

Gurukripa's Guideline Answers to May 2011 Final Exam Questions ADVANCED AUDITING & PROFESSIONAL ETHICS

Question No.1 is Compulsory. Answer any 5 Questions from the rest

Q.No	Questions	Reference / 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 Agency in relation to the audit.	SA 402 , Pg.74, Para 3	4
1 (b)	In the course of audit of T Ltd, the audit team is not sure of the possible source of mis-statements in the Financial Statements. As the Audit Manager identify the sources of Mis-statements.	SA 450 , Pg. 79, Para A.1 & A.3	4
1 (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 mis-statements?	SA 540 , Pg. 108, Pt. 4	6
1 (d)	The Management of S Ltd requests you not to seek confirmation from its Debtors. As the Auditor of S Ltd, what can be an appropriate response?	SA 505 , Pg. 90, Para 8 & 9	6
2 (a)	Give your comments with reference to the CA Act, 1949 & Schedules thereto: 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 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.	Guilty . Pg.16.40, Q.63	4
2 (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.	Guilty . Pg. 16.27, Q. 51	4
2 (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.	Guilty . Pg. 16.18, Q. 43	4
2 (d)	A letter is sent by a CA 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).	Not Guilty . Pg.16.18,Q.39	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?	SA 300 , Pg. 52 Para 4-12	8
3 (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 audit evidence. How do you evaluate the work of the Actuary?	SA 620 , Pg 144, Para 9, 10, 12, A.15-A.17, A.9, A.33 -A.37	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.	Ref Note 1 below	4
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 31 st 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.	Pg. 3.32, Note 1 & Pg. 3.34, Topic H [Cash & Bank, Secured Loans]	4
4 (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 Statements assertions. What could be the areas you look forward for deficiencies and risk identification?	SA 315 Pg. 57, Para A.52	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 31 st 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 the responsibility, assuming that Company has sought re-schedulement of loan.	Pg 4.9, Pt. 11 Refer Note 2 Below	4

Q.No	Questions	Reference / Marks
5 (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 31 st March 2011. As the Auditor of the Company, what is your role in this?	Pg 4.9, Pt. 9 Refer Note 3 Below 4
5 (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?	Refer Note 4 below 8
6 (a)	"An Asset, including a Leased Asset, becomes non-performing when it ceased to generate income for the Bank." Define the criteria for classification of Non-Performing Assets.	Pg 6.23, Q .32 Pg 6.26 Q. 39 8
6 (b)	State the disclosure requirements in respect of Contingent Liabilities in the Notes to the Balance Sheet of a General Insurance Company.	Pg. 3.35 4
6 (c)	State the requirements regarding the maintenance of Books of Accounts with respect to a Multi-State Co-operative Society.	Pg. 10.13, Q.18 4
7 (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?	Pg. 8.9 Clause 13 (Pt. 6 to 9) 4
	(b) Volatility margin. Pg. 9.2, Q.4	(d) Objectives of Operational Audit. Pg.12.16,Q.30 4
	(c) Principles of Proprietary Audit. Pg. 5.12, Q.21	(e) Frauds in Supplier's Ledger. Pg.14.17,Q.28 4

Note 1

- (a) As per AS 1, Disclosure of Accounting Policies, "Prudence" is one of the major considerations in selection of accounting policies. i.e. profits are not anticipated but recognized only when realized though not necessarily in cash.
- (b) As per AS-9, Revenue Recognition, revenue should be recognized until its realization is reasonably certain.
- (c) The Expert Advisory Committee of ICAI has opined, in relation to Accounting treatment for Duty Credit Entitlement under the Target Plus Scheme (under Customs Act)", that TPS credit should be recognized at the time when and to the extent there is no significant uncertainty as to its measurability and ultimate realization. Further, the assessment of level of uncertainty is a matter of judgement based on the facts and circumstances of each case.
- (d) In the present situation, the Auditor has to consider the certainty of receipt, facts of the case, previous instances of duty claims and its results, subsequent events after the BS date on acceptance by Customs Authorities, and accordingly consider the impact on Financial Statements.

Note 2

- (a) The Auditor should report the period and amount of all defaults existing at the Balance Sheet date irrespective of when those defaults have occurred. Hence, defaults committed in the previous years and continuing until the year end would be reported.
- (b) Submission of application for re-schedulement does not mean that no default has occurred. However, if the application has been approved by the Bank, then the Auditor has to state the fact in his Audit report.

Note 3

- (a) Mere Show Cause Notice issued by the Government Department does not constitute a dispute.
- (b) However if SCN is accompanied by a Demand Notice, the same would be construed as disputed, till the time the Assessee has disposed off the terms of SCN.
- (c) In the present case, the Company preferred a reply contending the levy of tax. Hence, it becomes a disputed statutory due.
- (d) Further, it is clarified that a mere representation to the concerned Department does not constitute dispute. It is necessary that there should be an appeal before the relevant Appellate Authority. Hence, the Company should have preferred the reply to the Appropriate Authority, with an intention to dispute.

Note 4: Answer comprises the following points –

- (a) Disclosure in P&L A/c as per Clause IV D to Part II of Sch VI (Ref Pg.3.15)
- (b) Auditor duties in case of insufficient Audit Evidence (SA 500, Pg. 84, Para 11)
- (c) Audit consideration on Materiality (SA 320, Pg. 64, Para 5)
- (d) Auditor's duty to communicate to those Charged with Governance (SA 260, Pg.41, Para 12)
- (e) Duty to obtain Management Representation (SA 580, Pg. 130, Pt. 2)
- (f) Other audit procedures
1. Analytical Review of Foreign Tour Expenses in accordance with SA 520
 2. To verify Subsequent Events in accordance with SA 560 (e.g. contracts arising out of Director's travel)
 3. Availability of Board Resolution, if any, as an additional audit evidence
- (g) Auditor's duty to issue Modified Report (SA 705, Para A.2)

Note: Reference for SA Questions relates to Padhuka's Students' Referencer on Standards on Auditing book.