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Class : S.Y.BAF – III SEMESTER : IV SUBJECT : AUDITING

MODEL ANSWER

QP code : 65059

Q1.(A) Select the appropriate option and rewrite the sentences. (Any 8) (8marks)

- 1) Intentional 2) Professional ethics 3) Qualified 4) Control Self Assessment 5) Professional
6) Is unable to express his opinion 7) Investigation 8) 9 9) Processing 10) Opening

Q1 B) Match the following column (Attempt any 7) (7marks)

Column A	ANSWER
1. True and fair view	f) Audit
2. Expression of opinion on financial Statement	j) Audit report
3. Reputation and governance	g) Ethical due diligence
4. CIS	a) Computer Information System
5. Audit committee	d) Minimum three directors
6. SA 700	b) Modified report
7. Investigation	h) Examination for specific purpose
8. Audit trail	c) Tracing of transactions
9. Audit certificate	e) Confirmation of facts
10. Incoming partner.	i) Partnership deed

Q2.a) Describe any two types of audit reports. (8marks)

Audit report is a instrument or a medium through which an auditor express his opinion or observation to the shareholders.

- i) Qualified Report – Not satisfied, Material discrepancy
- ii) Unqualified / Clean report – As per law, Correct & complete
- iii) No opinion / disclaimer of opinion- Books not available for comments
- iv) Negative report- Material discrepancy, Violation of companies act and accounting principles, fraudulence.

b) What are the essentials of a good audit report (7marks)

- 1 Factual 2 Convincing 3 Forceful 4 Unbiased 5 Point out mistakes 5 Constructive criticism 6 Suggestive 7 Brief 8 Clear and concise 9 Prepaid in prescribe by the act

OR

Q2.c) Enumerate the reasons why the auditor has to qualify his report. (8marks)

Major considerations while qualifying audit report

1. Clear precise, and ambiguous 2. Self explanatory and reference to notes should be avoided
- 3 Clearly States the reasons for the qualification 4 Clearly e indicates that audit opinion is qualified by using the words like subject to 5 Qualification of audit opinion to be done only in case of any material contravention having sufficient impact on decision of the users of financial statement 6 Indicate in the terms of Rupees the effect of his qualification on Profit and loss account

d) Explain the contents of an audit report. (7marks)

1. Whether obtained all information and explanation
2. Whether books of accounts are properly maintained as per law
3. Balance sheet and P& L account and cash flow statement agree with books of accounts
- 4 Whether financial statements give information in Manner required and present true and fair view conformity in accounting Principles Generally Accepted
5. Whether report contain any qualifications
6. Whether proper Returns adequate for purpose of audit have been received from branches
7. Whether audit report contents any qualification ,reasons for such qualification

Q3.a) Distinguish between Computer based system of accounting and conventional accounting system. (8marks)

- 1 Input documents 2 Audit trail 3 Visible output 4 Identifiable output 5 Restrictions on access to data.

b) Explain the internal audit in computerized environment. (7marks)

1. IT environment 2 Skills and competence 3 Planning 4 Risk assessment 5 Audit procedure 6 Outsourced information processing 7 Documentation

OR

Q3.c) Explain auditing done around the computers and auditing through the computers. (8marks)

There are two audit procedure auditing around the computer and auditing through the computer Auditing

Auditing around the computer is done and when and the system is done simple and the system uses generalize software that is tested and used widely by many auditors

Auditing through computers auditor see the input how it is processed and the output .Auditor use computer assisted audit techniques can perform test effectively.

d) What are the features of effective computerized Audit programs and explain its advantages. (7marks)

Characteristics of an effective comprise audit programme :

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1 Simple 2 Understandable 3 Adaptable 4 Vendor support 5 Report writing

Advantages 1. fast and accurate checking of data 2 cost effective 3 e very convenient when voluminous data has to be checked 4 can be used until the file layouts are changed.

Q4.a) What are disability for the purpose of membership? (8marks)

1. Completed the age of 21 years 2 Unsound mind 3 An discharge insolvent 4 Removed from membership

b) Explain five instances of professional misconduct of an auditor? (7marks)

Explanation of any five clauses

Clause 1 allows any person to practice in his name

Clause 2 pays for allows or agree to pay commission or brokerage

Clause 3 accept or agrees to accept any part of profit

Clause 4 enters into partnership with any person other than chartered accountant

Clause 5 secures either through the services of a person not qualified to be his partner

Clause 6 solicits client or professional work either directly or indirectly

Clause 7 advertise his professional attainments or services

Clause 8 it accepts position as auditor previously held by another chartered accountant

Clause 9 accepts an appointment as an auditor of a company without first ascertaining from it whether requirements of section 223 are duly complied with

Clause 10 charges or offer to charge accept or offer to accept in respect of any Professional Employment fees

clause 11 engages in any business or occupation other than profession of Chartered Accountants

class 12 accept a position as an auditor previously held by some other chartered accountant

class 13 allows a person not being a member of the institute to report on financial statements

OR

Q4.c) Explain the characteristics of investigation (8marks)

1 Object 2 Scope 3 Critical examination 4 Non specific rules for provisions 5 Initiated with preconceived notion or suspicion 6 May involve personal interview 7 No standard procedure 8 Investigation report 9 Qualifications of investigator

d) Explain the scope of Due Diligence. (7marks)

1. Compliance with applicable laws 2 Regulatory violations or disciplinary action 3 litigation and assessment of feasibility of pursuing litigation 4 Financial statements 5 Assets real and intellectual property brand value etc. 6 Unpaid taxes and /or judgments 7 Past business failure 8 Fraudulent claims 9 Misrepresentation or character issues 10 Reputation goodwill and other intangible assets

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Q5.a) Explain the documents to be checked in the Due Diligence process. (8marks)

1. Basic information 2 Financial data 3 Important business agreements 4 litigation aspects 5 IPR details

6 Marketing Information 7 Internal control system 8 Insurance coverage 9 Human resources aspects 11 Environmental impact 12 Cultural aspects

b) Enumerate the special points to which an investigator should pay special attention. (7marks)

1. Remuneration paid to directors 2 Interest of directors in any concern 3 loans given to directors 4 Important contract 5 Fixed capital expenditure 6 Expenses incurred 7 Investment 8 Dividends

OR

Q5. Write short notes on (Any 3)

(15)

1) Objectives of code of ethics

1. Credibility 2 Professionalism 3 Quality of services 4 Confidence

2) CAAT

As there are no audit trails in comprised system the auditor need an assurance that the programs are functioning correctly. This checking is done with the help of special audit tools or techniques. These tools are known as computer assisted auditing techniques(CAAT). There are mainly two types CAAT

1 Test packs 2 Computer audit programs

Such CAAT maybe used for the following reasons 1 To check whether program controls are functioning properly 2 To overcome the losses of audit Trails 3 To improve efficiency of audit 4 To reduce cost

3) Due Diligence

Due diligence means the action that is consider necessary to keep yourself others and your property safe. it is a kind of Investigation of business or person. However it is not a general investigation but it include specific elements which may very used on the situation. It is generally used in relation to corporate restructuring The restructuring maybe internal restructure reconstruction ,Merger or amalgamation.

4) Disciplinary committee

The circumstances mentioned in second schedule or both schedules are taken care of by the disciplinary committee. The committee consists of

1 president or vice president of The council as the preceding officer 2 two numbers to be elected from amongst 3 two members to be nominated by the central government having experience in the field of law, economics, business, Finance or accountancy

When the disciplinary committee finds the member to be guilty it may take any or more of the following actions

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1 reprimand the members 2 remove the name of the members from the register permanently or for such period as it thinks fit. 3 impose such fine as it may think fit which may extend to rupees 5 lacs

5) Test pack

1. Set of data in machine readable form 2 Used in conducting audit procedure by entering data into clients computer system 3 For verifying whether the program and controls are operating correctly
