factors Affecting Financial Audits of Indian Financial Service Sector Entities
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Abstract
Banks, insurance companies, mutual funds, stock brokers form that part of service sector. They are the components of the financial service sector. They are also part of the financial system. Banks, insurance companies, mutual funds, asset management companies and stock brokers are those which have certain rules and regulations governing them at the same time there is technological system which is used by them for conducting transactions. Hence the role and responsibilities of auditor performing audit for banks, insurance companies, stock brokers is significantly different than others. A survey of audit firms was conducted using random sampling. The audit firms were selected from the Cities of Mumbai and Pune in India. Hypotheses were formulated and tested using Chi Square test. The statistical tests used were Means, T-Test, Chi Square test. The auditors have to significantly update their knowledge regarding the technologies used while rendering services in the service sector. The respondents further believed that auditing of service industries is different from audit of manufacturing sector. The types of transactions are different in service industry than the manufacturing industry. The rules and regulations are different. The auditors, further added that they have to constantly acquaint themselves with the rules formulated by the controlling authorities/regulatory bodies in the service sector such as RBI, SEBI, IRDA. A survey was conducted using likert scale. Hence primary data is used. The paper throws light on the nuances of financial auditing in banks, insurance companies, mutual fund companies and stock brokers
Key words : Auditing, Financial Service Sector

Introduction
Service sector comprises of banking, tourism, trade, hotels, financing, insurance, real estate, storage, transport, communication. Indian service sector grew at 8percent per annum approximately and contributed to 64%of India’s GDP. The service sector has contributed almost 66% to the gross value added growth in the year 2015-16. Hence it can be called as the important driver to the economic growth of India. Service sector is an important net foreign exchange earner and has become an attractive sector for foreign direct investment. Service sector thus has become one of the most important sectors in India. Before the emergence of service sector, agriculture was the driving force behind the Indian economy. Manufacturing sector was also dominant. From the point of view of an auditor, manufacturing was important and dominating. The role of auditor focused around manufacturing sector. There are three important pillars in any economy:- Agriculture, Manufacturing and Services. Actually what cannot be classified as agriculture and manufacturing falls under the service sector.

Post 1990’s, Due to privatization in the banking and insurance sector, many private banks and insurance companies emerged. At around the same time various other entities like business process outsourcing companies, venture capitalists emerged.

Software is one sector in which India has achieved a remarkable global brand identity. Tourism- and travel-related services and transport services are also major items in India’s services.

An Audit is an investigation or a search for evidence to enable an opinion to be formed on the truth and fairness of financial and other information by a person or persons independent of the preparer and persons likely to gain directly from the use of the information and the issue of a report on that
information with the intention of increasing its credibility and therefore its usefulness. (Iain Gray and Stuart Manson, 2008)

The IAASB defines the term Audit as, “the objective of audit of financial statements is to enable the auditor to express an opinion whether the financial statements are prepared in all material respects, in accordance with an identified financial reporting framework.”

Auditing is concerned with evaluating the relevance, reliability and adequacy of evidence in support of verifiable information. An auditor collects information and evaluates the evidence in order to make a report. The objectives of audit are to lend credibility to information and thereby improve its reliability for the decision makers. Therefore it is also referred to as an assurance service. An audit is the independent examination of financial information of any entity, whether profit oriented or not, and irrespective of its size or legal form, when such an examination is conducted with a view to expressing an opinion thereon.

The type of transactions differed from the transactions incurred by the manufacturing companies. Service industries comprise of many different industries such as hotels, airline, tourist, outsourcing companies, banks, insurance, asset management companies, stock brokers. Banks, insurance companies, mutual funds, stock brokers form that part of service sector. They are the components of the financial service sector. They are also part of the financial system. Banks, insurance companies, mutual funds, asset management companies and stock brokers are those which have certain rules and regulations governing them at the same time there is technological system which is used by them for conducting transactions. Hence the role and responsibilities of auditor performing audit for banks, insurance companies, stock brokers is significantly different than others.

Literature Review

The risks for E-commerce include both technology risk and moral hazard. Information technology such as Internet is the core factor influencing the development of E-commerce. However, technology risk is a big threat for the application of information technology. Audit is an important method for risk management for E-commerce (Jin, 2011)

E-Business brings new challenges to the conventional auditing profession and auditors. External auditors need to understand how the advanced technology affects audit procedure. The audit evidence is available only in electronic form which all auditors are not comfortable with. (Abu-Musa, 2004).

Auditor report for validating financial statement is one of the best reports to investigate the financial condition of the companies; qualified reports of 69 companies on Tehran Stock exchange showed that these reports were involved in delisting the companies (Tayebi Darezereshki, 2014). Results from the present study suggest that a bank’s risk management framework is highly associated with the role of internal auditing in the firm. There is a significant positive relationship between the level of Risk Based Internal auditing used and Bank’s size, as well as the complexity of the banks. (Yung-Ming Shiu, Mei-Lan Yeh, 2008).

The internal audit image in the bank is a direct result of its effort and involvement, professionalism and capacity to respond to the requirements of the management. (Victoria STANCIU, 2008).

The low independence of internal auditors in Tanzanian commercial banks poses a threat to the owner-agency relationship. There is a need to change the outlook of the bank staff towards the internal audit function bearing in mind the importance of strong internal audit function for the growth of Commercial Banks which are beneficial for the development of Tanzanian economy. (Ramachandran, J, 2012).

There has been a harmonization of accounting practices in the GCC countries such as Bahrain, Saudi Arabia, UAE, Oman and Qatar. They have adopted IAS however there are some differences but there are differences in some accounting policies due to different socio cultural norms. Except for
Oman, there is Islamic Banking in all other countries but they do not follow any accounting standard. There are differences in the supervisory and regulatory areas and auditing as well. (Hussain et al., 2002).

The internal audit will contribute immensely towards the overall performance of these organizations through minimizing fraud and extravagant use of funds and inducing workers to give complete and accurate information in case of financial organizations like banks. (Nnenna, 2012).

The efficiency of capital markets depends on the availability of reliable information about the condition of the firms whose stock is publicly traded. Therefore, U.S. law requires that all publicly traded firms submit to audits of their financial reports, performed by independent outside auditors hired at the firm’s expense. (Moore et al., 2004). Bank frauds vary from simple, easily detectable, and investigable to complex and difficult to detect and investigate. The difficult to detect and investigate are those which are computer-related or which computer is used as a conduit to commit fraud. In Zimbabwe, at least thirteen types of fraud were discovered to be challenges in the banks such as cheque fraud, identity fraud, credit card fraud, computer fraud, and ATM fraud, which account for nearly 90% of bank losses. (Kosmas Njanike, 2009).

In a study conducted in the Greek hotel industry internal control system is monitored in order to assess the quality of the system’s performance over time and risk assessment plays significant role in the efficient functioning of hotel business. (Karagiorgos, 2011).

Outsourcing in accounting and auditing services is possible due to change in the business environment. Outsourcing is possible due to want of efficiency and effectiveness. (Gavin, 1997). In a survey conducted in Bangladesh revealed that banks overstated their financial statements and the audit firms failed to identify and report the overstatements. The study therefore questions the competence, independence and objectivity of the auditors. (Javed Siddiqui, Jyotirmoy Podder, 2002).

In another paper it is revealed that Asian banks which are smaller, less capitalized, less appear receive qualified opinions. More external auditing requirements, less disclosure requirements increase the probability of receiving a qualified audit opinion. (Chrysovalantis Gaganis Fotios Pasiouras, 2007).

Another paper deliberated on the possibility of role of auditors during the credit crisis. On one hand the auditors should not be held responsible for the markets going out of control, as this had nothing to do with the monitoring done by the auditors. At the same time trading also takes place on the basis of published financial data and reports. (Margaret Woods Christopher Humphrey Kevin Dowd Yu-Lin Liu, 2009).

In study conducted in Jordan, it was concluded that role of internal auditors is limited. Risks were related to compliances whereas the internal auditors dealt with risks related to economy and culture. Some of the auditors also admitted that they resorted to inappropriate roles in dealing with the risks. (Modar Abdullatif Shatha Kawuq, 2015).

Another paper discusses the use of audit reports by banks. The officers generally read only the page where the qualified or unqualified report is written. The paper further discusses that banks consider that a going-concern report provides financial statement users with certain information and bank officers view a going-concern report as a first-order mechanism that serves as an early warning system. The going concern report influences to a certain extent the willingness to grant loans and bank officers tend to significantly use and rely on alternative sources of information. (Nina Sormunen, 2014).

It is an acceptable practice for the auditor of a South African long-term insurer which is listed to discuss the basis used to determine planning materiality with the statutory actuary. However this is provided that the risk management procedures of the auditing firm allow this practice. (S.P.J. von Wielligh, 2005).
The team consists of various members specialized in taxation, auditing, information technology, actuarial, taxation, accounting and auditing technical specialist and long-term insurance industry specialist, while conducting the audit of insurance companies. Further 10% of the audit hours are spent on high risk areas. The specialists, managers also participate in continuing professional development programs, (S.P.J. von Wielligh, (2008).

In a study it was revealed that many online brokers did not comply with the disclosure requirements. This resulted in many customers incurred losses and financial opportunity. (Huong Ngo Higgins, (2002)

Depending upon the literature review it is evident that the service sector industries have different features and characteristics. Service sector comprises of banking, insurance, mutual funds, stock brokers. These four are the important parts of not only the financial services but also the financial system. Each aspect of the financial service sector has its own set of rules and regulations. E.g. for stock brokers rules and regulations are laid down by SEBI, banks the rules are laid down by Reserve Bank of India and similarly of insurance it is laid by the Insurance Regulatory development Authority. In the Literature review, it can be concluded that the service sector has its own set of challenges. Service rendering also involves information technology, where there are challenges for auditors.

Data related to financial service sector

Service sector is one of the most dynamic sector in the world. It contributes almost one third of world gross value added. It is responsible for contributing towards half of world employment, one fifth of global trade and more than half of world foreign direct investment. It has contributed to almost 66.1% of India’s gross value added growth in the financial year 2015-2016.  

In the current research paper the focus is on audit of banks, insurance companies and stock brokers. Banks, insurance companies, mutual funds and stock brokers are the important part of the service sectors. All the three are governed by specific rules and regulations. They are regulated by a regulating authority. Mutual funds, Stock Brokers and Stock Exchanges in India are regulated by the Securities Exchange Board of India (SEBI). Similarly the banks are regulated by the Reserve Bank of India,(RBI) and Insurance companies are regulated by the Insurance Development Regulatory Authority of India(IDRAI). These apex regulatory bodies mention the rules, guidelines to be followed. They also monitor the working of these businesses from the service sector. They also lay down stringent guidelines to be followed. Reports are to be filled to the regulating bodies, which are to be certified by the auditors. Also these businesses use technology for their transactions. Following the are the data related to banking, stock markets, insurance and mutual funds

Details regarding the banking sector in India are as follows:-

SAVINGS DEPOSITS WITH COMMERCIAL BANKS

(Rupees Billion)

<table>
<thead>
<tr>
<th>Year (As on last reporting Friday)</th>
<th>Scheduled Commercial Banks</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Indian Banks</td>
<td>Foreign Banks</td>
<td>Total</td>
</tr>
<tr>
<td>2015-16</td>
<td>24928.46</td>
<td>436.98</td>
<td>25365.44</td>
</tr>
<tr>
<td>2014-15</td>
<td>21788.47</td>
<td>410.46</td>
<td>22198.92</td>
</tr>
<tr>
<td>2013-14</td>
<td>19650.51</td>
<td>403.90</td>
<td>20054.41</td>
</tr>
</tbody>
</table>
The table above gives the details regarding the scheduled banks in India. It can be seen that the saving deposits have gone up from Rs13772.88 billion to Rs25365.44 billion from the year 2010-11 to 2015-16. The savings deposits in foreign banks was Rs376.34 billion in 2010-2011 and it went to Rs. 436.98 billion in 2015-2016. This shows that the banking sector is increasing. Therefore there is a need to evaluate, verify the systems and the transactions inorder to safe guard the depositors and investors money.

The net resources under mutual funds are as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Unit Trust of India</th>
<th>Bank-sponsored Mutual Funds</th>
<th>Financial Institution-sponsored Mutual Funds</th>
<th>Private Sector Mutual Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015-16</td>
<td>154.16</td>
<td>274.21</td>
<td>13.88</td>
<td>875.33</td>
</tr>
<tr>
<td>2013-14</td>
<td>4.01</td>
<td>48.45</td>
<td>25.72</td>
<td>467.61</td>
</tr>
<tr>
<td>2012-13</td>
<td>46.29</td>
<td>67.08</td>
<td>22.41</td>
<td>652.84</td>
</tr>
<tr>
<td>2011-12</td>
<td>-31.79</td>
<td>3.89</td>
<td>-30.98</td>
<td>-395.25</td>
</tr>
</tbody>
</table>

Figure 2

The table above gives details of the net resources mobilized by the mutual funds. In case of UTI the resources have gone up from Rs 46.29 billion in the year 2012-2013 to Rs 154.16 billion in the year2015-2016, similarly in case of bank sponsored mutual funds , they have gone up from

Assets Under Management Of Mutual Funds

<table>
<thead>
<tr>
<th>Year (End-March)</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>12328.24</td>
</tr>
<tr>
<td>2015</td>
<td>10827.57</td>
</tr>
<tr>
<td>2014</td>
<td>8252.40</td>
</tr>
<tr>
<td>2013</td>
<td>7014.43</td>
</tr>
<tr>
<td>2012</td>
<td>5872.17</td>
</tr>
<tr>
<td>2011</td>
<td>5922.50</td>
</tr>
<tr>
<td>2010</td>
<td>6139.79</td>
</tr>
<tr>
<td>2009</td>
<td>4173.00</td>
</tr>
<tr>
<td>2008</td>
<td>5051.52</td>
</tr>
<tr>
<td>2007</td>
<td>3262.92</td>
</tr>
<tr>
<td>2006</td>
<td>2318.62</td>
</tr>
</tbody>
</table>

Source :RBI

Figure 3

The above table gives the details of Asset under management of mutual funds right from the year 2006 to 2016. The amount was Rs2318.62 in the year 2006 which went to Rs12328.24 billion in the year 2016, thus there has been a rise of almost 43% in the assets under management. These indicates not only the investors are saving their money but also more people are investing it. The
savings deposits and mutual fund investment is rising, thus there is a need to safeguard the interests of
the investors, depositors. This is possible only with respect to auditing.

Following are the trends in the equity cash segment of the National Stock Exchange

<table>
<thead>
<tr>
<th>Year/Month</th>
<th>No. of Trades (Lakh)</th>
<th>Traded Quantity (Lakh)</th>
<th>Turnover (` crore)</th>
<th>Demat Securities Traded Quantity (Lakh)</th>
<th>Demat Turnover (` crore)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010-11</td>
<td>15,507</td>
<td>18,24,515</td>
<td>35,77,410</td>
<td>18,24,515</td>
<td>35,77,410</td>
</tr>
<tr>
<td>2011-12</td>
<td>14,377</td>
<td>16,16,978</td>
<td>28,10,893</td>
<td>16,16,978</td>
<td>28,10,893</td>
</tr>
<tr>
<td>2012-13</td>
<td>13,605</td>
<td>16,59,160</td>
<td>27,08,279</td>
<td>16,59,160</td>
<td>27,08,279</td>
</tr>
<tr>
<td>2013-14</td>
<td>14,432</td>
<td>15,33,716</td>
<td>28,08,489</td>
<td>15,33,716</td>
<td>28,08,488</td>
</tr>
<tr>
<td>2014-15</td>
<td>18,328</td>
<td>23,61,779</td>
<td>43,29,655</td>
<td>23,61,779</td>
<td>43,29,655</td>
</tr>
<tr>
<td>Apr 14-Dec 14</td>
<td>13,522</td>
<td>17,77,577</td>
<td>31,55,162</td>
<td>17,77,577</td>
<td>31,55,162</td>
</tr>
<tr>
<td>Apr 15-Dec 15</td>
<td>13,845</td>
<td>16,11,313</td>
<td>31,82,306</td>
<td>16,11,313</td>
<td>31,82,306</td>
</tr>
</tbody>
</table>

Source: NSE

Figure 4

From the above table it is clear that the turnover has increased from 2010-11 to 2014-2015 from Rs 35,77,410 crores to 43,29,655 crores. Similarly demat securities traded quantity, demat turnover has gone up.

Annual Averages of Major Indices and their Market Capitalisation

<table>
<thead>
<tr>
<th>Year/Month</th>
<th>S&amp;P BSE Sensex</th>
<th>Nifty 50</th>
<th>Market Capitalisation (` crore)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>BSE</td>
</tr>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>2010-11</td>
<td>18605</td>
<td>5584</td>
<td>68,39,084</td>
</tr>
<tr>
<td>2011-12</td>
<td>17423</td>
<td>5243</td>
<td>62,14,941</td>
</tr>
<tr>
<td>2012-13</td>
<td>18202</td>
<td>5257</td>
<td>53,48,645</td>
</tr>
<tr>
<td>2013-14</td>
<td>20120</td>
<td>6010</td>
<td>74,15,296</td>
</tr>
<tr>
<td>2014-15</td>
<td>26557</td>
<td>7967</td>
<td>1,01,49,290</td>
</tr>
<tr>
<td>Apr 14-Dec 14</td>
<td>25868</td>
<td>7736</td>
<td>98,36,377</td>
</tr>
<tr>
<td>Apr 15-Dec 15</td>
<td>26948</td>
<td>8167</td>
<td>1,00,37,734</td>
</tr>
</tbody>
</table>

Source: BSE, NSE

Figure 5

The above table indicates how the indices both S&P BSE Sensex and Nifty 50 have increased annually as compared to the earlier year. Similarly the market capitalization on Bombay Stock Exchange and National Stock Exchange have increased. This means that more interest by the investors as well as companies for raising their resources.

These figures indicate that there is a rise, which again establishes the fact that the audit of brokers, depositories participants must be done, with an objective to protect the investors.

The data related to insurance is as follows:-
The above table shows that the real premium growth rate for India is 7.8% in life insurance and 8.1% in non-life insurance, which is more than the advanced countries and world percentages. This indicates that there is growth rate in the insurance sectors.

### Significance of the data in the present research.

The paper focuses on auditing of Service Sector with a special reference to auditing of banks, insurance companies, mutual funds, and stock brokers. Hence it focuses on the major components of the financial services of the service sector. These components of the service sector are very crucial as the common citizens save and invest their money through these service rendering businesses. It is therefore essential that the auditing of these entities is done in a correct manner. Due to the very nature of the businesses the responsibility of the auditors increase manifold and therefore it is essential to study the importance, features and aspects of auditing of the banks, mutual funds, stock brokers and insurance companies. These four one can say are the major components of the financial system. It is essential to study the factors affecting the auditing of these components of the financial services or broadly financial system.

Service sector in India is the major contributor to the Gross Domestic Product of India. It is the important driver of the economy. The above stated data throws light on how the financial service sector in India is growing continuously and steadily banking sector has witnessed increased deposits. On the basis of then above data asset under management for mutual funds have increased. Similarly the stock markets indices have gone up and the market capitalization has gone up. Similarly real premium growth rate for insurance is high for India as compared to advanced countries and world. This growth in the past few years can be because of many reasons, which also needs to be analyzed. The increase or the rise can be on account of inflation, it can be also due to the fact that investors are saving and investing. They are parking their earned money in banks, mutual funds, insurance products and shares. The reason why this growth is happening can be an independent area of research. However the fact remains that the amount of funds in these areas has increased. These funds belong to different kinds of investors both individual and institutional. These funds are managed by banks, insurance companies, mutual funds, stock brokers. It is therefore essential that these financial institutions are monitored, their reports, records must be verified in a true and fair manner. These financial institutions are governed by rules and regulations and at the same time use technology for their transactions. As these financial institutions deal with money they are vulnerable to frauds and scams. This is precisely the reason why the auditing of these financial institutions become crucial.

### Research Methodology:

A questionnaire was formulated. It was initially administered to 10 respondents from Mumbai and Pune city. 5 respondents were from Mumbai and 5 from Pune. The questionnaire was 7 point likert scale questionnaire. Cornbach Alpha was calculated on the basis of the responses. The cornbach alpha was 0.82. hence questionnaire was considered as reliable to be administered to the rest of the respondents. The respondents were Chartered Accountants working in Audit firms as partners and as individual proprietors The questionnaire consisted of 7 point likert’s scale questionnaire. The options
for the responses were Strongly Disagree, Disagree, Moderately Disagree, Neutral, Moderately Agree, Agree, and Strongly Agree.

A questionnaire in structured form was circulated to Chartered Accountants in the cities of Mumbai and Pune. The reason for selecting both the cities is, Mumbai is the financial capital of India, hence the major business houses have their head offices. It hosts the Bombay and the National stock exchanges. Apart from this manufacturing, software, construction, real estate, banking are some of the industries situated in Mumbai. It is also home to the world’s largest film industry. Pune on the other hand is the educational, manufacturing and software hub. Thus the audit firms in this areas are exposed to various types of service as well as manufacturing businesses.

The statistical tests used were Means, T-Test, Chi Square test.

The respondents consisted of 50 audit firms from Mumbai and 40 audit firms from Pune. The sampling was random sampling.

<table>
<thead>
<tr>
<th>City</th>
<th>Audit Firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mumbai</td>
<td>50</td>
</tr>
<tr>
<td>Pune</td>
<td>40</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>City</th>
<th>Proprietors</th>
<th>Partnership</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mumbai</td>
<td>25</td>
<td>25</td>
</tr>
<tr>
<td>Pune</td>
<td>20</td>
<td>20</td>
</tr>
</tbody>
</table>

Objectives of the research:

After the review of literature and the analysis of the secondary data stated above, it was observed that there are two important factors while auditing the financial services. The first factor is these entities such as banks, stock brokers, and insurance companies use technologies while rendering services. And the second factor is that there is constant update of rules and regulations. The audit is expected to know both the technology as well as the rules for effective auditing of the client firm. Hence two objectives were formulated.

1. To understand whether auditors update their knowledge regarding the technologies used for rendering services in the financial service sector
2. To study Auditors acquaint/update themselves with the rules formulated by the controlling authorities/regulatory bodies in the service sector such as SEBI, IRDA

Hypothesis

Keeping in mind the objectives set the hypotheses were as follows:

1. The auditors have to update their knowledge regarding the technologies used while rendering services in the financial service sector.
2. Auditors have to acquaint/update themselves with the rules formulated by the controlling authorities/regulatory bodies in the service sector such as SEBI, IRDA

The hypothesis were tested using Chi-Square Test.

Testing of Hypothesis

The auditors have to update their knowledge regarding the technologies used while rendering services in the financial service sector.

1. Ho: The auditors do not have to significantly update their knowledge regarding the technologies used while rendering services in the financial service sector.
   H1: The auditors have to significantly update their knowledge regarding the technologies used while rendering services in the financial service sector.
The P value is 0.000 which is less than 0.05. Hence H0 is rejected and H1 is accepted. Hence it is proved that The auditors have to significantly update their knowledge regarding the technologies used while rendering services in the financial service sector. Auditors have to acquaint/update themselves with the rules formulated by the controlling authorities/regulatory bodies in the service sector such as SEBI, IRDA.

2. Ho: Auditors do not have to acquaint/update themselves with the rules formulated by the controlling authorities/regulatory bodies in the service sector such as SEBI, IRDA.
   H1: Auditors have to acquaint/update themselves with the rules formulated by the controlling authorities/regulatory bodies in the service sector such as SEBI, IRDA.

Chi Square Test
P Value 0.001

The P value is 0.001 which is less than 0.05. Hence H0 is rejected and H1 is accepted.
Hence it is proved that, Auditors have to acquaint/update themselves with the rules formulated by the controlling authorities/regulatory bodies in the service sector such as SEBI, IRDA.

Data Analysis and Findings
The statements in the likert’s scale questionnaire were analyzed using mean, and t test.
The types of transactions in service sector are not different from the transactions in the manufacturing companies was one of the questions asked.

The mean is 2.3462 which is less than 4 hence it shows that the respondents have on an average disagreed to the statement.
Respondents said that the types of transactions are different in service sector than manufacturing sector. Purchases of raw material, transactions such as incurring of labour cost are different. Some of them said that a working and type of transactions in a bank are different from a manufacturing unit. Hence the transactions are different.
Further the statement was analyzed using t test, for finding out if there is any significant difference in the opinion of respondents from Pune and Mumbai. The P value is 0.000 which is less than 0.05, hence there is a significant difference. Some respondents from Pune city believed that the basic transactions in case of service sector are the same as compared to the manufacturing sector.
Further the statement was analyzed using t test, for finding out if there is any significant difference in the opinion of respondents from proprietors and partnership firms. The P value is 0.001 which is less than 0.05, hence there is a significant difference. Some respondents from proprietors believed that the basic transactions in case of service sector are the same as compared to the manufacturing. Some of them believed that they have to verify the transactions, value assets and there is not difference in the audit process.
The respondents further believed that auditing of service industries is different from audit of manufacturing sector.

Mean
5.5769
The mean is 5.5769 which is more than 4 hence it shows that the respondents have on average agreed that auditing the service industries is different than auditing the manufacturing industry.

The types of transactions are different in service industry than the manufacturing industry. The rules and regulations are different. The examples given by the respondents were that broker firms, banks, insurance companies have different regulations governing them. Hence auditing them is different. Similarly the transactions in banks are different than the transactions in manufacturing organizations.

The auditors further agreed that they have to acquaint themselves with the various nuances of the services in a particular service organization.

<table>
<thead>
<tr>
<th>Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.9231</td>
</tr>
</tbody>
</table>

The auditors further agreed that they have to acquaint themselves with the various nuances of the services in a particular service organization as the mean of the responses on the likert’s scale is 5.9231 which is more than 4.

If an audit of a broker firm is conducted then the auditor should be aware of the nuances or various aspects of the firms and their transactions.

Services in different types of service sector are different e.g. hotel and hospital or a broker firm or a bank have different types of services rendered and each are peculiar to that type of organizations. Though all of them fall under the service sector they are individually different.

The respondents believed that each of these business entities have a distinct type of transactions. Eg in case of stock brokers transactions can be in the form of derivative contracts, the brokers may be dealing with futures, options, then index options. Similarly, in case of banks then dealings with other banks, foreign currency transactions. In case of insurance there are different insurance products which have different premiums, claims. There are different types of maturity dates. There are issues regarding settlement of claims. The auditors must understand the implications of these aspects or nuances. These aspects are special to a particular type of entity.

Further the statement was analyzed using t test, for finding out if there is any significant difference in the opinion of respondents from proprietors and partnership firms, there was no significant difference found. Also t –test was carried out to find if there is any significant difference in the responses from the respondents of pune and Mumbai city. There was again no significant difference found out.

The auditors further added that they have constantly acquaint themselves with the rules formulated by the controlling authorities/regulatory bodies in the service sector such as RBI,SEBI, IRDA especially when they are dealing with banks, brokers and insurance companies audits.

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The mean is 6.1923 on the likert scale which is more than 4 Many of the service sector entities such as asset management companies, brokers, insurance companies are governed by specific legislation hence before conducting their audit the auditor has to acquaint themselves with the legislations and their controlling authority rules such as SEBI, IRDA.

Further the statement was analyzed using t test, for finding out if there is any significant difference in the opinion of respondents from proprietors and partnership firms, there was no
significant difference found. Also t-test was carried out to find if there is any significant difference in the responses from the respondents of Pune and Mumbai city. There was again no significant difference found out.

The auditors have to significantly update their knowledge regarding the technologies used while rendering services in the service sector.

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Figure: 15

The mean of responses on the Likert scale is 6.5385 for which is more than 4 hence it shows that the respondents have on an average agreed to the statement.

In case of banking, brokers, insurance companies, hotels and hospital specific technologies are used for processing the transaction. In case of brokers for example the transactions happen online. There are other businesses such as online portals where trading of goods and merchandise are made, or hotels where bookings are done online. Hence technology is used for processing transactions and the auditor has to understand the technology.

Further the statement was analyzed using t test, for finding out if there is any significant difference in the opinion of respondents from proprietors and partnership firms, there was no significant difference found. Also t-test was carried out to find if there is any significant difference in the responses from the respondents of Pune and Mumbai city. There was again no significant difference found out.

**Important Findings**

Services sector comprises of various service rendering businesses. These include banking, insurance, stock brokers, hotels, mutual funds. These businesses have their features or characteristics. These include some peculiar aspects such as there is no raw material, work in progress or finished goods stock, the expenses related to material are therefore minimum. The service sector businesses also have regulating authorities such as the securities exchange board of India for stock brokers and mutual funds, Reserve bank of India for banks. There are also regulations for these industries such as the Securities Exchange Board of India Act, Banking regulation act. These legislations and regulatory bodies lay down compliances for the service rendering businesses. Also for certain businesses such as stock brokers, there is a membership compliances. Auditors have to verify in the course of their audit the compliances done by these institution. The type of transactions of these institutes is different. Eg in case of banks lending, repayment of loans, interest rates, credit appraisals, are some of the peculiar features related to the transaction which are governed by regulations. The auditors have to verify that the transactions and also have to verify that they confirm to the compliances. Similarly in case of insurance companies the type of transactions deal with the premiums and settlement of the insurance claims. The insurance companies have to the adhere to the regulations set for them. Both the auditors of insurance as well as banking companies have not only to check the authenticity of financial reports but also have to comment on the compliances set by their respective statutory bodies. In case of brokers due to futures, options in shares and other capital market related contracts the transactions are of complex nature and the auditor has to understand the nitty gritty of these contracts and their implications.

Also in these industries technology is being used. Online payments, transfers of funds, online trading of shares, use technology. Hence to audit the insurance, banking and stock brokers the auditor has to understand the technological aspects and the systems in the which these work.

The auditors have to significantly update their knowledge regarding the technologies used while rendering services in the service sector.

Auditors have to acquaint/update themselves with the rules formulated by the controlling authorities/regulatory bodies in the service sector such as SEBI, IRDA.
Conclusion and Future research:

The auditors have to significantly update their knowledge regarding the technologies used while rendering services in the service sector. The respondents further believed that auditing of service industries is different from audit of manufacturing sector. The types of transactions are different in service industry than the manufacturing industry. The rules and regulations are different. The auditors, further added that they have constantly acquaint themselves with the rules formulated by the controlling authorities/regulatory bodies in the service sector such as RBI, SEBI, IRDA.

Auditors believed that the financial service sector is crucial sector as large amounts of funds change hands every day. Investor protection is an utmost priority for the healthy running of the businesses. Investor confidence gets a boost if the financial service sector components are monitored promptly. The auditors believed that the transactions in these sectors are done through the use of computers and computer systems. Therefore is essential that the auditors should understand the systems properly. The systems are updated and developed very quickly hence the auditor must also update himself.

In the current paper, the research has tried to analyze the overall financial service sector. Further research can be carried out related to audit of banks, audit of insurance companies, audit of Mutual funds, audit of stock brokers. This will provide an indepth view of the particular financial service sector entity. Similarly a study can also be undertaken on the various trends in banking sector, insurance sector and mutual funds. Similar research can be undertaken for audit of hotel, restaurants, software companies, telecom companies.

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