



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

[PR-351/2019-DD/328/2019/DC/1386/2020]

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-351/2019-DD/328/2019/DC/1386/2020]

In the matter of:

Sh. G Ramamohan Rao,
D-509, Muppa Garden Grandeur
Gopanapally Thanda Village & Post
Serilingampally Mandal, R.R. Dist.
Hyderabad -500046

..... Complainant

Versus

CA. Bhumik Sarda (M.No.242569)
Shop No.17, III Floor,
Sanali Mall, Abids
Hyderabad -500001

..... 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

Party Present:

CA. Bhumik Sarda (M.No.242569)- Respondent (appeared from Centre of Excellence, Hyderabad)

1. That vide report dated 11th February 2021 (copy enclosed), the Disciplinary Committee was of the opinion that CA. Bhumik Sarda (M.No. 242569) was GUILTY of professional misconduct falling within the meaning of Items (6), (7) and (8) of Part I of Second Schedule to the Chartered Accountants Act, 1949 in respect of statutory audit of 'Muppas Green Grandeur Welfare Association' (hereinafter referred to as "the Society") for the financial year 2018-19. It was alleged against the Respondent:-

a) that he failed to exercise the due diligence and allowed the management to manipulate the actual figures as there was one draft/unsigned audit report and financial statements which showed a deficit of Rs.1,62,175.63 whereas the signed Audit Report and Financial Statement for the year ended 31st March, 2019 (D-25 to D-28) showed a surplus of Rs.1,15,388.37/- (D-32). The total of this manipulation of Rs.2,77,564/- (Rs.1,62,175.63+Rs.1,15,388.37/-) was offset by manipulating (decreasing) exactly with the same amount under the head 'Security and House Keeping Expenses' which was Rs.47,00,092.48/- in unsigned Income and Expenditure account (D-28) while this figure was Rs.44,22,528.48/- in the signed financials for the period ended 31st March,2019 (D-32).



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b) he had failed to ascertain the detail of 'Provisions'/ outstanding expenditure as on 31st March, 2019 as the provision of Rs.9,13,313/- was provided for in the books of accounts (D-31) while the actual expenses paid in April, 2019 amounted only Rs.7,01,284/- (C-2 & C-16).

c) that the 'outstanding expenses' and Profit and loss balances for the year 2018-19 were certified by him relying on the figures of the unaudited balance sheet and profit and loss account of the Society for the immediate previous year 2017-18.

It was noted that Item (6), (7) and (8) of Part I of Second Schedule to the Chartered Accountants Act, 1949 provide as under:

Part I, Second schedule: -

"(6) fails to report a material misstatement known to him to appear in a financial statement with which he is concerned in a professional capacity;

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

(8) does not obtain sufficient information which is necessary for expression of an opinion or its exceptions are sufficiently material to negate the expression of an opinion."

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 considered both the oral submissions as well written submissions made vide letter dated 5th March 2021 by the Respondent. The Respondent, at the outset, submitted that the audit was not due to any statutory requirement but was conducted with a purpose to arrive at the statement of affairs as at that date after rectifying all the errors which were committed in reporting the financials to arrive at actual surplus/ deficit and ascertainment of assets and liabilities as on the end of the financial year. It was done with the purpose of helping the members and management of Society to make decisions relating to collection of charges and other matters. He also stated that Accounting standards were not applicable to these kind of enterprises as per the announcement made by ICAI and thus drawing any reference from those standards was erroneous and caused injustice to him.

4. The Committee considered both the oral as well written submissions of the Respondent and noted as regard first charge that the adjustment done was not logical and was against the generally



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accepted accounting principles. It was Respondent's professional responsibility to get that entry rectified in accordance with the generally accepted accounting principles or should have reported the fact of the said adjustment in his audit report in order to report on actual state of affairs of Society for the financial year 2018-19. However, the Respondent failed to report anything about such adjustment and its impact on the current year's profitability while he was well aware of such adjustment entry which led to misstatement in the financial statements which was material converting the deficit of income over expenditure into surplus. It further noted as regard second charge that the Respondent should have disclosed separately the estimated expenses of current period under the head 'Provision' but it was merged under the head 'Sundry Creditors' as 'Other Outstanding' of Rs.95,767/- and there was no disclosure as to the nature of expenditure to which it pertained which was again against the generally accepted accounting principles. As regard third charge, the Committee noted that the Respondent had given his observation on the matter of relying on previous year's unaudited Balance and Profit and Loss Account for FY 2017-18 in his unsigned Audit Report for the period ended on 31st March, 2019 (D-26) but failed to report the same in the signed audit report for the period ended on 31st March, 2019. He had also not brought on record any evidence to substantiate that he had performed adequate audit procedures as prescribed in SA 510 'Initial Engagements' before expressing his opinion on the accounts of the Society for the financial year 2018-19.

5. The Committee thus viewed that the misconduct on the part of the Respondent has been held and established within the meaning within the meaning of Items (6), (7) and (8) of Part I of Second Schedule and keeping in view the facts and circumstances of the case as aforesaid, ordered that the name of the Respondent, **CA. Bhumik Sarda (M.No. 242569)** be removed from the register of members for a period of 1(one) month along with a fine of Rs. 50,000/- 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. Bhumik Sarda (M.No. 242569)** 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.

Sd/-

[Smt. Anita Kapur]

Member (Govt. Nominee) & Presiding Officer

Sd/-

[CA. Chandrashekhhar Vasant Chitale]

Member

[Approved and 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, New Delhi, India - 110032

[CA. P.K. Boob]

Member

[Approved and confirmed through e-mail]

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-351/2019-DD/328/2019/DC/1386/2020]

In the matter of:

**Sh. G Ramamohan Rao,
D-509, Muppa Garden Grandeur
Gopanapally Thanda Village & Post
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..... Complainant

Versus

**CA. Bhumik Sarda (M.No.242569)
Shop No.17, III Floor,
Sanali Mall, Abids
Hyderabad -500001**

..... Respondent

MEMBERS PRESENT:

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

Date of Final Hearing: 21st January, 2021

Place of Final Hearing: New Delhi (through video conferencing)

PARTIES PRESENT:

- (i) Shri G. Ramamohan Rao – Complainant (appeared from personal location)**
- (ii) CA. Bhumik Sarda – Respondent**
- (iii) CA. Sunil Appaji – Counsel for Respondent**
(Both appeared from ICAI, Centre of Excellence, Hyderabad)

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

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Misconduct and Conduct of Cases) Rules, 2007, the Respondent was held prima facie guilty of professional misconduct falling within the meaning of Items (6), (7) and (8) of Part I of the Second Schedule to the Chartered Accountants Act, 1949. The said Items to the Schedule state as under:-

Part I Second schedule: -

“(6) fails to report a material misstatement known to him to appear in a financial statement with which he is concerned in a professional capacity;

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

(8) does not obtain sufficient information which is necessary for expression of an opinion or its exceptions are sufficiently material to negate the expression of an opinion.”

Brief background and Allegations against the Respondent

2. The Complainant was a member of the Society namely 'Muppas Green Grandeur Welfare Association' (hereinafter referred to as "the Society") and the Respondent was a statutory auditor of the Society for the financial year 2018-19. The Complainant had some doubts/queries on the Financial Statements of the Society for the year 2018-19, so he approached the Respondent to seek clarification on them.

As per the Complainant, the Respondent did not answer them which were relating to the financial statements of the Society audited by him. So, the Complainant filed complaint alleging that the Respondent did not perform audit of the Society with due diligence and signed the financial statements 'as it is' provided to him by the management of the Society.

Against the aforesaid background, the allegations raised against the Respondent were as under:-

a) Allegation-1 – Difference in 'Security & House Keeping Expense' as per the monthly expense details vis-a-vis amount certified in Financial Statements for the year 2018-19.

It was stated that as per detail circulated by the Management Committee the monthly expenses of 'Security and House Keeping Expense' was Rs.35,76,491/- while the audited financial statements showed an amount of Rs.44,22,528.48/- showing a difference of Rs.8,46,037.48/-. It was alleged that the Respondent being the statutory auditor of the Society certified the incorrect amount without verifying the actual expense under the head 'Security and House Keeping Expense' for the financial year 2018-19.

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b) Allegation-2– Draft Financials showed a deficit of Rs.1,62,175.63 while the audit report declared the surplus of Rs.1,15,388.37

It was stated that there was a draft/unsigned audit report and financial statements (also produced on record by the Complainant) apart from the signed Audit Report and Financial Statement for the year ended 31st March, 2019 (D-25 to D-28). As per the draft financials statement shared by the management of the Society in the AGM of the Society along with draft Audit Report thereon, a deficit of Rs.1,62,175.63 (D-28) was declared in the Income & Expenditure account for the period whereas the final signed Audit Report and Financial Statements submitted subsequently showed a surplus of Rs.1,15,388.37/- (D-32). Further, the total of this manipulation, Surplus and Deficit which works out to be Rs.2,77,564/- (Rs.1,62,175.63+Rs.1,15,388.37/-) had been offset by manipulating (decreasing) exactly with the same amount under the head 'Security and House Keeping Expenses' which was Rs.47,00,092.48/- in unsigned Income and Expenditure account (D-28) while this figure was Rs.44,22,528.48/- in the signed financials for the period ended 31st March,2019 (D-32). It was alleged that the Respondent failed to exercise the due diligence and allowed the management to manipulate the actual figures.

c) Allegation-3– Prepaid AMC of Rs.8627 shown on the Liability side instead of Assets side of the Balance sheet for the year ended 31st March,2019.

It was alleged that the Respondent showed the prepaid AMC of Rs.8,627/- on the Liability side of the balance sheet (D-31) while it should have been shown on the Assets side of the Balance sheet, thus it was alleged that the Respondent failed to report about the violated the accounting norms.

d) Allegation-4– Wrong ascertainment/booking of Interest on Corpus Deposit of the Society

It was stated that as on 01st April, 2018 there was a Society Corpus Fund of Rs.1,50,12,500/- (D-31) and an estimated interest at the rate of 6.25% of the deposit amount to Rs.7,80,095/- while the in the Income and Expenditure account only Rs.54,410/- was reported as interest income during the year 2017-18 (D-32). It was alleged that the Respondent as an auditor of the Society failed to ascertain the interest earned by the Society on its deposits.

e) Allegation-5– Wrong ascertainment/booking of Provision for outstanding expenses as on 31st March, 2019

It was alleged that the auditor (Respondent) failed to ascertain the detail of 'Provisions'/ outstanding expenditure as on 31st March, 2019 as the provision of Rs.9,13,313/- was provided in the books of

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accounts (D-31) while the actual expense which were paid in April, 2019 towards March, 2019 expenses were only Rs.7,01,284/- (C-2 & C-16). It was, thus, alleged that the Respondent had failed to submit the detail of such expenses as annexed to balance sheet of the Society as on 31st March, 2019.

f) Allegation 6 – No comment by the auditor on huge expense incurred by the Society under the Head ‘Professional and Legal Expense’ for the year 2018-19

It was alleged that the Respondent failed to comment on the matter of spending a huge amount Rs.1,21,000/- on Professional and Legal Expense by a small Housing society during the financial year 2018-19.

g) Allegation – 7 – Lack of proper verification of Vouchers of the Society with regard to its approval by competent authority and insufficient supporting thereto for the year 2018-19.

It was alleged that the Respondent had not verified the vouchers and bill of the expenses of the Society for the year 2018-19. One specific example quoted by the Complainant in this regard was that a payment of Rs.8000/- was made to ‘Geologist’ for giving report on ground water availability while the report given was unauthenticated as not signed by any ‘Geologist’. Further many payment vouchers and bills were not approved by the competent authority (Treasurer/President/Secretary). It was alleged that the Respondent failed to report the same.

h) Allegation -8- The Outstanding expenses and Profit and loss balances for the year 2018-19 were certified by the Auditor (Respondent) relying upon the previous year’s unaudited profit and loss sheet i.e. 2017-18

It was further alleged that the Respondent while accounting for the balances of the financial statements for the year 2018-19, had relied on the figures of the unaudited balance sheet and profit and loss account of the society for the previous period 2017-18.

Proceedings:

3. At the time of hearing on 21st January 2021, the Committee noted that both the Complainant and the Respondent along with his Counsel were present for hearing from their respective locations through video-conferencing. At the outset, they all 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 first hearing, the Respondent was put on oath. Thereafter, the Committee asked the Respondent whether he

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wished the charges to be read out or it could be taken as read. The Counsel for the Respondent stated the Respondent was aware of the charges against him and the same might be taken as read. On being asked, as to whether the Respondent pleaded guilty, the Respondent pleaded not guilty and opted to defend the matter against him. Thereafter, the Committee asked the Counsel for the Respondent to make submissions on the merits of the matter. The Counsel for the Respondent made submissions. The Committee examined the Counsel for the Respondent on the submissions made by him.

Thereafter, the Committee directed the Respondent to submit within next seven days of the date of hearing brief submissions on the *locus standi* and maintainability of the complaint as argued by him. With the aforesaid directions, hearing in the matter was concluded and judgment was reserved.

4. Thereafter, on 11th February, 2021, the Committee noted that the Respondent did not make any submissions as directed by the Committee. Accordingly, the Committee considered the documents available on record and oral and written submissions made by both the parties before it at the time of hearing on 21st January 2021 and, thereafter, concluded hearing in the matter.

Findings of the Committee:

5. At the outset, the Committee noted that the Respondent had questioned the *locus standi* of the Complainant and accordingly argued on maintainability of the Complaint against him. It was noted that the Complainant had submitted before it that his son and daughter in law own the flat in the Society. Since, they were working in USA, so being the close blood relative they had authorized him to deal with all matters pertaining to representation in the Society meetings and any legal matters of their flat. He had further submitted that as per the Society bye-laws the close blood relatives might represent owners in the Society matters and vote on resolutions. In fact, the Society bye-laws also allowed them to contest for Management Committee of the Society and as such the Complainant had contested for the post of Treasurer during the year 2018-19. He was resident of the Society and also paying the monthly maintenance to the Society from his pocket. It was, accordingly, viewed that in the absence of any submissions by the Respondent to contradict the submissions made by the Complainant, the preliminary objections made by the Respondent were ruled out. Thus, the Committee decided to consider the matter on merits.



6. The Committee noted the Complainant in his complaint had raised 8 (eight) allegations against the Respondent out of which the Director (Discipline) in his prima facie opinion dated 21st August 2020 held the Respondent prima facie guilty of 3 (three) allegations as enumerated in Para no 3 under sub points (b), (e) and (h). Accordingly, the Committee held the enquiry on the date of hearing on said three allegations only as discussed above.

6.1 The Committee noted that it was alleged against the Respondent that there was one draft/unsigned audit report and financial statements on record produced by the Complainant which showed a deficit of Rs.1,62,175.63 whereas the signed Audit Report and Financial Statement for the year ended 31st March, 2019 (D-25 to D-28) showed a surplus of Rs.1,15,388.37/- (D-32). It was further alleged that the total of this manipulation, Surplus and Deficit which works out to be Rs.2,77,564/- (Rs.1,62,175.63+Rs.1,15,388.37/-) was offset by manipulating (decreasing) exactly with the same amount under the head 'Security and House Keeping Expenses' which was Rs.47,00,092.48/- in unsigned Income and Expenditure account (D-28) while this figure was Rs.44,22,528.48/- in the signed financials for the period ended 31st March,2019 (D-32). It was, accordingly, alleged that the Respondent failed to exercise the due diligence and allowed the management to manipulate the actual figures.

6.2 The Committee, in this regard, noted that the Respondent had submitted to have made adjustment stating that firstly it was related to previous year which was not audited and secondly, the said adjustment was found reasonable by the management considering the fact that the society was freshly formed and was a non-profit organisation. He further stated that the total expense under the head 'Security and House Keeping expenses' totalled to Rs.47,10,707/-. However, the amount reported in the financial statements was Rs.44,22,528/- leading to a difference of Rs.2,88,179/- which was due to overestimation of expense by the Management Committee of the Society in previous year ended on 31st March, 2018 and due to non- availability of head wise details of such overestimation, the management decided to offset the difference under the head 'Security and House-keeping Expense' for the financial year 2018-19.

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6.3 The Committee in this regard noted that there were two audit reports and financial statements brought on record by the Complainant for the financial year 2017-18. The one was unsigned (D-25 to D-28) while the other was signed (D-29 to D-32). The Committee further noted that the fact of also having one draft/unsigned audit report along with related financials on record was accepted by the Respondent. Further, he stated that the unsigned draft financials and audit report were shared by the management and were subjected to change. The final report was duly signed and approved by the members of the Society in the AGM. The Committee noted that it is an accepted practice to hold discussion with the management before finalizing the audit report. However, the reason of the alleged adjustment that due to overestimation of expenditure by the management of the Society in the last /previous year ended on 31st March, 2018 and non-availability of information about the head to which it pertained, the difference was adjusted in 'Security and House Keeping expenses' in this particular head in the current year was not found acceptable by the Committee. The Committee was of the view that the adjustment done was not logical and was against the generally accepted accounting principles. It was viewed that if in any year, the provision for any expense is overestimated and in next financial year, it is felt that the provision is no more required and that it is required to be reversed, the same is done through a separate accounting entry crediting the Profit and Loss account rather than adjusting the same by reducing the expenses of any random head appearing in the profit and loss account.

6.4 The Committed, accordingly, viewed that it was Respondent's professional responsibility to get that entry rectified in accordance with the generally accepted accounting principles or should have reported the fact of the said adjustment in his audit report in order to show the actual state of affairs and to report on the view reflected in the financial statements of Society for the financial year 2018-19. However, from the perusal of his Audit Report (C-17 to C-18) for the period ended 31st March, 2019 it was noted that the Respondent had not disclosed anything about such adjustment relating to previous year expense and impact of such adjustment on the current year's profitability while he was well aware of such adjustment entry made in the financial statements of the Society. It was viewed that such adjustment had led to misstatement in the financial statements which was material converting the deficit of income over expenditure into surplus. Thus in light of the

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same, in the considered opinion of the Committee, the Respondent was guilty of professional misconduct falling within the meaning of Items (6), (7) and (8) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

7. The Committee noted that in the next allegation it was alleged that the Respondent had failed to ascertain the detail of 'Provisions'/ outstanding expenditure as on 31st March, 2019 as the provision of Rs.9,13,313/- was provided for in the books of accounts (D-31) while the actual expenses paid in April, 2019 amounted only Rs.7,01,284/- (C-2 & C-16). It was further alleged that the Respondent had failed to submit the detail of such expenses as annexed to balance sheet of the Society as on 31st March, 2019. The Committee noted that the Respondent had submitted that the expenses outstanding as at March, 2019 as stated by the Complainant included expenses for previous period not paid and provisions made for the year, however, paid on a later date. This included the amount payable in regular course of activities of the association such as water, electricity charges, security and housekeeping expenses etc.

7.1 The Committee noted that the submissions of the Respondent was not justified as the Complainant in his Complaint had referred to the amount of Rs.9,13,313/- which was shown under the head 'Sundry Creditor' in the audited balance sheet of the Society (D-31) and in this regard, it was noted that paragraph 12 of Accounting Standard 29 (Provisions, Contingent Liabilities and Contingent Assets') emphasis upon the difference in the nature of provisions and other liabilities, when it reads as below :

"Provisions can be distinguished from other liabilities such as trade payables and accruals because in the measurement of provisions substantial degree of estimation is involved with regard to the future expenditure required in settlement. By contrast:


(a) trade payables are liabilities to pay for goods or services that have been received or supplied and have been invoiced or formally agreed with the supplier; and

(b) accruals are liabilities to pay for goods or services that have been received or supplied but have not been paid, invoiced or formally agreed with the supplier, including amounts due to employees. Although it is sometimes necessary to

estimate the amount of accruals, the degree of estimation is generally much less than that for provisions”

7.2 From the above, it was clear that the “provisions” are estimated expenses which are different from other payables that are accrued and does not involve any estimation. Such ‘other payables’ include trade payables often referred as creditors. The Committee noted that the Respondent had submitted that ‘*Outstanding as on March, 2019 includes expenses for previous period and provision made for the year however, paid on later date*’ which indicated that all kinds of payables whether accrued or provisions were consolidated under a single head ‘Sundry Creditor’ for Rs. 9,13,313/- which was again a wrong disclosure of the facts.

7.3 The Committee further noted from the breakup of the outstanding expenses of Rs.9,13,313/- (D-90) brought on record by the Respondent that the Respondent had not identified the outstanding expenses pertaining to the previous period (2017-18) as claimed by him in his written statement (W-3 & W-4) and further the estimated expenses of current period which should have been disclosed separately under the head ‘Provision’ was also merged under the head ‘Sundry Creditors’ as ‘Other Outstanding’ of Rs.95,767/- which seems vague and there was no disclosure as to the nature of expenditure to which it pertained. It was also observed that the Respondent had failed to clarify on the allegation made by the Complainant when it was stated that only Rs.7,01,284/- (C-16) was paid by the Society in the month of April,2019 towards recorded expenses of Rs.9,13,313 for the year 2018-19. The Committee was thus of the considered opinion that the Respondent had not only failed to bring on record the evidences based on which alleged head was verified by him but also failed to report that ‘Provisions’ were neither separately shown separately on the face of the balance sheet as on 31st March, 2019 nor the details thereof were provided in the schedule to the balance sheet. Accordingly, it was viewed that the Respondent had failed to perform his professional duties diligently and held the Respondent Guilty of professional misconduct falling within the meaning of Item (7) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.



8. The Committee noted that the last **allegation** against the Respondent was that the 'outstanding expenses' and Profit and loss balances for the year 2018-19 were certified him while relying on the figures of the unaudited balance sheet and profit and loss account of the Society for the period 2017-18. The Committee in this regard noted the submissions made by the Respondent in respect of this charge wherein he stated that his audit observation was shared by the Management Committee with all the members including Complainant. The Income and Expenditure and Balance Sheet for the F.Y.2018-19 was audited and any adjustment pertaining to previous F.Y. 2017-18 as ascertained by the management was accordingly considered **(W-4)**. Further, he stated that he had checked the accounts of the Society and tried to bring them in line by supporting the management as and when required and asked them to account all the details for the previous year as well as the current year on a proper basis.

8.1 The Committee perused the Audit Report of the Respondent on Society's Financials for the period ended 31st March, 2019, and noted that it did not mention any such observation as stated by the Respondent that he had already given the observation in his Audit Report on the matter of relying on previous year's unaudited Balance and Profit and Loss Account as given by the management of the Society. It was also noted that he had given his observation on previous years unaudited financials (2017-18) only in his unsigned Audit Report for the period ended on 31st March, 2019 **(D-26)** as brought on record by the Complainant which reads as below:

"The opening balances of the current year could not be reconciled as the association used to maintain its books of accounts in excel leading to non-availability of break-up of outstanding expenses of Rs.11,00,000/- as at March 31,2018".

8.2 The Committee noted that it appeared from documents available on record that the financial statements of Society for the year 2017-18 were not audited and there had been some issues in respect of accounting and balances in that previous year. It pertinently noted that SA 510 'Initial Engagements – Opening Balances', which deals with auditor's responsibility in case the previous year's financials are not audited, reads as below:

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5. *The auditor shall read the most recent financial statements, if any, and the predecessor auditor's report thereon, if any, for information relevant to opening balances, including disclosures.*

6. *The auditor shall obtain sufficient appropriate audit evidence about whether the opening balances contain misstatements that materially affect the current period's financial statements...*

7. *If the auditor obtains audit evidence that the opening balances contain misstatements that could materially affect the current period's financial statements, the auditor shall perform such additional audit procedures as are appropriate in the circumstances to determine the effect on the current period's financial statements. If the auditor concludes that such misstatements exist in the current period's financial statements, the auditor shall communicate the misstatements with the appropriate level of management and those charged with governance in accordance with SA 450.*

Audit Conclusions and Reporting Opening Balances

10. *If the auditor is unable to obtain sufficient appropriate audit evidence regarding the opening balances, the auditor shall express a qualified opinion or a disclaimer of opinion, as appropriate, in accordance with SA 705(Revised)*

11. *If the auditor concludes that the opening balances contain a misstatement that materially affects the current period's financial statements, and the effect of the misstatement is not properly accounted for or not adequately presented or disclosed, the auditor shall express a qualified opinion or an adverse opinion, as appropriate, in accordance with SA 705*

From the reading of above, it was noted that when the previous year's financial statement were not audited, the auditor of current financial year was required to perform appropriate audit procedures to examine if the opening balances of current financial year were materially misstated and if it was so found then the auditor was required to modify his audit opinion appropriately.

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8.3 The Committee noted that in the instant case, the Respondent had not brought on record any evidence to substantiate that he had performed adequate audit procedures as prescribed above before expressing his opinion on the accounts of the Society for the financial year 2018-19. In fact it was noted that the Respondent had admitted that due to non-availability of data for the previous period 2017-18, he relied on the adjustment made by the management in the current financial year 2018-19 for previous year's expenses which made it evident that he merely relied upon the management of the Society rather than examining the opening balances to collect audit evidence to assess if there was possibility of material misstatement in the financials of the current year. Accordingly, it was viewed that the Respondent had failed to perform his professional duties diligently when he failed to assess the impact of the unsupported/ non-vouched opening balances and its impact thereon in his audit report. The Committee was thus of the considered opinion that the Respondent was guilty in respect of this charge of professional misconduct within the meaning of Item (6), (7) and (8) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

CONCLUSION:

9. Thus, in conclusion, in the considered opinion of the Committee, the Respondent is held guilty of professional misconduct falling within the meaning of Clauses falling within the meaning of Item (6), (7) and (8) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

Sd/-

[CA. Atul Kumar Gupta]
Presiding Officer

Sd/-

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

Sd/-

[CA. Chandrashekhar Vasant Chitale, Member]
Member

Sd/-

[CA. Manu Agrawal]
Member

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