

**CONFIDENTIAL**

**DISCIPLINARY COMMITTEE [BENCH – III (2020-21)]**  
**[Constituted under Section 21B of the Chartered Accountants 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/G/17/113/17-DD/372-DC/1132/2019]**

**In the matter of:**

**Shri M. Srikanth,**  
**District Co-operative Officer,**  
**Government of Andhra Pradesh**  
Cooperation Department,  
Prakasam Bhawan, Prakasam District  
**Ongole - 523 001 (A.P.)** .....Complainant

**Versus**

**CA. Grendhe Sudheer Kumar (M.No.226782),**  
28-1-32, South Street,  
Prakasam District,  
**ONGOLE 523 001 (A.P.)** .....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: 27<sup>h</sup> August, 2020 through Video Conferencing**

**The following Parties were present:**

- (i) CA Grendhe Sudheer Kumar, the Respondent (appeared from his personal office at Ongole)
- (ii) CA. R G Rajan, Counsel for the Respondent (appeared from his personal office at Chennai)

**A**

**Allegations of the Complainant:**

1. The Complainant alleged that the Respondent had failed to report a fraud of 212 gold loans to a tune of Rs.2.16 crores while carrying out the Concurrent Audit of Prakasam District Cooperative Central Bank Ltd., Kurnool branch for F.Y. 2013-14.

**Proceedings:**

2. At the time of hearing on 27<sup>th</sup> August 2020, the Committee noted that the Respondent along with his Counsel was present during the hearing. However, the Complainant was neither present nor any communication was received from him. The Committee, thereafter, decided to proceed in the matter. The Respondent and his Counsel both gave a declaration that there was nobody except them in their respective room from where they were appearing and that they would neither record nor store the proceedings of the Committee in any form. Being the first hearing, the Respondent was put on oath. Thereafter, the Committee asked the Respondent whether he wished the charges to be read out or it could be taken as read. The Respondent stated he was aware of the allegations raised against him and the same might be taken as read. On being asked, as to whether the Respondent pleaded guilty, his Counsel replied that the Respondent pleaded not guilty and opted to defend his case.

The Counsel for the Respondent made his submissions in the matter. Thereafter, the Committee examined the Counsel for the Respondent. Subsequently, the Counsel made his final submissions in the matter.

Based on the documents available on record and after considering the written and oral submissions made by the Counsel for the Respondent before it, the Committee concluded hearing in the matter.

**Findings of the Committee:**

3. At the outset, the Committee noted the Director (Discipline) had in his prima facie opinion dated 13<sup>th</sup> September 2019 held the Respondent not guilty of the alleged charges. The Board of Discipline considered the said *prima facie* opinion of the Director (Discipline) along with the Complaint, Written Statement and Rejoinder on record. The Board on consideration of the same noted that subsequent to the receipt of the Inspection Report dated 14<sup>th</sup> August 2015 and the additional Inspection Report dated

10th February 2016, the Collector and District Magistrate, Prakasam District, Ongole vide its Order dated 16<sup>th</sup> September 2016 observed that fraud was detected in issue of gold loans by the bank staff by pledging spurious gold instead of original gold, showing the gross weight excessively instead of actual weight and showing excess weight on net weight of ornament and thus had requested to take suitable action against the internal and statutory auditors for failure to report a fraud during the period from 2011 to 2014 of huge proportion involving 212 gold loans to a tune of Rs. 2,15,64,970.50/- as per the instruction of the Special Commissioner for Cooperation and Registrar of Cooperative societies, AP, Hyderabad vide its letter dated 14th October 2015. The Board further opined that para 24 of the Job chart for concurrent auditors clearly provided for verification of the documents and securities obtained in respect of various loans sanctioned. Also, on perusal of the procedure for concurrent audit with respect to gold loans, it was provided that the concurrent auditor should do physical counting of gold loan bags and ransom verification of the articles. Whereas, the Respondent in his deposition statement dated 13<sup>th</sup> January 2016 before the Inspection Officer admitted that he checked only bags with gold ornaments randomly but it did not come under his purview to open the bags and check the quality of the ornaments. Thus, the Board was of the view that due diligence had not been exercised by the Respondent while carrying out his professional assignment and accordingly, the Board did not agree with the prima facie opinion of the Director (Discipline) that the Respondent was NOT GUILTY of Professional Misconduct falling within the meaning of Clause (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949 and decided to refer the case to the Disciplinary Committee to proceed under Chapter V of the Chartered Accountants (Procedure of Investigations of Professional and Other Misconduct and Conduct of Cases) Rules, 2007.

Accordingly, the Committee conducted further inquiry in the extant matter against the Respondent that whether the Respondent, being the Concurrent Audit of Prakasam District Cooperative Central Bank Ltd., Kurnool branch for the F.Y. 2013-14 had failed to report a fraud of 212 gold loans to a tune of Rs. 2.16 crores.

(M)

4. The Committee noted the oral submissions made by the Counsel for the Respondent at the time of hearing as well as the written submissions made by the Respondent vide his letter dated 11th March 2020 in the matter. It was, inter-alia, submitted that :-

a) the scope of concurrent audit issued by the Bank did not include verification / checking of gold articles for quality / weight / genuineness / purity by the concurrent auditors. It was the job of appraiser who approved the quality and weight of the gold pledged for the loans.

b) it could not be made out from the complaint as to which period the gold loans were sanctioned on which fraud was alleged. The Respondent had been the concurrent auditor only for Kurnool Road Branch and only for the financial year 2013-14 whereas Para 2 of the letter of the Special Commissioner for Cooperation and Registrar of Cooperative Societies dated 14th October, 2015 clearly stated that the fraud was committed over a long period of time for which he could not be made answerable for loans which were not sanctioned during his tenure as concurrent auditor.

c) the Special Commissioner for Cooperation and Registrar of Cooperative Societies, AP, Hyderabad, vide his letter dated 14th October, 2015 (C-35) had instructed the Collector and District Magistrate, Prakasam District, Ongole to get additional report from the Inspection Officer in respect of failure of auditors in performing their duties but in the very same letter, he had also instructed the Collector and District Magistrate, Prakasam District, Ongole to address the Institute of Chartered Accountants of India with a request to take suitable action against the internal and statutory auditors for failure to report a fraud.

d) That the additional Inspection Report dated 10<sup>th</sup> February, 2016 (which he contended to have been done after the Special Commissioner for Cooperation and Registrar of Cooperative Societies, AP, Hyderabad letter dated 14th October, 2015) had clearly reported that the Respondent had done his job within his limits (C-17).

e) The Collector and District Magistrate, Prakasam District, Ongole, vide her Order dated 16<sup>th</sup> September, 2016, had not given any findings contrary to that of the additional Inspection Report as stated above. However, she had blindly directed to take suitable action against the internal and statutory auditors.

f) With respect to para 24 of the Job Chart for concurrent auditors, it was submitted that the scope of concurrent audit was governed by "Procedure of Concurrent Audit of the bank for 2013-14" (W-37 to W-40) and not the "Job Chart". Further, it was submitted that the said procedure provided the general procedures in respect of loans and advances as well as to verify the documentations and securities obtained in respect of various loans sanctioned and did not contain any procedure for detection of fraud

g) The Respondent also submitted that he had carried out all the checks as advised in the given procedures and also reported the deviations / deficiencies wherever found, such as sanctioning of loans in excess of Rs.5.00 lakhs, over dues etc. In the random verification of gold articles, as he had not come across any cases of spurious gold articles or excess weight cases, the Respondent did not extend the verification to all the loans and hence could not come across the fraudulent transactions made by the staff of the bank in collusion with the appraiser.

5. The Committee in this regard noted that the concluding paragraph of the Report of the Inspection Officer (C-17) which provided the following observations in respect of the role of the auditors:

*"On examination of the depositions of the Auditors, it is observed that they have verified the Gold Ornaments basing on the information recorded in the Loan applications and as per their statements checking of quality and quantity is not in their purview. It is observed that as concurrent auditors **they have done their job within their limits (emphasis added).**"*

Thus the Committee noted from above that no adverse remarks were made in respect of the auditors in the Inspection Report and it was concluded that they had verified the Gold Ornaments based on the information recorded in the loan applications i.e. as

made available to them during the course of audit and they had done their job within their limits. Further, it was noted that the Respondent in his Concurrent Audit Reports of PDCC Bank, Kurnool Branch for period 01.01.2014 to 31.03.2014 (W-45 to W-47) and 01.04.2013 to 31.12.2013 (W-48 to W-51) had clearly pointed out certain discrepancies in the working and/or internal control of the Bank such as sanctioning gold loans to some persons for more than 5 lakhs, other miscellaneous discrepancies, etc. Thus, it was viewed that the Respondent being the concurrent auditor of the Bank had performed his duty diligently by drawing attention of the stakeholders towards various irregularities as observed by him including reporting with respect to gold loans.

7. The Committee further noted the 'Procedure of Concurrent Audit of the Bank for 2013-14' as provided by The Prakasam District Cooperative Central Bank Ltd. while appointing the Respondent as concurrent auditor which define the scope of concurrent audit with respect to 'Gold loans' as under (W-39):

(C) Gold Loans

*"See the applications appraiser valuation, keeping gold bag in joint custody of staff and manager, coverage of legal action on overdue cases and minimum of one month interest on gold loans should be collected for early closure of loans **and also physical counting of Gold loan bags and random verification of the articles (emphasis added).**"*

Further, on review of the list of cases of misappropriation as reported in respect of Kurnool Branch as reported by the Collector and District Magistrate vide letter dated 16<sup>th</sup> September, 2016 (C-40 to C-46), it was viewed that it was Appraiser and Sharaff who had been reported as liable for misappropriation alongwith borrower and manager in each case.

8. In view of the facts discussed above, the Committee was of the opinion that the Respondent was expected to only count bags and to undertake physical verification of the said bags only on random basis besides verifying documentations and other matters involved in respect of gold loans sanctioned. It was, thus, noted that the scope of Concurrent Audit issued by the bank did not include checking of gold articles in context

of quality/ weight/ genuineness/ purity as application had to be considered with appraiser valuation. It was further viewed that an auditor can never be considered to be in a position of performing technical assessment of articles/products which is the job of appraiser who approves the quality and weight of the gold pledged for the loans and an auditor relies on the same if there is no reason to doubt the valuation done by appraiser.

9. The Committee was thus of the considered opinion that since no misconduct was attributable on the part of the Respondent as he had made requisite disclosures in his Audit Reports regarding various other discrepancies detected, therefore, the Respondent was 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.

**Conclusion :**

10. Thus in conclusion, in the considered opinion of the Committee, the Respondent was held NOT GUILTY of professional misconduct falling within the meaning of Clause (7) of Part I of Second Schedule of Chartered Accountant Act 1949.

11. The Committee, accordingly, ordered the closure of this case against the Respondent.

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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)

Certified to be true copy  
*Mohita Khanna*  
CA. Mohita Khanna  
Assistant Secretary,  
Disciplinary Directorate  
The Institute of Chartered Accountants of India,  
ICAI Bhawan, Vishwas Nagar, Shahdra, Delhi-110032

DATE: 16<sup>th</sup> December, 2020 (through video conferencing)

