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7,000	8,000	9,000
10,000	11,000	12,000
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19,000	20,000	21,000
22,000	23,000	24,000
25,000	26,000	27,000
28,000	29,000	30,000
31,000	32,000	33,000
34,000	35,000	36,000
37,000	38,000	39,000
40,000	41,000	42,000
43,000	44,000	45,000
46,000	47,000	48,000
49,000	50,000	51,000
52,000	53,000	54,000
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58,000	59,000	60,000
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64,000	65,000	66,000
67,000	68,000	69,000
70,000	71,000	72,000
73,000	74,000	75,000
76,000	77,000	78,000
79,000	80,000	81,000
82,000	83,000	84,000
85,000	86,000	87,000
88,000	89,000	90,000
91,000	92,000	93,000
94,000	95,000	96,000
97,000	98,000	99,000
100,000	101,000	102,000

**FREE**

**CA INTER JAN 2025**

**UTKARSH BATCH**

**AUDITING & ETHICS** 24-32

<sup>4-6</sup> CH 1, <sup>4-6</sup> CH 6, <sup>8-12</sup> CH 10 & <sup>8-10</sup> CH 11

**IMPORTANT QUESTIONS**

**CHAPTERWISE QUESTION PRACTICE SESSIONS**

11

## Ethics and Terms of Audit Engagements

8-10



## Topic: Test Your Understanding 1



CA P. Suryakantam has conducted audit of accounts of an entity for a particular year. ICAI has issued a letter to him relating to certain matters concerning audit. He didn't even bother to reply to the letter despite reminders. Discuss which fundamental principle governing professional ethics is disregarded by him.

### Answer:

Failure to reply to professional body smacks of lack of courtesy and professional responsibility. The principle of "Professional behaviour" is disregarded.





## Topic: Test Your Understanding 2



A Chartered accountant in practice issued a certificate showing original cost of plant and machinery installed in premises of a client for Rs. 9 crores to save some regulatory fees for his client. However, original cost of plant and machinery was Rs.15 crore as per records of client. Which fundamental principle governing professional ethics is violated in this case?



## Topic: Test Your Understanding 2



### Answer:

“Integrity” requires that a professional accountant shall not knowingly be associated with reports, returns, communications or other information where the accountant believes that the information contains a materially false or misleading statement; contains statements or information provided negligently or omits or obscures required information where such omission or obscurity would be misleading.

In the given case, a false certificate is knowingly issued showing misstated original cost of machinery. Therefore, fundamental principle of “integrity” is violated.



## Topic: Test Your Understanding 3



CA Raman Gupta is offered appointment as auditor of a company. One of his distant uncles held some shares in the same company. Holding of such shares, by a distant relative, is not prohibited under provisions of law nor does it affect his independence. Before he could accept appointment, he received unfortunate news of death of his uncle who had died without any children. He came to know that he was nominee of these shares having substantial value. It landed him in a tricky situation. What should be proper course of action for him?



## Topic: Test Your Understanding 3



### Answer:

When threats to independence exist, the auditor should either desist from the task or eliminate the threat or at the very least, put in place safeguards which reduce the threats to an acceptable level.

Holding of shares involves financial interest in the company and is in nature of self-interest threat. He has come to hold shares due to nomination made by his distant relative before accepting the appointment. Considering above, he should take steps to eliminate the threat by selling shares immediately before accepting appointment. Holding of shares of the same company for which he is offered appointment as auditor constitutes threat to his independence.



## Topic: Test Your Understanding 4



A Chartered accountant receives about 40% of his total audit fees from a single client. Discuss how it could affect independence of Chartered accountant as auditor of this client. What are such types of threats referred to as?

### Answer:

Undue dependence on fees of a client constitutes a threat as there is fear of losing the client. Such threats are referred to as self-interest threats.





## Topic: Test Your Understanding 5



CA Murli Madhavan provides accounting and book keeping services to a leading NGO engaged in environmental protection work. He is also offered audit of the accounts of NGO. Identify and discuss what kind of threat to independence may be involved in accepting such an engagement.

### **Answer:**

In this case, Chartered Accountant is already rendering accounting and book keeping services to an NGO. If he accepts audit, he would be involved in reviewing own work. Therefore, the same constitutes “self-review” threat.



## Topic: Test Your Understanding 6



The auditors of a company have only relied upon management representation letter regarding treatment of certain tax matters under appeal by the company. The auditors have not carried out any other audit procedures to justify management's treatment of the said tax matters under appeal in the financial statements. What is lacking on part of auditors in such a situation?



## Topic: Test Your Understanding 6



### Answer:

In the given case, auditors have relied only upon management representation letter regarding treatment of certain tax matters under appeal by the company. No other audit procedures to verify management's treatment of such matters under appeal have been performed by auditors. It shows lack of "professional skepticism" on part of auditors.



## Topic: Test Your Understanding 7



Chirag, as part of articled training, is part of an engagement team conducting audit of a company. He has read somewhere that engagement letter issued by auditor to client also includes expected form and content of the auditor's report. He was at a loss to understand how could an auditor include form and content of the report beforehand. Try to help Chirag by making things clear to him.





## Topic: Test Your Understanding 7



### Answer:

Engagement letter includes reference to expected form and content of audit report. It merely states that auditor would provide opinion in this form. However, engagement letter also includes statement that the form and content of report may need to be amended in the light of audit findings. Therefore, if in light of audit findings, auditor needs to give a modified opinion, he shall do so.

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The management of an entity feels that it is not necessary for it to give in writing explicitly to the auditor that it understands its responsibilities for preparation of financial statements in accordance with applicable financial reporting framework. Discuss, whether, it is necessary for the management to do so. In case management refuses, why should an auditor not accept the proposed engagement?



## Topic: Test Your Understanding 8



It is **necessary** for management to give in writing explicitly to the auditor that it understands its responsibilities for preparation of financial statements in accordance with applicable financial reporting framework. It is a necessary precondition for an audit in accordance with **SA 210**. If the **preconditions for an audit are not present**, the auditor shall **discuss the matter with management**. Unless required by law or regulation to do so, the auditor shall **not accept the proposed audit engagement**: -



## Topic: Test Your Understanding 8



### Answer:

- (a) If the auditor has determined that the financial reporting framework to be applied in the preparation of the financial statements is unacceptable or
- (b) If the agreement of management is not obtained on matters relating to understanding of responsibility of management on preparation of financial statements, internal controls for preparation of financial statements, providing access to all information to auditor and unrestricted access to persons within the entity.



## Topic: Test Your Understanding 8



### **Answer:**

Unless required by law or regulation to do so, such a refusal on the part of auditor is necessary as management is not willing to accept its responsibility for preparation of financial statements in accordance with applicable financial reporting framework. An audit is conducted on this basic premise according to SA 210. When basic premise on which audit is conducted is not fulfilled, refusal by auditor is necessary.





## Topic: Test Your Understanding 9



CA PK Nair is offered appointment as auditor of a company engaged in providing tourism services. While making due diligence of the proposed client, he comes to know that there have been raids on premises of the company and residences of its directors by National Investigation Agency (NIA) on suspicion of links with terror outfits. It has been followed up with searches by Enforcement Directorate hunting for illicit money trail. There is a strong suspicion of tourism services provided by company being façade of terror funds. Should proposed offer be accepted by him?



## Topic: Test Your Understanding 9



### Answer:

Integrity of principal owners has to be considered before accepting an audit engagement in accordance with SA 220. In this regard, SA 220 states requirements on lines of SQC 1. SQC 1 clearly states that in cases where there are indications that the client might be involved in money laundering or other criminal activities, appointment should not be accepted.

In the instant case, there have been raids of NIA on suspected links with terror outfits which is a criminal activity. Further, raids by Enforcement Directorate also point towards money laundering. Therefore, proposed offer should not be accepted.



## Topic: Test Your Understanding 10



CA Arpita has joined a mid-sized CA firm recently. She finds that partners remain too busy and the firm is proposing to accept audit work in areas in which it has no experience or capabilities. The firm is proposing to accept audit of some entities engaged in emerging “fin-tech” sector. Such audits may be requiring extensive use of technology and data analytics. However, the said firm has no such capabilities and trained personnel. Discuss, whether, firm should accept such audits with reason.



## Topic: Test Your Understanding 10



### Answer:

SQC 1 requires that before accepting an engagement, competence (including capabilities, time and resources) to perform engagement have to be considered.

In the given case, the proposed engagements involve use of technology and data analytics. The firm has no prior experience of audits in emerging “fin-tech” sector. The firm does not have trained personnel to carry out these audits. Hence, offer for these audits should not be accepted.





## Theoretical Questions



Q.(1) Briefly outline how principles-based approach differs from rules-based approach to ethics.

A.(1) Refer to topic on principles-based approach vs. rules-based approach to ethics.

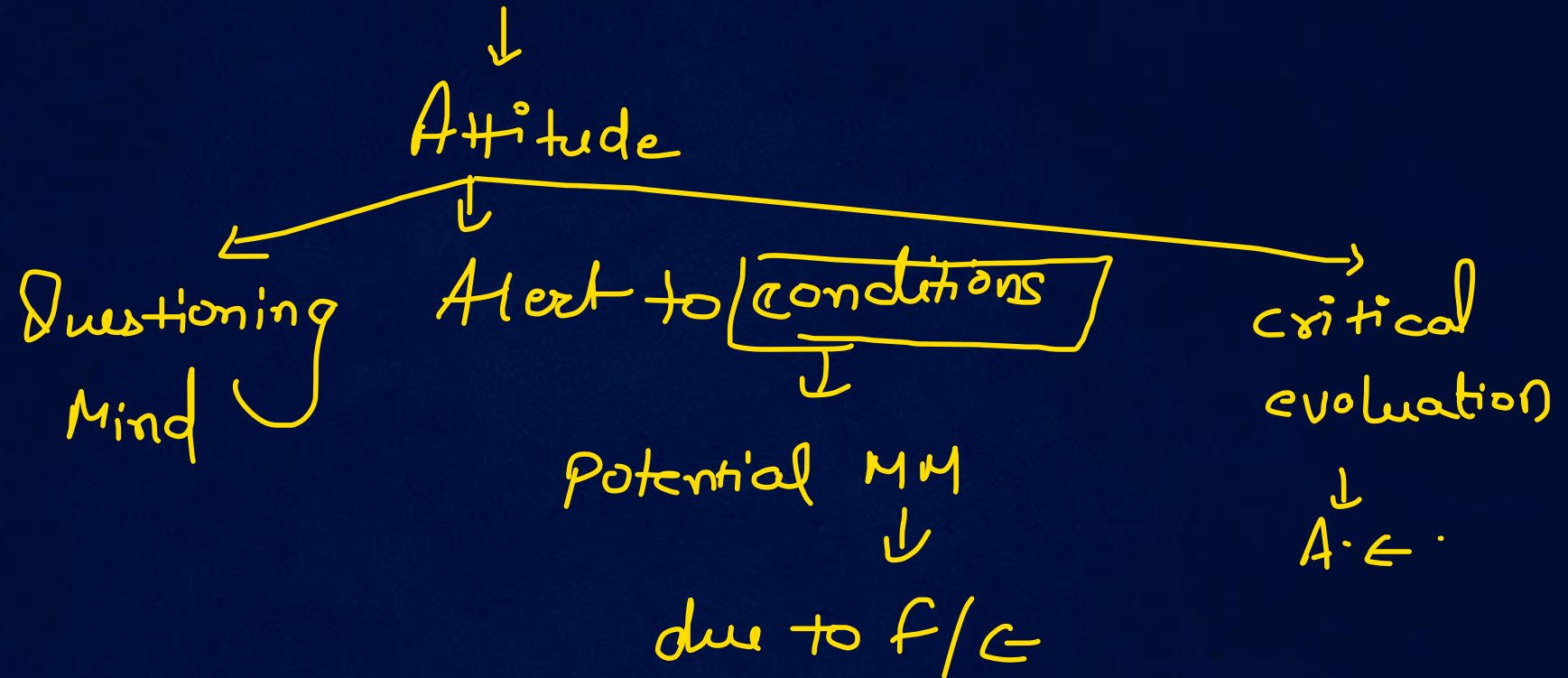
Narrow Outlook  
Spirit of Ethics  
Codified

→ Rule Based  
→ principle based  
→ Rule Based



Q.(2) How application of professional skepticism throughout audit is helpful in reducing audit risk?

A.(2) Refer to topic on “Professional Skepticism”.





Q.(3) A Chartered accountant is conducting audit of a client for last two years. Before proceeding to start audit for next year, he notices that there is **substantial change in management**. Besides, client has ventured into areas of business activity which were not present at time of accepting initial audit engagement. Discuss responsibility of auditor in this regard in context of SA 210.

A.(3) Refer to heading “terms of engagement in recurring audits”.





Q.(4) How does SQC 1 ensure that independence in engagements is not breached by an audit firm?

A.(4) Refer to heading of Ethical requirements under “Elements of System of quality control” in SQC 1.

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① → Leadership Responsibility

② → Ethical Requirements

③ → Acceptance & Continuance

④ → Human Resources

⑤ → Engagement Performance

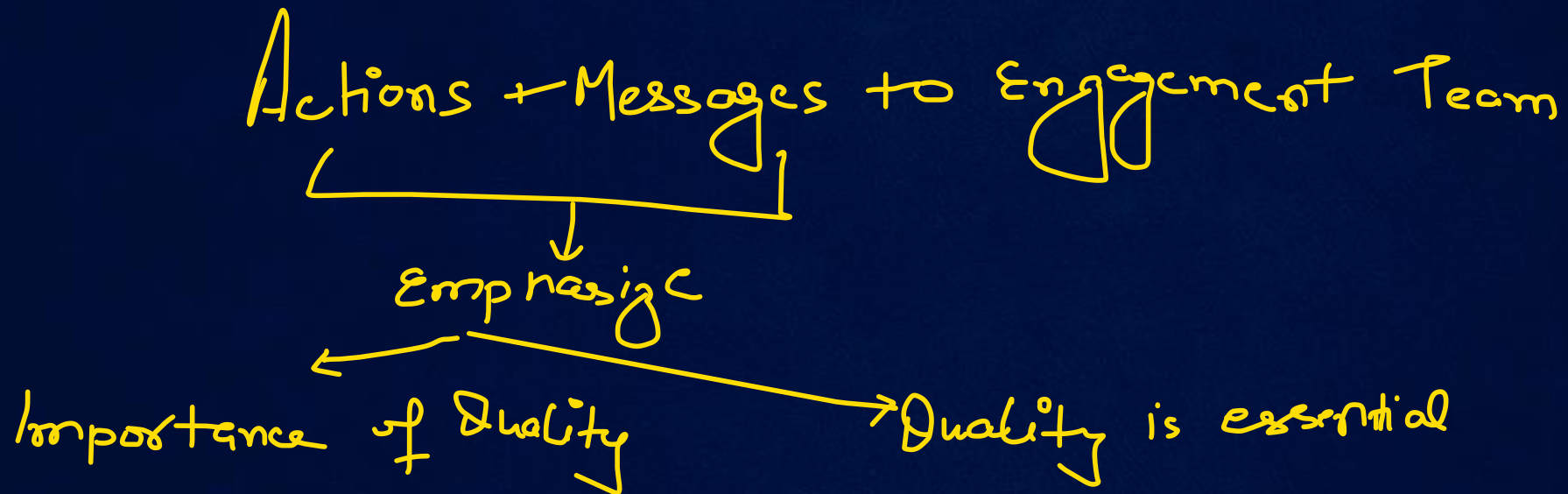
⑥ → Monitoring





Q.(5) An engagement partner takes overall responsibility for maintaining audit quality in an audit engagement in accordance with SA 220. What are his objectives in taking and emphasizing such responsibility?

A.(5) Refer to heading of “Leadership responsibilities for quality on audits” under SA 220.



6

## Audit Documentation

4-6



## Topic: ILLUSTRATION 1



A new team member of the auditors of Extremely Vibrant Limited was of the view that Audit Documentation does not help in planning the audit of any company. Explain whether Audit Documentation has any relation with regard to planning the audit of a company.



## Topic: SOLUTION



Audit Documentation helps in planning the audit of a company in a proper manner and also helps in conducting the audit of that company in a more effective way.



## Topic: ILLUSTRATION 2



While auditing the books of accounts of Very Careful Limited for the financial year 2020-21, a team member of the auditors of Very Careful Limited was of the view that with regard to audit of the company, no relation exists between Audit File and Audit Documentation. Explain the relationship between Audit File and Audit Documentation.





## Topic: SOLUTION



Audit file may be defined as one or more folders or other storage media, in physical or electronic form, containing the records that comprise the audit documentation for a specific engagement. The auditor shall assemble the audit documentation in an audit file and complete the administrative process of assembling the final audit file on a timely basis after the date of the auditor's report.



## Topic: ILLUSTRATION 3



A director of Very Different Limited was of the view that Audit Documentation of a company is the property of that company. Comment on the contention of the director regarding the audit documentation of the company.



## Topic: SOLUTION



Audit Documentation of a company is not the property of the company rather Audit Documentation is the property of Auditor of that company.



## Topic: Test Your Understanding 1



During the course of audit of a company, an issue arose relating to treatment of interest costs of company on its restructured loans taken from a bank. This important matter was discussed with CFO of the company and was properly resolved. Is it necessary for the auditor to include in its working papers?



## Topic: Test Your Understanding 1

### Answer:

An appropriate time limit within which to complete the assembly of the final audit file is ordinarily not more than 60 days after the date of the auditor's report.

Further, preparing sufficient and appropriate audit documentation on a timely basis helps to enhance the quality of the audit and facilitates the effective review and evaluation of the audit evidence obtained and conclusions reached before the auditor's report is finalized.

Documentation prepared after the audit work has been performed is likely to be less accurate than documentation prepared at the time such work is performed.





## Topic: Test Your Understanding 1



### Answer:

The auditor shall document discussions of significant matters with management, those charged with governance, and others, including the nature of the significant matters discussed and when and with whom the discussions took place.

In the instant case, an important matter regarding treatment of interest costs of company on its restructured loans taken from a bank directly impacting profits of the company was discussed. Although issue was resolved, it is necessary to document the same by including detail of the person with whom discussions took place along with date.



## Topic: Test Your Understanding 2



CA Sonali Morarka has completed audit of a listed company. The audit report dated 15th July, 2022 has been issued. However, audit working papers including record of discussions with management, details of audit procedures performed to obtain audit evidence and conclusions reached by her have not been properly assembled. More than six months have elapsed after issue of audit report. Subsequently, she has received a letter from regulator in connection with audit of the company requesting her to share copy of audit file.

The letter has woken up her from deep slumber. She hurriedly assembled audit file and inserted some more papers which were necessary. However, she put current date on these inserted papers and the copy of audit file was sent to regulator. Discuss, the issues involved, in context of “audit documentation”.



## Topic: Test Your Understanding 2



### Answer:

An appropriate time limit within which to complete the assembly of the final audit file is ordinarily not more than 60 days after the date of the auditor's report.

Further, preparing sufficient and appropriate audit documentation on a timely basis helps to enhance the quality of the audit and facilitates the effective review and evaluation of the audit evidence obtained and conclusions reached before the auditor's report is finalized.

Documentation prepared after the audit work has been performed is likely to be less accurate than documentation prepared at the time such work is performed.



## Topic: Test Your Understanding 2



### Answer:

In the given case, even after passage of more than six months, she has not assembled audit file. Besides, she has put in some papers with current date which is not permissible at all. It shows that part of audit documentation has been prepared afterwards putting a question mark on quality of audit.



## Theoretical Questions



Q.(1) The form, content and extent of audit documentation depends upon number of factors. List out any four such factors.

A.(1) Refer to heading “Form, content and extent of audit documentation”





Q.(2) Discuss any two purposes of audit documentation.

A.(2) Refer to heading “Purpose of audit documentation”



**Q.(3) Define audit documentation. Also give some examples.**

A.(3) Audit Documentation refers to the record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached. (terms such as “working papers” or “work papers” are also sometimes used.)

Refer Heading – Examples of Audit Documentation



Q.(4) “Audit documentation summary may facilitate effective and efficient reviews and inspections of the audit documentation, particularly for large and complex audits”. Explain.

A.(4) Refer Heading – Completion Memorandum or Audit Documentation Summary

# 1 Nature, Objective and Scope of Audit

4-6





## Topic: Test Your Understanding 1



Lalji Bhai has purchased shares of a company listed on NSE. The audited financial statements of the company provide picture of healthy financial performance having robust turnover, low debt and good profits. On above basis, he is absolutely satisfied that money invested by him is safe and there is no chance of losing his money. Do audited results and audit reports of companies provide such assurance to investors like Lalji Bhai? Is thinking of Lalji Bhai correct?





## Topic: Test Your Understanding 1



### Answer:

1. An audit does not provide assurance to investor in shares regarding safety of his money.
2. Share prices of securities are affected by range of factors.
3. An audit only provides reasonable assurance that financial statements are free from material misstatement whether due to fraud or error.
4. Hence, thinking of Lalji Bhai is not correct.



## Topic: Test Your Understanding 2



Good deeds Limited is engaged in business of recycling of wastes from dumping grounds of municipal corporation of Indore to usable manure. It is, in this way, also, helping to make the city clean.

During course of audit by Zoha & Zoha, a firm of auditors, it is observed by auditors that company has received a notice from Central Bench of National Green Tribunal for not following certain environmental regulations involving imposition of hefty monetary penalty on the company. The company is yet to reply to the notice. The auditors point out that same is not stated in notes to accounts in financial statements. The company points out that auditors are going beyond scope of their work. Does such a matter fall within scope of audit?



## Topic: Test Your Understanding 2



### **Answer:**

Proper disclosure of financial information is well within scope of audit.



## Topic: Test Your Understanding 3



A huge fire broke out in NOIDA plant of KT Limited. Plant assets comprising building, machinery and inventories were insured from branch of a public sector insurance company. Apart from an insurance surveyor who was deputed for assessing loss, the regional office of insurance PSU also appointed a CA for verification of books of accounts/ financial records of the company and circumstances surrounding the loss. He was also requested to submit an early report. Would the report by CA in nature of audit report?



## Topic: Test Your Understanding 3



### Answer:

1. Appointment of CA for verification of books of accounts/financial records and circumstances surrounding the loss is for a specific objective to determine genuineness of loss and any issue affecting liability of insurance company.
2. It is an investigation and not in nature of audit report.





## Topic: Test Your Understanding 4



Zeeba Products is a partnership firm engaged in trading of designer dresses. The firm has appointed JJ & Co, Chartered accountants to audit their accounts for a year. The auditors were satisfied with control systems of firm, carried out required procedures and necessary verifications. In particular, they carried out sample checking of purchases, traced purchase bills to GST portal and also made confirmations from suppliers. They were satisfied with audit evidence obtained by them as part of audit exercise. An audit report was submitted to the firm giving an opinion that financial statements reflected true and fair view of state of affairs of the firm.



However, later on, it was discovered that purchase manager responsible for procuring dresses from one location was also booking fake purchases of small values by colluding with unethical dealers. Payments to these dealers were also made in connivance with accountant through banking channel.

The partners of firm blame auditors for futile audit exercise. Are partners of firm correct in their view point? Imagine any probable reason for such a situation.

---

Audit is a type of assurance engagement under which auditor gives an opinion as to whether financial statements give a true and fair view of state of affairs of the concern. However, assurance engagements are not restricted to audit alone. We shall now discuss meaning of assurance engagement and different types of assurance engagements.



## Topic: Test Your Understanding 4



### Answer:

1. It is example of failure of internal controls of the firm.
2. The internal control has not operated due to collusion between  
employees which is a limitation of internal control itself.
3. The auditor has relied upon internal controls.
4. It is very nature of financial reporting that management is  
responsible for devising suitable internal controls.

This is an inherent limitation of audit.



## Topic: Test Your Understanding 5



The management of Exotic Tours and Travels Limited requests its auditor Raja & Co. to provide an assurance report on the financial information for first quarter of a year by skipping required detailed procedures.

Can Raja & Co. provide such a report? What would be nature of such a report? Would it be necessary for them to obtain sufficient appropriate evidence in such a case?



## Topic: Test Your Understanding 5



### Answer:

Such report would be in nature of “review”.

However, auditors would have to obtain sufficient appropriate evidence.





## Topic: Test Your Understanding 6



CA. P Babu is conducting audit of financial statements of Quick Buy Private Limited. He was not able to obtain external confirmations from certain debtors due to practical difficulties and peculiar circumstances. However, such a procedure is mandated under one of Standards on Auditing.

Unable to obtain external confirmations from these debtors, he relied upon sale details to these parties, e-invoices, e-way bills and also traced payments from these parties in bank accounts of the company. He was reasonably satisfied with audit evidence obtained. Is there any other reporting duty cast upon him relating to not following a mandated procedure in one of Standards on Auditing?



## Topic: Test Your Understanding 6



### Answer:

1. He is required to document how alternative procedures performed achieve the purpose of required procedure.
2. Reason for departure has to be documented unless it is clear.
3. His report should draw attention to such departure.

**#Q.** Explain clearly meaning of Auditing. How would you as an auditor perform the audit.

**Answer:**

“An audit is an independent examination of financial information of any entity, whether profit oriented or not, and irrespective of its size or legal form, when such an examination is conducted with a view to expressing an opinion thereon.”

The person conducting this task should take care to ensure that financial statements would not mislead anybody. This he can do honestly by satisfying himself that:

- (i) The accounts have been drawn up with reference to entries in the books of account;
- (ii) The entries in the books of account are adequately supported by sufficient and appropriate evidence;

**Answer:**

- (iii) None of the entries in the books of account has been omitted in the process of compilation and nothing which is not in the books of account has found place in the statements;
- (iv) The information conveyed by the statements is clear and unambiguous;
- (v) The financial statement amounts are properly classified, described and disclosed in conformity with accounting standards; and
- (vi) The statement of accounts present a true and fair picture of the operational results and of the assets and liabilities.

## QUESTION



- (1) Audited A/c. provide high quality info. which gives give confidence to user of FS.
- (2) Interest of shareholders is safeguarded
- (3) Moral Check on employees
- (4) Helpful for Govt. in determining Tax Liabilities
- (5) Relied upon by Bankers / Lenders
- (6) Detection of Fraud or Error or both
- (7) Review of Existence and Operation of Internal Controls





**#Q. State the objectives of Audit according to SA 200**

**Answer:**

As per SA-200 “Overall Objectives of the Independent Auditor”, in conducting an audit of financial statements, the overall objectives of the auditor are:

- (a) To obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework; and
- (b) To report on the financial statements, and communicate as required by the SAs, in accordance with the auditor’s findings.



#Q. CA N is the auditor of SR Ltd. The auditor expressed his opinion on the financial statements without ascertaining as to whether the financial statements as a whole were free from material misstatements or not. In your opinion, whether CA N has complied with objectives of audit considering the applicability of relevant SA? (May 2022)

**Answer:**

Overall Objectives of the Independent Auditor: As per SA-200 “Overall Objectives of the Independent Auditor”, in conducting an audit of financial statements, the overall objectives of the auditor are:

- (i) To obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework; and

**Answer:**

(ii) To report on the financial statements, and communicate as required by the SAs, in accordance with the auditor's findings.

In the given case of SR Ltd, CA N expressed his opinion on the financial statements of SR Ltd without obtaining reasonable assurance about whether the financial statements as a whole are free from material misstatement or not. Therefore, it can be concluded that CA N did not comply with the objective of audit as stated in SA 200.

#Q. MNO Ltd. requested the auditor CA P to provide for absolute assurance in respect of its ten branches scattered in Delhi and confirm that the financial statements are free from material misstatement due to fraud or error. Advise.

**Answer:**

1. The auditor is not expected to, and cannot, reduce audit risk to zero and cannot therefore obtain absolute assurance that the financial statements are free from material misstatement due to fraud or error.
2. This is because there are inherent limitations of an audit, which result in most of the audit evidence on which the auditor draws conclusions and bases the auditor's opinion being persuasive rather than conclusive.
3. In view of the above, CA P cannot provide audit absolute assurance to MNO Ltd. in respect of its branches.

#Q. DEF & Co. Chartered Accountants successfully carried out the audit of Shree Garments for the f.y. 2019-2020. After the completion of the audit, there were found material misstatements due to fraud in the financial statements which were not noticed and reported by the auditor. Management alleges that it is failure on the part of auditor. Comment.

Answer:

1. Because of the limitations of an audit, there is an unavoidable risk that some material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with SAs.
2. Accordingly, the subsequent discovery of a material misstatement of the financial statements resulting from fraud or error does not by itself indicate a failure to conduct an audit in accordance with SAs. However, the inherent limitations of an audit are not a justification for the auditor to be satisfied with less-than-persuasive audit evidence.

**Answer:**

3. Whether the auditor has performed an audit in accordance with SAs is determined by the audit procedures performed in the circumstances, the sufficiency and appropriateness of the audit evidence obtained as a result thereof and the suitability of the auditor's report based on an evaluation of that evidence in light of the overall objectives of the auditor.



#Q. In case of certain subject matters, limitations on the auditor's ability to detect material misstatements are particularly significant. Explain such assertions or subject matters.

**Answer:**

In the case of certain subject matters, limitations on the auditor's ability to detect material misstatements are particularly significant. Such assertions or subject matters include:

1. Fraud, particularly fraud involving senior management or collusion.
2. The existence & completeness of related party relationships & transactions.
3. The occurrence of non-compliance with laws and regulations.
4. Future events or conditions that may cause an entity to cease to continue as a going concern.



#Q. An audit is distinct from investigation. However, it is quite possible that sometimes investigation results from the prima facie findings of the auditor. Discuss

Answer:

1. Audit is distinct from investigation. Investigation is a critical examination of the accounts with a special purpose. For example, if fraud is suspected and it is specifically called upon to check the accounts whether fraud really exists, it takes character of investigation.
2. The objective of audit, on the other hand as we have already discussed, is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion.

**Answer:**

3. Therefore, audit is never started with a pre-conceived notion about state of affairs; about wrongdoing; about some wrong having been committed. The auditor seeks to report what he finds in normal course of examination of accounts.
4. However, it is quite possible that sometimes investigation results from the prima facie findings of the auditor. It may happen that auditor has given some findings of serious concern. Such findings may prompt for calling an investigation.

#Q. A Chartered Accountant is specifically asked to check accounts whether fraud exists. State with reasons whether it is an example of reasonable assurance engagement.

Answer:

It is not a reasonable assurance engagement. It is in nature of investigation.

#Q. Assurance engagements are not restricted to audit of financial statements alone. Discuss.

**Answer:**

Example of engagement Assurance

1. Audit of statements financial ✓
2. Review of statements Financial ✓
3. Examination of Prospective financial information
4. Report on controls  
operating at an organization

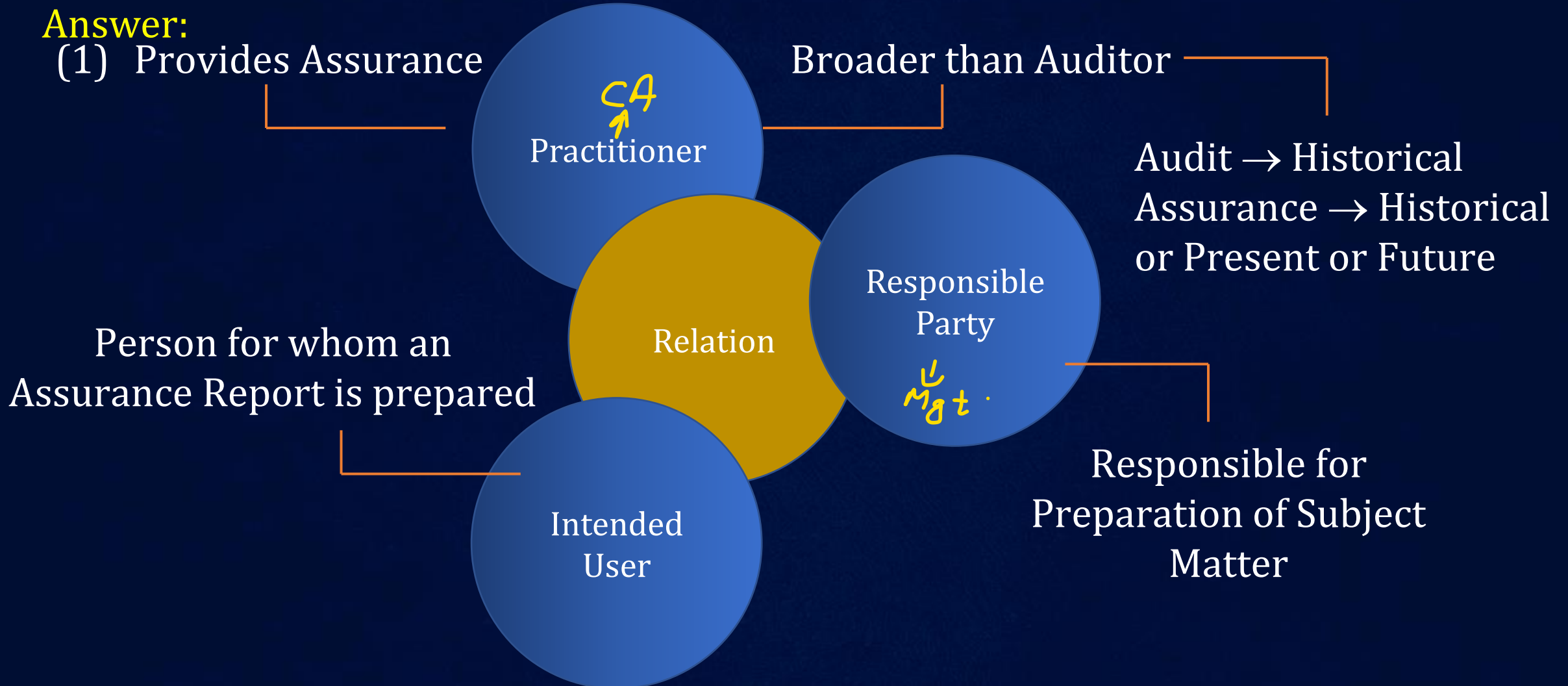
## QUESTION



#Q. An assurance engagement involves a three party relationship. Discuss meaning of three parties in such an engagement.

Answer:

(1) Provides Assurance



#Q. The management of Exotic Tours and Travels Limited requests its auditor Raja & Co. to provide an assurance report on the financial information for first quarter of a year by skipping required detailed procedures.

Can Raja & Co. provide such a report? What would be nature of such a report? Would it be necessary for them to obtain sufficient appropriate evidence in such a case?

**Answer:**

Such report would be in nature of “review”. However, auditors would have to obtain sufficient appropriate evidence.



There are two interlinked perspectives of independence of auditors, one, independence of mind; and two, independence in appearance. The Code of Ethics for Professional Accountants issued by International Federation of Accountants (IFAC) defines the term 'Independence' as follows:

Independence is:

- (i) Independence of mind:** The state of mind that permits the provision of an opinion without being affected by influences allowing an individual to act with integrity, and exercise objectivity and professional skepticism; and
- (ii) Independence in appearance:** The avoidance of facts and circumstances that are so significant that a third party would reasonably conclude an auditor's integrity, objectivity or professional skepticism had been compromised." Independence of the auditor has not only to exist in fact, but also appear to so exist to all reasonable persons.

#Q. The Chartered Accountant has a responsibility to remain independent by taking into account the context in which they practice, the threats to independence and the safeguards available to eliminate the threats. Explain the guiding principles in the above context. (May 2023)

**Answer:**

The Chartered Accountant has a responsibility to remain independent by taking into account the context in which they practice, the threats to independence and the safeguards available to eliminate the threats.

The following are the guiding principle in this regard:

1. For the public to have confidence in the quality of audit, it is essential that auditors should always be and appears to be independent of the entities that they are auditing.
2. In the case of audit, the key fundamental principles are integrity, objective and professional skepticism, which necessarily require the auditor to be independent.

3. Before taking on any work, an auditor must conscientiously consider whether it involves threats to his independence.
4. When such threats exist, the auditor should either desist from the task or put in place safeguards that eliminate them.
5. If the auditor is unable to fully implement credible and adequate safeguards, then he must not accept the work.

**#Q.** The actions of the engagement partner and appropriate messages to the other members of the engagement team, in taking responsibility for the overall quality on each audit engagement, emphasize the importance to audit quality. Explain w.r.t. SA 220.

**Answer:**

As per SA 220 “Quality Control for an Audit of Financial Statement”, the engagement partner shall take responsibility for the overall quality on each audit engagement to which that partner is assigned.

The actions of the engagement partner and appropriate messages to the other members of the engagement team, in taking responsibility for the overall quality on each audit engagement, emphasise:

- (1) The importance to audit quality of:
  - (i) Performing work that complies with professional standards and regulatory and legal requirements;

**Answer:**

- (ii) Complying with the firm's quality control policies and procedures as applicable;
  - (iii) Issuing auditor's reports that are appropriate in the circumstances; and
  - (iv) The engagement team's ability to raise concerns without fear of reprisals;
- (2) The fact that quality is essential in performing audit engagements.



#Q. “Choosing of appropriate accounting policies in relation to accounting issues is responsibility of management”. Do you agree? Discuss duty of auditor, if any, in relation to accounting policies.

**Answer:**

Choosing of appropriate accounting policies is responsibility of management. The role of auditor lies in evaluating selection and consistent application of accounting policies by management- Refer to scope of audit- what it includes.



**#Q.** CA. P Babu is conducting audit of financial statements of Quick Buy Private Limited. He was not able to obtain external confirmations from certain debtors due to practical difficulties and peculiar circumstances. However, such a procedure is mandated under one of Standards on Auditing. Unable to obtain external confirmations from these debtors, he relied upon sale details to these parties, e-invoices, e-way bills and also traced payments from these parties in bank accounts of the company. He was reasonably satisfied with audit evidence obtained. Is there any other reporting duty cast upon him relating to not following a mandated procedure in one of Standards on Auditing?

**Answer:**

He is required to document how alternative procedures performed achieve the purpose of required procedure. Reason for departure has to be documented unless it is clear. His report should draw attention to such departure.



## Topic: Theoretical Questions



Q.(1) “Choosing of appropriate accounting policies in relation to accounting issues is responsibility of management”. Do you agree? Discuss duty of auditor, if any, in relation to accounting policies.

A.(1) Choosing of appropriate accounting policies is responsibility of management. The role of auditor lies in evaluating selection and consistent application of accounting policies by management- Refer to scope of audit- what it includes.



Q.(2) Assurance engagements are not restricted to audit of financial statements alone. Discuss.

A.(2) Refer to examples on assurance engagements.



Q.(3) An assurance engagement involves a three party relationship.  
Discuss meaning of three parties in such an engagement.

A.(3) Refer to elements of assurance engagement.



Q.(4) A Chartered Accountant is specifically asked to check accounts whether fraud exists. State with reasons whether it is an example of reasonable assurance engagement.

A.(4) It is not a reasonable assurance engagement. It is in nature of investigation.





Q.(5) An audit does not provide absolute assurance. Discuss how nature of audit procedures itself is one of the reasons due to which audit cannot provide absolute assurance.

A.(5) Refer to second point of inherent limitations of audit.

10

## Audit of Banks

8-12



## Topic: Test Your Understanding 1



The financial statements of a bank are prepared in a specified format. Discuss legal provisions in this regard as applicable to financial statements of a nationalized bank.



## Topic: Test Your Understanding 1



### Answer:

Sub-sections (1) and (2) of Section 29 of the Banking Regulations Act, 1949 deal with the form and content of financial statements of a banking company and their authentication. These provisions are also applicable to nationalised banks. Every banking company is required to prepare a Balance Sheet and a Profit and Loss Account in the forms set out in the Third Schedule to the Act or as near thereto as the circumstances admit. Form A of the Third Schedule to the Banking Regulation Act, 1949, contains the form of Balance Sheet and Form B contains the form of Profit and Loss Account.



## Topic: Test Your Understanding 2

Ranjana Ceramic Private Limited is sanctioned a cash credit facility of ₹100 lacs from a branch of LMO Bank. Besides, branch has also sanctioned a one-time bank guarantee of ₹ 10 lacs on behalf of the company in favour of a statutory authority. Discuss, what type of credit facilities have been sanctioned by branch of LMO bank to the company along with probable purpose for each of credit facility.





## Topic: Test Your Understanding 2

### Answer:

Cash credit facility sanctioned by bank to company is in nature of **funded credit facility**. Its purpose is to meet **working capital requirements** of business.

Bank guarantee sanctioned to the company is in nature of non-funded credit facility. Its probable purpose could be requirement of a guarantee by a **statutory authority** in exchange of company fulfilling some **statutory obligations**.



## Topic: Test Your Understanding 3

During course of audit of branch of a nationalized bank, you find that system has generated a report marking ten term loan accounts as SMA. Discuss, meaning of SMA accounts and significance of such a classification.



## Topic: Test Your Understanding 3



### Answer:

Special Mention Account (SMA) is an account which is exhibiting signs of incipient stress resulting in the borrower defaulting in timely servicing of debt obligations, though the account has not yet been classified as NPA as per the RBI guidelines.

In the given case, ten term loan accounts have been classified as SMA. It means that there are overdues in the accounts for a period of 0 to 90 days. Since period of 90 days has not been exceeded as on the date, such accounts have not been classified as NPA as per RBI norms.

Such a classification is significant as early recognition of such accounts enables banks to initiate timely remedial actions to prevent potential slippages of such accounts into NPAs.



## Topic: Test Your Understanding 4



CA P is conducting stock audit of a borrower availing cash credit facility of ₹100 lacs from branch of a bank. The cash credit facility is against security of paid stocks and debtors up to 90 days. Margin stipulated is 25% for stocks and 40% for debtors. Following further information is available as on 31.12.22: -

<b>Value of stocks</b>	<b>₹ 125 lacs</b>
Value of stocks (fully damaged) included in above	5 lacs
Value of debtors	50 lacs
Value of debtors exceeding 90 days included in above	10 lacs
Value of creditors for goods	50 lacs

Is Drawing Power computed by CA P for ₹ 82.50 lacs proper?



## Topic: Test Your Understanding 4



**Answer:**

The computation of Drawing power is as under:

Value of stocks as on 31.12.22	₹ 125 lacs
Less: value of damaged stocks	₹ 5 lacs
	<u>₹ 120 lacs</u>
Less: creditors for goods as on 31.12.22	₹ 50 lacs
Value of Paid stocks	₹ 70.00 lacs
Less: Margin @ 25%	₹ 17.50 lacs
Drawing power (A)	<u>₹ 52.50 lacs</u>
Value of debtors as on 31.12.22	₹ 50 lacs
Less: debtors exceeding 90 days	₹ 10 lacs
	<u>₹ 40 lacs</u>





## Topic: Test Your Understanding 4



**Answer:**

Less: Margin @ 40%	<u>₹ 16 laks</u>
Drawing Power (B)	<u>` 24 lacs</u>
Drawing Power (A+B)	<u>/ 76.50 lacs /</u>
The drawing power calculated by CA P is not proper. Drawing Power comes to ` 76.50 lacs. ` 50 lacs	



## Topic: Test Your Understanding 5



You are verifying interest on deposits paid by branch of a nationalized bank. Discuss, any two “analytical procedures”, to verify interest on deposits paid by branch.



## Topic: Test Your Understanding 5



### Answer:

The auditor should obtain from the bank an analysis of various types of deposits outstanding at the end of each quarter. From such information, the auditor may work out a weighted average interest rate. The auditor may then compare this rate with the actual average rate of interest paid on the relevant deposits as per the annual accounts and enquire into the difference, if material. The auditor should also compare the average rate of interest paid on the relevant deposits with the corresponding figures for the previous years and analyse any material differences.

#Q. The functioning of banking industry in India is regulated by the Reserve Bank of India (RBI) which acts as the Central Bank of our country. Explain

**Answer:**

The functioning of banking industry in India is regulated by the Reserve Bank of India (RBI) which acts as the Central Bank of our country.

RBI is responsible for :-

1. Development and supervision of the constituents of the Indian financial
2. System (which comprises banks and non-banking financial institutions)
3. Determining, in conjunction with the Central Government, the monetary and credit policies keeping in with the need of the hour.

**Answer:**

4. Regulating the activities of commercial and other banks Important functions of RBI are:
1. Issuance of currency;
  2. Regulation of currency issue;
  3. Acting as banker to the central and state governments; and
  4. Acting as banker to commercial and other types of banks including term-lending institutions.

Besides, RBI has also been entrusted with the responsibility of regulating the activities of commercial and other banks.

No bank can commence the business of banking or open new branches without obtaining license from RBI. The RBI also has the power to inspect any bank.



#Q. “The engagement team should hold discussions to gain better understanding of the bank and its environment, including internal control, and to assess the potential for material misstatements of the financial statement. All these discussion should be appropriately documented for future reference”. Explain.

**Answer:**

All personnel performing an engagement, including any experts contracted by the firm in connection with that engagement are known to be the “Engagement Team”. The engagement team should hold discussions to gain better understanding of the bank and its environment, including internal control, and also to assess the potential for material misstatements of the financial statements. All these discussions should be appropriately documented for future references.

**#Q. What are the general requirements of an effective Risk Management System in Banks?**

**Answer:**

**(a) Oversight and involvement in the control process by those charged with governance:**

Those charged with governance (Board of Directors/Managing Director) should approve written risk management policies. The policies should be consistent with the bank's business objectives and strategies, capital strength, management expertise, regulatory requirements and the types and amounts of risk it regards as acceptable.

**(b) Identification, measurement and monitoring of risks:** Risks that could significantly impact the achievement of bank's goals should be identified, measured and monitored against pre-approved limits and criteria.

**Answer:**

- (c) **Control activities:** A bank should have appropriate controls to mitigate its risks including effective segregation of duties (particularly between front and back offices), accurate measurement and reporting of positions, verification and approval of transactions, reconciliation of positions and results, setting up limits, reporting and approval of exceptions, physical security and contingency planning.
- (d) **Monitoring activities:** Risk management models, methodologies and assumptions used to measure and mitigate risk should be regularly assessed and updated. This function may be conducted by the independent risk management unit.

**Answer:**

- (e) **Reliable information systems:** Banks require reliable information systems that provide adequate financial, operational and compliance information on a timely and consistent basis. Those charged with governance and management require risk management information that is easily understood and that enables them to assess the changing nature of the bank's risk profile.

#Q. The auditor should examine the efficacy of various internal controls over advances to determine the nature, timing and extent of his substantive procedures. Explain this statement.

Answer:

**Auditing the Operating Expenses of a Bank:-**

- (a) **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.
- (b) **Divergent Trends:** The auditor should examine whether there are any divergent trends in respect of major items of expenses.



**Answer:**

- (c) Substantive analytical Procedures:** The auditor should perform substantive analytical procedures in respect of these expenses. eg. assess the reasonableness of expenses by working out their ratio to total operating expenses and comparing it with the corresponding figures for previous years.
- (d) Vouching & Verification:** The auditor should also verify expen



#Q. CARD Ltd. is into the banking business and handles large amount of loans and advances of different kinds. Nonperforming assets are on the rise since last two quarters. The management is concerned with correct provisioning for the same. CA R is appointed to check whether correct provisioning of NPA's is being made by the bank or not. What are the aspects that will be verified by CA R for this purpose?

**Answer:**

Provisioning of Non-performing Assets:

CA R should verify that the classification of NPAs into sub-standard assets, doubtful assets and loss assets is done depending upon prudential norms as per the RBI Guidelines. Further he should also ensure that provision is being made for the same in accordance with the given table:

Answer:

Categories of Non-Performing Assests: Substandard Assests:	Provision required
Would be one, which has remained NPA for a period less than or equal to 12 months	
Doubtful Assests:	
Would be one, which has remained in the substandard category for a period of 12 months.	15
Sub-categories:	
Doubtful up to 1 year (D1)	(Secured + Unsecured
Doubtful 1 to 3 years (D2)	25%+ 100%
Doubtful more than 3 years (D3)	40% + 100%
Loss Assests:	100% + 100%
Would be one, where loas has been identified by the bank or internal or external auditors or the RBI inspection but the amount has not been written off wholly.	100%

### Alternative Answer 1:

Aspects to be verified by CA R to check correct provisioning of NPAs: CA R should verify following aspects while checking whether correct provisioning of NPAs is being made by bank: -

1. It should be verified whether classification of NPAs is in accordance with RBI guidelines. Such guidelines require classification of NPAs into sub-standard assets, doubtful assets and loss assets depending upon different criteria. Each classification requires different percentage of provisions.

Therefore, proper classification of NPAs would ensure that provisioning is correct.

2. It should be verified that doubtful assets have been further properly classified in D1, D2 and D3 categories. These three different categories require provision of 25%, 40% and 100% respectively of secured portions of outstanding amount.

### Alternative Answer 1:

3. It should be verified that secured and unsecured portion in doubtful assets have been arrived at properly. Unsecured portion of liability entails provision of 100%. Therefore, it is important to verify that break-up of doubtful assets into secured and unsecured portions is proper.
4. As different kinds of loans and advances are handled by the bank, it should be ensured that loan classification according to its purpose is properly made in the system. NPA norms vary for cash credit accounts, term loans, bills purchased and agricultural loans. Any wrong classification can lead to incorrect provisioning.

### Alternative Answer 2:

Aspects to be verified by CA R to check correct provisioning of NPAs:

1. For audit of Provisions, the auditor should ensure that the compliances for various regulatory requirements for provisioning as contained in the various circulars have been fulfilled.
2. The auditor should obtain an understanding as to how the bank computes provision on standard assets and non-performing assets. It will primarily include checking the basis of classification of loans and receivables into standard, sub-standard, doubtful, loss and non-performing assets.
3. The auditor may verify the loan classification on a sample basis.
4. The auditor should obtain the detailed break up of standard loans, non-performing loans and agree the outstanding balances with the general ledger.



#Q. In a bank, all accounts should be kept within the drawing power and the sanctioned limit. The accounts which exceed the sanctioned limit or drawing power should be brought to the notice of the management regularly. Analyse the following points to be considered in the computation of drawing power in case of bank audit.

- |                         |                        |
|-------------------------|------------------------|
| (i) Bank's Duties       | (ii) Auditor's concern |
| (iii) Computation of DP | (iv) Stock audit.      |



Answer:

Computation of Drawing Power:

- (i) **Bank's Duties:** Banks should ensure that drawings in the working capital account are covered by the adequacy of the current assets. Drawing power is required to be arrived at based on current stock statement. However, considering the difficulties of large borrowers, stock statements relied upon by the banks for determining drawing power should not be older than three months. The outstanding in the account based on drawing power calculated from stock statements older than three months is deemed as irregular.
- (ii) **Auditor's Concern:** The stock statements, quarterly returns and other statements submitted by the borrower to the bank should be scrutinized in detail. The audited Annual Report submitted by the borrower should be scrutinized properly. The monthly stock statement of the month for which the audited accounts are prepared and submitted should be compared and the reasons for deviations, if any, should be ascertained.

**Answer:**

- (iii) **Computation of DP:** It needs to be ensured that the drawing power is calculated as per the extant guidelines formulated by the Board of Directors of the respective bank and agreed upon by the concerned statutory auditors. Special consideration should be given to proper reporting of sundry creditors for the purposes of calculating drawing power.
- (iv) **Stock Audit:** The stock audit should be carried out by the bank for all accounts having funded exposure of more than ₹ 5 crores. Auditors can also advise for stock audit in other cases if the situation warrants the same. Branches should obtain the stock audit reports from lead bank in the cases where the Bank is not leader of the consortium of working capital. The report submitted by the stock auditors should be reviewed during the course of the audit and special focus should be given to the comments made by the stock auditors on valuation of security and calculation of drawing power.

## QUESTION

(A)  $50 - 15 = 35 - 20 = 15$

Job = 45 - 5000 = 405 - 201 = 304

⇒ 48000



#Q. Compute the Drawing Power for Cash Credit A/c of S Limited for the month of March 2022 with following information:

	(Amount in ₹)
Stock	50,000
Debtors	45,000
(Including Debtor of ₹ 5,000 for an invoice dated 17.11.2021)	
Sundry creditors	15,000
Sanctioned Limit	45,000
Margin on stock is 20% and on debtors is 50%.	

Note: Debtors older than 3 months are ineligible for calculation of DP. course of the audit and special focus should be given to the comments made by the stock auditors on valuation of security and calculation of drawing power.

Answer:

Computation of Drawing Power:

Computation of Drawing Power for CC A/c of S Ltd.

Particular of current assets		Amount(₹)	DP Amt(₹)
(A) Stocks			
Stocks at realizable value		50,000	
Less: Unpaid stocks:			
– Sundry creditors	15000	15000	
Paid for stocks		35000	
Margin @ 20%		7000	28000
(B) Debtors:			
Total Debtors		45000	
Total Debtors		5000	
Eligible debtors		40000	
Margin @ 50%		20000	20000
Total Drawing Power			48000

**Answer:**

The sanctioned limit given in the question is ₹ 45000 whereas drawing power as per the above working is ₹ 48000.

So, drawing power would be restricted to sanctioned limit i.e., ₹ 45000



#Q. Explain the audit approach you would follow to check the Operating Expenses of a Bank.

**Answer:**

The auditor should examine the efficacy of various internal controls over advances to determine the nature, timing and extent of his substantive procedures. In general, the internal controls over advances should include, inter alia, the following:

- (1) The bank should make an advance only after satisfying itself as to the credit worthiness of the borrower and after obtaining sanction from the appropriate authorities of the bank.
- (2) All the necessary documents (e.g., agreements, demand promissory notes, letters of hypothecation, etc.) should be executed by the parties before advances are made.



**Answer:**

- (3) The compliance with the terms of sanction and end use of funds should be ensured.
- (4) Sufficient margin as specified in the sanction letter should be kept against securities taken so as to cover for any decline in the value thereof. The availability of sufficient margin needs to be ensured at regular intervals.

#Q. What are the general requirements of an effective Risk Management System in Banks?

Answer:

- (a) **Oversight and involvement in the control process by those charged with governance:** Those charged with governance (Board of Directors/ Managing Director) should approve written risk management policies. The policies should be consistent with the bank's business objectives and strategies, capital strength, management expertise, regulatory requirements & the types and amounts of risk it regards as acceptable.
- (b) **Identification, measurement and monitoring of risks:** Risks that could significantly impact the achievement of bank's goals should be identified, measured and monitored against pre- approved limits and criteria.

Answer:

- (c) **Control activities:** A bank should have appropriate controls to mitigate its risks including effective segregation of duties (particularly between front and back offices), accurate measurement and reporting of positions, verification and approval of transactions, reconciliation of positions and results, setting up limits, reporting and approval of exceptions, physical security and contingency planning.
- (d) **Monitoring activities:** Risk management models, methodologies and assumptions used to measure and mitigate risk should be regularly assessed and updated. This function may be conducted by the independent risk management unit.

**Answer:**

- (e) **Reliable information systems:** Banks require reliable information systems that provide adequate financial, operational and compliance information on a timely and consistent basis. Those charged with governance and management require risk management information that is easily understood and that enables them to assess the changing nature of the bank's risk profile.

#Q. Explain the audit approach you would follow to check the Operating Expenses of a Bank.

**Answer:**

Auditing the Operating Expenses of a Bank:-

- (a) **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.
- (b) **Divergent Trends:** The auditor should examine whether there are any divergent trends in respect of major items of expenses.
- (c) **Substantive analytical Procedures:** The auditor should perform substantive analytical procedures in respect of these expenses, eg. assess the reasonableness of expenses by working out their ratio to total operating expenses & comparing it with the corresponding figures for previous years.

Answer:

- (d) **Vouching & Verification:** The auditor should also verify expenses with reference to supporting documents and check the calculations wherever required.



**#Q.** The auditor should examine the efficacy of various internal controls over advances to determine the nature, timing and extent of his substantive procedures. Explain this statement.

**Answer:**

The auditor should examine the efficacy of various internal controls over advances to determine the nature, timing and extent of his substantive procedures. In general, the internal controls over advances should include, inter alia, the following:

- The bank should make an advance only after satisfying itself as to the credit worthiness of the borrower and after obtaining sanction from the appropriate authorities of the bank.
- All the necessary documents (e.g., agreements, demand promissory notes, letters of hypothecation, etc.) should be executed by the parties before advances are made.

**Answer:**

- The compliance with the terms of sanction and end use of funds should be ensured.
- Sufficient margin as specified in the sanction letter should be kept against securities taken so as to cover for any decline in the value thereof. The availability of sufficient margin needs to be ensured at regular intervals.
- If the securities taken are in the nature of shares, debentures, etc., the ownership of the same should be transferred in the name of the bank and the effective control of such securities be retained as a part of documentation.
- All securities requiring registration should be registered in the name of the bank or otherwise accompanied by documents sufficient to give title to the bank.

**Answer:**

- In the case of goods in the possession of the bank, contents of the packages should be test checked at the time of receipt. The godowns should be frequently inspected by responsible officers of the branch concerned, in addition to the inspectors of the bank.
- Drawing Power Register should be updated every month to record the value of securities hypothecated. These entries should be checked by an officer. The accounts should be kept within both the drawing power and the sanctioned limit.
- All the accounts which exceed the sanctioned limit or drawing power or are otherwise irregular should be brought to the notice of the controlling authority regularly.
- The operation of each advance account should be reviewed at least once a year and at more frequent intervals in the case of large advances.



## Theoretical Questions



Q.(1) Discuss outline of audit approach including audit procedures while auditing “provisions and contingencies” in financial statements of a bank.

A.(1) Refer to topic on “Audit of provisions and contingencies”



Q.(2) Discuss importance of implementation of KYC norms by a bank from perspective of an auditor of bank.

A.(2) Refer to topic on “Conducting an audit- Assessing the risk of Fraud---”



Q.(3) List out any four points which highlight peculiarities involved in banking operations.

A.(3) Refer to topic on “Banking Operations”





Q.(4) Is statutory auditor of a bank required to report on the requirements relating to Companies (Auditor's Report) Order, 2020?

A.(4) Refer to topic on "Format of report"



Q.(5) Account of a borrower availing cash credit facility from branch of a bank has become “Out of order.” Discuss the term “Out of order”.

A.(5) Refer to topic on “Prudential norms on income recognition, asset classification and provisioning pertaining to advances.



Q.(6) The functioning of banking industry in India is regulated by the Reserve Bank of India (RBI) which acts as the Central Bank of our country. Explain

A.(6) Refer Introduction paragraph



Q.(7) “The engagement team should hold discussions to gain better understanding of the bank and its environment, including internal control, and also to assess the potential for material misstatements of the financial statements. All these discussions should be appropriately documented for future reference”. Explain

A.(7) Refer Para 2



Q.(8) Write a short note on reversal of income under bank audit.

A.(8) Refer Para 15.1



**2 Min Summary**











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