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**What is a Special Audit?**

**Definition**

A Special Audit can be defined as a tightly defined[the type of audit](https://www.wikiaccounting.com/list-types-audit-level-assurance/) that is conducted in order to probe into a specific area of the organization’s activities. As a matter of fact, it can be seen that this type of audit is mainly initiated by a third party, like a government agency or the tax authority.

However, it can also be authorized by any other relevant entity, including any internal authorities that might be in a position to do so. Examples of special audits include Compensation audits, control audits, cost audits, fraud audits and royalty audits.

**The Need for A Special Audit**

Special Audits are mostly needed when some abnormal behavior is suspected within the organization.

Mostly, they are called for when it is suspected that the laws and regulations have been overlooked pertaining to finances, or financial management within the organization. However, they are not only restricted to cases pertaining to fraud.

They can also be conducted when there are other institutional violations that might include pertaining to duties, authorizations, internal control procedures or responsibilities of the Senior Management. In the same manner, Special Audits can also be related to corporate reorganization or bankruptcy.

**Scope of Special Audit**

As mentioned earlier on, it can be seen that a special audit is conducted out of routine, with a specific or a special purpose. However, these special purposes are quite varied in their nature, and the overall outcomes based out of those special audits.

* **Compliance Audit** – This is mainly conducted when there is a need to examine the policies and procedures to check if they follow internal or regulatory standards.
* **Construction Audit** – This analyzes the costs that occur for a given construction project. In the same manner, this also tracks down the actual amount that is paid to contractors, suppliers, and other reimbursement that takes place in this regard.
* **Information Systems Audit**. Information System Audit is mainly conducted when there is a need to review the overall controls present in software development. Additionally, it also involves a review of controls regarding software development, data processing and the overall access to computer systems.
* **Investigative Audit**. Investigative Audits take place when there is a need to find details of a specific event or an incident within the company, that was suspicious.
* **Tax Audit.** This Audit is mainly initiated to analyze the overall tax returns that are submitted by an individual or business entity. The main rationale is to see if the paid tax is actually valid.

**Conclusion**

Therefore, it can be seen that Special Audits are mainly conducted in order to investigate a special cause or to justify something that is not normal within the organization.

The main reasoning behind such an audit is to ensure that the overall functioning within the organization is normal, and there are no productivity losses involved.

This greatly helps them to be able to identify relevant areas of improvement, where they are able to trace weak links and ensure that they are corrected for optimal performance within the organization.

**Social Audit | Definition | Objectives | Need | Disclosure of Information**

**Meaning and Definition of Social Audit**

Different people have interpreted the expression social audit differently. To some authors, it means the public disclosure of a company’s social performance; to others it means internal evaluation of a company’s social responsibility performance. Some authors think that social audit is a comprehensive evaluation of the way a company discharges all its responsibilities to its shareholders, customers, employees, and to the wider community. Thus, there is a total disagreement among the scholars as to the exact meaning, and the components of this novel concept. However, we shall give a brief account of the opinion of experts as below.

Definition of Melvin Aushen:

*“The social audit is an idea whose time has come, but which is not ready to be taken off the drawing board and put to work”.*

This definition is very vague and does not describe what social audit really means.

Definition of Boweni

*“A commitment to systematic assessment of and reporting on some meaningful, definable domain of a company’s activities that have a social impact”.*

This definition is worth mentioning. This definition highlights the various aspects of social audit.

**Social accounting and Social Audit**

Social accounting is a systematic assessment and reporting on those parts of a company’s activities, which have a social impact. It refers to the identification, measurement, recording and reporting the information as to social activities of the concern to its users (both internal and external). On the other hand, social audit refers to the systematic evaluation of an organization’s social performance. Here, its economic performance is not considered. It discloses the company’s involvement in socially oriented activities, activities taken for the well-being of the employers of the concern, activities as to prevention of environment from pollution etc.

**Objectives of Social Audit**

Goyder defined the objectives of social classified the objectives into two broad categories namely,

1. Principal objectives, and
2. Secondary objectives.

**Principal Objectives of Social Audit**

The principal objectives according to Goyder are as follows.

1. The extension, development and improvement of the company’s business and building up of its financial independence.

2. The payment of a fair and regular dividend to the shareholders.

3. The payment of fair wages under the best possible conditions to the worker.

4. The reduction of prices to the consumers.

**Secondary Objectives of Social Audit**

1. Provision of a bonus to the workers.

2. Assist in promoting the amenities of the locality.

3. Assist in developing the industry in which the firm is a member.

4. Promote education, research and development in the techniques of the industry.

From these objectives, we can infer that social audit is really an extension of the principle of public disclosure to which corporations are subject.

**Need for Social Audit**

Each business enterprise is not only connected with internal public but intimately connected with external public also. The modem corporations are more powerful and command huge resources. This power should not be used indifferently, irresponsibly or in an antisocial way. Its activities can create much impact on the society. As such its impact over society cannot be ignored or taken lightly. Its behavior not only affects the society but also creates problems to the Government. Thus, social audit has become the need of the day.

“This is a matter not of ambition”, Prof. Galbraith says “but of necessity”.

**Disclosure of Information during Social audit**

It is now well settled that social audit must be taken in all organizations. But it should be remembered that mere undertaking of social audit is not sufficient but what is needed is a frank and full disclosure of its working. Prof. Robert.

A Dahl in this connection rightly remarked that-

*“A major corporation can influence control and even coerce people (individuals or groups) and sometimes even the nation. Hence, the need for wide disclosure becomes inevitable”.*

**Information to be Disclosed during social audit**

Both financial and non-financial information should be disclosed. The financial information can be disclosed through profit and loss account, balance sheet etc. Such information is mainly disclosed in quantitative form. The financial information reveals the true position of a company regarding its liquidity and bankruptcy. Non-financial information can be expressed both in qualitative and quantitative data. Quantitative data is generally preferred because they are precise and convincing.

**Category of Information to be disclosed**

National Association of Accountants Committee on Accounting for Corporate Social performance in Canada divided all such information into four broad categories. They are

1. **Community Involvement**: Under this category, socially oriented activities that are primarily of benefit to the general public must be specified.

2. **Human Resources**: Social performance directed to the well-being of the employees comes under this category.

3. **Physical Resources and Environmental Contribution**: This category refers to the activities directed towards alleviating (making easier to bear) or preventing environmental deterioration (Pollution). It, also Includes the adherence to the law and going beyond it in areas such as air quality, water quality etc. Conservation of scarce resources and the disposal of solid waste also come under this category.

4. **Production or Service Contribution**: It is mainly concerned with the impact of company’s product or service on society. This includes product quality, packaging, advertising, warranty provisions and product safety.

**Persons Benefited by the Disclosure of information**

D.R. Singh in his book “Performance of Public Enterprises in India” says that the following categories of persons are benefited by a frank disclosure of socially valuable information.

1. Financial Institutions.
2. Shareholders.
3. Academic Institutions and Consultants.
4. Government.
5. Trade Unions and Political leaders.
6. Environmentalists.

**Efficiency Audit | Purpose | Parameters | Area of Appraisal**

**What is Efficiency Audit?**

Efficiency audit is much broader in its scope. The scholars express two distinct views on this subject. According to one school of thought, the principal objective of efficiency audit is to ensure that resources flow into the most remunerative channels.

***Efficiency Audit – Purpose, Parameters, Area of Appraisal***

Its purposes are basically two fold, which are as follows:

1. That every rupee invested in capital, or in other fields gives optimum results, and

2. That the balancing of investment between different functions and the aspects is designed to give optimum results.

Thus, the efficiency audit, according to this school of thought connotes ***financial efficiency***. According to another school of thought the term efficiency denotes ***executive efficiency and operational efficiency***. Efficiency audit according to this school of thought is concerned with the evaluation of the following qualities of the executives:

1. **Personality**: This means and includes honesty, integrity, aggressiveness, initiative, judgement, leadership, and common sense.

2. **Skill, Knowledge, Techniques, and Experience**: These mean and include leadership qualities human relations approach, technical knowledge, and the skills.

3. **Attitude**: This means and includes loyalty, willingness to соoperate, self-confidence, and job satisfaction.

However, efficiency audit according to some authors covers the financial efficiency, performance efficiency, and the productivity efficiency. This view seems to be more appropriate. In this sense, it possesses some of the characteristics of the enterprise’s self-audit or [management audit](https://accountlearning.com/management-audit-purpose-scope-advantages-disadvantages/).

Efficiency of an enterprise cannot be evaluated by assessing one or two aspects only. A number of aspects should be properly assessed in an efficiency audit.

**Purposes of Efficiency Audit**

Modern managements now-а-days undertake efficiency audit with а variety of objectives in mind. The principal objectives are:

1. То diagnose the operational weaknesses by а review of the organization’s environment.

2. То see whether the resources of the business flow into constructive and profitable channels.

3. То assess how far the measures and techniques adopted are effective in attaining the goals and objectives of the firm.

4. То highlight the important fact in each of the functions or operations that are employed.

5. То evaluate and compare the optimum return on capital invested in the business operations.

б. То suggest and recommend feasible alternative treatments for improvements in а manner that the heads of the functional or operational management themselves would do if they have time for self — introspection (Examination of their own thoughts and feelings).

**Parameters for Measuring Efficiency**

The parameters for measuring efficiency include the following:

1. The overall rate of return on capital employed showing both efficiency of the capital turnover and efficiency of the sales.

2. Capacity utilization.

3. Utilization of natural, functional, physical, and human resources.

4. Export performance and import substitution.

5. Cash flow performance.

6. The [pay back period](https://accountlearning.com/payback-period-method-formula-merits-demerits-suitability/) of the entire organization (i.е., by dividing the capital employed by annual cash flow).

The audit, which seeks to review these measurement yardsticks, and evaluates the overall efficiency, may be called as efficiency audit. Thus, efficiency audit provides the means to appraise the performance, and to diagnose the weakness of the enterprise.

**Areas of Appraisal under Efficiency Audit**

An appraisal, under efficiency audit should cover the following areas:

1. Factors responsible for survival and prosperity of the business.

2. Bottlenecks to achieve the goals and the objectives of the organization.

3. Inefficiencies and ineffectiveness of the operations resulting m cash drainage or other kind of losses.

4. Areas of uncertainty of the business.

5. Causes for the business failures.

б. Machinery for the corporate planning and the [management controls](https://accountlearning.com/control-in-management-characteristics-prerequisites-steps-in-controlling/) for the future profitability and growth.

The auditor should appraise the above mentioned areas, identify the defects in them, and suggest suitable recommendations to remove the deficiencies.

**Guidelines for Internal Auditors**

While appraising the critical areas, the [internal auditor](https://accountlearning.com/services-internal-auditor-management-staff-members/) should further determine whether-

1. The area of operation or project has been managed in an economical and efficient manner in terms of appropriate utilization of manpower, plant and machinery, etc.

2. Any delay in decision-making has led to additional financial costs.

3. Inefficiency has led to non-achievement of targeted production and productivity.

4. Any operation of the managerial process has led to ineffective or delayed operation of а job or а project.