



# भारतीय सनदी लेखाकार संस्थान

(संसदीय अधिनियम द्वारा स्थापित)

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

### DISCIPLINARY COMMITTEE [BENCH-III (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/254C/2016/DD/115/INF/2016/DC/1354/2020

In the matter of:

**CA. P. Vijaya Sivasankar (M.No. 214786)**  
# 118, 2<sup>nd</sup> Floor,  
Keerthi Plaza,  
Nagarthpet,  
Bengaluru - 560 002

.....Respondent

MEMBERS PRESENT:

**CA. Charanjot Singh Nanda, Presiding Officer** (Present in Person)  
**Smt. Anita Kapur, Government Nominee** (Present in Person)  
**Dr. K. Rajeswara Rao, Government Nominee** (Present through Video Conferencing Mode)  
**CA. Sushil Kumar Goyal** (Present in person)  
**CA. Piyush S. Chhajer, Member** (Present through Video Conferencing Mode)

**Date of Hearing: 25<sup>th</sup> June 2024**

**Date of Order: 21<sup>st</sup> January, 2025**

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 dated 22<sup>nd</sup> January 2024, the Disciplinary Committee was, inter-alia, of the opinion that **CA. P. Vijaya Sivasankar (M. No. 214786)** (hereinafter referred to as the "**Respondent**") was **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.

2. The Committee noted that the charge against the Respondent is that she failed to report various non-compliances with respect to Accounting Standards and Schedule VI to the Companies Act 1956 in her audit report of M/s Rajesh Exports Limited (hereinafter referred to as '**Company**') for the financial year 2012-13 and thus failed to comply with her reporting obligations thereon.

3. That pursuant to the said findings, an action under Section 21B(3) of the Chartered Accountants Act, 1949 was contemplated against the Respondent and a communication was

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addressed to her thereby granting an opportunity of being heard in person/through video conferencing and to make representation before the Committee on 25<sup>th</sup> June 2024.

4. The Committee noted that on the date of hearing held on 25<sup>th</sup> June 2024, the Respondent was present through Video Conferencing Mode and made her verbal submissions on the findings of the Disciplinary Committee. The Committee noted that the Respondent had also submitted her written representation dated 8<sup>th</sup> June 2024. In the verbal and written submissions, the Respondent while accepting certain minor lapses had, inter-alia, submitted as under:

- a. That difference in professional judgment was due to technical interpretations which cannot be constituted as charge of professional misconduct.
- b. There were few inconsequential oversights and errors on the part of the Company management. However, none of those points, individually or collectively made financial statements in question misleading or materially misstated or suffering from any significant omission affecting public interest.
- c. The management's view that "net presentation of the cash flow" related to the loan transactions was appropriate.
- d. That "Fixed Deposits with Bank" was correctly presented as a separate sub line item under Note 15 Cash and Equivalents. The same was in accordance to the general instructions 6.Q to the Schedule VI Revised.
- e. That merely because the Respondent had not ensured the headings or any variation in presentation as suggested in Para 6.4 of the Guidance Note, the Respondent cannot be held guilty of professional misconduct.
- f. There was no deficiency in the disclosure on liquidity restriction on Bank deposits presented in Note 5. The omission of the other amount of liquidity restriction was an inconsequential amount of less than 0.01%.
- g. That judgment of compliance of AS-9 was based on the text used in the accounting policy.
- h. According to the framework for preparation and presentation of financial statements, grouping of exchange difference along with sales, according to its nature being integral to the export business, forming part of ordinary activities and hence making part of income is accurate presentation.
- i. That AS 11 had no application in the hedge accounting of probable forecast transactions and firm commitments.
- j. According to the provisions in AS-11, it is not possible to draw any inference that inclusion of "currency hedging and forex fluctuation costs" within the line item 'Cost of Material Consumed' in the profit and loss account was against the requirements of Para 40(a) of AS-11.

5. The Committee considered the reasoning as contained in the findings holding the Respondent Guilty of professional misconduct vis-à-vis submissions of the Respondent in the matter made before it.

6. Keeping in view the facts and circumstances of the case, along with the material on record including representations on the findings, the Committee noted that there were non-



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compliances of Accounting Standards and Schedule VI of the Companies Act 1956 in financial statements for the financial year 2012-13 of the Company and the same are spelt out in the Committee's Findings dated 22<sup>nd</sup> January 2024 which is to be read in conjunction with the instant Order being passed in the case.

7. On consideration of the overall facts of the case, the Committee viewed that the said discrepancies were technical in nature and was not affecting the decision of the users of financial statements. The Committee also noted that the Company is still continuing and the accounts of the Company for the said financial year were adopted without objections. Accordingly, the Committee viewed that there was no harm to the investors. The Committee viewed that the ends of justice will be met if punishment commensurate with misconduct is given to the Respondent.

8. Accordingly, the Committee, upon considering the nature of charge and the facts of the matter ordered that **CA. P. Vijaya Sivasankar (M. No. 214786) be reprimanded.**

Sd/-

(CA. CHARANJOT SINGH NANDA)  
PRESIDING OFFICER

Sd/-

(SMT. ANITA KAPUR)  
GOVERNMENT NOMINEE

Sd/-

(DR. K. RAJESWARA RAO)  
GOVERNMENT NOMINEE

Sd/-

(CA. SUSHIL KUMAR GOYAL)  
MEMBER

Sd/-

(CA. PIYUSH S CHHAJED)  
MEMBER

DATE: 21<sup>st</sup> January, 2025

PLACE: NEW DELHI

सही प्रतिलिपि होने के लिए प्रमाणित  
Certified to be true copy

गीता अनिरुध कुमार / GEETHA ANIRUDHA KUMAR  
कार्यकारी अधिकारी / Executive Officer  
अनुशासनसम्बन्धक निदेशालय / Disciplinary Directorate  
भारतीय सनदी लेखाकार संस्थान  
The Institute of Chartered Accountants of India  
आईसीएआई भवन, विश्वस नगर, शाहदरा, दिल्ली-110032  
ICAI Bhawan, Vishwas Nagar, Shahdara, Delhi-110032

**CONFIDENTIAL**

**DISCIPLINARY COMMITTEE [BENCH – III (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/254C/16-DD/115/INF/16-DC/1354/2020**

**In the matter of:**

**CA. P. Vijaya Sivasankar (M.No. 214786)**  
**# 118, 2<sup>nd</sup> Floor,**  
**Keerthi Plaza,**  
**Nagarthpet,**  
**Bengaluru - 560 002**

**.....Respondent**

**MEMBERS PRESENT**

**CA Aniket S Talati, Presiding Officer**  
**Smt. Anita Kapur, Government Nominee**  
**Dr. K. Rajeshwar Rao, Government Nominee**  
**CA. Piyush S. Chhajed, Member**

**Date of Final Hearing: 14<sup>th</sup> September, 2023**

**PARTIES PRESENT**

- (i) CA. C V Sajan: Counsel for the Respondent**  
**[appeared from his personal location]**

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### Charges in Brief:

1. The Committee noted that the Director (Discipline) in his *prima Facie* Opinion had held the Respondent guilty of professional misconduct falling within the meaning of Items (5), (6), (7) and (8) of Part I of the Second Schedule to the Chartered Accountants Act, 1949. It is noted that Items (5), (6), (7) and (8) of Part I of the Second Schedule state as follows:-

#### Part I of Second Schedule:

##### *Professional misconduct in relation to chartered accountants in practice*

*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*”

“(6) *Fails to report a material misstatement known to him to appear in a financial statement with which he is concerned in a professional capacity*”.

“(7) *Does not exercise due diligence, or is grossly negligent in the conduct of his professional duties*”.

“(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*”.

### Background and Charges alleged against the Respondent

2. The Committee noted that the instant case has emanated from the report (A-3 to A-95) received from Financial Reporting Review Board of the ICAI (hereinafter referred as the “Board”/ “FRRB”), wherein various non-compliances in financial statements with regard to AS-3, AS-6, AS-9, AS-11, AS-13, AS-15, AS-17, AS-19, AS-20, AS-22, AS-26, SA-705 and Schedule VI to the Companies Act, 1956, with reporting obligations in General Purpose Financial Statements, were mentioned in respect of Rajesh Exports Limited (hereinafter referred to as “Company”) for the financial year 2012-2013. It was also noted that various discrepancies were noticed by the Board based on which it was alleged that the Respondent, being statutory auditor of the Company, failed to report the said discrepancies in her audit report and thus, failed to comply with her reporting obligations thereon.

### Proceedings

3. The Committee noted that in the hearing held on 14<sup>th</sup> September 2023, the Counsel for the Respondent was present before it for hearing and that the matter was part-heard. Accordingly, the Committee asked the Counsel for the Respondent to make his further submissions on remaining allegations. The Counsel for the Respondent made submissions on the matter. The Committee also posed certain questions to the Counsel for the Respondent and examined him on fact of the case. The Counsel for the Respondent, thereafter, made final submissions on the matter. Accordingly, the hearing in the matter was concluded and judgement was reserved.

3.1 On Nov 21, 2023, considered the documents available on record and oral and written submissions made the Counsel for the Respondent and, thereafter, decided the matter.

### Findings of the Committee:

4. At the outset, the Committee noted that the Board had raised 43 allegations against the Respondent. However, the extant proceedings are limited to the allegations wherein the Director (Discipline) has found her prima facie guilty of professional misconduct. The Committee considered each allegation in context of the requirement of the law and their implications on the financial statements along with the Respondent's submissions thereon. Its observations thereon are discussed allegation wise as under:-

#### 4.1 Allegation no. 1: -

In this allegation, it was alleged that the Cash Flow Statement, when read in conjunction with Note 18: Revenue from operations(A-79) and Note 19: Other Income(A-76), the following discrepancies were observed with regard to Cash Flow Statement: -

a) Under the heading of 'Cash flows from Financing Activities', only the *net movement in secured loans and unsecured loans had been reported*. It is alleged that the Company appears to be non-financial company as the Company was having main income from sale of products (A-85). Further, there was nothing from the Respondent to show that turnover of the Company was quick and/or the maturities were short. In spite of this, secured and unsecured loan was shown on net basis (A-79) which was in violation of the requirement of para 21 of AS-3. Further, the amount of secured and unsecured loan appears to be material (61.60%) when compared to the total cash flow from the financing activities. Hence, the Respondent is 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.

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b) In the determination of Cash Flow from Operating Activities, the 'Net Profit Before Tax & Extraordinary items' had been used as a basis which included the bank interest income and interest on inter corporate deposits as reported under Note 18 and 19, respectively. However, the related cash flows were not reported separately under 'cash flow from investing activities', as required by paragraph 30 of AS 3. Hence, it was alleged that the 'cash generated from operations' was overstated and cash generated from 'investing activities' was understated.

It was alleged that the Respondent, being statutory auditor of the Company, failed to report the said discrepancies which were in violation of AS 3.

#### **4.2 Submissions of the Respondent**

a) In respect of above allegation no.1(a) related to net movement of secured and unsecured loans in cash flow statement, the Respondent submitted that both the secured and unsecured loans were short term in nature. Secured loans were for working capital needs consisted of credit limits from banks against current assets as also loans against own deposits. Therefore, by nature, transactions were in large numbers or turnover in those accounts were quick falling within para 22(b) of AS-3.

b) In respect of allegation related to non-reporting of interest income and interest on inter corporate deposits income under 'Cash flow from investing activities', the Respondent submitted that the Interest paid by the Company appeared in Note 23 (A-87). Interest and dividend received by the Company appeared in Note 18 and Note 19 (A-85 and A-86). Therefore, they were separately and distinctly presented in the profit and loss account. According to the Respondent, there was no error in the treatment of interest received for the purpose of cash flow statement. The Respondent further submitted that similarly, Interest paid was treated under financing activity, which was the correct treatment as per AS 3. Hence, there was no error in the presentation of interest paid in the cash flow statement.

#### **4.3 Observation of the Committee:**

a) The Committee in this regard firstly noted that the Respondent has taken plea that since secured and unsecured loans were taken for working capital needs and due to the same, transactions were in large number and quick and accordingly, transactions pertaining to those accounts were shown on net basis in Cash Flow Statement. It is noted that requirement with respect to reporting of cash receipts and cash payments on gross basis is laid in paragraph 21 of AS 3 with exceptional situation laid in Para 22(a) and 22(b), While 22(a) provides exception/exemption condition in relation to cash receipts received from customers, paragraph 22(b) lays down the condition for residual matters stating as "(b) cash receipts and payments for items in which the turnover is quick, the

amounts are large, and the maturities are short” and the said phrase is explained through following examples:

- (a) *Principal amounts relating to credit card customers;*
- (b) *The purchase and sale of investments; and*
- (c) *Other short-term borrowings, for example, those which have a maturity period of three months or less.*

From the above, it is noted that if the cash receipts and payments are in the nature of the borrowings, the same is available only in respect of short borrowings which have maturity of period three months or less. In extant case, it is noted that the Respondent has tried to take shelter, in her submissions, that loans were taken for working capital needs but does not make any attempt to prove that said loans were taken for period of three months or less. In the absence of any evidence, and considering the fact that the balance of short term borrowings at the end of year include both secured and unsecured loan which was indeed significant. Hence, reporting such transactions on gross basis was material. Accordingly, the Committee is of the considered opinion that the Respondent is **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 allegation related to cash flow from Operative Activities, the Committee noted that, Paragraphs 32 and 33 of AS-3, 'Cash Flow Statements' read as under:

*“32. Interest paid and interest and dividends received are usually classified as operating cash flows for a financial enterprise. However, there is no consensus on the classification of these cash flows for other enterprises. Some argue that interest paid and interest and dividends received may be classified as operating cash flows because they enter into the determination of net profit or loss. However, it is more appropriate that interest paid and interest and dividends received are classified as financing cash flows and investing cash flows respectively, because they are cost of obtaining financial resources or returns on investments.”*

*“33. Some argue that dividends paid may be classified as a component of cash flows from operating activities in order to assist users to determine the ability of an enterprise to pay dividends out of operating cash flows. However, it is considered more appropriate that dividends paid should be classified as cash flows from financing activities because they are cost of obtaining financial resources.”*

The Committee, in this regard, observed that as per the Standard, it is more appropriate to classify interest received as cash flow from investing activity. This standardization of classifications would have ensured consistency and comparability with the other companies. However, considering the recommended nature of the stated

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provision which gives room to classify interest received under the cash flow from operating activity, the Committee decided to extend benefit to the Respondent with respect to above allegation.

Accordingly, the Committee was of the considered opinion that the Respondent is **NOT GUILTY** of Professional Misconduct falling within the meaning of Item (7) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

**5. Allegation 2:** In the second allegation, following discrepancies were reported in reference to Note 15, "Cash and Cash Equivalents" (A-85), when read in conjunction with Note 5, 'Short Term Borrowings'(A-82):-

a) 'Cash and Cash equivalents' included all fixed deposits as 'Cash Equivalents' which as per the Board were not in accordance with AS 3.

b) It was noted from note of 'short term borrowings' that company's fixed deposits with banks have been given as security against such loans. It was noted that Revised Schedule VI requires bank balances held as security against borrowings to be disclosed separately. However, no such disclosure was found under the head 'cash and cash equivalents'.

#### **5.1 Submissions of the Respondent:-**

a) In respect of allegation that all the fixed deposits were included in Cash & Cash equivalents, the Respondent stated that in the prima facie opinion, it has been assumed that fixed deposits in Note 15 (A 85) were for the period longer than 12 months. The Respondent brought on record the details of FDRs and argued that all the FDRs under this section, totalling Rs. 9264,00,02,845/- (9264 crores), were repayable within 12 months.

b) In respect of allegation related to separate disclosure of fixed deposits held with banks as security, the Respondent stated that the Company had chosen not to make a separate disclosure and this omission was not material enough to qualify the audit report. The Respondent further stated that the description of the loan in Note 5 (A-82) represents loan against Company's own fixed deposits with the banks, and this was the proper disclosure as per Schedule VI.

#### **5.2 Observation of the Committee:**

a) In respect of the allegation that all the fixed deposits were included in Cash & Cash equivalents, the Committee noted that the Respondent in her defense provided comprehensive details regarding the fixed deposits held as security with the bank, including account numbers, bank names, outstanding balances, and maturity dates which indicates that the said fixed deposits were made for a period of 12 months. It is noted that

as per Paragraph 6 of AS 3, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition and is subject to insignificant risk. Further, it is noted that Guidance Note on Revised Schedule VI provides further clarification when its Paragraph 6.4 states as under:

*As laid down in the General Instructions, Para 1 of Revised Schedule VI, requirements of the Accounting Standards would prevail over the Revised Schedule VI and the company should make necessary modifications in the Financial Statements which may include addition, amendment, substitution or deletion in the head/sub-head or any other changes inter se. Accordingly, the conflict should be resolved by changing the caption "Cash and cash equivalents" to "Cash and bank balances," which may have two sub-headings, viz., "Cash and cash equivalents" and "Other bank balances." The former should include only the items that constitute Cash and cash equivalents defined in accordance with AS 3 (and not the Revised Schedule VI), while the remaining line-items may be included under the latter heading.*

Therefore, it was viewed that classification of all fixed deposits as cash equivalents was not in line with the requirement of AS 3. Keeping in view the fact that fixed deposits with bank constituted 66% of the total assets of the Company, the Respondent is guilty with respect to above allegation falling within the meaning of Item (6) & (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949.

b) In respect of allegation related to separate disclosure of fixed deposits held with banks as security, the Committee noted there is no separate disclosure under the Cash Flow Statement with respect to fixed deposits given as security with banks which led to concealment of an important fact about the liquidity available in form of cash and cash equivalents. Hence, the Respondent is held **GUILTY** of professional misconduct falling within the meaning of items (5) & (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949.

#### **6. Allegation No.3:**

a) In the third allegation, the non-compliances were reported in reference to Note 15, "Cash and Cash equivalents" (A-85) when read in conjunction with the Cash Flow Statement (A-79). It was alleged that the balance of Cash & Cash Equivalents, as reported in the Cash Flow Statement, was identical to that stated in the note to the balance sheet. This indicated that the Cash & Cash Equivalents in the Cash Flow Statement also included unpaid dividends and fixed deposits with banks, which were provided as security against short term borrowings. The pledged fixed deposits and unpaid dividends were not available for the use of company. However, in the Cash Flow

Statement, no separate disclosure regarding this matter was provided, which was contrary to the requirements of Paragraph 45 of AS 3.

#### **6.1 Submissions of the Respondent: -**

a) (i) The Respondent stated that the observation that there was no management commentary on the restriction on Bank deposits was trivial in nature. The Respondent further stated that about the possibility of restrictions over fixed deposits (in Note 15) from the disclosure in Note 5 (A-82) was understandable. It implied that the bank deposit are the securities for the borrowings, then alleging about a missing additional disclosure is trivializing matters. So, there was no case for the Respondent to make any audit qualification, regardless of the missing specific disclosure as the same was not a material misstatement.

#### **6.2 Observation of the Committee:-**

a) The Committee in this regard noted that paragraph 45 of AS-3 states that, "An enterprise should disclose, together with a commentary by management, the amount of significant cash and cash equivalent balances held by the enterprise that are not available for use by it.". The Committee in the given case observed that the balance of cash & cash equivalents as stated in Cash Flow Statement is same as that of cash & cash equivalents given in note to the balance sheet. It indicates that cash & cash equivalents of Cash Flow Statement also included unpaid dividend and fixed deposits with bank which have been given as security against short term borrowing. Notably, these pledged fixed deposits and unpaid dividends were not readily available for use to the Company. In respect of the above allegation, the Committee did not agree with the submission of the Respondent that the said information about restriction/charge on the bank deposits can be found by any reader of financial statement. It is viewed that an ordinary user is not expected to be an expert reader to understand the nuances of the financial statements. Therefore, such disclosures are made mandatory to enable disclosure of material information on face of financial statements. Further, a simple disclosure that Fixed Deposits with Banks are given as security is again is not a sufficient disclosure as it does not disclose the amount of fixed deposits so pledged and not available freely for use by the Company. It was noted that while secured loan constituted 14.17% of total size of the Balance Sheet, the fixed deposits constituted 67% of the total size of the Balance Sheet and that both the components were significant. Hence, omission of such disclosure could not be considered as only a presentation or disclosure error. Therefore, the Committee was of the considered opinion that the Respondent is **GUILTY** with respect to above allegation falling within the meaning of Items (5) & (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949.

#### **7. Allegation No. 4:**

In this allegation, reference was made to 'Revenue Recognition' policy (A-88) which reads as below:-

***"vi. Revenue Recognition***

*Revenue is recognised only when it can be reliably measured and when it is reasonable to expect ultimate collection...Sales are recorded net of trade discounts, rebates and value added tax if any and are recorded **at the realised foreign currency rates (emphasis supplied).**"*

The following discrepancies were observed in relation to AS-11, the Effects of Changes in Foreign Exchange Rates and AS-9, Revenue Recognition which the Respondent failed to report in her audit report:-

- a. It was observed from the accounting policy on revenue recognition that the sales are recorded at the realised rate. It was viewed that as per paragraph 9 of AS 11, the sales in foreign currency should be recorded at the exchange rate prevailing on the date when sales took place. In case, if such debtors against such sales are realised subsequently then it is exchange fluctuation on monetary asset i.e. debtor which should be recognised as gain or loss on exchange fluctuation rather than being recognised as revenue.
- b. The accounting policy for revenue recognition stated that sales are recorded at the realized rate rather than recognizing it when the significant risk and rewards of ownership in goods are transferred to the buyer.

**7.1 Submissions of the Respondent:-**

a) The Respondent, with respect to violation of AS-11, submitted that the term "Notional rate" is a simple and practical term used in the place of the words "rate that approximates the actual rate at the date of transactions". The Respondent further submitted that, in accounting policy 24(viii)(b), foreign exchange transactions were classified as completed or pending. Such classification was made from the point of view of the reporting date because the status of "completed" or "pending" was determined only on the reporting date. The Respondent contended that in the context of pending transactions, they were first recognized at notional rates, and on the reporting date, at the closing rate (prevailing rate). Every transaction was a pending transaction on the date of origination, and therefore, all were recognized at notional rates. Once realization/payment took place subsequently, the actual rate of settlement effectively substituted the first rate because of the loading of exchange difference onto the previously recognized rate.

**7.2 Observation of the Committee:-**

i) The Committee in this regard noted that Paragraph 9 of AS 11, 'The Effects of Changes in Foreign Exchange Rates', states that, "A foreign currency transaction should be recorded, on initial recognition in the reporting currency, **by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the transaction**".

Further Para 10 of AS-11 states that, "For practical reasons, a rate that approximates the actual rate at the date of the transaction is often used, for example, an average rate for a week or a month might be used for all transactions in each foreign currency occurring during that period. However, if exchange rates fluctuate significantly, the use of the average rate for a period is unreliable."

Furthermore Para 13 of AS-11 states that, "Exchange differences arising on the settlement of monetary items or on reporting an enterprise's monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, should be recognised as income or as expenses in the period in which they arise, with the exception of exchange differences dealt with in accordance with paragraph 15".

Additionally, Para 14 of AS-11 is read as under, "An exchange difference results when there is a change in the exchange rate between the transaction date and the date of settlement of any monetary items arising from a foreign currency transaction. When the transaction is settled within the same accounting period as that in which it occurred, all the exchange difference is recognised in that period. However, when the transaction is settled in a subsequent accounting period, the exchange difference recognised in each intervening period up to the period of settlement is determined by the change in exchange rates during that period".

In accordance with the aforementioned provisions, the Committee in this regard observed that Respondent's arguments in the context of the alleged violation of AS-11 revealed significant deviations from the prescribed accounting standards. The Respondent's reliance on the term "notional rate" as a substitute for the actual exchange rate or average rate at the date of transactions is unacceptable. It is clearly defined that the average rate of exchange could be average of a week or that of month provided fluctuation in exchange rate is not significant. It is noted that firstly, AS 11 does not define the term notional rate and it does not allow that any adhoc rate be considered as proxy to average rate. Accordingly, adoption of such policy especially when the Company is involved in export business. It raises concerns regarding the accuracy and reliability of financial statements. The use of notional rates, as advocated by the Respondent, is in violation of the requirements of AS-11. Accordingly, the Committee is of the considered opinion that the Respondent is **GUILTY** with respect to above allegations falling within

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

ii) In respect of second leg of allegation related to violation of AS-9, the Respondent submitted that revenue from sales was recognized when goods were sold and dispatched (which is technically termed as transfer of property, risk/ rewards etc.), irrespective of whether this aspect was expressly mentioned in the policy or not. The narrative of the policy that revenue is recognized when it is reasonable to expect ultimate collection, in no way communicated a different message, contrary to what was prescribed in AS 9. The Respondent reiterated that the method of recognition and measurement of revenue on the ground had been proper and correct. The Respondent admittedly stated that the wording chosen by the Company was not perfect but argued that the missing words in the text of the accounting policy on revenue recognition were inconsequential.

The Committee in this regard noted that para 10 of AS-9 "Revenue Recognition" states that, *Revenue from sales or service transactions should be recognised when the requirements as to performance set out in paragraphs 11 and 12 are satisfied, provided that at the time of performance it is not unreasonable to expect ultimate collection. If at the time of raising of any claim it is unreasonable to expect ultimate collection, revenue recognition should be postponed.*

Further, it is noted that in extant case the Company was involved in selling goods so principles in Para 11 of AS-9 are relevant which states as under: -

*11. In a transaction involving the sale of goods, performance should be regarded as being achieved when the following conditions have been fulfilled:*

*(i) the seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership; and*

*(ii) no significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods.*

The Committee observed that the lack of a clear statement linking revenue recognition to the transfer of significant risks and rewards clearly violates the requirements of principals as laid out in AS-9.

Further, it is noted that the Respondent has brought on record the details of four sales transactions, the date of transaction, value of said transaction in USD, value of sales accounted, the date of realization of the said sales to demonstrate as to how the sales

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were recorded for sales that took place before the end of the reporting period and realized in the next reporting period. It is noted that though invoice state the value of transaction in USD converted into local currency i.e. Rupees at the exchange rate prevailing as on the date of transaction i.e. 54.2. Still, the transaction was recorded at the rate of Rs. 45 approx and debtors are raised accordingly. In other words, neither the sales nor related debtors were being recorded correctly which further raises question on accounting followed at the settlement date. As the transaction was deliberately recorded at far lower rate, it raises question on the policy adopted for recognizing the surplus realized on settlement. In other words, though sales were recorded on transfer of significant risk still it was not recognizing the fair value of the transaction. Accordingly, it is viewed the neither the revenue recognition policy as stated in the notes to accounts was being followed, nor the accounting followed was in line with the principles of AS 9 read with AS 11. Since revenue is a material item of the financial statement, an inappropriate policy would mislead the users of the financial statements which cannot be ignored at all. The Respondent as statutory auditor was required to report about inappropriate policy with regard to revenue recognition which is not line with AS-9 as well as AS 11, but she failed to do so. Accordingly, the Committee is of the considered opinion that the Respondent is **GUILTY** with respect to above allegation falling within the meaning of Items (5), (6) & (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949.

#### **8. Allegation 5:**

In this allegation, the non-compliance was associated with Note 20, 'Cost of Material Consumed' (A-86), in relation to paragraphs 13 and 40(a) of AS 11. It was stated that 'Cost of Material Consumed' included currency hedging and forex fluctuation cost. And that the same was against the requirements of AS 11, and the auditor did not draw attention to this fact in the auditor's report.

#### **8.1 Submissions of the Respondent:-**

The Respondent inter-alia submitted that foreign exchange differences included in Material cost was part of hedging cost. The foreign exchange risk of the Company on account of export and import transactions were hedged by designating such exports and imports as hedging tools, against each other, commonly known as "natural hedging". Where natural hedge was not available, company also took forward exchange contracts from banks. Objective of designation of such natural hedge was to neutralize the effect of exchange differences arising on foreign currency assets and foreign currency liabilities, by offsetting one with the other and thereby, avoiding unwanted line items of losses or profit on account of exchange differences in the Income Statement. The Respondent contended that paragraph 13 of AS 11 only deals with exchange differences arising on foreign currency assets or liabilities, that are not part of hedged items or hedging instruments. In the case of natural hedge, the amount of exchange difference arising on foreign currency assets and foreign currency liabilities would offset each other and hence,

the question of income or expenses mentioned in para 13 was unlikely to arise. These hedges were taken only for the purpose of fixing the cost of materials imported, in advance so that sales price can be set based on such prefixed cost price. Therefore, to determine the accurate cost of material purchased and consumed, exchange differences arising from the hedging instrument should essentially be tagged or grouped along with the hedged item that is the import transaction. Actual amount of cost of imported material was the cost of purchase recognized at the exchange rate on the date of recognition offset with the above mentioned "hedging effect". The Respondent argued that prescription in the Accounting Standard to present exchange differences as income or expenses in profit and loss, did not mean that it cannot be grouped with associated items. Requirement of disclosure of exchange difference in Para 40 of AS 11 was that the amount involved as exchange difference recognized as income or expense had to be distinctly present in the financial statements, either as a separate line item anywhere in the profit and loss account or in its Notes or as an additional narrative in the Notes to accounts. When import was recognized, exchange rate on date of recognition was used to account for the purchase. However hedging effect (exchange difference from hedging instrument) effectively took the cost of purchase to the prefixed price as per hedging strategy. To achieve this, exchange difference had to be presented with the cost of material (purchase cost). So, as per the Respondent, there was no error in the presentation in Note 20.

## **8.2 Observation of the Committee:**

i) The Committee noted that the 'Cost of Material Consumed' included currency hedging and forex fluctuation costs and that the Respondent introduced a concept of natural hedging wherein he argued that the loss on export transaction be offset by gain of import transaction or vice versa. So no gain or loss has incurred. However, it is noted that the sub-head 'Currency hedging and foreign exchange fluctuation' indicate that hedging contracts were indeed entered into which would either fall in the category of trading or speculation or otherwise. AS 11 prescribes principles for the same in paragraph 36 and 38 wherein depending upon the nature of transactions the foreign exchange fluctuation was recorded as a separate and independent line item in profit and loss account. It is viewed that there is concept mitigating the risk of transaction by taking cover through underlying transaction but there is no concept of export vs import risk mitigation. In other words, it seems to be trading/speculation. In other words, the exchange fluctuation arising on imports/ monetary items have not been accounted for which is against the principles of Paragraph 13 of AS-11 which states that, "*Exchange differences arising on the settlement of monetary items or on reporting an enterprise's monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, should be recognised as income or as expenses in the period in which they arise, with the exception of exchange differences dealt with in accordance with paragraph 15*". Further, Para 40(a) pf AS-11 states that, "*An enterprise*



should disclose: the amount of exchange differences included in the net profit or loss for the period". The Committee in this regard noted that inventories, when purchased, are non-monetary assets that do not give rise to any foreign exchange fluctuation gains or losses. AS-11 requires any foreign exchange transaction giving rise to monetary assets/liabilities to be initially recorded at the prevailing rate on the transaction date, with subsequent exchange gains or losses recorded separately. The Respondent's argument that these costs were part and parcel of the cost of inventory in the business, was against the underlying principles of AS-11. The Committee pointed out that AS-11, particularly Para 40(a), mandates the disclosure of the amount of exchange differences included in the net profit or loss for the period. The difference should be disclosed either in the profit and loss account or as part of the foreign currency translation reserve as a separate component of shareholder's funds; however, in the given case no such disclosure was given due to the wrong recognition and classification. Although the Committee recognized the flexibility provided by the accounting standards but underscored that this flexibility should not override the fair presentation and faithful representation. Stakeholders, including investors, rely on clear, accurate and comparable financial information. Therefore, the Committee is of the view that the accounting and presentation of exchange differences should be in line with the requirement of AS-11. Accordingly, the Committee observed that the inclusion of currency hedging and forex fluctuation costs in the 'Cost of Material Consumed' was against the requirements of AS-11 which the Respondent, as an auditor, failed to draw attention to this non-compliance in the auditor's report. Therefore, the Committee is of the considered opinion that the Respondent is 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, 1956.

#### **9. Allegation 6:**

In this allegation, the non-compliance was with reference to accounting policy of 'Foreign Currency Transactions'(A-88), as adopted by the Company based on which it was alleged that, unsettled foreign exchange transactions were recorded at notional rates, and these notional rates were then converted at the rate prevailing at the balance sheet date. It is noted that the said accounting policy of the Company reads as under:-

*"viii. Foreign Currency Transactions*

*(a) Completed foreign exchange transactions are recorded at the actual exchange rate paid and pending foreign exchange transactions are **recorded at notional rates**, the notional rates are converted into prevailing rates at the end of the year and the difference is recorded as fluctuation in foreign exchange (**emphasis supplied**)."*

It was alleged that as per stated policy of 'foreign currency transactions', the unsettled foreign exchange transactions were recorded at notional rate and these notional rates were converted at the rate prevailing at the balance sheet date. It was stated that

AS 11 never prescribes to recognise any transaction at notional rates. Further, the basis of selecting such notional rates is also not clear viz. whether the notional rate used is the spot rate or any other rate and the date when such rate is taken.

Further, it was noted that although foreign exchange transactions are reported to have occurred during the period but no such foreign exchange fluctuations have been disclosed either in the financial statement or in the notes to accounts. It is not in line with the requirements of paragraph 40 of AS 11, which provides as follows:

*"40. An enterprise should disclose:*

*(a) the amount of exchange differences included in the net profit or loss for the period; and"*

Accordingly, it was alleged that the requirements of AS 11, The Effects of Changes in Foreign Exchange Rates have not been complied with, and the auditor has not drawn attention on this fact in the auditor's report.

#### **9.1 Submissions of the Respondent:-**

i) Regarding the said allegation, the Respondent inter-alia submitted that as a clarification to Para 9 of AS 11, Paragraph 10 provides for the use of a rate approximating the actual rate at the date of the transaction for practical reasons. This rate referred to as the "notional rate," was argued by the Respondent to be a valid and practical rate. The Respondent emphasized that for a company with huge volume of transactions per day, to adopt actual rates where spot exchange rates varied many times even within a day, was never practical or feasible. Therefore, for practical expediency, the Company used the approximate rate termed as notional rate, which was correct according to Respondent as per Para 10 of AS 11.

ii) The Respondent also stated that the observation in Paragraph 7.7.1 of the PFO gives a sense that the Director (Discipline) perceived the accounting policy followed by the Company as a departure from the prescription in AS 11. However, the contents in Para 7.7.1 also suggests that the Director-Discipline was not sure as to whether the notional rate is sport rate or not.

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## **9.2 Observation of the Committee:-**

i) The Committee in this regard noted that Para 10 AS-11 states that, "For practical reasons, a rate that approximates the actual rate at the date of the transaction is often used, for example, an average rate for a week or a month might be used for all transactions in each foreign currency occurring during that period. However, if exchange rates fluctuate significantly, the use of the average rate for a period is unreliable". However, the Committee observed that AS-11 does not advocate the recognition of transactions at notional rates. Additionally, the rationale behind choosing such notional rates lacked clarity such as whether it was the spot rate or average rate, or the rate determined on a specific date. On perusal of four sales transactions demonstrated by the Respondent, it is noted that though the invoice of the said transaction record an exchange rate of Rs.54.2 still the transactions were recorded at Rs.45 approx. Which was not a fair presentation of the transaction that took place. The Respondent remained silent on what is the notional rate in actual. Consequently, the Committee noted non-compliance with regard to the requirements of AS-11, "the Effect of Change in Foreign Exchange Rate" and accordingly, found the accounting policy of the Company inconsistent with the requirement of AS-11 which the Respondent as an auditor did not highlight in her audit report. Accordingly, the Committee is of the considered opinion that the Respondent is **GUILY** with respect to above allegation falling within the meaning of Items (5), (6) & (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949.

## **10. Allegation No.7:-**

In this allegation, the non-compliance was related to Note 9, Fixed Assets(**A-83**). In the given case, a list of land, building and commercial properties was shown under the head 'Other immoveable properties' on which no depreciation was charged. Non-charging of depreciation on those 'Fixed Assets' indicated that they were not held by the Company for its use or for operating business; instead, they were held as investment property. Hence, it should have been classified as long-term investments rather than Fixed Assets.

## **10.1 Submissions of the Respondent:-**

i) Regarding the said allegation, the Respondent submitted that all the immovable properties were held for use in business and were not held for sale or rentals. Hence, they were part of fixed assets. The Respondent mentioned that the Company had been in the process of expanding its retail network, and, for this purpose, immovable properties were necessary to house the show rooms, workshops, offices, and staff accommodations. As the values of these properties inherently possessed an insignificantly low valuation attributed to the building component of the immovable property, no depreciable amount fell within the purview of Para 3.4 of AS-6 in the case of those immovable properties. According to the Respondent, these properties were categorized as land due to the

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insignificant value of buildings on them. This rationale constituted the basis for not charging any depreciation.

#### **10.2 Observation of the Committee:**

i) The Committee noted that as per para 3.4 of AS-13, definition of investment property reads as under: -

*“An investment property is an investment in land or buildings that are not intended to be occupied substantially for use by, or in the operations of, the investing enterprise.”*

Upon consideration of the Respondent's submissions and para 3.4 of AS-13, the Committee observed that the immoveable properties covered under allegation could not be regarded as the 'Investment properties', but rather the fixed assets, as the underlying use was for business, and not for the purpose of sale or rentals. Hence, the classification of the said immoveable properties as the fixed assets was appropriate in accordance with AS-6 and AS-13. The Committee further noted that the said properties were considered as non-depreciable by management. The rationale for not charging the depreciation was established on the classification of these properties as land. Furthermore, the categorization of these properties as land, due to the negligible value attributed to the buildings, was management decision. Further, there was nothing on record to show that such other immovable properties were not being used in the operation of the Company. Accordingly, keeping in view the responsibility of the management of deciding the nature of the assets based its use or the possible use in operation, and in absence of any contrary evidence, the Committee decided to extended benefit to the Respondent in respect of above allegation. Accordingly, the Committee is of the considered opinion that the Respondent is **NOT GUILTY** with respect to above allegation falling within the meaning of Items (6), (7) & (8) of Part of Second Schedule to the Chartered Accountants Act, 1949.

#### **11. Allegation No. 8:**

In this allegation, the non-compliance is pertained to Note 10, “Non-Current Investments” given on page 26 (**A-84**) of the Annual Report. On perusal of the same, the following discrepancies were observed relating to Investments:-

- The nature of investments which were classified as doubtful investments had not been disclosed. Accordingly, details of such investments were not at all clear.
- The nature of certain investments had been disclosed as 'non-current investments' but their bifurcation into trade investments and other investments was not given.
- Further, the name of the body corporate and extent of investment held in equity instruments for each of the body corporate was also disclosed. Accordingly, it was not clear whether such investments held were fully paid or partly paid investments.

- In the absence of details relating to doubtful investments, it was felt that every aggregate value of unquoted investments and aggregate market value of quoted investments if any held, had also not been disclosed.

#### **11.1 Submissions of the Respondent:-**

i) Regarding the allegation related to Non-Current Investments, the Respondent submitted that there were no short-term or trade investments, as evident from Note-10 to the Balance Sheet (A-84). The Respondent argued that from the presentation therein, it was clear that all investments in equity instruments were in unquoted shares, and hence, they were not trade investments by their nature. Furthermore, as the entirety of investments in equity instruments was in unquoted investments, so there were no investments in quoted investments. Therefore, it was not necessary to disclose an item as "Nil" as per Schedule VI where there were no items to be disclosed. The Respondent, although admitted that the requirements in Schedule VI for the disclosure of names of bodies corporates in which the investments were made and the relation or the extent of investments were not complied with.

#### **11.2 Observation of the Committee:-**

i) The Committee in this regard noted that as per the requirements of the 'General Instructions for the preparation of the Balance Sheet' given in Part I, revised Schedule VI to the Companies Act, 1956, in the case of non-current investments, disclosures regarding trade investments and other investments are required, *including the names of body corporates*. Based on the information provided by the Respondent and a thorough examination of the Report, the Committee observed that the Investments were classified as non-current, and the investments in equity instruments were in unquoted shares. However, names of corporate entities in which investments were made and the associated details regarding the relationship or extent of the investments were not disclosed in the financial statements. Since the investments, constituted 0.03% of the company's total assets, the same might be considered an omission in the disclosure. Further, the amount of investment was not material, non-disclosure of the information related to investment cannot be considered as material misstatement. Accordingly, the Committee is of the considered opinion that the Respondent is prima facie **NOT GUILTY** with respect to above allegation falling within the meaning of Items (5), (7) & (8) of Part I of Second Schedule to the Chartered Accountants Act, 1949.

#### **12. Allegation No. 9:-**

It was alleged that Note 4, 'Long Term Provisions', when read in conjunction with the abstract of Note 24(ix) pertaining to the accounting policy of 'Employees Benefits', the following discrepancies were observed in relation to Employee Benefits:-

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i) The accounting policy adopted by the Company for the recognition of its liabilities towards gratuity i.e. *Gratuity liability if applicable for the year under the Payment of Gratuity Act is accounted on the Basis of Actuarial Valuation.* was not in line with AS-15 as the obligation towards employees arises as and when the services are rendered although the benefits of the same may not vest to the employees. Hence, the Accounting Policy as adopted by the Company for recognition of its liabilities towards gratuity is not in line with AS 15..

ii) Further, the Company omitted essential disclosures under paragraph 120 of AS- 15 regarding defined benefits related to gratuity liabilities.

### **12.1 Submissions of the Respondent:-**

i) Regarding the allegation relating to gratuity liability, the Respondent inter-alia submitted that though the Company's employment contracts did not provide for gratuity payments yet there was a need to create gratuity liability for those who were covered by the Payment of Gratuity Act 1972. Therefore, the Company followed a policy of creation of gratuity liability only on those statutory liable cases and this was apparent from the accounting policy. Regarding the point that there was no change in gratuity liability, during the reporting period, the Respondent submitted that there was no fresh accrual to the liability according to the management, as all those who were eligible for gratuity had attained the maximum ceiling limit before the FY 2012-13, as per the provisions of the Act.

ii) Regarding the allegation related to the omission of essential disclosures under paragraph 120 of AS-15, the Respondent admitted that there was omission of interest accretion to the liability and non-disclosures as per para 120 of AS-15. However, the Respondent contended that the gratuity liability was deemed insignificant relative to the size of the balance sheet of the Company. Furthermore, there was nothing to disclose under any of these variables for the reason that the liability had saturated, was unfunded, had no addition and hence no charge to profit and loss account.

### **12.2 Observation of the Committee:-**

i) The Committee in relation to the company's policy of Gratuity liability, noted that the ASB guidance on implementing AS-15, "Employee Benefits" (Revised 2005) states that, *"In this case, the employee's right to receive the benefit is conditional on future employment for a period of five years. Although there is a possibility that the benefit may not vest, there is also a probability that the employee would serve for the minimum period of five years and become eligible for gratuity. An obligation exists even if a benefit is not vested. The obligation arises when the employee renders the service though the benefit is not vested. The measurement of this obligation at its present value takes into account the probability that the benefit may not vest and this is appropriately factored in to the calculation of the present value of the defined obligation. An enterprise should therefore,*

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create a provision in respect of gratuity payable during the first five years of service of an employee".

ii) Further, the Company's policy with respect Employee benefits was read as under:

*"IX. Employee Benefits*

*Gratuity liability if applicable for the year under the Payment of Gratuity Act is accounted on the basis of Actuarial Valuation.*

The Committee noted, though the accounting policy of employees' benefits states that gratuity liability was accountable based on Actuarial Valuation. However, since certain limit has reached therefore further gratuity liabilities were not recognized. It was observed that the obligation towards employees arose as and when the services were rendered. Hence, the accounting policy, as adopted by the Company for the recognition of its liabilities towards gratuity, was not in accordance with AS-15. The Respondent's contentions in this regard could not be accepted that there was no need to update the gratuity amounts and the Respondent, as an auditor should have highlighted this fact in her audit report. The Committee further noted that Para 120 of AS-15, requires an enterprise to disclose certain information(s) about the defined benefit plans. However, in the instant case, the Respondent acknowledged the omission of interest accretion to the liability and non-disclosures as per paragraph 120 of AS-15. In this context, the Committee observed that the Company exhibited non-compliance with AS-15, and the auditor should have brought attention to these discrepancies. However, the Committee further noted that the total liability of Rs 41.19 lakh constituted merely 0.003% of the total balance sheet size. Accordingly, the potential omission of interest accretion to the liability, in accordance with AS-15, and the non-disclosure as per Paragraph 120 of AS-15 appears to be immaterial. Therefore, the benefit of doubt could be extended to the Respondent. Accordingly, the Committee is of the considered opinion that the Respondent is prima facie **NOT GUILTY** with respect to above allegations falling within the meaning of Items (5), (6) & (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949.

**13. Allegation No.10:**

In this allegation, the non-compliance is pertained to Note 24 (xi) related to the accounting policy for 'Segment Reporting' (A-89), as read with Note 25(v) (A-91) 'Earning and Expenditure in foreign Currency'. It was stated that from Note 25(v) it was evident that, during the year, both indigenous as well as export sales had taken place, and that the export sales (as reported in Note 25(v)) constituted 81.13% of the total revenue, indicating the presence of reportable geographical segments. However, geographical segment

reporting had not been disclosed in the financial statements, in accordance with Paragraph 27 of AS-17 'Segment Reporting'.

### **13.1 Submissions of the Respondent:-**

i) Regarding the aforesaid allegation, the Respondent stated that, initially, it had to be ensured that there were reportable segments applicable to an entity in accordance with paragraphs 5.1, 5.2 and 5.3 of AS-17. The Respondent contended that the basis for identification of reportable segments is depended upon the manner in which the company's management perceived the differences in risks and rewards associated with operations in different geographies or different verticals. Furthermore, Paras 7, 8, 11 and 20 of AS-17 were cited by the Respondent to assert that there was sufficient clarity regarding the fact that the management of a Company was the best judge in this regard. The Respondent emphasized that the management of the Company never considered the different geographies in which it operated as distinct in terms of risks and rewards. This perspective stemmed from the fact that the Company dealt in gold, a commodity with universally uniform risk and reward characteristics. The demand, supply, and price of gold were determined by international market conditions, rendering the entire world a single market for the Company with uniform risk factors and corresponding rewards. Therefore, the Company had no justification to identify two reportable segments either from a product or geographical standpoint. The Respondent submitted that accounting policy XI, reproduced in Para 7.13 of the PFO, unambiguously presented the management's perception on the subject matter.

### **13.2 Observation of the Committee:**

i) Upon the review of the Respondent's arguments regarding compliance of AS-17, the Committee noted that ideally as per AS-17, the segmental reporting should had been done in terms of para 27 of AS-17. However, the management's approach to identifying reportable segments is rooted in their perception of risks and rewards and aligned with the flexibility afforded by paragraphs 7, 8, 11, and 20 of AS-17. Further, Para 5.2 of AS-17 states that, "*A geographical segment is a distinguishable component of an enterprise that is engaged in providing products or services within a particular economic environment and that is subject to risks and returns that are different from those of components operating in other economic environments*". As per the Respondent, the uniformity in risk and reward associated with the international gold market has provided the flexibility to the management and accordingly, the dual segment identification in terms of domestic market and international market was not done. Upon the perusal of the AS-17 and Respondent's submissions regarding risk and return associated with gold in international market, it could not be said that the Respondent failed to address the non-compliance in her audit report. Accordingly, the Committee is of the considered opinion that the Respondent is **Not Guilty** with respect to above allegation falling within the

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meaning of Items (5), (7) & (8) of Part I of Second Schedule to the Chartered Accountants Act, 1956.

#### **14. Allegation No. 11:**

In this allegation, the non-compliance was in reference to 'Related Party Disclosures' stating that despite following discrepancies, it was not reported by the Respondent in her audit Report:-

i) Related party disclosure indicated that certain loans and advances were outstanding at the balance sheet date, and these transactions were described as occurring with parties where control existed. It was stated that the nature of relationship should have been explicitly described rather than using vague phrases. Furthermore, it was alleged that the nature of the relationship with Mr. Mahesh J Mehta had also not been described. It was stated to be in violation of Paragraph 21 of AS 18.

ii) Further, certain outstanding balances with the related parties were disclosed as of 31.03.2013; however, their comparative figures for the previous year as of 31.03.2012 were not disclosed which was stated to be against the requirement of Revised Schedule VI to the Companies Act, 1956.

#### **14.1 Submissions of the Respondent: -**

i) Regarding the said allegation(s), the Respondent stated that the names of the related parties and the absence of transactions during the reporting period, were apparent from the disclosures in Note 25. Further, the Respondent contended that due disclosure was apparent when "control existed" stated in all three cases. So, according to the Respondent, it did not constitute a material misstatement. As regards disclosure on Shri Mahesh J Mehta, the Respondent submitted that there was no need to disclose nature of relationship, where there were no transactions, in accordance with Para 23 of AS-18.

#### **14.2 Observation of the Committee:-**

i) On perusal of Note-25 to the financial statement (A-90), the Committee noted that with respect to parties, it is merely stated that the Company had control over them, but nature of the related party relationships were not disclosed. Para 21 of AS-18 states that, "*Name of the related party and nature of the related party relationship where control exists should be disclosed irrespective of whether or not there have been transactions between the related parties*". Therefore, the Company was obligated to disclose the name and nature of the related party relationship when control exists, regardless of whether there were any transactions between the related parties. However, in this instance, the Company did not fulfill this requirement. Additionally, in the case of the related party, Shri Mahesh J. Mehta, the nature of the relationship was also not disclosed in the related party disclosures. It

was noted that the Respondent has argued that such disclosure was not necessary when no transaction was held under paragraph 23 of AS 18. It is noted that the amount outstanding are covered under Paragraph 23(vi) of AS 18, so the said argument is not correct. Furthermore, specific outstanding balances with related parties were presented as of March 31, 2013; however, the corresponding figures for the preceding year, as of March 31, 2012, were not provided. This non-disclosure did not comply with the stipulations of the Revised Schedule VI to the Companies Act, 1956. Although the Respondent claimed that the omissions did not render the financial statement deficient in any way, however, it was viewed that mandatory requirements have been designed to provide necessary & specific information to the stakeholders concerned and hence, its omission could not be regarded as presentation error only. Accordingly, it is viewed that the Respondent failed to point out non-compliance of Related party disclosures in terms of the requirement of AS-18. Accordingly, the Committee is of the considered opinion that the Respondent is **GUILTY** of professional misconduct falling within the meaning of Items (5), (7) & (8) of Part I of Second Schedule to the Chartered Accountants Act, 1949.

#### **15. Allegation No. 12:**

a) In this allegation, it was alleged that there was non-compliance was in relation to AS 19 which the Respondent failed to report in her audit report. Under Note 25(ii) (A-90), it was stated that the premises had been let out under operating leases, and rental income thereon had been recognized in the profit and loss account. However, no disclosures were made in accordance with paragraph 46 of AS-19.

#### **15.1 Submissions of the Respondent: -**

i) It was submitted that the immovable properties were not depreciable assets and hence, there was no accumulated depreciation. The Respondent further submitted that there had been no impairment losses in the case of any assets nor reversal thereof. Therefore, there was no applicability of the disclosure requirement in the case of a company.

#### **15.2 Observation of the Committee:**

The Committee in this regard noted that Para 46(a) of AS 19 states that, "*The lessor should, in addition to the requirements of and AS 10, Property, Plant and Equipment, and the governing statute, make the following disclosures for operating leases: for each class of assets, the gross carrying amount, the accumulated depreciation and accumulated impairment losses at the balance sheet date; and (i) the depreciation recognised in the statement of profit and loss for the period; (ii) impairment losses recognised in the statement of profit and loss for the period; (iii) impairment losses reversed in the statement of profit and loss for the period;*". From perusal of note no.9 (A-83) for fixed assets, it was observed that the leased immoveable property was the land itself, and accordingly being a non-depreciable asset, disclosure under Para 46(a) of AS-19 though applicable, was

not having so much relevance as the extant allegation pertains to non-disclosure of depreciation and impairment loss thereon which could not be presumed to be existing on land. Accordingly, the Committee was of the considered opinion that the Respondent is **NOT GUILTY** with respect to said allegation falling within the meaning of Items (5), (7) & (8) of Part I of Second Schedule to the Chartered Accountants Act, 1949.

#### **16. Allegation No. 13:**

In this allegation, it was alleged that Note 8, 'Short Term Provisions' (A-82), contained information which reflected non-compliance of various requirements of AS 22. It was stated that the income tax expense that was charged off in the Statement of Profit and Loss during the year had also been provided for as 'Short Term Provisions', even though a large amount of direct taxes had been shown to have been paid during the current year in the Cash Flow Statement. Neither was there any disclosure about the advance tax being paid during the year, nor was it clear whether the provision shown for current tax had been disclosed as net of advance tax or not. It was alleged that despite the existence of such irregularity, the same was not reported by the Respondent in her audit report.

#### **16.1 Submissions of the Respondent:-**

i) Regarding the said allegation, the Respondent submitted that presentation of tax assets and tax liabilities was inconsistent with AS-22. The Respondent pointed out that the prepaid taxes for F.Y. 12-13, by way of TDS as reflected in the cash flow statement (A-79), were much higher than the current year tax provision reflected in the profit and loss account (A-78); and the Respondent admitted that the Company was required to show them on net basis as per AS 22. Regarding the deferred tax assets, Respondent submitted that no addition or deduction to the previous year's DTA amount was made during the year under consideration; however, the breakup of components in DTA was to be presented in the Notes, which was an omission. The Respondent argued that these were presentation issues only and did not materially affect the financial position or the state of affairs of the Company as presented in the financial statements.

#### **16.2 Observation of the Committee:-**

i) The Committee in this regard noted that in accordance with para 27 of AS-22, "An enterprise should offset assets and liabilities representing current tax if the enterprise: (a) has a legally enforceable right to set off the recognised amounts; and (b) intends to settle the asset and the liability on a net basis". Hence, the Company in the given case appears to have violated the provisions of Para 27 of AS-22 as it was not established by the Respondent with supporting documents as to whether provision shown for current tax has been disclosed as net of advance tax or not. Further, the Respondent also did not produce the calculation / reconciliation of how the current tax charged in the profit and loss account was the same as 'Provision for Current Income tax' under 'Short-term provisions.'

Furthermore, the breakdown of deferred tax assets and deferred tax liabilities into major components of the respective balances was not disclosed in the notes to accounts of the Company, which was again non-compliance as per Para 31 of AS-22. Despite the Respondent's claim that the omission(s) did not compromise the financial statement's reliability, it was noted that accounting standards require a company to ensure that the stakeholders receive fair and comparable information. Further, it is also noted that though the difference between the current tax and current tax paid was not material when compared with the total size of the Balance Sheet and total revenue of the Company, yet it was material to impact the profit of the Company materially (approx. 10% of the profit before tax). Consequently, the omission could not be solely attributed to a presentation error. Hence, in the absence of any evidence from the Respondent with regard to the difference between current tax as shown in Profit & Loss Account and current tax paid and omission of disclosure requirements as required under AS 22, the Committee is of the considered opinion that the Respondent is **GUILTY** with respect to above allegation falling within the meaning of Items (5), (6) & (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949.

#### **17. Allegation No. 14:**

In this allegation, it was alleged that disclosure under Note 1, 'Share Capital'(A-81), was not in compliance with the 'Note 6(A) of 'General Instructions for preparation of Balance Sheet, Part I, Revised Schedule VI to the Companies Act, 1956'. It was observed in Note 1 on 'Share Capital' that neither the number of shares issued, subscribed and paid up were disclosed, nor were the rights, preferences and restrictions attached to such class of shares disclosed, including restrictions on the distribution of dividends and the repayment of capital.

#### **17.1 Submissions of the Respondent:-**

i) In response to the allegation, the Respondent submitted that Note-1 disclosed authorized capital at Rs. 30 crore equity shares of Rs. 1.00 each, amounting to Rs. 30.00 Crores. The amount of "issued, subscribed, and paid-up capital" was presented as Rs. 295,259,959 in the next line. Although the specific number of shares under the 'issued, subscribed, and paid-up' categories was not explicitly mentioned, it could be derived from Note-1, that the total number of issued shares across all three categories was 295,259,959. The Respondent further mentioned that disclosure of rights, preferences and restriction attached to any category of shares, would be possible only when there existed such types of shares. From Note-1 (A-1), it was clear that the Company had only one category of shares, which were equity shares of Re 1.00 each. Furthermore, no disclosure on rights, preferences, or restrictions for any share category was necessary as ordinary equity shares lacked special privileges or restrictions.

### 17.2 Observation of the Committee:-

i) On perusal of the schedule of the Share Capital (A-81) vis-à-vis requirement of the 'General Instructions for preparation of Balance Sheet' as outlined in Part I of revised Schedule VI to the Companies Act, 1956, the Committee noted that though the number of shares issued, subscribed, and paid up, as well as the rights, preferences, and restrictions attached to such class of shares, were not disclosed but sufficient information was available to understand the same. Accordingly, the Committee viewed that this non-compliance can only be considered as presentation error as it does not appear to have impacted the amount of share capital as shown in the financial statement and accordingly, does not appear to have impacted the true and fair view of the financial statements. Accordingly, the Committee is of the considered opinion that the Respondent is **NOT GUILTY** with respect to the above allegation falling within the meaning of Items (5), (7) & (8) of Part I of Second Schedule to the Chartered Accountants Act, 1949.

### 18. Allegation No. 15:

i) In this allegation, it was claimed that the abstract of Director's Report (A-63) read in conjunction with Note 2: Reserves & Surplus (A-81), Note 8: Short Term Provisions (A-82), and the Cash Flow Statement (A-79) did not comply with the requirements of the Companies Act, 1956. It was observed from the surplus movement that a provision for a dividend amounting to 100% of the share capital had been provided. This provision was supported by the statement in the 'Director's Report,' which recommended a 100% dividend. However, in the Cash Flow Statement for the year ending March 2013, the same amount was shown as paid, as well as shown in the short-term provision. Upon comparing the figures provided as dividend under the surplus account with the figures shown as paid, it was evident that the proposed dividend figures for both the current and previous years were shown as paid in their respective years. It was observed that the 'Director's Report,' which was signed in May 2013, reported that a dividend had been recommended. However, it cannot be considered as having been paid in March 2013. Such information raised doubt on the true and fair view of the financial statements. Additionally, Tax on proposed dividend had neither been provided nor paid. This appeared to be non-compliance with the statutory law applicable to the Company. In view of said discrepancies, it was alleged against the Respondent that she failed to report the same in her audit report.

### 18.1 Submissions of the Respondent: -

i) The Respondent contended that the Cash Flow statement represented the amount of dividend paid for the previous year, and the liability of dividend in the Balance Sheet represented the provisioning of the current year dividend. The Respondent further

submitted that since the Company operated from SEZ, it was exempted from dividend tax liability, and hence the said liability was not provided for.

### **18.2 Observation of the Committee:-**

i) The Committee, upon reviewing Note 2 related to Reserve & Surplus, noted that the proposed dividend of Rs. 295,259,959/- was shown as a deduction from the General Reserve of the Company as on 31.03.2013. Furthermore, a provision of the same amount of Rs. 295,259,959/- for the proposed dividend was also shown under Note 8 related to 'Short Term Provisions' (A-82). Upon examining the Cash Flow Statement, the Committee noted that the proposed dividend was shown as paid, amounting to Rs. 295,259,959/- during the financial year 2012-2013 (A-79). The Committee further noted that, as per the Director's Report, signed in May 2013 (A-63), the dividend of Rs. 295,259,959 (100%) was recommended by the Directors. It is also noted that during the previous year, the Company declared the dividend of Rs. 177,155,975/-. Hence, the Respondent's submission that in Cash Flow Statement, the dividend paid for the previous year was presented is the wrong argument. Therefore, the discrepancy between Respondent's contentions vis-à-vis balance sheet and cash flow statement shows ambiguity about the treatment of dividend in the financial statements. The Committee observed an evident inconsistency among various elements in the financial statements with respect to the dividend amount, which was not in accordance with the applicable reporting framework. The Respondent, in her capacity as an auditor, had an obligation to highlight this discrepancy in her audit report. Accordingly, the Committee was of the considered opinion that the Respondent is **GUILTY** with respect to above allegation falling within the meaning of Items (5), (6) & (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949.

### **19. Allegation No. 16:**

In the next allegation, it was claimed that abstract of Note 5, 'Short Term Borrowings'(A-82), was not in compliance with Note 6(f) of the 'General instructions for the preparation of the Balance Sheet' in Part I, Revised Schedule VI to the Companies Act 1956. In this regard, it is alleged that, although short-term borrowings were classified as secured and unsecured, however, it was not clear whether these loans were repayable on demand or otherwise. Furthermore, it was observed that the nature of loans taken against fixed deposits had also not been disclosed in terms of the requirements of Part I of Revised Schedule VI to the Companies Act, 1956.

### **19.1 Submissions of the Respondent: -**

i) Regarding the said allegation, the Respondent inter-alia asserted that Schedule VI requires additional disclosure only in cases where loans are repayable on demand out of short-term borrowings. The Respondent argued that if there were no such loans, there

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was no necessity to make such a disclosure. The Respondent contended that, in the case of Rajesh Exports, the loans listed in the balance sheet comprised (a) working capital limits against the hypothecation of current assets, which, in accordance with RBI norms, had a period of one year, and (b) loans against the Respondent's own fixed deposits, with a tenure not exceeding the maturity date of the FDR, as per RBI norms. Therefore, the very nature of the disclosure indicated that there were no loans repayable on demand. In reference to the allegation that "*details of the nature of loans taken against fixed deposits were also not given,*" the Respondent submitted that a depositor has the liberty to raise a loan against their fixed deposit. There were no specific end-use conditions or restrictions on the use of loans against one's own deposits. There existed no legal or contractual obligation to disclose anything more on loans against FDR.

#### **19.2 Observation of the Committee:**

i) The Committee noted that, upon perusal of Note 5 (**A-82**) it was sufficient to understand the nature of working capital loans, which were secured against hypothecation of current assets. However, with respect loans taken against fixed deposit, it is viewed that though the Respondent has stated in her submissions that such loans were for the period of FDRs but no such information was disclosed on the face of the financial statement. It is noted that if these loans were repayable on demand or within the short term, then due disclosure as required under Revised Schedule VI was applicable. The fact that there were no specific end-use conditions or restrictions on the use of loans against fixed deposits may not exempt them from disclosure, even if they were short-term in nature. Additionally, the loans in question were relatively significant compared to the company's total financial position, and hence, the same were to be considered material and it could not be regarded as a mere presentation error. Further, the Respondent has not brought on record any evidence to show that the loan was not repayable on demand. Accordingly, it is viewed that the Respondent failed to report the said discrepancy in her audit report in relation to Revised Schedule VI to the Companies Act, 1956. Therefore, the Committee is of the considered opinion that the Respondent is **GUILTY** with respect to the above allegation falling within the meaning of Items (5), (7) & (8) of Part I of Second Schedule to the Chartered Accountants Act, 1949.

#### **20. Allegation No. 17:**

In this allegation, it was alleged that Note 25(i): Related Party Disclosures (**A-90**) read with Note 16: Short Term Loans and Advances (**A-85**) and Note 12: Long Term Loans and Advances (**A-84**), were not providing information in compliance with Note 6(R) and Note 6(L) of 'General Instructions for preparation of Balance Sheet' of Part I, Revised Schedule VI to the Companies Act, 1956. In this regard, with reference to the Related Party disclosures, it was stated that certain loans and advances were given to the related parties. However, these transactions were not reported in either the short-term loans and

advances or long-term loans and advances, as having been provided to related parties. It was stated that Revised Schedule VI mandates the disclosure of such loans and advances as a separate line item.

**20.1 Submissions of the Respondent: -**

i) Regarding the said allegation, the Respondent inter-alia submitted that as required by Schedule VI, loans and advances were separately presented as long term and short term in Notes 12 and 16, respectively. The Respondent asserted that the contents in Note 12 clearly indicated that there could not have been any related party transactions under the long-term category. The Respondent also mentioned that information about related party transactions was provided in the notes to accounts, meeting the purpose of disclosure requirements.

**20.2 Observation of the Committee:**

i) The Committee noted that Note 6(R) of 'General Instructions for preparation of Balance Sheet' of Part I, Revised Schedule VI to the Companies Act, 1956, states as follows:

**Notes:**

**General Instructions for Preparation of Balance Sheet**

*"6. R. Short Term Loans and Advances*

*(i) Short-term loans and advances shall be classified as:*

*a) Loans and advances to related parties (giving details thereof);*

*....."*

Thus, short term loans and advances given to related parties are required to be shown separately in the balances sheet. Similar requirement exists with respect to long term loans under Note 6(L) of 'General Instructions for preparation of Balance Sheet' of Part I Revised Schedule VI to the Companies Act, 1956, reproduced below:

**Notes:**

**General Instructions for Preparation of Balance Sheet**

*"6. L. Long Term Loans and Advances*

*(i) Long-term loans and advances shall be classified as:*

*....*

*(c) Loans and advances to related parties (giving details thereof)*

*N/S*



The Committee observed that Note 6(R) and Not 6(L) of 'General Instructions for preparation of Balance Sheet' of Part I, revised Schedule VI to the Companies Act, 1956 were not complied with by the Company. There were no separate line items shown regarding loans given to related party either in Note 16: Short Term Loans and Advances and Note 12: Long Term Loans and Advances, as stipulated by Revised Schedule VI. The contention of the Respondent that Note 12 clearly indicated that the related party transactions were not under the long-term category is not tenable as there is no such disclosure. Although the Respondent claimed that the omissions did not render the financial statement deficient in any way, however, it was viewed that mandate requirements have been designed to provide necessary information to the stakeholders concerned and the Respondent had failed to report about the said non-compliance in her audit report. Accordingly, the Committee is of the considered opinion that the Respondent is **GUILTY** with respect to said allegation falling within the meaning of Items (5), (7) & (8) of Part I of Second Schedule to the Chartered Accountants Act, 1949.

#### **21. Allegation No. 18:**

In this allegation, it was stated that Note 16 (**A-85**), Short Term Loans and Advances, when read with Paragraph (iii)(b) of Note 24 relating to the accounting policy of Capital Work in Progress (**A-88**) and Note 25(i), Related Party Disclosures (**A-90**), the following discrepancies were observed which the Respondent being auditor failed to report in her audit opinion:

- The short-term loans and advances given had not been classified to show whether they were secured or unsecured, considered good or doubtful, as required under Part I, Revised Schedule VI to the Companies Act, 1956.
- 'Capital Advances' had been shown under the head 'Short term loans and advances'. It was stated that the 'Capital Advances' should have been treated as non-current assets and as per Revised Schedule VI, it should have been disclosed under the head 'Long term loans and advances', rather than under 'short term loans and advances'. Even though the accounting policy of 'Capital work in Progress' stated that advances paid for acquisition of fixed assets were disclosed under the heading 'long term loans and advances', yet they were disclosed under the heading 'short term loans and advances'.
- Certain advances were shown as 'Doubtful Advances'; however, the nature of such advances was not disclosed.

#### **21.1 Submissions of the Respondent: -**



i) Regarding the said allegation, the Respondent inter-alia submitted that not classifying the advances into secured and unsecured was a minor omission. The Respondent contended that what determined whether an error is material, is not its size alone. The nature of uncorrected statements and the circumstances around them also had to be weighed. The Respondent, to support her arguments, cited Paragraphs 4 and 6 of SA-320. The Respondent further stated that the nature of all the items in Note 16, except intercorporate deposits was 'advance'. Advances and inter corporate deposits, are bound to be unsecured by their very nature. Relying on SA 320 Paragraph 4(a), the Respondent asserted that the unsecured nature of short-term advances and intercorporate deposits was expected to be understood by the users of the Balance sheet.

**21.2 Observation of the Committee: -**

i) The Committee noted that the presentation of Note 16 (A-85) was not strictly in accordance with the requirement of Schedule VI (revised). The Committee noted that Note 6 (L) and (R) of 'General Instructions for Preparation of Balance Sheet' given in Part I, Revised Schedule VI to the Companies Act, 1956, inter-alia, requires disclosure of Long-term loans and advances as follows:

*"L. Long-term loans and advances*

*(i) Long-term loans and advances shall be classified as:*

*(a) Capital Advances;*

*...*

*(ii) The above shall also be sub-classified as:*

*(a) Secured, considered good;*

*(b) Unsecured, considered good;*

*(c) Doubtful*

*..."*

*"R. Short-term loans and advances*

*(i) Short-term loans and advances shall be classified as:*

*(a) Loans and advances to related parties (giving details thereof);*

*(b) Others (specify nature).*

*(ii) The above shall also be sub-classified as:*

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(a) Secured, considered good;

(b) Unsecured, considered good;

(c) Doubtful.

...

Accordingly, the non-classification of short-term loans and advances as secured or unsecured, good or doubtful, was not in line with the requirements of Revised Schedule VI. Moreover, there was non-compliance of categorizing the 'Capital Advances' under the head 'Short-term loans and advances' instead of 'Long-term loans and advances.' Additionally, the Company's accounting policy indicates that advances paid for the acquisition of fixed assets were disclosed under 'Long-term loans and advances,' contrary to the actual situation. The Committee further noted that the Company has not disclosed the nature of 'Doubtful advances,'. The Committee observed that the auditor's contention, asserting that users of the Balance Sheet were expected to understand the unsecured nature of short-term advances and intercorporate deposits on their own, does not stand. The disclosure requirements within the reporting framework exist to ensure users receive all necessary information. However, keeping in view the fact that different components of loan & advance under question, are not material in terms of amount involved, benefit has been granted to the Respondent as non-compliances may be characterized as presentation and classification errors. Therefore, the Committee is of the considered opinion that the Respondent is **NOT GUILTY** with respect to above allegation falling within the meaning of items (5), (6) & (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949.

## 22. Allegation No. 19:

In this allegation, it was alleged that there was non-compliance in relation to 'Inventories', as it were not classified based on their nature, such as raw materials, work in progress, finished goods, etc., either in the notes to the balance sheet or notes to accounts. In the additional information, only the quantity of Gold & Gold Products, Diamond, and Silver was provided without stating the status of such inventories.

### 22.1 Submissions of the Respondent:-

i) Regarding the said allegation, the Respondent inter-alia submitted that Inventory of the Company comprised of Gold Jewellery, Gold Bullion and so on. All these items were ready for sale; hence, there was no raw material or work in progress. Due to this fact, the entire inventory was valued as Gold Jewellery and Gold, etc. The Respondent further stated that, in fact, all items were finished goods, but at the same time they could become raw material, if the Company decided to remake them according to market needs. As per

the Respondent, the production process was no longer than one day; therefore, existence of work In- progress was not possible. The Respondent contended that Accounting Standard-1 permits deviations from norms in accounting standards, in specific and permissible circumstances.

### **22.2 Observation of the Committee:**

i) Considering the submissions made, it is viewed that if there was no inventory in the form of raw material or work in progress then allegation regarding classification of inventories into raw material, work in progress and finished goods does not sustain. Accordingly, the Committee is of the considered opinion that the Respondent is **NOT GUILTY** with respect to the above allegation falling within the meaning of Items (5), (6), (7) & (8) of Part I of Second Schedule to the Chartered Accountants Act, 1949.

### **23. Allegation 20:**

In this allegation, it was alleged that there was non-compliance in relation to Note 20 (A-86), 'Cost of Material Consumed', when read in conjunction with the 'Additional Information' related to quantitative details of materials used given in Note 25 (A-92), 'Notes to Financial Statements'. It was stated that while under Note 25, quantitative details of opening stock, closing stock, purchase, sales and wastage or loss under broad heads of materials were disclosed, in Note 20, only the cost of material consumed was reported. The usage of terms like 'Purchases' without any figures of 'Work in Progress' in Note 25 indicated that the company was engaged in trading business. However, the term 'Raw material consumed' in Note 20 indicated it was also involved in manufacturing activities. Furthermore, the 'Director's Report' as well as 'Management Discussion and Analysis' also reported that the company was engaged in the manufacturing of gold and diamond jewellery. Accordingly, it was alleged that contradictory facts had been provided regarding the nature of Company's business activities. Hence, the classification of all classes of inventories i.e. raw material, work in progress and finished goods under broad headings, should have been disclosed, in accordance with Paragraph 5(ii)(a) and (iii) of 'General instructions for the preparation of Statement of Profit and Loss' given under Part II of the Revised Schedule VI to the Companies Act, 1956. Further, It was noted from the reproduced quantitative details that a significant amount of alloys were reported to be purchased; however, the value at which they were purchased was not disclosed in same set of financial statements.

### **23.1 Submissions of the Respondent:-**

i) Regarding the said allegation, the Respondent asserted that there was no WIP in the Company. Additionally, the alloy used for ornament making was insignificant, both in terms of value and quantity. The Respondent stated that the conversion of gold into ornaments was a mechanized process that was very quick, with nothing remaining in the

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process for more than an hour once initiated. So, the inventory of gold would be in the form of gold always, which could be described as raw material and at the same time, as finished goods. For an instance, 24 carat gold was raw material for ornaments and finished goods for bullion business. Ornaments were finished goods, when not put back in process for remaking to cater to the changing demand. The item in P&L account stated as "Raw Materials consumed" was the input item of the sale. Gold Bullion was consumed for manufacturing jewellery and for selling the same as Gold Bullion, that was why all the Gold Bullion consumed either for manufacture or sales must be defined as "Raw Materials consumed". It was not possible to have a system of identification of inventory as stock in trade or as raw material, at the time of purchase. Therefore, the manner of presentation expected by Schedule VI was not achievable, in the given business model. Since the inventory position as on reporting date consisted only the items either in Gold Bullion or in Gold Jewellery, the entire inventory was of finished goods. When there was no raw material or work in progress, the same was not possible to have been shown. In the quantity details also, there was Opening Stock (which consisted of finished goods), purchases (which consisted of gold bullion, silver bullion and finished diamonds), sales and closing stock consisting of finished goods in the form of Gold Jewellery, Gold Bullion, Silver Bullion and Finished Diamonds.

### **23. 2 Observation of the Committee:**

i) Considering the submissions made, it is viewed that if there was no inventory in the form of raw material or work in progress then allegation regarding contradictory information does not sustain. Accordingly, the Committee is of the considered opinion that the Respondent is **NOT GUILTY** with respect to above allegation falling within the meaning of items (5), (6) & (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949.

### **24. Allegation No. 21:**

In this allegation, it was stated the following discrepancies were noted in respect of Note 25(v), 'Earnings and Expenditure in foreign currency' (A-91), when read in conjunction with Note 20, 'Cost of Material Consumed' (A-86) which the Respondent failed to report in her audit opinion:

- From the Note on 'Earnings and Expenditure in foreign currency', it was observed that although value of exports and imports was disclosed, the basis on which the value of exports and imports was determined i.e; FOB or CIF basis, was not mentioned.

- Further, it was observed that the amount of imports were disclosed without indicating the nature of items imported, such as raw materials, components, spare parts, or capital goods. It was further noted that in the case of raw materials, spare

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parts and components being imported, further information about value and percentage of such consumed items should have been disclosed.

#### **24.1 Submissions of the Respondent: -**

i) Regarding the said allegation, the Respondent submitted that the requirement in Schedule VI, in this respect, was that the export value had to be presented at FoB value, and that import values were to be at CIF value; and in the absence of any contrary information in the disclosure, there was no case of allegation against her. According to the Respondent, the disclosure of import value into raw material, capital goods or components was not possible and further it was not possible to break up the import value as raw materials or finished goods. Gold was imported and used as finished product when sold as such, and as raw material when used in manufacture of Gold Jewellery. When there was no possible breakup, presentation of percentage value in Import also was not possible. Similarly, the entire export consisted of one item, which was "Gold Jewellery", hence, there was no need to further classify the same.

#### **24.2 Observation of the Committee:-**

i) The Committee in this regard noted that when the said category of inventory viz raw material, Components and spare parts or Capital goods did not exist considering the nature of business of the Company and that all other possible information was disclosed, the allegation of additional information regarding exports/imports does not sustain. Accordingly, the Committee is of the considered opinion that the Respondent is **NOT GUILTY** with respect to the above allegation falling within the meaning of Items (5), (7) & (8) of Part I of Second Schedule to the Chartered Accountants Act, 1949.

#### **25. Allegation No. 22:-**

In this allegation, it was stated that discrepancy was noted in respect of Announcement on 'Disclosure regarding Derivative Instruments', when information in Note 6 (A-82), 'Trade Payables' was read in conjunction with Note 20 (A-86), 'Cost of Material Consumed'. It was stated that from the notes on 'Trade Payables' and 'Cost of material consumed', it was observed that that the Company had foreign currency liabilities – FLC and Currency Hedging liabilities. Accordingly, it was stated that the Announcement of the Council (Paragraph 3 of the announcement of the Council - XXX 'Disclosure regarding Derivative Instruments' published in 'The Chartered Accountant', December 2005) was applicable in the extant case. However, no such disclosures was made. Accordingly, the requirements of the announcement on 'Disclosure regarding Derivative Instruments' were not complied with, and the Respondent, being auditor, failed to report this fact in the auditor's report.

#### **25.1 Submissions of the Respondent: -**

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i) Regarding the said allegation, the Respondent inter-alia submitted that according to accounting policy Note 24(viii) (A-88), exposure to derivatives was only for hedging purposes. Except for the cost of hedging such as forward premium and option premium, there were no losses on derivatives as they were hedging instruments and not for speculation. Hence, there was no case for disclosure of losses on derivatives. The Respondent further stated that regarding the cost of entering derivatives for hedging purpose, they were not losses, but the costs of buying those instruments. Hedging was also achieved through natural hedges. The Company imported gold bullion from certain countries and exported the gold and its products. Exchange risk on liability towards foreign suppliers was naturally protected against outstanding export receivables, known as natural hedge. The Respondent stated that in case of mismatch in volumes between the export receivables and import payables, the risk exposure used to be covered by way of forward contracts, purchased from banks. This was duly disclosed in accounting policy in Note 24 (viii)(a). Other than the exchange risks, the Company had no risk exposure on any other financial instruments (i.e., foreign exchange assets/ liabilities). For hedging the exchange risk other than a natural hedge, that was for forward contracts, there involved expenditure which was to be paid to the Bank. This expenditure was accounted as "Currency Hedging and Forex Fluctuation Cost". Once exchange risk was fully covered through natural hedge and forward / option contracts, there remained no risk about which any disclosure was necessary. Exchange fluctuations on assets and liabilities, forming part of a natural hedge as well as cost of buying forwards and options, therefore were of one category. This was the reason they were grouped as one and disclosure on this was in Note 20 item (iii) (A 86).

#### **25.2 Observation of the Committee:-**

i) The Committee in this regard noted that Paragraph 3 of the Announcement of the Council- XXX 'Disclosure regarding Derivative Instruments' with a view to provide information regarding the extent of risks to which an enterprise is exposed, required as a minimum, following disclosures in its financial statements:

- (a) *Category-wise quantitative data about derivative instruments that are outstanding at the balance sheet date,*
- (b) *the purpose, viz., hedging or speculation, for which such derivative instruments have been acquired, and*
- (c) *the foreign currency exposures that are not hedged by a derivative instrument or otherwise."*

It was observed from notes on 'trade payables' and 'cost of material consumed' that the Company had foreign currency liabilities as at the end of balance sheet date and was subject to foreign currency exposure. Accordingly, the aforesaid Announcement of the Council was applicable in extant case. However, it was noted that no such disclosures was made in the financial statements. Accordingly, it was viewed that there were lack of

disclosure regarding derivative instruments, particularly in light of the applicable regulatory announcement on 'Disclosure regarding Derivative Instruments.' The Respondent's argument that no additional disclosure was necessary once exchange risks were fully covered through natural hedge and forward/option contracts is not acceptable in view of the fact that said announcement requires disclosure with respect to derivative instruments outstanding at the balance sheet date, purpose for which such derivative instruments have been acquired and the foreign currency exposures that are not hedged by a derivative instrument. It is noted that the Company was subject to currency risk as submitted by the Respondent himself and the same was being mitigated through hedging instruments and forward currency contracts as submitted by the Respondent. In other words, all the said disclosures were relevant, but none was made.

The regulatory framework demands a comprehensive disclosure of derivative instruments, irrespective of the risk mitigation strategies employed. The absence of such disclosures raises questions about the completeness and transparency of the financial reporting, potentially hindering stakeholders' ability to make informed decisions. It was crucial for the Company to ensure adherence to regulatory requirements on the disclosure of derivative instruments. Considering the material amount involved in 'Currency Hedging and Forex Fluctuation cost', relative to the 'FLC Liabilities', it could not be merely regarded as presentation and disclosure error. Accordingly, the Committee is of the considered opinion that the Respondent is **GUILTY** with respect to the above allegation, falling within the meaning of Items (5) & (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949.

**26. Allegation No. 23:**

In this allegation, it was alleged that the Respondent failed to comply her reporting obligations when the auditor's report was read in conjunction with Note 24 (vi) concerning the accounting policy of 'revenue recognition' (A-88) and Note 25 (viii) regarding the recognition of deferred tax asset (A-91), as given on page 16, 30 and 33 of the Annual Report in view of the following discrepancies:

*Non-adoption of the form prescribed in SA 705*

- The Auditor reported an opinion on financial statements subject to certain observations, indicating a qualified opinion. Further, SA 705, 'Modifications to the Opinion in the Independent Auditor's Report', prescribes the format for expressing a qualified opinion, which was applicable for audits of financial statement beginning on or after 1<sup>st</sup> April 2012. Accordingly, the auditor should have reported in accordance with the requirements of Paragraph 7 of SA 705, which was not followed.

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- The auditor provided the basis for the qualified opinion in the opinion paragraph itself, rather than separately providing the basis for the opinion as prescribed in paragraph 16 of SA 705.

#### *Non-quantification of impact*

- According to Paragraph 17 of Standards on Auditing (SA) 'Modification to the Opinion in the Independent Auditor's Report', while expressing a modified opinion, the auditor should report brief description of material misstatements in financial statements and their effect thereon. If it is not practicable to quantify their impact, this fact should be stated in the basis for modification paragraph. It was observed from paragraph 2(f) of auditor's report that the auditor expressed a qualified opinion in the context of the policy followed for the recognition of interest income and non-recognition of deferred tax liability. However, the financial impacts of such qualifications were not disclosed in the auditor's report, as required under the aforesaid requirement.

#### *Inconsistency in Audit Report vs a vs financial Statements*

- While the accounting policy of revenue recognition clearly stated that interest on interest bearing loans was accounted on **accrual basis**, the auditor reported that such interest income was recognised on a **cash basis**. There was a contradiction between the information given in the auditor's report and the accounting policy stated in the financial statements. Considering the nature of non-compliance observed in Auditor's report, a doubt arises as to whether the matter reported was correctly dealt with in the auditor's report in the financial statements.
- While the auditor reported that Deferred Tax **Liabilities** were not recognised in the financial statements in pursuance to the requirements of AS 22, a disclosure was made regarding AS 22, wherein only Deferred Tax **Assets** were stated to have not been recognised. Since deferred tax assets and liabilities are separate elements of financial statements, there was inconsistency in information provided in the auditor's report vis-a-vis that financial statements.

#### *Non-Modification of Opinion despite non-compliance of various Accounting Standards*

- In the extant case, various requirements of accounting standards as notified under the Companies (Accounting Standards) Rules, 2006, viz. AS 2, AS 3, AS 6, AS 9, AS 11, AS 13, AS 15, AS 17, AS 18, AS 19, AS 20, AS 22 and AS 26, were not complied with. This indicated a case of material misstatement, yet the auditor did not modify her opinion to report the same. Accordingly, the requirements of SA 700 (Revised) were not complied with.

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Incidentally, the report provided by the auditor was titled as "Auditor's Report", instead of "Independent Auditor's Report", which was a violation of Paragraph A15 of SA 700 (Revised) 'Forming an Opinion and Reporting on Financial statements'.

Accordingly, it was alleged that the auditor's report did not comply with the requirements of Standards on Auditing (SA) 705, 'Modification to the Opinion in the Independent Auditor's Report'.

#### **26.1 Submissions of the Respondent: -**

i) In response to the said allegation, the Respondent inter-alia submitted that SA-705 had come into effect from 1-4-2012. So, that was the first year of report since the change. The Respondent contended that not adhering to the format of audit report could not be treated as a matter of professional misconduct, as the quality of the report had to be the criterion rather than the form. Additionally, there was no deficiency in the audit opinion, except that the format, as per SA 705, was not strictly followed.

#### **26.2 Observation of the Committee:**

i) The Committee noted the identified lapses included the failure to adhere to the prescribed format for expressing a qualified opinion, improper presentation of the basis for the qualified opinion, omission of significant information viz the financial impact of qualifications, non-compliance with various requirements of accounting standards as notified under the Companies (Accounting Standards) Rules, 2006, viz. AS 2, AS 3, AS 6, AS 9, AS 11, AS 13, AS 15, AS 17, AS 18, AS 19, AS 20, AS 22 and AS 26. It is viewed that quantification of qualifications expressed was important otherwise it has no meaning. Similarly, it is noted that the Respondent has failed to modify her opinion despite there being material misstatements on account of non-compliance with various accounting standards. Such non-compliance clearly indicates that the financial statement does not reflect the true and fair view of the financial position, but the Respondent failed to report the same in her audit report. Accordingly, the Committee is of the considered opinion that the Respondent is **GUILTY** with respect to the above allegation, falling within the meaning of Items (7) & (8) of Part I of Second Schedule to the Chartered Accountants Act, 1949.

#### **27. Allegation 24:**

In this allegation, it was alleged that the Respondent failed to comply the reporting obligation under CARO when her comment under paragraph 9 of the Annexure to the Auditor's report (**A-75**) is read with Note 25 (iv)(d) with respect to the contingent liabilities(**A-90**) in respect of service tax liabilities. It is noted that under the said Note, the information about the show cause notice received from Commissioner of Central Excise (Service Tax), demanding service tax, was reported at Rs. 244.83 lakhs; against which Rs.122.41 lakhs was reported to have been paid under protest. However, under CARO,

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service tax dues that were deposited on account of dispute were reported at Rs. 367.24 lakhs. It was alleged that either the contingent liabilities in respect of service tax reported were incorrect or that reported under CARO, since the latter only reports the amount of dues that were not paid on account of dispute. The facts reported by the auditor contradicted the information given in the notes to accounts. Accordingly, the stated reporting was alleged to be incorrect, in accordance with the information contained in the financial statements vis-à-vis as per the clause 4(ix)(b) of Companies (Auditor's Report) Order (CARO), 2003.

#### **27.1 Submissions of the Respondent: -**

i) Regarding the allegation, the Respondent submitted that the figure of Rs. 3,67,24,590/- under point (9) of CARO was an inadvertent clerical error. The figure should have been Rs. 1,22,41,530. The tax demand was Rs. 2,44,83,060, out of which an amount of Rs. 1,22,41,530/-, being 50% of the demand, was paid, and an appeal was preferred before the CESTAT. Hence, the disputed pending amount to be paid worked out to Rs. 1,22,41,530, which was the amount that should have been mentioned under point no. 9 of CARO instead of Rs.3,67,24,590/-. Instead of subtracting the amount of Rs.1,22,41,530/-, the said amount was added to the amount of Rs. 2,44,83,060/-, thereby making its total to 3,67,24,590 (2,44,83,060 + 1,22,41,530). This was a clear clerical error. The Respondent emphasized that there was no benefit to anyone in showing an increased amount of liability. If the figure shown was lower than real, it would have adverse consequences on users who relied on those numbers.

#### **27.2 Observation of the Committee: -**

i) The Committee, in this regard, noted that upon consideration of the Respondent's submissions, it is evident that the arrived figure of Rs. 3,67,24,590/- under point (9) of CARO was indeed a result of an inadvertent clerical error. It appears that the said discrepancy has arisen due to an unintended addition rather than a deliberate act. In the absence of any apparent intent to mislead on the part of the Respondent, the Committee is of the considered opinion that the Respondent is **NOT GUILTY** with respect to above allegation falling within the meaning of Items (5), (6) & (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949.

#### **28. Allegation No. 25: -**

In this allegation, it is alleged that in pursuance of clause 4(xvi) of CARO, 2003, the Respondent, being auditor, was required to report whether the term loans taken during the year or in the previous year were applied for the purpose for which they were obtained. However, the auditor had simply reported that the company did not have any outstanding term loans at the end of the year which was alleged to be not in line with the applicable requirements.

### **28.2 Submissions of the Respondent: -**

i) Regarding the allegation, the Respondent submitted that the financial statements of the Company proved that there were neither any fresh term loans during the year under report, nor did the Company had any carried over amount of term loans. The Respondent asserted that there was no omission or error in the CARO report of the Respondent on the subject matter. When a Company had no term loans in its records, finding fault with the auditor for not reporting about the usage of the term loans that were not borrowed was ludicrous. The Respondent also stated that the language used as answer to the point concerned was not an incorrect fact either.

### **28.2 Observation of the Committee: -**

i) The Committee noted that there were no term loans reported in the balance sheet of the said financial period. In the absence of term loans, the allegation of incorrect reporting by the Respondent does not arise. Accordingly, the Committee is of the considered opinion that the Respondent is **NOT GUILTY** with respect of above allegation falling within the meaning of Items (5), (6) & (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949.

### **29. Allegation 26:**

In this allegation, it is alleged that in pursuance of clause 4(xxi) of CARO, 2003, the Respondent, being auditor, was required to report any fraud on or by the Company during the year, specifying the nature and amount involved. However, it was alleged that the Respondent had omitted to report on said clause (A-75 to A-76).

### **29.1 Submissions of the Respondent:-**

i) In response to the said allegation, the Respondent referred to the Council's decision dated 3rd Jan 2014 regarding reporting on matters specified in CARO format, that were not applicable to a company. It was submitted that para 80 of the Statement on Companies' (Auditor Report) Order 2003, was revisited by the Council and it was viewed that mentioning of non-applicable clauses did not have any impact on auditor's opinion and that it had no perceivable benefits to readers of financial statement. In view of it, non-mentioning the clause on fraud in CARO report, cannot be qualified as misconduct.

### **29.2 Observation of the Committee:-**

i) The Committee in this regard observed that though the Respondent's arguments were not sustainable as the said relaxation was available from 2014 whereas the financial statements were signed in 2013. However, keeping in view that there was no documents on record suggesting that there was any fraud on or by the Company, benefit may be extended to the Respondent in the above matter. Accordingly, the Committee is of the

considered opinion that the Respondent is **NOT GUILTY** with respect to above allegation falling within the meaning of Items (5), (7) & (8) of Part I of Second Schedule to the Chartered Accountants Act, 1949.

**CONCLUSION**

30. Thus, in conclusion, in the considered opinion of the Committee, the Respondent is held **GUILTY** of Professional Misconduct falling within the meaning of within the meaning of Items (5), (6), (7) & (8) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

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Sd/-

[CA. Aniket Sunil Talati]  
Presiding Officer

Sd/-

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

Sd/-

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

Sd/-

[CA. Piyush S Chhajed]  
Member

Date : 22<sup>nd</sup> January, 2024  
Place : NEW DELHI

सही प्रतिलिपि होने के लिए प्रमाणित  
Certified to be true copy

*M Gupta*  
मीनू गुप्ता / Meenu Gupta  
वरिष्ठ कार्यकारी अधिकारी / Sr. Executive Officer  
अनुशासनात्मक निदेशालय / Disciplinary Directorate  
इंस्टिट्यूट ऑफ चार्टर्ड एकाउंटेंट्स ऑफ इंडिया  
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