
PAPER 3 :ADVANCED AUDITING
MAY 1999

Answer Questions 1 and 2 and any four from the rest.

Question 1

- (a) A Chartered Accountant in practice was engaged by a businessman to represent him before the tax authorities on current matters and in the course of such employment he came across certain documents pointing to commission of tax frauds in the preceding years for which the client was not represented by him.

Is the member liable to disclose the existence and contents of the document to tax authorities?

(5 marks)

- (b) A Chartered accountant in practice was alleged to have signed two balance sheets on two different dates for the same financial year, the first one with a clean report and the second one with a qualified report. In a criminal proceeding he made a statement before the magistrate that he had signed only the second balance sheet.

Subsequently it was found that he had in fact given the clean report at a later date but signed the first balance sheet under an earlier date. Examine his conduct in the light of Chartered Accountant's Act, 1949.

(5 marks)

- (c) At the Annual General Meeting of a Public Limited Company held on April 1, 1996. M/S. Bat and Ball a firm of Chartered Accountants was appointed to audit the accounts of the company for the calendar year, 1996. However the next Annual General Meeting of the company did not take place until January 1, 1999. M/S Bat and Ball insist that they alone are entitled to audit the accounts not only for the year 1996, but also for the years 1997 and 1998 respectively.

Advise the Company on the contention of M/S Bat and Ball.

(5 marks)

- (d) The Chief Accountant of Stumps Ltd. is of the opinion that before declaration of dividends it would not be necessary to set off the carried forward amount of debit balance in the Profit and Loss account against current revenue profits but the same could be set off the carried revenue profits but the same could be set off against existing revaluation reserve— Do you agree? (5 marks)

Question 2

As an auditor, state your opinion on the following situations:

- (a) Note No.6 of Published Accounts of Kambakadi Ltd. reads as follows:

“The Company being a manufacturer of pollution control equipments has entered into collaboration agreements with foreign manufacturers for technical knowhow comprising the supply of drawings and designs and training of personnel for manufacture of different types of pollution control equipments. These agreements were concluded after the commencement of production at the beginning of the year. The collaboration amount of Rs.100 lakhs is payable in five annual installments. The company has amortized the entire cost of technical knowhow as a depreciable asset and has shown the same in the same in the schedule of fixed assets.” **(5marks)**

- (b) Note No. 7 to the Balance sheet of RNR Ltd. as on 31-12-98 is as follows:

“The Company had a large engineering contract with a foreign Government, work to be carried out in foreign country and payments to be received in dollars. The work was completed in the year 1995 and the entire contracted amount was duly recorded in the books of the company at the prevalent exchange rate on the date of completion of the work. However, payments to the

extent of Rs.20 crores could not be released by the foreign Government because of temporary foreign exchange crisis in that country. This Rs.20 crores unrealized at the end, if converted at the rate would amount to Rs.20.50 crores. The company has adopted and follows the following accounting policy:

In respect of foreign currency transactions, current assets and current liabilities are revalued at year end rates. However, if there is net loss due to exchange difference, the same is charged off to the profit and loss account but if there is net gain the same is ignored in view of the prudent accounting principle of not recording unrealized gains due to exchange rate fluctuations.”

Comment on the appropriateness of above.

(5 marks)

- (c) A Public Charitable Institution registered U/S 25 of the Companies Act, 1956 is running a printing press and a transport system as feeder of funds to carry on charitable activities.

The accounting policies by way of notes to accounts are stated as follows:

- i. Accounts are maintained on cash basis.
- ii. Accounting standards are not being followed as they are considered to be inapplicable to Charitable entities.

(4 Marks)

Question 3

State with reasons whether the following propositions are true or false:

- (a) Special audit can be ordered by the Central Government U/S 233A of the Companies Act, 1956 if a company sustained losses continuously for two years and the Special Auditor may not be a Chartered Accountant in practice. **(4 Marks)**
- (b) The phrase “to the best of our information and according to the explanations given to us” which is usually found in the Auditor’s Report in one sense but extends it in another sense. **(4 Marks)**
- (c) It is not possible to merge Cost Audit with Financial Audit to have a Composite Audit. **(4 Marks)**
- (d) Problems in Propriety Audit however arise mainly because of its distinct nature. **(4 Marks)**

Question 4

- (a) Outline the special points that are required to be considered in establishing and evaluating a system of internal control for Computer applications processed at a service bureau. **(12 marks)**
- (b) What are the advantages and disadvantages of using the service bureau from Auditor’s point of view? **(4 marks)**

Question 5

- (a) Distinguish between Audit Certificate and Audit Report. **(4 marks)**
- (b) Discuss the requirements regarding Auditor’s Certificate on profit forecast included in the “Offer Documents”. **(12 marks)**

Question 6

- (a) Indicate briefly the purposes for which analytical procedures are applied by the Auditor. **(6 Marks)**
- (b) “The extent of reliance on analytical procedures depends on several factors.” – Explain. **(10 Marks)**

Question 7

- (a) Explain the concepts of Management Audit and Operational Audit.
- (b) What are the differences between these two Audits?

(8 Marks)

(8 Marks)

Question 8

Write short notes on any four of the following:

(4×4=16 Marks)

- (a) “Limit Orders” in screen based trading in Stock Exchange.
- (b) Objectives and scope of Public Enterprises Audit.
- (c) Management Expenses of Insurance Companies.
- (d) Permanent Difference and Timing Difference.
- (e) Disclosure requirement in the case of Banks regarding “Balances with other banks and Money at Call and Short Notice”