

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. Bhuvana group of Companies, is a very famous conglomerate engaged in exporting cotton bales, cotton and synthetic yarn, etc. Over last few years, Bhu Ltd, the flagship company of the group has been very active in acquisition of businesses. Also, the Company has many subsidiaries and associates which are into export of agro based products, engineering goods and readymade garments to China, Dubai, Singapore and other countries. For this kind of expansion, the Company was in requirement of credit and banking facilities, which were provided by a consortium of banks, led by ESBA Bank.

The group had a Chief Finance Officer, Riyo who had been with the group for more than a decade. He was managing the treasury operations and was very close to the Management. As part of expansion plan, the group was looking for PE investment. Ariyanka PI Fund, was keen in investing in the group looking at their growth prospects. As a part of the deal, the Fund appointed Chanakya Consultants for the financial and other due diligence. The Consultants carried on a detailed evaluation as per the terms of engagement and submitted a report to the Fund. Yanky, the Chief Investment Officer of the Fund was startled when he looked at the report submitted by Consultants. He and his team, were reviewing this report when his subordinate Myank, was highlighting certain points from the report :

Bill discounting : The Bank was discounting the export bills of the Company against the Letters of Credit (LCs) from Prime Banks of the Buyer and credited the proceeds of the bills to the Current Account of the Company on the same day. However, the payment and

acceptance of the Bills was delayed. Further, on Company's request the Bank had extended the due dates of these bills.

False Exports : As per the information gathered from Customs Authorities, the exports had actually not taken place against most of the bills. Goods produced for exports against Packing Credit (PC) were also not available. It appeared that either goods were not produced against the Packing Credit or disposed off locally and funds were siphoned off. The Customs Authorities had informed that exports did not take place in 2000 cases out of pending 2100 bills, as these consignments do not relate to any exports.

Fabricated Certificates : Completion of exports was confirmed to respective banks/financial institutions by submitting false/fabricated certificates from the Auditors/Accountants and false status reports were filed.

Cash Flow : The cash flows reflected and dealt with in the audited Balance Sheets for the respective years were found to be incorrect and did not report the true picture.

Multiple availments : One of the group companies had filed the same export orders to various banks in the consortium and availed packing credit facilities from the banks. The company did not submit the export documents to the same bank from whom the packing credit was availed.

Hedging of receivables/payables : The Company used these non-existing export orders to book hedges for forex receivable and payable to show a different picture to the banks.

Receivables: The list of receivables indicated that most of the parties were foreign buyers. In the context of payment received from third parties and bills getting returned, the goods were likely to be sold to alternate buyers as the original buyers were renegotiating the price after the consignments were dispatched. Also, the borrower companies cheated the banks by submitting fake and forged export bills for purchase/discount which were drawn in non-existent overseas buyers.

Inflated payables : In respect of creditors for suppliers, full details of such suppliers were not available. Creditors for supply were fabricated in order to artificially boost the purchases and payables.

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Looking at the above facts, Yanky immediately flagged off the report to Management team of the Fund and they decided not to go ahead with the deal. Further, Yanky personally thought that it's his responsibility to inform the same to the Consortium Banks about the fraudulent activities in the group. He wrote an anonymous letter to the ESBA Bank mentioning the facts they got to know.

ESBA Bank immediately called for Consortium Banks meeting and appointed, Minda, as 'Forensic Auditor' to investigate all the issues.

- (a) Prepare a report on the procedural lapses made by the Bank's branch while discounting the export bills.
- (b) Banks as financial institutions are required to monitor with caution the foreign bills discounting as per Regulatory/Bank guidelines. Explain the follow-up mechanism and controls missed by the banks relating to foreign bills discounting.
- (c) In case of multiple banking arrangements, Consortium Bank has to take additional measures/precautions to review the credit facilities granted and utilised by the Companies on behalf of member banks. Explain the measures to be taken by 'Lead Bank' in this regard.
- (d) 'Timely information and review of the key parameters is useful to the member banks in multiple banking to avert this type of frauds.' Explain.
- (e) ESBA Bank has filed a case against the Management of the Company and Statutory Auditors. The Statutory Auditors claims that they just followed what the Management asked them to do and hence they are not party to the fraud. Is the Auditor's claim justified ? Explain in brief the punishment for such offences.

(8 marks each)

2. The tremendous growth in the field of Information and Communication Technologies (ICTs) coupled with an increased frequency of use of internet for different activities has also given rise to several notorious activities taking in the form of cyber-crimes. To put it layman terms, Cyber Crime is a technology based crime committed by the technocrats.

In a recent data published, it is stated that. “With increasing mobile and internet penetration in the Country, Cyber Crimes have also increased proportionately. Between 2011 and 2015, more than 32,000 cyber-crimes were reported across the country. More than 24,000 of these cases are registered under the IT Act and the remaining under various sections of Indian Penal Code and other State level legislations.”

As per the data reported in the Report of National Crime Report Bureau, a total of 7,201 cases were registered under the Information Technology Act, 2000 (IT Act) during the year 2014 as compared to 4,356 during the previous year 2013 showing an increase of 63.3% in 2014 over 2013. Further, 77% (5,548 cases) of the total 7,201 cases under the IT Act were computer related offences (Under Section 66A, 66B, 66C, 66D and 66E of the IT Act) followed by 10.5% (758 cases out of 7,201 cases) related to Publication/transmission of Obscene/Sexually explicit content (Under Section 67A, 67B and 67C of the IT Act). Along with it, the global spam rate, malware rate and phishing rate is increasing rapidly and there is a potential impact of Cyber Crimes on the economy, consumer trust and production time. The counter measures in the form of GPRS Security Architecture, Intrusion Detection and Prevention System and Agent Based Distributed Intrusion Detection Systems have thus been employed for security purposes.

In this background, answer the following questions :

- (a) Explain the various types of Cyber Crimes and the modes of committing such crimes. Also indicate the laws concerning such Cyber Crimes in India.
- (b) How block-chain technology helps in boosting cyber security ?

(6 marks each)

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3. Blue Sea Foods International Ltd., is Company engaged in export of various kinds of sea foods. The Company has been in existence for more than 10 years and wants to expand its operations. Till now the Company was managed and operated by the promoters. However, the promoters now want to expand the Company's operations and gradually get funding from Institutions. As a part of their immediate plan, the Management wants to fund its expansion plans through term loans and other banking arrangements.

The Vice-President (Treasury) of the company reached out to EXIMPO Bank for Term Loan facilities with the bank. He made a detailed presentation about the Company's history, its expansion plans and also provided projections for the next ten years.

The General Manager, in charge of the Advances in EXIMPO Bank approaches you to conduct a thorough investigation of the Company and submit a 'Confidential Report' based on which the Committee of the Bank will decide whether to sanction the loan or not. In this context, list out in detail the points to be covered in the investigation.

(12 marks)

4. Monako Consulting, is an established consulting firm in India providing various kinds of professional services covering consulting, valuation, taxation, forensic audit, etc. The Firm had various teams handling each line of service, consisting of well experienced and qualified staff. The Managing Partner of the firm was considering to enhance the business of the firm into audit practice as well. He called for a meeting with various service line Leads, to deliberate and decide whether to venture into audit practice.

The Forensic Audit Lead contended that 'Forensic Auditing covers a broad spectrum of activities, with terminology not strictly defined in regulatory guidance'. Hence the scope for forensic audit is wider, whereas the audit practice is bound by regulatory and legal requirements.

The Managing Partner said that the Audit is the same, just that the approach would change in case of statutory audit. He also contended that they can make use of their Consulting practice by using the data analytics and other tools for their existing client and provide better services. In this background, answer the following :

(a) 'Forensic Auditing covers a broad spectrum of activities. with terminology not strictly defined in regulatory guidance.' Explain.

(5 marks)

(b) 'Audit is different from forensic audit.' Explain.

(4 marks)

(c) Explain few examples where data analytics can be used in forensic audit.

(3 marks)

5. Manomay Technologies Ltd., was a listed Company providing IT and ITES services. The Company was more than a decade old and had made a mark for itself in the Indian software industry. The promoters of the Company wanted to diversify their business operations. To fund these plans, the Board decided to issue Global Depository Receipts to be traded on Luxembourg Stock Exchange. The Company raised huge funds through the GDR's and the investors were also happy as the Company always paid handsome dividends and the share price indicated a growth trajectory. However, not all was well within the Board Room. The promoters were worried that the sudden slump in the real estate market would hit them hard as they had diversified and heavily invested funds into real estate business. They were anxious, as they will not be able to continue the same show in terms of numbers going forward. The promoters evaluated various options including merging their profit making subsidiaries, selling their stakes etc. However, nothing materialised and they were only able

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to manage the situation for couple of quarters. Meanwhile this news spread like wild fire in social circles, and the promoters were sensing there were possible takeover threats given their slumping financial position. The Statutory Auditors of the Company resigned citing other professional commitments much before their tenure was over. On this news, the share price of the Company took a beating and the Banks got anonymous letters stating there was huge fudging of books in the Company. The Banks ordered a forensic audit and a huge fraud was unearthed. The Government appointed Kural Consultants for investigation and submitting the final report. Basis the report, the Government initiated penal action against those who were involved in the fraud. It's been more than two years now and Manomay Technologies Ltd was taken over by some other Company. You were part of the Consultant team during the investigation and have been invited on WOW TV's prime show to be interviewed. Outline in brief your response to the following questions asked by the host of the show.

- (a) What is a Financial Statements fraud ?
- (b) Should the Companies have a diagnostic check by way of regular financial fraud investigation checks to gain credibility ?
- (c) As an investigator, how do you detect fraud ?
- (d) As per you, what are the warning signs that indicate presence of fraud in financial statements.

(3 marks each)

6. Makhana Pesticides Ltd. is engaged in manufacture and distribution of pesticides, other ancillary products and has a turnover of ₹ 1,000 Crores. The Company has branches across multiple locations and the stocks are stored and distributed through these locations. The Management of the Company noticed that in few of the branches the write off in stocks was higher.

The internal auditor was asked to cover in his scope these aspects and report to the Board, his findings, if any. However, the internal auditor reported that there were no material exceptions and some quantity of stock was becoming obsolete due to weather conditions and was written off. However, the Management was not satisfied with the internal auditor's response, and so it appointed Amrut for an investigation. Amrut went to those branches for detailed investigation and also tried to use data analytics tools to understand the movement of stocks and deliveries. He noted that the stocks worth ₹ 5 Lakhs were pilfered and sold to small farmers in small quantities by the junior staff there. He got to know of this when he overheard a labourer discussing with a local farmer. However, there was no documentation which suggested the involvement of the Branch Manager. The Management issued a Memo to the Branch Manager, to which he agreed to strengthen the internal controls around the storage of inventory and gave explanation to the Management. In this background, answer the following :

- (a) Outline the line of investigation by the forensic auditor. (4 marks)
- (b) Can the forensic auditor go by what he heard and issue a report ? (4 marks)
- (c) What is the responsibility of internal auditor in case of such frauds being detected ? (2 marks)
- (d) Should the statutory auditor report such frauds ? (2 marks)

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