
PAPER 3 :ADVANCED MANAGEMENT AUDITING
MAY 1997

Answer Questions **1 and 2 and four** from the rest

Question 1

- (a) An Accountant's Report on the profits of a company for three years ending 31.3.1996 and on its assets and liabilities as on 31.3.1996 has been requested for inclusion in a prospectus to be issued for a public issue of shares.

The following matters of marginal importance are noticed by the Chartered Accountant in the course of the investigation:

- (i) Some of the expenditure incurred in 1993 and later years on repairs to the building has been charged against reserves created out of profits of the earlier years.
- (ii) During 1992 and 1993, work was completed on a contract containing a costing clause but negotiations as to the final price were prolonged. A considerable additional sum was received in 1995 and included in the profit and loss account for that year.
- (iii) New Service agreements providing for increased remuneration from 1.4.1996 have been entered into with the directors.
- (iv) On 31.3.1996, the market value of the company's quoted investments was below the value at which they appeared in the Balance Sheet.

You are required to explain how, according to you, these matters should be dealt with by the Chartered Accountant. **(12 Marks)**

- (b) In the previous year "Y" Ltd., has made a provision of 10% of the contract value on an ongoing project. The actual loss on completion of the contract in the subsequent year was 11%. The management adjusted the difference in the previous year's account.

As an auditor, state your views on the above subject.

(8 Marks)

Question 2

- (a) Discuss briefly the role of a Statutory Auditor in relation to the unlawful acts by the clients. **(8 Marks)**

- (b) Is there professional misconduct in the following cases in the context of the provisions of Chartered Accountant Act and its regulations?

- i. Mr. Ramana, a Chartered Accountant in practice and a lawyer agree to pay to each other 12 percent of the gross fees received by them from clients referred by the to each other. It is agreed that both of them will maintain a record in respect of such client's and the account will be settled at the end of each year. However, at the end of the first year, the Chartered Accountant refuses to receive or pay the referral fee as per the agreement and tells the lawyer that the agreement stands terminated.

(4 Marks)

- ii. Mr. Sethi, 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 under section 225 of the Companies Act, 1956.

(4 Marks)

Question 3

Comment on the following statements.

- (a) Propriety audit has an inherent element of subjectivity. **(8 Marks)**
- (b) Any violation of the provisions of the Income Tax Act will make the payment of dividend illegal. **(4 Marks)**
- (c) The use of audit software systems increases the probability of detecting fraud. **(4 Marks)**

Question 4

- (a) You have been appointed as an internal auditor of a departmental store. State briefly, how you will plan your work. **(10 Marks)**

- (b) One of the three joint auditors of a company differs from the views of the other two auditors with regard to certain matter to be covered by the report. Discuss his rights and duties in this regard. **(6 Marks)**

Question 5

- (a) The management of S Ltd., requested its auditors to issue a separate report to the Board of Directors in addition to his report to the shareholders U/s. 227 of the Companies Act, 1956.
State the matters the auditors could and should include in the said report. **(6 Marks)**
- (b) Your assistant has just completed the audit of a Co-operative Society. You are going to submit the audit report. State in this connection the requirement of any additional information to be given in attached schedules with your main audit report. **(5 Marks)**
- (c) Your client has recently applied for registration as a stock broker under the Security and Exchange Board of India Act, 1992. You are instructed to indicate the matters that would be taken into account by the Board while granting Registration Certificate. **(5 Marks)**

Question 6

- (a) The liability of audit fees of a company has been outstanding since last two years. This year after consideration of audit, the auditor informs to the secretary of the company over phone to bring the cheque of all the three years and take delivery of the audit report.
Discuss briefly the above statement in the context of the right of the auditor to receive remuneration. **(4 Marks)**
- (b) Comment on the advisability of combining Cost Audit and Financial Audit to produce a Composite Audit requirements. **(8 Marks)**
- (c) Mr. Robertson, the Marketing Manager of R.B.C. Ltd., of Calcutta had made four trips to Bangalore during the previous year ended 31st March, 1997. His expenditure for stay at Bangalore during these trips were as follows:

	No. of days	Amount (Rs.)
1 st Trip	3	3,600.00
2 nd Trip	4	6,400.00
3 rd Trip	5	6,500.00
4 th Trip	5	9,000.00
Total	17	25,500.00

As Tax Auditor of the company, what should be your comment in respect of the above situation?

(4 Marks)

Question 7

- (a) Draw up an audit programme of income and expenditure items of a nationalized bank situated in a metropolitan city. **(10 Marks)**
- (b) As an Auditor, state your views on the following situations:
A Well established manufacturing public limited company proposes to issue fully paid bonus shares:
i. in lieu of dividend;
ii. without converting partly paid up shares into fully paid up shares. **(6 Marks)**

Question 8

Write short notes on any four of the following:

- (a) Audit Evidence.
(b) Verification of Ownership Flats.
(c) Audit and investigation.
(d) Committees on Public Undertakings.
(e) Personal Expenses of Directors.

(4×4=16 Marks)