

(ALL BATCHES)

DATE: 05.10.2018

MAXIMUM MARKS: 100

TIMING: 3¼Hours

PAPER : AUDITING

Answer to questions are to be given only in English except in the case of candidates who have opted for Hindi Medium. If a candidate who has not opted for Hindi Medium. His/her answer in Hindi will not be valued.

Question No. 1 is compulsory.

Candidates are also required to answer any Four questions from the remaining Five Questions.

In case, any candidate answers extra question(s)/sub-question(s) over and above the required number, then only the requisite number of questions first answered in the answer book shall be valued and subsequent extra question(s) answered shall be ignored.

Wherever necessary, suitable assumptions may be made and disclosed by way of note.

Question: 1 - Explain with reason whether following statements are correct or incorrect:

- (a) Audit procedures used to gather audit evidence may be effective for detecting an intentional misstatement:
- (b) An appropriate time limit within which to complete the assembly of the final audit file is ordinarily not more than 30 days after the date of the auditor's report.
- (c) The preparation of financial statements does not involve judgment by management in applying the requirements of the entity's applicable financial reporting framework to the facts and circumstances of the entity.
- (d) The SAs ordinarily refer to inherent risk and control risk separately.
- (e) The basic objective of audit does not change with reference to nature, size or form of an entity
- (f) The establishment of the overall audit strategy and the detailed audit plan are not necessarily discrete or sequential processes, but are closely inter-related since changes in one may result in consequential changes to the other.
- (g) As per SA 230 on "Audit Documentation", the working papers are not the property of the auditor.
- (h) As per section 138 of the Companies Act, 2013 private companies are not required to appoint internal auditor.
- (i) General IT controls support the functioning of Application controls.
- (j) The method which involves dividing the population into groups of items is known as block sampling.

(2×10=20 Marks)

Question: 2

- (a) The auditor is not expected to, and cannot, reduce audit risk to zero and cannot therefore obtain absolute assurance that the financial statements are free from material misstatement due to fraud or error. This is because there are inherent limitations of an audit. Explain

(5 Marks)

- (b) W, the auditor of SKM Ltd asks its finance and audit head to prepare audit strategy for conducting audit of SKM Ltd. W also insists on him to draw detailed audit procedures

also. On the request of auditor W, complete audit strategy as well as audit procedures are prepared by finance head of the company. Subsequently, auditor realizes that effectiveness of the audit is compromised and it was his responsibility to prepare the overall audit strategy. Comment.

(5 Marks)

- (c)** The auditor shall establish an overall audit strategy that sets the scope, timing and direction of the audit, and that guides the development of the audit plan.

Discuss stating the the process of establishing the overall audit strategy that would assist the auditor to determine key matters.

(5 Marks)

- (d)** When a business operates in a more automated environment it is likely that we will see several business functions and activities happening within the systems.

Explain stating the points that an auditor should consider to substantiate the above.

(5 Marks)

Question: 3

- (a)** The auditor P of PAR and Co., a firm of Chartered Accountants is conducting audit of Kapur Industries Ltd. The auditor requests management to provide Banker's certificate in support of Fixed deposits whereas management provides only written representation on the matter.

Required

Discuss how would you deal as an auditor.

(5 Marks)

- (b)** R & Co, a firm of Chartered Accountants have not revised the terms of engagements and obtained confirmation from the clients for last 5 years despite changes in business and professional environment.

Required

Elucidate the circumstances that may warrant the revision in terms of engagement.

(5 Marks)

- (c)** With reference to Standard on Auditing 530, state the requirements relating to audit sampling, sample design, sample size and selection of items for testing.

(5 Marks)

- (d)** Explain reliability of audit evidence.

(5 Marks)

Question: 4

- (a)** While carrying out the statutory audit of a large entity, what are the substantive procedures to be performed to assess the risk of material misstatement? **(5 Marks)**

- (b)** An auditor purchased goods worth ` 501,500 on credit from a company being audited by him. The company allowed him one month's credit, which it normally allowed to all known customers. Comment. **(5 Marks)**

- (c)** Explain: Audit Procedures regarding comparative information **(5 Marks)**

- (d)** While obtaining audit evidence about the effective operation of internal controls, the auditor considers how they were applied, the consistency with which they were applied during the period and by whom they were applied. The concept of effective operation recognises that some deviations may have occurred. Analyse and Explain.

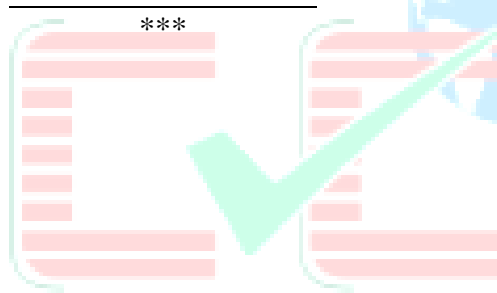
(5 Marks)**Question: 5** - How will you vouch/verify the following:

- (a)** Goods sent on consignment. **(5 Marks)**
- (b)** Foreign travel expenses. **(5 Marks)**
- (c)** Receipt of capital subsidy. **(5 Marks)**
- (d)** Provision for income tax. **(5 Marks)**

Question: 6

- (a)** Who to Determine Key Audit Matters **(5 Marks)**
- (b)** The auditor should examine the efficiency of various internal controls over advances in case of Banks to determine the nature, timing and extent of his substantive procedures. Explain what is included in the internal controls over advances. **(5 Marks)**
- (c)** Discuss Audit of Club. **(5 Marks)**
- (d)** Write a short note on reversal of income under bank audit. **(5 Marks)**

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