Common Mistakes committed by the Students – a compilation for CA Final May 2017 Examination

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S. No.	Question asked on FB Page[1]	Suggested Hints	Mistakes committed
1.	The statutory auditors are under a mandatory obligation to attend the Board Meetings of the Company. Comment.	Auditors not bound to attend Board meetings.	Students read the question in careless and hasty manner. More than majority replied believing that the question is on attending general meeting and thus wrongly discussed Section 146.
2.	The element of audit risk is not relevant while making a report under CARO, 2016. Comment.	CARO 2016 issued by CG u/s 143(11) of Co. Act 2013 requires the statutory auditors of the Co to report additionally about specified matters therein. Such reporting is done on the basis of performance of audit procedures, collection of audit evidence & its evaluation. Clearly risk of material misstatement cannot be altogether eliminated despite presence of internal control system and performance of procedures. Hence, there is still susceptibility of MM and audit risk is relevant in CARO 2016.	Wrong answer as given: "Correct. Only reporting in respect of the 16 points needs to be done, regardless of audit risk."
3.	The statutory auditors of ABC Bank Limited issued a clean audit report for the financial year 2016-2017. Later on it was discovered that the auditors were grossly negligent in their report. Can the shareholders and depositors of the Bank file a class action suit against the auditors. If yes, then brief the procedure for the same.	Class Action suit is not applicable for banking companies [Section 245(9)]	Students were not aware of Section 245(9). Instead they wrongly discussed Code of Ethics provisions, which were not even asked in the question.
4.	CA Z, a member in practice, quoted his fees at Rs. 1,000 per hour subject to the total fees not exceeding Rs. 15,000/= for a particular assignment. Advise the admissibility of such quotation under the Chartered Accountants	As per central council guidelines, 2008 requirement of minimum fees to be charged by a member in practice for a	Majority students wrongly discussed Regulation 192 of CA Regulations, 1988.

[1] **FB Page:** https://www.facebook.com/CAFinalAuditandLawClassesbyKamalGarg/

	Act, 1949.	particular assignment has been deleted with effect from 7 June 2011. Currently, Amount of fees to be charged by member in practice is left at the discretion of member concerned. As per the given facts, there is no prohibition in charging fees at Rs 1000 per hour subject to total fees not exceeding Rs 15000.	
5.	Whether a company A Ltd. is required to consolidate its subsidiary which is a Limited Liability Partnership (LLP) or a partnership firm.	Yes, CFS must be prepared by A Ltd. for its subsidiary which is an LLP or partnership firm	Majority students were not aware of clarification issued by ICAI and hence they answered that since LLP is not a company, it cannot be subsidiary as well.
6.	Pursuant to restraint order from the Court, an interim injunction had been imposed from holding general meeting of company due to which financial statements for years 2013-14, 2014-15 and 2015-16 had not been filed. Whether directors of company could be said to have vacated their offices in terms of section 167(1), read with section 164(2) due to default in filing financial statements.	Filing of F.S. is required by the due date of AGM if such AGM is not held [Section 137]. Thus, it will result in disqualification and automatic vacation under Section 167(1) read with Section 164(2). ***Note:*** Alternative view also possible.	Not answered by Students
7.	ABC Limited held a certain number of shares in a company PQR Limited, as an investment. By a scheme of arrangement ABC Limited sought to make a gift of these shares to its shareholders with a corresponding reduction in its reserves. Can it do so under the Companies Act, 2013.	It will result in distribution of dividend in non-cash mode. Hence a contravention u/s 123	-do-
8.	PQR and Co., a CA Firm having four partners was appointed as statutory auditors for a listed company RST Limited. Considering huge volume of work, two partners of the firm were designated as engagement partners, for this statutory audit. During the course of such audit both these partners were having difference of opinion on treatment of financial instruments made by the company. Advise the considerations to be factored into while issuing audit report for the company.	As per SA 220 read with SQC 1, In the case of differences of opinion within the engagement team, the same should be reviewed by engagement quality control reviewer according to the policies and procedure established by the firm. Conclusions reached from above should be documented and implemented. The report should not be issued until	Students wrongly discussed SA 299 on Joint Audit.

		the matter is resolved.	
9.	Circulars/ Orders were issued by the Registrar of State Co-operative Societies wherein it has been mentioned that certain amount of audit fee is payable to the concerned State Government and the auditor has to deposit a percentage of his audit fee in the state Treasury by a prescribed challan within a prescribed time of the receipt of Audit fee. Whether deposit of such audit fees will result in professional misconduct.	Not a professional misconduct under Clause 2, Part 1, Schedule 1 of CA Act. Since this is not a sharing of fee or profits nor a commission and is required under State laws, rules and regulations	Not answered by many Students
10.	If audit materiality cannot be assessed then examination in depth shall be carried out by the auditor. Comment.	Assessment of Audit Materiality and Audit Procedure Assessment of AM 1. As per SA 320 in relation to AM define AM as subjective concept and involve professional judgement of auditor. (any item which influence the decision of user is material). 2. In general, % criteria is applied as starting points for determining the materiality. 3. Determination of materiality depends upon various factors, such as: a. Audit Risk b. nature of item c. ICS of organizations d. FS items, etc. 4. AM helps in determining the nature, timing and extend of audit procedures. 5. It should be noted that there is inverse relation between Audit Risk (AR: susceptibility of that FS may contain material misstatements despite of audit) and AM i.e. if an AR in respect of any item is high then AM in respect of these item should be kept at	Seemed like the very moment Students see the words “audit materiality” or “audit risk”, they surrender.

		low level. Audit Procedure if AM cannot be assessed: The objective of audit is to express true and fair view on FD (SA 200). one of the way for achieve such objective is keep AR at low level. Following audit procedures can be taken: 1. Examination in depth. 2. Using the work of expert 3. Engage experienced person in audit. 4. any other alternate procedures to keep AR at low level. Conclusion On the basis of above it can be concluded that examination in dept is one of way if auditor unable to assess materiality, he can also apply other audit procedures.	
11.	What are the conditions to be complied with by a company to raise public proceeds through "Fast Track Issues".	* atleast 95% of the investors' grievances are redressed. * listed for at least 3 yrs * no show cause notice has been issued and pending against promoter or director * issuer has complied with listing agreement for atleast 3yrs * entire promoters holding in demat form * no conflict of interest with merchant bankers * right issue shall not be renounced by promoters and their group except between promoters * delivery based trading turnover atleast 10% of 6 months * trading turnover at least 2% in 6 months	Majority students wrongly discussed normal provisions about companies having past track record or not.

		* market capital atleast 250cr in case of right issue and 1000 cr. on case of public issue	
12.	Draft an audit programme for examining Banking Company's transactions during demonetisation.	Check whether: 1. Specified Bank Notes [SBN] were exchanged by accepting requisition slip in the format specified by RBI and proof of identity as declared in the Notification; 2. the withdrawals were made even after the Exchange Facility was finally withdrawn and permitted only till the end of business hours on November 24, 2016; 3. where compliance with extant KYC norms was not complete in an account, maximum value of specified bank notes to be deposited was restricted to Rs. 50,000/-; 4. compliance was made in respect of charges of ATM usage which were waived from November 10, 2016 till November 30, 2016; 5. the banking company has forwarded a return in the prescribed format, showing the details of the cancelled notes held by it at close of business on November 8, 2016 and recalled by it, by 13:00 pm on November 10, 2016, to the concerned Regional Office of RBI, under whose jurisdiction the Head Office of the bank is located	More than answering the question, Students made these remarks: **1.** this is not in the Study Material/ Practice Manual/ Class Material; **2.** Whether this question is applicable because this amendment took place in November 2016 which is nit the cut off period for May 2017 Examinations.
13.	Can NCLT rectify its order after its passage. Comment.	The NCLT may at any time within 2 years from the date of passing the order, with a view of rectifying any mistake apparent from the record, can amend its order, if the mistake is brought to its notice by the parties.	Majority did not answer. One of the Students answered like this: “why they will need to revise. They are intelligent and experienced people and they can issue correct order in one go”

14.	ABC Limited wants to appoint Mr. X as its cost auditor for the financial year 2016-2017. Explain in this regard: 1. Who is authorised to appoint Mr. X as cost auditor; 2. Whether Mr. X once appointed would be subjected to rotation; 3. Whether Mr. X can be appointed if he already holds 20 cost audits of other public companies; 4. Would yours answers be different if ABC Limited is located in SEZ	1. BOD; 2. No; 3. No, since section 141 including section 141(3)(g) is also applicable on them [***caution:*** ICAI Guidelines for limits u/s 14193)(g) + exemptions u/s 141(3)(g) =< 30 companies per CA not applicable to cost auditors]]; 4. Cost audit not applicable on units located in SEZ	Majority did not answer. Those who answered committed the mistake by stating that ceiling of 20 audits is only for statutory auditors.
15.	Mr. X was removed by the shareholders of ABC Limited from his position of executive director in the company, at the AGM held on 30.9.2016. On 28.2.2017, he was appointed as alternate director by the BOD of the company, as an alternate to Mr. Y who is on an official visit abroad. Advise about the validity of such an appointment	A person removed by shareholders u/s 169 cannot be appointed by BOD as Alternate/ Additional/ Casual Vacancy filler. Section 161 read with Section 169. Hence appointment of Mr. X as Alternate director is invalid [Section 169(5)]	Majority Students were not aware of section 169(5) and hence they were of the wrong opinion that such restriction in appointment is only for additional directors
16.	PQR Limited is willing to waive off the loan given to its whole time director and manager. Can it do so under the provisions of the Companies Act, 2013.	Assuming that the loan given to WTD was approved by shareholders at GM through SR in accordance to provisions of section 185, the BOD can waive off such loan given to WTD only after obtaining approval from shareholders at GM by SR u/s 180(1)(d). Loan extended to Manager can be waived off by the BOD.	Students were lacking in understanding of Section 185 provisos and Section 180(1)(d). They did not harmonise these two sections. Proviso to Section 185 gives relaxation to MD and WTD only. Section 185 is not applicable on managers. Section 180(1)(d) uses the word director and he must be eligible to obtain loan u/s 185.
17.	If audit risk cannot be minimised then auditor should withdraw from the engagement. Comment.	1. As SA 315 & 330 in relation to risk based audit, AR means susceptibility that FS may contain misstatements despite of audit. It has 3 components a. Inherent Risk: Risk due non presence of ICS b. Control Risk; Risk due to weak ICS c. Detection Risk: Risk that	Seemed like the very moment Students see the words “audit materiality” or “audit risk”, they surrender.

		FS contain misstatements despite of applications of substantive procedure by auditor. 2. As per SA 200 in relation to basic principal of audit and conduct of audit as per SA, basis objective of audit is to express true & fair view on FS. In order to express true and fair FS should be free from material misstatements. Hence, auditor should reduce AR to an acceptable low level. If AR cannot be reduced to an acceptable low level then auditor: 1. Extend it audit procedures (examination in depth) 2. Issue appropriate report i.e. adverse or qualified as per SA 705. 3. Withdraw from engagement if above two actions are not possible. Conclusion On the basis of above it can be concluded that the statement that if AR cannot be minimized then withdraw from engagement is incorrect because auditor can apply alternate audit procedures to reduce AR to an acceptable low level.	
18.	Once filed, the petition for prevention of oppression and mismanagement cannot be withdrawn at a later stage of hearing before NCLT. Comment.	By virtue of section 241 and rule 82 of NCLT Rules, 2016, it can be withdrawn only with the leave of Tribunal.	Students wrongly said that it cannot be withdrawn.