

MAY 2011

FINAL
GROUP-I PAPER-3
ADVANCED AUDITING AND
PROFESSIONAL ETHICS

Roll No.

Total No. of Questions – 7

Total No. of Printed Pages – 4

Time Allowed – 3 Hours

Maximum Marks – 100

SAP

Answers to questions are to be given only in English except in the case of candidates who have opted for Hindi Medium. If a candidate has not opted for Hindi medium, his answers in Hindi will not be valued.

Question No. 1 is compulsory.

Answer any **five** from the rest.

Marks

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

SAP

P.T.O.

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
 - (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
 - (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
 - (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
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
- (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

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
- (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
- (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
5. (a) OK Ltd. had 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
- (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

- (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
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
- (b) State the disclosure requirements in respect of contingent liabilities in the notes to the Balance Sheet of a General Insurance Company. 4
- (c) State the requirements regarding the maintenance of books of accounts with respect to a multi-state co-operative society. 4
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
- (b) Volatility margin. 4
- (c) General principles of proprietary audit. 4
- (d) General objectives of an operational audit. 4
- (e) Frauds committed through supplier's ledger. 4