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FOR CS PROFESSIONAL EXAM PREPARATION

CS Professional 2024 Question Paper · Compliance Management, Audit and Due Diligence

EXAM
CS Professional

YEAR
2024

TYPE
Question Paper

SUBJECT
Compliance Management, Audit and Due Diligence

DATE
December 2024

NEW SYLLABUS

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Roll No. .....

Time allowed : 3 hours ***Maximum marks : 100***

Total number of questions : 6 ***Total number of printed pages : 11***

NOTE : *Answer **ALL** Questions.*

PART–I

1. (*a*) Secretarial Standard-1 is equally applicable on all the companies, one person company and a company registered under Section 8 of the Companies Act, 2013, without granting any exemption to any kind of the company. Comment.

(*5 marks*)

(*b*) Draft the Directors' Responsibility Statement of ABC Limited, which is to be incorporated in the Directors' Report.

(*5 marks*)

(*c*) S is a Company Secretary in Practice and also the Managing Committee Member of the Chapter of the Institute of Company Secretaries of India (ICSI). He invited Y (a senior Government official) to the Chapter's Independence Day celebration function. He spends heavily on the Y towards his travel and stay arrangements. He booked five-star hotel room for one day for Y and gave business class Air Tickets to Y along with Mrs. Y, to attend the Chapter's function, with an intention to secure

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professional opportunities from the government department for his professional firm. The chapter of ICSI has paid for these expenses. Moreover, he has also misused the confidential data available with the office of the Institute for personal use and his personal benefits.

Citing the relevant code of conduct of the ICSI, state whether the act of S will amount to misconduct.

(*5 marks*)

(*d*) P is a part time director of ABC Limited. J is a whole-time Director (Finance) and the Chief Financial Officer (CFO) of the company. The compliance officer had not been performing his duties in time and that has resulted into non-filling of the annual return and the financial statements from the financial year 2015-16 to 2019-20. The name of ABC Limited was struck off by the Registrar of Companies in the year 2023-24. ABC Limited was doing the business continuously till 2023-24. J along with P were appointed as part time Director in XYZ Limited during 2022-23.

Citing the relevant provision of the Companies Act, 2013 explain the dereliction of the duty and penal provisions.

(*5 marks*)

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

2. (*a*) X, a member of the sports club has been paying all his fees in time. In the Annual General Meeting of the club, a resolution was passed for expelling X with immediate effect, as a member of the club, without citing any reason or violation of the rules and bye-laws of the club. Examine the legality of the resolution passed by the Annual General Meeting.

(*5 marks*)

(*b*) Subsequent to the completion of an inquiry proceedings and other actions initiated by the Securities and Exchange Board of India (SEBI) against ABC Limited on the allegations of securities malpractices in the market, ABC Limited decided to move an application for settlement to the SEBI as per Regulation 9 of SEBI (Settlement Proceedings) Regulations, 2018. Explain various Settlement Terms and also state any four factors that are to be considered while arriving at these Settlement Terms.

(*5 marks*)

(*c*) D accepted the appointment as a director in 25 companies till 31st March 2015. Consequently, the Registrar of Companies (RoC) had issued a show cause notice to D in the year 2016. The RoC imposed a penalty of ₹ 15 lakh on D on the

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basis of a penalty of ₹ 5,000 per day for the entire period of default. D appealed to the Tribunal for compounding and the Tribunal compounded the offence for ₹ 50,000.

The RoC is not satisfied with the decision of the Tribunal and seeks your independent opinion as per the provisions laid under the Companies Act, 2013. Advise.

(*5 marks*)

(*d*) Y is a qualified Company Secretary. Y was in the need of a job since her husband got transferred to a town and for the past 6 months, she had not been able to get any job. At last, through her neighbour's contact, she met with MG, Director (Finance) of XYZ Limited. She got a job in the secretarial department of XYZ Limited, through the recommendation of MG, the Director (Finance). It was decided mutually that if she gets the job in the company, she would part 50% of first-year salary with MG, Director (Finance), comprising of 50% in cash and remaining through banking channel and same would be paid within 3 months of joining the company. Accordingly, she paid the pre-decided amount to MG Director (Finance).

Citing the relevant Code of Conduct of the Institute of Company Secretaries of India, explain whether Y has been guilty of violating the Code.

(*5 marks*)

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OR (Alternate Question to Q. No. 2)

2A. (*i*) (*a*) You are a partner of ZKB & Associates (Practising Company Secretaries) and you are responsible for arranging and indexing the records in a way that permits easy location, access and retrieval of documents. Citing the basic rules that could serve as a general guideline in structuring folder and file naming. Give nomenclature of the file in following cases :

(I) Annual Return MGT-7, Financial Year 2022-23 of TZ Pharma.

(II) Search Report of PTK RESORTS, Invoice dated 30 July, 2023, PDF document.

(III) Mohit Nair Max Life 8561 3 POLICY date 19/October/2022, white paper structured file naming Strategy document.

(*1×3=3 marks*)

(*b*) State whether the following offences under the Companies Act, 2013 are compoundable. If yes, mention the Compounding Authority.

(I) Failure to keep proper books of account under Section 128(6).

(II) Committing default in complying with the requirements relating to formation of companies with charitable objects, etc. under section 8(11).

(*1×2=2 marks*)

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(*ii*) M, a partner of MNP and Co. (Practising Company Secretaries) has to do the certification of Annual Return of ZK Limited. Suggest the guiding principles that can be adopted by M about the extent of checking the Annual Return of the company. Can a Professional give Certification with Reservation/Qualification/Observations/Adverse Remarks ? Comment.

(*3+2=5 marks*)

(*iii*) Explain the factors that are taken into account by the Securities and Exchange Board of India (SEBI), while adjudicating quantum of penalty. Also indicate the penalties under the SEBI Act, 1992, in each of the following :

(*a*) Penalty for Insider Trading

(*b*) Penalty for failure to redress investors' grievances.

(*2+3=5 marks*)

(*iv*) A retail company, Cloudtail, sells goods on E-commerce platform. The company sold pressure cookers made by XYZ Limited, which were not compliant with the mandatory standards. On noticing the quality lapses, the consumer wanted their money back, along with damages from the Cloudtail. Whether the Cloudtail shall be liable for damages or XYZ Limited or both ? Substantiate your answers with reasons.

(*5 marks*)

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PART–II

3. (*a*) In a board meeting of the TCD Limited, the Company Secretary gave a presentation to the Board on Corporate Governance and explained that the Corporate Governance deals with conducting the affairs of a company in such a way that there is fairness to all stakeholders and that its actions benefit the greatest number of stakeholders. There is no illustrative checklist for auditing of Shareholders Interest under Corporate Governance system and it depends upon the company to follow its own policy. Comment.

(*b*) Non-reporting of related party transactions led Secretarial Auditor to penalty. Discuss with the help of a leading case of Sun Pharmaceuticals industries Limited [Adjudication order passed by the Registrar of companies (RoC), Gujarat, Dadra & Nagar Haveli dated 28/04/2023].

(*c*) Explain various kinds of general and specific skills the internal auditor must possess for discharging their professional obligation proficiently.

(*5 marks each*)

4. (*a*) Why does the "Emphasis of Matter" (EOM) is included in the Audit report ? Give two examples which could be considered as EOM.

(*3 marks*)

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(*b*) The audit committee of the company by a resolution had recommended ABC & Co. as the Statutory Auditors to the Board of Directors of the company. The Board also appointed ABC & Co. The shareholders of the company in its Annual General Meeting had appointed PQR & Co. as the statutory auditors. The Board does not agree the appointment of PQR & Co. by the shareholders and insists that ABC & Co. should act as Statutory Auditor. Decide and substantiate your answer with arguments.

(*3 marks*)

(*c*) Explain how does audit trail work.

(*3 marks*)

(*d*) Explain about the type of due diligence that uncovers the aspects of operational weakness, inadequacy of control mechanisms and also gives a better picture of the kind of cost to the buyer for the expansion.

(*3 marks*)

(*e*) RP Limited, a company has been regularly implementing Corporate Social Responsibility (CSR), as per the provisions contained under the Companies Act, 2013, for the past three years. The company has been executing the project(s) and now the project(s) has been completed and it has no ongoing project. It has an unspent amount of ₹ 20 lakh on 28th December 2022 in their CSR account.

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By which date the company is required to transfer this amount to the Fund Specified in Schedule VII ?

Also advise the company about the limit of expenditure including administrative overhead for the purpose of CSR, if its' past 3 years net profits are ₹ 5 crore, ₹ 6 crore and ₹ 7 crore, respectively.

(*3 marks*)

5. (*a*) The auditor must plan the audit with professional scepticism, so that it is possible to exercise professional judgement in an objective manner. Practically examine this statement as an auditor.

(*b*) GKL & Co., a firm of Practicing Company Secretaries, is the Secretarial Auditor of ABC Limited. During examination of documents, the auditor had observed a fraud of ₹ 2 crore, which was not reflected in the Statutory Auditor's Report. Examine in the background of an argument that examination of the financial statement is primary responsibility of the statutory auditor.

(*c*) XYZ Limited wants to observe good governance practices. The company has approached you to suggest controls to prevent and detect frauds and to educate their employees towards the awareness of frauds. Give your recommendations in this regard.

(*5 marks each*)

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

6. (*a*) Due diligence on competition law aspects is an examination of the actual operations and practices of an enterprise and effectiveness of the company's competition law compliance policy and training program. Discuss.

(*5 marks*)

(*b*) The principle of confidentiality imposes an obligation on the auditor to refrain from doing certain acts. Explain. How will the Auditor ensure the prevention of unauthorised access to such confidential information ?

(*3+2=5 marks*)

(*c*) Explain the process of selection of the Practice Unit by the Quality Review Board and submission of the reviewer's report to the Board.

(*3+2=5 marks*)

OR (Alternate Question to Q. No. 6)

6A. (*i*) The Auditor shall assess the efficacy and adequacy of the systems and processes of the Auditee. Comment. Also cite any four best practices being observed by the companies for Board processes.

(*3+2=5 marks*)

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(*ii*) An auditor is conducting an audit of a company's financial statements. As part of the audit, the auditor is reviewing the company's bank statements to ensure that all transactions are accurately recorded in the company's financial records. The auditor notices a payment of ₹ 10 lakh to a vendor that does not match any of the vendor payments recorded in the company's accounting system. Explain the process the auditor shall undertake for ensuring the accuracy and completeness of the financial statement.

(*5 marks*)

(*iii*) Write any five essential terms of reference of a valid Audit Committee, in compliance with the Regulation 18 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015.

(*5 marks*)

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