PAPER – 3 : ADVANCED AUDITING

Answer Question Nos. 1 and 2 and any four from the rest.

Question 1

As a Statutory Auditor, how would you deal with the following?

(a) Mr.Rajesh is appointed as the auditor of NOIDA Travels Ltd. with audit fees of Rs. 35,000. He purchased air ticket from Delhi to Kolkata and back for Rs. 18,000 from the client for his personal work and the amount remains unpaid at the end of the year as it is a general practice of the client to give credit to all. Mr. Rajesh claims that he does not incur any disqualification as contained in Section 226(3)(d) of the Companies Act.

(5 Marks)

(b) Apex Ltd., a well reputed manufacturing public limited company has made a contribution of Rs. 2.5 lacs during the financial year ended 31.3.06 to a political party for running a school, situated in the village, where most of the workers of the company reside. It is admitted that the benefit of the school is mostly for the children of the workers of the company. The company has not made any profits in the last four years. (4 Marks)

(c) Dark Ltd. has received a grant of Rs.20 lacs under the Government's Subsidy Scheme for acquiring an imported machinery for setting up an oil exploration plant and the entire grant received is credited to Profit and Loss account. (Marks 4)

(d) You notice a misstatement resulting from fraud or suspected fraud during the audit and conclude that it is not possible to continue the performance of audit. (5 Marks)

Answer

(a) Disqualification of auditors: The guidance note on "Independence of Auditors" issued by the ICAI in this context recommends that "a question of indebtedness may also be raised where an auditor of a company purchases goods or services from the company audited by him. In such a case, if the amount outstanding exceeds Rs. 1000, irrespective of the nature of the purchase or period of credit allowed to other customers, the provisions concerning disqualification of auditor as contained in sec 226 (3) (d) will be attracted. This is applicable in the case of purchase of air tickets for personal work by the auditor of a company on normal terms and conditions of the business of the company as the amount outstanding at the end of the year exceeded Rs. 1000. Therefore, the contention of Mr. Rajesh that he does not incur disqualification is not correct as he has purchased a ticket of the value of Rs. 18,000. The provisions concerning disqualifications of auditor as contained in Sec 226 (3) (d) will be attracted.

(b) Restrictions regarding political contribution: Section 293-A of the Companies Act 1956 deals with prohibitions and restrictions regarding political contribution. A non-Government company which has been in existence for not less than three years may contribute any amount or amounts directly or indirectly to any political party or for any political purpose to any person provided that the aggregate of the amounts which may be so contributed by a company in any financial year shall not exceed 5% of its average net profits determined in accordance with the provisions of Section 349 and 350 during the three immediately preceding financial years. The company in question has not made any profit in last four years and contributed Rs. 2.5 lacs during the year to a political party for running a school. This is violation of the provisions of Section 293-A of the Companies Act although the children of its workers are benefited. The auditor would have to qualify his report stating the contravention of the provisions of the Companies Act.

(c) Accounting for Government Grants (AS-12): According to AS 12 where Government grant is received for the acquisition of a specific fixed assets, the same can not be credited to Profits and Loss Account. It fails to match revenue with the cost. As per AS 12, it should be presented in the Balance Sheet showing the grant as a deduction from the gross value of the asset concerned in arriving at its book value. Alternatively, the Government grants related to a depreciable fixed asset may be treated as deferred income which should be recognised in the Profit and Loss Account on a systematic and rational basis over the useful life of the asset. By crediting the entire amount of grant to Profit and Loss Accounts the company has treated it as a revenue income which is not in accordance with the requirements of the accounting standard. Therefore, the statutory auditor would have to qualify the impact that the income has been overstated to appropriately that extent in qualifying the audit report. Qualify appropriate stated that income has been over stated to the extent of the amount of grant net of proportionate credit that would have been worked out.

(d) Impossibility to continue the performance of audit: If an auditor concludes that it is not possible to continue the performance of auditing because of misstatement resulting from fraud or suspected fraud, he should take action in accordance with the requirement of AAS 4 "The Auditor's Responsibility to consider Fraud and Error".

   (i) He should consider the professional and legal responsibilities applicable in the circumstances including whether there is a requirement for the auditor to report to the person(s) who made the audit appointment.

   (ii) He should consider whether he has to report to the regulatory authorities.

   (iii) If the auditor withdraws, he should discuss with the appropriate level of management and those who charged with the governance about the reasons for the withdrawal.

   In view of the exceptional nature of circumstances and the need to consider the legal requirement, he may also seek legal advice for determining the appropriate course of action.

Question 2

Comment on the following with reference to the Chartered Accountants Act, 1949 and schedules thereto:

(a) Mr. Rahul, a locally based Chartered Accountant, accepted an audit assignment at a fee lower than that charged by the previous auditor, who was stationed in another town and had to spend a lot of money on travel for which he did not charge separately. (4 Marks)

(b) The superannuation-cum-pension fund for the employees of a company was under a separate 'trust'. Both the company and the trust were under the same management. The auditor, who was auditing the accounts of the company as well as the trust noted some irregularities in the operation of the trust and commented upon these irregularities in the confidential report given to the trustees, but did not mention about these irregularities in his report on the Annual accounts of the Trust. (5 Marks)

(c) M/s XYZ a firm of Chartered Accountants received Rs. 2 lakhs in January, 2006 on behalf of one of their clients, who has gone abroad and deposited the amount in their Bank account, so that they can return the money to the client in July, 2006, when he is due to return to India. (5 Marks)

(d) Mr. J.J. a practicing Chartered Accountant engages himself as part time finance manager of Quick Return Securities Ltd. He is of the view that as both functions are independent, he need not take permission from the Institute. (4 Marks)

Answer

(a) Undercutting of fees: The case of Mr. Rahul should be analysed in the light of clause 12 of Part I of First Schedule to the Chartered Accountants Act, 1949. Clause 12 of the said Schedule deems a Chartered Accountant in practice to be guilty of professional misconduct "if he accepts a position as auditor previously held by some other chartered Accountant or a restricted state auditor in such conditions as to constitute undercutting''. In considering whether variation in fees charged would constitute undercutting the following factors should be considered:

- the quantum of work;
- incidental and out of pocket expenses and
- other terms of appointment.

Since the previous auditor was stationed in another town and therefore, had to incur higher cost on account of conveyance, and the previously the fee was decided on a composite basis inclusive of traveling expenses of the auditor, it cannot be said that Mr. Rahul has accepted an audit assignment based on under cutting of fees. Accordingly, Clause 12 will not be attracted.

(b) disclosure of material facts: A chartered Accountant in practice is deemed to be guilty of professional misconduct under clause 5 of Part I of the Second Schedule if he "fails to disclose a material fact known to him which is not disclosed in a financial statement but disclosure of which is necessary to make the financial statement not misleading". In this case, the Chartered Accountant was aware of the contraventions and irregularities committed by the trust as these were referred to in the confidential report given by the Chartered Accountant to the trustees of the company. However, he had issued the annual accounts without any qualification. On similar facts it was held by the Supreme Court in Kishorilal Dutta Vs. P. K. Mukherjee that it was the duty of the Chartered Accountant to have disclosed the irregularities and contravention to the beneficiaries of the fund in the statement of accounts signed by him. Accordingly, in the present case also it has to be held that the Chartered Accountant is guilty of professional misconduct if the amount of irregularities is proved material.

(c) Money of clients to be deposited in separate bank account: Clause 10 of Part I of Second Schedule states that a Chartered Accountant shall be deemed to be guilty of professional misconduct if "he fails to keep money of his clients in separate banking account or to use such money for the purpose for which they are intended."

XYZ received the money in January, 2006 which is to be paid only in July 2006, hence it should be deposited in a separate bank account. Since in this case XYZ have failed to keep the sum of Rs. 2 lakhs received on behalf of their client in a separate Bank Account and it amounts to professional misconduct under clause 10 of part I of Second Schedule.

Connected case Law : Mr. R. S. Murugai Vs. (1) S K Gadh & (2) V. K. Bajaj

(d) Engaging in any business other than the profession of CA: Clause II of Part I of First Schedule of CA Act, 1949 states that a Chartered Accountant is deemed to be guilty of professional misconduct if he engages in any business other than the profession of Chartered Accountant unless permitted by the Council for the same.

In the given case Mr. J. J. a practicing Chartered Accountant is engaging himself as part time Finance Manager without the permission of the Institute which is a misconduct attracted by clause II of Part I of First Schedule.

This is similar to a reported case in Anil Kumar in Re

Question 3

(a) Draft audit report u/s 227(3)(f) of the Companies Act, 1956 on the following three situations in respect XYZ Ltd. as on 31.3.2006:

(i) Where all directors have given written representations that they have not defaulted u/s 274(1)(g) of the Companies Act, 1956. (2 Marks)

(ii) Where one of the directors, Mr. Flexible has failed to produce written representation that he has not defaulted u/s 274(1)(g) of the Companies Act, 1956. (3 Marks)

(iii) Where on the basis of written representations received from the directors it is noticed that one of the directors, Mr. Rigid has defaulted in terms of Section 274(1)(g) of the Companies Act, 1956. (3 Marks)

(b) State the important characteristics of an effective system of Computer Audit Programme. (8 Marks)

Answer

(a) Draft audit report u/s 227 (3) (f):

(i) Where the directors have not defaulted :

"On the basis of the written representations received from the directors and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31 March, 2006 from being appointed as a directors in terms of Section 274(1)(g) of the Companies Act, 1956."

(ii) Where one of the directors failed to produce written representation.

"Mr. Flexible who is also a director of XYZ Ltd. has not produced any written representation to the company as to whether XYZ Ltd. as at 31.03.06 had not defaulted in terms of Section 274(1)(g) of the companies Act. In the absence of the representation we are unable to comment whether Mr. Flexible is disqualified from being appointed as director in terms of section 274(1)(g). As far as other directors are concerned on the basis of the written representation received from such directors and taken on record by the Board, we report that none of the remaining directors is disqualified as on 31.3.2006 from being appointed as a director in terms of Section 274(1) (g) of the Companies Act, 1956".

(iii) Where a director is found to be disqualified.

"On the basis of the written representation received from Mr. Rigid who is a director of XYZ Ltd. as on 31.3.2006 and taken on record by the board, we report that Mr. Rigid is disqualified from being appointed as a director in terms of Section 274(1) (g) of the Companies Act, 1956. As far as other directors are concerned, on the basis of written representations received and taken on record by the board we report that none of the remaining directors is disqualified as on 31.3.2006 from being appointed as director in terms of Section 274 (1) (g) of the Companies Act."

(b) Important characteristics of an effective system of computer audit program:

(i) The system has to be simple to use and eliminate the need to remember countless details normally required in writing or revising computer programs.

(ii) It has to be easily understandable even by those with little computer expertise and easy to use.

(iii) It has to be capable of being used with different configuration of computers.

(iv) The package has to include adequate support at the time of installation, provide adequate training to the staff and to provide documentation. There should be a provision for future revision of the program.

(v) The package should have statistical sampling capability.

(vi) The system has to be acceptable to all users in terms of easy execution and compatible with the existing system.

(vii) The program has to be capable of processing different types of applications.

(viii) The program should have strong report writing function including the ability to prepare multiple reports in a single program run and to generate flexible output report formats.

Question 4

(a) Enumerate the main areas to be covered by the auditor in the case of environment audit of an industrial unit. (8 Marks)

(b) State the salient features of the directions to the auditors of Government companies issued by the Comptroller and Auditor General of India u/s 619(3) of the Companies Act, 1956 in relation to :

(i) Assets and Investments, and

(ii) Inventory and Contracting (8 Marks)

Answer

(a) Main areas to be covered in the case of environment audit of an industrial unit:

(i) Layout and design of the factory to provide for the installation pollution control devices with provision for upgradation of pollution control measures to meet regulatory authorities' requirements. Areas of deficiency to be included in the report.

(ii) The use of all resources such as air, water, land, energy, raw material and human resources with minimum waste and interlinking for best results to be looked into and reported.

(iii) It has to be reported whether all pollution control measures in vogue are effective with reference to the type of industry, nature of working and grade of polluting the environment.

(iv) Availability of adequate trained staff and safety amenities with provision for constant upgradation to be verified.

(v) Availability of adequate health care provisions and medical facilities for the workers to be looked into.

(vi) Availability of proper system to eliminate industrial unhygienic state.

(vii) Availability of adequate safeguard against occupational health hazards depending upon the nature of industry to be verified.

(viii) Existence of adequate information system and reporting of compliance of statutory legal provisions to the board at regular intervals to be verified.

(ix) Compliance of regularly mechanism by way of updating the existing environment system with the latest changes in the regulations to be looked into.

(x) It has to be verified as to how social aspects are addressed by the industry as they have an obligation to protect the society from pollution hazards of the industry.

(b) (i) Assets and Investments :

(i) Have the dates of installation and commissioning of plant and Machinery been clearly fixed by the authority to whom the powers have been delegated by the board?

(ii) Indicate whether the property and assets registers are posted upto date and are reconciled with the financial books?

(iii) Examine and indicate whether the company has a system of monitoring the timely recovery of outstanding dues? Highlight the significant instances of failure of the system, if any.

(iv) Indicate whether the cash and imprest balances were physically verified during the year on a regular basis by an authorized officer? Highlight the inadequacies in this regard, if any.

(v) Indicate whether the company has laid down an investment policy? If yes, please indicate the following:

(a) Authority which approved the policy. (b) Is it in accordance with the laws, rules and regulations applicable to the company? (c) in our opinion are there any defects in the policy? (d) Has the company followed it in case of all material investments made during the year? (e) Were the investments made by the company in its the best interest. (f) Is the short fall in the market value of the current investments and permanent diminution in the value of long terms investments reflected in the books? If not, describe the failure.

(vi) Indicate whether the deposits with Banks/ financial Institutions and others have been in accordance with laws, rules, regulations etc. applicable to the company? Further state whether these were properly authorized by the competent authorities.

(ii) Inventory and contracting :

(i) Examine whether the company has prescribed the following in regard to the management to stores:

a. Maximum and minimum limits of stores and spares.

b. Economic order quantity for procurement of stores.

(ii) Indicate whether the company usually makes advance payments to suppliers contractors? If so indicate whether the company has an efficient system for monitoring and adjusting such advances?

Question 5

(a) Explain the propriety elements in the Companies (Auditors) Report Order, 2003.(8 Marks)

(b) "The auditors should communicate audit matters of governance interest arising from the audit of financial statements with those charged with the governance of an entity". Briefly state the matters to be included in such Communication. (8 Marks)

Answer

(a) Propriety elements in CARO 2003:

(i) If a company has given or taken loans, secured or unsecured to/ from companies, Firms or other parties listed in the register maintained u/s 301 of the Companies Act, whether the rate of Interest and other terms and conditions of such Loans are prima facie prejudicial to the interest of the company.

(ii) If overdue amount of loan given to or taken from companies, firms or other parties listed in the register maintained u/s 301 of the Companies Act is more than one

Lakh, what reasonable steps have been taken by the company for recovery/ payment of the principal and interest.

(iii) Whether the particulars of contracts or arrangements referred to in sec 301 of the Act have been entered in the register required to be maintained. To ensure the transactions entered in the register maintained u/s 301 have been made at prices which are reasonable at the relevant time.

(iv) Whether the company is regular in depositing undisputed statutory dues including PF, income tax, sales tax, customs, excise duties and other statutory dues and if not , the arrears outstanding for more than 6 months from the date they became payable shall be indicated.

(v) Whether the company has made any preferential allotment of shares to parties covered in the register maintained u/s 301 and if so, whether the price at which they were issued is prejudicial to the interests of the company.

(b) Communications of audit matters with those charged with governance (AAS 27): AAS 27 deals with communications of audit matters with those charged with governance.

The following are the audit matters of governance interest which are to be communicated.

(i) The general approach and overall scope of audit including expected limitations.

(ii) The selection of or change in significant accounting policies and practices that have a material effect on the entity's financial statements.

(iii) The potential effect on the financial statements of any significant risks and exposures.

(iv) Adjustment to financial statements arising out of audit which have a significant effect on the financial statement.

(v) Material uncertainties that may cast significant doubt on the entity's ability to continue as a going concern.

(vi) Disagreement with management on matters which could have significant impact to the financial statements and to audit report.

(vii) Expected modifications to the audit report.

(viii) Others matters like material weakness in internal control measures, questions on management integrity and fraud involving management.

(ix) Other matters agreed in terms of audit engagement.

Question 6

Explain the scope of concurrent audit of a bank with reference to Reserve Bank of India guidelines. (16 Marks)

Answer

Scope of concurrent audit of banks with reference to RBI guidelines:

The following are the areas to be covered:

(i) Daily cash transactions with reference to abnormal receipts and payments. This will include currency chest transactions, major expenses met by cash, high value receipts and disbursements.

(ii) Purchase and sale of shares securities etc. Physical verification of investments and rates at which they are entered into.

(iii) Verification of procedure and documentation to open new current, savings, term deposit accounts, etc. Unusual operations noticed have to be thoroughly examined.

(iv) Verification of advances, overdrafts, temporary OD, Cash credit accounts, term loans, bills purchase, letters of credit etc. Procedure for sanction and documentation to be verified. Any deviation noticed to be examined in great detail.

(v) Foreign exchange transactions to be verified with reference to RBI guidelines.

(vi) Verification of balancing of all ledgers and registers, inter branch reconciliation calculation and verification of interest, discount, commission etc.

(vii) Revenue leakage to be detected.

(viii) Special efforts to be made in all fraud prone areas. The attempt should be to ensure that all effective measures are taken to prevent frauds.

(ix) Verification of high value transactions.

(x) Procedure for safe custody of security forms with the branch.

(xi) Whether all procedures for tax deduction at source are followed and the tax so deducted are deposited into Government Account within the time fixed.

(xii) Verification of returns, statements, calculation of capital adequacy ratio and compliance with requirements of government business.

(xiii) Study of RBI and Internal Inspection reports statutory auditors report and compliance thereto.

(xiv) Whether the customers' complaints are dealt with promptly.

Question 7

(a) (i) What are general matters to be considered by an auditor while taking up a engagement?

(ii) What are the major sources of obtaining information about the client's business?

(4x2=8 Marks)

(b) State the reporting responsibility of an auditor in the context of non-compliance of Law and Regulation in an audit of Financial Statement. (8 Marks)

Answer

(a) (i) General matters to be considered while taking up a new engagement:

General Economic factors: General level of economic activity (for example, recession, growth)

(i) The market and competition

(ii) Cyclical or seasonal activity

(iii) Government policies

The industry: important conditions affecting the client's business

(i) The market and competitions

(ii) Cyclical or seasonal activity

(iii) Changes in product technology

(iv) Business risk

The entity:

(i) Management and ownership- important characteristics

(ii) Operating Management

(iii) The entity's business – products markets, suppliers, expenses, operations.

  (a) Nature of business(es) (for example manufacturing whole seller, financial services, import/ exports)

  (b) Location of production facilities, warehouses, offices.

  (c) Employment (for example, by location, supply, wage levels, union contracts, pension commitments, Government regulation)

  (d) Products or services and markets.

(iv) Financial performance– factors concerning the entity's financial condition and profitability.

(v) Reporting environment- external influences which affect management in the preparation of the financial statements.

(vi) Legislation:

  (a) Regulatory environment and requirements

  (b) Taxation both direct and indirect.

(ii) Information about the client's business: The auditor can obtain information about client's business from the following sources:

(i) The client's annual Reports to shareholders;

(ii) Minutes of meetings of shareholders, board of directors and important committees;

(iii) Internal financial management report for current and previous periods, including budgets, if any;

(iv) The previous year's audit working papers, and other relevant files;

(v) Firm personnel responsible for non audit services to the client who may be able to provide information on matters that may affect the audit;

(vi) Discussions with the client;

(vii) The client's policy and procedures manual;

(viii) Relevant publications of the Institute of Chartered Accountants of India and other professional bodies, industry publication, trade Journals, magazines, newspapers or text books;

(ix) Consideration of the state of the economy and its effects on the client's business;

(x) Visits to the client's premises and plant facilities to the management.

(b) Reporting responsibility of an auditor in the context of non-compliance of Law and Regulation: The auditor should as soon as practicable, either communicate with the audit committee, the Board of Directors and senior management or obtain evidence that they are appropriately informed regarding non-compliance that comes to the auditors attention.

If in the auditor's Judgment, the non compliance is believed to be intentional and/ or material, the auditor should communicate the findings without delay.

If the auditor suspects that members of senior management, including members of the Board of Directors, are involved in non-compliance, the auditor should communicate the matter to the next higher level of authority at the entity, such as, the audit committee or Board of Directors, to the users of the auditors report or financial statements.

If the auditors concludes that the non-compliance has a material effect on the financial statements and has not been properly reflected in the financial statements the auditor should express a qualified or an adverse opinion.

If the auditor is precluded by the entity from obtaining sufficient and appropriate audit evidence to evaluate whether non-compliance is, or is likely to have occurred that have or may have material impact on the financial statements, the auditor should express a qualified opinion or a disclaimer of opinion on the financial statements on the basis of a limitation on the scope of the audit.

If the auditor is unable to determine whether non compliance has occurred because of limitations imposed by the circumstances rather then by the entity, the auditor should consider the effect on the auditor's report.

The auditor's duty of confidentiality would ordinarily preclude reporting non compliance to a third party. However, in certain circumstances, that duty of confidentiality is overridden by statement, law or by courts of laws.

Question 8

Write short notes on any four of the following:

(a) Effect of uncertainties on revenue recognition

(b) Powers and duties of an auditor of a Multi-state Cooperative Society

(c) Solvency margin in case of an insurer carrying on general insurance business

(d) Reporting on a compilation engagements

(e) Types of market under NEAT (National Exchange Automated Trading).

(f) Broad objectives of operational audit. (4x4=16 Marks)

Answer

(a) Effect of uncertainties on Revenue recognition: Para 9 of AS 9 "Revenue Recognition" deals with the effect of uncertainties on revenue recognition. The Para states:

(i) Recognition of revenue requires that revenue is measurable and at the time of sale or the rendering of the service it would not be unreasonable to expect ultimate collection.

(ii) Where the ability to assess the ultimate collection with reasonable certainty is lacking at the time of raising any claim, e.g. for escalation of price, export incentives, interest etc., revenue recognition is postponed to the extent of uncertainty involved. In such cases it may be appropriate to recognize revenue only when it is reasonably certain that the ultimate collection will be made. When there is no uncertainty as to ultimate collection, revenue is recognized at the time of sale or rendering of service even though payments are made by instalments.

(iii) When the uncertainty relating to collectability arises subsequent to the time of sale or rendering of the service, it is more appropriate to make a separate provision to reflect the uncertainty rather than to adjust the amount of revenue originally recorded.

(iv) When recognition of revenue is postponed due to effect of uncertainties, it is considered as revenue of the period in which it is properly recognised.

(b) Powers and duties of an auditor of a Multi-state Cooperative Society: Under Section 73 of the Multi-State Cooperative Societies Act, 2002 every auditor of a multi – State Co-operative Society shall have a right of access at all times to the books, accounts and vouchers of the Multi-State Co-operative Society whether kept at the head office of the Multi-State Co-operative Society or elsewhere and shall be entitled to require from the officers or other employees of the Multi-State Co-operative Society such information and explanation as the auditor may think necessary for the performance of the duties as an auditor.

As per section 73 (2) the auditor shall make the following inquiries:

(a) Whether loans and advances made by the Multi-State Co-operative Society on the basis of security have been properly secured and whether the terms on which they have been made are not prejudicial to the interests of the Multi-State Co-operative or its members;

(b) Whether transactions of the Multi-State Co-operative Society which are represented merely by book entries are not prejudicial to the interest of the Multi-State Co-operative Society;

(c) Whether personal expenses have been charged to revenue account; and

(d) Where it is stated in the books and papers of the Multi-State Co-operative Society that any shares have been allotted for cash, whether cash has actually been received in respect of such allotment, and if no cash has actually been so received, whether the position as stated in the account books and the balance sheet is correct, regular and not misleading.

(c) Solvency margin in case of an insurer carrying on general insurance business: In case of an insurer carrying on general insurance business, the solvency margin should be the highest of the following amounts :

(i) fifty crore rupees (one hundred crores of rupees in case of reinsurer), or

(ii) a sum equivalent to twenty percent of the net premium income; or

(iii) a sum equivalent to thirty percent of net incurred claims.

Subject to credit for reinsurance in computing net premiums and net incurred claims being actual but a percentage, determined by the regulation but not exceeding fifty percent. It may be noted that conditions regarding maintenance of the above mentioned solvency margin may be relaxed by the authorities in certain special circumstances.

If, at any time, an insurer does not maintain the required solvency margin, the insurer is required to submit a financial plan to the authority indicating the plan of action to correct the deficiency in the solvency margin. If, on consideration of the plan, the authority finds it inadequate the insurer has to modify the financial plan.

Sub-section (2c) of Sec 64 A states that if an insurer fails to comply with the requirements of the insurance Act, 1938, it shall deemed to be insolvent and may be wound up by the court.

(d) Reporting on a compilation engagements: The report on compilation engagements should ordinarily, be in the following layout:

(i) Title – The title of the report should be "Accountants Report on compilation of un-audited financial Statements."

(ii) Addressee : The report should ordinarily be addressed to the appointing authority.

(iii) Identification of the financial information also noting that it is based on the information provided by the management.

(iv) When relevant, a statement that the accountant is not independent of the entity;

(v) A statement that the Management is responsible for :

* Completeness and accuracy of the underlying data and complete disclosure of all material and relevant information to the accountant;
* Maintaining adequate accounting and other records and internal controls and selecting and applying appropriate accounting policies;
* Preparation and presentation of financial statements or other financial information in accordance with the applicable laws and regulation, if any;
* Establishing controls to safeguard the assets of the entity and preventing and detecting frauds or other irregularities.
* Establishing controls for ensuring that the activities of the entity are carried out in accordance with the applicable laws and regulations and preventing and detecting any non-compliance.

(vi) A statement that the engagement was performed in accordance with the Auditing and Assurance Standards.

(vii) A statement that the neither an audit nor a review has been carried out and that accordingly no assurance is expressed on the financial information.

(viii) A paragraph, when considered necessary, drawing attention to the disclosure of material departures from the identified financial reporting framework.

(ix) Date of the report.

(x) Place of signature.

(xi) Accountant's signature.

(e) Type of markets under NEAT

(i) Normal Market: All orders of regular lot size or multiples thereof are traded in the normal market. Normal market consists of regular lot orders, special term orders, negotiated trade order and stop loss order depending on their order tributes.

(ii) Odd Lot Market: If the order size is less than the regular lot size such orders are traded in the odd lot market. In an odd lot market both the price and quantity of both the orders (buy and sell) should exactly match for the trade to take place.

(iii) Spot Market: Spot orders are similar to normal market orders except that spot orders have different settlement periods vis-a-vis normal market.

(iv) Auction Market: In the auction market, auctions are initiated by the exchange on behalf of trading members, for completing the settlement process.

(f) Broad objectives of operational audit :

(i) Appraisal of controls: Operations and the results in which management is interested are largely a matter of control. If controls are effective in design and are faithfully adhered to, the result that can be attained will be subject to the other limiting constraints in the organization.

(ii) Evaluation of performance: In the task of performance evaluation, an operational auditor is heavily dependent upon availability of acceptable standards. The operational auditor cannot be expected to possess technical background in so many diverse technical fields obtaining even in one enterprise. Even when examining or appraising performance or reports of performance, the operational auditor's mind is invariably fixed on control aspects.

(iii) Appraisal of objectives and plans: In performance appraisal, the operational auditor is basically concerned not so much with how well technically the operations are going on, but with accumulating information and evidence to measure the effectiveness, efficiency and economy with which the operations are being carried on.

(iv) Appraisal of organisational structure: Organisational structure provides the line of relationships and delegation of authority and tasks. This is an important element of the internal control design. In evaluating organisational structure, the operational auditor should consider whether the structure is in conformity with the management objectives and it is drawn up on the basis of matching of responsibility and authority. He should also analyse whether line of responsibility has been fixed, whether delegation of responsibility or authority is clear and there is no overlapping area.