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| Q.1 | <p>Audit Committee of XYZ Limited has conducted 4 meetings in 2020-21. i.e. June 15, 2020, October 18, 2020, February 10, 2021 and March 10, 2021. Does it comply with provisions of conducting meeting? [Study Material – ICAI]</p> |
| <p>Ans.: Meetings of the Audit Committee:</p> <ul style="list-style-type: none"> As per Regulation 18 of SEBI (LODR) Regulations 2015, the audit committee should meet at least 4 times in a year and not more than 120 days shall elapse between two meetings. In the given case, audit committee of XYZ Limited has conducted 4 meetings in 2020-21. i.e. June 15, 2020, October 18, 2020, February 10, 2021 and March 10, 2021. It does not comply with provisions because time gap between June 15 and October 18 is more than 120 days i.e. 125 days. <p>Conclusion: XYZ Ltd. has not complied with provisions of Regulation 18 of SEBI (LODR) Regulations 2018 as gap between two meetings of audit committee. Auditor is required to make a suitable qualified statement in the Auditors’ Certificate, in respect of compliance of requirements of corporate governance.</p> | |
| Q.2 | <p>Statutory auditor of ABC Limited has resigned on July 10, 2020. Whether he shall be liable for issuing limited review report for quarter ended June 30, 2020. [Study Material – ICAI]</p> |
| <p>Ans.: Obligations of Statutory Auditor in case of resignation:</p> <ul style="list-style-type: none"> As per the directions given by SEBI through its circular, all listed entities/material subsidiaries while appointing/re-appointing an auditor shall ensure compliance with certain conditions. One of such condition is that if the auditor resigns within 45 days from the end of a quarter of a financial year, then the auditor shall, before such resignation, issue the limited review/ audit report for such quarter. In the given situation, statutory auditor of ABC Limited has resigned on July 10, 2020. <p>Conclusion: Auditor would be liable for issuing limited review report for quarter ended June 30, 2020 because time gap between June 30, 2020 and July 13, 2020 is less than 45 days.</p> | |
| Q.3 | <p>PQR, auditor of XYZ Limited has signed limited review report of 2nd and 3rd quarter. Whether auditor is liable to issue limited review report of 4th quarter before resignation? [Study Material – ICAI]</p> |
| <p>Ans.: Obligations of Statutory Auditor in case of resignation:</p> <ul style="list-style-type: none"> As per the directions given by SEBI through its circular, all listed entities/material subsidiaries while appointing/re-appointing an auditor shall ensure compliance with certain conditions. One of such condition is that if the auditor has signed the limited review/ audit report for the first three quarters of a financial year, then the auditor shall, before such resignation, issue the limited review/ audit report for the last quarter of such financial year as well as the audit report for such financial year. In the given situation, PQR, auditor of XYZ Limited has signed limited review report of 2nd and 3rd quarter. <p>Conclusion: Auditor is not liable to issue limited review report of 4th quarter because he has not signed limited review report of first 3 quarters.</p> | |

Q.4 **The Board of Directors of PQR Ltd. have laid down the code of conduct for all Board members and senior management. The auditor is provided with the annual compliance affirmations received from the Board members and explained that since there has been no change in the composition of the senior management, the previous year's affirmations may be considered valid. Is the contention of the Company valid? [Study Material – ICAI]**

Ans.: Compliance of LODR Regulations as to provisions relating with Code of Conduct:

- As per Regulation 26(3) of SEBI (LODR) Regulations, 2015, all Board members and senior management personnel have to affirm compliance with the code on an annual basis.
- In the given case, the auditor is provided with the annual compliance affirmations received from the Board members and explained that since there has been no change in the composition of the senior management, the previous year's affirmations may be considered valid.

Conclusion: Decision to consider the previous year's affirmations from the senior management personnel as valid is not in line with the SEBI (LODR) Regulations.

Q.5 **RST Ltd. has established a vigil mechanism to enable its directors and employees to report genuine concerns and seek protection against victimization. The details of the mechanism are available on the company intranet which is accessible by the directors and employees. Are the measures taken by the Company in line with the LODR Regulations? [Study Material – ICAI]**

Ans.: Compliance of LODR Regulations as to provisions relating with Vigil Mechanism:

- As per Regulation 22 of the SEBI (LODR) Regulations, 2015, the vigil mechanism can be used by directors, employees and any other person.
- For this purpose, Regulation 46 of the SEBI (LODR) Regulations, 2015 requires the details of establishment of such mechanism to be disclosed by the company on its website and in the Board Report.
- In the given case, details of the mechanism are available on the company intranet which is accessible by the directors and employees.

Conclusion: By only providing the details in the intranet, the Company has failed to meet the LODR Regulations.

Q.6 **Genuine Ltd. has established the Internal Complaints Committee under the Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013 ('POSH Act'). The details (names, email addresses and contact numbers) of the Committee members are available on the company intranet which is accessible by all employees. However, no disclosure regarding number of complaints pertaining to sexual harassment of women at workplace is being made. Are the measures taken by the Company adequate? [Study Material – ICAI]**

Ans.: Disclosures in relation to the Sexual Harassment of Women at Workplace:

- As per Schedule V of SEBI (LODR) Regulations, 2015, in relation to the Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013, following should be disclosed in the section on Corporate Governance of the Annual Report:
 - (a) number of complaints filed during the financial year
 - (b) number of complaints disposed of during the financial year
 - (c) number of complaints pending as on end of the financial year.
- In the given case, details (names, email addresses and contact numbers) of the Committee members are available on the company intranet which is accessible by all employees. However, no disclosure regarding number of complaints pertaining to sexual harassment of women at workplace is being made.

Conclusion: By only providing the details in the intranet, the Company has failed to meet the disclosure requirements of Schedule V of SEBI (LODR) Regulation 2015.

Q.7

BG Limited is a large-sized listed company. The Board of directors have constituted Nomination and Remuneration committee comprising of non-executive and independent directors. The management seeks your advice on the composition and role of the committee. Elucidate the composition and role of Nomination and Remuneration committee as per SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

[Nov. 20 – New Syllabus (5 Marks)]

Ans.: Composition and Role of Nomination and Remuneration Committee:

Regulation 19 of SEBI (LODR) Regulations, 2015 provides the requirements relating with the Nomination and Remuneration Committee.

Composition of Nomination and Remuneration Committee:

- (1) The board of directors shall constitute the nomination and remuneration committee as follows:
 - (a) the committee shall comprise of atleast three directors;
 - (b) all directors of the committee shall be non-executive directors; and
 - (c) at least 50% of the directors shall be independent directors and in case of a listed entity having outstanding SR equity shares, 2/3rd of the nomination and remuneration committee shall comprise of independent directors.
- (2) The Chairperson of the nomination and remuneration committee shall be an independent director.
Provided that the chairperson of the listed entity, whether executive or non-executive, may be appointed as a member of the Nomination and Remuneration Committee and shall not chair such Committee.

Role of Nomination and Remuneration Committee:

The role of the nomination and remuneration committee is specified in **Part D of the Schedule II**. Accordingly, role of Nomination and Remuneration Committee shall be:

- (1) Formulation of the criteria for determining qualifications, positive attributes and independence of a director and recommend to the board a policy relating to, the remuneration of the directors, KMP and other employees;
- (2) Formulation of criteria for evaluation of performance of independent directors and the board;
- (3) Devising a policy on diversity of board;
- (4) Identifying persons who are qualified to become directors and who may be appointed in senior management in accordance with the criteria laid down, and recommend to the board of directors their appointment and removal;
- (5) whether to extend or continue the term of appointment of the independent director, on the basis of the report of performance evaluation of independent directors.
- (6) recommend to the board, all remuneration, in whatever form, payable to senior management.

Q.8

Mr. BK, Partner in M/s. BK and Associates, as part of their audit presentation to the Audit Committee of M/s. XYZ Limited, a listed company, highlighted the following:

- **Difficulties faced during the audit**
- **Disagreements with the management**
- **Management Letter Points**
- **Draft Management Representation letter to be provided by the Company in connection with the audit.**

Some of the Audit Committee members were not happy with the above presentation and asked Mr. BK to take it back and submit directly to the Board. They believe that Audit Committee is not the forum for discussing such problems and this has to be sorted out between auditors and the management. Please comment on the above.

[Nov. 20 – Old Syllabus (5 Marks)]

Ans.: Mandatory Review Areas of Audit Committee:

- As per SA 260 “Communication with Those Charged with Governance,” statutory auditor of the Company is having an obligation to bring certain matters to the attention of TCWG, which inter alia includes aspects such as -
 - (a) Difficulties faced by them during the audit
 - (b) Disagreements with the management
 - (c) Management Letter Points
 - (d) Draft Management Representation letter to be provided by the Company in connection with the audit.
- Further, the Audit Committee is also having an obligation to mandatorily review certain areas before providing their recommendations/inputs to the board. Given below are the areas required to be mandatorily reviewed by the ACM in the case of listed companies.
 - (i) Management discussion and analysis of financial condition and results of operations;
 - (ii) Statement of significant related party transactions (as defined by the Audit Committee), submitted by management;
 - (iii) Management letters / letters of internal control weaknesses issued by the statutory auditors;
 - (iv) Internal audit reports relating to internal control weaknesses;
- The auditor should further ascertain whether the Management Discussion and Analysis report includes discussion on the matters stipulated. Where certain deficiencies or adverse findings are noted by the Audit Committee, the auditor will be required to see that these have been suitably dealt with by the management in the report on corporate governance.
- In the instant case, Mr. BK, Partner in M/s BK and Associates highlighted the facts such as difficulties faced during the audit, disagreements with the management, managements letters points and draft management letters to be provided by the Company in connection with the audit. However, some of the audit committee members were not happy and according to them audit committee is not the forum for discussing such problems.

Conclusion: Contention of those audit committee members regarding problems to be sorted out between auditors and the management is not in order as Audit Committee is required to mandatorily review the same in accordance with Schedule II of SEBI (LODR) Regulations, 2015.

Q.9

LDH Ltd., a company incorporated in India and listed on a recognized stock exchange in India has entered into various related parties transactions during the financial year. You are required to answer the following keeping in mind the Listing Obligations and Disclosure Requirements (LODR) on corporate Governance.

- (i) Who should sign the report of material transactions with related parties?**
- (ii) What type of transactions and policy are required to be disclosed in relation to related party transactions?**
- (iii) Whether disclosures of related party transactions on consolidated financial statements are required to be made? If yes, what are the guidelines?**

[Jan. 21 – New Syllabus (5 Marks)]

Ans.: Related Party Disclosures:

Provisions related with Related Party Transactions are covered under 23, 27, 46 and Schedule V of SEBI (LODR) Regulations, 2015. Accordingly,

- (i) As per Regulation 27 of SEBI (LODR) Regulations, 2015, report of material transactions with related parties shall be signed either by the compliance officer or the chief executive officer of the listed entity.
- (ii) As per Schedule V of SEBI (LODR) Regulations, 2015, listed entity shall disclose transactions of the listed entity with any person or entity belonging to the promoter/promoter group which hold(s) 10% or more shareholding in the listed entity, in the format prescribed in the relevant accounting standards for annual results.
- (iii) As per Regulation 23 of SEBI (LODR) Regulations, 2015, disclosures of related party transactions on consolidated financial statements are required to be made. The listed entity shall submit within 30 days from the date of publication of its standalone and consolidated financial results for the half year, disclosures of related party transactions on a consolidated basis, in the format specified in the relevant ASs for annual results to the stock exchanges and publish the same on its website.

Q.10 **A certificate of compliance of conditions of corporate governance has been issued by CEO of VAM Ltd. In the context of internal control, which points you as an auditor would like to ensure and examine in the said compliance certificate? [Jan. 21 – Old Syllabus (5 Marks)]**

Ans.: CEO Certification:

The CEO and the CFO shall certify to the Board that they accept responsibility for establishing and maintaining internal controls for financial reporting and that they have evaluated the effectiveness of the internal control systems and they have disclosed to the auditors, deficiencies in the design or operation of internal controls, if any, of which they are aware and the steps they have taken or propose to take to rectify these deficiencies.

In the context of internal controls, the auditor should ensure that -

- The management has instituted an internal control framework with respect to financial reporting controls. The framework should be examined in the context of the documentation created for each significant process in terms of the related risk and mitigating control;
- He has further examined whether the assessment process followed for evaluation of controls is reasonable and there is a process by which significant deficiencies as well as steps taken to correct them is communicated to the Audit Committee and to the auditors;
- He should also examine whether a process exists in the listed entity whereby all significant changes in the accounting policies and in the system of internal controls are communicated to the Audit Committee and the auditors.
- The auditor should examine the adequacy of the process followed for issuing the Compliance Certificate and should review the same in regard to matters stated above and the consideration of the same by the Audit Committee. For this purpose, he should refer to the minutes of the Audit Committee meetings.
- In situations where negative or adverse comments or exclusions/disclaimers are contained in the Compliance Certificate, the auditor should take cognizance of the same in the Audit Report and/or the certificate of compliance of conditions of corporate governance.

Q.11 **RAO & Co., a Chartered Accountant Firm, is appointed as the principal auditor of a listed company, Triumph Ltd.**

Figures of income and net worth of 5 out of 7 components of Triumph Ltd., which are its unlisted subsidiaries, is tabulated below for the immediate preceding financial year along with the consolidated amount:

| (Rs. in crores) | | | | | | |
|-----------------|--------------|---------------|---------------|---------------|---------------|---------------|
| Particulars | Consolidated | Component 'A' | Component 'B' | Component 'C' | Component 'D' | Component 'E' |
| Income | 300 | 35 | 10 | 70 | 65 | 20 |
| Net Worth | 800 | 40 | 20 | 140 | 180 | 50 |

Which of the components of Triumph Ltd. can be termed as “material subsidiary” and in the board of which of the unlisted subsidiaries at least one independent director of Triumph Ltd. needs to be appointed or would be appointed? [MTP-March 21]

Ans.: Determination of Status of Material Subsidiary:

- As per Regulation 16(c) of the SEBI (LODR) Regulations, 2015, “material subsidiary” shall mean a subsidiary, whose income or net worth exceeds 10% of the consolidated income or net worth respectively, of the listed entity and its subsidiaries in the immediately preceding accounting year.
- Regulation 24(1) of the SEBI (LODR) Regulations, 2015, provides that at least one independent director on the board of directors of the listed entity shall be a director on the board of directors of an unlisted material subsidiary, whether incorporated in India or not.
- For the purposes of Regulation 24(1), notwithstanding anything to the contrary contained in regulation 16, the term “material subsidiary” shall mean a subsidiary, whose income or net worth exceeds 20% of the consolidated income or net worth respectively, of the listed entity and its subsidiaries in the immediately preceding accounting year.
- On the basis of above provisions, following information is tabulated as below:

| Particulars | Share in Consolidated Income | Share in Consolidated Net Worth |
|---------------|------------------------------|---------------------------------|
| Component 'A' | 11.67% | 5% |
| Component 'B' | 3.33% | 2.5% |
| Component 'C' | 23.33% | 17.5% |
| Component 'D' | 21.67% | 22.5% |
| Component 'E' | 6.67% | 6.25% |

Conclusion: From the above discussion, following conclusions may be drawn:

- Component 'A', Component 'C' and Component 'D', respectively, can be termed as “material subsidiary” as their shares in either consolidated Income or net worth exceeds 10%.
- At least one independent director from the board of directors of Triumph Ltd. shall be appointed or would have been appointed on the board of Component 'C' and Component 'D', respectively, as their shares in either consolidated income or net worth exceeds 20%.

Q.12 Mr. Ibrahim was appointed as statutory auditor of New Limited and Old Limited. Both the Companies were having their base in Chennai they had recently listed their shares on the Stock Exchange. For the financial year 2020-21, Mr. Ibrahim had signed limited review reports for each quarter, till the quarter ended 31st December 2020 for both the companies. Owing to his personal commitments and increased workload, he tendered his resignation to M/s New Limited on 30th January 2021 and asked the Company to appoint another auditor to issue audit report for the remaining quarter and the FY 2020-21 as a whole. But the management of the Company did not accept the same.

Mr. Ibrahim continued to as act as auditor for M/s Old limited. During the 1st week of March 2021, Mrs. W (wife of Mr. Ibrahim) had borrowed a sum of ₹ 6 lakh from the Company for her personal use. Having come to know about this, Mr. Ibrahim immediately informed the management that he had been disqualified to act as auditor and told them that he won 't issue audit report for last quarter. But management of the Company argued that it's the legal responsibility of Mr. Ibrahim to do the same.

Whether contention of management of New Limited and Old Limited is justified in asking Mr. Ibrahim to issue audit report for the last quarter and the FY 2020-21 as a whole, despite his resignation? Discuss. [RTP-May 21]

Ans: Obligations of Statutory Auditor in case of resignation:

- As per the directions given by SEBI through its circular, all listed entities/material subsidiaries while appointing/re-appointing an auditor shall ensure compliance with certain conditions.
- One of such condition is that if the auditor has signed the limited review/ audit report for the first three quarters of a financial year, then the auditor shall, before such resignation, issue the limited review/ audit report for the last quarter of such financial year as well as the audit report for such financial year. However, in case the auditor is rendered disqualified due to operation of any condition mentioned in Section 141 of the Companies Act, 2013, then the provisions of this Circular shall not apply.
- In the given case, Mr. Ibrahim was appointed as statutory auditor of two listed entities i.e., New Limited and Old Limited. For the financial year 2020-21, Mr. Ibrahim had signed limited review reports for first three quarter i.e., till the quarter ended 31st December 2020 for both the companies. Owing to his personal commitments and increased workload, he resigned from New Limited and asked the Company to appoint another auditor to issue audit report for the remaining quarter and audit report for the FY 2020-21. Further, Mr. Ibrahim immediately informed the management of Old Limited that he had been disqualified to act as auditor and told them that he won't issue audit report for last quarter as Mrs. W (wife of Mr. Ibrahim) had borrowed a sum of ₹ 6 lakh from the Company for her personal use.

Conclusion: Based on the aforesaid discussion, following conclusions may be drawn:

- Mr. Ibrahim is required to issue the audit report for the last quarter and audit report for the year 2020-21 for New Limited as he has issued audit report for the first three quarters.
- Mr. Ibrahim is not required to issue the audit report for remaining quarter and audit report for the year 2020-21 as a whole for Old Limited as he is disqualified under section 141 of Companies Act.

Accordingly, contention of Management of New Limited is correct and tenable for issuing the audit report for remaining quarter and audit report for financial year 2020-21 however, contention of management of Old Limited is not correct regarding the legal responsibility of Mr. Ibrahim to issue audit report for remaining quarter and for the whole year.

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Law stated in this publication is upto 31.10.2020 and is relevant for May 2021 Exams and onwards.

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