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.: [PPR/P/109/14-DD/49/INF/15-DC/772/2018]

In the matter of:
CA. Mehul Chandrakant Shah (M.No. 049361),
[Referred to as CA. Mehul Shah in PFO]
M/s. Shah Shah & Shah, Mumbai In re:
502, Damji Shamji Trade Centre,
Vidyavihar West,
Mumbai -400 086

...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. Mehul Chandrakant Shah (M.No. 049361)** (hereinafter referred to as the **Respondent**) is

GUILTY of Professional Misconduct falling within the meaning of Item (7) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

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 07th September 2026 on the Findings of the Committee and the same may be considered by the Committee. The Committee noted the verbal and written representation of the Respondent dated 07th September 2026 on the Findings of the Committee, which, inter alia, are as under: -

i He submitted that the finding recorded in paragraph 7.10, namely that "no confirmation of balances had been obtained by the Company and the Respondent in respect of the aforesaid advances", is contrary to the record. The said finding is also contradicted by the Committee's own observations recorded in paragraphs 7.9 and 7.12, as well as by the Prima Facie Opinion recorded at paragraph 9.3.

ii He submitted that the finding in paragraph 7.10 that no confirmation of balances had been obtained is contrary to the record and inconsistent with the Committee's own findings. Paragraphs 7.9 and 7.12 expressly record the Respondent's reliance upon confirmations obtained from the parties and the auditors of the subsidiary companies. Further, the Prima Facie Opinion at paragraph 9.3 records that confirmations had been obtained from the auditors of the foreign subsidiary and from the parties. Thus, the finding in paragraph 7.10 is factually inconsistent with the record and the Committee's own observations and, therefore, cannot form the basis of the conclusion of guilt.

5. In respect of the submissions made by the Respondent, the Committee observed that the reasons and findings recorded in its Findings dated 31.08.2026 are self-explanatory. Nevertheless, with a view to placing the factual position on record and setting the facts in their right perspective, the Committee considers it appropriate to record the following observations:-

i The Committee noted that the Respondent, in his written submissions dated 07th September 2026, contended that the finding in paragraph 7.10 regarding non-obtaining of confirmations was contrary to the record and was contradicted by the Committee's observations in paragraphs 7.9 and 7.12. The Committee further noted in this regard that the statement(s) referred to by the Respondent in para 7.9 of the finding is part of the Respondent's submissions as contained in para 5 and 14 of written submissions dated 10th July 2018 and 30th August 2021 respectively of the Respondent. The matter contained in para 7.9 of the finding after this submission of the Respondent, are the observations given by the Committee.

ii The Committee noted that the Respondent had taken balance confirmation as on 31-03-2013 from some of the parties to whom loans and advances were extended by the Company. Notwithstanding, in respect of unsecured loan of Rs.567.77 Crores given to its overseas subsidiary in Dubai i.e. Shree Ashtavinayak Cinevision FZE' the Committee noted that it formed approximately 62% of the total balance sheet size as on 31-03-2013 of the Company. Further, from the Financial Statement as on 31-03-2013 of the overseas subsidiary, the Committee also noted that the unsecured loan availed by it from the Company represented 99.71% of its total balance sheet size and 93% of such loan funds was further given by the overseas subsidiary as 'Capital Advance' for acquiring copyrights from various parties for using the replication rights of motion pictures which were yet to be released. Besides, the overseas subsidiary is also noted to be in consecutive losses with no revenue.

- Therefore, the Committee observed that since the loan given to the overseas subsidiary was material and unsecured, the Company had a material financial exposure which would have impacted the true and fair view of its financial statements and hence, the Respondent should have performed extensive verification procedures and should have obtained sufficient and appropriate audit evidence in accordance with the provisions of SA 500. Specifically, the Respondent was to explicitly state in his Audit Report under Clause 4(iii)(b) of CARO-2003 as to *'whether the rate of interest and other terms and conditions of loans given or taken by the company, secured or unsecured, are prima facie prejudicial to the interest of the company.'*
- In this regard the Committee noted the reporting of Respondent made under aforesaid clause of CARO – 2003 for the F.Y. 2012-13 and observed that he had relied upon the management representation without carrying out any independent and extensive verification and without obtaining any sufficient appropriate audit evidence.
- Thus, Committee is of the view that in order to report under this clause that 'conditions of unsecured loan were not prejudicial' especially in the light of the facts that the loan

amount was material, the overseas subsidiary was in losses and 93% of such loans funds were further extended by it as capital advances, the Respondent was required to independently verify/assess the financial viability/recoverability of the loan and the end use of borrowed funds by extending his audit procedures and by obtaining sufficient and appropriate audit evidence. Merely relying upon the management representations and the audited financials of the overseas subsidiary for taking loan balance confirmation and that too for a material item of the balance sheet, is viewed by the Committee as insufficient for his CARO reporting requirement as well as for his overall reporting of the Company as True and Fair.

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 failed to ascertain whether the funds diverted by the Company in the form of loans to the overseas subsidiary and capital advances were supported by corresponding assets, and whether the amounts shown as recoverable from the subsidiaries were actually recoverable, and instead relied upon the representations made by the management.

8. In this regard, the Committee noted that the overseas subsidiary had not earned revenue during FY 2009-10 to FY 2012-13, except for the period from 01.04.2010 to 30.09.2010, indicating absence of meaningful business activity. The Committee also noted the substantial and long-standing advances, delayed projects and financial distress of the Company, which were circumstances requiring the Respondent to undertake adequate verification of the recoverability and carrying value of such amounts.

9. The Committee also noted that the Respondent had undertaken various audit procedures, including enquiries with the Board and Audit Committee, obtaining confirmations, considering subsidiary auditors' reports, reviewing internal audit reports and examining supporting documents, and relied upon SA 240 and SA 600. The Committee observed that, however, considering the circumstances, those procedures were not sufficient to discharge the Respondent's professional obligation to evaluate recoverability.

10. The Committee was therefore of the view that the Respondent failed to exercise the due diligence expected from him in his capacity as Statutory Auditor and failed to adequately verify whether the amounts shown as advances and recoverable balances were recoverable and appropriately carried in the financial statements and whether appropriate provision was required in respect thereof. Hence, 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.

11. 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.

12. **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. Mehul Chandrakant Shah (M.No. 049361), Mumbai be removed his name from the Register of Members for a period of 06 (Six) months and also imposed a fine of Rs. 5,00,000/- (Rupees Five 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
Grover
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:- [PPR/P/109/14-DD/49/INF/15-DC/772/2018]

In the matter of:

CA. Mehul Chandrakant Shah (M.N0.049361),
[Referred to as CA. Mehul Shah in PFO]
M/s. Shah Shah & Shah, Mumbai In re:
502, Damji Shamji Trade Centre,
Vidyavihar West,
Mumbai -400 086 ..... **Respondent**

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

DATE OF FINAL HEARING : 20th August 2026
DATE OF DECISION TAKEN: 29th August 2026
DATE OF PRONOUNCEMENT OF DECISION: 31st August 2026

PARTIES PRESENT:

Respondent: CA. Mehul Shah (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:

"25. Notably, the instant matter, 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 two Members. As such, the Impugned Order dated 11.02.2022 (Findings) was not signed by other two 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.

26. 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 01.06.2022 and remand the matter to the present 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 an opportunity to submit his arguments.

27. 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 afresh and the Findings under Rule 18 (17) of the Rules and Punishment Order under 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.

28. In the result, with the aforesaid observations, the present appeal stands 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 party(ies).

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 Clause (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949. The Committee, thereafter, passed an Order dated 01st June,2022 wherein the Respondent was awarded a punishment of the removal of his name from the register of members for a period of six months and also imposed a fine of Rs. 5,00,000/- (Rupees Five Lakhs Only).

1. **Background of the Case:**

1.1 In the instant case, Hon'ble High Court has appointed an Investigating Officer and directed him to carry out an investigation of M/s Shree Ashtavinayak Cine Vision Ltd. (hereinafter referred to as the "Company"), which was under-going the process of winding-up. After examination of the Investigation Report dated 24.06.2014, the Central Government has directed the Institute of Chartered Accountants of India to carry out the investigation against the Respondent firm vide letter dated 2nd September 2014 citing various frauds or financial irregularities in the Company as reported in the said report, as such it was being appointed as the Statutory Auditor of the Company on 03.12.2010 and resigned on 31.03.2014.

2. **Charges in brief:**

2.1. It has been alleged that the Respondent firm has completely failed in unraveling the fraud and has only relied on the management representations of the Company. The Respondent has failed to verify whether the funds diverted by the Company to loans granted to the overseas subsidiary and capital advances were actually represented by any assets or whether the amounts shown as recoverable from subsidiaries were in fact recoverable or not except relying on the management representations.

3. **The relevant issues discussed in the Prima facie opinion dated 19th December 2017 formulated by the Director (Discipline) in the matter in brief, are given below:**

3.1. The Respondent had submitted that an audit could never be aimed to detect fraud, and in fact, the management had been responsible for the preparation of financial statements that gave a true and fair view of the financial position of the Company. The Respondent had further submitted that the Company had paid amounts towards loans to its wholly owned subsidiaries and towards capital advances for film production projects, which had been substantiated by obtaining confirmation from the auditors of foreign subsidiary and parties to whom advances had been given during the audit process.

3.2. The Respondent had further submitted that the subsidiaries had treated the deployment of funds to various projects as good in nature in their respective Balance Sheets. The Respondent also had contended that the auditors of the subsidiaries had not made any adverse observations in the respective audited accounts of the subsidiaries as regards the advances given. The Respondent had also adduced the copy of minutes of meetings of Audit Committee wherein the status of various projects undertaken by the Company as well as advances granted to its subsidiaries and other parties had been discussed.

3.3. The Respondent had also brought on record that detailed disclosure in the form of emphasis of matter had been made in his Audit report for the year ended 31st March, 2013 where attention had been drawn to sub-note no. 6 of notes to account no. 31 of the financial statements for the financial year 2012-13 highlighting the fact that the Company had been facing financial crisis and thus had not been able to repay the loans, statutory dues and creditors and that the present financial challenges had been a part of a temporary phase.

3.4. On perusal of documents available on record, it had been seen that the movement of assets, liabilities, revenue and expenses as highlighted in the investigation report and financial statements of the overseas subsidiary company for the financial year ended 31st March, 2013 had indicated that the Company had granted loans to its overseas subsidiary company which had been advanced as capital advances to the third parties for acquiring copyrights for making motion pictures which were still not completed. It had been observed that the subsidiary company had not earned any revenue during the period from the financial year 2009-10 to 2012-13 except during the period from 01.04.2010 to 30.09.2010 and thus, it had appeared that there had been no business activity in the subsidiary company.

3.5. It was pertinent to note that the Respondent could not have been relieved of his professional duties by merely highlighting the fact of financial crisis in the Company, however he had been required to report such frauds and financial irregularities and its repercussions on the financial position of the Company. Therefore, the Respondent had been prima facie held guilty of professional misconduct on this charge.

3.6. Further, it had been alleged that the Respondent had not made any disclosure in his Audit Report in regard to the aforesaid frauds which would have cautioned the gullible investors whose share value had been eroded abruptly. As regards the erosion of share value, the Respondent had submitted that share price in market had not been a concern for an auditor from the perspective of an audit and share prices had fallen significantly owing to some reasons but not owing to his non-disclosure. It had been noted that the Respondent, as a Statutory Auditor of the Company, had not been liable to report on the fluctuation of the share prices of the Company. Further, it had been stated that the Respondent had had no role to play in this regard. Therefore, the Respondent was prima facie not guilty of professional misconduct on this count.

3.7. Taking an overall view of the facts and records of the case, it was apparent that there had been instances of non-disclosure of financial irregularities in the Audit Report issued by the Respondent leading to the alleged fraud. Such financial irregularities had reportedly been on account of siphoning of funds by the Company by way of granting loans and capital advance payments made for film production projects to the wholly owned subsidiary of the Company which had been carrying no business activity, which could have had a bearing of materially affecting the financial position of the Company. Such instances of non-disclosure had reflected a lack of due diligence on the part of the Respondent and had clearly been attributable to professional misconduct.

3.8. Accordingly, the Director (Discipline) in his Prima Facie Opinion dated 19th December 2017 opined that the Respondent was Prima Facie **Guilty** of Professional Misconduct falling within the meaning Clause (7) of Part I of the Second Schedule to the Act, states as under:

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

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

x x x x x x x

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

3.9. The Prima Facie Opinion formed by the Director (Discipline) was considered by the Disciplinary Committee in its meeting held on 09th May 2018. The Committee on consideration of the same, concurred with the reasons given against the charges and thus, agreed with the Prima Facie Opinion of the Director (Discipline) that the Respondent is **GUILTY** of Professional Misconduct falling within the meaning of Clause (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949 and accordingly, decided to proceed further under Chapter V of the Chartered Accountants (Procedure of Investigations of Professional and Other Misconduct and Conduct of Cases) Rules, 2007.

4. **Date(s) of Written Submissions/Pleadings by parties:**

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

S.No.	Particulars	Dated
1.	Date of Complaint in Form 'I' filed by the Complainant	02nd September 2014
2.	Date of Written Statement filed by the Respondent	09th November 2015
3.	Date of Prima Facie Opinion formed by Director (Discipline)	19th December 2017
4.	Written Submissions filed by the Respondent after PFO	10th July 2018 30th August 2021

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

The Respondent vide his submissions dated 10th July 2018, inter-alia, made the submissions which are given as under:

- The principal allegation against him is that, as auditor of Shree Ashtavinayak Cine Vision Ltd., he failed to report an alleged fraud. The alleged fraud concerned loans and advances given by the company to its subsidiaries which were allegedly not returned.
- He states that the investigator made allegations against him without giving him an opportunity to be heard or examining him. He emphasizes that the alleged fraud was still under investigation and the related court matter was sub judice. According to him, even after several years of investigation, the authorities had not conclusively established the magnitude, modus operandi, or exact recipients of the alleged fraud. He therefore argues that the matter was essentially still an investigation, rather than something that could necessarily have been detected during a normal statutory audit.
- He argues that the Prima Facie Opinion appears to assess his conduct using hindsight, based on information discovered later during investigation. His position is that his conduct should instead be assessed based on the circumstances and information available to him at the time he performed the audit. He stresses that he was a statutory auditor and not an investigator.

Fraud was not known or apparent during the audit

- He disputes the apparent presumption in the Prima Facie Opinion that the alleged fraud was known to him or had been detected before the audit report was issued. He states that there were no circumstances at the time of audit that gave rise to suspicion of fraud. At that time, what was apparent was a financial crisis in the company, which he says he appropriately reported. The alleged fraud became apparent only through investigations conducted years later.
- He states that he carried out various audit procedures, including inquiries at the level of:
    - Board of Directors
    - Audit Committee
    - External confirmations concerning advances
    - Internal Auditor's reports
    - Auditors' reports of subsidiary companies
- He argues that these procedures demonstrate that he did not merely rely on management representations.

- He relies on SA 600, under which an auditor may rely on the work of another auditor in appropriate circumstances. The major advances were connected with a foreign subsidiary, whose accounts were audited by another independent firm.
- The foreign subsidiary's auditors had confirmed that the advances were considered good in nature and that their audit had been conducted in accordance with applicable international auditing standards. He argues that there was therefore no indication of fraud in the subsidiary's accounts at the time on which he could reasonably have reported fraud.
- The advances made by the subsidiary related to film production and acquisition of film rights, which he describes as part of the company's ordinary business. He argues that delays in film production and the absence of revenue during a particular period could not, by themselves, establish or indicate fraud. He states that delays are common in the film industry because of matters such as availability of actors, locations, scripts, and disputes concerning rights.
- He points out that his audit report contained an Emphasis of Matter concerning the company's financial difficulties. The report highlighted issues including:
  - The company's inability to repay loans and other liabilities.
  - Statutory dues and other creditors.
  - Recovery suits and winding-up proceedings initiated by certain parties.
  - Financial challenges arising from funds being deployed in film production and distribution projects that were delayed.
- He argues that this constituted adequate disclosure based on the circumstances known at that time.
- He states that information was obtained from auditors of the wholly owned subsidiaries regarding the nature of advances. Direct confirmations were obtained from parties to whom advances had been given. The subsidiary companies and their auditors treated the relevant deployment of funds as good in nature.
- The matters concerning projects and advances were discussed before the Audit Committee on several occasions. The company had taken legal action against certain parties who had received advances where projects were delayed. Arbitration proceedings were also initiated against Suyojit Enterprises Private Limited for recovery of an advance. He states that these actions provided external evidence that the company was taking steps concerning delayed projects and recovery of advances.
- He specifically states that direct confirmatory letters were obtained for advances amounting to Rs. 2,47,98,00,000, out of total capital advances of Rs. 2,64,41,57,098. He calculates this as approximately 93.78% of the total capital advances. He uses this to support his contention that he did considerably more than merely rely on management representations.

- He refers to the observation that an auditor is a watchdog and not a bloodhound. He argues that it is incorrect to expect him to have acted as an investigator who was actively searching for a fraud that was not apparent from the information available during the audit.
- The document sets out several distinctions:
  - Auditing involves examination of financial statements and forming an independent opinion.
  - Investigation involves a detailed and specific examination aimed at discovering facts.
  - Audit evidence is described as persuasive, whereas investigation seeks more conclusive evidence.
  - Audits are normally conducted annually; investigations are undertaken when circumstances require them.
  - An audit focuses on whether financial statements give a true and fair view.
  - An investigation is directed toward establishing facts, including whether fraud has occurred.
- His central point is that the objective of an audit is not to unravel fraud, although fraud discovered during an audit must be reported in accordance with regulatory requirements.
- He relies on the Tri-sure India Ltd. case to support the proposition that it is easier to be wiser after a fraud has occurred. He argues that the auditor's conduct should be assessed by placing oneself in the auditor's position at the time the audit was conducted, rather than using information discovered later.
- He denies that his conduct amounted to lack of due diligence, gross negligence, or other professional misconduct. He emphasizes that professional misconduct is different from mere inefficiency or failure to perform a duty perfectly.
- He refers to judicial observations that the standard is whether the auditor failed to exercise the skill, care and caution expected from a reasonably competent and careful auditor in the circumstances.

<u>The Respondent vide his submissions dated 30th August 2021, inter-alia, made the submissions which are given as under:</u>

- The respondent expressed that the Director (Discipline) had exonerated him from the allegations concerning share price fluctuation and had held him prima facie guilty only under **Clause 7** of Part I of the Second Schedule of the Chartered Accountants Act for alleged lack of due diligence or gross negligence.
- The respondent contended that the principal allegation against him was the failure to report the alleged fraud involving loans and advances made by Shree Ashtavinayak Cine Vision Ltd. to its subsidiaries.
- He submitted that he had not been afforded any opportunity to present his case before the investigator during the investigation.

- He further pointed out that the Director (Discipline) had not invoked Clauses 5, 6, 8, or 9 of Part I of the Second Schedule, thereby restricting the allegation solely to lack of due diligence under Clause 7.
- The respondent asserted that no fraud had been detected or was known to him at the time of conducting the audit. He submitted that the allegations of fraud had surfaced several years after completion of the audit and that the matter had remained under investigation for a prolonged period without any final judicial determination.
- He contended that the Prima Facie Opinion had been influenced by subsequent investigations rather than by the circumstances prevailing at the time of the audit. He maintained that the audit had been conducted diligently and that no circumstances had existed during the audit which could reasonably have indicated fraud. He explained that delays in film production and non-recovery of advances were common industry practices and had not, by themselves, indicated fraudulent activity.
- The respondent stated that he had performed various audit procedures, including:
  - Making enquiries with the Board of Directors and the Audit Committee.
  - Obtaining external confirmations of advances.
  - Seeking confirmations from subsidiary auditors in accordance with SA 600.
  - Reviewing Internal Auditor reports.
  - Relying on unmodified audit reports issued by subsidiary auditors.
  - Examining supporting agreements and confirmations produced by management.

- The respondent submitted that he had complied with the applicable Standards on Auditing, particularly SA 240 and SA 600. He argued that an auditor was required to provide only reasonable assurance and that an audit was fundamentally different from a forensic investigation. He relied upon SA 240, which recognised that fraud committed by senior management was inherently difficult to detect because of management's ability to override internal controls.
- The respondent stated that the auditors of the foreign subsidiary had conducted their audits in accordance with International Standards on Auditing. Those auditors had reported that the advances were recoverable and had not reported any indication of fraud. He submitted that he had been entitled to rely upon their reports in accordance with SA 600.
- The respondent submitted that his audit report had contained an Emphasis of Matter highlighting the company's financial distress, repayment defaults, litigation, and delays in film projects. He argued that these disclosures adequately informed the users of the financial statements about the company's financial position based on the information available at the time.
- The respondent clarified that advances had not been recognised as capital work-in-progress because production had not commenced. He explained that lack of revenue and delays in projects were common characteristics of the film industry and did not necessarily indicate fraud.

- He submitted that investments made through subsidiaries had constituted strategic investments and not diversion of funds. He further stated that the overseas investments had been made after obtaining the necessary approvals from the Reserve Bank of India.
- The respondent pointed out that neither the Economic Offences Wing, the Enforcement Directorate, nor the Official Liquidator had implicated him in the alleged fraud. He relied upon a letter from the forensic auditor, who stated that no evidence had been found indicating the respondent's involvement, awareness, or complicity in the alleged siphoning of funds, and that his name had not been included in the charge sheet.
- The respondent referred to a recent SEBI order concerning the auditors of Fortis Healthcare Ltd., wherein the auditors had not been held negligent under similar circumstances. He also relied upon judicial observations that an auditor's conduct should be assessed based on the information available at the time of the audit and not with the benefit of hindsight.
- He cited the well-established principle that an auditor was expected to act as a "watchdog and not a bloodhound," exercising reasonable skill, care, and diligence rather than functioning as an investigator.
- The respondent concluded that he had exercised due professional care, complied with the applicable Standards on Auditing, and obtained sufficient appropriate audit evidence before issuing his audit report. He maintained that there had been no indication of fraud at the time of the audit and that the subsequent discovery of alleged irregularities could not retrospectively establish professional misconduct. Accordingly, he requested the Disciplinary Committee to hold that he had not been guilty of professional misconduct.

6. Brief facts of the Proceedings:

6.1 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 01.06.2022, 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 Appellant an opportunity to submit his arguments.

6.2 The Committee further noted that the Appellate Authority in its order dated 26.05.2026 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 party(ies).

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

S. No.	Date of meeting(s)	Status
1.	02nd July 2026	Adjourned at the request of the Respondent.
2.	15th July 2026	Deferred due to paucity of time.
3.	24th July 2026	Part heard and adjourned
4.	31st July 2026	Deferred due to paucity of time.
5.	03rd August 2026	Deferred due to paucity of time.
6.	20th August 2026	Hearing concluded & Findings reserved.
7.	29th August 2026	Decision Taken.

6.4 On the day of first hearing on 02nd July 2026, the Committee noted that the Counsel for the Respondent vide email dated 23rd 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 the Respondent. Accordingly, the hearing in the case was adjourned at the request of the Respondent.

6.5 On the day of hearing 15th July 2026, consideration of subject case was deferred by the Committee due to paucity of time.

6.6 On the day of hearing 24th 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 01.06.2022 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 noted that allegation against the Respondent that, the Respondent firm has completely failed in unraveling the fraud and has only relied on the management representations of the Company. The Respondent has failed to verify whether the funds diverted by the Company to loans granted to the overseas subsidiary and capital advances were actually represented by any assets or whether the amounts shown as recoverable from subsidiaries were in fact recoverable or not except relying on the management representations.

On merits, the Counsel submitted that the role of a statutory auditor is to provide reasonable assurance on the financial statements. He referred to SA 240 and submitted that even after performing all prescribed audit procedures, certain frauds may remain undetected, especially where management override of controls or collusion exists. It was contended that an auditor cannot be held guilty merely because fraud was subsequently discovered unless it is established that the prescribed audit procedures had not been performed. The Counsel further submitted that the Director (Discipline) had proceeded on the assumption that the Respondent had detected alleged fraud but failed to report it, whereas the original allegation was only that the Respondent had failed to detect fraud. The Counsel further submitted that the investigating authorities themselves had recommended further investigation by various agencies, indicating that no definitive finding of fraud had been recorded at the relevant stage. The Committee noted the submissions of the Respondent. With this the case was part heard and adjourned.

6.7 On the day of hearing 31st July 2026, consideration of subject case was deferred by the Committee due to paucity of time.

6.8 On the day of hearing 03rd August 2026, consideration of subject case was deferred by the Committee due to paucity of time.

6.9 On the day of hearing 20th August 2026, the Committee noted the Respondent's submissions that, at the time of audit, no fraud had been detected and even the investigation agency's own report called for further inquiry, with legal proceedings still ongoing. The defense highlighted the distinction between an audit and an investigation, noting that statutory auditors do not possess the investigative powers of government agencies. It was argued that the assumption of the auditor's knowledge of fraud was unfounded. The Respondent's counsel also provided a detailed synopsis mapping each comment from the Director (Discipline) to corresponding audit evidence, demonstrating that the auditor had performed all required procedures.

6.10 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 20th August 2026 and the Findings was reserved. The Committee considered the material on record including verbal and written submissions of the Respondent. The Committee deliberated in detail on the said case and took decision on the conduct of the Respondent.

7. Findings of the Committee: -

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

7.1 The Committee noted that the Respondent, vide email dated 26.08.2026, submitted his written submissions to the Committee. The Committee further noted that the Respondent, in his submissions, has referred to an Order of the Disciplinary Committee stated to have been passed on 20.08.2026. However, the Committee noted that no such Order dated 20.08.2026 of the Disciplinary Committee is on record. However, the Committee noted the contents of said submissions dated 26.08.2026.

7.2 The Committee noted that the charge against the Respondent (as given in Para 2 above) is that Respondent firm has completely failed in unraveling the fraud and has only relied on the management representations of the Company. The Respondent has failed to verify whether the funds diverted by the Company to loans granted to the overseas subsidiary and capital advances were actually represented by any assets or whether the amounts shown as recoverable from subsidiaries were in fact recoverable or not except relying on the management representations.

7.3 The Committee noted the movement of funds and the financial statements of the overseas subsidiary. The Committee further observed that the Company had granted loans to the overseas subsidiary, which were further advanced to third parties as capital advances for acquiring copyrights for motion pictures which remained incomplete. It was also noticed that the subsidiary had not earned revenue during FY 2009-10 to FY 2012-13, except for the period from 01.04.2010 to 30.09.2010, indicating absence of meaningful business activity.

7.4 The Respondent, in his defence, submitted that he had not merely relied upon management representations and had undertaken various audit procedures, including enquiries with the Board and Audit Committee, obtaining confirmations, considering the reports of subsidiary auditors, reviewing internal audit reports and examining supporting documents. He had also relied upon SA 240 and SA 600 and contended that a statutory auditor is not an investigator and cannot be held responsible merely because fraud was subsequently discovered. The Committee had considered the aforesaid submissions but was unable to accept that performance of certain audit procedures, by itself, established compliance with the requirement of due diligence. The issue is whether the procedures undertaken were sufficient and appropriate, having regard to the substantial and long-standing advances, delayed projects, financial distress and absence of meaningful business activity in the overseas subsidiary.

7.5 The Respondent had particularly relied upon the Emphasis of Matter in his Audit Report for FY 2012-13 which is given below:-

"Attention is Invited to Sub Note no. 6 of Note No. 31 of Annual Accounts as regards the challenges that the Company is facing on financial front; and thus, has not been able to repay the loans, secured and unsecured, statutory dues, and other unsecured creditors. A few parties have filed a suits against the Company for recovery of debts including winding up of the Company. One of the main reasons for the financial challenges is moneys raised by the Company through various sources are deployed in various projects of production and distribution of films which have delayed owing to various reasons. The moneys advanced to Indian and foreign subsidiaries of the Company are deployed by the said subsidiaries in various production and distribution of films projects which are also delayed. The management is hopeful to overcome the challenges that are in way. The management is of the view that amounts realizable by the Company are larger than the liabilities of the Company, and the present financial challenges are part of a temporary phase. Our opinion is not qualified in respect of this matter."

As per the above disclosure, the financial difficulties of the Company, its inability to repay loans and other liabilities and the deployment of funds in delayed film projects were brought to the attention of the users of the financial statements. The Respondent had particularly relied upon the Emphasis of Matter in his Audit Report, wherein the financial difficulties of the Company, its inability to repay loans and other liabilities and the deployment of funds in delayed film projects were brought to the attention of the users of the financial statements. However, the Committee is of the view that merely highlighting the financial crisis of the Company did not discharge the Respondent from his professional obligation to independently examine the underlying assets and advances and their recoverability.

7.6 The Company was unable to carry on its business effectively at the relevant point of time and that substantial funds remained deployed in delayed projects. In such circumstances, the Respondent, as Statutory Auditor, was required to critically examine the recoverability and carrying value of such amounts and to consider whether appropriate provision, wherever warranted, was required to be made in the financial statements. Merely relying upon the management's explanations that the financial difficulties were temporary could not substitute the Respondent's independent professional assessment.

7.7 The Committee noted that an amount of Rs. 2.75 crore had been advanced to shri Akshay Khanna through Shri Neeraj Vohra and the said amount continued to remain outstanding in 2013. Similarly, other amounts advanced to film actors and other persons in earlier years continued to remain outstanding. The prolonged outstanding nature of such balances constituted a circumstance requiring the Respondent to undertake adequate verification of their recoverability and to consider whether appropriate provision was required.

7.8 The Committee noted the unusual terms relating to repayment of loans and the fact that, despite non-recovery of the principal amount, interest charged on such principal had been reversed by the Company. These circumstances were further indicators of the financial irregularities and recoverability issues existing in the Company. The Respondent, being the Statutory Auditor, was required to appropriately consider the impact of such matters while evaluating the financial statements and the recoverability of the amounts outstanding.

7.9 The Respondent had also relied upon confirmations obtained from parties and the reports of the auditors of the subsidiary companies. The Committee, however, finds that confirmation of a balance or reliance upon the report of another auditor cannot, in the circumstances of the present case, substitute for the Respondent's independent assessment of the actual recoverability of the amounts. The Respondent was required to exercise his own professional judgment having regard to the surrounding circumstances and satisfy himself regarding the recoverability of the amounts shown as assets.

7.10 The Committee noted that, in terms of SA 500, an external confirmation constitutes audit evidence obtained directly from a third party, either in paper or electronic form. The Committee further noted that external confirmations are required to be obtained where necessary to reduce audit risk to an acceptably low level. However, no confirmation of balances had been obtained by the Company and the Respondent in respect of the aforesaid advances. Accordingly, the Committee concluded that the Respondent had failed to exercise due diligence in the audit of the auditee Company and had not planned and performed the audit in a manner that would have enabled him to apply additional substantive audit procedures, as warranted by the circumstances.

7.11 The Committee had also considered the Respondent's contention that the alleged fraud was not known or detectable at the time of audit and that the subsequent investigation should not be applied with hindsight. However, the finding is not based merely upon the subsequent discovery of fraud. It is based upon circumstances which were available from the records during the relevant period itself, namely substantial advances, prolonged outstanding balances, delayed projects, financial distress and lack of meaningful activity in the overseas subsidiary. Where such circumstances disclose significant indicators affecting the existence and recoverability of material assets, the auditor is required to exercise professional skepticism and undertake appropriate additional substantive procedures.

7.12 Having considered the above, the Committee observed that the Respondent's defense is primarily premised on the sufficiency of audit procedures performed and the absence of any direct evidence of fraudulent intent or collusion. However, the Committee is of the view that the Respondent, as a statutory auditor, was under a professional obligation to exercise due diligence, professional skepticism, and to obtain sufficient and appropriate audit evidence to support the audit opinion. The Committee finds that, notwithstanding the Respondent's reliance on management representations and confirmations, there were material deficiencies in the audit approach, particularly in the verification of loans and advances

7.13 In view of the facts and submissions on record, the Committee observed that the Respondent's Audit Report did not adequately disclose the financial irregularities arising from loans and capital advances routed to the wholly owned subsidiary, which had no meaningful business activity and could materially affect the Company's financial position. The Committee is therefore of the view that the Respondent failed to exercise due diligence expected from him in his capacity as Statutory Auditor. His failure assumes significance in view of the materiality and nature of the transactions, the prolonged outstanding advances, the financial condition of the Company, the delayed and incomplete projects, the absence of meaningful business activity in the overseas subsidiary and other adverse indicators available from the records. The Respondent failed to adequately verify whether the amounts shown as advances and recoverable balances continued to represent recoverable assets and whether appropriate provision was required in respect thereof. Accordingly, the Committee held the Respondent **Guilty** of Professional Misconduct falling within the meaning of Clause (7) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

8. **Conclusion:**

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

Charges (as per PFO)	Findings	Decision of the Committee
Para 2 as above	Para 7.1 to 7.13 as above	**Guilty**- Clause (7) of Part I of the Second Schedule

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

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

DATE: 31.08.2026

सत्यापित होने के लिए प्रमाणित / Certified to be True Copy
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