2021

COMMERCE

Full Marks 70

Pass Marks 28

Time: 3 hours

(Auditing and Corporate Governance)

[Assam University B.Com 6th Sem Solved Paper]

TDC (CBCS) Even Semester Exam. September – 2021

The figures in the margin indicate full marks for the questions

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SECTION-A

Answer any ten of the following questions: 2x 10=20

1. Define Auditing.

Ans: Auditing is the systematic examination of an organization's financial records, transactions, and operations to ensure accuracy, legality, and compliance with relevant laws and regulations.

2. Write two basic principles of Auditing.

Ans: Two basic principles of Auditing:

a. - Independence: Auditors must remain impartial and free from any influence that could compromise their judgment or objectivity.
b. - Professional skepticism: Auditors should maintain a questioning mindset and critically assess evidence to ensure the accuracy and reliability of financial information.

3. What is Audit Planning?

Ans: Audit planning involves outlining the objectives, scope, and methodology of an audit. It includes identifying key risks, establishing timelines, and allocating resources to ensure an effective and efficient audit process.

4. Define Vouching.

Ans: Vouching is the process of verifying the authenticity and validity of transactions recorded in an organization's financial statements by examining supporting documents such as invoices, receipts, contracts, and bank statements.

5. Define company auditor.

Ans: A company auditor is an independent professional appointed to examine and report on the financial affairs of a company. They ensure that the company's financial statements present a true and fair view of its financial position and performance.

6. How can an auditor be removed? (Two points only)

Ans:

a. - By resignation: An auditor can resign by submitting a formal resignation letter to the company's board of directors.
b. - By removal: Shareholders can remove an auditor through a special resolution passed at a general meeting, provided reasonable notice and opportunity to be heard are given to the auditor.

7. Write any two contents of 'Auditor's Report'.

Ans:

a. - Opinion on the financial statements: The auditor provides an opinion on whether the financial statements present a true and fair view of the company's financial position and performance.
b. - Emphasis of matter: The auditor highlights significant matters that require the reader's attention, such as uncertainties or limitations in the audit process.

8. What is Audit of Limited Companies?

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Ans: Audit of limited companies refers to the examination of the financial statements and records of companies that are incorporated under company law and limited by shares. It ensures compliance with legal requirements and provides assurance to shareholders and other stakeholders.

9. Define Cost Audit.

Ans: Cost audit is the systematic examination of a company's cost accounting records, processes, and procedures to verify their accuracy, efficiency, and compliance with applicable laws and regulations. It aims to control and reduce costs, improve profitability, and ensure fairness in pricing.

10. What is Tax Audit?

Ans: Tax audit is an examination of a taxpayer's financial records and transactions by a qualified accountant to ensure compliance with tax laws and regulations. It is typically required for businesses and individuals whose turnover or income exceeds specified thresholds set by tax authorities.

11. What is computer-aided Audit?

Ans: Computer-aided audit refers to the use of specialized software tools and techniques to assist auditors in analyzing data, identifying anomalies, and conducting audit procedures more efficiently and effectively. It enhances the audit process by automating repetitive tasks and providing advanced analytical capabilities.

12. What is Management Audit?

Ans: Management audit is the comprehensive evaluation of an organization's management processes, practices, and effectiveness. It focuses on assessing the performance of management in achieving organizational objectives, improving efficiency, and implementing strategic plans.

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13. What is Corporate Governance?

Ans: Corporate governance refers to the system of rules, practices, and processes by which a company is directed and controlled. It encompasses the relationships between the company's management, its board of directors, shareholders, and other stakeholders, aiming to ensure transparency, accountability, and ethical behavior.

14. Name any four corporate scandals in India.

Ans:

a. - Satyam Scandal
b. - IL&FS Financial Scandal
c. - Nirav Modi PNB Scam
d. - Yes Bank Crisis

15. Mention any two problems of Corporate Governance in India.

Ans:

a. - Lack of transparency in financial reporting.
b. - Weak enforcement of regulations and inadequate oversight mechanisms.

16. Mention any two models of Corporate Governance in India.

Ans: Two models of Corporate Governance in India:

a. - The SEBI (Securities and Exchange Board of India) Corporate Governance Code
b. - The Companies Act, 2013, and its amendments

17. Define business ethics.

Ans: Business ethics refers to the principles, values, and standards of conduct that guide the behavior of individuals and organizations in the business environment. It involves making decisions and actions

that are morally and ethically sound, considering the interests of stakeholders and society.

18. Define values.

Ans: Values are fundamental beliefs and principles that guide an individual's behavior and decision-making. They represent what is important and desirable to a person or organization and influence attitudes, priorities, and actions.

19. Mention any two approaches of business ethics.

Ans:

a. - Utilitarian approach: Focuses on maximizing overall societal welfare by evaluating actions based on their consequences and outcomes
b. - Deontological approach: Emphasizes adherence to moral principles and duties, regardless of the consequences, and considers actions as inherently right or wrong.

20. Name any four rating agencies in India.

Ans: The four rating agencies in India :

a. - CRISIL (Credit Rating Information Services of India Limited)
b. - ICRA (Investment Information and Credit Rating Agency of India Limited)
c. - CARE Ratings (Credit Analysis & Research Limited)
d. - India Ratings and Research (a Fitch Group Company)

SECTION-B

Answer any five of the following questions:
10x5=50

21. State the objectives of Auditing. Also explain the various techniques of auditing.5+5=10

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Ans: Auditing is a systematic examination of the books and records of a business or other organization, in order to ascertain or verify and report upon the facts regarding its financial operation and the result thereof.

Objectives of Auditing :

Auditors are basically concerned with verifying whether the account exhibit true and fair view of the business. The objectives of auditing depend upon the purpose of his appointment. There are two main objectives of auditing.

1. Primary objective and
2. Secondary or incidental objective.

Primary Objective:
The primary objective of an auditor is to respect the owners of his business expressing his opinion whether account exhibits true and fair view of the state of affairs of the business. It should be remembered that in case of a company, he reports to the shareholders who are the owners of the company and not tot the director. The auditor is also concerned with verifying how far the accounting system is successful in correctly recording transactions. He had to see whether accounts are prepared in accordance with recognized accounting policies and practices and as per statutory requirements.

Secondary Objective:
The following objectives are incidental to the main objective of auditing:
A) Detection and prevention of errors:
Errors are mistakes committed unintentionally because of ignorance, carelessness. Errors are of many types:
a. Errors of Omission: These are the errors which arise on account of transaction into being recorded in the books of accounts either wholly partially. If a transaction has been totally omitted it will not affect trial balance and hence it is more difficult to detect. On the other hand if a transaction is partially recorded, the trial balance will not agree and hence it can be easily detected.

b. Errors of Commission: When incorrect entries are made in the books of accounts either wholly, partially such errors are known as errors of commission. E.g.: wrong entries, wrong Calculations, postings, carry forwards etc such errors can be located while verifying.
c. Compensating Errors: when two/more mistakes are committed which counter balances each other. Such an error is known as Compensating Error. E.g.: if the amount is wrongly debited by Rs 100 less and Wrongly Credited by Rs 100 such a mistake is known as compensating error.
d. Errors of Principles: These are the errors committed by not properly following the accounting principles. These arise mainly due to the lack of knowledge of accounting. E.g.: Revenue expenditure may be treated as Capital Expenditure.
e. Clerical Errors; A clerical error is one which arises on account of ignorance, carelessness, negligence etc.

22. (a) Distinguish between Internal Check and Internal Audit.

Ans: Difference between Internal Audit and Internal Check:

1. Meaning: Internal check is the organization of staff for checking the work of one by the other. Internal audit is continues audit of accounts by employees of the business concern.

2. Object: Internal check aims to prevent errors and frauds. Internal audit aims to detect errors and frauds. Internal audit aims to detect errors and frauds.

3. Nature: In the case of internal check, recording and checking of entries is simultaneously done. In the case of internal audit, only checking of already recorded entries is done.

4. Scope: The scope of internal check is limited. The scope of internal audit is comparatively broad.

5. Appointment: In the case of internal check, no new member is employed as duties are so assigned that involved cross checking. In

the case of internal audit, process of auditing is carried by special staff appointed for this purpose.

6. Detection: In the case of Internal Check, any error or fraud is detected at the time of inter checking. In the case of internal audit, any error or fraud is only detected at the end of audit work.

(b) As an Auditor, how would you verify various 'assets' of a business firm? 5+5=10

Ans: As an auditor, verifying various assets of a business firm involves several steps to ensure accuracy and reliability. Firstly, I would examine the financial statements and compare them with supporting documentation such as invoices, receipts, and contracts to confirm the existence of assets. For tangible assets like property, plant, and equipment, I would physically inspect them to verify their existence and condition.

For financial assets like investments and accounts receivable, I would reconcile them with third-party statements and confirmations from counterparties. I would also assess the valuation of assets to ensure they are stated at their fair market value or cost, depending on the accounting standards applied.

Furthermore, I would scrutinize the ownership and title deeds of assets to confirm they belong to the business and are free from encumbrances. For intangible assets such as intellectual property or goodwill, I would review legal documentation and assess their valuation methodologies.

Overall, the verification process involves meticulous examination of documentation, physical inspection where necessary, and critical assessment of valuation methods to ensure the accuracy and reliability of a firm's assets.

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23. How is an Auditor appointed? Also mention the qualification of an Auditor. 5+5=10

Ans:Auditors are typically appointed by the shareholders of a company during the Annual General Meeting (AGM) or by the board of directors in the case of interim audits. The appointment process involves shareholders approving the auditor's selection based on recommendations from the company's audit committee or board of directors.

Qualification of a Company Auditor [Sec 141]

According to Section 141 of the Companies Act, 2013 the prescribed qualifications of an auditor are as follows:

a. An individual shall be eligible for appointment as an auditor of a company only if he is a chartered accountant.

b. A firm shall be eligible for appointment as an auditor of a company in the name of the firm only if majority of its partners are practicing in India as chartered accountants. Where a firm including a limited liability partnership is appointed as an auditor of a company, only the partners who are chartered accountants shall be authorised to act and sign on behalf of the firm.

24. Briefly explain the liabilities of statutory auditor under the Companies Act, 2013. 10

Ans: Under the Companies Act, 2013, statutory auditors hold significant responsibilities and liabilities. Firstly, they are accountable for ensuring the accuracy and fairness of financial statements by conducting audits in accordance with auditing standards. They must express an opinion on whether the financial statements present a true and fair view of the company's affairs.

Statutory auditors are liable for any negligence, errors, or omissions in their audit reports, which could result in legal actions against them.

They must exercise due care, diligence, and professional skepticism in their work to mitigate these risks.

Additionally, they have a duty to report any material misstatements or fraudulent activities detected during the audit to the company's management and, if necessary, to regulatory authorities.

Failure to fulfill these responsibilities can lead to severe consequences, including financial penalties, suspension, or even disqualification from practicing as auditors. Therefore, statutory auditors must uphold high ethical standards and perform their duties with integrity and competence.

25. Mention the basic considerations to be undertaken while auditing in an EDP environment. 10

Ans: Auditing in an Electronic Data Processing (EDP) environment requires careful consideration of various factors to ensure the accuracy, integrity, and security of digital information. Firstly, auditors must understand the organization's EDP systems, including hardware, software, databases, and network infrastructure. They need to assess the effectiveness of internal controls over these systems to identify potential risks and vulnerabilities.

Secondly, auditors should evaluate the reliability of EDP-generated data by examining data validation processes, data integrity controls, and the adequacy of backup and recovery procedures. They must also verify the authenticity and authorization of electronic transactions and ensure compliance with relevant regulatory requirements such as data privacy laws.

Furthermore, auditors need to assess the security measures implemented to protect against unauthorized access, data breaches, and cyber threats. This involves reviewing access controls, encryption methods, intrusion detection systems, and monitoring mechanisms.

Additionally, auditors must consider the impact of technological advancements and changes in the EDP environment on audit procedures and techniques. Continuous training and updating of audit methodologies are essential to adapt to evolving technology trends and emerging risks in EDP environments.

26. Explain, in brief, the recent trends of Auditing. Also mention the tools used for computer-aided audit.   5+5=10

Ans: Recent trends in auditing include increased reliance on data analytics, automation of audit processes, and a shift towards risk-based auditing. Data analytics allows auditors to analyze large volumes of data quickly, identifying patterns, anomalies, and potential risks more efficiently than traditional methods. Automation streamlines audit procedures, reducing manual effort and enabling auditors to focus on higher-value tasks. Risk-based auditing prioritizes areas of greatest risk, ensuring resources are allocated effectively to address potential issues.

Computer-aided audit tools (CAATs) play a crucial role in modern auditing practices. These tools include data extraction and analysis software, such as ACL or IDEA, which help auditors interrogate large datasets for irregularities or patterns. Audit management software, like TeamMate or Galvanize, assists in planning, executing, and documenting audit processes. Continuous auditing tools enable real-time monitoring of financial data, allowing auditors to identify issues as they arise rather than waiting for periodic audits. These tools enhance audit efficiency, effectiveness, and provide greater insights into organizational operations and risks.

27. Briefly explain the reforms that have been taken place in Corporate Governance. 10

Ans: Corporate governance reforms have evolved over time to address various issues related to transparency, accountability, and ethical conduct within corporations.

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Some key reforms include:

1. Board Independence: Emphasis on having a significant number of independent directors on corporate boards to ensure unbiased decision-making.

2. Executive Compensation: Implementing policies to align executive pay with company performance and shareholder interests to prevent excessive compensation and incentivize long-term value creation.

3. Disclosure and Transparency: Mandating comprehensive disclosure of financial and non-financial information to shareholders and stakeholders, ensuring transparency in corporate operations and decision-making processes.

4. Shareholder Rights: Strengthening shareholder rights and facilitating their active participation in corporate governance through mechanisms such as proxy voting and shareholder resolutions.

5. Risk Management: Establishing robust risk management frameworks to identify, assess, and mitigate risks effectively, safeguarding the interests of stakeholders and ensuring long-term sustainability.

6. Ethical Standards: Promoting ethical conduct and integrity within organizations through codes of conduct, whistleblower protection, and ethics training programs.

These reforms aim to enhance corporate accountability, restore investor confidence, and foster sustainable long-term growth in corporations.

28. Discuss the codes and standards to be followed in Corporate Governance. 10

Ans: Corporate governance in India is governed by various codes and standards aimed at promoting transparency, accountability, and ethical conduct. Some of the key ones include:

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1. Companies Act, 2013: The primary legislation governing companies in India, which outlines provisions related to the board of directors, corporate social responsibility, audit requirements, and shareholder rights.

2. SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015: Regulates listed companies and imposes obligations regarding corporate governance disclosures, board composition, and audit committees.

3. SEBI (Prohibition of Insider Trading) Regulations, 2015: Ensures fair and transparent trading practices by preventing insider trading and mandating disclosure of price-sensitive information.

4. SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011: Regulates acquisitions of shares and takeovers to safeguard shareholder interests and ensure fair treatment of all shareholders.

5. Institute of Company Secretaries of India (ICSI) Code of Conduct for Company Secretaries: Sets ethical standards for company secretaries, emphasizing integrity, professionalism, and confidentiality.

6. Institutional Investor Advisory Services (IIAS) Corporate Governance Code: Provides guidelines for institutional investors to engage with companies on governance matters and promote shareholder activism.

Adherence to these codes and standards is essential for maintaining trust, integrity, and sustainability in Indian corporate entities, benefiting shareholders, investors, and the broader economy.

29. Discuss the practices to be followed in business ethics. Also mention the advantages of business ethics. 5+5= 10

Ans: Business ethics encompasses the moral principles and values that guide the behavior and decision-making processes within an organization.

Some practices to be followed in business ethics include:

1. Integrity: Conducting business with honesty, fairness, and transparency in all interactions with stakeholders.

2. Compliance: Adhering to legal regulations, industry standards, and internal policies to ensure ethical conduct.

3. Respect: Treating employees, customers, suppliers, and the community with dignity, fairness, and respect.

4. Accountability: Taking responsibility for one's actions and decisions, and being open to feedback and improvement.

5. Sustainability: Incorporating environmental and social considerations into business operations to minimize negative impacts and promote long-term sustainability.

Advantages of practicing business ethics include:

1. Enhanced Reputation: Ethical behavior builds trust and credibility with stakeholders, leading to a positive reputation and stronger relationships.

2. Risk Reduction: Compliance with ethical standards reduces the risk of legal issues, financial losses, and reputational damage.

3. Employee Engagement: Ethical companies attract and retain talent by fostering a positive work environment based on trust, fairness, and integrity.

4. Customer Loyalty: Consumers are more likely to support ethical businesses, leading to increased customer satisfaction and loyalty.

5. Long-Term Success: Sustainable business practices contribute to long-term success by creating value for all stakeholders and promoting stability and growth.

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30. Write notes on any two of the following:
5x2=10

(a) Green Governance: Green governance refers to the integration of environmental concerns and sustainable practices into governance structures and decision-making processes. It involves policies, regulations, and actions aimed at promoting ecological sustainability and minimizing negative environmental impacts. Green governance encompasses a wide range of initiatives, including conservation efforts, renewable energy adoption, waste management strategies, and biodiversity protection measures. It emphasizes the importance of balancing economic development with environmental preservation to ensure the well-being of current and future generations. By prioritizing sustainability and eco-friendly practices, green governance aims to create resilient communities, mitigate climate change effects, and safeguard natural resources. It requires collaboration among governments, businesses, civil society organizations, and individuals to implement effective environmental policies and initiatives. Overall, green governance is essential for promoting environmental stewardship, achieving sustainable development goals, and creating a healthier planet for all inhabitants.

(b) Ethical Behaviour: Ethical behavior refers to conduct that is morally upright, principled, and aligned with accepted standards of right and wrong. It involves making decisions and taking actions that prioritize honesty, integrity, fairness, and respect for others. Ethical behavior encompasses various aspects of personal and professional life, including interactions with colleagues, clients, customers, and society at large. It involves adhering to ethical codes of conduct, respecting the rights and dignity of others, and upholding ethical principles even in challenging situations. Ethical behavior is essential for fostering trust, building positive relationships, and maintaining a good reputation. It helps create a conducive environment for collaboration, innovation, and sustainable growth. Organizations that prioritize ethical behavior tend to attract and retain talented employees, loyal customers, and supportive stakeholders. Overall, ethical behavior is a

fundamental aspect of individual and organizational success, contributing to a more just and equitable society.

(c) Listing Agreement: A listing agreement is a contract between a property owner and a real estate agent or broker, authorizing the agent to represent and market the property for sale or lease. It outlines the terms and conditions of the agreement, including the property's listing price, duration of the listing period, agent's commission, and any special provisions or requirements. The listing agreement typically grants the agent exclusive rights to market the property within a specified timeframe and geographic area. It may also include details regarding property disclosures, marketing strategies, and responsibilities of both parties. The listing agreement serves to protect the interests of both the property owner and the agent, ensuring clear expectations and guidelines for the property sale or lease process. It is a legally binding document that governs the relationship between the parties and provides a framework for conducting real estate transactions professionally and ethically.

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