

*Roll No.***OPEN BOOK EXAMINATION***Time allowed : 3 hours**Maximum marks : 100**Total number of questions : 6**Total number of printed pages : 16**NOTE : Answer ALL Questions.***PART-I****1. Case Study :****Background and Business Growth**

Vasudha Armaments Tech Ltd. (VATL) is a rapidly growing company specializing in IT solutions, custom enterprise software, and Natural food sector. Head office is in Coimbatore, with operations in Ahmedabad, Indore, and Mumbai. The company serves both commercial manufacturing clients and Natural food sector. VATL has witnessed significant growth, with revenue increasing from ₹ 42 crores to ₹ 63 crores in its technology division and from ₹ 300 crores to ₹ 850 crores in its Natural food segment over the past three years. The company's expansion has been driven by acquisitions, internal growth, and diversification into new industries. However, this rapid growth has also brought challenges related to financial controls, revenue recognition, procurement efficiency, and risk management.

Financial and Operational Challenges

During the pre-audit meeting, the Managing Director expressed concerns that the company's financial controls had not kept pace with its expansion. VATL recently migrated from a legacy accounting system to a cloud-based platform, which has led to operational difficulties. Additionally, the accounts team underwent significant changes, with multiple new staff members joining during the transition.

The audit planning process highlighted several key risks :

1. **Revenue and Receivable Management Risks (Technology Division)**

- Customer contracts include complex performance obligations with variable consideration clauses.
- Revenue recognition practices vary across the three regional offices.
- Collection efficiency has declined, with DSO increasing to 83 days.
- Around 18% of accounts receivable balances are under dispute.
- Significant credit notes were issued after year-end for prior period sales.
- The new accounting system lacks proper integration with the CRM platform.
- Certain key customers receive unconventional payment terms not documented in formal policies.
- The internal audit report flagged unusual patterns in month-end revenue recognition and inconsistencies in credit policy application.

2. **Procurement and Risk Management Concerns (Natural food segment Division)**

- VATL imports over 53% of its raw materials, requiring strict compliance with international trade regulations.
- Management does not receive alerts regarding undue preference given to specific vendors or excessive demands placed on single vendors.

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- Purchases are frequently made from dealers rather than manufacturers, leading to additional costs.
- Internal audit has identified potential risks related to fraud, corruption, and conflicts of interest in procurement.

To address these concerns, VATL's audit committee engaged BMA & Co. Chartered Accountants to conduct a comprehensive audit of revenue recognition, accounts receivable management, procurement efficiency, and internal controls.

Audit Documentation and Compliance Measures

The audit team collected the following documents for verification :

Revenue and Receivables Documentation (Technology Division)

- Sales contracts and invoices from major clients.
- Credit notes issued after year-end.
- Aging reports of accounts receivable.
- Integration reports from the new accounting system.

Procurement Documentation (Natural food Segment Division)

- Purchase invoices issued by Drone System Ltd.
- Purchase orders placed with ABC Ltd.
- Transfer documents from stores to the production department.
- Transfer documents from the production room to the finished goods store.

The audit team leader emphasized that all collected documentation should be clear, understandable, and properly classified.

As a part of audit team, answer the following :

- (i) Prepare a questionnaire to assess the revenue recognition process and accounts receivable management.
- (ii) Given the procurement-related irregularities observed at VATL's natural food segment division, what specific documentation should be collected to validate whether purchases were made in compliance with trade regulations and cost-saving objectives ?
- (iii) How will you ensure that the documents collected are clear, understandable, and meet the criteria outlined by the audit team leader ? How would you classify the collected documents based on their origin and availability ?

(5+5+5=15 marks)

2. (a) Information Systems (IS) Auditing is an ongoing process of evaluating controls, collecting and evaluating evidence to determine whether a computer system safeguards assets, maintains data integrity allows organizational goals to be achieved effectively and uses resources efficiently. Information systems auditing supports traditional audit objectives, attest objectives that focus on assets safeguarding and data integrity, and management objectives that encompass not only attest objectives but also effectiveness and efficiency objectives. The audit comprises evaluation of various components and areas.

In view of the above, mention the objectives of Information Systems (IS) Auditing. Explain the components/areas to be covered under IS Auditing.

(5 marks)

- (b) Intergold Fashion Jewellery Pvt. Ltd., Agra is one of the leading silver and gold ornaments manufacturing company having turnover of ₹ 250 crore and paid-up share capital ₹ 20 crores. Company has Cash Credit limit of ₹ 20 crore and Term Loan of ₹ 15 crores from a public sector bank. Company has significant outsourced activities of silver and gold ornaments manufacturing and has around more than two hundred job-work processors and sub-processors for different processes of Payal, chain and other ornaments manufacturing. Company purchases various types of raw materials and consumables including silver bullion from various suppliers and issues the same to the job-work processors. Company also allows its customers Goods on Approval.

In the company, Manager (Accounts) has full responsibilities for all the operations. He issues receipts for all inward materials and authorizes all issues from godowns. Also, he is responsible for verifying the weights and payment slips and for verification of physical quantities of the finished goods stored. He possesses the keys of the godowns. Company's CEO hardly finds any time to verify all such transactions and physical quantities of inventories. Although, there are CCTVs, gatekeeper frisking all the entries into and exits from the premises. Yet on a day, it was observed that gatekeeper allowed a worker some gold articles in his bag.

In a recently conducted stock audit by the bank, auditors have pointed out various non-compliance and control lapses including non-appointment of internal auditors. However, management is of the view that as it is a private limited company, hence, internal audit is not required. Further, management is of the view that internal audit is merely a routine checking which could be done by the external auditors avoiding additional costs to the company. In stock audit process, it has come across that some debtors have been squared up by way of discounts and rebates. These discounts and rebates have been allowed by the Manager (Accounts) alone who is authorizing and passing all accounting transactions. Lately, CEO of the company came to know about these discounts and rebates when a debtor told him in normal conversations.

In stock audit report, instances of several missing articles of ornaments were observed. Auditors observed lack of adequate controls over receipts and issues of inventories and stock records are not reconciled with the financial records. In physical verification of stocks lying with the processors, it was found that quantities as reported by the company in stocks statements are not matched and also some parts of the inventories were not lying at the location addresses of job-work processors as reported in the stock statements. This poses a significant risk of non-coverage of such stocks in insurance policies.

You as a Company Secretary are required to advise the management about the legal provisions of the Companies Act 2013 regarding applicability of internal audit to the company, explaining the differences of how it is different from the external audit ?

(5 marks)

- (c) In any entity, be it small or large, Government or Private, Profit making or non-profit making, an adequate accounting system is key. This will enable entity to control the business, safeguard the assets, prepare accounts, and comply with laws. Hence, it is fundamental, in order to carry out an effective internal auditing, to gain an understanding of the existing accounting system and of the procedures and controls therein.

What are the ways to understand the entity's accounting system and controls ?

(5 marks)

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3. (a) As per Standard on Internal Audit (SIA) 220-Conducting Overall Internal Audit Planning issued by ICAI, a number of specific internal audit plans are prepared for individual assignments to be undertaken covering some part of the entity and presented to the chief internal auditor. Internal auditor can plan the audit engagement as per the Standard on Internal Audit (SIA) 310-Planning the Internal Audit Assignment issued by ICAI. What are the main objectives of preparing the detailed audit plan and what would typical audit work plan comprise of ?
- (5 marks)
- (b) ABC & Associates, Chartered Accountants, having been appointed as concurrent auditors of a commercial bank. Before formal commencement of the audit and field work, auditors have asked the branch management to schedule a meeting with all functional heads. However, branch management is of the view that the meeting is not required and would not result into any benefit and management is reluctant to fix such a meeting. Advise :
- How this meeting is so important ?
 - How the process walks-through yields benefits to auditing ?
- (5 marks)
- (c) You have been appointed internal auditors of a Government Medical College and Hospital. Transactions include receipts of general and specific grants from the Government. Apart from grants, college receives tuition and exam fee for various courses and also receives donations from public. There are regular teaching and non-teaching staff and contractual faculties for teaching different subjects of UG, PG and Diploma Courses. College runs library and maintains hostels for staff, boys and girls against a nominal charge. Hospital runs IPDs and OPDs. Canteen is run by a contractor who pays a monthly rental to the college. College has fixed deposits and bank account with a nationalized bank branch in premises. What are the points to be kept in mind while planning the internal audit of such Government Medical College & Hospital ?
- (5 marks)

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

4. (a) What is an exit meeting ? What are the stages of audit communication ? In an exit meeting, you requested the management for comments on action plan. What does this plan contain ?

(5 marks)

- (b) ABC Motors Private Limited, Delhi is one of the leading authorized dealers of commercial vehicles and have sales, spares and service outlets at several places in different states of India. Company, currently has standalone systems of accounting at each location. Maintaining inventories of vehicles and spares at each location is one of the key challenges to the management. As it is difficult and time-consuming to collect accounting and MIS data from all the locations, the company has planned to switch over from standalone to cloud-based accounting.

Suggest the controls to be implemented by the management to ensure availability of real-time update accounting and MIS data accessible from all the locations without any possibility of any unauthorized modifications.

(5 marks)

- (c) A.M. Limited, a steel fabrication company based in Tamil Nadu, India, scaled up production in FY 2024-25 to meet surging demand from infrastructure projects. To secure raw materials and machinery, the company engaged a network of suppliers, managing acquisition as per order to support its Chennai plant. Amid this expansion,

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management observed delays and unexpected costs, prompting them to appoint CA Sanjay Rao in 2025 to examine the systems governing these external transactions. A.M. Limited relies on a mix of digital tools and manual oversight to coordinate supplier dealings, payments, and material deliveries, yet inconsistencies persist. CA Sanjay Rao must dissect the company's acquisition framework, ensuring it drives efficiency and compliance under growing operational strain.

What key areas should CA Sanjay Rao focus on when reviewing the acquisition processes of A.M. Limited ?

(5 marks)

OR (Alternative to Q. No. 4)

- 4A.** (i) Unity Bank Limited, a public sector bank headquartered in Kolkata, India, oversees a broad loan portfolio catering to various sectors. In FY 2024-25, the internal audit team, led by CS Amit Sen, evaluates advances as of March 31, 2025.

The portfolio includes :

- (1) A term loan of ₹ 50 lakh to a manufacturing unit, with principal and interest unpaid since December 1, 2024.
- (2) An overdraft facility of ₹ 30 lakh to retailer, continuously overdrawn since October 15, 2024.
- (3) A bill purchased worth ₹ 20 lakh, overdue since November 10, 2024.
- (4) A ₹ 15 lakh agricultural loan, deemed uncollectible by the bank's inspection in February 2015, yet not fully written off.

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With regulatory oversight intensifying, CS Amit Sen is required to :

- Classify these advances and
- Compute the necessary provisions to meet RBI standards.

(5 marks)

- (ii) Sharma Enterprises, a mid-sized textile manufacturing company based in Ahmedabad, India, had been thriving in the competitive market for over a decade. Led by Rajesh Sharma, the company prided itself on its quality products and timely deliveries, catering to both domestic and international clients. However, in early 2024, the company faced an unexpected setback. A major export order worth ₹ 5 crore was delayed due to a sudden spike in raw material costs, which strained the company's cash reserves. To meet the shortfall, Sharma Enterprises secured a short-term loan from a local bank at a high interest rate, assuming that the order's revenue would cover the repayment. The company's financial accounts, however, were not meticulously maintained. The accounting team, understaffed and overburdened, failed to reconcile cash inflows and outflows accurately. This led to an overestimation of available funds, and soon, the company struggled to pay its suppliers and meet loan repayment deadlines. By mid-2024, Sharma Enterprises faced a liquidity crunch, delaying employee salaries and risking its reputation with clients. Rajesh, puzzled by the sudden downturn, called for an internal audit to uncover the root cause. The audit revealed that poor financial oversight and an over-reliance on borrowed funds had exposed the company to significant vulnerabilities, threatening its long-term stability.

As an internal auditor of the company :

- (a) Provide an explanation tied to the specific issues encountered by Sharma Enterprises.

- (b) Evaluate the potential fallout of neglecting this risk and its impact on the financial health of the Sharma Enterprise.
- (c) What actionable steps would you recommend to Sharma Enterprise to improve financial management and protect against similar challenges ?

(5 marks)

- (iii) PaySecure India, a prominent online bill payment platform in India, encountered a major security breach in FY 2023-24, compromising the financial details of millions of users. A cybersecurity analyst discovered that the exposed data was being traded on the dark web, tracing the leak to DataSync Solutions, a third-party vendor handling user authentication for PaySecure. Investigations revealed that DataSync had stored sensitive customer information in an unsecured server, accessible via a simple URL, due to lax security protocols. PaySecure faced backlash for not overseeing DataSync's practices closely and for ignoring prior warnings from experts about potential weaknesses in their vendor's setup. The incident sparked concerns over trust and regulatory compliance, highlighting gaps in third-party oversight. As PaySecure scrambles to restore confidence, questions arise about how internal auditors could have prevented such a debacle.

What critical steps should internal auditors undertake to strengthen oversight of third-party relationships and ensure robust data security in a company like PaySecure India ?

(5 marks)

PART-II**5. Case Study :**

Global Enterprises Ltd. is a prominent multinational conglomerate headquartered in Mumbai, India, with an annual turnover surpassing ₹ 2,000 crores. The company operates across diverse sectors, including the manufacture and distribution of fertilizers, retail sales of mobile phones from renowned international brands (premium “Nova” and budget “Eco” models), and jewellery exports through its Surat-based division. With a sprawling network of subsidiaries, joint ventures, and an offshore entity registered in a tax haven (Cayman Islands), the company’s financial operations are intricate, involving multiple currencies, intercompany transactions, and a decentralized supply chain. Its stock is stored and distributed through over 50 branches nationwide, and its jewellery exports cater to markets in Europe, the Middle East, and North America. However, recent developments have cast a shadow over its operations, prompting a comprehensive forensic audit by Pinnacle Forensic LLP.

The Board of Directors first grew wary when the company’s financial statements—laden with consolidated figures from subsidiaries and joint ventures—showed declining profitability despite steady revenue growth in the fertilizer manufacturing division. The statements, prepared under Ind-AS, were opaque, with significant related-party transactions and unexplained adjustments, raising suspicions of financial irregularities or deliberate misstatement. Concurrently, the Income Tax Department initiated scrutiny after noticing large fund transfers to the Cayman Islands subsidiary, suspected to be a conduit for siphoning profits to evade Indian taxes. These transfers, totalling ₹ 500 crores over two years, were recorded as “consultancy fees” and “investment advances,” yet lacked supporting documentation during preliminary inquiries.

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Adding to the complexity, the Department of Foreign Trade (DFT) received multiple complaints from trade associations and foreign buyers about the Surat jewellery division. Allegations pointed to “book exports”—where export entries worth ₹ 300 crores were recorded in the books over the past year, but no corresponding shipments were traced through customs or shipping records, the complaints suggested that fictitious export invoices were used to claim tax rebates and inflate revenue, with the proceeds possibly diverted elsewhere. Meanwhile, in August 2023, the Mobile Sales Division reported an alarming issue : despite consistent demand for Nova and Eco mobile phones, sales volumes had inexplicably dropped by 25% compared to the previous quarter. The Sales Manager flagged this anomaly, noting a mismatch between inventory outflows and recorded sales. Around the same time, the company received anonymous letters alleging that two sales executives—Rakesh (handling Nova mobiles) and Sunil (handling Eco mobiles)—had recently purchased luxury cars and properties, hinting at possible collusion with distributors or under-the-table dealings.

Faced with this confluence of red flags—potential financial irregularities in manufacturing, tax evasion via the offshore subsidiary, fictitious exports in jewellery, and corruption in mobile sales—the board of Global Enterprises Ltd. engaged Pinnacle Forensic LLP to conduct a forensic audit. The firm’s mandate is to unravel the truth across these interconnected issues, collaborating with the board, the Income Tax Department, and the DFT. The company’s decentralized operations, voluminous transactions (e.g., 10,000 + monthly mobile sales entries, 500+ export invoices annually), and reliance on junior staff for branch-level inventory management further complicate the investigation. Against this detailed backdrop, address the following questions :

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- (i) What steps will Pinnacle Forensic LLP undertake to detect financial irregularities within Global Enterprises Ltd.'s manufacturing division and its complex financial structure ?
- (ii) How will your firm investigate whether Global Enterprises Ltd. has siphoned funds to its tax-haven subsidiary to evade taxes, as suspected by the Income Tax Department ?
- (iii) What methodology will Pinnacle Forensic LLP adopt to prove that the jewellery export arm in Surat has engaged in fictitious "book exports," as alleged in complaints to the DFT ?
- (iv) What course of action will your firm follow to uncover the potential misdeeds of Rakesh and Sunil against Global Enterprises Ltd. ?

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

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

6. (a) Founded in 2009 by siblings Arjun and Neha, Apex GreenTech Ltd. (AGT) began with a mission to harness renewable energy solutions. Today, after 15 years, AGT thrives as a passionate collective committed to sustainable innovation. Anticipating a boom in green technology, AGT plans to acquire competitors to enhance its reach, competitiveness, and customer base. The shortlisted targets are Eco Innovations Ltd. (focused on solar panel tech, energy storage, and efficiency analytics) and SmartGrid AI (specializing in AI-powered energy management). To ensure a sound decision, AGT commissions you, a reputed forensic auditor, to evaluate these firms beyond traditional financials, with stakeholder approval secured. The management emphasizes qualitative insights, especially since Eco Innovations operates in African regions where money laundering risks linger, though your focus here is broader.

What non-financial qualitative factors should you include in your report to assess the performance and future prospects of these companies ?

(5 marks)

- (b) Rakesh Saha, the Chief Financial Officer (CFO) of Sunrise Industries, a prominent manufacturing firm in Mumbai, was under immense pressure to achieve the company's financial objectives. The Board of Directors had established aggressive targets, and Rakesh knew that his annual performance review and substantial bonuses hinged on meeting these goals. While reviewing the company's accounts during a routine internal audit, Rakesh identified a weakness in the oversight of travel and expense reimbursements. Seizing this vulnerability, he saw a chance to artificially boost the company's profits by altering the financial records. Rakesh justified his actions to himself, believing that the prosperity of Sunrise Industries would ultimately benefit its employees and stakeholders, outweighing any temporary ethical lapse. He viewed this manipulation as a short-term solution, intending to rectify the figures in the subsequent quarter once the company regained financial stability.

Fraud is always driven by an underlying motive. When an opportunity to perpetrate fraud arises, the individual rationalizes the wrongdoing in a manner that aligns with their personal moral framework. Explain this statement in the context of the scenario above.

(5 marks)

- (c) What is circumstantial evidence ? What are the tests to qualify for a circumstantial evidence ?

(5 marks)

- (d) In order to solve a cybercrime alleged to have been committed, appropriate digital evidence have to be identified, collected, analyzed and evaluated as to the suitability in the court of law. Every sequence of events within a single computer might cause interactions with files and file systems in which they reside, other process and the programs they are executing. Collecting volatile data requires specific technical skills and precautions by the Digital Forensic Expert.

In view of the above, what are the precautions to be taken by the Digital Forensic Export ?

(5 marks)

OR (Alternative to Q. No. 6)

- 6A. (i) Ghost employees are those who do not actually work for the entity but appear on the payroll. Inserting ghost employees in the payroll register is one of the common ways of asset misappropriation or assets fraud.

What are the preliminary tests you would employ to analyses such unusual patterns and to detect such frauds ?

(5 marks)

- (ii) According to SA-240, “The auditor is responsible for maintaining professional skepticism throughout the audit, considering the potential for management override of controls, and recognizing the fact that audit procedures that are effective for detecting error may not be effective in detecting fraud. The requirements in this are designed to assist the auditor in identifying and assessing the risks of material misstatement due to fraud and in designing procedures to detect such misstatement”. In view of this, mention general audit techniques required for the below objective of the audit :

S.No.	Objectives of applying audit techniques
1	To identify falsification in a document
2	To identify discrepancies and ensure accuracy
3	To identify control gaps in cash handling procedures
4	To gather information about internal control system
5	To identify abnormal transactions

(5 marks)

- (iii) What is ‘Undue Advantage’ under The Prevention of Corruption (Amendment) Act 2018 ? What are the provisions regarding offer of bribes by commercial organizations ?

(5 marks)

- (iv) For evidence to have any value in the eyes of courts of law, what are essential ingredients for being replied upon in the courts of law ? What are the tests to determine relevancy ?

(5 marks)

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