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CHARTERED ACCOUNTANT INTERVIEW QUESTIONS & ANSWERS

CGN Ltd is a large company engaged in the business of oil exploration in India. The Tamil Nadu Government and the Central Government hold 37% and 20% respectively of the paid-up share capital of CGN Ltd.

During the year 2017-18, CGN Ltd. acquires 50.4% shares of NPR Ltd., a company engaged in construction activities and having an annual turnover of ₹1200 Crores for financial year 2018-19.

The C&AG appointed the statutory auditors of CGN Ltd. and NPR Ltd. as per requirements of the Companies Act 2013. The company had a concern regarding this appointment because both companies wanted to appoint other auditors as per their assessment, however, considering the legal hassles which would have got involved, both companies decided to go ahead with the appointments made by C&AG.

The audit of the financial statement for the year ended 31 March 2019 got completed by the auditors appointed by the C&AG. Subsequent to this, the C&AG also issued an order for supplementary audit of financial statements of the CGN Ltd. which was objected by the management of CGN Ltd.

The management objected saying that the complete set of financial statements have been audited by auditors appointed by the C&AG and hence this order is not acceptable because this would lead to duplication of work.

Moreover, the management of CGN Ltd. has also written to the C&AG that for the next financial year, the existing auditors should either resign so that the management may bring in their own auditors or the C&AG should have faith in the work of the auditors appointed by them.

C&AG refuses to accept the request of CGN Ltd. and appoint auditor for the financial year ended 31st March 2020 on 20.08.2019.

The audit of the financial statements of NPR Ltd. for the financial year ended 31 March 2019 got completed but NPR Ltd. observed that during the course of audit, there was lot of intervention of C&AG, wherein C&AG was giving directions to the auditors on the manner in which audit should be conducted in respect of certain areas. Further, it also received comments from C&AG on the audit report of the auditors. NPR Ltd. is seeking legal opinion to go against C&AG so that they can avoid unnecessary interference of C&AG and is also looking to have new auditors appointed by NPR Ltd. with whom they will have an engagement letter with the terms that those auditors don't accept any interference of C&AG which the existing auditors have not been able to avoid.

Considering the above mentioned facts, please provide your suggestions in respect of the following:

Q.1	Which of the following option is correct as to appointment of auditors in CGN Ltd. and NPR Ltd. by C&AG?
	<p>(a) Appointment of auditor in CGN Ltd. by C&AG is valid; Appointment of auditor in NPR Ltd. by C&AG is not valid.</p> <p>(b) Appointment of auditor in CGN Ltd. by C&AG is not valid; Appointment of auditor in NPR Ltd. by C&AG is valid.</p>

	<p>(c) Appointment of auditors in CGN Ltd. as well as NPR Ltd. by C&AG are valid.</p> <p>(d) Appointment of auditors in CGN Ltd. as well as NPR Ltd. by C&AG are not valid.</p>
Q.2	<p>Please suggest how to resolve the matter as to objection of management of CGN Ltd. over the order of C&AG as to Supplementary audit.</p> <p>(a) The management's stand is not correct. The C&AG may order supplementary audit as per the requirements of the Companies Act 2013.</p> <p>(b) The management's stand is not correct. The C&AG may order supplementary audit as per the requirements of the Indian Penal Code.</p> <p>(c) The management is correct and in this situation they get the right to appoint another auditor considering the fact that the C&AG has lost faith in the work of auditors appointed by them.</p> <p>(d) Such type of matters should be taken to arbitration as per the requirements of the Arbitration Act.</p>
Q.3	<p>Which of the following is correct as to order of supplementary audit by C&AG?</p> <p>(a) The CAG shall within 60 days from the date of audit report have a right to, conduct a supplementary audit of the books of accounts of the company by such person or persons as he may authorise in this behalf.</p> <p>(b) The CAG shall within 90 days from the date of receipt of the audit report have a right to, conduct a supplementary audit of the books of accounts of the company by such person or persons as he may authorise in this behalf.</p> <p>(c) The CAG shall within 60 days from the date of receipt of the audit report have a right to, conduct a supplementary audit of the financial statement of the company by such person or persons as he may authorise in this behalf.</p> <p>(d) The CAG shall within 90 days from the date of audit report have a right to, conduct a supplementary audit of the financial statement of the company by company auditor.</p>
Q.4	<p>In the case of a Government company, the CAG shall appoint the auditor and direct such auditor the manner in which the accounts of the Government company are required to be audited. The auditor so appointed shall submit a copy of the audit report to the CAG which, among other things, include the following:</p> <p>(i) directions, if any, issued by the C&AG</p> <p>(ii) action taken on directions issued by C& AG</p> <p>(iii) impact of directions on the accounts of the company.</p> <p>(iv) impact of directions on the financial statements of the company.</p> <p>(v) impact of directions on the audit of the company.</p> <p>(a) (i), (ii) and (v)</p> <p>(b) (i), (ii), (iii) and (iv)</p> <p>(c) (i), (ii), (iii) and (v)</p> <p>(d) (i), (ii), (iv) and (v)</p>

Q.5	In the context of directions being issued by C&AG to auditor of NPR Ltd. and stand of NPR Ltd. to seek legal opinion to go against C&AG so as to avoid unnecessary interference of C&AG, please advise which of the following should be correct?
	<p>(a) The stand of the existing auditors should have been better i.e. not to accept any interference of C&AG.</p> <p>(b) Management could have planned the audit work better by including the same terms in engagement letter with existing auditors instead of appointing another auditor.</p> <p>(c) C&AG involvement could have been accepted if this was the audit of CGN Ltd. but not in case of NPR Ltd. and hence NPR Ltd. should also reach out to its parent company to get this resolved.</p> <p>(d) Stand of NPR Ltd. is wrong as the C&AG may get involved in the audit of NPR Ltd.</p>

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Q. No.	Answer	Reason
Q.1	(c)	As per Sec. 139(5) of Companies Act, 2013, in the case of a Government company, the C&AG shall, in respect of a financial year, appoint an auditor duly qualified to be appointed as an auditor of companies under this Act, within a period of 180 days from the commencement of the financial year, who shall hold office till the conclusion of the AGM. As per Sec. 2(45) of Companies Act, 2013, "Govt. company" means any company in which not less than 51% of the paid-up share capital is held by the C.G., or by any S.G.(s), or partly by the C.G. and partly by one or more S.G. (s), and includes a company which is a subsidiary company of such a Government company.
Q.2	(a)	As per Sec. 143(6) of Companies Act, 2013, the CAG shall within 60 days from the date of receipt of the audit report have a right to, conduct a supplementary audit of the financial statement of the company by such person or persons as he may authorise in this behalf.
Q.3	(c)	As per Sec. 143(6) of Companies Act, 2013, the CAG shall within 60 days from the date of receipt of the audit report have a right to, conduct a supplementary audit of the financial statement of the company by such person or persons as he may authorise in this behalf.
Q.4	(b)	As per Sec. 143(5) of Companies Act, 2013, In the case of a Government company, the CAG shall appoint the auditor and direct such auditor the manner in which the accounts of the Government company are required to be audited. The auditor so appointed shall submit a copy of the audit report to the CAG which, among other things, include the following: 1. directions, if any, issued by the CAG, 2. the action taken thereon and 3. its impact on the accounts and financial statement of the company.
Q.5	(d)	As per Sec. 143(5) of Companies Act, 2013, In the case of a Government company, the CAG shall appoint the auditor and direct such auditor the manner in which the accounts of the Government company are required to be audited.