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-II (2026-2027)]
[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.: [PR-43/13-DD/42/2013-DC/628/2017] & PPR/14/15/DD/13/INF/15 (Clubbed)]
In the matter of:

Shri Samresh Agarwal
322-A, Shop No. 1,
Sant Nagar, East of Kailash,
NEW DELHI – 110 065 .... **Complainant**

Versus

CA. Chunnilal Choudhary, (M.No.037784)
M/s. Chunnilal & Co. (FRNo.101947W)

Present address	Address as per PFO
103 Ganga Smruti Near Prashant Hotel B P Road Dist Thane Bhayandar – East **MAHARASHTRA-401105**	102, Shreeji Kiran 'A', Pandya Cottage, Opp.k Dwarkadish Temple, Tejpal Road, Vile Parle (E), **MUMBAI – 400 057**

...Respondent

MEMBERS PRESENT:
1. **CA. Prasanna Kumar D, Presiding Officer (In person)**
2. **CMA. Chandra Wadhwa, Government Nominee (In person)**
3. **CA. Mahesh Shah, Government Nominee (In person)**
4. **CA. Satish Kumar Gupta, Member (In person)**
5. **CA. Hans Raj Chugh, Member (In person)**

DATE OF HEARING : **15th September 2026**
DATE OF PRONOUNCEMENT OF ORDER : **15th September 2026**
DATE OF ORDER : **15th September 2026**

1. The Committee noted that the extant matter had emanated from the Order of the Appellate Authority dated 26.05.2026 in the appeal filed by the Respondent challenging the Order of the Disciplinary Committee. The Committee noted the directions of the Appellate

Authority as contained in order dated 26.05.2026 and accordingly, in compliance with the same, the matter was heard afresh by the Committee and opportunity of personal hearing was granted to the parties.

2. That vide Findings dated 31st August 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. Chunnilal Choudhary, (M. No. 037784)** (hereinafter referred to as the **Respondent**) is **GUILTY** of Professional Misconduct falling within the meaning of Clauses (6) (7) (8) and (9) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

3. 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 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 **15th September 2026.**

4. The Committee noted that on the date of hearing on **15th September 2026**, the Respondent was present through VC. During the hearing, the Respondent stated that he has submitted his written representation dated 09th September 2026 on the Findings of the Committee and the same may be considered by the Committee. The Committee noted the written representation of the Respondent dated 09th September 2026 on the Findings of the Committee, which, inter alia, are as under: -

i The Respondent submitted that in respect of first charge where the Director (Discipline) formed an opinion that the Respondent was not guilty, the matter is required to be placed before the Board of Discipline, and it is for the Board of Discipline alone either to order closure of the matter or, if it disagrees with the opinion, to advise the Director to further investigate the matter. That opinion of 'not guilty' was not placed before the Board of Discipline, which is a non-compliance of Rule 9(3) of Chartered Accountant, Rules.

ii The Respondent submitted that direct confirmations were duly sought from the overseas debtors, and when no replies were received, alternative procedure was performed by verifying settlement deeds.

iii The Respondent submitted that the discount of Rs.160.60 crores, the deferment of receivables by five years, the recognition of interest income of Rs.132 crores and the going concern assumption formed the subject matter of the connected complaint of Shri Jitendra Gupta bearing PR-304/2013-DD/22/2014. By opinion bearing No. PR-304/2013-DD/22/2014/NG dated 16th October, 2017, the Director (Discipline) held the Respondent

NOT GUILTY upon each of those matters, that opinion was accepted by the Board of Discipline; and the complaint was closed.

iv The Respondent submitted that the Complainant's repeated absence and failure to lead evidence, despite due notice and ex parte proceedings, weakens the allegations in a quasi-criminal proceeding where the burden of proof rests on the Complainant.

5. In respect of submissions of the Respondent, the observations of the Committee are as follows:

i As regards non-compliance under Rule 9(3), the Committee noted the provisions of Rule 9(3) which read as follows:

"Where the Director is of the prima facie opinion that the member or the firm is not guilty of any misconduct either under the First Schedule or the Second Schedule, he shall place the matter before the Board of Discipline, and the Board of Discipline,-
(a).....
(b) If it disagrees with such opinion of the Director, then it may either proceed under chapter IV of these rules, if the matter pertains to First Schedule, or refer the matter to the Committee to proceed under Chapter V of these Rules, if the matter pertains to the Second Schedule or both the Schedules or may advise the Director to further investigate the matter."

In this regard, the Committee noted that the Disciplinary Committee had agreed with the majority charges of the Director (Discipline) wherein guilty opinion was given in the prima facie opinion and accordingly, proceeded further under Chapter V of the aforesaid Rules. While doing so, the 'not guilty' opinion of the Director (Discipline) in respect of one of the allegations was not accepted.
The Committee was of the view that Respondent was also guilty in respect of charge (as mentioned in para 2.1 of finding) where he has been held Not Guilty by Director (Discipline) as the Respondent was unable to deal with stock and debtors in his audit report and accordingly the Committee decided that this charge has also to be looked into at the time of hearing. Accordingly, the Committee was of the view that the Respondent was guilty in respect of all charges levelled by the Complainant against him and 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. Further, the Committee also noted that the Chartered Accountants Act 1949 and the Rules framed thereunder provide for consideration of the Prima Facie Opinion in toto and not on piecemeal charge-wise basis.

ii As regards direct confirmation from the overseas debtors, the Committee observed that the requests seeking confirmation of the debtors' balances were sent before the date of signing of the Audit Report. However, the confirmations letters from debtors were received only after the date of signing of the Audit Report. The Committee further noted that the mere fact that confirmation letters were sent to the overseas debtors does not, by itself, absolve the Respondent from his responsibility to obtain sufficient appropriate audit evidence and to form an appropriate opinion on the financial statements.

iii As regards connected complaint referred to by the Respondent in his submissions where the Director (Discipline) held the Respondent NOT GUILTY, the Committee observed that comparing two distinct disciplinary cases as 'eye to eye' is not warranted as each case is decided on merits, on the basis of due consideration of all the facts, alleged period, documents and submissions on record.

iv As regards Complainant was absent during the proceedings, the Committee observed that mere non-appearance of the Complainant does not, by itself, invalidate the complaint, particularly when the complaint was duly filed and was accompanied by the relevant documents and material in support of the allegations and proceeded further in accordance with Chartered Accountants Act 1949 and the Rules framed thereunder.

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

7. Thus, keeping in view the facts and circumstances of the case, material on record including verbal and written submissions of the Respondent on the Findings, the Committee observed that the Respondent was the Statutory Auditor of M/s Varun Industries Limited for F.Y. 2011-12. In respect of first and third charge regarding Stock and Books Debts worth Rs. 1150 crores are siphoned off from the Company and not expressing a true and fair view of the financial statements for FY 2011-12 by failing to report material irregularities on Rs. 1,150 crore, the Committee noted that Respondent's reliance on management explanations, CDR proceedings and disclosures was held insufficient, as he failed to obtain sufficient appropriate audit evidence and exercise the required professional skepticism. The Committee further observed that the Respondent failed to assess the implications of the CDR proposal, receivable discounts/deferments and other irregularities on the financial statements and has not drawn attention in this regard in his audit report.

8. In respect of second charge regarding failure of Respondent to obtain sufficient audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements, the Committee noted that the Respondent's reliance on positive net worth, accounting profits, continued operations, non-NPA

status and proposed restructuring was held insufficient without critically assessing the Company's ability to generate adequate cash flows. The Committee observed that the Respondent failed to adequately evaluate the going-concern assumption despite significant indicators such as overdue receivables, working-capital irregularities, banking difficulties and dependence on CDR restructuring. The Committee further observed that the Respondent failed to obtain sufficient appropriate audit evidence and exercised the required professional skepticism regarding material uncertainty under SA 570. Hence, the Professional Misconduct on the part of the Respondent is clearly established as spelt out in the Committee's Findings dated 31st August 2026 which is to be read in consonance with the instant Order being passed in the case.

9. 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.

10. **Thus, the Committee, upon considering the seriousness of charges and the gravity of the matter, material on record and representation of the Respondent before it, ordered that the Respondent, CA. Chunnilal Choudhary, (M. No. 037784), Mumbai be removed his name from the Register of Members for a period of 01 (One) year and also imposed a fine of Rs. 1,00,000/- (Rupees One lakh) upon him which shall be paid within a period of 60 (sixty) days from the date of receipt of the order.**

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

Sd/-
(CMA CHANDRA WADHWA)
GOVERNMENT NOMINEE

Sd/-
(CA. MAHESH SHAH)
GOVERNMENT NOMINEE

Sd/-
(CA. SATISH KUMAR GUPTA)
MEMBER

Sd/-
(CA. HANS RAJ CHUGH)
MEMBER

सत्यापित होने के लिए प्रमाणित / Certified to be True Copy
Agrover
अंजू ग्रोवर / 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 – II (2026-2027)]
[Constituted under Section 21B of the Chartered Accountants Act,1949]

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

File No:[PR-43/13-DD/42/2013-DC/628/2017] & PPR/14/15/DD/13/INF/15 (Clubbed)]

In the matter of:
Shri Samresh Agarwal
322-A, Shop No. 1,
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NEW DELHI – 110 065

....Complainant

Versus

CA. Chunnilal Choudhary, (M.No.037784)
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Present address	**Address as per PFO**
103 Ganga Smruti Near Prashant Hotel B P Road Dist Thane Bhayandar – East Bhayandar **MAHARASHTRA-401105**	102, Shreeji Kiran 'A', Pandya Cottage, Opp.k Dwarkadish Temple, Tejpal Road, Vile Parle (E), **MUMBAI – 400 057**

..... Respondent

MEMBERS PRESENT:
CMA Chandra Wadhwa, Government Nominee & Presiding Officer (In person)
CA. Mahesh Shah, Government Nominee (In person)
CA. Satish Kumar Gupta, Council Member (In person)
CA. Hans Raj Chugh, Council Member (In person)

DATE OF FINAL HEARING : **15th July 2026**
DATE OF DECISION TAKEN : **29th August 2026**
DATE OF PRONOUNCEMENT OF DECISION : **31st August 2026**

PARTIES PRESENT:
Respondent : CA. Chunnilal Choudhary (Through VC)
Counsel for the Respondent: CA. A. P. Singh (Through VC)
Counsel for the Respondent: CA. Utsav Hirani (Through VC)

The Committee noted that the extant hearing has emanated from the Order of the Appellate Authority dated 26.05.2026 in the appeal filed by the Respondent challenging the Order of the Disciplinary Committee. The Appellate Authority in its Order directed the Disciplinary Committee, wherein it is stated that:

"22. It is the settled position that in judicial/quasi-judicial proceedings, the person who hears the matter, must decide it. Any proposition contrary to the settled position will be in contravention of the principles of natural justice. Notably, in the instant matter, CA. Rajendra Kumar P. was one of the Members of the Bench which finally heard the matter on 15.09.2021, but he was not present in the meeting held on 18.10.2021, wherein the decision was taken holding the Appellant 'Guilty' of Professional Misconduct. Not only this, thereafter, the Disciplinary Committee passed the Impugned Order dated 11.02.2022, which was signed by only one Member and approved and confirmed through email by three Members. As such, the Impugned Order dated 11.02.2022 (Findings) does not bear signatures of other four Members. Thus, the Impugned Orders were passed by the Disciplinary Committee in clear violation of the principles of natural justice, hence, these are bad in law.

23. For the reasons stated hereinabove, without dealing with the order dated 11.02.2022 (Findings) on merits, we set aside the Impugned Order dated 11.02.2022 and consequential punishment Order dated 13.07.2022 and remand the matter to the Disciplinary Committee with a direction to pass afresh orders under Rule 18 (17) of the Rules and Section 21B (3) of the Act, after affording the Appellant as well as the Respondents an opportunity to submit their arguments.

24. We make it clear that fresh pleadings need not be filed by the parties before the Disciplinary Committee and the matter may be decided on the basis of the pleadings and the statements of the stakeholders already filed/recorded, unless the Disciplinary Committee directs the parties to file additional pleadings. The matter has to be heard by the Disciplinary Committee and the orders under Rule 18 (17) of the Rules and Section 21B (3) of the Act, be passed within a period of three months from the date of receipt of this order. It is also made clear that no adjournment shall be granted to the parties in the matter by the Disciplinary Committee except in exceptional circumstances.

25. In the result, with the aforesaid observations, the present appeal stands finally disposed of."

Accordingly, in compliance with the aforesaid directions of Appellate Authority, the matter is heard afresh by the Committee and opportunity of personal hearing is granted to the parties.

It is also noted that the said case was heard by the erstwhile Disciplinary Committee and vide Findings dated 11th February 2022, the Disciplinary Committee was of the view that Respondent was Guilty of Professional Misconduct falling within the meaning of Clauses (6) (7) (8) and (9) of Part I of the Second Schedule to the Chartered Accountants Act, 1949. The Committee, thereafter, passed an order dated 13th July 2022, wherein the Respondent was awarded a punishment, of the removal of his name from the register of members for a period of one year and also imposed a fine of Rs. 1,00,000/- (Rupees One Lakh Only).

1. **<u>Background of the Case</u>:**

1.1. Shri Samresh Agarwal (Complainant) has filed a complaint against CA. Chunnilal Choudhary (Respondent). The Respondent was the Statutory Auditor of **M/s Varun Industries Limited (hereinafter referred to as the "Company")** for F.Y. 2011-12.

1.2. The Committee also noted that in an Information case No. PPR/14/15/DD/13/INF/15 which was clubbed with this case, the Informant has made the charge basically relating to the fact that the Respondent did not obtain balance confirmations from all the debtors.

2. **<u>Charges in brief</u>:**

2.1 The Respondent, being the Statutory Auditor of **M/s Varun Industries Limited** (hereinafter referred to as the "Company") failed to report the material misstatements made in the Annual Report of the Company, the final outcome of which was that the Stock and Books Debts worth Rs. 1150 crores are siphoned off from the Company.

2.2 The Respondent was grossly negligent while performing his duties. While auditing accounts of the Company for financial Year 2011-12, he failed to obtain sufficient audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about entity's ability to continue as a going concern.

2.3 The Respondent has been grossly negligent and careless to express true and fair view on the Annual Accounts of Financial Year 2011-12 of Company by not commenting, taking note and place on record material deviation of financial position as on 31st March 2012, as has been claimed by Varun Industries Limited by incorporating irregularities to the extent of more than Rs. 1150 Crores in the Corporate Debt Restriping Proposal submitted by the Company to CDR Cell much earlier than date of Audit Report dated 09th August 2012. CDR Proposal is acknowledged by the CDR Cell vide letter dated 02nd August 2012 as per BSE site.

3. **The relevant issues discussed in the Prima Facie Opinion dated 01st June 2017 formulated by the Director (Discipline) in the matter, in brief, are given below:**

3.1 With respect to **first charge** mentioned in Point 2.1 above, the break-up of Rs.1,150 crores given by the Complainant was as under: -

i Working Capital irregularity of Rs.296.24 crores were mentioned in CDR proposal of the Company. The margin on working capital loan was provided at 25%, which relates into elimination of stocks etc. given as security at Rs. 394.99 crores.

ii The CDR proposal contains bill discounting working capital irregularities of Rs.680.35 crores which at a presumed margin of 10% works out to be a shortfall of Rs.755.94 crores.

3.2 It was mentioned in CDR proposal as under:-

a *Existing working capital limits are irregular due to shortfall in DP (Drawing Power) to the extent of Rs.296.24 crores, which may be converted into WCTL.*

b *Existing working capital limits are irregular due to delayed / deferred receipts of Bill from customers to the extent of Rs. 680.35 crores which may be converted into WCTL (Working Capital Term Loan).*

3.3 The Respondent submitted in his Written Statements that Bankers were not considering the stock statement or debtors older than three months. These were called irregular items. He further added that for Varun Industries Ltd the sanction limit of usance is 180 days and hence any outstanding beyond 180 days had been treated as irregular. Thus, irregularities as given in CDR proposal were as per banking norms and mere irregularity did not mean siphoning off funds. Thus, there was no evidence to substantiate that stock and debtors to the extent of Rs.1,150 crores were siphoned off by the Director/ Promoters of Varun Industries Limited.

3.4 With respect to **second charge** mentioned in Point 2.2 above, the Complainant had given some extraordinary features in Varun Industries Ltd for example erosion of net worth from Rs.236 crores in Fin. Year 2010-11 to Rs.78 crores in Fin Year 2011-12, defaults in repayments of dues, discontinue of dividend in Fin. Year 2011-12, operating loans, negative cash flows, etc.

3.5 The Respondent had given his explanation as under:-

i The Company's plant at Jodhpur, Sinner (Nashik) and Wind Mills were working not only at the time of audit but are working even today.

ii ~~The oil rigs were generating revenue to company and were functioning at the time of audit.~~

iii The operating loss is due to discount given to debtors only which was in the interest of the company to receive the balance on account of overseas crises.

iv Non declaration of dividend for one year cannot be taken as decisive criteria for going concern assumption.

3.6 In this regard, it was noted that the Respondent in his defence had attributed the ills which plague the company to Foreign Currency Fluctuation. While, this may be partially acceptable to the extent that a volatile Foreign Market Fluctuation do effect the financial and trading business of an entity, yet the kind of differences of amount of Rs.594 crores as pointed out by the Complainant in his Rejoinder and referred in Para 5.6 of PFO above does require to be investigated further on merits on account of the materiality of amount included. Moreover, the contentions of the Complainant as referred to be his rejoinder and mentioned under para 5.13 of PFO do merit attention. The Complainant had raised serious issues of mismanagement by the Company whereby after offering huge discounts of Rs.160 crores to its debtors, the Company had also simultaneously chosen to defer its receivables by 5 years including one year of moratorium period. The Respondent had not given any convincing reply for the same and thus it appears that the Respondent being a Statutory Auditor of the Company was having complete knowledge of all these foreign sales being made to some specified UAE based entities which are just other arms of the Company but had failed to use his professional scepticism in reporting the same in his audit report.

3.7 The Committee noted that besides an ongoing Complaint Case in the matter of CA. Chunnilal Choudhary (M. No. 037784) [PR/43/13-DD/42/13-DC/628/17] pending before it at the hearing stage, another information case [PPR/14/15/DD/13/INF/2015] against the same member/ Respondent was pending for consideration before the Disciplinary Directorate. It was informed to the Committee that Prima Facie Opinion in the said information case was yet to be formed by the Director (Discipline). Vide reference of Rule 5(4)(b) of the Chartered Accountants (Procedure of Investigation of Professional and Other Misconduct and Conduct of Cases) Rules, 2007, it was proposed to the Committee to merge both the cases for administrative convenience. The Committee also discussed regarding the issue of merger with the Counsel of the Respondent who was present this day in the matter of hearing against the Respondent in the above said Complaint case, who also agreed with the merger of both the cases. Accordingly, the Committee directed the office to merge both the above said Complaint and information case.

3.8 Accordingly, the Director (Discipline) in his Prima Facie Opinion dated 01st June 2017 opined that the Respondent was held **GUILTY** of Professional Misconduct falling within the meaning of Clauses (6), (7), (8) and (9) 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 (6), (7), (8) and (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

(6) fails to report a material misstatement known to him to appear in a financial statement with which he is concerned in a professional capacity;

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

(8) fails to obtain sufficient information which is necessary for expression of an opinion or its exceptions are sufficiently material to negate the expression of an opinion;

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

3.9 The Prima Facie Opinion formed by the Director (Discipline) was considered by the Disciplinary Committee in its meeting held on 18th August 2017. The Committee on consideration of the same, concurred with the reasons given against the charge(s) (except in respect of para 9.3 of PFO) and thus, agreed with the prima facie opinion of the Director that the Respondent was **GUILTY** of Professional Misconduct falling within the meaning of Clauses (6) (7) (8) and (9) of Part I of the Second Schedule to the Chartered Accountants Act, 1949. While considering the above PFO, the Committee was of the view that Respondent was also guilty in respect of first charge (i.e. para 9.3) where he has been held Not Guilty by Director (Discipline) as the Respondent was unable to deal with stock and debtors in his audit report and accordingly the Committee decided that this charge has also to be looked into at the time of hearing. Accordingly, the Committee was of the view that the Respondent was guilty in respect of all charges levelled by the Complainant against him and 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 Complaint in Form 'I' filed by the Complainant	12th February 2013
2.	Date of Written Statement filed by the Respondent	16th April 2013
3.	Date of Rejoinder filed by the Complainant	18th October 2013
4.	Date of Prima Facie Opinion formed by Director (Discipline)	01st June 2017
5.	Written Submissions filed by the Respondent after PFO	02nd December 2017, 15th December 2017, 08th April 2019, 04th January 2020, 14th August 2021, 20th August 2021, & 27th September, 2021
6.	Rejoinder filed by the Complainant after PFO	18th September 2021

5. Written Submissions filed by the Respondent:

5.1 The Respondent, vide letter dated 02nd December 2017 & 15th December 2017, had inter alia, made the following submissions which are given as under:-

i Regarding the first allegation, the Respondent stated that the siphoning of stock of about Rs. 394.99 Crore and book debts of about Rs. 755.94 Crore is based on false assumptions, misleading facts and inadequate documentary evidence.

ii That amounts described as working-capital irregularities and bill-discounting irregularities represent differences between actual drawings and reworked drawing power; debts outstanding for more than 180 days were excluded for calculating drawing power, but this does not mean that such debts did not exist or were siphoned off.

iii That the outstanding foreign-debtor bills discounted as on 31st March 2012 were Rs. 680.40 Crore and that delays or deferrals in receipts should not be treated as a shortfall in drawing power or as evidence of siphoning of funds.

iv That debtors were overstated by Rs. 922 Crore is also disputed. He said the calculation ignored debtors of Rs. 1425.22 Crore from other divisions, sales of Rs. 863 Crore and realisations of Rs. 1366.24 Crore during the relevant period.

v That he lists audit procedures undertaken, including physical verification of stock, reliance on bank-appointed stock auditors, verification of stock valuation, direct confirmation of debtors, verification of shipping bills and export invoices, customs authorisations, settlement deeds, CDR assessments, expert opinion under FEMA regulations, and review of quarterly results.

vi Regarding the second allegation, the Respondent stated that the PFO made no adverse observation or finding on the going-concern assumption and reiterates that the management was justified in adopting it.

vii That the financial factors supporting going concern, including positive net worth, financial support from creditors, profit before exceptional items and taxes of Rs. 285.12 Crore, absence of dividend arrears, and the CDR process involving restructuring of debts and further financial assistance.

viii That the operational factors cited include functioning plants, windmills and oil rigs, continued revenue generation, no intention to liquidate or cease operations, no loss of key management without replacement, no labour difficulties and no highly successful competitor affecting the business.

ix That the other factors supporting going concern include compliance with statutory and regulatory requirements, no adverse impact from changes in law or government policy, and adequate insurance coverage. On this basis, the enterprise was viewed as continuing for the foreseeable future of twelve months.

x That Rs. 594 Crore difference is stated not to indicate any defect in the accounts or audit because drawing-power calculations are banking/funding considerations and cannot be equated with collection of book debts or sale of stock outside the books.

xi That Rs. 160 Crore discount granted to debtors and deferral of the balance receivable for five years are described as commercial decisions that were properly accounted for, disclosed in the Annual Accounts, and reported in the Audit Report.

xii That sufficient audit evidence was obtained, professional judgement and professional scepticism were exercised, expert opinion was obtained regarding FEMA requirements, and appropriate audit responses were implemented.

xiii That the UAE-based debtors were merely other arms of the Company is denied as vague and unsupported. The Respondent states that the parties were overseas distributors, had a longstanding business relationship with the Company, and their transactions were supported by agreements and other audit evidence.

xiv That statutory records were inspected and no transactions with the overseas customers were identified as related-party transactions; the relevant sales were also subject to scrutiny and approval by banks and other authorities.

5.2 The Respondent, vide letter dated 08th April 2019, had inter alia, submitted the following documents: -

i Stock Audit Report dtd. 22.12.2011

ii Settlement Deed and Distributorship Deed of Al-RAD Int. Trad. – Sharjah

iii Settlement Deed and Distributorship Deed of White Impex- Dubai

iv Copy of requisition of confirmation letter with dispatch and delivery proof of AL-RAD Int. Tra d. Dubai

v Copy of requisition of confirmation letter with dispatch and delivery proof of White Impex Sarjah

vi Copy of CDR proposal approved

vii Copy of CGR-Master Restructuring Agreement (signed)

viii Copy of ledger A/C of AL-RAD Int. Trading - Sharjah- F.Y 2011-12

ix Copy of ledger A/C of White Impex - Dubai- F.Y 2011-12

x Copy of Independent report by DNB (dun and bradstreet) for identification & Summary of Foreign Entities

xi Register of Contract u/s. 301 of The Companies Act, 1956

xii Standard on Auditing- Going Concern- SA 570

5.3 The Respondent, vide letter dated 04th January 2020, had inter alia, made the following submissions which are given as under:-

i That the enquiry, according to the respondent, should be limited strictly to the allegations contained in the original Form-I complaint concerning the statutory audit for FY 2011-12; allegations introduced later through submissions or rejoinders should not be considered.

ii That the complainant allegedly expanded the allegations during submissions, including issues concerning a Rs. 160 crore discount to debtors, deferment of receivables for five years, and alleged relationships with UAE-based entities. The respondent argues that these matters were not part of Form-I.

iii That the Director (Discipline) relied on assumptions, including that the UAE entities were "other arms" of Varun Industries Limited, without allegations or proof establishing such a relationship.

iv That the complainant merely mentioned Clauses 5, 6 and 7 of Part I of the Second Schedule without separately specifying and linking each allegation to the relevant clause, which is allegedly contrary to the prescribed procedure.

v That the Director's finding that he had "complete knowledge" but failed to use professional skepticism was self-contradictory, particularly because the Director had absolved him of the charge under Clause 5 concerning disclosure of material facts.

vi That a separate complaint by Shri Jitendra Gupta allegedly contained some of the additional allegations relied upon in the present enquiry. The respondent states that he was held "Not Guilty" in that complaint by the Director (Discipline), and that the view was accepted by the Board of Disciplinary.

vii The respondent objects to reliance on a document dated 28th April 2015 because his audit related to FY 2011-12 and he could not reasonably have known in 2012 about events occurring in 2015.

viii He denies the complainant's allegation that he relied on Consolidated Financial Statements, stating that all figures and details in his ICAI submissions were taken from the Standalone Financial Statements.

ix Regarding the CDR process and the alleged shortfall in DP, the respondent argues that the CDR proposal was approved by the banks and that the shortfall represented over-utilisation of sanctioned limits rather than evidence of siphoning of funds. He maintains that the complainant failed to provide adequate proof and improperly attempted to place the burden of proof on him.

x That the Director (Discipline) substantially reproduced his earlier written statement but failed to address or give reasons for rejecting his individual submissions, while allegedly relying on conjectures and surmises.

xi To assess the risk of material misstatement, the respondent states that enquiries were made from the company's senior management and directors, internal auditor reports were reviewed, legal experts were consulted regarding discounts to overseas debtors under FEMA, and the company's internal controls were reviewed.

xii He states that there had been no previous material misstatement or suspicion of fraud, the business environment was considered conducive, and the company's manufacturing operations and market position supported his assessment.

xiii In assessing going concern, the respondent relied on factors including stable key personnel, adequate accounting and financial staff, absence of significant related-party transactions, no major organisational changes, adequate internal controls, regular profits in earlier periods and recent quarters, compliance with statutory requirements, insured plants and property, creditor support, and bankers' willingness to restructure borrowings.

xiv For debtors, he states that credit limits, ageing schedules, recording and realisation procedures, and approval of material rebates, allowances, discounts and commissions were reviewed. Sales invoices, shipping bills, customs approvals, debtor confirmations, analytical reviews and Board approvals were also considered.

xv For inventory, the respondent states that physical verification was conducted quarterly, stock records were maintained, no material discrepancies were found, bank stock-audit reports supported the verification, and valuation sheets and management representations were reviewed.

xvi The Disciplinary Committee subsequently concurred with the Director's prima facie opinion that the respondent was guilty under Clauses 6, 7, 8 and 9 and additionally decided that the first charge, on which the Director had found him not guilty, should also be examined at the hearing.

xvii The respondent argues that under Rule 9(3), where the Director finds a member not prima facie guilty, that matter should go to the Board of Discipline rather than the Disciplinary Committee. He therefore contends that the Committee's consideration of the charge found not guilty was procedurally invalid and that the matter should be closed.

xviii The respondent states that, while completing the FY 2011-12 audit, he reviewed the CDR proposal and discussed it with management. The proposal included promoter contributions of Rs. 30 crore, additional income of Rs. 33 crore through asset sales, cost-reduction measures, reduced dependence on the diamond business, settlements with customers, and proposed sale or relocation of certain assets and facilities.

xix Despite the liquidity crisis, the company's manufacturing, oil and gas drilling, and wind-power operations remained operational. The respondent states that management had prepared plans for continuity and that he reviewed and evaluated those plans in accordance with applicable auditing standards.

xx He maintains that an auditor's assessment of future events is based on information available at the time and cannot guarantee the entity's future ability to continue as a going concern; therefore, the absence of a going-concern uncertainty reference should not itself be treated as professional misconduct.

xxi The respondent also makes allegations concerning the complainant's conduct and credibility, referring to a reported 2014 incident involving an alleged forged document and a Rs. 97 lakh demand.

xxii Varun Industries Limited is described as being engaged in exports of stainless steel utensils, kitchenware, cookware, tableware, pet ware, gems and jewellery, diamonds, precious stones, agro products, general merchandise, oil-rig activities and wind-power generation.

xxiii The company had two UAE distributors, AL RAD International Trading EST, Sharjah, and White Impex General Trading LLC, Dubai. The respondent states that the company exported Rs. 2,940 crore of goods to these distributors during FY 2011-12 and received Rs. 2,448 crore against earlier and current-year receivables.

xxiv According to the respondent, sanctions and banking restrictions relating to Iran, together with currency depreciation, affected the UAE distributors' ability to sell goods and recover amounts.

VIL consequently entered into a settlement providing a 10% discount on amounts outstanding as of 31 December 2011 and allowing the balance to be paid over five years, including a one-year moratorium.

xxv Delayed overseas remittances contributed to irregularities identified by the CDR authorities. The company submitted a CDR proposal for further financial restructuring, which was admitted in August 2012 and approved by the CDR Empowered Group in January 2013; a Master Restructure Agreement was subsequently entered into after a special/forensic audit.

xxvi The reported Rs. 296.24 crore shortfall in DP is explained as arising from the Rs. 160 crore debtor discount, Rs. 36.63 crore forex loss, increased overheads, losses from delayed bills-discounting receipts, untied sanctioned bank finance, interest costs due to delayed overseas receipts, LC devolvement at year-end and related short-term borrowings.

xxvii Regarding LC devolvement, the respondent states that such instances occurred only in the last quarter of FY 2011-12, were properly disclosed as short-term borrowings, and resulted from delayed overseas remittances.

xxviii Regarding stock, he states that there was no obsolete stock or major discrepancy, high-value stock was verified by bank-appointed stock auditors, raw materials were valued at cost, finished goods at raw-material cost plus overheads, and stores and spares at purchase price.

xxix That the working papers for ageing of sundry debtors as at 31 March 2012 were maintained, with quarterly debtor information covering FY 2011-12.

xxx That the confirmation letters were sent to overseas debtors, but no responses were received from them. The respondent states that other audit procedures, including verification of export sales and invoicing, supported the existence and accounting of the receivables.

xxxi That a special/forensic audit was conducted in FY 2012-13 at the CDR Cell's request, after which the consortium of bankers entered into the Master Restructure Agreement. The respondent states that the special audit report was confidential and submitted directly to the bankers.

xxxii That defaults in repayment of loans and interest were disclosed in the financial statements and reported in the CARO report. In FY 2012-13, he also issued a qualified audit opinion covering matters including CDR restructuring, under-provision of bank interest, the overseas-debtor settlement, debtor/creditor confirmations and contingent liabilities.

xxxiii That he reported bank defaults in the CARO report, including principal dues and interest, and disclosed the relevant matters concerning loans and financial institutions.

xxxiv That the Rs. 160.60 crore discount related to exports up to 31 December 2011 and was accounted for in FY 2011-12, with the settlement being considered as a subsequent event under AS-4 and appropriately reported in the audit report.

xxxv Regarding Rs. 132 crore of interest income from overseas debtors, the respondent states that it was recognised in accordance with applicable accounting principles because the settlement provided for payment over five years with interest, and he reported the matter in the FY 2012-13 audit report.

xxxvi That the allegation concerning the Rs. 132 crore interest income was not part of the original complaint and had already been raised in the separate complaint by Shri Jitendra Kumar Gupta, in which he was held "NOT GUILTY."

xxxvii Regarding the allegation that the UAE distributors were related parties or "other arms" of VIL, the respondent states that the distributors were not listed as related parties in the company's Section 301 register, D&B reports did not identify them as related parties, and the financial statements did not disclose them as related parties.

xxxviii The Respondent also submitted the following documents:

- Copy of Final CDR Report
- Copy of Master Restructure Agreement entered with consortium of Bankers.
- Aging of Sundry Debtors
- Working papers of Stock valuation checked with stock register and books of accounts.
- Name and Address of Bankers
- Copy of Audit Report for F.Y. 2012-13.
- Copies of LC account devolved with Bankers.
- Copy of Minutes of the meeting of Board of Directors held on 14th April, 2012

5.4 The Respondent, vide letter dated 14th August 2021, had inter alia, made the following submissions which are given as under:-

i That regarding receivables, as on 31st March 2012, out of total debtors of Rs. 1547.94 Crores, Rs. 1460.97 Crores related to two overseas debtors with whom settlement was entered into. Negative external confirmations were requested under SA-505, but as replies were not received before completion of audit, the balances were verified from the settlement deed dated 15th April 2012, which served as evidence of the balance, completeness and existence of the parties.

ii That SA-700, SA-705 and SA-706 were not applicable to F.Y. 2011-12 because their applicability had been postponed to financial periods beginning on or after 1st April 2012. For F.Y. 2011-12, the Respondent was governed by AAS-28 and states that the audit report complied with that Standard.

iii That SA-505 audit procedures were followed and that the Complainant had not alleged any contravention or non-adherence to SA-505.

iv That the queries concerning the financial statements for 2012-13 are stated to be outside the allegations made by the Complainant and therefore cannot be introduced into the present inquiry, as doing so would expand the scope of the inquiry and would be contrary to natural justice and the prescribed legal procedure.

v That in 2012-13 the FEMA period for export remittances had expired beyond 180 days and the required permission for deferment had not been obtained; therefore, the impact was not ascertainable and the audit report was appropriately modified/qualified. Expert Opinion was also obtained regarding the requirement of permission from Authorised Dealers of Foreign Currency.

vi That the auditor was not required by the auditing standards applicable at the relevant time to verify or base his work on the contents of the Director's Report, which was a post facto document.

vii That SA-705 was not applicable for F.Y. 2011-12 and that AAS-28 was not identical to SA-705 or SA-706, which became applicable from F.Y. 2012-13. Therefore, the requirements for qualification were different in the two years.

viii That comparing the audit work of 2011-12 with the subsequent year is stated to amount to hindsight, which should not be used to assess professional misconduct. The Respondent also points out that these matters were not allegations of the Complainant and were not dealt with by the Director (Discipline).

ix That reasons for not modifying the 2012 audit report, including the long-standing business relationship with the two foreign customers, regular past remittances, absence of NPA status, utilisation within sanctioned limits, CDR discussions with bankers, functioning plants, most debtors being outstanding for less than 180 days, profit before discount, and current assets exceeding bank borrowings.

x That the audit report for financial statements as at 31st March 2012 nevertheless contained an exception regarding verification of balances of debtors and creditors.

xi That the difference between the audit reports for 2011-12 and 2012-13 is attributed to different applicable standards, more extensive standards in 2012-13, and the increasing impact of the Gulf crisis.

xii That for 2011-12, the Company disclosed the Rs. 160.60 Crore discount to overseas debtors and defaults in repayment of interest and instalments to banks. The auditor states that complete information was made available to users through appropriate disclosures and that the CARO report also disclosed the cash loss and defaults.

xiii That as at 31st March 2012 the payment delays had not resulted in the accounts being designated as NPA, the delays were around two months, and the effect of the Gulf crisis was only beginning to emerge.

xiv That the company had a 90-day period to discharge its obligations before NPA classification, and the overall utilisation of bank funds, including LC devolvement, did not exceed the sanctioned drawing facilities.

xv That the LC devolvement liability was appropriately disclosed as short-term borrowing and did not result in the sanctioned accommodation limits being exceeded or the account being classified as NPA.

xvi That sudden rise of USD against INR, delayed customer receivables and crystallisation of discounted bills at higher exchange rates, while stating that other business divisions continued working and generating revenue.

xvii That the Varun Industries Ltd. is stated to have seven divisions, including SS Kitchenware and Housewares, SS Sheets Re-rolling Mill, Cookware, Oil & Gas Drilling, Wind Turbines, Commodity Trading, and Gems & Jewellery.

xviii That management physically verified stock regularly, the audit team also conducted verification visits, stock was valued by management and checked by the audit team, and bank stock auditors found no material discrepancy.

xix That trade receivables were considered good, were correctly classified age-wise, the discount to overseas debtors was separately disclosed, and payments from debtors were regular with no circumstances creating suspicion about recoverability.

xx That the two Dubai parties had been doing business with the Company for many years. The settlement allowing discount and additional time for recovery was considered a business decision arising from challenging circumstances, and the Respondent states that he was justified in arriving at the conclusion contained in the audit report.

xxi That the going concern assumption was considered properly adopted because management did not intend to liquidate the entity and there was no material uncertainty regarding its ability to continue as a going concern.

xxii That the overseas debtors were not related parties or other arms of the auditee company, based on the Register maintained under Section 301 of the Companies Act, 1956 and information provided by management under AS-18.

xxiii That the circumstances in 2013 were materially different: the CDR proposal had been referred to the lenders and admitted to the CDR Forum, two banks had declared the accounts NPA in 2013, and a TEV study had been undertaken.

xxiv That following CDR approval and a special audit, differences in interest payable to banks were identified and the Respondent qualified the 2013 audit report accordingly.

xxv That the settlement with the two Dubai parties was considered as an event after the balance-sheet date for 2011-12 and disclosed to users. By 31st March 2013, the debtors had aged beyond six months and required statutory approvals had not been obtained, leading to qualification of the 2013 audit report.

xxvi That the further qualification in 2013 was required because export bills became overdue, the FEMA limit of 180 days expired, and necessary permission had not been obtained; additional issues concerning contingent liabilities, litigation and possible penalties also arose. For trade receivables in 2012, audit procedures included verification of existence, completeness, valuation, disclosures, direct confirmation and analytical review, along with verification of distributor agreements and the settlement deed.

xxvii That the settlement agreement was treated as evidence confirming the amounts due from the overseas debtors. The Respondent states that trade receivables can continue to be included as debtors even where recovery is deferred, with appropriate disclosures for amounts outstanding for more than six months.

xxviii That a legal opinion was obtained regarding the discount and deferment of overseas trade receivables. The Respondent states that the applicable conditions permitted discounts and that RBI permitted Authorised Dealers to extend the period for realisation of export proceeds subject to prescribed conditions. Since the required permission had not been obtained, the Respondent qualified the 2012-13 audit report regarding non-receipt of remittances and possible penalties.

xxix Regarding inventory, the Respondent states that the stock-audit report referred to by the Committee was either outside the scope of the inquiry or was only an extract; the complete report had already been submitted and, when read as a whole, showed that the stock auditor considered the Company's records reliable.

xxx That the audit evidence concerning verification of inventories had already been submitted to the Disciplinary Committee in the paper book, and the Respondent states that the query appeared to have been raised without detailed reference to those documents.

xxxi That notes 4.8 and 4.9 in the financial statements related to defaults in repayment of interest and instalments and were prepared by management to provide appropriate information and clarity to users of the financial statements.

xxxii That amounts arising from LC devolvement were disclosed as short-term borrowings. Since the company's accounts had not been classified as NPA and the 90-day period for discharge had not expired as at 31st March 2012, the amount was not required to be reported under the particular CARO 2003 requirement.

xxxiii That the settlement agreement with the UAE customers resolved the claims between the parties, eliminated contingent liabilities arising from those claims, and its financial impact was appropriately disclosed as an event after the balance-sheet date.

xxxiv Regarding payments to management personnel, the Respondent states that such payments are business decisions, the auditor has to verify that they are within permissible limits, and although Rs. 2.09 Crores was not material to the entity, the excess over permissible limits was required to be brought to users' notice; no modification of the audit report was considered necessary.

xxxv That there was no element of capital finance in cash flow from operating activities and that the relevant increase/decrease in payables, provisions and working capital finance had been correctly adjusted.

xxxvi Regarding revenue recognition, the Respondent states that trade receivables represented amounts already due for past sales, so postponement of their realisation affected cash flow and working capital but did not affect recognition of revenue. The discount was charged to the Profit & Loss Account and disclosed, while interest receivable for delayed payment was credited to the Profit & Loss Account.

5.5 The Respondent, vide letter dated 20th August 2021, had inter alia, made the following submissions which are given as under:-

i The Respondent submitted a corrigendum for submission dated 14th August 2021 that the figure mentioned in para "v." on page no. 14 should be read as Rs. 2,448 Crores instead of Rs. 2,708 Crores.

5.6 The Respondent, vide letter dated 27th September 2021, had inter alia, made the following submissions which are given as under:-

i That the foreign exchange rates between April and September 2011 were around INR 44–45 per USD; the devolvement of L/C started around November 2011 when the rate was around INR 52 per USD and escalated to INR 53 per USD in December. The increase in the conversion rate placed an additional heavy burden on the Company when the debtors did not meet their payment obligations.

ii That the reference to the ILFS crisis is stated to be not comparable with the facts and circumstances of M/s. Varun Industries Limited for the relevant year and appears to have been included merely to sensationalize the allegations.

iii That the complainant's reference to Rs. 1500 Crores towards debtors and stock is stated to have already been dealt with at length in the submission dated 14th August 2021 concerning verification of debtors, stock and disclosure of important events relating to debtors.

iv That the allegation of siphoning of stock and debtors is denied. It is submitted that no proof or evidence has been produced by the complainant and that delay in payment from debtors cannot be treated as siphoning without evidence. Allegations based on conjectures are stated to be not maintainable in quasi-criminal proceedings.

v That the Settlement Deed with AL RAD INTERNATIONAL TRADING EST. (AITE) provided for a 10% discount on the amount outstanding as of 31.12.2011, payment over four years, and a repayment schedule spread over the years 2013-14 to 2016-17.

vi That similar provisions were contained in the Settlement Deed with White Impex General Trading LLC, and the settlement was stated to be a purely commercial decision of the Management of the Company.

vii That the distributors were independent organizations reselling the products of VIL and were not agents of the Company; therefore, there was no question of payment of commission, and nothing in the Distributor's Agreement provided for commission to the distributors.

viii That the contention that repayment was to be substituted entirely by future business is denied. A substantial portion of the outstanding amount was clearly identified for payment over 2013-14 to 2016-17 irrespective of any future business, while only a specified portion was earmarked for repayment to be substituted by future business.

ix That the reference by the complainant to "commission" is stated to have no basis in the entire understanding, and the use of the word is alleged to show that the complainant either misunderstood the facts or was mischievously misrepresenting them before the Disciplinary Committee.

x That the Settlement Deed recorded a 10% discount, a moratorium of one year and a repayment schedule spread over four years. The discount was disclosed as an extraordinary item in the Profit & Loss Account, in Note No. 24.6 and under CARO 2003.

xi That the description of the overseas debtors as "entities which were just another arms of M/s. Varun Industries Limited" is denied. It is stated that the expression "another arm" is not contained in any Act or Accounting/Auditing Standards and is merely a fragment of the complainant's imagination.

xii That M/s. AL Rad International Trading Est., Sharjah, UAE and M/s. White Impex General Trading LLC, Dubai, UAE were not related parties of M/s. Varun Industries Limited, and this contention was not challenged by the complainant in Form I.

xiii That a detailed note on the applicability of AAS 28 for the year ended 31st March 2012 and compliance with the same had already been provided in the submission dated 14th August 2021, along with a separate note dealing particularly with Paragraphs 29, 34, 36, 37 and 38 of AAS 28.

xiv That the amounts owed by the two overseas debtors represented receivables arising from transactions in the regular course of business and at arm's length, and copies of the Settlement Deeds had been provided to the Disciplinary Committee.

xv That the information was included in the financial statements and the discount allowed to the debtors was disclosed as an extraordinary item. It is submitted that there was nothing material and pervasive requiring modification or qualification of the auditor's report.

6. **Rejoinder filed by the Complainant:**

6.1 The Complainant, vide letter dated 18th September 2021, had inter alia, made the following submissions which are given as under:-

i That "Falsus in uno, falsus in omnibus" means "false in one thing, false in everything," and the Complainant contends that the Respondent has made false statements in his written submissions.

ii That the Respondent, in Para 3 on Page 12 of his written submissions dated 14th August 2021, stated that there was a "Forex Loss due to sudden rise of USD against INR in the last quarter of FY 2011-12".

iii That the USD to INR exchange rates during F/Y 2011-12 and submits that there was no such "sudden rise" in the USD to INR conversion rates in the last quarter of F/Y 2011-12.

iv That as per the Respondent's own submission, the Foreign Debtors outstanding as on 31-03-2012 were two months old, implying that the Bills discounted in January 2012 were outstanding as on 31-03-2012. The USD to INR rate was around Rs. 49/- in January 2012 and Rs. 50.87/- in March 2012.

v That the Respondent is therefore put to strict documentary evidence to substantiate his contention of suffering loss due to crystallizing liability by the bankers at a higher rate.

vi That the major allegation is regarding siphoning of Debtors and Stock by the Promoters. The total balance sheet size was Rs. 2100 crores as on 31.3.12, out of which Rs. 1500 crores was towards debtors, constituting approximately 70% of the total balance sheet value in terms of materiality.

vii That the Respondent contends that the settlement with foreign debtors was a commercial decision and that he had verified the Settlement Deed dated 15.04.2012.

viii That the complaint revolves around alleged fraud by M/s Varun Industries Ltd. through siphoning of stock and debtors, resulting in the going concern assumption being defeated.

ix That the foreign sales were made to entities which were allegedly "just another arms" of M/s Varun Industries Limited and that signs of material misstatements were available to the Respondent but were deliberately ignored.

x That in the Settlement Deed dated 15.04.2012 with Al RAD International EST., part of the outstanding dues was shown under "Re Payment to be Substituted By Further Future Business" over the next four years. Similarly, in the Settlement Deed with White Impex General Trading LLC, part of the outstanding dues was shown under "Re Payment to be Substituted By Further Future Business" over the next four years.

xi That this mode of repayment clearly showed that the commission payable to the distributors on future business would be retained by M/s Varun Industries Ltd. and set off against the outstanding amount.

xii That, considering the sales figures of M/s Varun Industries Ltd. during F/Y 2011-12, it could have taken decades to realise the amount, yet the Respondent did not find any suspicion in the settlement deed.

xiii That the Respondent merely mentioned one qualification in his Audit Report, which, according to the Complainant, clearly showed that he was working in collusion with the Directors of M/s Varun Industries Ltd. and did not conduct the Audit in a transparent manner.

xiv That, as per AAS 28, the Respondent ought to have qualified his audit report or issued a negative report because the item was material and pervasive.

xv That the Audit Report for F/Y 2011-12 contained no specific mention of the Settlement Deed. In the Annual Report, under Notes to Account No. 24.6 relating to Exceptional Items, it was stated that a 10% discount was provided to major customers due to adverse global market conditions.

xvi That in the Auditor's Report, under Clause X, the Respondent mentioned that the Company had incurred cash loss of Rs. 138.61 crores during the current financial year, mainly due to discount of Rs. 160 crores provided to Overseas Debtors vide Settlement Deed dated 15th April, 2012.

xvii That the management, with the intention to defraud shareholders and other stakeholders, did not highlight the terms of the Settlement Deed which were prejudicial to the interests of shareholders.

xviii That the Respondent also failed to bring the terms of the Settlement Deed to the notice of readers of the financial statements in a true and fair manner and was therefore grossly negligent in performing his duties.

7. <u>Brief facts of the Proceedings</u>:

7.1 The Committee noted that the Hon'ble Appellate Authority considering the facts and circumstances of the captioned case vide its Order dated 26.05.2026, set aside the Impugned Order dated 11.02.2022 and consequential punishment Order dated 13.07.2022 and remanded the matter back to the Disciplinary Committee with a direction to pass afresh orders under Rule 18 (17) of the Rules and Section 21B (3) of the Act, after affording the parties to the case an opportunity to submit their arguments.

7.2 The Committee further noted that the Appellate Authority in its order dated 26th May 2026 observed that fresh pleadings need not be filed by the parties before the Disciplinary Committee and the matter may be decided on the basis of the pleadings and the statements of the stakeholders already filed/recorded, unless the Disciplinary Committee directs the parties to file additional pleadings. The matter has to be heard by the Disciplinary Committee and the orders under Rule 18 (17) of the Rules and Section 21B (3) of the Act, be passed within a period of three months from the date of receipt of this order. It was also made clear that no adjournment shall be granted to the parties in the matter by the Disciplinary Committee except in exceptional circumstances. Accordingly, in compliance with the aforesaid directions of Appellate Authority, the matter is heard afresh by the Committee and opportunity of personal hearing is granted to the parties.

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

S. No.	Date of Meeting(s)	Status
1.	02nd July 2026	Adjourned at the request of Respondent.
2.	15th July, 2026	Hearing Concluded & Findings Reserved.
3.	29th August 2026	Decision Taken.

7.4 On the day of hearing held on 02nd July 2026, the Committee noted that the Counsel for the Respondent vide email dated 24th June 2026 requested to schedule the hearing on subsequent date due to a pre-scheduled international convention at Hong Kong on the scheduled date of hearing. The Committee noted that the above matter was remanded back by Hon'ble Appellate Authority vide its order dated 26th May 2026 and it was stated in the order that no adjournment shall be granted to the parties in the matter by the Disciplinary Committee except in exceptional circumstances.

Acceding to the request of the Respondent, the Committee, keeping in view the principles of natural justice and with the stipulation that no further request for adjournment shall be entertained by it, adjourned the subject case to a future date.

Further, the Committee decided that if the Respondent fails to appear at the next hearing, the matter shall be proceeded ex-parte the Respondent and considered on merits based upon the documents/material available on record. The Committee directed to issue ex-parte notice to both the parties.

7.5 On the day of hearing held on 15th July 2026, the Committee noted that the Respondent along with his Counsel(s) were present through VC and appeared before it. The Committee noted that the Hon'ble Appellate Authority considering the facts and circumstances of the case vide its Order dated 26.05.2026, set aside the Impugned Order dated 11.02.2022 and consequential punishment Order dated 13.07.2022 and remanded the matter back to the Disciplinary Committee with a direction to pass afresh orders under Rule 18 (17) of the Rules and Section 21B (3) of the Act, after affording the parties to the case an opportunity to submit their arguments.

The Committee further noted that the Appellate Authority in its order dated 26th May 2026 observed that fresh pleadings need not be filed by the parties before the Disciplinary Committee and the matter may be decided on the basis of the pleadings and the statements of the stakeholders already filed/recorded, unless the Disciplinary Committee directs the parties to file additional pleadings. The matter has to be heard by the Disciplinary Committee and the orders under Rule 18 (17) of the Rules and Section 21B (3) of the Act, be passed within a period of three months from the date of receipt of this order. It was also made clear that no adjournment shall be granted to the parties in the matter by the Disciplinary Committee except in exceptional circumstances.

The Committee noted that the Complainant was not present for the hearing and notice of listing of the case has been served upon the Complainant. Despite that, the Complainant was not present in the hearing. The notice was also sent by post and by email to the Complainant. The Committee noted that there was neither any intimation regarding participation of the Complainant in the meeting nor was he present when the case was taken up for hearing, despite due service of the notice to him. The Committee noted that the matter had previously been listed twice and the Complainant was absent on both times as well.

Further, in the last meeting held on 02nd July 2026, the Committee directed to issue ex-parte notice, which was sent by email/speed post. Therefore, in view of the direction of Hon'ble Appellate Authority, the Committee decided that the matter be proceeded ex-parte the Complainant and considered on merits based upon the documents/material available on record.

The Committee noted that the allegations against the Respondent pertained to his role as statutory auditor of M/s Varun Industries Limited for the financial year 2011-12. The allegations related to : (i) failure to report material misstatements in the annual report, resulting in an alleged siphoning of stock and book debts worth Rs. 1,150 crores; (ii) gross negligence in obtaining sufficient audit evidence regarding the appropriateness of the management's use of the going concern assumption; and (iii) failure to comment upon or record material deviations in the financial position as of 31st March 2012, particularly in light of irregularities disclosed in the Corporate Debt Restructuring (CDR) proposal.

The Respondent's counsel submitted that the scope of the complaint is strictly limited to the audit of the financial year 2011-12, and any expansion to subsequent years or additional charges introduced through rejoinders is impermissible under the disciplinary framework. The Counsel contended that the allegations of siphoning are based on misconstrued calculations and lack substantive evidence of actual outflows or misappropriation. It was emphasized that the irregularities arose from commercial and macro-economic factors, such as currency fluctuations and delayed receivables, which led to a reduction in drawing power but did not constitute misstatement or fraud. The Counsel demonstrated that all relevant discounts and adjustments were transparently disclosed in the financial statements and notes, and that the audit procedures, including confirmations and review of settlement deeds, were duly performed in accordance with applicable standards.

Regarding the going concern assumption, the Respondent's counsel argued that the company remained operational with multiple divisions, ongoing business, and support from a consortium of bankers as evidenced by the acceptance of the CDR proposal prior to the signing of the audit report. The auditor's assessment was based on available information, management representations, and compliance with SA-570, with no evidence of fraud or material misstatement. The Counsel also highlighted procedural lapses in the disciplinary process, including the improper expansion of charges and failure to map allegations to specific clauses of the Chartered Accountants Act. In nutshell, the Counsel maintained that all audit work was conducted with due professional care, disclosures were adequate, and the allegations lack merit both in fact and in law. The Committee noted the submissions of the Respondent.

Based on the documents and material available on record and after considering the verbal and written submissions of both parties, the Committee concluded hearing in the matter and Findings was reserved.

7.6 At the meeting held on 29th August 2026, the Committee noted that the subject case was heard by it at length in the presence of the Respondent and the hearing was concluded at its meeting held on 15th July 2026 and the Findings was reserved. The Committee considered the material on record including verbal and written submissions of the both the parties. The Committee deliberated in detail on the said case and took decision on the conduct of the Respondent.

8. <u>Findings of the Committee</u>:

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

8.1 In compliance with the directions of Appellate Authority, the matter is heard afresh by the Committee and opportunity of personal hearing is granted to the parties.

8.2 The Committee noted that the Respondent raised preliminary objections regarding procedural lapses in the disciplinary process, including the improper expansion of charges and failure to map allegations to specific clauses of the Chartered Accountants Act.

8.3 In respect of first preliminary objection regarding procedural lapses in the disciplinary process, the Respondent claimed that the Director Discipline (DD) unfairly admitted a new allegation (the Rs. 160 crore discount) at the rejoinder stage. The Committee noted that this transaction is not a separate charge, but rather crucial alternate audit evidence in verifying the existence and valuation of the Rs. 1,150 crore debtors. Furthermore, because the Respondent was given ample opportunity to submit written submissions and there is no violation of principles of natural justice.

8.4 In respect of second preliminary objection raised by the Respondent regarding non-mentioning of clauses, the Committee noted that although there is column in Form I for mentioning of particulars of allegations together with corresponding clause/part of the relevant schedule(s) under which the alleged acts of commissions or omissions or both would fall, but non-mentioning of such clauses or wrong mentioning them in the complaint does not make the complaint defective as being claimed by the Respondent. It is also pertinent here to mention that Respondent is required to submit his Written Statement on the allegations on merit and it is the allegation which is required to be substantiated/defended in a complaint case and not the clauses. A Complainant is required to state the allegations which forms factual foundation for the Authority to exercise jurisdiction over the matter. It is now a well settled principle of law that non-mentioning or wrong mentioning of provision(s) of law would not be of any relevance, if the authority/Court had the requisite jurisdiction to pass an order. Further, mere non-mentioning or wrong mentioning of clause(s) by the Complainant in the prescribed Form-I does not absolve the Respondent from charges levelled against him. Accordingly, the objection raised by the Respondent in this regard is not maintainable. The preliminary objections are, therefore, rejected and the matter is proceeded with for consideration on merits.

8.5 With regard to charge as mentioned in **para 2.1 and 2.3** as above, the Committee noted the charge against the Respondent that being the Statutory Auditor of M/s Varun Industries Limited (hereinafter referred to as the "Company"), he failed to report the material misstatements made in the Annual Report of the Company, the final outcome of which was that the Stock and Books Debts worth Rs. 1150 crores were siphoned off from the Company and he has been grossly negligent and careless to express true and fair view on the Annual Accounts of Financial Year 2011-12 of Company by not commenting, taking note and place on record material deviation of financial position as on 31st March 2012, as had been claimed by

Varun Industries Limited by incorporating irregularities to the extent of more than Rs. 1150 Crores in the Corporate Debt Restriping Proposal submitted by the Company to CDR Cell much earlier than date of Audit Report dated 09th August 2012. CDR Proposal is ~~acknowledged by the CDR Cell vide letter dated 02nd August 2012 as per BSE site.~~

8.6 The Committee noted that the Respondent in para 4(a) of his audit report had mentioned that:-
"We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit except some of the confirmations from debtors and creditors which have not been received from them."

8.7 The Committee noted the Respondent's submissions that there was no mechanism through which the amount of Rs.1,150 crore had been siphoned off. According to the Respondent, there was neither any specific bank transaction nor any cheque, payment instruction, transfer or other documentary evidence establishing that the alleged amount had been diverted from the Company. He further submitted that the Complainant had relied upon the stock audit report dated 22nd December 2011 and had considered debtors of approximately Rs.314 crore pertaining only to two divisions of the Company, namely Jodhpur and Vasai, while ignoring the debtors pertaining to other divisions, including the Agro Commodity, Windmill and Gem & Jewellery divisions. It was submitted that, upon considering the debtors of all divisions and adding the sales made during November and December 2011 and the subsequent period, the figures relied upon by the Complainant were demonstrably incorrect.

8.8 The Respondent argued that the disciplinary inquiry must be strictly confined to FY 2011–12 because the complaint was filed before the closure of the 2012–13 financial year. The Committee noted that subsequent conduct is highly material to establishing the Respondent's knowledge and gross negligence during the audit period. The fact that the Respondent qualified their audit report in FY 2012–13 on the very same ongoing debt/receivable issues proves they were fully aware of the systemic rot they chose to ignore in the FY 2011–12. Furthermore, the continuous nature of the Rs. 1,150 crore siphoning and the CDR proposal overlaps directly with the timing of the FY 2011–12 audit report signing.

8.9 The Committee noted that the Respondent relied upon the Corporate Debt Restructuring ("CDR") proposal and submitted that the alleged irregularities were in fact working-capital irregularities arising on account of reduced drawing power, delayed realisation of overseas receivables, foreign exchange fluctuations and other commercial circumstances. It was submitted that the CDR proposal specifically identified working-capital irregularities of Rs.296.24 crore and delayed/deferred receivables of Rs.680.35 crore and proposed their conversion into Working Capital Term Loans.

8.10 The Committee further noted that the Respondent mentioned that the CDR proposal was before the bankers and had been considered before the signing of the audit report dated 09.08.2012. According to the Respondent, this demonstrated that the financial difficulties of the Company were known to the banking consortium and were being addressed through a restructuring mechanism, rather than representing any siphoning of funds. With regard to the discount allowed to overseas debtors, the Respondent submitted that the amount of approximately Rs.160 crore had been properly disclosed in the financial statements and notes to accounts and had also been referred to in the CARO report. It was contended that the auditor's responsibility was to ensure appropriate disclosure and not to substitute his judgment for that of the management in relation to commercial decisions.

8.11 The Committee noted that the Respondent further relied upon the settlement deeds/MOUs with the overseas parties, ledgers, confirmations, bank records, stock audit reports, ageing schedules, CDR documents, master restructuring agreement and other documents forming part of the audit working papers. It was submitted that these documents demonstrated that the Respondent had performed appropriate audit procedures in relation to the Company's receivables and inventory. It was also submitted that an audit is distinct from a forensic investigation and that an auditor is required to obtain reasonable assurance and not absolute assurance. The Respondent contended that there was no evidence of fraud available to him during the audit and that the subsequent CDR process and banking arrangements could not retrospectively be used to establish that the Respondent had failed in his professional duties as auditor.

8.12 The Committee observed that the gravamen of the charge is that material misstatements existed in the Company's financial reporting in respect of its stock and book debts and that the Respondent, in his capacity as statutory auditor, failed to appropriately identify, examine and report the same. Moreover, the Respondent was required to comply with the requirements of paragraphs 11 and 13(a) of SA 200, which mandate the auditor to obtain reasonable assurance as to whether the financial statements, taken as a whole, are free from material misstatement, whether arising from fraud or error, and thereby enable the auditor to express an opinion on whether the financial statements have been prepared, in all material respects, in accordance with the applicable financial reporting framework. The Committee noted that the Respondent failed to discharge this fundamental responsibility and did not adequately bring the relevant facts to the knowledge of the shareholders. Such failure reflects gross negligence on the part of the Respondent in the discharge of his professional duties. The fact that an auditor is not required to conduct a forensic investigation cannot absolve him from complying with the applicable auditing standards and from exercising due professional care and obtaining sufficient and appropriate audit evidence in relation to material balances appearing in the financial statements.

8.13 The Committee observed that the Respondent's defence substantially proceeds on the premise that since there was no direct evidence of an identifiable transfer of Rs.1,150 crore from the Company's bank account, the allegation of siphoning could not be sustained. The Committee is unable to accept this proposition in its entirety. The professional obligation of the statutory auditor cannot be restricted merely to identifying a direct bank transfer. Where material discrepancies arise in relation to stock, trade receivables, drawing power, ageing of debtors, delayed receivables, discounts granted and the financial position of the Company, the auditor is required to examine the underlying transactions and obtain sufficient appropriate audit evidence before expressing an opinion on the financial statements.

8.14 The Committee also noted the Respondent's reliance upon the CDR proposal. The fact that the Company's bankers were aware of certain working capital irregularities and were considering restructuring cannot, by itself, establish that the figures appearing in the financial statements were correctly stated or that the Respondent had discharged all his audit responsibilities. The CDR exercise and the statutory audit operate in different spheres. Acceptance or consideration of a restructuring proposal by the bankers cannot substitute for the auditor's independent verification of the underlying balances and transactions. Similarly, the disclosure of the Rs.160 crore discount in the financial statements cannot, by itself, answer the larger issue concerning the reliability and recoverability of the underlying receivables. Disclosure is not a substitute for verification. Once circumstances existed which materially affected the recoverability of substantial receivables, the Respondent was required to obtain sufficient appropriate audit evidence regarding their existence, recoverability, valuation and appropriate accounting treatment.

8.15 The Committee noted that the magnitude of the amounts involved was material. The financial statements contained substantial receivables and working-capital exposures, while significant amounts had become overdue and the Company's drawing power had materially deteriorated. These circumstances constituted significant audit risk and called for enhanced scrutiny and corroboration. The issue before the Committee is not whether every banking irregularity constitutes siphoning. The issue is whether, in the facts and circumstances of the present case, the Respondent obtained sufficient appropriate audit evidence and exercised the degree of professional care and skepticism expected of a statutory auditor before accepting the reported figures and expressing his opinion thereon.

8.16 The Committee noted that the CDR proposal disclosed substantial working-capital difficulties, including overstatement/shortfall in debtors and inventory, delayed realisation of receivables and devolvement of Letters of Credit. The Committee further noted that the stock auditor appointed for CDR purposes had reported debtors of Rs. 314 crores as on 22nd December 2011, which, after considering subsequent sales, resulted in maximum debtors of Rs. 562 crores as on 31st March 2012, whereas the audited accounts reflected debtors of Rs. 1,484 crores, resulting in an apparent overstatement of Rs. 922 crores. The Respondent failed to provide reasonable justification for such substantial difference.

8.17 The Committee further noted that the CDR proposal had been initiated much before the signing of the audit report and was acknowledged by the CDR Cell on 02nd August 2012. The proposal reflected a working-capital shortfall of Rs. 1,352.29 crores and working-capital facilities from banks primarily secured against stocks and debtors. In these circumstances, the Respondent, being aware of the CDR process before finalising his audit report, was required to critically examine the reasons for the substantial shortfall in drawing power, including the overstatement of debtors and inventory and devolvement of Letters of Credit, and to assess whether corresponding adjustments were required in the financial statements. However, the Respondent did not rework the figures of debtors and inventory in light of the information available to him and issued the audit report without adequately considering the material financial information contained in the CDR proposal.

8.18 The Committee noted that, despite being aware of the ongoing CDR proposal concerning the Company, the Respondent failed to duly consider its implications and did not rework the carrying amounts of inventories and debtors. The Respondent, thereafter, issued an unmodified audit report without making the necessary adjustments towards impairment in the value of the said assets, as required under paragraphs 8.2 and 13 of AS-4 – Contingencies and Events Occurring After the Balance Sheet Date. The Committee observed that the Respondent's failure to appropriately assess and account for the impact of the CDR proposal on the carrying values of the aforesaid assets constituted a serious lapse in the discharge of his professional responsibilities. The para 8.2 and para 13 of AS-4- Contingencies and Event Occurring After Balance Sheet Date reproduced hereunder:

"8.2 Adjustments to assets and liabilities are required for events occurring after the balance sheet date that provide additional information materially affecting the determination of the mounts relating to conditions existing at the balance sheet date. For example, adjustment may be made for a loss on a trade receivable account which is confirmed by the insolvency of a customer which occurs after the balance sheet date.

13. Assets and liabilities should be adjusted for events occurring after the balance sheet date that provide additional evidence to assist the estimation of amounts relating to conditions existing at the balance sheet date or that Indicate that the fundamental accounting assumption of going concern (i.e., the continuance of existence or substratum of the enterprise) is not appropriate."

8.19 The Committee also noted that the Company had granted substantial discounts of approximately Rs. 160 crores to certain debtors and had deferred their payments for a period of five years. Although the Respondent contended that the discount was disclosed in the financial statements, the Committee observed that the audit report did not contain any specific disclosure of the settlement terms and the unusual deferment of payment. Considering the magnitude of the discount and the prolonged deferment of receivables, the Respondent was required to exercise greater professional skepticism and obtain sufficient appropriate audit evidence regarding the existence, recoverability and valuation of such debtors. The Respondent also failed to produce evidence of direct confirmations from the concerned debtors. The Committee therefore observed that mere disclosure of the discount in the Notes to Accounts could not substitute for proper verification and reporting of the material circumstances affecting the recoverability of the debtors.

8.20 The Respondent's reliance on management explanations and settlement deeds, without obtaining independent and sufficient audit evidence regarding the recoverability of receivables and the genuineness of the transactions, constitutes a serious lapse. The Committee noted that the explanations provided by the Respondent, including the reconciliation of figures and the disclosure of discounts in the Notes to Accounts, do not absolve him of the duty to verify and report on the possibility of misappropriation or siphoning of funds, especially when the magnitude of the amounts involved was substantial and the circumstances indicated heightened risk. The Committee finds that the Respondent's audit procedures were inadequate and that he failed to discharge his responsibilities which facilitating the concealment of material misstatements.

8.21 The Committee further observed that the Respondent relied substantially upon management-provided figures and representations in respect of inventory and other assets and failed to produce adequate documentary evidence regarding his participation in inventory verification and valuation. The incomplete stock audit report relied upon by the Respondent could not substitute for the auditor's own audit evidence. The Committee also noted that the devolvement of Letters of Credit amounting to approximately Rs. 104 crores, although reflected in the Notes to Accounts, was not reported by the Respondent in the relevant paragraph of the CARO report. These matters, taken together with the substantial overstatement of debtors, inventory-related concerns, working-capital irregularities and the CDR proposal, constituted material matters having a direct bearing upon the financial position presented in the Annual Accounts.

8.22 In view of the foregoing, the Committee is of the opinion that the Respondent failed to adequately examine, evaluate and report the material deviations and irregularities affecting the financial position of the Company as at 31st March 2012, despite having information regarding the CDR proposal and the underlying financial difficulties before issuance of the audit report. The Respondent failed to obtain sufficient appropriate audit evidence and failed to bring material matters affecting the true and fair view of the financial statements to the notice of the stakeholders.

8.23 Accordingly, the Committee is of the view that the Respondent failed to discharge the requisite professional obligations in relation to the material balances and transactions forming the subject matter of the allegation. Thus, the Respondent is **GUILTY** of Professional Misconduct falling within the meaning of Clauses (6) (7) (8) and (9) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

8.24 With regard to charge as mentioned in **para 2.2** as above, the Committee considered the allegation that the Respondent, while conducting the statutory audit of M/s Varun Industries Limited for the financial year 2011-12, failed to obtain sufficient appropriate audit evidence regarding the appropriateness of management's use of the going-concern assumption and failed to conclude whether there existed a material uncertainty regarding the Company's ability to continue as a going concern.

8.25 The Committee noted the Respondent submissions that the Company was a functioning and profit-making entity having several operational divisions, including kitchenware, stainless-steel sheets, cooking ware, oil and gas drilling and windmill operations. It was contended that the Company continued to operate its plants, windmills and oil rigs and continued to generate revenue. The Respondent therefore submitted that there was no sufficient basis to conclude that the Company was not a going concern merely because it had experienced liquidity constraints during the latter part of the financial year.

8.26 The Committee noted that the Respondent relied upon the Company's positive net worth and profit before exceptional items and taxes of approximately Rs. 285.12 crores. It was submitted that there was no intention on the part of the management to liquidate the Company and that there were no circumstances such as cessation of business, sale of substantial assets, loss of key customers, labour problems or statutory defaults which, according to the Respondent, would necessarily establish that the Company could not continue as a going concern.

8.27 The Committee noted that the Respondent placed reliance upon the CDR proposal and submitted that the banking consortium had agreed to restructure the Company's working-capital irregularities. It was pointed out that the proposal contemplated conversion of working-capital irregularities into Working Capital Term Loans, additional working-capital facilities, infusion of Rs. 30 crore by the promoters and other financial concessions. According to the Respondent, these circumstances constituted significant mitigating factors supporting the continued application of the going-concern assumption. He submitted that the CDR proposal had been acknowledged by the CDR Cell on 02.08.2012, whereas the audit report was signed on 09.08.2012, and therefore the restructuring process was already known and was being actively pursued before the audit report was issued.

8.28 The Committee noted that the Respondent relied upon the applicable auditing framework and submitted that an auditor does not guarantee the future survival or viability of an enterprise and that the going-concern assessment is required to be made on the basis of the information and circumstances existing at the relevant date. It was also submitted that the Respondent had examined the minutes of the Board, internal audit reports, ageing schedules, bank records, CDR documents, management representations, inventory verification reports and other relevant documents and had, therefore, performed the necessary audit procedures for assessing the appropriateness of the going-concern assumption. The Respondent also relied upon the fact that the Company's bank accounts had not been classified as NPA as at 31.03.2012 and that the utilisation of banking facilities was within the sanctioned limits. It was accordingly contended that there was no material uncertainty regarding the Company's ability to continue as a going concern. However, the Committee noted that the performance of individual audit procedures does not, by itself, establish that the Respondent adequately evaluated the cumulative effect of the adverse circumstances. What was required was not merely the collection of information, but its critical evaluation so as to determine whether the aggregate circumstances gave rise to material uncertainty concerning going concern.

8.29 The Committee noted that the auditor is not required to guarantee the future viability or survival of an enterprise. However, where circumstances exist which may cast significant doubt upon the entity's ability to continue as a going concern, the auditor is required to undertake an appropriate and sufficient evaluation of management's assessment and obtain appropriate audit evidence in support of the conclusion.

8.30 The Committee does not find merit in the Respondent's contention that the proposed restructuring by the banks, by itself, established that no material uncertainty existed. The Committee further noted that the substantial receivables from overseas debtors, coupled with the prolonged deferment of their recovery, had a direct bearing upon the Company's liquidity and cash-flow position and were therefore relevant to the assessment of going concern. These circumstances, when considered together with the Company's financial difficulties, banking defaults and dependence upon restructuring support, required the Respondent to evaluate whether, individually or collectively, such events and conditions cast significant doubt upon the Company's ability to continue as a going concern, as contemplated under paragraph 17 of SA 570, Going concern, which is stated as under :-

'Audit Conclusions and Reporting

17. Based on the audit evidence obtained, the auditor shall conclude whether, in the auditor's judgment, a material uncertainty exists related to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern. A material uncertainty exists when the magnitude of its potential impact and likelihood of occurrence is such that, in the auditor's judgment, appropriate disclosure of the nature and implications of the uncertainty is necessary for:

(a) In the case of a fair presentation financial reporting framework, the fair presentation of the financial statements, or

(b) In the case of a compliance framework, the financial statements not to be misleading."

8.31 The Committee also noted that the Respondent's reliance upon the continued operation of the Company's plants, windmills and oil rigs is not sufficient to discharge the auditor's responsibility. An entity may continue its physical operations while simultaneously facing material uncertainty regarding its ability to meet its financial obligations. The Respondent was therefore required to consider operational continuity together with the Company's liquidity position, debt obligations, receivables, banking arrangements, working-capital irregularities and restructuring requirements. The Committee observed that the existence of accounting profits or positive net worth does not, by itself, establish the availability of sufficient cash flows to meet the Company's obligations, particularly where there were substantial overdue receivables, working-capital irregularities, banking difficulties and dependence upon restructuring support.

8.32 The Committee noted the Respondent's submission that the Company's accounts had not been classified as NPA as at 31.03.2012. The Committee finds that the absence of NPA classification is only one circumstance and cannot be treated as conclusive evidence that no material uncertainty existed regarding going concern. The Committee noted that the Respondent did not obtain sufficient and appropriate audit evidence to support management's assertion of the company's ability to continue as a going concern. The existence of significant working capital irregularities, the necessity for a CDR proposal, and the company's deteriorating financial position were clear indicators of material uncertainty. The Respondent's reliance on the mere acceptance of the CDR proposal by the bankers, without critically evaluating the feasibility and implementation of the restructuring plan or the company's ability to generate sufficient cash flows, was misplaced.

8.33 The Committee further noted that the Respondent's reliance upon management representations could not substitute for independent evaluation of the underlying financial circumstances. In view of the substantial receivables, delayed recoveries, working-capital irregularities, banking defaults and restructuring requirements, the Respondent was required to exercise a heightened degree of professional skepticism and obtain sufficient appropriate audit evidence to support his conclusion. The cumulative circumstances required the exercise of a higher degree of professional scepticism and due diligence than was demonstrated by the Respondent.

8.34 The Committee further noted that, in terms of paragraph 6 of SA 570, *Going Concern*, the auditor is required to obtain sufficient appropriate audit evidence and conclude whether any material uncertainty exists regarding the entity's ability to continue as a going concern. The relevant abstract of said para is given below:

"6. The auditor's responsibility is to obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern. This responsibility exists even if the financial reporting framework used in the preparation of the financial statements does not include an explicit requirement for management to make a specific assessment of the entity's ability to continue as a going concern."

8.35 Accordingly, the Committee viewed that the Respondent, in relation to the said charge, failed to exercise the requisite due diligence, was grossly negligent in the discharge of his professional duties, failed to obtain sufficient information necessary for the proper discharge of his professional responsibilities and failed to appropriately deal with material matters having a bearing upon the financial statements and the going-concern assessment. Thus, the Respondent is **GUILTY** of Professional Misconduct falling within the meaning of Clauses (6) (7) (8) and (9) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

9. Conclusion:

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

Charges (as per PFO)	Findings	Decision of the Committee
Para 2.1 as above.	Para 8.5 to. 8.23 as Above	**GUILTY** - Clauses (6) (7) (8) and (9) of Part I of the Second Schedule.
Para 2.2 as above.	Para 8.24 to. 8.35 as Above	**GUILTY** - Clauses (6) (7) (8) and (9) of Part I of the Second Schedule.

10. In view of the above observations, considering the verbal 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 (6) (7) (8) and (9) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

Sd/-
(CMA CHANDRA WADHWA)
GOVERNMENT NOMINEE & PRESIDING OFFICER

Sd/-
(CA. MAHESH SHAH)
GOVERNMENT NOMINEE

Sd/-
(CA. SATISH KUMAR GUPTA)
MEMBER

Sd/-
(CA. HANS RAJ CHUGH)
MEMBER

DATE : 31.08.2026

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