PART A

Answer ANY TWO questions from this part

Question 1

Comment on the following:

(a) (i) Under the Company Secretaries Act, 1980, 'the Council of the Institute of Company Secretaries of India (ICSI) has ultimate and absolute authority with regard to misconduct’. (4 marks)

(ii) Bhushan was adjudged as an insolvent, but was subsequently discharged of the insolvency. He has applied for membership of the ICSI. Bhushan is otherwise qualified and eligible for membership. (2 marks)

(b) The Company Secretary in Practice should have the attributes of an entrepreneur. (6 marks)

(c) (i) Offer prices of shares issued on preferential basis are left to the discretion of the Board of directors of a listed company. (3 marks)

(ii) The Board of directors of a listed company has proposed a bonus issue in the following prevalent conditions:
   — the company defaulted in the payment of principal amount and interest to the holders of fixed deposits; and
   — consequent to the bonus issue the subscribed and paid-up capital will exceed the authorised capital. (3 marks)

(iii) The Lead Merchant Banker has accepted to act as a Registrar to an issue and to handle the post-issue responsibilities. (2 marks)

Question 2

(a) A public limited company has assigned you, as the Company Secretary in Practice, the work of pre-certification of documents. The following events have taken place. Draft check-lists for the purpose:

   (i) A special resolution has been passed at an annual general meeting for amendment in the articles of association. (6 marks)

   (ii) Certain properties of the company are mortgaged to secure a series of debentures. (6 marks)

(b) A Company Secretary in Practice has been appointed as an authority to investigate into the compliance of the SEBI (Prohibition of Insider Trading) Regulations, 1992. Discuss the audit procedure and the audit points to be scrutinised by the Company Secretary in Practice. (8 marks)

Question 3

(a) In what way can the secretarial audit be used as a tool for good governance of companies? (8 marks)
(b) Explain briefly the salient points to be checked for certification of securities transfers in compliance with the directives of the stock exchanges in respect of the following:
   — Clause 3C; and
   — Clause 16 of the listing agreement. (6 marks)
(c) Prepare a check-list of audit points during the course of internal audit of depository participants' records in regard to rematerialisation of securities. (6 marks)

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

Question 4
(a) "Management audit is a vague concept and serves no material purpose and a review of past managerial actions and decisions would stifle the initiative-and dynamism of managers." Discuss with reference to the nature, scope and coverage of management audit. (10 marks)
(b) Suggest the remedial measures to be taken in respect of the following deficiencies:
   (i) Strategies for the department are vague if not non-existent and there is no systematic planning in regard to purchase and materials management.
   (ii) Reliable and timely data is not made available to the management and adequate reports, returns are not generated and made available regarding capacity utilisation, lead times in production, quality control, scrap, wastage, salvage, etc. (5 marks each)

Question 5
(a) What observations the auditors are required to make under the Companies (Auditor's Report) Order, 2003, as amended, in respect of 'related party transactions'?
(b) What are the objectives of cost audit when it is being taken up on behalf of the management?
(c) "Excess inventories are termed as graveyards of business." Is it correct? Support your answer with necessary justifications.
(d) Differentiate between 'cost audit' and 'management audit'. (5 marks each)

Question 6
(a) "The management's task of developing an effective workforce is dependent upon good personnel administration." Explain the important points to be kept in mind for review of personnel policies of a company.
(b) State the meaning of 'efficiency audit' and elaborate as to how it is useful in preventing sickness in an industry. (10 marks each)
Question 7

(a) "Information systems audit is an evaluation of adequacy of control in computerised environment." Comment. (8 marks)

(b) Write notes on any three of the following:
   (i) Effect of computerised accounting on auditing
   (ii) Changes to evidence evaluation due to computerisation
   (iii) Asset safeguarding objectives
   (iv) System efficiency objectives. (4 marks each)
PART-A

(Answer ANY TWO questions from this part.)

1. Comment on the following:

(a) Compliance certificate casts onerous responsibility and poses a greater challenge on the professionals by the government, trade and industry.

(5 marks)

(b) Anurag set-up practice as Company Secretary by the name Anurag & Co. He has also set-up a website in respect of his firm. Subsequently, he inter alia took the following steps:

— The website address was mentioned on the letter-heads and visiting-cards.

— A circular was also sent to a number of persons/companies inviting them to visit the said website.

— Chat-room facility permitting chatting amongst members/firms of Company Secretaries and the firm’s clients was provided.

— Names of some important and big clients of the firm were mentioned in the information provided on the website.

(5 marks)
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2. (a) State, giving justification in brief, whether the following statements are correct or incorrect:

(i) Companies issuing debentures with maturity of 18 months are required to create debenture redemption reserve (DRR).

(ii) If a company proposes to create charge on debentures of maturity less than 18 months, it need not file the particulars of charge with the Registrar of Companies.

(iii) Register of members and debentureholders also can be kept at any other place within the city/town/village in which registered office of the company is situated.

(iv) Generally, it is not necessary for a company to send any document or notice under certificate of posting or by registered post to the members.

(3 marks each)
What are the audit checks to be exercised by a Company Secretary in Practice before issuing certificates as per the requirements of financial institutions and other corporate lenders in respect of the following matters:

(i) Necessary powers of the company and its directors to enter into an agreement.

(ii) Borrowing limits and compliance with section 293(1)(d) of the Companies Act, 1956.

(4 marks each)

3. (a) Briefly explain the following aspects in the context of signing of an annual return of a listed company by the Company Secretary in Whole-time Practice under proviso to section 161(1) of the Companies Act, 1956:

(i) implication of the term ‘signing’; and

(2 marks)

(ii) scope and extent of work.

(3 marks)

(b) Your client wants to convert back dematerialised shareholdings into physical certificates. Advise the procedure to be followed.

(5 marks)

(c) Discuss the salient features of ‘green shoe option’ and the requirement of ‘stabilising agent’ under the SEBI (Disclosure and Investor Protection) Guidelines, 2000.

(10 marks)
PART—B
(Answer Question No.7 which is compulsory and any two of the rest from this part.)

4. (a) “Management audit, if properly undertaken, can prove to be an excellent tool of management control and highly result oriented.” Substantiate the statement.

(b) “A clear distinction between financial audit and operational audit cannot be drawn in many cases.” Discuss and state the differences, if any, between the two.

(10 marks each)

5. (a) In a manufacturing company, the following procedures/rules were provided inter alia for payments by cheques:

(i) Cheques are to be signed by the designated accounts officers and counter-signed by an officer of the rank of senior accounts officer and higher, i.e., each cheque shall bear the signatures of two authorised officers. Board of directors has authorised the specifically named persons who can sign only; those who can sign or counter-sign also, as the case may be.

(ii) If the value of cheque exceeds Rs.1,00,000, the cheque is to be counter-signed by manager accounts or higher officer authorised in this behalf. Company’s bankers were duly intimated about resolutions of the Board of directors. Internal auditor noticed that —

(iii) on 15 occasions, cheques were issued bearing two signatures of the senior accounts officer — one as the signor and second one as the
counter-signor and the payee who happened to be a friend of the senior accounts officer received the payments from the bank; and

(ii) for the payment due to a supplier on a single invoice for Rs.1,45,000, two cheques were issued for Rs.90,000 and Rs.55,000 signed and countersigned by the accounts officer and the senior accounts officer simultaneously and delivered to the party and the said cheques were duly encashed.

Prepare a report to the managing director based on the above observations.

(9 marks)

(b) Marketing/sales department has proposed the following changes in the credit policy:

"Credit period to be doubled from the present level of 30 days credit."

Marketing manager has estimated the effect of the above as follows:

- Sales will increase to Rs.1.10 crore from the current level of Rs.1.00 crore.
- 8% of the additional sales may turn out to be bad.
- There will be no change in the ratio of variable cost to sales 0.85 and company's cost of capital 10%.

Critically examine the above proposal and identify the items which will result in increase in profits and those that will result in reduction in profits. Calculate the exact impact of the above proposal on company’s profits and advise whether the proposal is to be accepted or not.

(9 marks)
(c) State the procedure for the authentication of annexure to cost audit report.

(2 marks)

6. (a) Define the following with reference to the Cost Audit (Report) Rules, 2001:

(i) Capital employed
(ii) Net worth
(iii) Net sales
(iv) Value addition.

(2 marks each)

(b) What is the significance of 'propriety audit' for public sector companies?

(7 marks)

(c) Explain briefly the provisions of the Companies Act, 1956 pertaining to cost audit.

(5 marks)

7. (a) (i) State, with reasons in brief, which of the following do not fall under the category of 'management controls':

- Security controls and standards.
- Business continuity planning.
- Defining roles, responsibilities and duties within user department and IT department.

(3 marks)

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(ii) State, with reasons in brief, which of the following do not fall under the category of ‘application controls’:

- Controls for inputs, processing and outputs.
- Processing controls to ensure checks for legal compliance.
- Software requirement specifications and functional requirement specifications.

(3 marks)

(iii) Classify the following according to the nature of control, i.e., operational, environmental and organisational controls:

- Unknown and untested floppies used without checking for virus.
- Data controls not properly checked and filed.
- Heavy duty printer kept inside server room.
- The chief information officer should have three reportee managers — one each for development team, ensuring IT centre security and managing facilities.

(4 marks)

(b) Briefly discuss the tasks to be performed by information systems auditor in the context of —

(i) Understanding the information systems.
(ii) Identifying the audit risks.

(5 marks each)
PART—A

(Answer ANY TWO questions from this part.)

1. State, with reasons in brief, whether the following statements are correct or incorrect. Attempt any eight:

   (i) A company with limited liability can be registered as Practising Company Secretaries to have more strength and to cover more geographical area.

   (ii) A private limited company has to file its profit and loss account separately apart from its balance sheet and the said profit and loss account will not be available for public inspection.

   (iii) Where a member of the Institute of Company Secretaries of India (ICSI) is found guilty of misconduct as enumerated in the First Schedule to the Company Secretaries Act, 1980, as amended, the Council is empowered to make orders for removing the name of the member from the register of members permanently.

   (iv) The Central Government may place on its website
the names of directors disqualified to act as such directors under the Companies Act, 1956.

(v) A member of the Institute of Company Secretaries of India (ICSI) already in employment can apply for certificate of practice by producing ‘no objection certificate’ from his employer.

(vi) A company is required to give full details of past and present members in the annual return filed with the Registrar of Companies once in every six years.

(vii) A company manufacturing bulk drugs can appoint a sole-selling agent only after passing a special resolution.

(viii) A company having a managing director cannot appoint a manager with managerial powers under the Companies Act, 1956.

(ix) Where a share certificate bears ‘full paid sticker’ the share transfer agent should not impound such certificate when shares are lodged for transfer on the pretext that allotment/call money was not received.

(x) Sitting fees for directors in respect of companies with a paid-up capital and free reserves upto Rs.10 crore and turnover of Rs.50 crore can be paid upto Rs.25,000 per Board meeting.

\((2\frac{1}{2} \text{ marks each})\)
2. As a Company Secretary, give your advice on any four of the following:

   (i) The managing director of a public limited company is of the opinion that with coming into effect e-filing and MCA-21 regime, there is no longer any need for pre-certification by a Practising Company Secretary.

   (ii) The shifting of registered office of an unlisted company out of the city limits but within the same State was approved by an ordinary resolution through postal ballot.

   (iii) In a matter relating to merger and amalgamation with another company, meetings of the creditors of the two companies were not held on the ground that major creditors have agreed and both the companies would stand to benefit by reason of merger.

   (iv) On two occasions, the meetings of the Board of directors were held through video conferencing to enable the company to complete certain urgent pending issues.

   (v) Introduction of depositories after enactment of the Depositories Act, 1996 has made the transfer of shares and debentures free from hazards that were previously being faced.

   *(5 marks each)*

3. (a) Referring to the powers of the Securities and...
Exchange Board of India (SEBI) to issue guidelines, state the salient features for issue of the Indian Depository Receipts (IDRs) by a company registered in India. 

(5 marks)

(b) Enumerate the points to be checked by a Practising Company Secretary in respect of utilisation of monies advanced.

(5 marks)

(c) State the restrictions imposed on composition of the Board of directors of a listed company to which Clause 49 of the listing agreement is applicable.

(5 marks)

(d) Mention the circumstances in which a company is required to file shelf prospectus, information memorandum and red-herring prospectus before issue of securities to the public.

(5 marks)

PART—B

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

4. (a) Distinguish between ‘management audit’ and ‘compliance audit’ and state the role of the management auditor in relation to the success of a business enterprise.

(10 marks)