

Roll No. **FINAL** **MAY 2014**
GROUP-I PAPER-3
ADVANCED AUDITING AND
Total No. of Questions – 7 **PROFESSIONAL ETHICS** Total No. of Printed Pages – 8
Time Allowed – 3 Hours **Maximum Marks – 100**

HBC

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/her answers in Hindi, will not be valued.

Question No. 1 is compulsory.

Candidates are also required to answer any **five** questions from the remaining **six** questions.

Marks

1. (a) ABC Company files a law suit against Unlucky Company for ₹ 5 crores. The Attorney of Unlucky Company feels that the suit is without merit, so Unlucky Company merely discloses the existence of the law suit in the notes accompanying its financial statements. As an auditor of Unlucky Company, how will you deal with the situation ? **5**
- (b) T & Co. wants to issue a prospectus, to provide potential investors with information about future expectations of the Company. You are hired by T & Co. to examine the projected financial statements and give report thereon. What things you will consider before accepting the audit engagement and what audit evidence will be obtained for reporting on projected financial statements ? **5**

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P.T.O.

- (c) In the course of audit of K Ltd., its auditor Mr. 'N' observed that there was a special audit conducted at the instance of the management on a possible suspicion of a fraud and requested for a copy of the report to enable him to report on the fraud aspects. Despite many reminders it was not provided. In absence of the special audit report, Mr. 'N' insisted that he be provided with at least a written representation in respect of fraud on/by the company. For this request also, the management remained silent. Please guide Mr. 'N'. 5
- (d) During the course of audit of Star Limited the auditor received some of the confirmation of the balances of creditors outstanding in the balance sheet through external confirmation by negative confirmation request. In the list of Sundry Creditors there are number of creditors of small balances except one, old outstanding of ₹ 15 Lacs, of whom, no confirmation on the credit balance received. Comment with respect to Standard of Auditing. 5
2. Give your comments with reference to Chartered Accountants Act, 1949 and Schedules there to.
- (a) Mr. 'E', a practicing Chartered Accountant, was requested by one of his client to prepare a projection for next five years and also a report on the same. Mr. 'E' after having prepared the same stated in his report 'The sources of information, the basis of forecasts and also the major assumptions made in arriving at the forecasts. He also stated that he does not vouch for the accuracy of the forecasts'. 4

(3)

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Marks

- (b) Mr. 'A' is a practicing Chartered Accountant working as proprietor of M/s A & Co. He went abroad for 3 months. He delegated the authority to Mr. 'Y' a Chartered Accountant his employee for taking care of routine matters of his office. During his absence Mr. 'Y' has conducted the under mentioned jobs in the name of M/s A & Co. **5**
- (i) He issued the audit queries to client which were raised during the course of audit.
- (ii) He issued production certificate to a client under Central Excise Act, 1944.
- (iii) He attended the Income Tax proceedings for a client as authorized representative before Income Tax Authorities.

Please comment on eligibility of Mr. 'Y' for conducting such jobs in name of M/s A & Co. and liability of Mr. 'A' under the Chartered Accountants Act, 1949.

- (c) Mr. 'G', while applying for a certificate of practice, did not fill in the columns which solicit information about his engagement in other occupation or business, while he was indeed engaged in a business. **3**

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P.T.O.

(4)

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Marks

- (d) Mr. 'C', a Chartered Accountant holds a certificate of practice while in employment also, recommends a particular lawyer to his employer in respect of a case. The lawyer, out of the professional fee received from employer paid a particular sum as referral fee to Mr. 'C'. **4**
3. (a) A Ltd. is a Chennai based company. The total turnover of the company is ₹ 10 crores for the year 2012-13. The company has a branch office at an area which was recently affected by flood. The transportation services are not available due to destruction caused by flood. The branch office recorded turnover of ₹ 1,50,000 in the Financial Year 2012-13. No audit of branch has been carried out. The statutory auditor of the company has made no reference of the above branch in his report. Comment. **4**
- (b) Mr. 'U', a respectable Chartered Accountant of international repute was requested by one of the major corporates in India to join its Board and also as a Chairman of Audit Committee. He expressed his apprehensions that he is not having the requisite experience. Mr. 'U' seeks your view on the responsibility of Audit Committee vis-a-vis the review of Financial Statements. **4**

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- (c) For the year ended on 31st March, 2014, P Ltd. proposed to pay a dividend of 25% on its equity shares and it further proposed to transfer 20% of Net profit for that year after tax to its reserves. Its auditor objected to the same stating that 10% is the maximum permissible limit to transfer to reserves. Comment. **4**
- (d) In assessment procedure of M/s Cloud Ltd., Income Tax Officer observed some irregularities. Therefore he started investigation of Books of Accounts audited and signed by Mr. Old, a practicing Chartered Accountant. While going through books he found that M/s Cloud Ltd. used to maintain two sets of Books of Accounts, one is the official set and other is covering all the transactions. Income Tax Department filed a complaint with the Institute of Chartered Accountants of India saying Mr. Old had negligently performed his duties. Comment. **4**
4. (a) H Ltd. granted unsecured loan of ₹ 1 crore @ 15% p.a. to two of its subsidiaries during the Financial Year 2012-13. Before the year end both the companies repaid the loan. The management of H Ltd. is of the opinion that since no balance is outstanding as on 31st March 2013, these loans are not required to be reported in CARO 2003. Comment and draft a suitable report. **4**

(6)

HBC

Marks

- (b) In the course of audit of Y Ltd., as the auditor of the company you observe the following : **6**

- (i) The company has advanced a loan to a firm in which a director was interested at a rate lower than the prevailing market rate as well as there was no agreement on terms of repayment.
- (ii) There are certain transactions which ought to have been entered in the register maintained u/s 301, were omitted to be entered.

How auditor will report in CARO 2003 ?

- (c) X Limited is the holding company of Y Limited and Z Limited. Explain the nature of current period consolidation adjustments which will be taken into account for the preparation of Consolidated Financial Statements. **6**

5. (a) Shy & Co. had been allotted the branch audit of a nationalized bank for the year ended 31st March, 2014. In the audit planning, the partner of Shy & Co. observed that the allotted branches are predominantly based in rural areas and major portion of the advances were for agricultural purpose. He needs your assistance in incorporating the criteria prescribed for determination of NPA norms in respect of agricultural advance, in audit plan. **5**

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- (b) M/s ABC & Co., a CA firm was appointed as the auditor of 'Always Safe General Insurance Ltd.' Advise them how they will verify outstanding premium and agents' balances. 6
- (c) Good Bank Ltd. intends to advance to a customer, based on the stocks and receivables. It appoints you to conduct a periodical review of status of stocks and receivables of that borrower. Please draft a suitable program of verification. 5
6. (a) ABG & Co., a Chartered Accountant firm has been appointed by C & AG for performance audit of a Sugar Industry. What factors should be considered by ABG & Co., while planning a performance audit of Sugar Industry ? 6
- (b) Mr. 'P' have been appointed as operational auditor of M/s Books & Magazine Ltd. and observed a totaling error in invoice of ₹ 1,000. He has not taken care of the same saying that this is out of scope of his work. Comment. 3
- (c) What will be your approach in investigation under Section 235 and 237 into the affairs of the company registered under Companies Act, 1956 ? 4
- (d) What are the areas excluded from the scope of peer reviewer ? 3

(8)

HBC

Marks

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

4×4

=16

- (a) Classification of frauds by NBFC.
 - (b) Causes of risk of material misstatement in CIS environment.
 - (c) Evaluation of inherent risk at the level of Financial Statements.
 - (d) Objectives of Internal Check System.
 - (e) Tolerable misstatement
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