



[About the
Modules](#)

[Preface](#)

[General
Introduction](#)

[Contents](#)

[Introductory
Module](#)

[Module One](#)

[Module Two](#)

[Module Three](#)

[Module Four](#)

[Module Five](#)

[Module Six](#)

[Module Seven](#)

[Copyright](#)

[Home](#)

[Visit our
website](#)

MODULE FIVE

UNIT SIX

Auditing of School Account Books

Introduction

The earlier units covered five major areas within the general subject of management of school funds. These included the identification of sources of school funds, concepts and skills in budgeting for school income and expenditure, the mobilisation of financial resources, the management and control of school expenditure and proper school book keeping.

In this unit, we will analyse the objectives and types of school accounts auditing and discuss the stages in the process involved.

Individual study time: 7 hours

Learning outcomes

By the end of this unit you should be able to:

- explain the reasons and purposes for auditing accounts
- describe your expectations of the school accounts auditor
- list the types of school auditing, the records and books of accounts used for audit purposes
- respond to audit queries
- read an audit report

Reasons and purposes of auditing school accounts

Auditing school accounts is the final stage in the process of managing school funds. At the end of each financial year or budget period the school head has a statutory responsibility to prepare and present to the school governing bodies an audited financial report.

This should give a true and fair view of the financial position of the school.

Activity 6.1

Look up the following and study them carefully

- (1) Sections in the government regulations outlining the functions of school governing bodies with regard to financial accountability.
- (2) Relevant financial regulations, principles and practices of the Department or Ministry of Education.

Comments

In many countries, financial accountability is one of the major responsibilities of the school board of governors/directors and the school head. Government statutes usually include sections outlining the financial principles and practices which boards and heads must follow to achieve accountability for the funds they collect and receive to run their schools.

The Ministry of Education also issues financial regulations from time to time whereby audited accounts of a given financial period must be submitted to facilitate financial decisions on, for example, allocation of grants, giving loans.

The main objective of auditing is to enable the auditor to form an opinion on the accuracy of the financial statements prepared by the school for a given period. Auditing also helps the head improve the school's accounting system. The secondary objective of auditing is to detect or prevent errors. Auditing therefore enhances the head's skills in financial management and evaluates his or her performance.

Activity 6.2

Revise Units 3 - 5 and write simple definitions of the following common terms in accounting:

Accounts	Journal
Account Books	Financial Statement
Bank Reconciliation	Receipt Book
Balance Sheet	Store Ledger
Budget	Voucher
Cash Book	Ledger
Cheque	Vote Book
Invoice	

30 minutes

Comments

Auditing is a process whereby all accounts of the school are examined and evaluated in detail by a competent auditor in order to determine and report on the financial standing of the school for the period under review. A school audit of financial statements also establishes the credibility of the accounting records as specified in the statutory accounting principles and practices. To understand the audit process you should know the common books in accounts which are the key records used in auditing.

Activity 6.3

- (1) Why does the head have to submit an audited account of school funds to the school governing bodies at the end of each financial year?
- (2) Give reasons why auditing of school accounts is necessary.

(3) Make a list of the accounts books and records you would consider relevant for audit purposes.

30 minutes

Comments

The auditor officially examines and verifies the books of accounts and writes a final report which gives a true and fair view of the financial status of the school. Once the books of accounts have been examined and verified, the findings reflect the fact that the financial transactions were made and recorded according to accepted principles and practices.

Qualified auditors are the only ones authorised to examine and verify the books of accounts of any formal organisation. They are skilled in the techniques of auditing and they are governed by international professional ethics.

Expectations of the school accounts auditor

A school head has a statutory responsibility to prepare and submit financial statements which give a true and fair view of the financial standing of the school. As you have already learnt, that can only be achieved through auditing the school accounts.

In this section you will learn about:

- the professional and personal qualifications of an auditor
- the process involved in engaging a school accounts auditor
- the relationship between an auditor and the school
- the information required for audit purposes.

Activity 6.4

(1) What do you understand by the phrase 'a true and fair view' of the financial standing of the school?

(2) Who would be most qualified to give that opinion about your school finances?

15 minutes

Comments

Auditing of school accounts must be done with reasonable care and skill. The auditor must be professionally trained and qualified with an independent mental attitude about the school. He or she must have reputable and known personal qualities which would support his/her opinion about the school financial statements.

School boards of governors are corporate bodies and by statute they are responsible for engaging auditors through the terms of a formal contract which is binding to both parties. The contract with the auditor must state clearly the tasks expected, the terms of payment and date when the report must be completed and submitted to the board. The auditor should not have any vested interest in the school and the contract should be between him/her and the board, but not with the school head.

After signing the contract the school head must submit to the auditor all accounts, records and books to facilitate his/her work. In addition, you should include all relevant evidence to enable the auditor to draw conclusions on the state of the school accounts. You should also be ready to give oral evidence and to allow any inspection of assets which the auditor may consider necessary. A thorough knowledge of the school's financial environment, for example, regulations, principles and practices, mechanisms of control and the school budget, on the part of the head will greatly enhance the work of the auditor. Auditors are in a highly privileged position and have statutory rights to demand such information and explanations as they consider necessary for the purpose of auditing.

Activity 6.5

Pay a visit to one of the auditing firms or audit section of the Ministry of Education and find out about the routine functions of the staff in the section or firm. Study also the general procedures used in auditing small company's accounts. This will give you some general knowledge on the subject of auditing.

1 day

Types of auditing

There are two types of auditing.

Internal auditing

Internal auditing is usually a management activity and is a service intended to ensure regular and frequent checking on a school's financial transactions and records. An internal auditor is normally an employee of the school, for example a deputy head, whose main role is to supervise the accounts staff to ensure efficiency in the day to day management of the school finances. It also serves to check whether all financial transactions have taken place according to budget, to set procedures, and following management policies. The objectives of internal auditing may differ from school to school, but the general aim is to promote efficiency in the school's financial control and management.

Some schools are small entities where internal auditing may not be necessary, especially where the accounts staff is competent. In any case, the school head is directly involved in authorising and approving expenses and signing cheques, and the finance committee of the board may inspect and carry out internal control of the funds.

External auditing

This gives an independent report on the financial performance of the school in accordance with the terms of the contract agreed with the school. The focus of external auditing is on establishing the truth and fairness of the accounts. It gives added credibility to unaudited financial statements and records of the school's financial transactions and confirms their compliance to the statutes.

Activity 6.6

Considering the nature of your school financial transactions:

- (1) Draw up a schedule for internal auditing of your school accounts.
- (2) State three reasons why you would engage/employ an internal auditor.
- (3) Describe the difference between internal auditing and external auditing.

30 minutes

Comments

It has been noted already that internal auditing is to ensure regular and frequent checking of the financial transactions of the school. A schedule for internal auditing should indicate and outline the objectives, the procedures to be followed, the frequency and the methods of communicating or reporting the information to management.

An internal audit report should point out areas of weakness and strength in the accounts records and books and draw the attention of management to any irregularities in the transactions. Information from internal auditing must be reliable, complete and available on call to enable the head and the board to make quick decisions where necessary.

The functions of internal auditing and external auditing may seem to overlap but it should be noted that the former is a management measure to ensure daily efficiency in managing school funds, while the latter evaluates the adherence to the accepted principles, practices and statutory provisions of management in financial transactions. However, internal auditing if properly done will cut down on the cost of external auditing and greatly enhance the process.

Records and books of accounts for external auditing

Activity 6.7

- (1) Make a list of the records and books of accounts you keep in your school
- (2) Consider any other information that may be relevant in the auditing process of the school accounts and state why that information is relevant.

30 minutes

Comments

Governing bodies of schools depend on financial statements as a basis for financial decision-making. Accounts and records are therefore very significant to the auditor who reviews the school's systems of accounting to give his/her professional opinion about the state of the accounts of the school.

Although many auditing procedures are designed to test accuracy in accounting and to reveal manipulations which would conceal the true financial situation, the main aim in applying such procedures is to prove that the accounts are acceptable and to give a true and fair view of the school's financial standing, not to find faults.

The auditor's report is reached by a process of examining and evaluating all documents or evidence pertaining to the financial transactions of the school. In a school, books of accounts are usually written and kept by the bursar.

A primary record in the school's financial statements is the General Ledger. This consists of figures and records from various journals which give the daily records of the financial transactions in the school.

A Cash Book, where the daily cash income and expenditure is recorded, forms one of the primary sources of evidence that the auditor examines in the process of auditing. It states the date, the cash received or spent, a full description of what is bought and the actual cost of the items bought, details of the payment voucher and number of the cheque. A petty cash voucher may also be used along with the Cash Book. Almost all assets, liabilities, income and expenses clear through the cash account, and the auditors will spend time carefully examining the Cash Book to establish the validity and reliability of other financial statements.

Payment vouchers, purchase invoices, receipts books, books of inventories and cheque books are primary documents which must be submitted to the auditor for verification, inspection and evaluation before a report is written and an opinion is given on the school's accounts.

Bank reconciliations and bank statements which compare the balance in the bank with that shown in the school's records can reveal book keeping errors either by the bank or by the school clerk as well as unauthorised withdrawals. These should be submitted along with other documents for auditing.

Activity 6.8

- (1) Study a sample of a Cash Book and list all the information that is found or recorded in it.
- (2) Give reasons for keeping a petty cash voucher in your school.
- (3) Read the case study below and make entries in the appropriate school accounts books recording the financial transactions described therein. Trace the steps to be taken to record all the transactions.

1 hour

Case study

Mr Okello, head of the Science Department in Shimoni Demonstration School, submitted a requisition to buy chemicals for the end of term examinations. Mr Okello has contacted the suppliers and he has obtained a supplier's invoice No. 0658 indicating the quantity of the items: 10 tins of sulphur costing shs 5,000/- each and 10 tins of potassium costing shs 76,000/- each. The invoice has been submitted to the school accounts clerk who has checked vote No. 031 on scholastic materials and has confirmed that there is a balance of shs.978,000/- which is sufficient to cover the cost of the chemicals.

The suppliers have delivered the chemicals in the quantities indicated on the local purchase order No. 112. The materials are accompanied with a supplier's invoice dated 29th February 1992, indicating the details of the materials and the cost of each item.

Mr Mukasa the storekeeper and Mr Okello have checked and found the materials in order as per the local purchase order and the supplier's invoice. The chemicals bought have been recorded in the Store Ledger on folio No. S/10/92.

All invoices have been received and recorded by the accounts clerk in the Journal or Ledger. You have also authorised payment for the chemicals and payment instructions have been given to the accounts clerk. A payment voucher No. 5465 dated 3rd March 1992 has been made out and you have endorsed it. The voucher gives quantities of what has been bought in and gives the total cost as shs 126,000/- (one hundred twenty six thousand shillings) only. A cheque No. 02568 for that amount has been written on 6th March 1992, payable to ACPY, the suppliers. A cash receipt No. 136 dated 25th March 1992 has been issued by the suppliers on 29th March, 1992.

1 hour

Comments

You have already learnt that a Cash Book is a very important book of accounts because all cash income and expenditure go through it. The auditor therefore, spends quite a lot of time and care in examining the Cash Book. Wrong or inadequate entries, plus omissions made in a Cash Book, will greatly affect the auditor's opinion on the state of the school books.

You should also note that before any entries are made in the Cash Book all other documentary evidence of the transactions like vouchers, invoices, receipts must be checked and certified to ensure that all procedures and regulations were followed and no errors were made.

A thorough knowledge of how a Cash Book is written will enhance your internal financial control and it will enable you to understand and appreciate the purpose of auditing school accounts.

Reading an audit report

Activity 6.9

Look at your school's recent audit report:

- (1) List the main features in its format (schedule).
- (2) Analyse its contents briefly.
- (3) Point out its weaknesses if any.

40 minutes

Comments

An audit report should be clear, constructive and concise. The auditor will point out

in writing to the authorities:

- any weaknesses/strengths in the accounting system of the school
- deficiencies in the financial control system
- inadequacies in the financial policies and practices
- non-compliance with accounting standards and legislation.

The report also explains any implications of the above points and gives advice or recommendations for improvement. The auditor should give in clear terms his/her professional opinion on the state of the accounts.

One of the main schedules in an audited report is the Balance Sheet. This is a summary statement of all assets and liabilities of the school by the date of the report in reference. However, an audit report should also have the following components:

- a title, that is, Auditors Report
- a statement as to whom addressed, for example, The School Directors
- a description of the scope of the audit, showing the books examined and the tasks executed by the auditor according to the contract and audit standards
- the auditor's opinion on the state of the school accounts
- the auditor's address
- the date of the report.

The auditor's opinion can be unqualified, qualified or adverse depending on the state of the books of accounts and any other evidence the auditor may have examined and evaluated. An unqualified opinion is positive and satisfactory and a qualified opinion indicates that the auditor has some reservations about the state of the school's accounts.

Responding to audit queries

Activity 6.10

You may have already been involved in the auditing of your school accounts.

Consider what queries the auditors may have raised about your books of accounts and about any other submissions you made.

30 minutes

Comments

You have already learnt that the primary objective of an audit is to enable the auditor to determine the accuracy of the school's financial accounts. You have also learnt that the auditor gives his opinion on whether or not the accounts give a true and fair view of the financial standing of the school.

A secondary objective of the audit is to detect errors in the accounts and advise the board on how to improve the book keeping standards.

Audit queries can be raised where errors have been made in the records. These can be due to a wrong entry or an omission of some vital information. When an error is located by the auditor he raises a query to the head seeking for an explanation. For

example, he may raise a query where the Trial Balance does not agree with the statements of accounts.

In response the head can take any of the following steps:

- 1 Submit further information to the auditor on the queried items.
- 2 Let the auditor inspect the assets and stores.
- 3 Go over the Trial Balance with the auditor checking:
 - the totals
 - lists of debtors and creditors
 - transfer or entry of all the accounts books to the Trial Balance
 - all figures in the Trial Balance.
- 4 Go over the cash book and over all other financial documents and statements to locate errors, omissions or any evidence of fraudulent payments that may have been made in the transactions.
- 5 Consider making adjustments by reviewing assets against liabilities.
- 6 Consider writing off bad debts.

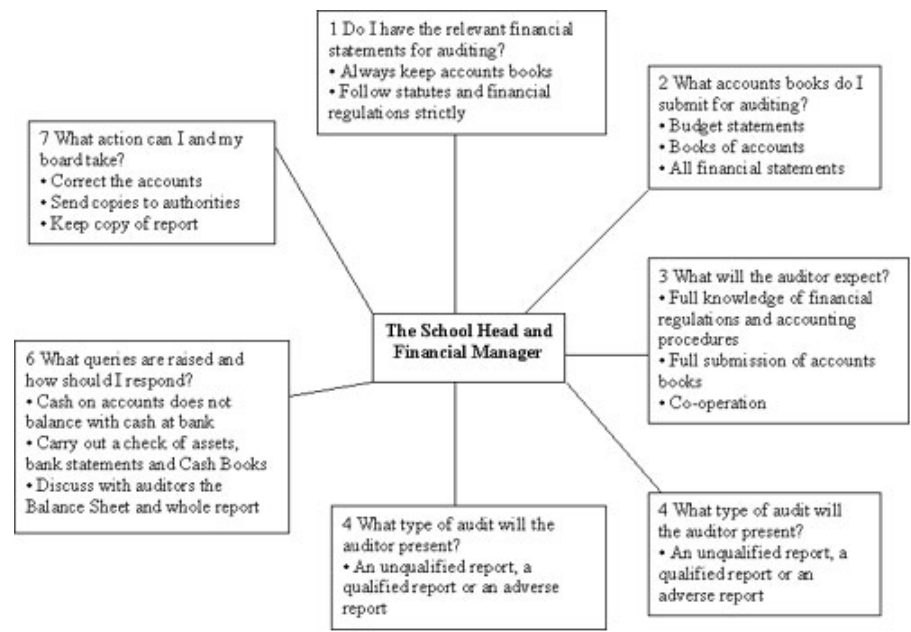
A Trial Balance summarises the effect of all financial transactions on the school accounts and it helps you and the auditor to get a preliminary view of the accounts before a Balance Sheet is written and an audit report is finalised.

Where you, as the school's financial manager, fail to answer all the queries satisfactorily the auditor will present what is termed as a qualified audit report. This is a report where the auditor has been unable to obtain all the information and explanation he or she considers necessary for the audit.

Summary

The diagram below gives you a brief summary of the various stages involved in the auditing of school financial statements. These correspond generally with the topics which you have covered in this unit. The summary diagram is also based on questions which you may pose to yourself to make a checklist of what you have learnt from the unit.

Fig 10 Summary diagram



[Next](#)

 [Top](#)