

PCC NOVEMBER 2007 (AUDITING)

Answer all the Questions

1. State with reasons (in short) whether the following statements are True or False (Answer any **ten**)
- (i) There is direct relationship between detection risk and combined level of inherent and control risk.
 - (ii) The first auditor appointed by the board of directors can be removed by the board at its subsequent meeting.
 - (iii) AAS-9 is applicable when an auditor seeks legal opinion from an advocate.
 - (iv) If there is difference of opinion among the joint auditors with regard to any matter, majority joint auditors opinion will prevail while reporting.
 - (v) If internal control is satisfactory, external evidence is more reliable than internal evidence.
 - (vi) Internal auditor of the company cannot also be its cost auditor.
 - (vii) One of the techniques used for gathering evidence is substantial review.
 - (viii) Where the accounts of the company do not present a "true and fair" view, the auditor should express disclaimer of opinion.
 - (ix) Surplus on the re-issue of forfeited shares standing to the credit of share forfeited account can be distributed as dividend.
 - (x) Government companies are also to be considered for the ceiling on number of audits.
 - (xi) If appointment of a person as an auditor is void-ab-initio, it should be treated as a casual vacancy.
 - (xii) A company running a departmental store and having total turnover of Rs.100 crores during the financial year 2006-07, need not get its branch audited whose turnover is Rs.1.90 crores during the same year.
- (10 X 2 = 20)**
2. Comment on the following situation/statements:
- a) Auditor of AAS Ltd. was unable to confirm the existence and valuation of imported goods lying with the transporter and accepted a certificate from the management without obtaining other audit evidence. **(8 Marks)**
 - b) Strong Ltd. holding 60% of the equity shares in Weak Ltd. purchased goods worth Rs.50 Lakhs from Weak Ltd. during the financial year 2006-07. The Managing Director of Strong Ltd. is of the opinion that it is normal business activity and there is no need to disclose the same in the final accounts of the Company. **(6 Marks)**
 - c) M/s. Health Zone, a partnership firm, running a nursing home have decided to discontinue you as an auditor for the next year and requests you to handover all the relevant working papers of the previous year. **(6 Marks)**
3. Explain the following in brief:
- a) Precautions to be taken in applying test check technique. **(6 Marks)**
 - b) Director's responsibility statement. **(4 Marks)**
- 4.
- (a) Why are computer assisted audit techniques (CAAT) needed in a Computer Information Systems (CIS) environment and how it helps the auditor in obtaining and evaluating audit evidences? **(6 Marks)**
 - (b) Distinguish between Capital expenditure and Deferred revenue expenditure. **(4 Marks)**
- 5.
- a) What are the inherent limitations of Internal Expenditure? **(7 Marks)**
 - b) State the circumstances under which special audit may be called under Section 233 A of the Companies Act, 1956. **(3 Marks)**
- 6.
- a) State any five special points which you, as an auditor, would look into while examining the income and collection of fund by an NGO engaged in providing relief work for flood victims. **(5 Marks)**
 - b) State any ten areas in which different accounting policies may be encountered. **(5 Marks)**
7. How would you vouch / verify the following? (Answer any **two**)
- a) Payment of Retirement Gratuity to employees. **(5 Marks)**
 - b) Trade Creditors. **(5 Marks)**
- (Or)**
- Recovery of Bad Debts written off. **(5 Marks)**
 - c) Advances to suppliers.
- 8) Write short on the following (Answer any **two**)

a) Power of CAG Under Section 619 (3) in relation to audit of Government Company.

(5 Marks)

b) Quality control for audit work at firm level.

(5 Marks)

(Or)

Cut off procedure.

(5 Marks)

c) Examination in depth.

(5 Marks)

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