Question 1

Examine with reasons (in short) whether the following statements are correct or incorrect:

(a) Few members of the Board of Directors oppose the appointment of Mr. N, an employee of the company, as an Internal Auditor, stating that Mr. N is not a chartered accountant and further he is an employee of the company.

(b) An Auditor is considered to lack independence if the partner of the audit firm deals with shares and securities of the audited entity.

(c) The Audit Engagement documentations should ordinarily be retained by the auditor for minimum of six years from the date of the auditor’s report or the date of the group auditor’s report, whichever is later.

(d) Inquiry alone is sufficient to test the operating effectiveness of controls.

(e) During the audit process, the Auditor can easily identify all mistakes or manipulations that may exist in the accounts through routine checking processes.

(f) PQR & Co., Chartered Accountants, resigned from the audit of a Government Company and filed the resignation with the company and the registrar within 30 days. Comment, whether PQR & Co. has complied with the provisions of the Companies Act, 2013.

(g) K Ltd., a non-government company, was incorporated on 01-10-2017. Mr. B, Managing Director of K Ltd., himself appointed the first auditor of the company on 31-12-2017.

(h) The statutory auditor of ABC Ltd. is of the opinion that communicating key audit matters in the auditor’s report constitutes a substitute for disclosure in the financial statements.

(i) When statistical sampling is used to select a sample, sample need not be representative because the statistical sampling takes care of the representation.

(j) Mr. A is a statutory auditor of ABC Ltd. The branch of ABC Ltd. is audited by Mr. B, another Chartered Accountant. Mr. A requests for the photocopies of the audit documentation of Mr. B pertaining to the branch audit.

Answer

(a) Incorrect: As per section 138, the internal auditor shall either be a chartered accountant or a cost accountant (whether engaged in practice or not), or such other professional as may be decided by the Board to conduct internal audit of the functions and activities of the companies. The internal auditor may or may not be an employee of the company.

(b) Correct: As per section 141 (3)(d), a person shall not be eligible for appointment as an auditor of a company namely- a person, or his relative or partner is holding any security of
or interest in the company or its subsidiary, or of its holding or associate company or a subsidiary of such holding company. From the above it can be concluded that if the partner deals with shares and securities of the audited entity, he would be lacking independence, hence, disqualified to be appointed as an auditor.

Further, the Code of Ethics for Professional Accountants, prepared by the International Federation of Accountants (IFAC) identifies five types of threats and if partner of the firm deals with shares and securities of the audited firm then such threat is known as the Advocacy Threats and auditor will be lacking independence.

(c) **Incorrect**: SQC 1 requires firms to establish policies and procedures for the retention of engagement documentation. The retention period for audit engagements ordinarily is no shorter than seven years from the date of the auditor’s report, or, if later, the date of the group auditor’s report.

(d) **Incorrect**: Inquiry along with other audit procedures (for example observation, inspection, external confirmation etc.) would only enable the auditor to test the operating effectiveness of controls. Inquiry alone is not sufficient to test the operating effectiveness of controls.

(e) **Incorrect**: Routine checking cannot be depended upon to disclose all the mistakes or manipulation that may exist in accounts. Certain other procedures also have to be applied like trend and ratio analysis including review of internal control.

(f) **Incorrect**: As per section 140(2) the auditor who has resigned from the company shall file within a period of 30 days from the date of resignation, a statement in the prescribed Form with the company and the Registrar, and in case of the companies referred to in section 139(5) i.e. Government company, the auditor shall also file such statement with the Comptroller and Auditor-General of India, indicating the reasons and other facts as may be relevant with regard to his resignation. In this case, the PQR & Co., was also required to file prescribed Form with C & AG of India but it did not file the same. Therefore, it did not comply with the provisions of the Companies Act, 2013.

(g) **Incorrect**: Section 139(6) of the Companies Act, 2013 lays down that the first auditor of a company shall be appointed by the Board of Directors within 30 days from the date of registration of the company. In view of the above, the appointment of first auditor made by the managing director is in violation of the provisions of the Companies Act, 2013.

(h) **Incorrect**: Communicating key audit matters in the auditor’s report is not a substitute for disclosures in the financial statements that the applicable Financial reporting framework requires management to make, or that are otherwise necessary to achieve fair presentation.

(i) **Incorrect**: Whatever may be the approach non-statistical or statistical sampling, the sample must be representative. This means that it must be closely similar to the whole population although not necessarily exactly the same. The sample must be large enough to provide statistically meaningful results.
Incorrect: SA 230 issued by ICAI on Audit Documentation, and “Standard on Quality Control (SQC) 1, provides that, unless otherwise specified by law or regulation, audit documentation is the property of the auditor. He may at his discretion, make portions of, or extracts from, audit documentation available to clients, provided such disclosure does not undermine the validity of the work performed, or, in the case of assurance engagements, the independence of the auditor or of his personnel.

Question 2
Discuss the following:

(a) Name the assertions for the following audit procedures:
   (i) Year end inventory verification.
   (ii) Depreciation has been properly charged on all assets.
   (iii) The title deeds of the lands disclosed in the Balance Sheet are held in the name of the company.
   (iv) All liabilities are properly recorded in the financial statements.
   (v) Related party transactions are shown properly.

(b) Expenses which are essentially of a revenue nature if incurred for creating an asset or adding to its value for achieving higher productivity are regarded as expenses of a capital nature. Describe any five such expenses.

(c) Principal aspects to be considered by an auditor while conducting an audit of final statements of accounts.

(d) List any five points that an auditor should consider to obtain an understanding of the Company’s automated environment.

Answer

(a) (i) Year end inventory verification: Existence Assertion.
   (ii) Depreciation has been properly charged on all assets: Valuation Assertion.
   (iii) Title deed of lands disclosed in the Balance Sheet are held in the name of the Company: Rights & Obligations Assertion.
   (iv) All liabilities are properly recorded in the financial statements: Completeness.
   (v) Related party transactions are shown properly: Presentation & Disclosure.

(b) Expenses which are essentially of a Revenue Nature, if incurred for creating an asset or adding to its value for achieving higher productivity, are regarded as expenditure of a capital nature. Examples of capital expenditure are-
   (i) Material and wages- capital expenditure when expended on the construction of a building or erection of machinery.
(ii) Legal expenses- capital expenditure when incurred in connection with the purchase of land or building.

(iii) Freight- capital expenditure when incurred in respect of purchase of plant and machinery.

(iv) Repair- Major repairs of a fixed asset that increases its productivity.

(v) Wages- Wages paid on installation costs incurred in Plant & machinery.

(vi) Interest- Interest paid for the qualification period as per AS-16 i.e. before the asset is constructed.

Whenever, therefore, a part of the expenditure, ostensibly of a revenue nature, is capitalised it is the duty of the auditor not only to examine the precise particulars of the expenditure but also the considerations on which it has been capitalised.

(c) Aspects to be covered in an audit: The principal aspects to be covered in an audit concerning final statements of account are the following:

(i) An examination of the system of accounting and internal control to ascertain whether it is appropriate for the business and helps in properly recording all transactions.

(ii) Reviewing the system and procedures to find out whether they are adequate and comprehensive and incidentally whether material inadequacies and weaknesses exist to allow frauds and errors going unnoticed.

(iii) Checking of the arithmetical accuracy of the books of account by the verification of postings, balances, etc.

(iv) Verification of the authenticity and validity of transaction entered into by making an examination of the entries in the books of accounts with the relevant supporting documents.

(v) Ascertaining that a proper distinction has been made between items of capital and of revenue nature and that the amounts of various items of income and expenditure adjusted in the accounts corresponding to the accounting period.

(vi) Comparison of the balance sheet and profit and loss account or other statements with the underlying record in order to see that they are in accordance therewith.

(vii) Verification of the title, existence and value of the assets appearing in the balance sheet.

(viii) Verification of the liabilities stated in the balance sheet.

(ix) Checking the result shown by the profit and loss and to see whether the results shown are true and fair.
Where audit is of a corporate body, confirming that the statutory requirements have been complied with.

Reporting to the appropriate person/body whether the statements of account examined do reveal a true and fair view of the state of affairs and of the profit and loss of the organisation.

Understanding of the Company's Automated Environment: Given below are some of the points that an auditor should consider to obtain an understanding of the company's automated environment

- Information systems being used (one or more application systems and what they are)
- their purpose (financial and non-financial)
- Location of IT systems - local vs global
- Architecture (desktop based, client-server, web application, cloud based)
- Version (functions and risks could vary in different versions of same application)
- Interfaces within systems (in case multiple systems exist)
- In-house vs Packaged
- Outsourced activities (IT maintenance and support)
- Key persons (CIO, CISO, Administrators)

Question 3

(a) What constitutes a 'true and fair' view, is the matter of an auditor's judgement in the particular circumstances of a case. In order to ensure 'true and fair' view, auditor has to review certain points. Mention any such 5 (five) points in brief. (5 Marks)

(b) Mention any five attributes to be considered by an auditor while verifying for a depreciation and amortisation expenses. (5 Marks)

(c) As statutory auditor of the company, list out audit procedures required to be undertaken for the following:

(i) Interest income from fixed deposits. (4 Marks)
(ii) Dividend income. (2 Marks)
(iii) Gain/(loss) on sale of investment in Mutual funds. (2 Marks)

Also indicate disclosure requirements of above as per Companies Act, 2013. (2 Marks)

Answer

(a) True and Fair View: To ensure true and fair view, an auditor has to see:

(i) that the assets are neither undervalued or overvalued, according to the applicable accounting principles,
(ii) no material asset is omitted;
(iii) the charge, if any, on assets are disclosed;
(iv) material liabilities should not be omitted;
(v) the profit and loss account and balance sheet discloses all the matters required to be disclosed;
(vi) accounting policies have been followed consistently; and
(vii) all unusual, exceptional or non-recurring items have been disclosed separately.

(b) **Depreciation and Amortisation Expenses:** Auditor needs to consider the following attributes while verifying for depreciation and amortisation expenses:

- Obtain the understanding of entity’s accounting policy related to depreciation and amortisation.
- Ensure that the Company’s policy for charging depreciation and amortisation is as per the relevant provisions of Companies Act and applicable accounting standards.
- Whether the depreciation has been calculated after making adjustment of residual value from the cost of the assets.
- Whether depreciation and amortisation charges are valid.
- Whether depreciation and amortisation charges are accurately calculated and recorded.
- Whether all depreciation and amortisation charges are recorded in the appropriate period.
- Ensure the parts (components) of each item of property, plant and equipment that are to be depreciated separately has been properly identified.
- Whether the most appropriate depreciation method for each separately depreciable component has been used.

(c) (i) **For verifying interest income on fixed deposits:**

- Obtain a listing of fixed deposits opened during the period under audit along with the applicable interest rate and the number of days for which the deposit was outstanding during the period. Verify the arithmetical accuracy of the interest calculation made by the entity by multiplying the deposit amount with the applicable rate and number of days during the period under audit.
- For deposits still outstanding as at the period-end, trace the same to the direct confirmation obtained from the respective bank/financial institution.
- Obtain a confirmation of interest income from the bank and verify that the interest income as per bank reconciles to the calculation shared by the entity.
- Also, obtain a copy of Form 26AS (TDS withholding by the bank/financial institution) and reconcile the interest reflected therein to the calculation shared by client.
(ii) **Dividend Income:** For Dividends, verify that the same are recognised in the statement of profit and loss only when the entity’s right to receive payment of the dividend is established, provided it is probable that the economic benefits associated with the dividend will flow to the entity and the amount of the dividend can be measured reliably.

(iii) **Gain/(loss) on sale of investment in mutual funds:** Verify that Gain/(loss) on sale of investment in mutual funds is recorded as other income only on transfer of title from the entity and is determined as the difference between the redemption price and carrying value of the investments. For the purpose, obtain the mutual fund statement and trace the gain / loss as recorded in the books of account to the gain/ loss as reflected in the statement.

**Disclosure Requirements:** Ensure whether the following disclosures as required under Ind AS compliant Schedule III to Companies Act, 2013 have been made:

- Whether ‘other income’ has been classified as:
  - Interest income
  - Dividend income
  - Other non-operating income (net of expenses directly attributable to such income)

### Question 4

(a) *M & Co. was appointed as auditor of IGI Ltd.*. As an auditor what are the factors that would be considered in the development of overall audit plan? (5 Marks)

(b) State the matters to be included in the auditor's report as per CARO, 2016, regarding:
   
   (i) **Private Placement of Preferential Issues.** (2 Marks)
   
   (ii) **Utilisation of IPO and further public offer.** (2 Marks)

(c) Briefly discuss the limitations of Internal Control. (6 Marks)

(d) Discuss the techniques available as Substantive Analytical Procedures. (5 Marks)

**Answer**

(a) **Development of an Overall Plan:** The auditor should consider the following matters in developing his overall plan for the expected scope and conduct of the audit-

- The terms of his engagement and any statutory responsibilities.
- The nature and timing of reports or other communication.
- The applicable legal or statutory requirements.
- The accounting policies adopted by the client and changes in those policies.
- The effect of new accounting or auditing pronouncements on the audit.
- The identification of significant audit areas.
➢ The setting of materiality levels for audit purposes.
➢ Conditions requiring special attention, such as the possibility of material error or fraud or the involvement of parties in whom directors or persons who are substantial owners of the entity are interested and with whom transactions are likely.
➢ The degree of reliance he expects to be able to place on accounting system and internal control.
➢ Possible rotation of emphasis on specific audit areas.
➢ The nature and extent of audit evidence to be obtained.
➢ The work of internal auditors and the extent of their involvement, if any, in the audit.
➢ The involvement of other auditors in the audit of subsidiaries or branches of the client.
➢ The involvement of experts.
➢ The allocation of work to be undertaken between joint auditors and the procedures for its control and review.
➢ Establishing and coordinating staffing requirements.

(b) (i) The auditor is required to report as per clause xiv of paragraph 3 of CARO 2016, whether the company has made any preferential allotment or private placement of shares or fully or partly convertible debentures during the year under review and if so, as to whether the requirement of section 42 of the Companies Act, 2013 have been complied with and the amount raised have been used for the purposes for which the funds were raised. If not, provide the details in respect of the amount involved and nature of non-compliance;

(ii) It is duty of the auditor to report as per clause ix of paragraph 3 of CARO 2016, whether moneys raised by way of initial public offer or further public offer (including debt instruments) and term loans were applied for the purposes for which those are raised. If not, the details together with delays or default and subsequent rectification, if any, as may be applicable, be reported.

(c) Limitations of Internal Control:

(i) Internal control can provide only reasonable assurance: Internal control, no matter how effective, can provide an entity with only reasonable assurance about achieving the entity’s financial reporting objectives. The likelihood of their achievement is affected by inherent limitations of internal control.

(ii) Human judgment in decision-making: Realities that human judgment in decision-making can be faulty and that breakdowns in internal control can occur because of human error.

(iii) Lack of understanding the purpose: Equally, the operation of a control may not be effective, such as where information produced for the purposes of internal control (for
example, an exception report) is not effectively used because the individual responsible for reviewing the information does not understand its purpose or fails to take appropriate action.

(iv) Collusion among People: Additionally, controls can be circumvented by the collusion of two or more people or inappropriate management override of internal control. For example, management may enter into side agreements with customers that alter the terms and conditions of the entity’s standard sales contracts, which may result in improper revenue recognition. Also, edit checks in a software program that are designed to identify and report transactions that exceed specified credit limits may be overridden or disabled.

(v) Judgements by Management: Further, in designing and implementing controls, management may make judgments on the nature and extent of the controls it chooses to implement, and the nature and extent of the risks it chooses to assume.

(vi) Limitations in case of Small Entities: Smaller entities often have fewer employees due to which segregation of duties is not practicable. However, in a small owner-managed entity, the owner-manager may be able to exercise more effective oversight than in a larger entity. This oversight may compensate for the generally more limited opportunities for segregation of duties.

On the other hand, the owner-manager may be more able to override controls because the system of internal control is less structured. This is taken into account by the auditor when identifying the risks of material misstatement due to fraud.

(d) Techniques available as Substantive Analytical Procedures: The design of a substantive analytical procedure is limited only by the availability of reliable data and the experience and creativity of the audit team. Substantive analytical procedures generally take one of the following forms:

Trend analysis — A commonly used technique is the comparison of current data with the prior period balance or with a trend in two or more prior period balances. We evaluate whether the current balance of an account moves in line with the trend established with previous balances for that account, or based on an understanding of factors that may cause the account to change.

Ratio analysis — Ratio analysis is useful for analysing asset and liability accounts as well as revenue and expense accounts. An individual balance sheet account is difficult to predict on its own, but its relationship to another account is often more predictable (e.g., the trade receivables balance related to sales). Ratios can also be compared over time or to the ratios of separate entities within the group, or with the ratios of other companies in the same industry.

Reasonableness tests — Unlike trend analysis, this analytical procedure does not rely on events of prior periods, but upon non-financial data for the audit period under consideration (e.g., occupancy rates to estimate rental income or interest rates to estimate interest
These tests are generally more applicable to income statement accounts and certain accrual or prepayment accounts.

**Structural modelling** — A modelling tool constructs a statistical model from financial and/or non-financial data of prior accounting periods to predict current account balances (e.g., linear regression).

**Question 5**

(a) Define Emphasis of Matter Paragraph and how it should be disclosed in the Independent Auditor’s Report? (5 Marks)

(b) At the AGM of HDB Pvt. Ltd., Mr. R was appointed as the statutory auditor. He, however, resigned after 3 months since he wanted to pursue his career in banking sector. The Board of Director has appointed Mr. L as the statutory auditor in board meeting within 30 days. Comment on the matter with reference to the provisions of Companies Act, 2013. (5 Marks)

(c) XYZ & Associates, Chartered Accountants, while evaluating the operating effectiveness of internal controls, detects deviation from controls. In such a situation, state the specific inquiries to be made by an auditor to understand these matters and their potential consequences. (5 Marks)

(d) Mr. A is appointed as statutory auditor of a company for the Financial Year ended 31st March, 2018. During the course of audit, it was found that few doubtful transactions had been committed by finance manager who retired in March, 2018. The fraud was going on since last 2-3 years and the total amount misappropriated exceeding `100 lakhs. As a statutory auditor, what would be reporting responsibilities of Mr. A? (5 Marks)

**Answer**

(a) **Emphasis of Matter paragraph**: A paragraph included in the auditor’s report that refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor’s judgment, is of such importance that it is fundamental to users’ understanding of the financial statements.

When the auditor includes an Emphasis of Matter paragraph in the auditor’s report, the auditor shall:

(i) Include the paragraph within a separate section of the auditor’s report with an appropriate heading that includes the term “Emphasis of Matter”;

(ii) Include in the paragraph a clear reference to the matter being emphasized and to where relevant disclosures that fully describe the matter can be found in the financial statements. The paragraph shall refer only to information presented or disclosed in the financial statements; and

(iii) Indicate that the auditor’s opinion is not modified in respect of the matter emphasized.
(b) **Casual Vacancy by Resignation:** As per Section 139(8), any casual vacancy in the office of an auditor shall in the case of a company other than a company whose accounts are subject to audit by an auditor appointed by the Comptroller and Auditor-General of India, be filled by the Board of Directors within 30 days. If such casual vacancy is as a result of the resignation of an auditor, such appointment shall also be approved by the company at a general meeting convened within three months of the recommendation of the Board and he shall hold the office till the conclusion of the next annual general meeting.

Further, as per section 140(2) the auditor who has resigned from the company shall file within a period of 30 days from the date of resignation, a statement in the prescribed Form with the company and the Registrar. In the instant case, R resigned after three months of his appointment as statutory auditor as he wanted to pursue his career in banking sector.

Therefore, the board of directors has appointed Mr. L as the statutory auditor with in 30 days in order subject to such appointment shall also be approved by the company at a general meeting convened within three months of the recommendation of the Board. Further, it is also the duty of the auditor to file, within a period of 30 days from the date of resignation, a statement in the prescribed Form with the company and the Registrar in compliance with section 140(2) of the Companies Act, 2013.

(c) **Evaluating the Operating Effectiveness of Controls:** When evaluating the operating effectiveness of relevant controls, the auditor shall evaluate whether misstatements that have been detected by substantive procedures indicate that controls are not operating effectively. The absence of misstatements detected by substantive procedures, however, does not provide audit evidence that controls related to the assertion being tested are effective.

When deviations from controls upon which the auditor intends to rely are detected, the auditor shall make specific inquiries to understand these matters and their potential consequences, and shall determine whether:

(a) The tests of controls that have been performed provide an appropriate basis for reliance on the controls;

(b) Additional tests of controls are necessary; or

(c) The potential risks of misstatement need to be addressed using substantive procedures.

A material misstatement detected by the auditor’s procedures is a strong indicator of the existence of a significant deficiency in internal control.

(d) **Reporting to the Central Government-** As per section 143(12) of the Companies Act, 2013 read with Rule 13 of the Companies (Audit and Auditors) Rules, 2014, if an auditor of a company in the course of the performance of his duties as auditor, has reason to believe that an offence of fraud, which involves or is expected to involve individually an amount of ₹ 1 crore or above, is being or has been committed in the company by its officers...
or employees, the auditor shall report the matter to the Central Government within such time and in such manner as prescribed.

The manner of reporting the matter to the Central Government is as follows:

(1) the auditor shall report the matter to the Board or the Audit Committee, as the case may be, immediately but not later than 2 days of his knowledge of the fraud, seeking their reply or observations within 45 days;

(2) on receipt of such reply or observations, the auditor shall forward his report and the reply or observations of the Board or the Audit Committee along with his comments (on such reply or observations of the Board or the Audit Committee) to the Central Government within 15 days from the date of receipt of such reply or observations;

(3) in case the auditor fails to get any reply or observations from the Board or the Audit Committee within the stipulated period of 45 days, he shall forward his report to the Central Government along with a note containing the details of his report that was earlier forwarded to the Board or the Audit Committee for which he has not received any reply or observations;

(4) the report shall be sent to the Secretary, Ministry of Corporate Affairs in a sealed cover by Registered Post with Acknowledgement Due or by Speed Post followed by an e-mail in confirmation of the same;

(5) the report shall be on the letter-head of the auditor containing postal address, e-mail address and contact telephone number or mobile number and be signed by the auditor with his seal and shall indicate his Membership Number; and

(6) the report shall be in the form of a statement as specified in Form ADT-4.

The auditor is also required to report under clause (x) of paragraph 3 of Companies (Auditor's Report) Order, 2016 [CARO, 2016], whether any fraud by the company or any fraud on the Company by its officers or employees has been noticed or reported during the year. If yes, the nature and the amount involved is to be indicated.

Question 6

Answer any four:

(a) M/s. ABC & Co. is an Audit firm, having partners CA. A, CA. B and CA. C. The firm has been offered the appointment as an Auditor of XYZ Ltd. for the Financial Year 2017-18. Mr. D, the relative of CA. A, is holding 25,000 shares (face value of ₹10 each) in XYZ Ltd. having market value of ₹90,000. Are M/s. ABC & Co. qualified to be appointed as Auditors of XYZ Ltd.? (5 Marks)

(b) Mr. M, has served as an auditor in the Co-Operative Department of a Government, is appointed as a statutory auditor by a Co-Operative Society that has receipts over ₹ 3 crores during the financial year. He is not a Chartered Accountant. Mr. D, Chartered Accountant is appointed to conduct tax audit of the society under section 44AB of the Income Tax Act, 1961. Comment. (5 Marks)
(c) Mr. A approaches a bank for financial assistance for his upcoming project. The Bank Branch Manager, after verifying the proposal, is agreeable to financing Mr. A, but asks for the security to be offered to the bank. Discuss the nature of securities required to be offered to the bank. 

(5 Marks)

(d) State the objectives of audit of Local Bodies. 

(5 Marks)

(e) The auditor should understand and consider the risks that may arise from the use of Information Technology (IT) Systems. 

(5 Marks)

Answer

(a) As per section 141(3)(d)(i), a person shall not be eligible for appointment as an auditor of a company, who, or his relative or partner is holding any security of or interest in the company or its subsidiary, or of its holding or associate company or a subsidiary of such holding company. However, as per proviso to this section, the relative of the person may hold the securities or interest in the company of face value not exceeding of ₹ 1,00,000.

In the instant case, M/s ABC & Co. is an audit firm having partners CA. A, CA. B and CA. C. Mr. D is a relative of CA. A and he is holding shares in XYZ Ltd. of face value of ₹ 2,50,000 (25,000 shares x rupees 10 per share). Market value of ₹ 90,000 would not be relevant.

Therefore, M/s ABC & Co. is disqualified for appointment as an auditors of XYZ Ltd. as the relative of CA. A (i.e. partner of M/s ABC & Co.) is holding the securities in XYZ Ltd. which is exceeding the limit mentioned in proviso to section 141(3)(d)(i) of the Companies Act, 2013.

(b) Qualifications and Appointment of Auditors - Apart from a chartered accountant within the meaning of the Chartered Accountants Act, 1949, some of the State Co-operative Acts have permitted persons holding a government diploma in co-operative accounts or in co-operation and accountancy and also a person who has served as an auditor in the co-operative department of a government to act as an auditor.

An auditor of a co-operative society is appointed by the Registrar of Co-operative Societies and the auditor so appointed conducts the audit on behalf of the Registrar and submits his report to him as also to the society.

Thus, in view of above provisions, appointment of Mr. M as statutory auditor and Mr. D as tax auditor under Section 44 AB is in order.

(c) Nature of Security:

I. Primary security refers to the security offered by the borrower for bank finance or the one against which credit has been extended by the bank. This security is the principal security for an advance.

II. Collateral security is an additional security. Security can be in any form i.e. tangible or intangible asset, movable or immovable asset.
Examples of most common types of securities accepted by banks are the following.

- Personal Security of Guarantor
- Goods / Stocks / Debtors / Trade Receivables
- Gold Ornaments and Bullion
- Immovable Property
- Plantations (For Agricultural Advances)
- Third Party Guarantees
- Banker’s General Lien
- Life Insurance Policies
- Stock Exchange Securities and Other Instruments

(d) **Objective of Audit of Local Bodies:** The external control of municipal expenditure is exercised by the state governments through the appointment of auditors to examine municipal accounts. The municipal corporations of Delhi, Mumbai and a few others have powers to appoint their own auditors for regular external audit. The important objectives of audit are:

(i) reporting on the fairness of the content and presentation of financial statements;
(ii) reporting upon the strengths and weaknesses of systems of financial control;
(iii) reporting on the adherence to legal and/or administrative requirements;
(iv) reporting upon whether value is being fully received on money spent; and
(v) detection and prevention of error, fraud and misuse of resources.

(e) Having obtained an understanding of the IT systems and the automated environment of a company, the auditor should now understand the risks that arise from the use of IT systems.

**Given below are some such risks that should be considered,**

- Inaccurate processing of data, processing inaccurate data, or both
- Unauthorized access to data
- Direct data changes (backend changes)
- Excessive access / Privileged access (super users)
- Lack of adequate segregation of duties
- Unauthorized changes to systems or programs
- Failure to make necessary changes to systems or programs
- Loss of data