

**CONFIDENTIAL**

**DISCIPLINARY COMMITTEE [BENCH-III (2024-2025)]**

**[Constituted under Section 21B of the Chartered Accountants Act, 1949]**

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

**Case Ref. No.:**

[PPR/P/7/S/09/DD/6/S/INF/09/DC/191/2012]

**In the matter of:**

**CA B.L.N Phani Kumar (M. No. 028391)**

4-1-882/1/26, 26 Ground Floor,  
R B V R Reddy Hostel Shopping Complex,  
Tilak Road,  
Hyderabad (Andhra Pradesh) – 500 001

... Respondent

**Members Present:**

**CA. Charanjot Singh Nanda, Presiding Officer**  
**Smt. Anita Kapur, Member (Govt. Nominee)**  
**Dr. K. Rajeshwar Rao, Member (Govt. Nominee)**  
**CA. Sushil Kumar Goyal, Member**  
**CA. Piyush S Chhajed, Member**

**Date of Final Hearing: 18.12.2024**

**Date of decision taken: 20.01.2025**

**Parties Present:**

- (i) CA. B.L.N. Phani Kumar – the Respondent  
(ii) Adv. Karri Murali Krishna – the Counsel for the Respondent  
[both appeared through video conferencing from their respective personal location(s)]

**Brief Background and charge against the Respondent:**

1. In the extant case, the information has been filed by Shri A. Mangalagiri, General Manager, Reserve Bank of India (hereinafter referred to as 'Informant') against the Respondent stating that the Respondent firm was Statutory Auditor of seven companies during the financial year 2007-2008 namely;

- a. M/s. Elem Investments Pvt. Ltd.,



- b. M/s. Fincity Investments Pvt. Ltd.,
- c. M/s. Highgrace Investments Pvt. Ltd.,
- d. M/s. SNR Investments Pvt. Ltd.,
- e. M/s. SRSR Advisory Services Pvt. Ltd.,
- f. M/s. SRSR Holdings Pvt. Ltd. and
- g. M/s. Veeyes Investments Pvt. Ltd.

(hereinafter collectively referred as the 'Companies').

1.1 During investigation, Central Bureau of Investigation (CBI) revealed that six out of these seven companies (except M/s. SRSR Advisory Services Pvt. Ltd.) were conducting business of Non-Banking Financial Institution (NBFI) without obtaining Certificate of Registration (COR) from RBI which was in violation of Section 45-IA of the RBI Act 1934. As the Respondent firm failed to comply with Section 45-IA of the Reserve Bank of India Act, 1934 and Para 2 and 5 of the Non-Banking Financial Companies Auditor's Report (Reserve bank) Direction, 2008; RBI's Hyderabad regional office issued a show cause notice dated 7<sup>th</sup> May 2009 to the Respondent firm to show as to why penal action should not be initiated against them for not submitting separate reports to the Board of Directors and also exception reports to RBI under section 58B (4AA) of RBI Act, 1934. The Respondent firm requested the RBI not to initiate any penal action against them and also submitted exception reports after CBI probe in respect of six companies for FY 2007-08.

1.2 The Committee noted that the then Director (Discipline), in her prima facie opinion dated 24<sup>th</sup> January 2012, held the Respondent not guilty of professional misconduct. However, the Board of Discipline, on consideration of the said prima facie opinion in its meeting held on 08<sup>th</sup> February 2012, was of the view that the Respondent had not reported in his Audit Report that the Companies were conducting business of Non-Banking Financial Institution (NBFI) without obtaining Certificate of Registration (COR). Accordingly, the matter needs further enquiry with respect to the role of the Respondent as he was the auditor of NBFIs. Accordingly, the Board of Discipline held the Respondent prima facie guilty within the meaning of Clause (7) of Part I of Second Schedule to the Chartered Accountants (Amendment) Act, 2006 and decided to refer the matter to the Disciplinary Committee to proceed further under Chapter V of the CA Rules, 2007.

It is noted that Item (7) of Part I of the Second Schedule states as under: -

*PART I: 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-*

*g*

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

**Proceedings:**

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

S.No.	Date	Status of Hearing
1.	28.10.2024	Part Heard & Adjourned
2.	18.12.2024	Hearing Concluded. Judgment Reserve
3.	20.01.2025	Final Decision Taken

2.1 During the hearing held on 28<sup>th</sup> October 2024, the Committee noted that the Respondent was present through Video Conferencing. Being the first hearing, the Respondent was put on oath. Thereafter, the Respondent made a declaration that there was nobody else in the room from where he was appearing and that he would neither record nor store the proceedings of the Committee in any form. Thereafter, the Committee asked the Respondent whether he was aware of the charge(s) levelled against him to which he replied in affirmative. On being asked as to whether he pleaded guilty on the charges levelled, he pleaded Not Guilty and opted to defend the case. Thereafter, the Committee decided to adjourn the hearing to a future date, considering that this was the first hearing. Accordingly, the matter was part heard and adjourned.

2.2 On the day of hearing on 18<sup>th</sup> December 2024, the Committee noted that the Respondent along with his Counsel was present through Video Conferencing. Thereafter, the Committee asked the Counsel for the Respondent to make submissions in the matter. On the same, the Counsel for the Respondent made detailed submissions. The Committee sought clarifications on the submissions made which were responded to by them.

The Committee after considering the submissions of the Respondent directed them to submit the following details/ information within next 7 days:

- a) Provide clarification as to whether the Respondent is still continuing as an auditor of the companies in question i.e. M/s. Elem Investments Pvt. Ltd., M/s. Fincity Investments Pvt. Ltd., M/s. Highgrace Investments Pvt. Ltd., M/s. SNR Investments Pvt. Ltd., M/s. SRSR Advisory Services Pvt. Ltd., M/s. SRSR Holdings Pvt. Ltd. and M/s. Veeyes Investments Pvt. Ltd alleged in instant matter filed by Reserve Bank of India.
- b) State as to whether any action has been taken by Informant i.e. Reserve Bank of India against the companies, referred hereinabove.



- c) Provide clarification as to whether the said companies were required to submit the exception report, etc. to RBI or whether the said companies were required to get registered with the RBI as an NBFC/ NBF1 in said case at any point of time till date.

With these directions, the Committee concluded the hearing and decided to reserve the judgement in the matter.

2.3 On 20<sup>th</sup> January 2025, the Committee noted that during the last hearing held on 18<sup>th</sup> December 2024, the instant matter was concluded and judgment was reserved with the directions to the Respondent to submit certain details/information. In response, the Respondent submitted the requisite details/ information vide his email dated 30<sup>th</sup> December 2024. The Committee thereafter based on the documents available on record and after considering the oral and written submissions made before it, took its decision in the extant matter.

**Findings of the Committee:**

3. At the outset, it was alleged that certain Companies viz., M/s. Elem Investments Pvt. Ltd., M/s. Fincity Investments Pvt. Ltd., M/s. Highrace Investments Pvt. Ltd., M/s. SNR Investments Pvt. Ltd., M/s. SRSR Holdings Pvt. Ltd. and M/s. Veeyes Investments Pvt. Ltd. were conducting business of Non-Banking Financial Institution (NBF1) without obtaining Certificate of Registration (COR) from Reserve Bank of India under Section 45IA of the Reserve Bank of India Act, 1934 and the Respondent being the statutory auditor of the said companies failed to submit a separate report to the Board of Directors of such Companies and also an exception report to the Reserve Bank of India on the above referred violation which was required as per paragraph 2 and 5 of the Non-Banking Financial Companies Auditor's Report (Reserve Bank) Directions, 2008 respectively issued under Section 45MA of the Reserve Bank of India Act, 1934.

3.1 The Committee noted that Section 45 IA and paragraph 2 and 5 of the Non-Banking Financial Companies Auditor's Report (Reserve Bank) Directions, 2008 respectively issued under section 45MA of the Reserve Bank of India Act, 1934 of the Reserve Bank of India Act, 1934 states as under:

***Section 45IA:*** (1) *Notwithstanding anything contained in this Chapter or in any other law for the time being in force, no non-banking financial company shall commence or carry on the business of a non-banking financial institution without—*

*(a) obtaining a certificate of registration issued under this Chapter; and*



(b) having the net owned fund of twenty-five lakh rupees or such other amount, not exceeding hundred crore rupees, as the Bank may, by notification in the Official Gazette, specify

Provided that the Bank may notify different amounts of net owned fund for different categories of non-banking financial companies.

.....”

**“Section 45MA. Powers and duties of auditors.—**(1) It shall be the duty of an auditor of a non-banking institution to inquire whether or not the non-banking institution has furnished to the Bank such statements, information or particulars relating to or connected with deposits received by it, as are required to be furnished under this Chapter, and the auditor shall, except where he is satisfied on such inquiry that the non-banking institution has furnished such statements, information or particulars, make a report to the Bank giving the aggregate amount of such deposits held by the non-banking institution.....”

**Paragraph 2 and 5 of the Non-Banking Financial Companies Auditor’s Report (Reserve Bank) Directions, 2008 issued under Section 45MA of RBI Act, 1934.**

**2. Auditors to submit additional Report to the Board of Directors**

In addition to the Report made by the auditor under Section 227 of the Companies Act, 1956 (1 of 1956) on the accounts of a non-banking financial company examined for every financial year ending on any day on or after the commencement of these Directions, the auditor shall also make a separate report to the Board of Directors of the Company on the matters specified in paragraphs 3 and 4 below.

**5. Obligation of auditor to submit an exception report to the Bank**

(1) Where, in the case of a non-banking financial company, the statement regarding any of the items referred to in paragraph 3 above, is unfavourable or qualified, or in the opinion of the auditor the company has not complied with:

the provisions of Chapter III B of Reserve Bank of India Act, 1934 (Act 2 of 1934); or

the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998; or



*Non-Banking Financial (Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007; or*

*Non-Banking Financial (Non- Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007;*

*it shall be the obligation of the auditor to make a report containing the details of such unfavourable or qualified statements and/or about the non-compliance, as the case may be, in respect of the company to the concerned Regional Office of the Department of Non-Banking Supervision of the Bank under whose jurisdiction the registered office of the company is located as per Second Schedule to the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998.*

*(II) The duty of the Auditor under sub-paragraph (I) shall be to report only the contraventions of the provisions of RBI Act, 1934, and Directions, Guidelines, instructions referred to in sub-paragraph (1) and such report shall not contain any statement with respect to compliance of any of those provisions.*

On perusal of above provisions, the Committee noted that Section 45IA states the procedure of obtaining the registration. Further, Section 45MA states the duty of an auditor to enquire whether the non-banking financial company has furnished any statement relating to its deposits received by it and the auditor shall make a report to the bank giving aggregate amount of such deposits held by the non-banking financial company. Furthermore, the Non-Banking Financial Companies Auditor's Report (Reserve Bank) Directions, 2008 creates an obligation on the auditor to submit an exception report to the RBI about the company to the extent it has not complied with the provisions of the RBI Act and Directions.

3.2 Upon perusal of submissions of the Respondent, it was noted that the said companies had not applied for certificate of registration since they had not accepted any public deposits during the year 2007-08. Further, the Committee, on perusal of financial statements of the said Companies, noted that investments of these companies were in shares of public/ private limited companies. The unsecured loan shown in the financial statements were having same balances as of the previous year. Moreover, in case of M/s. Veeyes Investments Pvt. Ltd., the increase in unsecured loan was due to loan from directors.

3.3 It is also noted that, in response to a show-cause notice from RBI's Hyderabad Regional Office dated 7<sup>th</sup> May 2009, the Respondent firm was asked to explain why penal action should not be initiated against them for failing to submit separate reports to the Board of Directors and



exception reports to the RBI under Section 58B (4AA) of the Reserve Bank of India Act, 1934. In response, the Respondent firm, by letter dated 7<sup>th</sup> July 2009, requested the RBI not to initiate penal action against them. The Committee noted that the Respondent, in this regard, had submitted that the said six Companies were investment Companies and they had not commenced any banking financial business of accepting public deposits. Therefore, there was no violation of Section 45 IA of Reserve Bank of India Act, 1934. He further submitted that since the six companies had not received any deposits, the question of any enquiry and submission of any report did not arise as per Section 45MA of the Reserve Bank of India Act, 1934. However, upon perusal of RBI letter, they also submitted exception reports following a CBI probe into the aforementioned six companies for the year 2007-08 to avoid any action by RBI.

3.4 The Committee further noted that in response to the queries raised by it during the hearing held on 18<sup>th</sup> December 2024, the Respondent vide his letter dated 30<sup>th</sup> December 2024 inter-alia, stated as under:

- a. That he was not continuing as statutory auditor of Fincity Investments Pvt Ltd since 2017-18 and of SRSR Advisory Services Pvt Ltd since 2014-15 and he is continuing as an auditor for the remaining 5 Companies.
- b. That Reserve Bank of India had neither taken any action against the Companies referred nor imposed any penalty on them. The said fact was also confirmed by the Companies.
- c. That the said companies were neither required to submit the exception report, etc. to RBI nor was required to get registered with RBI as NBFC/NBFI at any point of time till date.
- d. That the above said Companies are Investment Companies only and have not commenced any NBFC activity or any financial business of accepting public deposits.

3.5 Regarding the allegation that the Respondent's duty under Paragraphs 2 and 5 of the Non-Banking Financial Companies Auditor's Report (RBI) Directions, 2008, was to submit reports concerning non-compliance by the companies under audit, specifically with respect to accepting deposits and other regulatory requirements; the Committee viewed that the companies neither accepted public deposits nor engaged in any other activities that would necessitate the submission of exception reports to the RBI. Consequently, the Respondent was under no obligation to submit such reports.

3.6 The Committee further observed that there has been no action or penalty imposed by the RBI against the companies in question. This reinforces the Respondent's position that the companies did not violate any provisions of the RBI Act, 1934 or related directions. It was further observed that no penalties or regulatory actions had been pursued against the companies in question, thereby further diminishing the likelihood of any professional misconduct on the part of the Respondent.



3.7 Considering the above, the Committee concluded that in absence of evidence which establishes violation of provisions of Reserve Bank of India Act, 1934 or any failure on his part to fulfil the statutory duties required of an auditor under the applicable provisions, the Respondent is held **Not Guilty** of Professional Misconduct under Clause (7) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

**Conclusion: -**

4. Thus, in conclusion, in the considered opinion of the Committee, the Respondent is **NOT GUILTY** of Professional Misconduct falling within the meaning of Clause (7) of Part-I of Second Schedule to the Chartered Accountants Act, 1949.

5. Accordingly, in terms of Rule 19(2) of the Chartered Accountants (Procedure of Investigations of Professional and Other Misconduct and Conduct of Cases) Rules, 2007, the Committee passes Order for closure of this case.

*h*

Sd/-

[CA. Charanjot Singh Nanda]  
Presiding Officer

Sd/-

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

Sd/-

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

Sd/-

[CA. Sushil Kumar Goyal]  
Member

Sd/-

[CA. Piyush S Chhajed]  
Member

Date: 10<sup>th</sup> February, 2025  
Place: New Delhi

सही प्रतिलिपि होने के लिए प्रमाणित  
Certified to be true copy

*Geetha*  
गीता अनिरुध कुमार / GEETHA ANIRUDHA KUMAR  
कार्यकारी अधिकारी / Executive Officer  
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