

WT 8 (Ch. 16 and 17 – Internal Audit, Due Diligence, Investigation and Forensic Accounting)**Part – A (Multiple Choice Questions)**

- Q.1 (b) (2 Marks)
- Q.2 (d) (2 Marks)
- Q.3 (a) (2 Marks)
- Q.4 (d) (2 Marks)

Part B (Descriptive Questions)**Q.1: Applicability of Internal Audit:**

- As per Sec. 138 of the Companies Act, 2013 read with Rule 13 of Companies (Accounts) Rules, 2014, following class of companies shall be required to appoint an internal auditor or a firm of internal auditors, namely:
 - every listed company;
 - every unlisted public company having-
 - paid up share capital of ₹ 50 crores or more during the preceding financial year; or
 - turnover of ₹ 200 crores or more during the preceding financial year; or
 - outstanding loans or borrowings from banks or public financial institutions exceeding ₹ 100 crores or more at any point of time during the preceding financial year; or
 - outstanding deposits of ₹ 25 crores or more at any point of time during the preceding financial year; and **(1 Mark)**
 - every private company having-
 - turnover of ₹ 200 crores or more during the preceding financial year; or
 - outstanding loans or borrowings from banks or public financial institutions exceeding ₹ 100 crores or more at any point of time during the preceding financial year. **(1 Mark)**
- In the given situation, AADI Ltd. is a listed company. As per Sec. 138 of the Companies Act, 2013, every listed company is required to appoint an internal auditor or a firm of internal auditors. Thus, in view of the above, AADI Ltd. is required to appoint an internal auditor. **(1 Mark)**
- Further, AJIT Ltd. is unlisted public company. The company is having ₹ 35 crores as public deposits which is exceeding the prescribed limit of ₹ 25 crores. Thus, AJIT Ltd. is required to appoint an internal auditor. **(1 Mark)**

- NEMI Ltd. is unlisted private company and having ₹ 250 crore as equity share capital, ₹ 190 crore as turnover and ₹ 80 crore loan from Bank and PFI. All the limits are below the prescribed limit for a private company. Therefore, **NEMI Ltd. is not required to appoint an internal auditor.** (1 Mark)

Q.2: Factors to be considered in assessing future maintainable turnover:

In assessing the turnover which the business would be able to maintain in the future, the following factors should be taken into account:

- Trend:** Whether in the past, sales have been increasing consistently or they have been fluctuating. A proper study of this phenomenon should be made.
- Marketability:** Is it possible to extend the sales into new markets or that these have been fully exploited? Product wise estimation should be made.
- Political and economic considerations:** Are the policies pursued by the Government likely to promote the extension of the market for goods to other countries? Whether the sales in the home market are likely to increase or decrease as a result of various emerging economic trends?
- Competition:** What is the likely effect on the business if other manufacturers enter the same field or if products which would sell in competition are placed on the market at cheaper price? Is the demand for competing products increasing? Is the company's share in the total trade constant or has it been fluctuating?

Marking Scheme – 1 Mark for 1 Point (Four Points)

Q.3: Areas to be covered in investigation in relation to proposal for buying a proprietary business:

- (1) Reasons for the sale of the business and the effect on turnover and profits that there would be on retirement of the present proprietor (or partners).
- (2) The length of lease under which the premises are held, the prospects of its renewal or extension.
- (3) The unexpired period of any patents owned by the vendors.
- (4) The age of the present managerial staff and the prospects of continuing in service under the new proprietorship and the possible liability, not already provided for that would arise as regards payment of pensions or gratuities in case of old and aged employees/ retrenched employees.
- (5) If the bulk of sales are made to customers whose number is small, the profitability of the business would be greatly shaken on withdrawing their support. This would be an element of weakness which should be investigated as it might affect future profitability.
- (6) The valuation that could be placed on goodwill to determine whether that appearing in the book is less or more; if none is included to determine the amount that should be included, if at all.

Marking Scheme – 1 Mark for 1 Point (Any Four Points)

Q.4: Issues to be kept in mind while dealing with claims involving PLI policy covering such matters:

- (i) In claims involving product liability insurance policies, many documents are required from third parties. The third party may be unwilling to provide relevant documents to forensic accountant concerning the very organization responsible for causing damages.
- (ii) Independence of forensic accountant become paramount in such types of assignments because it involves engagement with parties who are not directly claiming from insurance company. Forensic accountant needs to resist any pressure or interference in establishing the scope of the assignments or the manner in which the work is conducted and reported.
- (iii) The company might be willing to negotiate it to salvage its reputation. It can lead to additional complexities.
- (iv) Quantification of legal liability under the policy can prove to be a challenging task and it has to be determined in accordance with policy terms & conditions.
- (v) Careful analysis of date of loss when first claim occurred in accordance with “claim series” clause and whether the same falls under the policy.

Marking Scheme – 1 Mark for 1 Point (Any Four Points)

Q.5: Review of Accomplishment of Goals and Objectives:

Internal auditor helps management to achieve organisation goals and perform its functions in an orderly manner by performing the following:

- (i) Review overall objectives of the enterprise to evaluate whether they are clearly stated and are attainable.
- (ii) Examine whether, to the extent possible, objectives are expressed in precise quantifiable terms (both monetary and non-monetary) to facilitate detailed planning to be made for achieving them.
- (iii) Budgeting forms an important part of such planning. This will ensure that plans anticipate the problem areas.
- (iv) There should also be sufficient flexibility in the plans to permit such improvements in their implementation, as would benefit the enterprises as a whole.

Marking Scheme – 1 Mark for 1 Point (Four Points)



For academic updates and related contents:

- Join telegram channel: <https://t.me/altclasses>
- Visit knowledge portal of www.altclasses.in

For books/class related queries:

- E-mail: altclasses11@gmail.com
- Ph.: 9319805511, 7260941195

For Online purchase of books/classes: Visit our web portal: www.altclasses.in