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**PAPER 3: ADVANCED AUDITING  
NOVEMBER 2003**

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

**Question 1**

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

- a. A husband and wife are controlling 34% of voting power in XY Company Limited. They are having a separate partnership firm, which supplies mainly the raw material to the Company. The Management says that the above transaction need not be disclosed. **(5 Marks)**
- b. While commencing the statutory audit of B Company Limited, the auditor under took the risk assessment and found that the detection risk relating to certain class of transactions cannot be reduced to acceptance level **(4 Marks)**
- c. While auditing accounts of a public limited company for the year ended 31<sup>st</sup> March, 2003, an auditor found out an error in the valuation of inventory, which affects the financial statement materially – Comment as per auditing and assurance standards. **(5 Marks)**
- d. At the statutory audit of TOR Limited, the physical verification of fixed assets was conducted. However the auditor was not able to confirm the existence of valuables and important machinery. In this connection, the auditor obtained a certificate from the management to prove its existence and value and accepted the same blindly without any further procedures. **(4 Marks)**

**Question 2**

Can a Practicing Chartered Accountant be held guilty of Professional Misconduct under the following circumstances? Give your views with reasons in brief:

- a. Z, A Chartered Accountant wrote several letters of Government Department, pointing out seniority of his firm, sending his life sketch and stating that he had a glorious record of service to the country as well as to the organization of accountancy profession with a view to get the audit work. **(4 Marks)**
- b. W, a Chartered Accountant has sent letters under certificate of posting to the previous auditor informing him his appointment as an auditor before the commencement of audit by him. **(4 Marks)**
- c. P, a Chartered Accountant had accepted appointment as an auditor of QRS Company Limited without ascertaining from the Company whether the requirement of Sections 224 and 225 of the Companies Act had been complied with. However, he realized this defect only after acceptance. **(4 Marks)**
- d. The Cashier of a company committed a fraud and absconded with the proceeds thereof. This happened during the course of accounting year. The Chief Accountant of the company also did not know about fraud.  
In the course of the audit, at the end of the year, the auditor failed to discover the fraud. After the audit was completed, however, the fraud was discovered by the Chief Accountant. Investigation made at the time indicate that the auditor did not exercise proper skill and care and performed his work in a desultory and haphazard manner. With this background, the Directors of the company intend to file disciplinary proceedings against the auditor.  
Discuss the position of the auditor with regard to the disciplinary proceedings. **(6 Marks)**

**Question 3**

- a. How does an Auditor apply Statistical Sampling in auditing? **(8 Marks)**

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- b. An old care of a company having a nominal book value has found a buyer, who is willing to pay Rs.1 lakh for it. The company proposes not to sell the car, but to neglect its valuation in its accounts at Rs.1 lakh. Should the auditor permit the company to do so? **(8 Marks)**

**Question 4**

- a. Discuss the control procedure which the auditor should adopt in applying CAAT (Computer Assisted Audit Technique) in an audit under EDP environment **(8 Marks)**
- b. You are the internal auditor of AB Manufacturing Co., Ltd., The Managing Director has asked you to enquire into the causes of abnormal wastage of raw materials during the month of September, 2003. **(8 Marks)**

The wastage percentages are as follows:

June, 2003	1.2%
July, 2003	1.1%
August, 2003	1.3%
September, 2003	3.6%

**Question 5**

- a. What are the important steps involved while conducting Investigation on behalf of an Incoming Partner? **(8 Marks)**
- b. Define Propriety Audit? What are the principles involved regarding Propriety Audit in Public Sector undertakings? **(8 Marks)**

**Question 6**

- a. As statutory central auditors of a Nationalized Bank, what special points are to be borne in mind in the audit of compliance with “Statutory Liquidity Ratio” (SLR) requirements? **(8 Marks)**
- b. Enumerate the steps to be taken by an auditor for the verification of Re-insurance outward by a General Insurance Company. **(8 Marks)**

**Question 7**

- a. What is your understanding about the term “Audit of Indirect Taxes”? explain the steps involved in the Indirect Tax Audit **(8 Marks)**
- b. Distinguish with suitable examples – Between a case where an auditor is obliged to state in his report to the members of a company that the accounts do not show a true and fair view, and a case where he states that he is unable to form an opinion as to whether or not the accounts give a true and fair view. **(8 Marks)**

**Question 8**

Write short notes on any **four** of the following: **(4×4=16 Marks)**

- a. Auditor’s responsibilities regarding comparatives.
- b. Reporting on the compilation engagement.
- c. Enquiry.
- d. Probable format of environmental statement.
- e. Contract notes.