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FOR CS PROFESSIONAL EXAM PREPARATION

CS Professional 2024 Question Paper · ESG - Principles and Practice

EXAM	YEAR	TYPE	SUBJECT
CS Professional	2024	Question Paper	ESG - Principles and Practice

DATE

June 2024

NEW SYLLABUS

531

Roll No. .....

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

Total number of questions : 6 ***Total number of printed pages : 15***

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

PART–I

1. (*a*) You are an extrovert Company Secretary possessing rich experience of more than a decade in providing professional advice on a diverse range of corporate and economic laws with special emphasis on best governance practices, risk management, principles and practice of environmental, social and governance, and corporate sustainability reporting.

You are known for implementing governance and ethics into the very fabric of the client's organization, revising and re-framing the compliance framework, policies, processes in line with the corporate and local regulations and guidelines, exercising company's zero error and zero breach standards and contributing strategically to the achievement of business objectives and goals.

You have recently been approached by 'Air Voice Limited' (shortly Air Voice), an unlisted Public Company, having its registered office at Pune.

'Air Voice' has provided the following data from its audited financial statements :

(₹ in Crores)

Financial Year	Paid up Share Capital as on 31st March	Turnover for the Year Ended	Aggregate of outstanding loans, debentures and deposits
2018-19	5	100	60
2019-20	5	110	55
2020-21	7	95	50
2021-22	7	90	45
2022-23	7	75	40

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During the FY 2022-23, the liquidity of the Company was highly affected due to the brunt of stiff competition, wafer thin margins and due to Covid 19 pandemic. The aggregate outstanding loans, debentures and deposits increased from ₹ 45 crore as on 31st March 2022 to ₹ 60 crore as on 30th September, 2022 and dropped down to ₹ 40 crore as on 31st March 2023. There was no such increase in the aggregate of outstanding loans, debentures and deposits during the earlier financial years. Air Voice, which was obligated to constitute an Audit Committee in the Financial Year 2019-20 decided to dismantle it in the FY 2023-24. Now, taking into account the above inputs and in the light of the provisions of the Companies Act, 2013, examine :

(*i*) Whether Air Voice Limited has complied with the provisions of the Act and the Rules made thereunder in dismantling the Audit Committee ?

(*3 marks*)

(*ii*) What will be your answer in case Air Voice Limited is a subsidiary of Fast Voice Limited, a listed entity ?

(*2 marks*)

(*b*) Mrs. Bhawani, one of the directors in ABC Limited (Listed Entity) got evidence against Mrs. Gowri, Chief Financial Officer (CFO), that she is indulged in the revenue leakage activities in the Company. Mrs. Bhawani is scared to report the above matter since Mrs. Gowri is a very close relative of other Directors, and Mrs. Bhawani will not get adequate safeguards from the Company. Advise Mrs. Bhawani, referring to provisions of the Companies Act, 2013, regarding the vigil mechanism, on the following points :

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(*i*) Can Mrs. Bhawani (Director) use the safeguards mechanism option available in the company regarding the above reporting.

(*3 marks*)

(*ii*) Who is the reporting authority to whom victims can access to report the above matter ?

(*1 mark*)

(*iii*) What are the disclosure requirements of details of Vigil Mechanism ?

(*1 mark*)

(*c*) Blue Star Limited has borrowed a sum of ₹ 50,00,000 from its director, Mr. Timothy Edwin. In this regard, the Company failed to obtain the prior approval of the Audit Committee constituted under the provisions of Section 177 of the Companies Act, 2013. The Statutory Auditors of the Company expressed the view that the approval of Audit Committee was mandatory being a related party transaction. However, the Company Secretary submitted his comment that since this transaction is not covered under the related party transaction as per Section 188 of the Act, approval of Audit Committee was not required and hence, the Company has not committed any violation of the provisions of the Act.

Referring to the provisions of the Companies Act, 2013, examine :

(*i*) Whether omnibus approval of Audit Committee was needed to the borrowings, if the transaction was not a 'Related Party Transaction' under Section 188 of the Act ?

(*3 marks*)

(*ii*) Can a post transaction approval of Audit Committee be obtained for related party transaction and if not done so, what will be the effect on the transaction ?

(*2 marks*)

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(*d*) Mr. Manoj was acting as an Independent Director of Cine Movies Limited (CML), a listed entity, during his second term of his appointment as an Independent Director. Unfortunately due to sudden demise of his son on 01.10.2023, in a tragic road accident, Mr. Manoj resigned from his coveted position as an independent Director of CML w.e.f. 15.10.2023 which was duly accepted by the Board. However, due to his extreme potential in effectively guiding the Board, he was approached by CML on 15.04.2024 and was offered the position of Executive Director in one of the Companies belonging to the Promoter's Group. Referring to SEBI (LODR) Regulations, 2015, answer whether the proposed offer of Executive Director to Mr. Manoj is valid in law as per Company Act, if it is accepted by him ?

(*2 marks*)

(*e*) In the light of the SEBI (LODR) Regulations, 2015, answer the following questions :

(*i*) What shall be minimum number of members in a 'Risk Management Committee' (RMC) ?

(*ii*) Can Senior Executives of a listed entity be members of the RMC ?

(*iii*) What shall be the gap between two meetings of the RMC ?

(*3 marks*)

2. (*a*) Environmental Impacts are changes in the natural or built environment, resulting directly from an activity that can have adverse effects on the air, land, water, fish, wildlife

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or the inhabitants of the ecosystem. Discuss the ramifications of environmental impact from the following :

(i)	Pollution and Contamination.
(ii)	Mass Transit on maintenance of infra-structure, facilities and vehicles.
(iii)	Fossil Fuels.
(iv)	Health.
(v)	Shipping.

(*5 marks*)

(*b*) 'Business Ethics' is the study of business situations, activities and decisions where issues of right and wrong are addressed. It acts as guidelines for the way a business conducts itself and its transactions. In this context, what are the salient features of Business Ethics ?

(*5 marks*)

(*c*) In the 'Information Era' rapidly evolving technologies and cutting-edge analytics, where massive amount of data is used everyday to drive critical business processes and decisions, data governance plays a vital role in an organization. Elucidate the various data governance principles that are espoused globally for better analysis, consistent compliances, improved data management and data quality ?

(*5 marks*)

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3. (*a*) Discuss the applicability of Section 118 (10) of the Companies Act, 2013 with example.

(*b*) Discuss the applicability of SEBI regulation 2015 that describes the role of directors in prevention of Insiders Trading.

(*c*) ''The Secretarial Standard 1(SS1) requires Company Secretary to oversee the Vital process of recording and facilitating implementations of the decisions of the Board'' Discuss SS1 with its applicability.

(*5 marks each*)

Attempt all parts of either Q. No. 4 or Q. No. 4A

4. (*a*) Discuss the impact of Global ESG frameworks and rating agencies on Indian Corporations in 2022-23 with suitable example.

(*b*) ''Businesses should conduct and govern themselves with integrity and in Ethical, Transparent and Accountable manner.'' Discuss with example.

(*c*) An Institutional Investor is a legal entity that pools funds of a large number of individual investors or other legal entities and invests in different financial instruments such as stocks, bonds, commodities or any other investment option. There are several different types of Institutional Investors in the market depending upon their specialization in specific asset classes and the investment strategies. State and brief at least five prominent types of Institutional Investors that are in vouge in India.

(*5 marks each*)

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***OR* (*Alternative questions to Q. No. 4*)**

4A. (*i*) 'Resource Efficiency' is using the earth's limited resources in a sustainable manner while minimizing the impacts on the environment. Continued worldwide population growth is resulting in a global increase in demand for products and associated resources. Currently, our society consumes more resources than the earth can provide and renew. Only improved efficiency can counteract the soaring consumption of natural resources. In this context, briefly explain the ways and means to improve resource efficiency in business organizations.

(*8 marks*)

(*ii*) Family businesses are the major form of enterprise in India and across the world wherein all key managerial positions are held by family members and family values are ingrained in organization values. There are certain provisions of Corporate Governance in a family-owned Companies that has been legalised and have been incorporated in the Companies Act, 2013. Explain such provisions enshrined in the Act.

(*7 marks*)

PART–II

Attempt all parts of either Q. No. 5 or Q. No. 5A

5. Cyber risks are cited as the biggest threat faced by Indian organizations with 38 per cent of respondents feeling highly or extremely exposed to it, says a survey. With this, cybersecurity has jumped two spots from number three to number one on the risk radar when compared to the 2022 Global Risk Survey, the ABC's 2023 Global Risk Survey-India edition stated. ABC said the final results of the survey are based on 3,910 survey responses from Business and Risk Management leaders (CEO, board, risk management, operations, technology, finance,

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audit) across 67 territories providing their views on the status and direction of risk in their organization. 163 Indian organizations were a part of this survey. Other digital and technology risks are also top concerns for business leaders in India (at 35 per cent).

To address the challenges, Indian organizations are making bold investments in cybersecurity with more than half of the respondents planning to invest in cybersecurity tools (55 per cent) and AI, machine learning and automation technologies (55 per cent) in the next 1-3 years, according to survey findings.

To back these investments, 71 per cent of Indian organizations are gathering and analyzing cybersecurity and IT data for risk management and opportunity identification. Globally 61 per cent of the organizations are doing the same.

2023 Global Risk Survey shows that Indian business leaders are not only demonstrating an increased appetite for taking risks but are also doing a reasonable job of identifying opportunities presented by risks.

Further, Indian businesses are seeing technology disruptors as opportunities, with 69 per cent of Indian executives seeing Generative AI as an opportunity (against 60 per cent globally). The survey also revealed how organizations are taking the help of emerging technologies such as GenAI for risk management, with 48 per cent of Indian enterprises having deployed AI and machine learning for automated risk assessment and response to a large extent. This is slightly lower than the global response of 50 per cent.

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To leverage the positives brought in by risks and disruptions, the survey said 88 per cent of Indian organizations are actively investing in building resilience in their ecosystem over the last 12 months. Globally, 77 per cent of the businesses are investing in the same.

Based on the above facts answer the following questions :

(*a*) ''Cyber Risk is a critical issue demanding immediate action.'' Discuss.

(*b*) ''India can build a more resilient digital environment by prioritizing cybersecurity, fostering collaboration, and promoting cyber awareness.'' Discuss.

(*c*) ''Indian enterprises having deployed AI and Machine Learning for automated risk assessment.'' Discuss.

(*d*) Elaborate that every listed company should have Risk Management Committee (RMC) as per Regulation 21 of SEBI (LODR) Regulations, 2015.

(*5 marks each*)

***OR* (*Alternative questions to Q. No. 5*)**

5A. (*i*) Newgen Technologies Ltd. (NTL) is a multimillion-dollar public limited company with over two decades of time-tested experience for clients across the globe. As a leading offshore software development company, headquartered at Hyderabad in India, NTL employs over 525 plus professionals across the globe.

In the last year, NTL earned a reputation and niche for its services. For example, a super critical boiler in a thermal power plant takes 10-12 days to be fine-tuned or synchronized. It means system is shut for power generation and lead to loss of

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millions of dollars. NTL came up with a solution that cuts the time taken to synchronize a boiler from 10-12 days to 3-4 days through the use of software and services of IT professionals. The main strength of NTL is the IT professional they employed with it. It captured data through sensors on the boilers, use the algorithm built in house to check nearly 240 parameters and over 10,000 combinations to tune the boiler. It also helped a global heating, ventilation and air conditioning firm to bring down the time taken to design an AC solution in a building or office from 9 days to just 2 hours now. However, traditional outsourcing business of NTL is dying a slow death as clients cutting their budgets on such services and shifting their focus on newer areas such as digital and cloud.

Three-fourth of the revenue of NTL is from traditional services. However, half of its revenue still comes from fixed price projects which allow it the flexibility to determine the resources it deploys and use software tools to deliver services. Now, the aim is to increase that goal by reducing the dependency on people and more on software led services which coincide with its goal of IT Modernization.

NTL derives a major portion of its revenues from customers discretionary spending which is linked to their business outlook. Its major revenues are from UK, USA and other European countries.

Some draft legislations in USA have been made to restrict the availability of work visas. Such protectionist policies threaten the prospect of global mobility of people which may also affect the work of NTL as distributed software development requires free movement of people.

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Appreciation of the rupee against any major currency results in the revenue denominated in that currency to appear lesser in reported terms. Then, there may be different exchange rate when sale took place and when invoice is collected.

Internal Financial Control System :

The internal Financial Control System of NTL has been laid down as below :

(*a*) Recording and providing reliable financial and operation information.

(*b*) Safeguarding Assets.

(*c*) Ensuring compliance with corporate policies.

(*d*) Well defined delegation of power.

(*e*) Efficient ERP system.

(*f*) Internal audit by one of the big audit firm.

(*g*) Audit Committee found internal financial control adequate.

Based on the above inputs, answer the following questions :

(*a*) Discuss the SWOT analysis of Newgen Technologies Limited.

(*b*) Elucidate the types of exposures risks to be encountered by the Company.

(*c*) Discuss the efficacy of the Internal Financial Control System of Newgen Technologies Limited.

(*d*) Briefly explain the political risk to be encountered by Newgen Technologies Limited.

(*8 marks*)

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(*ii*) Modern advancements in technology provide fraudsters a variety of chances nowadays. Even though technological advancements might facilitate fraud risk management for businesses, it is a fact that these advancements also provide opportunities for con artists. Fraud charges may cause businesses to loose clients due to reputational damage. In order to challenge the brunt of frauds, explain the 'fraud risk management processes' that a company may adopt to effectively manage its fraud risks.

(*6 marks*)

(*iii*) In the context of Risk Management, answer the following questions :

(1) Which of the following is not an Internal Risk ?

(*a*) Economic factors such as price fluctuations, changes in consumer preference, inflation.

(*b*) Technological factors, unforeseen changes in the techniques of production or distribution resulting into technological obsolescence etc.

(*c*) Physical factors such as fire in the factory, damages to goods in transit.

(*d*) Human factors such as strikes and lock-outs by trade unions; negligence and dishonesty of employees, accidents or deaths in the factory.

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(2) Which one of the following would LEAST likely be included as a source of market risk ?

(*a*) Natural Disasters.

(*b*) Recessions

(*c*) Political Turmoil

(*d*) None of the above

(3) Corporate Governance Risk is not intended to identify deficiencies that can damage the following important existential aspects of the company :

(*a*) Reputation

(*b*) Existence

(*c*) Sales Growth

(*d*) Continuity.

(*2×3=6 marks*)

PART-III

6. (*a*) A manufacturing Company based at Chennai wanted to assess its sustainability performance, identify areas for improvement and take action to enhance its sustainability with a view to improve its reputation and brand image, foster innovation and competitiveness. The Company is proposing to publish an annual sustainability report that would be made available to stakeholders including employees, customers, shareholders and the wider community.

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In this regard, the Company proposed to conduct a comprehensive sustainability audit. The scope of the audit would include the Company's operations, supply chain and product life cycle. The audit would focus on the Company's impacts on the environment, energy and resource use, waste generation, greenhouse emissions as well as its social and ethical responsibilities.

You are a part of a reputed firm of Company Secretaries, based at Chennai, having a core team of subject matter professionals, with skills and knowledge, to provide innovative sustainability audit services that meet varied needs across a wide range of industries. As a Company Secretary, capacitated to conduct sustainability audit of organizations, you have been assigned to conduct a sustainability audit of the said manufacturing company.

In this regard, you are asked to prepare a sustainability audit process flow briefing the manner in which such an audit may be conducted.

(*7 marks*)

(*b*) Companies with high ESG [Environmental, Social, Governance] scores appear sustainable, boast fewer liabilities, build positive brand reputations and maintain strong relationships with their clients and stakeholders that eventually have an advantage to attract talent, impressing customers and raising capital.

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Enumerate the key benefits, small to mid-sized companies can gain by starting an ESG program in respect of the following :

(*i*) Competitive Advantage

(*ii*) Cost Reduction

(*iii*) More Attractive to Lenders and Investors

(*iv*) Supply Chain Prospects.

(*8 marks*)

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