

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 :

Unique Healthcare Ltd. is a radiological instruments manufacturing company in Northern India having its registered office and factories in New Delhi. Company deals in wide range of radiological instruments supplying its products to private and public sector hospitals and healthcare centres. In recent past, due to increasing demand of the company's products, several new products have been added in its product line. Company's operations with new technology, sales turnover and customer base are increasing leaps and bounds.

Company's Managing Director and CEO a Professional Entrepreneur, appreciates that an internal audit is an independent objective assurance and consulting activity to add-value and improve an organization's operations. It helps an organization in accomplishing its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Considering potential of internal auditing, CEO Gupta has high expectations from internal audit activity. He believes that internal audit provides a value-added service to the management and to the board of directors by detecting and correcting weaknesses in a process before external audits discover them. This protects the organization from loss of reputation and regulatory fines. He believes that the objective of an Internal Audit is to evaluate compliance with procedures, applicable laws, regulations and international standards. Data and reports are reviewed to assure consistency and compliance.

: 2 :

Currently, company has a small in-house team lead by an unqualified person for internal audit function guided by the company's statutory auditors. Now, company, realizing the benefits of sound internal control systems that ensure compliance with laws and regulations, enhancing efficiencies and minimizing losses, has decided to outsource the internal audit activity, instead of creating a new full-fledged internal audit department in the company. This would also help company avoid huge costs in managing and in-house internal audit department.

You, a qualified Company Secretary practising mainly in internal auditing, have been approached by the MD. You have been offered the internal audit of the company for next three years. In your letter of appointment of internal auditor, in the scope of audit and in the terms of reference paragraphs, management has entrusted you to carry out a comprehensive review of all operations of the company and to evaluate and assess the existence, adequacy and effectiveness of internal controls therein, pointing out weaknesses if any in and suggesting measures to control them in an actionable manner.

Apart from the above, company management has specifically mandated you to minimize non-compliance and penalties and also the adverse comments in statutory auditors' reports.

With reference to the above, you as a Company Secretary are required to answer the following questions :

- (a) With respect to internal auditing describe authority and responsibility of internal auditor.
- (b) What are the laws and regulations that govern internal audit activities in India ?
- (c) What are the factors that company's statutory auditors are mandated to examine to ensure whether company's internal audit system is commensurate with the size of the company and nature of its business ?

(5+5+5=15 marks)

: 3 :

2. (a) “Communicating audit results effectively is a very crucial aspect of the audit engagement.” Internal auditor must prepare a draft issue sheet, draft report of all the issues identified during the audit engagement and the same must be communicated to the relevant management level and concluded with agreed action plan to be implemented for improving internal controls.

You are required to prepare a format of audit issue sheet, what an issue sheet should include, mentioning any two key considerations to be made while communicating audit issue ?

(5 marks)

- (b) During the verification of transactions, the auditor examines the supporting documents and records. In scrutiny of documents, the auditor comes across various records and documents and if he comes across any unusual transactions, he verifies the same thoroughly. This is called scanning of records which require expertise and experience. The auditor can rely on the documents depending upon the origin (source) of the documents and the efficiency of the internal control system in operation.

You, a practising Company Secretary have deputed a newly appointed assistant for carrying out preliminary routine internal audit procedures. You have assigned him the task of vouching. Your assistant is curious to know about vouching. You have been asked to answer following questions ?

- (i) What are the purposes of vouching ?
- (ii) What are the major reliability categories of documents based on their origin and availability ?

(2+3=5 marks)

: 4 :

- (c) Artificial intelligence (AI) and Machine Learning (ML) are revolutionizing, transforming various industries, including the field of internal control. Internal control refers to the processes, procedures and systems that an organization has in place to ensure that it operates efficiently, effectively and ethically.

As an internal auditor, describe how Artificial Intelligence (AI) and Machine Learning (ML) can improve internal controls in current digital era ?

(5 marks)

3. (a) Nest Advisors is a management consulting firm having 250 fortune company client bases. The CEO of the company is concerned about high employee attrition rate in his company. He has given assignment to you to dig out the reasons for such high attrition rate as well as any way forward. What factors does an Internal Auditor consider in such analysis ?

(5 marks)

- (b) Sunny Electric Ltd. is a regional electricity supply company facing frequent power outages, billing discrepancies and high transmission losses. The management has asked the internal audit team to conduct an audit of the company's operations, focusing on technical efficiency, revenue assurance and regulatory compliance.

Based on the above information, you are required to :

- (i) Identify the key areas the internal audit team should focus on while auditing Sunny Electric Ltd.
- (ii) Suggest internal audit procedures to evaluate operational efficiency and control effectiveness in these areas.

(3+2=5 marks)

: 5 :

(c) CA RR, the internal auditor of ABC Ltd., a medium-sized trading company, was reviewing the company's internal control system as part of his audit procedures. He noticed following instances where errors and lapses occurred :

- An employee failed to take action on an important report due to lack of understanding of its content.
- The finance team made duplicate payments.
- Two employees colluded to override a system check related to customer credit limits.
- The owner approved certain transactions bypassing standard operating procedures, raising concerns about management override.
- Duties were not segregated properly due to limited staff strength.

CA RR discussed these findings with the management and explained that such control failures, despite the existence of internal controls, are not rare. He also highlighted that internal control systems inherently have certain limitations.

- (i) Based on the above, what is CA RR trying to communicate to the management ?
- (ii) What are the inherent limitations of internal control systems that may have led to these issues ?

(2+3=5 marks)

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

4. (a) Culture is an important factor in organizational success and can have a significant impact on risk management. Internal auditors are being asked to assess the culture of the organization and to help identify potential cultural risks that may affect the organization's objectives.

What are the ways in which internal auditors can evaluate and assess organizational culture ?

(5 marks)

: 6 :

(b) ABC Ltd., a manufacturing company, has recently implemented a new ERP system for processing all financial transactions. During the audit, the auditors notice that :

- some User IDs are being shared among employees.
- It is not clear whether the audit trail feature has been consistently active and secure, and
- access logs for audit trails and configuration changes are not routinely reviewed.

You are required to :

- (i) Explain the purpose and importance of an audit trail in a computerized accounting system.
- (ii) Also advise the key internal controls which may be required to be implemented and operated to verify the functionality of the audit trail by the auditor.

(2+3=5 marks)

(c) Sankalp Manufacturing Ltd. has recently appointed a new audit firm to conduct its statutory audit. During the initial planning meeting, the audit partner emphasized the firm's commitment to quality control in compliance with SIA 220.

However, the audit team faced challenges including unclear delegation of responsibilities, inconsistent documentation and inadequate review of audit procedures by the engagement partner.

The audit firm now wants to strengthen its quality control procedures as per SIA 220 to ensure the audit is conducted effectively and meets professional standards.

With reference to the above information, explain how the audit firm can apply SIA 220 to improve the quality control of the audit engagement at Sankalp Manufacturing Ltd. Illustrate key elements of quality control that should be implemented.

(5 marks)

: 7 :

OR (Alternative to Q. No. 4)

- 4A. (i) CA SS is conducting a training session for newly joined audit trainees. She explains the concept of audit risk and its three components. She mentions that while two components of audit risk are beyond the auditor's control, one component can be influenced by the auditor.
- (a) You are advised to identify the component of audit risk that can be controlled by the auditor. Give two examples of this component.
- (b) Also explain how the auditor can manage this component to keep audit risk at a low level.

(3+2=5 marks)

- (ii) Cancer Research Hospital, a charitable healthcare institution, provides medical services at subsidized rates. During the audit for the financial year 2025-26, the auditor observed the following :
- Bills had not been issued to some patients even though they were recorded in the patient register.
 - Certain donations received for setting up a dialysis unit were utilized for general administrative expenses.
 - Grants received from a government health scheme were recorded, but supporting documentation or correspondence were missing.
 - The hospital maintained a large stock of medicines and medical supplies, however, there were no proper records or controls over their issues and use.
 - There were significant deviations between budgeted and actual expenditures, particularly in staff salaries and equipment maintenance, but no explanation was documented by the management.

In view of above, discuss the special steps or audit procedures an auditor should apply while auditing the transactions of hospital ?

(5 marks)

(iii) Tushar has been appointed as internal auditor for Spark Limited, a medium-sized manufacturing company. During the review, Tushar notices several discrepancies in the disbursement records and suspects there might be weaknesses in the internal control system. Additionally, there have been recent changes in the company's business policies that he was not informed about. Tushar is concerned about maintaining his independence and objectivity while ensuring that management is aware of these issues.

What are the responsibilities of Tushar as an Internal Auditor with respect to the accounting function and financial records of the organization ?

(5 marks)

PART-II

5. Case Study :

Balaji Enterprises Private Limited (BAPL) is one of the major agricultural equipment manufacturers and suppliers in Uttar Pradesh. Company has achieved a sales turnover of ₹ 100 crore in financial year 2024-25 and has estimated a sales turnover ₹ 200 crore in FY 2025-26. Company has several group companies in different business lines. BAPL has cash credit facilities of ₹ 50 crore and performance bank guarantee of ₹ 30 crore from a public sector bank. Two months ago, company renewed the CC limit with enhancement to ₹ 100 crore. In a recent stock audit conducted by the bank's stock auditors, it has been pointed out that enhanced limit has not been utilized for intended purpose and end-use of funds, as declared by the borrower, has not been verified by the bank and enhanced funds have been siphoned in group companies. Stock auditors asked the borrower to produce the ledger accounts of all related parties and the transactions in the ledgers substantiated those funds have been siphoned to these companies.

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Surprisingly, company's statutory auditors, though specifically mandated to comment on utilization of working capital funds in company's statutory auditors' report, have not commented upon the same. Rather, statutory auditors have confirmed that there is no mis-utilization of working capital funds. Stock auditors requested to the borrower's accounts department to arrange a meeting with Directors. However, manager accounts denied for approaching the company directors directly.

The ubiquitous issue of corruption and the high risk of internal fraud raise serious concerns about the liability of corporate directors. There has been seminal shift in the Indian corporate legal regime with the enactment of the Companies Act 2013 and more recent amendments.

Bank management in compliance of stock auditors' findings, asked various explanations from the borrower. The borrower replied that as the funds have been utilized by the group companies under the same management, hence bank should have no objection as there is no mis-utilization of the funds. Borrower contended that they are paying interest regularly and are maintaining their all-loan accounts standard.

Borrower further stated that bank has hypothecated the immovable valuing more than the loan amount. Therefore, the bank management should not have any objection and no such fraud has been committed by the borrower.

Based upon the above, you are asked to answer following questions :

- (a) Whether there are any fraud indications in the case ? Briefly describe what kinds of frauds, specifically to economy and financial transactions, have occurred ?

: 10 :

- (b) What are the different job-roles of Company Secretary in the field of Forensic Audit ?
- (c) Briefly explain Corruption, Asset Misappropriation and Financial Statement Fraud in brief.
- (d) In forensic auditing, specific procedures are carried out in order to produce evidence. Investigator uses various techniques and procedures to identify and to gather evidence to prove, for example, how long have fraudulent activities existed and carried out and how it was conducted and concealed by the perpetrators. What are the techniques investigators can use in gathering evidences ?

(5+5+5+5=20 marks)

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

6. (a) M Ltd. appointed S & Co., Chartered Accountants, as statutory auditors for the financial year 2025-26. During the audit, the statutory auditors noticed fake and duplicate expenses reimbursement of ₹ 1.10 crore to the directors of the company.

In this situation, explain the procedure to be adopted by the auditors for reporting fraud.

(5 marks)

- (b) What is cyber fraud ? What is the difference between Phishing and Vishing ?

(5 marks)

- (c) A reckless waste of firm's assets by speculating on the stock market and incompetence/negligence in managing business of Swastik Ltd., apart from omission, or perversion of truth and failure to file information and report were noticed. The management of Swastik Ltd. was in a dilemma whether to treat this as fraud or non-compliance. You are required to provide a note to the management of Swastik Ltd. as a practising Company Secretary regarding how to differentiate between Fraud and Non-Compliance.

(5 marks)

: 11 :

- (d) Garvit Pvt. Ltd. is an e-commerce company that has recently started using blockchain technology to record customer payments made through cryptocurrency and to execute smart contracts with suppliers. The system is connected to the company's existing accounting software through Application Programming Interfaces (APIs).

Management believes that blockchain is fully secure because transactions cannot be altered once recorded. However, the auditor is concerned about issues such as loss of private keys, inability to reverse incorrect transactions, cyber-attacks on network nodes, data privacy compliance and changing legal regulations relating to cryptocurrency.

Based on the above details, answer the following :

- (i) What are the common risks associated with the use of blockchain technology ?
- (ii) Also discuss the probable audit implications when an organization uses blockchain technology

(2+3=5 marks)

OR (Alternative to Q. No. 6)

- 6A.** (i) Companies Act 2013, goes beyond professional liability for fraud and extends to personal liability if a company continues.

In the context, you are required to examine and answer Yes or No whether following are frauds in terms of Companies Act or not, attracting penalty under section 447 of the Companies Act 2013. If yes, name the designation of the responsible officer.

- (a) Furnishing false information or suppressing any material information of which he or she is aware.
- (b) Inducing persons to invest money.
- (c) Acceptance of deposit with intent to defraud depositors or for any fraudulent purpose.
- (d) Furnishing false statement or mutilation or destruction of documents.
- (e) Making a false statement in any return, report, certificate or financial statement.

(5 marks)

- (ii) The Bhartiya Sakshya Adhiniyam play an important role in determining the admissibility and weight of evidence in case involving forensic audit. By understanding the rules and principles of evidence law, forensic auditors can ensure that their findings are presented in a manner that is admissible and persuasive in court.

Under Bhartiya Sakshya Adhiniyam 2023, what are the basic rules to be kept in mind to have evidence of value in the eyes of courts of law and be relied upon reading the decision ? Explain in brief.

(5 marks)

- (iii) The development of digital technologies has led to the growth of the internet, social media, and other digital platforms that have become essential components of modern life. Criminal have found new ways to exploit vulnerabilities in these technologies. The rise of digital technologies has increased the crime rate which becomes a major concern for Governments, Business Industry, Corporates and Individuals around the world. Criminals are gaining access to sensitive information, financial data, or intellectual property.

- (a) You are required to explain the difference between traditional white-collar crime and cybercrime ?
- (b) Explain roles and responsibilities of the Board of Directors and Company Secretaries in protection from cybercrimes.

(2+3=5 marks)

- (iv) As per Association of Certified Fraud Examiners (ACFE) 2022 report 85% of all fraudsters displayed at least one behavioural red flag.

Briefly explain any such five behavioural red flags as early warning indicator of fraud.

(5 marks)