

Roll No.

OPEN BOOK EXAMINATION

Time allowed : 3 hours

Maximum marks : 100

Total number of questions : 6

Total number of printed pages : 9

NOTE : 1. Answer **ALL** Questions.

2. Suitable assumptions, if considered necessary, may be made while answering a question. However, such assumptions must be stated clearly.

1. Case Study :

Loan against gold jewellery is considered safe and secure. Many banks have started financing against the gold jewellery to their customers. They have also empanelled some jewellers of repute to assess the purity and weight of the gold ornaments so as to judge the quantum of advances to be made to the borrowers.

Based on the experiences of other banks, the Prime Mercantile Bank Ltd., also started financing against the gold jewellery. It's Board framed a policy for financing against the gold jewellery which *inter-alia* contains the eligibility criteria of empanelment of goldsmiths to assess the weight and purity of the gold content in the jewellery, identification of the borrower, maximum amount that can be given to a borrower and repayment period, measures of recovery in case of default of the borrower and other related issues.

At one of the small town branch in Rajasthan, a Branch Manager (BM) named A, was posted and he is known in his fraternity bankers, as aggressive marketer and booster of branch business. After A's joining at Rajathan branch the advances portfolio witnessed rapid rise from ₹ 50 lakh as of 31st March, 2018 to ₹ 125 lakh as at 31st December, 2018. The incremental advances figure consists of 90% of loan against jewellery. This success story of A was shared by his Regional Manager among other Branch Managers.

After the close of the financial year of 31st March 2019, the inspection department of the bank carried out the branch inspection and noted many irregularities, specifically in the portfolio

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of loan against jewellery, which includes the mounting NPA, major exposure in jewellery loan in the name of a particular borrower, non-verification/non-existence of the KYC documents of the borrowers, impurity in the gold held as collateral, poor analysis report of the gold by the empanelled Goldsmith, etc.

Later it also came into the light that the Branch Manager had a close proximity with the empanelled Goldsmith. This Goldsmith tried to escape as and when approached by the inspecting team to ask some queries. The inspecting team was surprised, how in a small town, the loan against jewellery portfolio increased tremendously in a very short period of time.

In the close vicinity of the branch, the crime relating to gold snatching, theft and burglary of the jewellery items increased tremendously as per news published in the local newspapers and crime reporting data of the police to the collector.

The Vigilance team of the central office of the bank was also smelling something wrong and was anxious to unearth fraud, if any, and approached you to carry out forensic audit/ investigation.

Based on the above facts, answer the following :

- (a) As a Forensic Auditor, what strategy you will adopt to carry out the audit and investigation ?
- (b) During the course of the forensic audit, you came to know that there was nexus between the empanelled Goldsmith and the Branch Manager. Further the burglary in that small area was on also on rise. How you will see these facts while carrying out the forensic audit and inspection.
- (c) Discuss the provisions of Indian Penal Code, 1860 and evaluate if the Branch Manager and Goldsmith be treated guilty under such act.
- (d) What can be the modus-operandi of the Branch Manager in the instant case ?

(10 marks each)

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2. (a) Sarla Textiles Ltd. (ST) was enjoying a cash credit (CC) limit of ₹ 20 lakh with XYZ bank. Initially this CC limit was of ₹ 1 lakh only during the financial year 2014-15. However, on account of the continuous sale rise and integrity of the proprietor the limit was gradually increased on an annual basis. Meanwhile Branch Managers were also changed and the incoming Branch Manager, never visited the business premises of ST.

Proprietor of ST actually diverted his business from cloth to construction, and shop activity was closed. However, the owner of ST fabricated the figures and was regularly submitting the stock statement and the annual accounts to the bank, reflecting the increased turnover and profit figures and was regular to deposit the interest amount in the account.

In June 2019, a new manager was appointed at the branch. The CC limit of the ST was also due for its renewal, however, the Branch Manager was reluctant to renew the papers only on the basis of the financial papers and insisted for the spot verification and on the basis of the address recorded in the books of the branch, visited the address. Branch Manager did not found shop at the aforementioned address. Branch Manager also enquired about the whereabouts of the ST from neighbourhood, but he was informed that they have not seen the owner and that such shop was shut several years ago.

The Branch Manager lodged FIR against the proprietor about the absconding of the borrower and sought further instructions form the Regional Officer of the Bank.

- (i) Based on the above facts, explain what went wrong in this case ?
(4 marks)
- (ii) Whether the action of the new Branch Manager in renewing the limits only after making the field visit, was justified ?

(2 marks)

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- (b) Regional office for ABC Bank have been receiving several complaints against a branch in Delhi and has reasons to believe that balance sheet of such branch was manipulated by window dressing including inflated branch expenses and that manager's integrity is doubtful. Also several cases of mis-selling of insurance policies were reported from the branch customers.

You have been appointed as Forensic auditor by the regional office, explain what procedures would you consider while conducting a forensic audit of such bank branch.

(6 marks)

3. (a) During the course of the assessment of M/s Chandni Enterprises (a Proprietorship firm), the Income tax officer, observed that the assessee has shown some credit entries (aggregating to ₹ 40 lakh) in his books of accounts. Explanations were called from the assessee, he informed that this amount has been borrowed from some his customers, but their address are not available. The parties who have given such advances to the firm occasionally visits the shop and demand for the interest amount only keeping the principal amount intact. The proprietor has shown such entries in the books of accounts relating to the interest payment (by way of cash payments below ₹ 10,000). On being interrogated by the assessing officer to submit the proof of deposit, addresses of the depositors and other details, the proprietor could not justify.

The assessing officer, thereafter, treating all the credit as income of the previous year and issued demand notice mentioning there in the amount of income tax, delayed interest, penalty for hiding of income.

Based on the above facts, evaluate and explain whether the action of the assessing officer is justified ?

(6 marks)

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- (b) BGI Ltd. came out with an Initial Public Offering (IPO) during the period of 11th July, 2019 to 14th July, 2019.

In the prospectus the company had disclosed nine objects of the IPO on which total expenses were estimated at ₹ 55.53 crore. After the collection of the IPO money and allotment of shares, the company informed the Stock Exchange on 14th November, 2019 that the IPO proceedings had been utilized as per the object of the issue. The SEBI, however found that the said funds were not utilized as mentioned in the prospectus and carried out the detailed investigations. The SEBI investigating official submitted the report of details of the amount raised and utilised which as as under :
(₹ in Crore)

Category	To be utilised as per the prospectus	Utilized as per the company	Utilized as per the investigating official of the SEBI
1. Setting up its owned corporate office at Noida	3.960	0.410	0.410
2. Relocation of branch office at Mumbai	5.936	4.024	1.524
3. Up-gradation of Digital post production studio	13.655	9.389	0.000
4. Investment in IT division	8.392	3.910	0.4000

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5. Expansion of R & D Technology	6.567	4.321	0.035
6. Repayment of bank borrowing	2.697	2.931	2.931
7. Working capital requirement	5.050	4.9106	2.396
8. General Corporate expenditure	6.500	2.115	0.855
9. Meeting the issue expenditure	2.774	2.690	2.690
Total	55.53	34.70	11.241

The investigating official further observed various irregularities as detailed below :

- (i) Wrong disclosure regarding the vendor's details and non-disclosures of new vendors and payment.
- (ii) Non-disclosure of purchase of office space at Kolkata and respective payments made to the sellers in this regard.
- (iii) Wrong disclosure regarding purchase order placed for the equipment.
- (iv) Investments in contradiction with prospectus.
- (v) Diversion of funds to promoters and promoter related entities.
- (vi) Diversion of IPO proceeds to traders. It was alleged that an amount of ₹ 10.53 crore of the IPO proceeds had reached two groups immediately after the receipt of the same by company either directly or indirectly which was used by these two groups in trading of the script of the company on the listing day itself.
- (vii) Failure by Audit Committee – The Audit Committee of the company failed to notice this fund diversion. It did not record anything in its minutes of the meeting and did not make any recommendations to the company.

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Based on the above facts, assess whether mentioning of wrong information/ hiding of material information in the prospectus is an offence under the Companies Act, 2013 and what are the penal consequences of such act ?

(6 marks)

4. (a) You received an email from the Income Tax Dept., mentioning the following :

Dear Taxpayer,
You have filed your income tax return for the Assessment Year 2019-20 and a refund of ₹ 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 you will do such a situation and what it is called in Cyber terminology ?

- (b) What do you understand by data extraction ? List out few advantages of data extraction tools.

(6 marks each)

5. (a) ICSI Anti-Bribery Code is a voluntary code. What are the various clauses of this code ?

(6 marks)

- (b) Under what circumstances, investigation into the affairs of a company is assigned to SFIO “Serious Fund Investigation Office” by the Government ?

(4 marks)

Who shall be comprised in the SFIO committee and to whom shall SFIO report be submitted ?

(2 marks)

6. (a) Fraud has always a motive behind it. If an opportunity to commit the fraud exist, the fraudster justifies the crime in such a way that is acceptable to his internal moral compass. Elucidate this statement.

(6 marks)

- (b) A public limited company had done the following transactions :

Got a Term Deposit Receipt (TDR) from A Bank or ₹ 1 crore by debiting its current account. After some time, the company requested its banker to issue duplicate TDR, since the original was misplaced (but actually the original TDR was with the company). The bank after doing necessary formalities, issued the duplicate TDR. After some time, the company raised loan against that duplicate TDR and the bank granted loan of 90% of the value which was ₹ 90 lakh.

From this ₹ 90 lakh, the company approached another bank say, B Bank and got TDR for ₹ 90 lakh. Again, the company pretending that the original has been lost and requested for issue of the duplicate. The Bank issued the duplicate TDR after doing certain formalities. The company then asked for loan against the said duplicate TDR and availed loan of ₹ 80 lakh from C Bank.

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The same story was repeated by the company with total 5 Banks as following :

Bank	Original TDR Amount (₹ in lakh)	Loan amount raised by pledging the duplicate TDR (pretending that original has been lost) (₹ in Lakh)
A Bank	100	90
B Bank	90	80
C Bank	80	70
D Bank	70	60
E Bank	60	50
Total	400	350

By inflating the sales amount, the company showed wrong figures in the financial statement and the proceeds of the same were shown as placement of deposits with various bank.

The company was having original TDR of all the 5 banks, while on the duplicate TDR the loan amount was raised.

For the satisfaction of the auditor the company showed all the 5 TDR in original and the auditor also didn't get suspicious and relied on the primary evidence showed by the company.

Based on the above facts, narrate the deficiencies you observe on the part of the auditor.

(6 marks)

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