

Roll No.

OPEN BOOK EXAMINATION

Time allowed : 3 hours

Maximum marks : 100

Total number of questions : 6

Total number of printed pages : 8

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 :

PD Limited which is a public limited Company incorporated on 1st January, 2000 under the provisions of Companies Act, 1956. The main object of the company is to promote the formation and mobilisation of capital and to promote industrial finance by way of advance, deposits, lending money, to manage the capital, saving and investment, to act as a discount and acceptance.

Further, it is also stated that the company can carry on and undertake business of finance and trading, refinance, to act as or carry on the business of consultants, advisors, experts and technical collaborators in matters pertaining, without prejudice to the generality of the foregoing, portfolio management services, syndication of loans, counselling and tie-up of project and working capital, infrastructure of finance, corporate restructuring, corporate planning and strategic planning, foreign currency lending or borrowing, project planning and feasibility, investment counselling, setting up of joint ventures and further perform any other kind of role as an Intermediary or Advisor in the security market.

The PD Limited has a wholly owned subsidiary company and that subsidiary company has subsidiary company. These companies are formed for the same objects as of the main company. The company launched various public deposit schemes such as saving deposits, fixed deposits and recurring deposits. The total amount of public deposits collected by the Company amounts to ₹ 1400.00 crores. However only 19% of the above amount has been invested by the

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company in statutory liquidity ratio. In the year 2019, it is observed that various complaints came to be lodged by the depositors and creditors before statutory agencies like RBI on non-payment of interest and non-return of deposits. It appears that the company has failed to comply with almost all the norms prescribed for a non-banking financial company.

The unpaid depositors and creditors filed a petition for the winding-up of the company. Further complaints have been lodged against the directors/promoters alleging fraudulent diversion of money and dishonest misappropriation of funds. The company apparently in financial troubles and is found struggling to pay interest and principal to the depositors. Based on the allegations, Government conducted a preliminary investigation which reveals a misappropriation of nearly ₹ 1000.00 crores.

The Government has approached your firm to conduct a Forensic Audit of the PD Limited and its subsidiaries. The scope of the audit has to be formulated on the following allegations made :

- (1) Non-maintenance of books of accounts and proper records;
- (2) Diversion and misappropriation of funds, including acquisition of immovable properties at Mumbai and Chennai;
- (3) Failure on part of the company in non-payment of invest and in repaying the deposits accepted.

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) Limitation to a forensic report.
- (d) Legal steps that could be taken against company, its subsidiaries and their directors.

(10 marks each)

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2. PQR & company are the manufacturers of sophisticated consumer products. They have a system of getting certain work done by Job Workers. The costly raw material will be sent to the Job Worker through the company's transport and delivery challan will be prepared by the Stock Manager and acknowledgement obtained from the Job-workers on delivery. Job Worker will process the material as per the company's instruction and specification and the same will be inspected by the Quality Controller of the company at the premises of the Job Worker; entire quantity of material sent earlier now in semi-finished form will be returned to the company for which the company itself provides their own transport. A reasonable percentage for shortage and wastage and rejections of a maximum of 2% was allowed by the company to the Job Worker. This engagement was established for some years and was found to be working well. Processing charges are paid to the Job Workers on receipt of the processed material along with his challan. However, some complaints have come recently from some sources that some processed materials was selling in the market. Management is desirous of conducting a Forensic Audit. In the background of aforesaid facts, you are required to :

(a) Indicate your line of Investigation.

(8 marks)

(b) Do the facts fall to be considered as fraud as per sec. 447 of the Companies Act, 2013 ? Discuss.

(4 marks)

3. (a) Agarwal & Company is one of the major infrastructure companies, deals with building of bridges, roads etc. They obtained road construction contract from the Government for execution of a project. They called for tender area wise and bids were received from subcontractors. It is the policy to entrust the job only to the person who has a class I status in contracting. Bids were finalised and the one who quoted lower

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price was awarded construction of road etc. in a particular area. In one of the contract the estimated value of contract was ₹ 20 lakh and the winner of the subcontract was LM. Past records show that LM had undertaken such type of contract earlier, say five years back, for this company and he was very familiar to Executive Engineer of the company. He used to visit the company frequently and finally succeeded in getting the contract now. LM has made the request for advance of 50% of the contract amount, but the company policy was to give advance only 20% subject to production of a bank guarantee from a nationalized bank in favour of the company. In the instant case LM persuaded the company to accept his FD receipt i.e. two receipts for each ₹ 2 lakh issued by the banker in lieu of bank guarantee. After prolonged discussion among the Executives, the company has agreed to accept FD receipt and paid advance money.

LM commenced work and finished only 10% of the road construction contract. Information reached the company that LM stopped the work abruptly and no further work was carried out. The company made efforts to contact him but to no avail. Company issued notice to LM and there was no response. The legal notice was also issued and returned with the remark that “addressee not found”.

Recovery process : The company approached the bank for the purpose of encashing the two FD receipts of ₹ 4 lakh endorsed in favour of Company by LM. To the disappointment of the company, the bank said that they had not issued the said FD receipts to LM and that the said two receipts were fake. Denial by the bank does not seem to be correct and require further investigation.

The company decided to have the matter investigated. Your help is sought to conduct a Forensic Audit.

(i) What may be your assumption before proceeding to undertake this case ?

(3 marks)

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- (ii) What will be your mechanism of Forensic Audit to help the Company to recover the advance money ?
(5 marks)
- (iii) What will be liability of bank in this case ?
(1 mark)
- (b) Discuss “Direct evidence and Circumstantial evidence” under the Evidence Act.
(3 marks)
4. (a) “The Company secretary plays an important role as Forensic Auditor”. Explain.
(8 marks)
- (b) Briefly explain the power of National Financial Reporting Authority in respect of misconduct of a professional.
(4 marks)
5. ABC Computers Services Ltd. has been a pioneering force in the global information technology (IT), outsourcing market — the company prefers the term right sourcing since late 2013 the company provides full range of IT services including software and systems management and development, engineering solutions, infrastructure management, and enterprise business solutions. They also serve the business processing outsourcing (BPO), market in particular through majority held subsidiary providing back office customer care, product and technical support, human resources, finance and accounting, and many other related services. The company also provides e-commerce and website development and management operations including web based financial, supply chain, customer relationship and other services. They operate on global level with offices in 40 countries and more than 50,000 employees serving nearly 600 clients and companies. The company offers outsourcing services through its network offices throughout India. The company also provides onsite services and offsite operations in other western

countries and in India. The company has also been developing network of near shore offices, filling the gap between offshore and onsite segment. The company is listed on the New York stock exchange. The company has been recognised as part of the growing computer industry and the rapid incorporation of computer technology into the corporate market would create demand for new type of specialised services. Their operation started in the year 2013 and within a span of 5 years its turnover reached ₹ 7,162 crore. Each and every year turnover is rapidly increasing. The company was also accepting fixed deposits from the public. It pays interest in crore and also the company took loans from the reputed banks each year. The yearwise details of the related figures are given below :

Balance Sheet					₹ in Crore
Year ended	Mar. 18	Mar. 17	Mar. 16	Mar. 15	Mar. 14
Sources of Funds					
Total Share Capital	6855	4557	3839	3169	2438
Reserves	800	450	400	300	250
Loans from Banks	111	89	45	25	8
Deposits from public	180	65	20	25	40
Current liabilities and Provisions	174	180	116	50	72
Total Liabilities	8120	5341	4420	3569	2808
Application of Funds					
Fixed Assets	2205	2180	1162	1147	1128
Investments	3840	2020	2060	1660	1297
Cash and Bank Balance	1415	900	650	435	310
Other Current Assets	660	241	548	327	73
Total Assets	8120	5341	4420	3569	2808

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Standalone Profit & Loss account					₹ in Crore
Year ended	Mar. 18	Mar. 17	Mar. 16	Mar. 15	Mar. 14
Income					
Sales Turnover					
IT Services	7162	5413	3933	2825	2296
BPO	145	68	35	7	0
Total Income	<u>7307</u>	<u>5481</u>	<u>3968</u>	<u>2832</u>	<u>2296</u>
<i>Less</i> : Cost of Revenue	4688	3445	2534	1718	1376
Gross Profit	<u>2619</u>	<u>2036</u>	<u>1434</u>	<u>1114</u>	<u>920</u>
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<i>Less</i> : operating expenses (Selling, General and Administration Expenses)	1161	938	622	508	502
Operating Income	1458	1098	812	606	418
<i>Add</i> : Interest income	186	132	112	102	36
<i>Less</i> : Interest expenses	18	7	2	3	4
Net Income	1626	1223	922	705	450

Assume that the company was involved in falsifying accounts and inflating the company revenue and the profit and profit margin. If you are appointed as the Forensic auditor, answer the following questions :

- (a) Identify the Green flags and Red flags indicators. What may be the reasons for such unusual increase in Turnover ?
(6 marks)
- (b) How would you proceed to unearth fraud in this case ?
(3 marks)
- (c) Comment on unusual Turnover and payment of Interest to Depositors.
(3 marks)

6. (a) Raj & Company has been dealing with reputed company's TVs. They are the agents of many company's TVs. They offer instalment systems payments which attracts customers and their turnover has been improving. They have a spacious office where TVs are displayed which naturally tempts the customers to visit and buy. Adjacent to their office they have taken a warehouse to keep stock of TVs received from companies and would draw stocks from the warehouse as and when required. They maintain necessary records like goods received report, sales register and stock statement on daily basis. They have the system of maintaining parallel stock ledger at the office also. There was an outbreak of fire in the warehouse and stocks and records have been completely destroyed. Raj & Company preferred their claim with the underwriters for ₹ 15 lakh being the cost of 50 TVs, which seems to be very high according to Insurance Company.
- Insurance Company is of the view that the claim requires to be probed before accepting. They doubt that there is a possibility of manipulation in the claim.
- If you are appointed as Forensic Auditor
- (i) What investigation would you follow to detect the genuineness of the claim ?
(4 marks)
- (ii) Highlight the important differences between audit and forensic audit.
(4 marks)
- (b) What is ethical hacking and what are the different classes of hackers ?
(4 marks)