

Paper – 6

AUDITING AND ASSURANCE

Questions

- 1.** *State with reasons (in short) whether the following statements are True or False. (Answer any ten):*
- (i)** *Potential for human error in the development, maintenance and execution of computer information systems more than in manual systems.*
 - (ii)** *In case of audit of partnership or sole proprietorship, the auditor's duties are defined purely by the contract between him and the client.*
 - (iii)** *There is no difference between auditing and accounting as both deals with financial statements.*
 - (iv)** *Once audit plan is developed at the start of the audit it should be stuck to and not revised during the course of audit.*
 - (v)** *Misstatement of financial information may not be the objective of certain frauds.*
 - (vi)** *There is no single list of accounting policies applicable to all enterprises.*
 - (vii)** *The auditor of a company has a right to carry out surprise checks of transactions beyond the end of the accounting year for which he is reporting.*
 - (viii)** *If the assessed levels of inherent and control risks are low, there is no need to perform substantive procedures.*
 - (ix)** *Clerical errors ordinarily associated with manual processing are virtually eliminated in CIS system.*
 - (x)** *Vouching is mere comparison of the entries in the books of account with evidence supporting the entries.*
 - (xi)** *An unqualified opinion in audit report is a guarantee as to the future viability of the company.*
 - (xii)** *If there is a material tax liability for which no provision is made in the accounts, the auditor should qualify his report in this respect even if the reserves are adequate to cover the liability.*
- (10 x 2 = 20 Marks)*
- 2.** *Comment on the following:*
- (a)** *In case the existing auditor(s) appointed at the Annual General Meeting refused to accept the appointment, whether the Board of Directors could fill up the vacancy. (5 Marks)*

- (b) *X and Co., Chartered Accountants, who were appointed as the first auditors of the company, were removed without the prior approval of the Central Government, before the expiry of their term, by calling an Extraordinary General Meeting. (5 Marks)*
- (c) *Due to the resignation of the existing auditor(s), the Board of directors of X Ltd appointed Mr. Hari as the auditor. Is the appointment of Hari as auditor valid? (5 Marks)*
- (d) *At the Annual General Meeting of the Company, a resolution was passed by the entire body of shareholders restricting some of the powers of the Statutory Auditors. Whether powers of the Statutory Auditors can be restricted? (5 Marks)*
3. *How the work of an expert should be evaluated before accepted the same as an Audit evidence ? (10 Marks)*
4. *Comment on the following:*
- (a) *The surplus arising from a change in the basis of accounting was set off by X Ltd., against a nonrecurring loss. (4 Marks)*
- (b) *Z Ltd. gave a guarantee to the Court for payment of excise dues of Rs.10 lakhs for one of its subsidiaries. According to the company, since the guarantee was given on behalf of its subsidiary, no disclosure was required. (6 Marks)*
5. (a) *How does an auditor audit Government Expenditure? (4Marks)*
- (b) *What categories of Companies are specifically exempted from the application of Companies (Auditor's Report) Order, 2003? (6 Marks)*
6. (a) *Give your comment on "The Central Government has appointed Mr. Sushil, a retired Finance Director of a reputed company, a non-practising member of ICAI, as a special auditor of MM Ltd., on the ground that the company was not being managed on sound business principles. Mr. Ajay, MD of MM Ltd. feels, that the appointment of Mr. Sushil is not valid as he does not hold a certificate of practice". (6 Marks)*
- (b) *As a company auditor how would you react to the following situation? Rs. 5 lakhs paid by a pharma company to the legal advisor defending the patent of a product treated as capital expenditure. (4 Marks)*
7. *How will you, as an auditor, vouch and/or verify the following ? (Answer any two)*
- (i) *Deferred Revenue Expenditure*
- (ii) *Goodwill*
- (iii) *Sales Commission Expenditure (5 x 2 = 10 Marks)*

OR

- (iv) *Sales Return.*

8. Write the short notes on the following (Answer any two) (5 x 2 = 10 Marks)

(a) Examination in Depth.

(b) Audit Trail.

(c) Auditor's Lien

OR

Disclaimer of Opinion