

CONFIDENTIAL

DISCIPLINARY COMMITTEE [BENCH - II (2018-2019)]

**[Constituted under Section 21B of the Chartered Accountants
(Amendment) Act, 1949]**

**Findings cum Order under Rule 18(17) and Rule 19 (2) of the Chartered
Accountants (Procedure of Investigations of Professional and Other
Misconduct and Conduct of Cases) Rules, 2007.**

File No. : [PPR-17/N/2013/DD/8/N/INF/13/DC/495/16]

In the matter of:

**CA. Karuna Bhansali (M.No.402090)
Flat No.A-102, Exotica Elegance,
Plot No.9A, Mall Road,
Ahinsa Khand-2,
Indirapuram,
Ghaziabad 201 010.**

.....Respondent

MEMBERS PRESENT:

**CA. Prafulla P. Chhajed, Presiding Officer
Shri Rajeev Kher, IAS (Retd.) Government Nominee,
CA. Mangesh P. Kinare, Member
CA. Sushil Kumar Goyal, Member**

DATE OF FINAL HEARING : 15.01.2019

PLACE OF FINAL HEARING : ICAI Bhawan, New Delhi

PARTIES PRESENT:

Respondent : CA. Karuna Bhansali

Charges in Brief:-

1. The Respondent was the concurrent auditor of M/s Vaishali Urban Co-operative Bank Ltd (hereinafter referred as bank) from the year 2006 to 2008. The Bank was found flouting the laws of the Reserve Bank of India

and its own bye-laws by the Board of the Bank headed by CA. Kamal Mehta as Chairman in collusion with the concurrent auditors, as pointed out by the inspecting officers from Reserve Bank of India and Statutory/Voucher Auditors of the Bank appointed by the office of Registrar of Cooperative Societies, Rajasthan. These matters of fraud have never been reported by the Respondent in her report submitted to the Bank.

2. The irregularities in bank during the tenure of the Respondent based on above reports can be summarised as under:

- a) The Bank had not segregated inoperative deposit accounts from the operative accounts. Some of the inoperative account were reactivated unauthorisedly and clean overdrafts were sanctioned therein without any request from the account holders on record.
- b) Loans against NSCs in current accounts. The bank neither had copies of NSCs / IVPs on its record nor was it able to furnish details like numbers etc.
- c) Clean overdrafts given in fictitious current accounts. Six current accounts were opened and overdrafts were allowed in these accounts. These overdrafts were sanctioned without receiving any request for OD limits.
- d) Clean overdrafts in some new and existing current accounts without receiving any request for OD limits.
- e) Irregularities in opening of SB account no.3772 of Bharat Jain.
- f) Misuse of Payment order account to raise money / create money.
- g) Overdraft opened in the name of the Bank with the Bank of Rajasthan had not brought into books of the bank.
- h) The BOD of the Bank had authorized opening of the fixed deposits and OD accounts with Bank of Rajasthan. The BOD had authorized six people to operate the account. The account was to be operated by any two persons (jointly) authorized to do so. The person so authorized included the Chairman and a clerk of the Bank.



- i) The Bank had a fixed deposit of Rs.280.93 lakhs with Rajasthan State Co-Op Bank Ltd against which it enjoyed a CC limit of Rs.200 lakh. A fresh overdraft of Rs.63 lakhs was sanctioned against the residual value of fixed deposit. Amount received against overdraft was used to repay the outstanding overdrafts in the books of the Bank in the name of members of Pacific DC & Hospital, Udaipur. This loan was not brought into books of the Bank.
- j) The Bank had availed overdraft facility of Rs.315 lakh against its fixed deposits of Rs.450 lakh with Jaipur Central Co-op Bank Ltd (JCCB Ltd). in the month of June, 2006. It was observed that with effect from 20th June, 2006 there were many transactions which appeared in the bank's account in the books of JCCB Ltd but the same were not reflected in the books of the bank.
- k) As per the bank's statement of account received from Centurain Bank of Punjab on 30th June, 2007 Rs.200 lakh were deposited in cash in the said account. This transaction was not shown in the books of the Bank.
- l) The Bank had availed overdraft facility against its fixed deposit of Rs.45 lakh in its CC account number 0016-576960-050 with IndusInd Bank Ltd., during the period from 18th July, 2006 to 26th September, 2007. The amounts were withdrawn in the name of individuals. The transactions with IndusInd Bank Ltd. were also not shown in the books of the Bank.

3. Brief facts of the Proceedings :

3.1 The Committee noted that the Respondent was present and appeared before it. Since the matter was part-heard by the earlier Committee, the Committee enquired from the Respondent whether she wish to have de-novo hearing or hearing may be continued from last stage. The Respondent opted to have hearing continued from the stage it was left by the earlier Committee.



3.2 The Respondent submitted certain documents before the Committee to defend the charges.

3.3 Thereafter, the Respondent gave her submissions on the charges. She mentioned that she has already reported some of the irregularities as pointed out by RBI in its report and had also clearly reported in her concurrent Audit Report that some of the documents/ records were not produced before her for verification. The Committee noted that the Respondent had produced copies of her Appointment Letter, Scope of Concurrent Audit given to her by the Bank, Acknowledgement of submission of her Reports and also some of her working papers. After recording the submissions of the Respondent, the Committee gave her 5 days' time for filing final submissions, if any.

With above directions, the hearing in the captioned matter was concluded.

4. SUBMISSION/FURTHER SUBMISSION OF THE RESPONDENT

4.1 The Committee noted that the Respondent was the concurrent auditor of the bank from the period from April 2006 to March 2008. The bank vide its letter dated 3rd April 2006 appointed the Respondent with the following scope of work:

- a) Checking of day to day vouchers
- b) K.Y.C audit
- c) E.D.P audit
- d) Any work related daily transactions of the bank
- e) All types of income tax return and related with the bank
- f) Verification of service tax returns

4.2 The said letter also mentioned that the work will be done as per RBI & Cooperative Department norms/directions and guidelines. The term of appointment was for one year. For this work the Respondent was paid Rs. 4000/- per month. It was also mentioned that the Bank reserves all rights to terminate this appointment without assigning any reason.

4.3 The Respondent while accepting the appointment of the bank mentioned that the Respondent will check/verify upto 30 to 35 % of the vouchers including KYC Audit. In addition, the Respondent will check attendance register ,bank guarantees and cash retention limit.

5. The various allegations and the response of the Respondent have been discussed briefly in the following paras:

5.1 It is alleged that no segregation was made in operative and inoperative deposit accounts. It is observed that the Respondent although not pointed out any specific instances, has clearly given in the form of general comments in her reports that *'In some deposit accounts it is observed that the account exist with zero balance & the status of account is shown as OPERATIVE'*.

5.2 As regards next allegation relating to allowance of clean overdraft limits of Rs.47.75 lacs in seven in-operative accounts on 04.11.2006 and Rs. 48.50 lacs in another seven in-operative accounts on 29.11.2006, the Respondent submitted that verification of loans was not in her scope of audit. Further, she had already reported that the vouching has been done on test check basis and that too some vouchers were not available for verification.

5.3 The next allegation against the Respondent relates to overdraft given against NSCs/IVPs in six Current accounts without having copies of NSCs/IVPs or their number on record. Further, these overdrafts were allowed without receiving any request for OD limits. In this regard the Respondent submitted that the vouching was done on test basis during the period of audit. The Respondent further submitted that pre-loan sanctioning was outside the scope of her audit, the minutes books were only document available which was verified by the Respondent as she fully relied on the Loan Committee minutes book. Loan Committee sanctions



loan after ensuring proper documentation, compliances etc, therefore, the Respondent submitted that she found the transactions in order after verifying the minutes book. The Respondent further submitted that she was only supposed to check whether the loan disbursement voucher was in conformity with the minutes book and whenever any discrepancies were noticed, it was reported accordingly.

5.4 The next allegation against the Respondent is relating to allowance of clean overdraft aggregating Rs. 50.00 Lakhs in three accounts on 03.04.2007 and Rs. 50.00 Lacs in other three accounts on 19.04.2007 without any request. In this regard, the Respondent submitted that the scope of her work was primarily KYC audit of saving and current accounts and discrepancies with respect to that have already been highlighted by her. In this scope it is not possible to verify whether overdraft was given in these accounts. The extract of the report submitted by the Respondent in her defence mentioned about violation of K.Y.C. norms in the above-mentioned current accounts.

5.5 The next allegation is relating to allowance of clean overdraft aggregating Rs. 10.00 Lakhs and Rs. 5.20 Lacs in new account bearing no. CA-1386 on 29.12.2006 and 27.08.2007 respectively. It is further alleged that in new current account no. CA-1387 clean overdraft limit was issued of Rs. 20.00 lacs on 06.01.2007. In both these accounts no request was received for overdraft and further no loan documents and account opening forms were available in the Bank. It is observed that the Respondent had mentioned that she in her audit report for the period January, 2007 to March, 2007 had mentioned that these account opening forms were not found. In this regard, the Respondent submitted that account opening form were not available. Further, the Chairman of the Bank with the malafide intention kept the vouchers of the bank in loose form for two-three months, so that nobody can trace easily the underlying transactions.



5.6 As regards next allegation relating to allowance of clean overdraft of Rs.112.24 Lakhs in account no. CA-1521 on 10.05.2008, it is further alleged that overdrafts were allowed in current account no. CA-1336, CA-1373, and CA-1300 opened on 13.09.2006, 01.12.2006 and 31.05.2006 respectively. No request for overdraft limit/ purpose of overdraft/ documents were found in the Bank's records. It is observed that the Respondent had mentioned that in this regard she had checked page no. 50 of 42nd Loan Committee minute book relating to meeting held on 31.12.2007.

5.7 As regards next allegation relating to violation of KYC norms in respect of SB-3772 of Mr. Bharat Jain opened on 02.07.2007. The Committee observed that the Respondent had mentioned that she had not done vouching during her audit periods July, 2007 to Sept., 2007 as the vouchers were loosely found and not numbered. She had also mentioned the fact in her audit report that account is closed within 20 days and no account opening form was provided to her.

5.8 As regards charge of misuse of Payment Order account to raise/ create money; the Respondent had mentioned that payment order transactions were done by the Bank and the facts were hidden from her. The Bank had deliberately not generated daily exception report. The Respondent submitted that the vouching was not done on 100% basis, therefore, these transactions did not come to her notice.

5.9 As regards next allegation relating to overdraft against FD of the Bank with branches of Bank of Rajasthan Ltd. and allowing it's operation by the Chairman and a clerk of the Bank; it was pointed out that though these accounts were opened in the Bank's name but the Bank has not brought these accounts into its books. The Respondent mentioned that the



transactions were not brought in the books of the Bank and hence cannot be audited.

5.10 As regards next allegations relating to overdraft against FD of the Bank with Rajasthan State Co-operative Bank Ltd and The Jaipur Central Co-op Bank (JCCB) Ltd., Jaipur; the Respondent mentioned that the statement of the Banks and other related supporting detail, vouchers were not presented before her, so she could not verify and reconcile the same. The Respondent further pointed out that this fact was reported by her in quarterly reports. These accounts were not reflected in the books of the Bank and so it was not possible for the Respondent to find it out.

5.11 As regards next allegations relating to irregularities in transactions in Centurion Bank of Punjab and IndusInd Bank Ltd., Jaipur; it was pointed out that though these accounts were opened in the Bank's name but the Bank has not brought these accounts into its books. In this regard, the Respondent submitted that 100% vouching of the transactions were not done by her, therefore, these transactions did not come to her notice.

FINDINGS OF THE COMMITTEE

6. On overall reading and review of the submissions of the Respondent, it is seen that the scope of the work of Respondent was limited to verification of the voucher on test check basis and 100% verification of the vouchers was not carried out by her. The Committee observed that there were large scale flouting of rules relating to sanctioning of overdrafts, issue of payment orders, loan taken against FDs, the funds were introduced in the Bank at the whims and fancy of the then Chairman without following the due procedures or approval of the Board of Directors, there were large scale of sanctioning of overdraft and loans to the concerns in which the then Chairman or his relatives had direct or indirect interest. However, the scope of audit of the Respondent did not include anything with respect

to Advances. Mainly her scope was restricted to KYC checking and vouching.

6.1. The Committee noted that it has come on record that the Chairman was very well aware of the day to day functioning of the bank and he was interfering/managing the day to day affairs whenever required to his own advantage or to the advantage of the concerns in which he was interested. He was in and often was putting money in the bank account in case whenever the bank was in need of the funds even for extending over draft in various current accounts. Further, as a Chairman, he was influencing the day to day functioning of the bank and the bank officials/staff were following the oral instructions of the Chairman of the bank given from time to time.

6.2 The Committee also noted that the Respondent in her quarterly concurrent audit report has pointed out various irregularities either by way of general qualifications or by giving specific instances (for KYC compliance) some of which are highlighted below:

- *"In some deposit accounts it is observed that the account exists with zero balance & the status of the account is shown as 'OPERATIVE'*
- *"The bank has not practice of printing Demand collection Balance hence the bank can't find its overdue portfolio"*
- *General balances are found tallied with balance book except a term deposit receipt Kamdhenu Deposit Receipt*
- *Vouchers are not bunched/binding on daily basis. They are loosely found for the quarter ended Sept. 07. Therefore, vouching is not possible till the date of audit report 22.10.2007.*
- *It is also observed that bank has not given compliance of concurrent audit reports for the quarter April 07 to June 07 and July 07 to Sept.07. which is submitted on 19.07.07 and 22.10.2007 respectively till date of audit report 18.01.2008.*



- *Vouching is done on test check basis and Rectification/correction are made on spot.*
- *The bank has not system of arrangement and bunching of daily vouchers on daily basis or on very next day*
- *Detail of violation of KYC norms for Current Deposit Accounts Opened in Current audit period.*
- *Introduction name is not matched between AOF & with the computer sheet*
- *In most cases, the introduction has not been verified by the bank officials & opening date of the introduction a/c should be mentioned in the AOF.*

6.3 From the above qualifications/observations in the concurrent audit report the Committee noted that the Respondent has made her best effort to qualify the report and pointed out the irregularities in functioning of the day to day affairs of the bank which were within the scope of her audit. Further, the Committee is of the view that many of these irregularities were committed at the behest of the Chairman and the kind of interference and influence of the Chairman was having on the day to day functioning of the bank, there was limited scope for the Respondent to point out the deficiencies which have been pointed out in the RBI inspection report. Moreover most of these irregularities were outside the scope of concurrent audit given to the Respondent.

6.4 The Committee also noted that the bank under the influence of chairman vide letter dated 15.02.08 signed by CEO of the bank sent to Respondent mentioned that :-

We have to inform you that we have rectified the irregularities reported by you in your above referred report. This is for your information and confirmation of the same.

The above statement was repeated by the bank vide their letter dated 05.05.08 sent to the Respondent.



6.5 The Committee, however was of the opinion that the Respondent could have checked the compliance of the irregularities pointed out by her in her previous reports and could have reported the same in subsequent reports. However, considering facts in preceeding paragraphs wherein it is coming out clearly that she was having limited scope and she has highlighted various issues in her reports, she can be given benefit of doubt.

6.6 In view of above, the Committee is inclined to extend benefit of doubt to the Respondent and hold her **NOT GUILTY** of professional misconduct falling within the meaning of Clause (7) of Part I of the Second Schedule to the Chartered Accountants Act, 1949 but would like to advise her to be more cautious in future while executing her professional responsibilities.

Conclusion

7. Thus in the considered opinion of the Committee, the Respondent is **NOT GUILTY** of professional misconduct falling within the meaning of Clause (7) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

8. Accordingly, in terms of Rule 19 (2) of the Chartered Accountants (Procedure of Investigations of Professional and Other Misconduct and Conduct of Cases) Rules, 2007, the Committee passes Order for closure of this case against the Respondent.



Sd/-
(CA. PRAFULLA P. CHHAJED)
PRESIDING OFFICER

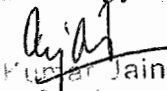
Sd/-
(SHRI RAJEEV KHER)
GOVERNMENT NOMINEE

Sd/-
(CA. MANGESH P. KINARE)
(MEMBER)

Sd/-
(CA. SUSHIL KUMAR GOYAL)
(MEMBER)

DATE : 05th February, 2019
PLACE : New Delhi

Certified Copy



Ajoy Kumar Jain
Deputy Secretary
Disciplinary Directorate

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