



# 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/FRRB/32/2020/DD/17/INF/2020/DC/1822/2023]**

In the matter of:

**CA. Laxmi Narain Jain (M. No. 072579),**  
501, Devika Tower 6,  
Nehru Place  
New Delhi – 110019

...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: 10<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. Laxmi Narain Jain (M. No. 072579)** (hereinafter referred to as the **Respondent**) is **GUILTY** of Professional Misconduct falling within the meaning Clause (7) of 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 a communication was addressed to him thereby granting an opportunity of being heard in person/



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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> February 2026, the Respondent has not come either physically or through VC. However, he has sent an email dated 04<sup>th</sup> February 2026 stating that he has not committed any professional or other misconduct. The Respondent requested the Committee to pass such order as it may deem fit.

4. The Committee considered the reasoning as contained in Findings holding the Respondent 'Guilty' of Professional Misconduct vis-à-vis written 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, the Committee noted that FRRB observed certain non-compliances with regard to SA-705, SA-706, CARO, 2016 and AS 3 with reporting obligations and disclosure requirements in the General Purpose Financial Statements in respect of Prakash Industries Limited for the financial year ended 31<sup>st</sup> March, 2016 being audited by the Respondent. In respect of charge regarding disclosure of Foreign Currency Convertible Bonds's as long term borrowing under the head of non-current liability it is noted that the Respondent primarily relied on a legal opinion while concluding on the classification of the borrowing. Hence, the Respondent has not complied with the requirements of SA 705 and SA 706 while reporting this issue in his audit report.

6. Regarding non-compliance of requirements of CARO, 2016, the Committee noted that the requirements of paragraph 42(q) and paragraph 42(f) of Guidance Note on Companies (Auditor's Report) Order, 2016, have not been complied with.

7. Thereafter regarding non-compliance relating to Cash Flow Statements, it is noted that the requirements of Para 21 of AS 3 have not been complied with. Hence, the Professional Misconduct on the part of the Respondent is clearly established as spelt out in the Committee's



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Findings dated 30<sup>th</sup> January 2026 which is to be read in consonance with the instant Order being passed in the case.

8. 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.

9. Thus, the Committee upon considering the nature of charges, ordered that the Respondent i.e. CA. Laxmi Narain Jain (M. No. 072579), New Delhi be REPRIMANDED under Section 21B(3)(a) of the Chartered Accountant 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

निशा शर्मा / Nisha Sharma

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/FRRB/32/2020/DD/17/INF/2020/DC/1822/2023]**

**In the matter of:**

**CA. Laxmi Narain Jain (M. No.072579),  
501, Devika Tower 6,  
Nehru Place  
New Delhi – 110019**

**...Respondent**

**MEMBERS PRESENT:**

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

**DATE OF FINAL HEARING : 15<sup>th</sup> December 2025**

**PARTIES PRESENT:**

**Counsel for the Respondent**

**: CA. Utsav Hirani (Through VC)**

**1. Background of the Case:**

- 1.1 A letter dated 10<sup>th</sup> June, 2000 was received from Financial Reporting Review Board (FRRB) against the Respondent wherein FRRB observed certain non-compliances with regard to AS-16, AS-22, SA-550, SA-705, CARO, 2016 and Schedule III to the Companies Act, 2013 with reporting obligations and disclosure requirements in the General Purpose Financial Statements in respect of **Prakash Industries Limited** (hereinafter referred as to the "**Company**") for the financial year ended 31<sup>st</sup> March, 2016 being audited by the Respondent.

**2. Charges in brief:**

The Committee noted that the charges levelled against the Respondent in which he has been held guilty in PFO, are as under:-

- 2.1 **Non-compliance of requirements of AS 22, 'Accounting for Taxes on Income' as well as "Guidance Note on Accounting for Credit Available in respect of Minimum Alternative Tax under the Income Tax Act, 1961":** The Company had recognised the MAT credit entitlement under the heading of long term loans and advances but there should be convincing evidence to utilise the MAT credit. It had been alleged that detailed note on components of DTA (deferred tax assets) / DTL (deferred tax liabilities) has not been provided in the notes to Accounts. Further, it had also been alleged that accounting policy of Taxes on Income is not appropriate.
- 2.2 **Non-compliance of requirements of Part I, Schedule III to the Companies Act, 2013 as well as SA 705:** It had been alleged that the Company has issued the Foreign Currency Convertible Bonds (FCCB) of US \$ 24.30 million which is already due for payment on 30th April, 2015 and company is still in the process of discussion with the bondholders for restructuring, which is pending as on the date of the financial statement. However, on the basis of legal opinion, Company had shown this amount as long term borrowing under broad head of non-current liabilities instead of showing under current liabilities. Further, the auditor should have qualified his opinion instead of giving emphasis of matter on the above stated matter.
- 2.3 **Non-compliance of requirements of AS 16, Borrowing Costs:** It had been alleged that the accounting policy on borrowing costs as well as foreign currency transactions are not properly elaborated relating to capitalisation of exchange rate differences and borrowings to capital work in progress.
- 2.4 **Non-compliance of requirements of SA 550, Related Parties:** It had been alleged that Company had disclosed in the financial statements that related party relationships are as identified by the management and relied upon by auditors. The auditor should have objected to the company making such statement in the financial statements under Related party disclosures.
- 2.5 **Non-compliance of requirements of CARO, 2016:** It had been alleged that the following discrepancies were observed in respect of Clause (vii) of CARO, 2016:
- (a) It was noted from clause (vii)(a) of Annexure to the Auditor's Report that total outstanding undisputed statutory dues for more than 6 months of Rs. 772 lakhs was given but not classified into various statutes to which the undisputed amount relates as required by clause 3(vii)(a) of CARO, 2016.

(b) It was further noted from clause (vii)(b) of Annexure to the Auditor's Report that period to which the disputed statutory dues relates had not been mentioned as required by clause 3(vii)(b) of CARO, 2016.

2.6 **Non-compliance of requirements of AS 3, Cash Flow Statements:** It had been alleged that Company had disclosed the proceeds/ (repayments) of loans on net basis in cash flow statement instead of showing separate figures of gross receipts and repayments. By reporting the figures on net basis was not in line with the requirements of Paragraph 21 of AS 3.

3. **The relevant issues discussed in the Prima Facie Opinion dated 22<sup>nd</sup> November 2022 formulated by the Director (Discipline) in the matter, in brief, are given below (only in respect of allegations in which the Respondent had been held prima facie guilty):**

3.1 With regards to **first charge** mentioned in para 2.1 above, on perusal of the FRRB's observation along with the submission of the Respondent, it was noted that paragraphs 17 and 32 of AS 22, which reads as follows:

*"17. Where an enterprise has unabsorbed depreciation or carry forward of losses under tax laws, deferred tax assets should be recognized only to the extent that there is virtual certainty supported by convincing evidence that sufficient future taxable income will be available against which such deferred tax assets can be realized.*

**Explanation:**

*Determination of virtual certainty that sufficient future taxable income will be available is a matter of judgement based on convincing evidence and will have to be evaluated on a case to case basis. Virtual certainty refers to the extent of certainty, which, for all practical purposes, can be considered certain. Virtual certainty cannot be based merely on forecasts of performance such as business plans. Virtual certainty is not a matter of perception and is to be supported by convincing evidence. Evidence is a matter of fact. To be convincing, the evidence should be available at the reporting date in a concrete form, for example, a profitable binding export order, cancellation of which will result in payment of heavy damages by the defaulting party. On the other hand, a projection of the future profits made by an enterprise based on the future capital expenditures or future restructuring etc., submitted even to an outside agency, e.g., to a credit agency for obtaining loans and accepted by that agency cannot, in isolation, be considered as convincing evidence."*

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*"32. The nature of the evidence supporting the recognition of deferred tax assets, should be disclosed, if an enterprise has unabsorbed depreciation or carry forward of losses under tax laws."*

It was noted that paragraph 11 of Guidance Note on "Accounting for Credit Available in respect of Minimum Alternative Tax under the Income Tax Act, 1961", inter alia provides as follows:

*"...MAT credit should be recognized as an asset only when to the extent there is convincing evidence that the company will pay normal income tax during the specified period."*

- 3.1.1 It was observed that MAT credit entitlement amounting to Rs. 24,648 lakhs had been recognised as an asset by the Company under the note on long-term loans and advances without taking into consideration convincing evidence. It was noted that, as per the Guidance Note on Accounting for Credit in respect of Minimum Alternate Tax, MAT credit should have been recognised only if there existed convincing evidence to demonstrate that the company would pay normal tax during the specified period. However, the Respondent had stated in his written statement that, while finalising the accounts for the year ended 31<sup>st</sup> March 2016, various evidences had been provided to him by the management, such as certified future projections, and that other additional procedures had been adopted by him to authenticate the conclusive evidence.
- 3.1.2 However, it was observed that the nature of conclusive evidence such as a profitable binding export order etc. on the basis of which the recognition of MAT credit entitlement as an asset should be disclosed by the Company. Thus, the non- disclosure of conclusive evidence in the accounting policy or notes to accounts given in the financial statements of the Company to exhibit that how company will pay normal tax in future, tantamount to the violation of AS 22 and Guidance Note on "Accounting for Credit Available in respect of Minimum Alternative Tax".
- 3.1.3 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.
- 3.2 With regard to **second charge** as mentioned in para 2.2 above, on perusal of the FRRB's observation along with the submission of the Respondent, it was noted that paragraph 7 and A7 of SA 705, Modifications to the Opinion in the Independent Auditor's Report, provides that;

*"7. The auditor shall express a qualified opinion when:*

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- (a) *The auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements; or*
- (b) *The auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive."*

*"A7. In relation to the appropriateness or adequacy of disclosures in the financial statements, material misstatements of the financial statements may arise when:*

- (a) *The financial statements do not include all of the disclosures required by the applicable financial reporting framework;*
- (b) *The disclosures in the financial statements are not presented in accordance with the applicable financial reporting framework; or*
- (c) *The financial statements do not provide the disclosures necessary to achieve fair presentation."*

It was also noted that paragraph A3 of SA 706, Emphasis of Matter Paragraphs And Other Matter Paragraphs, provides as follows:

*"A3. The inclusion of an Emphasis of Matter paragraph in the auditor's report does not affect the auditor's opinion. An Emphasis of Matter paragraph is not a substitute for either:*

- (a) *The auditor expressing a qualified opinion or an adverse opinion, or disclaiming an opinion, when required by the circumstances of a specific audit engagement; or*
- (b) *Disclosures in the financial statements that the applicable financial reporting framework requires management to make."*

From the perusal of the financial statements of Prakash Industries Limited for the financial year ended 31<sup>st</sup> March 2016, it was noted that there was a wrong classification of FCCB of US\$ 24.30 million which is already due for payment on 30<sup>th</sup> April, 2015 as long-term borrowing under broad head of non-current liabilities instead of showing under the head of current liabilities merely on the basis of legal opinion.

It was viewed that the said liability should have been classified as current liability in terms of Schedule III of the Companies Act, 2013 and the legal opinion in no way affects the maturity pattern of the liability as it is due to be settled within twelve months after the reporting date as required by paragraph 7.1.3 of 'General Instructions for Preparation of Balance Sheet of Schedule III to Companies Act, 2013', which is reproduced as under;

*"7.1.3. A liability shall be classified as current when it satisfies any of the following criteria:*

- (a) It is expected to be settled in the company's normal operating cycle;*
- (b) It is held primarily for the purpose of being traded;*
- (c) It is due to be settled within twelve months after the reporting date; or*
- (d) The company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.*

*All other liabilities shall be classified as non-current."*

Having regard to above, it was noted that a material misstatement may also arise when the disclosures in the financial statements are not made in accordance with the applicable financial reporting framework. In the instant case, though amount involved may not be material in terms of the size of balance sheet, however, since this involves wrong disclosure vis a vis applicable financial reporting framework, the same is a material misstatement in the financial statements for which the Respondent as an auditor was required to qualify his report in terms of requirement of SA 705. Further, the classification of heading itself had been changed due to wrong disclosure of FCCB amounting to US\$ 24.30 million causing an over statement of non-current liabilities and understatement of current liabilities by the said amount.

However, despite the above, the Respondent had merely reported the same under an emphasis of matter instead of providing qualification on the subject matter in his audit report. Thus, the Respondent had not complied with the requirements of SA 705 and SA 706 while reporting this issue in his audit report. 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.

- 3.3 With regard to **third charge** mentioned in para 2.3 above, on perusal of the FRRB's observation along with the submission of the Respondent, it was noted from Paragraph 1(h) & 1(k) on accounting policy of Foreign Currency Transactions and Borrowing Costs given in the Annual Report, which reads as under:

**"(h) Foreign Currency Transactions**

Foreign Currency Transactions are recorded in the accounts at the rates existing at the time of transaction and any exchange difference arising at the time of realisation is dealt within the Profit & Loss Account. Outstanding Foreign Currency monetary items are translated at the

year-end rates. The amount of Exchange rate difference debited to Capital work in progress during the year is Rs. 2,245 lakhs (Rs. 1,742 lakhs).

**(k) Borrowing Costs**

The borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset which necessarily take a substantial period of time to get ready for their intended use are capitalised on that asset. Other borrowing costs are charged to revenue account. The amount of borrowing cost charged to Capital work in progress during the year is Rs. 1,124 lakhs (Rs. 3,503 lakhs)”

It was noted that Paragraphs 6 and 3.2 of AS 16, Borrowing Costs, provides principles for recognition of borrowing costs. From this, it was noted that only the borrowing costs incurred in relation to acquisition or construction of a qualifying asset is eligible for capitalization and a qualifying asset is one that takes substantial period of time to get ready for its intended use which is usually considered to be a period of twelve months. Other borrowing costs should be recognised as an expense in the period in which they are incurred.

From perusal of audited financial statement of the Company for financial year 2015-16, it was noted from paragraphs 1(h) & 1(k) on accounting policy of Foreign Currency Transactions and Borrowing Costs that the Company had debited the exchange rate differences amounting to Rs. 2,245 lakhs as well as borrowing cost amounting to Rs. 1,124 lakhs debited to capital work in progress.

If one go through the provisions as contained in AS 16, it is clear that two treatments of borrowing costs have been suggested i.e., either to charge the borrowing cost in Statement of Profit & Loss or to capitalize it. There was no concept that borrowing cost can be transferred to capital work in progress. However, from perusal of financial statements, it was noted that the company had transferred the borrowing cost to capital work in progress and therefore, a clarification / justification/ reasoning behind it should have been disclosed by the Company in its accounting policy.

- 3.3.1 The Respondent in his written statement had claimed that paragraph 4 of AS 16 did not have any requirements to elaborate on any of the items included therein separately in the accounting policy and the choice of accounting policy is an area of considerable judgement. However, the said contention of the Respondent was not acceptable due to the fact that this can be justified had the treatment was in line with the requirement of Accounting Standards, but here when the Company has differed from the requirement of AS 16, it was required to

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explain and give reasoning behind the accounting treatment of the items whatever adopted by the Company while preparing the financial statements. Moreover, paragraph 23(a) of AS 16 provides an explicit requirement to disclose the accounting policy adopted for borrowing cost, therefore, in the instant allegation, the Company was required to elaborate and disclose its policy in explicit terms related to the transferring of borrowing cost as well as the related exchange differences to the capital work in progress for the information and clear understanding of various stakeholders.

3.3.2 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 for not reporting on the said aspect in his audit report.

3.4 With regard to **fourth charge** mentioned in para 2.4 above, on perusal of the Board's observation along with submission of the Respondent, it was observed from note on Related Party Disclosures wherein it was mentioned that 'Related Party relationships are as identified by the management and relied upon by the auditors', it appears that the respondent has relied on the "Identification by the Management". It was viewed that usage of such phrase may lead users of financial statements to believe that the auditor merely relied on the management certificate without carrying out any other independent and appropriate audit procedures to satisfy himself about the existence of such relationship between the stated parties.

It was further, viewed that if the auditor has performed all the necessary audit procedures to conclude that the related party relationship existed among the parties then the auditor should have insisted on not bringing such phrases "Related Party relationships are as identified by the management and relied upon by the auditors" in the financial statements. It is the responsibility of auditor to perform independent audit procedures for seeking and obtaining further information or audit evidence. Thus, the auditor should have objected to the company making such statement in the notes to accounts. It was clearly not in line with the requirements of SA 550 and SA 580 and the defence adopted by the Respondent was thus not acceptable.

3.4.1 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.

3.5 With regard to **fifth charge** mentioned in para 2.5 above, on perusal of the Board's observation along with the submission of the Respondent, it was noted that pursuant to

paragraph (vii) of the Companies (Auditor's Report) Order 2016, an auditor is required to report on:

"(vii)

(a) whether the company is regular in depositing undisputed statutory dues including provident fund, employees' state insurance, income-tax, sales-tax, service tax, duty of customs, duty of excise, value added tax, cess and any other statutory dues to the appropriate authorities and if not, the extent of the arrears of outstanding statutory dues as on the last day of the financial year concerned for a period of more than six months from the date they became payable, shall be indicated;

(b) where dues of income tax or sales tax or service tax or duty of customs or duty of excise or value added tax have not been deposited on account of any dispute, then the amounts involved and the forum where dispute is pending shall be mentioned. (A mere representation to the concerned Department shall not be treated as a dispute)."

3.5.1 Further, it was observed that pursuant to the aforesaid requirements, paragraph 42(q) and 43(f) of Guidance Note on Companies (Auditor's Report) Order, 2016, provides that;

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(q) If the auditor is of the opinion that the company is not regular in depositing undisputed statutory dues including provident fund, employees' state insurance, income-tax, sales-tax, service tax, duty of custom, duty of excise, value added tax, cess and any other statutory dues with the appropriate authorities, the extent of the arrears of outstanding statutory dues as at the last day of the financial year concerned for a period of more than six months from the date they became payable, are required to be mentioned by the auditor in his audit report. In indicating the arrears, the period to which the arrears relate should also preferably be given and further, wherever possible, the fact of subsequent clearance or otherwise may also be indicated. The auditor may report in the following format:-

**Statement of Arrears of Statutory Dues Outstanding for More than Six Months**

| <b>Name of the Statute</b> | <b>Nature of the Dues</b> | <b>Amount (Rs.)</b> | <b>Period to which the amount relates</b> | <b>Due Date</b> | <b>Date of Payment</b> | <b>Remarks, if any</b> |
|----------------------------|---------------------------|---------------------|---|-----------------|------------------------|------------------------|
|----------------------------|---------------------------|---------------------|---|-----------------|------------------------|------------------------|

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(e) The information required by the clause may be reported in the following format:

**Statement of Disputed Dues**

| <b>Name<br/>of the<br/>Statute</b> | <b>Nature<br/>of the<br/>Dues</b> | <b>Amount<br/>(Rs.)</b> | <b>Period<br/>to<br/>which<br/>the<br/>amount<br/>relates</b> | <b>Forum<br/>where<br/>the<br/>dispute<br/>is<br/>pending</b> | <b>Remarks,<br/>if<br/>any</b> |
|------------------------------------|-----------------------------------|-------------------------|---|---|--------------------------------|
|------------------------------------|-----------------------------------|-------------------------|---|---|--------------------------------|

- 3.5.2 With regard to **first leg of charge**, it was noted from clause (vii)(a) of Annexure to the Auditor's Report that total outstanding undisputed statutory dues as on 31<sup>st</sup> March, 2016 include amount of Rs. 772 lakhs which is outstanding for a period of more than six months from the date they became payable. However, the same had not been bifurcated into various statutes to which the aforesaid amount relates i.e., how much amount in Rs. 772 lakhs is being related to which statute had not been disclosed as required under paragraph 42 (q) of Guidance Note on CARO, 2016.
- 3.5.3 With regard to **second leg of charge**, it was noted from clause (vii)(b) of Annexure to the Auditor's Report that although the statute, nature of dues, amount involved and the forum where pending dues were being disputed had been disclosed, however, the period to which such dues belong to had not been disclosed as required under paragraph 43 (f) of Guidance Note on CARO, 2016. In this regard, the defence adopted by the Respondent that this thing is not written in the CARO, 2016 or Companies Act, 2013 or the Guidance Note is recommendatory in nature, cannot be accepted due to the fact that every minute detail is not expected to be written under the provisions of Act or CARO, 2016. ICAI issues detailed guidance to its members elaborating the requirement of law by way of Guidance note wherein each aspect of requirement of law (here CARO 2016) is explained in detail so as to ensure that its members adopt the best practice by interpreting the requirements of law in best possible manner. Therefore, though the Guidance notes are recommendatory in nature, they are expected to be followed by members while performing their professional assignment unless there is reason for them to not to follow the same. Thus, the reporting made by the auditor was not in line with the requirements of CARO, 2016.
- 3.5.4 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.

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3.6 With regard to **sixth charge** mentioned in para 2.6 above, on perusal of the FRRB's observation along with the submission of the Respondent, it was noted that the Company has clubbed the Long Term Borrowings along with the Short Term Borrowings and then netted off the same with the repayment of borrowings made by the Company. It was observed that the Company is engaged in the business of manufacture of steel products, coal mining and generation of power. Therefore, looking to the nature of business activities of the Company, it is incorrect to infer that the turnover of the company is quick as the company is not in the financial business.

It was noted from the Cash Flow Statement that under the head of 'Cash flows from Financing Activities' the proceeds from long term and Short Term Borrowings had been reported on net basis indicating thereby that cash flows arising due to borrowings taken and repaid have been set off against each other instead of reporting gross receipts and repayments of borrowings separately. It was observed that reporting on net basis, was not in line with the requirements of paragraph 21 of AS 3, Cash Flow Statements, which is reproduced as below:

***"21. An entity shall report separately major classes of gross cash receipts and gross cash payments arising from investing and financing activities, except to the extent that cash flows described in paragraphs 22 and 24 are reported on a net basis."***

It was further observed that the Company has included the inflow from Long Term Borrowings along with the movement in short term borrowings. It was viewed that Company cannot set off these two different nature of borrowings together i.e., setting off of short term as well as Long Term Borrowings altogether because the nature of both are different. Accordingly, it was viewed that the Respondent had not complied with the requirements of AS 3.

3.6.1 Hence, the Respondent was prima facie **GUILTY** of Professional Misconduct falling within the meaning of Clause (7) of Part I, Second Schedule to the Chartered Accountants Act, 1949.

3.7 Accordingly, the Director (Discipline) in his Prima Facie Opinion dated 22<sup>nd</sup> November 2022 opined that the Respondent was 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. The said Clause of the Schedule to the Act, states as under:

**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”.

3.8 The Prima Facie Opinion formed by the Director (Discipline) was considered by the Disciplinary Committee in its meeting held on 18<sup>th</sup> August 2023. The Committee on consideration of the same, concurred with the reasons given against the charges and thus, agreed with the Prima Facie Opinion of the Director (Discipline) that the Respondent was **GUILTY** of Professional Misconduct falling within meaning of Clause (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.

**4. Dates of Written Submissions / Pleadings by the 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   | 10 <sup>th</sup> June, 2020     |
| 2      | Date of Written Statement filed by the Respondent           | 30 <sup>th</sup> October 2020   |
| 3      | Date of Prima Facie Opinion formed by Director (Discipline) | 22 <sup>nd</sup> November 2022  |
| 4      | Written Submissions filed by the Respondent after PFO       | 08 <sup>th</sup> December, 2023 |
| 5      | Documents submitted by the Respondent after PFO             | 16 <sup>th</sup> November 2025  |

**5. Written Submissions filed by the Respondent:**

5.1 The Respondent, vide letter dated 08<sup>th</sup> December, 2023 had, inter alia, made the submission which are given as under: -

- a) The grounds on which the Respondent is held prima facie guilty are notably vague and lack substantive, concrete reasoning.

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- b) The Respondent has brought attention to the Order by the Hon'ble High Court of Telangana at Hyderabad in the matter of P. Murali Mohana Rao Vs. ICAI. That it is within the realms of jurisprudential propriety and equitable justice that the precedential relief accorded by the order in the analogous matter be justly and rightfully extended to him.
- c) The Respondent respectfully expresses his contention regarding the Disciplinary Directorate's suo-motu powers to initiate this inquiry. The governing statute namely the Chartered Accountants Act, 1949, and the Rules framed therein do not confer such powers.
- d) That the audit was diligently performed in strict adherence to the Standards on Auditing under Section 143(10) of the Act. These Standards mandate a stringent planning and execution regime, aiming not for absolute certainty, but for reasonable assurance that the financial statements are free from material misstatements. Additionally, the audit approach meticulously followed relevant pronouncements like SA 320 - "Materiality in Planning and Performing an Audit" and SA 530 - "Audit sampling".
- e) The very bedrock of the audit was the books of accounts, supplemented by various documents, information, explanations, assumptions, representations, and judgments either maintained, furnished, or advanced by the Management throughout the audit tenure. Such a holistic method ensured congruence with the apex standards of professional conduct, mirroring the respondent's unwavering allegiance to precision and uprightness.
- f) The records maintained by the Respondent unequivocally demonstrate that all requisite procedures were diligently performed to ensure appropriate and material disclosures.

5.2 The Respondent, vide letter dated 16<sup>th</sup> November, 2025 had submitted following documents: -

- a) Copy of the Subscription Agreement entered into by the Company on 20<sup>th</sup> December, 2017 with the Bondholders for renewal of the matured FCCBs of US\$ 24.3 Million.
- b) Copy of the intimation dated 22<sup>nd</sup> December, 2017 submitted by the Company to BSE and NSE regarding issuance of new FCCBs in exchange of matured April, 2015.

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

6.1 Details of the hearing(s)/ meeting(s) fixed and held/ adjourned in the said matter are given as under –

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| S. No. | Date of Meeting(s)             | Status   |
|--------|--------------------------------|--|
| 1.     | 11 <sup>th</sup> December 2024 | Consideration of the subject case was deferred by the Committee. |
| 2.     | 09 <sup>th</sup> July 2025     | Part heard and adjourned.  |
| 3.     | 29 <sup>th</sup> October 2025  | Adjourned at the request of the Respondent.                      |
| 4.     | 08 <sup>th</sup> November 2025 | Part heard and adjourned.  |
| 5.     | 20 <sup>th</sup> November 2025 | Part heard and adjourned.  |
| 6.     | 15 <sup>th</sup> December 2025 | Hearing concluded and Decision Taken.                            |

6.2 On the day of first hearing held on 11<sup>th</sup> December 2024, consideration of the subject case was deferred by the Committee.

6.3 On the day of hearing held on 09<sup>th</sup> July 2025, the Committee noted that the 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. On the same, the Respondent replied that he is aware of the charges and pleaded 'Not Guilty' to the charges 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 a future date.

6.4 On the day of hearing held on 29<sup>th</sup> October 2025, the Committee noted that the Respondent had sought an adjournment vide email dated 24<sup>th</sup> October 2025 due to tax audit deadlines. Acceding to the request of the Respondent, the Committee adjourned the subject case to a future date.

6.5 On the day of hearing held on 08<sup>th</sup> November 2025, the Committee noted that Counsels for the Respondent were present through VC and appeared before it. The Committee noted that the first allegation pertained to the non-compliance with AS22 and the improper recognition of MAT credit under long-term loans and advances. The Counsel argued that the company had a history of profits and no unabsorbed depreciation or carry-forward losses, which negated the need for detailed disclosure under AS22. He highlighted management projections, tax liability computations, and the company's benefit under Section 80-IA of the Income Tax Act, which

justified the recognition of MAT credit. The emphasis of matter was disclosed in the financial statements, and the respondent demonstrated due diligence and compliance with audit procedures.

The second allegation related to the classification of FCCB liability of USD 24.3 million as non-current liabilities instead of current liabilities. The Counsel submitted that the classification was based on legal opinion and management representation, which indicated ongoing discussions with bond-holders for restructuring. He emphasized that the decision was made with appropriate application of professional judgment and supported by legal opinion, management representation letters, and stock exchange disclosures. The Counsel for Respondent argued that the classification was reasonable given the circumstances and pleaded not guilty.

The third allegation related to the improper elaboration of accounting policies on borrowing costs and foreign currency transactions. The Counsel referred to Paragraph 4 (E) of AS -16, which allowed capitalization of foreign exchange differences and borrowing costs for qualifying assets under construction. He argued that the accounting policy disclosed in the financial statements was in compliance with AS16 and AS10, and there was no material misstatement. The Respondent asserted that all costs were appropriately capitalized in capital work in progress and transferred to fixed assets upon completion. With this, the case was part-heard and adjourned.

6.6 On the day of hearing held on 20<sup>th</sup> November 2025, the Committee noted that Counsel(s) for the Respondent were present through VC and appeared before it.

The Counsel of the Respondent briefly referred to earlier allegations relating to MAT, FCCDs, and borrowing costs, and informed the Committee that additional documents regarding the FCCD settlement had been placed on record. Submissions were then made on the allegation concerning related party transactions, wherein it was contended that audit procedures under SA-550 had been duly performed and documented, and that the objection raised pertained only to the wording of disclosures in the financial statements, which was stated to be a procedural or typographical issue rather than professional misconduct.

The Counsel for the Respondent further addressed the allegations relating to CARO disclosures and the cash flow statement under AS-3, submitting that statutory requirements had been complied with, and that net presentation of borrowings was permissible based on the nature of transactions and supported by working papers.

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The Counsel(s) for the Respondent pleaded not guilty to all allegations, asserting substantive compliance with applicable standards. The Committee noted the submissions of the Counsel(s) for the Respondent. With this, the matter was part heard and adjourned.

- 6.7 On the final day of hearing held on 15<sup>th</sup> December 2025, the Committee noted that Counsel for the Respondent was present through VC and appeared before it.

The Counsel for the respondent stated that no further submissions on merits were required, as all documents, working papers, and explanations had already been placed on record, and the present hearing was mainly for addressing any queries of the Committee. The Counsel further brought to the notice of the Committee an interim stay granted by the Hon'ble High Court in another FRRB matter on the issue of suo motu powers, clarifying that although it related to a different case, the legal issue involved was similar.

The Committee noted the submission of the Counsel for the Respondent and concluded hearing in this matter.

- 6.8 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.

**7. Findings of the Committee:**

- 7.1 The Committee considered the preliminary objections raised by the Respondent regarding suo motu powers to initiate the inquiry and noted that Rule 7 (1) of CA Rules 2007 read as under:

"Any written information containing allegation or allegations against a member or a firm, received in person or by post or courier, by the Directorate, which is not in Form I under sub-rule (1) of Rule 3, shall be treated as information received under Section 21 of the Act and shall be dealt with in accordance with the provisions of these rules."

In view of the above, the Committee noted that the Director (Discipline) could receive information from any source and as such there was no bar to have complaint or information from any specific source. Thus, the plea of the Respondent that the case had emanated from "Information" which was reported by FRRB was not maintainable.

Thereafter, the Committee over-ruled the preliminary objections of the Respondent and accordingly proceeded with the enquiry.

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: -

7.2 The Committee noted that there are **Six Charges** against the Respondent in which he has been held Prima Facie Guilty and the same has been explained in para 2.1 to 2.6 as above.

7.2.1 In respect of **First Charge**, the Committee noted that first charge relating to disclosure of nature of convincing evidence. The Respondent has stated that Guidance Note on "Accounting for Credit Available in respect of Minimum Alternative Tax under the Income Tax Act, 1961" does not provide any principles for evaluating convincing evidence. In general parlance, convincing evidence means evidence which would make one believe that a particular thing or assertion is genuine and correct. It was also submitted that the Company also provided further projections including details of projected revenue for the period 5 years and also submitted that the company was availing the benefit under section 80-IA of Income Tax Act which allowed 100% exemption of profit for first 5 years.

7.2.2 The Respondent in his statement stated that at the time of finalisation of the financial statements, various evidences were available and were relied upon by him to conclude that convincing evidence for ability to utilise MAT credit in future was available like certified projections provided by management and relied upon by external agencies.

Further, audit procedures were carried out to assess the robustness of the projections such as:

- (a) Historical projections checked against actual results.
- (b) Projections compared with data submitted to independent third parties.

The Respondent has further stated that the break-up of major components of deferred tax assets and liabilities has been disclosed under Note 38 of the financial statements. The Committee observed that the Respondent has submitted the substantial evidence for utilising the credit of MAT and further, components of Deferred Tax Assets/Liabilities also disclosed.

7.2.3 Accordingly, the Committee held the Respondent **NOT GUILTY** of Professional Misconduct falling within the meaning of Clause (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949.

- 7.3 In respect of **Second Charge**, regarding disclosure of FCCB's as long term borrowing under the head of non-current liability by the company on basis of legal opinion, the Respondent submitted that the classification of the FCCB was made on the basis of a legal opinion and management representations, which indicated that discussions with the bondholders for restructuring were ongoing at the relevant time. It was further emphasized that the said classification was arrived at through the application of professional judgment and was adequately supported by legal opinion, management representation letters, and disclosures made to the stock exchanges. Therefore, there was no basis for giving the Qualified Opinion under SA 705 instead Emphasis of Matter has been reported in his audit report as required by SA 706. The Respondent, vide letter dated 16<sup>th</sup> November, 2025 had also submitted, subscription agreement entered by the company on 20<sup>th</sup> December 2017 between Prakash Industries Limited and Peter Beck und Partner Vermögensverwaltung GmbH for renewal of matured FCCB's and also submitted intimation submitted to BSE for issuance of New FCCBs in exchange of matured April, 2015.
- 7.3.1 The Committee noted that a material misstatement may also arise when the disclosures in the financial statements are not made in accordance with the applicable financial reporting framework. However, since this involves wrong disclosure vis a vis applicable financial reporting framework, the same is a material misstatement in the financial statements for which the Respondent as an auditor was required to qualify his report in terms of requirement of SA 705. Further, the classification of heading itself has been changed due to wrong disclosure of FCCB amounting to US\$ 24.30 million causing an over statement of non-current liabilities and understatement of current liabilities by the said amount.
- 7.3.2 The Respondent primarily relied on a legal opinion while concluding on the classification of the borrowing, without independently evaluating the underlying facts or obtaining sufficient and appropriate audit evidence. Such reliance, without critical assessment of the assumptions and management representations on which the legal opinion was based, indicates a lack of professional skepticism as required under the Standards on Auditing.
- 7.3.3 However, despite the above, the Respondent has merely reported the same under an Emphasis of Matter instead of providing qualification on the subject matter in his audit report. Thus, the respondent has not complied with the requirements of SA 705 and SA 706 while reporting this issue in his audit report.

7.3.4 Accordingly, the Committee held the Respondent **GUILTY** of Professional Misconduct falling within the meaning of Clause (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949.

7.4 In respect of **Third Charge**, regarding accounting policy on borrowing cost as well as Foreign Currency Transactions, the Committee noted that paragraphs 4(e) and 23(a) of AS 16, Borrowing Costs, state as follows:

*"4. Borrowing costs may include:*

...

*(e) Exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs."*

**"23. The financial statements should disclose:**

**(a) the accounting policy adopted for borrowing costs; and**

..."

Paragraphs 6 and 3.2 of AS 16, Borrowing Costs, provides principles for recognition of borrowing costs when it states as follows;

***"6. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalised as part of the cost of that asset. The amount of borrowing costs eligible for capitalisation should be determined in accordance with this Standard. Other borrowing costs should be recognised as an expense in the period in which they are incurred."***

***"3.2 A Qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use of sale."***

From perusal of audited financial statement of the Company for financial year 2015-16, it is noted from paragraphs 1(h) & 1(k) on accounting policy of Foreign Currency Transactions and Borrowing Costs that the Company has debited the exchange rate differences amounting to Rs. 2,245 lakhs as well as borrowing cost amounting to Rs. 1,124 lakhs debited to capital work in progress.

7.4.1 The Respondent in his written statement has claimed that paragraph 4 of AS 16 does not have any requirements to elaborate on any of the items included therein separately in the

accounting policy and the choice of accounting policy is an area of considerable judgement. The Committee is of the view that it is matter of disclosure requirement only at correct place though the required disclosure has been provided and further, not affecting true & fair view of financial statements.

7.4.2 Accordingly, the Committee held the Respondent **NOT GUILTY** of Professional Misconduct falling within the meaning of Clause (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949 for not reporting on the said aspect in his audit report.

7.5 In respect of **Fourth Charge**, relating to non-compliance of SA 550, "Related Parties", the Respondent in his written statement has stated that the auditor has obtained and relied on the representation from the management on related parties. If the auditor is not to rely on such representation, then what purpose would the management representation serve.

Paragraph 6 of SA 580: Written Representations defines the "Written Representations" as follows:

*"A written statement by management provided to the auditor to confirm certain matters or to support other audit evidence. Written Representations in this context do not include financial statements, the assertions therein, or supporting books and records."*

It may also be noted that Paragraph 15 of SA 550, Related Parties, provides as follows:

*"15. During the audit, the auditor shall remain alert, when inspecting records or documents, for arrangements or other information that may indicate the existence of related party relationships or transactions that management has not previously identified or disclosed to the auditor. (Ref: Para. A22-A23)*

*In particular, the auditor shall inspect the following for indications of the existence of related party relationships or transactions that management has not previously identified or disclosed to the auditor:*

- (a) Bank, legal and third party confirmations obtained as part of the auditor's procedures;*
- (b) Minutes of meetings of shareholders and of those charged with governance; and*
- (c) Such other records or documents as the auditor considers necessary in the circumstances of the entity."*

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7.5.1 The Committee has considered the submissions made by the Respondent and the material available on record. It is noted that the Respondent had performed and documented the audit procedures in accordance with SA 550, including identification, assessment, and verification of Related Party Relationships and transactions. The objection raised pertained solely to the wording of the disclosures in the financial statements. The Committee is of the view that such issue relates to the manner of presentation and does not indicate any deficiency in audit procedures or failure to comply with the applicable Standards on Auditing. As clarified during the proceedings, the concern was confined to the appropriateness of the wording and not to the conduct of the audit.

7.5.2 Accordingly, the Committee held the Respondent **NOT GUILTY** of Professional Misconduct falling within the meaning of Clause (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949.

7.6 In respect of **Fifth Charge**, regarding non-compliance of requirements of CARO, 2016, the Respondent in his written statement has stated that Clause 3(vii) of CARO, 2016, reporting neither requires that the undisputed amounts outstanding for more than six months be classified into various statuses nor does it require a disclosure of the period to which the amount relates to disputed dues. Only the Guidance Note on CARO, 2016 prescribes that it may be appreciated to follow the said classification.

7.6.1 The Committee noted that pursuant to Paragraph (vii) of the Companies (Auditor's Report) Order 2016, an auditor is required to report on:

"(vii)

*(a) whether the company is regular in depositing undisputed statutory dues including Provident fund, Employees' state insurance, Income-tax, Sales-tax, Service tax, duty of customs, duty of excise, value added tax, cess and any other statutory dues to the appropriate authorities and if not, the extent of the arrears of outstanding statutory dues as on the last day of the financial year concerned for a period of more than six months from the date they became payable, shall be indicated;*

*(b) where dues of income tax or sales tax or service tax or duty of customs or duty of excise or value added tax have not been deposited on account of any dispute, then the amounts involved and the forum where dispute is pending shall be mentioned. (A mere representation to the concerned Department shall not be treated as a dispute)."*

- 7.6.2 Further, it was observed that pursuant to the aforesaid requirements, paragraph 42(q) of Guidance Note on Companies (Auditor's Report) Order, 2016, requires that arrears of undisputed statutory dues outstanding for more than six months be disclosed statute-wise, along with the period to which they relate and, where possible, subsequent clearance details. Further, paragraph 42(f) of Guidance Note requires disclosure of disputed statutory dues in a prescribed format, including the period to which the dues relate.
- 7.6.3 In respect of **first leg of the charge regarding Undisputed amounts**, the auditor reported undisputed statutory dues of Rs. 772 lakhs outstanding for more than six months. However, the amount was not bifurcated statute-wise, as required by Paragraph 42(q) of the aforesaid Guidance Note.
- 7.6.4 **Further, in respect of second leg of the charge relating to Disputed dues**, while the auditor disclosed the statute, nature of dues, amount involved, and forum of dispute, the period to which the disputed dues relate was not disclosed, which is contrary to Paragraph 43(f) of the aforesaid Guidance Note.
- 7.6.5 The Committee has considered the submission of the Respondent that Clause 3(vii) of CARO, 2016 does not expressly mandate statute-wise classification of statutory dues outstanding for more than six months or disclosure of the period to which dues relate, and that such requirements are prescribed only in the Guidance Note on CARO, 2016. While it is noted that Guidance Notes are recommendatory in nature and do not carry the same mandatory force as the Order itself, the Committee observes that such Guidance Notes are issued by the Institute with the objective of assisting members in ensuring uniformity, completeness, and clarity in reporting. They represent the Institute's considered interpretation of the reporting requirements and are intended to be followed by professionals unless there are justified reasons for departure. Accordingly, non-adherence to the disclosure practices recommended in the Guidance Note, without adequate justification, detracts from the quality and transparency of reporting expected from a statutory auditor. Thus, the reporting made by the auditor is not in line with the requirements of CARO, 2016.
- 7.6.6 Accordingly, the Committee held the Respondent **GUILTY** of Professional Misconduct falling within the meaning of Clause (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949.

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7.7 **In respect of Sixth Charge**, regarding non-compliance of requirements of AS 3, Cash Flow Statements, the Respondent contended that Paragraph 21 of AS 3 cannot be interpreted in isolation and is required to be read together with Paragraphs 23 and 24, which allow net presentation of Cash Flows in circumstances where the turnover of transactions is high and the maturities are short. It was further submitted that Paragraph 17 of AS 3 defines Financing Activities to include cash proceeds from issuing debentures, loans, notes, and other short-term as well as long-term borrowings, without prescribing any distinction between the two categories for the purpose of classification in the cash flow statement. On this basis, the Respondent submitted that the net presentation of borrowings was in conformity with AS-3, having regard to the nature and volume of the transactions, and that the same was duly supported by working papers.

7.7.1 The Committee observed that Paragraph 17 of AS 3 deals with "Financing Activities" as under:

*"(17) The separate disclosure of cash flows arising from financing activities is important because it is useful in predicting claims on future cash flows by providers of funds (both capital and borrowings) to the enterprise. Examples of cash flows arising from financing activities are:*

- (a) cash proceeds from issuing shares or other similar instruments;*
- (b) cash proceeds from issuing debentures, loans, notes, bonds, and other short or long-term borrowings; and*
- (c) cash repayments of amounts borrowed."*

Paragraph 21 of AS 3 deals with "Reporting Cash Flows from Investing and Financing Activities" as follows:

*"(21) An enterprise should report separately major classes of gross cash receipts and gross cash payments arising from investing and financing activities, except to the extent that cash flows described in paragraphs 22 and 24 are reported on a net basis."*

Paragraph 22 of AS 3 deals with "Reporting Cash Flows on a Net Basis" as follows:

*"(22) Cash flows arising from the following operating, investing or financing activities may be reported on a net basis:*

- (a) cash receipts and payments on behalf of customers when the cash flows reflect the activities of the customer rather than those of the enterprise; and*
- (b) cash receipts and payments for items in which the turnover is quick, the amounts are large, and the maturities are short."*

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Paragraph 24 of AS 3 states as follows:

*“(24) Cash flows arising from each of the following activities of a financial enterprise may be reported on a net basis:*

*(a) cash receipts and payments for the acceptance and repayment of deposits with a fixed maturity date;*

*(b) the placement of deposits with and withdrawal of deposits from other financial enterprises; and*

*(c) cash advances and loans made to customers and the repayment of those advances and loans.”*

From above, the Committee noted that, as a general principle, Cash Flows arising from Financing Activities are required to be reported separately by disclosing major classes of gross cash receipts and gross cash payments. Paragraph 21 specifically mandates separate reporting of such gross cash flows, except in limited and clearly defined circumstances. Net presentation is permitted only in the specific situations contemplated under Paragraph 22, namely where the cash flows reflect activities carried out on behalf of customers or where the turnover is quick, the amounts involved are large, and the maturities are short. Paragraph 24 further restricts net reporting to certain activities of financial enterprises. Accordingly, AS-3 permits netting of cash flows only in exceptional situations expressly provided therein, and in all other cases, Cash inflows and outflows under each head of Investing and Financing activities are required to be reported separately. It is of the view that Paragraph 17 of AS 3 describes the reporting part, however, Paragraph 22 explains the presentation part in Cash Flow Statement.

7.7.2 The Committee observed that the Company is engaged in the business of manufacture of steel products, coal mining and generation of power. Therefore, looking to the nature of business activities of the Company in which it is involved, it is incorrect to infer that the turnover of the company is quick as the company is not in the financial business.

7.7.3 The Committee observed that out of the total cash outflow of Rs. 4,464 lakhs, Short Term Borrowings reflected a net outflow of Rs. 4,900 lakhs, while Long Term Borrowings increased by Rs. 436 lakhs during the year. The Respondent stated that the inflow from Long Term Borrowings was not material to the Cash Flow Statement and, accordingly, was aggregated with the movement in Short Term Borrowings. Consequently, Short Term Borrowings were presented on a net basis in the Cash Flows Statement. It is viewed that Company cannot set off these two different nature of borrowings together i.e., setting off of Short Term as well as

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Long Term Borrowings altogether because the nature of both are different. Accordingly, it is viewed that the Respondent has not complied with the requirements of AS 3.

7.7.4 Accordingly, the Committee held the Respondent **GUILTY** of Professional Misconduct falling within the meaning of Clause (7) of Part I, 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<br>(As per PFO) | Findings                      | Decision of the Committee                                    |
|-------------------------|-------------------------------|--|
| Para 2.1 as above.      | Para 7.2.1 to 7.2.3 as above. | <b>NOT GUILTY</b> - Clause (7) of Part I of Second Schedule. |
| Para 2.2 as above.      | Para 7.3 to 7.3.4 as above.   | <b>GUILTY</b> - Clause (7) of Part I of Second Schedule.     |
| Para 2.3 as above.      | Para 7.4 to 7.4.2 as above.   | <b>NOT GUILTY</b> - Clause (7) of Part I of Second Schedule. |
| Para 2.4 as above.      | Para 7.5 to 7.5.2 as above.   | <b>NOT GUILTY</b> - Clause (7) of Part I of Second Schedule. |
| Para 2.5 as above.      | Para 7.6 to 7.6.4 as above.   | <b>GUILTY</b> - Clause (7) of Part I of Second Schedule.     |
| Para 2.6 as above.      | Para 7.7 to 7.7.4 as above.   | <b>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 Respondent and material on record, the Committee held the Respondent **GUILTY** of Professional Misconduct falling within the meaning Clause (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949.

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

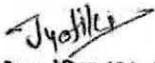
Sd/-  
(ADV. VIJAY JHALANI)  
GOVERNMENT NOMINEE

Sd/-  
(CA. MANGESH P KINARE)  
MEMBER

Sd/-  
(CA. SATISH KUMAR GUPTA)  
MEMBER

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

PLACE: New Delhi

  
सीए ज्योतिका / CA. Jyotika  
उप सचिव / Deputy Secretary  
अनुशासनसूचक विभाग / Disciplinary Directorate  
भारतीय सनदी लेखाकार संस्थान  
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