



THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA
(Set up by an Act of Parliament)

ORDER UNDER SECTION 21B(3) OF THE CHARTERED ACCOUNTANTS ACT 1949 READ WITH THE RULE 19(1) OF THE CHARTERED ACCOUNTANTS (PROCEDURE OF INVESTIGATION OF PROFESSIONAL AND OTHER MISCONDUCT AND CONDUCT OF CASES) RULES, 2007.

File No.: PR 165/2013-DD/162/2013/DC/477/16

In the matter of :

Head of Branch

Special Crime Branch
Central Bureau of Investigation
Keston Road, Kanaka Nagar
Nanthancode
Thiruvananthapuram
KERALA – 695003

....Complainant

Versus

CA. P. Ravindranath (M. No. 026756)

M/s. Badri & Co.

Chartered Accountants
Behind ING Vysya bank Ltd.
Kothacheravu Buildings
Station Road, Hospet
Bellary – 583201

....Respondent

MEMBERS PRESENT:

CA. Prafulla Premasukh Chhajed, Presiding Officer,

Smt. Anita Kapur, Member (Govt. Nominee)

Shri Ajay Mittal, Member (Govt. Nominee)

DATE OF FINAL HEARING : 29.07.2019

PLACE OF FINAL HEARING : CHENNAI

1. Vide report dated 08.02.2018 (**copy enclosed**), the Disciplinary Committee was of the opinion that **CA. P. Ravindranath (M. No. 026756)** was **GUILTY** of Professional Misconduct falling within the meaning of Clauses (6) and (7) of Part I of the Second Schedule to the Chartered Accountants Act, 1949 with respect to the allegations relating to the statutory audit of M/s. Deccan Mining Syndicate and M/s. Deccan Mining Syndicate Pvt. Ltd., (hereinafter referred to as the "**Company/DMSPL**") for the years from 2006-07 onwards . It was stated that the Company had during F.Y. 2010-11 had written off 2.20 lakhs MT as transit loss of iron ore representing the



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losses occurred from year 2006-07 onwards and the same was accepted by the respondent without cross verification though it tended to indicate that all previous financials were not truly depicting the picture of profit in those years. It was also alleged that he failed to report regarding non-maintenance of proper inventory records.

2. An action under Section 21B (3) of the Chartered Accountants Act, 1949 was contemplated against the Respondent and communication dated 18th July 2019 was addressed to him thereby granting him an opportunity of being heard in person and/or to make a written representation before the Committee on 29th July, 2019 at Chennai.

3. The Respondent did not appear before the Committee on 29th July, 2019 at Chennai but made his written representations vide letter dated 23rd July, 2019 wherein, he stated that he met with the travesty of justice as the contentious stock written off in 2010-11 was properly accounted for in the financials and hence, there was no case of any material misstatement in the financials. Further, the Respondent accepted the fact that a special disclosure was required to be given in this regard in the Notes to accounts as an exceptional item which was not done by the Respondent. However, his contention was that it was a harmless omission as neither had it affected true and fair view of the accounts nor the Complainant Department had made any case against him relating to omission of such disclosure and accordingly he requested the Committee to pardon him.

4. The Committee considered the written submissions made by the Respondent and noted that two allegations were raised against the Respondent. The first charge relating to writing off of 2.20 lakhs MT of iron ore during financial year 2010-11 as transit loss pertaining to previous periods and thus raising doubt on true and fair view of the financials of previous periods and second relating to inventory records. In this regard, the Committee noted that the witness, CA. T.R. Rajesh Kumar in his statement before CBI on 23.11.2011 had submitted that during reviewing the transactions of the Company with respect to Central Excise, Customs, Service tax and EOU provisions for the year ending on June, 2007, he vide his report given to the Respondent on 16.08.2007 had given various suggestions and one of the suggestions was to show the loss of iron ore on account of transportation at end of every financial year instead of clubbing them together. Further, in the para 2.17 of his Report on "System of physical verification of stock", he had pointed out that no physical verification of stock was done and that considering the nature of the products of the company, it was a basic requirement for availing the EOU benefits. The Committee was of the view that the Respondent was aware of



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the lacuna of transit loss, non-accounting of such loss during previous periods and non-physical verification of inventory as well as non-maintenance of proper inventory records which he being the statutory auditor was required to disclose in his audit report, which he failed to do.

5. The Committee noted that the Respondent in his audit report for the F.Y. 2006-07 and F.Y. 2010-11 had certified that the Company was maintaining proper records of inventory and the discrepancies noticed on verification between physical stock and the book records were not material. In the audit report for the F.Y. 2010-11, he further certified that inventories were valued at cost after providing cost of obsolescence and other anticipated losses, wherever considered necessary.

6. As regard the materiality of the total transit loss of Rs. 10.98 Crores on each of the financial year, the Committee noted the following facts as given under:

Financial Year	Amount of Inventory held by the Company (in Rs.)	Cost of production (in Rs.)	PAT (in Rs.)
2006-07	16.05 Cr.	144.02 Cr.	64.86 Cr
2007-08	35.89 Cr.	193.75 Cr	199.78 Cr.
2008-09	38.08 Cr.	237.30 Cr	110.93Cr
2009-10	20.69 Cr.	186.27 Cr	113.39Cr
2010-11	28.33 Cr.	150.55 Cr.	145.82 Cr
Total	139.04 Cr.		

From the above, it was viewed that the reported transit loss in each financial year might be argued by the Respondent to be not having material affect. However, there was an impact. Moreover, omission of reporting regarding non-maintenance of proper inventory records was seriously viewed by the Committee.

7. Thus, upon overall consideration and looking in to the facts of the case, the statement given by the Respondent to CBI as well as the report of witness CA T Rajesh dated 16.08.2007, the Committee noted that the actual facts related to the case were at variance with the audit report issued by the Respondent and the proper books relating to inventories were not maintained by the Company and the Respondent was required to disclose this fact in his audit report. Thus, in light of the above, the Committee was of the view that the Respondent had not exercised due diligence while conducting the audit of the Company and also failed to report the material misstatement in the financial statements.



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8. The Committee was thus of the opinion that the misconduct on the part of the Respondent had been established within the meaning of Clauses (6) and (7) of Part I of the Second Schedule to the Chartered Accountants Act, 1949 and keeping in view the facts and circumstances of the case as aforesaid, ordered the removal of name of Respondent **CA. P. Ravindranath (M. No. 026756)** for a period of 3 (three) months from the Register of Members.

Sd/-
[CA. Prafulla P. Chhajed]
Presiding Officer

Sd/-
[Smt. Anita Kapur]
Member, Govt. Nominee

Sd/-
[Shri Ajay Mittal]
Member, Govt. Nominee)

Date: 29th July, 2019

Place: Chennai



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CONFIDENTIAL

DISCIPLINARY COMMITTEE [BENCH – II (2017-2018)]
[Constituted under Section 21B of the Chartered Accountants
(Amendment) Act, 2006]

Findings under Rule 18(17) of the Chartered Accountants (Procedure of
Investigations of Professional and Other Misconduct and Conduct of
Cases) Rules, 2007

File No. : [PR 165/2013-DD/162/2013/DC/477/16]

In the matter of:

Head of Branch,
Special Crime Branch,
Central Bureau of Investigation
Keston Road,
Kanaka Nagar,
Nanthancode,
Thiruvananthapuram,
KERALA – 695003

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Complainant

-vs.-

CA. P. Ravindranath (M. No. 026756)
M/s. Badri & Co.,
Chartered Accountants
Behind ING Vysya bank Ltd.
Kothacheravu Buildings
Station Road, Hospet
Bellary – 583201.

.....

Respondent

MEMBERS PRESENT:

CA. Naveen ND Gupta, Presiding Officer
Shri Amit Chatterjee, Government Nominee
Mrs. Bindu Agnihotri, Government Nominee
CA. Manu Agarwal, Member

DATE OF FINAL HEARING : 22.09.2017

PLACE OF FINAL HEARING : ICAI, BANGALORE

PARTIES PRESENT:

Complainant : Shri T.P. Anandkrishnan,
Chennai Dy. Supdt. of Police, CBI, ACB,
Respondent : CA. P. Ravindranath
Counsel for Respondent : CA. C.V. Sajan
Witness : CA. Rajesh Kumar T.R., Partner,
M/s Hiregange & Associates.



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Finding of the Committee

1 The Committee noted that there are two charges against the Respondent. First charge is that the Respondent had carried out the statutory audit of M/s. Deccan Mining Syndicate and M/s. Deccan Mining Syndicate Pvt. Ltd., (hereinafter referred to as the “**Company/ DMSPL**”) for the years from 2006-07 onwards. The Company had written off 2.20 lakhs MT as transit loss during the year 2010-11 representing the losses which had occurred from year 2006-07 onwards, the same was accepted by the statutory auditors without proper cross verification though this act had tended to indicate that all the previous balance sheets were not truly depicting the correct picture as the closing stock, gross profit / net profit were over stated in those years. Second charge against the Respondent is that he had not reported that the Company was not maintaining proper inventory records.

2. The Committee heard the submissions of the Respondent and duly considered various documents made available on record by both the Complainant and the Respondent.

3. In respect of first charge, the Committee observed that the Company had written off 2.20 lacs MT iron ore during the year 2010-11 which was pertaining to prior period i.e., from 2006-07 to 2010-11. It is further noted that CA. T.R. Rajesh Kumar in his statement before CBI on 23.11.2011 had submitted that during reviewing the transactions of the Company with respect to Central Excise, Customs, Service tax and EOU provisions for the year ending on June, 2007, he vide his report given to the Respondent on 16.08.2007 had given various suggestions and one of the suggestions was to show the loss of iron ore on account of transportation at end of every financial year instead of clubbing them together. It is observed that the Respondent has denied even existence of any such report of CA. T Rajesh. During his deposition before the Committee, CA. T Rajesh denied of having given any written statement before CBI, however he accepted that he was called by CBI for the enquiry in the said case and there was verbal discussion with CBI authorities in this regard. He also confirmed that during reviewing the transactions of the Company with respect to Central Excise, Customs, Service Tax and EOU provisions, a detailed report was issued by him to the Respondent firm highlighting various discrepancies. The witness also confirmed that during their examination, it was observed that the regular stock taking was not there in the Company. Further, the Committee also observed that the witness CA T Rajesh in his report dated 16.08.2007 which he produced before the Committee during the hearing inter alia contains the following:



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1.20 Accounting of production

The Company is planning to show the figure of quantity dispatched as the quantity produced. However since because of the natural loss of final products during transit, the quantity dispatched is different during the various stages of the removal of goods, that is quantity dispatched as per the initial weighment is different compared to the quantity dispatched as per the secondary weighment of goods for loading to the railway wagons, and the quantity dispatched as per the secondary weighment is different compared to the quantity dispatched as per the third weighment of goods at the time of actual shipment for exports, the quantity produced may also vary accordingly and the department may question such variances. Hence the company may consider the same.

It may also be noted that the method of accounting the dispatches as production, may not operate to strengthen the internal control system of company with respect to production and dispatch of the goods.

2.17 System of physical verification of stock

As explained no physical verification of stock is done so far, because of the nature of the products of the company. However physical verification of the stock at the periodical intervals and the corrections of the differences if any is a basis requirement for availing the EOU benefits under the central excise and customs law. Hence the company may physically verify the final products at least once in a year and document the results of the same, which would also strengthen the internal control system of the company.

Nevertheless the capital goods and its spares, explosives, consumables, tools etc., can be verified at the more regular intervals, i.e., may be once in a month or quarter. The physical verification of stock is important, since duties may be demanded in case the goods are not found during the departmental visits / verifications.

Looking to the above, the Committee was of the view that the Respondent was aware of the lacuna of transit loss, wrong accounting adopted by the Company and regarding no physical verification in year 2007 itself. Thus, the Respondent was required to disclose this fact in his audit report. The Respondent by being negligent and failing to report the known material misstatement in the financial statement has thereby subjected himself to being guilty of professional misconduct.



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4. In respect of second charge, the Committee observed that the Respondent in his audit report for the F.Y. 2006-07 and F.Y. 2010-11 had certified that the Company is maintaining proper records of inventory and the discrepancies noticed on verification between physical stock and the book records were not material. It was further certified by the Respondent that the inventory has been physically verified by the management and procedure for verification followed by the management is reasonable and adequate in relation to size of the Company and nature of the business. However, the Respondent in his statement given to CBI on 10.01.2012 had submitted that the Company was not maintaining stock registers and the quantity particulars are prepared based on the statutory records.

4.1 In the audit report for the F.Y. 2010-11 it is also certified that inventories are valued at cost after providing cost of obsolescence and other anticipated losses wherever considered necessary. As per para 6 of Guidance Note on Audit of Inventories, *“The auditor should study and evaluate the system of internal control relating to inventories, to determine the nature, timing and extent of his other audit procedures. He should particularly review the following aspects of internal control relating to inventories”*. However, the Complainant in his rejoinder had submitted that managing Director and CEO of the Company in their statement dated 14.05.2012 and 12.01.2012 respectively has submitted that there was no system of internal control relating to inventories.

4.3 Further as per para 12 of Guidance Note on Audit of Inventories, *“Physical verification of inventories is the responsibility of the management of the entity. However, where the inventories are material and the auditor is placing reliance upon the physical count by the management, it may be appropriate for the auditor to attend the stock-taking.”* Further as per para 19 of Guidance Note on Audit of Inventories, *“The auditor should review the original physical verification sheets and trace selected items including the more valuable ones into the final inventories”*. In the present case the Respondent in his statement given to CBI on 10.01.2012 had submitted that he neither reviewed the physical verification nor compared the same with stock sheets with stock records. As per para 28 of Guidance Note on Audit of Inventories, *“The auditor should examine the evidence supporting the assessment of net realizable value. In this regard, the auditor should particularly examine whether appropriate allowance has been*



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made for defective, damaged and obsolete and slow-moving inventories in determining the net realizable value.”

4.4 The Committee thus was of the view that the statement given by the Respondent to CBI as well as the report of witness CA T Rajesh dated 16.08.2007 seems to be at variance with the audit report issued by the Respondent and thus he seems to be have not complied with the Guidance Note as referred to above. Although, the Guidance Notes are recommendatory in nature, yet a member should ordinarily follow recommendations in a Guidance Note relating to an auditing matter except where he is satisfied that in the circumstances of the case, it may not be necessary to do so. Similarly, while discharging his attest function, a member should examine whether the recommendations in a Guidance Note relating to an accounting matter have been followed or not. If the same have not been followed, the member should consider whether keeping in view the circumstances of the case, a disclosure in his report is necessary. Hence, the Respondent is guilty of professional misconduct.

5. The Committee also observed that the plea of the Respondent that the total transit loss of Rs. 10.98 Crores was not material in view of the total turnover and networth of the Company cannot be accepted in view of the fact that the transit loss of Rs. 10.98 Crores was material item in terms of total inventory held by the Company from year 2006-07 to 2010-11 which was as under:

Financial Year	Amount of Inventory held by the Company (in Rs.)
2006-07	16.05 Cr.
2007-08	35.89 Cr.
2008-09	38.08 Cr.
2009-10	20.69 Cr.
2010-11	28.33 Cr.
Total	139.04 Cr.

6. The Committee also perused the Assessment order of the Company for the AY 2011-12 brought on record by the Complainant Department where it was clearly coming out that claim of Rs.86,00,54,410.00 of the Company on account



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of export of iron ore u/s. 10B of Income Tax Act, 1961 was disallowed by the department during AY 2011-12. The relevant para (3.1) of the said assessment year is as under:

The assessee was asked to furnish the following details if respect of 10A and non 10A unit separately.

- (i) Detail of places/s where mining activities carried out like area, location, extent, survey no. etc. with documentary evidences like permit, sanction letter.*
- (ii) Detail of iron ore extracted/production-date - wise – place – wise.*
- (iii) Detail of stock of iron ore, place, quantum etc. – date – wise.*
- (iv) Detail of machineries used for excavation with necessary documentary evidences like log book etc.*
- (v) Detail of transport of iron ore like date, place, lifting, destination, mode of transport etc. with necessary documentary evidences.*
- (vi) Detail of expenditure in connection with excavation, transport, sales etc.*

Further as per para 3.10 of the said order, it is mentioned that “*the assessee was given several opportunities to prove the claim and the assessee has not furnished any of the records/documents as requested. Under the circumstances, the entire claim of deduction made u/s. 10 is disallowed.*”

7. In view of the above, the Committee concluded that the proper books relating to inventories were not maintained by the Company and the Respondent was required to disclose this fact in his audit report. The Respondent by being negligent and failing to report the known material misstatement in the financial statement has thereby subjected himself to being guilty of professional misconduct.

Conclusion

8. Thus in the considered opinion of the Committee, the Respondent is **GUILTY** of professional misconduct falling within the meaning Clauses (6) and (7) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

Sd/-
(CA. NAVEEN ND GUPTA)

PRESIDING OFFICER



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Sd/-

Sd/-
(SHRI AMIT CHATTERJEE)
AGNIHOTRI)
GOVERNMENT NOMINEE
NOMINEE

(Mrs. BINDU
GOVERNMENT

Sd/-

(CA. MANU AGARWAL)
MEMBER

DATE : 08th February, 2018
PLACE: New Delhi