
**PAPER 3 :ADVANCED AUDITING
NOVEMBER 2006**

Answer Questions 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 the 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 as 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). **(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 31.3.2006 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 children of the workers of the company. The company has not made any profits in that 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. **(4 Marks)**
- 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)**

Question 2

Comment on the following with reference to the Chartered Accountant 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 Accountant received Rs. Lakhs in January, 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, 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)**

Question 3

- (a) Draft audit report U/s. 227(3)(f) of the Companies Act, 1956 on the following three situations in respect of XYZ Ltd., as on 31.3.2006:
 - i. Where all directors have given written representation 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 product 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 representation 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)

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: **(8 Marks)**

- i. Assets and Investments, and
- ii. Inventory and Contracting

Question 5

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

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

Question 6

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

Question 7

(a) **(4×2=8 Marks)**

- i. What are general matters to be considered by an auditor while taking up a new engagement?
- ii. What are the major sources of obtaining information about the client’s business?

(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)**

Question 8

Write short notes on any **four** of the following:

(4×4=16 Marks)

- a. Effect of uncertainties on revenue recognition .
 - b. Power and duties of an auditor of a Multi-state Co-operative 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.
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