



UNIVERSITI KUALA LUMPUR BUSINESS SCHOOL

FINAL EXAMINATION  
JANUARY 2016 SEMESTER

SUBJECT CODE : EAB30603  
SUBJECT TITLE : FORENSIC ACCOUNTING AND FRAUD EXAMINATION  
LEVEL : BACHELOR  
TIME / DURATION : 2.00 PM - 5.00 PM / 3 HOURS  
DATE : 23rd MAY 2016

INSTRUCTIONS TO CANDIDATES

1. Please read the instructions given in the question paper CAREFULLY.
2. This question paper is printed on both sides of the paper.
3. This question paper consists of TWO (2) sections; Section A and section B.
4. Answer ALL questions.
5. Please write your answers on the answer booklet provided.
6. All questions must be answered in English (any other language is not allowed).
7. This question paper must not be removed from the examination hall.

THERE ARE SIX (6) PAGES OF QUESTIONS, EXCLUDING THIS PAGE.

**SECTION A (Total: 60 marks)**

**INSTRUCTION: Answer ALL questions.**

**Please use the answer booklet provided.**

**Question 1**

You are a forensic accountant in Melati & Partners, a firm of Chartered Certified Accountants. Your firm provides the audit services to MBI Cinema which operates a chain of cinemas across the country. The audit strategy concludes that the company has a relatively high risk associated with money laundering, largely due to the cash-based nature of its activities. The majority of customers purchase their cinema tickets and refreshments in cash, and the company transfers its cash to overseas bank accounts on a regular basis

**Required:**

- A. Define the term 'money laundering'. (2 marks)
  
- B. Explain the stages used in laundering money, commenting on why MBI Cinema has been identified as high risk. (6 marks)
  
- C. Recommend **FOUR (4)** elements of an anti-money laundering programme which audit firms such as Melati & Partners should have in place. (12 marks)

**[Total: 20 marks]**

**Question 2**

Cactus Corporation produces and distributes bottled mineral water throughout the Asian region. Selina Tomaz, a staff in the internal audit department, is conducting the first-time-ever audit of Cactus. On the second day of her audit, she was cautioned by the accounts clerk on irregularities of certain postings and transactions. Upon checking, she discovers that the Chief Financial Officer (CFO) has acquired a semi-detached house, a speed boat, and a Jacuzzi for his personal use. All three items were delivered to the CFO's personal residence, and they were booked into the accounting records as donations and gifts. Selina examined Cactus's most recent federal tax return and noticed that the items had been included in tax deductible as donations and gifts.

**Required:**

- A. Explain actions that Selina Tomaz should do about her finding. (12 marks)
- B. Define the term "whistleblower" with appropriate example. (4 marks)
- C. Explain briefly **FOUR (4)** difficulties that are faced by a whistleblower (e.g. Selina) that makes her reluctant to whistle blow towards the management. (4 marks)

**(Total: 20 marks)**

**Question 3**

Shah Rukh, an accountant for Synergy Corporation, has been suspected of committing fraud. Some information has been gathered about the fraud points to Shah Rukh as the most likely perpetrator. In his scheme, Shah supposedly stole more than RM10 million over the past 5 years. Due to the magnitude of the fraud and to set an example in the company, Synergy Corporation decides to prosecute Shah Rukh both civilly and criminally.

**Required:**

- A. Briefly discuss **FIVE (5)** steps in investigating a suspected fraud. **(5 marks)**
- B. Describe what will happen to Shah Rukh during the civil litigation, including the stages of civil litigation that he and Synergy Corporation will go through. **(9 marks)**
- C. Identify action that a fraud investigator could add value in the:
- i. investigation; **(2 marks)**
  - ii. legal follow up; and **(2 marks)**
  - iii. implementation of controls to prevent similar problems from happening in the future. **(2 marks)**

**[Total: 20 marks]**

**SECTION B: (Total: 40 marks)**

**INSTRUCTION: Answer ALL questions.**

**Please use the answer booklet provided.**

**Question 4**

Body Fit Corporation is a vitamin supplement company in United States that makes different herbal pills for gaining muscular strength, losing weight, and living a healthier life. You have been hired to audit Body Fit Corporation and soon realize that the company has many problems. You notice the following frauds being committed and required to write a report to the board of directors about what should be done to fix the problems.

1. There are journal entries for consulting expenses that, when traced back, show five companies using the same post office box for receiving consulting fees from Body Fit Corporation. You discover that the accountant has been embezzling money and listing it as consulting expenses. He is a trusted employee who has worked for the company almost 20 years and recently there is a change of behavior and extravagant lifestyle whereby he is able to drive a Porsche to the office and wear branded outfits.
2. The warehouse manager has been stealing pills to help his son get stronger (he wants his son to play football again and fully recover from an injury due to a car accident last 2 years). He was in dilemma and being pressured by the management on the heavy workload given to him to monitor stocks in the warehouse all by himself. To cover losses, he issued credit memos to customers manually, showing that they returned bad goods that were replaced with new pills. Nobody in the company noticed this activity because he is able to cover up his trail efficiently.
3. The Chief Executive Officer (CEO) of the company decided that he did not like paying payroll taxes anymore, so he fired all of his employees and rehired them as contractors. However, he still withholds payroll taxes and keeps the money for himself. Upon interview with the respective employee, they mentioned that he tends to keep the money and pay the employees some commission or pocket money if they able to assist in this fraudulent act since all the money earned by the company was his initiatives and effort for the past 5 years. He deserves to be rewarded by rationalizing this unlawful act.

4. The company pantry expenses are handled by one of the company's clerk on monthly basis. She always seems to have new accessories and outfits every month. All employees were aware about this matter and no action being taken towards her. The account payable clerk likes to go shopping with the company's checkbook and always buys herself a little something when she orders office supplies. However, since she is the one who handles office supplies, no one knows what was purchased for the company and what was ordered for her living room.

**Required:**

- A. For each fraud identified above, briefly discuss **ONE (1)** control procedure that was not followed by Body Fit Corporation and suggest **ONE (1)** control that the company should implement as part of prevention method.
- B. Discuss on how to deal with the perpetrator involved for each fraud identified above.
- C. Briefly discuss the element of Fraud Triangle. Provide relevant example(s) for each fraud identified in the case above.

**(8 marks)**

**(4 marks)**

**(8 marks)**

**[Total: 20 marks]**

**Question 5**

The following surveillance log was taken during two-fixed point surveillances of an employee suspected of stealing cash from the company while making nightly bank deposits.

Time	Surveillance Log
10:47 pm	Amran exits car carrying a black deposit bag. Shuts car door and looks around him in every direction.
10:49 pm	Amran approaches ATM, unzips deposit bag, and pulls out a white envelope. Amran places white envelope in coat pocket.
10:50 pm	Amran deposits cash into ATM.
11:34 pm	Amran enters a mamak restaurant and sits at table with a Chinese male. The two order drinks from waitress.
11:37 pm	Waitress returns with drinks and bill.

**Required:**

- A. Briefly discuss **FIVE (5)** weaknesses of this surveillance log. (10 marks)
- B. Briefly define evidence and explain the importance to take detailed notes during surveillance and covert operations. (5 marks)
- C. Rules of evidence control both content of the evidence and the manner in which it is presented. Briefly discuss **FIVE (5)** rules relate to evidence content. (5 marks)

**[Total: 20 marks]**

**END OF QUESTION PAPER**

