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Source: **ICAI MODULE MAY'21 (NEW SYLLABUS) FINAL CA AUDIT**

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This compiler includes only ICAI module questions of the following topics (these questions are repeatedly asked in exams):

1. Audit of Banks- 13 Questions
2. Audit of NBFC.- 10 Questions
3. Audit of Insurance- 11 Questions
4. Audit of Public Sector Undertakings- 10 Questions
5. Peer Review & Quality Review- 12 Questions
6. Internal Audit, Management Audit & Operational Audit- 11 Questions
7. Investigation, Due Diligence & Forensic Audit- 20 Questions
8. Audit of CFS- 9 Questions
9. Liabilities of Auditor- 9 Questions
10. Audit in an automated Environment- 11 Questions
11. Direct Tax Audit- 14 Questions
12. Indirect Tax Audit- 27 Questions

This is PART I of the COMPILER AND INCLUDES QUESTIONS ON AUDIT OF BANKS, NBFC and INSURANCE

QN	Question	Hint/Reference/Short Answer
Audit of Banks		
1	Your firm has been appointed as Central Statutory Auditors of a Nationalised Bank. The Bank follows financial year as accounting year. Your Audit Manager informed that the bank has recognised on accrual basis income from dividends on securities and Units of Mutual Funds held by it as at the end of financial year. The dividends on securities and Units of Mutual Funds were declared after the end of financial year. Comment	Dividend income to be booked when declared and approved by the shareholders at the AGM i.e. when right to receive has been established.
2	As statutory central auditors of a Nationalized bank, what special points are to be borne in mind in the audit of compliance with "Statutory Liquidity Ratio" (SLR) requirements?	SLR is a minimum % of the DTL (demand and time liabilities) to be maintained with the bank itself in the form of approved assets (Cash, Gold, approved securities) Auditor needs to audit a) Computation of DTL b) Maintenance of approved assets as on 12 odd dates in a year, not being Friday (because on Friday, Trial Balance calculations are revised)

3	<p>Explain the scope of concurrent audit of a bank with reference to Reserve Bank of India guidelines.</p>	<p>Explain two points</p> <p>a) Coverage of Concurrent Audit- Bank to cover at-least head-office operations + branches which ensures minimum 50% of Total Deposits and Total Advances of the Bank.</p> <p>b) Activities to be covered by the concurrent auditor- audit of cash, investments, KYC norms, FOREX, operations, loans, deposits etc.</p>
4	<p>In course of audit of Good Samaritan Bank as at 31st March, 19 you observed the following:</p> <p>a) In a particular account there was no recovery in the past 18 months. The bank has not applied the NPA norms as well as income recognition norms to this particular account. When queried the bank management replied that this account was guaranteed by the central government and hence these norms were not applicable. The bank has not invoked the guarantee. Please respond. Would your answer be different if the advance is guaranteed by a State Government?</p> <p>b) The bank's advance portfolio comprised of significant loans against Life Insurance Policies. Write suitable audit program to verify these advances.</p>	<p>a) If advance guaranteed by CENTRAL Govt (not applicable for State Govt) becomes NPA then → it will continue to be treated as standard asset unless the guarantee is repudiated (cancelled). → however the income accrued but not realised on such assets must be reversed/provided for.</p> <p>b) Loans against Life Insurance Policies: → inspect whether policy has been properly assigned to the bank → whether premium has been paid on such policy → if surrender value is subject to payment of certain amount then such amount has been deducted while valuing the policy.</p>
5	<p>Your firm has been appointed as Central Statutory Auditors of a Nationalised Bank. The bank is a consortium member of Cash Credit Facilities of ` 50 crores to X Ltd. Bank's own share is ` 10 crores only. During the last two quarters against a debit of ` 1.75 crores towards interest the credits in X Ltd's account are to the tune of ` 1.25 crores only. Based on the certificate of lead bank, the bank has classified the account of X Ltd as performing. The Bank follows financial year as accounting year. Advise your views on the issue which were brought to your notice by your Audit Manager</p>	<p>→ each bank may classify the advance given by it according to its own experience of recovery → Since in the last two quarters, the amount remains outstanding (more than 90 days), the account should be treated as NPA and outstanding interest income should be reversed.</p>
6	<p>You have been appointed as an auditor of LCO Bank, a nationalized bank. LCO Bank also deals in providing credit card facilities to its account holder. The bank is aware of the fact that there should be strict control over storage and issue of credit cards. How will you evaluate the Internal Control System in the area of Credit Card operations of a Bank?</p>	<p>Internal control over credit card operations:</p> <p>→ control over screening the applications for credit card</p> <p>→ control over issue and storage of cards.</p> <p>→ control over credit card limit utilisation and confirmation with the merchant.</p> <p>→ control over charging the amount to the customer including commission and recovering such amount.</p>
7	<p>You have been appointed as Concurrent Auditor of a nationalized bank branch. The main business at the branch is dealing in foreign exchange. Suggest the main areas of coverage with regard to foreign exchange transactions of the said branch under concurrent audit.</p>	<p>Audit of FOREIGN EXCHANGE TRANSACTIONS:</p> <p>→ Check foreign bills negotiated under letters of credit</p> <p>→ whether inward/outward remittance have been properly accounted</p> <p>→ FCNR and other non-resident accounts whether the debits and credits are permissible under rules</p> <p>→ balances in Nostro accounts in different foreign currencies are within the limit as prescribed by the bank.</p>

		→ Reco of nostro/vostro accounts. → Whether RBI guidelines and bank's internal policies are being followed?
8	While auditing FAIR Bank, you observed that a lump sum amount has been disclosed as contingent liability collectively. You are, therefore, requested by the management to guide them about the disclosure requirement of Contingent Liabilities for Banks. Kindly guide.	Disclosure requirements of contingent liabilities for banks: <ul style="list-style-type: none"> - Claims against the bank not acknowledged as debts - Liability for partly paid investments - Liability on account of outstanding forward exchange contracts. - Guarantees given on behalf of constituents (within India; outside India) - Acceptances, endorsements and other obligations - Other items for which the bank is contingently liable
9	ABC Chartered Accountants have been appointed as concurrent auditors for the branches of Effective Bank Ltd. for the year 2019-20. You are part of the audit team for Agra branch of the bank and have been instructed by your senior to verify the advances of the audit period. You are required to guide your assistant about the areas to be taken care while doing verification during the concurrent audit.	→ sanctioned properly? → securities and documents received? → post-disbursement supervision? → mis-utilisation of loan? → letters of credit issued by the bank officers within their power? → follow-up of overdue bills of exchange → classification of advances as per RBI guidelines? → improper authorisation? Report to top management
10	In the course of audit of Skip Bank Ltd., you found that the Bank had sold certain of its non - performing assets. Draft the points of audit check that are very relevant to this area of checking.	→ only such NPA has been sold which has remained NPA in the books of the bank for at least 2 years. → sold on 'without recourse' basis. → NPA has been sold on cash basis only. → short-fall (amount recd is lesser than net book value) charge it to P/L → any excess value (amount recd is higher than NBV), don't recognise profit; retain amount to set-off future losses on sale of NPA.
11	Banks, because of certain characteristics, are distinguished from other commercial enterprises and hence it needs special audit consideration. As an auditor of a bank, specify the various peculiarities which may necessitate special audit consideration to be taken care by you?	→ large volume of monetary items. → Wide geographical network → Huge exposure of 'off-balance-sheet' items (Guarantees and commitments) → Integration and linkages of national and international settlement systems → heavily regulated by laws and regulations.
12	ABC Bank had sanctioned credit limits of Rs.100 lakh to M/s Volkart Ltd on 1st September 2018. The renewal of limits was due on 1st September 2019. While doing the statutory branch audit for the year ended 31st March 2020, you find that the renewal has not been done even though 180 days are over. The bank says that the renewal process has been initiated on time and most of the document are received. The account is operated regularly and is in order; balance is maintained within drawing power. It also shows a letter from Volkart stating that due to a sudden death of their auditor, a new auditor had to be appointed. Procedure for appointment took some time and the new auditor was doing the	→ As per Guidelines of Reserve Bank of India the account should be classified as NPA if renewal is not done in 180 days (because without renewal the account becomes out of order) → However, there is no inherent weakness in the account. Operations are excellent and there are no defaults. → even if the sanction was issued after the balance sheet date, it relates to the position as on the balance sheet date. Therefore, it is an adjusting event. → auditor would consider classifying the account as a standard asset.

	audit all over again. The limit was not renewed till 31/3/2020. However, the audited financials are received on 10th April 2020 and the renewal letter was issued immediately. Your assistant is insisting that the account must be classified as NPA since the limit was not renewed as on 31/3/2020. What is your opinion?	
13	You are auditing a small bank branch with staff strength of the manager, cashier and three other staff S1, S2 and S3. Among allocation of work for other areas, S1 who is a peon also opens all the mail and forwards it to the concerned person. He does not have a signature book so as to check the signatures on important communications. S2 has possession of all bank forms (e.g. Cheque books, demand draft/pay order books, travelers' cheques, foreign currency cards etc.). He maintains a record meticulously which you have test checked also. However, no one among staff regularly checks that. You are informed that being a small branch with shortage of manpower, it is not possible to always check the work and records. Give your comments	<p>Banks are required to implement and maintain a system of internal controls for mitigating risks, maintain good governance and to meet the regulatory requirements.</p> <p>Following violations of internal controls are noticed in the given case:</p> <ul style="list-style-type: none"> → Mail should be opened by a responsible officer and not an office peon → Signatures on all letters and advices received from the other bank, must be cross checked with signature book. → maker-checker process for bank forms must be followed which has not happened in this case. → contention of the bank that they have less manpower is not acceptable because such lapses in internal control may lead to fraud.
AUDIT OF NBFC		
1	Define NBFC. Also give a brief description about types of NBFCs covering any five NBFC	Definition as per : Section 45 I(f) of Reserve Bank of India (Amendment) Act, 1997 + 50-50 Rule+ Explain the category (NBFC-D or ND, SI or NSI) + List of 5 NBFCs
2	Shubham & Associates are going to start the audit of NBFCs. They have not performed much work for the NBFCs in the past years. You are required to explain the requirements related to registration and regulation of NBFCs which an auditor needs to keep in his mind while planning the audit of NBFC which would help this firm.	<p>Key requirements of registration:</p> <ul style="list-style-type: none"> → Net owned fund (2 Crore) → Certificate of registration required from RBI → Exemptions to such NBFCs which are governed by other regulators (LIC, MF, AMCs, VCs, Stock Brokers, NIDHI Co etc.) <p>→ Key requirements of regulation: Check compliance with various norms → income recognition, capital requirements, public deposit norms etc.</p>
3	Satyam Pvt Ltd is a company engaged in trading activities, it also has made investments in shares of other Companies and advanced loans to group companies amounting to more than 50% of its total assets. However, trading income constitutes majority of its total income. Whether the Company is an NBFC?	<p>The company will be treated as NBFC when a company's financial assets constitute more than 50 per cent of the total assets (netted off by intangible assets) and income from financial assets constitute more than 50 per cent of the gross income.</p> <p>In this case although asset criteria is fulfilled but income criteria is not satisfied and hence it cannot be deemed as NBFC.</p>
4	Shivam & Co LLP are the auditors of NBFC (Investment and Credit Company). Some of the team members of the audit team who audited this NBFC have left the firm and the new team members are in discussion with the previous team members who are still continuing with the firm regarding the verification procedures to be performed. In this context, please explain what verification	<p>10-12 points checklist.</p> <p>Cover points on investments done by the company and loans given by the company.</p> <p>Investment audit → sanctioning? Accounting? Valuation? Broker note verification? RBI guidelines? Classification of investment?</p>

	procedures should be performed in relation to audit of NBFC - Investment and Credit Company (NBFC-ICC).	Audit of loans and advances → sanctioning? Documentation? Classification? Provisioning? RBI guidelines compliance?
5	<p>You are appointed as the auditor of a NBFC registered with the RBI and which is accepting and holding public deposits. You are considering your reporting requirement in addition to your report made under Section 143 of the Companies Act, 2013 on the accounts of this NBFC as per the prescribed Directions.</p> <p>Please explain what points are required to be known in respect of separate report to be given by you to the Board of Directors of this NBFC.</p>	<p><u>In case of ALL NBFCs- following matters to be questioned:</u></p> <p>a) holding Valid certificate of registration? b) IF yes, is it eligible to continue to hold the certificate? c) Net owned funds requirement being followed?</p> <p><u>In case of NBFCs accepting public deposits, following specific questionnaire should be reported by auditor (as per NBFC Acceptance of Public Deposits (RBI) Directions, 2016):</u></p> <p>a) types of public deposits/public borrowings → unsecured non-convertible bonds/debentures? From its shareholders (in case of public company)? Within the RBI prescribed limits? b) IF deposits exceed the permissible limits as prescribed by RBI, whether the amount has been regularised? c) Accepting public deposits without minimum investment credit rating? d) CRAR (capital risk adequacy ratio i.e. minimum capital) being maintained? e) Violation of any restriction on accepting public deposit? f) Default in payment to depositors? g) Compliance with prudential norms on income recognition, asset provisioning etc. h) Compliance with liquid asset guidelines prescribed by RBI? i) Regulatory returns (details) submitted to RBI as per prescribed forms in a timely manner?</p>
6	<p>Kamna & Co LLP, a firm of Chartered Accountants, was appointed as auditor of an NBFC. The audit work has been completed. The audit team which was involved in the fieldwork came across various observations during the course of audit of this NBFC and have also limited understanding about the exceptions which are required to be reported in the audit report. They would like to understand in detail regarding the obligations on the part of an auditor in respect of exceptions in his report so that they can conclude their work. Please explain</p>	<p>→ RBI has issued a master circular dated September 29, 2016 regarding matters to be reported by auditor in a separate report to the Board of Directors of NBFC</p> <p>→ As per this circular if auditor finds answers to any of these matters in negative/adverse or has any qualifications/reservations/exceptions then he must make a separate report of exceptions and submit it to the concerned REGIONAL OFFICE of the department of non-banking supervision of the RBI under whose jurisdiction the Registered officer of the NBFC is located.</p>
7	<p>Karma Pvt Ltd is a Non-Deposit Taking Non-Systemically Important NBFC registered with Reserve Bank of India. The Statutory Auditor of the company is required to give a report to the Board of Directors. What shall be the content of the Auditor's Report to the Board</p>	<p><u>In case of ALL NBFCs- following matters to be questioned:</u></p> <p>a) holding Valid certificate of registration? b) IF yes, is it eligible to continue to hold the certificate? c) Net owned funds requirement being followed?</p> <p><u>Additional matters in the case of a non-banking financial company not accepting public deposits:</u></p>

		<p>→ Whether BoD has passed a resolution for non-acceptance of any public deposit</p> <p>→ Whether the company has accepted public deposits?</p> <p>→ Whether the company has complied with prudential norms → income recognition, asset provisioning and capital adequacy requirements.</p> <p>→ in case of NBFC_ND_NSI → a) Capital adequacy ratio is correctly arrived at? b) Whether such NBFC has furnished to RBI, the annual statement of capital funds, risk assets/exposures and risk asset ratio within prescribed timeline.</p>
8	Krishna Pvt Ltd is primarily into the business of selling computer parts. However, the company is fulfilling the Principal Business Criteria as at the balance sheet date i.e. Financial Assets are more than 50 % of total assets and Financial Income is more than 50% of Gross Income. What shall be the obligation of the Statutory Auditor in such a scenario?	<p>fulfilling the Principal Business Criteria i.e. Financial Assets are more than 50 % of total assets and Financial Income is more than 50 % of Gross Income. Hence, it should obtain a CoR from the RBI.</p> <p>It is one of the matter on which auditor has to conduct inquiry as prescribed by RBI.</p> <p>The statutory auditor has to submit exception report to the Department of Non-Banking Supervision Regional Office under the RBI. (REFER Q6 answer to understand the concept of exception report)</p>
9	Mr. G. has been appointed as an auditor of LMP Ltd., a NBFC company registered with RBI. Mr. G is concerned about whether the format of financial statements prepared by LMP Ltd. is as per notification issued by the Ministry of Corporate Affairs (MCA) dated October 11, 2018. The notification prescribed the format in Division III under Schedule III of the Companies Act, 2013 applicable to NBFCs complying with Ind-AS. Mr. G wants to know the differences in the presentation requirements between Division II and Division III of Schedule III of the Companies Act, 2013. Help Mr. G.	<p>This concept tests your FR knowledge and hence students are requested to study in detail- Page number 11.31 and concept Para 8.3.</p> <p>This is one of the popular question and hence it should not be ignored.</p>
10	Abhimanyu Finance Ltd. is a Non Banking Finance Company and was in the business of accepting public deposits and giving loans since 2015. The company was having net owned funds of ₹ 1,50,00,000/- (one crore fifty lakhs) and was not having registration certificate from RBI and applied for it on 30th March 2021. The company appointed Mr. Kabra as its statutory auditors for the year 2020-21. Advise the auditor with reference to auditor procedures to be taken and reporting requirements on the same in view of CARO 2020?	<p>CARO 2016- Clause XVI (for May 21 attempt)</p> <p>CARO 2020- Clause XVI (could be made applicable for Nov'21 attempt onwards- Check ICAI website)</p> <p>"whether the company is required to be registered under section 45-IA of the Reserve Bank of India Act, 1934 and if so, whether the registration has been obtained."</p> <p>Audit procedures:</p> <p>→ Check nature of transactions</p> <p>→ Check 50-50 Rule</p> <p>→ Auditor should report whether registration is required? If yes, whether it has been obtained? If not, then reasons.</p> <p>→ Net owned fund requirement of Rs. 2 crore is not being met in the given case.</p>
Audit of Insurance		
1	What are the steps to be taken while verifying the Premium of (a) General Insurance Company; and (b) Life Insurance Company?	<p><u>a) Audit of Premium of General Insurance</u></p> <p>→ No risk to be assumed without receiving the first premium- Section 64VB, → internal control over recording of premium, → review the accounting</p>

		<p>system for collecting premium, → check the cover notes, → accounting of premium is in accordance with risk assumed calculated by actuary, → check premium receivable and premium received in advance, → commission paid to agents, → share given to re-insurers, → in case of co-insurance it should be as per co-insurance agreement, → in case of cancellation of policies; recover proportionate premium from the agent.</p> <p><u>b) Audit of Premium of Life Insurance.</u></p> <p>→ Check whether it is a new premium (first year) or renewal premium (subsequent years of the policy)? , → in case of new policy; premium is recognd only when it is realised, → in case of renewal; premium can be recognd when due, → audit calculation of premium, → audit collection of premium, → audit recognition and accounting of premium, → audit premium received in advance, → other points like internal control, reporting correct figures to mgmt and IRDA, refund of premium etc..</p>
2	Enumerate the steps to be taken by an auditor for the verification of Re-insurance outward by a General Insurance Company.	<p>It means we are auditing a ceding company (transferor of risk)</p> <p>→ study the re-insurance contract, → check the details received from various divisions (branches) and check the re-insurance premium to be given, commission and claims to be raised at consolidated level, → compliance with IRDA guidelines, → remittances to foreign re-insurers should be as per FOREX regulations, → verify computation of commission and recoveries, → external confo with re-insurers for big claims, → in case of proportionate treaties; check the calculation as per pre-determined percentage/ratio, → impact of subsequent events to be considered</p>
3	State the procedure for verification of Agents' Balances in the course of audit of a General Insurance Company.	<p>→ review reconciliation (control) accounts, → review old balances, → reasons for retaining old balances, → accounting treatment given to old/inoperative balances etc.</p>
4	As at 31st March 2020 while auditing Safe Insurance Ltd, you observed that a policy has been issued on 25th March 2020 for fire risk favouring one of the leading corporate houses in the country without the actual receipt of premium and it was reflected as premium receivable. The company maintained that it is a usual practice in respect of big customers and the money was collected on 5th April, 2020. You further noticed that there was a fire accident in the premises of the insured on 31st March 2020 and a claim was lodged for the same. The insurance company also made a provision for claim. Please respond.	<p>→ No risk can be assumed by the insurer unless the premium is received. According to section 64VB of the Insurance Act, 1938, no insurer should assume any risk in India in respect of any insurance business on which premium is ordinarily payable in India unless and until</p> <ul style="list-style-type: none"> -the premium payable is received or -is guaranteed to be paid by such person or - unless and until deposit of such amount is made in advance <p>in the prescribed manner.</p> <p>So the Insurance company's contention is not tenable/acceptable in the given case.</p>
5	ABC & Co., Chartered Accountants are the Auditors of Just Care Life Insurance Company Limited.	IRDA (Investment) regulations, 2000 gives details of the pattern in which Funds of the Life Insurance

	Enumerate the steps to be taken by the auditor while verifying the "Investment".	<p>business, should be kept invested at any given point of time.</p> <p>Auditor should check → segregation of duties, → SOPs of the insurer, → compliance with IRDA regulations and circulars, → fund wise reconciliation with Investment Accounts, Bank, and Custodian records, → split between Shareholders' and Policyholders' funds, → valuation of investments, → whether activities have been outsourced? → Controls around personal dealings and insider trading.</p>
6	Briefly explain the term policy lapse and revival in case of Life Insurance Company and role of auditor in verifying the same.	<p>Policy lapse → when the payment is not done within due date or within grace period given after due date, the policy lapses</p> <p>Policy revival → on clearing the outstanding premium payments and other late payment charges, lapsed policies can be revived.</p> <p>Auditor should check → accounting of charging and recovering premium within due dates/grace period, → process of marking policy as lapsed, → process of marking policy as revived only after clearing the arrears.</p>
7	You have been appointed to carry out the audit of Sky Insurance Company Ltd. for the year 2019-20. In the course of your audit, you observed that the commission paid to agents constituted a major expense in operating expenses of the Company. Enumerate the audit concerns that address to the assertions required for the Auditor to ensure the continued existence of internal control as well as fairness of the amounts in accounting of commission paid to agents.	<p>Audit of commission paid to agents:</p> <ul style="list-style-type: none"> → review system established by the insurer → calculation of commission (not in excess of the limit prescribed by IRDAI and Insurer's internal policy) → recovery of proportionate commission on the policies cancelled → sync between commission payment and premium collection → TDS on commission paid to agents
8	You are the auditor of Good Luck General Insurance Company. You want to ensure that there exists good system that effectively serves the requirements of true and fair accounting of claim-related expenses and liabilities. Suggest how this can be ensured.	<p>Accounting of claim-related expenses and liabilities:</p> <ul style="list-style-type: none"> → provision has been made for all valid unsettled claims as at the year-end → date of loss is important and not date of communication → system to ensure that only legally enforceable claims have been sanctioned → Calculation of IBNR (incurred but not reported) and IBNER (incurred but not enough reported) as on balance sheet date and provision required for that → Calculation of the share of re-insurer and co-insurers. → subsequent events have been considered (after balance sheet date) → provision for claims includes expenses directly incurred in connection with claims. → it should be net off salvage value. → in case of under-insurance, pro-rata claim has been sanctioned. → examine guarantees given by insurer to various Courts for claims under litigation.

9	Your audit assistant seeks your help in checking the claim liability of Bharat Insurance Co. Ltd. and wants to know the registers and records which they should obtain and review in this regard.	Registers and Records: → Claims Intimation Register, → Claims Paid Register, → Claims Disbursement Bank Book, → Claim documents namely claim form, survey report, salvage value, satisfaction note from claimant, police report (theft), fire service report (fire), letter of subrogation etc. → Report of Quality Assurance Team → Salvage Register
10	As an auditor of Life Insurance Company, how will you verify the 'Commission Payable' to its Agents?	Commission payable to agents in case of life insurance business: Same as Q7
11	What is the 'Actuarial Process' in Life Insurance Business and what is the role of Auditor with respect to the same?	The job of actuary or actuarial department in any Life Insurance Company involves, detailed analysis of data to quantify risk and valuation of liabilities involved in a policy. Role of auditor: → need to certify in report whether actuarial valuation of liabilities is certified by actuary? Reasonableness of assumptions used by actuary? → discuss with actuaries the process followed and assumptions made by them before certifying liabilities