



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

PPR/254A/2016-DD/113/INF/2016/DC/1431/2021

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.: PPR/254A/2016-DD/113/INF/2016/DC/1431/2021

CA. Madhu R P (M.No. 202264),  
K-76,  
14<sup>th</sup> Street Anna Nagar East,  
Chennai – 600 102

.....Respondent

Members present:

CA. Aniket Sunil Talati, Presiding Officer  
Smt. Anita Kapur, Member (Govt. Nominee)  
Dr. K Rajeswara Rao, Member (Govt. Nominee)  
CA. Piyush S Chhajed, Member  
CA. Sushil Kumar Goyal, Member

Date of Final Hearing: 03.05.2022 through Video Conferencing

Party Present:

(i) CA. Madhu R P (M.No. 202264) – Respondent (appeared from his personal location)

1. That vide report dated 07.12.2022, the Disciplinary Committee was of the opinion that CA. Madhu R P (M. No. 202264) was GUILTY Professional misconduct falling within the meaning of Item (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949 with respect to statutory audit of M/s Mediaone Global Entertainment Limited (hereinafter referred to as 'Company') for financial year ended on 30.06.2009 wherein Financial Reporting Review Board of ICAI had raised allegations in relation to violation of certain Accounting standards as well as reporting obligations of the auditor in respect of general purpose financial statement of the Company for the said financial period.

It was noted that Item (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949 states as under:-

Part I of 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 17<sup>th</sup> April 2023 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 3<sup>rd</sup> May 2023 through video conferencing.

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3. The Committee noted that the Respondent appeared before it on 3<sup>rd</sup> May 2023 through video conferencing from his personal location and made his oral submissions.

4. The Committee considered both the oral as well as written submissions dated 20<sup>th</sup> February 2023 made by the Respondent. The Respondent pleaded not to consider every error as a result of failure to exercise due diligence. The Respondent referred the judgement of the Hon'ble Calcutta High Court in the matter of S. Ganesan Vs. A.K. Joscelyne, [1957] 27 COMP CASE 114 (Calcutta) wherein it was held that *"Professional misconduct on the part of a person exercising one of the technical professions cannot fairly or reasonably be found, merely on a finding of a bare non-performance of a duty or some default in performing it. The charge is not one of inefficiency, but of misconduct and in an allegation of misconduct, an imputation of a certain mental condition is always involved. I think, it would be impossible for any professional man to exercise his profession if he was to be held guilty of misconduct simply because he had not, in a given case, been able to do all that was required in the circumstances or he had misconceived his duty or failed to perform a part of it. I think the test must always be whether in addition to the failure to do the duty, partial or entire, which had happened, there had also been a failure to act honestly and reasonably."*

The Respondent further stated an audit involves a large number of issues which, he carried out with diligence. The Respondent denied finding that he was casual in his approach to audit. He stated that he was practising as a Chartered Accountant for the past 30 years and it was the first time he was facing a disciplinary action. As per him, despite the stated violation, it did not affect the true and fair view of the financial statements and he assured to be more cautious in his future assignments.

5. The Committee considered the oral and written submissions made by the Respondent and viewed that the extant case, primarily involved presentation issues – 'FD with Banks' being shown under 'Advances & Deposits' instead of including the same in the bank balance, presentation of information under the head loans and advances or classifying the same as secured or otherwise, omission of corresponding figures of immediately preceding financial year in relation to Related Party Transactions, stating computer hardware purchase policy as computer software policy, etc. which lead to non-compliance of presentation as prescribed in accounting standards or that in Part I of Schedule VI to the Companies Act 1956. However, it did not affect the true and fair view of the financial statements. Further, it was noted that the Respondent was casual in his approach while discharging his reporting obligations under the requirements of CARO, 2003, he omitted to report on each clause of CARO 2003 on the grounds that the omitted clauses were not applicable on the matter or that he remained silent on certain aspect presuming that the said aspects were not material to the functioning of the Company. The Committee viewed that, being auditor of the Company, it was incumbent upon the Respondent to comply with the requirements of financial reporting framework as applicable on the enterprise which included in the extant case compliance with the requirements of Schedule VI of the Companies Act, 1956 as well as applicable accounting standards. However, the Committee noted that majorly the issues involved were pertaining to matter of presentation of facts rather than understating or overstating the major elements of the financial statements. Such issues raised had neither been detriment to the interest of the Company nor had affected the interest of any

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stakeholders. Considering the advanced age of the Respondent, the Committee took lenient view in the matter.

6. 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 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. Madhu R P (M. No. 202264) be 'Reprimanded'.

Sd/-

[CA. Aniket Sunil Talati]  
Presiding Officer

Sd/-

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

Sd/-

[Dr. K Rajeswara Rao]  
Member (Govt. Nominee)

Sd/-

[CA. Sushil Kumar Goyal]  
Member

Sd/-

[CA. Piyush S Chhajed]  
Member

Date: 19<sup>th</sup> May, 2023  
Place: New Delhi

सही प्रतिलिपि होने के लिए प्रमाणित  
Certified to be true copy

बिष्व नाथ तिवारी / Bishwa Nath Tiwari  
कार्यकारी अधिकारी / Executive Officer  
अनुशासनालय / Disciplinary Directorate  
इंस्टीट्यूट ऑफ चार्टर्ड एकाउंटेंट्स ऑफ इंडिया  
The Institute of Chartered Accountants of India  
आइसीएआई भवन, विश्वास नगर, शाहदरा, दिल्ली-110032  
ICAI Bhawan, Vishwas Nagar, Shahdara, Delhi-110032

1

**DISCIPLINARY COMMITTEE [BENCH-III (2022-23)]**

**(Constituted under section 21B of the Chartered Accountants Act, 1949)**

**Findings under Rule 18(17) & 19(2) of the Chartered Accountants  
(Procedure of Investigations of Professional and Other Misconduct  
and Conduct of Cases) Rules, 2007**

File No. : PPR/254A/2016-DD/113/INF/2016/DC/1431/2021

**In the matter of :**

CA. Madhu R P (M.No. 202264),  
K-76,  
14<sup>th</sup> Street Anna Nagar East,  
Chennai – 600 102.

.....Respondent

**Members Present:**

CA. Aniket Sunil Talati, Presiding Officer  
Smt. Anita Kapur, Member (Govt. Nominee)  
Dr. K Rajeswara Rao, Member (Govt. Nominee)  
CA. Vishal Doshi, Member  
CA. Sushil Kumar Goyal, Member

**Date of Final Hearing:** 7<sup>th</sup> October through Video Conferencing

**Parties Present:**

The following person was also present: -

- (i) CA R P Madhu – the Respondent
  - (ii) Shri Anandh S – Counsel for the Respondent
- (both appeared from respective personal location)

**Charges in Brief:**

1. The Committee noted that the Director (Discipline) in his *prima Facie* Opinion had 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 which reads as follows:-

**Part I of Second Schedule**

Item 7: “does not exercise due diligence, or is grossly negligent in the conduct of his professional duties.” and

**Background of the Matter:**

2. The Committee noted that the instant case had emanated from report (A-3 to A-66) received from Financial Reporting Review Board of the ICAI (hereinafter referred as **the "Board"/ "FRRB"**) wherein it had informed about various non-compliances with regard to AS-2, AS-3, AS-12, AS-22, SA-700, CARO 2003, & Part I of Schedule-VI to the Companies Act, 1956 of **M/s Mediaone Global Entertainment Limited** (hereinafter referred to as '**Company**') for financial year ended on 30.06.2009 and as such reported that the Respondent being auditor of the Company for the said period failed to comply with his Reporting Obligations with respect to the said General Purpose Financial Statements.

**Charges alleged against the Respondent**

3. The charges alleged against the Respondent wherein the Director (Discipline) held the Respondent guilty were discussed as under:-

a) In the **first allegation**, it has been alleged that the Company had shown the closing balance of 'FD with Banks' of Rs. 5 crores under 'Advances & Deposits' in its financial statements (A-49 & A-53) as at 30.06.2009, however the same was required to be disclosed separately as 'the balances lying with Scheduled banks on current accounts, call accounts and deposit accounts' and the Respondent being the statutory auditor failed to point out in his audit report for the alleged period.

b) The **second allegation** is related non-compliance of disclosure requirements of Part-I of Schedule VI to the Companies Act 1956 under various heads as discussed below and accordingly, it has been alleged that the Respondent being the statutory auditor failed to point out the said non-compliances in his audit report for the alleged period:

(i) Under Schedule-3 representing 'Unsecured loans' (A-51), the same had not been classified as 'Short Term Loans and Advances' or otherwise.

c) In the **third allegation (A-8 to A-10)**, the following discrepancies were reported with regard to presentation of loans and advances under Schedule-8 (A-53) in terms of disclosure requirements of Part I of Schedule VI to the Companies Act, 1956 which the Respondent being were not complied with and auditor the statutory

auditor failed to point out the said non-compliances in his audit report of the alleged period:

- i) 'Unsecured loans and advances' had not been classified if the said loans were from subsidiaries or partnership firm.
- ii) Various items viz TDS receivables, Fringe benefit tax as well as balances with various authorities viz. Electricity deposits, telephone deposits, commercial tax office had been disclosed under the sub-head 'deposits' rather than 'Advances receivable in cash or in kind or for value to be received'.
- iii) Further, the Loans and Advances had not been classified into those considered as good and secured, or considered good but unsecured or that considered doubtful or bad. Similarly deposits which were in the nature of advances were neither classified as secured or unsecured nor as good or otherwise.

d) In **fourth allegation (A-10)**, it has been alleged that under related party disclosures disclosed under **Note 2(i) (A-61)**, the corresponding amounts of the previous year related to various transactions reported therein were not disclosed which was against the requirements of Schedule VI to Companies Act, 1956. Accordingly, it was alleged that the presentation of information with regard to Related Party Transactions was not complete and the auditor had failed to report the same in his audit report of the alleged period.

e) In the **next allegation (A-13)** it is alleged that accounting policy of 'Intangible Assets' as given in the Company's Annual Report **(A-57)** states that '*Costs incurred towards purchase of computer are depreciated on written down value method pro-rata to the period of use of assets, at the annual depreciation rates stipulated in schedule XIV to the companies Act, 1956*', the following discrepancies were reported and it was alleged that the Respondent being statutory auditor failed to report the same in his audit report for the alleged period:

- (i) That while the said policy had been classified under broad head 'intangible assets', the policy refers to cost incurred on 'purchase of computer' which appear to be referring to hardware.
- (ii) Even if the stated policy was presumed to be referring to 'computer software', an intangible asset, it was reported that Schedule XIV of the Companies Act, 1956

4

did not prescribe any specific rate of depreciation for computer software, therefore, it was viewed that the stated accounting policy was again an ambiguous policy.

f) In the next allegation **(A-13 to A-14)**, it is alleged that the rate of depreciation applied on furniture and fitting of 'Balaji Theatre Assets' under Schedule-4 was 18.10% **(A-52)** whereas Schedule XIV to the Companies Act, 1956, prescribed the depreciation rate at 25.88% for furniture and fitting of cinema houses, theatre etc. which was against the provisions of 'Guidance Note on Accounting for Depreciation in Companies' and that the Respondent being statutory auditor failed to report the same in his audit report for the alleged period.

g) In the next allegation **(A-16)**, it is alleged that the Company was producing films, serial, other programs and events and that Schedule 5: 'Work In Process' **(A-53)** enlisted its various projects, however, the policy followed for determining their value had not been disclosed. Further, the value of work in process held was also significant. In the absence of such policy, it was alleged that AS 1 and AS 2 had not been complied with and the Respondent being statutory auditor failed to report the same in his audit report for the alleged period.

h) In the next allegation **(A-17 to A-20)**, it is alleged that the following discrepancies were observed in respect of AS-22, Accounting for Taxes on Income, however, the Respondent being statutory auditor failed to report the same in his audit report for the alleged period:

(i) It was reported that only a net balance of deferred tax assets had been given on face of balance sheet **(A-49)** and major components of deferred tax asset and liabilities had not been disclosed as required under AS-22.

(ii) That the Deferred Tax Assets **(A-49)** had been shown after the head 'Net Current Assets' instead of showing the same after the head 'Investments' which was not as per the requirement of explanation to Paragraph 30 of AS 22, Accounting for Taxes on Income, notified under the Companies (Accounting Standards) Rules, 2006.

(iii) It was also reported that fact that the tax liabilities were not determined as per the requirements of AS-22 had not been reported by the Auditor in his audit report of the alleged period.

i) In the **next allegation (A-20 to A-21)**, it is alleged that share application money was disclosed **(A-51)** under the broad head 'Share Capital' and that during the year, the same was repaid as reflected in Cash Flow Statement **(A-64)**. It was accordingly reported that if it was not refundable, still it should have been shown as a separate line item between "Share Capital" and "Reserves & Surplus". Hence, the classification of share application money was not in line with Indian GAAPs and that the Respondent being statutory auditor failed to report the same in his audit report for the alleged period.

j) In the **next allegation (A-21 to A-23)**, it is alleged that since the Auditor's Report contained opinion on the cash flow statement **(A-63 to A-64)** attached it, the auditor should have also signed and authenticated the said statement i.e. signing and stating his membership number on it but the Respondent being statutory auditor of the alleged period failed to do the same and accordingly not complied with the reporting requirements of SA-700.

k) In the **next allegation (A-23 to A-24)**, it is alleged that the following discrepancies were observed in respect of auditor's report on Clause 4 (iii) of CARO, 2003 and thus Respondent, being statutory auditor, of the alleged period failed to comply with his reporting obligations:-

i) It was reported that in paragraph (iii) (a) of Annexure to the Auditor's Report **(A-47)** an amount had been stated to be taken as interest free loan from managing director, however, it was not clear as to whether such stated amount was the maximum amount outstanding during the year or year-end balance. It was stated that the auditor should have reported both amounts.

ii) It was also stated that the Respondent, being auditor, had failed to report on whether the rate of interest and other terms and conditions of loans taken by the enterprise were prima facie prejudicial to the interest of Company, as required by clause 4(iii)(f) of the Companies (Auditor's Report) Order, 2003.

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iii) It was stated that in paragraph (iii)(b) **(A-47)** of Annexure to the Auditor's Report, although the Respondent, being auditor, had reported whether terms & conditions of loans that were granted to the parties covered under the register maintained under section 301 of the Act were prejudicial to interest of enterprise or not but he omitted to report the number of parties and the amount involved in the transactions of such loans which was non-compliance of the requirements of clause 4(iii)(a) of the Companies (Auditor's Report) Order, 2003.

iv) It was stated that in paragraph (iii) (c) **(A-47)** of Annexure to the Auditor's Report simply reports that there were no issues in the payment of principal & interest. However, it was not clear from it whether such report had been made for the loan granted or loan taken to from the parties covered under the register maintained under section 301 of the Act. Further, it was stated that as per the requirement of clause 4 (iii) (g), the auditor should have reported about the regularity of the principal and interest amount and not about existence/non-existence of any issue. Accordingly the stated statement was alleged to be ambiguous and could not be considered to be a complete.

l) In the next allegation **(A-25)**, it is alleged that under paragraph (iv) of Annexure to Auditor's Report **(A-47)**, the Respondent, being statutory auditor, had reported on internal control system of purchase of certain fixed assets but was silent on internal control system of sale of services. It was stated that revenue was generating from Sale of Rights, theatre events etc. **(A-54)**, therefore, the auditor was also required to report on adequacy of internal control system that existed with respect to sale of services and thus being statutory auditor, he failed to comply with his reporting obligations.

m) In the next allegation, it was alleged that the auditor had in CARO Report reported on accumulated losses and cash losses for current financial year but omitted to report about the status of cash losses for immediately preceding financial year. Accordingly, it was alleged that the Respondent, being statutory auditor, had

9

failed to comply with the reporting requirements of Companies (Auditor's Report) Order, 2003.

**Proceedings:**

4. At the time of hearing on 7<sup>th</sup> October, 2022, the Committee noted that the Respondent alongwith his Counsel appeared before it from their respective personal location through video-conferencing. Thereafter, they both gave declaration that there was nobody present except them in their respective rooms from where they were appearing and that they would neither record nor store the proceedings of the Committee in any form.

The Committee noted that the matter was part-heard and accordingly asked the Respondent's Counsel to proceed ahead in the matter and make his submissions. The Counsel for the Respondent made his submissions in the matter. The Committee, thereafter, examined him on the facts of the case.

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

**Findings of the Committee:**

5. At the outset, the Committee noted that the Respondent had at the outset, made certain preliminary submissions which were dealt before considering the matter on merits. The said preliminary submissions are discussed below:

(i) He submitted that the audit report of the Company for the alleged period was signed by him on 29<sup>th</sup> October 2009 whereas the matter was referred by FRRB on 28<sup>th</sup> July 2016 and the action was initiated by the Directorate on 29<sup>th</sup> Sep 2016. He argued that the action was initiated by the Directorate after the lapse of more than 6 Years 11 months from the event of date of signing of the audit report. He submitted to have resigned long back and thereafter he did not have any contact with either the management of the Company or that of his team members on account of which it was difficult for him to bring material in his defense. As per him, the difficulty in producing paper was relevant factor for consideration of Rule 12 on extant matter.

(ii) It was further submitted that as per the Terms of Reference of FRRB, the matters involving material/serious non-compliances be referred to the Disciplinary Directorate. He argued that in the observations of the FRRB, none of them were stated to be serious or material and many of them were only reporting the omissions which were less severe non-compliances than that being serious or material. He stated that the observations of FRRB were eye-opener for him but they did not signify the non-exercise of due diligence by him.

5.1 With respect to the preliminary submission in context of Rule 12, it was noted that Rule 12 of CA Rules, 2007 states as under:

**Rule 12 of CA Rules, 2007**

**12. Time limit on entertaining complaint or information.** – *Where the Director is satisfied that there would be difficulty in securing proper evidence of the alleged misconduct, or that the member or firm against whom the information has been received or the complaint has been filed, would find it difficult to lead evidence to defend himself or itself, as the case may be, on account of the time lag, or that changes have taken place rendering the inquiry procedurally inconvenient or difficult, he may refuse to entertain a complaint or information in respect of any misconduct made more than seven years after the same was alleged to have been committed and submit the same to the Board of Discipline for taking decision on it under sub-section (4) of section 21*

It is noted from above that the Rule of limitation as envisaged above is not an absolute right of the Respondent but it casts a responsibility on the Director (Discipline) to examine in view of the facts of the case as to whether the Respondent would find difficult to defend himself or lead evidence on account of time lag or such changes have occurred in the meantime which may render the enquiry procedure difficult. On perusal of the above vs a vs the matters involved, it was noted that firstly the Respondent had never submitted before the Director (Discipline) about difficulty in obtaining material in his defense. Further, the matter was referred to the Respondent before the lapse of seven years and that the discrepancies pointed out in the financial statements were with respect to non-compliance with accounting standards/ disclosure requirements of Part I Schedule VI to Companies Act, 1956 that could be addressed on the perusal of financial statements. Hence, the plea of the Respondent under Rule 12 could not be accepted.

5.2 With respect to the submission that in reference received from FRRB, the observations were not stated to be serious or material, it is viewed that the Board at

its level consider all the observation whether serious/material or not and thereafter considering the consolidated position of the matter refers the case to the Director (Discipline). Accordingly, the argument of the Respondent that the observations reported by the FRRB were not marked as serious or material is not acceptable. Hence, the Committee decided to consider the merits of the matter.

6. The Committee noted that the first allegation as mentioned in Para 3(a) above was related to the 'FD with Banks' of Rs. 5 crores shown under 'Advances & Deposits' instead of including the same in the bank balance in the balance sheet of the Company (**A-49 & A-53**) as at 30.06.2009. The Committee further noted that the Respondent in this regard submitted that materiality could not be judged on mere percentage or numbers but an item be considered material if they, individually or in the *aggregate*, could reasonably expected to influence the economic decisions of users taken *on the basis of the* financial statements. He contended that there was no major ratio that was affected by the non-inclusion of FDs within bank balances. Further, he argued that *Section* 211 of Companies Act, 1956 that prescribed the form of balance sheet had *envisages* a situation where the *format* could be as near to the format specified in Part I of Schedule VI of Companies Act 1956. Therefore, as per him, there was no material non-compliance. The Committee, however, on perusal of the Balance Sheet (A-49) noted that the total 'Cash & Bank Balance' was reported at Rs.3,04,239 whereas total 'Loans, Advances & Deposits' were reported at Rs.15,46,72,511 out of which Deposits were reported at Rs 5,55,30,293, hence fixed deposits of Rs. 5 crore was indeed material both in terms of quantity and quality in view of the nature of element involved. It was viewed that whereas fixed deposits signify ready balance available at Bank at short notice, deposits with various authorities could not be considered alike and hence understatement of liquid assets which the Respondent failed to report in his audit report. Accordingly, the Committee was of the considered opinion that the Respondent was guilty of this charge for professional misconduct falling within the meaning of Item (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949.

6.1 The Committee noted that the second allegation as mentioned in Para 3(b) above was related to presentation of information under the head 'Unsecured loans'

(A-51), stating that the same had not been classified as 'Short Term Loans and Advances' or otherwise. The Committee further noted that the Respondent in this regard submitted that the management had represented that there was no short-term loan or no loans from subsidiaries. Further, he argued that firstly only Horizontal Format prescribed under Part I of schedule VI required the said disclosure and not the Vertical format and that formation of balance sheet was the primary responsibility of the management and that the auditor could provide only the reasonable assurance and not absolute assurance. It was noted that under Vertical Format clear instructions have been given stating that

*"Details under each of the above items shall be given in separate Schedules. The Schedules shall incorporate all the information required to be given under A - Horizontal Form read with notes containing general instructions for preparation of balance sheet."*

Further it was noted that Sec 211 of Companies Act, 1956 states as follows:

*Every balance sheet of a company shall give a true and fair view of the state of affairs of the company as at the end of the financial year and shall, subject to the provisions of this section, be in the form set out in Part I of Schedule VI, or as near thereto as circumstances admit.*

However, considering the fact that there were alleged loans were not so material only amounting Rs. 3,63,024 and Rs.425, the Committee viewed that omission to report their classification into short term or otherwise would not affect true and fair view of the financial statement. Further, from the nomenclatures used, it was clear that there was no unsecured loan from the subsidiary. Accordingly, the Committee was of the considered opinion that the Respondent was not guilty of this charge for professional misconduct falling within the meaning of Item (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949.

6.2 The Committee noted that the third allegation as mentioned in Para 3(c) above was related to presentation of information under the head loans and advances (A-53) in terms of disclosure requirements of Part I of Schedule VI to the Companies

Act, 1956 which were not complied with and auditor the Respondent, being statutory auditor, failed to point out the said non-compliances in his audit report:

- i) Various items viz TDS receivables, Fringe benefit tax as well as balances with various authorities viz. Electricity deposits, telephone deposits, commercial tax office had been disclosed under the sub-head 'deposits' rather than 'Advances receivable in cash or in kind or for value to be received'.
- ii) Further, the Loans and Advances had not been classified into those considered as good and secured, or considered good but unsecured or that considered doubtful or bad. Similarly deposits which were in the nature of advances were neither classified as secured or unsecured nor as good nor otherwise.

The Committee further noted that the Respondent in this regard submitted that he had made a judgment that where there was nothing to report under a particular head, such entry was not required to be disclosed in the financial statements & Notes to account. He asserted that there was no doubtful advance as per the management representation and hence such classification was not given. It was noted that 'Loans & Advances' given were described as 'unsecured' under Schedule 8 and that the said element constitute more than 30% of the balance sheet size. Further, it was noted that in case of debtors by way of footnote to Schedules (A-56) it was disclosed that all debts were considered good, hence, the plea of the Respondent that since all the advances were considered as good he had applied his judgement that the required disclosure was not required to be made is completely incorrect understanding of mandatory disclosure. It was noted that in either conditions whether considered good or otherwise, the disclosure was required. Further, as regards wrong classification of advances made to various authorities being shown as 'Deposits' rather than 'Advances receivable in cash or in kind or for value to be received' lead to indicating wrong nature of assets. It was viewed that mandate requirements have been designed to provide necessary information to the stakeholders concerned and hence its omission could not be regarded as only presentation error. It was noted that the Respondent had failed to report about the said non-compliances in his audit report. Accordingly, the Committee was of the considered opinion that the Respondent was guilty of professional misconduct falling within the meaning of Item (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949 with respect to this charge.

6.3 The Committee noted that the **fourth allegation** as mentioned in Para 3(d) above was related to omission of corresponding figures of immediately preceding financial s year in relation to Related Party Transactions disclosed under Note 2(i): 'Transactions with related parties' (A-61) in terms of General Instructions for preparation of Balance Sheet and the Respondent being the statutory auditor failed to point out the said non-compliances in his audit report. The Committee further noted that the Respondent in this regard submitted that the alleged Note was additional disclosure and not part of the balance sheet and hence the requirement of disclosure of figures of immediately preceding financial s year was not applicable on it.

It was noted that Note 2 to Vertical Form of Balance Sheet as given in Part I to Schedule VI to Balance Sheet states as under:

*"2. The Schedules, referred to above, accounting policies and explanatory notes that may be attached shall form an integral part of the balance-sheet."*

From the above, it was noted that explanatory notes attached were integral part of the balance sheet. Accordingly, corresponding figures were required to be disclosed in respect of transactions reported in the alleged note. It was viewed that mandate requirements have been designed to provide necessary information to the stakeholders concerned and hence its omission could not be regarded as only presentation error. It was noted that the Respondent had failed to report about the said non-compliances in his audit report. Accordingly, the Committee was of the considered opinion that the Respondent was guilty of professional misconduct falling within the meaning of Item (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949 with respect to this charge.

6.4 In the next allegation, as mentioned in Para 3(e) above was related to accounting policy of 'intangible assets' (A-57) pertaining to 'Computer Software' which was stated to be ambiguous stating that - though the policy was stated to be that of Computer Software but the policy was stated for purchase of computers i.e. hardware, so there was contradiction. Further, it was stated that as per the stated policy the depreciation rate adopted was the one stated under Schedule XIV to the Companies Act, 1956 whereas the said Schedule did not prescribe any rate for

depreciation of software. In view of said contradiction/ambiguity, it was alleged that Respondent being statutory auditor failed to report the said matter in his audit report. The Committee further noted that the Respondent in this regard submitted that there was omission of word 'software' after the terms 'purchase of computer' which was a clerical mistake. In context of depreciation rate, the Respondent submitted that in the absence of specific rate in Schedule XIV, the rate for computers had been adopted. So, he contended that there was no ambiguity in the alleged policy. It was noted that the omission of a term 'software' had indeed changed the implications of the policy on the financials of the Company which is also reflected from the fact that the depreciation/ amortization rate adopted were stated to be that of computers as prescribed in Schedule XIV to the Companies Act, 1956. It was noted that the principles for depreciation/ amortization of an intangible assets including that of computer software is given in Paragraph 63 of AS 26, Intangible Assets, which reads as follows:

*"63. The depreciable amount of an intangible asset should be **allocated on a systematic basis over the best estimate of its useful life**. There is a rebuttable presumption that the useful life of an intangible asset will not exceed ten years from the date when the asset is available for use. Amortisation should commence when the asset is available for use."*

From the above it was noted that the Standard prescribes to allocate the cost incurred over the useful life of the asset instead of adopting adhoc rate as prescribed for computer. It was viewed that life of a computer and computer software could never be compared. Hence, it was viewed that indeed the policy of 'Intangible assets' was not in line with the applicable requirements and the Respondent, being statutory auditor, failed to report the same in his audit report. Accordingly, the Committee was of the considered opinion that the Respondent was guilty of professional misconduct falling within the meaning of Item (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949 with respect to this charge.

6.5 In the next allegation, as mentioned in Para 3(f) above, it was noted that allegation was related to rate of depreciation applied on furniture and fitting of 'Balaji

Theatre Assets' under Schedule-4 which was 18.10% (A-52) as against 25.88% prescribed in Schedule XIV to the Companies Act, 1956 for furniture and fitting of cinema houses, theatre etc. Thus, it was alleged that there was non-compliance of 'Guidance Note on Accounting for Depreciation in Companies' and that the Respondent being statutory auditor failed to report the same in his audit report. The Committee further noted that the Respondent in this regard submitted that assets were purchased for the theatre for the first time by the Company and that it had applied the previously adopted depreciation rates for furniture and fittings. He also emphasized to have relied upon the circular no. 14/93, dated 20/12/1993 issued by the Ministry of Law, Justice and Company Affairs, a company following the written down value method of depreciation in respect of its assets should apply the relevant WDB rates prescribed in Schedule XIV to the written down value method at the end of the previous financial year as per the books of Company. Further, he submitted the difference in rate of depreciation missed the attention of management as well as that of his. However, such difference in rates adopted did not have material effect on the financials. The Committee observed that as regards the Circular contended to be relied upon by the Respondent; he had never brought the same on record. In any case, if the Act has prescribed different rates of depreciation for different nature of assets, the Respondent could not argue on the difference in depreciation rate not having material impact on financials. It was viewed that the ignorance admitted by the Respondent in respect of specific rates prescribed for theater assets, is a matter of his gross negligence which could not be accepted. Accordingly, the Committee was of the considered opinion that the Respondent was guilty of professional misconduct falling within the meaning of Item (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949 with respect to this charge.

6.6 In the next allegation, as mentioned in Para 3(g) above, it was noted that allegation was related to non-disclosure of the accounting policy followed for valuation of work in process. It was observed that the value of work in process held was also significant; hence, non-disclosure of the said accounting policy was non-compliance of AS 1 as well as AS 2 which the Respondent, being statutory auditor, failed to report in his audit report. The Committee further noted that the Respondent in this regard submitted that the Company was involved into production of films/

serials and that the cost incurred was accounted for as work-in-process so there was no question of LIFO or FIFO. It was viewed that the allegation was in relation for non-disclosure of significant accounting policy as per the requirement of AS 1 and AS 2. However, the Respondent in his submissions was more focused on the cost formula, if applicable, on the Company whereas the matter was regarding disclosure of inventory valuation policy as adopted by the Company. Considering the fact that significant amount was involved in inventory, it was viewed that the accounting policy as adopted by the Company should have been disclosed and that in the absence of the same, the Respondent was required to report the non-compliance of AS-1 and AS 2 in his audit report. However, the Respondent had failed to report the said non-compliance. Accordingly, the Committee was of the considered opinion that the Respondent was guilty of professional misconduct falling within the meaning of Item (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949 with respect to this charge.

6.7 In the next allegation, as mentioned in Para 3(h) above, it was noted that allegation was related to various discrepancies in respect of AS-22, Accounting for Taxes on Income, which the Respondent, being statutory auditor, was alleged to have failed to report in his audit report as discussed below:

(i) It was alleged that only a net balance of deferred tax assets had been given on face of balance sheet **(A-49)** and that major components of deferred tax asset and liabilities had not been disclosed as required under AS-22. The Committee further noted that the Respondent in this regard submitted that the breakup of Deferred Tax Asset - Net was a part of the financials he had signed and he also brought on record the set of the financials contended to have been signed by him. It was observed that whereas the Respondent has brought on record the audit report dated 25th September 2009, the audit report reviewed by the FRRB and distributed by the Company was dated 29th October 2009 which signifies that the Respondent had signed two set of financial statements which is not acceptable. Further, the Respondent had not brought on record the said audit report before the Director (Discipline) at the stage of preparation of prima facie opinion. On the contrary he had argued the matter to justify the given presentation which raises the question on genuineness of the audit report dated 25th Sept 2009 as submitted by the

Respondent. Hence, it was viewed that the Respondent had failed to report the said non-compliance in his audit report.

(ii) It was alleged that the Deferred Tax Assets (**A-49**) had been shown after the head 'Net Current Assets' instead of showing the same after the head 'Investments' which was not as per the requirement of explanation to Paragraph 30 of AS 22, Accounting for Taxes on Income, notified under the Companies (Accounting Standards) Rules, 2006. The Committee further noted that the Respondent in this regard submitted that the said explanation only states that it should be disclosed after "investments" and that it does not stipulate to disclose immediately after "investments". He further submitted that in the balance he had signed Deferred Tax Assets was disclosed immediately after "investments". It was noted that said explanation states as follows:

*Explanation:*

*Deferred tax assets (net of the deferred tax liabilities, if any, in accordance with paragraph 29) is disclosed on the face of the balance sheet separately after the head 'Investments' and deferred tax liabilities (net of the deferred tax assets, if any, in accordance with paragraph 29) is disclosed on the face of the balance sheet separately after the head 'Unsecured Loans' (emphasis added)*

It was viewed that when standard lays down the position for any component, it could not be interpreted to be providing liberty of choosing any position. With respect to the submission of presenting Deferred Tax Asset – Net, in accordance with the said provision in another set signed by the Respondent, it was observed that the said contention is completely wrong as evident from the face of balance sheet attached to audit report dated 25<sup>th</sup> Sept, 2009.

(iii) It alleged that fact that the tax liabilities were not determined as per the requirements of AS-22 had not been reported by the Auditor in his audit report of the alleged period. The Committee further noted that the Respondent in this regard submitted that the management had stated the said fact in the notes to account so he had not reported the said fact in his audit report. It was noted that though the disclosure in relation to non-compliance of AS-22 was given in the notes to accounts

of the financial statements of the Company but nothing in this regard is reported in the Audit report (A-45 to A-48) of the Respondent. Further, it was noted that in Para 4(iv) of Audit Report (A-45), the Respondent had stated that the financial statements of the Company comply with the accounting standards when it stated as under:

*“(iv) In our opinion, the balance sheet, profit and loss account and cash flow statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956” (emphasis added)*

It was viewed that in view of non-compliance of provision of tax being not computed in line with the requirements of AS 22, it is viewed that the said reporting was not correct.

Accordingly, in view of discussion held above from para (i) to (iii), the Committee was of the considered opinion that the Respondent was guilty of professional misconduct falling within the meaning of Item (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949 with respect to this charge.

6.8 In the next allegation, as mentioned in Para 3(i) above, it was noted that allegation was related to classification of share application money was not in line with Indian GAAPs and that the Respondent being statutory auditor failed to report the same in his audit report. The Committee further noted that the Respondent in this regard submitted that the outstanding amount as at the end of the extant period was NIL, hence, in his judgment it was not material. Considering the fact that matter pertains to presentation of information during the previous year, the Committee viewed that the stated allegation was not maintainable against the Respondent. Accordingly, the Committee was of the considered opinion that the Respondent was not guilty of professional misconduct falling within the meaning of Item (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949 with respect to this charge.

6.9 In the next allegation, as mentioned in Para 3(j) above, it was noted that allegation was related to cash flow statement which was not attached to the audit

report though the Auditor's Report contained opinion on the cash flow statement (**A-63 to A-64**). It was stated that the auditor should have also signed and authenticated the said statement i.e. signing and stating his membership number on it but the Respondent being statutory auditor of the alleged period failed to do the same and accordingly not complied with the reporting requirements of SA-700. The Committee further noted that the Respondent in this regard submitted that he had signed the cash flow statement and that it was the Company which omitted to include the said cash flow statement in the compilation of financials published by it. It was observed that the Respondent had reported on cash flow statement in the introductory, reporting as well as opinion paragraphs of audit report. Accordingly, it was viewed that the defense of the Respondent that he had signed the cash flow statement and that it was left by the Company during the compilation be in the reporting documents was acceptable. Accordingly, the Committee was of the considered opinion that the Respondent was not guilty of professional misconduct falling within the meaning of Item (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949 with respect to this charge.

6.10 In the next allegation, as mentioned in Para 3(k) above, it was noted that allegation was related to various discrepancies reported in respect of auditor's report on Clause 4 (iii) of CARO, 2003 and thus Respondent, being statutory auditor, was alleged to have failed to comply with his reporting obligations as discussed below:

It was alleged that in paragraph (iii) (a) of Annexure to the Auditor's Report (**A-47**) an amount had been stated to be taken as interest free loan from managing director, however, it was not clear as to whether such stated amount was the maximum amount outstanding during the year or year-end balance. It was stated that as per CARO, 2003 requirements, an auditor should report both amounts. Further, it was also alleged that the Respondent, being auditor, had failed to report on whether the rate of interest and other terms and conditions of *loans taken* by the enterprise were prima facie prejudicial to the interest of Company, as required by clause 4(iii)(f) of the Companies (Auditor's Report) Order, 2003. iii). It was stated that in paragraph (iii)(b) (**A-47**) of Annexure to the Auditor's Report, with respect to *loans granted* although the Respondent had reported that the rate of interest and other

terms and conditions were prima facie not prejudicial to interest of enterprise but omitted to report the number of parties and the amount involved in the transactions of such loans which was again non-compliance of the requirements of clause 4(iii)(a) of the Companies (Auditor's Report) Order, 2003. Further, with respect to reporting on regularity in principal or interest repayments, it was alleged that the Respondent had simply reported that there were no issues in the payment of principal & interest. Thus, it was not clear from the stated report whether such report had been made for the loan granted or loan taken to from the parties covered under the register maintained under section 301 of the Act.

6.10.1 The Committee further noted that with respect to reporting on amount involved (year-end balance or maximum amount) the Respondent was silent in his submissions. Further, with respect to loans granted, he submitted that no loan was granted by the Company to parties covered under the register maintained under section 301 of the Act. Further, he submitted that when he had reported in respect of loan taken that it was interest free loan, it was implied that such loan was not prejudicial to the interest of the Company. As regards reporting on regularity in repayments of principal and interest amount, the Respondent argued that when he had stated that there was no issue in payment of principal and interest repayment, it was not completely different from stating that principal and interest payments were regular. As per him, one must appreciate that there was no restriction to express audit opinion in one's own language.

6.10.2 The Committee viewed that the Respondent, being statutory auditor, was duty bound to report in respect of both loans taken as well as loans granted. It was noted that as per para 80 of Statement on the Companies (Auditor's Report) Order, 2003, There could be situations where one or more of the clauses are not applicable, in such situations, it would be appropriate for the auditor to make a suitable comment in his report bringing out the fact of non-applicability of a particular clause. Thus, the Respondent was duty bound to report on each and every clause of CARO 2003. With respect to loans taken, he was also duty-bound to determine whether, in his opinion, the rate of interest and other terms and conditions of the loans taken are prima facie prejudicial to the interest of the company. As per para 55(c) of the

Statement on CARO, issued by the Institute, it was noted that the "other terms" would primarily include security, terms and period of repayment and restrictive covenants, if any. In determining whether the terms of the loans are "prima facie" prejudicial, the auditor would have to give due consideration to a number of factors connected with the loan, including the company's financial standing, financial position, availability of alternative sources of finance, urgency of borrowing, ability to borrow, the nature of the security given, prevailing market rate of interest and so on. Accordingly, it was viewed that merely a factor that it was interest free loan was not sufficient to convey that other terms and conditions of the loans taken were not prejudicial to the interest of the company. Further, it was noted that as per the requirement of clause 4 (iii) (g), the auditor should have reported about the regularity of the principal and interest amount and not about existence/non-existence of any issue. Accordingly, it was viewed that the reporting by the Respondent could not be considered to be in compliance with the relevant statutory requirements. His approach to omit to report on the clauses which as per him were not applicable was not correct and indicates negligence exercised by him while reporting on CARO, 2003. Accordingly, the Committee was of the considered opinion that the Respondent was guilty of professional misconduct falling within the meaning of Item (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949 with respect to this charge.

6.11 In the next allegation, as mentioned in Para 3(I) above, it was noted that allegation was related to non-reporting as per the requirements of CARO, 2003 in context of internal control system, it was alleged that the Respondent, being statutory auditor, had reported on internal control system of purchase of fixed assets but was silent on internal control system of sale of services. It was stated that revenue was generating from Sale of Rights, theatre events etc. (A-54), therefore, the auditor was also required to report on adequacy of internal control system that existed with respect to sale of services. The Committee further noted that the Respondent had in this respect admitted the stated omission and submitted it to be accidental omission. It was viewed that considering the omissions made by the Respondent with various reporting requirements as discussed in preceding paragraphs it could not be considered to be an accidental omission. Accordingly, the

Committee was of the considered opinion that the Respondent was guilty of professional misconduct falling within the meaning of Item (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949 with respect to this charge.

6.12 In the next allegation, as mentioned in Para 3(m) above, it was noted that allegation was related to non-reporting as per the requirements of CARO, 2003 in context of cash losses for immediately preceding year, it was stated that the Respondent, being statutory auditor, had reported on accumulated losses and cash losses for current financial year but omitted to report about the status of cash losses for immediately preceding financial year. The Committee further noted that the Respondent had in this respect submitted that there were no accumulated losses for the current year. Thus, as per him, it was irrelevant to state about previous year losses. In any case, the financial statement would show that there was no loss during previous year. They should be read as a whole. The Committee noted that the Respondent was indirectly admitting the omission when he was submitting that it was reflected from the financial statements. Further, it was viewed that accruing losses and cash losses are two separate things. In order to determine the figure of cash loss for the financial year, the figure of profit/loss shown by the profit and loss account is adjusted for the effects of transactions of a non-cash nature such as depreciation, amortisation, deferred tax expenses, etc. Hence, the Respondent was negligent when he omitted to report on cash losses, if any accrued, during immediately preceding financial year. Accordingly, the Committee was of the considered opinion that the Respondent was guilty of professional misconduct falling within the meaning of Item (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949 with respect to this charge.

7. It was further observed that the Respondent had argued that the Financial Reporting Review Board had not reported if the observations made by it were serious or material, however, considering the omissions made by him it signifies the casual approach adopted by the Respondent while performing audit of the Company. It was viewed that an audit is regarded to be conducted to ensure compliance with financial reporting framework applicable on the enterprise which included in extant case compliance with the requirements of Schedule VI to the Companies Act, 1956

22

as well as applicable accounting standards. Hence, if an auditor state in his audit report that financial statements have been prepared in accordance with applicable financial reporting framework and that it complies with the Accounting Standards referred in Section 211(3C) of the Companies Act, 1956, then non-compliance of the same is not acceptable. Also, in nutshell, if the effect of the omissions as mentioned in various allegations, was considered in aggregate, its consequential effect was material.

**Conclusion:**

8. Thus in conclusion, in the considered opinion of the Committee, the Respondent was held GUILTY of professional misconduct falling within the meaning of Item (7) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

Sd/-  
[CA. Aniket Sunil Talati]  
Presiding Officer

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

Sd/-  
[Dr. K. Rajeswara Rao]  
Member (Govt. Nominee)

Sd/-  
[CA. Vishal Doshi]  
Member

Sd/-  
[CA. Sushil Kumar Goyal]  
Member

Date: 7<sup>th</sup> December, 2022  
Place: New Delhi

*Jyotika*

प्रमाणित सत्य प्रतिलिपि / Certified true copy

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