

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) Which of the following is a correct statement about compliance certificate —
    - (a) Compliance certificate under section 383A(1) of the Companies Act, 1956 need not be filed as an independent document.
    - (b) Financial year of the company may be different from the accounting year for the purpose of compliance certificate under section 383A(1) of the Companies Act, 1956.
    - (c) The date of signing of compliance certificate under section 383A(1) of the Companies Act, 1956 may be any date before the date of the financial year.
    - (d) The compliance certificate under section 383A(1) of the Companies Act, 1956 is to be laid before the annual general meeting.
  - (ii) Specific and prior approval of the Executive Committee of the Council of the Institute of Company Secretaries of India is needed for a Practising Company Secretary to engage himself/herself in the business or occupation of —
    - (a) Acting as ISO Lead Auditor.
    - (b) Acting as Recovery Consultant in the banking sector.
    - (c) Acting as Special Executive Magistrate.
    - (d) Agricultural and allied activities carried on with the help of hired labour.
  - (iii) Buy-back of its own shares by a company in any financial year may be made subject to —
    - (a) The buy-back is or less than 25% of the free reserves.
    - (b) The buy-back is or less than 25% of the total paid-up capital and free reserves.
    - (c) The buy-back shall not exceed 25% of the total paid-up capital in the financial year.
    - (d) The ratio of debt to equity plus free reserves is less than 1:1.

- (iv) Regulation (5) of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Markets) Regulations, 1995 deals with —
  - (a) Prohibition of dealing in securities in fraudulent manner.
  - (b) Prohibition of misleading statements to induce sale or purchase of securities.
  - (c) Prohibition of unfair trade practices relating to securities.
  - (d) Prohibition against market manipulation.
- (v) The correct statement under clause 49 of the listing agreement about the Audit Committee is —
  - (a) The Committee shall have a minimum of 4 directors as its members.
  - (b) The Chairman of the Committee shall be an independent director.
  - (c) The Director (Finance) shall be the Chairman.
  - (d) The Chairman of the Committee may or may not attend the annual general meeting of the company.
- (vi) Which of the following does not qualify as a Qualified Institutional Buyer (QIB) for the purpose of allotment of securities under initial public offering (IPO) —
  - (a) Mutual funds.
  - (b) Scheduled commercial banks.
  - (c) Pension funds with a corpus of Rs.20 crore.
  - (d) Provident funds with a corpus of Rs.25 crore.
- (vii) In case of refusal of transfer of shares by a company, the aggrieved party can file an appeal before the Company Law Board against the refusal under section 111(2) of the Companies Act, 1956 within a period of —
  - (a) One month.
  - (b) Two months.
  - (c) 45 Days.
  - (d) 60 Days.
- (viii) The maximum sitting fees payable to a director for attending the Board meeting of a company with a paid-up capital including free reserves of Rs.8 crore and turnover of Rs.40 crore is —
  - (a) Rs.20,000.
  - (b) Rs.10,000.
  - (c) Rs.5,000.
  - (d) Rs.1,000.
- (ix) A scheme of amalgamation of two companies under the Companies Act, 1956 has to be approved by —
  - (a) The District Court where the registered office of the companies are situated.
  - (b) The Company Law Board.
  - (c) The High Court.
  - (d) The Supreme Court.

(x) The requirement of securing programme credit hours does not apply to a Practising Company Secretary who has attained the age of —

- (a) 58 Years.
- (b) 60 Years.
- (c) 65 Years.
- (d) 70 Years.

(1 mark each)

(b) The Managing Director of your company wanted to transfer 50% of his shareholding and the requirement of promoters' contribution is not applicable to him. As Secretary of the company, prepare a note to the Managing Director giving your final opinion/advice.

(5 marks)

(c) State briefly the prominent services which can be rendered by a Company Secretary in whole-time practice in the matter of corporate restructuring.

(5 marks)

2. (a) State, with reasons in brief, whether the following statements are correct or incorrect. Attempt **any five** :

- (i) In the case of an IPO by an unlisted company, if issue price is less than Rs.500 per share, face value of share may be fixed at the discretion of the company between Re.1 and Rs.10.
- (ii) Where the Director (Discipline) of the Institute of Company Secretaries of India is of the opinion that a member is guilty of any professional or other misconduct mentioned in the First Schedule to the Company Secretaries Act, 1980, he shall place the matter before the Disciplinary Committee.
- (iii) An investor can operate a joint account with a depository participant on 'either or survivor' basis just like a savings bank account.
- (iv) The deposits with NBFCs registered with the RBI are insured and repayment thereof is guaranteed by the RBI.
- (v) The objective of secretarial audit is not to find faults in the working of companies but to regulate the same.
- (vi) After the deletion of section 22A of the Securities Contracts (Regulation) Act, 1956 with the enactment of the Depositories Act, 1996, the free transferability of shares and debentures has been adversely affected.

(2 marks each)

(b) Write notes on the following :

- (i) Passing of resolution by postal ballot under section 192A of the Companies Act, 1956
- (ii) Sweat equity shares.

(5 marks each)

3. (a) An issuer is making an initial public offer. Assuming the post-issue capital would be Rs.100 crore and the issuer adopts the book building route, and the promoters bring in the mandatory minimum amount, compute the following keeping in view the provisions of the SEBI (Disclosure and Investor Protection) Guidelines, 2000, Chapter 11 and Clarifications in Schedule XX :
- Promoters' contribution.
  - Minimum offer to public.
  - Allocation for individual investors applying for upto 10 tradable lots through the syndicate members.
  - Allocation to institutional investors as well as other investors applying through the syndicate members.
  - Allocation to individual investors applying direct and not through syndicate members but during the time when the issue is open.
  - Increase in post issue capital due to individual investors applying direct and not through syndicate members and the consequential increase in promoters contribution.
- (8 marks)*
- (b) Shareholdings of Sanat in a public listed company as on date of the last annual return were as follows :
- Fully paid-up shares of Rs.10 each : 500 Nos.  
Fully called-up but partly paid to the extent of Rs.5 each : 200 Nos.  
Subsequent to the last annual return, an amount of Rs.500 was received from Sanat.  
Forfeiture of shares corresponding to the amount defaulted by Sanat was sanctioned.  
Comment on the shareholding to be shown against Sanat in the current year and the number of shares and amount forfeited by the company.
- (4 marks)*
- (c) Dilip was managing director of N Ltd., a wholly owned subsidiary of TF Ltd., a listed company. On 31<sup>st</sup> March, 2007, N. Ltd. had incurred a huge loss of Rs.79 crore and this was bound to affect the profits of TF Ltd. This information known to Dilip was disclosed to the public on 30<sup>th</sup> April, 2007.  
Meanwhile, *i.e.*, the period between 31<sup>st</sup> March, 2007 and 30<sup>th</sup> April, 2007, Dilip's wife who received information from Dilip sold 2,90,000 shares of TF Ltd. held in her own name as well as in the companies controlled by her and her father-in-law.  
Examine and comment as a Secretarial Auditor.
- (4 marks)*
- (d) State whether the following will be considered as 'charge' requiring registration under section 125 of the Companies Act, 1956 :
- (i) An assignment of book debts as security.
  - (ii) A charge on future debts.
  - (iii) Loan from bank against security of fixed deposits.
  - (iv) A holder of lien is a secured creditor and the lien is statutory.
- (4 marks)*

**PART—B**

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

4. (a) Examine whether 'Internal Audit' is mandatory in the following cases :
- (i) Paid-up capital plus free reserves of Agri Ltd. at the commencement of the financial year was Rs.60 lakh. The annual turnover during the three consecutive financial years immediately preceding the financial year concerned was Rs.3 crore, Rs.4 crore and Rs.5 crore respectively.
  - (ii) The turnover of Bio Products Ltd. during the three consecutive financial years immediately preceding the financial year concerned was Rs.5 crore, Rs.6 crore and Rs.7 crore respectively. The total of the paid-up capital and free reserves at the commencement of the financial year was Rs.45 lakh.

(2 marks each)

- (b) From the following particulars of Food Products (Pvt.) Ltd., examine whether the Companies (Auditor's Report) Order, 2003 is applicable to the company :

– Paid-up capital at the commencement of the financial year	Rs.30 lakh
– Free reserves at the commencement of the financial year	Rs. 12 lakh
– Outstanding loan taken from State Financial Corporation	Rs.9.50 lakh
– Annual turnover	Rs.400 lakh

The company has not accepted any public deposits.

(3 marks)

- (c) Comment on the observations made by the Internal Auditor in the following cases :

(i) *Facts:*

For a training programme conducted for 30 employees :

- Working lunch was provided at a cost of Rs.80 per trainee.
- Scribbling/note pads given to the trainees containing around 50 sheets of  $\frac{1}{2}$  full scape size were purchased at a cost of Rs.20 each.
- Ball-point pens given to the trainees were purchased at a cost of Rs.15 each.

*Observations:*

- Meals of the same quality, if not superior, were available at the local hotels at Rs.40 per meal. The hotels were also willing to cater at the venue of the training programme for an additional amount of Rs.5 per meal.
- Scribbling pads and ball-point pens of comparable quality were available in the open market at a price of Rs.10 each in the retail market. There was a possibility of quantity discounts for bulk purchases.

(3 marks)

*(ii) Facts:*

- Bulk order for supplying printed forms, booklets, manuals, *etc.*, involving an expenditure of over Rs.10 lakh was placed on a single party who was the lowest among three parties who submitted open quotations in response to a notice calling for quotations for the said requirement which was placed on the notice board of the purchase department.

*Observations:*

- It is understood that the suppliers, whose quotations were received, were informed about the requirement by a staff member over telephone.

*(4 marks)*

- (d) Usually there is a difference in the amount of profit as per the cost accounting records and the profit as per the financial accounts. Discuss the reasons for the difference and draw a proforma reconciliation statement as per the annexure to the Cost (Audit Report) Rules, 2001.

*(6 marks)*

5. (a) An Auditor has to be cautious before accepting the relative information made available under inter-firm comparison. Before initiating measures to fall in line or better itself, the company cannot blindly accept the information but study in depth how the computations were made and assumptions on which they are made. Discuss the limitations of inter-firm comparison.

*(7 marks)*

- (b) If a company's accounts show the sufficient profit to pay dividend which the Board of directors have duly declared but the cash balance is insufficient to pay the dividend, what would be your attitude as an Auditor ? Suggest a method to overcome the shortage of liquid resources to pay the dividend.

*(7 marks)*

- (c) Draw an audit programme for conducting operational audit of packaging process of toilet soap manufacturing company.

*(6 marks)*

6. (a) The volume of sales of Gell Well Ltd. was comparable with its sales during the previous year. However, there was a considerable fall in its trading profit compared to the previous year. You are asked to investigate into the reasons of fall in profit. Outline the procedure.

*(10 marks)*

- (b) Section 231 of the Companies Act, 1956 provides that an Auditor of a company shall be entitled to receive notice of and to attend any general meeting of the company at which any accounts which have been examined and reported on by him are to be laid before the company and make any statement or explanation he desires with respect to the accounts.

You are required to answer the following —

- (i) In what circumstances should the right to make a statement or explanation be exercised by the Auditor ?
- (ii) Would any explanation made by the Auditor relieve him in respect of omissions from the report or from the balance sheet ?
- (iii) Should the Auditor so attending the AGM, answer questions put-up by the shareholders ?
- (iv) If the Auditor is present and any wrong information is given by a director in regard to an item in the balance sheet, would it be proper for him to correct that information in the absence of explanation by the director concerned ?
- (v) Would the Auditor incur any liability for absenting himself from the AGM ? Give reasons for your answer.

*(2 marks each)*

7. (a) Choose the most appropriate answer from the given options in respect of the following :
- (i) The primary objective of Information Systems Audit is to identify —
    - (a) Critical IT processes
    - (b) Key IS risks
    - (c) IT controls
    - (d) Material control weaknesses.
  - (ii) The sequence of an Information Systems Audit process is —
    - (a) Review, evaluation, identification and documentation
    - (b) Identification, evaluation, compliance testing and substantive testing
    - (c) Review, evaluation, compliance testing and substantive testing
    - (d) Identification, compliance testing, substantive testing and evaluation.
  - (iii) Information Systems Audit is required as —
    - (a) IT is becoming more complex
    - (b) IT controls are inherently unreliable
    - (c) A tool for providing assurance to management
    - (d) IT security is inadequate.

- (iv) The most critical control consideration in designing the audit procedures in a computerised environment is —
- (a) Lack of segregation of duties
  - (b) Lack of management control
  - (c) Lack of IT knowledge by staff operating the system
  - (d) On line and real-time nature of the system.

(1 mark each)

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

- (i) The slack resource will not be available to other application system if it is \_\_\_\_\_ to one system.
- (ii) Analytic review of real data to test its quality by using certain audit software or packages are called \_\_\_\_\_ tests.
- (iii) Business continuity planning is a part of \_\_\_\_\_ controls.
- (iv) In \_\_\_\_\_ attacks, the user is deluded to get into some unwanted site by overriding the domain name service entries.

(1 mark each)

- (c) State, with reasons in brief, whether the following statements are correct or incorrect. Attempt **any two** :

- (i) The process of removing defects in a software programme is called fresh programme design.
- (ii) Non-availability of source code is a serious handicap when software developed by third parties is procured.
- (iii) Switches/hubs lying loose on tables/hanging on walls is an illustration of lack of proper environmental controls.

(2 marks each)

- (d) Comment on **any two** of the following statements :

- (i) The need for steering committee for security cannot be considered as of low priority.
- (ii) The scope of systems audit covers the entire information systems management process.
- (iii) Asset safeguarding is an important objective of information systems audit.

(4 marks each)