



भारतीय सनदी लेखाकार संस्थान

(संसदीय अधिनियम द्वारा स्थापित)

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

(Set up by an Act of Parliament)

PPR/254/2016-DD/94/INF/2016/DC/1593/2022

[DISCIPLINARY COMMITTEE [BENCH-II (2024-2025)]
[Constituted under Section 21B of the Chartered Accountants Act, 1949]

**ORDER UNDER SECTION 21B (3) OF THE CHARTERED ACCOUNTANTS ACT, 1949 READ WITH
RULE 19(1) OF THE CHARTERED ACCOUNTANTS (PROCEDURE OF INVESTIGATIONS OF
PROFESSIONAL AND OTHER MISCONDUCT AND CONDUCT OF CASES) RULES, 2007**

[PPR/254/2016-DD/94/INF/2016/DC/1593/2022]

In Re:

CA. Haresh Babulal Shah (M. No. 032208)

First Floor, Flat No. 1,

Matruchaya Building,

Plot no. 27,

Mitramandal Colony

Pune - 411009.

.....Respondent

Members Present: -

CA. Ranjeet Kumar Agarwal, Presiding Officer (in person)

Mrs. Rani S. Nair, IRS (Retd.), Government Nominee (through VC)

Shri Arun Kumar, IAS (Retd.), Government Nominee (in person)

CA. Sanjay Kumar Agarwal, Member (in person)

CA. Cotha S Srinivas, Member (through VC)

Date of Hearing : 10th April, 2024

Date of Order : 28th May, 2024

1. That vide Findings under Rule 18(17) of the Chartered Accountants (Procedure of Investigations of Professional and Other Misconduct and Conduct of Cases) Rules, 2007, the Disciplinary Committee was, inter-alia, of the opinion that **CA. Haresh Babulal Shah (M. No. 032208), Pune** (hereinafter referred to as the '**Respondent**') is **GUILTY** of Professional Misconduct falling within the meaning of Item (5), (6), (7) and (8) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

2. That pursuant to the said Findings, an action under Section 21B(3) of the Chartered Accountants (Amendment) Act, 2006 was contemplated against the Respondent and a communication was addressed to him thereby granting opportunity of being heard in person / through video conferencing and to make representation before the Committee on 10th April 2024.

3. The Committee noted that on the date of the hearing held on 10th April 2024, the Respondent was present through video conferencing and made his verbal representation on the Findings of the Disciplinary Committee, inter-alia, stating that from 1994, he did not accept any audit or Tax assignment. From 2015 whatever assignment he had, he discontinued all audit and tax practice. He now only works on advisory on mergers and acquisitions. He further stated that all the charges where he was held guilty were only for non-exercise of due diligence where work is to be mainly done by junior staff, who also did not have any

CA. Haresh Babulal Shah (M.No.032208), Pune in Re:



भारतीय सनदी लेखाकार संस्थान
(संसदीय अधिनियम द्वारा स्थापित)

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

PPR/254/2016-DD/94/INF/2016/DC/1593/2022

practical experience in that particular industry. He further requested the Committee for the least possible punishment as these proceedings have weighed on him for so long. The Committee also noted that the Respondent in his written representation on the Findings of the Committee, inter-alia, stated as under:

- a) It was only in regard to certain matters where in Respondent's humble view, the matters raised were of a highly subjective, debatable, or hyper-technical nature that he had made extensive submissions. Most of the matters arose in relation to presentation, valuation and classification of inventory and revenue recognition which was because of unique nature of industry. The auditee was the first listed Company in aerospace industry which was a startup with multiple and unexpected legal and financial hurdles. The Respondent as Company an auditor faced these challenges due to paucity of time in finalising the accounts in the defined time period.
- b) None of the matters/charges had any financial implications and as an auditor, the Respondent qualified audit report, CARO Report and Corporate Governance Report year after year even for earlier years. Despite some deficiencies in presentation, classification, representations and notes to accounts, true and fair view was not impacted after taking into account multiple qualifications year after year.
- c) The Respondent has been found guilty by the Committee in the case of an audit of a private sector aviation Company which arose more than 15 years ago. At that time, private sector aviation was in its infancy in India. There was limited information available by way of comparative study or precedent, and mergers and acquisitions and their accounting treatment (and therefore audit issues related to the same) were very new areas. While the issues where he has been found guilty may appear serious in hindsight; these were all uncharted areas when he took the decisions in his professional capacity.
- d) Considering the complexity of the matter and the fact that Respondent has already accepted that there were indeed certain deficiencies on his part; despite his slight disappointment with some of the findings, the Respondent accept the findings of the honourable Disciplinary Committee and does not wish to pursue the matter any further.

4. The Committee considered the reasoning as contained in the Findings holding the Respondent Guilty of Professional Misconduct vis-à-vis written and verbal representation of the Respondent.

5. Keeping in view the facts and circumstances of the case, material on record including verbal and written representation on the Findings, the Committee held that the Respondent made certain non-compliances with regard to AS-1, AS-2, AS-3, AS-9, AS-13, AS-15, AS-16, AS-20, AS-22, AS-26, AS-29, SA-700, CARO 2003, Schedule-VI to the Companies Act, 1956 in the General Purpose Financial Statements of M/s Taneja Aerospace and Aviation Limited for the financial year 2008-09 to 2010-11.

5.1 Hence, professional misconduct on the part of the Respondent is clearly established as spelt out in the Committee's Findings dated 7th February 2024 which is to be read in consonance with the instant Order being passed in the case.

CA. Haresh Babulal Shah (M.No.032208), Pune in Re:



भारतीय सनदी लेखाकार संस्थान

(संसदीय अधिनियम द्वारा स्थापित)

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

(Set up by an Act of Parliament)

PPR/254/2016-DD/94/INF/2016/DC/1593/2022

6. Accordingly, the Committee was of the view that ends of justice will be met if punishment is given to him in commensurate with his professional misconduct.

7. Thus, the Committee ordered that CA. Haresh B. Shah (M.No.032208), Pune be Reprimanded and also a Fine of Rs. 2,00,000/- (Rupees Two Lakh only) be Imposed upon him payable within a period of 60 days from the date of receipt of the Order.

sd/-

(CA. RANJEET KUMAR AGARWAL)
PRESIDING OFFICER

sd/-

(MRS. RANI S. NAIR, IRS (RETD.))
GOVERNMENT NOMINEE

sd/-

(SHRI ARUN KUMAR, IAS (RETD.))
GOVERNMENT NOMINEE

sd/-

(CA. SANJAY KUMAR AGARWAL)
MEMBER

sd/-

(CA. COTHA S SRINIVAS)
MEMBER

सही प्रतिलिपि होने के लिए प्रमाणित
Certified to be true copy

सीए श्रुति गर्ग / CA. Shruati Garg
सहायक निदेशक / Assistant Director
अनुशासनात्मक निदेशालय / Disciplinary Directorate
इंस्टीट्यूट ऑफ चार्टर्ड एकाउंटेंट्स ऑफ इंडिया
The Institute of Chartered Accountants of India
आईसीएआई भवन, फिरोज नगर, 600 017, दिल्ली 110017
ICAI Bhawan, New Delhi

CA. Haresh Babulal Shah (M.No.032208), Pune in Re:

CONFIDENTIAL

DISCIPLINARY COMMITTEE [BENCH – II (2023-2024)]

[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.: [PPR/254/2016-DD/94/INF/2016/DC/1593/2022]

In the matter of CA. Haresh Babulal Shah (M.No.032208), Pune, in Re:

CA. Haresh Babulal Shah (M. No. 032208)

First Floor, Flat No. 1,

Matruchaya Building,

Plot no. 27,

Mitramandal Colony

Pune - 411009

.....Respondent

MEMBERS PRESENT:

CA. Ranjeet Kumar Agarwal, Presiding Officer (Present in Person)

Mrs. Rani S. Nair, I.R.S. (Retd.), Government Nominee (Present in Person)

Shri Arun Kumar, I.A.S. (Retd.), Government Nominee (Present in Person)

CA. Sanjay Kumar Agarwal, Member (Present in Person)

CA. Sridhar Muppala, Member (Present through VC Mode)

DATE OF FINAL HEARING : 17.10.2023

DATE OF JUDGEMENT : 14.12.2023

PARTIES PRESENT

Respondent : CA. Haresh Babulal Shah (Through VC)

Counsel for Respondent : CA. Jayant Gokhale (In Person).

BACKGROUND OF THE CASE: -

1. The brief background of the case is that a letter dated 28th July, 2016 was received from Financial Reporting Review Board (FRRB) which was filed against the Respondent Firm wherein FRRB observed certain non-compliances with regard to AS-1, AS-2, AS-3, AS-5, AS-7, AS-9, AS-11, AS-12, AS-13, AS-15, AS-16, AS-20, AS-22, AS-26, AS-29, SA-700, SA-705, CARO 2003, Schedule-VI to the Companies Act, 1956 in the General Purpose Financial Statements in respect **M/s Taneja Aerospace and Aviation Limited** (hereinafter referred to as "**Company**") for the **financial year 2008-09 to 2010-11**. Thereafter, the Respondent's Firm i.e. M/s Haresh Upendra & Co. has declared CA. Haresh Babulal Shah (hereinafter referred to as "**Respondent**") as member answerable in the matter.

CHARGES IN BRIEF:-

2. The Committee noted that various instances of professional misconduct were highlighted by the Informant which were as under:

.n o.	PFO Ref. No.	Allegations	View of Director (Discipline)
1.	6.3 (i) & 6.3 (iii)	Over statement of Profit / understatement of Loss & Non-disclosure of Basic and diluted Earnings per Share	Held Not Guilty
2.	6.3 (ii)	Disclosure of EPS and adjustments which were against the requirement of AS-20, Earning per Share	Held Guilty
3.	7	Impairment of Fixed Assets and non-compliance with the provisions of SA-700	Held Not Guilty
4.	8	Non-compliance of Generally accepted accounting principles and the provisions of SA 700 in respect of Auditor's Report	Held Guilty
5.	9.	Interest free tax deferral liability	Held Not Guilty

6.	10.1.2	Non-compliance of disclosure requirement of Schedule XIV to the Companies Act, 1956 in relation to treatment of runway as plant instead of Building	Held Guilty
7.	10.2.2	Accounting Policy regarding Borrowing Costs does not give complete disclosure regarding capitalization of borrowing assets and appears to be incomplete and not in line with the AS-16, Borrowing Costs	Held Guilty
8.	10.3.2	Non- Compliance of various requirements of AS-11 'The Effects of Changes in Foreign Exchange Rates'	Held Guilty
9.	10.4	Non Compliance with the requirements of AS-15 'Employee Benefits'	Held Guilty
10.	10.5.2	Non- Compliance with the requirements of AS-9 'Revenue Recognition'	Held Guilty
11.	11.2 (i)	Non- compliance with the requirements of AS-2 in relation to usage of statement 'based on technical estimates' is not clear and its impact on valuation of inventories such as aero structures, components and work in progress.	Held Not Guilty
12.	11.2 (ii), (iii) & (iv)	Non-compliance with the requirements of AS-2*	Held Guilty
13.	11.2 (v)	Physical verification of Inventory	Held Not Guilty
14.	12.2 (i)	Cash Flow statements not fully reflecting increase / decrease in Inventory values	Held Guilty
15.	12.2 (ii)	Non- compliance with the requirement of AS-3 as cash flows were reported on net basis in respect of all loans including working capital	Held Guilty
16.	12.2(iii)	Deferred revenue expenditure adjusted as part of working capital changes	Held Guilty
17.	12.2 (iv)	Investments made in subsidiaries and associates and share application money also paid to an associate company. All these cash flows have been shown under	Held Guilty

		a single head 'Investment in equity'. It was viewed that usage of such terminology does not clearly indicate acquisition of subsidiaries and associates which is against the requirements of AS-3, Cash Flow Statements	
18.	12.2 (v) & 13	Interest and dividend received has been classified as 'Cash Flows from financing activities' instead of 'Cash Flows from the Investing activities' & Non - compliance with the requirement of Paragraph 30 and 31 of AS-3, Cash Flow Statements	Held Guilty
19.	12.2 (vi)	Non-compliance with the requirement of Paragraph 20(b) of AS-3 where adjustments of rates and taxes to derive Cash Flow from Operating Activities have been made.	Held Guilty
20.	14.	Non - compliance with the requirement of AS-7, Construction Contracts	Held Not Guilty
21.	15.2 (i)	Non-compliance with the requirements of AS-13, Accounting for Investments as well as Schedule VI to the Companies Act, 1956.	Held Guilty
22.	15.2 (ii)	Classification of share application money as Investment which is non-compliance with the requirement of AS-13, Accounting for Investments	Held Not Guilty
23.	15.2 (iii)	Classification of current investment as short term investment which is non-compliance with the requirement of AS-13	Held Not Guilty
24.	16. (i)	Non-compliance with the requirement of AS-22 as the Company has unabsorbed depreciation under tax laws, still deferred tax asset has been recognized to the extent that there is a reasonable certainty that sufficient future taxable income will be there to realize it whereas AS-22 requires to recognize deferred tax assets only if there exists virtual certainty of sufficient future taxable income to realize it	Held Not Guilty

25.	16 (ii)	Non-compliance with the requirement of AS-22 read with Paragraph 24 of AS-1 as the Company has paid MAT during the financial year 2010-11, however the accounting policy adopted for its recognition has not been disclosed.	Held Guilty
26.	17.2 (i)	Non-compliance with the requirement of AS-22 as depreciation is not considered for recognition of Deferred Tax Liability	Held Guilty
27.	17.2 (ii)	Non-compliance with the requirement of AS-22 as Deferred Tax Assets should be recognised to the extent of reversal of Deferred Tax Liability.	Held Guilty
28.	17.2 (iii)	Non-compliance with the requirement of AS-22 as major components of Deferred Tax Liability has not been disclosed.	Held Guilty
29.	18.3 (i)	Balance sheet and Profit and Loss Account shows that Deferred Revenue expenditure was carried forward under the head "Miscellaneous Expenditure" which is being written off over the period which is non-compliance with the requirement of AS 26, Intangible Assets.	Held Guilty
30.	19.2 (i)	Non-compliance with the requirement of AS-1 as accounting policy disclosed under Notes to accounts rather than including the same under 'Significant Accounting Policies'	Held Not Guilty
31.	19.2 (ii)	Non-compliance with the requirement of Paragraph 14 of AS-29, Provisions, Contingent Liabilities and Contingent Assets.	Held Guilty
32.	19.2 (iii)	Non-compliance with the requirement of AS-29 as contingent liabilities was not reported on estimated basis.	Held Guilty
33.	19.2 (iv)	Non-compliance with the requirement of Paragraph 33 of AS-29	Held Not Guilty
34.	20.2	Non-compliance with the requirement of Paragraph 24	Held Guilty

		of AS-1 and Paragraph 23 of AS-16	
35.	21.2 (i)	Non-compliance with the provisions of Section 349 of the Companies Act, 1956 relating to treatment of depreciation for determining net profit for computation of Managerial Remuneration.	Held Guilty
36.	22.2 (i)	Non-compliance with requirements of Part I, Part II of Schedule VI to The Companies Act, 1956	Held Guilty
37.	23.2	Non-Compliance with the requirement of Paragraph 3(xi)(c) of Part II of the Schedule VI to the Companies Act 1956	Held Guilty
38.	24.2	Non-compliance with the requirement of Clause 32 of Listing Agreement	Held Guilty
39.	25.2	Non-compliance with the requirements of paragraph 13.5A of Chapter XIII: 'Guidelines for Preferential issues' given under SEBI (DIP) Guidelines, 2000	Held Not Guilty
40.	26.2	Non-compliance with requirements of paragraphs 3,4c and 4d of Part II of Schedule VI of Companies Act 1956	Held Not Guilty
41.	27.2 (i)	Non-compliance with the requirement of Part I of Schedule VI to the Companies Act, 1956 as interest free sales tax loan was disclosed as unsecured loan.	Held Not Guilty
42.	27.2 (ii)	Failed to give qualification in the financial statement for the financial year 2010-11 regarding non accounting of the difference between the actual sales tax liability and the discounted value as revenue expenditure.	Held Guilty
43.	28.2	Non-compliance with the requirement of Paragraph 4(ii) (a)(b)(c) of CARO 2003 and Part I of Schedule VI to the Companies Act, 1956.	Held Guilty
44.	29.2	Non-compliance with the requirement of paragraph 4 (iii) (a) and 4(iii) (e) of CARO, 2003	Held Not Guilty
45.	30.2	Non-compliance with the requirement of Paragraph 4 (iv) of CARO, 2003 as the Respondent has failed to report whether there is a continuing failure to correct	Held Guilty

		major weakness in internal control system.		
46.	31.2	Non-compliance with the requirement of paragraph 4 (ix) (a) of CARO, 2003 which pertains to regularity of deposition of Statutory dues, specifically in relation to Employee State Insurance dues	Held Guilty	Not Guilty
47.	32.2	Non-compliance with the requirement of paragraph 4 (ix) (b) of CARO, 2003 which pertains to non-deposition of Statutory dues on account of any dispute, specifically in relation to Service Tax	Held Guilty	Not Guilty
48.	33.2 (i)	Non-compliance with the reporting requirements regarding the basis used for preparation of financial statements.	Held Guilty	
49.	33.2 (ii)	Wrong reference of Accounting Standards as issued by the Institute rather than those notified under Companies (Accounting Standard) Rules, 2006.	Held Guilty	
50.	34.2 (i)	Non-compliance with the clauses of Section 22 of Micro, Small and Medium Enterprises Development Act, 2003 and Non-compliance of SA-500	Held Guilty	
51.	34.2 (ii)	Non-compliance with the disclosure requirements regarding provision for Income Tax & Fringe Benefits tax	Held Guilty	
52.	35.2 (i)	Non-compliance with the requirements of Paragraph 13 of SA 700	Held Guilty	
53.	35.2 (ii)	Non-compliance with Section 227(4A) of the Companies Act, 1956	Held Guilty	Not Guilty
54.	36.2	Non-compliance with clause 4(xxi) of Companies (Auditor's Report) Order, 2003	Held Guilty	Not Guilty

*** With regard to Point no 12 given in table above, while noting allegation given under Para 11.2 (ii) of PFO, the Committee decided that the Respondent was held Not Guilty of the said allegation, however, the reasoning mention against the same clearly depicts that the Respondent is Prima Facie Guilty of said allegation. Hence, the said allegation has been considered by the Committee as Guilty.**

3. The Committee noted that the Respondent at the stage of PFO had inter-alia mentioned as under:
- (i) That the Company completely ignored adjustments pursuant to the scheme of arrangement sanctioned by the Hon'ble High Court while working out both basic and diluted earnings per share. The Respondent further submitted that Clause 4.1 of the main audit report qualified the above adjustment and the said qualification along with note 17 and note 5 to notes to accounts was considered proper disclosure under AS-20. The Respondent stated that note 5 gave calculation of both basic and diluted earnings per share. As both EPS is same in absence of any capital dilution, only one figure is disclosed on the face of the profit & loss account giving reference to note 5. The Respondent also stated that similar disclosures were made in the financial year 2009-10 and 2010-11.
 - (ii) The Respondent in his defense stated that the qualified opinion was specific to notes to account no.17 that estimate of overstatement of profit for the period was totally related to transfer of amount from revaluation reserve to Profit & Loss Account. He further submitted that there was one item which has overstated the profit and the same had been qualified in audit report and an adverse opinion was not expressed in view of such adjustments were specified in the scheme and approved by the High Court.
 - (iii) That the runway is not the normal road used for transportation of man and material like any other plant necessary to manufacture and test its finished products, carry out its maintenance activities, charter operations and support its aero structure manufacturing activities and considering such peculiar use and requirements for the industry, runway is considered as plant and depreciation on the same is provided accordingly.
 - (iv) That the Company recognizes borrowing cost as per AS-16 only and all borrowing cost capitalized only on projects creating new capabilities and not on addition of any assets not complying with AS-16.

- (v) That the treatment of foreign currency transactions and conversion of monetary items done by the Company did not have any impact on true and fair view of financial statements, though disclosure may not be complete as required under AS 11.
- (vi) The Respondent submitted that as per AS-15, accounting policies for long-term and short-term compensated absence should have been disclosed separately. Actual basis meant was it accrued to employees based on number of leaves available for particulars period and not availed off. The Respondent stated that the gratuity was not funded or so mention of word "funded" in note 16 was typing / printing error. However the calculation in note 16 shows that the same was not funded.
- (vii) The Respondent did not make any submissions w.r.t. non-compliance of AS-9.
- (viii) That in respect of method of valuation, the Respondent stated that the inventories are valued at average cost, however, its disposal is shown on FIFO basis.
- (ix) That in respect of allegation related to valuation of loose tools, the Respondent stated that depreciated value means net realisable value only. However, loose tools at the end of the year not put to use are valued at full cost while the loose tools put to use are written off considering life of each set of loose tools.
- (x) That in respect of allegation relating to valuation of raw materials and certain components as well as finished goods, the Respondent stated that these items are shown at cost as net realisable for those items were not available.
- (xi) The Respondent stated that Cash flow statement may not be exactly in the formant and in compliance of AS-3. In the financial year 2008-09 and 2009-10, the Company had implemented the scheme of arrangement which is mentioned in notes to account no. 17 of the Annual Report. There was adjustment in inventory, trade receivable and fixed assets due to the same. All these

adjustments through scheme really had no impact on cash flow of the relevant year and hence, were ignored while working out cash flow.

- (xii) The Respondent stated that the decrease in inventory shown in Cash Flow Statement was net of the amount already adjusted against revaluation reserved, as the same had no impact on cash flows of the year. Cash Flow Statement showed actual change in cash flow, hence, gave true & fair view and should be considered in compliance of AS-3.
- (xiii) The Respondent stated that para 21 talks for reporting of separately major classes of gross cash receipt and gross cash payments. Cash flows were reported on net basis in respect of all loans including working capital where there were changes on daily basis and the said presentation was without referring of paragraph 22 and 24 of AS-3.
- (xiv) The Respondent stated that the deferred revenue expenditure was adjusted as part of working capital changes considering the fact that the same was not adjusted in cash flow statement when actual payment was done.
- (xv) The Respondent in his defence submitted that the investment in equity has been disclosed as separate in the cash flow statement, the detail of each investment has been disclosed in schedule investment. In the financial year 2008-09, there was no disposal of subsidiary so no separate disclosure was made. As regards share application money, the Respondent stated that the same was shown as investment in the subsidiary company as there was no possibility of refund and in fact in the next financial year, shares were allotted against share application money.
- (xvi) The Respondent stated that para 30 of AS 3 require disclosure for receipt and payment as separate items which has been disclosed separately as "Interest Received" and "Payment of interest". The Respondent stated that disclosure is based on main total inflows and total outflows of specific consolidation of activities and not for each separate activity.

- (xvii) The Respondent stated that Cash Flow Statement for financial year 2009-10 discloses that all adjustments done including for rates and taxes pursuant to the scheme is considered as non-cash items and hence the same are excluded from the cash flow statement as those items did not have any implications on the cash flow of the year.
- (xviii) That the interest paid for acquisition/construction of fixed assets is considered as part of cost of fixed assets and shown in investing activities in all the years, though the same was not disclosed separately.
- (xix) That as all the subsidiaries are private limited companies hence, classification of investments as quoted and unquoted was not required as per AS-13. Further investment in quoted shares was minuscule, and market value of such quoted investment was disclosed in the bracket. The Respondent further stated that separate disclosure as per paragraph 35(e) of AS 13 based on materiality was not made by the company.
- (xx) That during the financial year 2010-11, there was MAT provision but based on prudence MAT entitlement, receivable is not considered as deferred tax assets or MAT credit entitlement account.
- (xxi) That in respect of allegation relating to depreciation not considered for recognition of deferred tax liability, the Respondent stated that no additional deferred tax liability is there in spite of timing differences due to substantially higher depreciation and cash loss. Hence, no adjustment for depreciation / write off was done to work out nil tax provision. The Respondent also stated that deferred tax asset was not recognized as per the accounting policy.
- (xxii) That in respect of allegation relating to recognition of DTA and relating to details of major components of deferred tax liability, the Respondent submitted that considering lot of uncertainties of various businesses and perpetual loss incurred, management decided not to account for deferred tax assets in respect of tax losses. Deferred tax liability was mainly on account of timing differences hence no separate disclosure was given. Further in view of large unrecognised

deferred tax assets, management did not consider as prudent to recognise further deferred tax liability as deferred tax assets was substantially higher than the liability hence as the auditor he did not draw attention to such non-provision.

- (xxiii) That miscellaneous expenditure was incurred to raise capital by way of preferential issue which did not result into creation of any tangible or intangible assets. The Respondent further stated that the said expenditure was not as an asset or intangible assets so the same was shown under miscellaneous expenditure and written off over the period and balance amount was written off in financial year 2009-10.
- (xxiv) That in respect of allegation relating to the method of recognition of provisions, the Respondent stated that provisions were made by the Company whenever there was present obligation as a result of past event. An enterprise determines whether obligation exists at the balance sheet date by taking account of all above evidences. The Respondent stated that though the wording may not be in line with AS 29, spirit and actual provisions were in line with AS 29.
- (xxv) That in respect of accounting policy related to contingent liabilities, the Respondent stated that the contingencies which are converted in liability are accounted on the basis of mutual acceptances. The Respondent also submitted that as per AS-29 contingencies are to be disclosed in notes to accounts and the contingencies which are already accounted for as provision/ expense/ asset are not required to be disclosed, thus the disclosure in notes to accounts is in line with AS-29.
- (xxvi) That the policy for borrowing costs and interest income followed by the Company is in line with AS-16, hence, specific disclosure for borrowing cost may not have been made by the Company. The accounting policies as mentioned in note 3 is a policy related to fixed assets accounting and how actual cost for the fixed cost is determined and not for borrowing cost. The Respondent further stated that interest cost on fund deployed for the project (net of income if any earned) are capitalised.

- (xxvii) That the depreciation was in line with the provisions of Section 198 read with Section 349 and 350 of the Companies Act, 1956 and the wordings used in the notes to accounts refers to both Income Tax Act and Section 350 of the Companies Act, 1956 as well. The Respondent further submitted that reference of Income Tax Act was not required and may be used only to suggest that the same is provided based on the written down value.
- (xxviii) That the loan had been assigned from the subsidiary Company to the holding Company and rest all the things remain the same. The Respondent also stated that the bank deposit by the third party is a guarantee given by the third party on the behalf of the Company, so in case of default the Company had to reimburse the same to the third party and so the loan might be secured loan and not an unsecured loan. Hence, the expense related to the same is liability of the Company so it had been expense out.
- (xxix) That since proper details and records were not maintained, it was not feasible to verify the same and separate disclosure of TDS was not made and the requirement of paragraph 3(xi)(c) of part II of Schedule VI of Companies Act, 1956 has not been complied as it was not feasible.
- (xxx) That all these operational issues lead to qualifications year after year for deficiencies in records and controls. Because of such deficiencies, various disclosures and information were not extracted and produced before Respondent in time hence disclosures made were not in strict compliance of letter of Listing Agreement and SEBI guidelines, though enough information is available in the relevant notes for the users to take informed decisions. The Respondent further submitted that notes to accounts no. 11, discloses the related party transactions where names of associates are disclosed but details of loan with individual associate has not been disclosed separately.
- (xxxi) There was no qualification in the financial year 2010-11 as the difference was fully written off in the financial year 2009-10 so the disclosure of interest free sales tax loan as unsecured loan was in compliance of Part I of Schedule VI to the Companies Act, 1956.

- (xxxii) That he was being informed by the management that the physical verification of inventory was carried out, however, the report of the same was not produced before him. The Respondent further submitted that on comparison of the inventory reported in the financial statements with that of stock books, he observed that there were lot of obsolete and old inventories not considered as slow moving, but because of the efforts of and queries raised in the course of audit and qualification year after year, management agreed to take a re-look at its inventories and its valuation policies and had written off substantial amounts in two years. Under the circumstances, the qualification was in compliance of requirements of paragraph 37 of SA 700.
- (xxxiii) That the accounts and report was not available for verification, so the facts that Company had valued its inventory as given by the management and the write off was disclosed and it was properly highlighted. The Respondent further submitted that such disclosure might not be in strict compliance with SA 700 but such fact had been highlighted for attention of users of general purpose financial statements.
- (xxxiv) That there was weakness in internal control system which had been reported on year to year basis in annexures to audit report on various places which itself is the basis that it had been a continuous failure in the internal control system.
- (xxxv) That strict compliance was not followed but the addition in the current year due to revaluation was clearly mentioned in the schedule. So, there is compliance with requirement.
- (xxxvi) That the reference to Accounting Standards as issued by the Institute rather than those notified under (Accounting Standard) Rules 2006 was a wrong reference but there is no deviation in standards as it is identical.
- (xxxvii) That the Company was not able to maintain records so the information was not available with him. He further stated that the Company being in specific industry with huge investment, the supplier was not generally from MSME. The Company dealing with MSME, if any, might be related to minor expenses like stationary, printing etc. but due to unavailability of such information, the Respondent was unable to comment on the same.
- (xxxviii) That information and records were not available for evaluation and the Company had not maintained separate records for identifying the Micro Small

& Medium Enterprises. The Respondent further stated that import of material constitutes a substantial part of purchase made by the Company. Therefore, the facts disclosed by the management have been disclosed with more clarity to the users of the financial statements. So the question of auditor's judgment does not arise.

(xxxix) That it was provision for fringe benefit tax not for normal income tax, as the Company was loss making, so there is no question of provision for income tax. The Respondent further stated that it was a typographical error due to which provisions for fringe benefit tax typed as provisions for Income tax and Fringe Benefit tax.

(xl) That reference to accounting standard instead of auditing standard was given inadvertently.

4. The Director (Discipline) had, in his Prima Facie Opinion, held the Respondent prima facie Guilty on following:

(i) **First charge (S. No. 2 of above table) relating to disclosure of EPS and adjustments which were against the requirement of AS-20:** The Director (Discipline) in the prima-facie opinion observed that in note no.5, the amount of Profit after Tax but before Exceptional and Prior Period Items was taken into account for the purpose of computation of EPS which was not as per requirement of Paragraph 12 of AS-20. In this regard, it was observed that the qualification made by the Respondent states only overstatement of profit by Rs.20,00,00,000/- and did not point out of non-adjustment of prior period and exceptional items for computation of EPS in terms of the requirement of AS-20 which led to wrong computation of EPS. Hence, it was viewed that the Respondent failed to report the fact of improper disclosure of Earning per Share which is a non-compliance of AS 20. Therefore, the Respondent was held prima facie **GUILTY** of Professional Misconduct falling within the meaning of Item (7) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

- (ii) **Second charge (S. No. 4 of above table) relating to non-compliance of Generally Accepted Accounting Principles and the provisions of SA 700, 'The Auditor's Report on Financial Statements'** : The Director (Discipline) in the prima-facie opinion observed that the Respondent invited attention in respect of details mentioned in Note no.17 of Schedule 15 and also mentioned that the treatment was not in accordance with generally accepted accounting principles and had effect of overstatement of profit for the period by Rs.20,00,00,000/- . In addition to above, it was noted that issuance of adverse or qualified audit report was subject matter of the judgment of the Auditor that is decided keeping in view the nature of qualifications and its impact on the state of affairs of the Company. In the extant case, the Respondent had qualified his report with regard to the transfer made to the Profit & Loss Account and overstatement of profit. However, keeping in view the amount of the profit of the Company as on 30th June, 2009, the impact of qualification on the profitability of the Company appears to be material and pervasive and hence, it was felt that the Respondent should have considered to issue adverse opinion. Further, keeping in view the requirement of Paragraph 41 of SA-700, it was noted that the Respondent had not mentioned in his audit report a quantification of the possible effects(s) of qualifications individually and accordingly, failed to mention the same in his audit report. Thus, the Respondent was held prima facie **GUILTY** of professional misconduct falling within the meaning of Items (6) & (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949.
- (iii) **Third Charge (S. No. 6 of above table) relating to non-compliance of disclosure requirement of Schedule XIV to the Companies Act, 1956 in relation to treatment of runway as plant instead of Building:** The Director (Discipline) in the prima-facie opinion noted that runway had been treated as plant and machinery instead of Building. It was observed that though the Respondent claims that runway was used for operational activities yet the definition of the Buildings as mentioned in Note 1 of Schedule XIV to the Companies Act, 1956 does not support the submissions of the Respondent. Accordingly, it was viewed that the Respondent was held prima facie **GUILTY**

of Professional Misconduct falling within the meaning of Items (6) & (7) of Part I of the Second Schedule to the Chartered Accountant Act, 1949.

- (iv) **Fourth charge (S. No. 7 of above table) relating to Accounting Policy regarding Borrowing Costs does not give complete disclosure regarding capitalization of borrowing assets and appears to be incomplete and not in line with the AS-16:** The Director (Discipline) in the prima-facie opinion noted that accounting policy with regard to borrowing cost was not given separately. However, an accounting policy regarding capitalization of interest cost on funds deployed for the project was given under significant accounting policies related to fixed assets. In respect of allegation, it was noted that as per requirement of AS-16, the Company was required to disclose (a) the accounting policy adopted for borrowing costs; and (b) the amount of borrowing costs capitalised during the period but the same was not disclosed separately. Further, accounting policy given under significant accounting policy related to fixed assets does not give complete disclosure regarding capitalization of borrowing assets and appears to be incomplete and not in line with the AS-16. Hence, the Respondent as auditor was required to point out the same in his audit report which he failed to do so. Thus, the Respondent was held prima facie **Guilty** of professional misconduct falling within the meaning of Items (5) & (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949.
- (v) **Fifth Charge (S. No. 8 of above table) relating Non- Compliance of various requirements of AS-11 'The Effects of Changes in Foreign Exchange Rates':**-The Director (Discipline) in the prima-facie opinion noted that though the Respondent stated that the treatment of foreign currency transactions and conversion of monetary items done by the Company did not have any impact on true & fair view of the financial statements yet the accounting policy with respect to foreign transactions appears to be incomplete and did not state the rate at which monetary items covered by forward contracts are converted. Further, the accounting policy was silent about the policy adopted for recognition of exchange difference arising on outstanding contracts as on the each reporting date and that arising on cancellation or renewal of the forward contracts. In absence of such accounting policy, it appears that profits / losses

arising on account of conversion of outstanding contracts at reporting date and cancellation or renewal of the forward contracts were not recognised in the profit & loss account of the Company. Further, the Respondent did not bring on record documentary evidence to justify that true & fair view of the financial position of the Company was not materially affected due to accounting policy adopted by the Company for conversion of foreign currency transactions. Hence, the Respondent was held prima facie **GUILTY** of Professional Misconduct failing within the meaning of Items (6) & (7) of Part I of the Second Schedule to the Chartered Accountant Act, 1949.

(vi) **Sixth Charge (S. No. 9 of above table) relating to the non-compliance with the requirements of AS-15 'Employee Benefits':** The Director (Discipline) in the prima-facie opinion noted the following :

- a) As per AS-15, post-employment benefit, short term and other long term benefits are different benefits. Accordingly, long term and short term compensated absence are not post-employment benefit plans and disclosure of the same under defined benefit plans appears to be incorrect. Hence, the Respondent was held Prima Facie **Guilty** of professional misconduct falling within the meaning of Item (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949.
- b) In respect of charge that any provident fund scheme administered through trust should be treated as defined benefit plan rather than defined contribution plan, the Respondent did not make any submission on the same and appears to be in agreement with the charge.
- c) In respect of charge related to Gratuity, the Respondent stated that due to typing / printing error, in note 16, the word "funded" was mentioned. However, the Respondent did not provide any documentary evidence to support his submissions and only stated that calculation in note no.16 indicates that the Gratuity was unfunded. In absence of any documentary evidence, benefit cannot be extended to the Respondent.

d) In view of above, the Respondent was held prima facie **Guilty** of professional misconduct falling within the meaning of Item (6) & (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949.

(vii) **Seventh charge (S. No. 10 of above table) relating to the non-compliance with the requirements of AS-9 'Revenue Recognition':-** The Director (Discipline) in the prima-facie opinion noted that on perusal of accounting policy related to recognition of revenue, it was noted that commission was recognised on proportionate basis considering completion of major service as well as time period of delivery. Hence, the method of recognition of revenue was not clear. Similarly, the revenue of services like training should be recognized when services are performed and not on receipt basis. Since revenue from service is a material item and disclosures as required under AS-9 was not clear and not in line with the requirement of AS-9, the Respondent was required to point out the same in his audit report but he failed to do so. Accordingly, the Respondent was held prima facie **Guilty** of professional misconduct falling within the meaning of items (5), (6) & (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949.

(viii) **Eighth Charge (S. No. 12 of above table) relating to the non-compliance with the requirements of AS-2 :-** The Director (Discipline) in the prima-facie opinion noted that

a) As per paragraph 16 of AS 2, FIFO and Weighted Average Cost formula are different but the Company had mentioned both formulas in accounting policy which does not give clear understanding regarding method adopted for valuation of inventories used by the Company. Since accounting policy used for valuation of inventory was not in line with the requirement of AS-2, the Respondent was required to point out the said non-compliance in his audit report but he failed to do so. Thus, the Respondent was held prima facie **Guilty** of professional misconduct falling within the meaning of Items (5), (6) & (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949.

- b) The Director (Discipline) in the prima-facie opinion noted that though the Respondent stated that depreciated value means net realisable value only, yet the same was not clarified in Notes to Accounts of the Company and consequently, resulting in misleading information to the user of the financial statements which the Respondent as auditor failed to qualify the same. Thus, the Respondent was held prima facie **Guilty** of professional misconduct falling within the meaning of Items (7) & (8) of Part I of Second Schedule to the Chartered Accountants Act, 1949.
- c) That in respect of charge relating to valuation of inventories at cost, the Respondent stated that raw materials and certain components as well as finished goods were shown at cost as net realisable value was not available. In this regard, it was pertinent to note that as per AS-2, Inventories should be valued at the lower of cost and Net realisable value. Hence, valuation of inventories was not done in terms of the requirement AS-2, thus, the Respondent as auditor was required to point out the same in his audit report which he failed to do so. Accordingly, the Respondent was held prima facie **Guilty** of professional misconduct falling within the meaning of item (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949.

- (ix) **Ninth Charge (S. No. 14 of above table) relating to Cash Flow statements not fully reflecting increase / decrease in Inventory values :-** In forming prima facie opinion, the Director (Discipline), on perusal of the Balance Sheets, Cash Flow Statements and Notes to Accounts, noted the following :

Sl. No	Particulars	Financial year 2008-09	Financial year 2009-10	Financial year 2010-11
1.	Opening Stock as per Balance Sheet	19,86,75,403	8,60,79,699	5,64,40,398
2.	Closing Stock as per Balance Sheet	8,60,79,699	5,64,40,398	5,41,47,827
3.	Decrease /	11,25,95,704	2,96,39,301	22,92,571

	(Increase) in Stock			
4.	Adjustment made due to restructuring / proposed restructuring	(12,28,03,000) (A-91 to A-92)	(1,95,76,784) (A-130)	Separate Bifurcation Not Available
5.	Net Decrease / (Increase) in Stock	(1,02,07,296)	1,00,62,517	N/A
6.	Decrease / (Increase) as per Cash Flow Statement	(1,02,60,296)	1,00,62,516	1,71,213
7.	Difference if any	-53,000	1	21,21,358 (3-6)

From the above, it was noted that there was no material difference due to change in inventories for the financial year 2008-09 and 2009-10. For the financial year 2010-11, details of non-cash adjustment were not given and accordingly, actual change in the inventories was not ascertainable. Keeping in view the difference for the financial year 2010-11 (as per information available), benefit cannot be extended to the Respondent for the financial year 2010-11. Thus, the Respondent was held prima facie **Guilty** of professional misconduct falling within the meaning of Item (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949.

(x) **Tenth Charge (S. No. 15 of above table) relating to non-compliance with the requirement of AS-3 'Cash Flow Statements' as cash flows were reported on net basis in respect of all loans including working capital:-**

The Director (Discipline) in the prima-facie opinion noted that Paragraph 21 of AS-3, Cash Flow Statements states that:

'21. An enterprise should report separately major classes of gross cash receipts and gross cash payments arising from investing and financing activities, except to the extent that cash flows described in paragraphs 22 and 24 are reported on a net basis'.

Further, paragraph 22 of AS 3, Cash Flow Statements, states that

"Cash flows may be reported on a net basis: (a) cash receipts and payments on behalf of customers when the cash flows reflect the activities of the customer rather than those of the enterprise, and b) cash receipts and payments for items in which turnover is quick, amounts are large, and the maturities are short".

In the instant case, loans by their nature cannot be considered as receipts or payments made on behalf of the customers nor there was any documentary evidence to show that the turnover of cash receipts and payments was quick. Hence, presentation of borrowing on net basis was in contravention of requirement of AS-3, thus, the Respondent was held prima facie **GUILTY** of professional misconduct falling within the meaning of item (7) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

- (xi) **Eleventh Charge(S. No. 16 of above table) relating to Deferred revenue expenditure adjusted as part of working capital changes in Cash Flow Statement:-** In relation to charge relating to deferred revenue expenditure adjusted as part of working capital changes, the Respondent stated that the same was adjusted as part of working capital changes considering the fact that the same was not adjusted in Cash Flow Statement. The Director (Discipline) in the prima-facie opinion noted that the Respondent did not bring on record any documentary evidence to show that deferred revenue expenditure resulted in cash outflow from the Company during the financial years under question. In absence of any evidence from the Respondent, the Respondent was held prima facie **Guilty** of professional misconduct falling within the meaning of item (6) & (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949.
- (xii) **Twelfth Charge (S. No. 17 of above table) relating to Investments made in subsidiaries and associates and share application money also paid to an associate company.:-** The Director (Discipline) in the prima-facie opinion noted that in Cash Flow Statement, investments made in subsidiaries and

associates and share application money paid to an associate company were shown under a single head 'Investment in equity'. It was viewed that usage of such terminology does not clearly indicate acquisition of subsidiaries and associates which was against the requirements of AS-3. As per AS-3 'Cash Flow Statement', "*The aggregate cash flows arising from acquisitions and from disposals of subsidiaries or other business units should be presented separately and classified as investing activities*".

On perusal of Schedule of Investments, it was seen that there was also an increase in the amount of investment in subsidiary. Though the Respondent stated that there was no disposal of subsidiary in 2008-09 yet he remains silent in respect of subsequent financial years and there was no clarity as to whether there was acquisition of subsidiaries and association or not. AS-3 requires separate disclosures in case of acquisition and disposal of subsidiaries and the Respondent as auditor appears to have failed to verify the details of the same. Thus, the Respondent was held prima facie **GUILTY** of professional misconduct falling within the meaning of Item (7) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

(xiii) **Thirteenth Charge (S. No. 18 of above table) relating to Interest and dividend received classified as 'Cash Flows from Financing Activities' instead of 'Cash Flows from Investing Activities' & non-compliance with the requirements of Paragraph 30 and 31 of AS 3:-** The Director (Discipline) in the prima-facie opinion noted that:

- a) Since the Company was not a financial enterprises, the interest and dividend received should have been shown as arising out of investing activities in Cash Flow Statement as per Paragraph 30 of AS-3. The Respondent did not make any submission in respect of aforesaid wrong classification except saying that interest received and dividend were shown separately. Thus, the Respondent was held prima facie **GUILTY** of professional misconduct falling within the meaning of Item (7) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

b) In Schedule -14 'Finance Cost', total interest paid Rs. 3,65,87,873/- out of which Rs. 1,17,08,542/- was capitalised interest and the entire amount of interest paid was classified as 'Cash Flow From Financing Activities'. However, as per requirement of Paragraph 15 of AS-3, the capitalised portion of interest expenses should be classified as investing activities of the enterprise but it was classified as "Cash Flow from financing activities". Since the Respondent failed to point out the afore-stated irregularity in his audit report, he was held prima facie **Guilty** of Professional Misconduct falling within the meaning of Item (7) of Part-I of the Second Schedule to the Chartered Accountant Act, 1949.

(xiv) **Fourteenth Charge (S. No. 19 of above table) relating to non-compliance with the requirement of Paragraph 20(b) of AS-3 where adjustments of rates and taxes to derive Cash Flow from Operating Activities were made:-**

The Director (Discipline) in the prima-facie opinion noted that rates and taxes was neither a non-cash items nor an item related to financing or investing activity. Adjustment of rates and taxes to derive the Cash Flow from Operating Activities is not as per the requirement of Paragraph 20 of AS-3 whereas the Respondent stated that rates and taxes was considered as non- cash item, therefore, excluded from the cash flow statement. Since the Respondent failed to draw attention on this non-compliance in his Audit Report, it was viewed that the Respondent was held prima facie **GUILTY** of Professional Misconduct failing within the meaning of Item (7) of Part I of the Second Schedule to the Chartered Accountant Act, 1949.

(xv) **Fifteenth charge (S. No. 21 of above table) relating to Non-compliance with the requirements of AS-13, Accounting for Investments as well as Schedule VI to the Companies Act, 1956:-**

The Director (Discipline) in the prima-facie opinion noted that as per Paragraph 26 of AS-13, an enterprises is required to disclose current investments and long term investments distinctly in its financial statements. Further, clause (I) of general instructions given for preparation of balance sheet under Part I of Schedule VI of Companies Act, 1956 requires that non-current investments shall be classified as trade

investments and other investments. Keeping in view the allegation vis-à-vis submissions on the same, it was noted that the amount of investment in subsidiaries was material when compared with the total amount of investment and total size of the Balance Sheet as on 30th June, 2009. Hence, the Respondent was expected to report the non-compliance of the requirement of Schedule VI to the Companies Act, 1956 and paragraph 35(e) of AS-13. Thus, he was held prima facie **Guilty** of professional misconduct falling within the meaning of Items (5) & (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949.

(xvi) **Sixteenth Charge (S. No. of 25 of above table) relating to non-compliance with the requirements of AS-22 read with Paragraph 24 of AS-1 as the Company has paid MAT during the financial year 2010-11, however, the accounting policy adopted for its recognition has not been disclosed:-**

The Director (Discipline) in the prima-facie opinion noted that as per the paragraph 24 of AS-1, the Company was required to disclose the accounting policy adopted for recognition of MAT but the same was not disclosed in the Notes to Accounts. The Respondent as an auditor failed to draw attention to the same. Accordingly, he was held prima facie **Guilty** of professional misconduct falling within the meaning of Item (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949.

(xvii) **Seventeenth Charge (S. No. 26 of above table) related to non-compliance with the requirement of AS-22 as depreciation was not considered for recognition of Deferred Tax Liability:-**

The Director (Discipline) in the prima-facie opinion noted from notes to account no.10(v) that depreciation as per books of accounts was Rs 2,94,17,006/- whereas depreciation as per income tax was Rs. 5,77,41,012/-. Therefore, the Company should have recognised deferred tax liability for timing differences (i.e., difference between depreciation charged as per books of account and depreciation charged under Income Tax Act). In this regard, the Respondent stated that timing difference was not recognised by the Company due to higher depreciation and cash loss. Hence, no adjustment for depreciation / write off was done to work out nil tax provision. This said contention of the Respondent was not maintainable because as per

AS-22, the Company was required to recognise the deferred tax liabilities after considering the difference between the depreciation as per books of accounts and depreciation as per income tax act. The Respondent as auditor failed to draw attention to the same. Thus, the Respondent was held prima facie **GUILTY** of Professional Misconduct falling within the meaning of Item (7) of Part-I of the Second Schedule to the Chartered Accountants Act, 1949.

(xviii) **Eighteenth Charge (S. No. 27 of above table) related to deferred tax assets which should be recognised to the extent of reversal of deferred tax liability:-**

The Director (Discipline) in the prima-facie opinion noted that since the Company was having unabsorbed depreciation, it appears that there was no virtual certainty that sufficient taxable income would be available against which deferred tax assets can be realised. However, keeping in view the reversal of deferred tax liability in coming years, deferred tax assets could be recognised to the extent of the deferred tax liability that give rise to sufficient future taxable income. Therefore, it was viewed that the DTA should also have been recognised as per AS-22. Since the Respondent failed to draw attention to this non-compliance in his audit report, it was viewed that Respondent was held prima facie **GUILTY** of Professional Misconduct falling within the meaning of Item (7) of Part I of the Second Schedule to the Chartered Accountant Act, 1949.

(xix) **Nineteenth Charge (S. No. 28 of above table) related to non-compliance with the requirement of AS-22 as major components of deferred tax liability has not been disclosed:-**

The Director (Discipline) in the prima-facie opinion noted that though the Respondent stated that deferred tax liability was mainly on account of timing differences hence no separate disclosure was given. In this regard, it was observed that this contention of the Respondent was not maintainable as AS-22 requires to disclose the break-up of deferred tax liabilities into major components of the respective balances but the Company failed to do so. The Respondent as auditor also failed to draw attention to the same. Therefore, the Respondent was held prima facie **GUILTY** of Professional Misconduct falling within the meaning of Item (7) of Part-I of the Second Schedule to the Chartered Accountants Act, 1949.

- (xx) **Twentieth Charge (S. No. 29 of above table) Balance sheet and Profit and Loss Account shows that deferred revenue expenditure was carried forward under the head "Miscellaneous Expenditure" being written off over the period which is non-compliance with the requirement of AS 26:-**

The Director (Discipline) in the prima-facie opinion noted that the Respondent in his defense stated that miscellaneous expenditure was incurred to raise capital by way of preferential issue which did not result into creation of any tangible or intangible assets. It was viewed that when an expenditure does not meet the definition of the term of 'assets' such expenditure should be expensed in the profit and loss account in the year in which it is incurred and therefore deferment of expenditure is not allowed as per paragraph 6.2 and 56 of AS-26. Therefore, keeping in view the requirement of AS-26, if expenditure does not result in creation of any asset, it should be written off in the Profit & Loss Account in the year in which it is incurred and accordingly, the contention of the Respondent was not maintainable. Therefore, the Respondent was held prima facie **GUILTY** of Professional Misconduct falling within the meaning of Item (7) of Part-I of the Second Schedule to the Chartered Accountants Act, 1949.

- (xxi) **Twenty-first Charge (S. No. 31 of above table) related to non-compliance with the requirement of paragraph 14 of AS-29, Provisions, Contingent Liabilities and Contingent Assets:-**

The Director (Discipline) in prima-facie opinion noted that as per paragraph 14 of AS-29, provision is recognised for all present obligations no matter whether they are legal and constructive obligations or not. It was noted that though the Respondent stated that the wording may not be in line with AS 29 but actual provisions were in line with AS 29 yet the said claim was not supported by the Respondent with corroborative evidences. Therefore, the contention of the Respondent was not maintainable. Since the Respondent failed to draw attention to this deviation / non-compliance in his Audit Report, it was viewed that the Respondent was held prima facie **GUILTY** of Professional Misconduct falling within the meaning of Item (7) of Part-I of the Second Schedule to the Chartered Accountants Act, 1949.

- (xxii) **Twenty-second Charge (S. No. 32 of above table) related to non-compliance with the requirement of AS-29 as contingent liabilities were not reported on estimated basis:-** The Director (Discipline) in the prima-facie opinion noted that all contingencies liabilities should be assessed at each balance sheet date and should be reported in the financial statements as per the requirements of AS-29 but the Company failed to recognise the same and it appears to recognise contingent liabilities based on mutual acceptance. Further, it was noticed that once the parties mutually agrees upon the obligation then it should be recognised as a liability rather than contingent liability. Since the Respondent failed to draw attention to this non-compliance of AS-29 in his Audit Report, it was viewed that he was held prima facie **GUILTY** of Professional Misconduct falling within the meaning of Item (7) of Part I of the Second Schedule to the Chartered Accountant Act, 1949.
- (xxiii) **Twenty-third Charge (S. No. 34 of above table) related to non-compliance with the requirement of Paragraph 24 of AS-1 and Paragraph 23 of AS-16:-** The Director (Discipline) in the prima-facie opinion noted that specific disclosure should be given for borrowing cost. It was also noted that the Respondent also accepted in his written statement that specific disclosure for borrowing cost may not have been made by the Company. Since the Respondent failed to point out that disclosure as required by AS-16 read with AS-1 has not been given by the Company in his audit report, he was held prima facie **GUILTY** of professional misconduct falling within the meaning of Item (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949.
- (xxiv) **Twenty-four Charge (S. No. 35 of above table) related to non-compliance with the provisions of Section 349 of the Companies Act, 1956 relating to treatment of depreciation for determining net profit for computation of managerial remuneration:-** The Director (Discipline) in the prima-facie opinion observed that on perusal of the note as given in the Notes to Accounts for the financial years 2008-09, 2009-10 and 2010-11, it was noted that the amount of depreciation as given in Profit & Loss Account, Fixed Assets Schedule and amount of depreciation deducted for calculation of Managerial Remuneration was as under:-

Financial Year	Depreciation as per P & L (A)	Depreciation as per Fixed Assets Schedule (B)	Deducted for calculation of Managerial Remuneration (C)	Difference (B-C)
2008-09	2,94,17,006	2,94,17,006	5,77,41,012	-2,83,24,006
2009-10	2,22,64,210	2,22,64,212	2,29,68,558	-7,04,346
2010-11	3,28,39,372	3,28,39,372	11,56,97,382	-8,28,58,010

From the above, it was evident that depreciation as per fixed assets schedule and the depreciation taken for calculation of managerial remuneration was different and the Respondent did not bring on record any submissions / documentary evidence to justify the aforesaid difference. In absence of any evidence, it cannot be stated that the depreciation taken for calculation of managerial remuneration was computed in accordance with the provisions of Section 350 of the Companies Act, 1956. Hence, the Respondent was held prima facie **GUILTY** with respect to above allegation, falling within the meaning of Items (6) & (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949

- (xxv) **Twenty-five Charge (S. No. 36 of above table) related to the presentation of loan as secured loan of the Company and charging the interest paid as an expense of the company which is not in line with the requirements of Part I, Part II of Schedule VI to The Companies Act, 1956:-** The Director (Discipline) in the prima-facie opinion noticed that it was observed from Note 2(d) of Schedule 15B that loan was secured by deposit kept with the bank by a third party, therefore, such loan cannot be considered as secured loan for the Company as such loan was secured by the assets held by the third party. Therefore, it cannot be considered as 'Secured loan'. Further, interest paid by the third party cannot be considered as expense of the Company as payment of such interest do not decrease company's economic benefit or assets. Moreover, there was nothing on record to show that the Company had paid

interest to the subsidiary or the bank. Hence, the contention of the Respondent was not maintainable, thus, the Respondent was held prima facie **GUILTY** of Professional Misconduct falling within the meaning of Item (7) of Part I of the Second Schedule to the Chartered Accountant Act, 1949.

(xxvi) **Twenty-six Charge (S. No. 37 of above table) related to non-compliance with the requirement of Paragraph 3(xi) (c) of Part II of the Schedule VI to the Companies Act 1956:-** The Director (Discipline) in the prima-facie noted that interest income earned was disclosed but tax deducted at source on the interest income earned was not disclosed separately. As per Clause 3 (xi) of Part II, Schedule VI to the Companies Act 1956, the amount of tax deducted should be separately disclosed. Further, the Respondent accepted that since the record related to TDS was not maintained, accordingly, he could not verify the same and consequently, no separate disclosure of TDS on the interest was made. Since the Respondent failed to report the aforesaid non-compliance of the requirement of Schedule VI in his Auditor's Report, it was viewed that the Respondent was held prima facie **GUILTY** of Professional Misconduct falling within the meaning of item (7) of Part I of the Second Schedule to the Chartered Accountant Act, 1949

(xxvii) **Twenty-seven Charge (S. No. 38 of above table) related to Non-compliance with the requirement of Clause 32 of listing agreement:-** The Director (Discipline) in the prima-facie noted that it was imperative that the contravention of disclosure requirements of Clause 32 of the listing agreement should have been reported by the Respondent in his Auditor's Report. Further, the Respondent himself admitted that notes to accounts.no. 11 discloses the related party transactions where names of associates were disclosed but details of loan with individual associate were not disclosed separately. Hence, it was viewed that the Respondent failed to report such non-compliance in his Auditor's Report. Thus, the Respondent was held prima facie **GUILTY** of Professional Misconduct falling within the meaning of Item (7) of Part I of the Second Schedule to the Chartered Accountant Act, 1949

(xxviii) **Twenty-eight Charge (S. No. 42 of above table) related to failure to give qualification regarding not accounting of the difference between the actual liability and the discounted value as revenue expenditure in the Auditor's Report for the financial year 2010-11:-** The Director (Discipline) in the prima-facie noted that there was no qualification in the FY 2010-11 regarding not accounting of difference between actual liability and discounted value as revenue expenditure. On perusal of the Profit & Loss Account for the financial year 2009-10 and its schedules, the aforesaid difference was not found to have been written off in the Profit & Loss Account. Hence, benefit cannot be extended to the Respondent, thus, he was held prima facie **GUILTY** of Professional Misconduct falling within the meaning of Items (5) & (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949.

(xxix) **Twenty-nine Charge (S. No. 43 of above table) related to non-compliance with the requirement of paragraph 4(ii) (a) (b) (c) of CARO, 2003 and Part I of Schedule VI to the Companies Act, 1956:-** The Director (Discipline) in the prima-facie noted that as per clause 4 (ii) (a), (b) & (c) of CARO 2003, the Respondent not only failed to report whether physical verification of inventory has been conducted at reasonable intervals by the management and about whether proper records have been maintained; but also failed to bring on record when physical verification record was not available then as to how he satisfied himself that the inventory was not materially misstated. Keeping in view the reporting requirement under CARO 2003 and in absence of any documentary evidence with regard to verification of inventory, the Respondent was required to qualify his main audit reports for the financial year 2008-09 and 2009-10 but he failed to do so. The Respondent also failed to mention in his audit report contravention of the requirement of AS-2 regarding valuation of inventory at cost instead of valuing the same at cost or net realisable value, whichever is less. Accordingly, he was held prima facie **GUILTY** of professional misconduct falling within the meaning of Item (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949.

(xxx) **Thirty Charge (S. No. 45 of above table) related to non-compliance with the requirement of paragraph 4 (iv) of CARO, 2003 as the Respondent had**

failed to report whether there was a continuing failure to correct major weakness in internal control system:- The Director (Discipline) in the prima-facie noted that though the Respondent had pointed out the weakness in internal control system on year to year basis yet he failed to point out that internal control system was commensurate with the size of the Company. Further, it appears that the Respondent also failed to report about continuing failure of the Company to correct major weakness in the internal control system as the weakness in the procedures of purchase of materials, stores and consumables and accounting of revenue were reported continuously in audit report which were not corrected. Thus, it was viewed that the Respondent was required to report the continuing failure and thus he was held prima facie **GUILTY** of Professional Misconduct falling within the meaning of Item (7) of Part I of the Second Schedule to the Chartered Accountant Act, 1949.

(xxxii) **Thirty first Charge (S. No. 48 of above table) related to non-compliance with the reporting requirements regarding the basis used for preparation of financial statements -** The Director (Discipline) in the prima-facie noted that the Respondent himself admitted the fact that he had not strictly complied with the reporting requirements regarding the basis used for preparation of financial statements. Thus, keeping in view the submissions of the Respondent and facts on record, it was viewed that the Respondent was held prima facie **GUILTY** of Professional Misconduct falling within the meaning of Item (7) of Part I of the Second Schedule to the Chartered Accountant Act, 1949.

(xxxii) **Thirty-two Charge (S. No. 49 of above table) related to referring to the reference of Accounting Standards as issued by the Institute rather than as notified under Companies (Accounting Standard) Rules, 2006:-** The Director (Discipline) in the prima-facie noted that from the significant accounting policies that the financial statements have been prepared to comply in all material aspects with the mandatory Accounting Standard issued by ICAI and the relevant provision of the Company. Though accounting standards issued notified under Companies (Accounting Standards) Rules, 2006 and Accounting Standards issued by ICAI are almost identical yet reference given by the Respondent was incorrect and the same was admitted by the

Respondent himself. In view of above, it was viewed that the Respondent was held prima facie **GUILTY** of Professional Misconduct falling within the meaning of Item (7) of Part I of the Second Schedule to the Chartered Accountant Act, 1949.

(xxxiii) **Thirty- three Charge (S. No. 50 of above table) related to non-compliance with the Clauses of Section 22 of Micro, Small and Medium Enterprises Development Act, 2003 and non-compliance of SA-500:-** The Director (Discipline) in the prima-facie noted that the Respondent stated in his written submission that complete records were not provided to him and due to which he was unable to comment on disclosure related to MSME, it appears that the Respondent could not verify the details relating to MSME. It was also observed that disclosure of information related to Micro, Small & Medium enterprises are given as per provisions of Section 22 of MSMED Act, 2006. Keeping in view that disclosure as required in terms of the requirement of Section 22 of MSMED Act, is mandatory in nature and the same is required to be given to protect the interest of the small business / traders, the Respondent was required to point out in his report that requisite disclosure as required in terms of Section 22 of MSMED Act had not been given due to non-availability of the documents but he failed to do so. Accordingly, he was held prima facie **GUILTY** of professional misconduct falling within the meaning of Item (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949.

(xxxiv) **Thirty-four Charge (S. No. 51 of above table) related to non-compliance with the disclosure requirements regarding provision for income tax & fringe benefits tax:-** The Director (Discipline) in the prima-facie noted that amount of other provisions should be disclosed separately with specifying nature thereof. While it was observed from the Schedule 11, part (B) provisions of Financial Year 2008-09 that the provision for Income tax and Fringe benefits tax had been clubbed and shown as single line item. However, it was also observed that there was difference between the amount of Fringe Benefit Tax as mentioned in Profit & Loss Account of Rs.8,97,264/- and Schedule to the Balance Sheet amounting to Rs.15,04,963/-) and the said fact indicates that entire amount of Rs.15,04,963/- does not pertain to the Fringe Benefit Tax

and accordingly, the submissions of the Respondent was not tenable. Hence, in view of the requirements of Schedule VI to the Companies Act, 1956, amount of provisions was required to be mentioned separately but the same was not done. Thus, it was viewed that the Respondent was held prima facie **GUILTY** of Professional Misconduct falling within the meaning of item (7) of Part I of the Second Schedule to the Chartered Accountant Act, 1949.

(xxxv) **Thirty-five Charge (S. No. 52 of above table) related to non-compliance**

with the requirements of Paragraph 13 of SA 700:- The Director (Discipline) in the prima-facie noted that the Respondent had failed to comply with the disclosure requirements of SA 700, hence, Respondent failed to discharge his professional duties diligently and the same also reflects the causal approach of the Respondent while signing the financial statements of the Company. Thus, it was viewed that the Respondent was held prima facie **GUILTY** of Professional Misconduct falling within the meaning of item (7) of Part I of the Second Schedule to the Chartered Accountant Act, 1949.

5. Accordingly, the Director (Discipline) in terms of Rule 9 of the Chartered Accountants (Procedure of Investigations of Professional and Other Misconduct and Conduct of Cases) Rules, 2007, held the Respondent Prima-facie **Guilty** of Professional Misconduct falling within the meaning of Items (5), (6), (7) & (8) of Part I of Second Schedule to the Chartered Accountants Act, 1949. The said items in the Schedule to the Act states as under:

Item (5) of Part I of Second Schedule:

"A chartered accountant in practice shall be deemed to be guilty of professional misconduct, if he-

(5) fails to disclose a material fact known to him which is not disclosed in a financial statement, but disclosure of which is necessary in making such financial statement where he is concerned with that financial statement in a professional capacity;

Item (6) of Part I of 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;

Item (7) of Part II of Second Schedule:

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

Item (8) of Part II of Second Schedule:

(8) fails to obtain sufficient information which is necessary for expression of an opinion or its exceptions are sufficiently material to negate the expression of an opinion."

SUBMISSIONS OF THE RESPONDENT ON THE PRIMA-FACIE OPINION

6. The Committee noted that the Respondent in his first submissions dated 27th September, 2022 on Prima Facie Opinion had, inter-alia, mentioned as under:

(i) The Respondent had given clarification/ representation w.r.t. qualification given by him in his audit reports for the period 2005-06 to 2010-11 w.r.t. the following:-

a) Annexure-I -Internal Controls:- The Respondent stated that in all six years (2005-06 to 2010-11) , he had reported as under:-

- Weakness in Stores, purchases procedure and accounting of sales.
- The Company needs to take immediate steps to strengthen the internal control system.

That based on above qualification and reporting, in FY 2008- 09. the management was compelled to take concrete steps to write-off, adjust and resize its balance sheets & accounts in spite of severe financial consequences and within the limitations, it faced from its other stake holders. Also, to ensure its survival in challenging business scenario as going concern by taking support from revaluation of its land and

adjusting, such adjustment and losses against revaluation reserve through the Scheme of Arrangement to be approved by the Hon'ble Court in FY 2008-09.

- b) Annexure-II –Inventory valuation:- The Respondent stated that the Company is required to maintain its stores as per Director General of Civil Aviation (DGCA) requirements and the Company has done this as its stores are approved as per DGCA regulations. Despite such an explanation, there were qualifications in all six years. In fact, as can be seen from audit reports, for FY 2005-06 to FY 2007-08, the qualifications were there in the main audit report also which lead to writing off Inventory net of salvage / realizable value Rs. 12,28,03,000/- (being 75% of total some old non-moving inventories) in FY 2008-09 and further write off of Rs 1,95,76,784 in FY 2009-2010.
- c) Annexure-III- Scheme:- The Respondent stated that as observed in Para 42 of the main audit report in FY 2009-10, he had reservation and inability to comments on the Rationale of the scheme under Section 391 to 394 of the Companies Act, 1956 even though it was approved by the Hon'ble High Court after giving no objections from various government authorities and the auditor appointed to audit its accounts. It was noted that it resulted in the write-off of inventory, current assets and impairment to fixed assets of circa Rs. 44.75 crore against Revaluation Reserve arising out of revaluation of land as per the accounting treatment mentioned in by the scheme.
- d) Annexure IV:- Miscellaneous / Others:- The Respondent stated that over and above serious and continuous qualifications for internal control, inventory and arising out of the treatment of the scheme, there were qualifications relating to treatment of accounting liability of interest free sales tax deferral loan (FY 2005-06 to FY 2008-09), AS 7 for revenue accounting (FY 2006-07 and FY 2007-08) and AS 15 for Employee benefits accounting for FY 2007-08.

- (ii) That the above qualification were given to bring transparency in the accounts, reflect true and fair view without qualifying the accounts to avoid the company going to BIFR under the Sick Companies Act.

7. The Committee noted that the Respondent in his second submissions dated 30th September, 2022 on Prima Facie Opinion had, inter-alia, mentioned as under:-

- (i) **In response to the first charge (S. No. 2 of above table)**, he submitted that over statement of profits by Rs 200,00,000 was qualified. All prior period and extraordinary adjustments were done against the said revaluation reserve which was transferred to profit and loss account. Further, in his judgement such extraordinary adjustment should not be considered to work out basis earnings per share as the same was not arising out of the operation of the company for the period and all such write off was not directly to profit and loss account but against revaluation reserve in pursuant to the Scheme approved by the Honourable High Court. Based on the above interpretation that such adjustments have nothing to do with normal operating income of the company for the period and adjustments pursuant to the scheme and prior period adjustments should not be considered while working out EPS in compliance of AS-20.
- (ii) **In response to the second charge (S. No. 4 of above table)**, he submitted that in compliance of para 40 and 41 of SA 700, he as statutory auditor expressed qualified opinion, quantified the possible effect and impact in aggregate on financial statement in Auditor's report. In addition, requirements of quantification of the possible effect individually were given in notes to which invited attention in audit report.
- (iii) **In response to the third charge (S. No. 6 of above table)**, he submitted the followings:-
- a) That in the opinion of the company and its tax advisory that runway should be considered as plant and claimed depreciation in tax computation applying the depreciation rate applicable to plant year after year. A special purpose building used by chemical companies and pharma companies was considered as plants and depreciation deduction by tax department was allowed accordingly.

- b) Based on the above understanding, the company decided to consider runway as plant and applied depreciation rate applicable to plant and even claimed additional depreciation for tax purposes and for working out managerial remuneration under Sec 349 of the Companies Act 1956.
- c) As a statutory auditor, he found the classification of the runway as plant by the company reasonable and acceptable and in compliance of definition of plant and Machinery and covered by II plant and Machinery clause (1) and will be more appropriate to reflect true and fair view and even as result the managerial remuneration was restricted to minimum because of higher depreciation to be adjusted while working out profit under Sec 349 of the Companies Act, 1956.
- (iv) **In response to the fourth charge (S. No. 7 of above table),** he submitted the followings:-
- a) The Respondent had given reference to para 23 (a) and submitted that in all three years borrowing cost was accounted as AS-16 only and as normally accounted by all companies, though the same was not separately mentioned hence it was considered as inadequate.
- b) Further, w.r.t. capitalization of interest he had given reference to Schedule 14 and Schedule 15 of Notes to Accounts.
- c) That disclosure of interest capitalisation was considered incomplete and not in line with the AS-16 because it mentioned that *'treated as incidental expenditure during construction and subsequently capitalized'*.
- d) The Respondent had clarified the preceding statement, emphasizing that till assets/ the project is ready to use and capitalised in the books, all expenses remain in work-in progress, and on completion of the project, the same was capitalized in line with accounting policies for Fixed Assets. The accounting was in line with and in compliance of AS 16, however presentation and wording in the accounting policies given seems to be not conveying actual treatment in the books of account.

(v) In response to the fifth charge (S. No. 8 of above table), the Respondent submitted the followings:

- a) That all accounting was done in accordance with AS-11 though actual disclosure as given in schedule 15 A Clause 5 may not be in line with the requirements of AS-11.
- b) That profits /losses arising on account of conversion of outstanding contracts at reporting date and cancellation or renewal of the forward contracts were recognized in the profit & loss account of the Company. Total foreign exchange profit and loss accounted year wise were as follows:

Year	Profit/ (Loss)
2008-09	33,26,520
2009-10	6,959
2010-11	2,08,540

- c) That there was no forward contract except with Cesana which used to be outstanding at the yearend. For imports everything was payable in advance and hence year end outstanding amount year after year was negligible.
- d) That as the differences mentioned above were insignificant, it can be stated that a true & fair view of the financial position of the Company was not materially affected.

(vi) In response to the sixth charge (S. No. 9 of above table), the Respondent submitted that the company had only four plans i) Provident Fund, (ii) Superannuation Scheme, (iii) a gratuity scheme and iv) leave encashment plan. The first two were contribution plans where both employer and the company were contributing funds and for the other two, provisions were based on actuarial valuation, though due to financial crunch those were not funded. Further, based on the above disclosures made by the company provisions were made. As mentioned above gratuity provisions were not funded. As documentary evidence to prove that gratuity was not funded, the Respondent had submitted copy of tax

audit report /computation of income. As Sec 40A (7) of the Income Tax Act, 1961 disallow gratuity provisions which are not funded by the company.

(vii) **In response to the seventh charge (S. No. 10 of above table),** the Respondent submitted that the followings:-

a) That the company was authorised sales and service agent of M/s Cesana Aircraft, USA. If any order is to be placed by any Indian company/Indian national, lot of formalities and approvals were required. All those follow up with customers and government department are the responsibility of the company. Hence the company starts incurring expenditure from the date it secured the order till actual delivery to the customer. The delivery period used to be around 3 years or more. Even customer needed to pay advance on placing of order and proportionate payment on achieving milestones and invoice raised by Cesana on the customer. The company was entitled also to commission based on payment received and full commission was accounted for over a time of date of placing the order and actual delivery of the plane based on matching principles of generally accepted accounting policies. To avoid, mismatch in cost incurred and revenue accounting, commission was accounted on time basis.

b) That revenue from training was incidental and extremely insignificant and pilot wants to take training can come for 7 to 15 days any time over a period of one year after making payment of fees which is non-refundable. Based on that to avoid accounting issues and tracing, the same was accounted on receipt basis.

c) That the Company used to do labour work for VSSC and HAL. In all cases material used to be supplied by the customers. It used to order multiple parts and in multiple numbers and having exceptionally long delivery schedule. To support his contention the Respondent has brought on record copy of purchase order, amendment to purchase order, terms of payment from which it will be evident why accounting

was done on proportionate completion method. Based on the above, but accounting is also done on proportionate completion method.

- (viii) **In response to the eighth charge (S. No. 12 of above table),** the Respondent submitted the followings:-
- a) That loose tools are tools which the company provides along with aircraft assembled and sold by the company. Further, amount of these tools are insignificant. Therefore, it is not possible to find realisable value as there is no market for such tools and only it can be used by the user of the aircraft or by the company to maintain /repair the aircraft.
 - b) That the company makes various parts and assemblies relating to the aviation industry and mostly for HAL and VSSC. They are all customized parts and as per the specification and material provided by the customers and hence there is no market for those parts. Even then, all valuation of inventory was always conservative and used to be discussed, revised, and refined based on actual experience. Considering accounting policies followed due to uniqueness of industry and as a startup and first private sector aircraft manufacturer since inception.
- (ix) **In response to the ninth charge (S. No. 14 of above table),** the Respondent submitted that out of total write-off Rs 84,35,966 in Current Assets pursuant to the Scheme of Arrangement, Rs 21,21,358 pertains to write-off of finished goods (Light Transport Aircraft) which was non-cash item. (Value of 0.5 Aircraft which was reduced from Rs 71,21,358 to Rs 50,00,000 which is visible as Schedule 13.2 regarding increase(decrease) in stocks which show closing stock lower as compared to opening stock of finished goods, though there was no sale or purchase of finished goods during the year. Similarly, note 18C giving quantity details finished goods also shows such difference clearly.

2/

- (x) **In response to the tenth charge (S. No. 15 of above table),** the Respondent submitted that as for all the three years under consideration i.e. FY 2008-09 to FY 2010-11, total borrowings of the Company went on increasing and the amount tallies with reported under Cash Flow Statements. The Respondent further stated that all accounting was done in accordance with AS 3 though actual disclosure as given may not be in line with the exact requirements of AS 3. Though, Paragraph 21 of AS 3 requires the amount to be disclosed separately. Considering the fact that total borrowing was increasing, the company seems to have disclosed borrowings on net basis and not noticed by Respondent non-compliance in the matter.

Particulars	2008-09	2009-10	2010-11
Secured Loans	14,93,25,121	20,91,19,516	17,56,40,817
Unsecured Loans	11,02,31,763	7,66,49,112	17,28,18,334
Total	25,95,56,884	28,57,68,628	34,84,59,151
Change	6,85,05,750	2,62,11,744	6,26,90,523

- (xi) **In response to the eleventh charge (S. No. 16 of above table),** the Respondent submitted that the profit before tax in respective years arrived after deducting the deferred revenue expenditures. Thus, to arrive at net Cash Flows from Operating activities, the Company have adjusted decrease in deferred revenue expenditure. It is noted that Deferred revenue expenditure appears as part of Schedule 13 respectively for FY (Financial Year) 2008-09 and FY 2010- 11. It is further noted that there was no new expenditure incurred which was debited to Deferred revenue expenditure. Hence reduction of miscellaneous expenditure appearing in the balance sheet is like reduction in any other current assets. Further, as on 31st March, 2010 balance amount left was nil and hence there were no adjustments in expenses or cash flow was required. The following table summarizes the factual position:-

Particulars	2008-09	2009-10	2010-11
Amount adjusted in Balance Sheet	8,11,140	778,789	Nil
Amount adjusted in Cash Flow Statement	8,11,140	778,789	Nil
Amount shown under Administrative Expenses	8,11,140	778,789	Nil

- (xii) In response to the twelfth charge (S. No. 17 of above table), the Respondent submitted the year wise detailed schedule for all three years which are as under:-

Particulars	2008-09	2009-10	2010-11
Total of Investments as per Balance Sheet	14,49,19,720	4,77,70,595	4,77,70,595
Change compared to previous year	1,58,29,750	-9,71,49,125	-
Adjustment in Cash Flow Statement	3,85,69,883	2,00,000	-

In FY 2008-09, there was only further investment in the company which was already the subsidiary of the company. There was also sale of trade investment at loss and hence cash flow shows investments net of sale proceeds of trade investment sold.

In FY 2009-10, small investments of Rs 80000 was dispose of for Rs 2,00,000 and profit from sale of investments were reflected in other income and in 2010-11, there was no movement in investment in subsidiaries or Associates as opening and closing balance of investments is identical. The amount considered under the Cash Flow Statement was the actual amount realized by selling the investments made in Subsidiaries or Associates. Thus, inadvertently the Company had shown Investment in Equity on a net basis (though there were not any additions) and non-compliance in the matter not noticed the Respondent.

- (xiii) **In response to the thirteenth charge (S. No. 18 of above table)**, the Respondent submitted that though para 30 of AS 3 requires cash flows arising from interest paid should be classified as cash flows from-financing activities while interest and dividends received should be classified as cash flows from investing, The company inadvertently classified under Cash Flow from Financing Activities. The dividend received was not material for the years under consideration. Further, the Respondent submitted that amount reflected in schedule "Finance Cost" is after reducing "Interest Capitalised" and Net amount is shown as Financing Activities in Cash Flow Statement and Interest Capitalised is shown in "Purchase of Fixed Assets" as Investing Activities. Accordingly, the Respondent considered the presentation in compliance of AS-3.
- (xiv) **In response to the fourteenth charge (S. No. 19 of above table)**, the Respondent has given reference to para 4.2 of auditors report for the financial year 2008-09 and stated that the practice of recording sales tax liability was not in accordance with generally accepted accounting practice. So, adjustment in cash flow arose due to such wrong accounting policy. Through the Scheme of Arrangement approved by Hon'ble High Court, the company corrected the practice and the adjustment in cash flow statement for FY 2009-10 was pursuant to the order of High Court which to correct the accounting policy in line with generally acceptable practice.

(xv) **In response to the fifteenth charge (S. No. 21 of above table),** the Respondent submitted that all accounting was done in accordance with AS 15 (*sic*) though actual disclosure as given in SCHEDULE 6: INVESTMENTS may not be in line with the exact requirements of AS 15 (*sic*). Though the amount of investment in subsidiaries was material considering the total investments, all subsidiaries were private companies which was evident from their names, though disclosure as required like Unquoted, and Trade was not given by the company. Despite that he could not notice and refer such non-disclosure and non-compliance with the standards in his audit report.

(xvi) **In response to the sixteenth to nineteenth charge (S. No. 25 to 28 of above table),** the Respondent submitted that the company continuously incurring loss and having business Loss, depreciation loss and other losses carried forward since almost inception in FY (Financial Year) 1994. So, it will true and Fair view if any entries are passed for MAT credit or deferred tax assets. The Respondent has brought on record copy of tax computation for FY 2008-09 which shows huge carry forward of losses and based on that, no entries were being passed for creating deferred tax assets or MAT Credit. However as observed, policies were not disclosed. Based on its redundancy in the case of the company, the company decided not to adopt accounting policy in that respect.

8. The Committee noted that the Respondent in his third submissions dated 1st October, 2022 after Prima Facie Opinion had, inter-alia, mentioned as under:-

(i) **In response to the twentieth charge (S. No. 29 of above table),** the Respondent submitted that the miscellaneous expenditure incurred was to raise capital by way of preferential issue which did not result in creation of any intangible assets. The amount was debited to miscellaneous expenditure in earlier years and proportionate basis it was been written-off in FY 2007-08 and FY 2008-09 and 2009-10 and in the said years it became zero. Therefore, no new additions were made to the said account so in his opinion, it was rightly not shown as assets.

- (ii) **In response to the twenty-first and twenty-second charge (S. No. 31 and 32 of above table),** the Respondent submitted that all provisions were in line with AS 29. The Respondent stated that the company supplied highly technical parts to its customers and even a small defect cannot be tolerated as it may have an impact on the life of the passengers or can result in huge loss to the customers. So even after supply of goods to the customer, if quality control department of the customer raises any objection or have quarries about the quality of the product supplied, the company used try to rectify only at the customer's site. So, till both customers and the company agree then any liability in that respect is booked.
- (iii) **In response to the twenty-third charge (S. No. 34 of above table),** the Respondent submitted that the company gave disclosure about interest capitalisation as part of accounting Policy in respect of Fixed Assets. Further, Schedule 15, which in fact covers the accounting policy adopted for borrowing costs. As regards to capitalisation of borrowing costs, it is mentioned in the said policy that interest on fund deployed on the project/assets to be capitalised is added to the cost of assets (net of any income earned). Such disclosure covers the required disclosure in the matter. Also, Schedule 14 gives details about total borrowing costs and amount capitalized.
- (iv) **In response to the twenty-fourth charge (S. No. 35 of above table),** the Respondent submitted that in the absence of any evidence, it cannot be stated that the depreciation taken for calculation of managerial remuneration was computed in accordance with the provisions of Section 350 of the Companies Act, 1956. The Respondent stated that depreciation in the books was provided on straight line method while Section 350 of the Companies Act, 1956 required depreciation to be provided on written down value basis. As a result, there is variation in the depreciation in the books and as given in the profit and loss account and which will always be like that as depreciation worked out on straight line method will be significantly lower compared to written down value method

in the early stage company as company putting lot of assets. Accordingly, in his opinion the managerial remuneration was calculate in accordance with the provisions of Section 350 of the Companies Act, 1956.

- (v) **In response to the twenty-fifth charge (S. No. 36 of above table),** the Respondent submitted that HSBC sanctioned the loan in the name of one of its subsidiaries i.e. TAAL infrastructure Pvt Ltd against securities. The loan was assigned to the company and funds were utilised by the company for its own business i.e. implementation of its project. Based on the above, the loan was shown as secured loan and interest was shown as interest paid to bank.
- (vi) **In response to the twenty-sixth charge (S. No. 37 of above table),** the Respondent submitted that the company did not maintain adequate records in respect of TDS on interest received as a result details of TDS deducted was not mentioned, though interest income was accounted on gross basis only as interest is calculated at applicable rate while making provisions, hence irrespective of tax was deducted at source or not, interest was always accounted on gross basis. Because of non-maintenance of records and proof of TDS, the Company lost even refund on this amount from income tax department.
- (vii) **In response to the twenty-seventh charge (S. No. 38 of above table),** the Respondent submitted that as mentioned in audit reports, there were deficiencies in the maintenance of records and whatever details produced to him were only at the last moments. All these operational issues lead to qualifications year after year for deficiencies in records and controls. Because of such deficiencies, various disclosures and information were not extracted and produced before him in time hence disclosures made were in not strict compliance of Listing Agreement and SEBI (Securities and Exchange Board of India) guidelines, Schedule VI of the companies Act and Accounting Standards. However, enough information is available in the relevant notes for the users to take informed decisions. Notes to accounts no. 11, discloses the related party transactions where names of

associates are disclosed but inadvertently details of loan with individual associate have not been disclosed separately by the company. However, in subsequent accounting years, proper disclosure was provided.

- (viii) **In response to the twenty-eighth charge (S. No. 42 of above table),** the Respondent submitted that the said amount was written off as part of total write-off of Rs 12,97,08,425. Details of such write off are reflected in note 17 (e) wherein profit and loss account write off is given. Hence, it was not appearing as separate item in profit and loss account.
- (ix) **In response to the twenty-ninth charge (S. No. 43 of above table),** the Respondent submitted that the Company is required to maintain its stores as per Director General of Civil Aviation (DGCA) requirements and the Company has done this as its stores are approved as per DGCA regulations. Despite such an explanation, there were qualifications in all six years. In fact, as can be seen from audit reports, for FY 2005-06 to FY 2007-08, the qualifications were there in the main audit report also which lead to writing off inventory net of salvage/realizable value Rs. 12,28,03,000/- (being 75% of total some old non-moving inventories) in FY 2008-09 and further write off of Rs 1,95, 76, 784 in FY 2009-2010.
- (x) **In response to the thirtieth charge (S. No. 45 of above table),** the Respondent submitted that as a statutory Auditor, for each of the period under consideration, he had specifically mentioned the continuing failure of the Company to correct major weakness in the internal control & internal control system was not commensurate with size of the Company. Similar disclosures were also made at various places. Based on the above continuous reporting, the company took various steps including appointing an independent firm of chartered accounts to do internal audit and the group deputed team from head office for internal audit.
- (xi) **In response to the thirty-first and thirty- second charge (S. No. 48 and 49 of above table),** the Respondent submitted that there were major concentration on arriving at true and fair view and as a result at the time of last-minute finalization, the Respondent and his team missed certain

requirements, though the same was followed while auditing and preparing audit report.

- (xii) **In response to the thirty-three and thirty-four charge (S. No. 50 and 51 of above table),** the Respondent submitted that the company did not maintain details of sundry creditors outstanding relating MSME, though as part of management representation letter, it was always represented that there was no amount outstanding to MSME for a period more than 45 days. The Respondent has brought on record copy of Management Representation letter issued by the company in FY 2009- 10. As regards tax provisions for income tax and fringe benefit tax, there were no provisions for income tax and all provisions were for fringe benefit tax only including opening outstanding balance, hence balance appearing in balance sheet is higher than amount provided in profit and loss account.
- (xiii) **In response to the thirty-five charge (S. No. 52 of above table),** the Respondent submitted that for FY 2008-09 FY 2009-10, it was inadvertently mentioned that the audit was conducted in accordance with accounting standards generally accepted in India, though for FY 2010 - 11, the report referred to auditing standard generally accepted in India.

9. **BRIEF FACTS OF THE PROCEEDINGS:-**

The Committee noted that the instant case was fixed for hearing on following dates:

S. No.	Date	Status of Hearing
1.	31.05.2023	Part Heard and Adjourned
2.	13.09.2023	Fixed and Adjourned
3.	17.10.2023	Concluded and Judgment Reserve
4.	14.12.2023	Final decision taken on the case.

10. On the day of the first hearing, held on 31st May, 2023, the Committee noted that the Respondent was present through Video Conferencing Mode. The Respondent was administered on Oath. Thereafter, the Committee enquired from the Respondent as to whether he was aware of the charges. On the same, the Respondent replied in the affirmative and pleaded Not Guilty to the charges

levelled against him. Thereafter, looking into the fact that this was the first hearing, the Committee decided to adjourn the hearing to a future date. With this, the hearing in the matter was partly heard and adjourned.

11. On the day of the second hearing held on 13th September, 2023, the Committee noted that there were some technical glitch at the Respondent's end at the time of hearing of the case and his counsel (CA. Jayant Gokhale) was also taking time to connect for the meeting. On consideration of the same, the Committee, looking into the practical difficulties, decided to adjourn the meeting to a future date.
12. On the day of the final hearing held on 17th October, 2023 the Committee noted that there are 54 allegations out of which the Disciplinary Directorate has held the Respondent prima facie not guilty for 19 allegations and guilty for remaining 35 allegations.
 - 12.1 The Counsel for the Respondent, at the outset, submitted that he is pleading guilty on 12 charges and on 19 charges he is pleading not guilty and the 4 remaining charges are for the consideration of the Committee.
 - 12.2 He presented his line of defense stating in detail, inter-alia, submitting that the Respondent is an expert in mergers and acquisitions. He further submitted the auditing is new area for the Respondent and he took the audit assignment for the first time, and he even stopped doing the audit a few years back.
 - 12.3 The Respondent counsel presented his detailed arguments for all the charges not accepted by him.
 - 12.4 The Committee noted that the Respondent was held prima facie guilty on Items (5), (6), (7) and (8) of the Second schedule to the Chartered Accountants Act, 1949, however, his Counsel requested to hold Respondent guilty only on Item (5) and (8). The Committee noted the arguments of the Respondent Counsel.

12.5 On consideration of the same, the Committee gave directions to the Respondent counsel to submit the following document:

- a) Copy of detailed written submissions on charges along with their impact on financial statements.

12.6 The Committee also gave directions to the office to make a comparison table of views of the Informant on the charges and submissions of the Respondent on charges in the matter and financial impact due to not reporting. With the above, the Committee decided to conclude the hearing by reserving its judgment.

13. In response to the same, the Respondent in his submissions dated 10th November, 2023 had inter-alia mentioned as under:-

(i) **In response to the first charge (S. No. 2 of above table),** he submitted the followings:-

- a) That the note given and reproduced by PFO & FRRB shows that apart from qualification- attention was also drawn specifically to the matter. The Respondent further stated that standard does not require any adjustment to be made in regard to qualification given in auditors report. Ultimately the net profit as reported (rightly or wrongly) that has to be the basis of the computation, and reported net profit is computed by the company and not by the auditor.
- b) That EPS has been reflected on the face of the profit and loss account & since there is no dilution or potential diversion- this fact has been disclosed in the notes.

(ii) **In response to the second charge (S. No. 4 of above table),** he submitted that he has already qualified the Audit report. The qualification contains a statement "and have effect of overstatement of profit for the period by Rs. 20,00,00,000/.; (Rupees Twenty crores)." Respondent has qualified his report re: transfer made to the P&L and overstatement of profit. He has also quantified the same at Rs. 20 Crores. The Respondent further stated that the DC cannot hold Respondent guilty after he has expressed a clear qualification.

- (iii) **In response to the third charge (S. No. 6 of above table)**, he submitted that for company engaged in selling planes than runway cannot be building. It is correct to classify as Plant and this classification has also been specifically disclosed in the Notes to Account. Without a take-off no plane will have certificate of Airworthiness to be given by DGCA. Given time one can produce detailed logic from EAC to support the view that "runway" is plant under the circumstances.
- (iv) **In response to the fourth charge (S. No. 7 of above table)**, he submitted that FRRB alleged that in the absence of accounting policy adopted for recognition of borrowing costs – it cannot be ascertained whether the projects in relation to which interest costs were incurred and capitalized were qualifying assets or not and whether capitalization of interest cost is in accordance with AS-16. The Respondent has referred FRRBs observation stating - *"It was viewed that AS16 prescribes to determine the borrowing costs eligible for capitalization in each period. Hence the policy to capitalize borrowing costs. Consequently this is not considered in line with AS 16"*. This is factually erroneous.
- (v) **In response to the fifth charge (S. No. 8 of above table)**, the Respondent submitted although in his view there is no non-compliance, especially in regard to matters covered under forward contracts, since the net result of the conversion considered by the FRRB to be necessary, would be exactly identical to what has been arrived at in the given circumstances. However, since the respondent has himself said that the disclosure may not be appropriate / complete - presently the matter is not disputed.
- (vi) **In response to the seventh charge (S. No. 10 of above table)**, the Respondent submitted that Note number 9 of first submissions clearly brings out that for sale of aircraft, the intending buyer had already placed an order with the manufacturer. The auditee was entitled to Commission on the said order. It is entirely arguable that when the order was placed; the agency Commission due to the auditee had accrued since there was

no significant uncertainty in regard to the earning of the Commission. The efforts taken to book the order had already been taken and necessary costs / expenses had been incurred by the auditee. Keeping in mind the Matching principles, booking of the revenue (commission) was perfectly in order on the basis of ' Substance over Form". In fact post balance sheet date, the necessary contracts were also executed. This indicates the correctness of the accounting practice followed. The business being unique in nature, and the 2 paragraphs highlighted by the FRRB themselves indicate that a different view of the matter is possible. Hence the Respondent should not be held Guilty on this count.

(vii) **In response to the eighth charge (S. No. 12 of above table),** the Respondent submitted that the loose tools have been stated to be valued at cost or depreciated value. It is indeed an oversight / error - but given the materiality in the overall context - when all other inventory valuation policies have been considered to be acceptable, it is a case where benefit of the doubt may be given - for erroneous use of the word depreciated value instead of realizable value. Further, the aggregate value of such loose tools was only ₹ 2.41 lakhs which is also pointed by him at his earlier submissions. It is clear that the item was far below materiality level and before there can be no allegation of non-compliance with standard in regard to a non-material item.

(viii) **In response to the ninth charge (S. No. 14 of above table),** the Respondent submitted that the Company implemented the Scheme of arrangement and a note regarding the same was given in notes to accounts. The table given in the PFO itself confirms the assertion of the Respondent that the so called difference was inconsequential. In any case, the interpretation relied upon by FRRB is highly academic and does not take into consideration the ground realities that adjustments which do not arise from any inflow outflow of cash; but are consequential upon giving effect to the scheme of arrangement as sanctioned by the High Court amounts to taking a highly harsh view of the approach adopted by the auditor.

- (ix) **In response to the sixteenth charge (S. No. 25 of above table),** the Respondent submitted that the allegation arises out of a clear misunderstanding of the position under tax laws. The provision for minimum alternate tax (MAT) is always of the current year and does not create any deferred tax obligation. Therefore the normal policy disclosure in regard to taxation as has been done in note 12 is perfectly in order. It will be seen that no benefit of deferred tax credit on MAT has been taken but when actual obligation for MAT arose, the available credit has been utilised and reflected in the profit and loss account appropriately. There is thus no violation either of AS 22 or of AS 1 and therefore no question of default in the attest function.
- (x) **In response to the seventeenth charge (S. No. 26 of above table),** the Respondent submitted that conceptual issue arises regarding the existence of a deferred tax liability. This contention is based on the consideration that, given the substantial magnitude of available losses and depreciation, it is highly likely that no taxes will be incurred in the foreseeable future. Creating a deferred tax liability under these circumstances would present a picture of a liability which is purely illusory and therefore cannot be insisted upon even by application of AS 22.
- (xi) **In response to the eighteenth charge (S. No. 27 of above table),** the Respondent submitted that under the circumstances, it is incorrect to find fault with the judgement of the auditor especially when there is carried forward unabsorbed depreciation in excess of ₹ 7 crores and business loss of more than Rs. 8 crores in 2011. In fact, if deferred tax asset had been recognised, this could have been used as a ground for treating the auditor to be in default since the amount of b/forward loss and depreciation was substantial.
- (xii) **In response to the nineteenth charge (S. No. 28 of above table),** the Respondent submitted that in any case, there is no change in the figures of DTA & DTL during the years under consideration and therefore this

allegation is unfounded. In any case breakup has been given and thus the allegation is also factually incorrect.

- (xiii) **In response to the twenty-first charge (S. No. 31 of above table),** the Respondent submitted that the wording may not be the most preferred, the substance is that unless there is a legally enforceable obligation it is unlikely to result in an outflow of economic resources. Undoubtedly, the words legal and constructive obligation is not mentioned in the Standard. However, rational analysis would reveal that a present obligation would not arise unless there is an enforceable claim. Such a claim would arise from actual legally enforceable liability including the constructive obligation. Therefore, merely because two additional words as mentioned in the policy does not render it incorrect. The DD has indicated that Respondent has not shown any corroborative evidence. This is contrary to rule of natural justice. It is not for the Respondent to show evidence to establish his innocence. It is for the DD to show a single instance where an obligation or liability has not been recognised irregularly. There is in fact no such case and the policy as presently disclosed is also not incorrect in light of the standard; though unfortunately the wording slightly deviates from the ideal wording. However this cannot be ground to hold the respondent guilty of any lack of due diligence or negligence.
- (xiv) **In response to the twenty-second charge (S. No. 32 of above table),** the Respondent submitted that there is no irregular treatment or intent. However there is undoubtedly a deficiency in usage of the English language, which is creating apparent deviation from the requirements of the standard. However considering that the language creates a wrong impression in regard to recognition of contingencies; guilty plea is accepted
- (xv) **In response to the twenty-third charge (S. No. 34 of above table),** the Respondent submitted that policy not specifically stated as required by Para 23 of AS 16 - though indirectly referred to under Fixed Assets.
- (xvi) **In response to the twenty-fourth charge (S. No. 35 of above table),** the Respondent submitted that the computation adopted by the company

and accepted by the auditor, was correct. As per the requirements of Section 349 read with Section 350 and Schedule XIV, the company was required to compute managerial remuneration using the WDV method of depreciation. Since the company was following SLM in the books, in order to apply the provisions of Section 349 read with Section 350, the adjustment as shown in the financial statement was required to be done. Since WDV basis was adopted for calculating depreciation under the Income Tax Act, the same method (same computation) was to be applied. However the description of referring to it as computed as per Income Tax Act was incorrect. The same computation should have in fact referred to S. 350. So in substance there was no error.

- (xvii) **In response to the twenty-fifth charge (S. No. 36 of above table),** the Respondent submitted that the courts have consistently taken a view that the scheme of arrangement is sanctioned from the date on which the application has been made before the High Court. As such, when such scheme of arrangement is filed between a parent and a subsidiary it is obvious that the effect of the same will be given with reference to the date of filing. This was eventually done by way of a proper High Court order. The pendency of loan documentation papers does not in any way affect the legal liability since the orders of the High Court supersede all such requirements. Therefore, the disclosure made was proper; but this has not been understood or explained in the right perspective to the DD.
- (xviii) **In response to the twenty-sixth charge (S. No. 37 of above table),** the Respondent submitted that although the interest has been accounted for on gross basis, there is a technical breach of not disclosing the TDS particulars on account of inadequate records maintained by the auditee. Being a technical lapse, same is admitted. However, it has no impact on the financial statements; except for inadequacy of disclosure.
- (xix) **In response to the twenty-seventh charge (S. No. 38 of above table),** the Respondent submitted that Even in the submissions given,

respondent has not denied that explicit compliance with the specific disclosure was not done. However, as explained in his submissions, the factual information had been presented in Notes. Thus there is no effective non-disclosure. There is admittedly a technical non-compliance. Accordingly the Respondent accepts the decision of Guilty - with the submission that in the absence of any impact whatsoever, a lenient view may be adopted.

- (xx) **In response to the twenty-eighth charge (S. No. 42 of above table),** the Respondent submitted that the guilty conclusion in the PFO seems to have been arrived at on a factual error / oversight by the FRRB. The requisite details have been furnished in the notes 17 (e) & (f) for FY 2009-10.
- (xxi) **In response to the twenty-ninth charge (S. No. 43 of above table),** the Respondent has clearly drawn attention to the fact and has also given reference to the deficiencies by issuing a qualified report (for March 2010). For the year ended March 2011, the circumstances were different as was highlighted in the CARO report. It is therefore submitted that it would be incorrect to conclude non-compliance with AS 2, especially when qualifications/adverse note was specifically given according to the prevailing circumstances in each case.
- (xxii) **In response to the thirtieth charge (S. No. 45 of above table),** the Respondent submitted that The auditor has clearly given an observation that there are weaknesses in the internal control processes and the company needs to take steps to the strengthen internal control system. To therefore hold the respondent guilty of "failure to report continuing failure to correct a major weakness" indicates a highly academic and language oriented approach which ignores the substance and simply emphasises the form of the adverse comment. It should be appreciated that the auditor has in fact given an adverse comment rather than nitpicking on the language used.

- (xxiii) **In response to the thirty-first charge (S. No. 48 of above table),** the Respondent submitted that the FRRB was right in pointing out that the presence of a revaluation reserve indicates that at some earlier point of time, some assets had been revalued. However it may also be noted that the said revaluation had taken place more than four years earlier, and the accounting policy for the year under consideration had not been changed in any way from the disclosure made earlier. As such, it is debatable whether such infractions should lead to a finding of 'guilty' under the circumstances.
- (xxiv) **In response to the thirty-second charge (S. No. 49 of above table),** the Respondent submitted that reference has been made to the standards prescribed under the Companies Act. The standards notified as the Company Accounting Standard Rules are nothing but rules framed under the act and therefore while there may be a better method of describing the same - this cannot be treated as an infraction of law - resulting in holding the member guilty of misconduct. With respect it is submitted that this is an unduly technical view.
- (xxv) **In response to the thirty-third charge (S. No. 50 of above table),** the Respondent submitted that in regard to a MSME disclosure, one has perforce to rely upon management since the information about the status of creditors may not be directly available to the auditor. Merely because he has used the words "As informed to us by the management" should not be used to infer that there is no application of mind by the auditor. With respect it is submitted that this is an unduly harsh view not warranted under the circumstances.
- (xxvi) **In response to the thirty-fourth charge (S. No. 51 of above table),** the Respondent submitted that the requirements of Schedule VI are neither iron-clad or inflexible. Even the wording reproduced by DD in 34.2 (ii). About classification of provisions as per requirements of Schedule VI state "Others would Include all provisions other than provisions for employee benefits such as Provision for dividend, Provision for taxation,

Provision for warranties, etc. These amounts should be disclosed separately specifying nature thereof. The use of the word such as clearly indicates that this is merely an illustrative situation and not something that needs to be treated as mandatory. Further, it is nowhere specified that provision for income tax and provision for fringe benefit needs to be indicated separately as has been the inference used to conclude that the respondent is guilty of incorrect disclosure. The fact that Respondent has clarified that the company having losses and unabsorbed depreciation was clearly not liable to income tax and therefore the provision was and could only have been in regard to fringe benefit tax is also a fairly apparent conclusion. It is therefore submitted that the conclusion of guilty is unwarranted under the circumstances.

(xxvii) In response to the thirty-fifth charge (S. No. 52 of above table), the Respondent submitted that Mentioning that the audit is conducted in accordance with the requirements of the "accounting standards" instead of the correct usage of "auditing standards" is undoubtedly an error. It can simply be referred to as a human error. Whether this merits a finding of "gross negligence" is a matter left to the committee discretion.

14. Thereafter, this matter was placed in meeting held on 14th December, 2023 wherein the same members, who heard the case earlier, were present for consideration of the facts and arriving at a decision by the Committee. The Committee noted that the above case was concluded on 17th October, 2023 wherein the Respondent was directed to submit the following documents on affidavit within next 10 days:

a. Copy of his detailed written submissions on charges along with their impact on financial statements.

14.1 The Committee in hearing concluded held on 17th October 2023 gave directions to the office to make a comparison table of views of the Informant on the charges and submissions of the Respondent on charges in the matter and financial impact due to not reporting. The Office, on the same, apprised the Committee that

Respondent has submitted submissions/documents and also apprised the Committee with the comparative table of charges.

14.2 Accordingly, keeping in view the facts and circumstances of the case, the material on record and the submissions of the parties, the Committee passed its judgment.

FINDINGS OF THE COMMITTEE

FIRST CHARGE BY DIRECTOR (DISCIPLINE)

15. The Committee noted that **the first charge** relates to disclosure of EPS and adjustments which were against the requirements of AS-20. The Committee noted that the relevant extracts of Paragraphs 11 and 12 of AS-20 'Earning Per Share' states as under:-

"11. For the purpose of calculating basic earnings per share, the net profit or loss for the period attributable to equity shareholders should be the net profit or loss for the period after deducting preference dividends and any attributable tax thereto for the period.

12. All items of income and expense which are recognised in a period, including tax expense and extraordinary items, are included in the determination of the net profit or loss for the period unless an Accounting Standard requires or permits otherwise [see Accounting Standard (AS) 5, Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies]. The amount of preference dividends and any attributable tax thereto for the period is deducted from the net profit for the period (or added to the net loss for the period) in order to calculate the net profit or loss for the period attributable to equity shareholders."

15.1 The Committee noted that upon reviewing Note No. 5 relating to computation of EPS given in the financial statements for the financial year 2008-09 to 2010-11, it is evident that the computation of EPS involved the consideration of Profit after Tax but before exceptional and prior period items which is not in line with the requirement of paragraph 12 of AS-20.

- 15.2 The Committee noted that during the proceedings before the Committee, the Respondent stated that Note 5 which pertains to EPS clearly mentioned that amount of prior period item and withdrawal from revaluation reserve has already been adjusted in net profit or loss for the period while computing the EPS. He also pointed out that all prior period and extraordinary adjustments were done against the said revaluation reserve which was transferred to Profit and Loss Account. Hence, extraordinary adjustment should not be considered while computing EPS. The Committee did not accept this explanation as valid. The Committee's stance is based on the fact that the Respondent failed to highlight this critical information in his audit report.
- 15.3 The Committee noted that the qualification made by the Respondent states only overstatement of profit by Rs.20,00,00,000/- and did not point out of non-adjustment of prior period and exceptional items for computation of EPS in terms of the requirement of AS-20. This oversight resulted in the incorrect computation of EPS.
- 15.4 The Committee viewed that the Respondent is held **GUILTY** for the instant charge for the failure to draw attention to this deviation in his Audit Report for professional misconduct falling within the meaning of Item (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949.

SECOND CHARGE BY DIRECTOR (DISCIPLINE)

16. The Committee noted that **second charge** is related to the non-compliance of the provisions of generally accepted accounting principles and provisions of SA-700. The Committee noted that the relevant extracts of Paragraphs 40 & 41 of SA-700 (pre-revised) on "the Auditor's Report on Financial Statements" states as follow:

"40. An adverse opinion should be expressed when the effect of a disagreement is so material and pervasive to the financial statements that the auditor concludes that a qualification of the report is not adequate to disclose the misleading or incomplete nature of the financial statements.

41. Whenever the auditor expresses an opinion that is other than unqualified, a clear description of all substantive reasons should be included in the report and, unless impracticable, a quantification of the possible effect(s), individually and in aggregate, on the financial statements should be mentioned in the auditor's report."

- 16.1 The Committee noted that from the above requirements of SA 700, it is clear that if the auditor has expressed qualified opinion then he should have disclosed the effects of qualifications on each item of financial statements and if the effect of disagreement is material and pervasive on the financial statements then he should express adverse opinion instead of qualified opinion.
- 16.2 The Committee noted that during the proceeding before the Committee, the Respondent stated that scheme of arrangement had been approved by High court in a manner which was contrary to the requirements of Accounting Standards and the Company was bound to follow the same. However, being the statutory auditor of the Company, since the treatment is not in accordance with generally accepted accounting principles, the Respondent has given qualification on the same.
- 16.3 The Committee noted that though the Respondent had invited attention in respect of details mentioned in Note no.17 of Schedule 15 and also mentioned that the treatment is not in accordance with generally accepted accounting principles and have effect of overstatement of profit for the period by Rs.20,00,00,000/- but he has failed to mentioned in his audit report a quantification of the possible effects(s) individually as per the requirements of Paragraph 41 of SA-700.
- 16.4 The Committee noted that the Respondent has qualified his report with regard to the transfer made to the Profit & Loss Account and overstatement of profit. However, keeping in view of the amount of the profit of the Company as on 30th June, 2009, the impact of qualification on the profitability of the Company

appears to be material and pervasive and hence, it is felt that the Respondent should express adverse opinion rather than giving only qualified opinion.

- 16.5 The Committee viewed that since the Respondent failed to issue adverse opinion, he is held **GUILTY** of professional misconduct falling within the meaning of Items (6) and (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949

THIRD CHARGE BY DIRECTOR (DISCIPLINE)

17. The Committee noted that **the third charge** is related to non-compliance with the disclosure requirement of Schedule XIV to the Companies Act, 1956 in relation to treatment of runway as plant instead of building in fixed assets Schedule. The Committee noted that Note 1 of Schedule XIV to the Companies Act, 1956 defines the 'building' as under:-

"1. Buildings includes roads, bridges, culverts, wells and tube wells".

- 17.1 The Respondent in his defense submitted that runway cannot be building though it looks like a road yet its operation and use are entirely different. Further, no product manufactured by the auditee could be considered as finished goods unless it is facilitated to take off on the runway. The runway is therefore essential in the manufacture of finished goods which will render the finished goods i.e. an aircraft. This meets classical definition of plant. The Respondent also argued that a runway requires to maintain certain standards which are prescribed and verified by DGCA. Therefore, it is very much different from a road.

- 17.2 The Committee also noted that there is no specific guidance note pertaining to treatment of runway in unique nature of industry (manufacture of aircraft). In absence of any clarification, the Committee perused the Balance Sheet of similar industries. In the financial statements of Hindustan Aeronautics Ltd. (HAL), the runway has been disclosed under the separate category in the Fixed Assets Schedule (FY 2010-11). Therefore, in view of lack of clarity on classification of runway, the benefit is extended to the Respondent.

17.3 Accordingly, the Committee viewed that the Respondent is held **NOT GUILTY** of Professional Misconduct falling within the meaning of Items (6) & (7) of Part I of the Second Schedule to the Chartered Accountant Act, 1949.

FOURTH CHARGE BY DIRECTOR (DISCIPLINE)

18. The Committee noted that **fourth charge** is that accounting policy regarding Borrowing Costs does not give complete disclosure regarding capitalisation of borrowing cost and appears to be incomplete and is not in line with the AS-16. The Committee noted that relevant extracts of paragraphs 7 and 23 of AS-16 'Borrowing Costs' states as under:-

"7. Borrowing costs are capitalised as part of the cost of a qualifying asset when it is probable that they will result in future economic benefits to the enterprise and the costs can be measured reliably. Other borrowing costs are recognised as an expense in the period in which they are incurred."

"23. The financial statements should disclose:

- (a) the accounting policy adopted for borrowing costs; and*
- (b) the amount of borrowing costs capitalised during the period."*

18.1 The Committee noted that in the Notes to Accounts under significant accounting policies, following disclosure has been made:-

"All indirect expenses incurred on project implementation including interest cost on funds deployed for the project (net of income earned) are treated as incidental expenditures during construction and subsequently capitalized"

The Committee noted that the disclosed accounting policy related to the capitalization of interest costs on funds deployed for the project was disclosed under the significant accounting policies related to fixed assets. The Committee observed that it cannot be ascertained whether the projects in relation to which interest costs were incurred and capitalised were qualifying assets or not and whether capitalisation of interest cost is in accordance with AS 16.

18.2 Moreover, the Committee noted from the accounting policy as reproduced above that the interest cost on funds deployed for the projects are stated to be 'subsequently capitalised'. However, as per AS 16, it is required to capitalised in each period instead of postponing to some future date. Hence, disclosure related to borrowing cost does not give complete disclosure and appeared to deviate from the requirements of AS-16.

18.3 The Committee viewed that the Respondent is held **GUILTY** for the instant charge for the failure to draw attention to this deviation in his Audit Report for professional misconduct falling within the meaning of Item (5) and (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949.

FIFTH CHARGE BY DIRECTOR (DISCIPLINE)

19. The Committee noted that the **fifth charge** is related to non-compliance of various requirements of AS-11 'The effects of Changes in Foreign Exchange Rates'.

19.1 The Committee noted from the accounting policy of Foreign Currency Transactions that the accounting policy of forward exchange contracts has been disclosed, however, difference recognised as income or expense over a life of the contract is not clear whether such difference related to premium or discount on forward contracts or not. Further, with regard to cancellation/renewal of forward contracts and outstanding amount of forward contracts, no disclosure has been given separately.

19.2 The Committee further noted that the details of foreign exchange income recognised in Profit and Loss Account in each financial year given as under:-

Financial Year	Foreign Income	exchange	Sales and Other income	Percentage of Foreign exchange variance / sales and other income

2008-09	33,26,520	354,520,490	0.93%
2009-10	6,959	258,463,068	0.003%
2010-11	2,08,540	423,261,808	0.05%

19.3 From the above, the Committee noted that amount of foreign exchange income is less than 1% of total gross revenue.

19.4 The Committee viewed that since that impact of foreign exchange variance on financial statement is less than 1%, the benefit is extended to the Respondent and he is held **NOT GUILTY** of Professional Misconduct falling within the meaning of items (6) and (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949.

SIXTH CHARGE BY DIRECTOR (DISCIPLINE)

20. The Committee noted that the **sixth charge** is related to the non-compliance with the requirements of AS-15 'Employee Benefits'. The Committee noted that the relevant extracts of paragraph 7.2 to 7.6 of AS-15 'Employee Benefits' states as under:-

“7.2 Short-term employee benefits are employee benefits (other than termination benefits) which fall due wholly within twelve months after the end of the period in which the employees render the related service.

7.3 Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

7.4 Post-employment benefit plans are formal or informal arrangements under which an enterprise provides post-employment benefits for one or more employees.”

7.5 “Defined contribution plans are post-employment benefit plans under which an enterprise pays fixed contributions into a separate entity (a fund) and will

have no obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

7.6 "Defined benefits plans are post-employment benefit plans other than defined contribution plans."

The Committee further noted that Paragraph 14 of AS-15, relevant extracts of the same are as under:-

20.1 "4. Employee benefits include:

- (a) short-term employee benefits, such as wages, salaries and social security contributions (e.g., contribution to an insurance company by an employer to pay for medical care of its employees), paid annual leave, profit-sharing and bonuses (if payable within twelve months of the end of the period) and nonmonetary benefits (such as medical care, housing, cars and free or subsidised goods or services) for current employees;
- (b) post-employment benefits such as gratuity, pension, other retirement benefits, post-employment life insurance and postemployment medical care;
- (c) other long-term employee benefits, including long-service leave or sabbatical leave, jubilee or other long-service benefits, long-term disability benefits and, if they are not payable wholly within twelve months after the end of the period, profit-sharing, bonuses and deferred compensation; and
- (d) termination benefits."

20.2 The Committee noted that from the above provision, it is amply clear that post-employment benefit, short term and other long term benefits are different benefits. Accordingly, long term and short term compensated absence are not post-employment benefit plans and disclosure of the same under defined benefit plans is incorrect.

20.3 The Committee also observed that regarding the assertion that any provident fund scheme administered through a trust should be classified as a defined benefit plan rather than a defined contribution plan. The Respondent submitted

that contribution plans were not funded due to the financial crunch. However, it is of the view that the said contention of the Respondent is not acceptable as financial limitations of the Company cannot substitute the compliance of Accounting Standards of the Company.

20.4 The Committee further noted that in respect of charge related to Gratuity, the Respondent at PFO stage stated that due to typing / printing error, in note 16, the word "funded" was mentioned. However, the Respondent in his defense had submitted copy of tax audit report /computation of income and referred the payment of gratuity (which has been debited to the Profit & Loss Account) and disallowed under Section 40A (7) of Income Tax Act, 1961. The said contention is also not acceptable because the treatment in the Income Tax Act cannot suffice the requirements of Accounting Standard.

20.5 The Committee noted that w.r.t. to the aforesaid charge the Respondent has accepted his Guilt during the proceeding held before the Committee.

20.6 Thus, looking into the above facts vis-à-vis the acceptance of the mistake by the Respondent, the Committee viewed that the Respondent is held **GUILTY** of Professional Misconduct falling within the meaning of Items (6) & (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949.

SEVENTH CHARGE BY DIRECTOR (DISCIPLINE)

21. The Committee noted that the **seventh charge** is related to non-compliance with the requirements of AS-9 'Revenue Recognition'. The Committee noted that the relevant extracts of paragraph 4.2, 4.3 and 7.1 of AS-9 'Revenue Recognition' states as under:-

"4.2 Completed service contract method is a method of accounting which recognises revenue in the statement of profit and loss only when the rendering of services under a contract is completed or substantially completed."

4.3 Proportionate completion method is a method of accounting which recognises revenue in the statement of profit and loss proportionately with the degree of completion of services under a contract.”

“7.1 Revenue from service transactions is usually recognised as the service is performed, either by the proportionate completion method or by the completed service contract method:-

(i) *Proportionate completion method*—Performance consists of the execution of more than one act. Revenue is recognised proportionately by reference to the performance of each act. The revenue recognised under this method would be determined on the basis of contract value, associated costs, number of acts or other suitable basis. For practical purposes, when services are provided by an indeterminate number of acts over a specific period of time, revenue is recognised on a straight line basis over the specific period unless there is evidence that some other method better represents the pattern of performance.

(ii) *Completed service contract method*—Performance consists of the execution of a single act. Alternatively, services are performed in more than a single act, and the services yet to be performed are so significant in relation to the transaction taken as a whole that performance cannot be deemed to have been completed until the execution of those acts. The completed service contract method is relevant to these patterns of performance and accordingly revenue is recognised when the sole or final act takes place and the service becomes chargeable.”

21.1 The Committee noted from the notes to accounts given in Paragraph 9/10 of Schedule 15A of financial statement for the financial year 2008-09, 2009-10 & 2010-11 which pertains to revenue recognition states as under:-

“Commission from agency business of sale of aircraft is accounted on proportionate basis considering completion of major services and time period of delivery.”

The Committee noted that method of recognising revenue is not clear as at one place, it is stated that revenue is recognised on proportionate basis and in the same sentence of stated policy, it states to recognise revenue on completion of major service which indicates completed service method. Hence, method of revenue recognition for commission is not clear.

21.2 The Committee viewed that this dual consideration raised concerns about the clarity of the revenue recognition method.

21.3 Furthermore, with regard to training fees, it was noted that revenue from services like training should be recognized when services are performed, not on a receipt basis. As in some contracts, receipt of fees does not result in transfer of promised service. The Respondent in his submissions submitted that revenue from training was incidental and it is optional for pilots, however, non-refundable. Based on that to avoid accounting issues and tracing, the same was accounted on receipt basis. The said contention is not acceptable as revenue from services is a material item and accounting policy adopted by the company cannot be based on convenience of the auditee and the auditor is required to highlight this matter in his report. It is a significant accounting policy that should be disclosed in accordance with accounting principles. Further, the disclosures required under AS-9 were not clear and not in line with AS-9 requirements.

21.4 The Committee noted that the Respondent, being statutory auditor, failed to highlight the non-compliance of the aforesaid provision in his audit report which reflects upon the casual approach of the Respondent. Accordingly, the Respondent is held **GUILTY** on this charge for professional misconduct falling within the meaning of Items (5), (6) and (7) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

EIGHTH CHARGE BY DIRECTOR (DISCIPLINE)

22. The Committee noted that the eighth charge is related to valuation of inventories. The following has been noted:

22.1 With regard **first leg of the charge** relating to method used for valuation of raw materials, components, stores and loose tools, the Committee noted that Paragraph 16 of AS 2 prescribes to value inventories either on FIFO or weighted average cost basis as reproduced below:

"16. The cost of inventories, other than those dealt with in paragraph 14, should be assigned by using the first-in, first-out (FIFO), or weighted average cost formula. The formula used should reflect the fairest possible approximation to the cost incurred in bringing the items of inventory to their present location and condition."

22.2 However, it was noted that in the extant case, FIFO and weighted average cost formula are different but the Company has mentioned both formulas in accounting policy which does not give clear understanding regarding method adopted for valuation of inventories used by the Company. From which, it is clear that the accounting policy used for valuation of inventory was not in line with the requirement of AS-2.

22.3 Additionally, the Committee noted the absence of submissions from the Respondent on this matter at the time of hearing, implying an acceptance of the non-compliance. The Committee viewed that the Respondent is held **GUILTY** for the instant charge for the failure to draw attention to this deviation in his Audit Report for professional misconduct falling within the meaning of Items (5) ,(6) and (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949.

22.4 With regard to **second leg of the charge** relating to valuation of loose tools at depreciated valued, the Committee noted that AS 2 does not prescribe to value the inventories at depreciated value.

22.5 The Committee noted that the Respondent during the proceeding before the committee admitted that an inadvertent error in terminology has happened. In the valuation of loose tools, the term "depreciated value" was used instead of the correct term, "net realizable value."

22.6 Further, the Committee noted that though the accounting policy of loose tools is not as per the requirements of AS 2, keeping in view of the value of loose tools as compared to size of the Balance Sheet which is only 0.02% and being immaterial item which is not impacting the true and fair view of the financial statements, benefit is extended to the Respondent.

22.7 Thus, the Committee viewed that the Respondent is held **NOT GUILTY** of Professional Misconduct falling within the meaning of item (7) and (8) of Part I of Second Schedule to the Chartered Accountants Act, 1949.

22.8 With regard to **third leg of the charge** regarding the valuation of inventories at cost, the Committee noted that in his defense, the Respondent stated that raw materials and certain components as well as finished goods were shown at cost as net realisable value was not available which is not acceptable. However, as per requirements of paragraph 5 of AS 2, inventories should be valued at cost or net realisable value whichever is lower.

22.9 The Committee is of the view that the defense of the Respondent is not tenable as the accounting policy of inventory is significant accounting policy which should be disclosed as per the principles of AS 2. Further, violation of AS 2 should be reported by the Respondent as auditor in his audit report which he failed to do so.

22.10 The Committee further noted that the Respondent being auditor must determine the information which should be obtained by him before he expresses an opinion on the financial statements in his audit report. However, in the instant case, he does not obtain sufficient information while valuing the inventories. Accordingly, the Committee is of the view that the Respondent has also not complied with requirements of Item (8) of Part I of Second Schedule to the Chartered Accountants Act, 1949.

22.11 In view of the above, the Committee viewed that the Respondent is held **GUILTY** for the instant charge for the failure to draw attention to this deviation in his Audit

Report for professional misconduct falling within the meaning of Item (7) and (8) of Part I of Second Schedule to the Chartered Accountants Act, 1949.

NINTH CHARGE BY DIRECTOR (DISCIPLINE)

23. The Committee noted that the **ninth charge** is that the increase/ decrease in inventory values has not been properly reflected in Cash Flow Statement.

23.1 The Committee noted that upon reviewing the Balance Sheets, Cash Flow Statements, and Notes to Accounts for the financial years 2008-09, 2009-10, and 2010-11, the following observations were made:-

Sl. No	Particulars	Financial year 2008-09	Financial year 2009-10	Financial year 2010-11
1.	Opening Stock as per Balance Sheet	19,86,75,403	8,60,79,699	5,64,40,398
2.	Closing Stock as per Balance Sheet	8,60,79,699	5,64,40,398	5,41,47,827
3.	Decrease / (Increase) in Stock	11,25,95,704	2,96,39,301	22,92,571
4.	Adjustment made due to restructuring / proposed restructuring	(12,28,03,000)	(1,95,76,784)	Separate Bifurcation Not Available
5.	Net Decrease / (Increase) in Stock	(1,02,07,296)	1,00,62,517	N/A
6.	Decrease / (Increase) as per Cash Flow Statement	(1,02,60,296)	1,00,62,516	1,71,213
7.	Difference if any	-53,000	1	21,21,358 (3-6)

23.2 The Committee noted that there was no material difference due to changes in inventories for the financial years 2008-09 and 2009-10. However, for the financial year 2010-11, details of non-cash adjustments were not provided, making the actual change in inventories unascertainable.

23.3 Considering the difference for the financial year 2010-11, the benefit cannot be extended to the Respondent for that period. Accordingly, the Respondent is 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.

TENTH CHARGE BY DIRECTOR (DISCIPLINE)

24. The Committee noted that the **tenth charge** is related to non-compliance with the requirement of AS-3 'Cash Flow Statements' as cash receipts and payments made on account of loans were reported on net basis. However, the Committee noted that the relevant extracts of Paragraphs 21, 22 and 24 of AS-3 'Cash Flow Statement' states as under:-

"21. An enterprise should report separately major classes of gross cash receipts and gross cash payments arising from investing and financing activities, except to the extent that cash flows described in paragraphs 22 and 24 are reported on a net basis."

"22. Cash flows arising from the following operating, investing or financing activities may be reported on a net basis:-

- (a) cash receipts and payments on behalf of customers when the cash flows reflect the activities of the customer rather than those of the enterprise; and*
- (b) cash receipts and payments for items in which the turnover is quick, the amounts are large, and the maturities are short."*

"24. Cash flows arising from each of the following activities of a financial enterprise may be reported on a net basis:

- (a) cash receipts and payments for the acceptance and repayment of deposits with a fixed maturity date;*
- (b) the placement of deposits with and withdrawal of deposits from other financial enterprises; and*
- (c) cash advances and loans made to customers and the repayment of those advances and loans."*

24.1 The Committee noted that the loans by their nature cannot be considered as receipts or payments made on behalf of the customers nor there was any documentary evidence to show that the turnover of cash receipts and payments was quick, hence, such cash flows are not of nature prescribed in Paragraph 22 and 24 of AS 3. Hence, presentation of borrowing on net basis is in contravention of requirement of AS-3.

24.2 The Committee noted that the said fact was accepted by the Respondent in his submission also. Thus, looking into the above facts vis-à-vis the acceptance of the mistake by the Respondent, the Committee viewed that the Respondent is held **GUILTY** of Professional Misconduct falling within the meaning of Item (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949.

ELEVENTH CHARGE BY DIRECTOR (DISCIPLINE)

25. The Committee noted that the eleventh charge is that deferred revenue expenditure adjusted as part of working capital changes. The Committee noted that the Respondent did not bring on record any documentary evidence to show that deferred revenue expenditure resulted in Cash outflow from the Company during the financial years under question. It is of the view that deferred revenue expenditure is a non-cash item which should be adjusted as per the requirements of AS 3 rather than adjusting as a part of change in working capital.

25.1 The Committee noted that the said fact was accepted by the Respondent in his submission also. Thus, looking into the above facts vis-à-vis the acceptance of the mistake by the Respondent, the Committee viewed that the Respondent is held **GUILTY** of Professional Misconduct falling within the meaning of Items (6) and (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949.

TWELFTH CHARGE BY DIRECTOR (DISCIPLINE)

26. The Committee noted that the **twelfth charge** is relating to investment made in subsidiaries and associates and share application money under a single head 'Investment in equity'. The Committee noted that the relevant extracts of Paragraph 37 of AS-3 'Cash Flow Statement' states as under:-

"37. The aggregate cash flows arising from acquisitions and from disposals of subsidiaries or other business units should be presented separately and classified as investing activities."

26.1 The Committee noted that on perusal of Schedule-6 'Investments', it is seen that there is an increase in the amount of investment in subsidiary. Though the Respondent stated that there was no disposal of subsidiary in FY 2008-09 yet he remains silent in respect of subsequent financial years.

26.2 The Committee noted that AS-3 requires separate disclosures in case of acquisition and disposal of subsidiaries and the Respondent as auditor appears to have failed to verify the details of the same.

26.3 The Committee noted that the said fact was accepted by the Respondent in his submission also. Thus, looking into the above facts vis-à-vis the acceptance of the mistake by the Respondent, the Committee viewed that the Respondent is held **GUILTY** of Professional Misconduct falling within the meaning of Item (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949.

THIRTEENTH CHARGE BY DIRECTOR (DISCIPLINE)

27. The Committee noted that the **first leg of thirteenth charge** is that Interest and dividend received has been disclosed as 'Cash Flows from financing activities' instead of 'Cash Flows from the Investing activities'. The Committee noted that the relevant extracts of paragraph 30 of AS-3 'Cash Flow Statement' states as under:-

"30. Cash flows from interest and dividends received and paid should each be disclosed separately. Cash flows arising from interest paid and interest and

dividends received in the case of a financial enterprise should be classified as cash flows arising from operating activities. In the case of other enterprises, cash flows arising from interest paid should be classified as cash flows from financing activities while interest and dividends received should be classified as cash flows from investing.”

- 27.1 The Committee noted that from the above provision, it is amply clear that interest and dividend received should have been classified as 'Cash Flow from Investing Activity' except for financial enterprises.
- 27.2 Since the Company was not a financial enterprises, the interest and dividend received should have been shown as arising out of investing activities in Cash Flow Statement.
- 27.3 The Committee noted that the said fact was accepted by the Respondent in his submission also. Thus, looking into the above facts vis-à-vis the acceptance of the mistake by the Respondent, the Committee viewed that the Respondent is held **GUILTY** of Professional Misconduct falling within the meaning of Item (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949.
- 27.4 With regard **second leg of this charge** related to non-compliance with the requirement Paragraphs 30 and 31 of AS-3, the Committee noted that relevant extracts of Paragraphs 15, 30 and 31 of AS 3 to be read as under:-

“15. The separate disclosure of cash flows arising from investing activities is important because the cash flows represent the extent to which expenditures have been made for resources intended to generate future income and cash flows. Examples of cash flows arising from investing activities are:

- (a) Cash payments to acquire fixed assets (including intangibles). These payments include those relating to capitalised research and development costs and self-constructed fixed assets*

“30. Cash flows from interest and dividends received and paid should each be disclosed separately. Cash flows arising from interest paid and interest and dividends received in the case of a financial enterprise should be classified as cash flows arising from operating activities. In the case of other enterprises, cash flows arising from interest paid should be classified as cash flows from financing activities while interest and dividends received should be classified as cash flows from investing activities. Dividends paid should be classified as cash flows from financing activities.

31. The total amount of interest paid during the period is disclosed in the cash flow statement whether it has been recognised as an expense in the statement of profit and loss or capitalised in accordance with Accounting Standard (AS) 10, Accounting for Fixed Assets.”

27.5 The Committee noted that in Schedule -14 'Finance Cost' reflects total interest paid Rs. 3,65,87,873/- out of which Rs. 1,17,08,542/- is capitalised interest and the entire amount of interest paid has been classified as 'Cash Flow From Financing Activities'. However, as per requirement of Paragraph 15 of AS-3, the capitalised portion of interest expenses should be classified as investing activities of the enterprise but it was classified as "Cash Flow from financing activities".

27.6 The Committee noted that the Respondent, being statutory auditor, failed to highlight the non-compliance of the aforesaid provision in his audit report which reflects upon the casual approach of the Respondent. Accordingly, the Respondent is held **GUILTY** on this charge for professional misconduct falling within the meaning of Item (7) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

FOURTEENTH CHARGE BY DIRECTOR (DISCIPLINE)

28. The Committee noted that the **fourteenth charge** is related to Non-compliance with the requirement of Paragraph 20(b) of AS-3 where adjustments of rates and taxes to derive cash flow from operating activities have been made. The

Committee noted that the relevant extracts of Paragraph 20 of AS-3 'Cash Flow Statement' states as under:-

"20. The net cash flow from operating activities is determined by adjusting net profit or loss for the effects of:

(a) ...;

(b) non-cash items such as depreciation, provisions, deferred taxes, and unrealised foreign exchange gains and losses; and"

28.1 The Committee noted that rates and taxes is neither a non-cash items nor an item related to financing or investing activity. Adjustment of rates and taxes to derive the cash flow from operating activities is not as per the requirement of AS-3.

28.2 The Committee noted that the Respondent, being statutory auditor, failed to highlight the non-compliance of the aforesaid provision in his audit report which reflects upon the casual approach of the Respondent. The said fact was accepted by the Respondent in his submissions also. Accordingly, the Respondent is held **GUILTY** on this charge for professional misconduct falling within the meaning of Item (7) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

FIFTEENTH CHARGE BY DIRECTOR (DISCIPLINE)

29. The Committee noted that the **fifteenth charge** is related to classification of investments in subsidiaries into quoted/ unquoted as well as trade/other investments. The Committee noted that the relevant extracts of paragraph 26 and 35 (e) of AS-13 'Accounting for Investments' states as under:-

"26. An enterprise should disclose current investments and long term investments distinctly in its financial statements."

"35. The following information should be disclosed in the financial statements:-

- (a) *the accounting policies for determination of carrying amount of investments;*
- (b)
- (c)
- (d)
- (e) *the aggregate amount of quoted and unquoted investments, giving the aggregate market value of quoted investments;*

29.1 The Committee further noted that clause (I) of general instructions given for preparation of balance sheet under Part I of Schedule VI of Companies Act, 1956 requires that Non-current investments shall be classified as trade investments and other investments.

29.2 The Committee noted that the amount of investment in subsidiaries was material when compared with the total amount of investment and total size of the Balance Sheet as on 30th June, 2009.

29.3 The Committee noted that the Respondent, being statutory auditor, failed to highlight the non-compliance of aforesaid provisions of Schedule VI to the Companies Act, 1956 and Para 35(e) of AS-13 in his audit report which reflects upon the casual approach of the Respondent. The said fact was accepted by the Respondent in his submissions also. Accordingly, the Respondent is held **GUILTY** on this charge for professional misconduct falling within the meaning of Items (5) and (7) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

SIXTEENTH CHARGE BY DIRECTOR (DISCIPLINE)

30. The Committee noted that the **sixteenth charge** is related to non-compliance with the requirement of AS-22 read with paragraph 24 of AS-1 as the Company has paid MAT during the financial year 2010-11, however, the accounting policy

adopted for its recognition has not been disclosed. The Committee noted that relevant extracts of Paragraph 24 of AS-1 states as under:-

'All significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed.'

- 30.1 The Committee noted that the Respondent during the proceeding stated that the provision for MAT is always for the current year and disclosure in regard to taxation has been made.
- 30.2 The Committee noted that as per the disclosure requirement of AS-1, the Company was required to disclose the accounting policy adopted for recognition of MAT but the same was not disclosed in the Notes to Accounts.
- 30.3 The Committee noted that the Respondent, being statutory auditor, failed to highlight the non-compliance of the aforesaid provision in his audit report which reflects upon the casual approach of the Respondent. Accordingly, the Respondent is held **GUILTY** on this charge for professional misconduct falling within the meaning of Item (7) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

SEVENTEENTH CHARGE BY DIRECTOR (DISCIPLINE)

31. The Committee noted that the seventeenth charge is related to non-compliance with the requirement of AS-22 as depreciation is not considered while recognising Deferred tax liability as the figures of previous year and current year are same indicating no adjustment has been made during the year. The Committee noted that the relevant extracts of Paragraph 13 of AS 22 states as under:-

"Deferred tax should be recognised for all the timing differences except for DTA."

an

- 31.1 The Committee noted that upon reviewing the Notes to account no. 10(v), it is evident that the depreciation as per books of accounts amounts to Rs 2,94,17,006/-, while the income tax depreciation stands at Rs. 5,77,41,012/-. Therefore, the Company should have recognised a deferred tax liability concerning the timing differences, specifically the variance between the depreciation as per books of accounts and that under the Income Tax Act.
- 31.2 The Respondent submitted that timing difference was not recognised by the Company due to higher depreciation and cash loss.
- 31.3 The Committee noted that the contention of the Respondent is not maintainable because as per AS-22, the Company was required to recognise the deferred tax liabilities after considering the difference between the depreciation as per books of accounts and depreciation as per income tax act.
- 31.4 The Committee viewed that the Respondent as auditor failed to draw attention to the same. Accordingly, the Respondent is held **GUILTY** on this charge for professional misconduct falling within the meaning of Item (7) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

EIGHTEENTH CHARGE BY DIRECTOR (DISCIPLINE)

32. The Committee noted that the eighteenth charge is that Deferred Tax Assets should be recognised to the extent of reversal of Deferred Tax Liability. The Committee noted that relevant extracts of Paragraph 17 of AS-22 states as under:-

"17. Where an enterprise has unabsorbed depreciation or carry forward of losses under tax laws, deferred tax assets should be recognised only to the extent that there is virtual certainty supported by convincing evidence that sufficient future taxable income will be available against which such deferred tax assets can be realised."

32.1 The Committee noted that since the Company was having unabsorbed depreciation, it appears that there was no virtual certainty that sufficient taxable income would be available against which deferred tax assets can be realised. However, keeping in view the reversal of deferred tax liability in coming years, deferred tax assets could be recognised to the extent of the deferred tax liability that give rise to sufficient future taxable income. Therefore, it is viewed that the DTA should also have been recognised to the extent DTL would be reversed as per AS-22. The Respondent in his defense submitted that due to redundancy in the Company, the company decided not to adopt accounting policy in that respect. He further submitted that DTL was not created as it would create purely illusory picture. Considering the said submissions, it is of the view that he was required to highlight this deviation of AS 22 in his report.

32.2 The Committee noted that the Respondent, being statutory auditor, failed to highlight the non-compliance of the aforesaid provision in his audit report which reflects upon the casual approach of the Respondent. Accordingly, the Respondent is held **GUILTY** on this charge for professional misconduct falling within the meaning of Item (7) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

NINETEENTH CHARGE BY DIRECTOR (DISCIPLINE)

33. The Committee noted that the **nineteenth charge** is related to non-compliance with the requirement of AS-22 as major components of deferred tax liability have not been disclosed. The Committee noted that the relevant extracts of Paragraph 31 of AS-22 to be read as under:-

“31. The break-up of deferred tax assets and deferred tax liabilities into major components of the respective balances should be disclosed in the notes to accounts.”

33.1 The Committee noted that from the above provision, it is clear that the Company is required to disclose the break-up of deferred tax liabilities into major components of the respective balances in the notes to accounts. However, in the

instant case, the aggregate figure of DTL has been disclosed without giving major components of it in the financial statements. The submission of the Respondent with regard to giving the break up of DTL was not supported by any details.

- 33.2 The Committee viewed that the Respondent as auditor failed to draw attention to the same. Accordingly, the Respondent is held **GUILTY** on this charge for professional misconduct falling within the meaning of Item (7) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

TWENTIETH CHARGE BY DIRECTOR (DISCIPLINE)

34. The Committee noted that the twentieth charge is that Balance sheet and Profit and Loss Account shows that deferred revenue expenditure was carried forward under the head "Miscellaneous Expenditure" which is being written off over the period which is non-compliance with the requirements of AS 26. The Committee noted that the relevant extracts of Paragraph 6.2 and 56 of AS-26 'Intangible Assets' states as under:-

"6.2 An asset is a resource:-

(a) controlled by an enterprise as a result of past events; and

(b) from which future economic benefits are expected to flow to the enterprise"

"56. In some cases, expenditure is incurred to provide future economic benefits to an enterprise, but no intangible asset or other asset is acquired or created that can be recognised. In these cases, the expenditure is recognised as an expense when it is incurred."

- 34.1 The Committee noted that from the above requirements, it is clear that when an expenditure does not meet the definition of the term of 'assets' such expenditure should be expensed in the Profit and Loss Account in the year in which it is incurred and therefore deferment of expenditure is not allowed as per AS-26. Accordingly, in adherence to the stipulations of AS-26, if expenditure does not result in creation of an asset, it should be written off in the Profit & Loss Account

in the year in which it is incurred. Further, it was also noted that no expenditure is allowed to be deferred from one period to another after AS 26 has become mandatory i.e. 1.4.2004.

34.2 The Committee noted that the said fact was accepted by the Respondent in his submission also. Thus, looking into the above facts vis-à-vis the acceptance of the mistake by the Respondent, the Committee viewed that the Respondent is held **GUILTY** of Professional Misconduct falling within the meaning of Item (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949.

TWENTY-FIRST CHARGE BY DIRECTOR (DISCIPLINE)

35. The Committee noted that the **twenty-first charge** is related to non-compliance with the requirement of Paragraph 14 of AS 29. The Committee noted that relevant extracts of Paragraph 14 of AS 29 to be read as under:-

"14. A provision should be recognised when:

(a) an enterprise has a present obligation as a result of a past event;

(b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and

(c) a reliable estimate can be made of the amount of the obligation.

If these conditions are not met, no provision should be recognised."

35.1 The Committee noted that from the above requirements, it is clear that provision is recognised for all present obligations. However, in the extant case, the same is recognised when it has legal and constructive obligations.

35.2 The Committee noted from the submissions of the Respondent that present obligation would not arise unless there is an enforceable claim. These claims would arise from actual legally enforceable liability including a constructive obligation. Hence, merely disclosing two separate words i.e. legal and constructive cannot lead to disclosure of incorrect accounting policy.

35.3 The Committee noted that in substance the policy is correct w.r.t. recognition of provisions. Further, there are no corroborative evidences which indicated that the Provision is not in line with the requirement of AS-29. It was also noted that the disclosure pertains to Contingent liability has been disclosed.

35.4 Therefore, the Committee viewed that the Respondent is held **NOT GUILTY** of Professional Misconduct falling within the meaning of item (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949.

TWENTY –SECOND CHARGE BY DIRECTOR (DISCIPLINE)

36. The Committee noted that the twenty-second charge is related to non-compliance with the requirement of AS-29 as contingent liabilities were accounted for on the basis of mutual acceptance. The Committee noted that AS-4 on "Contingency and Events Occurring After the Balance Sheet Date" defines contingencies as under:-

"A contingency is a condition or situation, the ultimate outcome of which, gain or loss, will be known or determined only on the occurrence, or non-occurrence, of one or more uncertain future events."

36.1 The Committee noted that disclosure requirement of contingencies as stated in Paragraph 10 to 12 of the afore-stated AS-4 stipulated as under:-

"10. The amount of a contingent loss should be provided for by a charge in the statement of profit and loss if:

(a) it is probable that future events will confirm that, after taking into account any related probable recovery, an asset has been impaired or a liability has been incurred as at the balance sheet date, and

(b) a reasonable estimate of the amount of the resulting loss can be made.

11. *The existence of a contingent loss should be disclosed in the financial statements if either of the conditions in paragraph 10 is not met, unless the possibility of a loss is remote.*

12. *Contingent gains should not be recognised in the financial statements."*

36.2 Further, relevant extracts of Paragraph 10.4 of AS-29 on "Provisions, Contingent liabilities and Contingent Assets", defines the contingent liability states as under:-

"10.4 A contingent liability is:

(a) a possible obligation that arises from past events and the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise; or

(b) a present obligation that arises from past events but is not recognised because:

(i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or

(ii) a reliable estimate of the amount of the obligation cannot be made."

36.3 The Committee noted that from the above requirements, all contingent liabilities should be assessed at each balance sheet date and should be reported in the financial statements as per aforesaid requirements of AS-29 but the Company failed to recognise the same and it appears to recognise contingent liabilities based on mutual acceptance.

36.4 The Committee further noted that once the parties mutually agrees upon the obligation then it should be recognised as a liability rather than contingent liability but the Company failed to recognise the same as per the aforesaid provisions.

36.5 The Committee noted that the Respondent was required to report the said non-compliance of AS-29 in his audit report. However, the Respondent failed to do the same and the same has been conceded by him in his submission.

36.6 Thus, looking into the above facts vis-à-vis the acceptance of the mistake by the Respondent, the Committee viewed that the Respondent is held **GUILTY** of Professional Misconduct falling within the meaning of Item (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949.

TWENTY- THIRD CHARGE BY DIRECTOR (DISCIPLINE)

37. The Committee noted that the twenty- third charge is related to non-disclosure of accounting policy of borrowing cost though significant amount of interest expense and interest income have been incurred/earned during the year. The Committee noted that the relevant extracts of Paragraph 24 of AS-1 states as under:-

"24 All significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed."

Whereas Paragraph 23 of AS-16 states as follows:-

"23. The financial statements should disclose:

(a) the accounting policy adopted for borrowing costs; and

(b) the amount of borrowing costs capitalised during the period."

37.1 The Committee noted that from the above stated requirements, specific disclosure should be given for borrowing cost.

37.2 The Committee noted that the Respondent, being statutory auditor, ought to have used his professional scepticism and made disclosure of the same in the audit report issued by him. The Respondent as an auditor was required to bring the same to the knowledge of the users of the financial statements through his audit report. Further, with regard to this charge, the said fact was accepted by the Respondent in his submissions which indicates that the Respondent failed to exercise due diligence.

37.3 Thus, looking into the above facts vis-à-vis the acceptance of the mistake by the Respondent, the Committee viewed that the Respondent is held **GUILTY** of

Professional Misconduct falling within the meaning of Item (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949.

TWENTY- FOURTH CHARGE BY DIRECTOR (DISCIPLINE)

38. The Committee noted that the **twenty- fourth charge** is related to non-compliance with the provisions of Section 349 of the Companies Act, 1956 relating to treatment of depreciation for determining net profit for computation of managerial remuneration. The Committee noted that the relevant extracts of Section 349 of (4) (k) of Companies Act, 1956 to be read as under:-

"349 (4) In making the computation aforesaid, the following sums shall be deducted:-

(k) depreciation to the extent specified in section 350

38.1 The Committee noted that while computing the net profit for the purpose of Managerial Remuneration as per Section 198, the depreciation is required to be provided as per Schedule XIV of the Companies Act, 1956.

38.2 The Committee observed that, in the course of the proceedings before them, the Respondent mentioned that the Company had made adjustments in accordance with Schedule XIV. However, it was noted that, while mentioning, the term "Income Tax method" was inadvertently used instead of the correct term "Written Down value method." The Respondent further stated that the methodology of computation as per Income Tax Act and those prescribed in Schedule XIV when adopting WDV method of depreciation are almost identical.

38.3 However, the Committee noted there are various differences between calculation of depreciation as per Income Tax Act and Companies Act, 1956 which states as under:-

- (i) Rates of Depreciation given under Income tax are higher than rates of Depreciation given under Companies Act.
- (ii) Income tax depreciation is 50% if asset used for less than 180 days otherwise depreciation for full year. However, in the Companies Act depreciation is charged on proportionate to the period of use.

- 38.4 Furthermore, the Committee acknowledged that if depreciation is computed in accordance with both the Income Tax Act and the Companies Act, 1956, the resulting depreciation amounts would be different. The Respondent in his defense submitted that the company was following SLM in the books, in order to apply the provisions of Section 349 read with Section 350. However, WDV basis was adopted for calculating depreciation under the Income Tax Act. It was observed that Respondent has not given justification for compliance of Schedule XIV by adopting specified treatment in the financial statements.
- 38.5 Thus, it cannot be stated that the depreciation taken for calculation of managerial remuneration was computed in accordance with the provision of Section 350 of the Companies Act, 1956.
- 38.6 The Committee noted that the Respondent, being statutory auditor, failed to highlight the non-compliance of the aforesaid provision in his audit report which reflects upon the casual approach of the Respondent. Accordingly, the Respondent is held **GUILTY** on this charge for professional misconduct falling within the meaning of items (6) and (7) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

TWENTY- FIFTH CHARGE BY DIRECTOR (DISCIPLINE)

39. The Committee noted that the **twenty- fifth charge** is related that both the presentation of loan as secured loan of the Company and charging the interest paid as an expense of the company is not in line with the requirement of Part I, Part II of Schedule VI to The Companies Act, 1956.
- 39.1 The Committee observed that, based on the disclosure given in Note 2(d) in Schedule 15B, it is seen that that loan is secured by deposit kept with the bank by a third party. However, the same should be secured by some assets of the Company itself rather than assets of third party. Therefore, such loan cannot be considered as secured loan for the Company as such loan was secured by the assets held by the third party. Therefore, it is inappropriate to consider it as a

'Secured Loan', as per the requirements of Schedule VI to the Companies Act, 1956.

39.2 Moreover, the interest paid by the third party, as given in the said note, should not be considered as an expense of the Company. This is based on the rationale that such interest payments do not result in a reduction of the Company's economic benefits or assets. The Respondent submitted that HSBC sanctioned the loan in the name of one of its subsidiaries i.e. TAAL infrastructure Pvt Ltd against securities and funds were utilised by the company for its own business. He further stated that the loan was shown as secured loan and interest was shown as interest paid to bank. In this regard, it is observed that the Respondent has not submitted any evidence to substantiate his claim.

39.3 Thus, the Respondent is held **GUILTY** of Professional Misconduct falling within the meaning of Item (7) of Part I of the Second Schedule to the Chartered Accountant Act, 1949.

TWENTY- SIXTH CHARGE BY DIRECTOR (DISCIPLINE)

40. The Committee noted that the **twenty- sixth charge** is related to non-compliance with the requirements of Paragraph 3 (xi) (c) of Part II of the Schedule VI to the Companies Act, 1956. The Committee noted that the relevant extracts of Clause 3 (xi) of Part II, Schedule VI to the Companies Act 1956 states as under:-

"3(xi) (a) The amount of income from investments, distinguishing between trade investments and other investments.

(b) Other income by way of interest, specifying the nature of the income.

(c) The amount of income-tax deducted if the gross income is stated under sub-paragraphs (a) and (b) above."

40.1 The Committee noted that from the above stated requirements, it is amply clear that the amount of tax deducted should be separately disclosed. Further, the Respondent accepted that since the record related to TDS was not maintained,

accordingly, he could not verify the same and consequently, no separate disclosure of TDS on the interest was made.

40.2 The Committee noted that the Respondent, being statutory auditor, failed to report the aforesaid non-compliance of the requirement of Schedule VI in his Auditor's Report, which reflects upon the casual approach of the Respondent. The said fact was accepted by the Respondent in his submissions also.

40.3 Thus, looking into the above facts vis-à-vis the acceptance of the mistake by the Respondent, the Committee viewed that the Respondent is held **GUILTY** of Professional Misconduct falling within the meaning of Item (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949.

TWENTY- SEVENTH CHARGE BY DIRECTOR (DISCIPLINE)

41. The Committee noted that the twenty- seventh charge is related to Non-compliance with the requirements of Clause 32 of listing agreement. The Committee noted that as per Clause 32 of Listing Agreement, if loan and advances given to subsidiary company and associates, the name of such party and the amount of loan given is required to be disclosed.

41.1 The Committee noted that the contravention of disclosure requirements of Clause 32 of the listing agreement should have been reported by the Respondent in his Auditor's Report. Further, the Respondent himself admitted that Note 11 discloses the Related Party Transactions where names of associates were disclosed but details of loan with individual associate were not disclosed separately.

41.2 The Committee noted that he Respondent neglected to highlight such non-compliance in his in his Auditor's Report. The said fact was accepted by the Respondent in his submissions also.

41.3 Thus, looking into the above facts vis-à-vis the acceptance of the mistake by the Respondent, the Committee viewed that the Respondent is held **GUILTY** of

Professional Misconduct falling within the meaning of Item (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949.

TWENTY-EIGHTH CHARGE BY DIRECTOR (DISCIPLINE)

42. The Committee noted that **twenty-eighth charge** is that the Respondent has failed to give qualification in the financial statement for the financial year 2010-11 regarding non accounting of the difference between the actual sales tax liability and the discounted value as revenue expenditure. It was further noted from the Auditor's Report for FY 2008-09, the auditor has qualified the said matter in Paragraph 4.2 of his main audit report.

42.1 The Committee noted the relevant extracts of Note 17 (e) of Schedule 15 B for the financial year 2009-10 to be read as under:-

"17. (e) As per clause 6 of approved scheme, the Company revalued its land located at Belagondapalli Village, Thally Road, Denkanikotta Taluk, Krishnagiri Dist. Belagondapalli, Tamilnadu at its fair market value based on the report of recognised valuer as on 01st April 2009 (Though Appointed date was 01st April, 2008). The difference between the cost of acquisition and fair market value is Rs. 44.89 Crore which has been credited to Revaluation Reserve in previous financial year ended June 30, 2009 prior to the approval of the scheme of arrangement by the Hon'ble High Court, Madras. In the current financial year the Company has transferred Rs. 15 Crore to the reserve for Business Restructuring. Out of the Reserve for business Restructuring, the Company has transferred Rs. 12,97,08,425 to the profit and loss account to set off various debits being total of difference between book value of assets and liabilities of TTPL of Rs. 9,11,84,896 and write off of various assets/items (as per details given in the table below)

Particulars	2009-10
Profit and loss (Write offs)	Rs.
Inventory	1,95,76,784
Debtors	24,90,034

Sales tax deferral	1,24,63,589
Sales Tax liability	39,93,122
Total	3,85,23,529

42.2 The Committee noted from the above disclosure given in FY 2009-10 that amount of difference between the actual sales tax liability and discounted value of sales tax liability includes in total write off of Rs. 12,97,08,425. The Committee accepted the submission of the Respondent that since the difference between the actual liability and discounted value already written off during the financial year 2009-10, therefore no qualification is required to be made during the financial year 2010-11. The Committee noted that for better presentation and maintain transparency for the users of the financial statements, the impact of sales tax liability has been duly disclosed in the Notes to Accounts for FY 2009-10.

42.3 Thus, the Committee viewed that the Respondent has discharged his duties in the aforesaid circumstances. Accordingly, he is held **NOT GUILTY** of Professional Misconduct falling within the meaning of items (5) and (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949.

TWENTY- NINTH CHARGE BY DIRECTOR (DISCIPLINE)

43. The Committee noted that the **twenty-ninth charge** is related to non-compliance with the requirements of paragraph 4 (ii) (a) (b) and (c) of CARO, 2003 and Part I of Schedule VI to the Companies Act, 1956. The Committee noted from Paragraph 4 (ii) (a) of Annexure to the Auditor's Report for FY 2008-09 which states as follows:

"The company has to produce any physical verification report of inventory for the period under audit, however, physical inventory arrived at by the management as on June 30, 2009 is used as basis."

From the above, it is not clear whether physical verification of inventory was conducted by the management at reasonable intervals or not as per the requirements of clause 4 (ii) (a) of CARO, 2003.

43.1 Further, Paragraph 7(b) of Standards on Auditing 705 'Modifications to the Opinion in the Independent Auditor's Report' provides that:-

"The auditor shall express a qualified opinion when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive".

43.2 The Committee noted that from the above requirements, the Respondent was required to ensure to report on clause 4 (ii) (b) and (c) whether physical verification of inventory has been conducted at reasonable intervals by the management and about whether proper records have been maintained. However, the Respondent failed to report the same. Moreover, the Respondent also failed to bring on record any evidences which indicated that when physical verification record was not available then as to how he satisfied himself that the inventory was not materially misstated.

43.3 The Committee noted that keeping in view the reporting requirement under CARO, 2003 and in absence of any documentary evidence with regard to verification of inventory, the Respondent was required to qualify his main audit reports for the financial year 2008-09 and 2009-10 but he failed to do so.

43.4 The Committee further noted that the Respondent being auditor must collect sufficient information to determine whether the physical verification has been conducted at reasonable intervals by the management or not before he expressed an opinion on the financial statements. However, in the instant case, he does not obtain sufficient information while commenting on the inventories. Accordingly, the Committee is of the view that the Respondent has also not complied with requirements of Item (8) of Part I of Second Schedule to the Chartered Accountants Act, 1949.

43.5 The Committee noted that the Respondent, being statutory auditor, failed to highlight the non-compliance of inventory being material item in his audit report which reflects upon the casual approach of the Respondent. Accordingly, the Respondent is held **GUILTY** on this charge for professional misconduct falling within the meaning of Item (7) and (8) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

THIRTIETH CHARGE BY DIRECTOR (DISCIPLINE)

44. The Committee noted that the thirtieth charge is related to non-compliance with the requirements of Paragraph 4 (iv) of CARO, 2003 as the Respondent has failed to report whether there is a continuing failure to correct major weakness in internal control system. The Committee noted that the relevant extracts of Paragraph 4 (iv) of CARO, 2003 states as under:-

"Is there an adequate internal control system commensurate with the size of the company and the nature of its business, for the purchase of inventory and fixed assets and for sale of goods and services. Whether there is a continuing failure to correct major weaknesses in internal control system"

44.1 The Committee noted that though the Respondent has reported about weakness in internal control system, however, he failed to report that internal control system was commensurate with the size of the Company. Notably, weaknesses in the procurement of materials, stores, consumables, and revenue accounting were consistently highlighted in audit reports without corresponding corrective actions. The Committee is of the view that if there is weakness in internal control system on yearly basis then the same should have been properly dealt by the auditor and should take corrective measures to rectify significant weaknesses in the internal control system.

44.2 The Committee viewed that the Respondent as auditor failed to draw attention to the same. Accordingly, the Respondent is held **GUILTY** on this charge for

professional misconduct falling within the meaning of Item (7) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

THIRTY- FIRST CHARGE BY DIRECTOR (DISCIPLINE)

45. The Committee noted that the **thirty-first charge** is related to non-compliance with the reporting requirements regarding the basis used for preparation of financial statements. It was noted that during the year 2008-09, Reserve and Surplus include an opening balance of revaluation reserve which indicates that certain figures of the fixed assets have been stated at revalued amounts. However, no accounting policy related to the same has been disclosed.
- 45.1 The Committee noted that the Respondent submitted that the said revaluation took place more than four years earlier and the accounting policy for the year under consideration had not been changed in any way from the disclosure made earlier.
- 45.2 The Committee noted from the submissions of the Respondent that revaluation reserve indicates that at some earlier point of time, some assets had been revalued. It is of the view that the revaluation reserve pertains to earlier years and the same was duly disclosed in those financial years, hence, there is no need to disclose the same in the current financial year.
- 45.3 Thus, the Committee viewed that benefit may be extended to the Respondent as revaluation pertains to earlier years and accordingly, he is held **NOT GUILTY** of Professional Misconduct falling within the meaning of item (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949.

THIRTY- TWO CHARGE BY DIRECTOR (DISCIPLINE)

46. The Committee noted that the **thirty-two charge** is that incorrect reference has been made by the Respondent, wherein he referred to the Accounting Standards issued by the Institute instead of those notified under the Companies (Accounting Standard) Rules, 2006.

- 46.1 The Committee noted from the significant accounting policies mentioned in the financial statements that they were prepared to comply, in all material aspects, with the mandatory Accounting Standards issued by ICAI and the relevant provisions of the Company. It is of the view that the Accounting Standards as recommended by the Institute of Chartered Accountants of India are notified by Central Government vide Companies (Accounting Standards) Rules. Hence, the Accounting Standards are not issued by ICAI.
- 46.2 Though the Accounting Standards issued under Companies (Accounting Standards) Rules, 2006, and those by ICAI are almost identical, yet the reference provided by the Respondent was incorrect.
- 46.3 Thus, in view of the above, the Committee noted that the Respondent is held **GUILTY** of Professional Misconduct falling within the meaning of item (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949.

THIRTY- THREE CHARGE BY DIRECTOR (DISCIPLINE)

47. The Committee noted that the **thirty-three charge** is related to non-compliance with the clauses of Section 22 of Micro, Small and medium Enterprises Development Act, 2003 and non-compliance of SA 500. The Committee noted that following details relating to Micro, Small and Medium Enterprises is required to be disclosed in the notes to accounts:-

- (a) *the principal amount and interest due thereon (to be shown separately) remaining unpaid to any supplier at the end of each accounting year,*
- (b) *the amount of interest paid by the buyer in terms of Section 16 of the MSME Development Act, 2006, along with the amount of the payment made to the supplier beyond the appointed day during each accounting year*
- (c) *the amount of interest due and payable for the period of delay in making payment (which have been paid but beyond the appointed day during the year) but without adding the interest specified under the MSME Development Act, 2006*

- (d) the amount of interest accrued and remaining unpaid at the end of each accounting year, and
- (e) the amount of further interest remaining due and payable even in the succeeding years, until such date then the interest dues above are actually paid to the small Enterprise for the purpose of disallowance of a deductible expenditure under section 23 of MSME Development Act, 2006.”

47.1 The Committee observed that Note 13 of Schedule 15 B in the financial statements for the financial year 2009-10 contains the following information: -

“13. As informed to us by management, company owes no dues, which are outstanding for more than 45 days as at 30.06.2009 to any “Micro, Small and Medium Enterprises” as required under “Micro, Small and Medium Enterprise Development Act, 2006.”

47.2 The Committee observed that, in the aforementioned note, the Respondent mentioned being informed by the management. However, it was noted that instead of mentioning this, the Respondent should have stated that the Company has not maintained a separate register with respect to Micro, Small, and Medium Enterprises.

47.3 The Committee noted that the Respondent in his submissions stated that the company did not maintain details of sundry creditors outstanding relating MSME, though as part of management representation letter, it was always represented that there was no amount outstanding to MSME for a period more than 45 days.

47.4 From the submissions of the Respondent that the Company did not maintain details of creditors outstanding relating to MSME, it appears that the Respondent could not verify the details relating to MSME and he has only relied on the management representation letter. It is also observed that disclosure of information related to Micro, Small & Medium enterprises are given as per provisions of Section 22 of MSME Act, 2006. Keeping in view that disclosure as required in terms of the requirement of Section 22 of MSME Act, is mandatory in nature and the same is required to be given to protect the interest of the small

business / traders, the Respondent was required to point out in his report that requisite disclosure as required in terms of Section 22 of MSMED Act has not been given due to non-availability of the documents but he failed to do so.

47.5 Thus, the Committee viewed that he is held **GUILTY** of professional misconduct falling within the meaning of Item (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949.

THIRTY- FOURTH CHARGE BY DIRECTOR (DISCIPLINE)

48. The Committee noted that the thirty-fourth charge is related to non-disclosure of nature of provision as per the requirements of Part I Schedule VI to the Companies Act, 1956. In the said charge, provision for income tax and fringe benefits tax had been clubbed and shown as single line item. The Committee noted that Presentation of provisions as per Schedule VI to the Companies Act, 1956 is as follows:-

"Current Liabilities

This should be classified on the face of the Balance Sheet as follows:

- (i) *Short-term borrowings;*
- (ii) *Trade payables;*
- (iii) *Other current liabilities;*
- (iv) *Short-term provisions.*

"Short-term provisions

The amounts shall be classified as:

- (a) *Provision for employee benefits;*
- (b) *Others (specify nature).*

Others would include all provisions other than provisions for employee benefits such as Provision for dividend, Provision for taxation, Provision for warranties, etc. These amounts should be disclosed separately specifying nature thereof."

- 48.1 The Committee noted from the above stated requirements that Schedule VI requires to disclose the nature of provisions. However, in the extant case, the nature of provision has been disclosed i.e. Income Tax and Fringe Benefit Tax. Merely clubbing as a single item does not lead to non-compliance of above stated provisions.
- 48.2 Thus, the Committee viewed that the Respondent is held **NOT GUILTY** of Professional Misconduct falling within the meaning of item (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949.

THIRTY-FIFTH CHARGE BY DIRECTOR (DISCIPLINE)

49. The Committee noted that the **thirty-fifth charge** is related to non-compliance with the requirements of Paragraph 13 of 700. The Committee noted that Paragraph 13 of SA 700 'The Auditor's Report on Financial Statements' states as under:-

"13.The auditor's report should describe the scope of the audit by stating that the audit was conducted in accordance with auditing standards generally accepted in India".

- 49.1 The Committee noted that from the above requirements, it is clear that the Respondent was required to mention in his report that the audit had conducted in accordance with the auditing standards. However, the Respondent used the word 'accounting standards' instead of 'auditing standards'.
- 49.2 The Committee further noted that the Respondent had failed to comply with the disclosure requirements of SA 700, hence, Respondent failed to discharge his professional duties diligently as there is difference between Accounting Standards and Auditing Standards and the same also reflects the causal approach of the Respondent while signing the financial statements of the Company.

49.3 Thus, the Committee viewed that the Respondent is held **GUILTY** on this charge for professional misconduct falling within the meaning of Item (7) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

50. Summary of Charges

50.1 The Committee, upon consideration of documents and submissions on record, noted that there are 54 allegations out of which the Respondent was held Prima Facie Not Guilty for 19 allegations and Guilty for the remaining 35 allegations.

50.2 The Committee noted that out of 35 allegations, the Respondent pleaded Guilty on 12 charges. With regard to rest of charges, the Committee, after consideration of the detailed oral and written submissions, held the Respondent Not Guilty on 7 charges as mentioned in Para no. 10.1.2, 10.3.2, 11.2 (iii), 19.2(ii), 27.2, 33.2(i) and 34.2 (ii) of prima-facie opinion of the Director (Discipline). As regards balance 16 charges the Respondent was held Guilty.

50.3 After consideration of the same, vis-à-vis facts of the case and documents/submissions on record, the Committee decided to hold the Respondent GUILTY of Professional Misconduct falling within the meaning of Items (5), (6), (7), and (8) of Part I of Second Schedule to the Chartered Accountants Act, 1949 on total 28 Charges. The decision of the Committee with respect of charge are as under:

S. No.	Charge	Finding (Para ref.)	Decision of the Committee
1.	Disclosure of EPS and its adjustments which were against the requirements of AS-20	16 to 16.4	Guilty -Item (7) of Part I of Second Schedule
2.	Non-compliance of the requirements of SA-700.	17 to 17.5	Guilty -Item (6) and (7) of Part I of Second Schedule
3.	Treatment of Runway as plant instead of building in fixed assets Schedule	18 to 18.3	Not Guilty -Item (6) and (7) of Part I of Second Schedule

4.	Non-Compliance with the requirements of AS-16 'Borrowing Cost'	19 to 19.3	Guilty-Items (5) and (7) of Part I of Second Schedule
5.	Non-compliance of various requirements of AS-11 'The effects of Changes in Foreign Exchange Rates'	20 to 20.4	Not Guilty-Item (6) and (7) of Part I of Second Schedule
6.	Non-compliance with the requirements of AS-15 'Employee Benefits'	21 to 21.6	Guilty-Item (6) and (7) of Part I of Second Schedule
7.	Non-compliance with the requirements of AS-9 'Revenue Recognition'	22 to 22.4	Guilty-Item (5), (6) and (7) of Part I of Second Schedule
8.	Method used for valuation of raw materials, components, stores and loose tools	23 to 23.3	Guilty-Item (5), (6) and (7) of Part I of Second Schedule
8A	Valuation of loose tools at depreciated valued	23.4 to 23.7	Not Guilty-Item (7) and (8) of Part I of Second Schedule
8B	Valuation of inventories at cost	23.8 to 23.11	Guilty-Item (7) and (8) of Part I of Second Schedule
9.	Cash Flow Statements not fully reflecting increase/ decrease in Inventory	24 to 24.3	Guilty-Item (7) of Part I of Second Schedule
10.	Non-compliance with the requirements of AS-3 as cash flows related to loans were reported on net basis.	25 to 25.2	Guilty-Item (7) of Part I of Second Schedule
11.	Deferred revenue expenditure adjusted as part of working capital changes	26 to 26.1	Guilty-Items (6) and (7) of Part I of Second Schedule
12.	Investment made in subsidiaries and associates and share application money under a single head 'Investment in equity'	27 to 27.3	Guilty-Item (7) of Part I of Second Schedule

13.	Interest and dividend received has been disclosed as 'Cash Flows from financing activities' instead of 'Cash Flows from the Investing activities	28 to 28.3	Guilty -Item (7) of Part I of Second Schedule
13A	Non-compliance with the requirement Paragraphs 30 and 31 of AS-3	28.4 to 28.6	Guilty -Item (7) of Part I of Second Schedule
14.	Non-compliance with the requirement of Paragraph 20(b) of AS-3	29 to 29.2	Guilty -Item (7) of Part I of Second Schedule
15.	Non-compliance with the requirements of AS-13, Accounting for Investments as well as Schedule VI to the Companies Act, 1956.	30 to 30.3	Guilty -Items (5) and (7) of Part I of Second Schedule
16.	Non-disclosure of accounting policy of MAT paid during the financial year 2010-11	31 to 31.3	Guilty -Item (7) of Part I of Second Schedule
17.	Non-compliance with the requirement of AS-22 as depreciation has not been considered while recognising Deferred tax liability.	32 to 32.4	Guilty -Item (7) of Part I of Second Schedule
18.	Non-compliance with the requirement of AS-22 as deferred Tax Assets should be recognised to the extent of reversal of Deferred Tax Liability	33 to 33.2	Guilty -Item (7) of Part I of Second Schedule
19.	Major components of deferred tax liability have not been disclosed.	34 to 34.2	Guilty -Item (7) of Part I of Second Schedule

20.	Non-compliance with the requirement of AS 26 'Intangible Assets' as Deferred Revenue Expenditure has been disclosed under the head 'Miscellaneous Expenditure'	35 to 35.2	Guilty -Item (7) of Part I of Second Schedule
21.	Non-compliance with the requirement of Paragraph 14 of AS 29	36 to 36.4	Not- Guilty - Item (7) of Part I of Second Schedule
22.	Non-compliance with the requirement of AS-29 as contingent liabilities were accounted for on the basis of mutual acceptance	37 to 37.6	Guilty -Item (7) of Part I of Second Schedule
23.	Non-compliance with the requirement of Paragraph 24 of As-1 and Paragraph 23 of AS-16	38 to 38.3	Guilty -Item (7) of Part I of Second Schedule
24.	Non-compliance with the provisions of Section 349 of the Companies Act, 1956 relating to treatment of depreciation for determining net profit for computation of managerial remuneration	39 to 39.6	Guilty -Items (6) and (7) of Part I of Second Schedule
25.	Non-compliance with the requirements of Part I, Part II of Schedule VI to The Companies Act, 1956	40 to 40.3	Guilty -Item (7) of Part I of Second Schedule
26.	Non-compliance with the requirements of Paragraph 3 (xi) (c) of Part II of the Schedule VI to the Companies Act, 1956	41 to 41.3	Guilty -Item (7) of Part I of Second Schedule
27.	Non-compliance with the requirements of Clause 32 of listing agreement	42 to 42.3	Guilty -Item (7) of Part I of Second Schedule

28	Failed to give qualification in the financial statement for the financial year 2010-11 regarding non accounting of the difference between the actual liability and the discounted value as revenue expenditure	43 to 43.3	Not- Guilty - Items (5) and (7) of Part I of Second Schedule
29.	Non-compliance with the requirements of paragraph 4 (ii) (a) (b) and (c) of CARO, 2003 and Part I of Schedule VI to the Companies Act, 1956	44 to 44.5	Guilty -Item (7) and (8) of Part I of Second Schedule
30.	Non-compliance with the requirements of Paragraph 4 (iv) of CARO, 2003	45 to 45.2	Guilty -Item (7) of Part I of Second Schedule
31.	Non-compliance with the reporting requirements regarding the basis used for preparation of financial statements	46 to 46.3	Not- Guilty - Item (7) of Part I of Second Schedule
32	Wrong reference of Accounting Standards as issued by the Institute instead of those notified under the Companies (Accounting Standard) Rules, 2006	47 to 47.3	Guilty -Item (7) of Part I of Second Schedule
33.	Non-compliance with the clauses of Section 22 of Micro, Small and Medium Enterprises Development Act, 2003 and non-compliance of SA-500	48 to 48.5	Guilty -Item (7) of Part I of Second Schedule
34.	Non-compliance with the disclosure requirements regarding provision for income tax and fringe benefits tax	49 to 49.2	Not- Guilty - Item (7) of Part I of Second Schedule
35	Non-compliance with the requirements of Paragraph 13 of 700	50 to 50.3	Guilty -Item (7) of Part I of Second Schedule

CONCLUSION

51. In view of the findings stated in the above para's vis-à-vis material on record, the Committee, in its considered opinion, holds the Respondent **GUILTY** of

Professional Misconduct falling within the meaning of Items (5), (6), (7) & (8) of Part-I of the Second Schedule to the Chartered Accountants Act, 1949.

Sd/-

(CA. RANJEET KUMAR AGARWAL)

PRESIDING OFFICER

Sd/-

(MRS. RANI NAIR, I.R.S. RETD.)

GOVERNMENT NOMINEE

Sd/-

(SHRI. ARUN KUMAR, I.A.S., RETD.)

GOVERNMENT NOMINEE

Sd/-

(CA. SANJAY KUMAR AGARWAL)

MEMBER

Sd/-

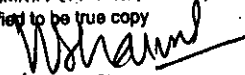
(CA. SRIDHAR MUPPALA)

MEMBER

DATE:07/02/2024

PLACE: NEW DELHI

सही प्रतिलिपि होने के लिए प्रमाणित /
Certified to be true copy


निशा शर्मा / Nisha Sharma
वरिष्ठ कार्यकारी अधिकारी / Sr. Executive Officer
अनुशासनात्मक निदेशालय / Disciplinary Directorate
इंस्टिट्यूट ऑफ चार्टर्ड एकाउंटेंट्स ऑफ इंडिया
The Institute of Chartered Accountants of India
आईसीएआई भवन, विश्वास नगर, शाहदरा, दिल्ली-110032
ICAI Bhawan, Vishwas Nagar, Shahdra, Delhi-110032