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Register Number:

DATE:

**ST. JOSEPH’S COLLEGE (AUTONOMOUS), BANGALORE-27**

**B. Com –VI SEMESTER**

**SEMESTER EXAMINATION: APRIL 2022**

(Examination conducted in July-August 2022)

**BC6418/ BPS6418: Auditing Principles and Practice**

Time- 2 ½ hrs Max Marks-70

**This paper contains two printed pages and four parts**

**Section A**

**I.** Answer ***any five*** of the following (**5x2 = 10 Marks)**

1. List four documents that can be considered as vouchers.
2. Give the meaning of Professional Scepticism.
3. State any two objectives of internal control.
4. What are the objectives of Verification?
5. Mention two recent trends in auditing practice.
6. What is meant by Professional Ethics?

**Section B**

**II.** Answer ***any three*** of the following (**3x5 = 15 Marks)**

1. “Vouching is the backbone of Audit” Justify.
2. What are the merits and demerits of Internal Audit?
3. Explain the auditor’s responsibility towards detection and reporting of fraud.
4. Briefly explain the rights and duties of a company auditor.

**Section C**

**III.** Answer ***any two*** of the following (**2x15 = 30 Marks)**

1. “Effective internal control is crucial for an organisation”. Explain the fundamental principles of internal control.
2. Explain the process of valuation and verification of ‘Land & Building’ and ‘Inventory’
3. “Auditing is a process of reviewing and confirming financial reports of a company”. Explain the different classifications of audit.

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**Section D**

**III. Answer the following (1x15=15 Marks)**

1. Enron Corporation is an energy trading, natural gas, and electric utilities company located in Houston, Texas that had around 21,000 employees by mid-2001, before it went bankrupt. Its revenue in the year 2000 was more than $100 billion and named as “America’s most innovative companies for six consecutive years by Fortune. Enron was a company that was able to profit by providing the delivery of gas to utility companies and businesses at the fair value market price. Enron was listed as the seventh largest company in the United States and had the domination in the trading of communications, power, and weather securities. In 2002, the company used to be a member of the top 100 fortunes companies but later on after facing an accounting scandal, the company started to collapse. The scandal of Enron has been the largest corporate scandal in history, and has become emblematic of institutionalized and well-planned corporate fraud; the Enron scandal involves both illegal and unethical activities.The CFO Jeffrey Skilling and the CEO Ken Lay played major roles in the Enron scandal. Both of them committed securities fraud and conspiracy to inflate profit. In disguise debts of Enron, Lay and Skilling used off-the-books partnerships, after that they lied to investors and employees about the company’s disastrous financial situation while selling their own company’s shares. Enron’s top level management has violated several accounting laws, SPE laws, and bent the accounting rules to satisfy their own desires of profit in the short term but ignoring long term repercussions for investors, stockholders, employees and the business itself. The close relationships that were formed among top leading executives and the board of directors grew arrogant, thinking they were invincible and causing them to act in an unethical manner. Enron allowed Andrew Fastow, the Chief Financial Officer to control two SPE’s (special purpose entities) that were knowingly connected to Enron, and gave him an opportunity to abuse his power.

 The collapse of Enron would be complete without a discussion of the involvement of Enron’s accountants, the firm Arthur Andersen. Arthur Andersen was one of many causes of the Enron collapse when they were the conflict of interest between the two roles played for Enron, as auditor but also as consultant. Andrew Fastow, the Chief Financial Officer of Enron pushed many deals across where he had a vested interested on both sides of the deal. By creating and knowingly participating in these deals, he put his financial greed above the responsibility to his position for the company. Arthur Andersen earned $25 million in audit fees and $27 million in consulting fees, this amount accounted for roughly 27% of the audit fees of public clients for Arthur Andersen’s Houston office. The auditors’ methods were questioned as either being completed solely to receive its annual fees or for their lack of expertise in properly reviewing Enron’s revenue recognition, special entities, derivatives, and other accounting practices. Due to these relationships that Enron had with Arthur Andersen, it was just too easy for both Enron and the accounting firm to work together in covering up financial losses and debt. Andersen was also responsible for some of Enron’s internal bookkeeping, with some of Andersen’s employees eventually leaving to work for Enron. The result of the accounting scandal was that many of the losses that Enron encountered were not reported in its financial statements

1. What are the roles and responsibilities of an auditor? (7 Marks)
2. With reference to above case why do you think professional ethics is important for an Audit firm? (8 Marks)