

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

Marks: 27

Time: 45 Minutes

Instructions: Part A comprises of MCQ.

Part B Comprises of descriptive questions.

Part – A (Multiple Choice Questions)

Suresh Rana & Associates have been appointed as the statutory auditors of HAIL Ltd. by the Comptroller & Auditor General for the FY 2023-24. HAIL Ltd. is a Government company engaged in the manufacture of metro train coaches. During the course of audit, CA Suresh extended his scope of audit to cover efficiency, effectiveness and economy audit. CA Suresh Rana also asked his audit team to conduct expenditure audit as part of the audit engagement of HAIL Ltd.

During the course of audit, CA Suresh also found that the company has constructed its new stockyard for parking its metro coaches and maintenance of its metro coaches. However, the stockyard was not being used by the company for the designated purpose and the company continued using the rented stockyard. Suresh considered such expenditure as infructuous and avoidable expenditure.

The engagement partner also discussed with his team regarding the areas to be covered while conducting the audit of receipts. The reporting responsibilities of the engagement team were also discussed by the engagement partner with his team.

Based on the above facts, answer the following:

- Q.1 Statement 1: Government audit provides public accounting of operational, management programme and policy aspects of public administration as well as accountability of officials administering them. 2
- Statement 2: Government audit is equipped and intended to function as an investigating agency, to pursue every irregularity or misdemeanour to its logical end.
- (a) Only statement 1 is correct
- (b) Only statement 2 is correct
- (c) Both 1 & 2 are correct
- (d) Both 1 & 2 are incorrect
- Q.2 While conducting audit against provision of funds, the statutory auditors, M/s Suresh Rana & Associates must check: 2
- (a) That each item of expenditure is covered by a sanction either general or special of a competent authority.

- (b) That the expenditure incurred has been on the purpose for which the grant and appropriation has been provided and the amount of expenditure does not exceed the appropriation made.
- (c) That the expenditure conforms to the relevant provision of the constitution.
- (d) That the expenditure is in accordance with the financial rules, regulations and orders issued by the competent authority.

Q.3 Which part of expenditure audit covers the scrutiny of the expenditure incurred on the construction of stockyard by the company which is considered as infructuous and avoidable by CA Suresh Rana? **2**

- (a) Propriety Audit
- (b) Audit against provision of funds
- (c) Audit of sanctions
- (d) Performance Audit

Q.4 While conducting the audit of receipts of HAIL Ltd., which of the following area is to be covered as part of Audit of Receipts? **2**

1. Whether all revenues or other debts due to government have been correctly assessed, realised and credited to government account by the designated authorities of HAIL Ltd.
 2. Whether adequate checks are imposed to ensure the prompt detection and investigation of irregularities, double refunds, fraudulent or forged refund vouchers or other loss of revenue through fraud or wilful omission or negligence to levy or collect taxes or to issue refunds.
 3. Whether the expenditure incurred has been on the purpose for which the grant and appropriation had been provided and that the amount of such expenditure does not exceed the appropriation made.
 4. Whether the various schemes/projects are executed and their operations conducted economically and whether they are yielding the results expected of them.
- (a) Only statement 1 is correct
 - (b) Statements 1 & 2 are correct
 - (c) Statements 1,2,3,4 are correct
 - (d) Statements 1,2,3 are correct

Part B (Descriptive Questions)

Q. No. 1 is Compulsory. Attempt any two from the rest.

- Q.1 (a) While conducting statutory audit of branch of a nationalized bank, it is noticed by CA Z that credit facilities granted to a borrower consisting solely of term loan have been classified as “Sub-standard Asset” during the year 2023-24 due to failure of borrower to pay EMIs on time. Such EMIs were outstanding for more than 90 days and account was, therefore, classified as “Sub-Standard Asset”. CA Z has also agreed to above asset classification made by branch management. What are CA Z’s responsibilities regarding verification of compliance with income recognition norms by branch in respect of above credit facilities? 3
- (b) ABC Ltd. wants to buy some equipment on lease and hence is required to sign lease agreement with the supplier of the equipment. What are the important points to be considered in the lease agreement? 3
- (c) CA Z is appointed as the auditor of Chanakya Open University which offers higher learning educational courses through the Distance Mode of Education. Discuss three steps involved in his audit of other receipts/grants and donations received by the University. 3
- Q.2 While verifying provisions of advances of a branch of MCO Bank as part of statutory branch audit, CA Z notices that credit facilities consisting of term loan to KRT Enterprises have been classified under doubtful asset (D1) category. 5
- The outstanding balance in above term loan account as on 31.3.2024 is ₹ 50 lakhs. Value of security held in account is ₹ 40 lakhs. The branch has made provision of ₹ 7.50 lakhs. Is provision made by branch proper? Discuss.
- Q.3 No inspection under Section 79 of Multi-State Co-operative Societies Act, 2002 shall be made unless a notice has been given to the multi-state co-operative society. Explain clearly when and how such inspection can be made. Also state the powers available with the Central Registrar in this regard along with provisions relating to communication of the inspection report under the said section. 5
- Q.4 Before commencing the Audit of Local Bodies, a Chartered Accountant employee in firm of XYZ & Co., firm of Chartered Accountants seeks assistance of Mr. X, partner, in preparation of audit programme for local bodies. How Mr. X should advise to him in this connection? 5

Instructions for submission of answer sheet

Single PDF of answer sheet is to be e-mail at test.altclasses@gmail.com

Subject line “Inter Audit – MTP 6”

Mention the following in the E-mail and answer Sheet:

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