



# 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-IV (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.**

**File No.: - [PPR/P/254/16-DD/95/INF/2016/ DC/1643/2022]**

**In the matter of:**

**CA. Vijay Vasant Rao Kale (M. No. 080821),**  
16A/20, W.E.A.,  
Karol Bagh,  
New Delhi – 110005

..... Respondent

**MEMBERS PRESENT:**

1. CA. Prasanna Kumar D, Presiding Officer (In person)
2. Adv Vijay Jhalani, Government Nominee (In person)
3. CA. Mangesh P. Kinare, Member (Through VC)
4. CA. Satish Kumar Gupta, Member (Through VC)

**DATE OF HEARING: 05<sup>th</sup> February 2026.**

**DATE OF ORDER: 11<sup>th</sup> February 2026.**

1. That vide Findings dated 30<sup>th</sup> January 2026 under Rule 18(17) of the Chartered Accountants (Procedure of Investigations of Professional and Other Misconduct and Conduct of Cases) Rules, 2007, the Disciplinary Committee was inter-alia of the opinion that **CA. Vijay Vasant Rao Kale (M. No. 080821)** (hereinafter referred to as the "Respondent") is **GUILTY** of Professional Misconduct falling within the meaning of Clauses (5) & (7) of the Part I of Second Schedule to the Chartered Accountants Act, 1949.

2. That pursuant to the said Findings, an action under Section 21B (3) of the Chartered Accountants (Amendment) Act, 2006 was contemplated against the Respondent and



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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 05<sup>th</sup> February 2026.

3. The Committee noted that on the date of hearing on 05<sup>th</sup> January 2026, the Respondent was present in-person. During the hearing, the Respondent made verbal submissions and also referred to the written representation dated 04<sup>th</sup> February 2026 on the Findings of the Committee. The Committee noted the verbal and written representation of the Respondent dated 04<sup>th</sup> February 2026 on the Findings of the Committee, which, inter alia, are as under:-

- Interest accrued and due on debentures was not payable due to circumstances defined under Paragraph 16 of AS-5. A combined reading of Notes to Accounts for FY 2006–07 and 2007–08 along with Schedule “2” (A) Debentures, shows that the amount under “interest accrued and due” was transferred to the Profit & Loss Account under Prior Period & Extraordinary Expenses.
- Full disclosure was made in the Notes to Accounts; therefore, the allegation that the Respondent failed to draw attention to this deviation in the Audit Report is not justified.
- As per Hon’ble High Court Orders dated 23.06.2006 and 23.10.2006 approving the Scheme of Arrangement, interest accrued and due was not payable and was written back as an Extraordinary Item under Prior Period and Extraordinary Items.
- During FY 2007–08, the Scheme of Arrangement between lenders was approved by the Hon’ble High Court, and letters of allotment were issued to OFCD holders as the conversion process had already commenced.
- Details of redemption and conversion were disclosed in FY 2006–07 and also mentioned in Financial Statement for the year 2007–08 and 2008–09. Surplus arising on redemption, being capital in nature, was transferred directly to reserves and disclosed under “Reserve and Surplus” as “Debenture Redemption Reserve.”
- It was duly reported that the company incurred cash losses during the current financial year in Note No. 10 of the Annexure to the Auditor’s Report. In the absence of the audit



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file and signed financial statements for FY 2007–08, it cannot be confirmed that there was any omission in compliance with CARO.

- The Respondent pleaded for a sympathetic view by the Committee.

4. The Committee considered the reasoning as contained in Findings holding the Respondent 'Guilty' of Professional Misconduct vis-à-vis written and verbal representation of the Respondent. The Committee noted that the issues/ submissions made by the Respondent as aforesaid have been dealt with by it at the time of hearing under Rule 18.

5. Thus, keeping in view the facts and circumstances of the case, material on record including written and verbal representation of the Respondent on the Findings, the Committee noted that as per requirements of paragraph 15 of AS-5, the significant income recognized under the head "Prior Period Items" during the financial year 2007–08 was not adequately explained as to its nature in the relevant schedules or notes to accounts of that year. In such circumstances, it was incumbent upon the Respondent, as the statutory auditor, to draw attention to this non-compliance by way of a suitable qualification or emphasis in the audit report. His failure to do so amounts to a lapse in professional judgment and a dereliction of duty.

5.1 Further, the charge regarding routing of surplus arising on redemption directly to reserves, instead of through the Profit and Loss Account also warranted specific reporting and evaluation by the auditor. The Respondent failed to draw attention to these disclosure deficiencies and accounting treatment in his audit report.

6. It is evident from the Auditor's Report for the financial year 2007-08 that while the Respondent has reported the cash losses incurred during the current financial year, he has omitted to report the cash losses incurred during the immediately preceding financial year, i.e., FY 2006–07. The Respondent's explanation that the position of losses remained the same does not absolve him from the statutory requirement of explicit reporting for both the years, as mandated under Clause 4(x) of CARO, 2003. The requirement is specific and unambiguous, and compliance therewith is not optional or inferential. Accordingly, the Committee observed that



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the Respondent has failed to comply with the mandatory reporting requirement of Clause 4(x) of CARO, 2003. Hence, the Professional Misconduct on the part of the Respondent is clearly established as spelt out in the Committee's Findings dated 30<sup>th</sup> January 2026 which is to be read in consonance with the instant Order being passed in the case.

7. Accordingly, the Committee was of the view that the ends of justice would be met if punishment is given to him in commensurate with his Professional Misconduct.

8. Thus, the Committee ordered that the Respondent i.e CA. Vijay Vasant Rao Kale (M. No. 080821), New Delhi be REPRIMANDED under Section 21B (3) (a) of the Chartered Accountants Act, 1949.

Sd/-

(CA. PRASANNA KUMAR D)  
PRESIDING OFFICER

Sd/-

(ADV. VIJAY JHALANI)  
GOVERNMENT NOMINEE

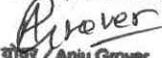
Sd/-

(CA. MANGESH P KINARE)  
MEMBER

Sd/-

(CA. SATISH KUMAR GUPTA)  
MEMBER

सत्यापित होने के लिए प्रमाणित / Certified to be True Copy

  
अंजू ग़ोवर / Anju Grover  
सहायक सचिव / Assistant Secretary  
अनुशासनात्मक 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 – IV (2025-2026)]**

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

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

**File No.: - [PPR/P/254/16-DD/95/INF/2016/ DC/1643/2022]**

**In the matter of:**

**CA. Vijay Vasant Rao Kale (M. No. 080821),  
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..... Respondent

**MEMBERS PRESENT:**

**CA. Prasanna Kumar D, Presiding Officer (In person)  
Ms. Dakshita Das, IRAS (Retd.), Government Nominee (Through VC)  
Adv. Vijay Jhalani, Government Nominee (In person)  
CA. Mangesh P. Kinare, Member (In person)  
CA. Satish Kumar Gupta, Member (in person)**

**DATE OF FINAL HEARING : 19<sup>th</sup> November 2025**

**DATE OF DECISION TAKEN : 15<sup>th</sup> December 2025**

**PARTIES PRESENT:**

**Respondent : CA. Vijay Vasant Rao Kale (In person)  
Counsel for Respondent : Shri Sandeep Manaktala (In person)**

**1. Background of the Case:**

- 1.1 Financial Reporting and Review Board of the ICAI (hereinafter referred as the Board/FRRB) in its report has informed about various non-compliances observed in General Purpose Financial Statements with regard to AS-5, AS-7, AS-15, AS-26, AS-28, SA-700, Clause 4(x) & 4(xii) of CARO-2003 & Schedule VI of the Companies Act, 1956 of **M/s Western India Shipyard Limited** for financial year 2007-08 audited by M/s. V V Kale & Co (hereinafter referred to as "Respondent Firm").

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2. **Charges in brief:**

- 2.1 The Complainant in the **First observation** has alleged that there was a failure on the part of the Respondent to draw attention to this deviation in his Audit Report. The first observation of FRRB to prior period and extra ordinary items as given in Schedule 14 of the Annual Report for the Financial Year 2007-08 of the Company wherein it has been alleged that the significant income has been recognised under the head Prior Period items but the nature of such income has not been disclosed either in Schedules or in notes to accounts as per Paragraph 15 of AS-5.
- 2.2 The Complainant in the **Second observation** has alleged the failure on the part of the Respondent to draw attention to this deviation in his Audit Report. The second observation of Board relates to Revenue Recognition as per Paragraphs 38 and 39 of AS 7 (Construction Contracts) in which the Company has omitted to state the method used to determine the stage of completion of contracts in progress. The Board further submitted that that the revenue was recognised on Proportionate Completion method while as per AS-7 whereas the recognised method is Percentage completion method.
- 2.3 The Complainant in the **Third observation** has alleged that the Respondent has not disclosed the information about the Defined benefit plans as per the requirement of paragraph 120 of AS-15 (Employee Benefits). The Company in its significant accounting policies as provided in the Schedule 16 for the financial year pertaining to 2007-08 has mentioned that the "Provision towards liability for Gratuity and Leave Encashment were determined on the basis of Actuarial Valuation" which indicates that Gratuity and Leave Encashment were defined benefit plans and the disclosure of the same was required as per AS-15. Thus, the Board alleged the failure on the part of the Respondent to draw attention to this deviation in his Audit Report.
- 2.4 The Complainant in the **Fourth observation** has alleged that the failure on the part of the Respondent to draw attention to this deviation in his Audit Report. The fourth observation of the Board relates to Miscellaneous Expenditure stated in Balance Sheet and Notes to Accounts. The Board was of the view that such expenditure, if any, was incurred after 1st April, 2004 i.e. the date when AS-26 became mandatory, it should be expensed as and when it was incurred but the Respondent has failed to follow the guidelines of AS-26, so deferment of miscellaneous expenditure was not in accordance with AS-26.
- 2.5 **Fifth observation - First Leg: -**

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The Complainant in the **Fifth observation** has alleged that the failure on the part of the Respondent to draw attention to the inappropriate presentation of redeemable Debentures in balance Sheet and Notes to Accounts. FRRB alleged that if the shares were being issued against debentures pursuant to scheme of arrangement approved by Bombay High Court then related balance should have been shown under the head "Share Capital Suspense Account" instead of "Debentures".

2.5.1 **Fifth observation- Second Leg:-**

Further, in the Schedule of Secured Loans, the conversion of Zero Coupon Optionally fully Convertible Debentures Series-I and earliest date of their redemption had not been disclosed either in Schedule or in notes to account as required by Part-1 of Schedule-VI of the Company Act, 1956. FRRB also alleged that any surplus arising on the redemption of Debentures indicate income resulting from settlement of liabilities which should be routed through Profit and Loss Account instead of taking it directly to Reserves.

2.6 The Complainant in the **Seventh observation** has alleged that the Respondent has not complied with the requirement paragraph 9 & 10 of SA- 700 as Respondent has expressed opinion on the Cash Flow Statement but omitted to refer to the Cash flow Statement in the Opening or introductory paragraph of Auditor Report as mandated in the said standard. The Board further submitted that the Respondent has also omitted to state his responsibility to express an opinion on the financial statements based on the audit.

2.7 The Complainant in the **Eighth observation** has alleged that the Respondent has not complied with the requirement of paragraph 41 of SA-700 wherein the Respondent had qualified the report in context of doubtful of recovery of balance with parties but reason of qualification and its possible effect individually and in aggregate on financial statements has not been reported which was in contradiction of the requirement of paragraph 41 of SA-700. Besides, the purpose of such observation was not disclosed.

2.8 The Complainant in the **Ninth observation** has alleged that the Respondent has not mentioned his Membership Number in Audit Report as well as annexure to Auditor's Report as per requirement of Para-28 of SA-700.

2.9 The Complainant in the **Tenth observation** has alleged that the Respondent had not complied with the requirement of Clause 4(x) of Companies (Auditor's Report) Order, 2003 as regards the accumulated losses as well as cash losses. The Respondent in this regard has reported about its status for current financial year (i.e. FY 2007-08) but omitted to report for immediately

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preceding financial year (i.e. FY 2006-07). Hence, the Board alleged Respondent's failure to comply with the requirements of Clause 4(x) of Companies (Auditor's Report) Order, 2003.

2.10 **Eleventh observation - First Leg:-**

The Complainant, in its **Eleventh observation** has alleged that Respondent has not complied with the requirement of Clause 4(xii) and 4(xix) of Companies (Auditor's Report) Order, 2003 as with respect to the Clause 4(xii) the Respondent has only provided the information on adequacy of security rather than reporting about the adequacy of documents.

3. **The relevant issues discussed in the Prima Facie Opinion dated 28<sup>th</sup> September 2020 formulated by the Director (Discipline) in the matter in brief, are given below: (only in respect of First, Second, Third, Fourth, Fifth, Seventh, Eighth, Ninth, Tenth and First leg of Eleventh allegation in which the Respondent had been held Prima Facie Guilty)**

3.1 With regard to **First Allegation**, on perusal of the Board's observation along with the submission of the Respondent, it was viewed that the Board has emphasized on the violation of Paragraph -15 of AS-5 "Net Profit or loss for the period, Prior Period Items and Changes in Accounting Policies" by the Respondent in his Audit report.

3.1.1 It was noted that prior period items were required to be separately disclosed in the profit and loss account of the Company, specifying their nature and amount, so as to consider their impact on the current profit or loss of the Company. It was noted from the Respondent's submissions that an amount of Rs. 5,85,66,348/- had been written back on account of interest accrued and due payable to debenture holders, which was mentioned as a prior period item, and the same had been disclosed in the profit and loss account along with Schedule 14. However, it was pertinent to note that the Company had failed to disclose the nature of the above-mentioned prior period item either in the Schedules or in the Notes to Accounts of the financial statements of the Company pertaining to FY 2007-08, as required under paragraph 15 of AS-5.

3.1.2 In the financial statements, only prior period income of Rs. 5,96,55,982/- had been shown in the profit and loss account as well as in Schedule 14, without any break-up or without even mentioning its nature or the account to which the same pertained, thereby making it ambiguous for the readers of the said financial statements. Further, the Respondent's contention regarding non-disclosure of the nature of prior period items on the ground of



materiality, on the premise that the amount of interest accrued and due was not material in nature, was not tenable, as he should have ensured compliance with the specific disclosure requirements of paragraph 15 of AS-5. Therefore, the Respondent was held to be prima facie **GUILTY** of this charge for failure to draw attention to this deviation in his audit report, amounting to Professional Misconduct falling within the meaning of Clauses (5) and (7) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

- 3.2 With regard to **Second Allegation**, on perusal of the Board's observation and the submission of the Respondent, it was viewed that the Board had emphasized on the disclosure requirement of paragraph 38 and 39 of AS-7 "Construction Contract" which was not complied by the Respondent.

*The relevant extracts of Paragraph 38 and 39 of AS-7 to be read as follow:*

*"38. An enterprise should disclose:*

*(c) the methods used to determine the stage of completion of contracts in progress.*

*39. An enterprise should disclose the following for contracts in progress at the reporting date.*

*(a) the aggregate amount of costs incurred and recognised profits (less recognised losses) upto the reporting date;*

*(b) the amount of advances received; and*

*(c) the amount of retentions."*

- 3.2.1 Further, on perusal of the Director's Report of the Company for the FY 2007-08, it was noted that the Company was engaged in Ship repair as well as Ship Building services. Further, the Schedule 8 of Profit and Loss account relates to the "Sales and Services" of the Company for the FY 2007-08 which also had mentioned both Ship repair and Ship Building Income thereby implying that the Company was very well engaged in the Ship Building activities along with the Ship Repair services. In this regard, para 3 of AS 7 states as under:

*"3. A construction contract may be negotiated for the construction of a single asset such as a bridge, building, dam, pipeline, road, ship or tunnel. A construction contract may also deal with the construction of a number of assets which are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use; examples of such contracts include those for the construction of refineries and other complex pieces of plant or equipment.*

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*For the purposes of this Standard, construction contracts include: (a) contracts for the rendering of services which are directly related to the construction of the asset, for example, those for the services of project managers and architects; and (b) contracts for destruction or restoration of assets, and the restoration of the environment following the demolition of assets." (emphasis added)*

3.2.2 On perusal of the above provisions of AS 7, it was clearly evident that the income earned by the Company from the ship building activities are very well covered under the purview of AS-7. In view of the above, the revenue of the Company for the FY 2007-08 should have been recognised under percentage of completion method and accordingly, disclosure of paragraph 38 and 39 of AS-7 was required for the contract in Progress which the Respondent failed to do so. Therefore, the Respondent was held prima facie **GUILTY** on this charge for Professional Misconduct falling within the meaning of Clauses (5), (7) & (9) of Part I of Second Schedule to the Chartered Accountants Act, 1949.

3.3 With regard to **Third Allegation**, on perusal of the observation of the Board and the submission of the Respondent, it was noted that the disclosure of information of defined benefit plan was required as per Paragraph 120 of AS-15 "Employee Benefits" as alleged by the Informant. However, the Respondent had contended that the said information pertains to Defined Contribution plan as per para 7.5 of AS-15 and not as the Defined Benefit plan as per para 7.6 of AS-15.

3.3.1 In this regard, the relevant provisions of para 7.5, 7.6 and paragraph 120 of AS-15 read as below:

*"7.5 Defined contribution plans are post-employment benefit plans under which an enterprise pays fixed contributions into a separate entity (a fund) and will have no obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.*

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

3.3.2 It was further noted from Para 27 of AS-15 which provides that under defined benefit plans:

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(a) the enterprise's obligation is to provide the agreed benefits to current and former employees; and

(b) actuarial risk (that benefits will cost more than expected) and investment risk fall, in substance, on the enterprise. If actuarial or investment experience are worse than expected, the enterprise's obligation may be increased.

3.3.3 On perusal of the above extracts of AS-15, it was noted that provisions for gratuity and leave encashment, along with specific disclosure of valuation carried out on an actuarial basis, were covered under the Defined Benefit Plan. Further, from the perusal of the Notes to Accounts of the financial statements of the Company for FY 2007-08, it was also noted that the Company had made disclosures regarding provisions towards liabilities for gratuity and leave encashment on the basis of actuarial valuation. Accordingly, as the Company had given the necessary disclosures as per the Defined Benefit Plan in accordance with AS-15, it was viewed that compliance with the disclosure requirements as prescribed in paragraph 120 of AS-15 was also required in the financial statements of the Company. However, the Respondent had failed to report the deviation thereof in his audit report. Thus, the Respondent was held to be prima facie **GUILTY** of this charge for failure to draw attention to this deviation in his audit report, amounting to Professional Misconduct falling within the meaning of Clauses (5), (7) and (9) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

3.4 With regard to **Fourth Allegation**, on perusal of the Board's observations and the submissions of the Respondent, it was viewed that the Informant had emphasized the provisions of paragraph 2 of the Announcement of the Council-XIX, "Applicability of Accounting Standard (AS) 26 – Intangible Assets," published in The Chartered Accountant, November 2003, which read as follows:

*"2. An issue has been raised as to what should be the treatment of the expenditure incurred on intangible items, which were treated as deferred revenue expenditure and ordinarily spread over a period of 3 to 5 years before AS 26 became mandatory and which do not meet the definition of an 'asset' as per AS 26". In this context, it is clarified as below:*

*The expenditure incurred on intangible assets (referred to paragraph 2 above) after the date AS 26 became/becomes mandatory (1-4-2003 or 1-4-2004, as the case may be) would have to be expensed when incurred since these do not meet the definition of an assets as per AS-26.*

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*In respect of balances of the expenditure incurred on intangible assets (referred to in paragraph 2 above) before the date AS 26 became/becomes mandatory, appearing in the Balance Sheet as on 1-4-2003 or 1-4-2004, as case may be, paragraphs 99 and 100 of AS-26 are applicable."*

From the above facts, it was evidently clear that if miscellaneous expenditure had been incurred after 1st April, 2004 and had met the definition of the term "asset" as well as the recognition criteria thereof, the same should have been capitalized as part of the cost of the asset to which it pertained. Otherwise, it should have been expensed in the profit and loss account in the year in which it was incurred.

3.4.1 Further, the Respondent had stated that the miscellaneous expenditure included share issue expenses for increasing the authorized share capital, which were excluded as per paragraph 5 of AS-26 issued by ICAI.

3.4.2 However, it was pertinent to note that although share issue expenses were excluded from the scope of applicability of AS-26, the Respondent, in his defence, had not provided any corroborative evidence to support his submission that the miscellaneous expenditure head constituted only share issue expenses. Hence, as the Respondent had not come out with complete facts and evidence with regard to the instant allegation, he was held to be prima facie **GUILTY** of Professional Misconduct falling within the meaning of Clause (7) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

3.5 With regard to **First leg of Fifth Allegation**, on perusal of the Board's observations along with the submissions of the Respondent, it was noted that, with respect to the allegation against the Respondent that the shares which had not been issued against the debentures had been shown under the head "Share Capital Suspense Account" instead of "Debentures," the Respondent, in his defence to the instant allegation, had submitted that since approval from the Bombay High Court regarding reduction of the face value of equity shares on conversion of debentures was pending, the debentures had not been converted into equity capital as on the Balance Sheet date.

3.5.1 It was further noted that as per the scheme of arrangement, three options had been made available to debentures holders as follows:

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- (i) Interest to be reduced to 7.5% w.e.f. 29/10/2003, Interest and principal to be paid in five years.
- (ii) Conversion of Rs 60/- debentures into 6 equity shares to Rs 10/- each fully paid up including the interest.
- (iii) One-time Settlement by repayment of 25% principal and interest w.e.f. 28/10/2003 in two instalments within three months.

Further, as per notes to accounts, holders of 20,400 NCDs and 8,575 NCDs had exercised option (i) and (iii) as stated above and under option (ii) the Company was required to issue 48,32,850 equity shares of Rs 10/- fully paid up.

In view of the above facts, it was noted that upon redemption, debentures were required to be redeemed as per above options available and further the balance of the debenture was not required to exist on the Balance Sheet date. Further, in case the Debentures were converted into equity shares then the non-converted balance should have been shown under the Head "Share Capital Suspense Account" as a suspense account was a temporary a/c which could had been created to transfer any receipts on shares issue or re-issue (in case of forfeiture) in case of any pending decision regarding that receipt. It was pertinent to note here that the approval from Bombay High Court was pending for reduction in face value of equity Shares and not for the conversion of debentures into Equity Shares. It was also noted that the Respondent had failed to bring on records the copy of Bombay High Court Order dated 29<sup>th</sup> June, 2007 as called from him under Rule 8(5) by the Directorate in support of his defence. In light of the above facts, the Respondent is held prima facie **GUILTY** for the Professional Misconduct falling within the meaning of Clause (5) & (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949.

- 3.5.2 Further, with regard to **Second leg of Fifth Allegation**, against the Respondent that pursuant to the instruction given in Part-1 of Schedule-VI to the Companies Act 1956, the terms of redemption of and conversion of Zero Coupon Optionally Fully Convertible Debentures Series-1 (ZCOFCD) and their earlier date of redemption or conversion was not disclosed by the Respondent in the financial statements of the Company. In this regard, the Respondent had contended that debentures (ZCOFCD) were convertible in nature not redeemable so their date of conversion was not required to be disclosed as per part-1 of Schedule-VI of Company Act, 1956.

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*"The relevant provision of Part-I of Schedule -VI of Company Act, 1956 require that Terms of redemption or conversion (if any) of debentures issued to be stated together with earliest date of redemption or conversion."*

In view of the above provision, it was stated that Debentures (ZCOFCD) were required to be mentioned with their earliest date of conversion as per the requirement of Part-1 of Schedule VI of the Companies Act, 1956. Also, both the date of conversion as well as the date of redemption was required to be mentioned in the financial Statement and the Respondent's contention in this regard that only the date of redemption was required to be mentioned in the financial Statement and not the date of conversion does not seem correct. Hence, the Respondent was prima facie **GUILTY** of Professional Misconduct falling within the meaning of Clause (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949.

3.6 With regard to **Seventh Allegation**, it was noted that the Informant had alleged against the Respondent in context of violation of SA-700 (Forming an Opinion and Reporting on Financial Statements). However, it was noted that the Respondent had conducted the statutory audit of the Company for the FY 2007-08 whereas SA-700 was made applicable for all audits relating to accounting periods beginning on or after 1st April, 2011 which got further postponed by one year and consequently the said standard was made applicable for audits of financial statements for periods beginning on or after 1st April, 2012. In view of the same, it was evidently clear SA-700 was not applicable during FY 2007-08 to the Respondent when he had issued his audit report for the said period.

3.6.1 However, to consider the allegation of the Informant, it was viewed that during FY 2007-08 with respect to the said allegation, a similar AAS-28 (The Auditor's Report on Financial Statements) was effective. In this regard, the relevant extracts of the said standard are as follows-

*"Opening or Introductory Paragraph*

*9. The auditor's report should identify the financial statements<sup>3</sup> of the entity that have been audited, including the date of and period covered by the financial statements.*

*The Council of the Institute has made Accounting Standard (AS) 3, Cash Flow Statements, mandatory for certain entities in respect of accounting periods commencing on or after 1.4.2001. Further, the Council has also decided that AS 3 should also be treated as a "specified" accounting standard for the purpose of section 211 of the*

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*Companies Act, 1956 and thereby making the cash flow statements a part of the balance sheet and profit and loss account. However, irrespective of the fact that the cash flow statement is considered to be a part of the balance sheet and profit and loss account, the opening or the introductory paragraph of the auditor's report on financial statements of such companies and other entities for which AS 3 has been made mandatory, would also identify the cash flow statement as a part of the financial statements audited apart from the balance sheet and profit and loss account." (emphasis added)*

10. *"The report should include a statement that the financial statements are the responsibility of the entity's management and a statement that the responsibility of the auditor is to express an opinion on the financial statements based on the audit." (emphasis added)*

3.6.2. On the perusal of the documents on records along with the above relevant extracts of AAS-28, it was noted that the said standard prescribes the consideration of cash flow statement in the opening or the introductory paragraph of the auditor's report on financial statements along with the disclosure of auditor's responsibility to express an opinion on the financial statements based in his Audit Report. However, the Respondent had failed to mention the said facts in his Audit Report, accordingly, the Respondent was held prima facie **GUILTY** of Professional Misconduct falling within the meaning of Clauses (5), (7) & (9) of Part I of Second Schedule to the Chartered Accountants Act, 1949 in instant case for the violation of AAS-28.

3.7. With regard to **Eighth Allegation**, it was noted that the Informant had alleged against the Respondent in context of violation of SA-700 (Forming an Opinion and Reporting on Financial Statements). However, it was noted that the Respondent had conducted the statutory audit of the Company for the FY 2007-08 whereas SA-700 was made applicable for all audits relating to accounting periods beginning on or after 1st April, 2011 which got further postponed by one year and consequently the said standard was made applicable for audits of financial statements for periods beginning on or after 1st April, 2012. In view of the same, it was evidently clear SA- 700 was not applicable during FY 2007-08 to the Respondent when he had issued his audit report for the said period.

3.7.1 However, to consider the allegation of the Informant, it was viewed that during FY 2007-08 with respect to the said allegation, a similar AAS-28 (The Auditor's Report on Financial Statements) was effective. In this regard, the relevant extracts of Paragraph 41 of the said standard are as follows-

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*"41. Whenever the auditor expresses an opinion that is other than unqualified, a clear description of all the substantive reasons should be included in the report and, unless impracticable, a quantification of the possible effect(s), individually and in aggregate, on the financial statements should be mentioned in the auditor's report. In circumstances where it is not practicable to quantify the effect of modifications made in the audit report accurately, the auditor may do so on the basis of estimates made by the management after carrying out such audit tests as are possible and clearly indicate the fact that the figures are based on management estimates. Ordinarily, this information would be set out in a separate paragraph preceding the opinion or disclaimer of opinion and may include a reference to a more extensive discussion, if any, in a note to the financial statements" (emphasis added)*

3.7.2 On the perusal of the documents on records along with the above relevant extracts of AAS-28, it was noted that the said standard prescribes that in case it was not practicable to quantify the effect, the auditor may rely upon management's estimates after carrying out such audit test as are possible in the said cases and also state the fact that the figures are based on management estimates. It was noted from the Respondent's submission that due to technical in nature it was not possible to quantify the value which was to be disclosed in Audit Report. On perusal of the Audit Report of the Respondent, it was further noted that although the Respondent had provided reason for qualification, but he had failed to apply audit test in this regard as mandated in AAS-28 and further failed to quantify the said amounts in his Auditor Report. Accordingly, the Respondent was held prima facie **GUILTY** of Professional Misconduct falling within the meaning of Clauses (7) & (9) of Part I of Second Schedule to the Chartered Accountants Act, 1949 in instant case for the violation of AAS-28.

3.8 With regard to **Ninth Allegation**, it was noted that the Informant had alleged against the Respondent in context of violation of SA-700 (Forming an Opinion and Reporting on Financial Statements). However, it was noted that the Respondent had conducted the statutory audit of the Company for the FY 2007-08 whereas SA-700 was made applicable for all audits relating to accounting periods beginning on or after 1st April, 2011 which got further postponed by one year and consequently the said standard was made applicable for audits of financial statements for periods beginning on or after 1st April, 2012. In view of the same, it was evidently clear SA- 700 was not applicable during FY 2007-08 to the Respondent when he had issued his audit report for the said period.

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3.8.1 However, to consider the allegation of the Informant, it was viewed that during FY 2007-08 with respect to the said allegation, a similar AAS-28 (The Auditor's Report on Financial Statements) was effective. In this regard, the relevant extracts of Paragraph 28 of the said standard are as follows-

*"28. The report should be signed by the auditor in his personal name. Where the firm is appointed as the auditor, the report should be signed in the personal name of the auditor and in the name of the audit firm. The partner/proprietor signing the audit report should also mention the membership number assigned by the Institute of Chartered Accountants of India."*  
(emphasis added)

3.8.2 In view of the above extracts it was pertinent to note here that as per paragraph 28 of AAS-28 (which is now replaced by SA-700) as mentioned above, the membership number in Audit Report was required to be mentioned with effect from 1st April 2003 when the said standard AAS- 28 became effective. Accordingly, the contention of the Respondent was not acceptable and accordingly he was held prima facie **GUILTY** of Professional Misconduct falling within the meaning of Clause (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949 in instant case for the violation of AAS-28.

3.9 With regard to **Tenth Allegation**, it was noted that the Respondent was required to mention the cash losses for current financial year as well as for the preceding financial year in Annexure to the Auditor Report. However, on perusal of the CARO, 2003 Audit Report of the Company for the FY 2007-08, it was noted that the Respondent had mentioned that the Company had incurred cash losses during the current financial year, however, admittedly he had failed to mention the cash losses incurred during the previous year as mandated in Clause 4(x) of the Companies (Auditor's Report) Order (CARO) 2003. Accordingly, the Respondent was held prima facie **GUILTY** of Professional Misconduct falling within the meaning of Clauses (5) & (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949 in instant case for the violation of the Clause 4(x) of CARO, 2003.

3.10 With regard to **First leg of eleventh Allegation**, on perusal of the documents on record along with the analysis of the above clauses, it was noted that the Respondent had remain silent and failed to submit anything in Written Statement regarding the reporting of clause 4(xii) of CARO, 2003 which requires with respect to the adequacy of documents and records in respect of cases where the loans and advances have been granted against security of shares,

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debentures and other securities. Further, it was also noted on perusal of the CARO Report, 2003, the Respondent had failed to give the reporting on whether the adequate documents and records are maintained by the Company as required in Clause 4(xii). Accordingly, the Respondent is held prima facie **GUILTY** of Professional Misconduct falling within the meaning of Clause (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949 in instant case for the violation of the Clause 4(xii) of CARO, 2003.

3.11 Accordingly, the Director (Discipline) in his Prima Facie Opinion dated 28<sup>th</sup> September 2020 opined that the Respondent is prima facie **GUILTY** of Professional Misconduct falling within the meaning of Clauses (5), (7) and (9) of Part I of the Second Schedule to the Chartered Accountants Act, 1949. The said Clauses of the Schedule to the Act, states as under:

**Clause (5) of Part I of the Second Schedule**

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

x                    x                    x                    x                    x                    x                    x

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

**Clause (7) of Part I of the Second Schedule**

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

x                    x                    x                    x                    x                    x                    x

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

**Clause (9) of Part I of the Second Schedule:**

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

x                    x                    x                    x                    x                    x                    x

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

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3.12 The Prima Facie Opinion formed by the Director (Discipline) was considered by the Disciplinary Committee in its meeting held on 20<sup>th</sup> September 2022. The 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 Clauses (5), (7) and (9) 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.

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	Dated
1.	Date of Information	07 <sup>th</sup> September, 2016
2.	Date of Written Statement filed by the Respondent	29 <sup>th</sup> November, 2016
3.	Date of Rejoinder filed by the Complainant	---
4.	Date of Prima Facie Opinion formed by Director (Discipline)	28 <sup>th</sup> September, 2020
5.	Written Submissions filed by the Respondent after Prima Facie Opinion	12 <sup>th</sup> January, 2023 & 19 <sup>th</sup> November, 2025

5. Written Submissions filed by the Respondent: -

5.1 The Respondent vide letter dated 12<sup>th</sup> January 2023 had inter alia, made the submissions which are given as under –

- Since information was based on audit conducted more than 7 years , so this case is time barred as under Rule 12 of CA Rules 2007.
- The Respondent submitted that reference is drawn to Notes to Accounts appearing at Schedule 16 under para 1(a) and 1(b) of financial statements for the year 2006-07 and further reference is drawn to Notes to Accounts appearing at Schedule 17 under para 1(a) and 1(b) of the financial statements for the year 2007-08. It is further submitted that combined reading of notes to account for the year 2006-07 & 2007-08 read with schedule "2" (A) debentures, the amount appearing under the head interest accrued and due was transferred to Profit & Loss

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Account under the head Prior Period & Extraordinary Expenses. Full disclosure was given in the Notes to Accounts by the Company. Hence, the allegation that there was a failure on the part of the Respondent to draw attention to this deviation in his audit report is wrong and denied.

- Reliance is placed on SA 230 to submit that a statutory auditor is obliged to retain documents relating to an audit for a period of 7 year only. Since document retention period already expired, respondent has no material on basis of which as effective defense could be submitted.
- Miscellaneous Expenditure incurred on share issue falls under exclusion clause as per para 5 of AS 26 i.e. intangible assets.
- In FY 2008-2009, Hon'ble High Court of Bombay, has given specific direction to the Company regarding conversion of NCDs into equity shares. Accordingly, Company allotted equity shares of Rs. 2/- each against NCDs of Rs. 60/- each on basis if arrangement confirmed by the Court.
- The option of conversion or redemption was with lenders of the Company and at no stage lenders has exercised option of before the date it was disclosed in the accounts.
- An error has occurred inadvertently in opening paragraph as respondent has mentioned cash flow statement at other two places.
- Completed services contract method was method of accounting which recognizes revenue in the statement of profit & loss account only when rendering of services under a contract is completed or substantially completed.
- Informant has not come to the Hon'ble ICAI with complete and true facts. Secondly the Complainant was not having power to file the complaint as it was barred by Rule 12 of the Rules, 2007. Thirdly, the Informant has not enclosed any documents which show the involvement of the Respondent. Fourthly, the Informant has not enclosed complete documents as envisaged in the complaint at various places. Fifthly, the Informant has deliberately suppressed material facts.

5.2 During the hearing held on 03<sup>rd</sup> November, 2025 the Committee directed the Respondent to file clarifications on certain charges. The Respondent vide letter dated 19<sup>th</sup> November 2025 had made the submissions which are given as under –

- i) In respect of Charge No 2, the Respondent has submitted as follows:
  - Reference was drawn to the Prima Facie Opinion – Director's Report for the year 2007–08 at page A-27, paragraph 4, wherein it was mentioned that the Company would continue to focus on Ship Repair and Rig Repair business.

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- Reference was further drawn to clauses 7(2) and 7(3) in the Notes to Accounts at pages A-60 and A-61 of the Prima Facie Opinion, where only Ship Repair services/income were mentioned and the term "Ship Building" was nowhere mentioned by the Company.
- Reference was also drawn to the "Information Required as per Part 4 of Schedule VI to the Companies Act, 1956" at page A-64, wherein under product description, only "Ship Repair" found mention in the Balance Sheet Abstract.
- Reference was also drawn to "Additional Information" at point no. 11 required pursuant to Part II of Schedule VI to the Companies Act, 1956 at page A-62, where under capacities and actual production, the Company was described as being in the ship repair industry.
- Further reference was drawn to the VAT Assessment Order for the year 2007-08, which was passed after due deliberation and full scrutiny of the Company's records, wherein it was held that no manufacturing activity was carried out by the Company and only repair activities were undertaken; a copy of the assessment order was enclosed.
- From the above, it was construed that the Company was engaged in the ship repair industry.

ii) In respect of Charge No 5, the Respondent has submitted as follows:

- During the financial year 2007-08, the Company restructured 8,46,100 12% secured redeemable debentures of Rs. 60/- each, fully paid-up, under a scheme of arrangement approved by small debenture holders.
- Accordingly, certain debenture holders (refer Schedule 17-1(a)) exercised the one-time settlement option and were paid by the Company.
- The same was properly disclosed in Schedule 2 (Secured Loans, point no. A: Debentures).
- The conversion of debentures into equity shares was carried out in the financial year 2008-09 on the basis of the order passed by the Hon'ble High Court of Bombay, Goa Bench, dated 27.06.2008.
- As the order was delivered in FY 2008-09, creation of a "Share Suspense Account" in the books of accounts for FY 2007-08 was not required.
- Reference was drawn to the High Court Order dated 27.06.2008 appearing at pages 55-66 of the reply dated 13<sup>th</sup> January 2023.
- Reference was also drawn to the Inter Office Memo dated 26<sup>th</sup> November 2008 at page 67 and the certified copy of the minutes of the meeting of the Board of Directors dated 28<sup>th</sup> August 2008 at pages 68-69 of the reply dated 13<sup>th</sup> January 2023.

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iii) In respect of Charge No 8, the Respondent has submitted as follows:

- Reference was drawn to paragraph 2(e) on page A-44 of the Auditor's Report, where the Respondent had stated that the balance recoverable from Karur Engineering Pvt. Ltd. (Rs. 418.79 lakhs) and Shyam Sunder & Co. (Rs. 368.81 lakhs), on account of settlement made with IndusInd Bank Ltd. in a DRT case and Janta Sahakari Bank respectively, was doubtful of recovery.
- The only difference was an amount of Rs. 0.43 lakh.
- In Schedule 6(E), the said difference was inclusive of one more party amounting to Rs. 0.43 lakh, which was not considered material and hence was not disclosed in the audit report.

iv) In respect of Charge No 11(i), the Respondent has submitted as follows:

- In point no. 12 of the Audit Report, proper disclosure regarding loans and advances and security by way of pledge of shares had been mentioned, and deficiencies in security had also been reported in the Audit Report.
- Attention was drawn to the Guidance Note "Statement on the Companies (Audit Report) Order, 2003" issued by ICAI, clause no. 67(g) (paragraph 4(xii), page no. 59).
- Further reference was made to page A-60, points (i) and (ii) of clause no. 5, where comments on type, security, and value of security appeared, covering the disclosure requirements.
- It was submitted that the Respondent's reporting that "other clauses to the said order are considered to be not applicable to the Company" was correct and could be corroborated by referring to Part (E) of Schedule 6 – Current Assets, Loans and Advances, where the status of loans and advances had been depicted.
- The advances were classified as (a) Advances (Unsecured and Considered Good) and (b) Advances (Considered Doubtful), recoverable in cash or kind or for value to be received.
- Since all the advances were unsecured and the Company had provided provision for doubtful debts, it was correctly mentioned as "Not Applicable" in CARO, 2003.
- It was also significant to note that no fresh loans and advances were given during the year.

v) Respondent also submitted VAT assessment order for the year 2007-08.

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6. **Brief facts of the Proceedings:**

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

S. No.	Date of meeting(s)	Status
1.	05 <sup>th</sup> June, 2023	Part heard and adjourned.
2.	18 <sup>th</sup> September, 2025	Adjourned at the request of Respondent.
3.	03 <sup>rd</sup> November, 2025	Part Heard & Adjourned.
4.	19 <sup>th</sup> November, 2025	Hearing Concluded and Judgment Reserved
5.	15 <sup>th</sup> December, 2025	Decision taken.

- 6.2 On the day of first hearing held on 05<sup>th</sup> June 2023, the Committee noted that the Respondent along-with his Counsel was present through Video conferencing mode. Thereafter, they gave a declaration that there was nobody present except them from where they were appearing and that they would neither record nor store the proceedings of the Committee in any form. Being first hearing of the case, the Respondent was put on oath. Thereafter, the Committee enquired from the Respondent as to whether he was aware of the charges and charges against the Respondent were read out. On the same, the Respondent replied that he is aware of the charge(s) and pleaded 'Not Guilty' to the charge(s) levelled against him. In view of Rule 18 (9) of the Chartered Accountants (Procedure of Investigation of Professional and Other Misconduct and Conduct of Cases) Rules, 2007, the Committee adjourned the case to later date.
- 6.3 On the day of hearing held on 18<sup>th</sup> September 2025, the Committee noted that the Respondent had sought adjournment vide email dated 15<sup>th</sup> September 2025 stating that "Respondent Counsel CA Sandeep Manaktala is travelling to Mumbai to attend hearing in SEBI on 17<sup>th</sup> and 18<sup>th</sup> September 2025. The hearing in SEBI was fixed prior to the hearing fixed by the Hon'ble Disciplinary Committee". Acceding to the request of the Respondent, the Committee adjourned the subject case to a later date.
- 6.4 On the day of hearing held on 03<sup>rd</sup> November 2025, the Committee noted that Respondent along-with Counsel was present in person and appeared before it. Being first hearing of the case, the Respondent was put on Oath. Thereafter, the Committee enquired from the Respondent as to whether he was aware of the charges against him and whether he pleads guilty. The charges as contained in prima facie opinion were also read out.

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On the same, the Respondent replied that he is aware of the charges and pleaded 'Not Guilty' to the charges levelled against him.

The Committee noted that the information shared by the FRRB and the written submissions of the Respondent were on record. The Committee invited the Counsel for the Respondent to make oral submissions on the charges where the Respondent had been held guilty. The Counsel for the Respondent submitted, inter alia, that the audit pertained to F.Y. 2007-08 and the notice from the Director (Discipline) was issued after more than eight years, rendering the proceedings barred by limitation under Rule 12 of the 2007 Rules. It was contended that the delay caused serious prejudice to the Respondent, who no longer had access to records or staff from the relevant period.

The Counsel further submitted that the alleged lapses largely involved interpretation issues or clerical errors without mala fide intent and that adequate disclosures had been made in the financial statements and notes to accounts.

On merits, the Counsel for the Respondent addressed various charges relating to prior period and extraordinary items, construction contracts under AS-7, disclosure of doubtful recoveries, CARO clauses, presentation of debentures, cash flow reporting, and other accounting standards. It was argued that certain standards were not applicable during the relevant period, that disclosures were sufficient, and that in some instances the allegations arose from retrospective application of standards or from issues beyond the auditor's control. The Committee raised specific queries on quantification, adequacy of disclosures, applicability of accounting standards, treatment of debentures, and compliance with CARO reporting requirements, and indicated that further clarification was required on limited points.

The Committee observed that while explanations had been offered on most charges, additional submissions were necessary on certain factual and technical aspects. The Counsel for the Respondent sought time to furnish further written submissions and clarifications. The Committee granted one further opportunity to the Respondent to submit additional written and/or oral submissions on the identified points at the next hearing. With this, the matters were part-heard and adjourned.

- 6.5 On the day of final hearing held on 19<sup>th</sup> November 2025, the Committee noted that Counsel for the Respondent was present through VC and Respondent was present in person and appeared before it. The Committee noted that, in the meeting held on 03.11.2025, detailed oral and written submissions were made by the Counsel of the Respondent, and accordingly, all charges were substantially heard and dealt with during the said meeting. It was further noted that only certain charges, as identified by the Committee, remained to be addressed and were taken up for consideration in the present meeting.

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The Committee asked the Counsel for the Respondent to make oral submissions in addition to the written submissions already filed. The Counsel responded to the charges and provided explanations with reference to the documents placed on record.

With respect to Charge No. 2, the Counsel clarified that the company was not engaged in shipbuilding activities but in ship repair business, as supported by disclosures in the Director's Report.

Regarding Charge No. 5, the Counsel for the Respondent explained the accounting treatment relating to debenture redemption, transfer of amounts to reserves, reduction of equity share capital pursuant to an order of the Hon'ble High Court, and subsequent conversion of debentures into equity shares. It was submitted that the relevant High Court order was received only in the subsequent financial year and therefore accounting entries were appropriately recorded in that year.

On Charge No. 8, the Counsel clarified that the difference between the amount qualified in the audit report and the amount disclosed in the schedule to accounts was marginal and immaterial. It was submitted that the entire balance was treated as doubtful of recovery and adequate provision had been made in the financial statements.

In relation to Charge No. 11(1), the Counsel submitted that disclosures regarding loans and advances, including those secured by way of pledge of shares, had been made in the audit report. It was argued that the loans in question were treated as unsecured loans in the books of account and that no fresh loans were sanctioned during the year. The Counsel for the Respondent made a concluding submission seeking a sympathetic view in light of the Respondent's long and unblemished professional career.

Based on the documents and material available on record and after considering the oral and written submissions made by the Respondent, the Committee concluded the hearing in the matter and judgment was reserved.

6.6 On the day of hearing held on 15<sup>th</sup> December 2025, the Committee noted that the subject case was heard by it at length in the presence of authorized representative of the Complainant and the Counsel for the Respondent and the hearing was concluded at its meeting held on 19.11.2025 and the judgment was reserved. The Committee deliberated on the said case and took decision on the conduct of the Respondent.

6.7 Based on the documents/material and information available on record and the oral and written submissions made by the Respondent, and on consideration of the facts of the case, the Committee concluded the hearing in subject matter and took the decision on the conduct of the Respondent.

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7. Findings of the Committee:-

The Committee noted the background of the case as well as oral and written submissions made by the Respondent, documents / material on record and gives its findings as under: -

The Committee noted that the Respondent has referred the provisions of Rule 12 of the Chartered Accountant (Procedure of Investigations of Professional and Other Misconduct and Conduct of Cases) Rules 2007 which indicate time limit of 7 years on entertaining complaint or information in respect of any misconduct alleged to have been committed by the member of the Institute and the subject charge raised by the Complainant pertain to the period which was more than seven years old and hence need not be entertained in view of provision of Rule 12. The Committee observed that Rule 12 is attracted in a situation / circumstance where on account of time lag, the Respondent faces any difficulty in securing proper evidence for his / her defense and it does not ipso facto render the complaint / information as not maintainable. Further, the Committee noted that sufficient documents/papers are on record, based upon which subject matter may reached at its finality. Therefore, the plea of the Respondent is not maintainable, and the case has been dealt with on merits of the facts / documents on record.

7.1 After dealing with preliminary objections of the Respondent, the Committee noted that there are Ten Charges against the Respondent in which he has been held Prima Facie Guilty and the same has been explained in para 2.1 to 2.10 as above.

7.1.1 In respect of **First Charge regarding non-compliance of AS 5**, the Committee noted from the submissions of Respondent that full disclosure has been given in Notes to Accounts of the Company. Although the Respondent has contended that disclosures were made in the Notes to Accounts for the financial years 2006-07 and 2007-08, a mere reference to prior year notes and a combined reading of multiple schedules does not satisfy the explicit requirement of Paragraph 15 of Accounting Standard AS - 5, which mandates clear and specific disclosure of the nature of prior period items.

The relevant extracts of paragraph 15 of AS-5 to be read as below:

*"15. The nature and amount of prior period items should be separately disclosed in the statement of profit and loss in a manner that their impact on the current profit or loss can be perceived" (emphasis added)*

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- 7.1.2 On the basis of above mentioned requirements of paragraph 15 of AS-5, the Committee observed that the significant income recognized under the head "Prior Period Items" during the financial year 2007-08 was not adequately explained as to its nature in the relevant schedules or notes to accounts of that year. In such circumstances, it was incumbent upon the Respondent, as the statutory auditor, to draw attention to this non-compliance by way of a suitable qualification or emphasis in the audit report. His failure to do so amounts to a lapse in professional judgment and a dereliction of duty.
- 7.1.3 Accordingly, the Respondent is held **GUILTY** of Professional Misconduct within the meaning of Clauses (5) and (7) of Part I of the Second Schedule to the Chartered Accountants Act, 1949 in respect of the said charge.
- 7.2 In respect of **Second Charge**, the Committee on the basis of submissions made by the Respondent, noted that the allegation against the Respondent is premised on the assumption that the Company was engaged in ship building activities and, therefore, the provisions of AS-7 (Construction Contracts), including the disclosure requirements under paragraphs 38 and 39 and recognition of revenue under the percentage of completion method, were mandatorily applicable.
- 7.2.1 However, on examination of the Director's Report for the financial year 2007-08, the Notes to Accounts, the additional disclosures under Schedule VI to the Companies Act, 1956, and the Balance Sheet abstract, it is observed that the Company has consistently represented itself as being engaged in ship repair and rig repair activities. No reference to ship building activity has been made in the Notes to Accounts or in the statutory disclosures forming part of the financial statements. Further, reliance placed by the Respondent on the VAT Assessment Order for the year 2007-08, wherein the competent authority, after scrutiny of the records, concluded that the Company had not undertaken any manufacturing activity and was engaged only in repair activities, lends corroborative support to the Respondent's contention.
- 7.2.2 In the absence of clear evidence on record to establish that the Company had entered into construction contracts falling within the scope of AS 7, the applicability of paragraphs 38 and 39 of AS 7 cannot be conclusively inferred. Consequently, the requirement to disclose the method used to determine the stage of completion of contracts in progress and other related disclosures under AS 7 did not arise. In such circumstances, the Respondent cannot be held responsible for the charge against the Respondent.

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7.2.3 Accordingly, it is held that the charge is not sustained and held **NOT GUILTY** of Professional Misconduct within the meaning of Clauses (5), (7) & (9) of Part I of Second Schedule to the Chartered Accountants Act, 1949 in respect of this charge.

7.3 In respect of **Third Charge**, the Committee noted that the Company has clearly disclosed in its significant accounting policies that provisions towards gratuity and leave encashment were determined on the basis of actuarial valuation. The existence of such provisions and the basis of their measurement were, therefore, adequately disclosed in the Notes to Accounts. The issue pertains not to non-recognition or incorrect recognition of employee benefit liabilities, but to insufficient disclosures envisaged under paragraph 120 of AS-15.

7.3.1 It is observed that the applicability and extent of disclosures under paragraph 120 of AS-15 depend upon the materiality of the defined benefit obligation and the existence of plan assets, actuarial gains and losses, and other related components requiring reconciliation. Paragraph 120 of AS-15 are as follows:

*120. An enterprise should disclose the information about the defined benefit plans:*

- (a) the enterprise's accounting policy for recognising actuarial gains and losses.*
- (b) a general description of the type of plan.*
- (c) a reconciliation of opening and closing balances of the present value of the defined benefit obligation showing separately*  
.....
- (e) a reconciliation of the opening and closing balances of the fair value of plan assets and of the opening and closing balances of any reimbursement right recognised as an asset in accordance with paragraph 103 showing separately, if applicable, the effects during the period attributable to each of the following:*
  - (i) expected return on plan assets,*
  - (ii) actuarial gains and losses,*
  - (iii) foreign currency exchange rate changes on plans measured in a currency different from the enterprise's reporting currency,*
  - (iv) contributions by the employer,*
  - (v) contributions by plan participants,*
  - (vi) benefits paid,*
  - (vii) amalgamations, and*
  - (viii) settlements.....*

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(k) the actual return on plan assets, as well as the actual return on any reimbursement right recognised as an asset in accordance with paragraph 103.

(l) the principal actuarial assumptions used as at the balance sheet date, including, where applicable:

(i) the discount rates;

(ii) the expected rates of return on any plan assets for the periods presented in the financial statements;

(iii) the expected rates of return for the periods presented in the financial statements on any reimbursement right recognised as an asset in accordance with paragraph 103;

(iv) medical cost trend rates; and

(v) any other material actuarial assumptions used. An enterprise should disclose each actuarial assumption in absolute terms (for example, as an absolute percentage) and not just as a margin between different percentages or other variables. Apart from the above actuarial assumptions, an enterprise should include an assertion under the actuarial assumptions to the effect that estimates of future salary increases, considered in actuarial valuation, take account of inflation, seniority, promotion and other relevant factors, such as supply and demand in the employment market..... (emphasis added)

7.3.2 In the present case, there is no material on record to conclusively establish that the gratuity and leave encashment arrangements of the Company involved funded plans or plan assets, or that the omission of the detailed disclosures specified under paragraph 120 had a material impact on the true and fair view of the financial statements. The mere fact that actuarial valuation was carried out does not, by itself, automatically render every disclosure item under paragraph 120 applicable in full measure, particularly where the plans are unfunded and the information available is limited to provisioning charged to revenue.

7.3.3 Accordingly, the charge under the observation is not sustained, and the Respondent is held **NOT GUILTY** of Professional Misconduct within the meaning of Clauses (5), (7) and (9) of Part I of the Second Schedule to the Chartered Accountants Act, 1949 in respect of this charge.

7.4 In respect of **Fourth Charge**, the Committee noted that the miscellaneous expenditure amounting to Rs. 83,06,250 comprised ROC fees and interest paid in connection with the increase in authorised share capital of the Company. This fact is borne out from the Notes to Accounts forming part of the financial statements and has also been specifically explained by the Respondent with reference to the relevant pages of the Balance Sheet and accompanying

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disclosures. Expenditure incurred towards share issue and increase in authorised share capital squarely falls within the exclusionary scope of AS-26 as provided under paragraph 5 thereof, which explicitly excludes share issue expenses and related costs from the application of the Standard. The relevant extracts of the same were reproduced below:

*"5. Exclusions from the scope of an Accounting Standard may occur if certain activities or transactions are so specialized that they give rise to accounting issues that may need to be dealt with in a different way. Such issues arise in the expenditure on the exploration for, or development and extraction of, oil, gas and mineral deposits in extractive industries and in the case of contracts between insurance enterprises and their policyholders. Therefore, this Standard does not apply to expenditure on such activities. However, this Standard applies to other intangible assets used (such as computer software), and other expenditure (such as start-up costs), in extractive industries or by insurance enterprises. Accounting issues of specialized nature also arise in respect of accounting for discount or premium relating to borrowings and ancillary costs incurred in connection with the arrangement of borrowings, share issue expenses and discount allowed on the issue of shares. Accordingly, this Standard does not apply to such items also" (emphasis added)*

- 7.4.1 Once such expenditure is excluded from the ambit of AS-26, the question of expensing the same in accordance with the recognition and measurement principles of AS-26 does not arise. Further, the financial statements clearly disclose the nature of the miscellaneous expenditure and the period over which the same was proposed to be written off, thereby ensuring transparency. In the absence of any material to establish that the miscellaneous expenditure comprised items other than those excluded under paragraph 5 of AS-26, the charge that the Respondent failed to report a deviation from AS-26 is not sustainable.
- 7.4.2 In view of the above, it is held that there was no non-compliance with AS-26 warranting a qualification or adverse comment in the audit report. Accordingly, the Respondent is held **NOT GUILTY** of Professional Misconduct within the meaning of Clause (7) of Part I of the Second Schedule to the Chartered Accountants Act, 1949 in respect of this charge.
- 7.5 In respect of **First leg of Fifth Charge**, the Committee noted that although the scheme of arrangement contemplated conversion of debentures into equity shares, such conversion was expressly subject to approval of the Hon'ble Bombay High Court, including approval relating to reduction in the face value of equity shares. It is also noted that the final order of the Hon'ble High Court sanctioning the conversion was passed only on 27.06.2008, i.e., in the subsequent

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financial year 2008–09. As on the balance sheet date for FY 2007–08, the debentures had neither been converted into equity shares nor had the legal process attained finality.

7.5.1 The Committee noted that there are no specific accounting standards or statutory guidelines mandating the creation of a "Share Capital Suspense Account" in situations where the obligation to issue equity shares has not crystallized as on the balance sheet date. Accordingly, the Respondent's acceptance of management's view to continue the presentation of the said instruments under the head "Debentures," with appropriate disclosure in the Notes to Accounts regarding the pending approval and the options available to debenture holders, cannot be regarded as incorrect or misleading. The creation of a Share Capital Suspense Account presupposes a definitive and enforceable obligation to issue shares, which had not arisen as on the relevant balance sheet dates. The subsequent conversion of debentures in FY 2008–09, as duly disclosed in the later financial statements, further supports the Respondent's position.

7.5.2 The Committee further noted that the accounting treatment adopted by the Company during FY 2006–07 and FY 2007–08 was based on the scheme of arrangement and the interim directions of the Hon'ble Bombay High Court. The transfer of Rs. 13,13,800 arising on redemption of debentures to the Debenture Redemption Reserve, along with the subsequent adjustments carried out during FY 2007–08, including the reduction of the face value of equity shares, were undertaken in compliance with the partial order dated 29.06.2007 and were adequately disclosed in the financial statements. It was also observed that the final confirmation order approving the conversion of debentures into equity shares was received only on 27.06.2008, pursuant to which the actual conversion and allotment of equity shares occurred in FY 2008–09. In the absence of such confirmation as on the balance sheet date for FY 2007–08 and given the lack of any prescribed guidance requiring the creation of a Share Capital Suspense Account, the Committee concluded that no such account was warranted. The accounting treatment adopted by the Respondent was therefore considered appropriate and in consonance with the information, approvals, and guidance available at the relevant time.

7.5.3 Accordingly, the Committee noted that the presentation adopted in the financial statements for FY 2007–08 was a plausible and legally sustainable view, and the Respondent cannot be held responsible for not qualifying the audit report in this regard. Thus, the Committee held the Respondent **NOT GUILTY** for the Professional Misconduct falling within the meaning of

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Clause (5) & (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949 in respect of this charge.

7.6 In respect of **Second Leg of the Fifth Charge**, the Committee noted that Part I of Schedule VI to the Companies Act, 1956, clearly mandates disclosure of the terms of redemption or conversion of debentures, together with the earliest date of redemption or conversion. The Respondent's contention that only the date of redemption was required to be disclosed and not the date of conversion is not supported by the plain language of the statutory requirement. The debentures in question, being optionally convertible in nature, required disclosure of the conversion terms and the earliest date on which such conversion could take place. The omission of such disclosures in the Schedule of Secured Loans and the Notes to Accounts constitutes non-compliance with the mandatory disclosure requirements.

7.6.1 Further, the charge regarding routing of surplus arising on redemption directly to reserves, instead of through the Profit and Loss Account, also warranted specific reporting and evaluation by the auditor. The Respondent failed to draw attention to these disclosure deficiencies and accounting treatment in his audit report.

7.6.2 In view of the above, the Committee holds that the Respondent failed to ensure compliance with the requirements of Part I of Schedule VI to the Companies Act, 1956 and did not appropriately report the same. Such failure amounts to professional misconduct and accordingly, the Respondent is held **GUILTY** of Professional Misconduct falling within the meaning of Clause (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949 in respect of this charge.

7.7 In respect of **Sixth Charge**, the Committee, on perusal of the audit report as a whole, noted that the Respondent has made reference to the Cash Flow Statement at other places in the audit report, including the opinion paragraph, and has also expressed his opinion on the financial statements taken together. This clearly establishes that the audit covered the Cash Flow Statement and that the Respondent had, in substance, discharged his responsibility in accordance with the applicable auditing standards.

7.7.1 The omission of an explicit reference to the Cash Flow Statement in the opening or introductory paragraph, when such reference is otherwise made in subsequent paragraphs of the audit report, appears to be a clerical or typographical error, as explained by the Respondent, rather than a deliberate or substantive departure from the requirements of AAS 28. The Committee also notes that there is no material on record to demonstrate that such

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omission resulted in any misleading audit report or impaired the users' understanding of the scope of the audit or the auditor's opinion.

- 7.7.2 In view of the above, the Committee is of the considered opinion that the same does not amount to professional misconduct. Accordingly, in respect of this charge the Committee is held the Respondent **NOT GUILTY** within the meaning of Clauses (5), (7) & (9) of Part I of Second Schedule to the Chartered Accountants Act, 1949.
- 7.8 In respect of **Seventh Charge**, while examining the matter under AAS 28, it is noted that Paragraph 41 of the said standard itself recognizes situations where it may not be practicable to quantify the possible effects of a qualification and permits reliance on management estimates after carrying out such audit tests as are possible.
- 7.8.1 The Committee noted that the Respondent has submitted specific reference to paragraph 2(e) of the Auditor's Report, where it is observed that the Respondent had clearly identified and disclosed the balances recoverable from Karur Engineering Pvt. Ltd. and Shyam Sunder & Co., aggregating to Rs. 787.60 lakhs, and had expressly stated that the said amounts were doubtful of recovery. The Respondent has further explained that the apparent difference of Rs. 0.43 lakh between the figures reported in the audit report and those appearing in Schedule 6(E) given in Balance Sheet arose due to inclusion of one additional party in the schedule, which was not considered material in the context of the overall balances involved. Having regard to the magnitude of the amounts disclosed and the nature of the difference involved, the Committee finds merit in the Respondent's contention that the variance of Rs. 0.43 lakh was immaterial and did not warrant separate disclosure in the audit report.
- 7.8.2 Further, on perusal of the audit report, it is evident that the Respondent had clearly brought out the issue of doubtful recovery by specifically identifying the parties and the amounts involved. The audit report also discloses that the recoverability was doubtful based on the information and explanations provided by the management, and the Respondent has expressly relied on the same, the matter being technical in nature. Further, the records indicate that the Company had already created provisions for doubtful debts in its accounts, as reflected in the relevant schedule, thereby mitigating the impact of the uncertainty on the financial statements.
- 7.8.3 In such circumstances, the requirement of further quantification in the audit report loses significance, as the potential effect had already been recognized in the accounts through provisioning. The Respondent's qualification, therefore, served the purpose of drawing users'

attention to the uncertainty surrounding recoverability, without resulting in any misleading impression. The absence of additional quantification cannot be construed as a failure to comply with AAS 28, particularly when the standard itself allows non-quantification where impracticable and when adequate disclosure has otherwise been made.

- 7.8.4 Accordingly, the Committee is of the considered view that the Respondent has exercised his professional judgment in a reasonable manner and that the charge does not establish any professional misconduct. Accordingly, in respect of this charge the Committee held the Respondent **NOT GUILTY** within the meaning of Clauses (7) & (9) of Part I of Second Schedule to the Chartered Accountants Act, 1949.
- 7.9 In respect of **Eighth Charge**, the Committee noted the Respondent's admission that the omission to mention the membership number occurred due to an inadvertent oversight and was not deliberate or intended to mislead.
- 7.9.1 On perusal of the audit report, it is evident that the report was duly signed by the Respondent in his personal name and in the name of the audit firm, thereby clearly establishing the identity and accountability of the auditor. The omission of the membership number, though a procedural requirement under paragraph 28 of AAS 28, did not affect the validity of the audit report, the audit opinion expressed therein, or the users' understanding of the auditor's responsibility and authority. No prejudice has been shown to have been caused to any stakeholder on account of such omission.
- 7.9.2 In the facts and circumstances of the case, the lapse is of a technical and venial nature, arising out of oversight, and does not amount to professional misconduct warranting disciplinary action. Accordingly, the Committee held the Respondent **NOT GUILTY** within the meaning of Clause (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949 in respect of this charge.
- 7.10 In respect of **Ninth Charge**, the Committee noted that Clause 4(x) of the Companies (Auditor's Report) Order, 2003 clearly mandates the auditor to report, in case of a company registered for a period not less than five years, whether the company has incurred cash losses during the financial year under audit as well as in the immediately preceding financial year. In this regard Clause 4(x) of the Companies (Auditor's Report) Order (CARO), 2003 provides as under:

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*"Whether in case of company which has been registered for a period not less than five years, its accumulated losses at the end of the financial year are not less than fifty percent of its net worth and whether it has incurred cash losses in such financial year and in the financial year immediately preceding such financial year." (Emphasis added)*

7.10.1 On perusal of the Annexure to the Auditor's Report for the financial year 2007-08, it is evident that while the Respondent has reported the cash losses incurred during the current financial year, he has omitted to report the cash losses incurred during the immediately preceding financial year, i.e., FY 2006-07. The Respondent's explanation that the position of losses remained the same does not absolve him from the statutory requirement of explicit reporting for both the years, as mandated under Clause 4(x) of CARO, 2003. The requirement is specific and unambiguous, and compliance therewith is not optional or inferential.

7.10.2 Accordingly, the Committee observed that the Respondent has failed to comply with the mandatory reporting requirement of Clause 4(x) of CARO, 2003. The said failure amounts to professional misconduct and accordingly, the Respondent held **GUILTY** of Professional Misconduct falling within the meaning of Clauses (5) & (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949 in instant charge.

7.11 With respect to **First leg of Tenth Charge**, the Committee noted that the loans and advances granted by the company during the relevant financial year were unsecured in nature, as evidenced from Part (e) of Schedule 6 to the financial statements and the disclosures made therein. In this regard following are the relevant extracts of Clause 4(xix) and Clause 4(xii) of Companies (Auditor's Report) Order, 2003 –

*"(xii) whether adequate documents and records are maintained in cases where the company has granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities; If not, the deficiencies to be pointed out.*

*(xix) whether securities have been created in respect of debentures issued?"*

7.11.1 This factual position has not been controverted. Clause 4(xii) of CARO, 2003 is attracted only in cases where loans and advances are granted against security by way of pledge of shares, debentures, or other securities. In the absence of any such secured loans or advances, the said clause does not become applicable.

7.11.2 Further, the Respondent's reporting in the CARO Annexure that certain clauses were not applicable to the Company is supported by the disclosures in the financial statements and is

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in consonance with the Guidance Note on CARO, 2003 issued by the Institute of Chartered Accountants of India. Merely because a separate, clause-wise "not applicable" remark was not repeated does not, in the facts of the present case, amount to non-compliance or professional lapse, particularly when the underlying factual position clearly establishes non-applicability of the clause.

7.11.3 In view of the above, the Committee observed that the Respondent cannot be held responsible for non-reporting under Clause 4(xii) of CARO, 2003 when the said clause itself was not applicable to the Company. Accordingly, the Respondent is held **NOT GUILTY** of Professional Misconduct falling within the meaning of Clause (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949 in instant case.

7.12 On overall consideration of above findings, the Committee held the Respondent **GUILTY** of Professional Misconduct falling within the meaning of Clauses (5) & (7) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

#### 8. Conclusion:

In view of the findings stated in 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 2.1 as given above	Paras 7.1.1 to 7.1.3 as given above	<b>GUILTY</b> - Clauses (5) & (7) of Part I of Second Schedule.
Para 2.2 as given above	Paras 7.2 to 7.2.3 as given above	<b>NOT GUILTY</b> - Clauses (5), (7) & (9) of Part I of Second Schedule.
Para 2.3 as given above	Paras 7.3 to 7.3.4 as given above	<b>NOT GUILTY</b> - Clauses (5), (7) & (9) of Part I of Second Schedule.
Para 2.4 as given above	Paras 7.4 to 7.4.2 as given above	<b>NOT GUILTY</b> - Clause (7) of Part I of the Second Schedule.
Para 2.5 as given above	Paras 7.5 to 7.5.3 as given above	<b>NOT GUILTY</b> - Clauses (5) & (7) of Part I of Second Schedule.
Para 2.5.1 as given above	Paras 7.6 to 7.6.2 as given above	<b>GUILTY</b> - Clause (7) of Part I of the Second Schedule.

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Para 2.6 as given above	Paras 7.7 to 7.7.2 as given above	<b>NOT GUILTY</b> - Clauses (5), (7) & (9) of Part I of Second Schedule.
Para 2.7 as given above	Paras 7.8 to 7.8.4 as given above	<b>NOT GUILTY</b> - Clauses (7) & (9) of Part I of Second Schedule.
Para 2.8 as given above	Paras 7.9 to 7.9.2 as given above	<b>NOT GUILTY</b> - Clause (7) of Part I of Second Schedule.
Para 2.9 as given above	Paras 7.10 to 7.10.2 as given above	<b>GUILTY</b> - Clause (5) & (7) of Part I of Second Schedule.
Para 2.10 as given above	Paras 7.11 to 7.11.3 as given above	<b>NOT GUILTY</b> - Clause (7) of Part I of Second Schedule.

9. In view of the above observations, considering the oral and written submissions of the parties and material on record, the Committee held the Respondent **GUILTY** of Professional Misconduct falling within the meaning of Clauses (5) & (7) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

Sd/-  
(CA. PRASANNA KUMAR D)  
PRESIDING OFFICER

Sd/-  
(MS. DAKSHITA DAS, I.R.A.S., RETD.)  
GOVERNMENT NOMINEE

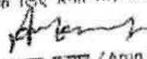
Sd/-  
(ADV. VIJAY JHALANI)  
GOVERNMENT NOMINEE

Sd/-  
(CA. MANGESH P KINARE)  
MEMBER

Sd/-  
(CA. SATISH KUMAR GUPTA)  
MEMBER

DATE: 30<sup>th</sup> January 2026

PLACE: New Delhi

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The Institute of Chartered Accountants of India  
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ICAI Bhawan, C-1, Sector-1, Noida-201301 (U.P.)