

## Suggested Answers and Marking Scheme

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

**Marks: 27**

**Time: 50 Minutes**

**Instructions: Part A comprises of MCQ.**

**Part B Comprises of descriptive questions.**

#### Part – A (Multiple Choice Questions)

Q.1	(a)	Only statement 1 is correct	2
Q.2	(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.	2
Q.3	(a)	Propriety Audit	2
Q.4	(b)	Statements 1 & 2 are correct	2

#### Part B (Descriptive Questions)

**Q. No. 1 is Compulsory. Attempt ANY TWO from the rest.**

- 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 – 3 Marks)**

**(c) 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 (Any Three - 3 Marks)**

**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>	<b>(2 Marks)</b>

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>	<b>(2 Marks)</b>

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

**(1 Mark)**

**Q.3 Inspection of Multi-State Co-operative societies under Section 79**

**When:** The Central Registrar may, on a request from

- federal co-operative to which a Multi- State Co-operative society is affiliated or a creditor or
- not less than 1/3<sup>rd</sup> of the members of the board or
- not less than 1/5<sup>th</sup> of the total number of members of a Multi-State cooperative society.

**(1 Mark)**

**How:** By general or special order in writing in this behalf inspect or direct any person authorized by him by order in writing in this behalf to make an inspection into the constitution, working and financial condition of a Multi-State co-operative society. **(1 Mark)**

**Opportunity of Being heard:** No inspection shall be made unless a notice of not less than fifteen days has been given to the multi-state co-operative society. **(1 Mark)**

**Powers available:** The Central Registrar or the person authorized by him shall have the following powers:

- (i) He shall at all times have access to all books, accounts, papers, vouchers, securities, stock and other property of that society and may, in the event of serious irregularities discovered during inspection, take them into custody and shall have power to verify the cash balance of the society and subject to the general or special order of the central registrar to call a meeting of the society where such general meeting is, in his opinion necessary.
- (ii) Every officer or member of a Multi-State Co-operative society shall furnish such information with regard to the working of the society as the central registrar or the person making such inspection may require. **(2 Marks)**

**Inspection Report:** A copy of the report of inspection under this section shall be communicated to the Multi-State Co-operative society within a period of three months from the date of completion of such inspection. **(1 Mark)**

**Q.4 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 Five – 5 Marks)**