

CONFIDENTIAL

DISCIPLINARY COMMITTEE [BENCH – II (2025-26)]
[Constituted under Section 21B of the Chartered Accountants Act, 1949]

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

Ref. No. [PR/G/729/2022/DD/611/2022/DC/1844/2024]

In the matter of: _____

Shri Indrajit Vania, ICLS
Dy. ROC, Office of Registrar of Companies,
Gujrat, Dadra & Nagar Haveli,
Ministry of Corporate Affairs
ROC Bhavan, Opp. Rupal Park,
Near Ankur Bus Stand, Naranapura
Ahmedabad– 380013.

...Complainant

Versus

CA. Jignesh Kumar Pravinbhai Hirapara (M. No. 161875)
103, Madhav Baug Complex,
Opp. Jalaram Furniture,
Kapodra, Varachha Road,
Surat – 395006.

...Respondent

MEMBERS PRESENT (in person):

CA. Charanjot Singh Nanda, Presiding Officer
CMA. Chandra Wadhwa, Government Nominee
CA. Mahesh Shah, Government Nominee
CA. Pramod Jain, Member
CA. Ravi Kumar Patwa, Member

DATE OF FINAL HEARING: 28th July 2025

PARTIES PRESENT:

Authorized representative of the Complainant Department: Not Present

Respondent: CA. Jigneshkumar Pravinbhai Hirapara (M.No.161875) (Through VC)

1. **BACKGROUND OF THE CASE:**

- 1.1 In the extant case, the complaint has been filed by Dy. ROC, Office of Registrar of Companies, Gujrat, Dadra & Nagar Haveli, Ministry of Corporate Affairs (hereinafter referred to as '**Complainant**' or '**Complainant Department**') stating that FIR dated 24.01.2022 had been filed against the Directors and the Respondent in respect of **M/s Sawariya International Private Limited** (hereinafter referred to as "**Company**") who indulged in incorporation of foreign Companies of Chinese nationals by facilitating / helping the foreign national to open company in India and other facilities provided to the Company/ Directors by violation of various provision of the Companies Act, 2013, the FEMA Regulation, 1999, the RBI Act and the Money Laundering Act.

2. **CHARGES IN BRIEF:**

The Committee noted the following charges which were alleged by the Complainant against the Respondent together with the view of the Director(Discipline) on the same:

S. No.	Charge(s)	Prima Facie Opinion of the Director (Discipline)	Applicable Item of the Schedule to the Chartered Accountants Act 1949
1.	The Company had connection with the Charlie Peng Network Companies involved in Rs.1000 Crores' Hawala transactions. The Company was incorporated on 23.07.2012 and has not filed any financial statements with the Complainant Department after financial year 2015-16.	Not Guilty	Item (7) of Part I of the Second Schedule.
2.	As per the Financial Statements for the financial year 2015-16, the paid-up capital of the Company involved in business of textile trading, was only Rs. 6 lakhs and had no fixed assets.	Not Guilty	Item (7) of Part I of the Second Schedule.
3.	The Complainant alleged that the Company had done overvaluation of stock and yet reporting either loss or very less profit.	Guilty	Item (7) of Part I of the Second Schedule.
4.	There were some differences in Balance Sheets and Profit and loss accounts figures actually stated in the audited documents and filled in Financial Form.	Not Guilty	Item (7) of Part I of the Second Schedule.
5.	The Complainant had also alleged that the Company had made violation of FEMA and RBI Rules in respect of its Import and Export transactions.	Not Guilty	Item (7) of Part I of the Second Schedule.

3. **THE RELEVANT ISSUES IN WHICH THE RESPONDENT HELD PRIMA FACIE GUILTY IN THE PRIMA FACIE OPINION DATED 13th DECEMBER 2023 FORMULATED BY THE DIRECTOR (DISCIPLINE) IN THE MATTER IN BRIEF, ARE GIVEN BELOW: -**

3.1 **WITH RESPECT TO CHARGE RELATING TO OVERVALUATION OF STOCK AND YET REPORTING EITHER LOSS OR VERY LESS PROFIT.**

- 3.1.1 The Complainant alleged that the Company had done overvaluation of stock and yet reporting either loss or very less profit. On perusal of Financials of the Company for the year ended 31-03-2016 and 31-03-2017 audited by the Respondent the figures of inventory vis-a- vis profits are noted as below:

	Profit	Inventory
As on 31-03-2016	--	Rs.5.41 Crores
As on 31-03-2017	--	Rs.9.55 Crores
For the year 2015-16	Rs.44.83 Lacs	--
For the year 2016-17	Rs.27.82 Lacs	--

- 3.1.2 In the audit reports for the financial years ending 31-03-2016 and 31-03-2017 the Respondent, in compliance with the Companies Auditor's Report Order under Section 143(11) of the Companies Act, 2013, gave following adverse remarks regarding the adequacy of inventory records maintained by the Company:

Reporting under Section 143(11)

"II. a) The inventory has been physically verified during the year by the management in our opinion frequency of verification is reasonable.
b) In our opinion and according to the information and explanation given to us the procedures of **physical verification of stocks followed by the management are not reasonable and adequate** in relation to the size of the Company and nature of the business.
(c) As per information and explanation given to us, the **Company has not maintaining proper record of inventory. We are unable to comment on appropriateness and adequacy of the record** as the record of inventory are not made available to us for verification upon those being called for.

- 3.1.3 The inventories constituted a material portion of the balance sheet — 21% in FY 2015-16 and 17% in FY 2016-17.
- 3.1.4 Despite this, the Respondent did not report or comment on the value of inventory presented in the balance sheet in his main audit reports under Sections 143(3) and 143(2) and issued clean audit opinions for both years as stated hereunder:

Reporting under Section 143(3)

"a) We have sought and obtained all the information and explanations which to the best of his knowledge and belief were necessary for the purpose of his audit.

b) In our opinion, proper books of account as required by law have been kept by the Company so far as it appears from our examination of those books."

"In our opinion and to the best of our information and according to the explanations given to us, the aforesaid financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India of the state of affairs of the Company as at 31 March, 2016 and its Profit for the year ended on that date."

- 3.1.5 The Respondent stated that stock valuation was the management's responsibility and that he had already made observations under CARO. However, he did not address the implications of the inadequate inventory records on the financial statements, nor did he assess whether the valuation procedures aligned with Accounting Standard 2 (Valuation of Inventories).
- 3.1.6 As per the ICAI Guidance Note and Standard on Auditing (SA) 705, an auditor is required to consider the impact of adverse remarks under CARO on the true and fair view of financials and modify the audit opinion accordingly. Therefore, it appears that the Respondent did not diligently perform his professional duty to assess and report on the true and fair view of the Company's financials.
- 3.1.7 Thus, it was concluded that though the primary responsibility of valuation of inventory is of the management of Company yet the Respondent in the extant matter was expected to review the procedure adopted by the management for valuation of inventory based on available records in accordance with the AS – 2 'Valuation of Inventories' while the Respondent had neither considered the impact of his disclaimer about the inventory record on the true and fair view of financials for the year ended 31-03-2016 and 31-03-2017 nor he had clarified anything in his defence in his Written Statement in respect of the allegation of overvaluation of stock. Hence, it appears that he had not performed his professional duty of reporting on the true and fair view of the financials of the Company diligently as an auditor.
- 3.1.8 Accordingly, the Director (Discipline) in his prima facie opinion held the Respondent **GUILTY** of Professional Misconduct falling within the meaning of Item (7) of Part I of the Second Schedule to the Chartered Accountants Act, 1949. The said Item of the Schedule to the Act, states as under:

"A Chartered Accountant in practice shall be deemed to be guilty of professional misconduct if he:

X X X X

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

- 3.2 The Prima Facie Opinion formed by the Director (Discipline) was considered by the (erstwhile) Disciplinary Committee at its meeting held on 23rd January 2024. The (erstwhile) Committee on consideration of the same, concurred with the reasons given against the charge(s) and thus, agreed with the Prima Facie opinion of the Director (Discipline) that the Respondent is **GUILTY** of Professional Misconduct falling within the meaning of Item (7) of Part I of the Second Schedule to the Chartered Accountants Act, 1949 and accordingly, decided to proceed further under Chapter V of the Chartered Accountants (Procedure of Investigations of Professional and Other Misconduct and Conduct of Cases) Rules, 2007.

✓

A

4. **DATE(S) OF WRITTEN SUBMISSIONS/PLEADINGS BY PARTIES:**

- 4.1 The relevant details of the filing of documents in the instant case by the parties are given below:

S. No.	Particulars	Date
1.	Date of Complaint in Form 'I' filed by the Complainant	13.10.2022
2.	Date of Written Statement filed by the Respondent	12.12.2022
3.	Date of Rejoinder filed by the Complainant Department	N.A.
4.	Date of Prima Facie Opinion Formed by Director (Discipline)	13.09.2023
5.	Written submissions filed by the Respondent after Prima Facie Opinion	26.03.2024
6.	Written submissions filed by the Complainant Department after Prima Facie Opinion	28.08.2024

5. **WRITTEN SUBMISSIONS FILED BY THE PARTIES TO THE CASE:**

5.1 **WRITTEN SUBMISSIONS FILED BY THE RESPONDENT:**

The Respondent in his written submissions dated 26th March 2024, inter-alia, informed as follows:

- He became a qualified Chartered Accountant in Aug 2014, and the audit in question pertains to the fiscal year 2015-16 and 2016-17. Hence, it was only his second year of practice, and he was very junior. Despite this, he has pointed out two negative points in his report under section 143(11) of the Companies Act, 2013.
- He did not mention anything about the valuation of the inventory in the CARO report. Furthermore, he went one step ahead to verify the rates of last purchase for the valuation of inventory. The calculations were duly verified and are present in his working papers.
- The inventory was valued at cost by the Management, and for audit purposes, he cross-checked the rate of closing inventory with purchase invoices and conducted the verification on sample basis.
- It was a running business and there was no indication that would arouse suspicion about genuineness of inventory.
- Moreover, the Company has availed the working capital facility from Indian Bank, Mumbai and the nationalised bank are very particular about stock verification. The banks engage their own stock audits and certification of stocks. Further, bank officers themselves visit to verify the stock. This is the main reason why he relied upon the Company's management considering all these circumstances.

- f) During the audit, he believed that the comments made in the Report did not impact the accuracy and fairness of the financial statements. Hence, he concluded that there was no necessity to modify audit report under sub section (2), (3), and (4) of Section 143.
- g) The Respondent replied to the ROC for Notice issued Under Section 206 of the Companies Act, 2013 concerning valuation of inventory on 30th March 2022. Two years have passed since the last communication, and he was assured that case would be closed if no further intimation is received from the Department.
- h) In the FIR filed by ROC, over two years have passed without any evidence emerging against him during ongoing investigations. Further, upon his initial arrest, the Court granted him bail.

5.2 WRITTEN SUBMISSIONS FILED BY THE COMPLAINANT DEPARTMENT:

The Complainant Department in their written submissions dated 28th August 2024, inter-alia, stated as follows:

- a) The Company had a connection with the Charlie Peng Network Companies in Rs. 1000 crore's hawala transaction.
- b) As per the financial statements for FY 2015-16, the Company has shown the outstanding balance of other unsecured loan of Rs. 2,87,28,031/-. In this regard, the proper disclosure was not made by the auditor in his report.
- c) The Company has not maintained proper records of inventory of FY 2012-13, 2013-14, 2014-15 and 2015-16 that is Rs. 1.31 cr., Rs. 6.68 cr., Rs. 5.16 cr, Rs. 5.41 cr respectively.
- d) The Company, its directors and its officers and auditor had contravened the provision of Section 129 of Companies Act, 2013.
- e) The procedure of physical verification of stocks followed by the management were not reasonable and adequate in relation to the nature and size of the company and business. Thus, the Company, its directors and its officers and auditor had contravened the provision of Section 143(11) of Companies Act, 2013.
- f) The Respondent as an Auditor in his audit report had not given qualified opinion on the financial position of the Company in accordance with the law.
- g) There was a difference between the balance sheet and profit and loss account figures actually stated in the audited documents and filled in financial forms.
- h) A FIR has been registered at Naranpura Police Station vide CR. No. 111910034220124/2022 u/s 406, 420, 477(A), 120B, 114 of the IPC and section 66(D) of IT Act on 24th January 2022, the investigation was being done by police inspector, Naranpura Police station and then it was transferred to Police Inspector, Naranpura Police Station and then it was transferred to Police Inspector, Crime Branch.

6. **BRIEF FACTS OF THE PROCEEDINGS:**

6.1 The details of the hearing(s) fixed and held/adjourned in said case is given as under:

S. No.	Particulars	Date of meeting(s)	Status
1.	1 st Hearing	23 rd April 2024	Part Heard & Adjourned (Oath taken by Respondent)
2.	2 nd Hearing	17 th May 2024	Adjourned due to paucity of time.
3.	3 rd Hearing	28 th May 2024	Part Heard and adjourned.
4.	4 th Hearing	14 th June 2024	Part Heard and adjourned.
5.	5 th Hearing	15 th July 2024	Part Heard and adjourned.
6.	6 th Hearing	29 th August 2024	Deferred due to paucity of time Directions given by the Committee
7.	7 th Hearing	28 th July 2025	Concluded and decision taken on the conduct of the Respondent.

- 6.1.1 At the time of hearing held in the case on 23rd April 2024, the Committee noted that the Authorized representative of the Complainant Department was not present before it despite the due delivery of the notice for hearing. The Committee further noted that the Respondent was present before it through video conferencing. He was administered on Oath. Thereafter, the Committee enquired from the Respondent as to whether he was aware of the charge(s) alleged against him to which he replied in the affirmative. However, he pleaded Not Guilty to the charge(s) levelled against him. The Committee, looking into the fact that this was the first hearing and to provide an opportunity to the Complainant Department to substantiate their case before it, decided to adjourn the hearing in the case to a future date. With this, the hearing in the case was part heard and adjourned.
- 6.1.2 At the time of hearing held in the case on 17th May 2024, the case was adjourned due to paucity of time.
- 6.1.3 At the time of hearing held in the case on 28th May 2024, the Committee noted that the Respondent was present before it through video conferencing. However, there was no representation from the Complainant Department. Thereafter, on being asked by the Committee, the Respondent presented his line of defence, inter-alia, reiterating the written submissions made by him on the Prima Facie Opinion. On consideration of the submissions and documents on record, the Committee advised the Respondent, if he wishes to make any further written submissions in the case, he may do so, within 7 days with a copy to the Complainant Department to provide their comments thereon, if any. With this, the hearing in the case was part heard and adjourned to provide a final opportunity to the Complainant Department to substantiate their case before the Committee.
- 6.1.4 At the time of hearing held in the case on 14th June 2024, the Committee noted that the Complainant and the Respondent was present before it through video conferencing. On being asked by the Committee to substantiate their case, the Complainant referred to the contents of Complaint made in Form 'I' against the Respondent. Subsequently, the Respondent presented his line of defence, inter-alia, reiterating the written submissions made by him on the Prima Facie Opinion and the arguments made by him at length in the last hearing. On consideration

of the submissions made by the Complainant and the Respondent, the Committee posed certain questions to them which were responded by them. Thus, on consideration of the submissions and documents on record, the Committee directed the Complainant to provide the following within next 10 days with a copy to the Respondent to provide his comments thereon, if any: -

1. Response on the written submissions made by the Respondent on the Prima Facie Opinion.
2. Status of the FIR filed against the Respondent together with the copy of the Orders passed thereon, if any.
3. Any other submissions/documents to substantiate the charge alleged against the Respondent.

The Committee also advised the Respondent if he wishes to make any further written submissions in the case, he may do so, with a copy to the Complainant Department. With the above, the hearing in the case was part heard and adjourned.

- 6.1.5 At the time of hearing held in the case on 15th July 2024, the Committee noted that the Respondent was present before it through video conferencing. However, there was no representation from the Complainant Department. The Committee further noted that at the time of last hearing held on 14th June 2024, it had directed the Complainant Department to provide their submissions on the following within next 10 days with a copy to the Respondent to provide his comments thereon, if any: -

1. Response on the written submissions made by the Respondent on the Prima Facie Opinion.
2. Status of the FIR filed against the Respondent together with the copy of the Orders passed thereon, if any.
3. Any other submissions documents to substantiate the charge alleged against the Respondent.

However, no response was received from the Complainant Department.

The Committee on the grounds of principle of natural justice decided to provide a final opportunity to the Complainant Department to substantiate their case before the Committee. Accordingly, the hearing in the case was adjourned on account of non-representation from the Complainant Department.

- 6.1.6 At the time of hearing held in the case on 29th August 2024, the consideration of the case was deferred due to paucity of time. However, the Committee advised the office to send a separate communication to the concerned ROC(s) with a copy to the office of DGCoA to provide a copy of the complete Investigation/Inquiry report so that the Committee can arrive at a logical conclusion in the said case. Accordingly, Complete Investigation report was sought from the Complainant Department vide email dated 20.09.2024 followed by reminder dated 03.10.2024, 18.12.2024, 5.3.2025. The Department vide email dated 03.10.2024, 18.12.2024, 5.3.2025 informed that the request to Regional Director for sharing report is still awaited. Despite a follow-up reminder email dated 19.6.2025, no response was received from the Complainant Department.

✓

✓

- 6.1.7 During the next hearing held in the case on 28th July 2025, the Committee noted that the Respondent was present before it through video conferencing. However, the Authorised Representative of the Complainant Department was not present when the matter was taken up for hearing. The change in the composition of the Committee was duly intimated to the Respondent who was present before the Committee and was given an option of de-novo. The Respondent affirmed to continue with the proceedings in the case. Thereafter, the Committee asked the Respondent to make his final submissions to defend his case. The Respondent presented his line of defence, inter alia, reiterating the written submissions previously made in response to the Prima Facie Opinion. He submitted that being a Chartered Accountant qualified in August 2014 he had undertaken audit of the alleged Company for the Financial Years 2015-16 and 2016-17 during the initial years of his practice. He made adverse remarks regarding the adequacy of inventory records maintained by the Company in his Audit report under Section 143(11) of the Companies Act, 2013 in compliance with the requirements of CARO 2016. He verified the rates of last purchases for the valuation of inventory. The calculation, duly verified, is also there in his working papers. He verified the closing stock with purchase invoices on sample basis, obtained the Stock Audit report and checked the ledgers for proper purchase. The valuation appeared reasonable, and there were no red flags suggesting inventory issues. The company also had a working capital facility from Indian Bank, known for strict stock verification, which further supported management's claims. Believing the financials were fairly presented, the Respondent found no need to modify the report under Section 143(2), (3), or (4) of the Companies Act, 2013. On consideration of the submissions made by the Respondent, the Committee posed certain questions to him which was responded to by him. Thereafter, the Committee, on consideration of the documents on record and the oral and written submissions of the parties to the case vis-à-vis facts of the case, decided to conclude the hearing in the case.

7. FINDINGS OF THE COMMITTEE: -

7.1 CHARGE RELATING TO OVERVALUATION OF STOCK AND YET REPORTING EITHER LOSS OR VERY LESS PROFIT:

- a) The Committee noted that the Respondent was the statutory auditor of the alleged Company namely "Sawariya International Private Limited" for financial year 2015-16 and 2016-17.
- b) The Committee noted that the sole charge in respect of which the conduct of the Respondent has been examined is that the company had done overvaluation of stock and yet reported either loss or very less profit in the Financials of the Company for the year ended 31-03-2016 and 31-03-2017 audited by the Respondent. It was also noted from the financial statements of both years that inventory vis-a- vis profits has been reported as below:

	Profit	Inventory
As on 31-03-2016	--	Rs.5.41 Crores
As on 31-03-2017	--	Rs.9.55 Crores
For the year 2015-16	Rs.44.83 Lacs	--
For the year 2016-17	Rs.27.82 Lacs	--

- c) The Committee noted that in the Audit Reports for the financial years ending 31-03-2016 and 31-03-2017, the Respondent, in compliance with the CARO, 2016 under Section 143(11) of the Companies Act, 2013, gave adverse remarks regarding the adequacy of inventory records maintained by the Company as stated hereunder:

Financial Year 2015-16 & Financial Year 2016-17

Reporting under CARO, 2016

"II. a) The inventory has been physically verified during the year by the management. In our opinion frequency of verification is reasonable.

*b) In our opinion and according to the information and explanation given to us the procedures of **physical verification of stocks followed by the management are not reasonable and adequate** in relation to the size of the Company and nature of the business.*

*(c) As per information and explanation given to us, the **Company has not maintaining proper record of inventory. We are unable to comment on appropriateness and adequacy of the record** as the record of inventory are not made available to us for verification upon those being called for."*

- d) The Committee took a note on the sections of audit report or comment on the value of inventory presented in the balance sheet in his main audit reports under Sections 143(3) and 143(2) wherein the Respondent issued clean audit opinions for both years as stated hereunder:

Reporting under Section 143(3)

"a) We have sought and obtained all the information and explanations which to the best of his knowledge and belief were necessary for the purpose of his audit."

b) In our opinion, proper books of account as required by law have been kept by the Company so far as it appears from our examination of those books."

Reporting under Section 143(2)

In our opinion and to the best of our information and according to the explanations given to us, the aforesaid financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India of the state of affairs of the Company as at 31 March, 2016 and its Profit for the year ended on that date."

- e) The Committee noted that the Audit Reports issued by the Respondent for the said financial years contain explicit and adverse remarks under the Companies (Auditor's Report) Order (CARO), 2016, as mandated under Section 143(11) of the Companies Act, 2013, specifically, with respect to the procedures of physical verification of stocks and the non-maintenance of proper records of inventory by the Company. The Respondent was unable to comment on the appropriateness and adequacy of inventory records due to non-availability of such records despite requisition.

- f) The Committee noted from the Paragraph 4 of SA-200, "Overall Objectives of the Independent Auditor and the Conduct of an Audit in accordance with Standards on Auditing":

"4. The financial statements subject to audit are those of the entity, prepared and presented by management of the entity with oversight from those charged with governance. SAs do not impose responsibilities on management or those charged with governance and do not override laws and regulations that govern their responsibilities. However, an audit in accordance with SAs is conducted on the premise that management and, where appropriate, those charged with governance have responsibilities that are fundamental to the conduct of the audit. The audit of the financial statements does not relieve management or those charged with governance of those responsibilities. (Ref: Para. A2-A11)"

- g) Further, the Committee noted that as the charge pertains to inventory, it is pertinent to note from the Paragraph 4 of SA-501, Audit Evidence—"Specific Considerations for Selected Items" which states that:

"4. When inventory is material to the financial statements, the auditor shall obtain sufficient appropriate audit evidence regarding the existence and condition of inventory by:

(a) Attendance at physical inventory counting, unless impracticable, to: (Ref: Para. A1-A3)

i) Evaluate management's instructions and procedures for recording and controlling the results of the entity's physical inventory counting; (Ref: Para. A4)

ii) Observe the performance of management's count procedures; (Ref: Para. A5),

iii) Inspect the inventory; and (Ref: Para. A6),

iv) Perform test counts; and (Ref: Para. A7-A8)

(b) Performing audit procedures over the entity's final inventory records to determine whether they accurately reflect actual inventory count results."

- h) The Committee noted that the auditor reported under CARO that management did not maintain adequate records and that physical verification was limited. In line with SA 501, when faced with such limitations, the auditor must perform alternative procedures or rely on available records—and importantly, report the limitation. If no further misstatements emerge, a clean opinion may still be reasonable.

- i) The Committee also noted that the Respondent brought on record the copy of the following documents verified by him for the valuation of Inventory:

1. Inventory item Ledger as on 31/3/2016.

2. A few of the Invoices issued to alleged company

3. Audited Financial Statement of the company for the FY 2014-15

- j) The Committee, upon reviewing the working papers maintained by the Respondent, observed that the Respondent obtained item-wise inventory details from the Company and carried out sample-based verification of inventory values against supporting vouchers. For material inventory items (such as Grey Cloth and Raw Silk), the

Respondent examined corresponding vouchers on a test-check basis. Based on this verification and the review of audit documentation, the valuation of inventory appeared reasonable and consistent with the records maintained by the Company. The Respondent also performed additional audit procedures as prescribed under the Standards on Auditing (SAs).

- k) The working papers provided by the Respondent evidence that the audit of the financial statements was conducted with due diligence. The rates of closing inventory were cross verified with purchase invoices, and all related calculations were duly documented in the audit working papers. The inventory was valued by management at cost, in compliance with Accounting Standard (AS) 2 – Valuation of Inventories, and there was no indication of overvaluation. Accordingly, it can be concluded that the Respondent exercised appropriate audit procedures and demonstrated adherence to professional standards in relation to inventory valuation.
- l) The Committee noted that in the Previous year 2014-15, wherein the Respondent was not the auditor, the Inventory as on 31st March 2015 stood at Rs. 5.16 Crore and after the appointment of the Respondent as an auditor, the inventory as on 31st March 2016 stood at Rs. 5.41 Crore. There is no significant increase in the inventory amount, which would suggest the Respondent to perform additional audit procedures or raise any suspicion on the amount of Inventory.
- m) The Committee noted that the allegation of overvaluation of inventory is not supported by any substantive evidence. The increase in inventory value from ₹5.41 Crores (as at 31st March 2016) to ₹9.55 Crores (as at 31st March 2017) over one year may be attributable to legitimate business operations. The mere presence of low profits does not establish overvaluation unless corroborated by valuation errors or fraudulent intent, which is absent in this case.
- n) The Committee noted that the Company had availed working capital facilities from a nationalised bank, which conducts independent stock audits and physical verification and there is nowhere on record that any suspicion is raised by the banks regarding the same inventory. In light of this third-party oversight, and absence of any red flags, the auditor exercised reasonable reliance on the management's representation and bank confirmations.
- o) The Committee noted that the Respondent made an adverse remark in CARO Report for financial year 2015-16 and 2016-17 that too for maintenance of proper record of inventory. The Committee also took into view para 55 to 57 of the applicable 'Guidance Note on the Companies (Auditor's Report) Order, 2016' which provides as under:

"55. If any of the comments on matters specified in the Order are adverse, the auditor should consider whether his comments have a bearing on the true and fair view presented by the financial statements and, therefore, might warrant a modification in the report under sub-sections (2), (3) and (4) of section 143.

56. If the auditor is of the opinion that any of the unfavourable comments on matters specified in the Order results in a qualification under sub-sections (2) and (3) of section 143 the manner of reporting would have to be in accordance with the principles enunciated in SA 705, "Modifications to the Opinion in the Independent Auditor's Report".

✓

✓

57. Even where there are no unfavourable comments under the Order, it may be advisable for the auditor to preface his report under sub-sections (2) and (3) of section 143 with the words: "Further to our comments in the Annexure, we state that.."
.....

- p) The Committee was of the view that the reporting of non-maintenance or inadequacy of inventory records under the Companies (Auditor's Report) Order, 2016, in itself, does not constitute a qualification in the auditor's opinion under section 143 of the Companies Act, 2013, unless such deficiency results in a material misstatement of the financial statements or imposes a limitation on the auditor's ability to obtain sufficient and appropriate audit evidence regarding the existence and valuation of inventory. Based on the aforesaid observations, the Committee was of the view that as per the requirements of Guidance Note on CARO 2016, the Respondent had duly considered whether his comments have a bearing on the True and Fair view presented by the Financial Statements.
- q) Further the Committee noted that the allegation of overvaluation is not supported by any documentary evidence and there is no document on record which proves that the Respondent has performed his work negligently. Based on the audit procedures performed and disclosures made, the auditor concluded that the limitations did not materially affect the true and fair view of the financial statements. Hence, the decision not to modify the audit opinion under Section 143(2), (3), or (4) of the Companies Act, 2013 was based on professional judgment. The Committee also noted that the adverse CARO remark related to adequacy of inventory records, not misstatement of inventory value and without evidence of overvaluation (no audit evidence indicating misstatement), the auditor cannot qualify his opinion merely on suspicion.
- r) The Committee also noted that the instant Company is still active since its incorporation i.e., from 23rd July 2012 as per the record of the Ministry of Corporate Affairs. The Company is an active non-compliant since 2016 and last AGM of the company was held on 30th September 2016.

7.2 In view of the above observations, considering the oral and written submissions of the parties and material on record, the Committee held the Respondent **NOT GUILTY** of Professional Misconduct falling within the meaning of Item (7) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

8. **CONCLUSION:**

In view of the findings stated in the above paras, vis-à-vis material on record, the Committee gives its charge wise findings as under:

CHARGES (AS PER PFO)	FINDINGS	DECISION OF THE COMMITTEE
Para 3.1 as above	Para 7.1 as above	NOT Guilty - Item (7) of Part I of the Second Schedule

9. **ORDER:**

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 an Order for closure of this case against the Respondent.

Sd/-
(CA. CHARANJOT SINGH NANDA)
PRESIDING OFFICER

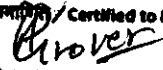
Sd/-
(CMA. CHANDRA WADHWA)
GOVERNMENT NOMINEE

Sd/-
(CA. MAHESH SHAH)
GOVERNMENT NOMINEE

Sd/-
(CA. PRAMOD JAIN)
MEMBER

Sd/-
(CA. RAVI KUMAR PATWA)
MEMBER

DATE : 03.12.2025
PLACE : NEW DELHI

सत्यापित होने के लिए प्रमाणित / Certified to be True Copy

अंजू गровер / Anju Grover
सहायक सचिव / Assistant Secretary
अनुशासनसम्बन्धित निर्देशालय / 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.)

✓