PAPER – 3 : ADVANCED AUDITING AND PROFESSIONAL ETHICS

Question No. 1 is compulsory

*Answer any **five** from the rest*

Question 1

(a) *In the course of the audit of R Ltd., the audit manager of ABC & Co. observed that R Ltd. has outsourced certain activities to an outsourcing agency. As the engagement partner guide the audit manager in the assessment of services provided by the outsourcing agency in relation to the audit.* *(4 Marks)*

(b) *In the course of audit of T Ltd., the audit team is not sure of the possible source of misstatements in the financial statements. As the audit manager identify the sources of misstatements.* *(4 Marks)*

(c) *While auditing Z Ltd., you observe certain material financial statement assertions have been based on estimates made by the management. As the auditor how do you minimize the risk of material misstatements?* *(6 Marks)*

(d) *The management of S Ltd. requests you not to seek confirmation from its debtors. As the auditor of S Ltd., what can be an appropriate response?* *(6 Marks)*

Answer

(a) As per SA 402 **"Audit Considerations relating to an Entity Using a Service Organisation"**, for obtaining understanding of the user entity in accordance with SA 315 "Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment", the user auditor shall obtain an understanding of how a user entity uses the services of a service organization in the user entity's operation including:

(i) The nature of services provided by the service organisation and the significance of such services to the user entity, including its effect on the internal control of user entity.

(ii) The nature and materiality of the transactions processed or accounts or financial reporting processes affected by the service organisation.

(iii) The degree of interaction between the activities of the service organization and those of user entity and

(iv) The nature of the relationship between the user entity and the service organization including the relevant contractual terms for the activities undertaken by the service organisation.

(b) As per SA 450 **"Evaluation of Misstatements Identified during the Audit"**, misstatements may result from

(i) An inaccuracy in gathering or processing data from which the financial statements are prepared.

(ii) An omission of an amount of disclosure.

(iii) An incorrect accounting estimate arising from overlooking or clear misinterpretation of facts and

(iv) Judgements of management concerning accounting estimates that the auditor considers unreasonable or the selection and application of accounting policies that the auditor considers inappropriate.

(c) As per SA 540 "Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures", the auditor shall obtain an understanding of the following in order to provide a basis for the identification and assessment of the risks of material misstatements for accounting estimates.

(i) The requirements of the applicable financial reporting framework relevant to the accounting estimates, including related disclosures.

(ii) How Management identifies those transactions, events and conditions that may give rise to the need for accounting estimates to be recognised or disclosed, in the financial statements. In obtaining this understanding, the auditor shall make inquiries of management about changes in circumstances that may give rise to new, or the need to revise existing, accounting estimates.

(iii) The estimation making process adopted by the management including

(1) The method, including where applicable the model, used in making the accounting estimates

(2) Relevant controls

(3) Whether management has used an expert?

(4) The assumption underlying the accounting estimates

(5) Whether there has been or ought to have been a change from the prior period in the methods for making the accounting estimates, and if so, why; and

(6) Whether and, if so, how the management has assessed the effect of estimation uncertainty.

(d) SA 505 "External Confirmations", establishes standards on the auditor's use of external confirmation as a means of obtaining audit evidence. If the management refuses to allow the auditor to a send a confirmation request, the auditor shall

(i) Inquire as to Management's reasons for the refusal, and seek audit evidence as to their validity and reasonableness.

(ii) Evaluate the implications of management's refusal on the auditor's assessment of the relevant risks of material misstatement, including the risk of fraud, and on the nature, timing and extent of other audit procedures and

(iii) Perform alternative audit procedures designed to obtain relevant and reliable audit evidence.

If the auditor concludes that management's refusal to allow the auditor to send a confirmation request is unreasonable or the auditor is unable to obtain relevant and reliable audit evidence from alternative audit procedures, the auditor shall communicate with those in charge of governance and also determine its implication for the audit and his opinion.

Question 2

Give your comments with reference to the Chartered Accountants Act, 1949 and schedules thereto:

(a) *CA Smart, a practicing Chartered Accountant was on Europe tour between 15-9-10 and 25-9-10. On 18-9-10 a message was received from one of his clients requesting for a stock certificate to be produced to the bank on or before 20-9-10. Due to urgency, CA Smart directed his assistant, who is also a Chartered Accountant, to sign and issue the stock certificate after due verification, on his behalf.* *(4 Marks)*

(b) *Mr. Kishore, a practicing Chartered Accountant was appointed by the Central Government to carry out a special audit u/s 233A of the Companies Act, 1956. He accepted the appointment and proceeded with the work without communicating to the statutory auditor of the company.* *(4 Marks)*

(c) *Mr. Sodhi, a Chartered Accountant in practice, who is proposed to be removed as the auditor of a company makes unsubstantiated and derogatory remarks against the management of the company in his representation u/s 225 of the Companies Act, 1956.*

(4 Marks)

(d) *A letter is sent by a Chartered Accountant in practice to the Ministry of Finance inquiring whether a panel of auditors is being maintained by the Ministry and if so to include his name in the panel (CV enclosed)* *(4 Marks)*

Answer

(a) As per clause 12 of Part I of the First Schedule of the Chartered Accountants Act, 1949, a Chartered Accountant in practice is deemed to be guilty of professional misconduct "if he allows a person not being a member of the Institute in practice or a member not being his partner to sign on his behalf or on behalf of his firm, any balance sheet, profit and loss account, report or financial statements".

In this case CA Smart allowed his assistant who is not a partner but a member of the Institute of Chartered Accountants of India to sign stock certificate on his behalf and thereby commits misconduct.

Thus, CA Smart is guilty of professional misconduct under clause 12 of Part I of First Schedule of the Chartered Accountants Act, 1949.

(b) Clause 8 of Part I of the First Schedule to the Chartered Accountants Act, 1949 deems a Chartered Accountant in practice to be guilty of professional misconduct if he accepts a position as auditor previously held by another Chartered Accountant without first communicating with him in writing.

However, the Council has specifically clarified that it is not necessary for the auditor who is appointed to conduct special audit to communicate with the previous auditor, who had conducted a regular audit for the period covered by special audit.

Therefore, Kishore is not guilty of professional misconduct.

(c) In terms of Clause 6 of Part I of the First Schedule to the Chartered Accountants Act, 1949, the unsubstantiated and derogatory remarks against the Management of the Company by Mr. Sodhi, a Chartered Accountant in practice, in his representation under section 225 of the Companies Act, 1956 tantamount to securing professional work by undignified means.

The Council of the Institute has clarified that the right to make a representation under section 225 (3) of the Companies Act, 1956 does not mean that an auditor has any prescriptive right on a lien to an audit. The wording of this representation should be such that, apart from the opportunity not being abused to secure needless publicity, it does not tantamount directly or indirectly to canvassing or soliciting for his continuance as an auditor.

The letter should merely set out in a dignified manner how he has been acting independently and conscientiously through the terms of office and may, in addition, indicate if he so chooses, his willingness to continue as an auditor if reappointed by the shareholder.

Therefore, Mr. Sodhi is guilty of professional misconduct.

(d) Clause 6 of Part I of the First Schedule to the Chartered Accountants Act, 1949 states that a Chartered Accountant in practice shall be deemed to be guilty of misconduct if he solicits clients or professional work either directly or indirectly by a circular, advertisement, personal communication or interview or by any other means. Such a restraint has been put so that the members maintain their independence of judgement and may be able to command respect from their prospective clients.

In case of making an application for the empanelment for the allotment of audit and other professional work, the Council has opined that, "where the existence of such a panel is within the knowledge of the member, he is free to write to the concerned organization with a request to place his name on the panel. However, it would not be proper for the member to make roving inquiries by applying to any such organization for having his name included in any such panel."

Accordingly, the member is guilty of misconduct in terms of the above provision as he has solicited professional work from the Finance Ministry, by inquiring about the maintenance of the panel.

Question 3

(a) *A & Co. was appointed as auditor of Great Airways Ltd. As the audit partner what factors shall be considered in the development of overall audit plan?* *(8 Marks)*

(b) *Y Ltd. engaged an actuary to ascertain its employee cost, gratuity and leave encashment liabilities. As the auditor of Y Ltd., you would like to use the report of the actuary as an audit evidence. How do you evaluate the work of the actuary?* *(8 Marks)*

Answer

(a) Development of an overall plan - Overall plan is basically intended to provide direction for audit work programming and includes the determination of timing, manpower development and co-ordination of work with the client, other auditors and other experts. The auditor should consider the following matters in developing his overall plan for the expected scope and conduct of the audit.

(i) Terms of his engagement and any statutory responsibilities.

(ii) Nature and timing of reports or other communications.

(iii) Applicable Legal or Statutory requirements.

(iv) Accounting policies adopted by the clients and changes, if any, in those policies.

(v) The effects of new accounting and auditing pronouncement on the audit.

(vi) Identification of significant audit areas.

(vii) Setting of materiality levels for the audit purpose.

(viii) Conditions requiring special attention such as the possibility of material error or fraud or involvement of parties in whom directors or persons who are substantial owners of the entity are interested and with whom transactions are likely.

(ix) Degree of reliance to be placed on the accounting system and internal control.

(x) Possible rotation of emphasis on specific audit areas.

(xi) Nature and extent of audit evidence to be obtained.

(xii) Work of the internal auditors and the extent of reliance on their work, if any in the audit.

(xiii) Involvement of other auditors in the audit of subsidiaries or branches of the client and involvement of experts.

(xiv) Allocation of works to be undertaken between joint auditors and the procedures for its control and review.

(xv) Establishing and coordinating staffing requirements.

(b) Evaluating the work of an expert –As per SA 620 "Using the Work of an Auditor's Expert", when management has used a management's expert in preparing the financial statements, the auditor's decision on whether to use an auditor's expert may also be influenced by such factors as:

- The nature, scope and objectives of the management's expert's work.
- Whether the management's expert is employed by the entity, or is a party engaged by it to provide relevant services.
- The extent to which management can exercise control or influence over the work of the management's expert.
- The management's expert's competence and capabilities.
- Whether the management's expert is subject to technical performance standards or other professional or industry requirements.
- Any controls within the entity over the management's expert's work.

However, an evaluation of the work of an expert can be done considering the following facts:

(i) When the auditor plans to use the expert's work as audit evidence, he should satisfy himself as to the expert's skills and competence by considering the expert's:

  - professional qualifications, licence or membership in an appropriate professional body, and
  - experience and reputation in the field in which the evidence is sought.

(ii) The objectives and scope of the experts' work.

(iii) A general outline as to specific items in the expert's report.

(iv) Confidentiality of the client's information used by the expert.

(v) The source data used.

(vi) The assumptions and methods used and, if appropriate, their comparison with the prior period.

(vii) The results of the expert's work in the light of auditor's overall knowledge of the business and of the results of his audit procedures.

(viii) The auditor should also satisfy himself that the substance of the expert's findings is properly reflected in the financial statements.

(ix) Consider whether the expert has used the appropriate source data, by making inquiries of the expert.

(x) Conducting audit procedures on the data by the client to the expert to obtain reasonable assurance that the data are appropriate.

Question 4

(a) *In the course of audit of T Ltd. you observed that export incentives are not accounted on accrual basis. The company's management contended that these would be accounted on cash basis citing the uncertainty about its receipts as they are not admitted as due by the customs authorities. Comment.* *(4 marks)*

(b) *Z Ltd. has flexi deposit linked current account with various banks. Cheques are issued from the current account and as per the requirements of funds, the flexi deposits are encashed and transferred to current accounts. As of 31st March, 2011 certain cheques issued to vendors are not presented for payment resulting in the credit balance in the books of the company. The management wants to present the book overdraft under current liabilities and flexi deposits under cash & bank balances. Comment.* *(8 marks)*

(c) *Z Ltd. has its entire operations including accounting computerized. As the audit partner you are concerned about inherent and control risk for material financial statement assertions. What could be the areas you look forward for deficiencies and risk identification?* *(4 marks)*

Answer

(a) Accountability of Export Incentives: The exporters receive certain incentives (monetary or non-monetary) from the Government of India on export of goods. However due to various procedural delays and laws involved which keep changing frequently, there is generally a delay in actual receipt of the export incentives. Further the receipt of the export incentives may not be assured in certain situations due to frequent changes in the policies of the Government. In such cases, it may be reasonable to presume that the receipt of the incentives is uncertain till the time they are actually received.

As per AS 9 "Revenue Recognition", if at the time of raising the claim for incentive, it is unreasonable to expect ultimate collection, revenue recognition should be postponed. Therefore, as per the accounting standard, if there is uncertainty in the receipt of the amounts, then the revenue in respect of such incentives ought not to be recognized in the books of accounts.

Therefore revenue is to be recognized only when there is reasonable certainty in the receipt of the same. Hence contention of management of T Ltd. to record the export incentive on cash basis is correct.

Note : An Alternative view is possible, since the export incentives are due as and when the exports have been made from India, though customs authorities does not acknowledge them as due. This does not mean that an uncertainty arises about its receipt. If at all customs authorities have an objection it should be at the time of clearance of the goods for export. The only uncertainty is the timing of the receipt of such incentives, but not the incentive itself. Hence T Ltd. has to account the export incentives on Accrual basis.

(b) Presentation of Book Overdraft as per Schedule VI: The instructions in accordance with which assets should be made out to Part I of Schedule VI to the Companies Act, 1956 states as follows.

"In regard to bank balances particulars to be given separately of-

(a) the balances lying with scheduled banks or current accounts, call accounts and deposit accounts."

From the facts of the case it is evident that in substance the position is that the composite bank balance including the balance in flexi deposit accounts are positive, even though physical set-off has not been made as on the balance sheet date. Further the bank has got the right to set off of flexi deposits against the cheques issued and hence it would be more informative and useful to the readers of the financial statements to disclose the book credit balance as a set-off from the flexi deposit accounts. The disclosure of the said book credit balance as book overdraft under the head current liabilities as proposed by the management is not correct.

(c) Risk Assessment - The auditor in accordance with SA 315 "Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment", should make an assessment of inherent and control risk for material financial statement assertions.

In a CIS environment the risk of a Material financial statement ascertain being erroneously stated could arise from the deficiencies in the following case as

(i) Program Development and maintenance.

(ii) System software support.

(iii) Operations including processing of data.

(iv) Physical CIS security.

(v) Control over access to specialized utility program.

These deficiencies would tend to have a negative impact on all application systems that are processed through the computer.

Question 5

(a) OK Ltd. has taken a term loan from a nationalized bank in 2006 for ₹ 200 lakhs repayable in five equal instalments of ₹ 40 lakhs from 31st March, 2007 onwards. It had repaid the loans due in 2007 & 2008, but defaulted in 2009, 2010 & 2011. As the auditor of OK Ltd. what is your responsibility assuming that company has sought reschedulement of loan? *(4 Marks)*

(b) Big and Small Ltd. received a show cause notice from central excise department intending to levy a demand of ₹ 25 lakhs in December 2010. The company replied to the above notice in January 2011 contending that it is not liable for the levy. No further action was initiated by the central excise department upto the finalization of the audit for

the year ended on 31st March, 2011. As the auditor of the company, what is your role in this? *(4 Marks)*

(c) *Director of T Ltd. draws an advance of US$ 200 per day in connection with the foreign trip undertaken on behalf of the company. On his return he files a declaration stating that entire advance was expended without any supporting or evidence. T Ltd. books the entire expenses on the basis of such declaration. As the auditor of T Ltd. how do you deal with this?* *(8 Marks)*

Answer

(a) As per Para 4 (xi) of CARO, 2003 the auditors of a company has to state in his report that whether the Company has defaulted in repayment of its dues to financial institutions or bank or debentures holders and if yes the period and amount of default to be reported.

In this case OK Ltd has defaulted in repayment of dues for three years. Application for rescheduling will not change the default position. Hence the auditor has to report in his audit report that the Company has defaulted in its repayment of dues to the bank to the extent of ₹ 120 lakhs.

(b) The auditor's report under section 227 the Companies Act, 1956 has to specifically include certain matters specified in Para 4 and Para 5 of CARO 2003.

One of such matter is payment of dues to Government. As per Para 4 (ix)(b) of CARO, 2003, "In case dues of Income Tax/ Sales Tax/ Service Tax/ Customs Duty/ Wealth Tax/ Excise Duty/Cess have not been deposited on account of any dispute, then the amounts involved and the forum where dispute is pending shall be mentioned. A mere representation to the Department shall not constitute the dispute."

In the present case issuance of show cause notice by Excise Department does not tantamount to demand payable by the Company. In as much as the Company has replied to the notice and no further correspondence was received from the Department, it has to be construed that there is no demand. The auditor needs not to report on this.

(c) SA 500 "Audit Evidence" states that an auditor should obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base his option.

Section 227 (IA) (e) the Companies Act, 1956 requires an auditor to report when personal expenses have been charged to revenue account.

In the context of the facts of case, ascertain whether the payment made by the company for the foreign trip form an "allowance" or "reimbursement". An allowance is a fixed sum of money allowed or the basis of specified criteria. No evidence supporting the expenditure is required for payment of allowance to the director. On the other hand, if the payment is reimbursement should be against actual expenditure.

The director concerned should provide proof of expenditure. Since the director has given only a declaration, the auditor should ascertain other relevant facts as to whether the advance paid is pursuant to the policy of the company which is based on approximate estimation of the expenditure normally incurred by a person of the status of a director and the same is applicable to persons of a similar status within the company. If the auditor considers the advance taken is reasonable then the declaration can be considered adequate, otherwise he may have to call for additional documentary evidences.

Question 6

(a) *"An asset, including a leased asset, becomes non-performing when it ceases to generate income for the Bank." Define the criteria for classification of non-performing assets.*

(8 Marks)

(b) *State the disclosure requirements in respect of contingent liabilities in the notes to the Balance Sheet of a General Insurance Company.* *(4 Marks)*

(c) *State the requirements regarding the maintenance of books of accounts with respect to a multi-state co-operative society.* *(4 Marks)*

Answer 6

(a) Non-Performing Assets: An asset, including a leased asset, becomes non-performing when it ceases to generate income for the bank.

Criteria for the classification of a Non Performing Asset (NPA) is a loan or an advance where

(i) Interest and/or instalment of principal remain overdue for a period of more than 90 days in respect of a term loan.

(ii) The account remains "out of order" in respect of an Overdraft/Cash Credit (OD/CC).

(iii) The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted.

(iv) The instalments of principal or interest thereon remain overdue for two crop seasons for short duration crops.

(v) The instalment of principal or interest thereon remains overdue for one crop season for long duration crops.

(vi) The amount of liquidity facility remains outstanding for more than 90 days, in respect of a securitisation transaction undertaken in terms of guidelines on securitization dated 1st February, 2006.

(vii) In respect of derivative transactions, the overdue receivables representing positive mark to Market value of a derivative contract, if these remain unpaid for a period of 90 days from the specified due date for payment.

(b) Disclosure requirements in respect of contingent liabilities in the notes to the Balance Sheet of a General Insurance Company: The following shall be disclosed by way of notes to balance sheet in respect of Contingent Liabilities.

(i) Partly paid up investments.

(ii) Underwriting Commitments outstanding.

(iii) Claims, other than those under policies, not acknowledged as debts.

(iv) Guarantees given by or on behalf of the Company.

(v) Statutory demands/Liabilities in dispute, not provided for.

(vi) Reinsurance obligations to the extent not provided for in the accounts.

(vii) Others (to be specified).

(c) Maintenance of Books of Accounts with respect to a Multi-State Co-Operative Society: As per the Multi State Co-operative Society Rules, 2002, every multi state co-operative society shall keep books of accounts with respect to

(i) all sum of money received and expended and the matters in respect of which the receipt and expenditure took place.

(ii) all sales and purchases of goods.

(iii) the assets and liabilities of the society.

(iv) in the case of Multi State Co-operative Society engaged in production, processing and manufacturing particulars relating to utilization of materials or labour or other term of cost as may be specified in the bye laws of such a society.

Comprehensively, the following books of accounts may be maintained:

- *Cash book:* It may be maintained to record particulars regarding cash receipts and expenses under suitable heads, with clear distinction between capital and revenue items of receipts and expenses.
- *Stock register*: It may contain detailed information as regards receipts, issues and balances of stock-in-trade, date-wise. In a producers co-operative society, perpetual inventory records may be maintained based on an appropriate costing method.
- *Register of assets and investments:* It will contain detailed particulars regarding the various immovable and movable assets belonging to the society, such as, types of assets, location, date of acquisition, cost, depreciation provided, and so on.
- *Register of fixed deposits:* In the case of a co-operative credit society, or a co-operative bank, or any other society which is authorised by its laws to accept deposits from members/ non-members, a register of fixed deposits may be maintained giving details as regards the dates of acceptance, maturity, interest accrual, repayment, etc.
- *Register of sureties:* In the case of a co-operative credit society, loans are given against personal security of members as also surety (guarantee) provided by two other members. The Register of Sureties will give particulars about the number of borrowers in respect of which a member has stood surety, and show whether it is

within the overall limit of surety-ship that may be given by a member as prescribed by the bye-laws.

- *Register of loan disbursement and recovery:* In the ease of a co-operative credit society, this Register will provide particulars regarding loans sanctioned by the society, the dates of disbursement and recovery.

Question 7

*Attempt any **four** of the following:*

(a) *While conducting the tax audit of A & Co. you observed that it made an escalation claim to one of its customers but which was not accounted as income. What is your reporting responsibility?* *(4 Marks)*

(b) *Volatility margin.* *(4 Marks)*

(c) *General principles of propriety audit.* *(4 Marks)*

(d) *General objectives of an operational audit.* *(4 Marks)*

(e) *Frauds committed through supplier's ledger.* *(4 Marks)*

Answer

(a) **Clause 13(c) of Form 3 CD**: A tax auditor has to report under clause 13(c) of Form 3 CD on any escalation claim accepted during the previous year and not credited to the profit and loss account under clause 13(c) of Form 3 CD.

The escalation claim accepted during the year would normally mean "accepted during the relevant previous year." If such amount are not credited to Profit and Loss Account the fact should be reported. The system of accounting followed in respect of this particular item may also be brought out in appropriate cases. If the assessee is following cash basis of accounting with reference to this item, it should be clearly brought out since acceptance of claims during the relevant previous year without actual receipt has no significance in cases where cash method of accounting is followed.

Escalation claims should normally arise pursuant to a contract (including contracts entered into in earlier years), if so permitted by the contract. Only those claims to which the other party has signified unconditional acceptance could constitute accepted claims. Mere making claims by the assessee or claims under negotiations cannot constitute accepted claims. After ascertaining the relevant factors as outlined above, a decision whether to report or not, can be taken.

(b) **Volatility Margin**: Volatility margin is imposed to curb excessive volatility in the market and to act as a deterrent to building up of excessive outstanding positions. Price variations on account of calls, bonuses, rights, mergers, amalgamations and schemes of arrangements are adjusted for determining volatile securities and adjustments in prices is made for the purpose of computation of volatility, when securities are traded ex-benefits. Securities that attract volatility margin and the applicable margin rates are announced on the last day of the trading cycle and are applicable from the first day of the succeeding trading cycle. The volatility margin is levied on the net outstanding positions of the member, in each security, based on the respective margin rates.

(c) General principles of Propriety Audit: Proprietary audit is concerned with scrutiny of executive actions and decisions bearing on financial and profit and loss situation of the company, with special regard to public interest and commonly accepted customs and standards of conduct.

General principles of Propriety Audit are as under:

(i) The expenditure is not prima facie more than the occasion demands and that every official exercises the same degree of vigilance in respect of expenditure as a person of ordinary prudence.

(ii) That the authority exercises its powers of sanctioning expenditure which will not result in any benefit directly or indirectly to such authority.

(iii) That the funds are not utilised for the benefit of a particular person or group of persons and

(iv) That, apart from the agreed remuneration or reward, no other revenue is kept open to indirectly benefit the management personnel, employees or others.

(d) General objectives of operational audit: It include

(i) Appraisal of Controls.

(ii) Evaluation of performance.

(iii) Appraisal of objectives and plans and

(iv) Appraisal of organizational structure.

(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 then they 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.

(e) Frauds Committed through Suppliers Ledger: Fraud through supplies ledger could be made in any of the following ways, which the auditor has to take care of:

(i) Inflating suppliers account with fictitious or duplicate invoices and subsequent misappropriations as if payments are made to the supplier

(ii) Suppressing credit notes issued by the 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) Inflating values of items purchased and collecting the excess from suppliers i.e. accepting invoices at prices considerably higher than the market price and collecting the excess claim from the suppliers directly.