

**Indicative Model Question Paper
Professional Programme
New Syllabus 2022**

COMPLIANCE MANAGEMENT, AUDIT AND DUE DILIGENCE

Time Allowed: 3 hours

Maximum Mark: 100

NOTE: Answer ALL Questions

PART – I

Question No. 1.

M/s. ABC Limited was incorporated on 29.11.2018 under the provisions of Companies Act, 2013 and having its registered office at Business Enclave, C-58/14, Basant Kunj, New Delhi as per records maintained in the Registrar of Companies. Whereas a complaint has been received from Mr. "X", who is the owner of premises, where the company is having its registered office w.e.f.01.08.2019; wherein the complainant Mr. "X" has complained about the illegal running of company and involved in unlawful activities at his above-mentioned premises.

After inquiry and examination of records by the Investigating Officer it has been observed that the company has not filed Annual Return for the F.Y. 2019-20, 2020-21, 2021-22. Thus, company and its directors has violated the of provisions of Section 92(4) and liable for action u/s 92(5) of the Companies Act, 2013. During the Inquiry it was pointed out by the Investigating Officer that the turnover of the company exceeds the Rs.1000 Crore. Hence, in compliance of the Section 138 of the Companies Act, 2013, the company shall appoint internal auditor & shall conduct audit in the company. However, the company neither appointed internal auditor and nor conducted audit in the company and failed to comply with requirements of section 138 of the Companies Act, 2013. Mr. "Z" is the Company Secretary of M/s. ABC Limited and was not discharge his professional responsibility as a Key Managerial Person towards the Board or to the company.

Whereas adjudication of penalty for violation of Sections 12, 92, 138 of Companies Act, 2013 was initiated by the Adjudicating Officer against the company and its Key Managerial Personnel and the orders passed by the Adjudicating Officer were served upon them through registered post. The copy of were duly served/ delivered upon the M/s. ABC limited and Ms. Moon, Director; while the same notice addressed to other directors returned undelivered on 01.08.2023 from the address of the directors namely Mr. Jupiter and Mr. Mars. It is transpired that the directors namely Mr. Jupiter and Mr. Mars are not present at their

declared address as per particulars filled in DIN application form and that they have failed to intimate their change of address with the MCA in the prescribed form DIR-6 as required under Rule 12 of the Companies (Appointments and Qualifications of Directors) Rules, 2014.

Based on the above facts, answer the following questions:

(a) Whether violation of Sections 12, 92, 138 of Companies Act, 2013 by M/s. ABC Limited is Compoundable Offences? Whether joint application by Company and Key Managerial Personnel in default are allowed?

(b) Whether Mr. Jupiter and Mr. Mars are liable under Section 447 of Companies Act, 2013 for the act of concealment/suppression of material fact to the Registrar of Companies for not disclosing the change of address?

(c) "Though a Company Secretary is entitled to enjoy some rights and powers as laid down in the Companies Act, yet his position is not free from liabilities". Comment.

(d) According to the Companies Act, 2013 read with the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, the Company Secretary must perform the certain functions and duties. Elucidate.

(5 Marks each)

Attempt all parts of either Q. No. 2 or Q. No. 2A

Question No. 2.

Luke Graves (Luke) is the long-serving Chief Executive Officer (CEO) of Hornbill Ltd., a listed company. He had a meeting with the newly-appointed Chairman of the company, Ross Plank (Ross). A number of different items were on the agenda for discussion. Luke said that he has decided to insert a Compliance framework as a system designed to assist an Organisation to meet its obligations and to Reduce the risk of non- compliance. He further added that a systematic compliance framework establishes better compliance platform by timely compliances with the provisions of various statutes including, laws, rules & regulations, procedures therein. He had also discussed the company's performance over the past few months. Luke added that he had also discussed the company's main business strategies with executives and had informed them that he intended to establish a strategy committee within the company, consisting of the executive directors and other senior executives for implementing the decision. Luke and Ross later on discussed on Compliance monitoring which is the most essential mechanism of corporate compliance framework because it enables companies to recognize whether their compliance framework has been implemented in

practice and whether it is practicable, responsive, and suitable for the characteristics of the company. Deliberation also took place for arranging a strong compliance training and education program which reinforces company compliance culture.

Based on the Luke and Ross meeting and discussions, answer the following questions:

(a) Elucidate the components of corporate compliance framework.

(b) At the time of discussion on corporate compliance framework of the company, Mr. Ross commented that the Compliance Chart is a vital part of the framework and the company must at present first focus on preparation of the Compliance Chart. Explain the activities in preparation of a compliance chart and its contents.

(c) "Compliance monitoring is the most essential mechanism of corporate compliance framework because it enables companies to recognize whether their compliance framework has been implemented in practice and whether it is practicable, responsive, and suitable for the characteristics of the company". Explain.

(d) "A strong compliance training and education program reinforces company compliance culture" Comment.

(5 Marks each)

OR (Alternate Question to Q. No. 2)

Question No. 2A

(i) A complaint of professional misconduct is filed with ICSI against Ravi, a Practicing Company Secretary. The Disciplinary Committee of ICSI is of the opinion that Ravi is guilty of professional misconduct mentioned in the Second Schedule to the Company Secretaries Act, 1980. The Committee, after affording Ravi an opportunity of being heard, ordered for removal of his name from Register permanently and also imposed penalty of Rs.10 lakh. Is the action of the Committee valid? What actions can the Board of Discipline (a separate authority) take if it is of the opinion that a member is guilty of professional misconduct mentioned in the First Schedule to the Act, 1980?

(ii) ABC Ltd. had a paid-up share capital of Rs. 275 crores in the previous year 2022-23. Explain how a Practicing Company Secretary can prepare himself for such a big assignment

before undertaking the work relating to pre-certification so that the chances of incorrect certification will not be there.

(iii) 'S' was appointed as Managing Director of VPR Mart Limited recently. During the meeting of the Board, he desires that all agenda files should be sent by email encrypted by password. He also desires that to protect the file from hacking, there should be some special name to the file. As a company secretary, kindly highlight any eight best practices for file naming.

(iv) Thinking Star Limited, a Public Limited Company was into manufacturing of steel and steel products. The Company wanted to expand its operations and to fund the same, it evaluated various options including bank loan, private placement, etc. However, due to a paucity of time the Company went ahead and funded its operations by issuing shares to a friend of Mr. XY, the Managing Director of the Company on private placement basis. The Company failed to comply with the provisions of the Companies Act, 2013. Mr. XY was not willing to act, unless there was any notice from the regulators. Mr. S, the Corporate Advisor to the Company suggested Mr. XY to compound the offence as it would be in the best interest of the Company.

Under the Companies Act, 2013, where a Company seeks compounding before institution of any prosecution, whether any prosecution shall be instituted in relation to such offences either by Registrar of Companies or any person authorised by the Central Government'?

(5 Marks each)

Part – II

Question No. 3

Managing Director, Chief Financial Officer and Company Secretary of the ABC Limited were having a meeting on angles of independence of audit and conducted research on top hundred companies for their adaptation of criteria of internal audit.

The Company secretary of the company has conducted detailed research and shown below facts:

Independence of audit refers to the independence of the auditor including statutory auditor, internal auditor, secretarial auditor, cost auditor or any other external auditor from parties that may have a financial interest in the business being audited. The auditor plays a critical role in lending independent credibility to published financial statements

used by investors, creditors and other stakeholders. The company should ensure that the annual audit is conducted by an independent, qualified and competent auditor in accordance with high-quality auditing standards in order to provide an external and objective assurance to the Board and Shareholders that the financial statements fairly represent the financial position and performance of the company in all material respects.

Observation:

Out of the total companies evaluated, in 62% of the company's Internal Audit is conducted by an External Agency and in 38% of the companies it is conducted by the Internal Team.

Independence of audit is the foundation of the auditing profession. An independent, reliable, and ethically sound audit enhance the credibility of a company and allows the public to trust the accuracy of the results and the integrity if the accounting profession.

Based on the above discussion, answer the following questions:

(a) The concept of the internal audit has been recognized as a statutory exercise under Section 138 of the Companies Act, 2013, and has been made mandatory. As per Rule 13 of Companies (Accounts) Rule, 2014, the certain class of companies shall be required to appoint an internal auditor which may be either an individual or a partnership firm or a body corporate. Explain.

(b) Discuss the factors impairing the independence of internal auditors. Elucidate.

(c) "Internal Audit effects the efficiency of internal control, operations, the reliability of financial reporting, deterring and detecting fraud and compliance with laws and regulations". Comment.

(5 Marks each)

Question No. 4.

You are a Company Secretary of a manufacturing company; the company has enrolled your name for attending a 2 days residential workshop on the topic "risk management". You have attended the workshop and prepared below mentioned notes:

In the corporate context, 'Risk' may be defined as the possibility of an occurrence of event that can adversely affect the achievement of a company's objectives and goals. Risk is inherent in every business, whether it is of financial nature or non-financial nature. Thus, management of the risk is very important.

Risk management is a structured, consistent and continues process, applied across the Organisation for the identification and assessment of risks. Control assessment and

exposure monitoring.

Risk management begins with the risk identification, analyzing the risk factors, making an assessment of the risk and mitigation of the risk. Better risk management techniques provide early warning signals so that the same may be addressed in time. In a traditional concept, the natural calamities like fire, earthquake, flood etc. were only treated as risk and keeping the safeguard equipment, etc. were assumed to have mitigated the risk.

But now, in the era of fast-changing global economy, the management of various types of risks (for example- industry and service risks, management and operational risks, market risks, political risks, disaster risks, sustainability risks, cyber security risks etc.) has gained utmost importance. The International Organisation for Standardization (ISO) has also identifies principles of risk management.

Based on the above-mentioned notes, answer the following questions:

- (a) Risk profiling of a Company may include the certain types of risks. Explain.
- (b) Elucidate Risk Assessment considering the existing Internal Control Mechanism.
- (c) Risk management begins with the risk identification, analyzing the risk factors, making an assessment of the risk and mitigation of the risk. Analyze.

(5 Marks each)

Question No. 5

- (i) M/s S. Core Advisory Services Pvt. Ltd. has submitted its bid invited through International Bidding Process by RE Textiles & Yarns Ltd. Being a lowest bid, the letter of award was issued in favour of M/s S.Core Advisory Services Pvt. Ltd. for providing consultancy services to set up a Knitting Fabric Plant at Maharashtra. M/s S.Core Advisory Services Pvt. Ltd. is already providing consultancy services to various organizations in India and outside India. RE Textiles & Yarns Ltd. asks M/s S.Core Advisory Services Pvt. Ltd. to enter into a Non-Disclosure Agreement. The Agreement is proposed to be signed at Mumbai. The Management of RE Textiles & Yarns Ltd. wants to include the following clauses in the Agreement:
 - (1) No Title to Use
 - (2) No Obligation to Disclose, No Representations

Prepare a brief note on above two clauses required to be included in the Non-Disclosure Agreement.

(ii) Z Ltd. is a listed Company, in pharma sector. During the Covid-19, for expansion, it acquired M Ltd., which is an unlisted Company. The medicine in Highly demand named 'ROLO' was produced by M Ltd. in large quantity. During the investigation, it was found that there was big scam, where the merged entity has given huge incentives amounting Rs. 2000 Crore approximately to medical professionals for recommending the ROLO. The government has also constituted a special committee to report on the same. A Company Secretary firm was engaged to report on fraud. In view of this type of cases, what other types of transactions to be noticed under the term of 'Fraud'. Who is considered as an Auditor for fraud reporting?

(iii) Discuss the types of information with respect to 'Maintenance of Professional Skills and Standards' are sought by Quality Review Board during the peer review of Practicing Company Secretary/Firm.

(5 Marks each)

Attempt all parts of either Q. No. 6 or 6A

Question No. 6.

(a) X, Y and Z are three partners in JK LLP, a firm of Practicing Company Secretaries. X holds 1% paid-up share capital in ABC Ltd. Y holds shares of nominal value of Rs. 70,000/- in ABC Ltd. Referring the provisions relating to ICSI Auditing Standards, advise whether JK LLP can be engaged for the Secretarial Audit of ABC Ltd.

(5 Marks)

(b) ABC Pvt. Ltd. is a subsidiary company of a XYZ Ltd. having a paid-up capital of Rs. 60 Crore and Turnover of Rs. 180 crores as per the audited balance sheet as on 31st March, 2021. Referring to the provisions of the Companies Act, 2013, answer the following:

(i) Whether the ABC Pvt. Ltd. is obliged for conducting of secretarial audit?

(ii) Whether the Cost Accountant in Practice who is also a Company Secretary can be a competent professional for the appointing as a 'Secretarial Auditor'?

(iii) To whom the secretarial audit report is required to be addressed?

(iv) In which prescribed form secretarial audit report is required to be submitted by the auditor?

(v) What are the penal provisions, if Secretarial Auditor doesn't comply with the provisions

of section 143 (12) of the Companies Act, 2013?

(5 Marks)

(c) You as a practicing Company Secretary has been approached by Popular Bank to carry out due diligence regarding the loan of Rs. 50 crores to be given to Weak Ltd. How would you find that the company has misused borrowed funds from banks/ financial institutions from the purpose for which they were borrowed and there has been Siphoning of Fund?

(5 Marks)

OR (Alternate questions to Q. No. 6)

Question No. 6A

Since the last ten years, Vijaya Ltd. has been misreporting its financial accounting accounts, which have been duly audited by the Practicing Chartered Accountants (PCA) Partnership business. Vijaya Ltd. had no choice but to declare itself as bankrupt when the company's financial situation deteriorated to the point that it was unable to pay any current liabilities as well. During the discussion and under pressure from stakeholders, Vijaya Ltd. published a press release claiming that there is a discrepancy between actual and reported earnings over the last decade due to accounting irregularities.

During the course of the forensic audit, it was discovered that the auditing firm's independence had been compromised by a huge audit fee and hefty consultant income. Because Vijaya Ltd. was such a significant client for PCA, it had intentionally signed off on incorrect statements to protect the company's management. The examination also discovered a number of serious internal control flaws, including a lack of effective management oversight of the external reporting process and a disregard for applicable accounting standards.

Assuming the above-mentioned circumstances for the secretarial audit done by Mr. X (PCS) for Vijaya Limited, answer the following questions:

(i) Briefly explain the Procedure of Forensic Auditing Investigation.

(ii) Audit fee which is to be charge by the auditor depends on several factors, Elucidate.

(iii) How Internal Audit effects the efficiency of internal control, operations, the reliability of financial reporting, deterring and detecting fraud and compliance with laws and regulations?

(5 Marks each)
