

ANSWERS MODEL TEST PAPER 3
FINAL COURSE: GROUP – I
PAPER – 3: ADVANCED AUDITING AND PROFESSIONAL ETHICS
Part I: MULTIPLE CHOICE QUESTION

1. (c)
2. (a)
3. (d)
4. (b)
5. (a)
6. (d)
7. (b)
8. (b)
9. (c)
10. (d)
11. (a)
12. (c)
13. (a)
14. (c)
15. (c)

Part II - DESCRIPTIVE QUESTION

1. (a) As per SA 550, "Related Parties", communicating significant matters arising during the audit in connection with the entity's related parties helps the auditor to establish a common understanding with those charged with governance of the nature and resolution of these matters. Examples of significant related party matters include, non-disclosure (whether intentional or not) by management to the auditor of related parties or significant related party transactions, which may alert those charged with governance to significant related party relationships and transactions of which they may not have been previously aware; The identification of significant related

party transactions that have not been appropriately authorised and approved, which may give rise to suspected fraud; etc.

It may be noted that unless all of those charged with governance are involved in managing the entity, the auditor shall communicate with those charged with governance significant matters arising during the audit in connection with the entity's related parties.

The auditor is also required to ensure the compliance of Ind AS 24 Related Party Disclosures.

In view of above in the given scenario, the auditor is required to prepare a summary of following items to be reported to those charged with governance in accordance with SA 260 Communication with Those Charged with Governance:

- (i) A related party transaction with M/s. MNJ Associates involving ₹4.75 lakh per month for marketing services was identified, where ₹0.18 lakh per month exceeds the arm's length price. This transaction has not been disclosed as a related party transaction in accordance with Ind AS 24 Related Party Disclosures.
- (ii) The refusal by the CFO of the company to provide details of a related party transaction amounting to ₹ 35 lakh on the grounds of confidentiality, is not in order, as denying for the related party details of ₹ 35 lakh is imposing limitation of scope of auditor in view of SA 705.
- (iii) The receipt of free-of-cost computers and long-term borrowings (without agreed terms for repayment of interest and principal) from the parent company needs to be separately disclosed in the financial statements as per Ind AS 24 Related Party Disclosures.

Further, in all the above cases, the auditor would also need to assess his reporting requirements under the clause (xiii) of Paragraph 3 of CARO 2020 with respect to related party transactions that whether all transactions with the related parties are in compliance with sections 177 and 188 of Companies Act, 2013 where applicable and the details have been disclosed in the financial statements etc., as required by the applicable Accounting Standards.

- (b) Auditor's responsibility in cases where audit report for an earlier year is qualified is given in SA 710 "Comparative Information – Corresponding Figures and Comparative Financial Statements".

As per SA 710, when the auditor's report on the prior period, as previously issued, included a qualified opinion, a disclaimer of opinion, or an adverse opinion and the matter which gave rise to the modified opinion is resolved and properly accounted for or disclosed in the financial statements in accordance with the applicable financial reporting framework, the auditor's opinion on the current period need not refer to the previous modification.

SA 710 further states that if the auditor's report on the prior period, as previously issued, included a qualified opinion and the matter which gave rise to the modification is unresolved, the auditor shall modify the auditor's opinion on the current period's financial statements. In the Basis for Modification paragraph in the auditor's report, the auditor shall either:

Refer to both the current period's figures and the corresponding figures in the description of the matter giving rise to the modification when the effects or possible effects of the matter on the current period's figures are material; or

In other cases, explain that the audit opinion has been modified because of the effects or possible effects of the unresolved matter on the comparability of the current period's figures and the corresponding figures.

In the instant case, if Param Limited does not correct the treatment of depreciation extent of ₹ 3.75 crore for previous year, the auditor will have to modify his report for both current and previous year's figures as mentioned above. If, however, the figures and provisions are corrected, the auditor need not refer to the earlier year's modification.

- (c) **Written Representations:** As per SA 540, "Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures", the auditor shall obtain written representations from management and, where appropriate, those charged with governance whether they believe significant assumptions used in making accounting estimates are reasonable.

SA 580, "Written Representations" discusses the use of written representations. Depending on the nature, materiality and extent of estimation uncertainty, written representations about accounting estimates recognised or disclosed in the financial statements may include representations:

- (i) About the appropriateness of the measurement processes, including related assumptions and models, used by management in determining accounting estimates in the context of the applicable financial reporting framework, and the consistency in application of the processes.
- (ii) That the assumptions appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures.
- (iii) That disclosure related to accounting estimates are complete and appropriate under the applicable financial reporting framework.
- (iv) That no subsequent event requires adjustment to the accounting estimates and disclosures included in the financial statements.

2. (a) **Acceptance and Continuance of Client Relationships and Specific Engagements:** As per SQC 1, "Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements", the firm should establish policies and procedures for the acceptance and continuance of client relationships and specific engagements, designed to provide it with reasonable assurance that it will undertake or continue relationships and engagements only where it is competent to perform the engagement and has the capabilities, time and resources to do so.

In the given case, JPG & Associates, Chartered Accountants, statutory auditors of VS Limited for the last three years, came to know that the company has expanded its operations into a new segment as well as new geography. JPG & Associates does not possess the necessary expertise for the same, therefore, JPG & Associates wish to withdraw from the engagement and client

relationship. Policies and procedures on withdrawal from an engagement or from both the engagement and the client relationship address issues that include the following:

Discussing with the appropriate level of the client's management and those charged with its governance regarding the appropriate action that the firm might take based on the relevant facts and circumstances.

If the firm determines that it is appropriate to withdraw, discussing with the appropriate level of the client's management and those charged with governance withdrawal from the engagement or from both the engagement and the client relationship, and the reasons for the withdrawal.

Considering whether there is a professional, regulatory, or legal requirement for the firm to remain in place, or for the firm to report the withdrawal from the engagement, or from both the engagement and the client relationship, together with the reasons for the withdrawal, to regulatory authorities.

Documenting significant issues, consultations, conclusions, and the basis for the conclusions.

JPG & Associates should address the above issues before deciding to withdraw.

(b) Key Steps for Auditors in a Changing Technology Environment

As auditors obtain an understanding of the impact of technology on a company's business, its systems of internal control, and its financial reporting. Some key steps to be taken by the auditor include the following:

- Maintain sufficient professional skepticism when reviewing management's risk assessment for new systems.
- Understand the direct and indirect effects of new technology and determine how its use by the entity impacts the auditor's overall risk assessment.
- Understand how the technologies impact the flow of transactions, assess the completeness of the in-scope ICFR systems, and design a sufficient and appropriate audit response.

- Assess the appropriateness of management's processes to select, develop, operate, and maintain controls related to the organization's technology based on the extent the technology is used.

(c) Failure to Exercise Reasonable Care and Skill: Clause (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949 states that a Chartered Accountant in practice shall be deemed to be guilty of professional misconduct, if he does not exercise due diligence, or is grossly negligent in the conduct of his professional duties.

In the given case, CA. T did not detect any fraud. However, the C & AG audit staff, during their routine inspection, found that the chief cashier of the company committed fraud in debtor's ledger and absconded with the amount.

Apparently, it appears that the auditor did not exercise proper skill and care and that he performed his work in an improper manner. In this matter, the test for auditor's liability lies in whether he has applied reasonable care, skill and caution called for in the circumstances of the case and whether he reasonably used all the information that he came across during the audit.

The auditor should have been highly concerned about the cashbook's state due to the unexpected disappearance of the head cashier. This unexplained absence is a major red flag and demands a thorough investigation by the auditor.

As per SA 240, "The auditor's responsibilities relating to fraud in an audit of financial statements", it can be concluded that the auditor did not plan and perform the audit with an attitude of professional skepticism. Thus, having regard to this that fraud has actually taken place during the year committed by the absconding cashier, it is reasonable to think that prima facie there is a case against the auditor for gross negligence.

As it appears from the facts of the case, CA. T has been grossly negligent in performing his duties which constitutes professional misconduct. Thus, such instances require reference to Disciplinary Committee of the Council of the Institute.

- 3. (a)** As per SA 530, "Audit Sampling", the auditor shall evaluate:
- (a) The results of the sample; and

- (b) Whether the use of audit sampling has provided a reasonable basis for conclusions about the population that has been tested.

In the given case, Ridhi concludes that audit sampling has not provided a reasonable basis for conclusions about the population that has been tested, Ridhi may:

- (I) request management to investigate misstatements that have been identified and the potential for further misstatements and to make any necessary adjustments; or
- (II) tailor the nature, timing and extent of those further audit procedures to best achieve the required assurance. For example, in the case of tests of controls, the auditor might extend the sample size, test an alternative control or modify related substantive procedures.

(b) The areas of advances which need to be verified are as under:

- i. Interest rates fed in the system need to be verified with respect to corresponding sanction letters. It would help ensure that the correct rate of interest is fed into the system and interest is applied properly at stipulated intervals on advances.
- ii. Processing fees in respect of freshly sanctioned advances and renewed limits need to be levied in accordance with bank guidelines and these need to be verified. Any revision in processing fees from time to time has to be given effect to in accordance with circulars/manual of bank.
- iii. Sanction of cash credit limits is generally accompanied with stipulation to submit stock statements. Non-submission of stock statements can involve levying of penal interest. Verification of this aspect is required.
- iv. Verification of overdue interest on export bills purchased and packing credit facilities for overdue period.
- v. Verification of charges/commission in respect of letters of credit issued in accordance with Bank's circulars/manual.

(c) Disclosure of Material Facts: A Chartered Accountant in practice is deemed to be guilty of professional misconduct under Clause (5)

of Part I of the Second Schedule if he “fails to disclose a material fact known to him which is not disclosed in a financial statement but disclosure of which is necessary to make the financial statement not misleading”.

In the given case, Mr. Anuj was aware of some part of the expenses not applied towards the object i.e. contraventions and irregularities committed by the trust as these were referred to in the separate report given by him to the Board of Trustees of the company. However, he issued an audit report without any qualification is not in order.

Therefore, CA Anuj is deemed to be guilty of professional misconduct.

4. (a) (i) Matters to be reported by Mr. Sodi as per CARO, 2020 are as follows:-

According to Clause (i) (d) of Para 3 of CARO 2020, the auditor is required to report whether the company has revalued its Property, Plant and Equipment (including Right of Use assets) or intangible assets or both during the year and, if so, whether the revaluation is based on the valuation by a Registered Valuer; specify the amount of change, if the change is 10% or more in the aggregate of the net carrying value of each class of Property, Plant And Equipment or intangible assets;

In the given situation, Capital Limited has revalued one of the Plant and Equipment taken on a lease ('right of use' asset) based on the valuation by a registered valuer. The amount of change in the value of such Plant and Equipment is ₹ 35 lakh. As the net carrying value of Plant and Equipment in aggregate was changed from ₹ 3 crore to ₹ 3.35 crore i.e. change was 10% or more.

Thus, the auditor is required to report the amount of change of ₹ 35 lakh in accordance with Clause (i) (d) of Para 3 of CARO 2020.

- (ii) As per Clause (ii) (b) of Para 3 of CARO 2020, the auditor is required to report whether during any point of time of the year, the company has been sanctioned working capital limits in

excess of five crore rupees, in aggregate, from banks or financial institutions on the basis of security of current assets; whether the quarterly returns or statements filed by the company with such banks or financial institutions are in agreement with the books of account of the Company, if not, give details;

In the instant case, Capital Limited has been sanctioned a cash credit limit of ₹ 5.10 crore by BDD Bank during the year under consideration, which is exceeding the prescribed limit of ₹ 5 crore based on the security of current assets. Further, quarterly returns have also been filed by the company with the BDD bank in this connection which is in agreement with Books of Accounts.

In view of the above, the auditor is required to report the same in accordance with Clause (ii) (b) of Para 3 of CARO 2020.

(b) Principle 3 – Promote well-being of all employees including those in the value chain:

The third principle relates to all the initiatives an entity has to take for the benefit of its employees from the point of view of their dignity, health, well-being.

The essence of the core elements associated with the principle is:

- a) The entity should ensure compliance with all regulatory requirements as far as employees are concerned.
- b) The entities are to respect the dignity of employee as a human being and should not restrict their freedom of associations, unions, and other participatory mechanism for collective bargaining of their rights and redressal of issues they face at the workplace.
- c) The entities should prevent all kinds of child labour, bonded labour, and any other forms of involuntary labour.
- d) The entities should have a system in which the work-life balance of the employees is not compromised.
- e) The businesses have to ensure timely payment of the worker's wages and compensation.

- f) The payment of the wages has to be as per the living wages, that can take care of the basic needs and provide economic security to the employees.
- g) The entities are responsible to create a workplace and work environment that is safe, hygienic, and comfortable for people to work for long durations.
- h) The skill development, career development and training of the workforce is another responsibility of the entities employing them.
- i) The creation of a workplace which is free of harassment and violence is also a responsibility of the entity.

- (c) **Auditor's duties in case of inconsistency in Audit evidence:** SA 705 "Modifications to the Opinion in the Independent Auditor's Report", deals with auditor's responsibility to issue an appropriate report in circumstances when, in forming an opinion in accordance with SA 700 (Revised), the auditor concludes that a modification to the auditor's opinion on the financial statements is necessary.

The decision regarding which type of modified opinion is appropriate depends upon:

- (a) The nature of the matter giving rise to the modification, that is, whether the financial statements are materially misstated or, in the case of an inability to obtain sufficient appropriate audit evidence, may be materially misstated; and
- (b) The auditor's judgement about the pervasiveness of the effects or possible effects of the matter on the financial statements.

Further, the auditor shall modify the opinion in the auditor's report when the auditor concludes that based on the audit evidence obtained, that the financial statements as a whole are not free from material misstatement:

In the present case, during the course of the audit, CA. Suchi obtained certain audit evidence which was not consistent with the affirmation made in financial statements. Therefore CA. Suchi should modify her report in accordance with SA 705 as per the circumstances of the case.

- CA. Suchi shall express Qualified opinion when, having obtained sufficient appropriate audit evidence, she concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements.
 - CA. Suchi shall express an Adverse opinion, where the auditor, having obtained sufficient appropriate evidence, concludes that misstatements, individually, or in the aggregate, are both material and pervasive to the financial statements.
5. (a) According to SA-200, “Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing”, the Audit Risk is a risk that Auditor will issue an inappropriate opinion while Financial Statements are materially misstated.

Audit Risk has two components namely: Risk of material Misstatement and Detection Risk.

The relationship can be defined as follows.

$$\text{Audit Risk} = \text{Risk of material Misstatement} \times \text{Detection Risk}$$

Risk of material Misstatement: - Risk of Material Misstatement is anticipated risk that a material Misstatement may exist in Financial Statement before start of the Audit. It has two components namely Inherent risk and Control risk.

The relationship can be defined as

$$\text{Risk of material Misstatement} = \text{Inherent risk} \times \text{control risk}$$

Inherent risk: it is a susceptibility of an assertion about account balance; class of transaction, disclosure towards misstatements which may be either individually or collectively with other Misstatement becomes material before considering any related internal control which is 40% in the given case.

Control risk: it is a risk that there may be chances of material Misstatement even if there is a control applied by the management and it has prevented defalcation to 75%.

Hence, control risk is 25% (100%-75%)

Risk of material Misstatement: Inherent risk X control risk i.e. 40% X 25% = 10%

Chances of material Misstatement are reduced to 10% by the internal control applied by management.

Detection risk: It is a risk that a material Misstatement remained undetected even if all Audit procedures were applied, Detection Risk is $100 - 60 = 40\%$

In the given case, overall Audit Risk can be reduced up to 4% as follows:

Audit Risk: Risk of Material Misstatement X Detection Risk = $10 \times 40\% = 4\%$

(b) Applicability of Provisions of Internal Audit: As per section 138 of the Companies Act, 2013, following class of companies (prescribed in Rule 13 of Companies (Accounts) Rules, 2014) shall be required to appoint an internal auditor or a firm of internal auditors, namely:-

(A) every listed company;

(B) every unlisted public company having-

- (1) paid up share capital of fifty crore rupees or more during the preceding financial year; or
- (2) turnover of two hundred crore rupees or more during the preceding financial year; or
- (3) outstanding loans or borrowings from banks or public financial institutions exceeding one hundred crore rupees or more at any point of time during the preceding financial year; or
- (4) outstanding deposits of twenty five crore rupees or more at any point of time during the preceding financial year; and

(C) every private company having-

- (1) turnover of two hundred crore rupees or more during the preceding financial year; or

- (2) outstanding loans or borrowings from banks or public financial institutions exceeding one hundred crore rupees or more at any point of time during the preceding financial year.

In the given case, IDI Limited is a listed company. As per section 138 of the Companies Act, 2013, every listed company is required to appoint an internal auditor or a firm of internal auditors. Thus, in view of the above, IDI Limited is required to appoint an internal auditor.

Further, TIJ Limited is unlisted public company. The company is having ₹ 60 crore as equity share capital which is exceeding the prescribed limit of rupees fifty crore as per section 138. Thus, TIJ Limited is required to appoint an internal auditor as per section 138 of the Companies Act, 2013.

MIN Limited is unlisted private company and having ₹ 60 crore as equity share capital, ₹ 190 crore as turnover and ₹ 50 crore loan from Bank and PFI. In view of provisions of section 138 of the Companies Act, 2013 discussed above, all the limits are below the prescribed limit for a private company. Therefore, MIN Limited is not required to appoint an internal auditor.

It can be concluded that IDI Limited and TIJ Limited is required to appoint the internal auditor as per the provisions of the Companies Act, 2013 whereas MIN Limited is not required to do the same.

- (c) **Sharing Professional Fees with Registered Valuer:** As per Clause (3) of Part I of the First Schedule to the Chartered Accountants Act, 1949, a Chartered Accountant will be guilty of professional misconduct if he accepts or agrees to accept any part of the profits of the professional work of a person who is not a member of the Institute.

A member cannot share his fees with a non-member similarly he is also not permitted to receive and share the fees of others except for sharing with member of such professional body or other person having such qualification as may be prescribed (Regulation 53A of the Chartered Accountants Regulations, 1988) by the council.

Under the Regulation 53A of the Chartered Accountants Regulations, 1988, registered valuer is not included.

In the instant case Mr. Rishi, who is a newly qualified Chartered Accountant in practice entered into an agreement with Mr. Krish, a qualified and experienced registered valuer, to share 18% professional fees for all case of valuation referred to him by CA. Rishi. CA. Rishi also received ₹ 1,15,000 for the same from Mr. Krish. Thus, CA. Rishi will be held guilty for misconduct under clause (3) of Part I of the First Schedule to the Chartered Accountants Act, 1949.

6. (a) As per SAE 3400, "The Examination of Prospective Financial Information", when determining the nature, timing and extent of examination procedures, the auditor should consider matters such as:
- (i) the knowledge obtained during any previous engagements;
 - (ii) management's competence regarding the preparation of prospective financial information;
 - (iii) the likelihood of material misstatement;
 - (iv) the extent to which the prospective financial information is affected by the management's judgment;
 - (v) the sources of information considered by the management for the purpose, their adequacy, reliability of the underlying data, including data derived from third parties, such as industry statistics, to support the assumptions;
 - (vi) the stability of entity's business; and
 - (vii) the engagement team's experience with the business and the industry in which the entity operates and with reporting on prospective financial information.

Or

As per SRE 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", when in the auditor's judgment, those charged with governance do not respond appropriately within a reasonable period, the auditor should consider:

- (a) Whether to modify the report or
- (b) The possibility of withdrawing from the engagement and
- (c) The possibility of resigning from the appointment to audit the annual financial statements.

In the given case, CA. Tripti who was conducting review of the quarterly financial information of a company, communicated the matter to the CFO and audit committee. However, no response was received even after waiting for a reasonable time. In such case, she has above mentioned options as per SRE 2410.

(b) Mr. Nandkishore has violated following provisions of the Chartered Accountants Act, 1949:

- (i) As per Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949, a Chartered Accountant in practice shall be deemed to be guilty of professional misconduct, if he solicits clients or professional work either directly or indirectly by circular, advertisement, personal communication or interview or by any other means.

In this connection, members sponsoring activities relating to Corporate Social Responsibility may mention their individual name with the prefix “CA”. However, mentioning a firm’s name or CA Logo is not permitted.

An event relating to Corporate Social Responsibility was sponsored by NK & Associates, whereby in the sponsorship banner, name of Mr. Nandkishore as ‘CA Nandkishore, Proprietor, NK & Associates’ was mentioned. Thus, firm’s name was mentioned which is not allowed and thus, Mr. Nandkishore has violated the restriction imposed under Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949.

- (ii) As per Clause (3) of Part II of the Second Schedule to the Chartered Accountants Act, 1949, a member of the ICAI shall be deemed to be guilty of professional misconduct, if he includes in any information, statement, return or form to be submitted to the Institute, Council or any of its Committees, Director (Discipline), Board of Discipline, Disciplinary

Committee, Quality Review Board or the Appellate Authority, any particulars knowing them to be false.

Mr. Nandkishore in the statement of appeal submitted with the Appellate Authority mentioned some facts knowing them to be false and thus, he has violated the restriction imposed under Clause (3) of Part II of the Second Schedule to the Chartered Accountants Act, 1949.

- (c) **Steps involved in the verification of assets and liabilities included in the Balance Sheet of the borrower company which has been furnished to the Bank** - The investigating accountant should prepare schedules of assets and liabilities of the borrower and include in the particulars stated below:

- (i) Fixed assets - A full description of each item, its gross value, the rate at which depreciation has been charged and the total depreciation written off. In case the rate at which depreciation has been adjusted is inadequate, the fact should be stated. In case any asset is encumbered, the amount of the charge and its nature should be disclosed. In case an asset has been revalued recently, the amount by which the value of the asset has been decreased or increased on revaluation should be stated along with the date of revaluation. If considered necessary, he may also comment on the revaluation and its basis.
- (ii) Inventory - The value of different types of inventories held (raw materials, work-in-progress and finished goods) and the basis on which these have been valued.

Details as regards the nature and composition of finished goods should be disclosed. Slow-moving or obsolete items should be separately stated along with the amounts of allowances, if any, made in their valuation. For assessing redundancy, the changes that have occurred in important items of inventory subsequent to the date of the Balance Sheet, either due to conversion into finished goods or sale, should be considered.

If any inventory has been pledged as a security for a loan the amount of loan should be disclosed.

- (iii) Trade Receivables, including bills receivable - Their composition should be disclosed to indicate the nature of different types of debts that are outstanding for recovery; also whether the debts were being collected within the period of credit as well as the fact whether any debts are considered bad or doubtful and the provision if any, that has been made against them.

Further, the total amount outstanding at the close of the period should be segregated as follows:

- (i) debts due in respect of which the period of credit has not expired;
- (ii) debts due within six months; and
- (iii) debts due but not recovered for over six months.

If any debts are due from directors or other officers or employees of the company, the particulars thereof should be stated. Amounts due from subsidiary and affiliated concerns, as well as those considered abnormal should be disclosed. The recoveries out of various debts subsequent to the date of the Balance sheet should be stated.

- (iv) Investments - The schedule of investments should be prepared. It should disclose the date of purchase, cost and the nominal and market value of each investment. If any investment is pledged as security for a loan, full particulars of the loan should be given.
- (v) Secured Loans - Debentures and other loans should be included together in a separate schedule. Against the debentures and each secured loan, the amounts outstanding for payments along with due dates of payment should be shown. In case any debentures have been issued as a collateral security, the fact should be stated. Particulars of assets pledged or those on which a charge has been created for re-payment of a liability should be disclosed.

- (vi) Provision of Taxation - The previous years up to which taxes have been assessed should be ascertained. If provision for taxes not assessed appears to be inadequate, the fact should be stated along with the extent of the shortfall.
- (vii) Other Liabilities - It should be stated whether all the liabilities, actual and contingent, are correctly disclosed. Also, an analysis according to ages of trade payables should be given to show that the company has been meeting its obligations in time and has not been depending on trade credit for its working capital requirements.
- (viii) Insurance - A schedule of insurance policies giving details of risks covered, the date of payment of last premiums and their value should be attached as an annexure to the statements of assets, together with a report as to whether or not the insurance-cover appears to be adequate, having regard to the value of assets.
- (ix) Contingent Liabilities - By making direct enquiries from the borrower company, from members of its staff, perusal of the files of parties to whom any loan has been advanced those of machinery suppliers and the legal adviser, for example, the investigating accountant should ascertain particulars of any contingent liabilities which have not been disclosed. In case, there are any, these should be included in a schedule and attached to the report.

Finally, the investigating accountant should ascertain whether any application for loan to another bank or any other party has been made. If so, the result thereof should be examined.