

Roll No.

Time allowed : 3 hours

Maximum marks : 100

Total number of questions : 6

Total number of printed pages : 7

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 :

Jupiter Hospitals Ltd., (JHL) is a renowned corporate house owning a famous hospital called “Jupiter Hospitals”. Two family groups (L and M) controlled the majority of the shareholdings in the company. The hospital is operated in Coimbatore, a non-metro city, where electronic and cheque transactions were not much high and patients mostly were making payments in cash.

The management of the company facing problems because of some disturbing events taken place during the financial year 2018-19. All these events are summarized as under :

(i) Robbery in Pharmacy :

A robbery took place in the pharmacy in the night of 29-3-2019 and cash of around ₹ 20 lakh was lost in the robbery. The robbers had entered through a window pane during 2 a.m. to 3 a.m. when none was present in the pharmacy. They decamped with all the cash in the cash chest, leaving nothing behind. No traces were found to have left behind by the robbers. Fingerprints were seen on the chest as they had not been wiped off. However, none belonged to an outsider (other than employees). The CC TV camera had turned defective a day earlier being 27-3-2019 and had been given for repairing and accordingly no help was available through CC TV recording.

: 2 :

Two key personnel in the pharmacy, the manager and the cashier, were supposedly doing a good job, showing remarkable growth in the night sales of the pharmacy. It is further to be noted that in nights high priced medicines were sold in huge quantities. The sales in comparison during day time was found to be less. The increase in sales was also having issues and complaints from the patients that the bills issued by the pharmacy for the goods purchased by them and cash received when asked to be verified for onward transmission for making claims, were not authenticated by saying that the same were not issued by the pharmacy. It transpired to the management that the employees involved are being in the habit of issuing the duplicate bills. It was further reported by the internal stock auditor that there is collection of the expired goods in the pharmacy and why the same has not been got replaced or exchanged from the companies as per policy.

The police who came for investigation hence concluded that the act of robbery might have been done by a North Indian gang who were committing similar crimes in the locality and area and thus closed the case file.

Insurance policy for loss of cash in safe had expired on 20-3-2019 and was not been renewed, since it was felt that no robbery would take place in a hospital which is always having movement of patients. The management entrusted the work to a forensic auditor to investigate the issue.

(ii) **Related Party Transactions :**

There were complaints put in the suggestion box by the various persons that some directors were making money from the purchase contracts which the hospital was entering into with the concerns in which these persons were interested. Till 15th March, 2019, the hospital had made purchases of around 22 crore from such related parties. However, on comparison with the earlier year, this was marginally higher by 5% and was thus not taken care by the management of hospital.

: 3 :

The allegations were that the prices paid were higher than the market prices and that some of the concerns were not reputed and have been earmarked by the drug authorities also.

There was a Purchase Committee which monitored the purchases and so the allegations were initially ignored. However, when they started pouring in, the Audit committee decided to investigate the matter and entrusted the job of ascertaining the correctness of the allegations to the forensic auditor.

(iii) Drop in Hospital Revenues :

There is an arrangement between the two groups of the shareholders that each group will administer the hospital for three years on a rotational basis. Group L's tenure had ended on 31-3-2018 and during the current year, group M had taken over the administration. Despite the number of surgeries and of other patients had not been dropped, there was a sharp fall in the revenues of hospital in the year 2018-19, except from the pharmacy. The cashier desk was managed by a director or his relative for having control over the cash. Group 'L' desires a forensic audit of the affairs to be conducted and entrusts the same to an outside forensic auditor.

In this backdrop you are being appointed as an 'Outside Forensic Auditor' to investigate all the three issues and required to give your report on the matters indicating :

- (a) That it was not a robbery, but defalcation of goods camouflaged as cash sales and subsequent given shape of robbery. You are required to build up all such points from the details given on which you could have come to such conclusion. Make reasonable assumptions in this regard as being found necessary to draw up the report in the matter of robbery as reported.

(10 marks)

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(b) In respect of the related party transactions, suggest a suitable strategy to be applied to carry out the forensic audit in an effective manner.

(10 marks)

(c) How the forensic auditor should plan his course of action to investigate and find out the cause of drop in revenue of hospital ?

(10 marks)

(d) What are the consequences under the Companies Act, 2013 and Income-tax Act, 1961 when the cause of drop in revenue is being proved ? State the steps to be taken by the company to remedy the situation so caused.

(10 marks)

2. A multi-national software company (MNC) having operations globally received a series of allegations about Mr. AK, a manager in senior position at Mumbai. The allegation was that he was receiving bribes and for that he had been inflating certain payments to be made. The employment records of the manager were impeccable. He had been with the company for a decade and had helped his division of which he was the manager to reach higher levels and increase in company revenues.

The complaints were initially ignored, but they were repeated month after a month, causing concern to the management. The Ethics Committee decided to look into the same and to have a forensic audit to look into the aspects involved.

In this backdrop you are required to answer :

How should the forensic audit be conducted by an auditor to examine the various aspects of the allegations and of higher payments covering the :

(a) First level investigations of the allegations.

(5 marks)

(b) Subsequent level investigation of suspected fraud of higher payments.

(7 marks)

: 5 :

3. Thrivikram Dazzlers (TD) is a reputed diamond jewellery merchants in existence for the past two decades. Their jewellery store was located at Chennai and the branch was also operated at Mumbai.

TD had been regularly dealing with a client at Delhi named Sunil Raina & Co., (SR). SR generally electronically transfers funds to TD for purchases. An employee "EM" of them then would visit TD and take delivery of the jewellery ordered. EM had become familiar to TD, having been visiting the shop for the last three years regularly. On 24-3-2019, there was an electronic transfer of funds from SR for a sum of ₹ 16 lakhs. EM produced a letter in the company's letter head which stated that the articles purchased were gifts for special clients for certain services rendered and hence requested that invoice be made out in the name of EM for 3 necklaces and that the delivery be effected to EM.

TD mailed to SR and asked for a confirmation regarding supply of goods in the name of EM. A mail was received in reply confirming the same. TD hence complied with the same after receipt of mail from SR.

On 30-3-2019, TD received a phone call from SR asking them why the goods had not yet been delivered despite the payment being made on 24-3-2019. Only then it transpired that EM had defrauded SR and TD.

Both TD and SR approach you, a leading forensic auditor, to conduct a joint forensic audit and submit a report. Both are willing to cooperate with you in providing details and information and records.

- (a) Outline the aspects to be considered of the transaction by the Forensic Auditor for taking course of action in detecting the truth of the employee EM.

(8 marks)

- (b) What would have been the course of action, taken by the Forensic Auditor, in case TD is a dealer in consumer products like costly refrigerators, TV sets, etc., and the goods delivered to EM were six costly TV sets ?

(4 marks)

4. Anustup Chandra Heavy Electricals Ltd., is a major player in the league of manufacture of heavy industrial boilers and steam turbine. The company had won a major bid for a big project in Colombo for fabrication of 10,000 MW boiler and turbine. The company outsourced some of the activities through a system of open tender and awarded contracts to eight different companies.

The company received complaints from three different bidders that there was a collusive bidding by four entities, to whom different contracts had been awarded by the company.

You are appointed to conduct forensic audit to determine whether the complaint made by the three different bidders is having any merit. Your approach be based on :

- (a) What will be the indicators/red flags you will look for ?

(4 marks)

- (b) What will be your line of investigation, to determine whether there has been really any collusive bidding ?

(8 marks)

5. In a college, the cashier has been accused of embezzling fees collections. After the conclusion of forensic audit, the Forensic Auditor (FA) obtained a confession statement from the cashier admitting the embezzlement. Forensic Auditor plans to make use of the same in fortifying his conclusions and in the suit proposed to be initiated against the cashier.

- (a) Discuss the aspects involved in construing the confession obtained as “admission”.

(4 marks)

- (b) Examine whether the same will be accepted as evidence in the Court of Law.

(5 marks)

- (c) Can part of the confessional statement alone be used ?

(3 marks)

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6. Vishnu Polymers Ltd., has got complaints from three anonymous persons which were found placed inside the employee's complaints box, that the internal financial controls for cash management in the company are weak and that the head cashier is defrauding the company by making defalcation of cash.

You are appointed to conduct the forensic audit to weigh the veracity of the complaints received, both regarding the weaknesses of the system, if any and about the charges on the head cashier being levied.

- (a) What are the statutory and other aspects to be considered and look out for in this context, by the forensic auditor ?
- (b) What will be the red flag indicators to look for by him ?

(6 marks each)

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