



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

[PR/274/2015/DD-294/2015/DC/751/2018]

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/274/2015/DD-294/2015/DC/751/2018]

In the matter of:

CA. S. Vellaipandi

Superintendent of Police, CBI

Anti-Corruption Branch,

Shastri Bhawan,

CHENNAI – 600 006

..... Complainant

Versus

CA. R. Vedanarayanan (M.No.029472)

M/s R V Narayanan Associates, (FRN. 005014S)

12, Third Cross Street,

CHENNAI – 600 034

..... Respondent

Members present:

Smt. Anita Kapur, Member (Govt. Nominee) & Presiding Officer

CA. Chandrashekhar Vasant Chitale, Member

CA. P.K.Boob, Member

Date of Final Hearing: 8th July, 2021

Place of Final Hearing: New Delhi

Parties Present:

CA. R. Vedanarayanan (M.No.029472)-Respondent (from personal location)

1. That vide report dated **11th February 2021 (copy enclosed)**, the Disciplinary Committee was of the opinion that **CA. R. Vedanarayanan (M.No.029472)** was **GUILTY** of professional misconduct falling within the meaning of Item (7) of Part I of Second Schedule and Item (2) of Part IV of the First Schedule to the Chartered Accountants Act, 1949 in respect of certification of Financial Statements of M/s Health Foods (hereinafter referred to as the "**Firm**") for the F.Y. 2011-12 as well as income tax return filed by him for its proprietor Mr. D Suresh for two consecutive years. It was alleged that the Respondent had certified inflated financial statements which were used by the Firm in getting sanctioned cash credit facilities of Rs. 4 Crores from Indian Bank, Chennai, thereby enabling in cheating the Bank. The Bank preferred a complaint with the Complainant Department viz. CBI. After investigation, the following lapses were observed and alleged against the Respondent

- a) That he had certified the inflated financial statements for the year ending 31st March, 2012 of the fictitious firm knowing the fact that they were false and fabricated particularly the turnover of the firm which was certified as Rs.21.94 Crores. It was stated that the firm had not filed Sales Tax return for the said financial year 2011-12, but for the financial years 2012-13 & 2013-14 the firm had declared turnovers of only Rs.31.08 Lakhs and Rs. 8.18 Lakhs



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respectively. Thus it was alleged that the Respondent had certified the financial statements without verifying the genuineness of the financial statements which were fudged and had also not verified the genuineness of the actual sales and actual purchase invoices of the Firm..

- b) he had helped Mr. D. Suresh, Proprietor of the Firm in filing his Income Tax Return, for two consecutive years on 25.07.2012, knowing well that he was not an income tax assessee and
- c) he certified the purchases of the Firm for the period from April, 2011 to March, 2012 as Rs. 20,67,20,230/- (C-382) whereas the total payments for various transactions through the Banking channels was Rs. 5,47,85,584/- only (C-108).

1.1 It was noted that Item (2) of Part IV of the First Schedule and Item (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949 state as under:

Part IV First Schedule:-

"(2) Brings disrepute to the profession or the institute as a result of his action whether or not related to his professional work"

Part I Second schedule: -

"(7) 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 19th June 2021 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 8th July 2021 through video conferencing.

3. The Respondent appeared before the Committee on 8th July 2021 through video conferencing from his personal location and made his oral representations on the findings of Disciplinary Committee. The Committee the oral submissions made by the Respondent. The Respondent, at the outset, submitted that he had submitted all the documents on record and he had not done anything intentionally.

4. The Committee considered the oral submissions of the Respondent and noted as regard the **first charge** that the Respondent failed to elaborate the nature and extent of audit procedures adopted by him to ascertain the true and fair view of the financial statements audited by him but instead casted aspersion on the Bank with regard to sanction of loan and also denied the confession made by Shri D Suresh that he was the car driver of one Mr. Joseph Premkumar, the owner of M/s. P.S. Oil Impex, and was engaged as a partner in the Firm for the purpose of obtaining the Bank Loan of Rs. 4 Crores without bringing on record the copy of affidavit submitted in Hon'ble High court of Madras wherein as per the Respondent, Shri D. Suresh had submitted to be the proprietor of Firm. As regard **second charge** related to filing of Income tax return of Shri D Suresh, the Committee noted that on the one hand the Respondent had undertaken the responsibility to vouch for the accuracy or



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correctness of the information contained therein as the return so filed was duly signed by the Respondent and it also contained the seal of his firm, whereas on the other hand, confessional statement of Shri D Suresh as stated above was on record which as per the information available, was not retracted. It was also noted that the Respondent had not even brought on record any copy of communication held between him and Sh. D. Suresh on account of which he was having an impression that D Suresh was indeed the proprietor of the Firm. As regard **third charge**, the Committee noted that the Respondent had certified purchases of the firm for the period April, 2011 to March, 2012 as Rs 20,67,20,230/- whereas total payments made for various transactions through the banking channels amounted Rs. 5,47,85,584/- only (C-108) which constitute **26.50% (approx.)** of total purchases certified by the Respondent and thus the variance between the two reported figures was quite substantial but the Respondent had failed to provide any substantial evidence regarding the audit procedures adopted by him for verification of the same. It was, thus, evident that the Respondent had failed to exercise the required due diligence while certifying the financial statements or while filing income tax return.

5. The Committee thus viewed that the misconduct on the part of the Respondent has been held and established within the meaning of Item (7) of Part I of Second Schedule and Item (2) of Part IV of the First Schedule to the Chartered Accountants Act, 1949 and keeping in view the facts and circumstances of the case as aforesaid, ordered that the name of the Respondent, **CA. R. Vedanarayanan (M.No.029472)** be removed from the register of members for a period of 6 (six) months along with a fine of Rs. 1,00,000/- (Rupees One Lakh Only) be levied upon him that shall be payable within a period of 3 months from the date of receipt of the Order. In case the Respondent, failed to pay the same as stipulated, the name of the Respondent, **CA. R. Vedanarayanan (M.No.029472)** be removed for a further period of 1(one) month from the Register of members on the lines of Section 64 of the Indian Penal Code.

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Sd/-

[Smt. Anita Kapur]

Member (Govt. Nominee) & Presiding Officer

Sd/-

[CA. Chandrashekhar Vasant Chitale]

Member

[Approved and confirmed through e-mail]

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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, Shahdara, Delhi-110032

Sd/-

[CA. P.K. Boob]

Member

[Approved and confirmed through e-mail]s

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/274/2015/DD-294/2015/DC/751/2018]

In the matter of:

CA. S. Vellaipandi
Superintendent of Police, CBI
Anti-Corruption Branch,
Shastri Bhawan,
CHENNAI – 600 006

..... Complainant

Versus

CA. R. Vedanarayanan (M.No.029472)
M/s R V Narayanan Associates, (FRN. 005014S)
12, Third Cross Street,
CHENNAI – 600 034

..... Respondent

MEMBERS PRESENT:

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

Date of Final Hearing: 23rd January, 2021

Place of Final Hearing: New Delhi (through Video Conferencing)

Brief Charges

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 was held prima facie guilty under Clause (7) of Part I of the Second Schedule and Clause (2) of Part IV of the First Schedule to the Chartered Accountants Act, 1949. The said Clauses to the Schedule state as

under:



Part IV First Schedule:-

(2) Brings disrepute to the profession or the institute as a result of his action whether or not related to his professional work.

Part I Second schedule: -

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

Brief background and Allegations against the Respondent:

2. Sh. S. Vellaipandi, Superintendent of Police, CBI, Chennai (hereinafter referred to as the “Complainant”) had filed complaint (C-1 to C-2337) against CA. R. Vedanarayanan (M. No. 029472), Chennai (hereinafter referred to as the “Respondent”) stating that the Respondent had certified inflated financial statements of M/s Health Foods (hereinafter referred to as the “Firm”) which were used by the Firm in getting sanctioned cash credit facilities of Rs. 4 Crores from Indian Bank, Chennai, thereby enabling in cheating the Bank. The Bank in this regard has preferred a complaint with the Complainant Department viz. CBI. Upon investigation by the Complainant Department, the following lapses were observed on the part of the Respondent who was the Statutory Auditor of the Firm for the financial year 2011-12 as given in the self-contained note attached to the Complaint (C3-C10):-

2.1 The Respondent had certified the inflated financial statements of the fictitious firm, M/s. Health Foods knowing the fact that they were false and fabricated. As per the investigation for the year ending 31st March, 2012 (C-282), the Respondent certified turnover of the firm as Rs.21.94 Crores, on the basis of which open cash credit limit of Rs. 4 Crores was sanctioned by the Bank to the newly constituted firm which was the proprietorship concern of Shri D. Suresh and he had converted it into a partnership concern on 11th September 2012 (C298-C303). It was also stated that the firm had not filed Sales Tax return for the said financial year 2011-12, but for the financial years 2012-13 & 2013-14 the firm had declared turnovers of only Rs.31.08 Lakhs and Rs. 8.18 Lakhs respectively. According to the Complainant, the Respondent had certified the financial statements without verifying the genuineness of the financial statements which were fudged and had also not verified the genuineness of the actual sales and actual purchase

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invoices of the Firm. The Complainant further alleged that the Respondent although had stated to have verified the sales tax return and invoices but could not produce the copies or obtain them from the borrowers.

2.2 The Respondent had helped Mr. D. Suresh, Proprietor of the Firm in filing his Income Tax Return, for two consecutive years on 25.07.2012, knowing well that he was not an income tax assessee.

2.3 The Respondent certified the purchases of the Firm for the period from April, 2011 to March, 2012 as Rs. 20,67,20,230/- (C-382) whereas after investigation it was revealed that the total payments for various transactions through the Banking channels was Rs. 5,47,85,584/- only (C-108).

Proceedings:

3. At the time of hearing on 23rd January 2021, the Committee noted that neither the Complainant nor the Respondent or his authorized representative was present before it for the hearing. However, it was noted that the Respondent vide his e-mail dated 20th January 2021, requested the Committee that written submissions sent through his earlier emails be considered by it since he had nothing else to furnish . He submitted that he would stand by the decision of the Committee and requested to be relieved from further representations in this regard. Accordingly, the Committee decided to proceed further in the matter.

Thereafter, the Committee considered the documents and information available on record including his written submissions dated 18th July 2018 and 14th October, 2019 and accordingly decided to conclude hearing in the matter.

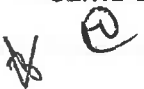
Findings of the Committee:

4. The Committee noted that in the **first allegation** against the Respondent it was alleged that he had certified the inflated financial statements of the fictitious firm, M/s. Health Foods knowing the fact that they were false and fabricated. The Committee also noted the submissions made by the Respondent in his Written Statement wherein he had submitted that he certified the financial statements of the proprietorship firm, M/s. Health Foods based on the

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audit procedures performed as evidenced by his working papers. On the date of signing the financial statements, the firm had a valid registration certificate issued by TNVAT Department and the unit was regularly self-assessed under TNVAT as evidenced by VAT returns. He also stated that copies of invoices and balance confirmations and stock certificates were verified and he did not come across any material to suspect that activities of the Firm were not genuine. The accounting data, invoices and other confirmation letters were owned by D. Suresh and he could not be expected to have a copy of the same. Further, he submitted that he could not be put to fault for the inaccuracy of the financial statements as it was the management of the Firm who was responsible for providing accurate and true financial statements

4.1 The Committee, upon perusal of the documents on record, noted that the Respondent had certified the financial statements of the firm for the year ending 31st March, 2011 (C-311 read with C-1194) & 31st March, 2012 (C-362-C417 read with C-1121) for tax audit. The Respondent submitted to have conducted limited assignment for his alleged client within a given limited time frame. However, from the Form 3CD of FY 2010-11, it was noted under para 11 that the Respondent had reported to be its first financial year. Further, there were net worth certificate (C-1304) as well as provisional financials certified by the Respondent (C-1311 onwards) for working capital assessment which indicated the level of association of the Respondent with his client. In any case, it was noted that the response of the Respondent was short of corroboration as although he submitted to have based on the audit of the firm on the audit procedures but failed to not only elaborate upon the same but also failed to bring on record the documentary evidences to corroborate that he had adopted due procedures to certify the financial statements of the proprietorship firm, M/s. Health Foods. The Respondent in his defence had casted aspersions on the Bank with regard to sanction of loan instead of presenting clear-cut line of defence on how he had conducted checks and balances to ascertain the true and fair view of the financial statements audited by him. The Respondent had failed to bring on record the relevant documentary evidences to establish that he had exercised the required due diligence while certifying the financial statements and that the same are not fudged as alleged by the Complainant.



4.2 The Committee further noted that the Complainant department had brought on record a confessional statement made by Shri D Suresh, Managing Partner of the Firm wherein he had submitted that he was the car driver of one Mr. Joseph Premkumar, the owner of M/s. P.S. Oil Impex, and was engaged as a partner in the Firm for the purpose of obtaining the Bank Loan of Rs. 4 Crores. He also submitted that the Firm did not exist and the funds were diverted by Joseph Premkumar. He also stated that the Respondent had received lakhs of rupees for furnishing false Balance Sheet (C-41). It further noted that the Respondent in this regard in his further Written Statement had submitted that the confession of Shri D. Suresh could not be used against him as the same person had filed an affidavit in Hon'ble High court of Madras representing that he was a proprietor of the Firm, M/s. Health Foods and there were VAT registration obtained and credit facilities maintained by Shri D. Suresh in State Bank of India.

4.3 The Committee noted that serious and grave allegation of fudging and fabricating the financial statements of the Firm were raised against the Respondent but to defend the same, he chose not to appear in person before the Committee and only submitted the written submissions in the matter for consideration of the Committee wherein beside casting aspersion on the Bank with regard to sanction of loan, he denied the confession made by Shri D Suresh but failed to bring on record corroborative evidence to substantiate his defence. He not only failed to bring on record the copy of affidavit submitted in Hon'ble High court of Madras wherein as per the Respondent, Shri D. Suresh had submitted to be the proprietor of M/s. Health Foods but also the copy of communication held between him and Sh. D. Suresh on account of which he was working with an impression that D Suresh was indeed the proprietor of the Firm. The Committee accordingly in light of the fact that he failed to elaborate the nature and extent of audit procedures adopted by him to ascertain the true and fair view of the financial statements audited by him along with other facts and circumstances on record, was of the considered opinion that the Respondent failed to exercise the required due diligence while certifying the financial statements. The Committee further noted that the Respondent had submitted a certificate dated 23rd November, 2012 (D3-D5) issued by him certifying the Partner's Capital as on 23rd November, 2012 and details of properties of Mr. D. Suresh (D-4 to D-5) for the purpose of availing credit facility from the bank. Thus, it was apparent that the certification done by the Respondent was also

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one of the factors instrumental in getting sanctioned loans to the Firm from the Bank. The Respondent had, in his written submissions, stated that he had certified the same based on books of accounts of the firm supported by partnership deed and bank statements of the firm. Further, Sh D Suresh's personal assets and liabilities were certified based on capital balance as per books of accounts and other assets represented by him verified from copy of RC book for Car and bike, valuation report for jewellery and loan confirmation letter as produced by Sh D Suresh. However, it was noted that the Respondent had failed to provide the said documents which were said to be he relied upon by him for the said certification works. Further, in the light of the fact that confessional statement of Shri D. Suresh, as per information available on record was not retracted, it was viewed that the Respondent had certified the same without proper evaluation and verification of the relevant records. Accordingly, in light of the same, the Committee held the Respondent guilty of professional misconduct falling within the meaning of Clauses (7) and (8) of Part I of Second Schedule to the Chartered Accountants Act, 1949 with respect to the charge.

5. The Committee noted that the **second allegation** raised against the Respondent was that the Respondent had helped Mr. D. Suresh, Proprietor of the Firm in filing his Income Tax Return, for two consecutive years on 25.07.2012, knowing well that he was not an income tax assessee. It was further noted that the Respondent, in his Written Statement in this regard submitted that Shri D. Suresh represented to him that he was not assessed to income tax up to F.Y. 2009-10 and that his activities started only from the end of the F.Y. 2010-11. Since, due date of filing income tax return for Asst. Year 2011-12 u/s. 139(4) was 31.03.2013, the return of income for Asst. Year 2011-12 was also filed along with return of income for Asst. Year 2012-13. He also contended that though there were clear instructions to the bankers not to entertain loan applications wherein Income Tax returns for more than one year were filed together still the said instructions were overlooked in the case of the partnership firm, M/s. Health Foods by the bankers.

5.1 The Committee noted that as per the allegations, the Respondent had helped Shri D. Suresh in filing his returns for two consecutive years on 25.07.2012, knowing well that he was not an income tax assessee. It was noted that though the law does not prohibit a

Chartered Accountant to assist a person in filing his income tax return but since the Respondent had duly signed the return which also contained the seal of his firm, it was viewed that the return of the assessee was filed by him in his professional capacity. Thus, a responsibility was undertaken by the Respondent to have vouched for the accuracy or correctness of the information contained therein. The Committee pertinently noted that the said assessee had himself confessed (C41-C44) before the Police on 29th April, 2015 (C-41) and to the Sub- Inspector Income Tax Department (C-42 to C-44) that he was not the assessee and was asked to be a proprietor of M/s Health Foods to avail loan from Bank casted suspicion on the way the professional assignment carried out by the Respondent. The Committee noted that although the Respondent in his Written Statement stated that D. Suresh had filed an affidavit before the Hon'ble High court of Madras representing that he was a proprietor of M/s. Health Foods but failed to bring on record the copy of the same to corroborate his defence more so when his professional goodwill was at stake. Further, the Respondent had failed to bring any copy of communication held with his cliente in respect of alleged assignment. Accordingly, in light of the same, the Committee held that the Respondent failed to exercise due diligence in conduct noif his professional duties and was thus guilty of professional and other misconduct falling within the meaning of Clause (7) of Part I of Second Schedule and Clause (2) of Part IV of First Schedule to the Chartered Accountants Act, 1949 with respect to the charge.

6. The Committee noted that in the **third allegation** it was alleged against the Respondent that he had certified the purchases of the Firm for the period from April, 2011 to March, 2012 as Rs. 20,67,20,230/- (C-382) whereas, upon investigation by the Complainant department the total payments for various transactions through the Banking channels amounted only Rs. 5,47,85,584/- only (C-108). The Committee noted the submissions of the Respondent in this regard that a portion of the purchases were shown as Sundry Creditors but there were some journal entries by which inter-group transactions were recorded in the books of account of the proprietorship firm, M/s. Health Foods which he cross verified from the account statements and balance confirmations from debtors and creditors. The Respondent had also submitted that the firm M/s Health Foods was dealing with Edible Oil and the *Entry 65 in Part B of the Fourth Schedule of the Tamil Nadu Vat Act, 2006* showed

the Goods Exempted from Tax by Section 15 from 12th July, 2011 till 31st March, 2012. However, the said Entry was omitted from 1st April, 2012 by Notification No. II (1)/CTR/12(a-2)/2012 – GO. No. 47 dated 27th March 2012, Act No. 35 of 2012 (W-63) and the edible oil became taxable, after the amendment of 2012, for any value up to 5 Crores and then only in case of availment of input credit. Further, it was submitted by the Respondent that in the complaint it was clearly mentioned that “By the Order/Proceedings Vide RC 1199/A5/2012 dated 28th August, 2012 cancelling Registration under Tamil Nadu VAT Act, 2006 and CST Act, 1959” indicating that the business was conducted by the firm and payments and taxes had been duly paid to the Commercial Tax Department. Thus, there were actual sales and actual purchases by the firm.

6.1 The Committee in this regard noted that although the Respondent had submitted to have verified the purchases but had failed to provide any substantial evidence regarding the audit procedures adopted by him for the same. It was noted that in extant case the Respondent had certified purchases of the firm for the period April, 2011 to March, 2012 as Rs 20,67,20,230 whereas total payments made for various transactions through the banking channels amounted Rs. 5,47,85,584/- only **(C-108)** which constitute **26.50% (approx.)** of total purchases certified by the Respondent. Thus, the variance between the two reported figures was quite substantial which the Respondent stated to be in the form of creditors which he contended to have verified through confirmations obtained from the parties. However, on review of the documents available on record, it was noted that the copy of ledgers available on record provide the status of the various components as at the balance sheet date. Although, the heading states it to be for the year but when the information contained therein was reviewed, it was noted that the said ledgers did not contain any purchases, sales or cash/bank accounts. There were only group summaries of debtors, creditors, loans etc. containing year end figures. Hence, if the audit was conducted for the said set of financial statements, it could not be verified from it whether any payments were actually being received or paid against sales/purchases thus leading to a major loophole in the audit. Further, it was noted that the Committee had explicitly asked the Respondent to provide the reconciliation statement, copy of sales/vat returns and evidences that payments were made through bank for which the Respondent was able to bring on record only the copy of sales and vat returns. There was no further document to support the amounts

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verified by the Respondent. Accordingly, it was viewed that the Respondent had failed to produce audit evidence to corroborate the amounts certified by him which signified that the Respondent had failed to exercise the due diligence as was warranted under the circumstances,. The committees, accordingly in light of the above stated reasoning was of the considered opinion that the Respondent 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 the charge.

Conclusion:

7. Thus, in conclusion, in the considered opinion of the Committee, the Respondent is **GUILTY** of professional and other misconduct falling within the meaning of Item (7) of Part I of Second Schedule and Item (2) of Part IV of the First Schedule to the Chartered Accountants Act, 1949.

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

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

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

Sd/-
[CA. Manu Agrawal]
Member

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DATE: 11th February, 2021

PLACE: New Delhi

Certified to be True Copy
Mohita Khanna
(Mohita Khanna)
Assistant Secretary
Disciplinary Directorate
The Institute of Chartered Accountants of India