
PAPER 3: ADVANCED AUDITING
November 1999

Answer questions **1** and **2** and **four** from the rest

Question 1

State your views on the following request made by the management of X Ltd.:

- (a) In spite of the internal control weakness commented upon by the audit manager, no further tests need to be carried out, as the purchase and sales figure as a percentage of gross profit was same as in the previous year. The audit manager's comments were in regard to control over purchase and sales. **(4 Marks)**
- (b) The branch accounts were audited by another firm of Chartered Accountants and therefore, they could rely on the same and only check the consolidation. **(4 Marks)**
- (c) The teeming and lading detected was subsequently deposited by the Executive Director of the Company and therefore need not be reported upon. **(4 Marks)**
- (d) Proposed Dividend does not represent a liability and therefore, no provision need be made. **(4 Marks)**
- (e) Revaluation reserve is available for issue of Bonus shares. **(4 Marks)**

Question 2

Comment on the Auditor's liability in the following cases: **(4 × 4 = 16 Marks)**

- (a) Mr. X, a partner of X & Co. Chartered Accountants advised the Managing Director of True Ltd. to include in sales, orders under negotiation to reflect a better financial position for obtaining future bank loan. X & Co. are the internal auditors of True Ltd.
- (b) X & Co. Chartered Accountants, informed selected multinational organizations, who are not their clients that Mr. Y, the former partner-in-charge of Taxation of one of the largest accounting firms of the world, had joined them as a partner.
- (c) X & Co. Chartered Accountants were informed by True & Co. Ltd. that they have been appointed as auditor of the company in place of ABC & Co., who have been removed, subject however to the approval of the shareholders in the ensuing Annual General Meeting. X & Co. accepted the appointment and commenced the work without their appointment being approved by shareholders of the company.
- (d) Mr. X partner of X & Co. Chartered Accountants has compiled and signed the Balance Sheet of False Ltd. for submission to the bankers of the said company. Mr. X has also compiled and signed at the request of the said company another Balance Sheet inflating the value of the assets by 20% for submission to a term lending institution. Both the Balance Sheets were not in conformity with the books of account maintained by the company as they were not up to date.

Question 3

- (a) "Materiality and Audit risk is determined at the time of Audit Planning and should not be changed during the course of audit." Please offer your comments on the statement. **(4 Marks)**
- (b) Mention the special points that will receive the attention of Bank's auditor in verification of advances against Life Insurance Policies. **(3 Marks)**
- (c) The Board of Directors of Fair Brother Ltd. seek your advice in the finalization of financial statements for the year ended 30-6-99. On a review of financial statements, it is noticed that:
 - i. The company has written up its fixed assets by Rs.50 lakhs and the accumulated depreciation of Rs.10 lakhs stands transferred to profit and loss account. **(3 Marks)**
 - ii. Research and development cost of Rs.15 lakhs which was charged to profit and loss account a few years before is written back to profit and loss account of the current year. **(3 Marks)**
 - iii. Sale of goods costing Rs.54,000 with a profit margin of 10% on selling price is included in the inventory as delivery of goods was postponed at buyer's request. **(3 Marks)**Advice the company on changes to be effected in the draft financial statements. Give reasons in support of your advice. There is no necessity to discuss disclosure requirements in this regard.

Question 4

A major part of the business of Cooperative Housing Society is to avail loans from Housing Finance Corporation and in turn give loans and advances to its members for construction of houses. Indicate any eight (8) points that will receive your attention as auditor of the Cooperative Housing Society. **(16 Marks)**

Question 5

- (a) State briefly the matters on which the Cost Auditor has to give his observations and conclusions to be included in the Annexure to his report under the Cost Audit (Report) Rules 1968. **(8 Marks)**
- (b) As a Central Statutory Auditor of a Bank, you have noticed that: **(4 × 2 = 8 Marks)**
- i. Bank is reluctant to classify those accounts as NPA'S, where no stock statements have been received.
 - ii. 5 borrowal accounts have been regularized by sanction of fresh term loan, which had been earlier declined by the bank.

Please state your views on the above approach by the Bank.

Question 6

- (a) Outline the steps in order of sequence that are usually applicable for the conduct of investigation. **(5 Marks)**
- (b) Draft a suitable questionnaire for a Management auditor in evaluation of over-all systems and procedures prevailing in a Trading Organisation. **(11 Marks)**

Question 7

State your views on the following:

- (a) "The objectives and scope of public enterprise audit is different from a statutory audit." **(8 Marks)**
- (b) "Problems of Proprietary audit dampen management initiative." **(4 Marks)**
- (c) A Chartered Accountant in practice holding Law Degree can practice both as a Chartered Accountant and as a Lawyer. **(4 Marks)**

Question 8

Write short noted on any four (4) of the following:

(4 × 4 = 16 Marks)

- (a) Bought out deal
- (b) Systems Development Control
- (c) Co-insurance
- (d) Accounting for CDT
- (e) Carry Forward System.