

MOCK TEST PAPER -2

FINAL COURSE: GROUP – I

PAPER – 3 : ADVANCED AUDITING AND PROFESSIONAL ETHICS

SUGGESTED ANSWERS/ HINTS

1. (a) **Valuation of Damaged Inventory:** A part of the inventory exported earlier had to be sold at a discounted price off shore due to moisture content present at the time of delivery. The auditor will therefore have to examine what part of the inventory is included in the inventory valued at ₹ 20 crores, a part of which had been exported at a discounted price. He will also have to satisfy himself that whether such part left with the company has also been damaged on account of moisture content. If required, the auditor may obtain a certificate from an expert about the condition of the inventory. Thereafter, it should be verified whether the principle of valuation enunciated in AS 2 (Revised) "Valuation of Inventories" have been followed in such a case. The standard requires that the inventories should be valued at the lower of cost or net realisable value. AS 2 (Revised) defines the net realisable value as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Accordingly, such part of inventory which is damaged should be valued at estimated realisable value if the same is lower than the cost. In the present case the auditor shall satisfy himself whether the balance inventory lying with the company is carrying the same quality issue. If yes, than value of inventory will be revised based on the past performance as per its net realisable value.
- (b) **Declaration of Interim Dividend:** Interim dividend can be declared by the Board of Directors only if there is an authorisation in the Articles of Association to do so. An interim accounts should be prepared to ascertain the amount of profits that has been made. Assuming that interim accounts have been prepared and they disclose profits sufficient for the declaration of dividend after making appropriate provisions for depreciation, compulsory transfers to reserves, bad debts and other contingencies, only then the proportion of profits which have to be distributed as interim dividend may be decided.

In the present case, the company has suffered a net loss at the end of the year, obviously the directors have miscalculated the performance of the company about the second half of the year. If the company had a sufficient balance in the profit and loss account as at the beginning of the year, the dividend declared could be paid out of the same. The balance had also to be sufficient to transfer the relevant amounts to reserves. In such a case the auditor need not report anything. Moreover, if such balance was not available, the dividend could also be paid out of reserves. In the situation of dividends to be declared out of reserves, a maximum of only 10% dividend is allowed. In this case, since the dividend was declared @ 30%, the said provisions would have been violated and thus the auditor would have to mention the said fact. If, however, there is no balance in the profit and loss account nor any

reserves were available, the dividend would be clearly paid out of capital. The auditor would have to qualify his report mentioning the fact of the dividend having been paid out of capital.

- (c) Section 78 of the Companies Act, 1956 deals with the application of premium received on issue of securities. Sub-section (1) of the said section provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called "the securities premium account"; and the provisions of this Act relating to the reduction of the share capital of a company shall, except as provided in this section, apply as if the securities premium account were paid-up share capital of the company.

Sub-section (2) of the said section provides that notwithstanding anything in sub-section (1), be applied by the company—

- (a) in paying up unissued shares of the company to be issued to members of the company as fully paid bonus securities;
- (b) in writing off the preliminary expenses of the company;
- (c) in writing off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; or
- (d) in providing for the premium payable on the redemption of any redeemable preference shares or of any debentures of the company.

In view of the above provisions of the Companies Act, 1956, the company is not permitted to adjust its accumulated loss against the Securities Premium Account.

- (d) **Recognition of Revenue:** AS 9 on 'Revenue Recognition', states that revenue from sale of goods should be recognised when the seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership and no significant uncertainty exists regarding the amount of consideration. In the case of M Ltd., the goods, as well as the risks and rewards of ownership have been transferred to the steel plants. The invoice raised by M Ltd. is for the full price, but 10% less is received as the same is kept as 'Retention Money'. In this case, therefore, revenue has to be recognised at the full invoice price, i.e., 100% has to be accounted as Sales Income. Depending on the past experience of recovering the balance 10% from the steel plants, M Ltd. can, however, keeping in view its past performance make a provision for sales income which is not likely to realise. In the absence of the above, the auditor will have to qualify his report.

2. (a) As per Clause (10) of Part I of Schedule II of the Chartered Accountant Act, 1949, a Chartered Accountant in practice will be deemed to be of professional misconduct if he fails to keep moneys of his client other than the fees or remuneration or money meant to be expended in a separate banking account or to use such moneys for

purposes for which they are intended within a reasonable time.

The term reasonable time would depend upon the circumstances of the case. Moneys which are intended to be spent within a reasonably short time need not be put in a separate bank account.

Thus, Mr. Karan should have kept the balance money after remitting the first instalment of advance tax into a separate bank account. Hence he is guilty of professional misconduct.

- (b) The contention of the client of Mr. Shivam that he has charged an excessive fee for a professional assignment does not constitute professional misconduct in the context of the provisions of the Chartered Accountants Act, 1949 and regulation made thereunder since the matter of fixation of actual fee charged in individual cases depends upon the mutual agreement and understanding between them.

Moreover, scales of fee recommended by the Council of the Institute are recommendatory only.

Therefore Mr. Shivam is not liable for any professional misconduct under the Chartered Accountants Act, 1949

- (c) **Disrepute to the Profession:** Clause 2 of Part IV of First Schedule to the Chartered Accountants Act, 1949 states that member of the Institute, whether in practice or not, shall be deemed guilty of other misconduct, if he in the opinion of the Council, brings disrepute to the profession or to the Institute as a result of his action whether or not related to his professional work.

Accordingly, a Chartered Accountant is also expected to maintain the highest standards and integrity even in his personal affairs and any deviation from these standards calls for disciplinary action.

In the present case, the action of Mr. Rohan, a Chartered Accountant in practice offering free service in return to sanction of loan brings disrepute to the profession of a Chartered Accountant.

Hence, Mr. Rohan will be held guilty of other misconduct under Clause 2 of Part IV of the First Schedule of the Chartered Accountants Act, 1949.

- (d) **Evaluation of Cost of Products:** Clause 4 of Part I of the Second Schedule to Chartered Accountants Act, 1949 states that expressing an opinion on financial statements of any business or any enterprise in which the auditor, his firm or a partner in his firm has a substantial interest would constitute misconduct, unless he discloses the interest also in his report. Also, the Council of the Institute of Chartered Accountants of India has stated that in cases where a member of the Institute is a director of a company, or the firm in which the said member is a partner, should not express any opinion on its financial statements. As per facts of the case, the firm has been retained to evaluate the cost of products manufactured by it for its information system. It is a part of management consultancy service of the firm and moreover its partner was on the Board. Hence, the firm can perform

this assignment and it will not constitute misconduct. However, the firm while accepting the position as auditor in future would have to consider whether it would be possible to act in independent manner and express opinion on financial statements.

3. (a) Clause (g) of sub section (1) of section 274 of Companies Act, 1956 states:

A person shall not be capable of being appointed as director of company if such person is already a director of a public company which -

- (A) has not filed annual accounts and annual returns for any continuous three financial years commencing on and after first day of April, 1999 or
- (B) has failed to repay its deposits or interest thereon on due date or redeem its debentures on due date or pay dividend and such failure continues for one year or more.

Provided such a person shall not be appointed as director of any other public company for a period of five years from date on which such public company where he is director has failed to file annual accounts or returns or has failed to repay deposits or redeem debentures on due date or pay dividend.

Auditor is required to report under section 227 (3) (f) of the Companies Act, 1956 to members of respective companies whether any director is disqualified from being appointed as director under clause (g) of section 274 (1) of the Companies Act, 1956 and

Furnish certificate every year as to whether on the basis of his examination of the books and records of the company any director of the company is disqualified as a director or not.

Auditor to comply with section 227 (3) (f) should obtain a written representation as to:

- (i) Names of directors of company during period covered by auditor's report
- (ii) particulars of appointment /resignation of such directors
- (iii) Submission of form DD-A, required to be submitted by such director.
- (iv) Information of directors contained in register maintained under section 303(1) of Companies Act as updated up to date of balance sheet.
- (v) Details of default committed by company under section 274(1).
- (vi) If company has committed any default, whether form DD-B submitted by company.

On the basis of such examination, auditor is required to furnish certificate every year stating whether any director is disqualified for appointment as director.

(b) The auditor may take the following steps to ensure that the dividend has been paid only out of profits.

- (i) Check whether the dividend was declared out of profits arrived at after providing for depreciation.
- (ii) If no depreciation has been provided, ensure that the approval was obtained from the Central Government before declaring dividend.
- (iii) Check whether
 - (1) The depreciation was provided according to provision of section 205(2).
 - (2) The minimum prescribed amount has been transferred to reserves before declaring any dividend.
 - (3) Conditions governing transfer of higher percentage is complied with.
 - (4) A board resolution recommending dividend was passed.
 - (5) Dividend was declared (resolution was passed) only in the Annual General Meeting.
 - (6) Dividend has been paid in the prescribed manner within 30 days of time to the registered holder or their order.
 - (7) Amount of dividend deposited in a separate bank account within five days from the date of declaration of dividend.
 - (8) Permission of Reserve Bank of India has been obtained for payment to non-resident shareholders before the remittance of dividend to their account.
 - (9) Intimation sent to Stock Exchange in the case of listed company.
 - (10) Any complaints of non payment/delayed payment of dividend and the corrective action taken.
- (c) This case requires attention to SA 560 "Subsequent Events", AS 4 "Contingencies and Events occurring after the Balance Sheet Date" and AS 29 "Provisions, Contingent liabilities and Contingent Assets".

As per AS 4 "Contingencies and Events occurring after the Balance Sheet Date", adjustments to assets and liabilities are required for events occurring after the balance sheet date that provide additional information materially affecting the determination of the amounts relating to conditions existing at the balance sheet date. Similarly as per AS 29 "Provisions, Contingent liabilities and Contingent Assets", future events that may affect the amount required to settle an obligation should be reflected in the amount of a provision where there is sufficient objective evidence that the will occur.

In the instant case, the amount of ₹ 1.50 crores is a material amount and it is the result of an event, which has occurred after the Balance Sheet date. The facts have become known to the auditor before the date of issue of the Audit Report and Financial Statements.

The auditor has to perform the procedure to obtain sufficient, appropriate evidence covering the period from the date of the financial statements i.e. 31-3-2013 to the date of Auditors Report ie.31-05-2013. It will be observed that as a result of long pending negotiations a sum of ₹ 1.50 cores representing arrears of salaries of the year 2011-12 and 2012-13 have not been included in the financial statements. It is quite clear that the obligation requires provision for outstanding expenses as per AS 4 and AS 29.

As per SA 560 "Subsequent Events", the auditor should assure that all events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed.

So the auditor should request the management to adjust the sum of ₹ 1.50 crores by making provision for expenses. If the management does not accept the request the auditor should qualify the audit report.

4. (a) Tax Audit Report

- (i) **Borrowal of ₹ 50 Lakhs :** As per Clause 24 of form 3CD the particulars of each loan or deposit taken or accepted during the previous year have to be stated in the Tax Audit Report.

Further, Clause 24 (a) requires reporting in case if the loan or deposit was taken or accepted otherwise than by an account payee cheque or an account payee bank draft". In addition, as per Clause 24(c) the tax auditor has to state whether a certificate has been obtained from the assessee regarding taking or accepting loan or deposit , through an account payee cheque or an account payee bank draft. The mere obtaining of such certificate does not reduce the responsibility of the tax auditor to verify the compliance with the provisions of section 269SS and 269T of the Income Tax Act.

Therefore, in the present case where the assessee has borrowed ₹ 50 Lakhs by way of cash and some of them by way of Account payee cheque/ draft, needs to be verified and to be reported in compliance with Clause 24 of Form 3 CD.

- (ii) **Payment of Rent and Interest:** A tax auditor has to report under Clause 18 of Form 3 CD which deals with the particulars of payments made to persons specified under Section 40A (2) (b). The specified persons include Husband, Wife, Brother, Sister or any other Lineal Ascendant or Descendant.

In the present case, an assessee has paid rent to his brother ₹ 2, 50,000 and interest to his sister of ₹ 4,00,000 may be disallowed if, in the opinion of the Assessing Officer, such expenditure is excessive or unreasonable having regard to:

- (1) the fair market value of the goods, services or facilities for which the payment is made; or

- (2) for the legitimate needs of business or profession of the assessee; or
- (3) the benefit derived by or accruing to the assessee from such expenditure.

Hence this fact needs to be reported in the Tax Audit Report accordingly.

(iii) Payment to Club : As per Clause 17(d) of Form 3 CD the amount of payments made to clubs by the assessee during the year should be indicated.

The payments may be for entrance fees as well as membership subscription and for catering and other services by the club, both in respect of directors and other employees in case of companies and for partners or proprietors in other cases. The fact whether such expenses are incurred in the course of business or whether they are of personal nature should be ascertained. If they are personal in nature, they are to be shown separately under Clause 17(b).

Hence, the tax auditor has to report the payments to clubs under Clause 17 (d) of Form 3CD.

(b) Verification of advances in the Long Form Audit Report (LFAR): The auditor has to comment on various specific issues as mentioned in the Long Form Audit Report of the bank. While evaluating the efficacy of internal controls over advances, the auditor should particularly examine those aspects on which he is required to comment in his long form audit report.

Thus, he should examine :

- (i) Whether the loan applications are complete and in prescribed form;
- (ii) Procedural instructions regarding grant/ renewal/ enhancement of facilities have been complied with;
- (iii) Sanctions are within delegated authority and disbursements are as per terms of the sanction;
- (iv) Documentation is complete; and supervision is timely, effective and as per prescribed guidelines.

The auditor can gather the requisite evidence by examining relevant documents (such as loan application forms, supporting documentation, sanctions, security documents, etc.) and by obtaining information and explanations from the branch management in appropriate cases.

The auditors must familiarise themselves with those issues and guidance relating to the same and should cover the same during the regular course of audit of advances.

(c) Reporting of loan under CARO, 2003

As per Paragraph 4(iii) (a) of CARO, 2003 the auditor has to report whether the company has granted any loans, secured or unsecured to companies, firms or other parties covered in the register maintained under section 301 of the Companies Act, 1956. If so, give the number of parties and amount involved in the transactions; and

further as per Paragraph 4(v)(a) "Whether the particulars of contracts or arrangements referred to in section 301 of the Companies Act, 1956, have been entered in the register required to be maintained under that section"

Hence, in the instant case ABC Private Ltd. has granted loan of ₹ 20 crores to XYZ Ltd., a sister concern needs to be reported as per Paragraph 4 (iii) (a) and 4 (v) (a) of CARO, 2003

5. (a) Auditor's responsibilities in cases where audit report for an earlier year is qualified is given in SA 710 "Comparative Information – Corresponding Figures and Comparative Financial Statements". As per SA 710, When the auditor's report on the prior period, as previously issued, included a qualified opinion, a disclaimer of opinion, or an adverse opinion and the matter which gave rise to the modified opinion is resolved and properly accounted for or disclosed in the financial statements in accordance with the applicable financial reporting framework, the auditor's opinion on the current period need not refer to the previous modification.

SA 710 further states that if the auditor's report on the prior period, as previously issued, included a qualified opinion and the matter which gave rise to the modification is unresolved, the auditor shall modify the auditor's opinion on the current period's financial statements. In the Basis for Modification paragraph in the auditor's report, the auditor shall either:

- (i) Refer to both the current period's figures and the corresponding figures in the description of the matter giving rise to the modification when the effects or possible effects of the matter on the current period's figures are material; or
- (ii) In other cases, explain that the audit opinion has been modified because of the effects or possible effects of the unresolved matter on the comparability of the current period's figures and the corresponding figures.

In the instant Case, if Jay Ltd does not make provision for doubtful debts the auditor will have to modify his report for both current and previous year's figures as mentioned above. If however, the provision is made, the auditor need not refer to the earlier year's modification.

(b) Reporting under CARO, 2003

- (i) LMN Pvt Ltd is a dealer in shares and securities. Clause (xiv) of CARO, 2003 is applicable to a company in case it is dealing or trading in shares, securities, debentures and other investments. The requirements applicable to LMN Pvt Ltd would be as under:
 - whether proper records are maintained for transactions and contracts;
 - whether timely entries are made in such records; and
 - whether shares, securities, debentures and other investments have been held by the company in its own name except to the extent of exemption, if any granted under section 49 of the Companies Act, 1956.

In case auditor is satisfied in respect of aforesaid matters, after making examination, the auditor may report as under:

"In our opinion, and according to information and explanation given to us, the company has been maintained proper records in respect of transactions and contracts in securities during the year and timely entries have been made therein. Further, all shares and certificates are held by the company in its own name."

- (ii) In the case of Q Pvt. Ltd, if purity of gold is not properly disclosed on the jewellery it amounts to defrauding the customers. That means the management is deceiving customers to obtain an illegal advantage. However, the auditor is concerned with fraudulent acts that cause a material misstatement in financial statements. As long as books of account are not falsified arising out of difference in the purity of gold, i.e., actual cost of the gold and the sale price of gold, it has no implication for the auditor. Further, under CARO, 2003, the auditor may examine this from the view point of maintaining proper records of inventory. But even the requirement of maintaining proper records does not necessitate that purity as such should be mentioned on the gold itself. However, the purity of gold would have implication on the valuation of inventory. But this aspect is not required to be reported under CARO, 2003.

Thus, from the view point of reporting on frauds under CARO, 2003, there is no implication for misstatement in the financial statements. Hence, no reporting is necessary for non-proper disclosure of purity of gold on the jewellery.

6. Auditor's report on the Companies Act, 1956 (the Act)

- (i) **Report to Shareholders U/s 227:** Section 227 of the Act lays down powers and duties of the auditor. Sub-sections (2), (3), (4) and (4A) of Section 227 deal with reporting requirements. Sub-section (2) states that the auditor of a company shall make a report to the members on the accounts examined by him and on every balance sheet and profit and loss account which are laid before company in general meeting during the tenure of his office. The significance of the report lies in the fact that it requires that the report shall state whether in his opinion and to the best of his information and according to the explanations given to him the said accounts give the information required by the Act in the manner so required and give a true and fair view.

The functional approach by the auditor for making a report u/s 227 of the Act, requires him to perform compliance and substantive audit procedures to verify the information contained in the financial statements. Having regard to the materiality of the items involved, the auditor also determines whether the relevant information is properly disclosed in the financial statements.

- (ii) **Report to be set out in the prospectus u/s 60(3):** Section 60(3) of the Act provides that a prospectus should be accompanied *inter alia* by the consent in

writing of the person named therein as the auditor of the company or intended company, to act in that capacity. Part II of Schedule II to the Act prescribes the reports to be set out in a prospectus. The report contains particulars about profit and losses of the company for five preceding year, assets and liabilities, rates of dividend, etc. The significance of the report lies in the fact that a prospectus is issued by a company when it seeks to raise funds from the public and gives detailed information about the company to enable prospective investors to take a well-informed decision. The functional approach on the part of auditor involves obtaining information from the management, particularly, in respect of estimation of current and future profits. He has to also ensure that all adjustments have been made properly.

(iii) Special Audit Report U/s 233A: Under section 233A of the Act, the Central Government has a power to order a special audit of the accounts of a company for a specified period. An order to conduct special audit of the accounts of a company may be made where the Central Government is of the opinion that:

- (a) the affairs of the company are not being managed in accordance with sound business principles or prudent commercial practices; or
- (b) the company is being managed in a manner likely to cause serious injury or damage to the interests of the trade, industry or business to which it pertains; or
- (c) the financial position of the company is such as to endanger its solvency.

The main objective of such an audit is to provide a critical review of the company's working and state of affairs to the government. Special audit should be distinguished from 'investigation' into the affairs of a company under section 235 of the Act. The special auditor has the same powers and duties which a company auditor has under section 227 of the Act, with the difference, however, the instead of making his report to the members of the company, the special auditor makes the report to the central government. The special audit report should, as far as possible, include all the information required to be included in an audit report under section 227 of the Act. However, the central government may direct that the special audit report shall also include a statement on any other matter referred to the special auditor by the government.

(iv) Report on the accounts prepared on voluntarily winding up u/s 488 (1): Section 488(1) of the Act requires that where it is proposed to wind up a company voluntarily, its directors, or in case the company has more than two directors, the majority of the directors, may at a meeting of the Board, make a declaration verified by an affidavit, to the effect that they have made a full inquiry into the affairs of the company, and that, having done so, they have formed the opinion that the company has no debts, or that it will be able to pay its debts in full within such period not exceeding three years from the commencement of the winding up as may be specified in the declaration. Such declaration has to be accompanied by a copy of the report of the auditors of the company (prepared, as far as circumstances admit,

in accordance with the provisions of this Act) on the profit and loss account of the company for the period commencing from the date up to which the last such account was prepared and ending with the latest practicable date immediately before the making of the declaration and the balance sheet of the company made out as on the last mentioned date and also embodies a statement of the company's assets and liabilities as at the date.

7. (a) **Walk through Tests:** A walk through is a procedure in which an auditor traces a transaction from its initiation through the company's information systems to the point when it is reflected in the financial reports. The auditor should perform one walk through, at a minimum, for each major class of transactions. A walk-through provides evidence to confirm that the auditor understands (1) the process flow of transactions, (2) the design of identified controls for internal control components, including those related to preventing and detecting fraud, and (3) whether all points in the process have been identified at which misstatements related to relevant financial statement assertion could occur. Walk through also provide evidence to evaluate the effectiveness of the controls design and confirm that the controls have been placed in operation.

When performing a walk-through, the auditor should:

- (i) Be sure that the walk-through encompasses the complete process (initiation, authorization, recording, processing and reporting) for each significant process identified, including controls intended to address fraud risk.
- (ii) Ask the entity's personnel, at each of key stage in the process, about their understanding of what the company's prescribed procedures require.
- (iii) Determine whether processing procedures are performed as expected on a timely basis, and look for any exceptions to prescribed procedures and controls.
- (iv) Evaluate the quality of evidence provided and perform procedures that produce a level of evidence consistent with the auditor's objectives. The auditor should follow the whole process, using the same documents and technology that company staff use, asking questions of different personnel at each significant stage and asking follow- up questions to identify any abuse of controls or fraud indicators.

Once a walk-through is performed, the auditor may carry forward the documentation, noting updates, unless significant changes make preparation of new documentation more efficient. If such significant changes occur in the process flow of transactions or supporting computer applications, the auditor should evaluate the nature of changes and the effect on related accounts. The auditor should determine whether it is necessary to walk through transactions that were processed both before and after the change.

- (b) **Vostro and Nostro Accounts:** Banks maintain stocks of foreign currencies in the form of Bank Accounts with their overseas branches/correspondents. Such foreign

currency accounts maintained by Indian banks at other overseas centres are designated by it as "Nostro Account". For example, all banks in India would be maintaining a US Dollar Account with their New York office/branch/correspondents, such account would be designated by the Indian office as Nostro Account. "Vostro Account" is the opposite of Nostro accounts. Here a foreign bank in another country maintains stocks of Indian rupees with their Indian branch/ correspondent/local bank, such Indian Rupee Accounts are designated as Vostro Accounts. For example, a German Bank might maintain a Vostro Account in rupees in terms with Indian Bank. While examining the transaction in foreign exchange, the auditor should also pay attention to reconciliation of Nostro Accounts with the respective minor account. The amount in the Nostro account is stock of foreign currency in the form of bank accounts with the overseas branches and correspondents. Unreconciled Nostro Accounts, on an examination, may reveal unauthorized payments from the foreign currency account, unauthorized withdrawals, and unauthorized debit to minor account. The auditor should also evaluate the internal control with regard to inward/ outward messages. The inward/ outward messages should be properly authenticated and discrepancies noticed, should be properly dealt with, in the books of accounts.

The auditor should also verify whether prescribed procedure in relation to inter bank confirmation in the Vostro account is followed or not. In case balance confirmation certificate have been received but the same have not been reconciled, or where confirmation has not been received the same should be reported, in respect of each Vostro Account.

- (c) **Frauds through suppliers ledger:** Fraud through suppliers ledger could be made in any of the following ways, which the auditor has to take care of:
- (i) Adjusting fictitious as duplicate invoices as purchases in the accounts of suppliers and subsequently misappropriating the money when payments are made in respect of these invoices.
 - (ii) Suppressing credit notes issued by suppliers and withdrawing the corresponding amount not claimed by them.
 - (iii) Withdrawing amounts which remain unclaimed for more than the normal time limit for one reason or other by showing the same have been paid to the parties.
 - (iv) Accepting invoices at prices considerably higher than the market price and collecting the excess claim from the suppliers directly.
- (d) **Mark to Market Margin (MTM) :** MTM margin is the notional loss, which a stock member or his client would incur, if the net cumulative outstanding positions in all securities were closed out at the closing price of the relevant trading day, which is different from the price at which the transaction had been entered into. For each security, this is worked out by multiplying the difference between the closing price and the price at which the trade was executed by the cumulative buy and sell open

position (for buy position the close price being lower than actual trade price and for sell position the close price being higher than actual trade price). The aggregate amount computed across all securities is MTM margin payable by a member. The mark-to-market margin is payable with reference to net position at client's level.

- (e) **Peer Review:** The term "peer" means a person of similar standing. The term "review" means conduct of re-examination or retrospective evaluation of the subject matter. In general, for a professional, the term "peer review" would mean review of work done by a professional, by another professional of similar standing. 'Peer Review' is defined as, a regulatory mechanism for monitoring the performances of professionals for maintaining quality of service expected of them for enhancing the reliance placed by the users of financial statements for economic decision-making.

As per the Statement of Peer Review issued by the Institute of Chartered Accountants of India, Peer Review means an examination and Review of the systems and procedures to determine whether the same have been put in place by the Practice Unit for ensuring the quality of assurance services as envisaged by the Technical, Professional and Ethical Standards and whether the same were consistently applied in the period under review. The examination and review of a practice unit would be carried out by a "reviewer", i.e., a member, selected from a panel of reviewers maintained by the Board. The term "practice unit" means members in practice, whether practising individually or as a firm of Chartered Accountants.