



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 RULE 19(1) OF THE CHARTERED ACCOUNTANTS (PROCEDURE OF INVESTIGATION OF PROFESSIONAL AND OTHER MISCONDUCT AND CONDUCT OF CASES) RULES, 2007.

File No. : PR/299/15-DD/274/15/DC/734/2017

In the matter of:

Prof. D. Arvindakshan
Kovilakom,
Chavara P.O, Kollam
Kerala- 690583

..... Complainant

Versus

CA. Praveen Narayanan(M.No.224900)
M/s. Praveen Narayanan & Associates (FRNo: 014943S)
Harivarasanam Complex
Advocate Lane, Karunagappally
Kerala

..... Respondent

Members present :

CA. Atul Kumar Gupta, Presiding Officer
Smt. Anita Kapur, Member (Govt. Nominee)
Shri Ajay Mittal, Member (Govt. Nominee)
CA. Chandrashekhar Vasant Chitale, Member
CA. Manu Agrawal, Member

Date of Final Hearing: 17th August 2020 through Video Conferencing
Place of Hearing: Gurugram

Party Present:

CA. Praveen Narayanan (M.No.224900) – Respondent

1. Vide report dated 16th December 2019 (**copy enclosed**) the Disciplinary Committee was of the opinion that **CA. Praveen Narayanan (M.No.224900)** was **GUILTY** of Professional Misconduct falling within the meaning of Clause (7) of Part-I of Second Schedule to the Chartered Accountants Act, 1949 with respect to audit of the company M/s Augusta Bio Pharma I. Ltd.(herein after referred to as the '**Company**') for the year 2011-12 to 2013-14, specific allegation being:

- That the Respondent was conducting audit of the Company inspite of the fact that various cases were pending before various courts and books of accounts were not available,
- That there was a wrong reporting of shareholding pattern in the audit report, and



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

- That wrong cash and bank balance were shown

It is noted by the committee that the Respondent is held guilty under Clause (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949 as per which the Respondent:

“does not exercise due diligence, or is grossly negligent in the conduct of his professional duties.”

2. An action under Section 21B (3) of the Chartered Accountants Act, 1949 was contemplated against the Respondent and communication dated 6th August 2020 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 17th August 2020 through video conferencing.

3. The Respondent appeared before the Committee on 17th August 2020 through video conferencing from his personal location, and made oral submissions wherein he had inter-alia stated that in respect of F.Y. 2011-12, he had obtained a written representation from the management which stated that no material transactions other than travelling expenses and advertisement had taken place during the year as the Company had not started any business operations. He further stated that based on evaluation of evidences like internal audit report, minutes of Board meeting, financial statement of previous years and written representation received from the Management, he had reasonable cause to believe that the missing documents were not material enough to influence the economic decisions of the users. Accordingly, he qualified his opinion and gave proper disclosure of facts instead of giving disclaimer of opinion. **As regard the charge of disclosure of share holding pattern, he accepted that the fact of non-availability of records to ascertain exact shareholding pattern should have been reported in his audit report for which he pleaded, may not treated as negligence on his part. As regard charge relating to disclosure of cash and bank balance, he submitted that since difference between the opening and closing balance could not be reconciled, it was shown as cash withdrawal and shown as part of cash in hand.**

4. The Committee considered the oral submissions made by the Respondent and noted that Paragraph 9 of SA-705, Modifications to the Opinion in the Independent Auditor's Report, prescribes to express disclaimer of opinion when sufficient appropriate audit evidence are not available. In the extant case, when books of accounts itself were not available, it would have been appropriate if the Respondent would have given disclaimer of opinion, though such limitations were informed by the Respondent through his qualified opinion. As regard the charge of disclosure of shareholding pattern, the Committee was of the opinion that it was a duty of the Respondent to review exact shareholding pattern but in case of any doubt over the truthfulness of shareholding pattern, appropriate disclosure of the fact was essential. For the allegation related to reporting wrong cash and bank balances, the Committee viewed that there was non-reconciliation for the difference of Rs.7,32,060 which was qualified on this aspect. It was noted that though the Respondent intended to report the facts in his audit report but his approach was different to that prescribed under various pronouncements applicable on the case.



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

5. The Committee was thus of the opinion that the misconduct on the part of the Respondent has been held and established within the meaning of Clause (7) of Part-I of Second Schedule to the Chartered Accountants Act, 1949 and keeping in view the facts and circumstances of the case as aforesaid, ordered that the Respondent be reprimanded and a fine of Rs. 50,000/- (Rupees Fifty Thousand Only) be imposed upon him.

sd/-
[CA. Atul Kumar Gupta]
Presiding Officer

sd/-
[Smt. Anita Kapur]
Member, (Govt. Nominee)
(approved & confirmed through e-mail)

sd/-
[Shri Ajay Mittal]
Member, (Govt. Nominee)
(approved & confirmed through e-mail)

sd/-
[CA. Chandrashekhar Vasant Chitale]
Member
(approved & confirmed through e-mail)

sd/-
[CA. Manu Agrawal]
Member
(approved & confirmed through e-mail)

Dates: 17th August 2020 through Video Conferencing



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

CONFIDENTIAL

DISCIPLINARY COMMITTEE [BENCH – II (2019-2020)]

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

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/299/15-DD/274/15/DC/734/2017]

In the matter of:

Prof. D. Arvindakshan
Kovilakom
Chavara P.O, Kollam
Kerala- 690583

..... Complainant

Versus

CA. Praveen Narayanan(M.No.224900)
M/s. Praveen Narayanan & Associates (FRNo: 014943S)
Harivaram Complex
Advocate Lane
Karunagappally
Kerala- 690518

..... Respondent

MEMBERS PRESENT:

CA. Atul Kumar Gupta, Presiding Officer
CA. Amarjit Chopra, Member (Govt. Nominee)
CA. Chandrasekhar Vasant Chitale, Member

DATE OF FINAL HEARING : 15.10.2019

PLACE OF FINAL HEARING : ICAI Bhawan, Chennai



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

PARTIES PRESENT :

Complainant : **Not Present**
Respondent : **CA. Praveen Narayan**
Counsel for Respondent : **CA. R.G. Rajan and**
CA. Charan R.

Charges in Brief:-

1. The Committee noted that in the Prima-Facie Opinion formed by Director (Discipline) in terms of Rule 9 of the Chartered Accountants (Procedure of Investigations of Professional and Other Misconduct and Conduct of Cases) Rules, 2007, the Respondent is guilty under Clause (7) of Part I Second Schedule of Chartered Accountant Act 1949 which states that :-

“(7) does not exercise due diligence, or is grossly negligent in the conduct of his professional duties;”

2. In this case the prime allegation against the Respondent is that As far as charges are concerned, there are 8 charges alleged by the Complainant on the Respondent which are as under:
- i. That the Respondent is conducting audit of the company M/s Augusta Bio Pharma I. Ltd. for the year 2011-12 to 2013-14 inspite of the fact that various cases are pending before various courts and books of accounts are not available.
 - ii. That there is a wrong reporting of shareholding pattern in the audit report.
 - iii. That the respondent failed to verify the actual stocks,
 - iv. That the Respondent is showing wrong cash and bank balance.
 - v. That the Respondent has changed the treatment of contract with M/s A. Tech. Engineering from loans and advances;
 - vi. That the respondent has introduced various new heads of expenses in the financial statements of the company audited by him,



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

- vii. That the appointment of the Respondent was illegal and not approved by the AGM or ROC, Karnataka, Bangalore
- viii. That the Respondent could not verify the payments in cash for more than Rs.20,000/-.

Brief facts of the Proceedings:

- 3. On the day of hearing, the Committee noted that Complainant was not present; on other side, the Respondent with his Counsels appeared before the Committee. The Respondent was put on oath. In the absence of the Complainant and with consent of Respondent, the charges were taken as read. On being asked to the Respondent whether he pleads guilty, he replied in negative. Thereafter, the Committee sought whether he wishes to proceed with his defence. Thereafter, the respondent placed his defence on table. After considering all papers available on record, the Committee decided to proceed with the matter.

Findings of the Committee

- 4. On the matter stated above this committee noted that, As far as the first charge is concerned, the Respondent was present and submitted that various books of accounts and records were not available, he qualified his report and that should suffice the requirements and pleaded not guilty. On being enquired by the Committee, that for which period, the Respondent got the books of accounts and other reports. The Respondent submitted that he could find out the reports for a portion of the relevant period and thus he could not see complete transactions along with various compliances.



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

5. The Committee observed that the SA-540 which required where in the Para 9 discussed about that the audit should disclaimer

“Reviewing Prior Period Accounting Estimates (Ref: Para. 9)

A39. The outcome of an accounting estimate will often differ from the accounting estimate recognised in the prior period financial statements. By performing risk assessment procedures to identify and understand the reasons for such differences, the auditor may obtain:

- Information regarding the effectiveness of management’s prior period estimation process, from which the auditor can judge the likely effectiveness of management’s current process.*
- Audit evidence that is pertinent to the re-estimation, in the current period, of prior period accounting estimates.*
- Audit evidence of matters, such as estimation uncertainty, that may be required to be disclosed in the financial statements.*

A40. The review of prior period accounting estimates may also assist the auditor, in the current period, in identifying circumstances or conditions that increase the susceptibility of accounting estimates to, or indicate the presence of, possible management bias. The auditor’s professional skepticism assists in identifying such circumstances or conditions and in determining the nature, timing and extent of further audit procedures.

A41. A retrospective review of management judgments and assumptions related to significant accounting estimates is also required by SA 240.13 That review is conducted as part of the requirement for the auditor to design and perform procedures to review accounting estimates for biases that could represent a risk of material misstatement due to fraud, in response to the risks of management override of controls. As a practical matter, the auditor’s review of prior period accounting estimates as a risk assessment procedure in accordance with this SA may be carried out in conjunction with the review required by SA 240.

A42. The auditor may judge that a more detailed review is required for those accounting estimates that were identified during the prior period audit as having high estimation uncertainty, or for those accounting estimates that have changed significantly from the prior period. On the other hand, for example, for accounting estimates that arise from the recording of routine and recurring transactions, the auditor may judge that the application of analytical procedures as risk assessment procedures is sufficient for purposes of the review.

A43. For fair value accounting estimates and other accounting estimates based on current conditions at the measurement date, more variation may exist between the fair value amount recognised in the prior period financial statements and the outcome or the amount re-estimated for the purpose of the current period. This is because the measurement objective for such accounting estimates deals with perceptions about value at a point in time, which may change significantly and rapidly as the environment in which the entity operates changes. The auditor may therefore focus the review on obtaining information that would be relevant to identifying and assessing risks of material misstatement. For example, in some cases obtaining an understanding of changes in marketplace participant assumptions which affected the outcome of a prior period fair value accounting estimate may be unlikely to provide relevant information for audit purposes. If so, then the auditor’s consideration of the outcome of prior period fair value accounting estimates may be directed more towards understanding the effectiveness of management’s prior estimation process, that is, management’s track record, from which the auditor can judge the likely effectiveness of management’s current process.



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

A44. A difference between the outcome of an accounting estimate and the amount recognised in the prior period financial statements does not necessarily represent a misstatement of the prior period financial statements. However, it may do so if, for example, the difference arises from information that was available to management when the prior period's financial statements were finalised, or that could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements. Many financial reporting frameworks contain guidance on distinguishing between changes in accounting estimates that constitute misstatements and changes that do not, and the accounting treatment required to be followed."

"Identifying and Assessing the Risks of Material Misstatement Estimation Uncertainty (Ref: Para. 10) A45. The degree of estimation uncertainty associated with an accounting estimate may be influenced by factors such as:

- The extent to which the accounting estimate depends on judgment.*
 - The sensitivity of the accounting estimate to changes in assumptions.*
 - The existence of recognised measurement techniques that may mitigate the estimation uncertainty (though the subjectivity of the assumptions used as inputs may nevertheless give rise to estimation uncertainty).*
 - The length of the forecast period, and the relevance of data drawn from past events to forecast future events.*
 - The availability of reliable data from external sources.*
 - The extent to which the accounting estimate is based on observable or unobservable inputs.*
- The degree of estimation uncertainty associated with an accounting estimate may influence the estimate's susceptibility to bias.*

A46. Matters that the auditor considers in assessing the risks of material misstatement may also include:

- The actual or expected magnitude of an accounting estimate.*
- The recorded amount of the accounting estimate (that is, management's point estimate) in relation to the amount expected by the auditor to be recorded.*
- Whether management has used an expert in making the accounting estimate.*
- The outcome of the review of prior period accounting estimates."*

6. In view of the above, the Committee is of the view that it should have been right conduct of the Respondent rather giving a qualified opinion, in the absence of the material information not available for a large considerable period, the Respondent should have given a disclaimer rather than the qualified report.
7. The Committee noted that as far as second charge is concerned, the shareholding pattern, the Respondent submitted that in his audit report for the year 2011-12, the same was given by him, on the basis of the report from the



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

company secretary. However, for the subsequent years, since he could not reach on any conclusive evidences, he has not reported the same. The Committee is of the view that not only it was a duty of the Respondent to review exact shareholding pattern but in case of any doubt over the genuinity of shareholding pattern, it would have been right perspective that this fact should have been disclosed in the audit report, wherein no such disclosure have been attempted by the Respondent.

8. As far as the verification of stock is concerned the Respondent submitted that he has physically verified the stock and signed and from the available record, the charge cannot be substantiated, therefore, the Committee could not find any substance to establish this allegation.
9. For the allegation related to reporting cash and bank balances, the Respondent submitted that there was no confirmation from the bank related to various balances and he has mentioned this fact in his report. Herein also, the Committee is of the view that the Respondent has shown a cash in hand of Rs.13,36,062 whereas the closing balance of PNB was shown as Rs.7,91,803/-. As per the documents submitted, the balance in the bank statement is only Rs.39,768, and there was no reconciliation for the difference of Rs.7,32,060. Though the auditor has qualified his opinion but has referred in the above para related to SA-705 herein also it would have been better that there should have been a disclosure of the opinion rather than giving a qualified report.
10. In respect of the charge for the treatment of cancellation of contract with M/s A Tek Engineering and Management, the Committee is of the view, since the contract was cancelled and the Respondent has reclassified the payment made, there is no charge which can be substantiated on the Respondent. In the same way without having any corroborative evidences of charge, the issue related to introduction of various new heads of expenses, the Committee could not find any material to substantiate the allegation. In



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

relation to validity of the appointment of Respondent, he submitted the various documents, minutes and papers related to ROC compliance which prove the legality of the appointment.

11. For the last charge of payment of Rs.40,000/-, the Respondent submitted being a statutory auditor he had no role to permit and restrict the company in making payment in cash of more than Rs.20,000/- which require to be reviewed by the tax auditor, the Committee did not find any merit in the charge.
12. In view of the above discussion, the Committee is of the view that for the allegation 1, 2 & 4, the Respondent is guilty of grossly negligent in his behavior which falls under the meaning of clause (7) of part I of the Second schedule to the CA Act 1949 and decided to hold him guilty of the said clause.

Conclusion

6. Thus, upon consideration of all facts, circumstances, record and law, the Committee is of the opinion that the Respondent is grossly negligent in performing his duty and does not exercise his due diligence, In view of the above discussion, the Committee is of the view that for the allegation 1, 2 & 4, the Respondent is guilty of grossly negligent in his behavior which falls under the meaning of clause (7) of part I of the Second schedule to the CA Act 1949. In terms of the reasoning as above, in the considered opinion of the Committee, the Respondent is held **GUILTY** in under Clause (7) of Part I of Second Schedule to the Chartered Accountant Act, 1949.



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

Sd/-
(CA. ATUL KUMAR GUPTA)
PRESIDING OFFICER

Sd/-
(CA. AMARJIT CHOPRA)
GOVERNMENT NOMINEE

Sd/-
(CA. CHANDRASEKHAR VASANT CHITALE)
MEMBER

DATE : 16-12-2019
PLACE : New Delhi