

Roll No.....

Time allowed : 3 hours

Maximum marks : 100

Total number of questions : 7

Total number of printed pages : 7

## PART—A

(Answer ANY TWO questions from this part.)

1. (a) Comment on *any two* of the following :

- (i) Manav is a Practising Company Secretary. He solicits clients from his friend Sunder who is a partner of a chartered accountants' firm and agrees to pay a percentage of fees to be charged as commission to Sunder.
- (ii) Kamla, a Practising Company Secretary, suffixed the caption 'Trade Marks Agent', in bold letters after the designation 'Practising Company Secretary' in her official communications and visiting cards.
- (iii) Berender, a Practising Company Secretary, has established a 'Certified Filing Centre' (CFC) for providing assistance to stakeholders to do the statutory filing in electronic mode with the Registrar of Companies offices across the country. Berender issued an advertisement regarding the facility of CFC.

(3 marks each)

- (b) Ajanta (Pvt.) Ltd., a sharebroker, purchased 2,000 shares of Saurabh Ltd. and requested the latter to register the transfer after lodging the relevant papers. The company returned the share transfer deed covering 100 shares to the transferee as bad delivery because of the difference in the signature of the transferor. Ajanta (Pvt.) Ltd. requested the transferor to execute a fresh transfer deed but the transferor did not respond. Meanwhile, the transferee lost the share certificate while shifting the office.

As a Practising Company Secretary, what course of action you would suggest to the company and to the transferee, keeping in view the lack of response from the transferor ?

(4 marks)

- (c) As a Practising Company Secretary, how would you deal with the following giving reasons in support of your answer :

- (i) A director of a company becomes disqualified if the company fails to pay the declared dividend within the scheduled date and such failure continues for one year.

- (ii) A person has been appointed as a managerial person who is above 70 years of age.
- (iii) The articles of association of a private company, incorporated in 1997, does not include clause (d) of section 3(1)(iii) of the Companies Act, 1956.
- (iv) Annual return of a public company in respect of the year 2005-06 did not include a full list of past and present members.
- (v) The Board of directors of a public limited company approved the investments in preference shares of another public company by a resolution carried by majority.

*(2 marks each)*

2. (a) What are the additional infrastructural requirements you would require for setting up professional practice as a Practising Company Secretary consequent upon the implementation of MCA-21 scheme ?

*(4 marks)*

- (b) Ajoy was a shareholder of Prateek (P) Ltd. and he died. Bijoy, son of Ajoy, obtained succession certificate and applied to the company for transferring the shares held by his deceased father in his (Bijoy's) name. The company informed Bijoy that Ajoy had incurred certain debts to the company beyond the value of shares. The company refused to transmit the shares in Bijoy's name on the ground that his father owed the company an amount exceeding the value of shares. As a Practising Company Secretary auditing for compliances, what would be your comments ?

*(4 marks)*

- (c) As a Practising Company Secretary, what are the matters you will take into account while issuing a compliance certificate in respect of —

- (i) Paid-up capital which includes a public issue made during the relevant financial year.
- (ii) Meetings of the directors.
- (iii) Acceptance of deposits.
- (iv) Making investment in shares.

*(3 marks each)*

3. (a) State the objectives of secretarial audit.

*(4 marks)*

- (b) National Stock Exchange (NSE) has authorised Practising Company Secretaries to issue certifications at par with Chartered Accountants *vide* its Circular No.541, Ref. NSE/Mem/7835 dated 6<sup>th</sup> September, 2006 regarding compliances by its trading members. Indicate any four certifications so authorised.

(4 marks)

- (c) You have been retained as Practising Company Secretary to give, after due verification, a report on compliances by the company on the Environment (Protection) Act. 1986. State the important matters which you will cover in your verification report.

(4 marks)

- (d) Anmol Ltd. has applied for a term loan from an all-India financial institution for financing its expansion programme. The assets of the company are to be mortgaged to the lending institution as security.

The financial institution has appointed Ravi, a Practising Company Secretary (PCS), to study/examine the status of the charges on the assets of the company and furnish a report to enable it to consider the request of Anmol Ltd. and take appropriate decision.

Is it sufficient if Ravi merely reproduces the particulars of charges in the form of search and status report ? Is there any need to supplement it by his (PCS's) own observations/comments ? What are the important aspects to be borne in mind by the PCS in this regard ?

(8 marks)

### PART—B

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

4. (a) A study by the management auditor revealed the following :

India Electron Ltd. is a public sector unit established 30 years ago for manufacturing high quality electronic components, instruments, systems, *etc.*, required for the country's nuclear power plants, ISRO, defence department, *etc.* It started with a large force of young and enthusiastic scientists and engineers. The founder managing director was himself a renowned scientist.

Self-reliance and indigenous development of technology was its ideology. The company was quite successful in this regard.

When its parent organisation which was a research organisation developed a first generation 12-bit computer, the company took upon itself the activity of production of computers on commercial scale. Its scientists were experts in reverse engineering and many new products were developed.

The company enjoyed much favoured treatment from government organisations for a decade. Consequent on the liberalisation on the foreign collaborations and licensing of import of hitherto restricted or prohibited items against the value of exports, the customer organisations started asking the company to compete with private sector units.

When it first introduced into the market, the first indigenously developed solid state domestic black and white TV receiver, customers were waiting in a queue for the product. Similar was the case in respect of colour TV receiver sets. With the liberalisation in regard to the import of SKD and CKD kits, the company has gradually lost its market share. Due to the same reason, it could not compete in the marketing of computer hardware. The salaries of the engineers and specialist were only a fraction of the remuneration paid to similar employees in the private sector. There was a very heavy turnover of such skilled workers who after receiving training and gaining experience were seeking greener pastures. The company has no autonomy as regards the fixation of pay scales.

The production cost of the high quality electronic components manufactured by it was very high. To bring down the cost, millions of the devices are to be produced for which there is no market.

They were still required for in-house needs and the needs of the customers who require military grade or space grade components.

The company continues to enjoy its reputation for the design, development and supply of equipment for sophisticated computer, communication and control systems strategically needed by the country. Most of the earlier employees retired and some of those who joined later also took voluntary retirement. The manpower which peaked 7,000 at one time got reduced to 3,300.

All along the company enjoyed peaceful industrial relations due to enlightened management. The managers have freedom and opportunity to have their own creative thinking.

As a management auditor, make a SWOT analysis of the above company and give suggestions, make an appraisal of management's methods and performance to the extent possible on the basis of the information available.

(10 marks)

(b) A review by the operational auditor of the production activities of a company manufacturing electrical goods has *inter alia* revealed the following :

(i) There was no bill of material for each product. Materials, components, parts, etc., were procured on the basis of approximation. There were stock-out

situations leading to production stoppages. Stock levels were maintained in a haphazard manner – while there were excessive stocks of some of the materials, there were acute shortages of certain critical materials.

- (ii) There were inordinate delays in the inspection of the materials ordered and received and in returning the rejected materials to the suppliers. Some of whom refused to accept the returns. This happened in the case of imports also. Further, in the case of imports, the company had to pay substantial amounts as demurrage, wharfage, *etc.*, due to its failure to clear the goods from the ports of arrival of the goods within the free time of clearance.
- (iii) Scrap and wastage during the manufacturing process far exceeded the normal standards. The procedure for the disposal of such scrap and wastage periodically as laid down was not adhered to. The system of identifying and disposal of obsolete stocks was inadequate. There were substantial stocks of material procured earlier for manufacturing products which have long been dropped.
- (iv) There were frequent slippages in production process leading to delays in making supplies to the customers due to breakdown of machinery, power breakdown, *etc.* The schedules for the preventive maintenance of plant and machinery were not adhered to.
- (v) Production, planning and control is not effective due to lack or inadequate documentation, lack of timely feedback information and inaccuracy in the reports received by the managers.

Give your comments and suggestions to remedy the lacunae and for improvement in operational efficiency.

*(10 marks)*

5. (a) Pursuant to the Companies (Auditor's Report) Order, 2003, state the duties of the statutory auditor in respect of the following :
- (i) Accepting loans from parties covered in the register maintained under section 301 of the Companies Act, 1956.
  - (ii) Internal audit system.

*(3 marks each)*

- (b) Discuss the important criteria to be adopted by the statutory auditor while reviewing the work of internal auditor prior to determining the workload to be undertaken by the statutory auditor himself depending on the extent/degree of reliance that may be reposed on the work done by the internal auditor.

*(6 marks)*

- (c) Discuss the provisions of the Companies Act, 1956 regarding internal audit of the accounts of a producer company. What are the duties of the auditor of such a company as per Chapter VI Part IXA of the Companies Act, 1956 ?

(4 marks)

- (d) Prepare a check-list for the internal audit of custodianship and safeguarding of assets.

(4 marks)

6. (a) The following information are available from the financial statements of Prashant Ltd. for the three financial years 2004-05, 2005-06 and 2006-07 :

	<i>Rs. in Lakhs</i>		
	<i>2004-05</i>	<i>2005-06</i>	<i>2006-07</i>
Total sales	750	850	860
Credit sales	420	520	550
Cost of goods sold	450	595	645
Cash	50	60	55
Debtors	150	165	180
Inventory	130	160	170
Net fixed assets	120	260	250
Creditors	75	85	100
Short-term debt	125	175	170
Long-term debt	125	185	175
Equity	125	200	210

As an auditor, analyse those ratios which indicate the efficient use of assets and discuss potential sources of trouble.

(10 marks)

- (b) What are the functions of the cost auditor in respect of inventory ?

(4 marks)

- (c) What are the advantages of cost audit to – (i) society ; and (ii) the company ?

(6 marks)

7. (a) As an information systems auditor, explain the concept of 'change management' relating to software life cycle. Also, explain the process of change management. *(6 marks)*
- (b) "Understanding the relationship between risk and control is important in information systems audit." Elaborate. *(6 marks)*
- (c) State the technical skills required for conducting systems audit. *(5 marks)*
- (d) Indicate the information systems risks associated with internal controls that need scrutiny by information systems auditor. *(3 marks)*

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