

FINAL COURSE: GROUP I

PAPER-3: ADVANCED AUDITING, ASSURANCE AND PROFESSIONAL ETHICS

(MTP 17: Ch. 17 – Investigation, Due Diligence and Forensic Audit)

Time Allowed- 20 Minutes

Maximum Marks-10

Write the most appropriate answer to each of the following multiple-choice questions by choosing one of the four options given. All MCQs are compulsory and carry 2 Marks each.

1. Which of the following statements best captures the distinctive essence of the Fraud Diamond model as compared to the Fraud Triangle, based on its conceptual expansion?
 - (a) It emphasises that fraud materialises only when pressure, opportunity and rationalisation interact strongly, with personal capability remaining an implicit behavioural factor.
 - (b) It asserts that fraud risk heightens when individuals experience rising pressures and rationalisation tendencies, provided organisational opportunities are sufficiently accessible for exploitation.
 - (c) It explains that fraud occurs when pressure, opportunity and rationalisation are present and the individual possesses the specific capability to recognise, exploit and conceal the fraudulent act, making capability a decisive additional element.
 - (d) It assumes that even with opportunity and capability, fraudulent conduct is unlikely unless pressures dominate the decision-making environment, causing rationalisation to weaken in relevance.

2. Which of the following statements:

Column A (Statements)	Column B (Types)
1. Review of compliance with statutory requirements relating to property, contracts and regulatory filings.	A. Personnel Due Diligence
2. Evaluation of systems, data flows, IT infrastructure and related control environment.	B. Tax Due Diligence
3. Analysis of employment terms, staff composition and adequacy of HR policies.	C. Legal Due Diligence
4. Examination of tax exposures, pending assessments and fiscal implications of the transaction.	D. Information Systems Due Diligence

Which of the following represents the correct matching?

- (a) 1–B, 2–D, 3–A, 4–C
- (b) 1–C, 2–A, 3–D, 4–B
- (c) 1–A, 2–B, 3–C, 4–D
- (d) 1–C, 2–D, 3–A, 4–B

Case Scenario [MCQ 3-5]

A large textile-processing entity, Brightloom Fabrics Pvt. Ltd., enjoyed significant credit exposure from a consortium of four banks. The company operated multiple divisions—raw fabric procurement, dyeing, finishing and export sales. It had availed a mix of working capital limits, including cash credit, packing credit, and bills-purchased facilities. Over the past two years, the account showed irregular operations, devolved LCs and chronic overdrawals. The consortium flagged the account as “early warning” due to persistent inventory mismatches, unusual forex transactions and recurring delays in bill realizations.

Following the continued stress, the lead bank appointed a forensic accounting team empaneled with IBA to conduct a detailed investigation. The mandate clearly stated that the team must determine whether funds were diverted, whether transactions with group entities were genuine, and whether operational documents were manipulated to overstate working capital requirements. The forensic professionals adopted a fact-gathering and evidence-driven approach, consistent with forensic accounting procedures described in ICAI material, focusing on critical examination of evidence, review of historical data for red flags, and use of computer-assisted techniques to identify digital trails.

The first phase involved a longitudinal review of accounting, operational and banking data over a four-year period. The team analyzed cash credit utilization patterns, the ratio of packing-credit drawdowns to export shipments, and the timing of forex inflows. Several anomalies surfaced—including (i) repeated drawal of packing credit without proportional increase in export orders, (ii) bills discounted with related parties that were reversed before due dates, and (iii) a surge in purchases from new vendors whose addresses were found to be non-existent.

Next, the investigators extracted system logs from the company’s ERP using computer-assisted tests to locate deleted or altered entries, as the ICAI material stresses reviewing digital evidence stored in systems. Multiple transactions had been edited shortly before bank submission dates. Further analysis revealed that inventory records were inflated through repeated duplication of batch numbers.

The forensic team conducted interviews with key employees, a step highlighted in ICAI’s process description, as interviews help uncover inconsistencies and corroborate documentary evidence. During discussions, the stores manager hesitated when questioned about goods supposedly lying with job-workers; surprise verification showed that several job-workers had no physical stock belonging to Brightloom.

Market intelligence was then gathered regarding the company’s exports. Although Brightloom reported large shipments to three overseas buyers, background checks showed that two of them were recently incorporated with no real operational activity. Further, forex remittances received from these buyers were significantly delayed, often regularised through short-term funds routed from local group entities.

The forensic professionals examined transactions with sister concerns, consistent with ICAI's expectation to analyse such transactions for siphoning or diversion of funds. This revealed circular movement of funds: Brightloom transferred money to a related party, which then deposited equivalent amounts as "advance from customers," creating false revenue visibility. The end-use review of large payments to suppliers showed that several payments were withdrawn in cash soon after crediting their accounts.

Finally, the team reconstructed the end-use trail of bank funds and established that working capital borrowings were used partially to repay unrelated loans of promoters and to fund speculative textile trades outside the books. After correlating evidence, scrutinizing contradictions in interviews and benchmarking transactional behaviour over time—typical steps in forensic accounting as per the ICAI material—the team concluded that systematic fund diversion and manipulation of operational documents had taken place.

Based on the above facts, answer the following:

3. While beginning the forensic engagement, the team reviewed four years of operational and banking data to identify unusual patterns and red flags. Which step of the forensic accounting process, as described in the ICAI material, does this represent?
 - (a) Conducting a review of historical data to detect red flags and establish behavioural patterns over time.
 - (b) Preparing a financial forecast based on expected future transactions for litigation purposes.
 - (c) Performing independent legal due diligence to validate statutory non-compliances of the entity.
 - (d) Undertaking analytical review to compare audited figures with industry-level profit benchmarks.
4. The forensic team extracted ERP logs and used computer-assisted tests to detect deleted or modified entries. Which process stage under forensic accounting does this correspond to?
 - (a) Use of computer-assisted techniques to identify digital evidence stored in systems.
 - (b) Validation of tax-related reconciliations through external confirmations from authorities.
 - (c) Determination of provisional loss estimates for interim reporting to management.
 - (d) Formulation of control-testing procedures aligned with statutory audit objectives.
5. During interviews, discrepancies in employees' statements were correlated with documentary inconsistencies and market-intelligence findings. In the forensic process described in the ICAI material, such triangulation is most aligned with which step?
 - (a) Classifying transactions based on their accounting materiality thresholds.
 - (b) Framing audit sampling units to optimise testing coverage.
 - (c) Designing substantive procedures based solely on financial-statement assertions.
 - (d) Critically examining and corroborating evidence using interviews, documentation review and external intelligence.

CA Final - Advanced Auditing


MCQ – Mock Test Series 1: Nov. 2025

Detailed Schedule of MCQ Test Series – Nov. 2025

Date	Day	Topic	MCQ Style	Marks
6 Nov.	Wed.	Ch. 19 - Professional Ethics	5 MCQs in the form of Case Studies and General MCQ	10
7 Nov.	Thu.	Ch. 1 - Quality Control		10
8 Nov.	Fri.	Ch. 2 - General Auditing Principles & A.R.		10
10 Nov.	Mon.	Ch. 3 - Audit Planning		10
11 Nov.	Tue.	Ch. 4 - Materiality, Risk Assessment and I.C.		10
12 Nov.	Wed	Ch. 5 - Audit Evidence		10
13 Nov.	Thu.	Ch. 6 - Completion and Review		10
14 Nov.	Fri.	Ch. 7 - Reporting		10
17 Nov.	Mon.	Ch. 8 - Specialised Areas		10
18 Nov.	Tue.	Ch. 9 – Related Services & Ch. 10 – Review of F.I.		10
19 Nov.	Wed	Ch. 11 - Financial info. & Other Assurance		10
20 Nov.	Thu.	Ch. 12 - Digital Auditing and Assurance		10
21 Nov.	Fri.	Ch. 13 - Group Audits		10
24 Nov.	Mon.	Ch. 14 - Audit of Banks and NBFC		10
25 Nov.	Tue.	Ch. 15 - Audit of PSU		10
26 Nov.	Wed	Ch. 16 - Internal Audit		10
27 Nov.	Thu.	Ch. 17 - Investigation, Diligence & Forensic		10
28 Nov.	Fri.	Ch. 18 - SDG and ESG Assurance		10

Note: Test Papers and Answer Key will be uploaded on Knowledge Portal of www.altclasses.in

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S. No.	Chapter No. and Name	Date of Test
WT - 1	Ch. 1 - Quality Control	26 Nov. 2025
	Ch. 19 - Professional Ethics	
WT - 2	Ch. 2 - General Auditing Principles	29 Nov. 2025
	Ch. 3 - Audit Planning, Strategy & Execution	
	Ch. 4 - Materiality, Risk Assessment & IC	
WT - 3	Ch. 5 - Audit evidence	03 Dec. 2025
	Ch. 6 - Completion and Review	
	Ch. 7 - Reporting	
WT - 4	Ch. 8 - Specialised Areas	06 Dec. 2025
	Ch. 9 - Audit Related Services	
	Ch. 10 - Review of Financial Information	
	Ch. 11 - PFI & Other Assurance Services	
WT - 5	Ch. 12 - Digital Auditing and Assurance	10 Dec. 2025
	Ch. 16 - Internal audit	
	Ch. 17 - DD, Investigation & Forensic Accounting	
	Ch. 18 - SDG & ESG Assurance	
WT - 6	Ch. 13 - Group Audits	13 Dec. 2025
	Ch. 14 - Special Features of Audit of Banks and NBFC	
	Ch. 15 - Overview of Audit of PSU	
WT - 7	Full Syllabus Test 1	17 Dec. 2025
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