



# 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 (2025-2026)]

[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

PR/230/14-DD/305/2014-DC/651/2017

In the matter of:

Shri Trideep Raj Bhandari,  
Gulaab Vaatika,  
Paota B, Road,  
Jodhpur – 342 006

...Complainant

**Versus**

CA. V Balasubramanyan (M. No. 018444)  
M/s Sarathy & Balu,  
Chartered Accountants,  
New No. 6, (Old 27), 11<sup>th</sup> Avenue,  
Ashok Nagar,  
Chennai – 600 083

...Respondent

MEMBERS PRESENT:

CA. Charanjot Singh Nanda, Presiding Officer  
Shri Jiresh Nandan, Member (Govt. Nominee)  
Dr. K Rajeswara Rao, Member (Govt. Nominee)  
CA. Piyush S Chhajed, Member  
CA. Abhay Chhajed, Member

Date of Hearing: 30<sup>th</sup> July 2025

Date of Order: 9/8/2025

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 11<sup>th</sup> February 2021, the Disciplinary Committee was of the opinion that CA. V Balasubramanyan (M. No. 018444) (hereinafter referred to as the "Respondent") was **GUILTY** of Professional Misconduct falling within the meaning of Items (7), (8) and (9) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.



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2. 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 addressed to him thereby granting an opportunity of being heard in person/through video conferencing and to make representation before the Committee on 9<sup>th</sup> July 2025 and thereafter on 30<sup>th</sup> July 2025.
3. The Committee noted that in response to the notice for hearing on 9<sup>th</sup> July 2025, the Respondent vide his email dated 3<sup>rd</sup> July 2025, had stated that the whole proceedings should be started de-novo allowing the Respondent to participate along with his counsel. The Respondent further requested the Disciplinary Committee to defer the proposed hearing. The Committee further noted that the Respondent vide email dated 7<sup>th</sup> July 2025 further submitted gist of his objections for consideration of the Disciplinary Committee. The Respondent further requested the Committee to place the matter for hearing under Rule 18 of CA Rules, 2007 instead of awarding the punishment under Rule 19(1) of CA Rules, 2007. In this regard, the Committee noted that vide email dated 8<sup>th</sup> July 2025 in response to the email of the Respondent, he was advised to appear before the Committee on 9<sup>th</sup> July, 2025 at the scheduled time and accordingly make his submissions.
  - 3.1 On the first date of hearing, i.e. on 9<sup>th</sup> July 2025, the Committee noted that the Respondent was present for the hearing through Video Conferencing. Thereafter, he gave a declaration that there was nobody present in the room except him from where he was appearing and that he would neither record nor store the proceedings of the Committee in any form. On being asked by the Committee, whether he had received the findings of the Disciplinary Committee, the Respondent confirmed to have received the same. Thereafter, the Committee drew attention of the Respondent that the purpose of the extant hearing was to afford him an opportunity of hearing before passing any order for punishment.
  - 3.2 The Respondent, thereafter, made his oral submissions by raising certain objections in the matter. He further submitted that the matter to be heard at Rule 18 of the Chartered Accountants (Procedure of Investigations of Professional and Other Misconduct and Conduct of Cases) Rules, 2007 and not at Punishment Stage under Rule 19 of said Rules. Accordingly, he sought adjournment in the matter to establish these facts.
  - 3.3 The Committee further noted that the Respondent had initially approached the Hon'ble High Court of Madras and filed Writ Petition no. 3881/2021 to quash the disciplinary proceedings. The Learned Single Judge of the High Court vide order dated 12<sup>th</sup> June, 2024 disposed of the Writ Petition granting liberty to the Respondent to participate in the enquiry. The Respondent, thereafter, challenged the same before the Division Bench which was also disposed of vide their order dated 19<sup>th</sup> March, 2025 declining to interfere with the Order of the Learned Single Judge. The Committee further noted that the Division Bench of the Hon'ble High Court has directed the Disciplinary Committee vide its order dated 19<sup>th</sup>



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March 2025 and clarification order dated 24<sup>th</sup> March 2025 to complete the disciplinary proceedings in all respects and pass final order on merits in accordance with law. The Committee noted that the Division Bench vide its order dated 19<sup>th</sup> March 2025 observed as under:

*"... It is not in dispute that disciplinary proceedings are initiated against the appellant. The writ petition was instituted challenging the initiation of disciplinary proceedings by the Disciplinary Committee. Initially on receipt of complaint, prima facie opinion has been formed by the Director (Discipline) of the Institute of Chartered Accountants of India. On formation of prima facie opinion, the matter was referred to the Disciplinary Committee. Therefore, all the grounds raised in the writ petition and the writ appeal by the appellant are to be adjudicated by the Disciplinary Committee. The learned single Judge, following the orders passed in W.P.No.13169 of 2020 dated 09.02.2024, disposed of the writ petition granting liberty to the appellant to participate in the process of enquiry and defend his case. Thus this Court is not inclined to interfere with the writ order impugned and consequently the writ appeal stands dismissed."*

3.4 The Committee further noted that Respondent further approached the Hon'ble High Court seeking clarification to order dated 19<sup>th</sup> March 2025 and in this regard Hon'ble High Court vide order dated 24<sup>th</sup> March 2025 further observed as under:

*"3. As far as the letter dated 25.02.2021, it indicates that the Disciplinary Committee has given its finding and further opportunity has been provided to the appellant to submit his representation if any, within a period of fourteen (14) days. Unfortunately, three years lapsed, on account of pendency of the litigation. Therefore, the appellant is not entitled to get any more leniency from the hands of this Court. The appellant is at liberty to submit his representation within a period of one week from today i.e., 24.03.2025, if any already submitted. On receipt of representation, if any, from the appellant within a period of one week, the respondents shall proceed with the process, complete the disciplinary proceedings in all respects and pass final orders on merits in accordance with law."*

3.5 The Committee, after considering all the grounds raised by the Respondent and facts of the case, clarified him that in accordance with the directions of the Hon'ble Court, the Disciplinary Committee is required to address the issues/ objections raised by him while passing the final order. The Committee considering his adjournment request decided to give one more opportunity to him and accordingly instructed him to submit his further representation on quantum of punishment in the next hearing.

4. On the date of the hearing held on 30<sup>th</sup> July 2025, the Respondent was not present for the hearing. The Committee further noted that the Respondent vide email dated 29<sup>th</sup> July 2025



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submitted that he had filed Writ Petition no. 27799/2025 before Hon'ble High Court of Madras challenging the issue of notice dated 11<sup>th</sup> July 2025 in respect of extant proceedings. The Respondent further stated that in view of the pendency of the said Writ Petition and also as the Hon'ble High Court of Madras is seized of the matter, requested the Disciplinary Committee to postpone the hearing fixed for 30<sup>th</sup> July 2025.

- 4.1 The Committee, in this regard, observed that proceedings before the Disciplinary Committee are quasi-judicial in nature where the misconduct can be proved by preponderance of probabilities having regard to the conduct of the Respondent. While coming to the said view the Committee took into consideration the decision of the Hon'ble Supreme Court in the matter of Ajit Kumar Nag Vs. General Manager (PJ) Indian Oil Corporation Limited [AIR 2005 SC 4217] wherein the Hon'ble Apex Court held as under :-

*"The degree of proof which is necessary in order to conviction is different from the degree of proof necessary to record the commission of delinquency. The rules relating to appreciation of evidence in the two proceedings is also not similar. In criminal law, burden of proof is on the prosecution and unless the prosecution is able to prove the guilt of the accused beyond reasonable doubt he cannot be convicted by a Court of law. In a departmental enquiry penalty can be imposed on the delinquent officer on a finding recorded on the basis of preponderance of probability."*

Similarly in the matter of Capt. M Paul Anthony Vs. Bharat Gold Mines Limited [AIR 1999 SC 1416] the Hon'ble Supreme Court held as under:-

*"In departmental proceedings, factors prevailing in the mind of the disciplinary authority may be many, such as enforcement of discipline or to investigate level of integrity of delinquent or other staff. The standard of proof required in those proceedings is also different from that required in a criminal case. While in departmental proceedings, the standard of proof is one of preponderance of probabilities, in a criminal case, the charge has to be proved by the prosecution beyond reasonable doubt."*

The Committee further noted that there was no stay and accordingly, the Committee decided to proceed with the matter based on the representation submitted by the Respondent.

5. The Committee noted that the Respondent in his written representation dated 27<sup>th</sup> March 2025 on the findings of the Committee, inter-alia had raised certain objections as under:
- a. On the maintainability of the Complaint.



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- b. On the time Limit for entertaining Complaint as per Rule 12 of the CA Rules, 2007.
  - c. On the time Limit for fixing of hearing in violation of Rule 18(6) of the CA Rules, 2007.
  - d. Requested for documents relied upon by the Director (Discipline), in terms of 18(2)(b) of the CA Rules, 2007. The Respondent stated that the Director (Discipline) based his opinion solely on the forensic audit report which is an un-testified document, as furnished by the Complainant Bankers and nothing beyond it. The Respondent requested the Committee to provide the particulars or documents relied upon by the Director (Discipline), in order to defend his case.
  - e. Requested for a copy of the noting and basis/ order in respect of exoneration of Internal Auditor of the subject Company. The Respondent further requested the Committee to provide copy of the noting and basis/ order wherein the Internal Auditors of the subject company so exonerated.
  - f. Requested for copy of appraisal documents including the minutes of the consortium meetings of the Complainant Banks. The Respondent further requested the Committee to provide the copy of the appraisal documents including the minutes of the consortium meetings of the Complainant Banks.
  - g. Requested for examination of witnesses in terms of the Rule 18(14) of the CA Rules, 2007. The Director (Discipline) had formed his Prima Facie Opinion wholly based on the Forensic Audit Report of M/s. Maharaj N.R. Suresh and Company, Chartered Accountants. The said report is an un-testified document and the Partners of the said Audit firm who conducted the said audit was not summoned by the Committee to record his testimony especially when the said Forensic Auditor was appointed by the very Complainant Banks and obtained the Report.
6. The Committee, with respect to objections raised by the Respondent, considered the reasoning as contained in the findings holding the Respondent Guilty of professional misconduct vis-à-vis written and verbal representation of the Respondent made before it. As regards other submissions of the Respondent, the Committee held that due consideration to the submissions and documents on record had been given by the Committee before arriving at its findings and that no fresh ground can be adduced at this stage.
- a. As regards the plea regarding maintainability of Complaint, the Committee noted that the said issue is dealt with in detail in paragraph 6.1 of the findings report. Further it arrived at the finding after evaluating all the evidence produced before it and after adhering to the due procedure as enshrined in the Chartered Accountants Act, 1949 and the Chartered Accountants (Procedure of Investigations of Professional and Other Misconduct and Conduct of Cases) Rules, 2007.



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- b. As regards the plea that the complaint not to be entertained in terms of provision of Rule 5(4)(a) of CA Rules 2007, the Committee noted that the said issue is already dealt with in detail in paragraph 6.2 and 6.2.1 of the findings report.
- c. As regards the plea regarding the authorization of Complainant under Rule 3(4) of CA Rules, 2007, the Committee noted that the extant complaint is filed by an individual investor and such authorization is required only in the case of a complaint being filed by or on behalf of a company or a firm.
- d. As regards the request for examination of witnesses, the Committee noted that the Respondent has requested examination of various bank officials and other fellow chartered accountants who had performed their official duties and none of them had performed any duty in their personal capacity. The request for examination of witness was considered by the then Committee during hearing stage, however, the request of the Respondent was declined. This fact was also admitted by the Respondent in his submissions. The Committee further considering the documentary evidences brought on record arrived at its decision keeping in view of the overall facts and submissions made by the parties.
- e. As regards the request seeking documents, minutes of the consortium meetings of the Complainant Banks and exoneration of internal auditor, the Committee noted that the documents referred and relied upon while formulating/ considering the Prima-Facie Opinion were already provided to the Respondent at various stages. As regards exoneration of internal auditor, the Committee noted that the allegations raised against him were different and the Respondent cannot be permitted to shift burden on internal auditor. Since, the allegations are separate and independent, hence sharing of documents related to other parties cannot be taken as a valid objection.
- f. As regards limitation under Rule 12 of CA Rules, 2007, the Committee the said issue is already dealt with in paragraph 6.3 of the findings report. The Committee also noted that:

*In State of A.P. Vs. N. Radhakishan [1998] 2 SCR 693, A.R. Antulay v. R.S. Nayak and Anr. AIR 1992 SC 1701 and State of Punjab and Ors. Vs. Chaman Lal Goyal (1995) 2 SCC 570, the Hon'ble Supreme Court had held that whether a disciplinary proceeding is to be quashed on the ground of delay is to be determined according to the facts and circumstances of each case and that the essence of the matter is that the Court has to take into consideration all the relevant factors, to balance and weigh them to determine if it is in the interest of clean and honest administration that the disciplinary proceedings should be allowed to terminate after delay particularly when the delay is abnormal and there is no explanation for the delay. Further, in the matter of DDA Vs. D.P. Bambah and Anr. LPA No. 39/1999 date 29.10.2003, a Division*



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Bench of the Hon'ble High Court of Delhi has held that unless the statutory rules prescribe a period of limitation for initiating disciplinary proceedings, there is no period of limitation for initiating the disciplinary proceedings. If bona fide and reasonable explanation for delay is brought on record by the disciplinary authority, in the absence of any special equity, the court would not intervene in the matter. Balancing all the factors, it has to be considered whether prejudice to the defence on account of delay is made out and the delay is fatal, in the sense, that the delinquent is unable to effectively defend himself on account of delay. Applying the said principles to the facts of the present case, it is submitted that the plea of delay/laches is liable to be rejected.

Further, it is observed that the alleged delay could not be sole ground for quashing the proceedings. Moreover, when the allegations made were on the practice adopted by various firms across India which was collectively affecting the profession of Chartered Accountants as a whole. It was in the larger public interest that the matter should be adjudicated and even if for the sake of argument alleged delay is accepted, it must be condoned. It is trite law that important questions affecting public interest should not be defeated on technical objections. The Hon'ble Supreme Court in Collector, Land Acquisition, Anantnag & Anr. Vs. Katiji & Ors. [1987(2) SCC 107] has held that:

*"Refusing to condone delay can result in a meritorious matter being thrown out at the very threshold and cause of justice being defeated. When substantial justice and technical considerations are pitted against each other, cause of substantial justice deserves to be preferred for the other side cannot claim to have vested right in injustice being done because of a non-deliberate delay."*

It is pertinent to note that there is no timeline prescribed in Section 21 of the CA Act. The timeline prescribed through subordinate legislation in the Rules is not to render any complaint/ information defunct/ invalid merely on the ground of procedural time lag, if any occurred. In this regard, the observations of the Hon'ble Supreme Court in Sardar Amarjit Singh Kalra and Ors. Vs. Parmod Gupta and Ors. [(2003) 3 SCC 272] are:

*"Law of procedure are meant to regulate effectively, assist and aid the objection of doing substantial and real justice and not to foreclose even an adjudication on merits of substantial rights of citizen under personal, property and other laws. Procedure has always been viewed as the handmaid of justice and not meant to hamper the cause of justice or sanctify miscarriage of justice."*

Further, reference be also made in this context in the judgement of Hon'ble Supreme Court in 'Shaikh Salim Haji Abdul Khayumsab Vs. Kumar and Ors' [2006 AIR (SC) 396].



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- g. Regarding time line prescribed under Rule 18(6) of CA Rules 2007, it is noted that the said Rule provides that *"The Presiding Officer of the Committee shall fix a date, hour and place of hearing, which shall not ordinarily be later than 45 days from the date of receipt of prima facie opinion and the committee shall cause a notice to be sent of such date, hour and place to the Director, respondent and complainant and require them to appear before it in person to make oral submissions, if any."* In this regard, it is clarified that 45 days period is directory and not mandatory and it is aimed at expeditious handling of cases. Delay in scheduling the first hearing does not vitiate the proceedings and no legal right accrues to the Respondent to claim lapse solely on this ground. This view is also supported by judicial pronouncements as discussed herein above and such procedural timelines in disciplinary matters are not rigid unless explicitly prescribed as mandatory. The intent is to ensure fair hearing and natural justice rather than to penalize technical delay.
7. As regards merits of the case are concerned, it is noted that the brief background of the case is as under:
- a. The Complainant was one of the investor in First Leasing Company of India Limited (hereinafter referred at as the '**Company**') and the Respondent Firm was Statutory Auditor of the Company for the Financial Years 2002-2003 till 2012-2013. As per allegation, the Complainant's interests had been adversely affected owing to the false and fabricated results and good track records and for hiding the same in the net of the numbers, Balance Sheets, Profit & Loss Account, Fund flow, Dividend Declaration, Board of Directors reports, Rating and Track record, etc. Thus, the Respondent acted against the interest of the shareholders.
- b. It is noted that on 21.08.2013, the RBI in its proceedings in DNBS/CHE-352/13.3.2001-2013-12, gave notice of inspection to the Company under Section 45N of the RBI Act giving directions to the Company to submit its accounts for inspection. The RBI, from 26.08.2013 to 10.09.2013 carried out the inspection of the accounts inter-alia the Balance Sheets, ledger accounts, books, etc. of the Company and based on the findings, the RBI directed them to recast the Balance Sheet and Profit & Loss Account along with other data supporting the recast of accounts. As per said directions of the RBI, the Company's recasted Balance Sheets, as well as the Profit & Loss Account for the year ended 31.03.2013 were submitted to the RBI, which revealed sweepingly down figures of Balance Sheet to the tune of approx. Rs. 1,676 crores including that on Stock on Hire, Net Lease Investments, Loans and advances etc. The Company's records contained huge discrepancies in terms of the actual amount, and the amount that was presented, and had perpetrated a criminal conspiracy with a criminal intent to siphon off the investor's hard-earned money.





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- c. The RBI vide its order dated 13.09.2013 bearing number DNBS(Che)/512/13.23.513/2013-14 issued to the Managing Director of the Company clearly stated that *"The inspection revealed that the Company has been over several years falsifying its Books of Accounts and other financial statements, thereby portraying a positive Net worth. The Company has a negative Net Owned Fund (NOF), and has been incurring losses year on year. The Company has also been violating the Reserve Bank's Regulations and reporting false information in its regulatory returns"*. Certain instances in the RBI Inspection report include:
- (i) Stock on Hire was originally shown as Rs. 1,588.35 crores but recast to just Rs. 30.52 crores, indicating gross overstatement and possible siphoning of funds.
  - (ii) Net Lease Investments dropped from Rs.176.42 crores to Rs. 114.62 crores.
  - (iii) Unsecured Loans & Advances of Rs. 35.55 crores and Intangible Fixed Assets of Rs. 3.38 crores were found to be non-existent in the recast accounts.
- d. Thereafter, the Respondent Firm chose to retract on key financial documents, including the audit reports/ certificates, limited review report, etc., that were issued by them, and were part and parcel of the Company's annual reports. It is further noted that the Respondent Firm cannot escape the accountability, as it was their responsibility being the Statutory Auditors of the Company to ensure that there were no irregularities in the financials.
8. The Committee further noted that the Respondent in his written representation dated 27<sup>th</sup> March 2025 had submitted that his certain submissions were not considered by the Committee at hearing stage. He further enclosed certain documents. In this regard, the Committee noted that the Respondent failed to establish the correlation of these documents vis-à-vis findings of the Committee. The Committee further noted that the Respondent chose not to appear before the Committee on merits of the matter despite he was given specific opportunity by adjourning hearing on 9<sup>th</sup> July 2025. The Committee noted that the Respondent in his written representation dated 27<sup>th</sup> March 2025 raised certain aspects on merits of the instant case which are dealt as under:
- a. Regarding the charge of Certifying Balance Sheet and Profit and Loss Account, the Respondent stated that he had no reason to suspect anything untoward about the accounting system, methodology and entries made in the books of account. The Internal Auditors had also done a detailed Transaction Audit every year but did not report any lapses. The Respondent had conducted the Audit of the books of account by adopting proper audit program with utmost care and took all possible steps to adhere to the directions issued by Non Banking Finance Companies Auditors Report (Reserve Bank) Directions, 2008, in letter and spirit. The Respondent further submitted copy of statement of Sh. B. Ravichandran, former Chief Accountant of the Company



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recorded on 21.01.2020 under Section 164 of Code of Criminal Procedure to substantiate his stand. The Respondent further stated that it was a well-orchestrated management fraud perpetrated over a long period of time which any auditor would have found it difficult to unravel unless an investigation was done and not a regular statutory audit. Hence, the Respondent pleaded that he failed to detect the fraud as it was done in a systematic manner.

The Committee noted that the Respondent Firm was continuously auditing the financial statements of the Company since long for a substantial period. The Committee observed that the Respondent cannot shift his burden of responsibility on the shoulders of internal auditor, RBI officials and the Management as the Respondent had not carried out audit work with requisite due diligence and accordingly the said plea cannot sustain.

9. The Committee, considering the submissions of the Respondent and the documents brought on record, noted that the Respondent Firm had conducted the statutory audit of the Company and the RBI carried out inspection of the books of the Company in the year 2013. As per said inspection, the books and records contained huge discrepancies in terms of the actual amount, and that being presented in the financials including that on Stock on Hire, Net Lease Investments, Loans and advances etc. and the Respondent failed to report the said divergences in its respective Audit Reports. The Committee further noted that the RBI came out with a press release dated 13<sup>th</sup> September 2013 restricting the Company to sell, transfer and create charge or mortgage or deal in any manner to protect its property/ assets, distribution of profits and transaction of business/ incur any further liability to protect the interest of stakeholders.
10. Thereafter on behalf of consortium of banks which had taken substantial exposure on the Company, forensic audit was entrusted to M/s Maharaj N.R. Suresh and Co. to verify books and restatement of accounts for previous years and to investigate and find out how the huge gap between assets and liabilities had arisen. Meanwhile, the Respondent Firm who was the statutory auditor of the Company resigned from the position and stated that the certificates for the year ended 31<sup>st</sup> March 2013 and limited review reports of four quarters ending 30.06.2012, 30.09.2012, 31.12.2012 and 30.06.2013 issued by them should no longer be relied upon.
11. The Committee also noted that immediate previous statutory auditors for the period 1999-2002 had certain audit issues, that inter alia included 'Non-availability of debits and credits in Bank statements'. In the year 2002, they resigned from the position of statutory auditors.
12. The Committee noted that the forensic audit report found serious lapses / negligence in conduct of audit of the Company by statutory auditors who had audited the accounts since



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2002 onwards. It was reported that the revenue and profitability parameters were highly inflated to show profit, while the Company was actually incurring huge losses.

13. The Committee also noted observations made in the Forensic report regarding Stock on Hire & inflated interest income recorded thereon, Lease Investments being foreclosure of lease directly accounted as income and corresponding write off of assets not accounted for and thus lease on such transactions was not properly verified, Loans and advances being received and repaid in cash to an account called "factors" leading to Statutory violations specifically relating to Section 269SS of the Income Tax Act 1961 and payment of interest (without deduction of tax at source), cash expenses and reimbursement of expenses. The Forensic auditor further made observations regarding failure on part of the statutory auditor to report transactions made with certain Companies, which were directly/indirectly controlled by Managing Director of the Company, were not reported in the Financial Statements as transactions with related parties.
14. The Committee, further on perusal of Special Audit conducted by M/s N.C. Rajagopal & Co., observed that financial statements from FY 2009-10 to FY 2012-13 had been recasted to ascertain the actual financial position of the Company as required by RBI and found major discrepancies between the published and recasted financials due to unsubstantiated entries and flawed lease accounting, inflating assets, income, and net worth using fictitious disbursements backed by unused/blank cheques. On comparison arrived at in the report between the published financial and the recasted financials, it was observed that the difference between the two financials was quite enormous and were primarily on account of :
  - a) Unsubstantiated transactions/entries relating to receivables under lease and hire rentals, loans and advances and their corresponding income.
  - b) Erroneous method of accounting adopted for certain high value lease transactions
15. It was also stated in the Special Audit report that the Company had passed unsubstantiated entries in the books of accounts thereby boosting its disbursements, collections, asset base, profitability and net worth. Further, every fictitious disbursement entry made was supported by a cheque number which on verification was reported to be in most of the cases pertaining to unused/blank cheques which were in the custody of the Company. On comparison arrived at in the report between the published financial and the recasted financials, it was observed that the difference between the two financials was quite enormous. These deficiencies pointed to a systemic failure in audit diligence and oversight, contributing to a substantial mismatch in the Company's asset-liability position.
16. The Committee in light of the above noted that various SAs viz SA 500, Audit Evidence, SA 505-External confirmation, SA610 and 620 Using Work of Internal Auditor Or Auditor's Expert together put onus on the auditor to design his audit procedures, test checks in such



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a way that he may be able to draw reasonable conclusion and reduce the audit risk which the Respondent failed to do.

17. Despite these irregularities, Respondent failed to verify the authenticity of income sources, bank statements, and asset generation. He relied solely on written representations from the Company's management without obtaining independent audit evidence. This lack of professional skepticism and due diligence was evident in his failure to detect fictitious loans, unsupported entries despite lease foreclosures, and receipts shown without corresponding bank entries.
18. The Respondent Firm later withdrew audit reports for FY 2012-13 and related quarters, citing SA 560 and subsequent events. However, the Committee viewed this action as an afterthought, initiated only after RBI's prohibitory order. The auditor failed to justify the reliability of earlier reports or the extent of verification conducted. The Committee emphasized that the situation had escalated due to prolonged negligence, and the defence based on SA 560 was insufficient given the serious irregularities uncovered.
19. The Committee noted that three separate complaints, against the same Respondent Firm in respect of audit of M/s. First Leasing Company of India Limited, were filed by viz., Shri Trideep Raj Bhandari, Jodhpur (vide Form I dated 16<sup>th</sup> September 2014), the Deputy General Manager, SBI, Commercial Branch, Chennai (vide Form I dated 23<sup>rd</sup> May, 2014) and Shri Haricharan Reddy/ Shri Rajesh Iyer, the Deputy General Manager/Chief Manager, ICICI Bank Ltd., Chennai (vide Form I dated 17<sup>th</sup> April, 2015). Incidentally, it was noted that the charges in Case ref no. DC/764/2018 and DC/993/2019 were dealt with separately by the Committee and separate Findings Report(s) were also issued under Rule 18(17) of the Chartered Accountants (Procedure of Investigations of Professional and Other Misconduct and Conduct of Cases) Rules, 2007 to the Respondent.
20. The Committee noted that the Respondent failed to exercise due diligence in conduct of his professional duties, failed to obtain sufficient information for expressing an opinion and failed to invite attention to material departure from the generally accepted procedure of audit. The said conduct of the Respondent constitutes Professional Misconduct under Item (7), (8) and (9) of Part 1 of the Second Schedule to the Chartered Accountants Act, 1949.
21. Hence, the professional misconduct on the part of the Respondent is clearly established as spelt out in the Committee's findings dated 11<sup>th</sup> February 2021 which is to be read in conjunction with the instant Order being passed in the case.
22. The Committee, hence, viewed that the ends of justice will be met if appropriate punishment commensurate with his professional misconduct is given to him.



# भारतीय सनदी लेखाकार संस्थान

(संसदीय अधिनियम द्वारा स्थापित)

**THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA**

(Set up by an Act of Parliament)

23. Accordingly, the Committee, upon considering the nature of charge and the gravity of the matter ordered that the name of CA. V Balasubramanyan (M. No. 018444) be removed from Register of Members for a period of 2 (Two) years and a fine of Rs. 1,50,000/- (Rupees One Lakh Fifty Thousand only) be imposed upon him, to be paid within 90 days of the receipt of the order and in case of failure in payment of fine as stipulated, the name of the Respondent be removed for a further period of three (3) months. The Committee further directed that punishment of removal of name (including removal for further period, in lieu of non-payment of fine) in this case shall run concurrently with the punishment given in case no. PR/132/2014/DD/203/2014/DC/764/2018 and PR/120/2015/DD/08/2016/ DC/993/2019. It is further clarified that the fine of ₹1,50,000/- (Rupees One Lakh Fifty Thousand only) is imposed separately in each of the above-mentioned cases.

Sd/-

(CA. CHARANJOT SINGH NANDA)  
PRESIDING OFFICER

Sd/-

(SHRI JIWESH NANDAN)  
GOVERNMENT NOMINEE

Sd/-

(DR. K. RAJESWARA RAO)  
GOVERNMENT NOMINEE

Sd/-

(CA. PIYUSH S CHHAJED)  
MEMBER

Sd/-

(CA. ABHAY CHHAJED)  
MEMBER

सत्यापित होने के लिए प्रमाणित / Certified to be True Copy

अंजू गровер / Anju Grover

सहायक सचिव / Assistant Secretary

अनुशासनमय निदेशालय / Disciplinary Directorate

भारतीय सनदी लेखाकार संस्थान

The Institute of Chartered Accountants of India  
आई.सी.ए.आई. भवन, सी-1, सेक्टर-1, नोएडा-201301 (उ.प्र.)  
ICAI Bhawan, C-1, Sector-1, Noida-201301 (U.P.)

**CONFIDENTIAL**

**DISCIPLINARY COMMITTEE [BENCH - III (2020-21)]**  
**[Constituted under Section 21B of the Chartered Accountants Act, 1949]**

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

**File No. PR- 230/14-DD/305/2014/DC/651/2017**

**In the matter of:**

Shri Trideep Raj Bhandari,  
Gulaab Vaatika,  
Paota B, Road,  
Jodhpur - 342 006

....Complainant

**Versus**

CA. V Balasubramanyan (M. No. 018444) ...Respondent no 1  
CA. N R Sridharan (M. No. 015527) ...Respondent No 2  
M/s Sarathy & Balu,  
Chartered Accountants,  
New No. 6, (Old 27), 11<sup>th</sup> Avenue,  
Ashok Nagar,  
Chennai - 600 083

**MEMBERS PRESENT:**

CA. Atul Kumar Gupta, Presiding Officer  
Smt. Anita Kapur, Member (Govt. Nominee)  
Shri Ajay Mittal, Member (Govt. Nominee)  
CA. Chandrashekhar Vasant Chitale, Member

**Date of Final Hearing: 28<sup>th</sup> December, 2020**

**Place of Final Hearing: New Delhi (through Video Conferencing)**

**The following were also present:**

- (i) Smt. Anu Sura, Advocate - Counsel for Complainant
- (ii) CA. V. Balasubramanyam (M. No. 018444) - Respondent No. 1
- (iii) CA. R. G. Rajan - Counsel for the Respondent No. 1



**Charges in Brief:**

1. The Committee noted that in the Prima Facie Opinion formed by Director (Discipline) in terms of Rule 9 of the Chartered Accountants (Procedure of Investigations of Professional and Other Misconduct and Conduct of Cases) Rules, 2007, the Respondent was *prima facie* held guilty of Professional Misconduct falling within the meaning of Clauses (7), (8) and (9) of Part I of the Second Schedule to the Chartered Accountants Act, 1949. The said Clauses to the Schedule states as under:-

*"(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" and*

*(9) fails to invite attention to any material departure from the generally accepted procedure of audit applicable to the circumstances"*

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

2. The Complainant in the extant case was one of the investors and had made investment in the M/s First Leasing Company of India Limited (herein after referred to as the '**Company**') in pursuance of the financials presented by the Statutory and Tax Auditors of the Company, viz. Respondent firm. On 21.8.2013 in the proceedings in DNBS/CHE-352/13.3.2001-2013-12, the RBI gave a notice of inspection to the Company under Section 45N of the RBI act giving directions to the Company to submit its accounts for inspection (C-12 & C-13). That the RBI, from 26.08.2013 to 10.09.2013 carried out the inspection of the accounts inter-alia the Balance Sheets, ledger accounts, books, etc. of the Company and based on the findings, the RBI thereby directed them to recast the Balance Sheet and Profit & Loss account along with the data dumps supporting the recast accounts. That as per the aforementioned directions of the RBI, the Company's recast Balance Sheets, as well as the Profit &

Loss Account for the year ended 31.03.2013 were submitted to the RBI, which astonishingly revealed sweepingly down figures to the tune of approx. Rs. 1,676 crores including that on Stock on Hire, Net Lease Investments, Loans and advances etc. It was brought to light that the Company's records contained huge discrepancies in terms of the actual amount, and the amount that was presented, and had perpetrated a criminal conspiracy with a criminal intent to siphon off the investor's hard earned money. That the RBI vide its order dated 13<sup>th</sup> September, 2013 bearing number DNBS(Che)/512/13.23.513/2013-14 issued to the Managing Director of the Company clearly stated that *"The inspection revealed that the Company has been over several years falsifying its Books of Accounts and other financial statements, thereby portraying a positive Net worth. The Company has a negative Net Owned Fund (NOF), and has been incurring losses year on year. The Company has also been violating the Reserve Bank's Regulations and reporting false information in its regulatory returns"*(C-15). Certain instances as pointed out in the RBI Inspection report are as under:

- a) 'Stock on Hire' as shown as per the Balance Sheet was Rs. 1,588.35 crores, whereas when the accounts were recasted, the actual figures of the same sweepingly came down to merely Rs. 30.52 crores, meaning thereby, the 'Stock on Hire' was actually shown to be on higher valuation in the Company's Books of Accounts, and Balance Sheet by more than 52 times, which actually did not exist in reality which revealed that the asset "Stock on Hire" worth Rs. 1,588.35 crores actually did not exist, and indicated towards the criminal conspiracy such that the amount shown to have been invested in the said head either did not exist, or while depicting the same to such high amounts, the accused persons had actually, with criminal intent to siphon off the same, actually drained the same to their own pockets.
- b) Similarly, the asset "Net Lease Investments" , were shown to be figured at Rs. 176.4284 crores as per the Balance Sheet, whereas, the same, after the Balance Sheet was recasted, came down to Rs. 114.6258 crores.

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c) In the Loans and Advances, more specifically, the unsecured loans and advances that were depicted at Rs. 35.5504 crores, also surprisingly disappeared from the recasted Balance Sheets. Also, the Fixed Assets Intangible, which was depicted at Rs. 3.38 crores, does not exist as per the recasted accounts so submitted before the RBI.

2.1 Thereafter, Respondents who acted as the Statutory Auditors chose to retract on key financial documents, including the audit reports/certificates, limit review report, etc., that were issued by them in favour of the Company, and were part and parcel of the Company's annual reports so as to escape the liabilities as it was their responsibility being the Auditors of the Company to ensure that there are no irregularities in the financials.

3. Thus, it was alleged that the Complainant's interests had been adversely affected owing to the false and fabricated results and good track records being so published by the accused persons and, for hiding the same in the net of the numbers, Balance Sheets, Profit & Loss Account, Fund flow, Dividend Declaration, Board of Directors reports, Rating and Track record, etc. were prepared dishonestly. Thus, the Respondents being the Statutory Auditors crossed the boundaries, as settled in accordance of the Chartered Accountants Act, 1949 and violating of Code of Conduct have worked against the interest of the shareholders.

**Proceedings:**

4. At the time of hearing on 28<sup>th</sup> December 2020, the Committee noted that both the Complainant's Counsel and the Respondent no. 1 along with his Counsel were present for hearing from their respective locations through video-conferencing. At the outset, they all gave a declaration that there was nobody present except them in their respective room from where they were appearing and that they would neither record nor store the proceedings of the Committee in any form. Before proceeding further in the matter, the Committee noted that there was change in the constitution of the Committee since its last hearing and informed the parties that in the interest of

natural justice, the submissions of both the parties would be heard and that the matter heard till then had been noted by the Committee including the objections raised by it. It was noted that during previous hearing held on 5th June, 2019, the Counsel for the Respondent argued that the extant case as well as Case No. DC/764/2018 and DC/993/2018 held against the same Respondents involving allegations pertaining to same entity i.e. First Leasing Co. India Ltd. and as per him the only difference was in the years of auditing being alleged. Accordingly, the Counsel had requested the then Committee that hearing in three cases be clubbed together.

Thereafter, the Committee had enquired from the Complainant(s) that whether they have any objection on the same. The Counsel/representative for the Complainants agreed for the same. Therefore, to come to a logical conclusion in the referred matters, the Committee agreed with the views of the parties to have combined hearing of all above three matters for the sake of saving time and to avoid duplication of arguments.

In view of the above, the Counsel for the Respondent was asked to make his submissions in the matter. The Committee, thereafter, examined the Counsel for the Complainant in the matter. The Counsel for the Respondent as well as the Respondent made their further submissions on the allegations and was examined by the Committee on the facts of the case. Thereafter, the Committee examined the Respondent in the matter and considered the submissions received from both the parties. The Counsel for the Respondent, thereafter, made his final submissions in the matter. The Committee, thereafter, also sought from the Complainant of other matters the information relating to status of the pending CBI case within next seven days.

Thereafter, based on the documents available on record and after considering the oral and written submissions made by both parties before it, the Committee concluded hearing in the matter.

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**Findings of the Committee:**

5. At the outset, the Committee noted that the instant complaint was filed against the Respondent Firm, M/s Sarathy & Balu , Chennai, by the Complainant Bank which vide its letter dated 14<sup>th</sup> November 2014 (W-1) disclosed the name of CA. V Balasubramanyan (M. No. 018444) and CA. N R Sridharan (M. No. 015527) Chennai (hereinafter referred to as the '**Respondent No1**' and '**Respondent No 2**' respectively) as members answerable to the allegations who, thereafter, filed their joint duly verified Written Statements. However, it was brought to the notice of the Committee at the time of hearing that the Respondent No 2, CA N.R. Sridharan had passed away during August 2018. Since, the other co-Respondent had deceased, therefore in the interest of natural justice, the Respondent No. 1 requested that he might be discharged in respect of allegations relating to years of audits not signed/done by him and be permitted to reply only in respect of the audit reports signed by him. The Committee pertinently noted specific submissions made by the Respondent, in this respect, stating that other Respondent, CA. N R Sridharan (M. No. 015527) who had deceased was a co-respondent to the extant case and in light of the audit rotation adopted in view of the RBI directions, CA. N R Sridharan had carried out the audit of the Company for the F.Y. 2005-06, 2006-07, 2007-08, 2011-12 and 2012-13 and he himself had acted as the statutory auditor of the Company for the F.Y. 2002-03, 2003-04, 2004-05, 2008-09, 2009-10 and 2010-11.

5.1 The Committee, in this regard, noted that firstly, the Complaint was filed against the Respondent Firm, M/s Sarathy & Balu , Chennai, which had declared both the Respondents as member answerable to the allegations. Although, the Respondent No. 2 had signed the audit report and certified the financial statements concerned for certain specific years but the nature of allegations were such that they would be also applicable in respect of financial year when the Respondent had signed the audit report and certified the financial statements concerned. Accordingly, the Committee viewed that the allegations against the

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Respondent would be considered in view of the audit conducted by him because an auditor is expected to conduct audit independently in respect of the figures shown in the balance sheet or income statement. It was, therefore, viewed that although the extant case had become infructuous in respect of Respondent No. 2 but still the conduct of Respondent No 1 CA V. Balasubramanyan would be examined in respect of all allegations in view of the audit conducted by him.

6. The Committee also noted that the Respondent No.1 vide his letter dated 31<sup>st</sup> May 2019 had, inter-alia, raised certain preliminary objections in the extant case which have been dealt with as under:-

6.1 The Committee noted that the first objection of the Respondent was regarding maintainability of the Complaint against him stating that in the extant case, the Complainant had bought certain shares from the secondary market. The Respondent denied to have knowledge of the same and that the decision of the Complainant to buy shares was not based on any offer document signed by him. Further, as per the Respondent, the Complainant had sold his shares and that he was not the shareholder at the time of filing the complaint before the Institute and hence the Respondent questioned the locus standi of the Complainant and argued that the extant Complaint was not maintainable against him. It was viewed that the Respondent Firm being statutory auditor of the Company from 2003 to 2013, was accountable to all the stakeholders including the investors of the Company. In fact, the decision of an investor to buy, hold and sell depends upon the performance of the Company which is assessed from the financials of the Company over a period of time. Hence, irrespective of the period as to when the Complainant had purchased shares, it was viewed that it could not be denied that the Complainant might have had relied upon the performance of the Company of the previous periods too for deciding to purchase the shares of the Company and in case, if the Respondent had held shares during the period when

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the fraud was perpetuating till it was revealed, the Complainant had *locus standi* in the matter and the Complaint against the Respondent was maintainable.

6.2 In the other objection, the Respondent contended that the extant complaint ought not to have been entertained by the Director (Discipline) and that in terms of provisions of Rule 5(4)(a) of the (Procedure of Investigations of Professional and Other Misconduct and Conduct of Cases) Rules, 2007, it was required to be closed. As per the Respondent, the said Rule provides that if subject matter of a complaint, in the opinion of the Director, was substantially the same with the previous complaint under his examination then the new complaint might be clubbed with the previous complaint.

6.2.1 The Committee in this regard noted that there were three separate complaint cases filed by three different Complainants namely, Shri Trideep Raj Bhandari, Jodhpur (vide Form I dated 16th September 2014), the Deputy General Manager, SBI, Commercial Branch, Chennai (vide Form I dated 23rd May, 2014) and Shri Haricharan Reddy/ Shri Rajesh Iyer, the Deputy General Manager/Chief Manager, ICICI Bank Ltd., Chennai (vide Form I dated 17<sup>th</sup> April, 2015) against the Respondent Firm. It was noted that the Director (Discipline) had on receipt of Complaint from ICICI Bank against the Respondent Firm M/s Sarathy & Balu , considered all the three afore-said cases and after considering the allegations raised in each case, viewed that the charges might relate to a common entity but specific charges had been raised in each case based on different sets of information as available with them and accordingly, decided to register the complaint separately instead of clubbing it with the then existing complaint.

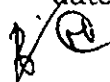
6.3 The Committee noted that the next objection was in relation of Rule 12 of the said Rules. As per the Respondent, the allegations were related to the period as early as 2002-03. Further, CBI (BS&FS) Bangalore had seized their working

papers and accordingly, that the Director (Discipline) should have refused to entertain the said complaints as there was difficulty in securing proper evidences.

6.3.1 The Committee noted that the provision stated in the said rule relating to 'Time limit on entertaining complaint or information' would be applicable when the Director(Discipline) would be convinced that the Respondent would face difficulty in securing proper evidence to defend himself but in extant case, firstly the Respondent did not make any such reference before the Director(Discipline) while filing his Written Statement in terms of Rule 8 of the Chartered Accountants (Procedure of Investigations of Professional and Other Misconduct and Conduct of Cases) Rules, 2007 and secondly, the Respondent had indeed submitted various documents including his working papers maintained in course of his audit while submitting his written statement. In any case, it was noted that the Respondent firm had resigned as Statutory Auditors of the Company after RBI had exercised its powers under section 45JA and 45L of Reserve Bank of India Act, 1934 against the Company on September 13, 2013, whereas CBI had seized its working papers in October 2015 while the Director (Discipline) had forwarded the Complaint and documents thereof in October 2014. Hence, there was sufficient time available with the Respondent to arrange copies of necessary documents with him for producing them in his defence. Hence, the Committee also ruled out the said objection.

In view of above, the Committee ruled out the preliminary objections as raised by the Respondent and decided to proceed further on merits of the case.

7. The Committee noted that all three cases filed by three different Complainants namely, Shri Trideep Raj Bhandari, Jodhpur (vide Form I dated 16th September 2014), the Deputy General Manager, SBI, Commercial Branch, Chennai (vide Form I dated 23rd May, 2014) and Shri Haricharan Reddy/ Shri Rajesh Iyer, the Deputy General Manager/Chief Manager, ICICI Bank Ltd., Chennai (vide Form I dated 17th April, 2015) against the Respondent Firm were in respect of the same



Company under question. Incidentally, it was noted that the charges in Case No. DC/764/2018 and DC/993/2018 against the same Respondents were raised more comprehensively raised and accordingly dealt with by the Committee in its Findings Report. In any case, to arrive at logical conclusion and considering the fact that the Respondent had given common submissions in all the three matters, the Committee had enquired the extant case considering the documents as available on record in all the matters. Accordingly, the Committee after considering the documents available on record along with the oral and written submissions made by both the parties before it, records its findings as under:-

7.1 The Committee noted that the main allegation of the Complainant in the extant matter was that the Complainant's interests was adversely affected owing to the false and fabricated Financial Statements of the Company which were signed and certified by the Respondents for years together since F.Y. 2002-03 to 2012-13 and thus good track records was portrayed and actual state of affairs was not disclosed as the Balance Sheets, Profit & Loss Account, Fund flow, Dividend Declaration, Board of Directors reports, Rating and Track record, etc. were prepared dishonestly.

7.2 The Committee in this regard noted that the Respondent no 1 had submitted as under:-

a) During tenure as Statutory Auditors, he had developed a detailed audit programme, taking inputs from various standards, guidelines etc pronounced by ICAI, RBI etc and other technical literatures brought out by ICAI, for statutory audit especially of Non Banking Finance Companies, and also for verifying statutory compliances by the Company.

b) The RBI under its statutory powers used to conduct yearly inspections and carried on the same for the past about two decades. In none of the years, there

were any major reservations or negative observations about the affairs of the Company and books of account. In view of this, he as Statutory Auditor did not have anything to suspect about the veracity of the books of account that were placed before him for audit. However, the RBI while carrying out an audit/inspection pertaining to the year ended 31st March, 2013 passed a Prohibitory Order dated 13th September, 2013 prohibiting the Company from carrying on any business until further orders. As soon as the RBI issued Prohibitory Order, the Respondent firm after following the mandatory procedure, withdrew the audit report which were issued earlier for the year 2012-13 alongwith the four quarterly limited review reports upto the quarter ended 30th June, 2013. This was done pursuant to mandatory requirements under Auditing Standards 560 issued by the ICAI. It was submitted that such withdrawal became an absolute necessity in view of the Auditing Standard referred to above, as the said Auditing Standard lays down that events occurring after issuing audit report should be borne in mind by the Statutory Auditors and they should take appropriate action to seek to prevent reliance on the Auditors report so issued. Accordingly, the Respondents withdrew the report before it was approved by the shareholders. Thus, he did his duty pursuant to the said Auditing Standard. The Respondents also brought the fact to the knowledge of the regulator so that the Company did not misuse the audited financial statements and users of the financial statements are not misled.

c) That the Respondents had also subsequently resigned as Statutory Auditors of the Company through their letter dated 07th October, 2013 as the Company had failed to reply to their letters wherein they had asked for the details of the information which were furnished to the RBI which led them to issue such prohibitory order and how the details were different from what were furnished to the Respondents during audits.





d) As per the Respondent, he had conducted the audit in accordance with the auditing standards generally accepted in India and that unless the auditor had reason to believe the contrary; the auditor might accept records and documents produced to him during the course of audit by the core team. He argued that the Company had internal audit being carried out by a reputed firm of Chartered Accountants and their periodical reports were reviewed by the Respondents and nothing adverse was brought to their notice by such reports which were also placed and approved by an Independent Audit Committee. He had obtained full assurance from the Managing Director/ Chief Financial Officer by way of the responsibility letters committing the correctness of the records, documents and information produced to them for their audit.

7.3 The Committee noted that the Complainant made investment in the Company in pursuance of the financials presented by the Statutory Auditors of the Company, viz. Respondent Firm who had conducted the audit since 2002-03 to 2012-13 and subsequent to inspection made by the RBI in 2013, it was brought to light that these records contained huge discrepancies in terms of the actual amount, and that being presented in the financials including that on Stock on Hire, Net Lease Investments, Loans and advances etc. which the Respondent had failed to report in his respective Audit Reports. The Committee further noted that the RBI came out with a press release dated 13.09.2013 directing the Company until further orders, not to

- a) sell, transfer, create charge or mortgage or deal in any manner with its property and assets without prior written permission of RBI.
- b) Declare or distribute any dividend
- c) Transact any business or Incur any further liabilities.

7.4 In the said RBI Order, it was observed that there was substantial mismatch in asset-liability position of the Company. The audited financials of the Company did not reflect correct position of assets and receivables and accordingly, on behalf

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of consortium of banks which had taken substantial exposure on the Company, forensic audit was entrusted to M/s Maharaj N.R. Suresh and Company to verify books and restatement of accounts for previous years and to investigate and find out how the huge gap between assets and liabilities had arisen. Meanwhile, the Respondents who were the statutory auditors of the Company resigned from the position and stated that the certificates for the year ended 31<sup>st</sup> March 2013 and limited review reports of four quarters ending 30.06.2012, 30.09.2012, 31.12.2012 and 30.06.2013 issued by them should no longer be relied upon. A letter was written to the statutory auditors asking them to advise the circumstances under which they had advised the Company that the above reports were not reliable since there were no adverse remarks / qualifications in the auditor's report, in earlier financial statements audited by the firm. In response, the Respondent firm disowned its responsibility when it replied that *"Based on certain subsequent events since issuing our Audit Report/Limited review reports on the Financial Statements of the company and further relying on Standard of Accounting (SA) 560, issued by the Institute of Chartered Accountants of India, such an action was initiated from our end"*.

7.5 The Committee noted that the forensic audit report found serious lapses / negligence in conduct of audit of the Company by statutory auditors who had audited the accounts since 2002 onwards. It was reported that the revenue and profitability parameters were highly inflated to show profit, while the Company was actually incurring huge losses. It was also observed that the following matters were not properly dealt with and the statutory auditors failed to record the deficiencies in the following fields(R-59) :

- a) Revenue recognition of income,
- b) Income-hire purchase/lease rentals/interest,
- c) Proper provisioning of NPAs,
- d) Reconciliation of turnover reported in sales tax/VAT returns, Service Tax returns with the turnover reported in financial statements,

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- e) Inflow and outflow of funds in bank statements,
- f) Related party transactions,
- g) Compliance with TDS provisions.
- h) Compliance with regulations on acceptance and repayment of deposits.
- i) Agreement of Asset Register with financial records and reports.
- j) Balancing of individual loans with Hire purchase /Leasing / other loans as per General Ledger.
- k) Verification of documentation especially in case of refinance loans, sanction process, etc.
- l) Scrutiny Income ledger especially treatment of pre-closure of leasing transactions.

7.6 The Committee in this regard noted certain observations made in the Forensic report:-

**a) Relating to Stock on Hire & inflated interest income recorded thereon: -**

*"It was observed from records produced and from the financial statements produced to us from 2002-03, the company is in the habit of showing arbitrary disbursements by creating unsubstantiated entries in the books of account. The company was inflating income and assets. The result of this exercise is that the stock on hire has been shown at a higher figure and the income from operations has been shown at a higher amount. The loan sanctioning process was never followed in case of fictitious / fraudulent loans. Most of the fraudulent loans were in the nature of refinancing for which there was no cash out flow (no debit entry in the bank statement).*

*Entries have been passed by various employees whose limit, responsibility, accessibility, powers etc., were not defined properly. Entries have been passed without proper supporting documents. From some of the records produced before us, camouflaging of accounting and finance has stated prior to 1998.*

*The methodology implemented by the Company was as follows:*

- *Identify non-performing assets; make false receipt for the same.*
- *Record a payment (Without actual cash flow) and treat it as a new loan under refinancing of hire purchase agreement.*
- *On this asset create repayment schedules and over a period of time treat these instalments as receipt in the books.*
- *Such receipts are again matched by equal amount of payment and assets are inflated. For example an entry for Rs. 100 lakhs is created as a receipt of recovery of loan account (NPA Account) and on the same day the entry for Rs. 100 lakhs is*

shown as payment (Stock on hire) on the payment side. These two entries are put in the same bank account. On the receipt entry, interest component is recognized as income. On the payment side, a new asset is created. This asset is added to asset module and a repayment schedule, say for 36 instalments is created. Every year, 12 instalments are accounted as instalment received. Though there are no receipts, these 12 instalments are again shown as payment and 12 different assets are created. Like these bad debts/non existing loans were accounted for instalments from non-existing loans got accounted, income was inflated and new assets were created with a ballooning effect."

**b) Relating to Lease Investments being foreclosure of lease directly accounted as income and corresponding write off of assets not accounted for and thus lease on such transactions was not properly verified by the Respondents:-**

"FLCI entered into two major leasing transactions in 1999-2000 with approval of the Board. i.e., (a) with IRFC amounting to Rs. 7,500 Lakhs for purchase of railway wagons and (B) with TNEB for Rs. 4044 Lakhs towards installation of meters.

In respect of lease asset pertaining to IRFC, secured debentures amounting to Rs. 7500 lakhs were issued in favour of four banks / Institution lead by UTI. Average rate of interest on such debentures was around 11.5%. As per the agreement, debentures would be redeemed in half yearly instalments. The instalments amount was matched to half yearly lease rentals due to be received from IRFC.

The Lessee namely IRFC pre closed the lease by paying Rs. 3840 Lakhs in February 2003 and Rs. 1828 Lakhs in April 2003. While Rs. 1828 Lakhs was directly accounted as income, Rs. 3840 Lakhs was kept in debtors suspense account. There is no mention in the Board minutes about the Pre-closure. Normally when the lease is preclosed, leased asset in books should have been written off along with losses if any in financial transactions. Instead Rs. 1828 Lakhs was accounted as income. In respect of other receipt, Lease repayment schedule was allowed to run as per original schedule and notional rental incomes including financial charges were taken into profit and loss account. Thirteen Demand Drafts amounting to Rs. 41,49,41,772/- from the year 2005 to 2008 were taken from State Bank of Saurashtra (now State Bank of India). These payments were recorded as HP loan in books (Stock on hire). In the payment voucher, it was mentioned as HP loan to different parties like Victory Iron Works, Asian Electronics, Solar Busi-Forms Ltd, Indo-fil Chemicals Ltd, etc. Actually these drafts were drawn from FLCI A/c in State Bank of Saurashtra favouring "FLCI A/c UTI Bank". These drafts were deposited in UTI Bank and receipts were accounted in books as money

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received from IRFC on due dates. This was done to adjust lease rental bills (since the lease was not pre closed in the Books) and to honour half yearly redemption of debentures. Actually, debentures should have been pre closed in 2003 itself but was delayed as pre closure receipts were diverted.

The other Lessee TNEB pre closed leasing transaction in two tranches viz., one in April 2002 by depositing Rs. 3,838 lakhs and another in October 2002 by depositing Rs. 714.81 lakhs. Total loss incurred was around Rs. 1132 lakhs which was not accounted. Instead lease rentals were allowed to run as per the original tenure and income was recognized. Receipt of lease rental on due dates were manipulated as usual through pair of receipts and payment of equal amount. The company was not providing depreciation as per Companies Act in a consistent manner. The major portion of depreciation (ie the WDV) in respect of assets leased and foreclosed were charged to Profit & Loss account of the financial Year 2009-10 Vide Annexure 5. Abnormal charge off depreciation in books of accounts was neither doubted/questioned by audit committee nor by statutory auditors. No specific note as required by accounting standards was also furnished in annual accounts."

**c) Relating to Loans and advances being received and repaid in cash to an account called "factors" leading to Statutory violations specifically relating to Section 269SS of the Income Tax Act 1961 and payment of interest (without deduction of tax at source), cash expenses and reimbursement of expenses and also that during the period under review from 2002-03 to 2012-13**

**"Observations on payments / Receipts Vouchers:**

Accounts department of the Company have prepared payment vouchers purporting to be made through account payee cheque. Following discrepancies were noted.

- (a) Beneficiary as per voucher is different from the one appearing in Bank statement.
- (b) Cash withdrawals through various persons (under different account heads) were noticed.
- (c) In some cases there was no debit (outflow of funds) in bank statement but mere entries in books of accounts. The cheque numbers mentioned in such transactions were unused cheques.

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(d) In case of cash withdrawals actual beneficiary could not be identified/ determined.

Details of our observations are presented below:

Expenses were accounted for which no supporting documents were available. We are informed that some of these amounts had been paid towards incidental expenses. **Annexure 10**, Copies of such vouchers have been enclosed.

Transactions has been recorded under various heads of accounts though they are stated to be related to salaries and wages, the amount has been withdrawn from the bank through Self Cheque and disbursed to Employees in cash. **Annexure 11**

Certain expenditure incurred in cash have been accounted as bank payment (with payee's name). But cheques were issued as bearer cheques (cash were withdrawn) **Annexure 12**

Brokerage on Fixed deposits were paid through branch imprest pretty cash for which no supporting is available **Annexure 13**

On comparison of bank book maintained by the company and bank statement, certain payment have been recorded as payment to branch imprest in books whereas bank statement shows such payments as payment to Instant Consumer Credit (P) Ltd. Greyhound Finance (P) Ltd. **Annexure 14**".

The Committee also noted that immediate previous statutory auditors for the period 1999-2002 had certain audit issues with management that inter alia include 'Non-availability of debits and credits in Bank statements'. In the year 2002, they resigned from the position of statutory auditors. Forensic Audit Report further states in this regard as under :-

**"(iii) Current Account Transactions**

Under this transaction, there are certain ad-hoc receipts/payments made by/to Mr. Farouk Irani and/ or his relatives. Such transactions are treated like current account transaction and interest is being calculated on daily balance. A monthly Journal Voucher is passed for the balances lying in such account and TDS is deducted only for this type of journal voucher passed.

01/04/2012	Bank A/c Dr.	100000	
	To Factors A/c Cr.		100000

01/07/2012	Interest A/c Dr.	3000	
	To Factors A/c Cr.		3000

The actual beneficiary could not be identified / ascertained as the withdrawals were made by self/cash cheques.

List of Cash/self cheques issued through Factors Accounts is quantified in **Annexure 29**

The listed payments violated the provisions of Section 269SS and 269I (Acceptance and repayment of loans and deposits) of the Income tax Act. The Form 3CD for the reporting period does not refer to these exceptions.

#### **General Suspense Account:**

"A suspense account is maintained by the Company under the GL Code: 162851 GL Description: General Suspense Account. We have been informed by the company officials that the above ledgers are used for payments made to former MD for meeting his personal expense. This account is also in the nature of Loans and Advances and this account shows nil balance at every year end. Since it also comes under purview of Loans and advances, it also attracts the provisions under Section 269SS and Section 269T of Income Tax Act, and it requires reporting under Section 301 register. In certain cases even though the general suspense ledger shows corresponding receipts, the above receipts could not be found with bank statements. On further perusal of bank book it has been found that the above receipts are book entries and nullified by way of another receipt entry in factors accounts in bank book."

**d) Relating to failure on part of the statutory auditor to report that the Companies directly/indirectly controlled by Managing Director were not reported in the Financial Statements as transactions with related parties**

#### **Rentals paid to Bombay Properties of Mr. Farouk Irani**

The Rentals Paid to Mr. Farouk Irani, the Managing Director through Instant Consumer Credit Ltd., Chennai-600002 (One of the Satellite Companies of FLCI) for the premises at No. 103, Rustom Court, Dr. A.B. Road, Worli, Mumbai-400025, is

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annexed in **Annexure 39**, which works out to Rs.3,21,05,053/-. These Rental Payments have been accounted in FLCI as Service Charges paid to Instant Consumer Credit Ltd from 01.10.2003. Up to 30.09.2003, it was directly paid to First Business Centre.

FLCI rented a premise in Worli, Mumbai for its operations which is a portion of the residence of Mr. Farouk Irani and rent was paid from FLCI from 1998 to 2004. However, this fact was not disclosed to the Board of Directors even though he was a related party to this transaction and an exorbitant rent was paid. "

Post Year 2004, when the requirement as per financial reporting insisted upon the reporting of amount paid to MD under various activities, MD instructed that the payment of rent to route through Instant consumer credit private limited was paid through the satellite company for which a service agreement was entered with First Business Centre, a propriety company of Mr. Farouk Irani.

#### **5.4.4 Deals with first Business Centre & Instant Consumer Credit P. Ltd. Chennai:**

On 01.12.2010, First Business Centre (reportedly a Proprietary Concern of Mr. Farouk Irani, the Managing Director of FLCI) entered into a lease agreement with Instant Consumer Credit Ltd for the premises. The aforesaid Lease Deed was signed for First Business Centre with the following reference.

"Signed and delivered by the within named First Business Centre, a Proprietorship company by its Authorised Signatory Mr. Farouk Irani"

#### **Observation on lease deed**

"All the Rental payments to Instant Consumer Credit Ltd are with Service Tax. The Invoice is on a A-4 Plain Paper. The Rental invoice raised by Instant Consumer Credit Ltd. had been signed by Mr. Sivasubramaniam, who had signed with a designation of Manager- Accounts. The same person had signed the voucher for FLCI as Maker. He is an employee of FLCI with a designation of Manager - Accounts and had been handling all the accounts and finance related activities of these Satellite companies. He was making the voucher for FLCI and the voucher had been authorized by R. Srinath and L.Sivaramakrishnan. No Board Resolutions and no Related Party Disclosure have been made".





The Committee further noted that the Company had paid Interest on these to the concerned parties as mentioned below. Summary of Total selected parties transactions between 2002-03 and 2012-13 are furnished below :-

Sl No.	Name of the Person/Institution	Amount
1.	Dr. A.C . MUTHIAH	62,94,278
2.	MAC PUBLIC CHARITABLE TRUST	2,35,00,000
3.	BALAKRISHNA TRUST	12,30,111
4.	BALAVINAYAGA TRUST	12,62,029
5.	MAC EDUCATIONAL FOUNDATION	2,13,403
6.	MAM SUBRAMANIA CHETTIAR EDUCATIONAL TRUST	22,930
7.	DEVAKI MUTHIAH	86,57,192
8.	VALLI ARUN	23,34,462
9.	ABIRAMI JAWAHAR	4,48,117
10.	ARUN A.R.M	4,28,398
11.	ASHWIN C. MUTHIAH	8,711
12.	M.A. CHIDAMBARAM	55,281
13.	VIKRAM ARUN	1,80,250
14.	VILASHINI ARUN	2,04,000
15.	BRAINWAVE BIOSOLUTIONS LTD	49,28,726
16.	VALLINGRO EXPONENTA LIMITED	5,00,000
17.	JAWAHAR VADIVELU	35,86,961
18.	NATIONAL TRUST HOUSING FINANCE LIMITED	1,35,13,244
19.	VISHWANATH TUMU	20,96,247
20.	MAHARAJ JAI SING	28,04,228
21.	V.S.DHANSEKAR	92,000

8. The Committee further on perusal of the report of the Special Audit conducted by M/s N.C. Rajagopal & Co and submitted on record by the RBI, observed that the Financial Statements for the F.Y. 2009-2010 to F.Y. 2012-2013 had been drawn up/ recasted to ascertain the actual financial position of the Company as required by RBI and it was noted that the report stated that the difference between the published financials and recasted financials were primarily on account of :

a) Unsubstantiated transactions/entries relating to receivables under lease and hire rentals, loans and advances and their corresponding income.

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b) Erroneous method of accounting adopted for certain high value lease transactions

It was also stated in the report that the Company had passed unsubstantiated entries in the books of accounts thereby boosting its disbursements, collections, asset base, profitability and net worth. Further every fictitious disbursement entry made was supported by a cheque number which on verification was reported to be in most of the cases pertaining to unused/blank cheques which were in the custody of the Company. On comparison arrived at in the report between the published financial and the recasted financials, it was observed that the difference between the two financials was quite enormous. The difference arrived at under various heads is as below:

(Rs. In lakhs)

Particulars	2009-10	2010-11	2011-12	2012-13
Receivables from HP	(104,378)	(118,436)	(138,397)	(155,783)
Net lease Investments	(4,732)	(4,527)	(3,943)	(6,180)
HP Finance charges	(9,669)	(11,591)	(15,740)	(18,299)
Lease Rentals	(6,150)	(2,713)	(1,106)	(1,497)
Profit after Tax(PAT)	(110,932)	(14,443)	(18,780)	(10,798)
Net Worth	(1,10,232)	(123,261)	(1,41,408)	(151,031)

9. The Committee in light of the above noted that various SAs viz SA 500, audit evidence, SA 505- External confirmation, SA610 and 620 Using Work of Internal Auditor Or Auditor's Expert together put onus on the auditor to design his audit procedures, test checks in such a way that he may be able to draw reasonable conclusion and reduce the audit risk which the Respondent No 1 failed to do as is evident from the reasoning given below:-

9.1 The Committee noted that the Company had adopted fictitious/bogus accounting methodology in respect of loans disbursed and interest accounted

thereupon due to which income from operations was shown at a higher figure. It was noted that in extant case, the Respondent No.1 had failed to bring on record the documents based on which income and the assets from where they were being generated were verified by him during the periods audited by him. He failed to bring the bank statements based on which such an exercise was done even if done on test basis. Under such conditions, it was clear that the Respondent No.1 being the statutory auditors had failed to discharge his duties while conducting audit of the Company as per the produced records/statements whereby he not only failed to exercise due diligence but also failed to gather sufficient evidences to form an audit opinion as he failed to report such misstatement in the Financial Statements.

9.2 Further, in extant case, there were allegedly fictitious loans, fictitious entries- despite foreclosure of lease agreements, receipts being shown although corresponding bank entries not available, and so on. Non detection of inflated assets and income hints upon the fact that the audit was not conducted diligently though the Respondent no 1 was auditing the Company for several years continuously including quarterly reviews but there existed large gap between the assets shown in the balance sheet and the actual position as pointed out in forensic audit report and which was also substantiated by Special Audit report.

9.3 The Committee noted that the reply of the Respondent no. 1 that he had relied upon written representation by the Management of the Company while conducting audit but did not find it wholly acceptable as the same was although an important source of audit evidences but could not be treated as conclusive evidence and he was required to gather evidences from independent sources as well before forming his audit opinion.

9.4 Further, the Forensic audit Report had revealed number of instances relating to violation of Section 269SS of the Income Tax Act 1961 and payment of interest (without deduction of tax at source), cash expenses and reimbursement of

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expenses during the period under review from 2002-03 to 2012-13 which the Respondent failed to disclose. It was viewed that the Respondent No.1 should have at least bring on record the figures that were certified by him and the degree of verification conducted by him in respect of the same to establish his bonafide. However, the Respondent failed to bring any such defence on record. Accordingly, it was viewed that the Respondent No 1 failed to exercise due diligence in discharging his professional duties and also failed to obtain sufficient information to express opinion.

9.5 Incidentally, it was noted that the Respondent No. 1, further, failed to exercise his professional scepticism to identify the information that would have indicated the existence of related party relationship or transactions held with them as disclosed in the forensic audit report as from the executive summary of the Special Audit Report of M/s N.C. Rajagopal & Co also which was submitted by the RBI, it was noted that the then Managing Director, Mr. Farouk Irani and his relatives had also invested in the Company through an account termed as "FACTORS" wherein transactions in the nature of bills re-discounting, Investment certificates and current account transactions had been taken to earn return on funds infused by them. It was reported that the total of such returns earned by Mr. Farouk Irani and his relative amounted to Rs. 14.89 Crores over last 11 years commencing from F.Y.2002-2003. In other words, there were related parties (apart from the Managing Director) viz. his relatives and the transactions were taking place with them during the span of 11 years. However, neither such parties nor the transactions that took place with them were disclosed in the financial statements.

10. The Committee further noted that the member of the Respondent Firm had resigned from the position and had stated that the certificates for the year ended 31<sup>st</sup> March 2013 and four quarters ending 30.06.2012, 30.09.2012, 31.12.2012 and 30.06.2013 issued by him should no longer be relied upon. A letter was

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written to the Respondent Firm asking to narrate the circumstances under which the Company was advised that the above reports were not reliable as there were

no adverse remarks / qualifications in the auditor's report, in earlier financial statements audited by the firm. In response, the Respondents had disowned their responsibility and replied that based on certain subsequent events since issuing their Audit Report/Limited review reports on the Financial Statements of the Company and further relying on Standard of Accounting (SA) 560, issued by the Institute of Chartered Accountants of India, such an action was initiated from their end. The Committee noted the submissions of the Respondent no1 whereby he had submitted that as soon as the RBI issued prohibitory Order, after following the mandatory procedure, audit report was withdrawn which was issued earlier for the year 2012-13 along with the four quarterly limited review reports up to the quarter ended 30/6/13. It was also noted that the Respondent No. 1 had submitted that the audit reports withdrawn were that audited by the deceased partner. However, at the outset, it was noted that communication in relation to the same was undertaken by the Respondent No. 1 himself. Further, it was viewed that although the latest audit report could only be withdrawn based on the then prevailing circumstances, still the situation had been reached based on negligence exercised over a long period when the Respondent No.1 had also conducted statutory audit of the Company.


10.1 The Committee in this regard was of the view that even if the contention of the Respondent with respect to Respondent No. 2 be considered, then also the role of Respondent no 1 in earlier years i.e. from 2002-03 onwards till year 2011-12 and lapses on his part could not be ruled out especially in the light of the detailed Forensic Audit report as being brought on record by the Complainant which mentioned various serious violations on the part of the Company which the Respondent no 1 as Statutory Auditor failed to point out during the periods when he had conducted audit of the Company. Therefore, the action on behalf of the Respondent Firm in trying to withdraw the Audit Reports as soon as the matters

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took a turn for the worse was nothing but an afterthought. The defence adopted that such a withdrawal is permitted under SA 560 was not found sufficient by the Committee in the light of serious irregularities in the audit procedures adopted coming to light as per reasoning above. Thus, in the considered opinion of the Committee, the Respondent is held guilty of professional misconduct falling within the meaning of clauses (7) ,(8) and (9) of Part I of the Second Schedule to the Chartered Accountants Act, 1949 for this allegation.

**Conclusion:**

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

 Sd/-  
[CA. Atul Kumar Gupta]  
Presiding Officer

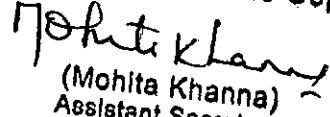
Sd/-  
[Smt. Anita Kapur]  
Member, (Govt. Nominee)

Sd/-  
[Shri Ajay Mittal]  
Member, (Govt. Nominee)  
(approved & confirmed through e-mail)

Sd/-  
[CA. Chandrashekhar Vasant Chitale]  
Member

DATE: 11<sup>th</sup> February, 2021  
PLACE: New Delhi



Certified to be True Copy  
  
(Mohita Khanna)  
Assistant Secretary  
Disciplinary Directorate  
The Institute of Chartered Accountants of India