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/31/18/DD/183/INF/2018/DC/1514/2021]
In the matter of:

CA. Sanjay Vasant Sane (M. No. 045955),

Present Address:-	**Address in PFO:-**
C S No 902/G, F2 Radhika Sadan Shahupuri, 6th Lane, Kolhapur, **Maharashtra - 416001**	752, E Ward, Balkrishna Apartments 4th Lane, Shahupuri, Kolhapur- 416001 **Maharashtra**

...Respondent

MEMBERS PRESENT:
1. **CA. Prasanna Kumar D, Presiding Officer**
2. **CA. Mahesh Shah, Government Nominee**
3. **CA. Satish Kumar Gupta, Member**
4. **CA. Hans Raj Chugh, Member**

DATE OF HEARING : 03rd October 2026
DATE OF PRONOUNCEMENT OF ORDER : 03rd October 2026
DATE OF ORDER : 03rd October 2026

1. That vide Findings dated 29th 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. Sanjay Vasant Sane (M. No. 045955)** (hereinafter referred to as the **Respondent**) is **GUILTY** of Professional Misconduct falling within the meaning of Clause (7) and (8) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

2. That pursuant to the said Findings, an action under Section 21B (3) of the Chartered Accountants (Amendment) Act, 2006 was contemplated against the Respondent and 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 **03rd October 2026.**

3. The Committee noted that on the date of hearing on **03rd October 2026**, the Respondent was present through VC. During the hearing, the Respondent made verbal submissions and also referred to the written representation dated 29th September 2026 on the Findings of the Committee. The Committee noted the written representation of the Respondent dated 29th September 2026, and verbal submissions on the Findings of the Committee, which, inter alia, are as under: -

- That he had reported a significant loss of Rs. 1.92 crores against the profit declared by the Bank, downgraded its rating and increased the NPA, thereby preventing dividend payment.
- That he was not grossly negligent, as he had a valid justification regarding Investment Fluctuation Reserve (IFR) and Investment Depreciation Reserve (IDR), relied upon the work of a senior member's concurrent audit.
- That as per code of ethics, the Hon'ble High Court has observed that the charge is one of misconduct and not inefficiency, and that it is necessary to consider whether, apart from the alleged failure to perform a duty, he failed to act honestly and reasonably.
- That he is 68 years old and had devoted nearly 36 years to the profession with honesty, integrity and dedication; therefore, requested dismissal of the charges, considering his age and professional record, no punishment be imposed.

4. 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.

5. 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 noted that Respondent as the Statutory Auditor of Youth Development Co-operative Bank Ltd. for the financial year ended 31st March 2015, had failed to report that the bank held Investment Depreciation Reserve (IDR) of Rs.59.96 lakh as on the DPI against aggregate requirement of Rs. 177.36 lakh. The resulting shortfall of Rs. 117.40 lakh was suggested for erosion in assessment of net worth, net profit and CRAR. The bank held Investment Fluctuation Reserve (IFR) of Rs. 17.00 lakh as on the DPI, which formed 1.20% of its AFS portfolio (Rs. 1411.66 lakh) against requirement of 5% prescribed in para 18.1 of RBI Master Circular on Investments issued to UCBs vid UBD.BPD (PCB). MC. No. 12/16.20.000/2014-15 dated July 1, 2014.

6. The Committee noted that the Respondent, while acting as the statutory auditor of the Bank, was required to comply with the fundamental ethical requirements governing audit engagements and including the obligation to maintain independence, exercise professional skepticism as required under Paragraph 15 of SA 200, apply professional judgment in terms of Paragraph 16 of SA 200, and obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level as mandated by Paragraph 17 of SA 200 before expressing an audit opinion. The Committee further noted the provisions of SA 500, "Audit Evidence", that requires the auditor to obtain sufficient appropriate audit evidence through appropriate audit procedures before expressing an opinion on the financial statements. However, no material has been placed on record demonstrating that the Respondent performed and documented such audit

procedures in relation to the computation and adequacy of the Investment Depreciation Reserve. The Committee observed that the Respondent has not placed on record any audit documentation demonstrating that he independently evaluated the Concurrent Auditor's computation of the Investment Depreciation Reserve, reviewed the underlying investments, or performed any additional audit procedures to satisfy himself regarding compliance with the applicable RBI requirements.

7. The Committee noted the provisions of paragraph 18.1 of the RBI Master Circular on Investments issued to Urban Co-operative Banks which states that *"Banks should build up IFR out of realized gains on sale of investments, and subject to available net profit, of a minimum of 5 per cent of the investment portfolio. This minimum requirement should be computed with reference to investments in two categories, viz. HFT and AFS"*. The Committee noted that Investment Fluctuation Reserve (IFR) was only Rs. 17.00 lakhs against the required amount of Rs. 70.58 lakhs, resulting in a shortfall of Rs. 53.58 lakhs and Investment Depreciation Reserve (IDR) was only Rs. 59.96 lakhs against the required amount of Rs. 177.36 lakhs, resulting in a shortfall of Rs. 117.40 lakhs. The Committee observed that the aforesaid deficiencies were material in nature and had a direct bearing on the assessment of the Bank's net worth, profitability, CRAR and regulatory compliance position. Despite the existence of such deficiencies, the Respondent failed to appropriately evaluate, document and report the same in his statutory audit report. Hence, the Professional Misconduct on the part of the Respondent is clearly established as spelt out in the Committee's Findings dated 29th August 2026 which is to be read in consonance with the instant Order being passed in the case.

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

9. **Thus, the Committee, keeping in view the facts and circumstances of the case, material on record and representation of the Respondent before it, ordered that CA. Sanjay Vasant Sane (M. No. 045955), Kolhapur be Reprimanded and also imposed a fine of Rs. 50,000/- (Rupees Fifty Thousand only) 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/-
(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
मीनू गुप्ता/Meenu Gupta
वरिष्ठ कार्यकारी अधिकारी/Sr. Executive Officer
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/31/18/DD/183/INF/2018/DC/1514/2021]

In the matter of:
CA. Sanjay Vasant Sane (M. No. 045955),

Present Address:-	**Address in PFO:-**
C S No 902/G, F2 Radhika Sadan Shahupuri, 6th Lane, Kolhapur, **Maharashtra - 416001**	752, E Ward, Balkrishna Apartments 4th Lane, Shahupuri, Kolhapur- 416001 **Maharashtra**

.....Respondent

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

DATE OF FINAL HEARING : 14th May 2026
DATE OF DECISION TAKEN : 25th July 2026
DATE OF PRONOUNCEMENT OF DECISION : 29th August 2026

PARTIES PRESENT:
Respondent : CA. Sanjay Vasant Sane (Through VC)
Counsel for the Respondent : CA. C N Vaze (Through VC)

1. **Background of the Case:**

1.1 The Respondent was statutory auditor of **Youth Development Co-operative Bank Ltd.,** Mumbai (hereinafter referred to the **"Bank")** for the financial year ended 31st March 2015. It has been observed that there was wide divergence in the financial parameters

assessed by the Respondent vis-a-vis that assessed by the Informant Bank during the statutory inspection of the Bank conducted by RBI for the year ending 31st March 2015.

2. **Charges in brief:**

2.1. The bank held Investment Depreciation Reserve (IDR) of Rs.59.96 lakh as on the DPI against aggregate requirement of Rs. 177.36 lakh. The resulting shortfall of Rs. 117.40 lakh was suggested for erosion in assessment of net worth, net profit and CRAR. The bank held Investment Fluctuation Reserve (IFR) of Rs. 17.00 lakh as on the DPI, which formed 1.20% of its AFS portfolio (Rs. 1411.66 lakh) against requirement of 5% prescribed in *para 18.1 of RBI Master Circular on Investments issued to UCBs vid UBD.BPD (PCB). MC. No. 12/16.20.000/2014-15 dated July 1, 2014.* It was observed by the Informant that there were serious shortcomings in the statutory audit of the Bank carried out by the Respondent. It has been stated that on account of the false and incorrect information provided by the Statutory Auditor regarding the financial position of the Bank in its audited and published annual accounts for the year 2014-15, the factual financial position of the Bank was concealed from its stakeholders/shareholders. The true and correct financial position of the Bank was not disclosed.

3. **The relevant issues discussed in the Prima Facie Opinion dated 19th August 2021 formulated by the Director (Discipline) in the matter in brief, are given below:**

3.1. With regards to charge mentioned in para 2.1 above, paragraph 18.1 of the RBI Master Circular requires the banks to maintain an Investment Fluctuation Reserve (IFR) of at least 5% of their HFT and AFS investment portfolio, subject to realised gains on sale of investments and availability of net profit.

3.2. It was noted that the Informant had given details of Investments which were available for sale (Govt. Securities of Rs. 719.43 lakh, Shares in Co-operative institutions of Rs. 7.33 lakhs and Corporate NCDs Rs. 684.90 lakhs). The Respondent in this regard had neither given bifurcation regarding Investments available for sale nor had given any defence challenging Investment amount taken for available for sale. On perusal of above RBI circular dated 1st July 2014 as referred by the Informant, it was clear that the Investment fluctuation reserve was kept less than mandatory requirement of 5%. Accordingly, the

Respondent should have reported this fact in his report, but he had failed to report the same in his audit report of the Bank for financial year 2014-15. Similarly, with respect to shortfall of IDR, the Respondent had again not given his specific defence/ explanation. Accordingly, in absence of defence from the Respondent and apparent lapse on his part with respect to reporting, he was held Prima Facie **Guilty** of Professional Misconduct falling within the meaning of Clause (7) and (8) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

3.3. Accordingly, the Director (Discipline) in his Prima Facie Opinion dated 19th August 2021 opined that the Respondent was Prima Facie **Guilty** of Professional Misconduct falling within the meaning Clause (7) and (8) of Part I of the Second Schedule to the Act. The said Clauses of the Schedule to the Act, states as under:

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

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

x x x x x x x

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

Clause *(8) 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

(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;"

3.4. The Prima Facie Opinion formed by the Director (Discipline) was considered by the Disciplinary Committee in its meeting held on 30th September 2021. 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) and (8) of Part I of the Second Schedule to the Chartered Accountants Act, 1949 and accordingly,

decided to proceed further under Chapter V of the Chartered Accountants (Procedure of Investigations of Professional and Other Misconduct and Conduct of Cases) Rules, 2007.

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

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

S. No.	Particulars	Dated
1.	Date of Information	24th May 2018
2.	Date of Written Statement filed by the Respondent	30th November 2018
3.	Date of Prima Facie Opinion formed by Director (Discipline)	19th August 2021
4.	Written Submissions filed by the Respondent after PFO	23rd November 2021 19th June 2023

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

5.1 The Respondent vide letter dated 23rd November 2021, inter-alia, made the submissions which are given as under: -

i The Respondent submitted that with respect to the allegation regarding shortfall in IDR, as on 31.03.2015, the total required IDR provision was Rs. 10,38,000 whereas the Investment Depreciation Fund available was Rs. 59,95,500, resulting in a surplus IDR of Rs. 49,57,500. This position was based on the Concurrent Auditor's Report.

ii He further stated that he had relied upon the report of the Concurrent Auditor of the Bank and that, as per Council Guidelines, a member is entitled to rely upon the work performed by another member.

iii Regarding the allegation relating to Investment Fluctuation Reserve (IFR), the Respondent submitted that although the Bank had shown a net profit of Rs. 51.13 lakh for the year ended 31.03.2015, as per his audit report there was actually a net loss of Rs. 192.98 lakh. Therefore, according to him, since there was no available profit, it was neither possible nor necessary to create the IFR. He further submitted that had the loss not been disclosed, it would have contradicted his own audit findings. The Respondent

emphasized that he had duly qualified the audit report and converted the profit shown by the Bank into a net loss, which demonstrated his diligence and duty consciousness.

iv The Respondent further relied upon the RBI Circular which states that the Bank should build up IFR out of realised profit on sale of investments and subject to available net profit.

5.2 The Respondent vide letter dated 19th June 2023, inter-alia, made the submissions which are given as under: -

i **For Investment Depreciation Fund –**

a) The Respondent stated that in case of Investment Depreciation Fund, he had already submitted in his letter dated 23rd November 2021 that he has relied on the report of Concurrent Auditor of the Bank.

b) Para 15.1.1 of the Master Circular on Investments by Primary (Urban) Co-operative Banks dated 1 July 2014 (RBI/2014-15/30 UBD.BPD (PCB). MC. No. 12/16.20.000/2014-15) states that *"In view of the possibility of abuse, treasury functions viz. investments, funds management including inter-bank borrowings, bills rediscounting, etc. should be subjected to concurrent audit and the results of the audit should be placed before the Chairman and Managing Director of the bank at prescribed intervals".*

c) As per the above, specific responsibility was being casted on the Concurrent Auditor for audit of the treasury functions. Therefore, as the Investment Depreciation Fund was already looked into by the concurrent Auditor, he had relied on the same.

d) Further, Standard on Auditing (SA) 600 – Using Work of Another Auditor also prescribes relying on another auditor's work. Therefore, he had relied on the report of the concurrent auditor.

ii. **For Investment Fluctuation Reserve –**

a) Para 18.1 of the Master Circular on Investments by Primary (Urban) Co-operative Banks dated 1 July 2014 (supra) states that *"Banks should build up IFR out of realised gains on sale of investments, and subject to available net profit, of a minimum of 5 percent of the investment portfolio".*

b) As per my submission dated 30th November 2018, he wish to reiterate that he had qualified the audit report and specifically mentioned in my audit report on Last Para on Page 2nd of Part Introductory and Serial No. of 23 of Part A of Audit report and Page 24 of Part B of the audit report in English Translation that the net profit shown by the Bank of Rs 53.13 lakhs does not give true and fair view of the financial position of the Bank.

c) In his Audit Report, he had specifically identified the discrepancies in the bank's financial statements and that as per my audit, there was a loss of Rs 192.98 lakhs instead of profit shown by the Bank of Rs 51.13 lakhs.

d) According to the above Circular, Investment Fluctuation Reserve is to be made if two conditions are satisfied – a) Realised gains on sale of investments AND b) subject to available net profit. As per his audit report, as there was loss of Rs 192.98 lakhs, the Investment Fluctuation Reserve could not made.

e) It may be appreciated that he had qualified the audit report and also identified discrepancies in the accounts. Therefore, it cannot be said that he was negligent in reporting. On the contrary, he was diligent in reporting.

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

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

S. No.	Date of meeting(s)	Status
1.	12th May 2023	Adjourned at the request of the Respondent.
2.	22nd June 2023	Oath taken by Respondent.
3.	25th March 2026	Adjourned at the request of the Respondent.
4.	14th May 2026	Hearing concluded & findings reserved.
5.	25th July 2026	Decision Taken.

6.2 On the day of first hearing held on 12th May 2023, the Committee noted that the Respondent vide email dated 8th May 2023 submitted that he would be unable to attend the hearing due as he is out of town due to vacation and unable to brief the matter to counsel. The Committee acceded to the request of the Respondent, and the matter was adjourned to a future date.

6.3 On the day of hearing held on 22nd June 2023, the Committee noted that the Respondent along with his Counsel CA C.N Vaze and his assistant, CA. Sumeet, were present from the BKC office of ICAI at Mumbai. The Respondent was administered on Oath. Thereafter, the Committee enquired from the Respondent as to whether he was aware of the charges against him and whether he pleads guilty. The charges as contained in prima

facie opinion were also read out. On the same, the Respondent replied that he is aware of the charges and pleaded 'Not Guilty' to the charges levelled against him. Thereafter, looking into the fact that this was the first hearing wherein the Respondent was present, the Committee decided to adjourn the hearing to a future date.

6.4 On the day of hearing held on 25th March 2026, the Committee noted that the Respondent sought an adjournment vide email dated 23rd March 2026 stating that he required additional time to adequately recapitulate and prepare the case. It was further submitted that the Counsel for the Respondent was unavailable on the scheduled date of hearing and owing to pre-existing statutory and bank branch audit deadlines, it was not possible for him to attend the meeting on the scheduled date of hearing. Acceding to the request of the Respondent, the Committee, keeping in view the principles of natural justice, adjourned the subject case to a future date.

6.5 On the day of hearing held on 14th May 2026, the Committee noted that the Respondent along with Counsel were present through VC and appeared before it. Thereafter, the Committee noted that the case was part heard and the Respondent was already on oath. The Committee enquired from the Respondent that since the composition of the Committee had changed subsequent to the last hearing held on 22.06.2023 in this case, whether he wished to have a de-novo hearing by taking all submissions/representations already on record or may continue from the stage it was last heard. The Respondent submitted that the proceedings in the instant matter(s) be continued from the stage these were last heard.

The Committee noted that charges against the Respondent related to the Investment Depreciation Reserve (IDR) and the Investment Fluctuation Reserve (IFR). The Counsel for Respondent emphasized that the Respondent had reported a significant loss (Rs. 1.92 crores) against a declared profit by the bank, downgraded the bank's rating, and increased the NPA, thereby preventing dividend payments.

On the Investment Depreciation Reserve (IDR) allegation, the Counsel for Respondent argued that the RBI's own circular placed IDR within the scope of concurrent audit, which was conducted by a senior professional who confirmed a surplus, negating the need for IDR creation. The Respondent relied on this concurrent audit as permitted by SA 600.

Regarding the IFR, it was submitted that RBI guidelines require both a realized profit on investment and an overall profit for IFR creation. Since the Respondent reported a substantial loss, not profit, it was asserted that creating the IFR would have been incorrect. 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 made of the Respondent, the Committee concluded the hearing in the matter and Findings were reserved.

6.6 At the meeting held on 25th July 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 14th May 2026 and the Findings was reserved. The Committee considered the material on record including 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: -**

7.1 The Committee noted that the charge against the Respondent (as mentioned in para 2.1 above) is that while acting as the Statutory Auditor of Youth Development Co-operative Bank Ltd. for the financial year ended 31st March 2015, he failed to report that the Bank held Investment Depreciation Reserve (IDR) of Rs.59.96 lakh as on the DPI against aggregate requirement of Rs. 177.36 lakh. The resulting shortfall of Rs. 117.40 lakh was suggested for erosion in assessment of net worth, net profit and CRAR. The Bank held Investment Fluctuation Reserve (IFR) of Rs. 17.00 lakh as on the DPI, which formed 1.20% of its AFS (Available for sale) portfolio (Rs. 1411.66 lakh) against requirement of 5% prescribed in para 18.1 of RBI Master Circular on Investments issued to. UCBs vid UBD.BPD(PCB). MC. No. 12/16.20.000/2014-15 dated July 1, 2014.

7.2 The Committee noted the submission of Respondent that he had relied upon the report of the Concurrent Auditor in respect of the Investment Depreciation Reserve and that the Concurrent Auditor had concluded that there existed a surplus in the Investment Depreciation Fund. The Respondent further submitted that reliance upon the work of another auditor was permissible under the applicable auditing standards and that the

Concurrent Auditor was a senior member of the Institute whose work could reasonably be relied upon.

7.3 The Committee observed that the Respondent's reliance on SA 600 is not correct since the Concurrent Auditor was neither acting as principal auditor nor as component auditor on whom he can place reliance within the meaning of Paras 6 to 8 of SA 600. The Committee noted that the Respondent sought to justify his reliance on the Concurrent Auditor by referring to SA 600, "Using the Work of Another Auditor". However, SA 600 applies where a principal auditor relies upon the work of another auditor responsible for auditing a component, such as a division, branch, subsidiary, joint venture or other entity whose financial information is included in the financial statements audited by the principal auditor (Paras 6 to 8 of SA 600). The Concurrent Auditor of the Bank was not acting as an auditor of a separate component within the meaning of SA 600. Accordingly, the Committee observed that the Respondent's reliance on SA 600 to justify acceptance of the findings of the Concurrent Auditor is not correct.

7.4 The Committee noted that while the RBI framework envisages a significant role for concurrent auditors in monitoring treasury and investment operations on a continuous basis, such framework does not dilute or substitute the independent responsibilities cast upon the statutory auditor. The statutory auditor is required to obtain sufficient and appropriate audit evidence and to satisfy himself regarding compliance with regulatory prescriptions having a material bearing on the financial statements and the affairs of the Bank.

7.5 The Committee has also considered the Respondent's reliance upon the principles contained in SA 600 relating to the use of the work of another auditor. The Committee is of the view that reliance on the work of another auditor is not absolute in nature and does not absolve the principal auditor from exercising professional judgment, professional skepticism and performing such audit procedures as are necessary in the facts and circumstances of the engagement. The Standard contemplates evaluation of the competence of the other auditor, assessment of the adequacy of work performed, and determination as to whether sufficient appropriate audit evidence has been obtained for the auditor's own conclusion.

7.6 The Committee noted the requirement of SA 200, "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing", which states as follows:-

"Ethical Requirements Relating to an Audit of Financial Statements

14. The auditor shall comply with relevant ethical requirements, including those pertaining to independence, relating to financial statement audit engagements. (Ref: Para. A14-A17)

Professional Skepticism

15. The auditor shall plan and perform an audit with professional skepticism recognising that circumstances may exist that cause the financial statements to be materially misstated. (Ref: Para. A18-A22)

Professional Judgment

16. The auditor shall exercise professional judgment in planning and performing an audit of financial statements. (Ref: Para. A23-A27)

Sufficient Appropriate Audit Evidence and Audit Risk

17. To obtain reasonable assurance, the auditor shall obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level and thereby enable the auditor to draw reasonable conclusions on which to base the auditor's opinion. (Ref: Para. A28-A52)."

The Committee noted that the Respondent, while acting as the statutory auditor of the Bank, was required to comply with the fundamental ethical requirements governing audit engagements, including the obligation to maintain independence in accordance with Paragraph 14 of SA 200, exercise professional skepticism as required under Paragraph 15 of SA 200, apply professional judgment in terms of Paragraph 16 of SA 200, and obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level as mandated by Paragraph 17 of SA 200 before expressing an audit opinion.

7.7 The Committee noted that the Para 6 of SA 500, "Audit Evidence", requires the auditor to obtain sufficient appropriate audit evidence through appropriate audit procedures before expressing an opinion on the financial statements. The Committee further observed that

the requirements of Standard on Auditing (SA) 500, "Audit Evidence", cast a responsibility upon the auditor to obtain sufficient and appropriate audit evidence to support the conclusions on which the audit opinion is based. The Committee noted that matters relating to Investment Depreciation Reserve and compliance with RBI investment guidelines were material areas having a direct bearing on the financial position and regulatory compliance status of the Bank. In such circumstances, the Respondent was expected to perform audit procedures sufficient to evaluate the adequacy of the reserve maintained by the Bank and to obtain appropriate evidence supporting his conclusions.

7.8 The Committee noted that Para 8 of SA 230, "Audit Documentation", requires an auditor to prepare audit documentation sufficient to enable an experienced auditor, having no previous connection with the audit, to understand the nature, timing and extent of audit procedures performed, the results thereof, and the conclusions reached. However, no material has been placed on record demonstrating that the Respondent performed and documented such audit procedures in relation to the computation and adequacy of the Investment Depreciation Reserve.

7.9 The Committee observed that the Respondent has not placed on record any audit documentation demonstrating that he independently evaluated the Concurrent Auditor's computation of the Investment Depreciation Reserve, reviewed the underlying investments, or performed any additional audit procedures to satisfy himself regarding compliance with the applicable RBI requirements. Mere reliance on the conclusions of the Concurrent Auditor, without independent evaluation, cannot be regarded as compliance with the requirements of audit.

7.10 With regard to the creation of Investment Fluctuation Reserve (IFR), the Committee noted the Respondent's submission that the said requirement was subject to the availability of net profit. According to the Respondent, although the Bank had disclosed a Net Profit of Rs. 51.13 lakh, his audit revealed a net loss of Rs. 192.98 lakh. Accordingly, the Respondent contended that the requirement of maintaining IFR did not arise since there was no available net profit and that he had duly disclosed this position through qualifications in his audit report, which states as follows:

"Bank has earned profit of Rs 51.13 Lakh as per the above during the year 2014-15 which is not true and fair because :

1. Bank has shown provision on NPA less by Rs. 72.18 Lakh during the year 2014-15.

2. Bank has shown Overdue Interest Reserve less by Rs. 143.76 Lakh during the current year.

3. Bank has credited interest of NPA account to the income account.

4. Bank has taken interest income of Rs. 28,17,424 which is not actually received from REI Agro Ltd., on Bond of Rs. 160 Lakh for the period from 1-10-2013 to 31-3-2015. Therefore, bank's profit seems to be increased by that proportion. Considering all the above facts, Bank's

loss is of Rs. 192.98 lakh observed for the year 2014-15.

5. Following Components are prominently affecting for less profit during the reporting year

1. NPA Provision

2. Increase in salary and allowances

3. Increase in other expenses

4. Increase in rent rates and taxes "

7.11 The Committee examined the provisions of paragraph 18.1 of the RBI Master Circular on Investments issued to Urban Co-operative Banks. The Circular states that

"*Banks should build up IFR out of realized gains on sale of investments, and subject to available net profit, of a minimum of 5 per cent of the investment portfolio. This minimum requirement should be computed with reference to investments in two categories, viz. HFT and AFS. It will not be necessary to include investment under HTM category for the purpose. However, banks are free to build up a higher percentage of IFR up to 10 per cent of the portfolio depending on the size and composition of their portfolio, with the approval of their Board of Directors.*"

7.12 The Committee noted that the interpretation advanced by the Respondent regarding the relevant RBI circular and, in principle, the applicability of IFR is dependent upon satisfaction of the prescribed regulatory conditions. However, the issue before the Committee is not confined merely to the technical interpretation of the RBI Circular but extends to the adequacy of the audit procedures, documentation and reporting adopted by the Respondent in arriving at such conclusion.

7.13 The Committee observed that the inspection findings of RBI identified the Available for Sale (AFS) portfolio of the Bank at Rs. 1,411.66 lakh and the corresponding Investment Fluctuation Reserve (IFR) maintained by the Bank at Rs. 17.00 lakh. The composition of the AFS portfolio is summarized below:

Particulars	**Amount (Rs. in lakh)**
Government Securities	719.43
Shares in Co-operative Institutions	7.33
Corporate NCDs	684.90
Total AFS Portfolio	1,411.66

7.14 The Committee further noted the extent of the deficiencies in the reserves maintained by the Bank as under:

Particulars	**Amount Required as per RBI Requirement (Rs. in lakh)**	**Amount Actually Maintained by Bank (Rs. in lakh)**	**Deficiency / Shortfall (Rs. in lakh)**
Investment Depreciation Reserve (IDR)	177.36	59.96	117.40
Investment Fluctuation Reserve (IFR)*	70.58	17.00	53.58
Total Deficiency	247.94	76.96	170.98

** Computed at 5% of the Available for Sale (AFS) portfolio of Rs. 1411.66 lakh in terms of Paragraph 18.1 of the RBI Master Circular on Investments.*

The Committee observed that the aforesaid deficiencies were material in nature and had a direct bearing on the assessment of the Bank's net worth, profitability, CRAR and regulatory compliance position. Despite the existence of such deficiencies, the

Respondent failed to appropriately evaluate, document and report the same in his statutory audit report.

7.15 The Committee observed that where a statutory auditor concludes that a regulatory reserve is not required to be created despite circumstances that may otherwise warrant regulatory scrutiny, it becomes incumbent upon the auditor to maintain comprehensive audit documentation evidencing the basis of such conclusion. Further, where the matter is material in nature, the auditor is expected to ensure that the rationale is appropriately communicated through audit reporting or other suitable means so as to facilitate transparency and informed decision-making by stakeholders and regulators.

7.16 In the present case, the Committee finds that the Respondent has not produced adequate documentation demonstrating the regulatory assessment and audit considerations that formed the basis of the conclusion that IFR was not required. The Committee further noted the absence of sufficient disclosure or reporting regarding the reasoning adopted in arriving at such conclusion. The failure to adequately document and communicate a matter having regulatory significance impairs the transparency and reliability of the audit process.

7.17 The 5% threshold is a regulatory benchmark. Even if the current year's losses prevented the addition to the reserve, the existing shortfall below the mandatory minimum remained a material fact that should have been disclosed to stakeholders to reflect the Bank's true financial position. By remaining silent on this non-compliance, the Respondent failed to invite attention to a material departure from regulatory norms.

7.18 Having regard to the documents and material available on record, the findings of the RBI inspection authorities, the provisions of the applicable RBI Master Circular and the submissions made by the Respondent, the Committee is of the view that the Respondent failed to exercise due diligence in the conduct of his professional duties and failed to obtain sufficient information necessary for expression of an opinion on matters having a material bearing on the financial statements of the Bank. Accordingly, the Committee holds the Respondent Guilty of Professional Misconduct falling within the meaning of Clause (7) and Clause (8) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

8. **Conclusion:**

8.1 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 2.1 as above	Para 7.1 to 7.18 as above	**Guilty-** Clause (7) and (8) of Part I of the Second Schedule.

9. In view of the above observations, considering the material on record including verbal and written submissions of the Respondent, the Committee held the Respondent **GUILTY** of Professional Misconduct falling within the meaning of Clause (7) and (8) 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

DATE: 29.08.2026
PLACE: Noida

सत्यापित होने के लिए प्रमाणित / Certified to be True Copy
मीनू गुप्ता / Meenu Gupta
वरिष्ठ कार्यकारी अधिकारी / Sr. Executive Officer
अनुशासनात्मक निदेशालय / Disciplinary Directorate
भारतीय सनदी लेखाकार संस्थान
The Institute of Chartered Accountants of India
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