

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

**MODEL ANSWER**

Qp code 65058

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

- 1) Flexible 2) Disciplinary Committee 3) Black box 4) Shareholders 5) Application  
6) Technical 7) Package 8) 22 9) Prima-facie 10) Auditor

**Q1.B) State whether following statements are 'True' or 'False' (Any 7) (7marks)**

- 1) True 2) True 3) False 4) True 5) False  
6) False 7) True 8) False 9) False 10) True

**Q2.a) Discuss reporting requirements for the auditor under the Companies Act. (8 marks)**

Ans. Section 143 of Companies Act 2013 :

1. Reporting on accounts and financial statements [section 143 (2)]
2. Elements to be covered in audit report section [143 (3)]
3. Audit of Government companies section [143 (5)]
4. Audit of branch office section [143 (8)]
5. Reporting of fraud by auditors to central government [143 (12) and (13)]
6. Auditors to sign the audit reports (section 145)

**b) Distinguish between audit report and audit certificate (7marks)**

1. Meaning 2. Scope 3. Responsibility 4. Qualification 5. Form 6. Appointment 7. User

OR

**Q2.c) Explain the contents of an audit report. (8marks)**

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

**d) Discuss the true and fair view. (7marks)**

On the basis of the accounts auditor has how to prepare areport as to whether the account shows true and fair view. The expression true and fair view would mean that the accounts must be

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presented in such a manner that they are fair from the point of view shareholders, investors, creditor etc.

True and fair presentation of accounts statement it would require the following

1. Financial statements should be in agreement with the books of accounts
2. Financial statements should be prepared as per the provisions of schedule VI of the companies act 2013.
3. There should not be any undervaluation or overvaluation of assets and liabilities
4. Stock should be properly valued and the method of valuation should be consistently followed
5. Proper depreciation should be provided on fixed assets
6. There should not be any secret reserve
7. Proper distinction should be made between revenue and capital expenditure
8. Proper provision should be made for RTD, expected losses outstanding liabilities
9. Contingent liabilities and events occurring after the balance sheet date it should be properly disclosed

**Q3.a) What are the special aspects in computerized audit environment? (8marks)**

1. High speed
2. reduced clerical errors
3. Less number of assistant
4. complexity of accounting system
5. Audit trail
6. lack of manual reasonableness
7. poor system
8. internal controls
9. security issues

**b) What is the impact of computer system on audit procedure? (7marks)**

1. widespread end user computing may result in unintentional errors creeping into systems owing to inept handling
2. Co-ordinate program modification may not be possible
3. Improper use of decision support system can have serious repercussion
4. Usage of sophisticated audit software would be necessary
5. Auditors not participation at system development life cycle state pose considerable problem in understanding the operational control
6. data communication and networking would introduce new audit risk
7. The move toward paperless electronic data Interface would eliminate much of the traditional audit trail radically changing the nature of audit trails

Or

**Q3.c) What are the problems in the CIS environment in the implementation of internal controls?**

(8marks)

1. Separation of duties
2. Delegation of authority and responsibility
3. competent and trustworthy employees
4. Adequate documents and records
5. Adequate management supervision
6. Genuineness of data for comparison

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d) What are the types of internal control in compressed computerized system? (7marks)

1 Physical control 2 Access control 3 System development controls 4 Retrieval and backup controls 5 Input controls 6 Processing controls 7 Output controls

Q4. a) What disciplinary action is taken if a member is found to be guilty? (8marks)

Disciplinary procedure :When the director(Discipline) is of the opinion that misconduct is of the first schedule he shall place the matter before the board of discipline. On the other hand when he is of the opinion that misconduct is of the second schedule or of both the schedules he shall place the matter before the disciplinary committee.

Board of Discipline and Disciplinary Committee

b) Explain the term professional ethics and misconduct in relation to the chartered accountant act 1949. Give 5 Examples (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) What is the significance of certified of practice? (8marks)

1. A member of the institute is bound by the provision of Chartered Accountant act and its regulations

2 if and when he appears before income tax Tribunal as an income tax representative after becoming member of Institute 3 A member of the institute cannot have any other capacity in which he can take up such practice separable form his capacity to practice as a member of the

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institute 4 The member of Institute are now permitted to use the word CA as a prefix before there irrespective whether they are in practice or not

**d) Explain the documents to be checked in Due Diligence process. (7marks)**

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

**Q5.a) Explain the features 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

**b) Distinguish between Audit and Due Diligence. (7marks)**

1. Scope 2 Data 3 Mandatory 4 Assurance 5 Type 6 Nature 7 Repetitiveness

OR

**Q5. Write short notes on (Any 3) (15marks)**

**(Each question carries 5 marks)**

1) Board of Discipline

The circumstances mentioned in first schedule are taken care of by the board of discipline. The board consists of

1 person with experience in law or and having knowledge of disciplinary matters and the professional to be its presiding officer 2 Two members one of whom Shall the member of the Council elected by the Council and the other member nominated by the central government having experience in the field of law or Economics, Finance or accountancy 3 The director functions as the secondary of the board

When the board finds the member to be guilty it may take anymore ore of the following actions

1 reprimand the member 2 remove the name am of the member from register up to a period of 3 months 3 impose such fine as it think fit which may extend to Rupees 1 lacs

2) Audit trail

Refers to successive stages in recording the transactions in books of accounts through which an auditor may be able to trace accounting entries . In manual there are various sources documents generated while transaction takes place. But in computerized system Such documents in physical form may not be available as data is maintained in electronic form.

3) Qualities of an investigator

Investigating accountant must courses possess the following qualities:

1. Tactfulness 2 Patience 3 Quick understanding 4 High moral character 5 Ability to collect and correlate evidence 6 ability to state facts without fear and favour 7 sound knowledge of accountancy and auditing 8 experience of professional field

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4) Reading and inspection of the auditor's report

Reading an inspection of of auditors report

1. Must be read before shareholders in General Meeting

2 must be kept open for inspection of every member of the company

3 duty of auditor is confined to signing the report and forwarding it to the secretary of the company

4 auditor is not required to send copies of his audit report or to allow its inspection by members individually

5 auditor is not what required to see whether his report is read out in the General Meeting or not

5) Requirements of Auditor in e-commerce

1. Knowledge of organizational security weaknesses 2 Expertise system 3 security specialist on audit team 4 Knowledge/ training of integrated accounting environment 5 Experience in website review audit.

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