

*Roll No. ....*

**OPEN BOOK EXAMINATION**

*Time allowed : 3 hours*

*Maximum marks : 100*

*Total number of questions : 6*

*Total number of printed pages : 12*

**NOTE :** *Answer ALL Questions.*

### **PART-I**

#### **1. Case Study :**

ABC Co. Ltd. is a steel manufacturing company having its registered office in NOIDA (UP) and its main plant facilities at Raipur (CG) and several other plants at various locations in India. Company's business has increased manifold in last two years. All purchases are centralized and orders are placed by the MD office and payments are also made by head office. It results in delays in ordering and delivery of goods and payments to suppliers and also resulting into delays in project completions. Company's main customers are Public Sector Undertakings. Timely supply of materials and execution of projects are critical not only to avoid cost and time overruns but to avoid huge penalties and fines. Therefore, now company wants to decentralize its processes and to get studied and evaluated all the processes. Company wants to get implemented sound internal control systems and risk management in its all-critical processes. Company's statutory auditors in their recent audit report, have raised serious concern that has caught attention of lenders and other stakeholders. Statutory Auditors have pointed out lack of segregation of duties, lack of periodical verification of assets and non-reconciliation of debtors and creditors, amongst other missing operational controls.

Risk management relates to how an organization sets objectives, then identifies, analyses, and responds to those risks that could potentially impact its ability to realize its objectives.

Management performs risk assessment activities as part of the ordinary course of business

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in each of these categories. Examples include strategic planning, marketing planning, capital planning, budgeting, hedging, and incentive pay out structure.

Internal controls are measures, put in place by management to ensure reliability of financial reporting, promote efficiency and effectiveness in operations and compliance with laws.

The objective of an internal audit is to evaluate compliance with company's laid down procedures, applicable laws, and international standards. Data and reports are reviewed to assure consistency and compliance. Thus, internal audit provides a value-added service to management and to the board of directors by detecting and correcting weaknesses in a process before external audits discover them. This can protect the organization from loss of reputation and regulatory fines.

Company has engaged you, as an Internal Auditor. In the light of the above, answer the following questions :

- (a) What key steps you would take to establish internal controls in the company ?  
(5 marks)
- (b) Narrate the key aspects you would examine to evaluate effectiveness and efficiency of internal controls.  
(5 marks)
- (c) Explain the role of internal audit in internal control and in risk management.  
(5 marks)

2. (a) You are in the process of evaluating the internal controls of a company by focusing on controls operating for creditors from whom various goods are being purchased by the company. In this respect, you want to collect information about existence, operation and efficiency of internal controls in the company. You plan to prepare a set of questions to be circulated amongst the executives and employees of the company for their response. Which method is being contemplated by you for evaluating internal controls ?

Prepare a set of few questions regarding controls operating for creditors.

(5 marks)

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- (b) Planning is not a discrete phase of an audit, but rather a continual and iterative process that often begins shortly after the completion of the previous audit and continues until the completion of the current audit engagement. Planning includes the need to consider certain matters prior to the auditor's identification and assessment of the risks of material misstatement. Explain and discuss the key matters that need to be considered by the auditor prior to the identification and assessment of the risks of material misstatement.

(5 marks)

- (c) (i) After an illustrious career in Indian Audit & Accounts Service for about 25 years, Parth, a postgraduate in law, has taken voluntary retirement from government service. Being in fine spirits, he wants to take responsibility as Chief Internal Auditor in the corporate sector. On looking at attractive compensation packages, he applied for such position in a leading listed company engaged in oil refining business. The Board of company is keen on him due to his impressive credentials.

Can he be appointed in this leading position of said company ? Explain with reference to the legal provisions of the Companies Act, 2013.

(2 marks)

- (ii) D, is an internal auditor of a listed company. The company wants to make sure that it is in compliance with SEBI requirements at all times and it is never on the wrong side of the law. It asks its internal auditor to manage its compliance tracking system including directly corresponding with regulator in this regard. The profile and scope of internal audit agreed at time of appointment included “compliance with laws and regulations.”

Can he perform such type of activities in capacity of internal auditor of company ?

(3 marks)

3. G N & Company, a newly established firm of Company Secretaries, has been appointed as internal auditors of a large manufacturing company. Partners of the firm have no prior experience of handling such large internal audit assignment independently. They are keen to know how to proceed for audit. G, Partner in Charge of the Internal Audit has undergone his practical training with you and has approached you for your invaluable guidance and mentoring in this regard.

You, a senior partner of a well-established firm of Company Secretaries, told him that internal auditors should possess certain skills and competence, in addition to being independent and objective in their assessments. You advised him that effective planning is key to success for every project by quoting a well-known saying that if you fail to plan, you plan to fail. You also advised that internal auditors must plan and conduct meetings with various stakeholders including board of directors, senior management and others, to understand the business environment and their requirements.

Answer the following questions of G, Partner of the G N & Company :

- (a) Explain what skills and competence internal auditors must possess ?  
(5 marks)
- (b) Mention the sources wherefrom G N & Co. would obtain knowledge about company's business and its environment ?  
(5 marks)
- (c) Emphasize in brief why assessment of internal control environment is so important and advise the factors to be kept in mind while assessing the control environment of the company.  
(5 marks)

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*Attempt all parts of either Q. No. 4 or Q. No. 4A*

4. (a) ABC Foundation, a registered NGO based in Mumbai, launched a nationwide donation drive during the year 2024-25 to support victims of a flood in Uttarakhand. The NGO received substantial donations from individuals, corporates, and international donors. These funds were then sent to different NGOs operating in Uttarakhand, who were actively involved in flood relief work.

ABC Foundation has appointed you to audit its accounts for the year in which it collected and remitted donations for flood victims. Draft the audit programme for audit of receipts of donations and remittance of the collected amount to different NGOs. Mention three points each, peculiar to the situation, which you would like to incorporate in your audit programme for audit of said receipts and remittances of donations.

(5 marks)

- (b) Rise of digital platforms has created new opportunities for financial institutions to innovate and create new products and services, such as mobile banking and online investment platforms. Internal auditors need to be able to identify and evaluate these opportunities and ensure that they are pursued in a way that is consistent with the organization's strategy and objectives. Further, use of latest technologies in systems in organizations is an emerging issue in internal audit as it presents new risks and challenges that internal audit must address.

In this context, what are the areas internal audit should focus on, when auditing the use of such technologies ?

(5 marks)

- (c) ABC Ltd., engaged in the manufacturing of various products in its factory, is concerned with shortage in production and there arose suspicion of inventory fraud.

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You are appointed by ABC Ltd. to evaluate the options for verifying the process to reveal fraud and the corrective action to be taken. As an investigating accountant what will be your areas of verification and the procedure to be followed for verification of defalcation of inventory ?

(5 marks)

**OR (Alternate to Q. No. 4)**

- 4A.** (a) XYZ Ltd. has appointed PK, to conduct their internal audit for the new financial year. The Audit committee requested PK, to present a detailed report on their findings and areas where immediate action is needed to mitigate critical risks.

What should be the content of the internal audit report to address this requirement of the Audit Committee ? Answer with reference to the Standard on Internal Audit (SIA) 370.

(5 marks)

- (b) Rupee Bank Ltd. is suffering from huge number of NPAs. During the month of April 2025, the management of the bank decided to sell some of its NPAs. Bank is doing this exercise for the first time. The management has selected following NPA accounts for sale :

Name	NPA since F.Y.	Amount (Rs. in Lakhs)
ABC Ltd.	2020-21	28.34
AEF Pvt. Ltd.	2019-20	56.65
VXY Fabric Corporation	2022-23	38.60
KOT Iron Works	2023-24	41.70
JKL & Associates	2021-22	60

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Being internal auditor of the bank, you are required to scrutinize the proposal made by the bank and help them by providing specific points to be considered.

(5 marks)

- (c) Modern business operations are becoming increasingly complex, particularly in large and diversified organizations, which may make it difficult for internal auditors to understand the entire process and to identify potential risks. It arises due to the multitude of processes, systems and business units within an organization, making it difficult to understand how they all fit together and how they impact the organization's objectives. In this context, to overcome this challenge in internal audits, what are the steps organizations should take ?

(5 marks)

## PART-II

### 5. Case Study :

ABC Pharmaceuticals Ltd., a listed company, is under forensic investigation following the resignation of its statutory auditors. The auditors cited concerns over financial irregularities. An internal audit revealed the following :

- Multiple vendor payments just under the ₹ 10 lakh approval threshold.
- Repetitive vendor invoice amounts ending in specific digits.
- Round-number expense reimbursements from a group of employees.
- Suspicious fund transfers through group companies to offshore accounts and back to related parties (possible layering).
- Email evidence of backdated invoices and manipulated purchase orders.

As a forensic auditor, answer the following questions :

- (a) How would Benford's Law be applied to detect irregularities in vendor and reimbursement transactions ? What anomalies would be considered as red flags ?
- (b) Explain the concept of layering in forensic audit. How would you trace and establish a layering mechanism in the fund transfers ?
- (c) What data analytics techniques can be used to detect anomalies or collusion in Employee Reimbursements ?
- (d) How would you preserve and analyze email evidence ? What role does email data play in proving manipulation ?
- (e) Suggest internal audit measures and controls that could have helped in identifying these red flags earlier.

(4+4+4+4+4=20 marks)

*Attempt all parts of either Q. No. 6 or Q. No. 6A*

6. (a) Red flags are systems or indications of situations of Fraud. A red flag is a signal and a set of circumstances that are something unusual in nature.

During the statutory audit of a branch of public sector bank, auditors have following, amongst others, observations :

- Branch Manager and joint-custodians (JCs) of cash hardly had any leave during the year.
- Branch Manager and JCs arrives always early and goes late and works till late evening.



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- No cash shortages have been shown on any day, while excess cash has been shown on few days.
- They are in practice of submitting the TA Bills, after several months and making out of pocket expenses.
- They have been reluctant to provide the required information to the auditors and have been never cooperative to produce the required records timely.
- They have been disputing on audit issues.
- Non-compliance of regulatory inspection reports persisting since long and had no respect to regulations and bank's policies/ procedures.

You are required to identify Red Flags and Green Flags, if any upon the above facts.

(5 marks)

- (b) What do you understand by digital Incident Response (IR) ? Describe in brief the key steps of the process.

(5 marks)

- (c) Data Mining Techniques have become increasingly important in fraud detection due to the sheer volume of data that needs to be processed and analyzed in order to identify potentially fraudulent behaviors.

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Explain in brief which data mining technique would be most appropriate in the following circumstances :

- (i) To identify abnormal pattern of logging the systems out of office hours.
- (ii) To identify potentially fraudulent behaviour based upon series of criteria.
- (iii) To identify complex pattern of fraudulent behaviour that may not be immediately apparent.
- (iv) To identify suspicious language/emotional tone in emails used in frauds.

(2+1+1+1=5 marks)

(d) You are required to identify the types of cybercrimes from the given situations :

- (i) An email that appears to originate from one source but actually has been sent from another source.
- (ii) Making the websites/services unavailable.
- (iii) Writing readymade computer programs to attack the computer and get enjoyment out of destruction.
- (iv) Changing the data either before or during entry into the computer systems.
- (v) Pretending to be someone he is actually not by creating fake email.

(5 marks)

**OR (Alternate to Q. No. 6)**

- 6A. (a) PQR Ltd. is a listed company having turnover of ₹ 100 crore & plans expansion by installation of new machines at new building having total additional project cost of ₹ 40 crore.

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Purpose	₹ (Crores)
For Building	20
For Machinery	17
For Working Capital	3
<b>Total</b>	<b>40</b>

Project gets implemented in 2024-25 and one of the accountants reports to the Managing Director that some suspicious transactions are noticed in the purchase of building material. But the Management is confused as to whether they should get an Audit or Forensic Audit done for the same.

Advise Management about the difference in Forensic Audit and Audit.

(5 marks)

- (b) Tarun is performing a forensic accounting engagement involving gathering of evidence in relation to suspected fraud of substantial amount in a company. He has been appointed under the terms of a contractual agreement with the company.

The company operates in an electronic environment. While performing engagement, his team has gathered evidence from electronic records in Enterprise Resource Planning system (ERP), messages in company's e-mail system and also from system logs and audit trails generated by company's computer systems. However, while doing so, the team has failed to take care of aspects such as keeping records of each person in team gathering relevant evidence, date and time of collection and storage of such evidence. What implications would it have on forensic accounting engagement ?

(5 marks)

- (c) ABC Limited engaged in manufacturing of floor coverings has taken a Product Liability Insurance policy (PLI). Such a policy covers risk of liabilities for damages for bodily injury resulting from sale and distribution of floor coverings by vendors of ABC Limited's products. The policy is also subject to "claim series" clause. A Claims Series event is a series of two or more claims arising from one specific common cause which are attributable to the same fault in design or manufacture of products or supply of the same products showing the same defect. A claim series event is deemed to be one claim under the terms and conditions of PLI policy.

The company has been asked to shell out damages of ₹ 3 crores due to supply of faulty products to one of its vendors. The vendor had sold floor coverings to a 5-star hotel which has alleged that harmful chemicals used in dyeing of floor coverings have resulted in skin ailments to some of its guests.

Being in capacity of Forensic Professional appointed by insurance company, what special issues would you keep in mind while dealing with claims involving PLI policy covering such matters ?

(5 marks)

- (d) HIJ Industries is a leading textile manufacturing listed company. In the course of evidence collection and analysis, it was observed that the company is involved in siphoning of funds through payments to shell companies. Hence, SEBI appointed K & Associates, as forensic auditors, to identify the alleged fraud in the company. Explain in brief the steps to be taken by K & Associates in the process of forensic audit.

(5 marks)

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