

INTERMEDIATE EXAMINATION

GROUP I

(SYLLABUS 2008)

SUGGESTED ANSWERS TO QUESTIONS

December
2012

Paper-6 : COMMERCIAL AND INDUSTRIAL LAWS AND AUDITING

Time Allowed : 3 Hours

Full Marks : 100

The figures in the margin on the right side indicate full marks.

Please: (i) Answer all bits of a question at one place.

(ii) Open a new page for answer to a new question.

(iii) Attempt the required number of questions only.

Answer Question No. 1 and Question No. 5 which are compulsory and attempt any two from the rest in Section I and any two from the rest in Section II.

SECTION I (50 Marks)

(Commercial and Industrial Laws)

1. Comment on the following based on Legal provisions (no mark for wrong reasons or justification) 2x7

- (a) Mr. Menon offered on 1st December, 2012 to sell his house to Mr. Polson at INR Thirty Five Lakhs. Mr. Polson accepted by email on 2nd December, 2012 at 8 A.M. At 10 A.M, Mr. Polson sent a Fax revoking the acceptance. Both email (i.e. acceptance) and Fax (i.e. revocation) reached Menon at the same time. Hence this was valid.
- (b) Provisions of Indian Partnership Act 1932 are applicable to LLPs and the body Corporate may be partner of LLP.
- (c) On 01.11.2012 Mr. Barun kept his Cow under the custody of Mr. Tarun for one month and paid INR 1000 for maintenance. On 15.11.2012, the Cow gave birth of a Calf. On 30.11.12 Tarun returned the Cow retaining the Calf.
- (d) Mr. S.K. Paul employed in seasonal establishment and was not employed throughout the year claimed gratuity at the rate of 15 days wages for each year of service. But Employer refused to pay any Gratuity to employees of seasonal establishment.
- (e) An individual dispute will be deemed to be industrial dispute (Industrial Disputes Act. 1947).
- (f) A surety is discharged from his liability where there is failure of Consideration between the Creditor and the Principal Debtor in a Contract of Guarantee.
- (g) 'A', the buyer ordered a patent smoke consuming furnace by its Patent name for his brewery on 'B'. Furnace received was however found to be unsuitable for the purpose. Hence seller is responsible.

Answer 1.

- (a) If the letter of acceptance (e-mail) and the revocation (Fax) reached Menon at the same time, the formation of contract would depend on the fact that which of the two was opened first by Menon. If Menon read the Fax first then revocation was valid but if he read the e-mail first, this revocation was not possible.
- (b) i) Provisions of the Indian Partnership Act are not applicable to LLP's. Limited Liability Partnership Act, 2008 makes provisions for the formulation and regulation of limited liability partnerships and for matters connected therewith or incidental thereto.
 ii) An LLP can be formed by individual and/or by Body Corporate. Hence a Body Corporate may be a Partner of an LLP.
- (c) As per The Contract Act, in the absence of any contract to the contrary, the bailee (i.e. Tarun) is bound to deliver to the bailor (i.e. Barun) or according to his directions, any increase or profit which may have accrued from the goods bailed. Hence Mr. Tarun is to return both Cow & Calf.
- (d) Employer shall pay gratuity at the rate of seven days wages for each season to employees who are employed in a seasonal establishment and who are not so employed throughout the year. Wages will include Basic and D.A. Hence Mr. Paul is entitled to Gratuity.
- (e) Where any employer discharges dismisses or retrenches or otherwise terminates the services of an individual workman, any disputes or difference between that workman and his employer connected with or arising out of such discharge, dismissal, retrenchment or termination shall be deemed to be an industrial disputes notwithstanding that no other workman nor any union of workmen is a party to the dispute (Sec 2A of the Industrial Disputes Act, 1947).
- (f) As per Provisions of The Contract Act, presence of Consideration is an essential element for a valid contract. Therefore where there is a failure of Consideration in a Contract of Guarantee as between the Creditor and Principal Debtor, the surety is discharged.
- (g) In this case specific item under its patent name as per buyers specification was supplied by 'B'. Hence the implied condition as to its fitness is not applicable and 'B' is not responsible. Hence the buyer had no cause of action against the seller (Chanter Vs Hopkins), as patented goods was purchased.
- 2. (a) Goods seized by Customs Authority is a case of bailment under Indian Contract Act – offer your views. 2**
- (b) 'A' on retirement withdrew the entire amount of his accumulation in the Provident Fund. Later on he was appointed for a fixed tenure. Employer disagreed to allow P.F. benefit in view of his retirement and withdraw] of entire amount. Offer your views based on Rule position. 2**
- (c) 600 invitation cards were posted by speed post. Only 20 invitees attended function. Others received such cards after the date of function. Postal Deptt. replied that this delay was not willful and intentional. Hence there was no liability U/s. 6 of the Post Office Act, 1898 and Consumer Protection Act is not applicable in this case. Offer your views based on Consumer Protection Act. 2**
- (d) Mr. A, Mr. B & Mr. C are Sureties to Mr. D for the sum of INR 6000 lent to Mr. E. Mr. E failed to repay on due date. Mr. A one of the sureties, disagreed to Pay. Advice whether 'A' is right. 2**
- (e) A deceit which does not deceive is not fraud. Comment. 2**
- (f) In an auction sale a bid once given cannot be withdrawn. Do you agree? 2**
- (g) All the employees who are covered under Bonus Act were paid Holi Bonus of ₹ 500 each. Latter on due to loss, the Employer paid minimum Bonus @ 8.33% but after deduction of said ₹ 500. Whether Employer was justified. 2**
- (h) Fill in the Blanks based on factories Act 1948 1 x4**
- (i) No child shall be employed or permitted to work in any factory for more than hours in a day.
- (ii) No female Child shall be required or allowed to work in any factory except between AM and PM.

- (iii) No Child shall be employed during the Night and Night means a period of at least twelve consecutive hours which shall include the interval between PM and AM.
- (iv) No woman shall be required or allowed to work in any factory except between the hours ofAM andPM.

Answer 2.

- (a) Yes, because in this case, the possession of goods is transferred to the customs authority. Therefore bailment exist u/s 148 of The Contract Act, 1872.
- (b) An employee who had been member of the Provident Fund but withdrew the full accumulated amount from the fund after retirement is not covered under this Act. Hence 2nd Employer was right.
- (c) The provision of the Consumer Protection Act are in addition to and not in derogation of the provisions of any other law for the time being in force (Sec 3). Since the delay was not intentional and willful, the petition could not be maintained in view of Sec 6 of the Indian Post Office Act, 1898, and no officer of the Post Office shall incur any liability for such delay as it is not intentional and willful.
- (d) Where two or more persons are co-sureties for same debt, either jointly or severally, and whether under the same or different contracts, and whether with or without the knowledge of each other, the co-sureties, in absence of any contract to the contrary, are liable as between themselves, to pay each an equal share of the whole debt or of that part of it which remains unpaid by the principal debtor. In this case, Mr. A, Mr. B & Mr. C are liable to as between themselves to pay ₹ 2000/- each. Mr. 'A' cannot escape.
- (e) Correct, a mere attempt to deceive by one party is not fraud unless the other party is actually deceived. If the party has not been deceived at all, there is no point in establishing a case of fraud, and gives no ground of action.
- (f) Incorrect. In an auction sale bid can be withdrawn any time before the auctioneer announces its completion by fall of hammer or in other customary manner which is an indication for the acceptance of the bid and until such announcement is made by the auctioneer.
- (g) Yes, Employer was justified as per provisions of Sec 17 of the Payment of Bonus Act, 1965. The Employer is entitled to deduct the amount of any Puja Bonus or other customary Bonus (here Holi Bonus) so paid from the amount of bonus payable to the employees in respect of that accounting year.
- (h)
 - (i) 4½ hours
 - (ii) 8 A.M. – 7 P.M.
 - (iii) 10 P.M. – 6 A.M.
 - (iv) 6 A.M. – 7 P.M. (Sec 66)

- 3. (a) A non owner cannot make a valid Transfer of Goods. Answer with Rule position. 4
- (b) While discussing, Rajib told his friends that Contracts need not be performed under certain circumstances. Deepak objected to it. State the correct position. 4
- (c) Are there any provisions in the factories Act for protection of eyes of Workmen? 2
- (d) What is `Noting' (N.I. Act) 4
- (e) (i) Who is 'Occupier' (Factories Act)
- (ii) State the Duty of the Occupier when a new manager is appointed in the factory. 2+2

Answer 3.

3. (a) Not true.

Where goods are sold by a person who is not the owner thereof and who does not sell them under the authority or with the consent of the owner, the buyer acquires no better title to the goods than the seller had, unless the owner of goods is by conduct precluded from denying the seller's authority to sell.

However, this is subject to exceptions. In the following cases, a non-owner can make valid transfer of goods.

- i) Sale by Mercantile agent.
- ii) Sale by one of the joint owner.
- iii) Sale by Seller or Buyer in possession of goods after sale.
- iv) Sale by a person in possession of goods under voidable contract.
- v) Sale by unpaid seller.
- vi) Sale by finder of lost of goods.
- vii) Sale by estoppels.
- viii) Exceptions in other Acts :
 - (a) Sale by Official Receiver or Liquidator
 - (b) Sale by Pawnee or Pledgee in certain cases

(b) Yes, it is possible. Section 62 to 67 of the Contract Act are listed under the heading "Contracts which need not be performed". The relevant provisions are as follows :

- i) If by mutual agreement there is Novation, Rescission or Alteration, the original contract need not be performed (Sec 62).
- ii) Where the promise waives or remits the performance of promise made to him, wholly or in part or extends the time of performance or accepts any other satisfaction for it (Sec 63).
- iii) When a voidable contract is rescinded, the other party need not to perform his promise (Sec 64).
- iv) If the promisee neglects or refuses to afford the promisor reasonable facilities of the performance of his promise, the promisor is excused by such neglect or refusal as to any non-performance caused thereby (Sec 67).

Under the Law of Contract, the following agreements need not be performed.

- i) Unlawful consideration and object – Sec 23.
- ii) Where the performance is unlawful or illegal – Sec 56.
- iii) When performance become impossible.

(c) Yes, State Govt. by rules require that effective screens or suitable goggles shall be provided for the protection of eyes of persons employed on or in the immediate vicinity of manufacturing process which involves:

- 1. Risk of injury to the eyes from particles or fragments thrown off in the course of process or
- 2. Risk to the eyes by reason of exposure to excessive light.

(d) **"Noting"** means recording the fact of dishonor by Notary Public upon the Instrument. **"Noting"** must contain the following :

- i) The fact of dishonor.
- ii) Date of dishonor.
- iii) Reasons if any, assigned for dishonor.
- iv) If the Instrument is not expressly dishonoured, reasons why the holder thinks so.
- v) Notary Charges.

(e)(i) **"Occupier"** of a factory means the person who has ultimate control over the affairs of the factory. Provided that –

- (a) In the case of a firm or the other association of individuals, any one of the individual partners or members thereof shall be deemed to be the occupier.
- (b) In case of a company, any one of the directors shall be deemed to be the occupier.

- (c) In the case of a factory owned or controlled by the Central Govt. or any State Govt. or any local authority, the person or persons appointed to manage the affairs of the factory by the Central Govt., the State Govt. or the local authority, as the case may be, shall be deemed to be the occupier.
- ii) Occupier shall send written notice to the Inspector and to the Chief Inspector a copy thereof within seven days from the date of taking over the charge.

4. (a) Write short notes on any four.

4x4

- (i) **Tie-in-arrangement**
- (ii) **Forfeiture of Gratuity.**
- (iii) **Partial disablement.**
- (iv) **Lawful consideration**
- (v) **Termination of lien of unpaid seller.**

(b) Mr. Barun tells Mr. Tarun in presence of Mr. Arun that he is the Agent of Arun who maintains silence instead of denying Barun's statement. Later on Barun sells Arun's Goods to Mr. Tarun. Arun now disputed Barun's title to the goods, as Barun was not Agent of Arun. Explain whether Arun is right. 2

Answer 4.

4. (a) (i) **Tie-in arrangement** : It includes any agreement requiring purchaser of goods as a condition of such purchase to purchase some other goods.
- (ii) **Forfeiture** : Section 4 of the Payment of Gratuity Act, 1972 provides the following provisions for forfeiture of gratuity :
- (a) In case of damage by employee : The gratuity payable to an employee shall be forfeited to the extent of the damage or loss caused by him if his services have been terminated for any act, willful omission or negligence causing any damage or loss or destruction of the property belonging to the employer.
 - (b) In case of riotous act : The gratuity payable to an employee may be wholly or partially forfeited if the services of such employee have been terminated for his riotous or disorderly conduct or any other act of violence on his part.
 - (c) In case of offence involving moral turpitude : The gratuity payable to an employee may be wholly or partially forfeited if the service of such employee has been terminated for any act which constitutes an offence involving moral turpitude, provided that such offence is committed by him in the course of his employment.
Provided services have not been terminated on any of the above grounds, the Employer cannot withhold gratuity due to the Employee. Where the land of the Employer is not vacated by the Employee, Gratuity cannot be withheld.
- (iii) **Partial disablement** : Partial disablement reduces the earning capacity of a workman as a result of some accident. Partial disablement may be temporary or permanent.
Temporary partial disablement reduces the earning capacity of a workman in the type of employment he was engaged in at the time of accident.
Permanent partial disablement reduces the earning capacity of a workman in every types of employment he was capable of at the time of accident.
- (iv) **Lawful consideration** : The consideration or object of an agreement is lawful unless:
- (a) It is forbidden by law; or
 - (b) Is of such a nature that if permitted, it would defeat the provisions of any Law or any rule for the time being in force in India ; or
 - (c) Is Fraudulent; or
 - (d) It involves or implies injury to the person or property of another; or
 - (e) The court regards it as immoral or opposed to public policy.

In each of these cases, the consideration or object of an agreement is said to be unlawful. Every agreement of which the object or consideration is unlawful is void.

- v) **Termination of Lien.** The unpaid seller of goods loses his lien under following circumstances.
- On delivery of goods to a carrier or other bailee for the purpose of transmission to the buyer without reserving the right of disposal of the goods.
 - When buyer or his agent lawfully obtains possession of goods.
 - By waiver thereof.
- The unpaid seller of goods having a lien thereon, not lose the lien by reason only that he has obtained a decree for the price of goods.
- b) In this case Arun cannot dispute Tarun's ownership title to the goods. Sec 27 of Sale of Goods Act provides that where the owner by his conduct or omission, leads the buyer to believe that the seller has right and/or Authority to sell, he is estopped from denying the fact afterwards. The buyer thus gets better title than the seller. This is case of sale by estoppels.

Section -II (50 Marks)
(Auditing)

5. Comment on the following statements based on legal provisions

(No mark for wrong reasons or justification)

2x7

- Fixed Deposit having Maturity of more than 12 months from Balance Sheet date was classified as Current Assets, under Schedule VI.**
- Arrear Depreciation will require separate disclosure. Depreciation was not on accrual basis.**
- Auditor certified a statement in the Prospectus which was subsequently found misleading. Auditor certified such statement as per advice of management. Hence Auditor has no liability.**
- Objective of management audit is linked to concurrent Audit of the Company.**
- Auditing in depth not possible and/or practical in all cases.**
- CARO is applicable to Foreign Companies also.**
- The Computer information system environment may be different in cases of different Computer system used but there are certain common features of all computer system environment.**

Answer 5.

- (a) These should have been classified as Non Current Asset as per revised schedule VI.
Tutorial note : An asset classified as current when it satisfies any of the following criteria :
- It is expected to be realized in, or is intended for sale or consumption in the company's normal operating cycle.
 - It is held primarily for the purpose of being traded.
 - It is expected to be realized within 12 months after the Reporting Date.
 - It is Cash or Cash Equivalent unless it is restricted from being exchanged or used to settle a liability for at least 12 months after the Reporting Date.
- All other assets shall be classified as non-current assets.
- (b) As per Para 19 of AS 6 it requires disclosure where accrual basis has not been complied with.
- (c) As per Sec 62 (liabilities under Companies Act, 1956), Auditor is liable for certifying misleading statement in the prospectus and he has to compensate equivalent to damages suffered by the persons. He cannot blame the management due to his negligence in certifying a misleading statement (civil liability).
- (d) False, the objectives of Management Audit are:
- To detect and correct the human limitations of top management.
 - To improve upon management productivity.

- iii) To avoid possible losses arising from inefficient management and suggest suitable measures for improvement.
 - iv) It seeks to review, appraise and evaluate the corporate plans & policies based on certain standards of objectivity.
- (e) In view of large number of transactions it becomes practically difficult for an auditor to undertake details vouching and post audit of large volume. In such situation audit in depth comes in.
- Audit in depth means the tracing of a transaction through its various stages from origin to conclusion, examining the supporting records at each stage and ascertaining all the requirements laid down in the system of internal check etc.
- (f) CARO is applicable to Foreign Companies incorporated outside India but having a place of business in India. The branches of such Companies are liable to this order also comes under the purview of CARO.
- (g) Yes certain common features are :-
- (i) **Organisation structure** : It includes knowledge, programme, data and different kinds of jobs at one place.
 - (ii) **Nature of processing** : Sometimes without having any document as base, some particular transactions like interest directly credited to particular account by system itself as per programme instruction. Apparently in computerized accounting unlike manual accounting the transaction trials are not available but auditor can find it in machine readable form.
 - (iii) **Designs** : The computer information system work more consistently because computer performs exactly according to its programme. A single transaction entered in the system automatically makes entry in all related records.

6. (a) Fixed assets have been revalued and the resulting surplus has been adjusted against the brought forward loss. As an Auditor give your comment. 2

(b) State the Auditors' duties towards share holders in respect of loan given by the Company. 2

(c) From the following, determine the Gross Profit Ratio.

Gross Profit	10,000
Owners' Equity	2,00,000
Net Sales	2,00,000
Debt Equity	1,00,000

Also state the purpose of determining such Ratio. 1+1

(d) State the reporting requirement of Auditor under CARO in respect of following:

- (i) Documents and Records, for secured loans
- (ii) Internal Audit systems in certain companies. 2+2

(e) Explain the following which are part of control measure under computer information system.

- (i) Audit Trails
- (ii) Edit Test 2+2

(f) Risk of non-detection of error is less than the risk of non-detection of fraud-Comment. 2

(g) At the AGM, a resolution was passed by all the Share holders restricting some of the powers of a Cost Auditor. State the validity of the Resolution. 2

Answer 6.

- (a) Considering the AS 10 and as a matter of prudence, revenue losses can be adjusted against revenue reserves only and not the capital reserves Increase in revaluation of assets are treated as capital reserve and generally shown under heading Revaluation Reserve. Therefore the accounting treatment followed by the company is not correct. The Auditor should qualify his audit report by mentioning the above fact.

- (b) Auditors' duties towards shareholders in respect of loan given by the company is to inquire :-
- i) Whether the loans are properly secured and the terms are not against the interest of the company.
 - ii) Whether short term or long term loans and whether properly classified under current or non-current assets.
 - iii) Whether loans made by the company have been shown as fixed assets.
 - iv) To report whether the company has complied with requirement of CARO 2003.
 - v) Whether payment of Principal & interest are regular.
 - vi) Whether proper statutory registers are maintained.
 - vii) To see that proper approval has been taken before giving any loan to director.
- (c) (i) G.P. Ratio $\frac{10000 \times 100}{200000} = 5\%$
- (ii) Low Ratio indicates unfavourable purchasing policies, inability of management to develop sales volumes over investment in plant facilities etc. Low ratio would put the management into difficulties in realization of fixed overheads.
- (d) Auditors has to comment on the following:
- (i) whether adequate documents and records are maintained in cases where the company has granted loans & advances on the basis of security by way of pledge of shares, debentures & other securities – if not the deficiencies to be pointed out.
 - (ii) whether the company has an internal audit systems commensurate with the size and nature of business for the purchase of inventory and fixed assets and the sale of goods and whether there is a continuing failure to correct major weaknesses in internal control.
- (e) **Audit Trails:** It ensures that all those records and process are maintained within the systems from which financial statements are derived.
Edit Test : It help in correct data entry and the accurate processing by the computer information system.
- (f) Fraud is more difficult to detect than error. Fraud may be divided broadly into two classes :
- (a) Defalcation, involving either misappropriation of money or goods.
 - (b) The fraudulent manipulation of accounts not involving defalcation.
- This is so since fraud generally involves complicated, ticklish and carefully organized / perpetrated schemes to concede the same from the eyes of the Auditor and/or the management, such as forgery intuitional failure of records transaction, cooking up the vouchers for expenses etc.
- (g) Certain specific rights & power have been conferred by the statute on the Auditor and Cost Auditor to carry out their duties and responsibilities prescribed under the Companies Act 1956 (sec 233B (4) read with sec 227 (1)) which can not be restricted or curtailed by the shareholders of the company. Hence any such resolution even if passed by entire body of shareholders is ultra-vires and therefore not valid.
 Ref : Newtown vs. Birmingham Small Arms Co. (1906)
7. (a) **SEBI requires that Listed Companies to comply with the Accounting Standards issued by the Institute of Chartered Accountants of India but ABC Ltd. has not followed certain Accounting Standard- Comment with justification/reasons. 2**
- (b) **Company Auditor received the Branch Audit Report which contains qualifications on matters specially required to be disclosed pursuant to schedule VI requirement. How this type of situation shall be dealt with by the Auditor? 2**
- (c) **The inherent risks in a CIS environment may have both pervasive effect and an account specific effect on the likelihood of material misstatement. Do you agree? State the position. 4**
- (d) **What are expected under CARO 2003 in respect of:**
- (i) **Preferential Allotment of Shares**
 - (ii) **Sickness 2+2**

(e) How you will conduct the Physical Verification of Inventory to impose Control over Inventory? 4

(f) What are the activities to be undertaken by the Management Auditor in its review of Sales management? 2

Answer 7.

- (a) If any company does not follow the accounting standards, it should be disclosed in the financial statements along with the :
- i) Deviations from accounting standards
 - ii) The reasons for such deviation and
 - iii) The financial effect if any due to such deviation.
- (b) It is obvious that the Company Auditor has no other choice but to incorporate such qualifications in his own report after confirming the accuracy of the Branch Audit Report if the Company Auditor so feels. The Company's auditor has a certain measure or responsibility in respect of the accounts and papers of the branch. This is shown by the fact that he has a right to visit the branch and has access to the papers and documents on basis of which he has to make disclosure of anything in regard to the branch which he thinks is not in order and which has come to his notice.
- (c) True. Details are as follows :
- i) The risk may increase the potential for errors or fraudulent activities in specific activities in specific database or master files or in specific processing activities. For example, errors are not uncommon in systems that perform complex logic or calculations, or that must deal with many different exceptional conditions. Systems that control cash disbursement or other liquid assets are susceptible to fraudulent actions by users or by CIS personnel.
 - ii) The risks may result from deficiencies in pervasive CIS activities such as programme development and maintenance system software support operations physical CIS security and control over access to special privilege utility programmes. These deficiencies would tend to have a pervasive impact on all applications system, which is processed on the computer.
- (d) i) Preferential Allotment of Shares: Whether the company has made any preferential allotment of shares to parties and companies covered in the Register maintained under Sec 301 of Companies Act and if so whether the price at which shares have been issued is prejudicial to the interest of the company.
- (ii) Sickness : Where in case of a company which has been registered for a period not less than 5 years its accumulated losses at the end of the financial year not less than 50% of its net worth and whether it had incurred cash losses in such financial year and in the financial year immediately preceding such financial year also.
- (e) Physical Verification -
- i) Review the procedure of physical verification of stores/inventory. Whether such verification is done at the yearend or is done on perpetual inventory system basis.
 - ii) If a system of perpetual inventory exist to see whether stores are covered at least once in a year and important stores are covered more than once.
 - iii) Does the independent stock verification wing carry out such verification or by any outside agency or firm of Chartered Accountants.
 - iv) Whether ABC system exist.
 - v) What are the record prepared for recording short or excess found during verification. To verify such records.
 - vi) Under whose authority the discrepancy report is issued.
 - vii) Procedures for making adjustment of such discrepancies. Auditor to see whether discrepancies were correctly taken into accounts.
 - viii) To whom physical verification reports are sent.

- (f) Fundamentally the following activities are considered, while undertaking review of Sales Management :
- i) Collection and analysis of relevant statistics and report used by the management.
 - ii) Establishment of priorities for various functional activities to be reviewed.
 - iii) Interview & interactive meetings with the senior, middle and supervisory management levels in order to ascertain :
 - a) How plans are developed.
 - b) How resources are controlled
 - c) How performances are evaluated etc.

- 8. (a) What are the reporting standard expected from an Auditor in respect of GAAP? 4**
- (b) What are the basic documents you will demand for review of Fixed Capital Assets? 4**
- (c) To carry out information system or EDP Audit, certain systematic approach are necessary. If you agree, State such approaches. 4**
- (d) As per Clause 49 of Listing Agreement and to comply with conditions of Corporate Governance, a certificate is obtained from Statutory Auditor. Answer to following points: 1 x 4**
- (i) Whether this clause 49 is applicable to all types of Companies ?
 - (ii) To whom this certificate is filed and/or submitted ?
 - (iii) Name the Report to which this certificate is annexed.
 - (iv) What is the time limit of submission of quarterly compliance certificate ?
- (e) Management Audit can be conducted by the outside management consultants provided he/they fulfill certain conditions. What are those conditions? 2**

Answer 8.

- (a) Following are the reporting standards in respect of GAAP –
- i) Financial Statement - Auditor shall make a mention whether the financial statement are prepared according to Generally Accepted Auditing Standard (Principles) or not.
 - ii) In respect of Consistency : He should make a mention whether these Principles/ Standards are consistently followed including current year.
 - iii) Disclosure : If the Auditor does not make any adverse comment in his report, the financial statements are taken as reasonably adequate.
 - iv) Obligation : Auditor should submit his report, when the work is finished stating clearly his opinion or if not possible make a mention there in that “opinion cannot be expressed” and in such a case support it with reasons.
- (b) Basic documents for review of Fixed Capital Assets would be as under :
- i) Purchase Order/Contracts.
 - ii) Policies on Depreciation, Amortization
 - iii) Asset Registers
 - iv) Accounts Manual/Plants Operation Manual.
 - v) Authorisation for acquisition and sale
 - vi) Physical Verification Reports - whether discrepancies properly dealt with in the Accounts.
- (c) Following three approaches are mainly carried out :
- i) Technological Innovation Process Audit - The aim of this approach is to construct a risk profile for existing and new projects by asserting the length and depth of company experience in it.
 - ii) Innovative Comparison Audit.
 - iii) Technological Position Audit.
This review the technologies needed by the business and places them in one of the four categories of base, key, packing and emerging.
- (d) (i) No, this is applicable to all listed companies.
(ii) This Certificate is filed with Stock Exchange(s) alongwith the Annual Return filed by the entity.

- (iii) This certificate is annexed to Directors Report and is to be sent to Stock Exchange along with the Annual Returns.
 - (iv) To be sent to Stock Exchange within 15 days from the close of quarter.
- (e) Management audit can be conducted by outside management consultants who may be Chartered Accountants, Cost Accountants or Management Consultants, having no vested interest in the company management, having no loyalty to any individual in the organization, having an impartial and objective approach, having wide range of specialties, have already developed the skill to carry on management audit.