

Roll No.

OPEN BOOK EXAMINATION

Time allowed : 3 hours

Maximum marks : 100

Total number of questions : 6

Total number of printed pages : 6

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. (a) Noble Insurance Company has received two claims about which the company has grave suspicions about their genuineness and admissibility under the terms of the insurance policy.

To help them in the aspect of the genuineness of the two claims, it appoints a forensic auditor (FA). The claim is not payable where there has been negligence on the part of the insured. The FA was to also look into this aspect and report to the insurer.

(i) **Bank cyber crime**

The first claim has been reported by a bank about the fraud committed in the account of one of its customers. The customer had a bank account in Chennai branch. According to the bank, the customer, a resident of India, was then living in New York. He used to periodically transfer amounts to some foreign accounts, i.e. accounts of other persons, who were outside India. He would send intimation through his email (Gmail account) and sign in the necessary forms, as may be required.

The customer's Gmail account was hacked by a miscreant. The said miscreant sent an email from the customer's Gmail id (which was the official email id given to the bank), asking for transfer of funds to a bank account in Hong Kong. Since the bank had done such transfers in the past, it did the same during the said time also. A sum of ₹ 12 lakhs was transferred.

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Later on, when the customer saw his bank account, he found to his dismay that his account was debited with ₹ 12 lakhs. He alerted the bank and when enquiry was conducted, it turned out that his Gmail id had been hacked and that a fraudster had done the said fraud. The bank had to pay this amount since the customer was a valuable customer. As the bank had taken policy with the insurance company covering such losses, it lodged the claim and hence the present situation.

How can the FA help the insurer in the given situation ?

(10 marks)

(ii) **Fidelity guarantee claim**

Doomsday Garments Ltd., had lodged a fidelity guarantee claim which insures the perils caused due to act of infidelity of any of the permanent employees of the insured.

The insured's business model was that advance payment was required from any buyer before goods are delivered from the insured's warehouse to them. In the given case, the insured's claim was misappropriation of sum of ₹ 22 lakhs misappropriated by Sakuni, one of its employees. Goods worth ₹ 24 lakhs had been invoiced for ₹ 2 lakhs only, to one Kumbakarna Tex.

The event happened on January 31st, 2019 evening when everyone was under Severe targets pressures and hence the officer superior to Sakuni could not find out the alleged mistake or fraud in the invoicing of goods.

When the warehouse keeper was enquired, it turned out that he did receive written memo from the sales team, as per usual practice, to release the goods. The warehouse keeper was not aware of the issue relating to short payment, the same not being in his domain.

The FA conducted the investigation in the above situation to help the insurance company and came to their rescue. You are required to imagine and narrate how the FA had helped the insurer in this regard.

(10 marks)

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- (b) Purchase department in an organisation plays a vital role and it has to be handled honestly in the interest of the company. In an instant case, HR department observed that a certain officer of the purchase department was resented by his colleagues and juniors as being arrogant. Upon enquiries, it was revealed that some vendors whose business with the company was low, were frequently visiting the concerned purchase officer with gifts and sweets, and some time distributed them to the entire department also. HR department in its routine annual review, elicited that the said purchase officer has been leading a very luxurious life which made the HR department to suspect the bonafides of this officer. Enquiry revealed that there was a disproportionate increase in his wealth and that he always selected non-competitive contractors for placing purchase orders.

If you have to conduct a forensic audit, how would you proceed to investigate this case ?

(10 marks)

- (c) Two brothers allegedly took help of SMS technology and launched the first of its kind SMS fraud in India.

The alleged masterminds behind a ₹ 400 million SMS fraud have duped at least 50,000 people. As part of the attractive scheme, the duo brothers messaged random numbers asking people interested in “earning ₹ 10,000 per month” to contact them.

- (i) Describe the facts of the case.
(ii) What was the modus operandi of the SMS fraud ?

(10 marks)

2. A bank suspects that the stock statements furnished for the 12 months during the FY 2018-19 by Ravana Handlooms, one of its borrowers, 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 borrower is a registered supplier under the GST law. Their turnover for the year ended 31st March, 2019 is ₹ 3.4 crores and they have filed their return of income on 12th October, 2019.

As a forensic auditor appointed by the bank, 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 ?

(12 marks)

3. Vishnu Mobiles Ltd., is a domestic company dealing in mobiles of famous international brands. During August, 2018, the company suspects that its sales volume has come down, thanks to the red flag raised by the Sales Manager.

Two persons L and M are handling sales of two famous brands viz., Orange (Costly mobiles) and Bamfung (economy model mobiles).

Anonymous letters have come to the company about sudden spurt in the lifestyles of L and M.

The company, suspecting acts of collusion and corruption, entrusts the job to you as forensic auditor.

What are the types of corruption you will look for ? What will be your course of action as forensic auditor to unearth the misdeeds, if any, committed against the company ?

(12 marks)

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4. Department of Foreign Trade (DFT) have received complaints from several quarters about one exporter who is alleged to have indulged in book exports (actual exports have not taken place, only the books show as if exports have taken place), against one Duryodhana Jewellers, Surat (DJS).

DFT appointed a forensic auditor (FA) to probe into the matter. The FA came out with a report proving that the complaints received were true. Discuss how the FA would have gone about in the course of his audit to prove the misdeeds of DJS.

(12 marks)

5. Vishnu Polymers Ltd., (VPL) have been dealing with one A Pvt. Ltd., (APL), which is a one person company (OPC). Directors of VPL feel that the promoter of APL, Mr. G, is also a nominee of another company, GGL and that he is a resident of Singapore. They suspect some foul play against VPL in the form of falsification of records given for proving the financial stability of the OPC.

You are appointed as the forensic auditor (FA) by VPL.

You are required to give a note to VPL about OPC and as to how you would proceed to clear the suspicion in their minds.

(12 marks)

6. Recently, BG Ltd., an existing Indian Company, was taken over by a new set of shareholders, who acquired majority stake in the company. They have taken steps to change Mr. E, the existing auditor, following the procedures laid down in the Companies Act, 2013.

They opine that two years back, a major fraud had been committed against the company and that Mr. E was aware of it, but he had not reported the same. The fraud is in the

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area of inflated purchases of products and services relating to the company construction project (factory building). You are appointed as the forensic auditor (FA) to carry out a forensic audit to look into the fraud.

You are required to advise the present management on these aspects :

(a) Is there any duty on the part of auditor of a company to report the fraud, if any, which he has come across ?

(6 marks)

(b) What are the aspects to be seen to determine/judge/ascertain whether fraud has taken place in the areas suspected ?

(6 marks)

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