



CA Inter Audit Test-10 (Bank Audit)

Time: 1 Hour

Marks: 30 Marks

Instructions:

- Reading time: 5 mins
- Do **underline key words** while presenting answer
- Leave **proper spacing** between 2 points/paras
- Do quote SA No. with Name only wherever applicable.

MCQs [10 Marks (5Q * 2 Marks each)]

Case Study

Shreyansh, a Chartered Accountancy student, is part of an engagement team conducting audit of the Coimbatore branch of XYZ Bank under the guidance of CA Dilip, the Engagement Partner. Shreyansh has been assigned the task of verifying provisions made for the branch's non-performing assets (NPAs) and classification of certain loans as on March 31, 2024, of which details are as under:

Non-Performing Assets (NPAs):

Name of Account	NPA classification	Outstanding amount as on March 31st, 2024 (In ₹ lakhs)	Amount of provision made (In ₹ lakhs)	Security Available
AB Industries	Doubtful (D1)	10.00	5.00	Fully secured
Mars Traders	Substandard asset	50.00	7.50	Fully secured
RS Enterprises	Doubtful (D2)	30.00	30.00	Fully secured
NPS & Sons	Loss	1.00	1.00	Only personal guarantee of proprietor (Net worth ₹50 lakhs)

Housing Loan and Car Loan

A borrower Mr. Shyam has availed following two loans from the branch:

- Housing Loan: EMIs are overdue for 120 days as on March 31, 2024.
- Car Loan: EMIs are overdue for 60 days as on March 31, 2024.

Agricultural Advances

The branch has provided a loan of ₹20 lakhs under the Kisan Credit Card (KCC) scheme to a farmer for the cultivation of paddy, which has a harvest period of 3–4 months. There has been no transaction in the account for the last 90 days. The branch has classified the loan as a Standard Asset.

CA Dilip has clarified that the NPA classification has been verified and is in accordance with RBI guidelines. He instructed Shreyansh to focus on evaluating the adequacy of the provisions, considering RBI Guidelines mandate specific percentages for provisioning based on the NPA classification and the nature of the security.



Based on the above facts, answer the following: -

1 Is the provision made for AB Industries (Doubtful—D1) appropriate?

- (a) Yes, as it exceeds the required 25% provisioning for secured assets.
- (b) No, as it should be 40% of the outstanding amount.
- (c) No, as the required provision is ₹ 2.50 lakhs (25% of ₹ 10.00 lakhs).
- (d) Yes, as provisions for Doubtful assets can exceed the minimum requirement.

2 Considering the Housing Loan and Car Loan availed by the borrower Shyam, which of the following statements is appropriate?

- (a) Both Housing Loan and Car Loan should be classified as “NonPerforming Assets” in accordance with RBI norms on asset classification.
- (b) Housing Loan should be classified as “Non-Performing Asset” in accordance with RBI norms. However, Car Loan should be classified as Standard Asset.
- (c) Car Loan should be classified as “Non-Performing Asset.” However, Housing Loan should be classified as Standard Asset.
- (d) Both Housing Loan and Car Loan should be classified as Standard Assets.

3 What is the minimum provision required for RS Enterprises (Doubtful—D2), considering the account is fully secured?

- (a) ₹30.00 lakhs
- (b) ₹12.00 lakhs
- (c) ₹15.00 lakhs
- (d) ₹25.00 lakhs

4 As regards the description of the agricultural advance under Kisan Credit Card, which of the following statements is most appropriate?

- (a) The branch has erred in making classification as per RBI norms. It is a “Sub-standard” asset.
- (b) The classification made by the branch is proper. However, since there are no transactions in the account for 90 days, it is an SMA (Special Mention Account).
- (c) The classification made by the branch is proper.
- (d) The branch has erred in making classification as per RBI norms. It is a “Doubtful” asset.

5. Drawing Power in case of a Consortium advance is computed and allocated to member banks by the

- a) Bank members proportionately
- b) Lead bank
- c) Borrower
- d) Reserve Bank of India



Descriptive Questions [20 Marks]

1. The discussion between members of the engagement team members and the audit engagement partner should be done on the susceptibility of the bank's financial statements to material misstatements. Briefly discuss the points ordinarily included in discussion of the engagement team.

[5M]

2. During the audit of Smile Bank, CA Sweety focused on understanding the risk management process of the bank. She reviewed how management developed controls and used performance indicators to monitor key business and financial risks. CA Sweety also assessed whether the risk management system effectively identified and mitigated risks in required areas.

How should CA Sweety evaluate the adequacy of the bank's risk management controls?

[5M]

3. During the course of statutory branch audit of a nationalized bank, CA Amrish is performing audit procedures in relation to the advances. He has verified the selected sample of borrower accounts representing advances and found nothing unusual. In a banking environment, there exist documentary evidence containing observations/comments on advances which can be useful to the statutory branch auditor in performing an effective audit. List out few such documentary evidence which can be made use of by CA Amrish.

[5M]

4. Mahavir and Associates is appointed as the statutory auditor of KBC Bank for the financial year 2023-2024. During the audit, Ms. Chandana, an article trainee, noticed that Sidharth Industries had an outstanding loan of ₹ 50,00,000 as on March 31, 2024. On March 29, 2024, the company made a payment of ₹ 10,00,000, reducing the outstanding loan balance to ₹ 40,00,000. However, on April 4, 2024, Sidharth Industries initiated a reversal transaction of ₹ 8,00,000, increasing the outstanding loan balance back to ₹ 48,00,000. The payment and subsequent reversal occurred within a short period, with the final outstanding balance remaining ₹ 48,00,000 after the reversal.

Considering this scenario, what should be the response of Mahavir and Associates to this matter, particularly regarding the classification of the borrower's account and the potential risk of it slipping into the NPA category?

[5M]