

**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-115/2017/DD/374/2017-DC/1134/2019]

**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. Sankara Rao D (M.No.027814),**  
Dr. No. 34-1-57,  
Old Govt. Hospital Road  
**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. Chandrashekar Vasant Chitale, Member**  
**CA. Manu Agrawal, Member**

**Date of Final Hearing: 27<sup>th</sup> August, 2020 through Video Conferencing**

**The following Parties were present:**

- (i) CA. Sankara Rao D, the Respondent (appeared from his personal office at Ongle)
- (ii) CA. R G Rajan, Counsel for the Respondent (appeared from his personal office at Chennai)



**Allegations of the Complainant:**

1. The Complainant alleged that the Respondent failed to report a fraud of huge proportion involving 212 gold loans to a tune of Rs.2.16 crores, while carrying out the Concurrent Audit of Prakasam District Cooperative Central Bank Ltd., Central Office attached 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 oral and written 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 6<sup>th</sup> September 2019 held the Respondent not guilty of the alleged

charges. The Board of Discipline considered the prima facie opinion dated 6<sup>th</sup> September, 2019 of the Director (Discipline) along with the Complaint, Written Statement and additional documents 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 10<sup>th</sup> 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 way of 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 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 14<sup>th</sup> 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. Thus, the Board was of the view that due diligence has not been exercised by the Respondent while carrying out his professional assignment and accordingly, did not agree with the prima facie opinion of the Director(Discipline) that the Respondent is 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., Central Office attached 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.

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 11<sup>th</sup> 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. Further, he did not come across any cases of spurious gold articles or excess weight cases during the random verification of gold articles.

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 Central Office attached Branch 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 and he could not be made answerable for loans which were not sanctioned during his tenure as a 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 .

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

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Inspection Report as stated above. However, she had blindly directed to take suitable action against the internal and statutory auditors (C-47).

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" and not the "Job Chart".

g) The Respondent also submitted that the inspection officer has reported that it was a case of systematic fraud with deep conspiracy carried out by the Branch Manager in collusion with some staff members and the gold appraiser over a period of time. It was submitted that audit is not an investigation and all kinds of frauds, particularly this kind of systematic frauds, might not be detected in audit.

5. The Committee in this regard noted the concluding paragraph of the Report of the Inspection Officer (C-17) provided the following observation 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).**"*

6. 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. 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-30):

(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-47 to C-56), after physically verifying 1920 outstanding gold loans both in Kurnool Road and Central Office branches, it was noted that it was Appraisers and Shroffs who had been reported as liable for misappropriation along with borrower and manager in each case.

7. 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.

8. The Committee was thus of the considered opinion that since no misconduct was attributable on the part of the Respondent, 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.

②

**Conclusion :**

9. 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.

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

(W)

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

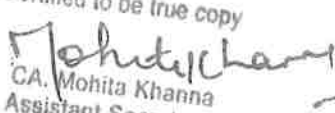
Sd/-  
[Smt. Anita Kapur]  
Member, (Govt. Nominee)  
(approved & confirmed through e-mail)

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)

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

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

