
AUDIT – MAY 2017 - QUESTION PAPER

Q.1 Discuss the following:

(a) "A satisfactory internal control environment may help reduce the risk of fraud but is not an absolute deterrent for fraud." Explain.

[5 Marks]

(b) Discuss with reference to SA 510, "Initial Audit Engagements - Opening Balances", the procedures the auditor should undertake in respect of opening balances for a new audit engagement.

[5 Marks]

(c) What are the provisions regarding appointment of auditors by rotation, after expiry of the term of the current auditor, that a company should consider"?

[5 Marks]

(d) In the course of audit of Steadfast Ltd., a manufacturing company, you find that there is a sharp fall in the rate of gross profit in comparison to the previous year. State the steps you would take to verify the same.

[5 Marks]

Q.2 State with reasons (in short) whether the following statements are correct or incorrect: (answer any **eight**)

(a) If financial statements are misstated, and in the auditor's judgment such misstatement is material and pervasive, he should issue a qualified opinion.

(b) Under the Companies Act, 2013, the financial statements of a company must be approved by two directors out of which one shall be the managing director.

(c) A joint auditor is not bound by the views of the majority of the joint auditors regarding matters to be covered in the auditors report.

(d) The auditor is responsible for the compliance with laws and regulations by the audit client entity.

(e) The use of computer facilities by a small enterprise may increase the control risk.

(f) "Substantive procedures" may be defined as audit procedures designed to evaluate the operating effectiveness of controls in preventing, detecting and correcting material misstatements.

(g) Analytical procedure is a part of routine audit checking.

(h) NGOs registered under the Companies Act, 2013 can maintain their books on either accrual or cash basis.

(i) Fraud against the company shall be reported by the auditor to the Central Government within 45 days of his knowledge.

(j) If the Board of Directors fails to appoint the first auditor in case of a company other than a Government Company, then the Central Government shall appoint the auditor.

[8×2= 16 Marks]

Q.3 How will you vouch I verify the following?

(a) Trademarks and copyrights

- (b) Investments income in the case of charitable institutions
- (c) Contingent liabilities
- (d) Leasehold rights

[4×4= 16 Marks]

Q.4 Answer **all** questions:

- (a) State in brief, the management's responsibilities relating to the audit of financial statements.
[4 Marks]
- (b) Write a short note on Random Sampling.
[6 Marks]
- (c) What is the purpose of a Letter of Engagement? What are the important contents of a Letter of Engagement?
[6 Marks]

Q.5 Answer **all** questions:

- (a) What are the important objectives of local body audits?
[4 Marks]
- (b) Distinguish between absolute and reasonable assurance. Identify the type of assurance that is expected in an audit of the financial statements, clearly outlining the reasons to justify your point of view.
[6 Marks]
- (c) National College, an institution managed by a trust, has received a grant of ₹ 2.40 crore from Government nodal agencies for funding a project of research on rural health systems in India. Draft an audit programme for auditing this fund in the accounts of the college.
[6 Marks]

Q.6 Answer **all** questions:

- (a) Specify the class of companies to whom rotation of auditor applies, under the provisions of Companies Act, 2013.
[4 Marks]
- (b) With reference to SA 500, "Audit Evidence", discuss the different sources and their reliability, of audit evidence.
[6 Marks]
- (c) State the analytical review procedures normally carried out in the audit of inventories.
[6 Marks]

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

[4×4= 16 Marks]

- (a) What is an Emphasis of Matter paragraph, when it is used, and manner of its use in an audit report?
- (b) Important requirements which should be kept in mind to establish a system of internal control for application process at a service bureau.
- (c) General Purpose Financial Statements.
- (d) Provisions regarding re-appointment of a retiring auditor at the Annual General Meeting, for a company not covered under auditor rotation provisions.
- (e) The purpose of providing depreciation.