

WT 6 (Ch. 9 – Audit of Different Entities and Ch. 10 – Audit of Banks)

Instructions: Part A comprises of MCQ.

Part B Comprises of descriptive questions.

Part – A (Multiple Choice Questions)

- Q.1 (a) (2 Marks)
 Q.2 (c) (2 Marks)
 Q.3 (b) (1 Mark)
 Q.4 (a) (1 Mark)
 Q.5 (b) (1 Mark)

Part B (Descriptive Questions)

Q.1 (a) Income recognition norms in respect of credit facilities classified as NPA:

- RBI norms stipulate that if any advance account becomes NPA as at close of any year, the entire interest accrued or credited to income account in past periods should be reversed or provided for, if the same is not realized. **(1 Mark)**
- Further, in respect of NPAs, fees, commission and other similar income that have accrued should cease to accrue in the current period and should be reversed or provided for with respect to past periods, if uncollected. **(1 Mark)**
- In the given case, account has turned Sub-standard asset which is a type of NPA. Therefore, auditor should make compliance of above norms relating to income recognition. **(1 Mark)**

(b) Important points to be examined in the lease agreement:

- (i) Description of the lessor, the lessee, the equipment and the location where the equipment is to be installed. (The stipulation that the equipment shall not be removed from the described location except for repairs. For the sake of identification, the lessor may also require plates or markings to be attached to the equipment).
- (ii) Amount of tenure of lease, dates of payment, late charges, deposits or advances etc. should be noted.
- (iii) Whether the equipment shall be returned to the lessor on termination of the agreement and the cost shall be borne by the lessee.
- (iv) Whether the agreement prohibits the lessee from assigning the subletting the equipment and authorises the lessor to do so.

1 Mark for each Correct Point (Any Three)

Q.2 Provisioning for Advances:

The provision for advances falling in D1 category is required @ 25% of secured portion and 100% of unsecured portion. Therefore, provision in above case is arrived as under: -

Outstanding balance as on 31.3.24	₹ 50 lakhs	
Less: Value of security	<u>₹ 40 lakhs</u>	
Unsecured portion	<u>₹ 10 lakhs</u>	(2 Marks)

Therefore, outstanding balance of ₹ 50 lakhs is secured to the tune of ₹ 40 lakhs and balance ₹ 10 lakhs is unsecured.

Provision calculation

25% of secured part i.e., 25% of ₹ 40 lakhs	₹ 10 lakhs	
100% of ₹ 10 lakhs	<u>₹ 10 lakhs</u>	
Required provision	<u>₹ 20 lakhs</u>	(2 Marks)

Therefore, provision made by branch is not proper. It should have made provision of ₹ 20 lakhs instead of ₹ 7.50 lakhs.

Q.3 Auditing the Operating Expenses of a Bank:

- (i) **Internal Controls:** The auditor should study and evaluate the system of internal control relating to expenses, including authorization procedures in order to determine the nature, timing and extent of his other audit procedures.
- (ii) **Divergent Trends:** The auditor should examine whether there are any divergent trends in respect of major items of expenses.
- (iii) **Substantive analytical Procedures:** The auditor should perform substantive analytical procedures in respect of these expenses e.g. assess the reasonableness of expenses by working out their ratio to total operating expenses and comparing it with the corresponding figures for previous years.
- (iv) **Vouching & Verification:** The auditor should also verify expenses with reference to supporting documents and check the calculations wherever required.

1 Mark for each Correct Point (4 Marks)

Q.4 Steps involved in his audit of other receipts/grants and donations received by the University:

- (1) Verify rental income from landed property with the rent rolls, etc.
- (2) Vouch income from endowments and legacies, as well as interest and dividends from investment; also inspect the securities in respect of investments held.

- (3) Verify any Government or local authority grant with the memo of grant.
- (4) If any expense has been disallowed for purposes of grant, ascertain the reasons thereof.

1 Mark for each Correct Point (4 Marks)

Q.5 Audit Programme for local bodies

- (i) The Local Fund Audit Wing of the State Government is generally in-charge of the audit of municipal accounts. Sometimes bigger municipal corporations e.g. Delhi, Mumbai etc have power to appoint their own auditors for regular external audit. So the auditor should ensure his appointment.
- (ii) The auditor while auditing the local bodies should report on the fairness of the contents and presentation of financial statements, the strengths and weaknesses of system of financial control, the adherence to legal and/or administrative requirements; whether value is being fully received on money spent. His objective should be to detect errors and fraud and misuse of resources.
- (iii) The auditor should ensure that the expenditure incurred conforms to the relevant provisions of the law and is in accordance with the financial rules and regulations framed by the competent authority.
- (iv) He should ensure that all types of sanctions, either special or general, accorded by the competent authority.
- (v) He should ensure that there is a provision of funds and the expenditure is incurred from the provision and the same has been authorized by the competent authority.
- (vi) The auditor should check that the different schemes, programmes and projects, where large financial expenditure has been incurred, are running economically and getting the expected results.

1 Mark for each Correct Point (Any Four – 4 Marks)