

**Indicative Model Question Paper**  
**Professional Programme**  
**New Syllabus 2022**  
**Internal and Forensic Audit**

Roll No.....

Max Marks: 100

**Time allowed: 3 Hours**

Note: Answer All Questions

**Part I - Internal Audit (60 Marks)**

**Question 1**

- a) ABC Ltd. (major player in automobile industry) appoints M/s Sahni and Co. to conduct an Internal Audit. Mr. A, an article assistant in M/s Sahni and Co., while conducting an internal audit undertake informal oral inquiries with staff of ABC Ltd. During this process, one of the staff member of ABC Ltd. reveals to Mr. A about a cash related fraud committed by cashier. In order to go deep to reveals about the fraud, Mr. A had a discussion with senior officer in Accounts department and concluded that cash related fraud has been committed by cashier. Mr. A asked for the written confirmation from the staff and officers in the accounts department but both had refused to give any written confirmation and denied that fraud have been committed.

What will be the next course of action by Mr. A as an Internal Auditor?

**(8 Marks)**

- b) Aruna Ltd, a listed company, headquartered in Mumbai, Maharashtra has appointed M/s Rao and Co (Practicing Company Secretaries) to conduct an internal audit of the company. The internal auditor, during the review of tax liabilities of GST with respect to goods and services provided during the period under audit, reveals that a total of around 1000 transactions (valued around Rs. 1500 crore) goods and services have been provided wherein incorrect GST rates were applied (9% has been charged instead of 18%) resulting into excess GST liability.

In this situation, what should be the next course of action of the Internal Auditor?

**(7 Marks)**

## Question 2

- a) Moon Limited, a listed company, headquartered in delhi, is in the business of providing hi-tech consulting services in India as well as globally. It has around 135 client base in India and around 45 clients outside India to whom it provides hi-tech consulting services inclusion technology based solution.

Moon ltd. has around 1000 employees and having in house Internal Audit Department. Further, it appoints Mr. Sujan and Co. (Practicing Company Secretary) for conducting internal audit. During the period under review, the internal auditor (Mr. Sujan) observed that there are few employees to whom appointment letter has not been issued and further there are no mechanism to capture in and out time of those employees.

This matter has been brought to the notice of the management by the internal auditor. Management stated that these employees are trainee for 2-3 months and therefore appointment letter has not been issued to them. Further, very small amount is paid as stipend and therefore, in-time and out-time of the trainees are not captured.

In this situation, what should be the next course of action of the Internal Auditor?

**(8 Marks)**

- b) While conducting the Internal Audit of the Company, the internal auditor has observed the following while reviewing the employees official travelling expenses:
- i. Not able to trace the request and approval for travelling. Also, the travelling record does not reveals the reason of travel.
  - ii. Employees mostly travelled by their own vehicle and claimed reimbursement on the basis of kilometer travelled. No other supporting documents were attached to substantiate the travel actually performed.
  - iii. In case of travels performed by Air where boarding passes were missing as a proof of travel.

In this situation, what action should be taken by the Internal Auditor?

**(7 Marks)**

### Questions 3

- (a) A firm comprising of two partners who take active part in running the vegetable business, with two assistants. The firm has simple accounting system and does not need more than a cash and bank book to record. Expenses such as rent and insurance, Purchase of vegetables like cabbages, carrot, potatoes, onion etc. Sale of vegetables etc. The expenses and purchases are supported by two box files of “paid” and “unpaid invoices” and they have billing machine to record sales. As an internal auditor how would you ensure that sales and purchases were completely and accurately recorded?
- (b) The office manager controlled the company’s financial operations. She did payroll, accounts payable, invoicing and cash receipts. She rarely took time off, and even then, came back when they needed to run checks or payroll. The owner viewed her as key to running the business. What are your recommendations as an internal auditor of the organizations in view of evaluating Internal Control Mechanism?
- (c) ABC Pvt. Ltd. having Rs. 90 lacs paid-up capital, Rs. 5 crores reserves and turnover of last three consecutive financial years, immediately preceding the financial year under audit, being Rs. 50 crores, Rs. 175 crores and Rs. 300 crores, but does not have any internal audit system. In view of the management, the internal audit system is not mandatory. Comment?

(5 Marks Each)

*(Attempt Either Q. No. 4 OR 4A)*

### Questions 4

- a) Mr. ABC is the chief Internal Auditor of M/s XYZ Pharmaceuticals Private Limited. The company has spread its sales operations across 20 countries through Distributors and Dealers network. For the purpose of local connections and compliances, the Company has opened branch offices in each country. Apart from this, the Company has manufacturing facilities in India and China. For the purpose of manufacturing raw material, technology is imported from various countries including USA, France and Japan. The key statistics of the company are mentioned below:
1. Annual Turnover of the Company – Rs. 25,000 crores approx.
  2. Total Manpower – 8000 employees
  3. Total Branches – 18

Audit Committee has asked Chief Internal Auditor (CIA) to prepare audit plan for 3 years. Please suggest the steps to be followed by the CIA and prepare audit universe of the Company.

- b) XYZ advisors is a management consulting firm having 250 fortune company client base. The CEO of the company is concerned about high employee attrition rate in his company. He has given assignment to dig out the reason for such high attrition rate as well as way forward. What factors would an Internal Auditor consider while conducting such analysis?
- c) Briefly narrate the difference between Internal and Statutory Auditor?

(5 Marks Each)

#### Question 4A

- I. Internal auditor carried out a physical verification of Fixed Deposit Receipts on a surprise basis and tallied it with the Ledger balance. Finding no discrepancy the auditor submitted an assurance report. Finance head expressed the view that since this exercise was always carried out by the statutory auditors at the end of the year, this was a redundant exercise. What should be the response of Internal Auditor in this situation?
- II. State with reasons (in short) whether the following statements are correct or incorrect:
- “Audit Documentation”, the working papers are not the property of the auditor.
  - Purchase invoice is an example of internal evidence.
  - Sufficiency is the measure of the quality of audit evidence.
  - Inquiry alone is sufficient to test the operating effectiveness of controls.
  - Universe refers to the entire set of data from which a sample is selected and about which the auditor wishes to draw conclusions.
- III. The paid-up share capital X Private Ltd. as on 31.03.2023 is Rs. 1.50 crores. The reserves and surplus as on that date is Rs. 30 lakhs. The turnover of X Private Ltd as per Profit and loss account for financial years 2019-20, 2020-21 and 2021-22 are as follows:

Financial Year	Turnover (Rs. in crores)
2019-20	7
2020-21	12
2021-22	15

Will the company be exempt from CARO, 2020 for the financial year 2022-23?

(5 Marks Each)

## Part II – Forensic Audit (40 Marks)

### Question 5

Shree Capital, a 'NBFC', registered and having banking license to operate, perform and channelize the banking operation in the district of Kolhapur (Maharashtra). The banks headquarter is situated at Kolhapur and having 12 branches situated at various remote locations in the district of Kolhapur.

**Objectives:** The main objects of the Shree Capital is to provide crop agriculture loans (grapes loan) to the farmers (who involved in producing the grapes) in remote location in the district of Kolhapur. The loan granted to the farmers were without any collateral security and therefore categorized as personal loan.

**Financial Performance:** The Financial Statement of the Shree Capital showing the net profit (increasing trends) for last 4-5 years and reflecting Non-Performing Assets 'NPA' less than 0.5% in previous years .

On the other hand, the farmer's wealth conditions in the district of Kolhapur got worse during the last 4-5 years, due to crop destroyed on account of bad weather conditions.

**Preliminary Investigation:** Based on preliminary investigation, the following facts are revealed:

- i. The Kolhapur districts have two sugar factories. The local farmers also worked (part time) in these factories to earn their livelihood.
- ii. The financial condition of sugar factories are not good for last 4-5 years and the local banks have refused to provide loan assistance to the sugar factories.
- iii. Despite of financial crisis, the sugar factories smoothly carried out the production process.
- iv. Banks senior employees have good connect with the management team of the sugar factories.
- v. In the books of account of the banks, all the 12 EMI's for the year (with respect to loan granted to farmers) were collected on the last day of the previous year and not on monthly basis.
- vi. The personal wealth of the senior employees of the bank was increased 4 times in past 4-5 years.
- vii. The bank's documentation regarding the loan requisition form, sign etc. were properly maintained.

On the basis of the above, draw up a plan of action which you will adopt to fulfill your work to (suitable assumption may be made by you) indicate your approach in the following areas:

- (a) Detailed Methodology.
- (b) Findings of the case based on your methodology.
- (c) Limitations of the forensic report.
- (d) Legal steps that could be taken against NBFC, its subsidiaries and their directors.

**(5 Marks each)**

**(Attempt Either Q. No. 6 OR 6A)**

**Question 6**

- (a) Mr. X received an email from the Income Tax Dept., mentioning the following :

Dear Taxpayer,

You have filed your income tax return for the Assessment Year 2023-24 and a refund of Rs. 14,600 is payable to you. However, the account mentioned by you is incorrect and requires validation.

Please visit the following link in order to validate your account.

<http://jncometaxindiafiling.gov.com>

Note: Failure to validate your account number will lead to rejection of refund.

Regards Team : Income Tax Department

Pay tax honestly and contribute in Nation's Development

What Mr. X should do in the mentioned situation?

**(10 Marks)**

- (b) Arjun Ltd. is a registered supplier of spare parts of spinning mills and covered under the GST law. Their turnover for the year ended 31<sup>st</sup> March, 2022 is Rs. 800 crores and they have filed their return of income on 6<sup>th</sup> September, 2022.

Arjun Ltd. borrowed a working capital (cash credit limit) from a bank of Rs. 150 Crore. Arjun Ltd. regularly submit the month end closing stock statements of each month to bank without delay.

A bank suspects that the stock statements furnished by Arjun Ltd for the last 12 months do not reflect the true position and that they have been systematically furnishing statements showing higher quantities of various items of stock as compared to the actual quantity present in their godowns, and also that the values have been overstated.

The bank has appointed you as the forensic auditor. Explain, how will you go about gathering evidence and what are the documents, statements, returns, etc., you will go through to check the veracity of the stock statements furnished by the borrower?

**(10 Marks)**

**Question 6A**

- i. What is 'Red Flag' and 'Green Flag'? What are the indicators of 'Red and Green Flag'? Illustrate with examples.
- ii. Explain with example "Fraud Triangle".
- iii. What is Fraud?
- iv. Explain with examples 5 types of Cyber Crime?

**(5 Marks each)**