

Secretarial, Management and Systems Audit

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Roll No.....

Time allowed : 3 hours

Maximum marks : 100

Total number of questions : 7

Total number of printed pages : 8

PART – A

(Answer ANY TWO questions from this part.)

1. (a) Choose the most appropriate answer from the given options in respect of the following :
 - (i) Investor Education and Protection Fund shall be credited with --
 - (a) Amounts in the unpaid dividend accounts which remained unpaid for more than three years
 - (b) The application moneys received for allotment of securities and due for refund remaining unclaimed for more than one year
 - (c) Matured debentures remaining unclaimed for more than seven years
 - (d) Matured deposits remaining unclaimed for more than three years.
 - (ii) Sweat equity shares means equity shares issued by the company to --
 - (a) Employees for their hard work and loyalty
 - (b) Employees to keep peaceful industrial relations
 - (c) Employees or directors to bring down the attrition rate
 - (d) Employees or directors for providing innovative methods, technology or value addition.
 - (iii) The following does not fall under forms to be filed with the Registrar of Companies for information purposes --
 - (a) Form 1AA
 - (b) Form 23
 - (c) Form 23 AA
 - (d) Form 24 AB.
 - (iv) The following is not a fraudulent and unfair trade practice under the SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995 –
 - (a) Active concealment of a fact
 - (b) Indulgence in any act which results in reflection of prices of securities based on transactions that are not genuine trade transactions
 - (c) A general comment made in good faith in regard to trends in securities market
 - (d) Indulgence in falsification of the books, accounts and records.

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- (v) Which of the following does not constitute 'good delivery' -
- (a) Share certificate without mentioning the place of issue
 - (b) Share certificate with irrelevant or extraneous rubber stamp or writing on the script without affecting material portion
 - (c) Share certificate and transfer deed not attached together
 - (d) Logo of the stock exchange on the reverse of the transfer deed is missing.
- (1 mark each)*
- (b) Re-write the following sentences after filling-in the blank spaces with appropriate word(s)/figure(s) :
- (i) Where a Company Secretary retains the records and books of the client and fails to return on request without a reasonable cause, the act falls under _____.
 - (ii) Practising Company Secretary received statutory recognition for the first time in the history of corporate legislations under _____.
 - (iii) Most of the e-forms require the _____ of the Managing Director or Director, Manager or Secretary for successful filing.
 - (iv) Failure to give notice to the Registrar of Companies of conversion of shares into stock, etc., entails punishment under _____ of the Companies Act, 1956.
 - (v) Regulation 55A of the SEBI (Depositories and Participants) Regulations, 1996 requires the submission of _____ to stock exchanges.
- (1 mark each)*
- (c) Give a list of audit points for the purpose of compliance certificate by the Practising Company Secretary in the matter of conversion of a public company into a private company.
- (5 marks)*
- (d) Elucidate the salient features of clause 43A of the listing agreement as per the SEBI circular dated 27th December, 2007 regarding monitoring of utilisation of the issue proceeds.
- (5 marks)*
2. (a) State, with reasons in brief, whether the following statements are correct or incorrect :
- (i) While vouching the compliance of issue of sweat equity shares by an unlisted company, the Practising Company Secretary should ensure that the company has not issued shares for more than 15% of total paid-up equity share capital in that year.
 - (ii) Non-filing of particulars of a charge with the Registrar of Companies renders the charge void against the liquidator or against any other creditor of the company.
 - (iii) The stamp duty payable for the transfer of debentures is the stamp duty applicable to the State in which the transfer is executed.

- (iv) Where a company completes a buy-back of its shares or other specified securities, it shall not make further issue of the same kind of shares or other specified securities within a period of six months under any circumstances.
- (v) A member of the ICSI (other than member in practice) being an employee of a company may share part of his/her emoluments with a Practising Company Secretary on whose recommendation he/she secured the employment.

(2 marks each)

- (b) Vimal purchased 2,700 shares of Gola Industries Ltd. and lodged the transfer deed alongwith original share certificates with the Registrar and Share Transfer Agent (RSTA) of the company.

The company did not register the transfer inspite of the transferor taking up the matter with the company.

Vimal seeks remedy from the Company Law Board under section 111A to direct the company as well as the RSTA to pay damages with interest from the date of filing of petition till the date of realisation or date of issue of duplicate share certificates.

Gola Industries Ltd. contended that the RSTA alone could deal with the issuance and transfer of shares of the company. The company further contended that as it had become a sick unit and was registered with BIFR, the petition was not maintainable.

Examine critically and offer your comments citing case law.

(6 marks)

- (c) The following details are from the records of Domax Ltd., which proposes to issue shares under ESOP scheme :

Face value of share	:	Rs.10
Exercise price	:	Rs.100 per share
Current market price	:	Rs.185 per share
Option exercisable	:	After 3 years

On the basis of above facts --

- (i) Calculate the intrinsic value of the option.
- (ii) How is the intrinsic value to be treated in company's accounts ?
- (iii) Calculate the change, if any, in the intrinsic value of option, if the exercise price is Rs.185 instead of Rs.100.
- (iv) Calculate the perquisite value of the option under section 17(2) (iii) of the Income-tax Act, 1961.

(4 marks)

- 3. (a) Alpha Agro Products Ltd. (AAPL) has become a listed company in September, 2008. After considering the general economic conditions in the country, the Board of directors of the company have concluded that there is an urgent need for the

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expansion of the capital base to launch an expansion programme and increase the production capacity to meet the ever growing need for the company's products. Due to the high standing in the capital market, the Board decided that raising money via preferential issue is most suitable.

As different opinions existed, e.g., that the company cannot raise moneys on preferential basis before the completion of six months from the date of listing and doubts as regards the pricing of the shares in the proposed preferential issue, Managing Director of the company approached you as a Practising Company Secretary for clarifications. Advise.

(6 marks)

- (b) The e-forms prescribed for e-filing under MCA-21 programme can be classified under different categories according to the purposes served by the respective e-form. Specify the categories and give examples.

(6 marks)

- (c) Management of a listed company has requested your firm of Practising Company Secretaries to provide clarification regarding recent changes pertaining to appointment of independent directors as a part of Corporate Governance under clause 49 of the listing agreement. Advise the company management suitably.

(4 marks)

- (d) "Business acumen is the key to survival in public practices." Comment with reference to the setting-up of professional practice as Company Secretary.

(4 marks)

P A R T – B

(Answer Question No.7 which is compulsory and any two of the rest from this part.)

4. (a) Are there any exceptions to the applicability of the Companies (Auditor's Report) Order, 2003 issued by the Government of India under sub-section 4A of section 227 of the Companies Act, 1956 ? Elucidate.

(4 marks)

- (b) "Operational audit implies that the functioning and objectives of audit reach beyond the financial control aspects into operating areas of business." Discuss with reference to authoritative definitions.

(4 marks)

- (c) "Just as the scientist turns to the microscope in his search for truth, top management requires an instrument to focus on various aspects of the business reporting objectively and dispassionately on what it sees." Comment on the tool used by the management to meet the above need.

(4 marks)

- (d) Cost auditor has the same rights and responsibilities as an auditor of a company under section 227(1) of the Companies Act, 1956. Explain.
(4 marks)
- (e) Write a brief note on the functional areas to be reviewed for efficacy of the MIS and the aspects to be examined in respect of production and sales.
(4 marks)
5. (a) State, with reasons in brief, whether the following statements are correct or incorrect :
- (i) An increase in the credit period will lead to an increase in the debtors turnover ratio.
 - (ii) The level of detection risk is related indirectly to the auditor's substantive procedures.
 - (iii) As per the Cost Audit Report Rules, 2001, 'Capital Employed' means Net Fixed Assets + Net Working Capital.
 - (iv) Operational audit provides an assurance to the management regarding the effectiveness of controls and MIS reporting.
 - (v) Adequacy of internal audit function is reviewed by the external auditor and also by the audit committee.
- (2 marks each)
- (b) Re-write the following sentences after filling-in the blank spaces with appropriate word(s)/figure(s) :
- (i) Susceptibility to a misstatement that could be material assuming that there were no related internal controls is called _____.
 - (ii) Cost audit report shall be forwarded by the cost auditor to the Central Government within _____.
 - (iii) Efficiency audit is to ensure that every rupee invested in capital or other fields gives the _____.
 - (iv) Inter-firm comparison and flow charts form part of techniques adopted for _____.
- (1 mark each)
- (c) 'Propriety audit' has to ensure the observance of canons of financial propriety. Critically examine.
(6 marks)

6. (a) During the course of audit of the cost accounting records of a company covered under section 209(1) (d) of the Companies Act, 1956, the auditor has *inter alia* observed that the following practices are followed by the company in computing the cost of production of captive consumption :

- (i) Fringe benefits of employees directly engaged in manufacture are included under factory overheads, e.g., gratuity, medical benefits, children's education allowance, subsidised food, etc.
 - (ii) CENVAT credit, sales tax set-off, duty drawback, etc., are taken as miscellaneous income and adjusted in the cost of production.
 - (iii) Certain input materials of either direct or indirect nature, including packing material which is supplied free of cost by the captive user are not considered in computing cost of production as the manufacturing unit has not incurred any cost.
 - (iv) Moulds, tools, dies and patterns, etc., received free of cost are not considered.
- Critically examine and offer your comments.

(6 marks)

(b) Consider the following financial data :

	Rs.
Sales for the year	2,00,000
Stock	1,00,000
Credit sales	1,50,000
Debtors	75,000
Total assets	3,00,000
Share capital (10,000 shares of Rs.10 each)	1,00,000
Net profit	50,000
Market price of a share	20

From the above information, compute the following and give your opinion on each ratio in two or three sentences :

- (i) Stock turnover ratio;
- (ii) Debtors/Creditors turnover ratio;
- (iii) Net profit to total assets ratio;
- (iv) Price-earnings ratio; and
- (v) Earnings per share.

(2 marks each)

- (c) Auditor should use professional judgement to assess audit risk and to design audit procedures to ensure that it is reduced to an acceptably low level. Discuss the components of audit risk.

(4 marks)

7. (a) Choose the most appropriate answer from the given options in respect of the following :

- (i) Compared with a manual system, the consequences of error in a computer system often are more serious because --
- (a) Errors in computer system tend to be stochastic
 - (b) Computer system processes more data than manual system
 - (c) Errors in computer system are generated at high speed, and the cost to correct and re-run programs may be high
 - (d) Users of computer systems place too much faith in the correctness of computer output.
- (ii) A program check that ensures data entered by a data entry operator is complete is an example of --
- (a) Detective control
 - (b) Corrective control
 - (c) Preventive control
 - (d) Redundancy control.
- (iii) The primary objective of tests of controls is to --
- (a) Determine whether controls are operating effectively
 - (b) Identify any material errors that have occurred in major classes of transactions
 - (c) Understand whether a control is in place
 - (d) Identify major patterns of errors or irregularities that might exist in final account balances.
- (iv) Relative to general fraud and embezzlement, computer fraud and embezzlement seem to be --
- (a) Unaffected by deterrent controls
 - (b) Smaller in size
 - (c) Larger in size
 - (d) Easier to prosecute via law.

(1 mark each)

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(b) Re-write the following sentences after filling-in the blank spaces with appropriate word(s)/figure(s) :

- (i) Incorrect data in a computer system is likely to have more serious consequences for _____ control systems.
- (ii) Instructions placed on a source document to avoid errors in filling it form part of _____ controls.
- (iii) Transforming the information from an intelligible form to a non-intelligible form while sending is called _____.
- (iv) The computer system remembers our passwords by storing them in internal _____.

(1 mark each)

(c) State, with reasons in brief, whether the following statements are correct or incorrect :

- (i) The procedure to be followed for performing a system audit remains the same irrespective of functionality.
- (ii) Risks in the context of auditing systems are of two kinds.
- (iii) Three major factors affect the value of a data item to an organisation and thus the importance of maintaining the integrity of that data item.

(2 marks each)

(d) Threats to Information Systems (IS) may be malicious or non-malicious and the source(s) of threat may be external or internal. Give examples of sources and the respective threat types.

(6 marks)

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