and/or operating decisions. AS 18 deals only with related party relationships described in (a) to (e) below:

- (a) Enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with the reporting enterprise (this includes holding company, subsidiaries and fellow subsidiaries).
- (b) Associates and joint ventures of the reporting enterprise and the investing party or venturer in respect of which the reporting enterprise is an associate or a joint venture.
- (c) Individuals owing, directly or indirectly, an interest in the voting power of the reporting enterprise that gives them control or significant influence over the enterprise and relatives of any such individual. ‘*Relative*’ in relation to an individual, means the spouse, son, daughter, brother, sister, father and mother who may be expected to influence, or be influenced by, that individual in his/her dealings with the reporting enterprise.
- (d) Key management personnel and relatives of such personnel
- (e) Enterprises over which any person described in (c) or (d) is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the reporting enterprise and

## Technical Guide on Internal Audit of Educational Institutions

enterprises that have a member of key management in common with the reporting enterprise.

5.8 *Section 6 of Companies Act, 1956*, lays down that a person shall be deemed to be a relative of another, if, and only if,

- (a) They are members of a Hindu undivided family; or
- (b) They are husband and wife; or
- (c) The one is related to the other in the manner indicated in Schedule IA.

5.9 *Section 2(41) of Income Tax Act, 1961*, lays down that 'Relative' in relation to an individual, means the husband, wife, brother or sister or any lineal descendant or descendant of that individual. Further, a person shall be deemed to have a substantial interest in a business or profession if:

- (i) In case of company, the person, at any time during the year, carries not less than 20% of the voting power.
- (ii) In any other case, the person, at any time during the year, is beneficially entitled to not less than 20% of the profits of such business or profession.

5.10 As already mentioned, the educational institutions, generally, exist solely on a not-for-profit basis. Such institutions generally exist either as a Society or as a Section 25 company. More so, because the affiliation conditions/regulations governing such institutions are very clear in this respect that the educational institution must run for charity and not for profiteering. However, it is quite common that the trustees or the promoters of such institutions who contribute substantial amount for setting up the institution are also the members of the governing body. These members are in privileged position to misuse the funds meant for the institution. In case of an educational institution, the following can be the related parties:

- (a) Enterprises that directly or indirectly, control, or are controlled by, or are under common control with the educational institution, for example, sister educational or vocational institution, etc.
- (b) Individuals owing, directly or indirectly, an interest in the voting power of the reporting enterprise that gives them control or significant influence over the enterprise and relatives of any such individual, for example, two societies having a same set of trustees.

### **Special Internal Audit Aspects in an Educational Institution**

- (c) Key Management Personnel and relatives of such personnel for example directors, trustees, etc.

5.11 The responsibility for identification and disclosure of related parties and related party transactions is of the management. However, the internal auditor must perform the following procedure for related party transactions:

- (a) Obtain sufficient audit evidence regarding the identification and disclosure by management of related parties that are material.
- (b) Review information provided by the management regarding the related parties.
- (c) Review the institution's procedure for identification of related parties.
- (d) Review with the management, of the financial statements before submission to the Board of Directors for approval, with reference to disclosure of any related party transactions.
- (e) Review prior year working papers for names and transactions of related parties.
- (f) Inquire affiliation of directors, key management personnel, officers with other entities.
- (g) Review minutes of meetings and other statutory records, such as Director's Interest Register, etc.
- (h) Review shareholders records to determine the names of principal shareholder or obtain a list of principal shareholders from the share register.
- (i) Review the institution's Income tax returns.
- (j) Review any other agreements entered into by the institution.
- (k) Review the related party transactions and disclose material transactions with promoters or management or subsidiaries or relatives, etc. that may have possible conflict with the interests of the institution.

5.12 In case there are any unusual transactions with the related parties, the internal auditor must ensure that the same are reported and disclosed in the financial statements. The internal auditor must check transactions regarding related parties relating to abnormal terms of trade, such as excessive salary, unusual prices, interest rates, vehicle logs, use of



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property of the institution, guarantees and repayment terms or transactions that lack an apparent logical business reason for their occurrence or those that are of high-volume or significant amounts with certain customers or suppliers as compared with others, for example an internal auditor can compare the remuneration payable to a trustee with the remuneration payable to the unrelated personnel employed within the institution having similar background, qualifications, experience, etc. Similarly the internal auditor can verify the interest paid by the institution to the key management personnel with regards to the interest rate charged by the financial institutions or third party in the similar circumstances.

5.13 The following documents must be placed for the consideration of the Audit Committee:

- (a) A statement of all related party transactions in the ordinary course of business.
- (b) Details of material individual transactions with related party which are not in the normal course of business.
- (c) Details of material individual transactions with related party which are not on an arm's length basis together with the management's justification for the same.

5.14 The reporting requirement of the entities may require disclosing the related party disclosures. The following instances in this context are relevant:

- (i) Accounting Standard (AS) 18, "*Related Party Disclosures*" prescribes the following disclosures in respect of the transactions with related parties:
  - (a) Name of the transacting related party;
  - (b) A description of the relationship between the parties;
  - (c) A description of the nature of transactions;
  - (d) Volume of the transactions either as an amount or as an appropriate proportion;
  - (e) Any other elements of the related party transactions necessary for an understanding of the financial statements;

### **Special Internal Audit Aspects in an Educational Institution**

- (f) The amounts or appropriate proportions of outstanding items pertaining to related parties at the balance sheet date and provisions for doubtful debts due from such parties at that date; and
  - (g) Amounts written off or written back in the period in respect of debts due from or to related parties.
- (ii) The *Companies Act, 1956* places significant emphasis on the concept of related parties and incorporates regulatory provisions for the same in various sections embodied in that Act. To illustrate:
- (a) Section 297 provides for Board's sanction in cases of contracts in which directors are directly or indirectly interested.
  - (b) Section 299 requires such interested directors to disclose their interest at Board meetings.
  - (c) Section 300 debars interested directors from voting on such resolution pertaining to matters in which they are interested.

### **Internal Auditor's Role in Statutory and Legal Compliances of an Educational Institution**

5.15 As per, Standard on Internal Audit (SIA) 17, "*Consideration of Laws and Regulations in an Internal Audit*", compliance with laws and regulations is an inherent part of the functioning of an entity. Since the role of an internal auditor is to carry out a continuous and critical appraisal of the functioning of an entity and suggest improvements thereto, the identification of non-compliance with laws and regulations is also an inherent part of his responsibilities. Thus, the scope of an internal audit is also affected by the statutory or regulatory framework in which the institution operates.

5.16 The internal auditor is required to consider at the time of planning and performing audit procedures as well as evaluating and reporting the results thereof, that any non-compliance by the institution with laws and regulations under which it operates may materially affect the financial statements and in some cases, may affect significantly the functioning of the institution. Yet, at the same time, that internal auditor cannot be expected to detect the non-compliance with all laws and regulations.

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5.17 An example of serious non-compliance with laws, in the case of educational institution could be non-compliance with the terms and conditions under which affiliations, registration, etc., was granted to the entity to operate as an educational institution. Such non-compliance could be so significant as to effect going concern assumption. To illustrate, the regulatory environment in India is oriented towards allowing educational institutions to be run only by not-for-profit organisations. Any violation of this basic character by engagement in activities with the purpose of profiteering would automatically result in withdrawal of affiliations from the regulatory bodies. Further, this would also mean loss of benefits in the shape of exemption of taxes such as Income Tax, Wealth Tax, Municipal Taxes, etc. which are normally granted only to charitable entities. Other illustrations of breach of terms may be charging of higher fees than prescribed or payment of salaries to teachers at a rate lower than prescribed. All this could mean withdrawal of registrations/affiliations, which would effectively lead to ceasing of operations. There might be violation of laws which may not be as serious but may have limited financial impact, such as penalties for unauthorised constructions, non filing of tax returns, etc. Further, the internal auditor must check the statutory compliances under the *Service Tax, the Prevention of Food Adulteration Act & Rules, 1954, Shop & Establishment Acts, VAT Acts* in case of establishment of a canteen.

## Internal Audit in an Information Technology Environment

5.18 According to Standard on Internal Audit (SIA) 14, "*Internal Audit in an Information Technology Environment*", the overall objective and scope of an internal audit does not change in an information technology (IT) environment. However, the use of a computer changes the processing, storage, retrieval and communication of financial information and the interplay of processes, systems and control procedures which may affect the internal control systems employed by the entity. The internal auditor should consider the following aspects in an information technology environment:

- (a) The extent to which the IT environment is used to record, compile, process and analyze information; and

### **Special Internal Audit Aspects in an Educational Institution**

- (b) The system of internal control in existence in the entity with regard to:
- The flow of authorised, correct and complete data to the processing centre;
  - The processing, analysis and reporting tasks undertaken in the installation; and
  - The impact of computer based accounting system on the audit trail that could otherwise be expected to exist in an entirely manual system.

5.19 The internal auditor should obtain an understanding of the significance and complexity of the IT activities and the availability of the data for use in the internal audit. This understanding would include such matters as:

- (a) The information technology infrastructure [hardware, operating systems and application software, etc.] used by the entity including changes, if any, therein since last audit.
- (b) The significance and complexity of computerised processing in each significant application.
- (c) Determination of the organisational structure of the client's IT activities and the extent of concentration or distribution of computer processing throughout the entity, particularly as they may affect segregation of duties.
- (d) Determination of the availability of data, source documents, and computer files.

5.20 The internal auditor should obtain an understanding of the IT environment and whether it influences the assessment of inherent and control risks. The internal auditor should evaluate the reliability of the internal control systems. The internal auditor should review whether the information technology system in the institution considers the confidentiality, effectiveness, integrity, availability, compliance and validity of data and information processed. The internal auditor should also review the effectiveness and safeguarding of IT resources, including people, applications, facilities and data. The internal auditor should review the robustness of the IT environment and consider any weakness or deficiency

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in the design and operation of any IT control within the institution, by reviewing various reports generated, physical access records, logical access controls, application controls, IT Policy, etc. If the internal auditor is not able to rely on the effectiveness of the IT environment, he may perform such substantive testing or test of IT controls.

5.21 Information Technology systems may generate reports that might be useful in performing substantive tests (particularly, analytical procedures). The potential for use of computer assisted audit techniques may permit increased efficiency in the performance of internal audit procedures, or may enable the auditor to economically apply certain procedures to the entire population of transactions.

### **Internal Audit using Computer Assisted Audit Techniques (CAAT)**

5.22 The major progress in the electronic data processing and a continuous development of range of internal auditing services have created a greater use of computers by the internal auditor to achieve his audit objectives more efficiently. Computers are useful where there is voluminous data and processing involved and statistical sampling is to be done. The tests which were previously performed manually by the internal auditor can now be done by the use of computer assisted audit techniques (CAAT). The computer assisted audit techniques help the internal auditor to improve the quality of audit as well as sharpen his capabilities to perform special reviews for management.

5.23 CAATs may be used in performing various auditing procedures, including the following:

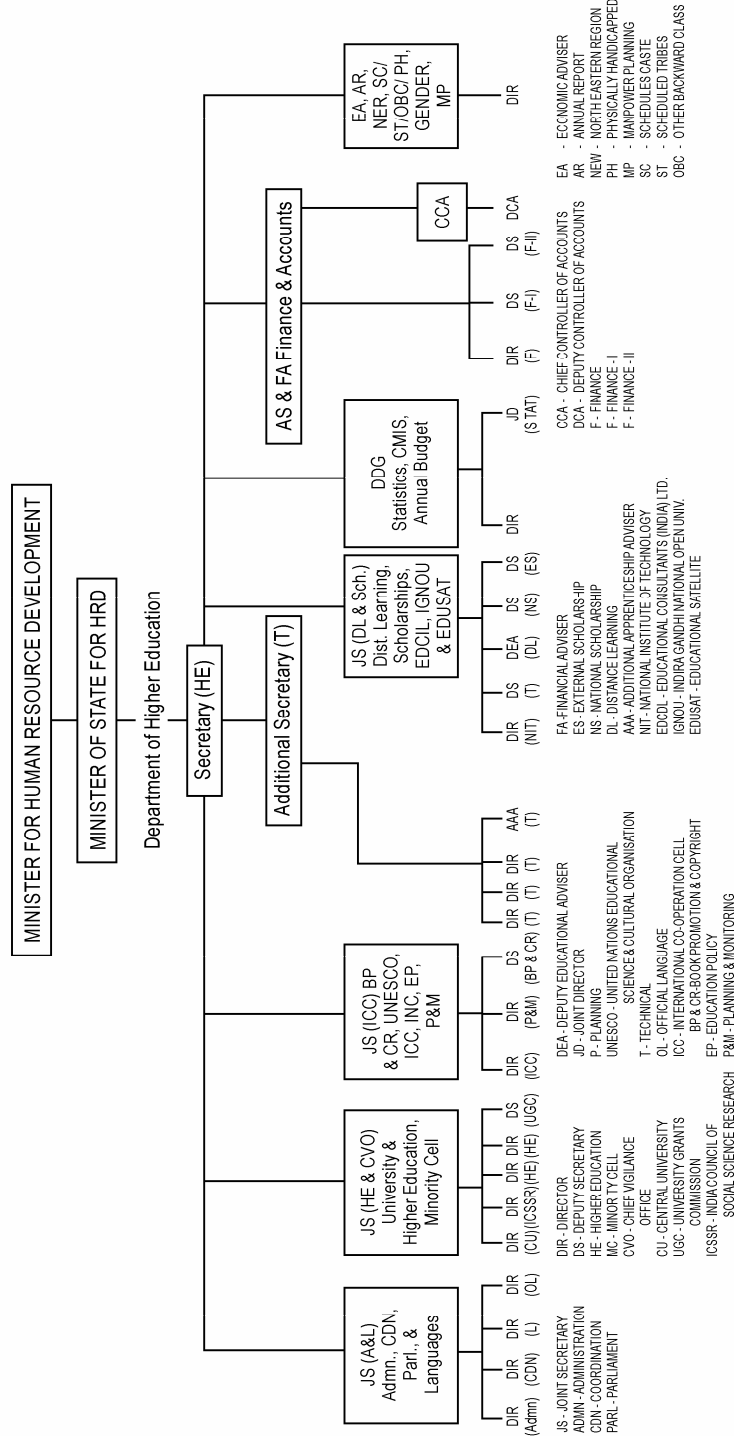
- (a) Tests of details of transactions and balances, for example, the use of audit for recalculating interest or the extraction of invoices over a certain value from computer records;
- (b) Extract analytical reports and perform analytical procedures, for example, identifying inconsistencies or significant fluctuations;
- (c) Tests of general controls, for example, testing the set up or configuration of the operating system or access procedures to the program libraries;

### **Special Internal Audit Aspects in an Educational Institution**

- (d) Sampling programs to extract data for audit testing, data sorting and charting;
- (e) Stratification of data - numeric, date, character;
- (f) Tests of application controls, for example, testing the functioning of a programmed control;
- (g) Re-performing calculations performed by the institution's accounting systems and confirmation of calculations;
- (h) Use of macros;
- (i) Aging analysis;
- (j) Detect duplicates and gaps;
- (k) Compare files for variances; and
- (l) Operate through a wide network of branches and departments, which are geographically dispersed.

# Appendix 1

## ORGANISATION CHART



Appendix 2

**Application for Registration under the Foreign  
Contribution (Regulation) Act, 1976 for the  
Acceptance of Foreign Contribution**

**Form FC – 8  
(see rule 3A)**

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Form of application for seeking registration with the Central Government under the Foreign Contribution (Regulation) Act, 1976 (hereinafter referred to as the Act) for the acceptance of foreign contribution by an Association having a definite cultural, economic, educational, religious or social programme

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No : \_\_\_\_\_ Date : \_\_\_\_\_

To

The Secretary to the Government of India,  
Ministry of Home Affairs,  
Jaisalmer House , 26 Man Singh Road  
New Delhi – 110011.

*Subject: Application for registration under the Foreign Contribution (Regulation) Act, 1976 for the acceptance of foreign contribution.*

Sir,

I, \_\_\_\_\_  
on behalf on the Association named hereafter apply for registration of the Association under clause (a) of sub – section (1) of section 6 of the Act for the acceptance of foreign contribution.

- 1 (i) Name of the Association and its complete postal address :  
Name  
Address  
Town / City  
District  
State  
Pin code



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- (ii) If the Association is a registered trust or Society please indicate its :
  - (a) registration number
  - (b) place of registration
  - (c) date of registration

*(certified copy of the registration certificate to be attached).*
- (iii) Nature of Association :
  - (a) religious (b) cultural (c) economic (d) educational (e) social

Note : If a religious Association, state whether (a) Hindu (b) Sikh (c) Muslim (d) Christian (e) Buddhist (f) Others.
- (iv) Please indicate :
  - (a) The main aim(s) and object(s) of the Association (enclose a copy of the Memorandum of Association and / or the Articles of Association, if applicable);
  - (b) the main object(s) and definite programme(s) for which the foreign contribution is to be accepted/ utilised;
- (v) Please furnish the names and addresses of the members of the Executive Committee/Governing Council etc. of the Association, including the Chief Functionary in the following manner

Sl. No	Name	Name of Father / Husband	Nationality	Occupation	Office held in the Association, if any	Relationship with office bearers, if any.	Address
1.	2.	3.	4.	5.	6.	7.	8.

- 2 Please indicate whether any member of the Executive Committee /Governing Council etc. of the Association, including the Chief Functionary has in the discharge of his /her official function :
  - (a) been convicted by any court of law;
  - (b) a prosecution for any offence pending against him /her;
  - (c) been found guilty of diversion or misutilisation of funds of the Association or any other association in the past.
- 3 Please indicate whether the applicant Association is a branch /unit /associate of foreign based organisation or another association already registered under the Act. If so, the name and address of the parent organisation.
- 4 Please indicate:
  - (i) whether the Association was:
    - (a) granted prior permission to receive foreign contribution under the Act in the past. If so, the number and date of the letter granting prior permission should be furnished;
    - (b) whether the account of the receipt and utilisation of the foreign contribution received above was sent to the Central Government in the prescribed form. If so, the date of submission of the accounts should be furnished;
  - (ii) whether the:
    - (a) Association has received foreign contribution without the prior permission under Act in the past. If so, full particulars of the foreign contribution received along with complete address of the bank branch and bank account number in which deposited should be furnished;
    - (b) Said violation has been condoned by the Central Government;
    - (c) Association has been prohibited from accepting foreign contribution under the Act.

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5. Please indicate whether the Association is functioning as editor, owner, printer or publisher of a publication required to be registered as "newspaper" under the Press and Registration of Books Act, 1867. If so, the details thereof.
- 6 Please indicate:
  - (i) whether the Association ever applied for registration under the Foreign Contribution (Regulation) Act, 1976, if so:
    - (a) the date of submission of application for registration;
    - (b) the number and date of the last communication, if any, received from the Ministry;
    - (c) whether registration was refused;
    - (d) whether application for registration is still pending.
  - (ii) whether the Association has close links with another association, or its unit or branch which has been:
    - (a) refused registration under the Act;
    - (b) prohibited from accepting foreign contribution.
- 7 Please furnish :
  - (i) details of the activities of the Association during the past three years;
  - (ii) Copies of the audited statement of accounts of the Association for the past three years;
  - (iii) Details of the area(s) of operation.
- 8 Please indicate whether the Association has been specified as an organisation of a political nature, not being a political party under section 5 of the Act. If so, the details of the notification should be furnished.
- 9 Please indicate :
  - (i) the name and address of the branch of the bank through which the foreign contribution shall be received;

**Appendix**

- (ii) Please specify the account number in the said branch of the bank.
- 9A Whether a recommendation certificate from the competent authority is attached (Yes / No).
- 10 Any other information which the Association may like to furnish.

Yours Faithfully

(Chief Functionary)  
for and on behalf of the Association  
(Name of the Association)

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### Declaration and Undertaking

The Association named here-in-above affirms that the information furnished above is correct and under-takes:

- (i) to inform the Central Government (Ministry of Home Affairs) within thirty days, if any, change takes place in regard to the name of the Association, its address, its registration, its nature, its aims and objects with documentary evidence effecting the change;
- (ii) to obtain prior permission for change of office bearer(s), if, at any point of time such change causes replacement of 50% or more of the office bearers as were mentioned in the application for registration under the Foreign Contribution (Regulation) Act, 1976 and undertakes further not to accept any foreign contribution except with prior permission till the permission to replace the office-bearer(s) has been granted;
- (iii) not to change the bank or branch of the bank without prior permission of the Central Government. The reasons for change of bank or branch of the bank shall have to be relevant and justifiable; and
- (iv) not to accept any foreign contribution unless it has obtained either the registration number, as applied for here in above, or prior permission of the Central Government under sub-section (1A) of section 6 of the Foreign Contribution (Regulation) Act, 1976.

(Chief Functionary)  
for and on behalf of the Association  
(Name of the Association)

Note:

- (i) The receipt of application for registration is not a commitment for grant of registration by the Central Government;
- (ii) An incomplete application i.e., without the required document/details /explanations is likely to be rejected summarily;
- (iii) In case of the space provided against any column is insufficient separate sheets should be attached; and

Please use **CAPITAL** letters.

### CERTIFICATE

This is to certify that \_\_\_\_\_ (name of the association) having its registered office at \_\_\_\_\_ (address) has been engaged in economic, educational, cultural, religious and social activities in the \_\_\_\_\_ (district) of \_\_\_\_\_ (state) for last \_\_\_\_\_ years.

2. It has undertaken welfare activities in the area and has incurred expenditure (excluding administrative expenditure) amounting to \_\_\_\_\_ (Amount in Rupees) during the last three years on its chosen \_\_\_\_\_ (Economic, Educational, Cultural, Religious and Social) field of activity.

3. The antecedents of the organisation have been verified and there is nothing adverse against them.

4. Grant of registration to aforesaid association to accept foreign contribution under the Foreign Contribution (Regulation) Act, 1976 is recommended.

(Recommending Authority)\*\*  
(With seal)

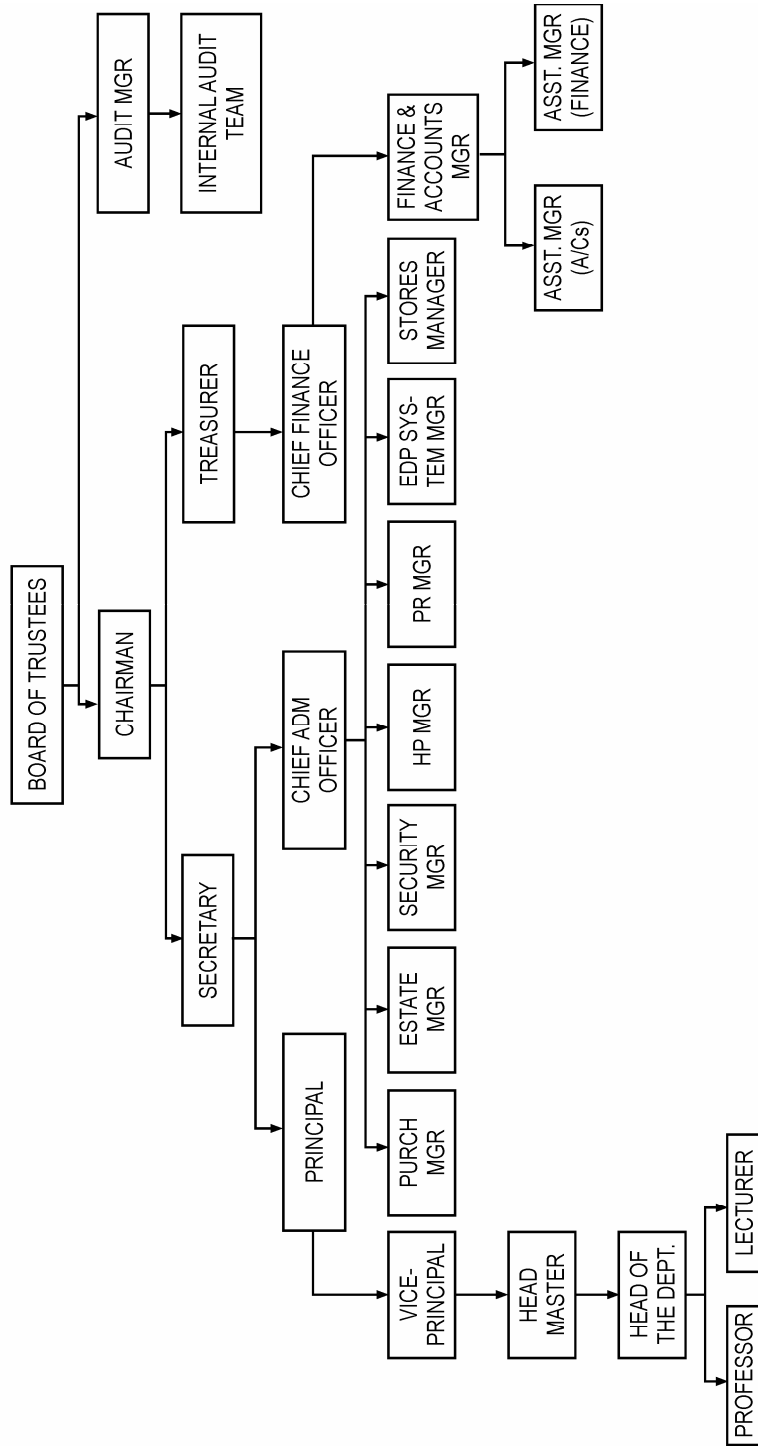
\* strike out whichever is not applicable

\*\* any concerned

- (1) Collector of District
- (2) Department of State Concerned
- (3) Ministry or Department of the Government of India \*

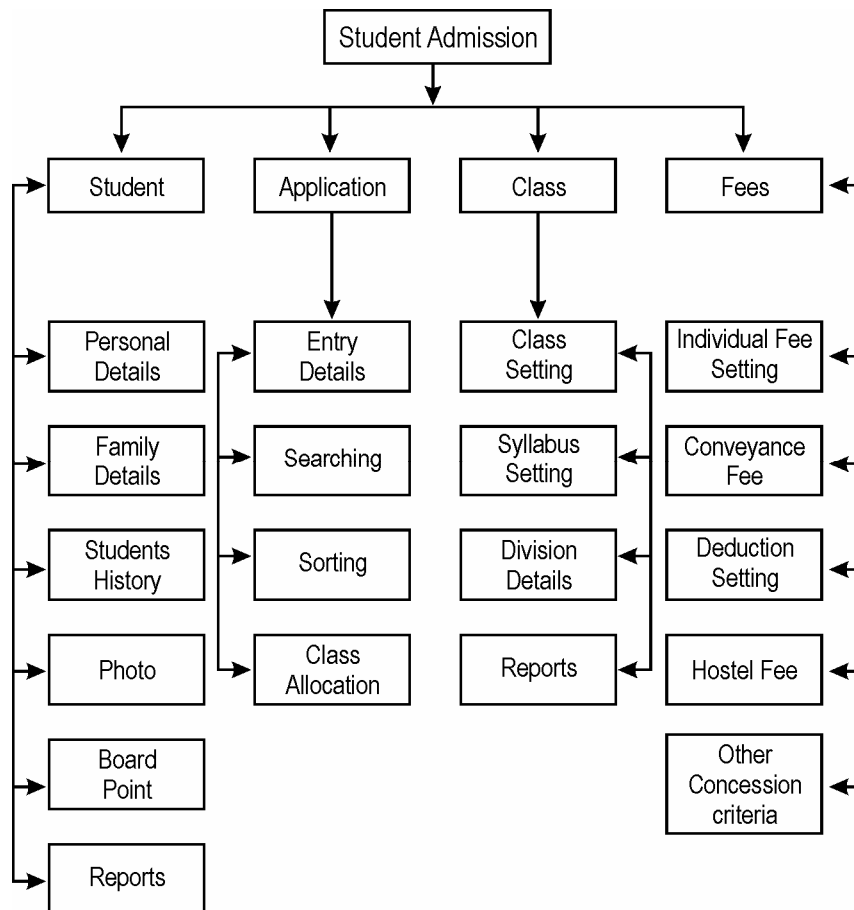
Appendix 3

Organisation Structure of an Educational Institution



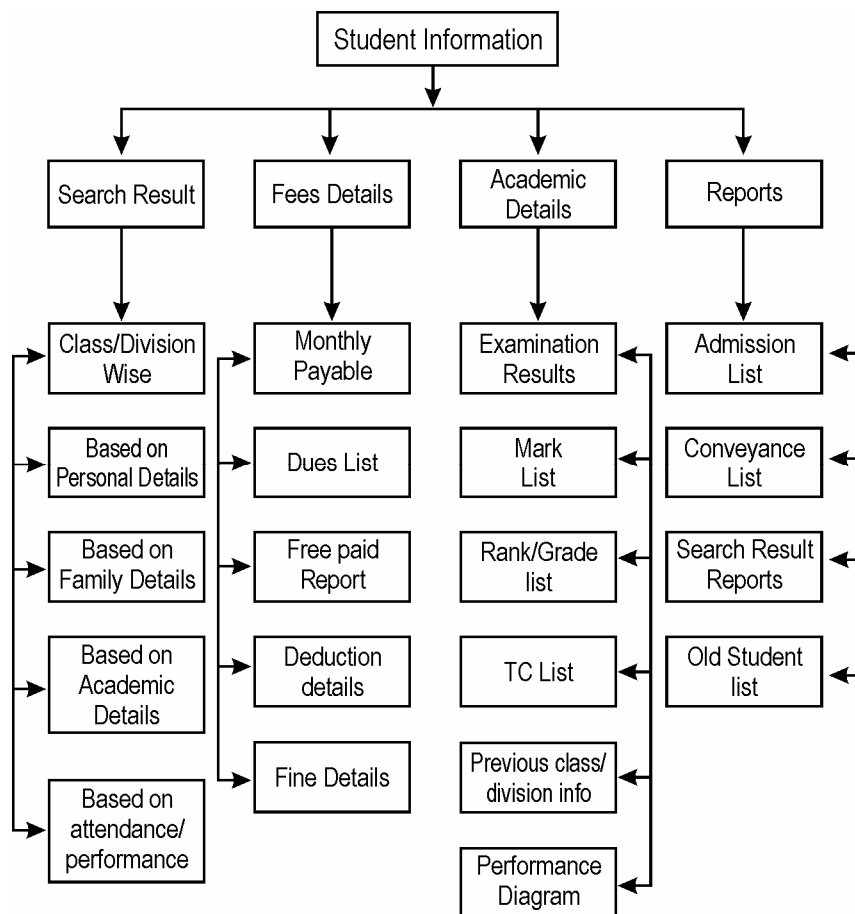
## Modules of Management Information System in an Educational Institution

### Student Admission System

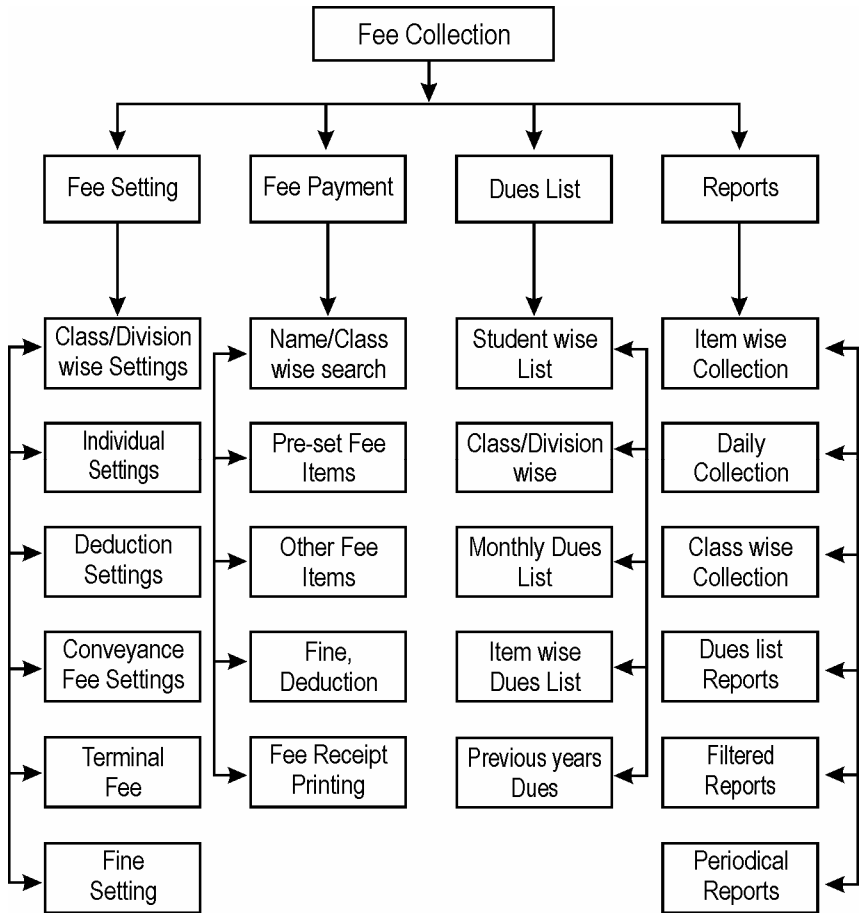




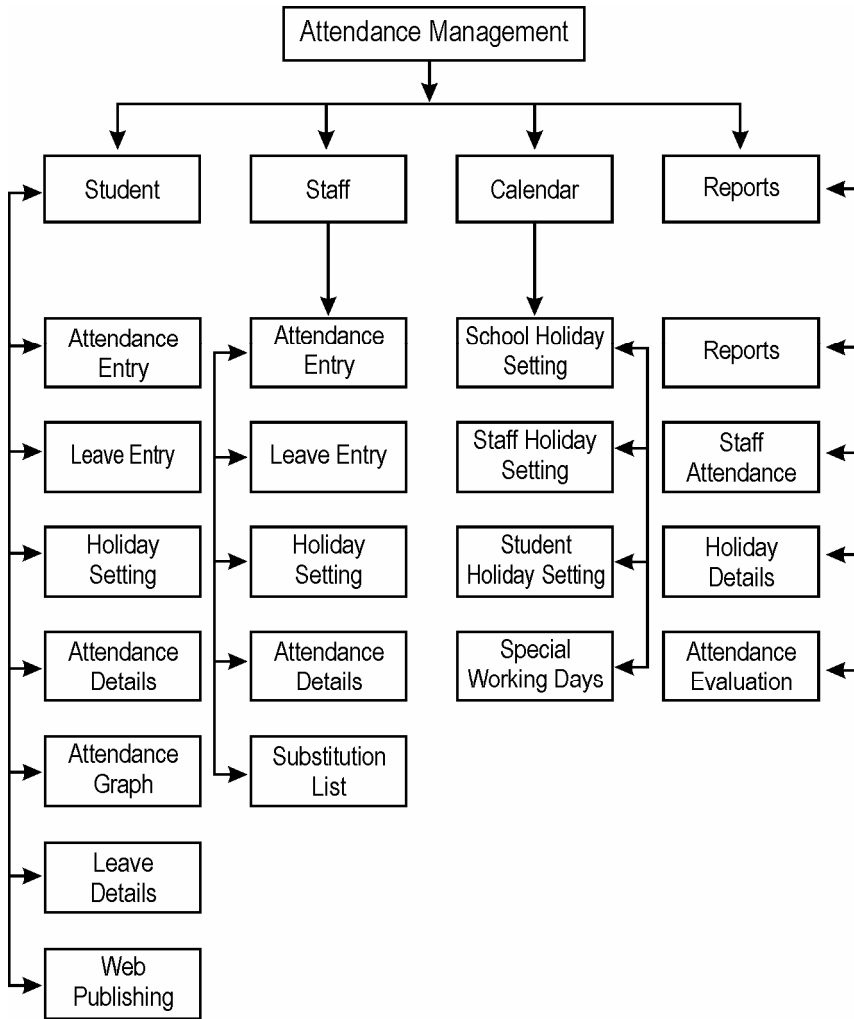
Student Information System



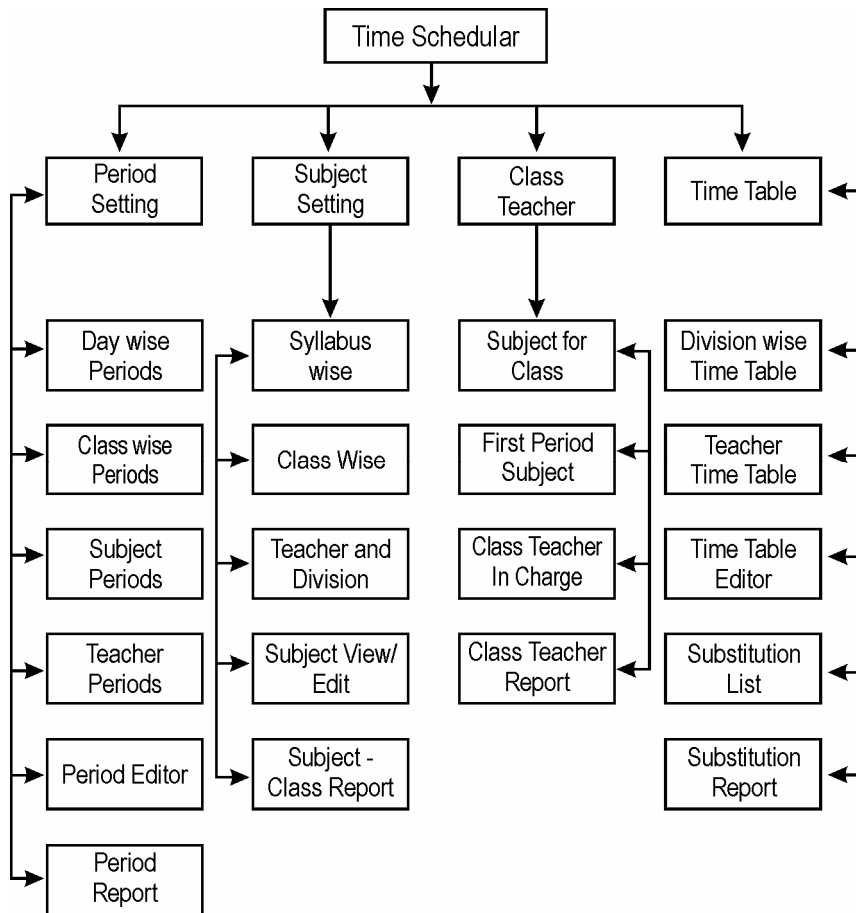
Student Fee Management System



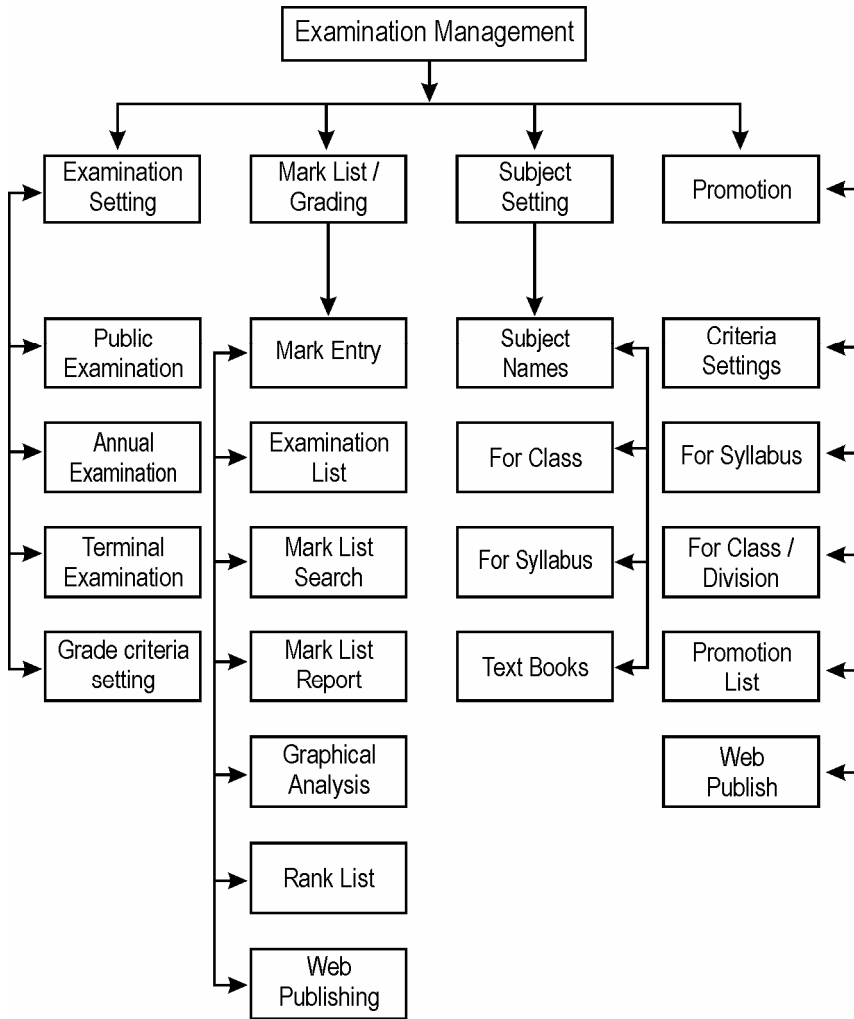
Attendance Management System



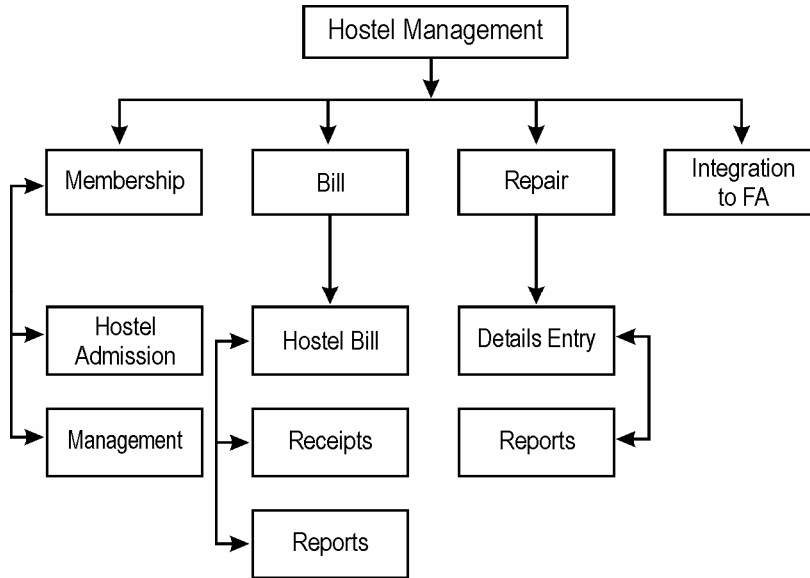
Time Table Generation System



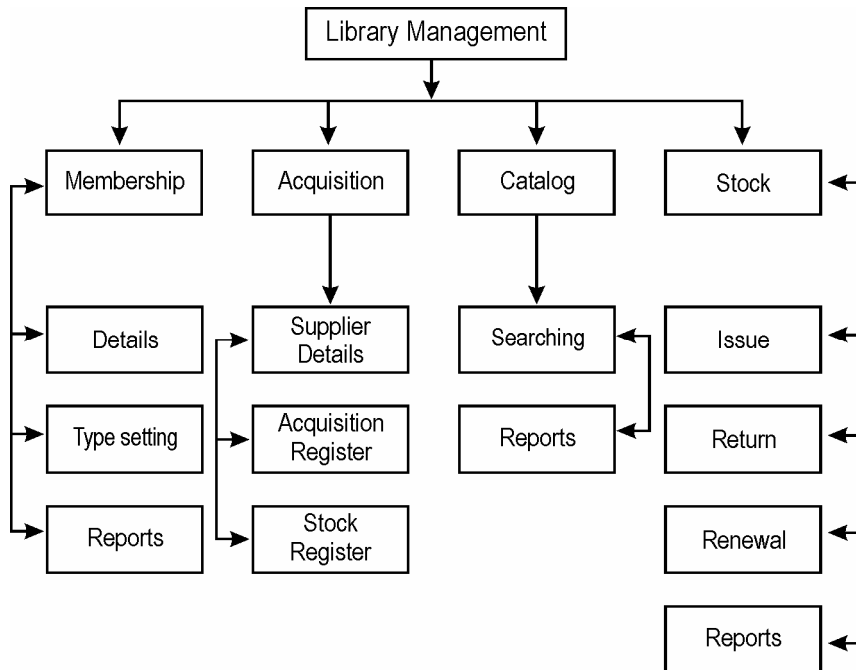
Examination Management & Result Analysis System



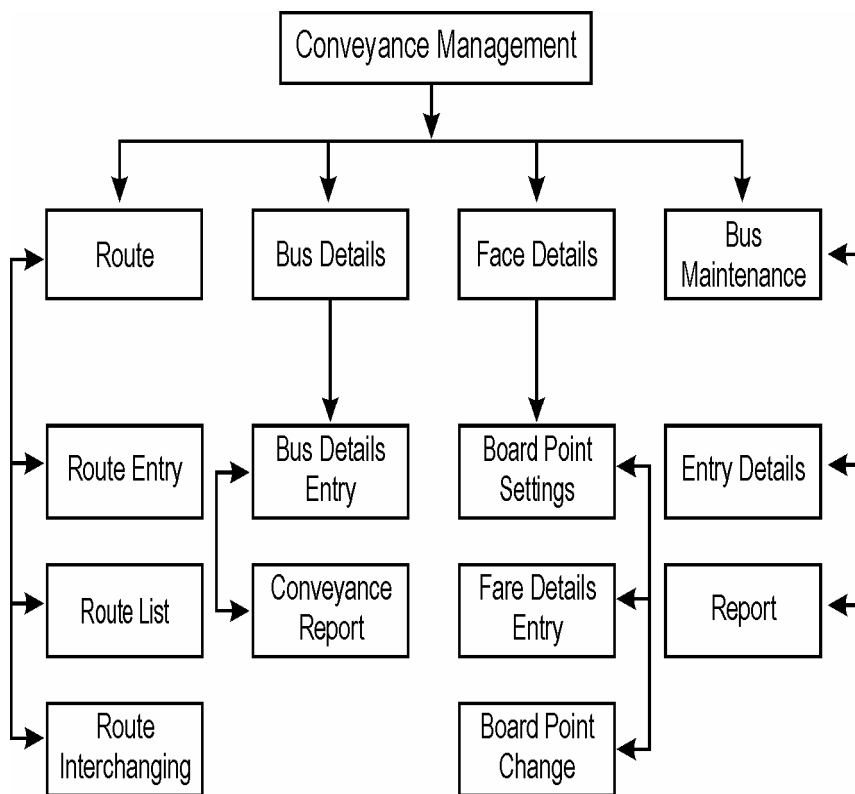
### Hostel Management System



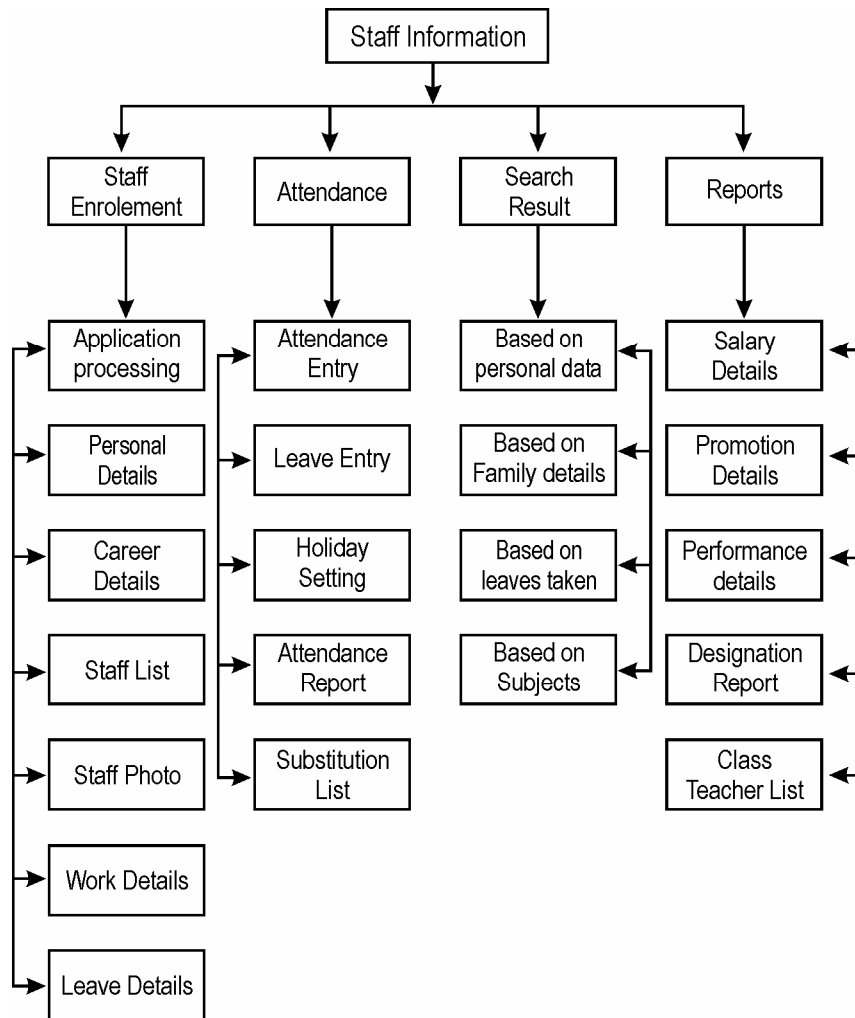
### Library Management and Automation System



Conveyance Management System

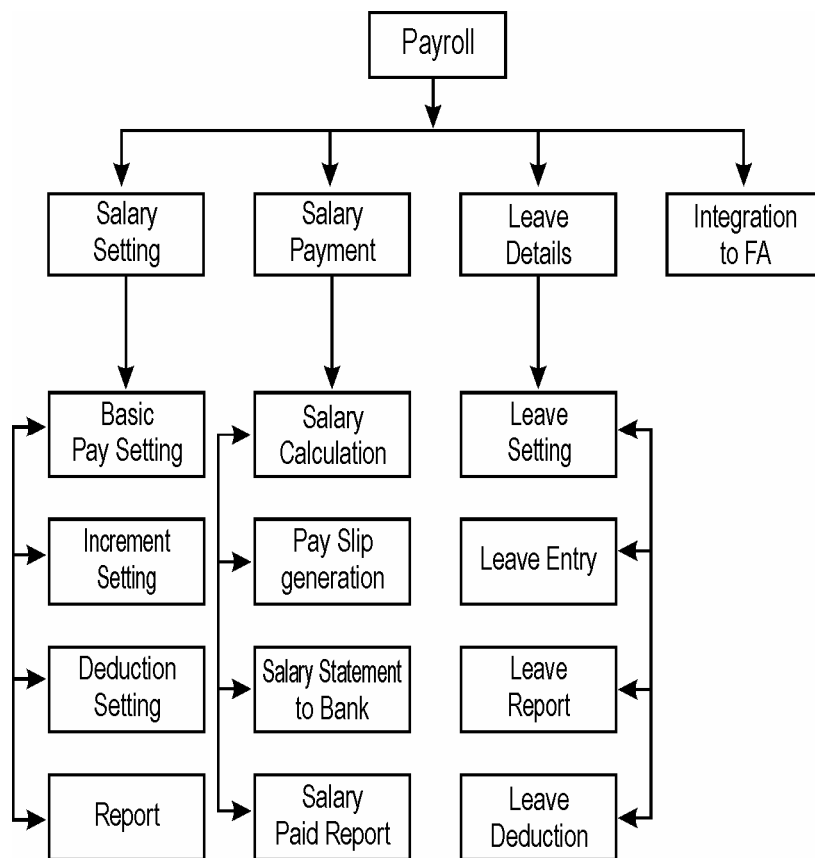


Staff Information System

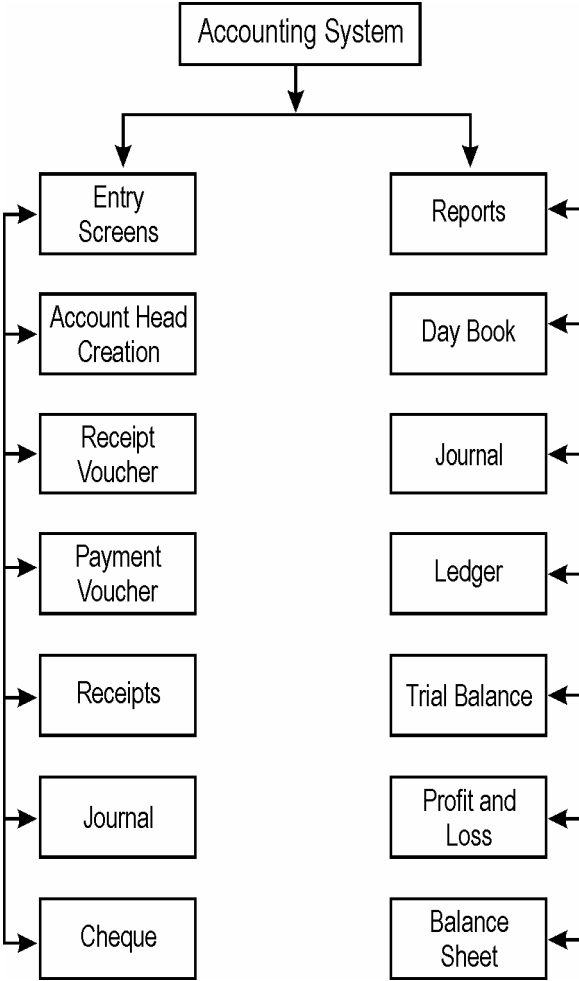




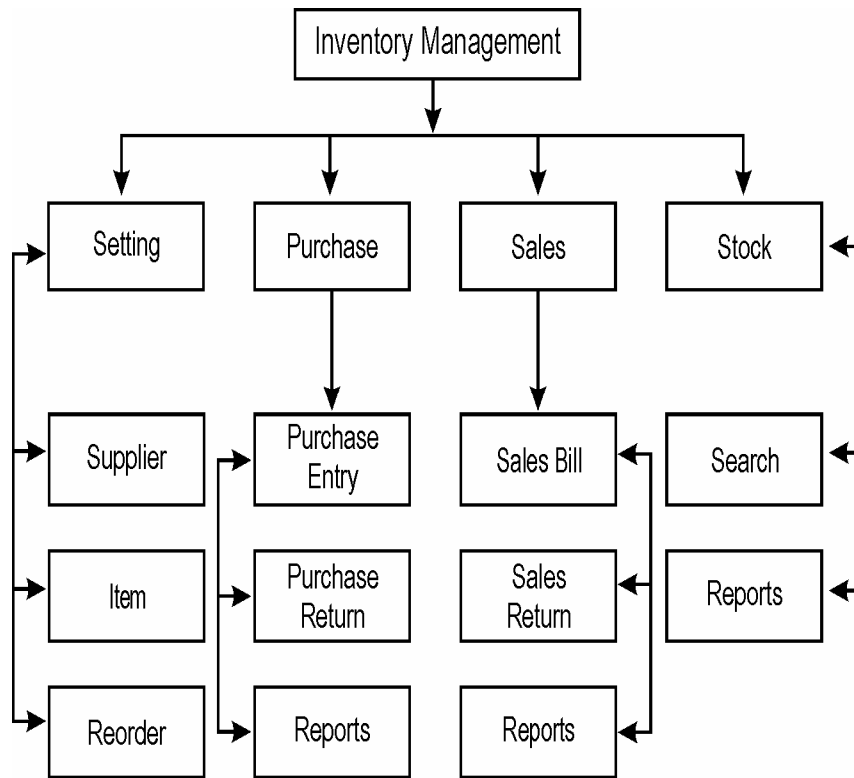
Payroll Management System



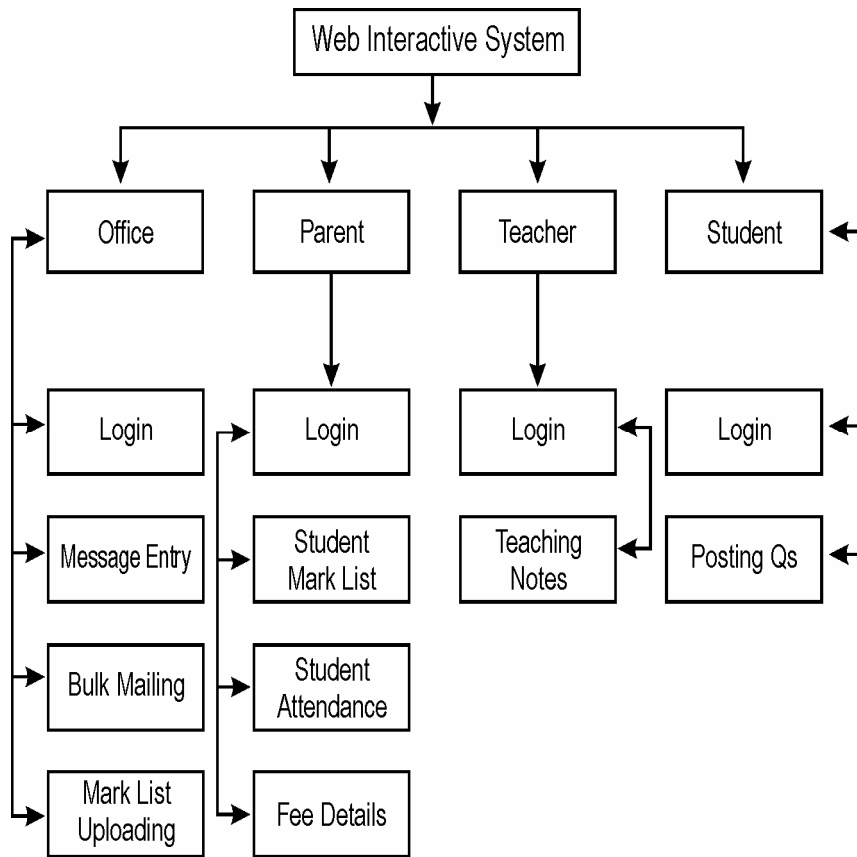
Financial Accounting System



Inventory Management System



Web Management System



### Reporting Format under Bombay Trust Rules, 1951

Report of an auditor relating to accounts audited under sub – section (2) of section 33 & 34 and rule 19 of the Bombay Public Trusts Act.

Registration No. \_\_\_\_\_

Name of the Public Trust \_\_\_\_\_

For the year ending \_\_\_\_\_

- (a) Whether accounts are maintained regularly and in accordance with the provisions of the Act and the rules;
- (b) Whether the receipts and disbursements are properly and correctly shown in the accounts;
- (c) Whether the cash balance and vouchers in the custody of the manager or the trustee on the date of audit were in agreement with the accounts;
- (d) Whether all the books, deeds, accounts, vouchers or other documents or records required by the auditor were produced before him;
- (e) Whether a register of movable and immovable properties is properly maintained, the changes therein are communicated from time to time to the regional office, and the defects and inaccuracies mentioned in the previous audit report have been duly complied with;
- (f) Whether the manager or trustee or any other person required by the auditor to appear before him did so and furnished the necessary information required by him;
- (g) Whether any property or funds of the trust were applied for any object or purpose other than the object or purpose of the trust;
- (h) The amounts of outstandings for more than one year and the amounts written off, if any;
- (i) Whether tenders were invited for repairs or construction involving expenditure exceeding Rs. 5,000/-;
- (j) Whether any money of the public trust has been invested contrary to the provisions of section 35;
- (k) Alienation, if any, of the immovable property contrary to the provisions of Section 36 which have come to the notice of the auditor;

## Appendix

- (l) All cases of irregular, illegal or improper expenditure or failure or omission to recover monies or other property belonging to the public trust or of loss or waste of money or other property thereof, and whether such expenditure, failure, omission, loss or waste was caused in consequence of breach of trust or misapplication or any other misconduct on the part of the trustees or any other person while in the management of the trust;
- (m) Whether the budget has been filed in the form provided by rule 16 A;
- (n) Whether the maximum and minimum number of the trustees is maintained;
- (o) Whether the meetings are held regularly as provided in such instrument;
- (p) Whether the minute books of the proceedings of the meeting is maintained;
- (q) Whether any of the trustees has any interest in the investment of the trust;
- (r) Whether any of the trustees is a debtor or creditor of the trust;
- (s) Whether the irregularities pointed out by the auditors in the accounts of the previous year have been duly complied with by the trustees during the period of audit;
- (t) Any special matter which the auditor may think fit or necessary to bring to the notice of the Deputy or Assistant Charity Commissioner.

---

Chartered Accountants

Dated at: \_\_\_\_\_

Auditors

**The Bombay Public Trusts Act, 1950**

**SCHEDULE - IX C**

(Vide Rule 32)

Statement of income liable to contribution for the year ending 31<sup>st</sup> March \_\_\_\_\_

Name of Public Trust: \_\_\_\_\_

Registered No. \_\_\_\_\_

	Amount / Rs.
I. Income as shown in the Income and Expenditure Accounts (Schedule IX)	
II. Items not chargeable to Contribution under Section 58 and Rules 32 :	
(i) Donations received from other Public Trusts and Dharmadas	
(ii) Grants received from Government and Local authorities	
(iii) Interest on Sinking or Depreciation Fund	
(iv) Amount spent for the purpose of secular education	
(v) Amount spent for the purpose of medical relief	
(vi) Amount spent for the purpose of veterinary treatment of animals	
(vii) Expenditure incurred from donations for relief of distress caused by scarcity, drought, flood, fire, or other natural calamity	
(viii) Deductions out of income from lands used for agricultural purposes: -	
(a) Land Revenue and Local Fund Cess	
(b) Rent payable to superior landlord	
(c) Cost of production, if lands are cultivated by trust	

**Appendix**

(ix) Deductions out of income from lands used for non-agricultural purposes:- (a) Assessment, cesses and other Government or Municipal Taxes (b) Ground rent payable to the superior landlord (c) Insurance premia (d) Repairs at 10 percent of gross rent of building (e) Cost of collection at 4 per cent of gross rent of buildings let out (x) Cost of collection of income or receipts from securities, stocks, etc. at 1 per cent of such income (xi) Deductions of accounts of repairs in respect of building not rented and yielding no income, at 10 per cent of the estimated gross annual rent	
Gross Annual Income chargeable to contribution Rs.	

Certified that while claiming deductions admissible under the above Schedule, the Trust has not claimed any amount twice, either wholly or partly, against any of the items mentioned in the Schedule, which have the effect of double-deduction.

\_\_\_\_\_  
Chartered Accountant

Dated: \_\_\_\_\_

\_\_\_\_\_  
Trustee

Trust Address:



**Form Yearly Account of Foreign Contribution  
Received and Utilised**

**Form FC-3**

[See rule 4(a)]

To

**The Secretary to the Government of India,  
Ministry of Home Affairs, Jaisalmer House, 26, Mansingh Road,  
New Delhi – 110011**

Account of Foreign Contribution for the year ending on 31<sup>st</sup> March \_\_\_\_\_

1. Associations details:
  - (i) Name and address (in Capital Letters):
  - (ii) Registration number and date [under the Foreign Contribution (Regulation) Act, 1976]:
  - (iii) Prior permission number and date, if not registered:
  - (iv) Nature of association: (1) Cultural (2) Economic (3) Educational (4) Religious (5) Social
  - (v) Denomination in case of religious association: (a) Hindu (b) Sikh (c) Muslim (d) Christian (e) Buddhist (f) Others
- 1A (i) Total amount of foreign contribution received during the year:
- (ii) Interest earned on the foreign contribution during the year -
  - (a) In the designated bank account:
  - (b) On investments made (Fixed Deposit Receipt etc.) during the year or in the preceding years:
2. Purpose(s) for which foreign contribution has been received and utilised:

(in rupees)

S.No.	Purpose	Previous balance		Receipt during the year					Utilised		Balance	
				As 1 <sup>st</sup> Recipient		As 2 <sup>nd</sup> / Subsequent Recipient						
		In Cash	In Kind (Value)	In Cash	In Kind (Value)	In Cash	In Kind (Value)	Total	In Cash	In Kind (Value)	In Cash	In Kind (Value)
1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.	13.
								(5+6+7+8)				

1. Celebration of national events (Independence / Republic day) / festivals etc.
2. Theatre / Films.
3. Maintenance of places of historical and cultural importance.
4. Preservation of ancient / tribal art forms.
5. Research.
6. Cultural shows.
7. Setting up and running handicraft centre / cottage and Khadi industry / social forestry projects.
8. Animal husbandry projects.
9. Income generation projects / schemes.
10. Micro-finance projects, including setting up banking co-operatives and self-help groups.
11. Agricultural activity.
12. Rural Development.
13. Construction and maintenance of school / college.
14. Construction and running of hostel for poor students.
15. Grant of stipend / scholarship / assistance in cash and kind to poor / deserving children.
16. Purchase and supply of educational material – books, notebooks etc.
17. Conducting adult literacy programs.
18. Education / Schools for the mentally challenged.
19. Non-formal education projects / coaching classes.

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20. Construction / Repair / Maintenance of places of worship.
21. Religious schools / education of priests and preachers.
22. Publication and distribution of religious literature.
23. Religious functions.
24. Maintenance of priests / preachers / other religious functionaries.
25. Construction / Running of hospital / dispensary / clinic.
26. Construction of community halls etc.
27. Construction and Management of old age home.
28. Welfare of the aged / widows.
29. Construction and Management of Orphanage.
30. Welfare of the orphans.
31. Construction and Management of dharamshala / shelter.
32. Holding of free medical / health / family welfare / immunisation camps.
33. Supply of free medicine, and medical aid, including hearing aids, visual aids, family planning aids etc.
34. Provision of aids such as Tricycles, calipers etc. to the handicapped.
35. Treatment / Rehabilitation of persons suffering from leprosy.
36. Treatment / Rehabilitation of drug addicts.
37. Welfare / Empowerment of women.
38. Welfare of children.

39. Provision of free clothing / food to the poor, needy and destitute.
40. Relief / Rehabilitation of victims of natural calamities.
41. Help to the victims of riots / other disturbances.
42. Digging of bore wells.
43. Sanitation including community toilets etc.
44. Vocational training – tailoring, motor repairs, computers etc.
45. Awareness Camp / Seminar / Workshop / Meeting / Conference.
46. Providing free legal aid / Running legal aid centre.
47. Holding sports meet.
48. Awareness about Acquired Immune Deficiency Syndrome (AIDS) / Treatment and rehabilitation of persons affected by AIDS.
49. Welfare of the physically and mentally challenged.
50. Welfare of the Scheduled Castes.
51. Welfare of the Scheduled Tribes.
52. Welfare of the Other Backward Classes.
53. Environmental programs.
54. Survey for socio-economic and other welfare programs.
55. Establishment expenses -
  - (i) Asset building:
    - (a) Establishment of Corpus Fund, and
    - (b) Purchase of land

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- (ii) Construction / Extension /  
Maintenance of office,  
administrative and other  
buildings salaries / honorarium
- (iii) Publication of newsletter /  
literature / books etc
- (iv) Other expenses

56. Activities other than those mentioned  
above (Furnish details).

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### Total

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**Caution:** Submission of false information or concealment of material facts shall attract the relevant provisions of the Foreign Contribution (Regulation) Act, 1976, warranting appropriate action.

3. Name and address of the designated branch of the bank and account number (as specified in the application for registration / prior permission or permitted by the Central Government).

A/c No:

Bank:

Branch:

Address:

4. Donor wise receipt of foreign contribution:

(in rupees)

Sl. No.	Institutional/ individual /other donors	Names(s) and address(es)	Purpose(s)	Date and month of receipt	Amount
1.	2.	3.	4.	5.	6.

- (i) Institutional donors
- (ii) Individual donors above  
Rupees one lakh
- (iii) Individual donors below  
Rupees one lakh  
(Only Column 4 and 6  
need to be filled)

---

Total

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**Appendix**

5. Country wise receipt of foreign contribution:

(in rupees)

Sl. No.	Name of the country	Amount
1.	2.	3.

Total

**Declaration**

I hereby declare that the above particulars furnished by me are true and correct. I also affirm that the foreign contribution has been utilised for the purpose(s) for which the association has been registered / prior permission obtained, to the best of my knowledge. I have not concealed or suppressed any fact.

Signature of the Chief Functionary  
(Name of the Chief Functionary  
and Seal of the Association)

Place:

Date:

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**(Certificate to be given by Chartered Accountant)**

I/We have audited the account of \_\_\_\_\_

\_\_\_\_\_  
(name of association and its full address including State, District and Pin Code, if registered society, its registration number and State of registration) for the year ending 31<sup>st</sup> March \_\_\_\_\_ and examined all relevant books and vouchers and certify that according to the audited account:

- (i) the brought forward foreign contribution at the beginning of the year was Rs \_\_\_\_\_;
- (ii) foreign contribution of/worth Rs \_\_\_\_\_ was received by the Association during the year \_\_\_\_\_;
- (iii) the balance of unutilised foreign contribution with the Association at the end of the year \_\_\_\_\_ was Rs \_\_\_\_\_;
- (iv) Certified that the Association has maintained the accounts of foreign contribution and records relating thereto in the manner specified in Section 13 of the Foreign Contribution (Regulation) Act, 1976 read with sub-rule (1) of rule 8 of the Foreign Contribution (Regulation) Rules, 1976.
- (v) The information in this certificate and in the enclosed Balance Sheet and Statement of Receipt and Payment is correct as checked by me/us.

Signature of Chartered Accountant  
With Seal, Address and  
Registration number.

Place:

Date:

(Notified in the Gazette of India Extraordinary vide GSR 557(E) dated 26<sup>th</sup> July 2001)

## Appendix 7

## Calculation of Application of Income for Charitable Purposes

For the Year ended March 31, 200X

		Amount (in Rs.)
<b><u>Receipt of Income</u></b>		
Gross Income as per Income and Expenditure Account	XXX	
Add: Income directly credited to Funds in Balance Sheet	XXX	
Add: Proceeds from Sale of Fixed Assets	XXX	
Less: Expenses incurred to earn income referred above	XXX	
<b>Income for the year ended March 31, 200X</b>	<b>XXX</b>	
<b>Less: Amount set apart u/s 11(1)(a) i.e. 15%</b>	<b>XXX</b>	
<b>Amount required to be spent (A)</b>		<b>XXX</b>
<b><u>Application of Income</u></b>		
Total expenses as per Income and Expenditure Account	XXX	
<b>Add:</b> Utilisation of amount lying in the Funds, which have not been routed through Income and Expenditure Account	XXX	
<b>Add:</b> Additions as per Fixed Assets Schedule	XXX	
<b>Application of income for the year ended March 31, 200X (B)</b>		<b>XXX</b>
<b>Shortfall in Application (A-B)</b>		<b>XXX</b>



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Details of Surplus/(Deficit)

Assessment Year	Total Income	Less: 15% of Income	Net amount required to be spent	Application of Income		Surplus/ (Deficit) before depreciation		Depreciation	Surplus/(Deficit) after depreciation	
				For Revenue purposes	For Capital purposes	(in Rs.)	(as %)		(in Rs.)	(as %)
2008-2009										
2007-2008										
2006-2007										
2005-2006										
2004-2005										
2003-2004										

## Appendix 8

## Sample Analytical Ratios in an Education Institution

## A. Financial Ratios

## Per-Student related Ratios

(i) Total Receipts per Student	=	$\frac{\text{Total Receipt}}{\text{Average No. of Students}}$
(ii) Tuition fees per Student	=	$\frac{\text{Tuition fees}}{\text{Average No. of Students}}$
(iii) Education Expenses per Student	=	$\frac{\text{Education Expenses}}{\text{Average No. of Students}}$
(iv) Mess Expenses per Boarder	=	$\frac{\text{Mess Expenses}}{\text{Average No. of Boarders}}$
(v) Transportation fees per Student	=	$\frac{\text{Transportation Fees}}{\text{Average No. of Students}}$
(vi) Area of Hostel per Boarders	=	$\frac{\text{Area of Hostel}}{\text{Average No. of Boarders}}$

## B. Non-Financial Ratios

## Staff Norms

(i) Student Teacher Ratio (for Theory Lecture Class)	=	$\frac{\text{No. of Students}}{\text{No. of Teachers}}$
<b>As per AICTE Guidelines</b>	=	60 times

## Technical Guide on Internal Audit of Educational Institutions

$$(ii) \text{ Student Teacher Ratio (for Tutorials)} = \frac{\text{No. of Students}}{\text{No. of Teachers}}$$

$$\text{As per AICTE Guidelines} = 20 \text{ times}$$

---

$$(iii) \text{ Student Teacher Ratio (for Lab. Practical/ Workshop/ Drawing)} = \frac{\text{No. of Students}}{\text{No. of Teachers}}$$

$$\text{As per AICTE Guidelines} = 15 \text{ times}$$

---

$$(iv) \text{ Student Teacher Ratio (for Project Work)} = \frac{\text{No. of Students}}{\text{No. of Teachers}}$$

$$\text{As per AICTE Guidelines} = 9 \text{ times}$$

---

$$(v) \text{ Non-Teaching Staff/ Teaching Staff Ratio} = \frac{\text{No. of Non-teaching Staff}}{\text{No. of Teaching Staff}}$$

$$\text{As per AICTE Guidelines} = 3 \text{ times}$$

### Infrastructure Norms

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$$(i) \text{ Plinth to Carpet Area} = \frac{\text{Plinth Area}}{\text{Carpet Area}}$$

$$\text{As per AICTE Guidelines} = 1.4 \text{ times}$$

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$$(ii) \text{ Classroom Carpet Area per student} = \frac{\text{Carpet Area of Classroom}}{\text{No. of Students}}$$

**Appendix**

<b>As per AICTE Guidelines</b>	<i>Minimum</i>	=	1.30 sq. mts.
	<i>Desirable</i>	=	1.50 sq. mts.

(iii) Drawing/Examination Hall Carpet Area per student	=	$\frac{\text{Carpet Area of Drawing/Examination Hall}}{\text{No. of Students}}$
---	---	---

<b>As per AICTE Guidelines</b>	<i>Minimum</i>	=	2.50 sq. mts.
	<i>Desirable</i>	=	2.50 sq. mts.

(iv) Laboratories Carpet Area per student	=	$\frac{\text{Carpet Area of Laboratories}}{\text{No. of Students}}$
--	---	---

<b>As per AICTE Guidelines</b>	<i>Minimum</i>	=	2.50 sq. mts.
	<i>Desirable</i>	=	2.50 sq. mts.

(v) Workshop Carpet Area per student	=	$\frac{\text{Carpet Area of Workshop}}{\text{No. of Students}}$
---	---	---

<b>As per AICTE Guidelines</b>	=	2.50 sq. mts.
--------------------------------	---	---------------

(vi) Library Carpet Area per student	=	$\frac{\text{Carpet Area of Library}}{\text{No. of Students}}$
---	---	--

<b>As per AICTE Guidelines</b>	=	1.67 sq. mts.
--------------------------------	---	---------------

**Sample Internal Control Checklist**

**An Illustrative Checklist Covering Aspects Important to Functioning of Educational Institutions**

S. No.	Particulars	Remarks
<b>1</b>	<b><i>General</i></b>	
1.1	Obtain and document an understanding of the internal controls present in the organisation.	
1.2	Obtain and document an understanding of whether the internal controls present in the organisation have been effective throughout the year.	
1.3	Are there any significant changes to internal control?	
1.4	If yes, obtain the evidence about the nature and extent of any changes and consider the significance and impact of changes.	
1.5	Perform additional tests of controls and assess risk.	
1.6	Obtain and document an understanding of any department's separately maintained records if they are of a significant amount and outside the normal transaction cycle.	
<b>2</b>	<b><i>Control Environment</i></b>	
2.1	Review the following documents: <ul style="list-style-type: none"> <li>➤ Mission/vision statement of the organisation</li> <li>➤ Strategic planning documents</li> <li>➤ Manual for policies and procedures</li> <li>➤ Organisational chart</li> <li>➤ Current delegations of authority</li> <li>➤ Recent job descriptions for key managerial personnel</li> <li>➤ Training records for key employees and listing of training programs</li> <li>➤ Performance targets</li> <li>➤ Chart of funds</li> </ul>	

	<ul style="list-style-type: none"> <li>➤ Management reports</li> <li>➤ Business continuity plans</li> <li>➤ List of key contacts for major activities</li> </ul>	
2.2	Are there any significant changes in the operations of the organisation during the last year (for example, turnover in key managerial personnel, new developments in information systems, changes to policies and procedures, etc.)?	
2.3	Are all key managerial personnel, faculty and staff members familiar with the policies, finance and accounting guidelines and procedures, and other relevant operating and compliance requirements?	
2.4	Does the management express the importance of integrity and ethical values including the statement of core values to all the faculty and staff members and do they follow the code of ethics?	
2.5	Does the management express the importance of good communication, collaboration, and team effort?	
2.6	Has the management established a mission statement, set goals, and developed plans to meet its objectives?	
2.7	Are all goals and plans periodically assessed?	
2.8	Does the management prepare performance targets?	
2.9	Are the prepared performance targets realistic and attainable?	
2.10	Are the performance targets periodically assessed?	
2.11	Do all the faculty members understand the organisational structure and lines of authority?	
2.12	Is there proper segregation of duties in all departments of the Institution?	
2.13	Are all transactions approved by the appropriate level of management as per Institution's policy?	
<b>3</b>	<b>Governance/Performance Review</b>	
3.1	Do the executive management in each department perform a regular review of academic and administrative	

**Technical Guide on Internal Audit of Educational Institutions**

	resource inputs and outputs to ensure intended quality and value for money is obtained?	
<b>4</b>	<b><i>Conflict of Interest</i></b>	
4.1	Is there formal policy of not purchasing goods or services from vendors where there is a personal interest?	
4.2	Does the institution ensure that no staff member supervises or controls the work of a close relative in accordance with institution's policy regarding nepotism?	
4.3	Does the institution inform employees of the conflict of interest implications of receiving gifts personally from vendors?	
<b>5</b>	<b><i>Reconciliations</i></b>	
5.1	Are all financial reports prepared on a periodic basis and reviewed by management?	
5.2	Are all significant accounts (in quantum or sensitivity) reconciled to supporting documentation and from external confirmations on a periodic basis?	
<b>6</b>	<b><i>Budget Status/Detail Activity Reports</i></b>	
6.1	Does the Financial manager review monthly reconciliation in sufficient detail to assure himself of the reasonableness and appropriateness of the income and expenses reported?	
6.2	Is the budget status/detail activity reports reconciled at least monthly by an individual who is adequately knowledgeable of institution's policies and ideally who does not - <ul style="list-style-type: none"> <li>➤ Have access to cash or checks,</li> <li>➤ Make purchases, or</li> <li>➤ Authorise payments.</li> </ul>	
6.3	Is comparison of source documents to detail activity reports, including personnel and operating expenses made?	
6.4	Identify transactions not yet recorded in the budget status/detail activity report to determine current funds available.	

<b>7</b>	<b><i>Information Technology</i></b>	
7.1	Does the institution take back up of critical information on a regular, periodic basis and store the back up media off-site?	
7.2	Is computer virus protection software on every machine installed and updated on a regular, periodic basis?	
7.3	Are appropriate licenses for each installation of a software package obtained?	
7.4	Is system access necessary for employees to perform required job duties granted to them?	
7.5	Does the system access ensure separate incompatible functions of custody, recordkeeping, and authorisation?	
7.6	Are passwords used to protect access to systems and applications?	
7.7	Are passwords changed frequently, at minimum every 90 days or when password has been compromised?	
7.8	Is there a prohibition of sharing of passwords?	
7.9	Is there a policy of logging off the system prior to leaving your workstation or utilise password protected screen savers with workstations that are logged in and unattended?	
7.10	Is the system access for terminated employees removed promptly?	
<b>8</b>	<b><i>Record Retention</i></b>	
8.1	Are all departmental financial records, including all reports, reconciliations and supporting transaction documentation retained for the required number of years in accordance with institution's policy?	
8.2	Are institutions' policies and procedures for record retention followed?	
8.3	Are departmental records stored in a secured area?	
<b>9</b>	<b><i>Physical Access Controls</i></b>	
9.1	Are keys controlled to allow employees access to only the areas required to perform their job duties?	



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9.2	Are locks changed if terminating employees do not return keys?	
9.3	Are combinations and pass codes changed when employees with access terminate employment or when the combinations and pass codes have been compromised?	
<b>10</b>	<b><i>Signature Authority</i></b>	
10.1	Is signature authority delegated only to the supervisory level?	
10.2	Is every person prohibited from authorising his/her own payroll, procurement, travel reimbursement, or requisition documents?	
10.3	Are delegations of signature authority, including limitations of scope and duration documented?	
10.4	Determine which employees are authorised to sign- <ul style="list-style-type: none"> <li>➤ Payroll documents,</li> <li>➤ Procurement documents,</li> <li>➤ Travel reimbursements, and</li> <li>➤ Material and supply requisitions.</li> </ul>	
10.5	Is list of the department's authorised signers maintained and periodically updated?	
10.6	Do all employees with signature authority understand their responsibility?	
<b>11</b>	<b><i>Fixed Assets</i></b>	
11.1	Are all purchases of fixed assets made in accordance with institution's policy?	
11.2	Is there a proper utilisation of appropriate account codes for Fixed Assets purchases? <ul style="list-style-type: none"> <li>➤ Capital expense account codes for Fixed Assets with a useful life of more than one year.</li> <li>➤ Operating expense account codes for non-capital Fixed Assets with a useful life of more than one year.</li> </ul>	
11.3	Are all Fixed Assets tagged with a permanent and easily visible Institution's property tag?	

11.4	Are all Non-capital Fixed Assets tagged at the department's request, particularly items that are vulnerable to theft or misappropriation, e.g., computer equipment, audio-visual equipment, cameras, etc.	
11.5	Are all moveable equipment secured to prevent theft or misappropriation?	
11.6	Is annual inventory of all fixed assets performed?	
11.7	Is document in writing equipment removed from campus by employees, maintained acknowledging receipt and responsibility for return of the equipment?	
11.8	Are all fixed assets lost or stolen notified to the Fixed Assets Manager?	
11.9	Are all obsolete fixed assets disposed of in accordance with institution policy?	
11.10	Document the transfer of custody of equipment when fixed assets are moved into or out of your unit.	
<b>12</b>	<b><i>Procurement</i></b>	
12.1	Are all purchases - <ul style="list-style-type: none"> <li>➤ Properly authorised,</li> <li>➤ Sufficiently documented, and</li> <li>➤ Appropriate for institution purposes.</li> </ul>	
12.2	Are competitive prices for purchases obtained, where applicable?	
12.3	Follow Purchasing policies and procedures for procuring goods and services <i>via</i> - <ul style="list-style-type: none"> <li>➤ Obtain Purchase Order for goods and services</li> <li>➤ Obtain Quotations for goods or services</li> <li>➤ Direct Pay for small purchases</li> <li>➤ Petty Cash Reimbursement for expenses incurred on behalf of the institution by an employee.</li> </ul>	
<b>13</b>	<b><i>Safeguarding of Assets</i></b>	
13.1	Are all assets purchased by the department- <ul style="list-style-type: none"> <li>➤ Safeguarded</li> </ul>	

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	➤ Reviewed to ensure proper insurance cover is maintained.	
<b>14</b>	<b><i>Independent Contractors</i></b>	
14.1	Is the Human Resources director contacted before hiring the services of any individual?	
14.2	Is Personal Services Contract purchase order made for independent contractors?	
14.3	Are Human Resources procedures followed to employ individuals who do not meet the criteria for an independent contractor?	
<b>15</b>	<b><i>Cash Handling (Including Checks and Credit Card Payments)</i></b>	
15.1	Are there separate duties of preparing invoices from collecting cash?	
15.2	Do the supervisors monitor employees who handle cash?	
15.3	Is there a method to secure cash and checks received at all times?	
15.4	Does the institution provide pre-numbered receipts to all remitters of cash?	
15.5	Is there a prohibition of payments from funds collected?	
15.6	Does the person-in-charge deposit all cash daily at Billings & Collections?	
15.7	Is there a creation of following supporting documentation of cash collected- ➤ Copy checks. ➤ Maintain a cash receipt log with name of payer, amount, and purpose of payment.	
15.8	Is cash received reconciled daily (cashier closeout) by - ➤ Dual count cash in the presence of the individual who collected the cash and another independent individual. ➤ Ensure that the change fund is intact (if applicable). ➤ Account for all pre-numbered receipts. ➤ Prepare a reconciliation worksheet signed by both the	

	counters that details the cash received, change fund, and pre-numbered receipts used.	
15.9	Are deposits reconciled to the monthly budget status/detail activity reports by - <ul style="list-style-type: none"> <li>➤ Compare source documents—check copies, cash receipt log, reconciliation worksheet, and billings &amp; collections deposit receipt—to the deposits recorded in the detail activity report.</li> <li>➤ Investigate immediately any differences noted during reconciliation.</li> <li>➤ Monitor over/short trends.</li> </ul>	
15.10	Is there rotation of duties among other staff?	
<b>16</b>	<b><i>Personnel/Payroll</i></b>	
16.1	Does the Financial manager review labor distribution reports following each payroll to ensure that individuals and amounts listed are correct?	
16.2	Are all Human Resources procedures relating to employment followed before committing to hire an individual?	
16.3	Are references checked and education of candidates verified prior to offering employment?	
16.4	Are the duties of hiring, terminating, and approving promotions separate from preparing and submitting time records.	
16.5	Are confidential personnel and payroll records, especially those containing names, social security numbers, and dates of birth documented and secured?	
16.6	Is Pre-approval of overtime in writing in accordance with institution's policy obtained?	
16.7	Are actual hours worked and actual leave taken reported?	
	<ul style="list-style-type: none"> <li>➤ Approval of hours worked for employees by having both the employee and the supervisor best able to verify the hours worked sign the time card.</li> <li>➤ Approval of leave taken by employees by having both the employee and the supervisor sign the leave request.</li> </ul>	

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16.8	Are time records to Payroll delivered in a sealed envelope?	
16.9	For terminating employees, does the institution - <ul style="list-style-type: none"> <li>➤ Notify Human Resources to remove the employee from payroll.</li> <li>➤ Notify the appropriate person to remove computer system access.</li> <li>➤ Collect keys and other access devices.</li> <li>➤ Change combinations or pass codes used by the employee.</li> <li>➤ Account for all institution's assets assigned to the employee.</li> </ul>	
<b>17</b>	<b><i>Donations/Gifts</i></b>	
17.1	Is the appropriate authority notified when monetary and non-monetary gifts are received or anticipated?	
<b>18</b>	<b><i>Entertainment</i></b>	
18.1	Are only guests external to the institution entertained for business purposes, in accordance with institution's policy?	
18.2	Are the documentation of all entertainment expenses maintained in accordance with the - <ul style="list-style-type: none"> <li>➤ Name and title of person with authority to incur and assuming responsibility for the expense,</li> <li>➤ Nature of the activity and business purpose,</li> <li>➤ Names, official titles, and affiliations of all persons for whom the expenses are incurred, and Original itemised receipts.</li> </ul>	
<b>19</b>	<b><i>Travel</i></b>	
19.1	Are all required travel authorisation obtained for out-of-state travel from the traveler's supervisory authority prior to committing any funds?	
19.2	Are all Travel Expense Vouchers submitted for all reimbursable expenses in accordance with institution policy?	
19.3	Are all traveling reimbursement authorised with signatures of the traveler, financial manager, and supervisory authority?	