
PAPER 3: ADVANCED AUDITING
MAY-2003

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

Question 1

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

- (a) ABC Ltd., is a company engaged in the business of construction of roads and bridges. It follows completed contract method for all its projects and therefore revenue is recognized only when the contract is completed or substantially completed. For the year ended 31st March, 2001, the ABC Ltd., has earned a sum of Rs.25 lakhs as interest on short term deposits with their Bank. These deposits are made out of advances received from the customers towards the projects that they are executing. ABC Ltd., while filing their Return of Income for the year 31st March, 2001 with the tax authority declared NIL income for that year. While calculating progress payments at the year end, the interest of Rs.25 lakhs earned was considered as part of the funds received for the project. Is the treatment given by ABC Ltd., with regard to the interest earned on short term deposit correct? **(8 Marks)**
- (b) XYZ Ltd., as part of overall cost cutting measure announced voluntary retirement scheme (VRS) to its employees, to reduce the employee strength. During the first half year ended 30.9.2002 the company paid a compensation of Rs.72 lakhs to those who availed the scheme. The Chief Accountant has reflected this payment as part of regular salaries and wages paid by the company. Is this correct? **(6 Marks)**
- (c) During the course of statutory audit of an investment company dealing in share and securities, inspite of repeated reminders by the statutory auditor, the company officials did not provide the investment held by the company at the Balance Sheet date for verification and also did not provide the details for valuation of unlisted shares as on the Balance Sheet date. The statutory auditor, in his final audit report to the shareholders, reported as follows:

“Subject to the verification of the existence and value of the investments, the Balance Sheet shows a true and fair view.”

Is the report made by the Statutory auditor correct?

(6 Marks)

Question 2

- (a) Mr.X, a Chartered Accountant accepted his appointment as tax auditor of a firm U/s. 44AB, of the Income – Tax Act, and commenced the tax audit within two days of his appointment since the client was in a hurry to file Return of Income before the due date. After commencing the audit, Mr.X realized his mistake of accepting this tax audit without sending any communication to the previous tax auditor. In order to rectify his mistake, before signing the tax audit report, he sent a registered post to the previous auditor and obtained the postal acknowledgement. Will Mr.X be held guilty under the Chartered Accountant Act ? **(6 Marks)**
- (b) Mr. J started his practice as Chartered Accountant in 1996. During 1999, he got an offer for the post of Chief Accountant of a Software Development Company, as a fulltime employee, for a salary of Rs.60,000 per month. On accepting this offer, Mr.J converted his practice into a partnership firm by taking a fresh Chartered Accountant as his partner. Mr. J neither intimated the Institute nor obtained permission from the Institute about his employment. Will Mr. J be held guilty under the Chartered Accountant Act?**(6 Marks)**
- (c) A Chartered Accountant in practice had confirmed in the application made by his articled clerk to the council for permission to study that the normal working hours of his office were 11 a.m. to 6 p.m and the hours during whole the articled clerk was required to attend college classes were 7 a.m to 9.30 a.m. On inquiry from Principal of College, it was ascertained that the articled clerk used to attend classes from 10 a.m to 1.55 p.m. The Chartered Accountant pleaded ignorance about the articled clerk attending the

college classes during office hours. Will the Chartered Accountant be held guilty of professional misconduct? **(4 Marks)**

Question 3

- (a) "Surprise Checks" help the auditors to ascertain whether the internal control system is operating effectively in a company or not. Discuss. **(8 Marks)**
- (b) Discuss the scope of "concurrent audit" in the banks. **(8 Marks)**

Question 4

An American Company engaged in the business of manufacturing and distribution of industrial gases, is interested in acquiring a listed Indian Company having a market share of more than 65% of the industrial gas business in India, request you to conduct a "Due Diligence" of this Indian Company and submit your Report. As due Diligence Auditor, what key areas you will cover in your review? List out the contents of your Due Diligence Review Report that you will submit to your USA based client. **(16 Marks)**

Question 5

A Nationalized Bank received an application from an export company seeking sanction of a term loan to expand the existing sea food processing plant. In this connection, the General Manager, who is in charge of Advances, approaches you to conduct a thorough investigation of this limited company and submit a confidential report based on which he will decide whether to sanction this loan or not.

List out the points you will cover in your investigation before submitting your report to the General Manager. **(16 Marks)**

Question 6

As the auditor of NBFC, which is engaged in the acquisition of securities and trading in such securities? List out the special points that may be covered in your audit. **(16 Marks)**

Question 7

- (a) What is your understanding of the term "true and fair view" in a statutory audit report of a company? **(8 Marks)**
- (b) XYZ Private Limited is engaged in the wholesale business of buying and selling silk sarees. The accounts are maintained under the Companies Act, from 1st October to 30th September each year. The Chief Accountant of the Company is requesting the tax auditor to conduct tax audit U/s. 44AB of the I.T. Act for the period for which accounts have been maintained under the Companies Act. As the tax auditor of XYZ Private Limited, how will you react to the Chief Accountant's request? **(8 Marks)**

Question 8

(4×4=16Marks)

- (a) Underwriting function and its internal control procedures.
- (b) Propriety audit.
- (c) Reconciliation of cost and financial accounts.
- (d) Personal expenses of directors.
- (e) Can a statutory auditor act as a book – keeper and as an internal auditor?